



Singapore College
of Insurance

BASIC INSURANCE CONCEPTS AND PRINCIPLES

5th Edition



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BASIC INSURANCE CONCEPTS & PRINCIPLES

5th Edition – October 2016

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P R E F A C E

Since 12 June 2002, the Singapore College of Insurance (SCI) has introduced a modular approach to the Certification in General Insurance (CGI). The new CGI qualification framework comprises three modules, namely Basic Insurance Concepts & Principles (BCP), Personal General Insurance (PGI), and Commercial General Insurance (ComGI).

The **Personal General Insurance Certification**, which comprises BCP and PGI, is applicable to insurance practitioners, who provide advice and / or sell personal general insurance products, to possess the requisite basic technical knowledge to be able to perform their jobs competently.

Likewise, the **Commercial General Insurance Certification**, which comprises BCP and ComGI, is applicable to insurance practitioners, who provide advice and/or sell commercial general insurance products, to possess the requisite basic technical knowledge to be able to perform their jobs competently.

A candidate who has passed the BCP, PGI and ComGI examinations is eligible to use the designation **Cert SCI (General Insurance)**. These three modules will give the candidate a good head start towards the SCI Diploma / Advanced Diploma in General Insurance and Risk Management (DGIRM / ADGIRM) qualifications.

In particular, this BCP module provides a fundamental understanding of the structure of the Singapore insurance market, insurance concepts and principles, law of agency and contract, insurance documents, claims, reinsurance, as well as ethics and professionalism.

Candidates are strongly encouraged to study using the e-book of this Study Guide as the electronic version will come with a mock examination trial,

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LEARNING POINTS

After studying this chapter, you should be able to:

- understand the structure of the Singapore general insurance and reinsurance markets
- know who are the buyers, intermediaries and sellers in the general insurance and reinsurance markets
- know what is Direct Purchase Insurance (DPI)
- understand which are the major insurance trade associations and other relevant bodies in the Singapore insurance industry, including their main roles and objectives
- understand the role of rating agencies
- understand the role of the Monetary Authority of Singapore (MAS) in insurance regulation
- list the classification of instruments issued by MAS and understand their differences
- know the two options available to policyholders under the nomination of beneficiaries for Personal Accident Insurance and Health Insurance policies
- describe the purpose of the Policy Owners' Protection Scheme relating to general insurance policies
- understand the Premium Payment Framework jointly issued by the General Insurance Association of Singapore (GIA) and Singapore Insurance Brokers' Association (SIBA)
- recognise the key differences between an insurance agent and a general insurance broker

1. INTRODUCTION



1.1 Like any other market, the insurance market comprises:

- buyers;
- sellers; and
- intermediaries (or middlemen).

1.2 Buyers are those who need insurance, e.g. the general public, government and commercial enterprises. In fact, the direct insurers and captive insurers themselves are buyers, when they seek reinsurance from the reinsurers.

1.3 Sellers comprise the insurance companies and reinsurance companies.

1.4 Intermediaries refer to insurance agents and brokers, including reinsurance brokers. Under Section 1A of the Insurance Act (Cap. 142), “insurance intermediary” “means a person who, as an agent for one or more insurers or as an agent for insureds or intending insureds, arranges contracts of insurance in Singapore, and includes an insurance agent or an insurance broker.”

2. STRUCTURE OF THE SINGAPORE INSURANCE MARKET

2.1 The structure of the general insurance and reinsurance markets in Singapore is shown below in **Table 1.1** and **Table 1.2** respectively.

Table 1.1: Structure Of General Insurance Market In Singapore

Buyers (Insured)	Intermediaries	Sellers
<ul style="list-style-type: none"> ▪ Individuals ▪ Commercial Enterprises ▪ Government 	<ul style="list-style-type: none"> ▪ Agents (Including Trade Specific Agents) ▪ Brokers 	<ul style="list-style-type: none"> ▪ Direct Insurers ▪ Captive Insurers ▪ Co-operatives ▪ Marine Mutuals ▪ Lloyd’s Service Companies

Table 1.2: Structure Of Reinsurance Market In Singapore

Buyers (Insured)	Intermediaries	Sellers
<ul style="list-style-type: none"> ▪ Insurance Companies ▪ Captive Insurance Companies 	<ul style="list-style-type: none"> ▪ Reinsurance Brokers 	<ul style="list-style-type: none"> ▪ Reinsurance Companies

3. THE BUYERS

3.1 The buyers of insurance are known as policyholders or policy owners, and they can also be the insureds at the same time. For the prospective buyers proposing for insurance, they are known as the proposers, applicants or intending insureds.

3.2 There are generally three groups of buyers, namely the individuals (including sole proprietors), commercial enterprises (such as multinational corporations,

small and medium enterprises, partnerships, companies, etc.) and the government (including its various agencies, ministries and statutory boards).

- 3.3 The insurance covers that are purchased by individuals will likely be personal general insurance, such as those insuring their property, motor vehicles, household buildings and contents, and their lives against accidents, disabilities and critical illnesses.
- 3.4 Commercial general insurance covers are generally purchased by the government and commercial enterprises, which will include those purchasing insurance to cover factories, complexes, plant and machinery, construction and erection of infrastructure or public housing and amenities, transportation, manual and non-manual employees (both local and foreign), staff members travelling overseas, liability from business operations, and many others.

4. THE INTERMEDIARIES

4.1 The role of an intermediary is to bring buyers and sellers together. An intermediary is a party who is authorised by a second party, called the “principal”, to bring that principal into a contractual relationship with another person, called a “third party”.

4.2 In Singapore, the main types of intermediaries in the general insurance and reinsurance sectors are as follows:

- Insurance Agents (including Trade Specific Agents);
- Insurance Brokers; and
- Reinsurance Brokers.



A. Insurance Agents

4.3 Generally, an insurance agent is a person who is or has been carrying on insurance business in Singapore as an agent for one or more insurers, and includes an agent of a foreign insurer carrying on insurance business in Singapore under a foreign insurer scheme under Part IIA of the Insurance Act (Cap.142). Agents are remunerated by the insurers in the form of commission (usually as a percentage of the premium in respect of the policy sold, which may include profit-sharing commission, depending on business volume and profitability) as specified in their Agency Agreements.

A1. Regulation of Insurance Agents

4.4 In Singapore, all insurance agents, including nominee and Trade Specific Agents (TSAs) are required to be registered under the GIA Agents’ Registration Board (ARB) and they must comply with and satisfy the mandatory requirements of the Insurance Act (Cap. 142) (particularly Part IIB on Insurance Intermediaries) and the Notice No.: MAS 211. Renewal is an opt-out process.

- 4.5 For the purpose of registration with the ARB as an agent, an applicant may be classified under any one of the following classifications:
- (a) An individual;
 - (b) A sole-proprietorship or partnership business registered with the Accounting and Corporate Regulatory Authority of Singapore (ACRA);
 - (c) A company registered with ACRA;
 - (d) A society registered with the Registrar of Societies;
 - (e) A co-operative society registered with the Registrar of Co-operative Societies; or
 - (f) A limited liability partnership registered with ACRA.
- 4.6 Under Notice No.: MAS 211, the mandatory requirements are as follows:
- (a) such agent is registered with the ARB; and
 - (b) satisfies all of the following requirements:
 - (i) he is at least 18 years of age;
 - (ii) he is a citizen of Singapore or a permanent resident or a foreigner holding a valid work permit or employment pass issued by the Ministry of Manpower (MOM);
 - (iii) he has obtained minimum academic qualifications equivalent to or higher than 3 GCE "O" Level credit passes or at least attained the Basic Competency Examination Certificate awarded by the Singapore College of Insurance if the individual has no GCE "O" level credit passes; and
 - (iv) he is an individual who meets any of the following:
 - has obtained the CGI qualification;
 - was not required to obtain the CGI qualification when it was first introduced in 1990;
 - has acceptable qualifications in lieu of the CGI qualification (as prescribed under the Notice No.: MAS 211); or
 - where he is a Trade Specific Agent, has acceptable qualification in lieu of the CGI qualification (as prescribed under the Notice No.: MAS 211).
- 4.7 Under the Notice, the non-mandatory Best Practice Standards in Training and Competency are as follows:
- (a) A direct general insurer should ensure that each of its Relevant Persons or insurance agents is adequately trained.
 - (b) The Monetary Authority of Singapore (MAS) expects all direct general insurers to observe the non-mandatory best practice standards in training and competency which has been developed by the General Insurance Association of Singapore (GIA) to raise the standards of service to customers. A copy of the standards is available on the GIA Website at: <http://www.gia.org.sg>
- 4.8 In addition, all registered agents must comply with and observe the following:
- (a) The General Insurance Agents' Registration Regulations (GIARRs);
 - (b) The Fit and Proper Criteria as determined by the ARB;

- (c) The Agency Management Framework as determined by the ARB;
- (d) The Continuing Professional Development requirements as may be determined by the ARB;
- (e) The Operating Guidelines or Code of Conduct established by the agent's principal;
- (f) The Code of Practice For Agents (refer to **Chapter 8** of this Study Guide) as may be amended by the ARB from time to time;
- (g) The Personal Data Protection Act 2012 (PDPA) on the collection, use or disclosure of data as required or authorised in accordance with the PDPA;
- (h) All relevant laws and regulations, including the mandatory requirements of the Insurance Act (Cap. 142);
- (i) Such industry best practices and guidelines on agency management as may be approved by the ARB from time to time, insofar as they are applicable to agents and nominee agents; and
- (j) The Premium Payment Framework.

4.9 Under the GIARRs, an agent can represent a maximum of three general insurers or principals at any one time. An agent must have a principal registered with the ARB as the Agent's Primary Principal at all times. An insurer who ceases to be an agent's primary principal for any reason is required to notify the ARB.

