



THE INSURANCE INSTITUTE OF UGANDA

TRAINING DEPARTMENT

PROGRAMME STRUCTURE FOR

FUNDAMENTALS OF INSURANCE

SEPTEMBER 2018

5.0 DETAILED COURSE OUTLINE

CIU 101: FUNDAMENTALS OF INSURANCE 15 POINTS

The objective of this course is to introduce students to the principles and practice of insurance by showing the multi-faceted nature of the insurance business, dealing with risk and how insurance responds.

Course Objectives

- i) To provide students with a broad overview and understanding the basic insurance practices
- ii) To equip students with the fundamental skills and principles to practice insurance business

Learning outcome

- i) Have knowledge of the insurance business
- ii) Have knowledge of the principles and practice of risk management

Topic	Description	Lesson details
1.	Introduction to Insurance.	<ul style="list-style-type: none">• An overview• History of insurance• Meaning of insurance• Terms used in insurance• Importance of insurance• Risk transfer• Function of insurance
2.	Risk and Insurance	<ul style="list-style-type: none">• Concept of Risk• Risk classification• Strategies of managing risk• Types of Insurable risk• Characteristics of insurable risks
3.	Principles of Insurance	<ul style="list-style-type: none">• Insurable interest• Utmost good faith• Proximate cause• Indemnity• Contribution• Subrogation
4.	The insurance market	<ul style="list-style-type: none">• The players in the insurance market• The sellers and buyers of insurance• The intermediaries• Penetration of Insurance in Uganda• Competition in insurance

		<ul style="list-style-type: none"> • Role of insurance service providers • Insurance industry associations
5.	Regulation of Insurance Industry	<ul style="list-style-type: none"> • Role of Insurance Regulatory Authority • Key provisions on licensing & operations • The main provisions of the Insurance Act • Compliance mechanism
6.	Classes of Insurance	<p>General/Non life</p> <ul style="list-style-type: none"> • Property Insurance • Liability • Accident • Transport • Guarantee <p>Life</p> <ul style="list-style-type: none"> • Ordinary Life assurance • Group Life assurance • Retirement benefit schemes • Annuities • Investment Policies <p>Compulsory Insurance</p> <ul style="list-style-type: none"> • Motor Vehicle Insurance (Third Party Risks) Act 1989 • Workers Compensation (Act 2000) • Professional indemnity • Marine Insurance Act 2002
7.	Introduction to insurance Law	<ul style="list-style-type: none"> • Meaning of the term contract • Essentials of valid contract • Types of contracts • Creation of agency • Types of agency • Duties of an agent • Rights of an agent • Authority of an agent • Approaches to discharging contracts • Breach of contract & remedies
8.	Selling Insurance & Customer Care	<ul style="list-style-type: none"> • Understanding a customer • Types of customers • Customer expectations and perceptions • Nature and character of services

		<ul style="list-style-type: none"> • Insurance distribution channel • Sales process • Qualities of insurance agents • Determinants of insurance selling • Principles of marketing
9.	Practice of Insurance	Underwriting <ul style="list-style-type: none"> • Rates • Commissions & computations • Policy term in insurance contract Claims <ul style="list-style-type: none"> • Claims settlement process Underwriting Reinsurance
10.	Application to ICT in Insurance	<ul style="list-style-type: none"> ▪ Understanding Management Information Systems (MIS) ▪ Characteristics of MIS
11.	Basics of Insurance Ethics	<ul style="list-style-type: none"> • Meaning of the term ethics • Responsibility of an agent • Ethical and unethical issues in insurance <ul style="list-style-type: none"> ○ Conduct of Agents ○ Confidentiality ○ Misrepresentation ○ Replacement of policies ○ Twisting • Ethical standards • Professionalism and discipline • Consequences of unethical behaviours

Reading list

Beatson, J. (2002); Anson's Law of Contract, 28th edn., Oxford University Press.

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10th Edition.

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Hank G. et al, (2009); Underwriting: What every producer must know.

Mangan, J.F. & Connor, M. H., (2011); Underwriting principles:

Ksraivitz, S. & Barinsky, L. (2009); Mastering insurance marketing: How to make your agency forward in the new media age.

McKendrick, E. (2005); Contract Law, Text, Cases and Materials, 2nd Ed., Oxford University Press.

The Insurance Regulatory Act. 2006

The Silver Lake Editors (2011); Ethics: A Guidebook for Insurance Agents and Other Financial Services Professionals, 5th Ed., Silver Lake Publishing;

The Uganda Insurance Act.

CHAPTER 1: INTRODUCTION TO INSURANCE

Contents	Syllabus learning outcomes
Learning Objectives	
Introduction	
Key Terms	
A. History of insurance	
B. Functions of Insurance	
C. Importance of Insurance	
Chapter summary	
Test your understanding	

Learning Objective

After studying this chapter you should be able to;

- Define terms used in insurance
- Describe the historical development of insurance
- Explain the importance of insurance
- Explain the functioning of insurance
- Appreciate the concept of risk transfer

Introduction

In Uganda the insurance service forms part of a larger financial market with several financial products to suit the needs and demands of the stakeholders.

In this chapter we shall define the key terms used in insurance; explain the historical development of insurance in Uganda and East Africa as well as explaining the importance to individuals, business entities and the economy at large. Further the chapter will explain the functioning of insurance.

Key Terms used in Insurance

Insurance is the equitable transfer of the risk of a loss, from one entity to another in exchange for payment. It is a form of **risk management** primarily used to cushion against the risk of a contingent, uncertain loss.

An insurer, or insurance carrier, is a company selling the insurance; **the insured**, or policyholder, is the person or entity buying the insurance policy. The price charged for a certain amount of insurance coverage is called the **premium**.

The transaction involves the insured assuming a guaranteed and known relatively small loss in the form of payment to the insurer in exchange for the insurer's promise to compensate (**indemnify**) the insured in the case of a financial (personal) loss. The insured receives a contract, called the insurance **policy**, which details the conditions and circumstances under which the insured will be financially compensated.

The basic assumption is that insurance operates on the principle of spreading risks or sharing of risks.

Risk-It can be defined as uncertainty of a financial loss. In broader terms risk can also be described as the object of insurance (subject matter of insurance)

Peril-It can be defined as a cause of loss.

Hazard-Is a condition that may increase the chance of loss

Loss-It is the unintentional decline in or disappearance of value arising from a contingency.

Claim-A formal request to an insurance company asking for payment based on the terms of the insurance policy when the insured risk occurs.

Premium is the amount of money charged by the insurer in exchange of the insurance service

Policy-It is a legal document that contains terms and conditions of an insurance contract between the insurer and the insured. It is issued as evidence of existence of cover for the insured risk.

Assurance-This is a term that is used in life insurance to reflect the fact that the event of death against which cover is taken is certain. That is death will definitely occur. However cover is not taken against the event of death but rather against the uncertain timing of death.

Assignment-This means the transfer of ownership of a policy from one person to another. This only applies in life assurance.

Material facts-These are facts which would influence a judgment of a prudent underwriter in deciding whether or not to accept a risk.

1A History of Insurance

In this section, we will look at how traditional insurance evolved into today's modern insurance with the fundamentals of creating a pool of homogenous risks being maintained through this evolution. Also we shall look at how modern insurance was introduced in Uganda.

1A1 Overview of the history of insurance

The history of insurance in the world cannot be traced to a single school of thought. However, in principle these various schools of thought tend to point towards creation of a pool of funds to pay for the losses of the unlucky few. The history has it that marine insurance is the oldest form of insurance.

1A2 History of modern insurance

In some sense, we can say that insurance dates back to early human society. We know of two types of economies in human societies: **natural or non-monetary economies** (using barter and trade with no centralized nor standardized set of financial instruments) and **monetary economies** (with markets, currency, financial instruments and so on).

Insurance in the former case entails agreements of mutual aid. If for example one family's house gets destroyed, the neighbors are committed to help rebuild it.

Insurance became more sophisticated in Enlightenment era Europe, and specialized varieties developed. Some forms of insurance developed in London in the early decades of the 17th century.

For example,

Marine insurance whose origin can be traced to maritime trade as early as 3000BC. Here, merchants suffered losses basically involving robbery of the goods and ransom and as a way of reducing these risks; they agreed to create a pool of funds from which they would draw funds to pay for the losses. Lloyds of London which is the largest market of marine insurance in the world today was among the earliest providers of modern marine insurance.



Fire insurance; the great Fire of London of 1666 is largely marked the beginning of fire insurance. This fire wiped out the entire town structure which by then was wooden and as a result of this several companies came up with fire insurance as a positive response to what had happened and by way of providing a risk management solution against future incidences.



Life assurance

In England the first life assurance policy was done in the 16th century on the life of William Gybbons for the benefit of Richard Martins. The famous Amicable society for a perpetual assurance office started its operations in 1706.



1A3 Development of modern /current Insurance in Uganda

Modern insurance was introduced to the country during the colonial era. The first locally owned insurance company, the East Africa General Insurance Company (EAGEN), was incorporated in 1946, followed by National Insurance Corporation (NIC) in 1964.

Prior to that, only agencies and branch offices of foreign insurance companies, mainly from the United Kingdom, India and America that numbered about 95 were in operation by Independence in 1962.

The Finance Act, 1970 required insurance companies not locally incorporated to allow 49/51% Government/private ownership participation

From this, Uganda American Insurance Co. Ltd; Jubilee; British American Co. Ltd; United Assurance(locally incorporated & whole owned by Ugandan in 1972) were formed

Mid 1970s to mid 1980s insurance experienced setbacks namely: economic war, internal armed conflicts, May 1987 Currency Reform etc.

There are 28 licensed insurance companies (19 Non Life firms and 9 Life firms) , 32 insurance brokers, 5 Health Membership Organisations (HMOs); 1 reinsurance Broker; 22 Loss assessors and adjusters and over 1000 agents by 2018. The Insurance Regulatory Authority (IRA) established in 1996 to ensure the effective administration, supervision, regulation and control of the business of insurance in Uganda has raised confidence in the industry.

To further boost this confidence, a number of insurance and brokerage companies have invested heavily in public awareness. IRA and the Uganda Insurers Association have also embarked on an extensive awareness campaign

1A4 Major legislation that have influenced the development of the Ugandan Insurance Industry

- Motor Vehicle Insurance Third Party Risks-first came to the scene in the Traffic and Road Safety Act 1970
- The Motor Vehicle Insurance (Third Party Risks) Statute was enacted in 1988
- The Yellow Card Scheme- the Protocol on the establishment of the Third Party Motor Vehicle Insurance System by PTA member states
- The Workers' Compensation Act 2000
- The Marine Insurance Act 2002
- The Insurance Players' Professional Associations- UIA as per section 94(1) of the Statute; the Insurance Institute of Uganda (1964); the Uganda Association of Insurance Brokers (1971); the Uganda Association of Engineering Valuers and Loss Assessors
- The Insurance Regulatory Authority of Uganda (IRA) was established under section 14 of the Insurance Statute 1996 now The Insurance Act,(Chap213) Laws of Uganda,

2000(Insurance Act)which came into effect on 4th April 1996 and commenced operations in April 1997.

- The Insurance Act 6 2017
- The Insurance (Bancassurance) Regulations, 2017

1B Functions of Insurance

This refers to the mechanism of how insurance operates to manage the risks. The risks are transferred to the insurer by various individuals or organizations that are willing to pay up premium. The insurer has the responsibility of creating a financial pool out of which the few who suffer losses are compensated.

There are three main functions of insurance and these are;

- **Risk transfer**

It is a mechanism by which the financial consequences of an event are shifted from one party to another. Take an example of a property owner (land lord) asking a tenant to sign a tenancy agreement that holds the tenant responsible for any losses arising from the building catching fire.

- **Creation of a common pool**

Insurance operates on the premise of large numbers where the insurer takes contributions in the form of premiums from individuals, corporate companies, government agencies/departments, and non government organizations, business entities exposed to similar or homogeneous risks and creates a common pool/fund from which the insurer pays the few who suffer losses.

As in the example above, the insurance company would create a pool of residential house owners since they are exposed to similar or homogenous risks like theft, escape of water from its normal confines (tap & sink).

- **Equitable premium**

It is a fair premium collected from members of a common pool that reflects the risk exposure that each of their risks brings to the pool eg a person proposing to insure a grass thatched house would be charged a higher premium than that of a person proposing to insure an iron roofed house. Equitable premium should take into consideration the risk profile (frequency & Severity of the risk) being passed onto the pool.

Each of the house owners in the example above would be charged premiums depending on a number of factors that include the location of the house, security systems installed, nature of the contents inside the house etc. such that a house in up market Kololo and Naguru Hills will be charged fairly lower on the factor of high security as compared to a house in the neighborhood of Bwaise where the chance of theft or burglary is close to 100% in a period of one year.



Pool of private cars

The owners of these cars will pay premium to an insurance company to cover the risk of accidental damage or theft of cars and Third Party liability risks.

However each car is unique in terms of the model, year of manufacture, accessories and because of such differences, they present different levels of risk exposure to the pool created by the insurance company and hence each will be charged a premium equal to the risk associated with its uniqueness (Equitable Premium)

1C Importance of Insurance

The major role of insurance is to provide a peace of mind to the insured, who could be an individual, business entity and society as a whole. The role and importance of insurance in this book has been discussed in three broad categories.

- i. Individual
- ii. Business/company
- iii. Society/economy

1C1 Importance of Insurance to an individual

- Insurance provides security and safety
- Insurance affords peace of mind
- Insurance protects mortgaged property
- Insurance eliminates dependency
- Life assurance encourages savings/profitable investment

1C2 Importance of Insurance to a Business/Company

- Uncertainty of business losses is reduced
- Business efficiency is increased with insurance compensation provides the necessary funds for business continuity.
- Key man indemnification.
- Enhancement of credit since the insurance policy can act as collateral for the loans.

1C3 Importance of insurance to the economy

- The wealth of society is protected e.g. the loss/damage of property at fire, accident can be well indemnified by property insurance.
- Economic growth of a country for instance the pooled funds are deposited with commercial banks which can be accessed by borrowers to invest into the economy.
- Job creation for insurance professionals.

Chapter summary

The key ideas covered this chapter can be summarized as below

- Insurance is a way or mechanism of transferring the insurable risk to an insurance company for a price called premium such that in the event of a loss, the insurance company will compensate the policy holder (individual or company) as per the terms set out in the insurance contract.
- Insurance works by creating a pool of homogenous risks from which the losses of the unlucky few are paid for by the premiums of the pool of risks from different policy holders.
- In the pool each policy holder, is charged a price that is equal to the level of risk that their property e.g car brings to that pool.

- Insurance as an industry has various importance to individuals, society and the whole nation as it creates jobs by enabling smooth running of the businesses.

Test Your Understanding

1. Discuss the role of insurance to the community
2. How was modern insurance introduced in Uganda?
3. What is the significance of the insurance Act?
4. Name any three ways insurance companies can use to increase awareness of the importance of insurance

CHAPTER 2: RISK AND INSURANCE

Content	Syllabus learning outcomes
Learning objectives	
Introduction	
Key terms	
A. Components of Risk	
B. Classification of Risks	
C. Characteristics of Insurable Risks	
D. Methods of handling risks	
Chapter summary	
Test your understanding	

Learning Outcomes

After studying this chapter you should be able to;

- Define the term 'Risk'
- Highlight the component of risk
- Explain the characteristics of insurable risks
- Explain the methods of handling risks

Introduction

There is no single definition that has been advanced to define the term 'Risk'. There is no way how one can separate risk from insurance.

In this chapter we shall define the term 'risk'; components, characteristics and classification of insurable risks as well as appreciate the methods of handling risks.

Risk

Insurable risk refers to the conditions that are vulnerable to danger of loss to a person or property and it can be defined as:

- The chance of loss, where chance implies doubt about the outcome in a given situation which is favorable;
- The possibility of loss;
- The probability of any outcome being different from the one expected;
- A combination of hazards;

- The uncertainty of loss;
- A condition in which loss or loss are possible

Generally, a condition is an insurable risk if :

- The peril insured against must produce a definite loss not under the control of the insured,
- There must be a large number of homogeneous exposures subject to the same perils,
- The loss must be calculable and the cost of insuring it must be economically feasible,
- The peril must be unlikely to affect all insured's simultaneously, and
- The loss produced by a risk must be definite and have a potential to be financially serious.

Components of Risk

Risk has three vital levels:

Uncertainty

This implies some doubt about the future based on either lack of knowledge or imperfection of knowledge.

Uncertainty exists even when the person exposed to risk does not know of its existence.

Example:

In our daily lives, we can use the examples of not knowing one will die or get involved in an accident; house being broken into and a house catching the fire.

2. Levels of Risk

Some risks are minor & occur frequently but with minimal impact/severity- shoplifting_(high frequency with low severity)to those affected

Some occur rarely but the impact is severe for example plane crashes & marine accidents (low frequency with high severity)

Risk as the cause of the loss

- The terms peril and hazard are sometimes used interchangeably with each other and with risk
- Risk is often used to mean peril and hazard.
- Peril is the prime cause of the loss **physical**. Examples include: Theft, Fire, Hail
- A hazard is the condition that may increase or decrease the effect of the peril for example the nature of construction in fire insurance or the state of health in life assurance
- Hazards may be as they relate to the physical characteristics that may increase hazards in fire insurance. Examples include: The type of construction; location of the building; Age & place where the vehicle is kept in motor insurance

- **Moral-** nature & behavior of human beings connected with the subject matter of insurance- withholding material facts, lodging fraudulent claims, exaggerated losses, carelessness

Classification of Risk

Financial Vs Non-Financial

- Financial if outcomes can be measured in monetary terms such as material damage to the building after fire or theft of goods
- Non monetary if outcome though undesirable cannot be quantified as emotional attachments

Pure Vs Speculative Risks

- Pure risk involves loss or break-even situations. These risks might not only be unfavorable but may leave a person in the position he/she enjoyed before the loss such as fire/ Burglary risks
- Speculative risks involve loss, break-even and the possibility of gain such as buying shares or inventing a new product.

Fundamental Vs Particular Risks

- **Fundamental Risks-** Beyond the control of human beings and are indiscriminate in nature. Examples include earthquakes; storm and tempest; landslides which were in the past uninsurable but can now be insured.
- **Particular Risks-** personal in nature & consequences affect a particular individual. Examples include: Fire, theft and motor accidents and these are insurable risks

Characteristics of Insurable Risks

- Fortuitous/ Accidental in nature as far as the insured is concerned. Not possible to insure against an event that will definitely occur- no uncertainty.
- Monetary terms. For property insurance, the value is easy to determine. In life assurance, the value of life may not be measurable but the sum assured would be determined at inception, being generally limited by the ability of the assured to pay premium
- Insurable Interest- there must be a legal relationship between the Insured and the subject matter of insurance.
- Homogeneous Exposure- large number exposed to similar losses.
- Pure Risks- Insurable unlike speculative risks
- Particular Risks- personal in origin and consequences (fire, theft & motor accidents) unlike fundamental ones- beyond one's control (earthquakes, hurricanes)

NOTE: Fundamental risks arising out of the nature of the society such as war and unemployment

- Insurable risks must never be against the public policy in terms of what society considers just and moral. An example is where we cannot insure a stolen property.

METHODS OF HANDLING RISKS

The insurable risks given the negative consequences they present to individual and business lives, there is need to devise ways of handling risks and some of these include:

Avoidance

Here one realizes the risk exists and can decide to keep away from the event that exposes one to that risk. An example is where you can avoid your motor vehicle from plying a route that it is considered insecure.

Retention

This may be retained intentionally or unintentionally. Intentionally, individuals realize the existence of the risk and therefore decide to create fund from which losses are paid.

Involuntary retention, individuals or organizations do not see the existence of the risk.

Here we need to consider factors such as the frequency, severity of risks.

NOTE: Large unpredictable risk requires insurance.

Reduction

Measures are taken to minimize the frequency and severity of risks.

Here we have pre-loss risk reduction. Examples include: police escort in money insurance; employment of guards and burglar proof; fixing fire sprinklers etc

Risk Transfer

Here financial consequences of an event are shifted to another party. For example the landlord may shift the risk of the house catching fire to the tenants; transporter can shift the risk of loss or damage to the owner of goods.

Risk transfer is usually done through suitable worded contracts of Insurance is also an example- spread an individual risk across many people in order to make it more bearable for individuals exposed to such risks

Summary of methods of handling risks



Chapter Summary

Key points:

Risk

Insurable risk refers to the conditions that are vulnerable to danger of loss to a person or property and it can be defined as:

- The chance of loss, where chance implies doubt about the outcome in a given situation which is favorable;
- The possibility of loss;
- The probability of any outcome being different from the one expected;
- A combination of hazards;
- The uncertainty of loss;
- A condition in which loss or loss are possible

Components of Risk

Risk has three vital levels:

- Uncertainty
- Levels of Risk
- Risk as the cause of the loss

Classification of Risk

- Financial Vs Non-Financial
- Pure Vs Speculative Risks
- Fundamental Vs Particular Risks

Characteristics of Insurable Risks

- Fortuitous/ Accidental in nature as far as the insured is concerned. Not possible to insure against an event that will definitely occur- no uncertainty.
- Must be measured in Monetary terms
- Insurable Interest- there must be a legal relationship between the Insured and the subject matter of insurance.
- Homogeneous Exposure- large number exposed to similar losses.
- Pure Risks- Insurable unlike speculative risks
- Particular Risks- personal in origin and consequences
- Insurable risks must never be against the public policy in terms of what society considers just and moral. An example is where we cannot insure a stolen property.

Methods of handling risks

- Avoidance
- Retention
- Reduction
- Risk Transfer

Test your understanding

1. Give six definitions of the term- risk
2. Identify the differences between :
 - a) Fundamentals and particular risks
 - b) Pure and speculative
 - c) Financial and non- financial risks
3. List at least six characteristics of insurable risks
4. Explain the three methods of handling risks.

CHAPTER 3: PRINCIPLES OF INSURANCE

Content	Syllabus learning outcomes
Learning objectives	
Introduction	
Key terms	
A. Insurable interest	
B. Utmost Good Faith	
C. Proximate Cause	
D. Indemnity	
E. Contribution	
F. Subrogation	
Chapter summary	
Test your understanding	
Suggested answers	

Learning Objectives

After studying this chapter, you should be able to

- Explain the various principles of insurance
- Apply the principles to various classes of insurance in Uganda

Introduction

Insurance contracts must have elements that are required for all legally binding contracts

Many insurance practices have been adopted over the years and upheld by courts of law and enacted by parliament. With the above legal backing they have become what we call **Legal principles of insurance**.

In this chapter the basic principles of insurable interest, utmost good faith, indemnity, proximate cause, contribution, subrogation and loss minimization will be discussed. The student should note that not all the above principles apply to life assurance. The three principles that apply to life assurance are insurable interest, utmost good faith and proximate cause.

Key Terms

- **Insurable interest**

Insurable interest can be defined as the legal right to insure, arising out of financial relationship, recognized at law, between the insured and the subject matter of insurance

- **Subject Matter of Insurance**

It is the object against which insurance is taken. It is the property, right, life, limb or potential liability that devolve upon the insured capable of being covered

- **Utmost Good Faith**

It is a duty imposed on the two parties to the insurance contract to disclose all relevant and material facts about the risk being proposed for insurance and the terms that are deemed necessary to be known by the proposer or the individual, company, business buying insurance.

- **Material facts**

These can be defined as facts which would influence the judgment of a prudent underwriter in deciding whether or not to accept a risk

- **Proximate Cause**

It is the dominant cause of loss. It is that active, efficient peril that sets in motion a chain of events which brings about a result (loss, damage or liability) without the intervention of any force, started and working actively from a new and independent source.

- **Indemnity**

It is defined as the process of placing the insured in the same financial position after a loss, damage or liability as one occupied immediately before the loss.

