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A practical rundown of why terms and conditions in insurance policies matter



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Insurance provides cover for losses arising from insured events which may happen in the future. Against an agreed premium, the risk of an insured event arising is transferred from the insured to the insurer.

In practice, insured events triggering insurance policies to respond are not always clear-cut. This is largely due to the complex wording of insurance policies and the significant information asymmetry between an insurer (company providing the cover) and the insured (individual / company enjoying the cover). The examples below aim to further illustrate this:

Example 1

Company A's truck was insured by Company B for theft. The truck was hijacked and later recovered. Upon recovery it was established that all the goods the truck was transporting were stolen. Company A submitted a claim in respect of the stolen goods with Company B. The policy required the truck to have a fitted and operational GPS satellite tracking and recovery system which had to be in working order at all times. It later transpired that the GPS system had not been functional for quite some time, resulting in Company B rejecting the claim based on Company A's breach of a condition of the contract.

Example 2

Company C's building was insured by Company D. Company C leased out the insured building to Company E. Due to a lease dispute, Company E vacated the building, leaving it unoccupied. Vagrants later entered the building, stripping it of all wiring and in the process causing extensive damage to the building. In terms of the insurance policy, Company C was obliged to let Company D know if the building became unoccupied for a consecutive period of 30 days. This is because an unoccupied building can attract unwanted attention from criminals, vandals, or squatters. Unfortunately, Company C neglected to let Company D know, resulting in Company D rejecting the claim based on Company C's breach of a condition of the contract.

Example 3



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Company F accordingly lodged a claim with Company G for the loss of revenue it sustained during the period it was not able to trade. The general principle is that an insured business must be placed in the same position it was had the insured event not transpired. However, Company F's sales increased dramatically in the months following the lock down period due to customers pre-ordering, in anticipation of the lifting of the prohibition of the sale of alcohol. As such, restricting the calculation in loss of revenue to the three months of the hard lockdown would have resulted in Company F being over indemnified.

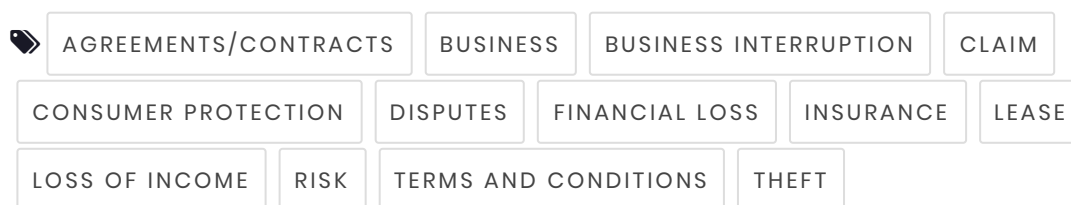
Conclusion

The wording of most insurance contracts remains difficult to comprehend despite the protection enjoyed by consumers these days under consumer protection law. The old adage "ignorance of the law is no defence" is unfortunately as true today as it was in yester years. Failing to carefully read through or understand the terms and conditions of insurance policies can lead to policies not responding if certain conditions are not met. It is, therefore, advisable for consumers to carefully read through policies and to request their insurer / broker to explain if they do not understand, to avoid falling foul of policy conditions.

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- [The terms, the terms... Personal-lines insurance policies](#)
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Jean-Daoul Dudd

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BY



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