4.10 **Fit & Proper Criteria Under GIARRs**

- (a) In order to qualify for registration and to continue to be registered as an agent, nominee agent or Trade Specific Agent (TSA) with the ARB; an applicant, agent, nominee agent or TSA must satisfy the following conditions and requirements:
 - Threshold Conditions;
 - Competence Entry Requirements;
 - Continuing Professional Development Requirements;
 - Financial Soundness; and
 - Honesty, Integrity and Reputation.

TsAs, except for Motor Car Dealers, are exempted from fulfilling Continuing Professional Development Requirements.

(b) **Threshold Conditions**

- (i) An application, agent or TSA which is a company registered with ACRA must have a minimum paid-up capital of S\$25,000 at the time of application and must maintain the same level of paid-up capital during the currency of its registration with the ARB. However, this does not apply to employment agencies registered with the MOM.

(c) Competency Entry Requirements

An agent, or nominee agent (including a nominee agent of a TSA), who is a natural person must possess:

- (i) Certificate in General Insurance (CGI) which comprises:
 - Basic Insurance Concepts & Principles (BCP) and Personal General Insurance (PGI) if he wishes to sell only personal insurance products; or
 - BCP and Commercial General Insurance (ComGI) if he wishes to sell only commercial insurance products; or
 - BCP, PGI and ComGI if he wishes to sell both personal and commercial insurance products.

OR

- (ii) Acceptable qualifications in lieu of CGI as set out in the Notice No.: MAS 211 on "Minimum and Best Practice Training and Competency Standards for Direct General Insurers".

(d) Continuing Professional Development (CPD) Requirements

- (i) To remain registered with the ARB, agents, nominee agents and nominee agents of a TSA, who are natural persons are required to undergo and complete CPD training for a minimum number of hours each year as may be determined by the ARB.
- (ii) All agents are required to fulfil their outstanding CPD hours by 31 December of the year. Failing which, the General Insurance Certificate of Registration will lapse. An agent whose renewal has been lapsed may apply for registration only after a period of one year. CPD training hours should only be awarded for the training attended by the applicant after he becomes an agent. General insurance agents are required to fulfil 24 hours each in the first and second year, and 15 hours per annum from the third year onwards. Eight hours of CPD will be required for life agents who also sell general insurance, in addition to the minimum hours which they have accumulated as agents for life insurance products.
- (iii) However, those in respect of motor car dealers are required to fulfil four CPD hours yearly, before they can be renewed as TSAs selling Motor Insurance. All other TSAs and their nominee agents are exempted from the CPD requirements.

(e) Conflict Of Interest

- (i) A conflict of interest is said to occur, where an agent, nominee agent or TSA has a personal interest that conflicts or may possibly conflict with his role, to provide the best possible advice or service to a customer. This may occur as a result of agency relationship or agent's family or personal relationships with an insurer. In circumstances, where avoidance of such conflicts of interest may

not be practicable, the insurer's agent, nominee agent or TSA should disclose to the customer the conflict of interest arising from the relationship with the insurer, including any material information or facts that may compromise his objectivity, before insurance is arranged.

- (ii) Similarly, where a nominee agent or a TSA has a personal interest that may conflict with his role of agent to the principal, and in situations, where such conflicts are not practicable, the agent shall disclose to the principal the conflict of interest, and such an obligation is an ongoing one.

(f) **Confidentiality**

An agent, nominee agent or TSA should implement and maintain proper procedures to preserve confidentiality of information received from a client or related to a client. An agent, nominee agent or TSA should not collect, use or disclose personal data about a client, unless:

- the client has given his consent to the collection, use or disclosure; or
- the collection, use or disclosure is required or authorised in accordance with the Personal Data Protection Act 2012.



A2. Classification of Agent Types

- 4.11 (a) Individual agents (either as cash or credit agents). Cash agents refer to agents who have no credit terms with their principals, while credit agents must have agreed with their principals on the credit period and have it stated in their Agency Agreement.
- (b) Corporate agents (generally known as agencies), namely sole proprietorships, partnerships, limited liability partnerships and companies registered with ACRA, as well as societies registered with the Registry of Societies, and co-operative societies registered with the Registry of Co-operative Societies.
- (c) Trade Specific Agents (TSAs). TSAs are engaged in a business of which insurance is not their core business, and they usually sell only one type of insurance product (e.g. travel agents selling Travel Insurance) in the course of their core business activities.

The various types of TSAs engaging in insurance sales and/or advisory services are listed below:

- credit card providers;
- electrical and electronic retailers;
- freight forwarders;
- foreign domestic worker agencies;
- foreign worker agencies;
- mobile device dealers;



- motor dealers; and
- travel agencies.

4.12 **Nominee Agents**

A nominee agent means a nominee who acts for an agent and such agent is registered with the ARB in accordance with the mandatory requirements of the Notice No.: MAS 211.

B. Insurance Brokers

4.13 A person who carries on business as any type of insurance broker in Singapore is required to be registered with the MAS as that type of insurance broker, unless he is exempted from registration under Section 35ZN of the Insurance Act (Cap. 142).

4.14 An insurance broker is one who advises his clients (insurance buyers) on their insurance needs, negotiates and arranges insurance on their behalf with the insurers, exercising professional care and skill in so doing. An insurance broker is usually appointed by a corporate client through an official letter of appointment.

4.15 Unlike an agent, a broker is free to place his business with any number of general insurers. The broker's duty is to provide the client with independent expert advice on a wide range of insurance matters. These include identifying the best type of cover to meet the client's insurance needs, and providing assistance when an insured makes a claim. The broker has to exercise due care and diligence in understanding and satisfying the insurance requirements of the client, and take all reasonable steps to act fairly in the interests of the client. Although insurance buyers may deal with insurers directly, the vast majority of commercial businesses (i.e. insurance covers bought by companies) are usually transacted through licensed brokers. The complexity of many commercial risks and the large premiums involved often render a broker's service invaluable to the insured. As mentioned earlier, insurance agents are remunerated by the insurers in the form of commission. On the other hand, brokers receive brokerage from the insurers with whom the brokers place their clients' insurance business. Some brokers also charge fees for professional advice and service rendered to their clients.

4.16 As required under Section 35Y of the Insurance Act (Cap. 142), an insurance broking company, apart from meeting the minimum prescribed paid-up share capital requirement, must have in force a Professional Indemnity Insurance policy under which a person is indemnified in respect of the liabilities arising out of or in the course of his business as an insurance broker. Details are specified in the Insurance (Intermediaries) Regulations.

4.17 According to the MAS Guideline No: IA/II-G04 on "Criteria For The Registration Of An Insurance Broker", the Chief Executive Officer (CEO) and Executive Directors of an insurance broking company should have at least five years of

relevant working experience. They should also have satisfactory academic and/or professional qualifications. In addition, the CEO should have at least three years of managerial experience in the relevant field.

- 4.18 An applicant (the insurance broking firm) should satisfy the MAS that it meets the fit and proper criteria set out in FSG-G01 on "Guidelines on Fit and Proper Criteria" issued by the MAS. An applicant should also satisfy the MAS that all of its directors, officers, broking staff, employees and substantial shareholders meet the fit and proper criteria as set out in FSG-G01 on "Guidelines on Fit and Proper Criteria" issued by the MAS.

B1. Classification Of Insurance Brokers

- 4.19 Currently, insurance brokers in Singapore are generally classified under the following categories:
- direct insurance broker, to carry on general business and long-term accident and health policies;
 - general reinsurance broker, to carry on general reinsurance broking business;
 - life reinsurance broker, to carry on life reinsurance business; or
 - insurance broker, to carry on any combination of the above.
- 4.20 Key differences between a general insurance agent and a broker are highlighted in **Appendix 1A** of this chapter.

C. Lloyd's Brokers

- 4.21 Lloyd's (for more information on Lloyd's, refer to the later section of this chapter) underwriters do not generally deal directly with policyholders. Insurance business is generally brought in by brokers that have been accredited (by Lloyd's) to place insurance risks at Lloyd's. Hence, if a policyholder wishes to insure its risks at Lloyd's, the risks must be placed through a Lloyd's broker, which will have to satisfy the Committee of Lloyd's as to its experience, integrity and financial standing in the insurance market. A Lloyd's broker may also place business with other insurance companies in the insurance market.
- 4.22 Business is conducted on a face-to-face basis between the Lloyd's brokers and underwriters in the Underwriting Room. Much of the business at Lloyd's is placed on a subscription basis, whereby more than one syndicate takes a share of the same risk. Hence, a broker will usually negotiate and agree terms of a risk with one underwriter, before proceeding to place the rest of the risk with underwriters from other syndicates.
- 4.23 In Singapore, the Insurance Act (Cap. 142) requires that any broker who wishes to place business with a foreign insurer under a foreign insurer scheme (such as the Lloyd's Asia Scheme) will have to obtain a licence from the MAS. The Lloyd's Asia Scheme is a foreign insurer scheme that has been established since 1st February 2002 under Part IIA of the Insurance Act (Cap. 142) in accordance with the Insurance (Lloyd's Asia Scheme) Regulations. This Scheme replicates in Singapore the Lloyd's insurance marketplace. Lloyd's members may carry on

insurance business in Singapore through locally-incorporated service companies which are registered with the Administrator of the Scheme. Lloyd's of London (Asia) Pte Ltd is the approved Administrator of the Scheme.

D. Reinsurance Brokers

4.24 Reinsurance brokers are intermediaries and consultants to insurance companies (insurers) and reinsurance companies (reinsurers). They advise insurers and reinsurers on the risk transfer aspects of their insurance or reinsurance business. Reinsurance brokers also help their clients in the design and structuring of reinsurance placed with reinsurers. The process of providing reinsurance solutions usually involves a wide range of activities, from analysing the clients' insurance portfolios to seeking out reinsurance markets, that are able to provide the desired capacity or protection at competitive pricing and attractive terms.