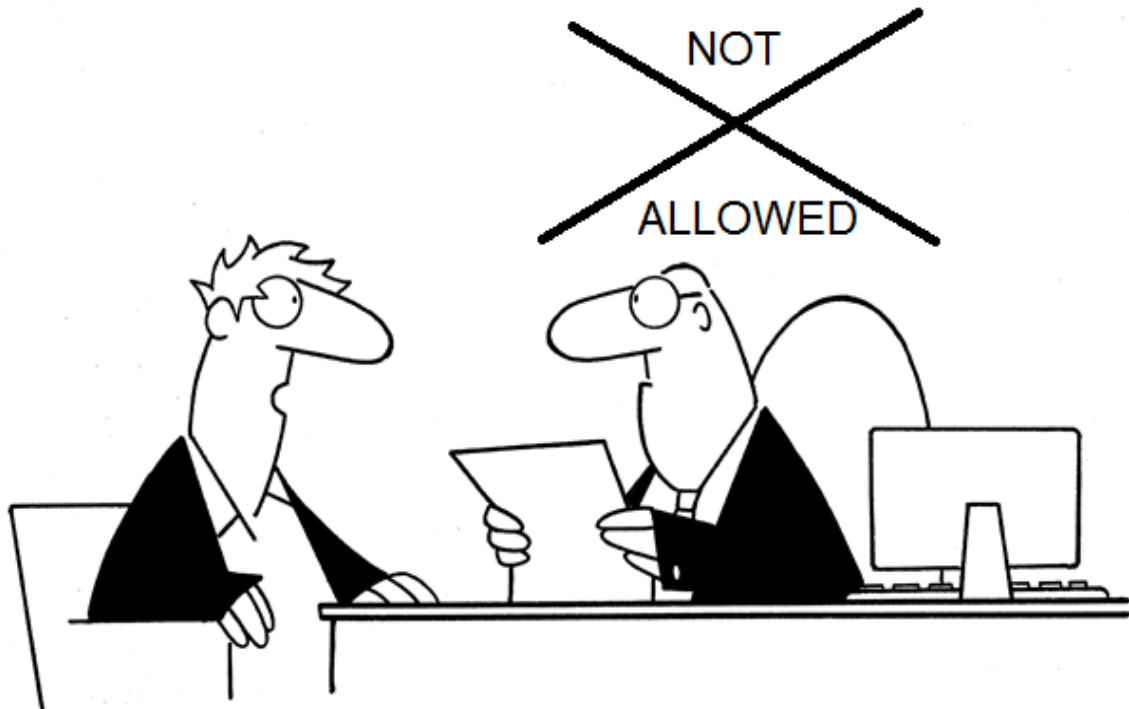
- **Contribution**

This is the right of an insurer to call upon others similarly but not necessarily equally, liable to the same insured to share the cost of a claim

- **Subrogation**

This is the right of one person, having indemnified another under a legal obligation to do so, to stand in the legal place of that other person and avail oneself of all rights and remedies of the other person, whether already enforced or not.

3A Principle of Insurable Interest



"Hello Brother-in-Law. I am buying an insurance policy for you"

- Insurance contract is legally binding only if the Assured/Insured has an interest in the subject matter of insurance
- Life insurance contract is not a contract of indemnity and a person affecting a policy must have an insurable interest in the life to be assured
- Insurance policy is illegal/void if no insurable interest exists between the insured and the subject matter of insurance

3A1 Essentials of Insurable Interest:

1. There must be property, life, and liability to be insured.
2. The above must be the subject matter of insurance
3. Insured must have relationship with subject matter whereby he/she benefits from its existence and would suffer a loss/be prejudiced by its loss/damage
4. Relationship between insured and subject matter of insurance must be recognized by law.

3A2 Importance of insurable Interest

The principle of insurable interest ensures that the insurance contract is not used for wagering/gambling purposes and to mitigate any moral hazards.

3A3 Application of Insurable interest

- Persons having relationship by **marriage** (example, husband and wife), blood (example, father and son) or adoption (example, adopted son and his mother), have been recognized as having insurable interest.
- In life assurance, a person has unlimited insurable interest in his own life
- Debtor has an insurable interest of the life of creditor and vice versa

NOTE: Whereas in Marine & Life, transfer of one's insurable interest is possible unlike property insurances

3A3A Life:

A person has unlimited insurable interest in one's own life and can assure him/herself up to any limit.

- It is the ability to pay the premium
- Husband can effect policy on behalf of the spouse OR parents for their children

3A3B Property Insurance: Insurable interest is acquired through:

- Ownership
- Bailee- Custodian of the other person's property
- Agent acting on behalf of the principal
- Husband and wife
- Part or joint ownership

3A3C Liability:

Every person (Individuals and Company) through their activities may cause loss or injury to others. For example, through the use of a car on the road, the driver could injure or cause death to the pedestrian or damage the property along the road following an accident. In that case the car owner has insurable interest on such liabilities of having to compensate the pedestrian or owner of the damaged property.

3A4 When does Insurable interest exist?

In Marine insurance, insurable interest is at the time of the loss because maritime trading continues changing from time to time. In life, insurable interest should exist at inception. In all other classes, insurable interest should exist at inception, during the currency of the policy and at the time of loss.

3A5 Assignment

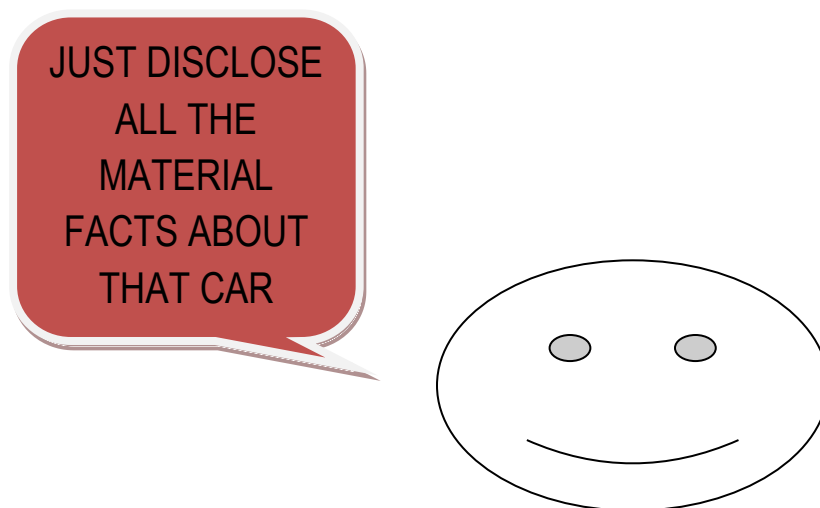
This means the transfer of one's interest in the insurance contract. Interest is freely transferrable in Marine and life policies BUT not in the other classes of insurance.

Simple Illustration

The owner of a taxi-cab has insurable interest in the taxi-cab because he is getting income from it. But, if he sells it, he will not have an insurable interest left in that taxi-cab.

From the above example, we can conclude that, ownership plays a very crucial role in evaluating insurable interest. Every person has an insurable interest in his own life. A merchant has insurable interest in his business of trading. Similarly, a creditor has insurable interest in his debtor.

3B Principle of Utmost Good Faith



Utmost Good Faith can be defined as a positive duty voluntarily to disclose, accurately and fully all the facts material to the risk being proposed.

- In insurance doctrine of **caveat emptor (let the buyer beware)** doesn't apply since one party (the Assured/Insured) knows or ought to know all about the risk being proposed for insurance and the other party (the insurer) relies largely on information disclosed by the insured/assured
- Most of the facts relating to health, habits, personal history, family history, etc., which form the basis of the life insurance contract, are known only to the proposer(the individual, company, business entity or NGO buying the insurance service.
- Now both the insurer and insured/Assured must disclose material facts that affect the insurance contract.

- By this principle it means the insurer and the person who is applying for insurance have a duty to deal honestly and openly with each other in the negotiations which lead to the formation of the contract

3B1 Facts that Need disclosure:

- Age,
- Occupation,
- Height, and weight,
- Medical history

3B2 Facts which Need not to be Disclosed

- Which lessen the risk
- Of Public knowledge
- Of the law
- Which an insurer is deemed to know
- Which the proposer does not know
- Which the insurer has put on inquiry
- The Insurer is not expected to:
 1. Make false statements during negotiations
 2. Issue unauthorized policies under the Insurance Act
 3. Issue ambiguous policies
 4. Take advantage of the insured's ignorance by offering inadequate claim settlements and limited scope of cover

3B3 Remedies for breach of Utmost Good faith

If insured is found to be in breach of this principle the insurer has a right to any of the following remedies:

1. Avoid contract from inception
2. Avoid liability for the claim
3. Sue for damages
4. Waive the above rights and let cover continue (e.g. making an **ex-gratia payment**)

Illustration

The person getting insured must willingly disclose and surrender to the insurer the complete true information regarding the subject matter of insurance. The insurer's liability gets void

(i.e. legally revoked or cancelled) if any facts, about the subject matter of insurance are either omitted, hidden, falsified or presented in a wrong manner by the insured.

3C The principle of Proximate Cause

- Proximate cause can be defined as the Active, efficient cause that sets in motion a series of events which brings about a result without the intervention of any force, started and working actively from a new and independent source.
- **Remote causes-** “remotely caused by; or occasioned by; or contributed to by or traceable to, or arising out of , or in connection with flood, typhoon, war, etc” – Not payable

Before a claim can be settled by Insurers it is necessary to determine the cause of the loss.

The cause can be:

1. An insured peril (e.g. Death/Permanent Disability/Maturity/Surrender)
2. An excepted peril (e.g. riot and strikes)
3. An uninsured peril (e.g. Suicide)

- *Simple Illustration*

A cargo ship's base was punctured due to rats and so sea water entered and cargo was damaged. Here there are two causes for the damage of the cargo ship - (i) The cargo ship getting punctured because of rats, and (ii) The sea water entering ship through puncture. The risk of sea water is insured but the first cause is not. The nearest cause of damage is sea water which is insured and therefore the insurer must pay the compensation.

3D Principle of Indemnity

This principle relates to placing the insured in the same financial position after a loss as he/she occupied before the loss.

- Exceptions to this principle are **Life and personal accident** contracts which are benefit policies. Amount payable (limits of liability) is normally agreed to/specified at inception of the insurance cover.

3D1 Methods of providing indemnity:

The insurance policy will in most cases specify the mode of providing indemnity. The options available to the parties include cash, repair, replacement and reinstatement.

3D1A Cash

Cash is the most appropriate method of indemnity for Bodily Injury or death liability classes and benefit policies. For example on occurrence of death, the life cannot be reinstated; a lost limb cannot be repaired meaning an amount of money. That explains why they are called benefit policies and not indemnification policies

3D1B Repair

This method is mainly used in property insurances especially in motor.

3D1C Replacement

This method is mainly used in glass insurance and in motor insurance falling partial losses. For example, a broken windscreen cannot be repaired but rather replaced.

3D1D Reinstatement (New for old)

In this method, the basis of settlement is where the damaged, lost or destroyed subject matter of insurance is exchanged with a new one.

3D2 Factors which limit indemnity

It should be noted that much as the intention of an insurance policy is to provide full indemnification, certain factors may limit the amount of compensation that may be derived from a specific policy document and these form part of the terms and conditions of the policy document. These factors include but not limited to

32A Sum insured

This defines the maximum limit of indemnity or compensation in any policy. It is the maximum amount an insurer may pay under any insurance policy. However it is rare that the sum insured will be paid because of the other restrictions within the insurance policy.

If for example, a Motor vehicle is insured for declared value of UGX 20,000,000 and a loss of UGX 21,000,000 (amount necessarily required to put the same car back to the road), the maximum amount that can be paid under the policy is UGX 20,000,000 other factors constant.

3D2B Policy limit

In some classes of insurance, the benefits may be limited to a certain lump sum amount expressly stated in the policy. This limit may be per loss/claim or per accident/event and or per year.

An example is public liability where the insurance policy is designed in such a way that the exposure of the insurance company on a claim is limited to a specific amount and the aggregate claimable amount over the insurance period of twelve months is also limited to a specified amount

Illustration

ABC limited arranges a public liability policy for third party property damage and third party bodily injury/death arising from its business activities at its Nakawa Yard with XYZ General Insurance Company Ltd as follows

Limit of liability any one claimUGX 5,000,000

Limit of liability in aggregate any one period of Insurance..... UGX 20,000,000

It implies that in the event of a single loss of say UGX 6,000,000, the maximum amount the insurance company can pay is UGX 5,000,000

3D2C Excess

Most of the insurance policies have an excess clause which specifies the amount of the claim amount that MUST be borne by the insured for every loss incurred. The intention is to have the insured share in the risk management so that the insurance policy is not used for immoral purposes

For example if an insurance policy has an excess amount of UGX 100,000, then a windscreen claim of 1,500,000 will be reduced by the excess amount of UGX100,000 and the net payable will be UGX 1,400,000.

3D2D Deductible

Done voluntarily with the aim of premium discount and is usually larger than excess. It should be noted that the higher the deductible in the policy, the higher the discount on premium. The deductible is usually associated with the large projects especially in engineering.

3D2E Franchise

In cases where the policy is subject to a franchise, Insurer bears whole loss provided the franchise amount is exceeded. For example if a property policy has a franchise of UGX 1M, then a loss of say UGX 1.5M, then the insurance company will pay the entire UGX 1.5M

3D2F Average

In property insurance, if at the time of loss it is discovered that a motor vehicle was insured for say UGX 20M when it should have been insured at UGX 35M, then the condition of average applies with intention of penalizing the insured for under insuring the vehicle. If the loss is say UGX10M, then the maximum compensation would be calculated as $\frac{20}{35} \times 10M = \text{UGX } 5.71M$

3E Factors that modify indemnity

3E1 Reinstatement (New for old)

This concept has been explained under the key terms section of this chapter. Please note that the reinstatement basis is usually applied in property insurance. It simply means that a damaged old fashioned building will be rebuilt to new designs

3E2 Agreed value policies

Agreed Value Policies are mainly arranged in Marine insurance where the value of goods of insurance is agreed at inception of cover. In the event of loss, the items are replaced at their agreed costs

In an insurance contract, the amount of compensations paid is in proportion to the incurred losses. The amount of compensations is limited to the amount assured or the actual losses, whichever is less. The compensation must not be less or more than the actual damage. Compensation is not paid if the specified loss does not happen due to a particular reason during a specific time period. Thus, insurance is only for giving protection against losses and not for making profit.

However, in case of life insurance, the principle of indemnity does not apply because the value of human life cannot be measured in terms of money.

3F The Principle of Contribution

- Right of insured to get claim settled by all insurers covering the same risk.
- It prevents insured from being more than indemnified if one has more than one policy covering the same subject matter of insurance
- It applies to contracts of indemnity only not LIFE Contracts
- Life insurance policies are commonly purchased to provide income replacement should a breadwinner die.

3F1 When contribution arises for contracts of Indemnity only:

1. At least two contracts covering same subject matter of insurance
2. All policies are in force at time of loss
3. Policies cover same interest
4. Policies cover same peril that caused the loss

Simple Illustration

Mr. John insures his property worth Ushs 100,000,000 with two insurers "X." for Ushs 90,000,000 and "Y." for Ushs 60,000,000. John's actual property destroyed is worth Ushs 60,000,000 then Mr. John can claim the full loss of Ushs 60,000,000 either from X or Y, or he can claim Ushs 36,000,000 from X. $(90/(90+60)*60)$ and Ushs 24,000,000 from Y.

So, if the insured claims full amount of compensation from one insurer then he cannot claim the same compensation from other insurer and make a profit. Secondly, if one insurance company pays the full compensation then it can recover the proportionate contribution from the other insurance company.

3G Subrogation

- Right of insurer having indemnified the insured to take over all rights of the insured
- **It only applies to contracts of indemnity not Life Contracts**
- If the insurer settles any claim the insured must give up all rights they may have had against any third party to the insurer
- Only applicable after settling a claim
- Not applicable where ex-gratia payments have been made

How Subrogation rights are Exercised- After indemnifying the insured for contracts of indemnity only

Exceptions:

1. "Knock-for-Knock" agreements
2. Employee injures another at work place

Simple Illustration

Mr. John insures his house for Ushs 1 million. The house is totally destroyed by the negligence of his neighbor Mr. Tom. The insurance company shall settle the claim of Mr. John for Ushs 1 million. At the same time, it can file a law suit against Mr. Tom for Ushs 1.2 million, the market value of the house. If insurance company wins the case and collects Ushs 1.2 million from Mr. Tom, then the insurance company will retain Ushs 1 million (which

it has already paid to Mr. John) plus other expenses such as court fees. The balance amount, if any will be given to Mr. John, the insured.

3H Principle of loss minimization

- Under this principle it is the responsibility of the insured to take all reasonable measures to minimize the severity of the loss.

Simple Illustration

Assume, Mr. John's house is set on fire due to an electric short-circuit. In this tragic scenario, Mr. John must try his level best to stop fire by all possible means, like first calling nearest fire department office, asking neighbors for emergency fire extinguishers, etc. He must not remain inactive and watch his house burning hoping, "Why should I worry? I've insured my house."

Chapter summary

It should be noted that the chapter is central to the insurance profession world over

The key ideas covered in this chapter can be summarized as follows

Insurable interest is required for an insurance contract to be valid

Insurable interest means that the policyholder must have the legal right to insure, arising out of a financial relationship recognized at law between the insured and the subject matter of insurance

The key elements of insurable interest are

- A subject matter of insurance
- The policyholder must have a financial or economic interest in that subject matter.
- The interest must be a current interest, not expectancy and
- The interest must be a legal interest
- The law requires insurable interest to reduce moral hazard and to discourage wagering

Where there is no insurable interest the contract is generally void

The time when insurable interest is required is subject to different rules according to class of insurance

The main examples of insurable interest in life insurance are for family and business relationships

Utmost Good faith in insurance contracts relates to a proposer's duty to disclose all material facts in respect of the risk for which they are proposing, whether they have been requested or not. This principle also applies to the duty placed upon the insurer to disclose facts to an insured e.g to provide information about the cover being offered and terms applicable under the policy. Indemnity insurances are those where the insurers agree to pay only when the insured suffers a loss of a particular type, and only for the amount of the loss.

A material fact is something that has a bearing on the risk insured. A fact that would influence the decision of a prudent underwriter to either accept or reject the risk.

Under common law, the duty of disclosure starts when negotiations begin and ends when the contract is formed (at its inception)

A breach of duty of disclosure may arise in two circumstances: misrepresentation and non disclosure.

A peril can be defined as that which gives rise to a loss

A hazard can be defined as that which influences the operation of the peril

A physical hazard relates to the physical nature of the risk and includes any measurable dimension of the risk.

A moral hazard arises from the attitude and conduct of the people

Insurers use several methods to obtain material facts, for example, proposal forms (which is the most common method) and risk surveys

Non-indemnity (or contingency/benefit policies) insurances are policies in which insurers agree to pay a specified sum when a particular defined event occurs. The insured does not prove that they have suffered a loss, only that the event in question has happened.

The concept of indemnity means that insurance should provide exact financial compensation for the insured, it also means that the insured should not be over compensated and should not 'profit' from their loss.

The measure of indemnity depends on the type of insurance and the nature of the subject matter of its subject matter

Factors which could limit the insured's entitlement to a full indemnity include the sum insured or limit of liability; other policy limits, underinsurance, and average clauses, the excess or deductible; and operation of the franchise

In some situations, the insured can receive more than a full indemnity including where cover is provided on a reinstatement basis, new for old cover, agreed value cover, and partial losses undervalued policies

The methods by which the insurer will provide indemnity are usually set out in the operative clause of the policy; the main methods are: payment of money, reinstatement, repair and replacement.

The action of giving up the subject matter of insurance to the insurer is referred to as abandonment and the right of the insurer to take over the subject matter is known as salvage.

In marine insurance (but not recognized in non-marine insurance) a constructive total loss is where the subject matter is not destroyed but the insured is deprived of the possession of their ship or goods and it is unlikely that they can recover the ship or goods; or the cost of recovering the ship or goods would exceed their value when recovered.

The principles of subrogation and contribution are sometimes described as corollaries of the principle of indemnity. That means they support the principle of indemnity-they apply automatically to insurances

which are contracts of indemnity and apply only to contracts of indemnity not to life and personal accident policies

Subrogation can be defined as the right if one person, having indemnified another under a legal obligation to do so, to stand in the place of that other and avail himself of all the rights and remedies of that other , whether already enforced or not.

The main purpose of subrogation is simply to prevent what is known as the 'unjust enrichment ' of the insured. In other words to prevent him from unfairly profiting from their loss and so to preserve the principle of indemnity

Contribution is the right of an insurer to call upon others similarly but not necessarily equally liable to the same insured, to share the cost of an indemnity payment.

Contribution will arise only when the following conditions are satisfied

- Two or more policies of indemnity exist
- Each insures the subject matter of the loss
- Each insures the peril which brings about the loss
- Each insures the same interest in the subject matter and
- Each policy is liable for the loss

A contribution condition is a clause that sets out how the loss is to be met if the insured has another policy which covers it.

Test Your Understanding

1. What is the importance of insurable interest?
2. Give three ways insurable interest applies in property and life insurance
3. What is a material fact
4. Discuss the methods of providing indemnity
5. Differentiate between an excess and a franchise
6. When does contribution arise
7. Define proximate cause

CHAPTER 4: INSURANCE MARKET

Content	Syllabus learning outcomes
Learning objectives	
Introduction	
Key terms	
E. The sellers and buyers of insurance	
F. The intermediaries	
G. Role of Insurance Providers	
H. Competition in insurance	
I. Penetration of Insurance in Uganda	
J. Insurance industry associations	
Chapter summary	
Test your understanding	

Learning outcomes

After studying this chapter you should be able to;

- Describe the general structure of the insurance market in Uganda
- Name the various players in the insurance market
- Identify various associations in the insurance market
- Describe the nature of competition in the insurance market
- Know the role of service providers to the insurance industry

Introduction

In simple terms, a market can be described as platform where buyers and sellers meet to transact business. An insurance market refers to the mechanism where insurance buyers and sellers meet to enter into an insurance contract. Like any other market, the insurance market also has intermediaries and service providers.

Key terms

Insurance company, Re-insurance company, Captive, Personal insurance, Commercial insurance, Intermediary, Service provider, Banc assurance.

4A The sellers and buyers of insurance

In this section, we will look at the major players in the insurance market.

4A1 Sellers of Insurance

Generally insurance is sold by Insurance companies, captives and reinsurance companies. In Uganda there are 28 insurance companies and 3 reinsurance companies that are currently supplying the insurance market.

For the population that does not take up or buy form insurance, then they have the option of self insurance and these form the majority of the Ugandan population since it is largely an informal sector with little awareness about insurance and its benefits.

4A1A Insurance Companies

In order to provide insurance, an insurance company must register as a company and be registered under the Insurance Act 2011. Insurance companies operating in the market can be classified either by ownership or by the nature of business they transact.

Classification by ownership:

Here, we have two forms

- **Proprietary Companies:** Proprietary companies are owned by shareholders who appoint directors to run them on their behalf. Profits, if any, belong to the shareholders. The liability of the shareholders is limited to the nominal value of their shares. If a company is unable to meet its financial obligations, it will go into liquidation. Majority of the insurance companies in Uganda belong to this category.
- **State Owned Companies:** National Insurance Corporation was the only company with government stake at 40% by December 2009. Initially it used to be 100% owned by the Government of Uganda until it was publicly listed with the government retaining 0% shareholding. Meaning the Government of Uganda is no longer a shareholder and therefore no state owned company in Uganda.

Classification by nature of business transacted:

Here, the insurance companies are categorized by the class of insurance business being transacted.

- **Specialist Companies**

Specialist companies specialize in one class of insurance only. There are few specialist companies, for example the Direct Line Insurance Company which offers only motor insurance in Kenya. We do not have a specialist company in Uganda.

- **Composite Companies**

Composite companies underwrite several classes of business that is both life and nonlife classes of insurance, and the majority of companies in Uganda used to fall into this category.

However, with the amendment of the Insurance Act in 2011, all composite companies were required by law to separate their life business transactions from the nonlife (general) business.

The companies that had to separate include; Gold Star Insurance Company, Insurance Company of East Africa, Jubilee Insurance Company, National Insurance Corporation and UAP Insurance Company.

All the above companies had to create new entities to run the separate businesses of life and nonlife increasing the number of insurance sellers in the market.

Currently the insurance companies those that sell **life insurance** include, Liberty Life, ICEA Life Assurance Co. Ltd, Sanlam Uganda, UAP Insurance Co. Ltd whilst those underwriting **general business** include, Jubilee Insurance, UAP Insurance, AIG, Lion Assurance, Goldstar, ICEA General Insurance Co. Ltd, APA Insurance Company, Phoenix Insurance Company, Excel Insurance, Statewide Insurance Company, Britam Insurance Company etc.

For further details you can refer to the Insurance Regulatory Authority Website : www.ira.go.ug

4A1B Captives

These companies are subsidiaries formed by parent companies to underwrite some of their insurance risks. Their incentive being that of paying low premiums and keeping the funds within the group for additional investment incomes.

This is usually done by very big non insurance companies with multinational operations that would mean high cash flows in premiums.

