

Basic Principles of Insurance

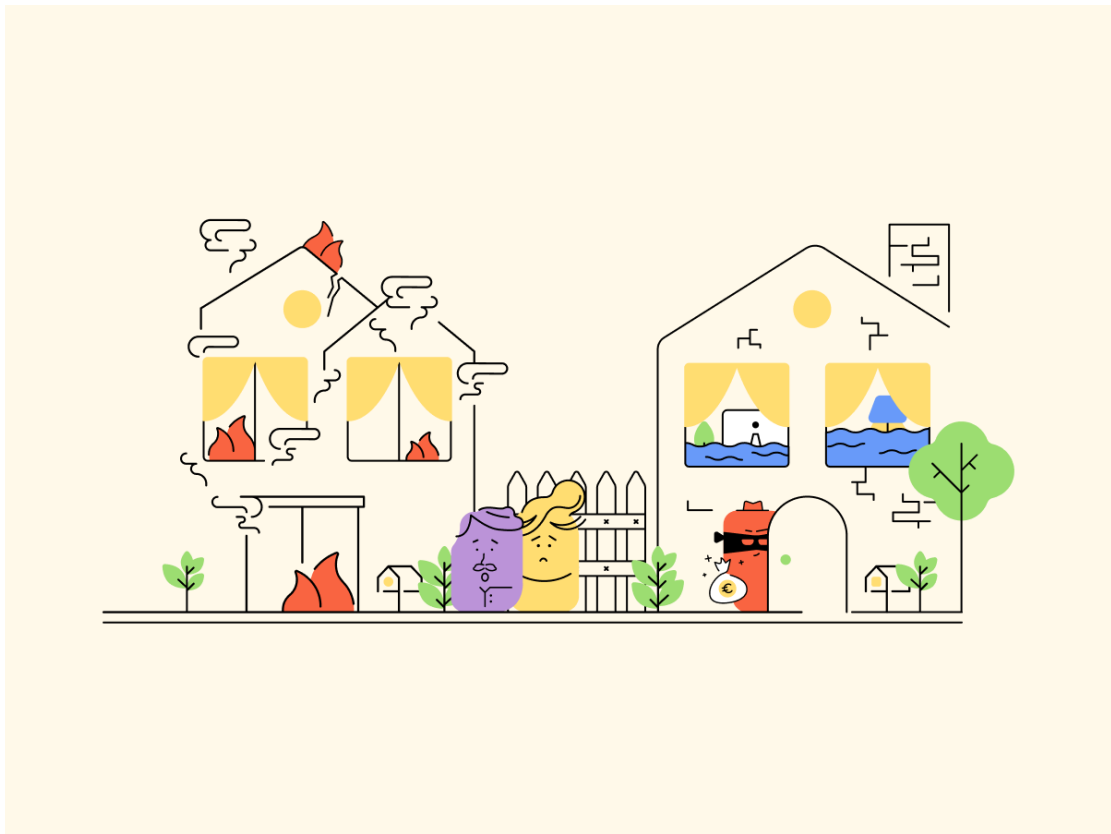
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Homework #5

1. What is the purpose of the insurance proposal form? Explain how it forms the basis of an insurance contract?



Ans: The proposal form or application form is served as a tool by which the insurer receives information about the risk to be insured and for the underwriter to decide whether or not to accept the risk and on what terms and premium rates. Typically, the proposal form contains three main sections such as (i) personal data, (ii) information relating to the subject matter, and (iii) information about insurance history. However, the proposal form requirements may vary depending on the insurance company and the type of policy being sold, hence in general the contents of the proposal form including but not limited to *Name, Address, Occupation, Subject-matter, Sum-insured, Declaration, Signature, and Date*.

The proposal form forms the basis of Insurance Contract by which it is used to be incorporated into the contract, although it is not actually reproduced by the insurer but the Declaration is signed; hence the proposer is confirming that all the information provided is correct.

2. What are the questions asked in the proposal form? Why are those questions important?

Ans: Questions that are usually incorporated in the proposal form and why it is important are detailed as follows:

Questions	Why it is important
(i) Details of the proposer and/or the insured <ul style="list-style-type: none"> • Name in full • Address • Occupation or type of business • Interested party • Other question 	Question (i) is not specific to the actual risk itself. It serves as the purpose of knowing our customer background.
(ii) Period of Insurance	Question (ii) is not specific to the actual risk, hence it is for the sake of knowing which period we are insuring.
(iii) Details of the risk to be insured (iv) The subject matter of insurance (v) The insurance history of the proposer and/or the insured	Questions (iii), (iv), & (v) are risk specific in the sense that they relate to the form of risk for which cover is being sought. These are the questions that will assist the underwriter in determining whether or not to accept the risk, what terms to impose, and what price (premium) to charge.

