

Why some insurance claims are not payable

▶ If you get selective in coverage (innocently or otherwise!), well, the insurer gets selective in paying claims too!

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Last week a friend called to say that his Ford Ikon had been stolen and he didn't have theft coverage for his car. A few hours later he called back. The car had been found! But the thief had crashed it. "Thank God" he told me, "I am now going to claim for the repair from the insurer". But he was disappointed when I explained to him that "theft" being the proximate cause of the loss and an excluded peril, the claim will not be paid by the insurance company.

While paying claims, Insurance companies look at "what exactly caused" the event leading to a loss. In my friend's case, it was the theft of the car. It was the thief who wrecked it. Theft was the 'proximate cause'. My friend didn't have coverage for theft, so the insurance company would not honour the claim.

What causes a loss? On its face, this seems to be a simple question. But real life is rarely that simple. Many events and circumstances combine to produce a particular result. So, confusion prevails when there are multiple events that lead to the loss. This is where the doctrine of proximate cause helps.

'Proximate cause' is defined as "The active, efficient cause that sets in motion a chain of events, which brings about a result, without the intervention of any new or independent force."

As one is aware, every policy has a set of perils that are covered and another longer list of perils that are excluded. In fact, while deciding to opt for an insurance policy, what you actually decide is to protect yourself against is

the financial losses you may suffer due to a set of certain perils.

Take, for example, a home owner choosing a Fire policy and skipping a Machinery Breakdown policy (which would have covered his electrical equipment). He has chosen to take cover for Fire and allied perils and ignore Breakdown-related perils.

There happens to be a fire in his building, following which there are frequent electrical fluctuations and his refrigerator breaks down after a few days. He would naturally expect that the claim will be paid through the fire policy! Alas! He would be in for a disappointment.

The fire policy does not include "breakdown-related" perils and since the proximate cause was ascertained to be "breakdown" and not the "fire" directly! If you get selective in coverage (innocently or otherwise!), well, the insurer gets selective in paying claims too!

The following two cases illustrate whether a remote cause can be considered as the proximate cause of a loss:

Case I: Lightning damaged a building and weakened a wall. A day later, the weakened wall was blown down by high winds. Lightning was considered to be the proximate cause.

Case II: Fire damaged a wall and weakened it. Several days later, a gale blew down the weakened wall. It was held that fire was **not** the proximate cause.

The point to note here is the length of time that passed before the remote cause occurred which made the difference between the two cases.

In the second case, there

has been a break in the chain of causation because of which the initial event will not be treated as the proximate cause for a loss.

Consider this too: Firemen remove undamaged stock from a burning building to protect it from fire. It is stacked in the open yard and subsequently damaged by rain. Was the proximate cause of the damage — the fire or the rain?

If the rain damage occurred before the Insured had an opportunity to protect it, then the proximate cause of the damage would be fire, which is covered under the fire insurance policy. However, if the stocks were left unprotected for an unreasonably long period, the rain would be a new and independent cause of damage that is normally not covered under the policy.

There are many examples of such claims, which at first sight suggest that the proximate cause is obvious, but on more detailed enquiry, different conclusions are reached.

Understanding proximate cause in the context of a loss can be a daunting task. The facts of insurance claims are usually complicated — given the different potential causes of loss involved and exclusions in play.

Some jurisdictions may view the exclusion ambiguous and in favour of the insured and other jurisdictions may view it as being clearly in the insurer's favour.

In the end, a claim on an insurance policy is an exercise in patience.

(The writer is Chairman, India Insure Risk Management and Insurance Broking Services.)

Special Deposit Rates

Bank	Rate (%)	Term (Days)
ICICI Bank	10.0	390
City Union Bank	10.3	700
Axis Bank	10.0	365
Tamil Nad Mercantile Bank	10.0	400
State Bank of India	10.0	365
HDFC Bank	10.0	381