4A1C Reinsurance Companies

The purpose of insurance is to transfer risk from the public to the insurer. Sometimes an insurer finds the risk too big for its own underwriting capacity and therefore seeks cover for the excess amount of risk. If an insurer insures part of the risk it has assumed, this is called reinsurance.

There are now 3 reinsurance companies in Uganda and these include Uganda Re, Zep Re and Africa Re. Insurance companies in Uganda are mandated to cede compulsory cessions of all risks underwritten to these 3 reinsurance companies. The rest of the reinsurance can then be bought from national and regional reinsurers like **Kenya Reinsurance Corporation, East** and

multinational reinsurance companies like Munich Re, Swiss Re, and Hannover Re etc.

4A1D Self Insurance

As an alternative to insurance or in addition to it, some big companies set funds aside to meet certain insurable losses. Such organizations may opt for self insurance if they feel they are strong enough financially, if they feel insurance is cheaper than commercial insurance, or where the market does not cater for its special needs.

In order to be operational, a self-insurance programme should possess these three characteristics.

- The organization must be big enough to make the losses predictable.
- The plan must be financially dependable.
- The exposure units should be widely distributed geographically in such a manner as to prevent a catastrophe wiping out the fund.

Self-insurance schemes have disadvantages

- In times of difficulty there may be a temptation to borrow from the fund.
- A catastrophe may occur and wipe out the whole scheme.
- Funds are kept in a short-term easily convertible form, which earns little interest.
- They may be criticized by shareholders because it reduces their profits

4A2 Buyers of Insurance

Buyers of insurance comprise individuals and organizations. **Personal insurance buyers** are the private individuals who buy insurance policies for their personal belongings like motor vehicles, domestic appliances, and personal accident and life assurances. **Commercial insurance buyers** comprise the biggest percentage of buyers of insurance. Under commercial buyers we have government departments, parastatals, Non Governmental organizations, and industrial and commercial organizations (Banks, Telecom companies) etc. The products they will be most interested in are Workers Compensation Insurance, Group Personal Accident, Money Insurance, Fire and Allied perils

4B Intermediaries

In this section you will learn that just like in any other market, the insurance market has middlemen that connect the buyers of insurance to the sellers of insurance or vice versa.

Insurance may be bought directly or through intermediaries. The main intermediaries operating in the Ugandan market are insurance agents and brokers who act on behalf of the insurance company and the insured respectively. For their services, they receive a commission from the insurance companies.

4B1 The Agent

- An agent acts for or on behalf of an insurance company. In Uganda the agent is tied to

a single insurance company for their licensed business. There were over 1,000 licensed agents in Uganda.

- In order for one to be an agent, one has to possess a certificate of proficiency and be registered under the Insurance Act 2011
- The agent can either be an individual or a company registered as an insurance agency.

4B2 Insurance Brokers

- These are specialists in the field of insurance. They act on behalf of the buyer or the insured however their commission is paid by the insurance company with which the business is placed. In Uganda we have over 25 insurance brokerage firms that include AON, Marsh, Liaison, Legacy, Grassavoye, Clarkson, Intercontinental etc. You can refer to the Authority Website for licensed brokers: www.ira.go.ug

4B3 Health Management Organizations (HMO)

These are medical insurance providers who do not carry the risk but only manage the funds for their clients. It works in such a way that a company say ABC Ltd has many employees whose cost of insurance would be millions of shillings. So what ABC Ltd will do is to contract or outsource the function of managing the medical allowance expense for each employee as per their defined benefit limits.

The HMO is only paid a management fee which could be a percentage of the fund value. You will study these in depth under Health Insurance Certification.

3B4 Banks

After the enactment of the Insurance Act 6 2017 and the Insurance (Bancassurance) Regulations, 2017; banks in Uganda are allowed to sell insurance products of the insurance companies provided they are licensed by the Insurance Regulatory Authority of Uganda.

4C Insurance Service Providers

These are persons or companies that provide various types of services to the insurance industry

4C1 The Surveyor

The surveyor assesses the extent of the risk to which the insurance company is exposed and gives advice on the extent of the risk exposure and risk improvement measures.

Ideally, a surveyor should be consulted at the planning stage of a project since the main work of the surveyor is to give advice before the commencement of risk. A surveyor may be needed in almost all classes of insurance but is mostly used in fire and burglary insurance.

4C2 An Actuary

An actuary is a financial engineer, who, through the application of mathematical skills, uses past experience to predict the likely outcome of future events.

At the same time, in addition to calculating premiums, the actuary is involved in valuing assets and liabilities of life assurance companies after a period specified in the Insurance Act with a view of determining whether the assets will be sufficient to pay off the liabilities of a company.

In pension schemes, the actuary will determine the benefits payable to individual pensioners and the cost of joint pension schemes. This said, actuarial science is a highly complex mathematical discipline, and in computing the life premium, the actuary will take into account.

- mortality, which is a method of expressing the probabilities of living or dying at any given age;
- Expenses and loading for profits;
- Interest paid to an insured for an insurer's use of the insured's money before a claim matures; and reserves representing pre-payment of future premiums.

4C3 Risk Manager

Risk management is a fairly new concept in Africa. Risk Managers deal with identification of risks, analysis of risk (measurement), and control of risk which may take the form of reduction, avoidance, insurance and transfer to a third party. Risk managers will majorly be employed by manufacturing company or in financial service companies to mitigate loss through setting up robust risk management systems.

4C4 Loss Adjuster

Loss adjusters are professional qualified in assessing the magnitude and cause of loss. They advice on loss minimization and negotiate with the policyholders and insurers on claim settlement. Though insurance companies commission them, loss adjusters operate independent of them. Multiple Consult, General Adjusters, Mc Larens Young are some of the loss adjusting companies operating in Uganda.

4C5 Loss Assessors

Insurers appoint loss assessors after a loss has occurred to quantify the magnitude of the loss and advice on the method of compensation. They are used mostly in general classes of insurance to assess losses which are of a small magnitude.

Some assessors can decide to specialise in either property classes like motor hence the name motor assessors. Motor assessors are expected to provide independent reports on the extent of the loss and the best method of compensation.

The trend in Uganda is that companies are employing internal assessors partly to manage the claims cost and improve the turnaround time in servicing clients. However the internal assessors have authority limited to relatively small claims.

4C6 The Investigator

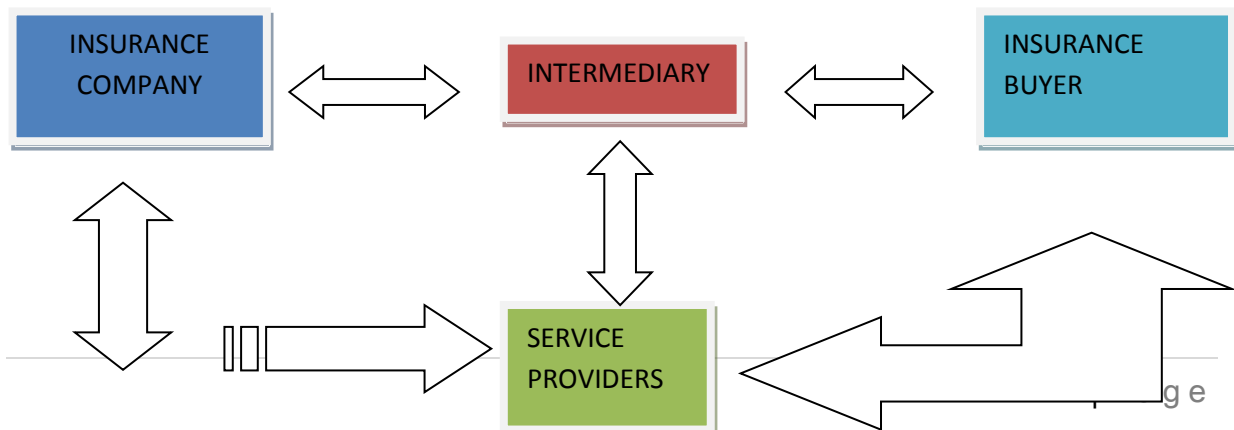
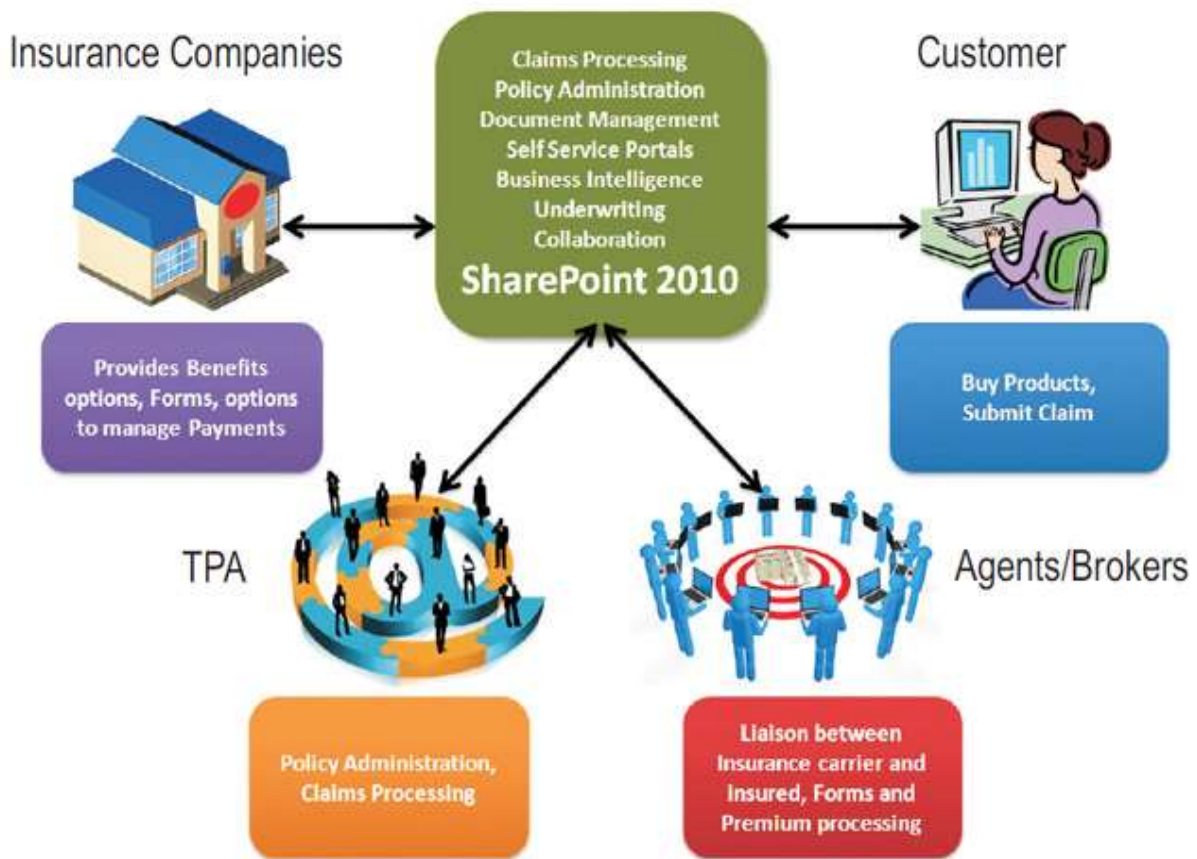
These are professionals who are appointed when foul play is suspected about the claim. When

an insurance company suspects fraud around the claim, then the services of the investigator are needed to establish the facts surrendering the cause of loss.

4C7 Doctors

Under liability classes like Group Personal Accident and Worker's Compensation, the benefit under the policy are based on percentages determined by specialized medical doctors based on the extent of assessment of incapacity following the accident. A number of specialist clinics are engaged to come up with an opinion in that regard to form a basis of compensation by the insurance company.

THE INSURANCE MARKET



4D Competition within the Insurance Industry in Uganda

Competition, which is very intense in the insurance industry, may take any of various forms but majorly insurance companies will compete on prices, quality of products offered, customer service, gifts, location and business hours and commissions paid out.

We now discuss each of the forms in turn.

4D1 Prices

Insurers compete on the basis of price by offering lower priced products than other companies dealing in the same line of insurance. An insurer can reduce premiums by cutting down on the cost of operations. If a company succeeds in reducing the following costs that are common to all insurance companies, the price of its insurance will go down; payment of losses, loss adjustment expenses, cost of marketing, administrative expenses, and taxes. However, for general business, there is prescribed minimum rates for most risks save those big risks above Ushs.10bn where the Insurance Regulator has to exceptionally approve for cases where the premium rate is going to be below the prescribed minimum premium rates. Further, the minimum rates following the Risk Based Approach to regulation.

4D2 Quality

Insurers compete on the basis of price by offering different forms of policies, or offering policies with benefits, to the insured. One aspect of this competition has been the broadening of coverage under manifold policies and services.

4D3 Service

Insurance is a promise of future performance. The individual rarely knows if the service he or she has purchased will materialize until a loss occurs. A major feature that some insurers are good at is the service or the advice their agents give to clients. Insurers who give good advice or service will enjoy competitive advantages over those that give none of them or give inadequate advice.

4D4 Gifts

Certain insurers give free gifts in addition to the service they give. Umbrellas and T-shirts are examples of free gifts

4D5 Location and Hours of Business

Insurers use location and hours of business for competitive purposes. Some insurers have established branch offices to acquire business thus taking services close to the people. Some insurers open during lunch hours and/or on Saturdays, thereby using hours of work as a means

of competing with other insurers.

4D6 Remuneration to intermediaries

Remuneration may be used for competition. Insurers who for example give maximum commissions or who treat their agents/brokers in a special way will have a competitive edge over those who give low commissions or who do not give intermediaries special treatment.

In Uganda, the maximum commission rates are prescribed under the regulatory authority and, therefore, this form of competition is seldom used.

4E Insurance Industry Associations

Although there is intense competition in the insurance market, there are many areas in which the players co-operate. In most cases co-operation arises out of economic necessity, sometimes, co-operation is designed to spread risk among insurers while at other times co-operation is aimed at improving public relations and insurance education in the country.

The most important co-operative bodies are the Uganda Insurers Association (UIA), Uganda Association of Insurance Brokers, Uganda Insurance Agents Association, Association of Loss adjusters and assessors and the Insurance Institute of Uganda.

It should be noted that these are voluntary, independent and nonprofit making bodies that act in consultancy and advisory capacity for the interests of the members and the overall development of the insurance industry in Uganda.

4F Penetration of Insurance in Uganda

The Insurance Regulatory Authority of Uganda (IRA) has licensed 95 firms that will transact insurance business this year 2018. 19 firms have received licenses for non-life insurance businesses while 9 for life insurance and one reinsurance company.

The authority also licensed 5 health membership organizations, 32 insurance brokerage firms and 22 loss assessors and 6 banks. The sector continues to grow, albeit slowly. The entry of new players might attract more and fuel competition in the market.

Insurance penetration in Uganda remains dismally low at less than one per cent though the future looks brighter given the ever improving annual statistics.

The insurance sector is adapting to the needs of the average Ugandan by introducing low cost micro-insurance policies, cutting red tape on compensations and opening a complaints bureau for aggrieved clients.

Chapter summary

The key ideas covered in this chapter can be summarised as below

- The main players in the insurance market are the sellers of insurance and the buyers of insurance who are connected by intermediaries and supported by other service providers.
- The sellers of insurance are mainly insurance companies, reinsurance companies and captives
- The buyers of insurance can either be individuals for personal insurance or commercial entities or companies
- The main intermediaries in the insurance industry are insurance brokers and insurance agents
- There are various services that will be provided to the insurance industry by certain professionals with the main ones being surveyors, risk managers, loss adjusters/assessors actuary and investigators
- Insurance companies will compete through various forms like process, quality of service, gifts, locations and commissions paid to intermediaries

Test your understanding

1. Name two categories into which insurance companies can be classified?
2. What is a captive company
3. Outline three advantages and three disadvantages of self insurance
4. Discuss any three service providers in the insurance market
5. What methods do insurers use to compete for business in the Ugandan insurance market?

CHAPTER 5: REGULATION OF INSURANCE INDUSTRY IN UGANDA

Content	Syllabus learning outcomes
Learning Outcomes	
Introduction	
Key Terms	
i. Role of Insurance Regulatory Authority of Uganda	
ii. Key provisions on licensing & operations	
iii. The main provisions of the Insurance Act	
iv. Approaches to supervision	
v. Compliance mechanism	
Chapter summary	
Test your understanding	
Suggested Answers	

Learning Outcomes

After studying this chapter you should be able to;

- Explain the role played by the Insurance Regulatory Authority (IRA) of Uganda
- Outline the key provisions on licensing & operations
- State the main provisions of the Insurance Act
- Explain the approaches to supervision
- State the compliance mechanism

Introduction

Insurance is a promise to pay claims in the event that the policyholder suffers loss/damage that is covered under the terms of the policy. There is need to check on unprincipled insurers who might be tempted not to honour their promise. To meet this need, governments world over strongly regulate the insurance industry.

During the 1980s, insurance companies could start business simply after registering with the Registrar of Companies.

There was no established government body with the technical know-how to monitor the activities of insurers and other key players in the sector. The insuring public was therefore left with little recourse in the event that their insurers unlawfully declined to settle legitimate claims. The insured public was suffering at the hands of unethical players in the insurance industry

To address this concern, the government in 1996 enacted The Insurance Act CAP 213 which came into effect in 2002 later amended as per the Insurance (Amendment) Act, Act No.13 of 2011 and now the Insurance Act 6 of 2017.

This Act established the Insurance Regulatory Authority of Uganda. The Chief Executive Officer of the authority is mandated to run supervise all activities in the insurance industry

The role of Insurance Regulatory Authority (IRA) of Uganda

The object of the IRA is to ensure the effective administration, supervision, regulation and control of the business of insurance in Uganda and these functions include:

- i. Establish standards for the conduct of insurance and reinsurance business
- ii. License all persons involved in or connected with insurance business, including insurance and reinsurance companies, insurance and reinsurance intermediaries, loss adjusters and assessors, risk inspectors, etc.
- iii. Approve texts of policies and proposal forms
- iv. Approve minimum rates of insurance premiums and maximum commissions in respect of all classes of insurance
- v. Safeguard the rights of insurance policy holders and insurance beneficiaries to any insurance contract
- vi. Receive complaints from members of the public on the conduct of a person licensed under this Act and arbitrate and grant restitution to the complainant, as may be possible
- vii. Advise the government on adequate insurance protection and security for national assets and national properties
- viii. Promote a sound and efficient insurance market in the country
- ix. Supervise and control transactions between insurers and reinsurers
- x. Ensure strict compliance with the Act and Regulations made under it and any other law relating to insurance;
- xi. Undertake other functions as the Minister may designate

Key Provisions on Licensing and Operations

All Insurance and Reinsurance Companies must meet the following requirements for licensing:

- Must be incorporated under the Companies Act
- Payment of appropriate registration fees
- Submission of Articles and Memorandum of Association
- Required minimum paid up capital (as of 2014, Ushs.4 billion for general insurance companies, Ushs.3 billion for life insurance companies, Ushs. 10 billion for reinsurance companies, Ushs.75 million for brokers)
- Curriculum Vitae of the Proposed Principal Officer; directors and Management staff
- Name of proposed actuaries where applicable
- A statement of all classes of business the applicant intends to transact
- Proposal and policy forms of all the classes of business the proposer intends to transact
- The manual of premium rates the proposer intends to use
- Copies of reinsurance treaties
- Evidence of deposits with the Central Bank
- The proposed contract documents with Agents and Brokers (for insurance and reinsurance companies)
- A statement of how the company intends to cover initial costs (for start up companies)

Investment of Insurance Funds

- The Act gives clear guidelines with regard to areas where insurer can invest their funds
- This is done on the understanding that insurers are in possession of large funds held in trust for policy holders.
- The Chief Executive Officer's office provides these guidelines on investment with a view to ensuring that the security, liquidity and profitability of the company is not jeopardized with.
- There should be a proper mix between short-term and long term investments (matching of assets and liabilities) to avoid situations where a company with excess fixed assets may experience liquidity problems thus impeding its claims-paying ability.

CONTRACTUAL DOCUMENTS

- Here insurers are required to submit copies of proposal forms and policy documents to the supervisory authority for approval
- The Chief Executive Officer is supposed to ensure that the documents are up to standard and have outlined clearly the circumstances in which the claim are payable and when they are not payable.
- The documents should not contain ambiguous terms and clauses

MANAGEMENT

- Adequate and technically qualified staff is an important requirement before an insurer is registered
- Hence, experience, academic and professional qualifications of key staff should be provided in the application for registration
- The Chief Executive Officer is also supposed to approve the board of directors of an insurer to ensure that they bring necessary skills and expertise to the company

REQUIREMENTS AFTER REGISTRATION

- The Act requires insurers to submit returns to the Supervisory Authority at specified intervals. These comprise among others:
 - Balance sheets
 - Revenue accounts
 - Profit and loss accounts
 - Report on technical reserves
 - Asset statements and their valuations
 - Statements of maximum permitted expenditure
 - Summary of claims
 - Details of inward and outward reinsurance
 - Outstanding premium returns and actuarial valuations

INVESTIGATION

- In some cases, the Chief Executive Officer might come across some instances which require specialised knowledge

- In these instances, the Chief Executive Officer might appoint investigators such as accountants, lawyers, actuaries and auditors to gather facts of such a situation.
- The insurer is enjoined in law to fully co-operate with and to pay costs of such an investigator.

RATES, POLICY TERMS AND CLAIM SETTLEMENT

Premium Rates

- Insurers charge premium based on the prescribed minimum premium rates by Insurance Regulatory Authority of Uganda except Life Business and other classes not include under the prescribed minimum premium rates
- This is done to enable fair play.
- Life premium rates have to be approved by an actuary and for products like Travel Insurance, the insurer has to file the manual of rating to the IRA before commencing operations

Claims Settlement as per IRA Guidelines

- The Act has given the following guidance in respect to claim settlement:
- This is provided for under issued guidelines in relation to timelines when claims should be settled(**As per the appendix**)
- There is a Complaints Bureau in place
- Insurance Appeals Tribunal in place to arbitrate disputes before disgruntled parties resort to courts of Law
- If the insurer fails to comply with the requirements, the Supervisory Authority, after giving the insurer reasonable opportunity to be heard, shall direct the insurer to expedite the settlement of the claim

INTERMEDIARIES

- These act as intermediaries between the insured and the insurer.
- **INSURANCE BROKERS**

Before being registered as a broker, an applicant must meet the following:

- Submit a formal application to the Chief Executive Officer's office
- Payment of the appropriate registration fee
- Make the appropriate deposit with the Central Bank.
- Have a minimum paid up capital of Ushs. 75,000,000
- Have professional indemnity policy with a minimum of Ushs. 100,000,000/=

INSURANCE AGENTS

- To be registered as an Agent, one must fulfill the following:
- Completion of formal application forms
- Payment of applicable registration fee
- Submit a statement of business form from the principals
- Provide a certificate by insurer in a prescribed form
- Pass or be exempted from Certificate of Proficiency examination
- Submit a certificate of registration of business name for Agents using a trade name such a name must reflect the kind of business done
- Submit annual audited accounts in case of corporate agents

TYPES OF AGENTS

- **Individuals**- they use their own or registered names
- **Corporate Agents**- they must have their names registered with the Registrar of Business Names
- **Before seeking registration to operate in Uganda, an agent must take note of the following:**
- **Letter of appointment**- an applicant must have an appointment letter which complies with the provisions of of the Act, from one's principal

Persons not to act as Agents- Section 80 of the Insurance Act CAP 213

- Civil servants or employees of a local government
- An administrator, Manager, Director, Auditor of employees of insurance/reinsurance/reinsurance broking company
- Risk inspectors, insurance loss adjusters or insurance valuers
- Lack of minimum knowledge, skill or experience in the insurance business or whose financial stand does not measure to the requirement
- Acting for two or more insurers transacting the same class of business. An insurance agent may act for one insurer transacting life business and one insurer transacting non life business

Requirements for Health Management Organisations

- A copy of the Professional Indemnity Insurance Policy cover to protect the business interests against claims for error or omissions, professional neglect for both principals and employees, of at least Ushs.100 million for the said staff.
- (ii) Details of the company Accountant who should be recognized as such by ICPAU and approved IRA.
- A certified true copy of the Articles and Memorandum of Association (or other document by which the Health Membership Organization (HMO) is constituted.
- Annual accounts within three months from the end of the financial year duly audited by an Auditor approved by the IRA.
- Management Accounts within a month from the end of each quarter.
- Detailed and signed curriculum vitae of all directors and the Chief Executive Officer.
- Names, nationality and shareholding of shareholders.
- Detailed signed curriculum vitae of the management and technical staff.
- List of all branch offices, address and telephone numbers.
- Copies of valid work permits for all expatriate staff.
- Listing of Service Providers (affiliates) who have signed contracts with the HMO.
- List of all agents employed.
- Company Business Plan for three (3) to five (5) years duly endorsed by an external auditor.
- A certified true copy of each type of policy of insurance / contract which the Company proposes to issue.
- Copy of the various benefit packages to be offered to prospective members and the Premium thereof.
- Copy of the registration certificate for the Medical Director or the person in charge of health services issued by the Uganda Medical and Dentist Practitioners` Council for the professionals.
- Evidence of membership to the Insurance Institute of Uganda.
- Copy of the latest insurance licence (if any)
- Such other documents and information as the Authority may require.
- If the form is satisfactory filled and all the above mentioned enclosures received, the application is sent to the licensing committee of the Authority for consideration. The Authority may, however, in the process of considering the application, require other documents or information in addition to the submissions listed hereinabove.