5. THE SELLERS



5.1 Insurers in Singapore are licensed and governed under the Insurance Act (Cap. 142). Insurers may carry on insurance business in Singapore as licensed insurers or foreign insurers. Licensed insurers can carry on direct life and/or general business, life and/or general reinsurance business or captive insurance. Foreign insurers operate in Singapore under a foreign insurer scheme established under Part IIA of the Insurance Act (Cap. 142). Currently, there are two foreign insurer schemes in Singapore: The Lloyd's Scheme and the Lloyd's Asia Scheme.

5.2 Authorised reinsurers and Approved Marine, Aviation and Transit ("MAT") insurers do not have a physical presence in Singapore. Authorised reinsurers can carry on the business of providing the reinsurance of liabilities under insurance policies to persons in Singapore. They can be authorised as general reinsurers and/or life reinsurers. MAT insurers do not write insurance business, other than the collection or receipt of premiums in relation to MAT insurance business.

A. Direct Insurers

5.3 These are insurance companies that exist primarily to provide insurance protection to insurance buyers in Singapore.

- 5.4 Both domestic and foreign direct insurers do business in Singapore. Most foreign insurers are British, European or American companies. Several Asian insurers also operate in this country. All insurance companies operating in Singapore must be licensed under the Insurance Act (Cap. 142), and are regulated and supervised by the MAS. All insurance companies are classified according to the class of insurance business that they underwrite – general or life insurance. Some insurance companies underwrite and sell both general and life insurance products, and they are known as composite insurers.

B. Reinsurers

- 5.5 These are companies who act as insurers to direct insurers. They are licensed in Singapore and are restricted to carrying out life reinsurance and/or general reinsurance business in Singapore. They are not permitted to write direct business and are only allowed to assume all or part of the insurance or reinsurance risks written by another insurer. They do not deal with the general public; instead, they liaise with the direct insurers directly or through reinsurance intermediaries (reinsurance brokers).
- 5.6 Under the Insurance (Authorised Reinsurers) Regulations of the Insurance Act (Cap. 142), overseas reinsurers may apply for authorisation in respect of life and/or general reinsurance business. Once authorised, they are allowed to solicit business and collect premiums from insurers in Singapore.
- 5.7 The insurer that transfers the risks is known as the ceding company, the cedant or the reinsured. Reinsurers also transfer some of their risks to other reinsurers. This process of risk transfer is known as retrocession. The assuming reinsurer is called the retrocessionaire, while the ceding reinsurer is called the retrocedent.

C. Lloyd's Of London

- 5.8 Lloyd's is not a single insurance company. Instead, it is a specialist insurance market created in 1871 by an Act of Parliament in England (called the Lloyd's Act). Lloyd's does not write insurance business, but merely provides the infrastructure, including the premises and facilities for its "underwriting" members to conduct insurance business.



C1. How Does Lloyd's Operate?

- 5.9 The insurance business at Lloyd's is transacted by thousands of underwriting members, also known as names. Until 1994, only individual members were admitted as underwriting members with unlimited liability. This meant that all members were personally liable for their share of the risks accepted to the full extent of their personal wealth. From January 1994, corporate capital was introduced, so that the resources of corporate investors, such as investment institutions, specialist investors, international insurance companies, would help to strengthen the capital base of Lloyd's. Unlike individual underwriting members, corporate members have limited liability in respect of the business

written. The majority of the underwriting capacity at Lloyd's today is provided by these corporate members.

- 5.10 The underwriting members are grouped into syndicates, with each syndicate comprising a few to several hundreds members, specialising in a particular class of business. The risks underwritten at Lloyd's can broadly be grouped into the main classes of insurance business, including accident & health, aviation, casualty, energy, marine, motor, property, and reinsurance.
- 5.11 The underwriting syndicates are in turn managed by managing agents, which are companies set up to manage one or more syndicates, on behalf of the members (or capital providers). The managing agent employs the underwriting staff and handles the day-to-day running of a syndicate's infrastructure and operations.

C2. How Is Lloyd's Regulated?

- 5.12 Lloyd's is regulated by the UK Financial Conduct Authority (FCA) and the Prudential Regulation Authority (PRA) under the Financial Services and Markets Act 2000. Lloyd's managing agents are also dual-regulated by the FCA and the PRA. Members' agents and Lloyd's brokers are regulated by the FCA. The FCA, the PRA and Lloyd's have common objectives in ensuring that the Lloyd's market is appropriately regulated. To minimise duplication, there are arrangements (co-operation agreements) with Lloyd's for co-operation on supervision and enforcement.

C3. How Are Claims Made At Lloyd's?

- 5.13 As usual, the policyholder will contact its Lloyd's broker when making a claim on the policy. The broker then makes an initial estimate on which the insurance policy will apply and how much the claim will cost. This estimate may be based on information gathered by a claims adjuster who has been engaged by the lead managing agent.
- 5.14 The broker presents the claim to the lead underwriter and to a central service provider, both of whom will review the claim on behalf of the following underwriters.
- 5.15 The claims adjuster will then appoint a loss adjuster to investigate the claim. After the investigation, the loss adjuster reports back to the lead managing agent with its findings. This information is reviewed with the broker, and the final claim is agreed. Each syndicate then pays the policyholder its proportion of the agreed claim amount.

D. Captive Insurers

- 5.16 Captive insurers are licensed in Singapore to insure principally the risks of their parents and related companies as defined under Section 6 of the Companies Act (Cap. 50). Normally, they are subsidiaries of, or wholly-owned by large

multinational corporations, whereby the parent and the related companies will first purchase insurance covers from their own captive insurers, who then transfer part of the risks to the reinsurers.

- 5.17 There are several advantages of forming a captive insurer. Some of these include:
- The parent and the related companies can price their risks based on their own loss experience, instead of paying the premium that a direct insurer charges. As such, they can avoid paying for operating expenses and profits to a direct insurer, and thus keep their insurance costs low.
 - Captive insurers can tap directly into the reinsurance market without going through the direct insurers. Hence, the parent and the related companies of a captive insurer have access to much lower costs of reinsurance. Besides, the premiums paid to the captive company are deductible as business expenses. As a result, the parent and the related companies pay less corporate tax.
- 5.18 Singapore has become an attractive place for captive insurance companies and currently hosts a number of such companies. One such example is SembCorp Captive Insurance Pte Ltd, being a wholly-owned subsidiary of SembCorp Industries.
- 5.19 However, establishing a captive insurance company requires a substantial amount of initial capital, to ensure that the company remains financially healthy during tumultuous times.

E. Co-operatives



- 5.20 Co-operatives are business organisations owned by members who use their services. The members of the co-operatives are people, or groups of people, who need and use the services and products that a co-operative provides. If the co-operative is created to provide work, the workers are the member-owners. If the co-operative is created to purchase goods and services, the consumers (buyers) are the members.
- 5.21 A co-operative can also be set up to provide the insurance needs of its members. All policyholders of the insurance co-operative are the members and co-owners of the company. Interests of the co-operative's policyholders are placed foremost, instead of maximising profits for shareholders. A portion of the company's operating profits is, from time to time, distributed to its policyholders in the form of policy dividends.
- 5.22 In Singapore, there is currently one such insurance co-operative, namely NTUC Income Insurance Co-operative Limited, which is also a composite insurer, transacting both life and general insurance businesses.



F. Marine Mutuals

- 5.23 It is common for shipowners or other maritime operators to come together to form an insurance mutual that provides various types of insurance, including purchasing reinsurance protection, to cover the risks of the group. These insurance mutuals are commonly referred to as marine mutuals. These mutuals are typically called “Clubs”; for example Protection and Indemnity Clubs (P&I Clubs), Hull Clubs and War Risks Clubs. These Clubs are differentiated by the types of cover that they provide. P&I Clubs are essentially associations of shipowners that agree to insure each other for third-party liabilities on an indemnity basis.
- 5.24 These mutuals are an important part of the maritime sector, providing capacity and insurance cover to maritime operators. Similar cover may also be provided on a non-mutual basis.
- 5.25 A marine mutual insurer is licensed under the Insurance Act (Cap. 142) as a direct insurer, permitted to carry on marine mutual insurance business only.

6. DISTRIBUTION CHANNELS

- 6.1 Apart from using intermediaries, such as agents and brokers, insurers are using alternative distribution channels to market their products, as a means to balance the needs of different groups of consumers against the cost of distributing their products and services.

A. Bancassurance

- 6.2 Banks, including finance companies, with their huge database of customers, sell insurance through a network of branches. Almost all of the local banks in Singapore own or have partnership agreements with insurance companies.
- 6.3 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 distribute insurance products, most of which are personal lines.
- 6.4 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. They are also required to pass the relevant licensing examinations, before they can sell insurance or provide insurance-related advice.
- 6.5 Banks also make use of their websites to sell personal lines products, such as Card Protection Insurance, Golfer’s Insurance, Household Insurance, Private Motor Car Insurance and Travel Insurance. Some banks even offer Travel Insurance products through their ATM networks.

B. Online Internet Portals

- 6.6 In recent years, Singapore has seen the entry of direct-to-consumer insurance companies, such as Direct Asia Insurance selling products such as individual motor, motorcycle and travel insurances. Its business model entails direct underwriting via an online platform, supported by a fully-staffed call or contact centre (operating 24 hours, every day of the week) and a full-fledged claims department.
- 6.7 General insurers will sell individual products through their own informative websites, which can provide quotations and accessibility to web brochures, proposal forms and policy wordings for downloading. They also provide information on claim procedures and access to claim forms.
- 6.8 Please also refer to the Direct Marketing section in this chapter.
- 6.9 Other alternative distribution channels used by some insurers for certain personal lines are credit card providers, leading retailers (particularly those selling electrical and electronic items, and mobile devices), post offices, self-service terminals, such as AXS Stations and iNETS Kiosks, and mobile phone apps.