3. What is the Cover Note? What is the function of the cover note?

Ans: A cover note is a temporary document issued by an insurance company that provides proof of insurance coverage until a final insurance policy can be issued. During this time, the insurer may continue to evaluate the risks associated with insuring the holder of the cover note. Thus, the cover note will continue to serve as the insured's proof that coverage exists until the insurer issues the policy documents and certificate of insurance or else denies issuing the policy.

A cover note features sufficient details to identify the risks being insured, such as:

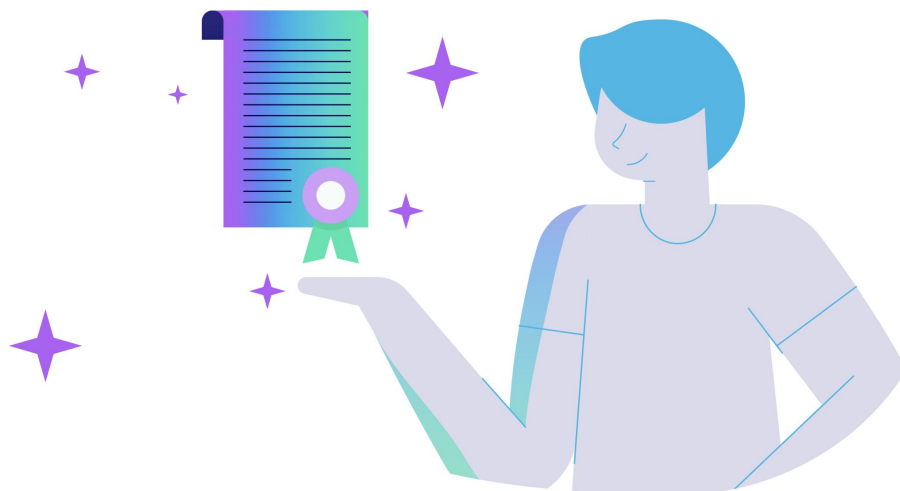
- Insured's name and address;
- Sum-insured;
- Period of insurance (this is usually a short period, perhaps 15 or 30 days);
- Risks covered;
- Description of risks being insured;
- Serial number;
- Warranties;
- Extensions; and
- Signature of authorised signatory of insurer and date of issue, including time of issue for certain classes of insurance i.e. Motor Insurance.

4. What is Renewal Notice?

Ans: Renewal Notice is the notice sent to the policyholder by the insurer to remind him/her that an insurance is due for renewal, at which time the insurance provider may change the premiums charged to the insured before a new policy period begins. Normally the insurance company will send their customers a notice of renewal about one month before each renewal happens. Thus, this notice tells the customer how their premiums will change after the renewal, and if there are any adjustments to their coverage or else other typical changes including but not limited to:

- Sum-assured;
- Interested party or insurable interest;
- Physical risk, location or occupation;
- Address;
- Period of insurance;
- Cancellation;
- Deletion of an exclusion; and
- Correction of data i.e. misspell wordings.

5. What is a Certificate of Insurance?



Ans: A certificate of insurance (COI) is issued by an insurance company or broker. The COI verifies the existence of an insurance policy and summarizes the key aspects and conditions of the policy. It includes the most important, basic information related to the customer coverage, such as the policy's expiration date and effective date, who is covered by the policy, what type of coverage it is (general liability, property insurance, etc.), and the policy's limits.

A Certificate of Insurance is only evidence of, and is not equivalent to, a policy of insurance. Thus, it is normally used in Marine Cargo, Motor and Work Injury Compensation Insurance (sometimes for Card Protection and Travel Insurance, as well as Group Insurance to individual members to evidence their participation in a group plan).

Homework #6

1. Describe the roles and responsibilities of the loss adjuster and other claim professionals?

Ans: Describe the roles and responsibilities of:

- **Loss Adjuster.** The idea of an independent loss adjuster is based on the principle that, since both the insured and the insurer are interested parties, it is essential to have the opinion of an independent professional person who is acceptable to both parties, as well as a Court of Law, in the event of a dispute. Although it is common for the loss adjuster to be appointed by the insurer, it is the duty of the loss adjuster to act and adjust the loss impartially and professionally, based on the actual findings during the loss investigation.