- Once the completed application is approved, a licence fee of Shs. 3,000,000/= is payable.
- All licensed players are required to pay Annual contribution as will be advised by the IRA.
- All licensed players are required to pay a training levy of 0.5% payable quarterly to the Insurance Institute of Uganda.

Licensing Requirements for Risk Manager, Loss Assessor, Loss Adjuster, Insurance Surveyor, Claim Settling Agent

- Incorporation status, state whether partnership, company or sole proprietor.
- Name and address of bankers.
- Name and address of external auditor.
- Insurers with whom business was done in the last preceding year – if any.
- Number of years of experience.
- Share capital and paid-up capital (if applicable).
- Attach detailed and signed CVs of shareholders, directors, partners or associates.
- Attach detailed signed CVs of Management and technical staff (ensuring compliance with Reg. 11 of the Insurance Regulations 2002).
- Attach a copy of Profession Indemnity policy of sum insured of at least one hundred million shillings.
- Attach clearance of membership and subscription to the Uganda Association of Engineers Valuers and Loss Assessors.
- On being licensed, the company will be required to become a member of the Insurance Institute of Uganda.
- If any of the Directors has been convicted of any offence involving fraud or dishonesty give details.
- If any of the Directors has been adjudged to be bankrupt or compounded with creditors, he/she should give details.
- If the applicant is a company incorporated under the Companies Act-Cap 85, attach copies of Memorandum and Articles of Association and Certificate of Incorporation. If its registered under the Business Names Registration Act, attach photocopy of a Certificate of Registration.
- Once the application is approved, a licence fee of Uganda Shs.400,000/= is payable.

The main provisions of the Insurance Act

- i. The establishment of IRA
- ii. Licensing of Insurance and Reinsurance Companies as well as other Industry Players- Intermediaries, Risk Managers, Loss Assessors, Loss Adjusters, Insurance Surveyors, Health Management Organisations and Claims Settling Agent
- iii. Conduct and operation of insurance
- iv. Insolvency and winding up of Insurance Players
- v. Establishment of Training Levy and Policyholders Compensation Fund

- vi. Establish of the Insurance Appeals Tribunal to handle disputes among the insurance players.

Compliance Mechanism

- a) Licensing all members of the industry annually
- b) Revoking of the licenses of members who do not comply with the provisions of the Act
- c) Calling for any information regarding insurance business from any member of the industry
- d) Conducting on-site inspection of any member of the industry
- e) Appointing an investigator to gather relevant facts where there may be reasons to believe that a member of the industry is not operating in accordance with the law and on the basis of the investigation, proceed to take necessary action
- f) Intervening in the management of a troubled member of the industry

Chapter Summary

Introduction

During the 1980s, insurance companies could start business simply after registering with the Registrar of Companies.

No established authority with the technical know-how to monitor the activities of insurers and other key players- public suffering at the expense of unethical players in the insurance industry

To address this concern, the government in 1996 enacted The Insurance Act CAP 213 which came into effect in 2002 and now amended as per the Insurance (Amendment) Act, Act No.13 of 2011.

The role of Insurance Regulatory Authority (IRA) of Uganda

IRA generally supervises the conduct of insurance business in Uganda and the insurance players include; Insurance & Reinsurance Companies; Agents; Insurance Brokers; Risk Surveyors; Loss Adjusters; Health Management Organizations

Other Relevant Laws and Regulations

- Insurance Regulations, 2002
- Insurance Amendment Act, 2011 now the Insurance Act 6 of 2017
- Motor vehicle Insurance (Third Party Risks) Act 1989

- Workers Compensation Act,2000
- Marine Insurance Act 2002
- Investments Regulations of Paid up Capital and Insurance Funds
- The Insurance (Bancassurance) Regulations,2017
- Various circulars and guidelines issued by IRA

Other Industry Bodies that actively support IRA in carrying out its work

- The Uganda Insurers Association
- The Uganda Insurance Brokers Association
- Uganda Association of Engineering Valuers & Loss Assessors.

Approaches to supervision/ Regulation

There are three approaches to supervision and the selection of each depends on the available circumstances and what the regulator seeks to achieve. These include:

- Rules Based Regulation
- Principle Based Regulation
- Risk Based Regulation

Compliance Mechanism

- Revoking of the licenses of members who do not comply with the provisions of the Act
- Calling for any information regarding insurance business from any member of the industry
- Conducting on-site inspection of any member of the industry
- Appointing an investigator to gather relevant facts where there may be reasons to believe that a member of the industry is not operating in accordance with the law and on the basis of the investigation, proceed to take necessary action
- Intervening in the management of a troubled member of the industry

Test your understanding

1. Explain at least 5 roles played by IRA
2. List at least 10 requirements for licensing an insurance company in Uganda

3. Explain the three methods/approaches to supervision that can be used by the regulator of insurance in Uganda.
4. List four compliance mechanisms that can be used by IRA instances of non compliance of the Insurance Act by insurance players in Uganda.

Appendix 1

Appendix A: The Claims Process & Service Standards by IRA with UIA comments

Step No	Activity	IRA Position	Recommendations
1	Claim intimation	As per policy conditions	
2	Claim acknowledgement and acquisition of documents/ contact with the claimant	Within 3 working days from intimation.	
3	Site visit/ or appointment of external assessor	Within 3 working days	<ul style="list-style-type: none"> - 'Within 3 working days of intimation of the claim, in order to avoid any ambiguity. - Complex claims that require the appointment of a foreign assessor should be excepted from this requirement. Within 5 working days of intimation of the claim,
4	Submission of interim adjusting/ investigating reports	Within 3 working days from date of appointing adjuster/ investigator	<ul style="list-style-type: none"> - This period should be set in consultation with the Assessors/ Service providers who are better placed to advise on the time it would reasonably take to furnish these reports. Reference is made to observation (3) above.
5.	Progress Updates (For rare/ complex cases)	Every 5 working days	<ul style="list-style-type: none"> - Noting the category of claims as 'rare/complex', it is proposed that updates are provided on a monthly basis.

6.	Submission of final adjusting/ investigating reports and documentation	<p>20 working days from date of submission of support documents to the adjuster/ investigator.</p> <p>On receipt, the insurer should furnish the final report and documentation to the insured/ broker.</p>	<ul style="list-style-type: none"> - Similarly as proposed under 4 above, the timelines should be set in consultation with the Assessors/Adjustors. - In reference to provision of the Final Report, this should not be mandatory but at the underwriter's discretion. - It is important to bear in mind that such Reports usually contain confidential information which should not necessarily be disclosed to the insured/broker (including fraud). In addition, certain cases may result in litigation and such early disclosure affects a party's case. - Further still, knowledge that a report will be distributed may affect the quality of the Final report produced and result in concealment of vital information.
7.	Making settlement offer or communicating repudiation of the claim	<p>5 working days from receipt of final adjustment/ investigation report or, where no adjustment/ investigation is required, date of receiving the final supporting documents.</p>	<p>a) Internal Assessments for small claims (Not more than Shs.10M): Within 10 working days from receipt of final support documents.</p> <p>b) External Assessment: 10 working days after receipt of final report. Final report is deemed to mean a report where no more inquiries/ discussion is required.</p> <p>Note: Claims deemed</p>

			payable after receipt of a duly executed discharge voucher, salvages and subrogation letters.
8	Settling claim	Up to 2.5M: Within 5 working days	- Up to limit of 10M, and payable within 10 working days
		Above 2.5M to 25M: within 10 working days	
		Above 25M to 50M: Within 15 working days	- Above 10M to 50 M within 20 working days
		Above 50M: Within 20 working days or upon receipt of cash call payment from reinsurers whichever occurs first. Note: To avoid delays, Insurers should do cash calls to reinsurers immediately on receipt of the final adjuster's report.	- Above 50 M, within 30 working days.
		The insurer must document all communication with the insured as proof of receipt will be required. The insurer to provide a written reason explaining why a claim cannot be settled within the above timelines. This explanation to reach the insured or broker before expiry of applicable time limit with copies to the IRA & UIA.	Insurer to give constant updates to the insured/ Broker including reasons for delay of payment, but not copying to IRA & UIA.

CHAPTER 6: CLASSES OF INSURANCE

Contents	Syllabus Learning Outcomes
Learning Outcomes	
i. An overview	
ii. Differences between general insurance and life assurance	
iii. Classes of insurance	
iv. Compulsory classes of insurance	

Learning Objectives

After studying this chapter you should be able to;

- Differentiate between general insurance & Life Assurance
- List the classes of insurance; scope of cover and their key exclusions
- List the compulsory classes of insurance
- Explain the key policy terms and conditions

A. Introduction

Insurance is classified into two major classes namely: General/Non Life Insurance and Life Assurance.

In this chapter we shall differentiate between general insurance & Life Assurance; review the scope of cover under the different classes of insurance, discuss the compulsory classes of insurance and examine some common policy terms and conditions.

Various classes of insurance have continued to be developed in response to society's needs and in this chapter we shall look at the main classes of insurance offered in the Ugandan Insurance market.

B. Differences between General/Non Life Insurance & Life assurance

The differences between General and Life insurance are summarised in the table below:

General Insurance	Life Assurance
The duration/term of the policies is usually 12 months with the option to renew save for some engineering classes	Cover is long term and a minimum duration of 5 or more years is commonly required
Claims are payable in the very near future (less than 12 months) e.g. Car damage claims and household insurance claims	Claims are usually made after a long time save for claims following death which can occur at any time.
Claims may or may not be paid by the insurer under the policy depending on whether the insured suffers loss caused by a covered peril during the policy period.	A claim materializing is a certainty. A claim can be paid when the life assured dies or when the policy matures in the case of term policies.
Cover is on the risk of damage to property, Accidental Injuries to insured persons and the insured's professional and professional and public liability	Cover is for the risk of death or total incapacitation of the life assured.

C. Categorization of General Insurance

Categorization of general insurance is based on the type of risk or property insured. Below are the categories of general insurance and the types of policies issued under each.

1. **Property Insurances.** Examples: Fire and Related Perils; Theft (All Risks; Money; Goods in Transit etc); Contractors All Risks; Engineering; Domestic Package etc
2. **Liability-** Public Liability; Product Liability; Professional Indemnity; Employers Liability; Workers Compensation
3. **Guarantee Insurances-**Bonds (Performance; Bid/Tender; Immigration/Security Bond; Court Bond; Warehouse bonds
4. **Transport Insurance-** Motor Insurance (Act Only; Third Party Only; Third Party/Fire/Theft; Comprehensive); Marine and Aviation insurances
5. **Accident-** Personal Accident; Workers Compensation; Health Insurances

C1. Property Insurances

C1A. Fire and related perils (material damage)

Currently this class of insurance is yet to be embraced especially among the private individual clients save for a few organizations.

A Fire & Special perils policy provides insurance cover against the following perils:-

Fire -is the actual ignition of something that should not be on fire, the cause being accidental or fortuitous .There are exclusions under this peril, however.

Lightning -Any loss caused by lightning is covered under fire policy

Explosions -of boilers or gases used for commercial purposes for example oxy-acetylene gas used for welding.

This is in sharp contrast to the Standard Fire Policy which covers above to a limited scope.

Special Perils

- Chemical Perils: For example explosion, spontaneous ignition or fermentation.
- Natural Perils:- For example earthquakes, bush fire, tempest, storm, flood, cyclone, typhoon e.t.c
- Social perils: - perils arising as a result of communal living for example riot, strike and civil commotion, malicious damage, e.t.c.
- Miscellaneous perils: For example sprinkler leakage, impact, aircraft damage, burst pipes or overflowing of water tanks, etc.

Business Interruption (BI) Insurance

Many companies refer to business interruption as consequential loss or profit interruption policy. It is offered to protect future earnings of an enterprise after fire damage. The fire and related perils policy (material damage) covers a building and its contents. Loss of income occasioned by fire or any other peril insured is not covered under the material damage policy. It is covered under the business interruption policy. The perils under the business interruption policy are the same as those covered under the material damage policy. For a claim to be admissible under the Business Interruption section of the policy, the *Material Damage Proviso* must be fulfilled. This requires that there must be a payable material damage loss arising from the same occurrence for the BI loss to be considered.

C1B. Home insurance or Domestic Insurance Package

This class of insurance is subdivided into 5 sections as indicated below

Buildings and / or contents cover

- People often use the terms "home insurance" or "household insurance" in a general way to refer to insurance that covers any aspect of their home and belongings. However, these policies are usually split into separate sections - "buildings" and

"contents" - and not all policyholders will be covered under both sections. It is also possible to buy a "contents-only" or a "buildings-only" policy.

- Buildings insurance covers the structure of the building, plus permanent "fixtures and fittings" such as baths, fitted kitchens etc. The test is - can it reasonably be removed and taken to another home- If it can, then it is part of the "contents" and it will not generally be covered by a buildings policy. Buildings policies usually include outbuildings - garages, garden sheds *etc.*
- Contents insurance covers your possessions - your television set, furniture, clothes *etc.* In other words, just about everything you would take with you if you moved.

“All Risks” Section

This section extends cover to Sudden and accidental direct physical destruction of or damage to the property or theft whilst on the Insured's premises directly and wholly attributable to any cause, such as fire, lightning, explosion, typhoon, flood, breakage, etc., except as may be specifically excluded, occurring during the currency of the policy. This may be extended to cover portable items like cell phones, tablet computers, laptops and cameras whilst away from the insured's premises.

Liability Section

Bodily Injury and Property Damage Liability to third parties and related legal expenses are covered under this section of the home insurance policy. The Insurer will pay those sums that the Insured becomes legally obligated to pay as damages because of 'bodily injury' or 'property damage' to which this insurance applies.

Workers Compensation Act

- Employers are legally obligated to take reasonable care to ensure that their workplaces are safe. Nevertheless, accidents happen. Workers compensation insurance serves two purposes: It ensures that injured workers get medical care and compensation for a portion of the income they lose while they are unable to return to work and it usually protects employers from lawsuits by workers injured while working.
- Here this cover is limited to domestic servants such as house helpers and gardeners. In case of accidental death while at work the maximum compensation is 5 years' earnings as per the Workers Compensation Act 2000.
- Workers receive benefits regardless of who was at fault in the accident. If a worker is killed while working, workers compensation provides death benefits for the worker's dependents.

C1C Accident Classes of Insurance

C1C1 Theft Insurance

Covers property insured that is lost destroyed or damaged by Burglary or Housebreaking or robbery (theft following upon actual forcible and violent entry into or exit from the premises by

the person or persons committing such theft) or Hold-up (Forcible removal by actual or threatened violence against the insured or employee(s) of the Insured).

Any damage caused to premises resulting from burglary and/ or housebreaking or any attempted threat thereof occurring during the currency of the policy is covered.

C1C2 “All Risks” Policy

Sudden and accidental direct physical destruction of or damage to the property or theft whilst on the Insured’s premises directly and wholly attributable to any cause, such as fire, lightning, explosion, typhoon, flood, breakage, etc., except as specifically excluded in the policy, occurring during the currency of the policy is covered.

C1C3 Money Insurance

Money Insurance policy provides cover for loss of money in transit between the insured's premises and bank or post office, or other specified places occasioned by robbery, theft or any other fortuitous cause.

The policy also covers loss by burglary or housebreaking whilst money is retained at Insured's premises in a safe or strong room.

Loss of money is defined to include cash, bank and currency notes, cheques, postal orders etc.

Cover is extended to cover loss of money in hands of senior officials or at their residence

Policy can be issued on a per transit basis or annual carryings

C1C4 Plate Glass Insurance

- Provides all risks cover to accidental breakages to fixed glass windows etc.
- Claim payment is based on current replacement cost of the glass

Exclusions include;

- Any damage to frames
- Costs of removal or replacement of any fittings or fixtures
- Damage by fire or explosion (covered under fire).

C1C5 Contractors All Risk

- Contractors “all risks” insurance provides “all risks” cover in respect of both temporary and permanent works in the course of construction. Cover also includes-
- Contract works (permanent and temporary works forming part of the contract)
- Removal of debris
- Professional Fees
- Free issue materials
- Construction Equipment (Site offices, storage sheds, silos, scaffolding, utilities etc)
- Construction machinery (earthmoving equipment, cranes, site vehicles)
- Principal’s existing property
- Third party liability: Bodily injury & Property Damage

C1C6 Goods in Transit

This provides cover against all risks of loss and/or damage to the insured goods whilst in transit by road, rail and or air.

All risks cover on damage to insured goods by fire, theft and accidental damage while in transit, loaded or unloaded from any road train or temporary house.

Cover can be issued on the basis of a single transit, individual vehicle or declaration

Single transit is issued on short period basis and cover expires when goods reach destination.

Declaration basis is for many consignments. Insured declare expected annual carrying; premium is a provisional and adjusted at year end.

C2. Engineering Insurances

Engineering insurance cover is intended to provide compensation the insured in event of an insured plant being damaged by an extraneous cause or through its own breakdown.

Under engineering insurance, the plant insured is grouped into six headings:

- Boilers and pressure plant for example, steam boilers. Steam receivers, economisers and other pressure vessels, these are covered under the boiler explosion policy.
- Engine plant, for example steam engine, gas and oil engines and other plants subject to mechanical breakdown
- Electrical plant, for example electric motors, generators, transformers and all kinds of electrical equipment either rotating plant or stationery plant.
- Lifting machinery for example cranes of all types, tractors and passengers, goods and service lifts. These items are insured under crane policy or lift policy.
- Miscellaneous plant, for example steam turbines and refrigerator
- Computers are covered under computer insurance policies.

C3. Liability Insurance

Public liability insurance will protect your business if you cause an injury to a member of the public, or property belonging to another business or individual.

You should consider taking out public liability insurance if members of the public visit you at your place of work, or if you perform work at places of work owned by third parties. There are several types of liability insurances and some of these include:

C3A Public Liability

- A public liability insurance policy will protect your business from claims made by third parties for injuries to the person, or damage to property caused as a result of your business activities.

- A typical policy will pay for the cost of putting right any damage, or medical fees in the case of injuries. It will also cover the potentially crippling costs of legally representing your business, related expenses, and any damages your business is found to owe in relation to a claim.
- Public liability insurance does not cover claims made by any of your employees since these are more specifically covered under Worker's compensation Insurance where an employer is legally required to have this cover in place if they employ anyone, and the penalties for failing to comply are severe.

C3B Product Liability Insurance

Product liability insurance protects companies in the event that the products they have manufactured injure someone or cause property damage. In lawsuits, product liability insurance shields the insured against the cost of claims arising from product defects of any nature. If you manufacture products to sell to the public it is a good idea to get product liability insurance so you can avoid unpleasant situations like a lawsuit that could possibly put you into bankruptcy or cause you to go out of business.

Cover can be extended to include damage during testing, supply, alteration or servicing such manufactured products.

C3C Professional Indemnity

Professional indemnity insurance covers the cost of compensating clients for loss or damage resulting from negligent services or advice provided by a business or an individual while acting in their professional capacity. A professional owes a duty of care to all who seek his/her services and is liable under common law for negligence and or error.

If you offer your knowledge, skills or advice as part of your profession – either as a self-employed individual or for a company – you should consider taking out professional indemnity insurance.

Some professions are required to have professional indemnity insurance by their professional bodies or regulators – these include: solicitors; Accountants, Architects; Medical practitioners; Insurance brokers, etc.

C3D. Employers Liability

The policy protects the insured against legal liability to pay compensation, claimants' costs and expenses in respect of bodily injury sustained by employees arising out of, and in the course of the employment.

Here, this caters for cases where an employee feels that the employer was *negligent* much as one would have been compensated under the workers compensation policy.

C3E Workers Compensation

According to the Workers Compensation Act it is a statutory obligation for every employer to compensate employees who sustain bodily injury by accident or disease arising out of and in course of their employment.

Cover attaches from the time an employee sets off from home directly to work, during the course of work and while travelling directly back home until the employee reaches home.

Policy also covers employees when upcountry/out of station on official duty

Policy covers employees only while in Uganda (Now modified to include all other countries)

Natural diseases (malaria, headaches, stomachaches, fever etc) are not covered unless they are as a result of an occupational disease (Ref: 54 scheduled diseases)

Others benefits include: Compensation for Death, Permanent Disability; Temporary Total Disability and Medical Expenses

The Act does not compel employers to insure but to compensate which therefore leaves the employer with two options: Either to retain the risk and pay from their resources the amount of compensation or to transfer the risk to an insurance company which option most employers choose.

C4. Group Personal Accident

- Scope of cover similar to Workers Compensation
- Optional to Workers Compensation but needs to satisfy the requirements of the Workers Act (i.e. Benefit for Death/Permanent Incapacity should be 5 years earnings plus cover for the 54 scheduled diseases)
- Capital Sum Insured can be based on employees' earnings or fixed
- Cover is on 24 Hour basis (both at work and at leisure) unlike Workers Compensation which covers employees only whilst on duty
- Cover is on worldwide basis unlike Workers Compensation which is country specific
- Policy is recommended for permanent employees from supervisory roles upwards

Benefits:

- Death- 60 months earnings/5 years earnings
- Total Permanent Disablement (Unable to engage in any gainful employment) -60 months earnings/5 years earnings
- Partial Permanent Disablement (Not able to attend to a substantial part of one's work permanently) - %-ages of 60 months earnings as set out in the Act
- Temporary Total Disablement (unable to attend to work temporarily) – actual weekly earnings up to 96 months
- Temporary Partial Disablement (unable to attend to a substantial part of work) – percentages of actual weekly earnings up to 96 months
- Medical expenses including hospitalization – Limit agreed to per employee
- Funeral Expenses – limit agreed to per employee
- Transport and Incidental costs – limit agreed to per employee
- Artificial Appliances – limit agreed to per employee
- Evacuation costs – limit agreed to per employee

C5. Health Insurance

This policy covers the cost of treatment for illness and other medical conditions. It covers doctors, surgeons and anaesthetist fees, hospital bed charges, drugs and dressings, diagnostic procedures such as x-rays, cost of theatre and nursing costs etc.

C6. Guarantee Insurance

These are policies which cover the failure of a party to perform a particular task contract or when they act fraudulently while are in a position of trust.

C6A Fidelity Guarantee

The policy covers the employer in respect of any direct financial loss which he may suffer as a result of employees' dishonesty.

Covers infidelity of employees/staff (theft of cash/stocks belonging to the insured by employees/staff)

Cover can be arranged on individual (named) basis or blanket basis

C6B Bonds Insurance

There are several classes under this sub category and these include;

Performance bond

Performance bonds cover against the risk of a contractor failing to complete contractual work as per their contract with the principal. The principal usually requires the contractor to execute such a bond as a fall back measure in the event of nonperformance.

Bid / Tender bond

Bid or tender bonds are used when the cost of new tendering has to be incurred, should the highest bidder fail to take up an offer

Immigration / security bonds

Immigration or security bonds are issued to non citizens whose conduct the insurer guarantees. Should one fail to be of good conduct, the insurance company undertakes to pay the costs of deportation / or the consequences of his/ her bad conduct.

Court bonds given to administer estate.

Customs bonds given as a guarantee to pay customs duties to the tax authorities.

Warehouse bond given as a guarantee to pay taxes for goods in the warehouses.

C7. Transport Insurances

C7A Motor Insurance

The key differentiating factor for motor insurance is the scope of cover desired. Below are the various types of cover available with increasing cost as you move further down the list.

Act Only

Act only is the minimum cover required by the insurance (motor vehicle Third party Risks) Act 1989.

Third party only/ Enhanced Third Party

A third party is any person outside the insurance contract. This level of insurance covers the insured's legal liability towards third parties arising out of the use of a motor vehicle. Such cover is wider than the act only cover in that liability for property damage, as well as for the death and injury is included.