**C. Web Aggregators**

- 6.10 A web aggregator is intended as a way to leverage on technology to make it easier for consumers to compare products. Web aggregators compile and provide information about insurance policies of various insurance companies on a website. Web aggregators are different from other distribution channels, as they are designed to be a self-help tool for the customers. Launched on 7 April 2015, the “compareFIRST” portal being a joint effort by the Consumer Association of Singapore (CASE), Life Insurance Association, Singapore (LIA), MAS and MoneySENSE is an example of a web aggregator. The website allows consumers to compare the life insurance products of different companies, thus significantly improving the transparency of the insurance industry.
- 6.11 Direct Purchase Insurance (DPI) can now be purchased directly from customer service counters, or websites of life insurance companies. The rationale behind this is that DPI premiums are lower than comparable life insurance products, because they are sold without any involvement of a broker/agent providing financial advice, and therefore not inclusive of any commission.
- 6.12 DPIs are offered by all life insurance companies which cater to retail customers. Consumers may purchase DPI, which can be identified by the prefix “DIRECT” in their product name, from the customer service centres or websites (if available) of insurance companies.
- 6.13 There are also web aggregators for general insurance products, such as “Gobear”. For example, personal lines, such as Health Insurance, Travel Insurance and Private Motor Car Insurance are usually displayed and promoted

by the web aggregators. These web aggregators tend to be personal insurance comparison sites designed to make it easier for customers to shop for and compare selected insurers' quotes and terms for Motor, Travel, Health Insurance, etc. Certain web aggregators work directly with the major insurers and intermediaries in Singapore, so that products can be easily bought at one place.

7. DIRECT MARKETING

- 7.1 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 more information to be collected 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 for the insurers to harness the power of information technology. Insurers can then execute segment marketing to focus on customised products for niche target groups, since they already have ongoing business relationship with these existing policyholders.
- 7.2 Intending insureds self-declare the required information in the simplified online proposal forms. Insurance product quotations and policy wordings are made available online. Payment of premiums is instant, made easy through online payment via credit cards.
- 7.3 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 call customers to advise and market personal insurance products, as well as help to file claims on behalf of clients.

8. INSURANCE TRADE ASSOCIATIONS

- 8.1 In Singapore, the main insurance trade associations are:
- General Insurance Association of Singapore (GIA);
 - Life Insurance Association of Singapore (LIA);
 - Singapore Insurance Brokers' Association (SIBA);
 - Singapore Reinsurers' Association (SRA);
 - Reinsurance Brokers' Association (Singapore) (RBAS);
 - Loss Adjusters' Association (Singapore) (LAAS);
 - Association of Financial Advisers (Singapore) [AFA(S)];
 - Insurance and Financial Practitioners Association of Singapore (IFPAS);
 - Association Of Singapore Insurance Agents (ASIA); and the
 - Insurance Law Association, Singapore (ILAS).
- 
- 8.2 Associations act as forums for members to discuss and exchange views on matters of common interest, and to make representations to the relevant

authorities, where necessary. A brief description of each of these associations and their objectives is given below:

A. General Insurance Association Of Singapore (GIA)

- 8.3 The General Insurance Association of Singapore (GIA) represents general insurance companies in Singapore. The GIA's role is to be active in the business community representing the interests of its member companies, as well as to help to identify emerging trends and respond to issues affecting the general insurance industry. It seeks to promote the overall growth and development of the general insurance sector in Singapore.
- 8.4 The GIA is headed by an elected Management Committee and President. It has also set up Standing Committees, such as the Motor Committee, Work Injury Compensation (WIC) Committee, Insurance Fraud Committee, Marine Committee, Non-Marine Committee, and Special Risks Pool (SRP), to focus on various initiatives from enhancing claims handling procedures to introducing industry standards relating to WIC, etc.
- 8.5 The GIA acts as the regulatory body for general insurance agents in Singapore through the ARB. As specified in the Notice No: MAS 211, ARB is defined as the board set up by the GIA to register any general insurance agent acting for one or more licensed insurers carrying on general business.
- 8.6 The ARB acts as a sanctioning body for agents and nominee agents who fail to comply with CPD requirements, or breach the regulations or other misconduct under its purview. It is also the standard-setting body for providing best practices and guidelines to the Ordinary Members of the GIA on agency management.
- 8.7 In addition, the GIA has been involved in many projects and events on consumer education, creating industry awareness and developing talent in the industry.

B. Life Insurance Association Of Singapore (LIA)

- 8.8 The Life Insurance Association of Singapore (LIA) is a not-for-profit trade body of life insurance product providers and life reinsurance providers based in Singapore and licensed by the MAS. It is committed to promoting a progressive life insurance industry by collectively enhancing consumer understanding, promoting industry best practices, and through the association fostering a spirit of collaboration and mutual respect with the government and business leaders.

C. Singapore Insurance Brokers' Association (SIBA)

- 8.9 The Singapore Insurance Brokers' Association (SIBA) is a trade association comprising international and Singapore insurance brokers. SIBA advances professional insurance broking and fosters public confidence in insurance brokers. It sets minimum standards of education and experience, and also

ensures that insurance brokers undertake ongoing development and training, to maintain and enhance their capabilities and professionalism.

D. Singapore Reinsurers' Association (SRA)

8.10 SRA's members comprise all major non-life reinsurance companies with a presence in Singapore, as well as some other regional reinsurers. It collectively represents its members in matters affecting their interests in the reinsurance business and aims to upgrade reinsurance expertise in Singapore, by promoting education and training in all aspects of the industry, including being one of the organisers of the Singapore International Reinsurance Conference (SIRC).

E. Reinsurance Brokers' Association (Singapore) (RBAS)

8.11 The Reinsurance Brokers' Association (Singapore) (RBAS) represents reinsurance brokers licensed in Singapore. RBAS supports the professional efforts of its members. It also supports the development of Singapore as the leading regional reinsurance centre in Asia. It encourages regular communications among regulators, members and markets.

F. Loss Adjusters' Association (Singapore) (LAAS)

8.12 The Loss Adjusters' Association (Singapore) (LAAS) represents loss adjusting firms in Singapore. It advances the study and practice of loss adjusting among members, and co-operates with the relevant authorities on matters relating to the rules and regulations affecting the loss adjusting profession.

G. Association Of Financial Advisers (Singapore) [AFA(S)]

8.13 The Association of Financial Advisers (Singapore) – AFA(S) represents relevant licensed Financial Advisers (Firms) that provide advice on and engage in sales of Financial Products (Exempt Financial Advisers Companies are excluded). AFA(S) aims to provide a forum for its members, to develop opinions, recommendations and educational programmes, which can contribute to the further development of the financial services industry for the benefit of the Singapore public.

H. Insurance And Financial Practitioners Association Of Singapore (IFPAS)

8.14 IFPAS is an association for financial services and insurance practitioners dedicated to upholding the ethical and professional standards of the industry. IFPAS advances the interests of its members by representing their views on legislative, regulatory and policy-related matters. It keeps members informed of new developments and provides them with a forum to air their views on industry issues. It also acts as a channel of communication between members and other industry bodies, and regulatory authorities.

I. Association Of Singapore Insurance Agents (ASIA)

- 8.15 The Association of Singapore Insurance Agents (ASIA) represents registered general insurance agents in Singapore. ASIA provides a platform for members to exchange views, ideas and concerns on matters affecting the general insurance industry. It also updates members of latest developments in the insurance industry and acts as a centralised communication vehicle for dissemination of information to its members.

J. Insurance Law Association, Singapore (ILAS)

- 8.16 The Insurance Law Association, Singapore (ILAS) comprises members not only from the legal profession but also those from the insurance industry. It focuses on legal matters arising out of Singapore and other countries, insofar as they affect any branch of insurance. It hosts seminars and talks featuring insurance experts from Singapore and the region, thereby enhancing Singaporean insurance practitioners' knowledge and expertise of insurance law.

**9. OTHER INSURANCE BODIES**

- 9.1 Apart from the market associations, there are other insurance bodies that exist in Singapore. Some of these are outlined below:

A. Financial Industry Disputes Resolution Centre Ltd (FIDReC)

- 9.2 The Financial Industry Disputes Resolution Centre Ltd (FIDReC) is an independent and impartial institution specialising in the resolution of disputes between financial institutions and consumers.

- 9.3 FIDReC provides an affordable and accessible one-stop avenue for consumers to resolve their disputes with financial institutions. It also streamlines the dispute resolution processes across the entire financial sector of Singapore. FIDReC's services are available to all consumers who are individuals or sole proprietors. It does not handle complaints on commercial decisions, pricing policies, as well as complaints on other policies, such as interest rates and fees.

**B. Singapore College Of Insurance (SCI)**

- 9.4 The Singapore College of Insurance (SCI) is a not-for-profit professional training and education body set up in 1974, as part of Singapore's efforts to develop as a financial hub. Since its inception, the SCI has remained focused in its efforts to upgrade the technical expertise of insurance and financial services practitioners, and to provide them with professional advancement opportunities, through its series of practice-oriented programmes and internationally-accredited qualifications. Since the late 1970s, the SCI has also played the role of an industry examination body to conduct regulatory examinations for those wishing to join the financial advisory, life and general insurance industries. The SCI also publishes a wide range of life and general insurance and financial

planning textbooks to address the education and training needs of the industry. In recent years, the SCI has also expanded its role to include talent development programmes that have succeeded in attracting and placing numerous fresh tertiary talent into the various functions in the industry.

C. Singapore Insurance Institute (SII)

9.5 The Singapore Insurance Institute (SII) is a professional membership body for professionals in insurance and financial services. The SII organises talks, discussion groups and other activities and events to upgrade the professionalism of its members, as well as social and sports activities to promote interactions among its members. All SII members are required to observe a Code of Conduct. SII may exercise its disciplinary powers to reprimand, suspend or cancel the membership of members who violate the Code.