Loss adjusters are independent claims specialists whose function is to assist in validating claim settlements quickly and fairly. Usually appointed by the insurers, they investigate large and complex claims on the insurers' behalf, and will be remunerated with fee payments by the insurers concerned. As loss adjusters are usually highly qualified individuals, with vast experience in claim settlement and insurance, they are able to investigate claims for accident, fire, theft, storm, flood, explosion, earthquake, business interruption, engineering etc. They can help the policyholders in contacting relevant specialist services and getting repairs done, and can also ensure that the eventual claim settlement recommended to the insurers is fair to both parties, within the terms of the relevant insurance policy.

On receiving instructions from the insurer, the loss adjuster will visit the claimant and assess the scene of the loss. He may also arrange with the insured for the necessary protection of the undamaged property. An initial report will then be submitted to the insurer setting out the brief details of the claim and the circumstances, together with an estimate of the likely cost. A final report will be submitted when negotiations are completed. Once the insurer accepts the negotiated settlement, payment will be made to the insured.

If the loss adjuster suspects that a claim is fraudulent, he may have to carry out a further detailed investigation. In some cases, this may require the involvement of the police, private investigators and, in exceptional cases, forensic experts.

- **Other Claims Professional.** There are claims inspectors who are essentially in-house claims investigators (they can also be known as claims assessors or managers), and there are other external experts, such as the ones mentioned below:
 - **Forensic scientists.** To establish cause of fire;
 - **Medical practitioners.** To determine if a claimed medical condition is genuine;
 - **Engineers.** To investigate and establish cause of engineering loss;

- **“Restoration” specialist.** Engineers to perform such “restoration” activities like dehumidification, in case of water damage and reinstatement of machinery to operational condition.
- **Loss Assessors.** Appointed by the insureds to prepare and negotiate claims on their behalf, unlike loss adjusters, whom are usually appointed by the insurers. The insureds will have to pay the fees for appointing loss assessors.
- **Surveyors.** Appointed by insurers to assess property damage e.g. motor vehicle damage. They will inspect the damaged vehicles and negotiate with the insurers’ authorised workshops regarding repair costs (i.e. labour charges, spare parts costs) on behalf of the insurers.
- **Claims Recovery Agents.** Appointed by insurers to effect recovery from third parties responsible for the loss of or damage to property, cargo, etc.

2. Why is the claim form important to insurance companies?

Ans: It is normal for an insurer to receive a phone call or an email concerning an event leading to a claim almost immediately after the accident.

Following that, it is essential that the insurer’s claim form be completed and submitted for processing and settling of a loss under the policy. At the same time, the insurer must have precise information on the circumstances and extent of the loss, and must determine if the loss falls within the policy coverage. The claim form collects pertinent information on the accident, injury, illness, loss or damage suffered by the insured.

Different claim forms are used among insurers, and different claim forms are used for different classes of insurance. They are usually available for downloading from the websites of the insurers. The insurer usually states on the claim form that it is issued without any admission of liability, or without prejudice.

3. What are key questions in the claim form and why do insurance companies ask those questions?

Ans: The key questions in the claim form and why they were asked are listed in below table:

Questions	Why it is important
(i) Policyholder’s/Claimant’s Particulars <ul style="list-style-type: none"> ● Name, address and contact details ● Policy particulars 	To understand about the insured background and file record.
(ii) Details Of Accident <ul style="list-style-type: none"> ● Circumstances of loss ● Date of loss ● Place of loss ● Any third parties involved ● Details of any witnesses 	To quickly grasp the whole situation of when, where, and how the accident took place. Plus, to know whether any third parties liability occur and if such witnesses present at the site.

(iii) Details Of Injuries/Loss/Damage/Suffered <ul style="list-style-type: none">• Description of property loss or damage• Details of injuries sustained	To calculate the extent of the loss in order to take important measures in verifying total damage cost and whether it falls within the policy coverage.
(iv) Details Of Reports <ul style="list-style-type: none">• Police Report• Medical Report• Statements made (if any) to and/or by third parties, etc.	To provide as evidence whether the loss legitimately happened or fraudulent.
(v) Insured's Declaration, Signature & Date	To certified the identity of the insured and declared the truthfulness of all information pertaining to the claim.

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