Third party, Fire and Theft

In addition to the full third party cover, the third party, fire and theft level of insurance cover includes loss or damage arising from fire or theft but only to the insured vehicle.

Comprehensive Cover

The comprehensive insurance level provides very wide cover. The term comprehensive is somehow misleading, however; though it implies that every conceivable risk is covered, this is not the case under comprehensive policies. In addition for full third party, fire and theft cover, it covers own damage and also malicious damage.

The most commonly covered are Private Cars, Commercial Vehicles and Motor Cycles.

Private Cars

Private Car policies are have restrictions to use as follows;

- Social, domestic and pleasure purposes
- Used by insured or representative on business
- Carriage of goods for hire and reward is excluded
- Usually confined to small cars used in a business

Commercial Vehicles

- Used for transportation of Goods and services and people and other commercial activities.
- Commercial vehicle Insurance offered to goods carrying vehicles buses and taxis used for transportation of goods and passengers for commercial purposes.

- Motor Insurance (internal and external) offered to companies involved in selling or repairing motor vehicles. (expand)
- Agricultural and Forestry Vehicles Insurance which are normally restricted to moving in agricultural land. They may be exempt from compulsory insurance because they are rarely used on public roads, except from one part to another.
- Special Types are used for specialized activities like construction i.e. cranes, or medical services like ambulances fire engines etc.

Motor Cycles

- Should be mechanically propelled and includes scooters and moppets
- Basic cover is same as private car with the following differences;
- Theft of accessories and spare parts only covered if the MC is stolen at the same time.
- No additional benefits like personal accident or medical expenses are normally offered
- Accessories and spare parts are covered only while on machine

COMESA Yellow Card

- Initiated by UNCTAD in 1976 for COMESA countries as a scheme for Africa
- COMESA replaced PTA countries and was established in 1994.
- The idea was to promote regional integration through trade and human resource.

Purpose was to allow motorists passage through member countries by producing a yellow card as a proof of minimum TP motor vehicle insurance required by laws in countries to facilitate;

- Inter-state traffic movements
- Accidents victims to be compensated promptly
- Act as incentive for trade facilitation
- Enhance greater cooperation amongst insurance companies in the trade members
- A national bureau government-designated in each country is responsible for management and control of cards
- Handling Agency dealing with claims was established
- Every Underwriter to submit monthly returns
- National Bureaus in each country to be notified and handle all claims at handling fee of 3% of claim
- Handling Agency can settle claims up to US\$3 000

C7B Marine Insurance

This is the oldest form of insurance leading to the birth of Lloyds Corporation. Lloyds supplied information to merchants on tonnage, routes, age of ship etc.

Marine policy has the following covers;

- Hull and liability of the vessel
- Cargo i.e. goods carried
- Freight i.e. cost of transporting or hiring a ship.
- Marine covers are perils of the sea and include fire, theft and collusion

C7C Aviation Insurance

Aviation insurance is a class that requires a lot of reinsurance & technical expertise. Large aircraft are insured with established markets in Europe and most of these policies are taken to outside reinsurers with no or little participation of the local reinsurers on such risks. The policies are issued to cover the hull (the aircraft), liability to passengers and the liability to others that is fire, theft, accidents and legal liabilities.

7D. Categorization of Life Assurance

1. **Ordinary Life Assurance-**(Term, Endowment, Pure Endowment, Whole Life Assurance)
 2. **Industrial/Group Life Assurances-** Retirement Benefits Schemes; Group Life and Annuities/ Investment Policies such as Unit linked/ Bonds Investments
- In Uganda, life business is being revitalized. It had picked up during the 1960's and 1980's but due to the economic turmoil, life business was greatly affected. Long term business is called benefit policies. Unlike in non life insurance, in life assurance the event being assured is to happen that is death or maturity. We have individual/individual or group life policies

Term Assurance

- Term assurance is the simplest and oldest form of assurance and provides for payment of the sum assured on death, provided death occurs within a specified term. Should the life assured survive to the end of the term, then the cover ceases and no money is payable.
- This type of cover is cheap. It is suitable for young married men earning low incomes. The aim is to provide reasonable sum for their wives in the event of the husbands' deaths.

Whole Life

The sum assured is payable upon the death of the assured whenever it occurs. Premiums are payable throughout the life of the assured or until the retirement of the assured. Although premium payment may cease at retirement, the policy will still be in force and if the assured dies, later the policy will provide the benefit to the assured's representatives.

Endowment

An endowment policy is a contract designed to pay a lump sum after a specific term (on its 'maturity') or upon the death of the policy holder. Typical maturities are ten, fifteen or twenty years up to a certain age limit. Some policies also pay out in the case of critical illness.

Endowments can be cashed in early (or surrendered) and the holder then receives the surrender value which is determined by the insurance company depending on how long the policy has been running and how much has been paid into it.

Group Life Assurance

Covers a group of people, usually who are the members of societies, employees of a common employer, or professionals in a common group.

Offered by an employer or large-scale entity (i.e. association or labor organization) to its workers or members. Group life insurance is typically offered as a piece of a larger employer or membership benefit package. By purchasing coverage through a provider on a "wholesale" basis for its members, the coverage costs each individual worker/member much less than if they had to purchase an individual policy.

From the above we can infer the following are the characteristics of Group Life Insurance

- there must be a group of people to be insured which should have something in common other than the purpose of obtaining insurance
- there must be a Master Policy Holder who will retain the contract on the behalf of the member and the carriers
- Such covers are typically available at a discount to the respective individual rates.

Annuities

- An annuity is a method by which a person can receive a yearly sum in return for payment to an insurance company for a sum of money. It is not a life assurance, though life assurance companies deal with it and is based on actuarial principles. For example; if a person with a large sum of money wants to provide on income for oneself when on retirement, or at any other time, she or he can approach a life assurance company and purchase an annuity.

Investment Policies

This is where insurance companies collect large sums of money some of which is used for investment purposes.

Unit Linked

These are policies where the values of policy are linked to the investment performance

- Is a product offered by insurance companies that unlike a pure insurance policy gives investors the benefits of both insurance and investment under a single integrated plan.
- This is basically a combination of insurance as well as investment.
- A part of the premium paid is utilized to provide insurance cover to the policy holder while the remaining portion is invested in various equity and debt schemes. The money collected by the insurance provider is utilized to form a pool of fund that is used to invest in various markets instruments (debt and equity) depending on members appetite
- The sum assured payable on death or maturity will depend on returns from investment.

Bond Investment

- An investment bond is generally a single premium life insurance policy. They have a small element of life insurance that is paid out after your death. However, it is an investment rather than insurance in the general sense.
- An insurance company will take the premium and invest it for income and or capital gains which accrue until a policyholder withdraws money from the policy.
- Bonds pay out income monthly or annually or accumulates interest to make cash payment at the end of the term. Terms of one to five years are common and the bond may be linked to some form of shares, property or cash fund operated by the insurer.

Compulsory Insurances

- Compulsory insurance is any type of insurance coverage that is required by law before individuals or businesses may engage in certain activities.
- The idea behind this type of mandatory coverage is to protect the well-being of those who would otherwise be adversely affected if the events covered in the terms of the policies were to take place.

Reasons for compulsory insurances

- Provision of certain forms of insurance which are compulsory. The funds must be available to compensate injured third parties- motor third party insurance and professional indemnity policy for insurance brokers.
- State regulation need standardization in terms of benefits to policyholders of such compulsory insurances
- Most of the compulsory insurances are in areas which tend to concern the public such as health and old age and these are services Governments are expected to provide services
- By making insurance compulsory, the insured is availed all the expertise all the expertise of the insurer in the loss prevention.

Examples of Compulsory insurances in Uganda

- The The Motor Vehicle Insurance (Third Party Risks) Act 1989
- The Workers Compensation Act 2000
- The Marine Insurance Act 2002
- Professional Indemnity for insurance Brokers
- Now yet to be enacted, the National Health Insurance Scheme

CHAPTER 7: INTRODUCTION TO INSURANCE LAW

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Learning Objectives

After studying this chapter, you should be able to

- Define the term contract
- Describe the main elements or essentials of a valid contract
- Describe the various types of contracts in insurance
- State how agency is created
- Describe the various types of agents
- Explain the rights and duties of an agent
- Explain the various types of authority an agent has
- Explain how a contract may be discharged
- Explain the remedies available for breach of contract

Introduction

In the previous chapters, we have already introduced the idea of a policy document being evidence of an insurance contract. In this chapter we shall concentrate on the general meaning

of a contract, the main elements of a valid contract, various types of contracts, how a contract can be discharged and the remedies for a breach of the terms and conditions of the contract.

You will study the legal principles of an insurance contract in depth elsewhere in your course of study. In this chapter we shall concentrate on the basics of any contract.

Key Terms

This chapter features explanations of the following terms:

Acceptance, Breach, Capacity, Consideration, Contract, Formality, Frustration, Legality, Offer, Remedy

7A Meaning of the term contract

A contract is an agreement between two parties which is legally binding. Under the contract, the parties to the contract expressly state their rights and obligations which are recognized at law meaning that they are enforceable in the courts of law of that country in our case the Ugandan Courts of law.

In law, there is a doctrine or principle called **Privity of a contract** which simply means that the terms and conditions or rights and obligations spelt out in the contract only apply to the persons or parties who originally made that contract.

If for example you enter into an insurance contract with ABC General Insurance Company Limited to comprehensively insure your motor vehicle, then that contract is between you the owner of the car (the first Party) and the insurance company (the second party). Under the doctrine of Privity of contract, it means your son has no right or obligation to enforce any terms or condition within that contract.

7B Essentials of a valid contract

As explained in the previous section that the contract must be legally binding, not all agreements are legal contracts. For a contract to be legally binding, certain elements must be present. These include but not limited to;

- Intention to create legal relation
- Agreement (Offer and acceptance of the offer)
- Consideration
- Capacity to contract

- Formality

Elsewhere in your course of study you will learn that there are other important elements which also must be present, but for purposes of this course we are going to focus on the four aspects.



7B1 Intention to create Legal relation

The parties to the contract must be willing to be legally bound. It implies that all commercial contracts are legally binding while social contracts like promise to marry a girlfriend are not legally binding.

7B2 Agreement (Offer and Acceptance)

For any contract to be valid there must be agreement between the two parties to the contract. For this to happen, there must be an offer being made by one party and this offer must be accepted by the other party.

7B2A Offer and acceptance

A contract requires agreement. The law identifies this as an offer which is communicated to the other party and which the other party accepts without alteration. As a general rule, this acceptance also needs to be communicated. A valid contract cannot be created unless there's definite offer and a complete acceptance of the offer when a person makes an offer to another, one signifies a willingness to enter into a contract on terms set out in the offer. An offer, if accepted involves the intention to be bound there. An offer must be distinguished from

an invitation to treat. An invitation to treat is an invitation to make an offer. For example a book seller who sells a price catalogue is merely making an invitation to treat, leaving the person to whom the catalogue is sent to make an offer; similarly, merchandise displayed on shop shelves is an invitation to treat.

An offer

- Is made when one party makes a proposal to another party to enter into an agreement designed to create legal relations between them;
- Is made only when it is communicated to the “offeree” that is the party to whom it is made.
- It may be made orally or in writing or by conduct. An example of an offer made by conduct occurs when a bus travels along a street. This constitutes an offer by an owner of the bus to carry passengers to specified places at specified fares;
- May lapse before it has been accepted. It is then too late for any contracts to arise from the original offer.
- May lapse if either party dies before acceptance.
- May lapse after failure to accept in accordance with the terms of the offer if a special mode of acceptance is stipulated;
- May be revoked at any time before acceptance. The general rule is that a revocation must be communicated to the offeree” before the “offeree” has signified acceptance. The revocation must actually be brought to the notice of the “offeree” and is rejected if the person to whom the offer is made rejects it out right or if the person makes a counter offer, or if the person makes a counter offer or if the person accepts the offer subject to certain conditions. A counter offer must be regarded as a refusal of the original offer that there upon lapses and cannot be accepted afterwards

Acceptance

- An acceptance may be made orally or in writing or by conduct. An acceptance by conduct occurs where an offer is accepted by being acted upon. For example, if an offer of reward is made for finding a lost cat, the offer is accepted upon finding the cat provided that the finder is aware of the offer and it is not necessary to give oral or written notice of acceptance.

- An acceptance must be strictly in accordance with the terms of the offer, because any variation constitutes a counter offer and a consequent rejection of the original offer. Except where acceptance of a general offer is made by conduct, an acceptance should be made to the offeror and in accordance with any special form prescribed to the “offeror”
- The party accepting the offer must make some outward sign of acceptance and cannot be bound in advance by the ‘offeror’
- When making an offer, a person may specify that use of post is a suitable means of acceptance .In this case the contract is completed the moment the letter of acceptance is posted even though it does not reach its destination .where it is reasonable to use the post, the letter must be properly addressed, stamped and posted. This is called the **Postal Rule.**

7B3 Consideration

Converts a bare promise into a bargain and becomes the price paid for another party’s promise. Its standard definition, given in the English case of **Curie Vs Misa 1875** is “some right, interest, profit or benefit accruing to one party or some forbearance, detriment, loss or responsibility given, suffered or undertaken by the other.”

Its therefore ,follows that consideration may be positive that is give pay, do, or it may be negative that is not to do something one is entitled to do or to suffer as a result of forbearance or loss.

Though consideration is necessary for all simple contracts, there are requirements that consideration must fulfill

- Must have value, but it need not be adequate .the court will not normally be interested in whether a fair bargain has been struck. It will only seek to ensure that a bargain of some sort was made.
- Must not be “past”. In this sense, a promise of payment to re-ward past service is not a bargain and so will not be enforceable .this does not apply to situations where services may have been performed on the common understanding that there would be a payment at some time in the future. In that particular situation ,the latter promise to pay is merely an attempt to quantify the obligation;
- Must be legal, for courts will not support a wrongdoer and

- Must move from a “promise”. This means that the person who receives a promise must buy it with own, not someone else’s endeavor.

In insurance, consideration is the premium paid for the risk placed with the insurance company.

7B4 Capacity to contract

Capacity in the law of contract is the right recognized whereby a person may enter into a binding agreement. While ,in general it is presumed that every “legal person” may be a party to a contract ,there are some people who, by reasons of age or special circumstances, are deprived wholly or partly of the capacity to enter into a contract. Minors, the insane and the drunk belong to this category of people that will now discuss in some details.

7B4A Minors

A minor is a person who is below 18 years of age. minors however may be bound by contract for purchase of necessities defined as actual requirement (such as articles of apprenticeship) or goods beneficial or suitable to young people’s station in life; when minors buy or agree to buy goods that are necessities, they are bound to make payments for them. They however are not bound to pay more than reasonable, which may not be the same as either agreed price of a cash or credit price

7B4B Insane persons

A person who has been judicially declared insane cannot make valid contact. People who have not been declared insane are bound by their contract, unless they can prove that

When they made contracts, they were so insane that they were incapable of understanding what they were doing and

The persons with whom they made the contracts were aware of their insanity and incapacity .if one can prove these two points, one can avoid the contract in any event, however, one is liable to pay a reasonable price for any necessities supplied.

7B4C A drunken person

A person cannot avoid one’s contractual duties merely because one was drunk when one made the contract. One is entitled to a contract, however if

- One was so drunk that one did not understand what one was doing and
- The other party knew that one was in this state
- Like insane people, drunken people are liable to pay fair prices for necessities.

7B5 Formality

Generally, the law does not require a contract to be in any format. Certain contracts however must be in prescribed formats, for example, contract for sale of land must be in writing, a certificate of insurance must be issued in motor vehicle third party insurance and a hire purchase agreement contract must be in writing and signed by the two parties.

7B6 Legality of a contract

A contract is not valid if its subject is illegal. For example; a contract to defraud or evade the court of justice would be unenforceable. At this point, we need to discuss distinctions between illegal contracts, void contracts, voidable contracts and unenforceable contracts

7B6A Illegal contracts

An illegal contract is prohibited by law and may incur penalties .for example, a contract to commit murder or sell explosives, whose intentions are known to be blow up public facilities, would be illegal.

7B6B Void contracts

A void contract did not exist from inception and therefore has no legal effect and can not be enforced at law. This means that the parties to the agreement cannot look upon the court system to sort out disputes that may arise from the contract such as a life contract without insurable interest. An illegal contract is void.

7B6C Voidable contracts

terms of a voidable agreement allow one party or both parties to refuse to be bound by the terms of the agreement in certain circumstances .this means that a “voidable” contract can either be enforceable or repudiated by one of the parties at its option .in this respect, non-disclosure of material facts gives an insurer the option to avoid a contract.

7B6D Unenforceable Contracts

An unenforceable contract is perfectly valid but cannot be enforced in a court of law if one of the parties refuses to carry out obligations under it. An unenforceable contract, however can be used as a defense to a claim

7C Discharge of a contract

A contract can be discharged through performance, breach, agreement or frustration. We now discuss each of these forms of a discharge of a contract in some detail.

7C1 By performance

Performance is the discharge of the obligations expressed in the contract. For example; a life assurance contract is discharged by payment of the sum assured upon death or maturity. Performance must be exactly and precise for it to suffice in discharging a contract.

7C2 By Breach

Breach is failure to perform. A major breach of the contract by one of the parties discharges it, but in that case, the aggrieved party must have the right to sue for damages.

7C3 By agreement

Having entered into a contract by mutual consent, parties to a contract may similarly agree to discharge each other and hence bring the contract to an end. If both parties still have obligations to execute under the contract, they may mutually agree to release each other from the obligations.

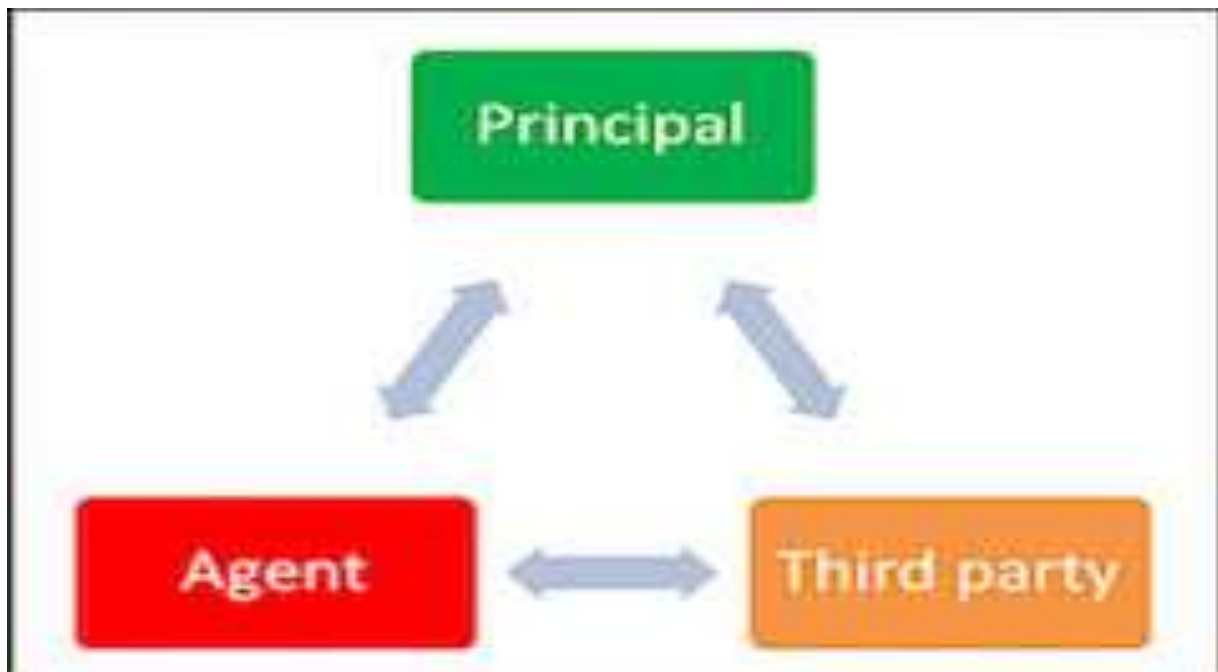
7C4 By frustration

Frustration occurs when a supervising event makes a contract that was possible to perform .one such situation is destruction of the subject matter of the contract or non occurrence of the event on which a contract depends.

LAW OF AGENCY

Introduction

The law of agency is based on the principle that one who does something through another does it oneself. An agent acts on behalf of another, who is known as the principal. The agent is therefore a mechanism through which the principal acts. The agent binds the principal by a contract without being personally bound to it. once a contract is concluded, the agent has no further interest in the arrangement .An agent may have authority to bind the principal in connection with one specified transaction or with a series of transactions of a particular kind with all the principal's affairs .the scope of the agent's authority must be clearly defined, however.



7E Creation of agency

The relationship between a principal and an agent can arise through consent, the application of the doctrine of apparent authority, necessity, ratification, or the application of the rule “of the undisclosed principal”

7E1 Consent

The most usual way of creating a relationship between a principal and an agent is through consent .in this case, the agent is authorized by the principal to act on the latter’s behalf. The agent may be appointed by deed, in writing but not under seal, or orally .generally it is of no consequence which method is adopted. If an agent appointed by a deed, the deed is known as power of attorney.

7E2 Apparent Authority

When a third party deals with an agent, often the third party cannot know the precise limit of the agent’s authority. For example, a member of the public cannot be expected to know the extent-, if any, to which an insurance agent is entitled to give temporary cover to the insured or the party proposing for insurance. Therefore the Third Party is bound to rely on what appears to be (apparent) authority of the agent.

The law recognizes the reliance through apparent authority. This means that a principal is bound not only by acts that are within the express authority of the agent, but also by acts that are within the agent's apparent authority.

There could be circumstances where the agent has no authority at all but the third party is justified in presuming that the agent has the authority.

7E3 Necessity

Agency by necessity arises where a person is entrusted with goods of another and it becomes necessary to do something to preserve the property in an emergency. For example, should a live animal be conveyed to a bus station where no one is waiting to take charge of it, the bus station officials may have to tend to it and feed it in order to preserve its life. In such circumstances, the Bus Company becomes an agent by necessity and the owner of the animal becomes liable to compensate the company.

7E4 Ratification

There are occasions when an agent will act outside the scope of what is permitted in terms of an agency agreement. An option open to the principal is that the principal accepts the act as having been done on the principal's behalf. This is called ratification. Sometimes, ratification may be either expressed or implied from the conduct where the principal takes the benefit of the act with the knowledge of the circumstances in which it is done. There are certain rules in relation to a valid ratification.

- The person performing the act must purport to do it as an agent and not on one's own behalf.
- The principal must be the person whom the agent had in mind at the time the latter performed that act (though the principal need not be named)
- At the time of ratifying the act, the principal must have full knowledge of the circumstances relevant to the act or must have waived further inquiry
- The principal must have been in existence at the time the authority act was performed. He principal must have had the capacity to perform the act at the time it was performed.
- Ratification must take place within a reasonable time.
- The whole contract must be ratified
- A valid ratification is generally retrospective to the date of the original act. sometimes and agent may make an offer in respect of something that is outside the

scope if the agent's authority, subject to ratification by the principal whom the agent has in mind; if the offer is accepted, the principal still has the right to ratify the act. If the principal does not, there would be no valid contract.

7F Duties of agents

The duties of an agent are obedience, care and skill, performance, good faith and accounting for money received and there exist remedies for an agent's breach of duty.

7F1 Obedience

Agents must act either expressly or implicitly within areas of their authority but have no right to exceed that authority even if it would be in the principal's benefit to do so. In this respect, they will be liable in damages for any breach of contract between them and the principal, if they do not carry out the terms of the contract.

Further, they are under no obligation to perform any act that is either illegal or void. In circumstances where insurance agents are non contractual that are gratuitous, they are under no obligation to commence the performance of any act .if they do so, however, they have the same duties as paid agents.

7F2 Care and skill

The basic principle is that a person must exercise due care and skill in the performance of all acts done in the course of one's duty as an agent. An insurance broker is expected to exercise a higher degree of care and skill than an agent does

7F3 Personal performances

Generally, agents may not delegate their duties. Although this is a general rule, there are important exceptions to it. Sometimes the personal qualities and skill of agents are essential to the transaction. In these circumstances it is not possible to delegate duties. Delegation of duties is possible in the following circumstances, however

- Where principal expressly authorizes the agent to delegate all some of their functions;
- Where delegation is implied from the circumstances of the case straight line- this is true of many business transactions or
- Where it is recognized that the agents will delegate all or part of the work to for instances, their employees where the delegation relates to some purely administrative function. In all these circumstances, agents are liable to the principal for work delegated to any of their personal fault. Additionally they are liable of principal for any fault on the part of the person or persons whom they have delegated the duty.