10. RATING AGENCIES

10.1 Rating agencies play an increasingly important role in the capital markets today, by providing an independent assessment and opinion on the overall financial capacity or credit worthiness of financial institutions that issue a broad range of capital market instruments, such as debt obligations, securities, etc. These ratings typically categorise the financial institutions into different bands represented by letter grades (e.g. AAA, AA, A, BBB, BB, etc.) that reflect the rating agency's opinion on the relative credit worthiness of institution, in terms of likelihood of default, credit stability, ability or willingness to meet its financial obligations, etc.

10.2 In the case of insurance ratings, the rating will typically reflect an independent assessment of the insurer's financial strength and ability to meet its ongoing insurance policy and contract obligations. Such ratings may help an insurance or reinsurance buyer or broker to make an informed decision on their choice of insurance or reinsurance carrier.

10.3 In assessing the rating of an insurer or reinsurer, the rating agency will typically analyse a broad range of factors, including:

- industry risks;
- competitive position;
- management and corporate strategy;
- operating performance;
- investment;
- liquidity;
- capitalisation; and
- financial flexibility.



10.4 Although it is becoming increasingly common for insurers and reinsurers worldwide to carry an insurance rating, it should be noted that companies are at

liberty to decide whether or not to obtain a rating. Hence, not all companies are rated.

- 10.5 Both insurers and reinsurers use these ratings to assess the security of reinsurers with whom they place business. They also use these ratings in the marketing of their organisations.
- 10.6 Some of the major rating agencies that provide insurance ratings include Standard & Poors; A.M. Best; Fitch Ratings; and Moody's.

11. INSURANCE REGULATION & INSTRUMENTS ISSUED BY MAS

- 11.1 The insurance industry in Singapore belongs to a larger financial sector that is made up of a large and diversified group of local and foreign financial institutions offering a wide range of financial products and services. These include trade financing, foreign exchange, derivatives products, capital market activities, loan syndication, mergers and acquisitions, asset management, securities trading, and financial advisory services.
- 11.2 The Insurance Department, under the Financial Supervision Group of the MAS, supervises and regulates insurance companies, and has as its primary objective the protection of policyholders' interests. The Department adopts a risk-focused approach in the prudential and market conduct supervision of insurance companies. In its standards setting role, the Department works closely with the industry associations to promote the adoption of best practices by the industry.

A. Classification Of Instruments Issued By MAS

- 11.3 The sections below show the classification of instruments adopted by the MAS.
- Acts
 - Subsidiary Legislation
 - Directives
 - Notices
 - Guidelines
 - Codes
 - Practice Notes
 - Circulars
 - Policy Statements



A1. Acts

- 11.4 The Acts contain statutory laws under the purview of the MAS passed by Parliament. These have the force of law and are published in the Government Gazette. Examples are the Banking Act (Cap. 19), Deposit Insurance And Policy Owners' Protection Schemes Act (Cap. 77B), Financial Advisers Act (Cap. 110) and Insurance Act (Cap. 142) among others.

A2. Subsidiary Legislation (Which Includes Regulations, Orders, Declarations & Notifications)

11.5 Subsidiary legislation is issued under the authority of the relevant Acts and typically provides greater detail of the provisions of an Act, and spells out in greater detail the requirements that financial institutions or other specified persons (for example, financial adviser representatives) have to adhere to. Subsidiary legislation has the force of law and may specify that a contravention is a criminal offence. They are also published in the Government Gazette. Examples are the Insurance (Lloyd's Asia Scheme) Regulations, Insurance (Actuaries) Regulations, and Insurance (Nomination of Beneficiaries) Regulations 2009.

A3. Directions

11.6 In addition, the MAS is empowered to issue Directions, which detail specific instructions to financial institutions or other specified persons to ensure compliance. These Directions have legal effect; meaning that the MAS can specify whether a contravention of a direction is a criminal offence.

11.7 Directions consist of the following:

- Directives - primarily impose legally binding requirements on an individual financial institution or a specified person; and
- Notices - primarily impose legally binding requirements on a specified class of financial institutions or persons. An example is the Notice No.: MAS 211 on Minimum And Best Practice Training And Competency Standards For Direct General Insurers.

A4. Guidelines

11.8 Guidelines set out principles or "best practice standards" that govern the conduct of specified institutions or persons. While contravention of guidelines is not a criminal offence and does not attract civil penalties, specified institutions or persons are encouraged to observe the spirit of these guidelines. The degree of observance with guidelines by an institution or a person may have an impact on the MAS overall risk assessment of that institution or person. Examples are the Technology Risk Management Guidelines for Financial Institutions, and the Guidelines on Standards of Conduct for Insurance Brokers.

A5. Codes

11.9 Codes set out a system of rules governing the conduct of certain specified activities. Codes are non-statutory and do not have the force of law. However, a breach of a Code may attract certain non-statutory sanctions like private reprimand or public censure. An example is the Code of Conduct for Credit Rating Agencies. A failure to abide by a Code does not in itself amount to a criminal offence, but may have certain consequences.

A6. Practice Notes

11.10 Practice Notes are meant to guide specified institutions or persons on administrative procedures relating to, among others, licensing, reporting and compliance matters. Contravention of a practice note is not a criminal offence, unless a procedure stated in the practice note is also required by an Act or regulation.

A7. Circulars

11.11 Circulars are documents which are sent to specified persons for their information, or are published on the MAS Website for public information. Circulars have no legal effect.

A8. Policy Statements

11.12 Policy statements outline broadly the major policies of the MAS.

11.13 Details of these instruments relating to the financial services industry can be obtained from the MAS Website at: <http://www.mas.gov.sg/>

12. NOMINATION OF BENEFICIARIES FOR PERSONAL ACCIDENT & HEALTH INSURANCE POLICIES

12.1 The insurance nomination law, Insurance (Nomination of Beneficiaries) Regulations 2009, under the Insurance Act (Cap. 142) came into effect on 1 September 2009. This law gives policy owners two options when nominating beneficiaries under their policies for Life Insurance, Personal Accident (PA) Insurance, as well as Health Insurance (such as Critical Illness Insurance or Dread Disease Insurance, where there is coverage of death benefit). They can choose to make a revocable nomination or a trust nomination, to ensure that the death proceeds under such policies are distributed to their beneficiaries in accordance with their wishes made during their lifetime.

12.2 With a revocable nomination in accordance with Section 49M of the Insurance Act (Cap. 142), the policy owner continues to retain full ownership of the policy. He retains the right to change, add or remove nominated beneficiaries at any time without the consent of the nominated beneficiaries. The policy owner will receive living benefits, and only death benefits will be paid to the nominated beneficiaries.

12.3 With a trust nomination, also known as irrevocable nomination, in accordance with Section 49L of the Insurance Act (Cap. 142), the policy owner relinquishes all rights to the policy. This means that, while he is still obliged to pay the premiums due, all policy benefits (whether living and/or death) belong to the nominated beneficiaries. The policy owner can regain his rights to own the policy benefits only with the written consent of all nominated beneficiaries. Only a spouse or child of the policy owner is eligible to become a nominated

beneficiary in this respect. An advantage of such a nomination is that the policy proceeds are protected from the creditors in the event of bankruptcy.

13. DEPOSIT INSURANCE AND POLICY OWNERS' PROTECTION SCHEME ACT 2011

13.1 The Policy Owners' Protection Scheme, created by the Deposit Insurance and Policy Owner' Protection Act 2011, that came into effect on 1 May 2011, is an additional safety net that protects the interests of policy owners or policyholders in the event that an insurer fails. The scheme encompasses a Policyholders' Protection Fund (PPF), administered by Singapore Deposit Insurance Corporation Limited (SDIC). SDIC is a company limited by guarantee under the Companies Act (Cap. 50). The board of directors is accountable to the Minister in charge of the MAS.

13.2 All insurance companies are regulated entities in Singapore. The scheme provides added assurance that there is compensation available for policy owners, to reduce the financial impact on individuals in the event that an insurer defaults.

13.3 The scheme relating to general insurance provides 100% coverage for the types of general insurance policies covered under the scheme. No capping limit is applicable for protection of the general insurance policies. Coverage is automatic, and there is no charge to any policyholder. Levies are paid by the insurers.

13.4 All compulsory insurance policies under the Motor Vehicles (Third-Party Risks and Compensation) Act (Cap. 189) and Work Injury Compensation Act (Cap. 354), and Singapore policies of specified lines issued by registered general insurers that are scheme members are covered under the scheme. A Singapore policy insures risks arising in Singapore, or where the insured is a Singapore resident, or has a permanent establishment in Singapore.

13.5 The specified lines covered are:

- Private Motor Insurance policies;
- Personal Travel Insurance policies;
- Personal Property (structure and contents) Insurance policies;
- Foreign Domestic Worker Insurance policies; and
- Individual and Group (short-term) Accident and Health Insurance policies.



13.6 General insurance policies that are not within the specified lines are not covered. Hence, Property (structure and contents) Insurance policies issued to non-individuals are not covered. Also, tuition fee protection policies issued to individuals are not covered.

13.7 Insurers will disclose, in their marketing materials and policy documents, the relevant types of general insurance policies covered under the scheme.

- 13.8 All insurers registered by the MAS that carry out direct general business (other than captive or specialist insurers) are PPF Scheme Members. Details of the scheme and its Members are available on the SDIC Website at: <http://www.sdic.org.sg>

14. PREMIUM PAYMENT FRAMEWORK

- 14.1 The Premium Payment Framework is a code, jointly issued by the General Insurance Association of Singapore (GIA) and the Singapore Insurance Brokers Association (SIBA), that came into effect on 1 September 2016. Its purpose is to establish rules for premium payment management in general insurance. This single set of code will jointly apply to insurers and intermediaries.

- 14.2 The objectives of the Premium Payment Framework are to:
- improve efficiency in the collection of premiums for general insurance policies; and
 - minimise the possibility of disputes between insurers and policyholders.

- 14.3 To facilitate the collection of premiums from policyholders, three types of premium payment warranties are incorporated into policies issued by insurers who are members of GIA:
- Payment Before Cover Warranty;
 - Premium Payment Warranty; and
 - Premium Instalment Payment Warranty.

