

DNA Money

Honesty is the best insurance policy

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Remember, the onus for disclosure of risks is on the proposer

V Ramakrishna

On March 16, 2001, Kumar had taken a life insurance policy for himself for a sum assured of Rs 10 lakh. He had given the following answer to a question in the proposal form that asked:

“Do you consume alcohol”? Yes/No; average usage per day.

Ans: Yes, 1 peg per week.

Seven years later, Kumar died of liver cirrhosis, caused by chronic alcoholism. Because of the false statement in the proposal form, the insurance company repudiated the claim. Kumar must have been embarrassed to admit his problem of chronic alcoholism while filling up the proposal form, but little did he know that in spite of paying premiums regularly and taking a policy, he would leave his family stranded in its hour of need.

Policyholders are in danger of seeing claims on their insurance policies turned down because they fill the proposal form very carelessly or make the agent do the job (irrespective of whether they are literate or illiterate). What the proposer doesn't realise here is that this document will be referred

back to at the time of claim and a careless “yes/no” will prejudice the claim settlement. A proposal form is the foundation on which an insurance contract stands.

Insurance contracts are based on trust. Since the insurance company knows nothing and as a proposer you know everything about the risk, it is your duty to make a full disclosure of all the facts that will affect the insurer's decision to insure you and the terms on which they insure you. A lot of times, people tend to lie about their health for fear of not getting the policy, or having to pay up a higher premium. While this may get you a policy easily; at the time of a claim, you will land in trouble. And then, you may get cynical about insurance and find yourself in agreement with someone who said “Insurance is like marriage. You pay and pay but you never get anything back.”

Insurance agents also tend to play smart. They will prompt your answers at the time of filling a proposal form and make it sound like it's just a formality, lest they lose out on a customer. But the law says “buyer beware.” The contract is between you and the insurance company and not between you and the agent. As a party to the contract, you are expected to maintain utmost good faith in the insurer. An essential part of the insurance contract is the understanding that each has tak-



en the other entirely into confidence. If there were to be any question of one withholding from the other what he needs to know, the entire transaction would be void. So you need to watch out - as mistakes can prove costly.

The insurance regulator in India has also made it mandatory for insurance policies to be issued with the proposal form duly filed in.

All too often, customers and insurers are only too happy to complete a transaction without this important document - leaving the door open for disputes on what was intended to be

covered or excluded.

Some tips:

- Be honest and forthright in responding to the questions in a proposal form as any erroneous information could result in the insurer denying you coverage.

- Don't sign on a blank incomplete proposal form. You will be held responsible once you sign on the document. You should check the correctness of the information before signing. And keep copies of the filled & signed proposal form.

- You need to bear in mind that your

duty to disclose is of an ongoing nature. Many people do not realise that every renewal of an insurance policy is a new policy, i.e. a new contract requiring disclosure. Say Ravi took his first health insurance policy in 2004 from Sigma Insurance Co and for the question in the proposal form pertaining to “Whether you have any other health insurance policies in force,” he replied in the negative, which was true. But it was no longer true when the policy was renewed with the mutual consent of both parties in 2005, as Ravi had taken another health insurance policy from a different insurer. Ravi was obliged to inform Sigma Insurance Co about the new policy that he had taken because the original proposal form becomes incorporated into the renewed policy and continues to form the basis of the contract.

As always, the devil is in the detail, lurking in the fine print of your proposal form. So, please take some time off before signing the proposal form as some investment in time today will help avoid any heartburn later. The unexpected happens all the time... so just having an insurance policy tucked away somewhere is not enough; due diligence while filling the proposal form is of utmost importance.

The author is the chairman of India Insure Risk Management & Insurance Broking Services (P) Ltd