7F4 Good faith

An agent's relationship with the principal is of trust. It therefore, follows that agents must not allow their own interest to conflict with the duties towards their principal. They are entitled to accept their normal remuneration, such as commission. If they receive bribes or secret commissions from a third party, however, they are liable to prosecution under law. They may then be instantly dismissed and forfeit their rights under a contract, and the principal is entitled to repudiate any contract by an agent who has been bribed.

It is implicit that agents must not make use of confidential information that comes to them as agents for the purpose of obtaining some personal benefit. Even after the termination of the agency such information may not be used. There is an additional requirement that if agents are employed to sell something on behalf of their principal, they cannot buy the thing themselves unless they disclose this fully to the principal as they would obviously lead to a potential conflict of interest.

7F5 Accounting for Money Received

Insurance Agents must remit to the principal all the money they have received on behalf of the principal. They must keep the principal's property distinct from their own and must keep proper accounts to be produced on request on behalf of the principal.

7G Remedies for Breach of Duty

When an agent is in breach of duty, the principal can

- sue the agent for damages for breach of contract;
- In certain circumstances, sue the agent in tort. This may occur when the agent has refused to return the principal's property;
- sue the agent to recover any secret money received by the agent;
- sue for an account if the agent fails to keep proper accounts of the agency transaction;
- dismiss the agent without compensation

7G Rights of Agents

Agents have, broadly speaking, three rights in relation to their employment as agents: indemnity, remuneration, and lien.

7G1 Indemnity

If agents incur liability or pay out money in the performance of their duties as agents, they have a right to be indemnified by a principal. The only exception to this is if an agency agreement provides otherwise. They, however, lose their right to indemnity (or reimbursement of expense) if

- their acts are not authorized or ratified by the principal;
- they are to breach of their duties as agents;
- they incur liability or expend money solely as a result of their own faults; or
- They act in respect of which they claim indemnity is illegal, unless they can show that they were unaware of the illegality.

7G2 Remuneration

On fulfilling their obligations, agents have the right to be paid the commission or other reward that has been agreed upon. This rule applies even where the principal, through no fault of an agent, does not benefit by the agents' actions. For example: Where the principal employs an estate agent to find a purchaser for a house and the agent arranges a contract, if the principal subsequently allows the purchaser to break the arrangement, the agent is entitled to the agreed remuneration.

7G3 Lien

A lien is the right to retain the goods of another as security for payment of a debt. There are two types of lien: particular and general. If, for example, a person has both a current account and a deposit account at a bank and the current account become overdrawn, the banker has a particular lien if his or her right is restricted to possession of any amounts which may be paid into the current account. If the right extends over both the current and deposit accounts, however, it is a general lien, but the court will consider a lien to be particular unless there is clear evidence to the contrary.

7H Authority of Agents

Agents' authority may be express, implied, usual, or apparent.

8H1 Express Authority

Express authority is normally straightforward. It may be given orally or in writing and, if in writing, it may or may not be under seal.

7H2 Implied Authority

In order to perform the tasks which are within the terms of their express authority, agents have authority to do anything which is necessary for, or incidental to, the carrying out of their express authority. This is known as implied authority.

7H3 Usual Authority

The express authority and implied authority that an agent possesses carry with them a usual authority to perform acts that are usual in a particular trade or profession. If there are certain customs of trade then the agent has a usual authority to comply with these customs.

7H4 Apparent Authority

A principal is responsible for acts that are within the apparent authority of the agent. This is so even if they are not within the actual authority. If the principal acts in any way that implies to a third party that a particular person is his or her agent, this will make the principal liable. The representation is made to the person who seeks to hold the principal liable. A principal may be held liable on the grounds of apparent authority even if agents act fraudulently and for their own benefit.

7G Termination of an Agency

An Agency may be terminated

- on the completion of the purpose for which the agency was created;
- by lapse of time, where the agency has been created for a specific period
- by the bankruptcy of the principal, and also by the bankruptcy of the agent if, as usual, the bankruptcy prevents the agent from carrying out his duties;
- by the principal revoking the contract, provided that any compensation due to the agent is paid;
- by the action of the agent in recounting the agreement;
- by mutual consent or agreement between the parties;
- by frustration, where the subject matter of the agency has been destroyed or become impossible to fulfill, or
- Where the objects of the agency have become illegal.

7H Remedies for breach of contract

A breach of contract by one party gives the aggrieved party certain remedies which depend on the extent and importance of the breach. The injured party has one or more of the following remedies available to one.

- One may regard the contract void as a result of the total breach by the other party and bring an action for damages for the breach of the contract. The idea underlying damages is that they are calculated in order to put the innocent party in the financial position that the party expected to enjoy had the contract been performed.
- One can regard the contract as still open and bring an action for damages
- When one has already performed party of the contract, one may claim for an amount equivalent to the work done. This is known as “quantum merit.

Chapter Summary

The main ideas covered in this chapter can be summarized as follows

Contracts can be either contracts under seal (a formal contract in writing which must be witnessed) or simple contracts (all other contracts)

Contracts can be either bilateral contracts or unilateral contracts- there must always be two persons to make a contract but under a unilateral contract only one is bound.

A contract may not be fully valid in law for a number of reasons; it can be void, voidable, or unenforceable.

There are five essentials for the formation of a valid contract

- An agreement (offer and acceptance)
- Intention to create legal relations
- Consideration (for simple contracts)
- In the form required by law (if any)
- The parties must have capacity to contract

The contract also must not be illegal or contrary to public policy

Special rules restrict the capacity to contract minors, mental patients and drunken persons

Terms in a contract can be classified into express and implied terms; implied terms can be implied in fact, by custom or by law.

Contracts can be defective as a result of Illegality, Improper pressure, Mistake, Misrepresentation and Non disclosure

A contract may be discharged by performance, by breach, by frustration, by agreement or by operation of law.

The main remedies for in the law of contract are rescission; an action for damages, an action for specific performance, and an action for an injunction.

Privity of contract is a doctrine which restricts the rights and duties created by a contract to the persons who originally made it.

An agent is a person who has the authority or power to act on behalf of another person called the principal.

Agency may be created either by agreement or consent, by ratification and by necessity

The duties of an agent are to obey the principal's instructions, to exercise proper care and skill, to perform duties personally, to act in good faith towards the principal and to account for monies received on behalf of the principal.

The main rights of an agent are right to remuneration and the right to indemnity

Agents can have different types of authority: Actual authority (express or implied); Apparent or ostensible authority

Contracts made by the agent with third parties can be for a named, disclosed or undisclosed principal

Agencies can be terminated by agreement, performance, lapse of time, withdrawal of authority, renunciation by the agent, death of principal, or agent, bankruptcy, insanity or frustration.

Test Your Understanding

1. What are the essentials for the formation of a valid contract?
2. A person goes to a supermarket, picks up a bar of chocolate from the shelf and pays at the cash desk. At what point is the contract of sale concluded?
3. What is an invitation to treat?
4. Acceptance must generally be communicated to the offeror. How can this be done?
5. Give two examples of contracts which must be by deed
6. What are necessities?
7. When may a contract become frustrated?
8. The concept of agency is tripartite. What are the three relationships?
9. What types of authority might an agent have?

10. State three ways in which an agency may be created
11. What conditions need to be fulfilled to achieve a valid ratification?
12. What is meant by an agent by necessity?
13. When may the agent delegate their duties?
14. What are the rights & duties of the agent?
15. How may an agency be terminated?

8 SELLING INSURANCE AND CUSTOMER CARE

Content	Syllabus learning outcomes
Learning objectives	
Introduction	
Terms used in Sales	
Differences between sales & Marketing	
Principles of marketing	
The meaning of branding and the role it plays in sales	
Insurance Distribution channel	
The Sales Process	
Qualities of a good sales person	
Determinants of insurance selling	
Understanding a customer	
Types of Customers	
Customer Expectations & Perceptions	
Developing a customer service culture	
Chapter summary	
Test your understanding	
Suggested Answers	

Learning Outcomes

After studying this chapter you should be able to;

- Define the key terms used in sales
- Differentiate sales from marketing
- Explain the principles of marketing
- Explain the insurance distribution channel
- Describe the sales process
- List the qualities of a good sales person
- Explain the determinants of insurance selling
- Defining a customer

- Appreciating the types of customer
- Discuss the customer expectations and perceptions
- How to develop a customer service culture

Overview

In this chapter, we will generally look at the role played by sales and marketing in insurance; the sales process including the various available distribution channels and what influences the sales process as well and how to become a better sales person

8A Sales and Marketing

Sales and marketing are often used interchangeably and to some people they take it to have the same meaning which is not the case as it will be explained shortly.

Sales/selling is considered as any activity that lets potential customers know about your product or service what makes it special or better than others in order to encourage them to buy it.

The aim of selling is to help customers make best buying choices

Selling is a transaction between two parties where the buyer receives goods (tangible or intangible), services and/or assets in exchange for money.

In insurance, the insurance company has various products for example motor third party insurance that is needed by customers being compulsory and in order for these customers benefit from the third party insurance, they must be prepared to pay up the applicable premium.

Marketing on the other hand often refers to activities or processes for creating, communicating, delivering, and exchanging offerings that have value for customers. The main aim of marketing is to ensure that customers get what they want.

8B Other key terms used in Sales and Marketing

a. Goods and Services

Often the term 'goods and services' are used interchangeably and to some people their meaning is the same.

It is worthy to note that much as goods and services facilitate the sales process/transaction between the potential buyer and the willing seller; if taken in their typical sense they have different meaning.

Goods refer to physical product that is being offered by the seller to meet the needs of the willing buyer. Goods have been classified as consumer durables used to satisfy personal needs and fast-moving consumer goods (FMCG) or industrial goods used purposely for production of goods.

While we were defining the term 'Goods' we referred to a good as a physical product and in our case a physical product is anything that is offered to the market and is tangible in nature.

Examples include: Different forms of beverages; clothes. In insurance, there are times when we often refer to insurance services as a product and the issue we need to address here is as to whether insurance is a physical product or not.

Insurance services tend to qualify as products given some form of evidence for example the policy document that may be given after one has bought an insurance policy.

b. Service

Services are identifiable, intangible activities that are sometimes the main object of a transaction and at other times support the sale of tangible products. They have no physical dimension meaning you can see or touch it unlike a physical product or good. Examples include: Insurance, banking, hotel, transport services.

c. Needs

These can be taken as something that a person must have: something that is needed in order to live or succeed or be happy. Needs are basic necessities of life such as food, shelter, emotional feeling to be loved.

d. Market

The place where buyers and sellers meet is called a market place. In insurance, the market place refers to the mechanism by which buyers and sellers meet rather than the actual physical location. Like any other market, the insurance market consists of sellers, buyers, intermediaries, and other service providers.

8C Principles of Marketing

These are the foundation upon which marketing operates and if selling is to be successful, these principles must have been implemented well. In some cases, they are referred to as the "Marketing Mix".

The marketing mix refers to the set of actions, or tactics, that a company uses to promote its brand or product in the market and they are seven in number;

- a. Price:** refers to the value that is put for a product. It depends on costs of production, segment targeted, ability of the market to pay, supply - demand and a host of other direct and indirect factors. There can be several types of pricing strategies, each tied in with an overall business plan. Pricing can also be used as a demarcation, to differentiate and enhance the image of a product. Pricing of an insurance product can render it valueless or too expensive in the eyes of the customers. It is therefore very important to come up with appropriate pricing in line with competition.
- b. Product:** *refers to the item* actually being sold. The product must deliver a minimum level of performance; otherwise even the best work on the other elements of the marketing mix won't do any good and in insurance this can be seen in terms of benefits being offered that will determine if customers are attracted to the company's product offerings.

- c. **Place:** refers to the point of sale. In every industry, catching the eye of the consumer and making it easy for her to buy it is the main aim of a good distribution or 'place' strategy. Retailers pay a premium for the right location. While choosing the place for customers in accessing your product, it is very important to consider convenience depending on the product being offered.
- d. **Promotion:** this refers to all the activities undertaken to make the product or service known to the user and trade. This can include advertising, word of mouth, press reports, incentives, commissions and awards to the trade. It can also include consumer schemes, direct marketing, contests and prizes.
- e. **People:** develop the habit of thinking in terms of the people inside and outside of your business who are responsible for every element of your sales.

It's amazing how many entrepreneurs and businesspeople will work extremely hard to think through every element of the marketing strategy and the marketing mix, and then pay little attention to the fact that every single decision and policy has to be carried out by a specific person, in a specific way. Your ability to select, recruit, hire and retain the proper people, with the skills and abilities to do the job you need to have done, is more important than everything else put together.

Having well motivated and customer centric staff will be very vital in servicing and customer retention which in the long run benefits the company.

- f. **Process:** The next thing to consider within the marketing mix is the process of how your products are delivered. It's how you are going to get paid, and deliver your products. For most digital products this is all done online. However, if one of your products or services happens to be physical, you might require the use of a distribution company.
- g. **Physical Evidence:** When it comes to online marketing "physical evidence" pertains to how you, your products, or your company is presented in the market place. We can also consider company premises, staff appearance, and websites.

8D Branding

Branding is an important element of the tangible product and, particularly in consumer markets. It is a means of linking items within a product line or emphasizing the about what they stand for e.g. coca-cola. Brand mark: is specifically the element of the visual brand identity that does not consist of words, but of design and symbols.

9D1 The benefits of branding

- a. **To the consumer**
 1. Easier product identification
 2. Communicates features and benefits
 3. Helps products evaluation

4. Establishes product's position in the market
 5. Reduces risk in purchasing
- b. **The manufacturer**
1. Helps creates loyalty
 2. Defends against competition
 3. Creates differential advantage
 4. Allows premium pricing
 5. Helps targeting/positioning
 6. Increases power over retailer
- c. **To the retailer**
1. Benefits from brand marketing support
 2. Attracts customer
 3. Helps differentiate the product from competitors

8D2 Types of brands

There are many forms of branding but primarily there are manufacturer, distributor, price and generic brands

8D3 Brand Equity:

- a. is an asset
- b. a degree of brand-name recognition perceived brand quality, strong mental and emotional associations, and other assets such as patents, trademarks and channel relationship.
- c. is a measure of a number of different components, including the beliefs, images and core associations consumer have about particular brand. Brand equity is the positive differential effect that knowing the brand by the buyer has on the seller.

Packaging and labelling form part of the branding in any company.

8D4 Essential elements to be considered in branding

- a. Your brand must fit your product. Despite what many people think, your brand is not your product, website, logo. Say the word "Apple" for example, and chances are good that you will think of computers and music equipment. That's because Apple has a strong brand message and they keep that message on track to fit their company.
- b. Consistency. Don't allow your branding message to get diverted or splintered. In many cases, especially when there are several managers affecting the message, companies end up with different branding messages being sent out. This is confusing to everyone, especially your consumers. Keep yours a one brand company.
- c. **Emotional Appeal.** Head logic doesn't sell products; emotions sell products.
- d. **Reward Loyalty.** Did you ever wonder why there is so much advertising directed at owners? The answer is obvious. Companies want to assure that buyers of their

products made the right choice. In short, they're rewarding loyalty on the part of their customers.

- e. **Measurable.** Make sure you are able to measure the success of your branding. If you can't effectively measure what effect your efforts are having on your sales figures, your efforts are probably falling on deaf ears.

8E Distribution channels in insurance

8E1 Insurance Agents

An insurance agent is defined under the Insurance Act (Cap.213) as a person who is or has been carrying on insurance business as a registered agent for one or more insurers and these can be Individual agents or corporate agencies. In Uganda, agents' business is more compared to other channels namely that from brokers.

8E2 Insurance Brokers

They are registered under the Insurance Act (Cap.213) to carry on insurance business as agents of insureds or intending insureds. They advise individual or corporate buyers of insurance on their insurance needs. They act on their clients' behalf to negotiate and obtain the most appropriate insurance covers at competitive premium rates from their insurers, exercising care and skill in doing so. In Uganda, examples of insurance brokers include Aon Uganda, Marsh Uganda Limited; Liaison Uganda Limited; etc.

8E3 Bancassurance

Banks, including finance companies, with their huge database of customers, sell insurance through a network of branches following the enactment of the Insurance (Bancassurance) Regulations, 2017.

Bancassurance is the term used to describe the partnership or relationship between a bank and an insurance company, whereby the insurance company uses the bank sales channel in order to sell insurance products, most of which are personal lines.

Bank staff members, rather than insurance agents, become the point of sales or point of contact for customers. Bank staff members are advised and supported by the insurance companies through product information, marketing campaigns and sales training.

Personal line products such as Household Insurance, Private Motor Car Insurance and Travel Insurance can easily be sold through this channel.

8E4 Online Internet Portals (Company Portals)

The growth of information on the Internet has also increased the amount of time people spend on it. This has in turn generated a new market for online offering of insurance products.

Online insurance selling is limited mostly to personal lines products such as motor, home insurances and Travel.

General insurers involved will sell these individual products through their own informative websites, which can provide for quotations and accessibility to web brochures, proposal forms and policy wording.

8E5 Direct Marketing

Rapid technological advancements have changed the way in which individual insurance companies can now serve their customers. At the same time, new technology has allowed for more information on individual policyholders, which enables their buying habits to be stored in the IT systems of direct insurers. The build-up of such databases over the years is a useful marketing tool to harness the power of information technology by the insurers. They can then execute segment marketing to focus on customised products for niche target groups.

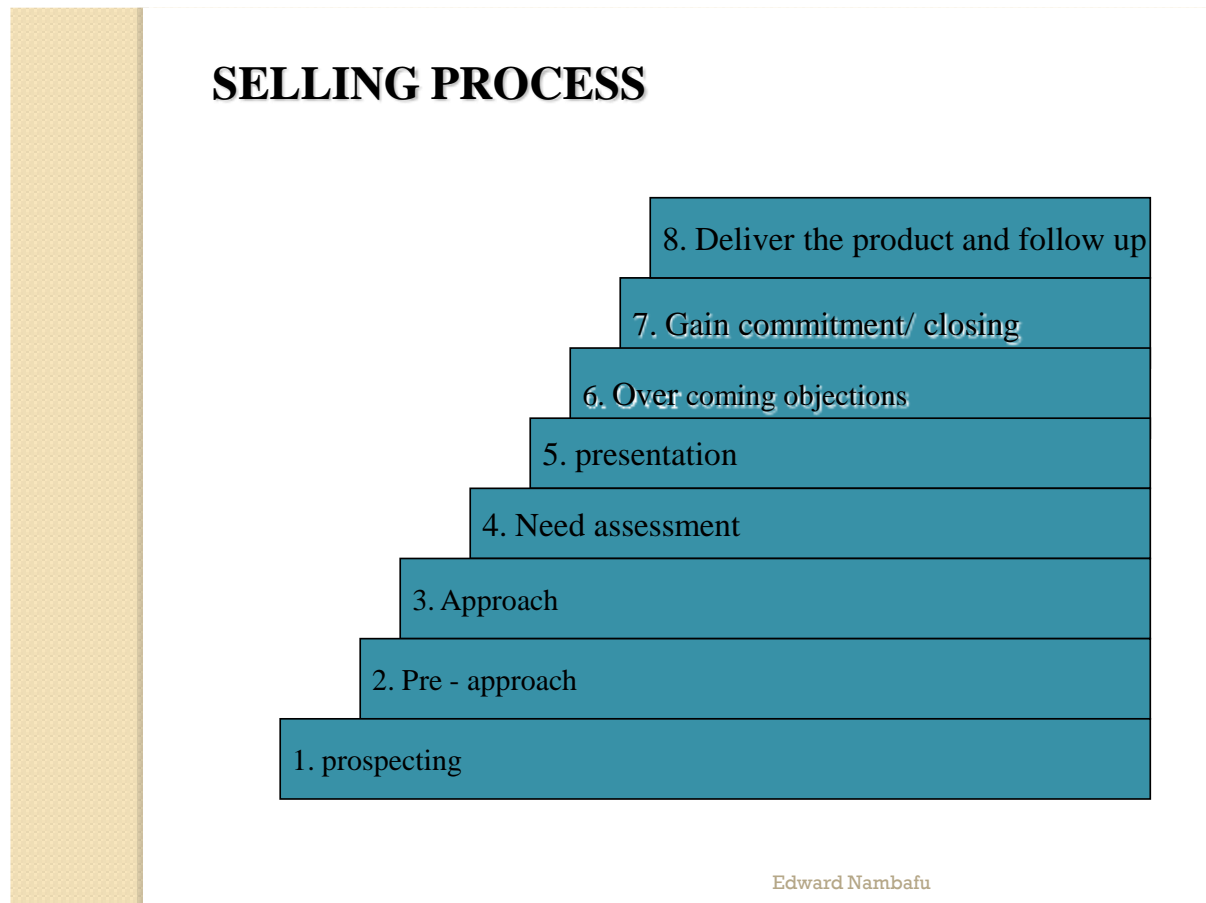
Insurers have directly marketed personal lines, such as Personal Accident Insurance, Travel Insurance, Private Motor Insurance, Household Insurance, Golfer's Insurance, through their informative websites.

Insurers also periodically send out promotional product brochures (direct mailers) to existing policyholders without servicing agents. Telemarketers from call centres owned or appointed by insurers also phone customers to advice and market personal lines, as well as help to file claims. Insurers also embark on cross-selling strategies to serve the needs of their customers.

8E6 Alternative Distribution Channels include supermarkets, car bazaars etc.

8F The Sales Process

The **sales cycle** is the process that companies undergo when selling a product to a customer. It encompasses all activities associated with closing sale. Many companies have different steps and activities in their **sales cycle**, depending on how they **define** it.



a. Prospecting/ Identifying Clients

- One of the selling activities related to generating and satisfying customers.
- Part of the personal selling process.
- The method (or system) by which salespeople learn the names of potential clients – who need the product and can afford it.
- Prospects can be individuals or groups of people, an organization.
- Prospecting is most an important key to sales success.

Generate a list of potential customers/clients

- Referrals from customers positive word of mouth – number one source of prospects.
- Referrals from internal company sources of sales manager, marketing department, customer inquires generated from direct mail, advertising, website, tradeshow. Etc
- Referrals from external agencies, at a fee.
- Published directions from post office, business directory, yellow pages, trade associations, the government, chambers of commerce.

- Networking by sales people- Use friends and acquaintances to make new contacts and Joint professional and civic organisations to meet new people – who may become potential customers or provide leads.
- Cold canvassing;Cold calling. Pick a name from a directory and call it. Very time consuming not very cost effective due to high rejection rates.

Qualifying leads

Do not bother people who have need for your products.

It is very expensive to make calls with little chances of success.

A good prospect

- A customer has a need for the product being sold.
- Customer can afford to buy the product.
- Customer is receptive to being called/visited by an agent/sales person.

b. Pre Approach

Include all information gathering activities agents must perform to learn key facts about their prospects through customer research;

Where? What? who? when? how? Why?

What the business of the organisation

Where? -Location

Who -makes purchase decisions

Why -the need

When -now

c. Need assessment and interviews

At this stage the sales people must discover, clarify and understand the buyers needs.

This is done mainly by asking questions.

The Presentation

Here is the opportunity to show that you understand the 5 groups of knowledge that every Sales Person should know.

- Be Smart (as required by the job and the organization's dress Code)
- A void Strong perfumes and colons, odour
- Avoid smoking (and later chewing)
- Have a file with your presentation (details include

8F2 Customer Attitude

It is very important that **you determine the customer's attitude towards you**

- This is one of those little understood and usually less considered Secrets of selling.

Attitude is a learned predisposition

Therefore if a client is treated badly he/she get a lesson. That lesson is a bad experience. That customer may never come back.

Perception is the way we see the world around us

8F3 Always Ask For a Sale

People present without ever asking customers to buy. Oftentimes salespeople present without asking for a sale.

Non-Verbal Buying Signals

- The Customer leans slightly forward.
- He looks at you more.
- His eyes open up and twinkle or the pupils dilate slightly.
- He smiles and his eye brow is relaxed and unfurrowed.
- He nods in agreement with what you say.
- His lips are relaxed and open, rather than tight and drawn.
- His palms are relaxed and open and the palms of his hands are open toward you
- His legs are uncrossed, or crossed facing toward you.
- He rests his hand on his chin or cheek or rubs his hands together
- He handles or studies order forms or sales materials.
- He makes calculation on paper.
- He reaches for the sales contract
- He unconsciously reaches for his checkbook, wallet, or purse

Words to forget words to remember

- I can't **I can**
- I'll try **I will**
- I have to **I want to**
- Should have **will do**
- If only **Next time**
- Problem **Opportunity**
- Difficult **Challenging (Source: Being The Best , Denis Waitley)**

Objections

- They have no need for your product or service
- They have no money
- They are in no hurry to (buy) enjoy the benefits
- They have no desire to own
- They have no trust in you.