A. Payment Before Cover Warranty

- 14.4 The Payment Before Cover Warranty applies to the following:
- Personal Lines policies; or
 - Bonds.
- 14.5 A Personal Lines policy or a Bond shall not be in force, unless the premium is paid to the insurer or intermediary on or before the date of inception of the policy or Bond.
- 14.6 In the event that the total premium due is not paid to the insurer or the intermediary on or before the inception date or the renewal date of the policy or Bond, then no benefits whatsoever shall be payable by the insurer. Any payment received thereafter shall be of no effect whatsoever, as the cover has not attached.

B. Premium Payment Warranty

- 14.7 The Premium Payment Warranty applies to policies issued for ALL classes of general insurance relating to commercial lines transacted by insurers or intermediaries.

- 14.8 Under the warranty, if the period of insurance is more than 60 days, the policyholder is required to pay the premium due under the policy in full, within 60 days from the date of inception of the policy. If this warranty is not complied with, then the policy is automatically terminated from the expiry of the 60-day period, and the insurer will be entitled to a pro-rata premium for the 60-day period that the insurer has been on risk. If the period of insurance is less than 60 days, then the insured is required to pay the premium due under the policy in full, within the period of insurance.
- 14.9 Under the Premium Payment Framework, commercial lines refer to commercial general insurance, but it excludes the following types of policies:
- Marine Cargo
 - Marine Hull
 - Marine Liabilities
 - Aviation
 - Bonds
 - Trade Credit
 - Political Risk
 - Global/Regional Programmes

C. Premium Instalment Payment Warranty

- 14.10 The Premium Instalment Payment Warranty also applies to policies issued for all classes of general insurance relating to commercial lines business transacted by insurers or intermediaries.
- 14.11 Under this warranty, insurers are at liberty to schedule payments provided that:
- the first instalment must be paid within 60 days from the commencement of the policy; and
 - the remaining instalments shall be paid by the subsequent due dates.
- 14.12 There are also provisions (similar to that in the Premium Payment Warranty) in that the automatic termination of the policy applies, and that the insurers are entitled to the pro rata premium if the premiums are not paid within the respective premium due dates.

D. Practices Applicable to Commercial Lines Business

- 14.13 Intermediaries are given 60 days from the inception date of the new or renewal policy or their respective endorsements, to collect the premiums from their policyholders.
- 14.14 If the intermediaries are unable to collect the premiums from their policyholders within 60 days from the inception date of the New Policy, Renewal Policy or the applicable endorsement, the policy or endorsement will automatically terminate effective from the 61st day of cover.
- 14.15 In addition:
- The intermediaries must notify the policyholders immediately by fax, e-mail and/or mail, of the cessation of cover, copied to the insurers.

- Whether the liability or claim is incurred or not by the insurers within the 60-day period, the policyholders are liable to pay pro rata time on risk premiums.
- Intermediaries are required to notify the insurers of the policyholders who have breached the Premium Payment Warranty within five working days of the breach.
- If the intermediaries notify the insurers within five working days of the breach, the intermediaries will not be liable for the collection of the time on risk premiums.
- If the intermediaries do not notify the insurers within five working days of the breach, then the intermediaries will be liable for the collection of the time on risk premiums.

14.16 As for other practices applicable to commercial lines, please refer to **Appendix 1B**, where the complete Premium Payment Framework can be found.

E. Re-marketing After Cancellation Due To Breach Of Premium Payment Warranty

14.17 To avoid an abuse of the system by cancelling covers and placing through other intermediaries or with other insurers, all intermediaries and insurers (for direct accounts) shall insert declarations in the quotation slips and insurance policies to the effect that policies applied for have not been in whole or in part terminated by another insurer due to non-payment of premiums in the last 12 months.

14.18 If the policyholder declares a breach of Premium Payment Warranty in the last 12 months, confirmation must have been first received from the insurer of the previous policy that time on risk premiums have been paid before cover incepts.

F. Suspension And/Or Reinstatement Of Cover If Payment After Breach

14.19 When premium, including the time on risk premium, is paid by the policyholder after the period or date allowed under the Premium Payment Warranty, insurers will suspend cover from the date of breach to the date of payment.

14.20 Insurers may reinstate cover from the date of receipt of full payment to the original expiry date. Alternatively, insurers can allow the policy to lapse and issue a fresh replacement policy.

Key Differences Between A General Insurance Agent & An Insurance Broker

Type	Insurance Agent	Insurance Broker
Registration/ Licensing Regime	Registered under the Agents' Registration Board (ARB) of the General Insurance Association of Singapore (GIA) – also applicable to any nominee agent.	Licensed under the Insurance Act (Cap. 142) administered by the Monetary Authority of Singapore (MAS).
Representation	Up to three principals (insurers) – normally representing the insurer.	Any number of insurers – normally representing the insured.
Appointment	Agency Agreement with the insurer as specified under Section 35M of the Insurance Act (Cap. 142).	Letter of Appointment by the insured.
Remuneration	Commission.	Brokerage or Fee.
Professional Indemnity Insurance Requirement	None.	Yes, for an insurance broking company in accordance with Section 35Y of the Insurance Act (Cap. 142) and the Insurance (Intermediaries) Regulations.
Minimum Paid-up Share Capital	Agency Company: S\$25,000 (Corporate Agent)	Insurance Broking Company: S\$300,000

Premium Payment Framework [1 September 2016]

1. Objective of the framework

To establish rules for premium payment management in general insurance.

2. Definitions

For ease of reference and clarity, the definitions of some important terms used in this paper are given below.

Personal Lines	Policies issued to any individual.
Commercial Lines	Policies issued for all classes of general insurance for businesses and commercial establishment (with the exception of marine cargo policies, marine hull policies, marine liabilities policies, aviation policies, bonds, trade credit policies, political risk policies and global/regional programmes).
Intermediaries	Refers to general insurance agents and insurance brokers as stipulated in the Insurance Act (Cap 142).
Global/Regional Programmes	Refers to insurance programmes (a) Emanating from Singapore and covering multiple countries (including Singapore) for each programme; or (b) Where a Singapore insurer issues local policies as part of an insurance programme emanating from a country other than Singapore. All Workmen's Compensation and Motor insurance policies are excluded from this definition, unless the terms of cover and issuance of these policies fall within the control of the Global/Regional Programme.
Marine Cargo Policy	Means a policy of insurance (a) upon goods, merchandise or property of any description whatever on board vessels; or (b) against transit risks (whether is by sea, inland water or air, or partly one and partly another) including risks incidental to the transit insured from the commencement of the transit to the ultimate destination covered by the insurance.
Marine Hull Policy	Means a policy of insurance upon vessels or the machinery, tackle, furniture or equipment of vessels.
Marine Liabilities Policy	Means a policy of insurance (a) against damage arising out of or in connection with the use of vessels or aircraft, including third-party risks; or (b) against risks incidental to the construction, repair or docking of vessels, including third-party risks.

3. Code of Practice for Premium Payment

All existing guidelines issued by the General Insurance Association of Singapore (GIA) and the Singapore Insurance Brokers Association (SIBA) to their members will now be codified under this **Premium Payment Framework**. This single set of code will jointly apply to insurers and intermediaries.

4. Premium Payment Warranty

To facilitate the collection of premiums from policyholders, 3 types of premium payment warranty will be incorporated into policies issued:

- 4.1 Payment Before Cover Warranty
- 4.2 Premium Payment Warranty

4.3 Premium Instalment Payment Warranty

4.1 **Payment Before Cover Warranty**

The Payment Before Cover Warranty will apply to the following:

- (a) all Personal Lines policies; or
- (b) all Bonds

The Payment Before Cover Warranty will apply for Bonds as banks or other principal organisations would generally require irrevocable demand bonds and would want to ensure that the Bonds do not carry any written qualification that allows it to be terminated during its currency.

A Personal Lines policy or a Bond shall not be in force unless premium is paid to the insurer or intermediary on or before the date of inception of the policy or Bond.

4.1.1 **Recommended Endorsement Wordings for Payment Before Cover Warranty**

- (1) The premium due must be paid to the Insurer (or the intermediary through whom this Policy or Bond was effected) on or before the inception date ("the inception date") or the renewal date of the coverage. Payment shall be deemed to have been effected to the Insurer or the intermediary when one of the following acts takes place:
 - (a) Cash or honoured cheque for the premium is handed over to the Insurer or the intermediary;
 - (b) A credit or debit card transaction for the premium is approved by the issuing bank;
 - (c) A payment through an electronic medium including the internet is approved by the relevant party;
 - (d) A credit in favour of the Insurer or the intermediary is made through an electronic medium including the internet.
- (2) In the event that the total premium due is not paid to the Insurer (or the intermediary through whom this Policy or Bond was effected) on or before the inception date or the renewal date, then the insurance shall not attach and no benefits whatsoever shall be payable by the Insurer. Any payment received thereafter shall be of no effect whatsoever as cover has not attached.
- (3) In respect of insurance coverage with Free Look provision, the policyholder may return the original policy document to the Insurer or intermediary within the Free Look period if the policyholder decides to cancel the cover during the Free Look period. In such an event, the policyholder will receive a full refund of the premium paid to the Insurer provided that no claim has been made under the insurance and the cover shall be treated as if never put in place. Free Look provision does not apply to Bond.

4.1.2 Should there be extenuating circumstances resulting in non-payment of premiums, and thereby a breach of the Warranty, insurers should consider the circumstances on a case-by-case basis and review the cover within a reasonable time to ensure a fair outcome.

4.2 **Premium Payment Warranty**

The Premium Payment Warranty will apply to policies issued for ALL classes of general insurance relating to Commercial Lines transacted by insurers or intermediaries.