Reply to Objections

- The reply to all these objections is”
- **But You Need This Product.....It's not about money but the benefits you receive”.**
- Emphasize the importance of the benefits offered by your services/products.then talk about payment Structure / Program. Not at once but once monthly.

Please Remember

- Respect the buyers concern.
- Avoid being over defensive
- Respond to the objections.
- All objectives must be responded to.

8H When The Customers Say No, Keep These Points in Mind

Make every moment of truth count. You can't always make a sale but you can always make some progress toward your ultimate goal of winning and keeping customers.

Make every moment of truth count Contd....

Never leave a customer without having achieved at least one of those goals.

While there is no point in feeling bad about a NO, take the time to review each refusal contact and learn from it. Then use what you learn to help you perform better with future customers.

Delivering the products

Tangible products as well as services once sold must be delivered to the customer.

In most cases, insurance policies cannot be finalised right away after closing the sale.

Agree when to deliver the products, do not delay delivery because the buyer may conceal due to post purchase behavior including cognitive dissonance.

Follow Up

- Service your clients regularly
- Do not loose a client due to poor customer service. Keep in touch with your clients due to poor customer service. Keep in touch with your clients. Some may buy more products
- Call up the customers to give them reassurance. That the purchase was the right one. Many customers suffer from cognitive dissonance (did I make the right choice)

8J Qualities of a good sales person

Personable -Being personable is universal among people who do well in sales

"The most successful salespeople know how to get along with and enjoy meeting and talking to a wide variety of people," he said. "They also tend to be comfortable and confident in social settings."

Ambitious- set goals for themselves and focus on achieving those ambitions. They have a drive to succeed in all that they do and thrive on success, Leighton said

Confident-Sales is not a profession for people with thin skins, because rejection is commonplace. Salespeople hear the word "no" all the time, but successful sellers have the confidence to take "no" as a challenge, not a personal rejection.

Passionate

Successful salespeople have a deep belief in and a dedication to what they do and sell.

Independent

Sales is not a field for the insecure or faint of heart. Since many positions are commission-based, the most successful salespeople are typically self-starters who can take personal initiative by identifying the work steps needed to achieve success.

Hard working

Successful salespeople have a good work ethic and do what it takes to get the job done. They are also willing to roll up their sleeves and work long hours to reach and surpass their goals.

Disciplined and procrastination is a non-starter for successful salespeople. They possess tremendous follow-through and are not easily swayed from their tasks or goals. They are good at organizing, planning and prioritizing, and have a "do it now" mentality.

Positive

Successful salespeople see the glass as half full. Their positive attitudes allow them to turn negatives into positives in any sales situation. They learn from defeat to better improve their chances of success.

Persuasive

The best salespeople know what it's like to be in their prospect's shoes. That's why successful salespeople act more as "consultants" and tailor their approach to meet the different needs of prospective buyers, to better influence a customer's decision to buy.

Adaptable

Successful salespeople understand that change is sometimes necessary and are able to quickly adapt and do something differently if it doesn't work. In other words, they've learned the art of the pivot.

Confidence

The sales person requires being confident to overcome barriers that he/she may encounter while selling insurance and clients always want to deal with confident people

Continuous learning

The sales person needs to continuously be prepared to acquire or improve on his/her knowledge and with more knowledge, the sales person will become more confident in what he/she does

Ability to listen

A good sales person must do more of listening than the talking if he/she is to understand the client's needs and offer a relevant solution.

Caring

A good sales person must be caring and it is this care that will attract customers to their company. Caring is usually seen when clients for example have lost a dear one and attends the funeral.

8K Determinants of Insurance Selling

There are several factors that determine insurance sales in Uganda ranging from social, political, legal and economic.

a) Sales force Performance

Sales personnel by providing enough information to the customers, enables them in forming their assessment about the products or services, which ultimately becomes customer value and in Uganda this was lacking before though the situation seem to be improving through aggressive training programmes.

b) Company Liquidity in settling payable claims

Liquidity refers to the degree to which debt obligations coming due in the next 12 months can be paid from cash or assets that will be turned into cash and this is very essential as it will determine the level and timelines in settling claims.

c) Company Size

The size of the firm affects its financial performance in many ways. Large firms can exploit economies of scale and scope and thus being more efficient compared to small firms. In addition, small firms may have less power than large firms; hence they may find it difficult to compete with the large firms particularly in highly competitive markets.

d) Company Age/Length of stay in Business

Newer and smaller firms, as a result, take away market share in spite of disadvantages like lack of capital, brand names and corporate reputation with older firms.

Regarding firm age, older firms are more experienced, have enjoyed the benefits of learning, are not prone to the liabilities of newness, and can, therefore, enjoy superior performance.

e) Management Competence

This can be taken to mean a bundle of skills and technologies that enable company to provide benefits for customers rather than a single skill or technology and this will determine the firm's level of innovation.

f) Level of Distribution and Professionalism

The lack of concreteness of many services of which insurance is one, increases the value of the persons responsible for delivering them. Putting the customer first, and, exhibiting trust and integrity have been found essential in selling insurance. Insurance sales agents fully understand the customers' needs and requirements as well as build a trusting relationship between themselves and their clients to promote long-term mutually beneficial relationship

Social Factors

Demographic Factors

- There is a positive relationship between education and insurance sales. They recognized that those who have a better education will purchase more insurance, potentially due to the fact that households with greater education can expect their incomes to continue to increase at a faster rate and for a longer period of time than their counterparts. For example households with a head with greater education have potentially higher incomes. The death of such a household head will bring more financial loss to the family as compared with those with lower education.
- Family size and number of children were also found to be significant explanatory variables for determining the sales for insurance. This may not make a lot of sense especially in the African set up where children are considered as the main source of social security as one grows older.

Economic Factors

- Income is commonly found to be positively related to the sales for insurance, holding other factors constant
There is a positive relationship between net worth or wealth and the sales for insurance since life insurance might provide protection for households' wealth.

- Several researchers have examined whether consumers are sensitive to market rates of interest when making insurance purchases. For example interest rate has a different effect on the sales of insurance depending on whether it is in a short or a long run situation. In the short run, the sales increase with higher interest rates, whereas in the long run, the interest rate has no obvious influence on the sales for insurance.
- Inflation has also been taken as a factor in the insurance purchase decision and has been found to not be significant factor in the sales for insurance.

c) Psychographic Factors

- It is expected that the greater a household's risk aversion, the greater their incentive to buy insurance. Studies have showed that above-average risk takers were more likely buy term life insurance than those who preferred taking average risk. Also, those who take average risk hold 10% more cash value life insurance than those who take no risk.

Attitudes towards the sales for insurance products in Uganda

- First, there are several informal and social connections, particularly founded upon the extended family systems that sometimes extend help to defray some pressing needs. These have the potential to overshadow the individual's sense of vulnerability to financial shocks.
- Lack of awareness of the existence of insurance products, and a poor understanding of the concept of insurance and this greatly influenced insurance sales in Uganda.
- The level of trust for an insurance service provider, marketing methods of a provider, and the extent to which providers make information available on the sales side of the scheme to community members. Alternatively, a provider's inability to undertake good marketing methods could lead to a lack of awareness and poor understanding of insurance schemes by communities and households.

Ways of mitigating the challenges the insurance sector in Uganda.

- (i) The managements of the different insurance companies in Uganda need to lower the premium rates especially to certain sectors of the economy like agriculture such that this particular groups are encouraged to embrace the concept of insurance.
- (ii) Insurance should be considered a key component of economic development and the best mechanism to take care of multidimensional risks in modern economies. It is necessary to clear the confusion regarding considering insurance as a superior or luxury good among potential consumers in developing countries with comparatively low per-capita income. The results are of importance to the policy makers if they are aspiring to elevate insurance density and penetration in the economy. This is because the Ugandan economy has undergone tremendous changes, particularly in terms of regulatory reforms recently.

- (iii) The government of Uganda should develop policies that encourage the general Ugandan Population to embrace and adopt insurance if remarkable contribution to economic growth is to be realized other than stifling their own risky survival and operations. This will help on the mitigation of risks which will encourage investments in the economy.
- (iv) To enhance the sales for insurance in Uganda, Insurance Regulatory Authority of Uganda (IRA) and the relevant government bodies like the ministry of Finance Planning and Economic development (MFPED) should establish harmonious working relationship with all stakeholders and finally, embrace vigorous public relations to reverse the negative social-cultural factors towards the concept of insurance.
- (v) There should be massive sensitization programmes carried out to increase awareness, educate the public about the advantages and importance of insurance. Once the government and IRA adopt this stance, the concept is likely to be perceived as more important to the population which will boost the sales for insurance.

CUSTOMER CARE

Introduction

Insurance being like another financial service product requires customer service and care in all its operations if a company is to survive in this extremely competitive environment.

Insurance offers a unique service because the customer does not see the immediate benefit of what they are buying. It is an intangible service which cannot be standardized and therefore requires specialized consideration.

In insurance, people who deliver the service become part of the service package

8L. Customer Service and Care

A customer may be referred to as any person who buys the company's product.

Customer service also known as client service is the provision of service to customers before, during and after purchase/interaction i.e. a series of activities designed to enhance the level of customer satisfaction(Turban et al 2002)

It can also be defined as the process of knowing what the customer wants and seeing that the need is satisfied.

Customer service is the act of taking care of the customer's needs by providing and delivering professional, helpful, high quality service and assistance before, during, and after the customer's requirements are met.

8M. Customer Care "it is more than just a smile and thank you"

It means that the organization conducts itself in such way that its customers feel that “they are the reason it exists” that is to serve their needs.

8N. Features of a service

It is worthy to note that insurance being a service, we need to understand the features of a service before quality level of service can be delivered and these include:

- **Heterogeneity in service marketing.** Two Insurance Companies. Even if they have the same policies, the people serving would be different, the Staff offering the product will be different and hence the experience can be completely different.
- **Services perish** – The concept is simple – if you do not watch the movie now, you won't get a refund of the ticket. If you do not board your plane or your train, you cannot ask back for the charges of the ticket. A service once order, perishes, if it is left unused
- **Intangibility of services** is derived from the fact that you cannot see or touch a service. A service is made and delivered on spot and hence it cannot be measured as easily as a tangible product.
- Must be consumed at the time of delivery and can not wait any longer.
- **Inseparability-** Services cannot be separated from the service providers. A product when produced can be taken away from the producer. However a service is produced at or near the point of purchase. Take visiting an insurance company, you order for a policy, the waiting and delivery of the policy, the service provided by the staff is all apart of the service production process and is inseparable, the staff in an insurance company are as apart of the process as well as the quality of service being provided.
- **Non-ownership**, unlike a physical product, the consumer does not secure ownership of the service. Rather the customer pays only to secure access to or use of the service. Similarly, with insurance services, although the customer may be given a policy document, they serve only to allow the customer to make use of what he or she is actually buying, namely, insurance services.

8 O. Why customer care/service is vital to an insurance company?

- **Repetitive sales-**A company with excellent customer service is more likely to get repeat business from customers. Consequently, the company will benefit with greater sales and profits.
- **Publicity or Corporate Image-***People that have a positive experience with a company's customer service department will likely tell two or three others about their experience, according to Consumer Affairs website.*
- **Prevention/Solution-***Customer service is important to an organization because of potential complaints. Consumers can file a complaint with your company and a solution can easily be got rather than losing such a customer.*
- **Differentiation-**In a competitive marketplace where businesses compete for customers; customer satisfaction is seen as a key differentiator. Businesses who succeed in these

cut-throat environments are the ones that make customer satisfaction a key element of their business strategy.

- **Reduces customer churn**-An Accenture global customer satisfaction report (2008) found that price is not the main reason for customer churn; it is actually due to the overall poor quality of customer service.
- **Increases customer lifetime value**-A study by InfoQuest found that a 'totally satisfied customer' contributes 2.6 times more revenue than a 'somewhat satisfied customer'. Furthermore, a 'totally satisfied customer' contributes 14 times more revenue than a 'somewhat dissatisfied customer'.
Satisfaction plays a significant role in how much revenue a customer generates for your business.
- Reduces negative word of mouth
McKinsey found that an unhappy customer tells between 9-15 people about their experience. In fact, 13% of unhappy customers tell over 20 people about their experience.
That's a lot of negative word of mouth.
How much will that affect your business and its reputation in your industry?
- Customer satisfaction is tightly linked to revenue and repeat purchases.
- **It's cheaper to retain customers than acquire new ones**-This is probably the most publicized customer satisfaction statistic out there. It costs six to seven times more to acquire new customers than it does to retain existing customers.
If that stat does not strike accord with you then there's not much else I can do to demonstrate why customer satisfaction is important.
Customers cost a lot of money to acquire.

8P. Categories of customers

Customers can be divided into two distinct categories as follows:

- Internal customers
- External customers

8P1 Internal customers

- Your customers don't only include people who enter your establishment or place orders by telephone or the Internet. Customers also include those who work every day to make your operation a success: your employees. While external and internal customers may fulfill different roles, both are critical to the viability of your business.
- While internal customers may not necessarily purchase the products or services offered by their employer, the internal customer relationship also plays a key role in the business's success.

8P2 External Customers

- An external customer is someone who uses your company's products or services but is not part of your organization. If you purchase your policy, for example, an external customer is an individual who enters your office and buys a policy. An internal customer is any member of your organization who relies on assistance from another to fulfill her

job duties, such as a sales representative who needs assistance from a customer service representative to place an order.

- External customers are essential to the success of any business, as they provide the revenue stream through their purchases that the enterprise needs to survive. Satisfied external customers often make repeat purchases as well as refer your business to other people they know. A customer who suffers through a negative experience with a business, such as being treated rudely by an employee, can also hinder a business by dissuading others from patronizing it.

Customers Expectations and perceptions

Customer expectation" refers to the total perceived benefits a customer expects from a company's product or service. If the actual experience customers have with a product exceeds the expectation, they are typically satisfied. If the actual performance falls below the expectation, they are typically disappointed.

Basic level of expectation-customers expectations are met according to the contract entered into. Customer has no incentive to change insurers BUT can won by a competitor

Below level expectation-Failed to perform according to the contract and has every reason to switch to competitor

Incremental Quality level Expectation-when the organization adds some element of quality onto the core product at a reasonable cost, this exceeds the customer's expectations. Customer satisfied and no reason to change

Customer Service Culture

These are values, comprising of unwritten code of behaviors that are exhibited in organizations. If you look at companies lauded for their superior customer service, you almost always find that those companies create a culture that supports excellence in customer service. It's not that they simply train their employees in customer service skills. What they do is ensure that customer service is interwoven into everything the company does.

Culture will be influenced by:

- History and ownership of the organization
- The operations of the organization
- Values and beliefs of key personalities in the organization

- Need to change organization's cultures in order to change values of members of the organization to the desired level
- Size of the organisation

Test your understanding

1. Define the term 'Customer'
2. Outline the various types of customers
3. Describe the various levels of customer expectations
4. Explain how the customer service culture can be developed
5. State the nature and character of services
6. Differentiate between Customer Care and Customer Service?
7. Describe the distribution channels used to sell insurance
8. Identify the qualities of a good salesperson
9. What obstacles do salespeople face and how can they overcome them?

CHAPTER 9: PRACTICE OF INSURANCE

Content	Syllabus learning outcomes
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Key terms	
K. Underwriting Procedures	
L. Insurance Policies	
M. Renewals and Cancellations	
N. Underwriting Considerations	
O. Risk Rating, Pricing factors	
P. Managing Exposure	
Q. Claims Procedures	
Chapter summary	
Test your understanding	

Learning Objectives

After studying this chapter, you should be able to

- Explain the underwriting process for majority of the risks underwritten in Uganda.
- Explain the significance of reinsurance in managing exposure to risks
- Describe the claims management process for major classes of insurance business.

Introduction

Under this chapter, the student is expected to learn and appreciate the basics of how a risk say motor insurance is underwritten, how the anticipated accumulation of losses can be controlled and managed through reinsurance and what is expected to be done in the event of a claim or loss

This chapter makes a lot of reference to other chapters in the book like Chapter 6: Principles of Insurance.

Key Terms

Material Facts, Duty of Disclosure, Physical and Moral Hazards, Policy Schedule, Risk Premium, reinsurance,

A: Underwriting Procedures

In chapter 6, the Principle of Utmost Good Faith was defined as a positive duty voluntarily to disclose, accurately, and fully all the facts material to the risk being proposed whether requested or not. A material fact is something that has a bearing on the risk insured for example; **Household insurance**; the risk address has a thatched roof, **Motor insurance**: the proposer has had three claims in the previous year. **Therefore every circumstance is material which would influence the judgement of a prudent underwriter or insurer in fixing the premium or determining whether he will take the risk.**

Activity:

Asimil buys a house and is looking for house insurance. The house is built about 100 m from a stream. Four years ago he understands that the house was damaged by flood but he was not the owner of the property at the time. Should he declare? If so what are the implications?

Qn: When considering a proposal for motor insurance, what fact would not be considered to be material?

- A. The age of the main driver
- B. Where the vehicle is kept overnight
- C. Details of hire purchase agreement
- D. Use of vehicle

Also discuss the implication of each fact on the underwriting of the risk by a prudent underwriter.

Duty of Disclosure

Broadly speaking it is the duty on both parties to an insurance contract to inform the other party of everything that is relevant to the contract. It flows from the principle of Utmost Good Faith.

Duration of the duty of disclosure.

The duration of the duty of disclosure in non life insurance can be required at inception of the policy, midterm of the policy, at renewal and or as a policy wording requirements e.g in Group Personal Accident where the employer is expected to disclose the names, their monthly earnings etc of employees that are recruited or terminated from the cover to determine either a premium refund or need to pay additional premiums.

Consequences of non-disclosure

Breach of Utmost Good faith or duty of disclosure can arise in two circumstances; **Misrepresentation** and **Non disclosure**. If the non disclosure or misrepresentation is fraudulent (Concealment);

- The policy is avoidable
- The insurer can keep the premium and due for damages
- The insurer can ignore the breach of good faith, in which case the policy continues and the insurer would have to pay the claims.

Illustration

Paula bought a Toyota Spacio to use as a taxi (special hire), but informed her insurers it was for private use. The vehicle was subsequently stolen. Can the insurer refuse liability for the theft claim? Give reasons for your answer. **Discussion**

Physical and Moral Hazards

Hazard should be viewed in relation to a peril

A **peril** can be defined as **that which gives rise to a loss**

A **hazard** can be defined as that **which influences the operation of the peril**.

Physical hazard: relates to the physical nature of the risk and includes any measurable dimensions of the risk e.g.

- - Motor insurance: age of driver, condition of vehicle
- -Security protection at a shop: Better security system equals lower physical hazard
- -Property Insurance: nature of building material (thatched Vs Iron roofed)

Obtaining Material facts

Material facts can be obtained through a number of ways including but not limited to the following

Proposal forms: the proposal form is the most common way for the underwriter to obtain information regarding the risk.

There are however, alternative ways of obtaining material facts available to underwriters, their use depending on the class of business involved.

Brokers through Risk Notes/registers: brokers are used extensively in arranging commercial insurances where their role may extend to preparing documentation for use by the underwriter in the assessment of the risk. This documentation could include risk registers highlighting individual exposures and claims experience, site inspection reports and preparation of health and safety reports.

Risk surveys: surveys are used to obtain information where the risk is large and/ or complex such as is the case with many commercial insurance risks for instance Kinyara Sugar Works

factory insurance would require a survey by a professional surveyor to obtain the relevant underwriting information.

Supplementary Questionnaires: These are used when dealing with particular aspects of the risk. Examples of such areas include; money risks involving high value transits, fire risks in respect of old or obsolete buildings

Meeting with clients: This is again useful for commercial insurance risks where the underwriter desires to pick the attitude of the client in respect to risk being insured. It is very useful in mapping out the extend of moral hazard the underwriter will have to deal with should the risk be accepted.

Call centers: For personal lines, some underwriters operate **call centers**. These centres are considered to be cost effective with supporting computer systems which process documentation very quickly.

Internet: again, for simple risks insurers may make use of internet technology where material facts are declared following a series of questions on the website.

Underwriting Procedures

Under this section, you should be able to outline the procedures relating to, and significance of quotations, proposals, policies, cover notes and certificates of insurance and apply the basics of premium computation.

When the underwriter is in possession of all the relevant information disclosed to them, they will then **assess** the risk in terms of the information they have and decide whether to accept or reject the risk, and if they are to accept it, on what terms.

Underwriting can be viewed as the link between the proposal form and the policy that comes into existence.

Quotation: A quotation specifies the price/premium, features or benefits, terms and conditions of the potential cover without being actually committed to the contract and accepting the terms and conditions

Activity

JK is buying a car and needs motor insurance. He calls AIG for a quotation. Pauline the underwriter asks a number of questions about J.K and the car to be able to decide whether to insure J.K and if so at what price and on what terms. What questions would you ask if you were Pauline?

Proposal Forms: A proposal form may not be necessary where the insurer provides a quotation on the assumption that the quotation was done on the basis of available sufficient information. However, if a quotation is provided without a proposal form, it will normally be subject to the proposer completing one. Questions in the proposal form may be

- **General questions** e.g. proposer's name, address, occupation , period of insurance etc or
- **Specific questions** e.g. proposer's age, description of the subject matter to be insured, business details, past insurance history, sum insured or limit of liability etc

Premium calculation

A premium is the amount paid to an insurer in consideration of the insurer agreeing to cover the risk. The premium must be equitable- One that reflects the risk presented by the proposer to the insurance company. If for example, Wendy owns a small family car, rather than a fast sports car, she is statistically less likely to incur accidental damage to the vehicle. Wendy therefore brings a lower risk to the pool and should therefore pay less premium than a sports car owner.

Calculation of Premium

Premiums are arrived at by applying a premium rate to a premium base, with the rate reflecting the hazard associated with the insured and the base being the measure of the exposure.

Premium=Sum insured x rate

Illustration: If a Toyota Premio valued at Ushs30M is used for private use and all other underwriting factors are standard and normal, the applicable minimum rate as per IRA rating guide is 4%. Therefore premium would be calculated as: $30M \times 4\% = \text{Ugx } 1,200,000$

Under Liability Insurance, if Nana investments ltd has a turnover of Ush 20M per year. AIG offers product liability insurance with an indemnity limit of up to 2M at a rate of 0.5% on turnover. If Nana investments Ltd want a higher indemnity limit of 5M, AIG has quoted a rate of 0.7%. What would the premium be in both cases (2m vs. 5m)

Note: The increase in the limit of indemnity is by 150% while the increase in premium is by 40% because the premium is geared towards the measure of exposure (turnover) and to a lesser degree towards the limit of indemnity

Policies cover notes and certificates of insurance

Policies: The policy contains all the details of the item/exposure insured, the operative perils, period of cover, exceptions, conditions, the premium and other relevant information. The policy is effectively evidence of the contract and not the contract of insurance itself

Note: The contract of insurance comes into effect once the insurer has accepted the insurance proposal, terms have been agreed and the premium has been paid or agreed to be paid. Therefore the contract exists irrespective of the existence of the actual policy document.

Cover Notes: It is essentially a document issued as evidence that insurance has been granted, pending the issue of a policy or endorsement.

Characteristics of a cover note

- Commencement date
- Statement that the policy follows the normal terms and conditions of the insurer for that class of insurance
- Risk specific information that identifies the property or liability that is covered
- Any special terms that apply
- Expiry date of the cover

Certificates of insurance

For compulsory insurance like motor third party, it is legal requirement that a certificate is issued to prove a policy is in force. It is evidence that a contract of insurance exists and that the policyholder/insured complies with the law.

Premium Payment:

As previously mentioned, the insurance contract comes into force once the insurer accepts the proposal and the premium have been paid. However if the premium is not paid at the acceptance of the proposal, it is implied that the proposer promises to pay and this promise is sufficient at law to support a valid contract. Depending on the relationship between the proposer and the insurance company, the client can be allowed to pay cash/cheques, installments or credit for an agreed period.

Insurance Policies

Under this section, we learn that the insurance policy is issued to formalise what the respective parties to the insurance contract have agreed. There are certain major things you should remember about the insurance policy:

- the policy will contain the details of the terms and conditions
- generally speaking, the **parol evidence rule** applies i.e neither party can rely on any negotiations leading up to the contract, only on the contract itself and
- the policy is only evidence of the contract and not the contract itself

Structure, form and content: Every insurance company has its own form of policy for the various classes of insurance business it offers, and these vary considerably in style and length. The length of the policy document will be dictated more by the class of business.