Under the warranty, if the period of insurance is more than 60 days, the policyholder is required to pay the premium due under the policy in full within 60 days from the date of inception of the policy. If this warranty is not complied with, then the policy is automatically terminated from the expiry of the 60-day period and the insurer will be entitled to a pro-rata premium for the 60-day period they have been on risk. If the period of insurance is less than 60 days, then the insured is required to pay the premium due under the policy in full within the period of insurance.

4.2.1 **Recommended Endorsement Wording for Premium Payment Warranty**

- (1) Notwithstanding anything herein contained but subject to clause 2 hereof, it is hereby agreed and declared that if the period of insurance is 60 days or more, any premium due must be

paid and actually received in full by the Insurer (or the intermediary through whom this Policy was effected) within 60 days of the inception date of the coverage under the Policy, Renewal Certificate or Cover Note.

- (2) In the event that any premium due is not paid and actually received in full by the Insurer (or the intermediary through whom this Policy was effected) within the 60-day period referred to above, then:
 - (a) the cover under the Policy, Renewal Certificate or Cover Note is automatically terminated immediately after the expiry of the said 60- day period;
 - (b) the automatic termination of the cover shall be without prejudice to any liability incurred within the said 60-day period; and
 - (c) the Insurer shall be entitled to a pro-rata time on risk premium subject to a minimum of S\$25.00.
- (3) If the period of insurance is less than 60 days, any premium due must be paid and actually received in full by the Insurer (or the intermediary through whom this Policy was effected) within the period of insurance.

4.2.2 To bring about greater policyholder awareness and to enhance transparency, the tax invoices issued by insurers and/or debit notes issued by intermediaries must incorporate an Important Notice to highlight the application of the Premium Payment Warranty. If premiums are not received, the insurers (for direct accounts) or the intermediaries must also send a reminder to the policyholders at least 2 weeks before the expiry of the Premium Payment Warranty period.

4.3 **Premium Instalment Payment Warranty**

The Premium Instalment Payment Warranty will apply to policies issued for ALL classes of general insurance relating to Commercial Lines business transacted by insurers or intermediaries.

Insurers are at liberty to schedule payments provided:

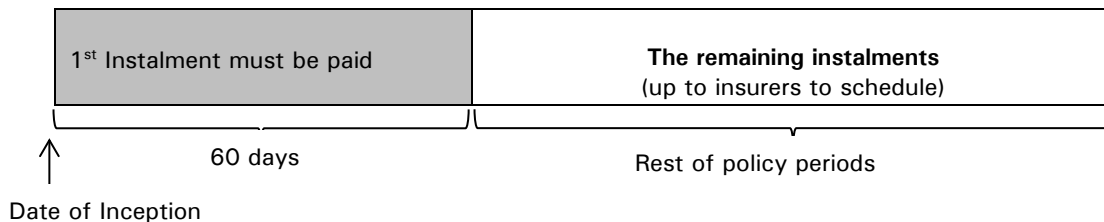
- The 1st instalment must be paid within 60 days from the commencement of the policy; and
- The remaining instalments shall be paid by the subsequent due dates.

4.3.1 **Recommended Endorsement Wordings for Premium Instalment Payment Warranty**

- (1) Notwithstanding anything herein contained but subject to clauses 2 and 3 hereof, it is hereby agreed and declared that:
 - (i) the 1st instalment due must be paid and actually received in full by the Insurer (or the intermediary through whom this Policy was effected) within 60 days of the inception date of the coverage under the Policy, Renewal Certificate or Cover Note;
AND
 - (ii) the 2nd and subsequent instalments, if any, of the total premium due, in such amounts as specified by the Insurer for each instalment, must be paid and actually received in full by the Insurer (or the intermediary through whom this Policy was effected) on or before the respective due dates as specified by the Insurer.
- (2) In the event that the 1st instalment is not paid and actually received in full by the Insurer (or the intermediary through whom this Policy was effected) within the 60-day period referred to above, then:
 - (a) the cover under the Policy, Renewal Certificate or Cover Note is automatically terminated immediately after the expiry of the said 60-day period;
 - (b) the automatic termination of the cover shall be without prejudice to any liability incurred within the said 60-day period; and
 - (c) the Insurer shall be entitled to a pro-rata time on risk premium.
- (3) In the event that the 2nd or any subsequent instalment of the total premium due is not paid and actually received in full by the Insurer (or the intermediary through whom this Policy was effected) on or before the respective due dates as specified by the Insurer, then:
 - (a) the cover under the Policy, Renewal Certificate or Cover Note is automatically terminated immediately after the respective due date in respect of which the instalment has not been paid; and

- (b) the automatic termination of the cover shall be without prejudice to any liability incurred within the period before the respective due date in respect of which the instalment has not been paid.

4.3.2 Illustration of Instalment Payment Plan



5. Terms of Settlement Between Intermediaries And Insurers

Terms of settlement refer to the handing over of payments received by the intermediaries from the policyholders to the insurers.

(i) Agents

The settlement terms of both Cash Agents and Credit Agents will be governed by their respective Agency Agreements and the General Insurance Agents Registration Regulations (GIARR).

(ii) Brokers

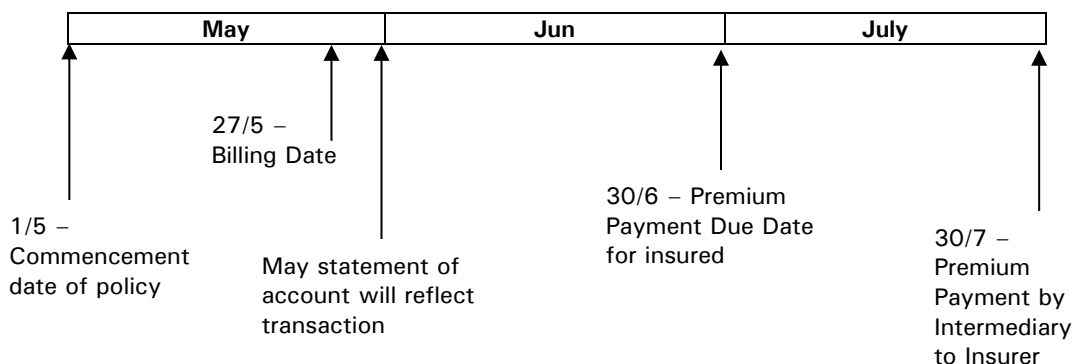
Regardless of the types of policy, settlement terms of all Brokers are required to comply with the Insurance Broking Premium Accounts requirements established in the Insurance (Intermediaries) Regulations. Pursuant to Regulation 7 (14) of the Insurance (Intermediaries) Regulation, Brokers must pay all premiums received from the policyholder by the 90th day from the date of commencement of cover. The following illustration will help put settlement requirement for Brokers in perspective.

5.1 An Illustration of the Settlement Requirements For Intermediaries and Policyholders

Scenario 1

Insurer A: Financial Closing Date - 31 May 2015

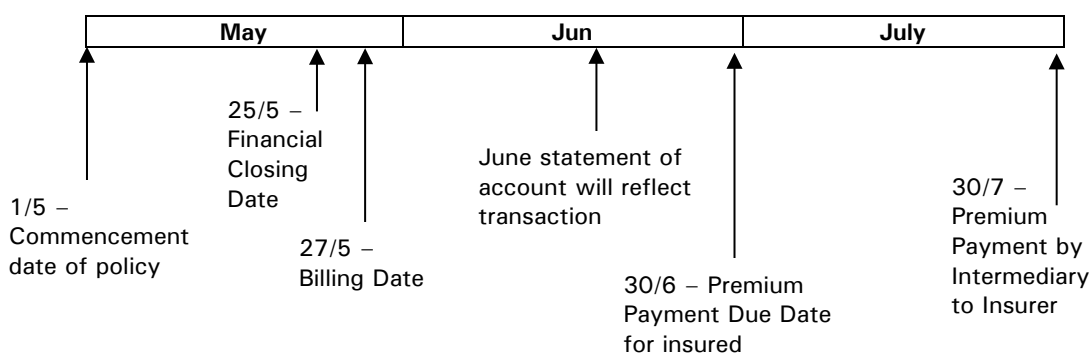
Bill date - 27 May 2015



Scenario 2

Insurer B: Financial Closing Date - 25 May 2015

Bill date – 27 May 2015

**6. Recommended Practice Applicable to Commercial Lines Business****6.1 New or Renewal Policy or Endorsement**

The following will be adopted for New or Renewal policies or Endorsements where the insurers have yet to receive a complete set of the required information:

- (i) Intermediaries have to present their closings to insurers on or prior to the inception date.
- (ii) In the event that intermediaries issue hold covered instructions to insurers, the following shall apply:

(A) In respect of new business

- (i) Where the risk has been bound and the insurers have yet to receive a complete set of the required information, the insurers will proceed to issue the policy based on essential information received from the intermediaries ("the New Policy").
- (ii) Insurers are to issue tax invoices and policy documents within 30 days after the inception date of the New Policy.
- (iii) Upon subsequent receipt of the required information, the insurers shall be entitled to issue endorsements to extend or amend the cover of the New Policy and issue tax invoices for these endorsements accordingly.

(B) In respect of renewal business

- (i) The insurers will proceed to renew based on the essential information received from the intermediaries or expiring sums insured/wageroll/limits ("the Renewal Policy").
- (ii) Insurers are to issue tax invoices and policy documents within 30 days after the inception date.
- (iii) Upon subsequent receipt of further information, the insurers shall be entitled to issue endorsements to extend or amend the cover of the Renewal Policy and issue tax invoices for these endorsements accordingly.

(C) Collection of Premium

- (i) Intermediaries will be given 60 days from inception date of the New Policy, Renewal Policy or their respective endorsements, to collect the premium from their policyholders.