Generally, the basic structure of all insurance policies will be the same, and will incorporate the following: Heading, preamble, signature clause, operative clause, exceptions, conditions, policy schedule, information and facilities.

Renewals

As we may know from previous chapters and studies, most general insurance policies are issued for a period of twelve months. Towards the end of the period they are said to be due for renewal. The anniversary date is called the **Renewal date**.

This is an important date as it allows reconsideration of the insurance by both the insurer and the policyholder. It allows the insurer to review the existing terms, conditions and premium for the risk, and then for the policy holder to decide whether they want to renew the insurance in light of the terms. There is usually no obligation on either party to renew.

Insurance companies are usually very keen to encourage retention of the business because its cheaper to retain than to acquire new business.

Cancellation

All insurance policies must contain a cancellation condition. This condition defines how an insurance contract can be cancelled during its currency, usually by the insurer. The insurer usually has to send at least seven days written notice of the cancellation by recorded delivery to the insured's last known address. It also undertakes to refund a proportionate premium for the unexpired period if no claims have been made during the policy period.

An insured may also have the right to cancel but in this case, a short period premium may be charged giving a less than proportionate refund of premium for the unexpired period.

Underwriting Considerations

In this book we have discussed the nature of insurance as a "common pool" that operates on the premise of the law of large numbers where contributions of many people going into the pool are being used to pay the losses of the few.

It is the insurance company's task to manage this pool effectively and profitably. The individual underwriters must therefore

- Assess the risk that a person brings to the pool
- Decide whether to accept the risk and if so, how much;
- Determine the terms conditions and scope of cover to be offered
- Calculate a suitable premium

Under this section, we will look at the fundamentals of underwriting in general and more inclined to the non life classes of business.

In relation to general (non life) insurance, we can distinguish insurance company's general approach to underwriting in respect of **personal** insurances and **commercial** insurances.

Underwriting personal insurances can be relatively straightforward. The proposal form should be sufficient to provide the required relevant information. Commercial business insurance is generally more complicated. Commercial insurances range from small shops and factories to large multi-national corporations with operations in many countries throughout the world. Risks

can range from a few vehicles to a fleet of vehicles. The degree of complexity of the underwriting required will obviously vary with the sheer size of the risk, but certain principles are still recognised.

The insurance underwriting process will always consist of an assessment of the following;

The major underwriting factors affecting claims experience for the particular class of business. For example carpenters use potentially dangerous powered machinery, it is therefore of no surprise that the injury rate for such employees is higher than injuries to office workers.

The 'average' claim per member of the group

The proposer's characteristics in comparison to the 'average' member

Taking an example of **motor insurance**, many different factors are used in the underwriting process. Some of the key factors are: **Driver's age, Type and make of vehicle, type of use, Geographical area, storage, driving record, cover required and vehicle modifications.**

Under fire and special/allied perils, the main factors are: **Use of the building, type of goods stored on premises, construction and material, safety measures, risk management features, number of floors and area, method of heating and lighting, location relative to peril**

In liability insurance, underwriting factors are different for the type of liability cover required. For instance under **employer's liability**, the principal consideration is the trade and occupation of the employee concerned

Activity

What are the major underwriting factors for Household insurance and professional indemnity insurance?

Establishing the price: Pricing factors

When pricing a risk, the charged premium should be able to cover the following factors: **risk premium, expenses, return on Capital employed, investment income, premium taxes and other levies**

Risk premium: Can be defined as the expected ultimate cost of the risk being accepted, including an allowance for the degree of uncertainty attaching to the claims cost.

In other words it's the amount of money required today to fund claims that is the time value of money is taken into account. The key features of risk premium include frequency, severity, large claims, latent claims, reinsurance cost, claims reserves.

Expenses: There is a cost to running an insurance business and this need to be recovered through the 'price charged'. The total of these costs together with any commission paid also

needs to be considered. Examples of costs include staff costs, rent, utilities, marketing and advertising etc

Premium Taxes/Levies

In Uganda, these come in a variety of forms ranging from pure taxation expressed as fixed percentage of the taxable premium e.g VAT at 18%, to quasi-taxation e.g. stamp duty and other levies like Training levy.

Managing Exposure

The insurance company must endeavour to manage its exposure to large losses that could wipe out all the reserves. One of the steps the company can take is to reinsure all risks and losses that the company is exposed to.

Reinsurance: is an extension of the fundamental concept of insurance, that is, the sharing of risk. It is a form insurance taken out by the insurance company against claims incurred under the contracts of insurance.

The reinsurance can be arranged either proportionately or non proportionately depending on the risk/claims profile of the company's business portfolio.

Claims Procedure

Under this section, we will briefly explain the basic procedure for managing claims. Please note that the procedures may considerably vary from one insurance company to another.

Claims should be immediately reported to the claims handlers in any case not later than the specified policy claim notification period; usually within 7days of occurrence through email, phone call etc.

Once the agents/brokers receive the claim notifications, they immediately report to claims department and the specific claims handlers begin the claims process as specified below for some classes of business

Motor Insurance Claims

Usually the claims handlers will confirm premium payment, provide a list of required documents and then followed by appointment of a loss assessor depending on the magnitude of the claim,

On submission of the Assessor's report, Claims handler will authorize repairs or advise otherwise; the garages will notify the company when repairs are done. At that point, the Discharge voucher and satisfaction note are released to be signed and returned for payment by the insured or claimant.

Payment should be made within the company's acceptable time and in consideration of the amounts payable to the insured. Simple claims of low quantum should be paid within 14 working days.

Injury Claims;

Injury /death claims should equally be reported to the claims handlers immediately in any case not later than one month of occurrence.

The claims handlers will guide the Agents or broker on the relevant claims documents to enable prudent processing of the claim.

Injury claims are however discharged at recovery of the claimant or a permanent incapacity award from the attending or independent Doctors.

The insurance company may send claimant for reassessment or discharge the claim at this level.

Liability Claims

The claims should be immediately reported to the legal team and in any case not later than one month of occurrence.

The Legal team will advise on the relevant claims documents and may appoint an investigator or loss adjuster when relevant and depending on the complexity of the claim.

The loss adjusters report and investigation reports greatly depend on the level of cooperation from the clients and this will determine the speed at which the final reports will be submitted to the insurance company

Where the company does not require external claims experts, the legal team will examine the submitted claims documents and advise the clients accordingly.

Property claims

Report all claims immediately to the claims handlers and in any case not later than two days.

The claims handlers will immediately appoint loss adjusters and investigators to carry out initial inspections on incident sites.

All claims as may be required will be communicated by the loss adjusters before they leave the incident site.

The claims handlers will follow up with the insured and the loss adjusters to confirm full submission of claims documents and later await the final loss adjusters report.

Discharge of the claim, payment or declinature follow the same process as the other classes.

Medical claims

The principle members and dependents must present their identification and billing cards to the medical service centers at every visit.

After treatment and billing the medical facilities will forward the bills directly to the insurance company for the medical claims team to pay.

The claims team will verify and process the valid claims for payment while the invalid claims will be returned to the hospitals as rejections with our covering explanation letter.

The valid claims will be paid directly to the medical service providers.

The role of the claims handlers in the claims process

The claims handler must be available to receive all claim notifications and to guide both the agent and the insured on the entire claims requirements.

They should have the ability to appoint external claims experts in the given timelines and effectively give feedback to the insured and to the Agent.

They should advise the Agent/broker and the insured about the fate of each claim after full documents and final investigation reports have been received.

They should be able to advise the client and Agent on the payment status after signed discharge vouchers have been returned to the insurance company

Also hold meetings with clients in case of disputes resulting from the claims investigations.

The role of external service providers in the claims process

Loss assessors, adjusters and investigators

Inspect damage on site with prior notification to the client.

Ask appropriate questions, advise and collect claim supporting documents.

Prepare an independent findings report and forward to the insurance company

Doctors

Examine current health status of the injured with prior appointment.

Prepare an independent medical assessment report and sent to ICEA.

The role of the Agents in the claims process

- It begins with complete knowledge of the clients' nature of business and the policy you have given to cover the client.

- Highlight the key claims areas in the policy like exclusions, conditions, warranties and deductibles to the client before a claim occurs.
- Ensure that full premium is paid before the claim occurs.
- Pick the clients' calls even after the sale is closed, he/she might be reporting a claim.
- Prudently advise the client on the initial requirements of the claims process and immediately inform the claims team to take over the claims process.
- Follow up with the claims handler until the claim is paid or repudiated.

Chapter Summary

To ensure material facts are disclosed to the underwriter, a duty of disclosure rests on both parties to an insurance contract, although principally with the proposer.

Non disclosure will have consequences depending on the form of the non disclosure.

Insurers use various methods to obtain material facts, for example, proposal forms and risk surveys

Narrative: Beatrice calls Milton one of the underwriters at ICEA insurance company and she informs him that she needs car insurance. He sends her a motor insurance proposal form to complete and sign, which he checks to make sure that the details, are as the earlier quotation sent two weeks back where Beatrice intimated the value of the value, use and other details. When Milton is satisfied with the information in the proposal form, attached logbook and photos, he goes ahead to issue a Motor Third Party Insurance Certificate. He then proceeds to make a policy document that contains the header, preamble, operative clause, conditions and exclusions. Beatrice is now insured to drive the cover for the next twelve months and if ICEA is going to invite renewal, a renewal notice will be sent, quoting the premium and terms to her to insure the car for another one year in good time before expiry of the period.

Insurance policies are issued in a scheduled form and a schedule is incorporated into the policy. The schedule contains all the variable information concerning the insured and details of the risk insured.

The underwriting process consists of evaluating the hazard associated with the risk which is being proposed. An underwriter will consider different underwriting factors depending on the class of business

The premium charged by the insurance company should be sufficient to cover risk premium, expenses, investment income, return on capital employed and premium taxes/levies

Reinsurance is one step used by insurance companies to manage the loss exposure. The type of reinsurance purchased depends on the portfolio mix of the business

The claims process must be well communicated to both internal and external customers for quality service. At every stage of the claim process, the insured should be updated to avoid frustrations and negative image to the industry. The claims process for each class varies considerably given the variations in claims profiles for insured risks.

Test your Understanding

1. What are the most common methods by which an underwriter can obtain material facts in respect of a risk?
2. What type of business do you think is suited to call centre and internet based solutions?
3. If a house is valued at UGX 120,000,000 and the insurer sets a rate of 0.6%, what would the premium be? (A) UGX 36,000 (B) UGX 72,000 (C) UGX 600,000 (D) UGX 720,000.
4. Distinguish between general and specific questions in a proposal form?
5. What is an insurance premium?
6. What is the purpose of the renewal notice?
7. What will be the underwriter's principal concern when considering a proposal for business interruption insurance?
8. What is the risk premium?
9. Explain the role of an agent in the claims process.

CHAPTER 10: APPLICATION OF ICT IN INSURANCE

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B. MIS as interrelations between people, technology & organizations		
C. Characteristics of MIS		
D. Data management (storing, searching and analyzing data)		
Chapter summary		
Test Your Understanding		

Learning objectives

After studying this chapter you should be able to

- Understand the importance of information systems in the insurance business
- Use the information systems in the insurance business today.
- Define an information system and describe its management, organization, and technology components in an insurance industry setting.
- Define complementary assets and explain how they ensure that information systems provide genuine value to an insurance organization.

Introduction

Management information systems (MIS) is the study of people, technology, organizations, and the relationships among them. MIS professionals help firms realize maximum benefit from

investment in personnel, equipment, and business processes. MIS is a people-oriented field with an emphasis on service through technology.

Management information systems are typically computer systems used for data managing, to make searching, analyzing data, and converting that data into information that ideas in the decision making process of organizations.

Management information systems are distinct from other information systems in that they are used to analyze and facilitate strategic and operational activities.

Key terms

Information systems, computer Hardware, Computer software, LAN, WAN, Database

10A Information Systems (IS)

An information system (IS) is a system composed of people and computers that processes or interprets information. The term is also sometimes used to refer to only the software used to run a computerized database or to refer to only a computer system.

Information systems is an academic study of the complementary networks of hardware and software that people and organizations use to collect, filter, process, create and distribute data

It can also refer to the information and communication technology (ICT) that an organization uses, and also the way in which people interact with this technology in support of business processes

Any specific information system aims to support operations, management and decision making.

10A1 The Role of Information Systems in Business Today

Information Storage and Analysis

Many companies no longer manage their data and information manually with registers and hard-copy formats. Through the adoption of information systems, companies can make use of sophisticated and comprehensive databases that can contain all imaginable pieces of data about the company. Information systems store, update and even analyze the information, which the company can then use to pinpoint solutions to current or future problems. Furthermore, these systems can integrate data from various sources, inside and outside the company, keeping the company up to date with internal performance and external opportunities and threats.

Making Decisions

The long-term success of a company depends upon the adequacy of its strategic plans. An organization's management team uses information systems to formulate strategic plans and make decisions for the organization's longevity and prosperity. The business uses information systems to evaluate information from all sources, including information from external references such as Reuters or Bloomberg, which provide information on the general economy. This

analysis of and comparison to market trends helps organizations analyze the adequacy and quality of their strategic decisions.

Business Processes

Information systems aid businesses in developing a larger number of value added-systems in the company. For example, a company can integrate information systems with the manufacturing cycle to ensure that the output it produces complies with the requirements of the various quality management standards. This will have a number of benefits that include

- Adoption of information systems simplifies business processes and removes unnecessary activities.
- Information systems add controls to employee processes, ensuring that only users with the applicable rights can perform certain tasks.
- Further, information systems eliminate repetitive tasks and increase accuracy, allowing employees to concentrate on more high-level functions.
- Information systems can also lead to better project planning and implementation through effective monitoring and comparison against established criteria

10B Characteristics of Managements Information Systems

Accurate

Management information systems are accurate and provide up-to-date and correct information based on factual data. They capture only the most relevant data, process it, store it and provide access to it if and when required. Important organizational decisions are based on the information provided by a management information system, due to which their accuracy is essential. All processed information derived from an accurate and correct management information system should be free of flaws, consistent and complete.

Integrated

Organizations are involved in various functions and sub-functions, such as manufacturing, finance, human resources, marketing and other specialized areas. A management information system is an integrated collection of information systems, each designed to support a unique functional area. For instance, manufacturing is supported by an individual management information system, finance by another management information system, and so on. All these individual modules, or units, are connected and form part of the larger, organizational management information system. Coordination and integration are central functions of a well organized information system, with each individual component designed to provide essential support to other components.

Flexible

A management information system is flexible and is designed to allow the integration of additional components. It automatically updates key processes and software components to include the latest trends, practices, technologies and information. Management information

systems are flexible in terms of data analysis and evaluation, and are programmed to study and analyze data from various different angles. They are also capable of supporting a wide range of knowledge and skills.

Information System Challenges

- Workforce downsizing
- Information overload
- Employee mistrust
- Difficult to build
- Security breaches
- Rapidly changing technology

Test your Understanding

1. What is the importance of information systems in the insurance business?

CHAPTER 11: BASICS OF INSURANCE BUSINESS ETHICS

Content	Syllabus learning outcomes
Learning objectives	
Introduction	
Key terms	
R. Understanding the Concept of Business ethics	
S. Fundamental Principles of Business Ethics	
T. Responsibility of Insurance Market Players	
U. Ethical Behaviour	
V. Unethical Behaviour in Insurance & its consequences	
Chapter summary	
Test your understanding	

Learning Objectives

After studying this chapter, you should be able to

- Define the term Ethics.
- Explain the responsibility of insurance practitioners and service providers to themselves and other parties
- Distinguish between ethical and unethical behavior
- Describe the role of continuous education in the maintenance of professionalism and discipline

Introduction

Under this chapter, the student is expected to appreciate that this is a fast changing areas and while some tactical and operational matters are considered to enhance understanding, the main aim of the chapter is to consider the strategic importance of ethical issues to both the individual companies and the insurance industry at large.

Key Terms

11A: Business Ethics

Ethics is often defined, at least in part as acting to prevent a substantial harm to others when an individual or group has an opportunity to do so for their own benefit. Organizations and society at large recognize that ethically and socially responsible behavior plays a crucial role in good business practice.

11A1 What is ethics?

In general, ethics is understood as a set of rules of human behavior that are based on individuals' beliefs about how things should be in unbiased circumstances. Throughout literature, there is an existing range of definitions of ethics for example:

- a set of moral principles and values or
- the principles, norms and standards of conduct governing an individual or group

The field of ethics in business is generally perceived as a study of situations and decisions that address moral issues of right and wrong. These might include matters such as truth, honesty, fairness, respect, dignity, transparency and even-handedness. It should be noted, however, that there is no agreement that these are the only relevant concepts nor is there a general agreement as to what these concepts mean.

What could be right or wrong from an ethical view point could considerably differ if the same is analyzed from a legal perspective. In fact ethics and the law are at times two separate issues within the broader scope of ethics and values.

11A2 What is Business ethics?

Business ethics is often one of the most important but misunderstood concerns in the business world. Besides long term thinking, business people also need to address ethical issues on a daily basis.

Business ethics-a definition

Business ethics are the standards and conduct that a company or business sets itself in its dealings with the organization and externally within the business and social environment. It concerns the application of moral principles and how individuals conduct themselves in social affairs

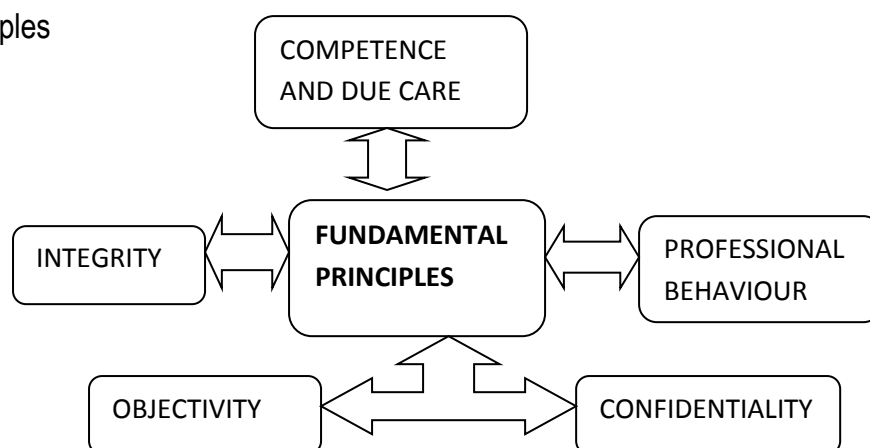
Consequently, business ethics can be defined as a set of moral principles and standards that guide the behavior of a business group in running its business functions.

In any situation that addresses right or wrong, there will always be conflict especially where there is a mismatch between expectation and the associated actions. In other words where people perceive that their duties towards one group are inconsistent with their duties and responsibilities towards other groups.

What is the reward for a business that chooses to act ethically? The benefits of ethical behavior are not usually apparent in the short term; many share the view that there are benefits in the long term.

The fundamental principles

All players in the insurance industry and students are obliged to follow the fundamental principles



Definitions

Integrity: Members of the insurance industry should be straight forward and honest in all professional and business relationships

Objectivity: Members or players in the industry should not allow bias, conflicts of interest or undue influence of others to override professional or business judgment.

Professional competence and due care: Members have a continuing duty to maintain professional knowledge and skill at a level required to ensure that a client or employer receives competent professional service based on current developments in practice, legislation and techniques. Members should act diligently and in accordance with the applicable technical and professional standards when providing professional services.

Confidentiality: Members should respect the confidentiality of information acquired as a result of professional and business relationships and should not disclose such information to third

parties without proper and specific authority or unless there is a legal or professional right or duty to disclose. Such information should not be used for the personal advantage of the member or third parties.

Professional behavior: Members should comply with relevant laws and regulations and should avoid any action that discredits the profession.

Responsibility of Insurance Market Players

To themselves

Individuals should endeavor to enhance the image and respect the insurance profession as a fully fledged occupation. This requires enhancing product knowledge as well as being conversant with all the aspects of the business. They should engage in continuous professional development to ensure their advice is still relevant to their clients.

To the Industry.

Act ethically at all times not to bring disrepute to the industry. Examples of such unethical acts include: giving misleading information and misrepresenting product features.

To the Company

Hold the organizations they represent in high esteem. We should remain loyal even after leaving; all information obtained during that time should be treated with the highest level of confidentiality.

To Clients

All practitioners must keep the interests of client uppermost, conduct business with truthfulness and accuracy. Confidentiality is very important especially for life insurance where clients are subjected to medical checkups before they can be offered the cover.

Ethical Behaviour

Insurance practitioners should observe the utmost good faith and disclose all material facts in respect of their products. Agents and brokers should use the right methods in persuading clients or prospects to take up their products. All information obtained at that stage should be treated confidential.

Unethical Behaviour

Twisting.

This is an act of advising policyholders to cancel policies and change insurers and intermediaries with the motive of making additional sales. Clients lose discounts, are subjected

to short term rates for annual covers that allows them less refunds than they would if it was not for the cancellation, application of surrender value where it is a condition of the policy.

Churning.

This is where the agent or broker encourages the insured to increase policy limits with the aim of increasing commissions earned.

Duplication of covers.

This exists where agents or other intermediaries advise clients to take policies which cover needs that are already catered for by similar existing policies so as to earn extra commission. The client is bound to lose in non life insurance where the principle or condition of contribution is applicable.

Concealment of status.

Intermediaries should disclose their status to prospective clients for example they should disclose if they are tied to a particular insurance company or products.

Non remittance of premium.

In the event that the intermediary collects premium on behalf of the insurance company, the same should be remitted immediately to avoid any temptations to use it for personal issues that would lead into probable termination of the agency contract.

Concealment of commission earned.

An intermediary should disclose the levels of commission earned if the client.

Other Unethical Behaviors

Insurance companies: Some insurance companies are fond of charging low and below the approved minimum premium rates in order to gain competitive edge in business. Also there are reported cases of unnecessary delays in claims processing.

Insurance brokers: Quote low and incorrect premium leading to difficulties in placing covers; giving inappropriate gifts, inducement and commission rebates to win business; falsified returns to the regulator.

Motor Assessors: Collude with garage operators to accept exaggerated repair invoices; declaring repairable vehicles as total losses. This causes unnecessary financial losses to insurers.

Doctors: Giving false reports which may result in insurers paying high claims and not carrying out prudent underwriting for life policies and exaggerating disability levels under Group Personal Accident and Workers compensation policies.

Lawyers: They may help clients lodge fraudulent claims. They could also lodge claims on behalf of the public with the aim of drawing huge sums of money in court fines and penalties. This adversely affects the image of the industry.

Risk Surveyors and Loss Adjusters: These tend to have lengthy turnaround times for submission of reports affecting the timelines at both underwriting and claims stage. This negatively affects the quality of service to clients.

Investigators: These will handle claim cases where foul play is suspected. They engage in unethical behavior when they misuse confidential information they have discovered in the course of their duties. Such investigators may collude with lawyers to defraud insurance companies by provoking innocent third parties to lodge dubious claims.

Consequences of unethical behaviors

1. Persons and companies found guilty of such practices would then be scrutinized and publicly shamed. Companies often end up losing their license to conduct business and their reputation is damaged forever.
2. Among the worst effects of unethical behavior on business is that a company is unable to forge or maintain any long-term relationships with customers.
3. In addition, it becomes vulnerable to long and expensive litigations.
4. Another of the effects of unethical behavior on business is that customers would completely shun the company's products and start a campaign inciting others to follow.
5. Loss of a job by the concerned staff

Chapter Summary

- Ethics in business especially in insurance where promises are sold or made other than physical products is very vital. Ethics can be defined as the study of situations that address moral issues of right and wrong. Note the legal, ethical and moral distinctions and the debate surrounding the relationship between the pursuit of profit and an ethical stance.
- Ethical conduct can be enforced through Codes of Conduct relating to professional and business standards. Disciplinary procedures can be invoked where unethical behavior is identified to correct the image of the profession and industry.
- There are two major approaches to ethical behavior: Principles and Rules Based Approach.
- The fundamental principles include integrity, Objectivity, Professional Competence and due care, confidentiality and professional behavior.

Test Your Understanding

1. What is business ethics?
2. Assess the impact of ethics in business and insurance in particular
3. Explain the fundamental principles of ethics?
4. Why is it relevant for players in the insurance industry to sit relevant professional insurance examinations
5. Differentiate between twisting and churning.