6.2 Overdue Premiums

If the intermediaries are unable to collect the premium from their policyholders within 60 days from inception of the New Policy, Renewal Policy or the applicable endorsement:

- (i) The policy or endorsement will automatically terminate effective from the 61st day of cover.
- (ii) The intermediaries must notify the policyholders immediately by fax, email and/or mail, of the cessation of cover, copied to the insurers.
- (iii) Whether the liability or claims is incurred or not by the insurers within the 60-day period, the policyholders are liable to pay time on risk premiums.
- (iv) Intermediaries are required to notify the insurers of the policyholders who have breached the Premium Payment Warranty within 5 working days of the breach.

- (v) If the intermediaries notify the insurers within 5 working days of the breach, the intermediaries will not be liable for the collection of the time on risk premiums.
- (vi) If the intermediaries do not notify the insurers within 5 working days of the breach, then the intermediaries will be liable for the collection of the time on risk premiums.

6.3 Re-marketing after cancellation due to breach of Premium Payment Warranty

To avoid an abuse of the system by cancelling covers and placing through other intermediaries or with other insurers, all intermediaries and insurers (for direct accounts) shall insert the following declarations in the quotation slips and insurance policies to the effect that policies applied for have not been in whole or in part terminated by another insurer due to non-payment of premiums in the last 12 months.

If they declare a breach of premium payment warranty in the last 12 months, confirmation must have been first received from the insurer of the previous policy that time on risk premiums have been paid before cover incepts.

6.3.1 Recommended Wordings for Declaration in Quotation Slip

Quotation Slip

Condition Precedent

1. The validity of this Quotation is subject to the condition precedent that:
 - (a) for the risk quoted, the proposed policyholder has never had any insurance terminated in the last twelve (12) months due solely or in part to a breach of any premium payment condition; or
 - (b) if the proposed policyholder has declared that it has breached any premium payment condition in respect of a previous policy taken up with another insurer in the last twelve (12) months:
 - (i) the proposed policyholder has fully paid all outstanding premium for time on risk calculated by the previous insurer based on the customary short period rate in respect of the previous policy; and
 - (ii) a copy of the written confirmation from the previous insurer to this effect is first provided by the proposed policyholder to the Insurer before cover incepts.

6.3.2 Recommended Endorsement Wordings for Policy

Insurance Policy

Condition Precedent

1. The validity of this Policy is subject to the condition precedent that:
 - (a) for the risk insured, the named policyholder has never had any insurance terminated in the last twelve (12) months due solely or in part to a breach of any premium payment condition; or
 - (b) if the named policyholder has declared that it has breached any premium payment condition in respect of a previous policy taken up with another insurer in the last twelve (12) months:
 - (i) the named policyholder has fully paid all outstanding premium for time on risk calculated by the previous insurer based on the customary short period rate in respect of the previous policy; and
 - (ii) a copy of the written confirmation from the previous insurer to this effect is first provided by the named policyholder to the Insurer before cover incepts.

6.4 Suspension and/or Reinstatement of Cover if Payment After Breach

When premium (including without limitation, the time on risk premium) is paid by the policyholder after the period or date allowed under the Premium Payment Warranty, cover must be suspended from the date of breach to date of payment.

Cover may be reinstated from the date of receipt of full payment to the original expiry date. This would serve to encourage the policyholder to remain with the same insurer.

Alternatively, the insurer can allow the policy to lapse and issue a fresh replacement policy.

Source: General Insurance Association of Singapore

CHAPTER 2 RISKS & INSURANCE

CHAPTER OUTLINE

1. Introduction
2. Types Of Risks
3. Characteristics Of Insurable Risks
4. Perils & Hazards
5. Methods Of Handling Risks
6. Attitude Towards Risks
7. Benefits Of Insurance
8. Classification Of General Insurance Products
9. Individual & Group Insurance

LEARNING POINTS

After studying this chapter, you should be able to:

- understand the concepts of risk and chance
- define what insurance is and understand how insurance works
- know the concept of risk pooling
- identify the differences between insurance and gambling
- differentiate the various types of risks
- know the characteristics of insurable risks
- know the difference between a valued contract, a contract of indemnity and a benefit contract
- understand the meanings of peril and hazard, and distinguish the differences between the two concepts
- understand the difference between a moral hazard and a physical hazard
- be aware of the various methods of handling risks
- understand how attitudes towards risks will affect an individual's decision in selecting the methods to handle risks
- appreciate the benefits of insurance
- know the major classes of general insurance and the risks that they cover
- compare the differences between Individual Insurance and Group Insurance
- state the characteristics of a Group Insurance policy
- compare the differences between a compulsory and a voluntary plan
- list the advantages of a compulsory plan
- list the advantages of a voluntary plan



1. INTRODUCTION

1.1 To understand the need for insurance, one has to first understand the concept of risk, since insurance serves as a risk transfer mechanism for individuals and organisations. A risk transfer mechanism is a means by which an individual or commercial organisation will pass on (transfer) the risk that it faces to another party. An example of such a mechanism is insurance in which the insurer promises to pay for, repair, replace or reinstate, such as a damaged property, in the event of a peril (e.g. fire) occurring during the period of insurance, provided that the peril is covered within the terms of the insurance policy. We shall look at the definition of "peril" in a later part of this chapter.

A. Risk & Chance

1.2 To most people, risk implies some form of uncertainty about an outcome in a given situation, and the outcome is normally unfavourable. In contrast, chance implies some doubt about the outcome in a given situation, and the outcome is normally favourable. For example, we may say the risk of an accident, and the chance of passing an examination. In reality, we may use the word "chance" rather loosely to include both unfavourable and favourable outcomes, but we will not use "risk" to refer to a favourable outcome.

1.3 In simple terms, risk may be defined as the possibility of loss. In the context of general insurance, it refers to the possibility of loss to which one's property or business is exposed. Loss in this context encompasses injury, damage, liability to third parties, expenses and other losses capable of being measured in monetary terms. Risk is the potential that a chosen action or activity (including the choice of inaction) will lead to a loss (an undesirable outcome). Potential losses themselves may also be called "risks". Hence, risk can then be defined as the possibility or potential to lose as a result of an occurrence or event.

1.4 For example, some risks associated with owning a car are:

- accidental injuries to the driver, passengers and/or other road users (cyclists, motorists and pedestrians);
- accidental damage to the car itself, a car belonging to someone else and/or the property of others; and
- theft of the car and/or its fitted accessories.

1.5 To protect the owner of the car against the financial effects of any loss arising out of the risks of owning a car, he can effect a comprehensive Motor Insurance policy with an insurance company. An unknown loss (the risk of injury, loss or damage) is then transferred to the insurer by paying a fixed premium. For example, in the event of damage to the owner's car, the insurance company will pay for the cost of repairs if all other terms and conditions of the policy are fully met.



B. What Is Insurance?

- 1.6 Insurance is an equitable transfer of the risk of a loss, from one entity to another in exchange for a premium payment. It is a form of risk management primarily used to hedge against the risk of a contingent, uncertain loss.
- 1.7 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 amount of money to be charged for a certain amount of insurance coverage is called the premium.
- 1.8 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 case of a financial (personal) loss. The insured receives an official document called the insurance policy (being evidence of the insurance contract between the insured and the insurer) which details the terms, exclusions, conditions and circumstances under which the insured will be financially compensated.

C. How Does Insurance Work?

- 1.9 Insurance works by spreading the result of a financial loss among many persons, so that the cost to any one person is small. An insurer accepts the risk of financial loss of a large number of people. However, in all probability, only a small percentage of these people will actually suffer an insured financial loss during the period that the insurance is in force. This enables the insurer to use the premiums paid by a very large number of people who buy insurance covers, to pay the claims of a relatively small number of people in the same risk pool. This concept is known as risk pooling, as explained later in this chapter.
- 1.10 Risk pooling makes it possible for insurers to sell protection against financial losses. This protection is described in the insurance policy, which is a written contractual agreement explaining the benefits payable by the insurer, provided that a particular loss covered by an insured peril occurs. Some insurers sell policies that protect people against the financial losses that occur, when the property is damaged, or their legal liability to compensate third parties because of their acts of negligence. Life and health insurers sell policies that protect people against financial losses that result from personal risks, such as premature death or ill health. General insurers, on the other hand, sell policies that are non-life, e.g. Property and Casualty Insurance, as well as Marine Insurance.

D. Insurance & Gambling

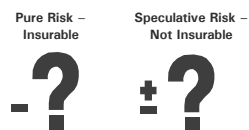
- 1.11 Before we proceed further, it is useful to distinguish insurance from gambling, because you may occasionally hear a remark, such as “The insurance company is betting that my house will not burn down, and I am betting that it will”, implying that insurance operates under the same principle as gambling.

- 1.12 It is true that, in both gambling and insurance, money changes hands on the basis of chance events. You pay a premium to insure against losses to your house caused by fire and other insured perils. If no insured loss occurs, the insurance company keeps the premium, and you receive no money. On the other hand, if an insured peril occurs, the insurance company pays for the loss covered by the policy.
- 1.13 Similarly, if you bet S\$200 with Andy that Team A will win its football game against Team B, money will change hands on the basis of what is, to you and Andy, a matter of chance.
- 1.14 In spite of the similarity of these insurance and gambling transactions, there are two fundamental differences between them.
- 1.15 First, gambling creates a new speculative risk that has not existed before, i.e. one can either make a profit or loss from the bet; while insurance is a technique for handling an already existing pure risk (speculative risk and pure risk are explained later in this chapter). Therefore, if you bet S\$200 on the football game, a new speculative risk is created, but if you pay S\$200 to an insurer for Fire Insurance, the risk of fire is already present and is transferred to the insurer by a contract, i.e. the insurance contract as evidenced by a policy document.
- 1.16 The second difference between insurance and gambling is that gambling is socially unproductive, since the winner's gain comes at the expense of a loser. In contrast, insurance is socially productive, since neither the insurer nor the insured is placed in a position, where the gain of the winner comes at the expense of a loser.
- 1.17 Also, both the insurer and the insured have a common interest in the prevention of a loss. Both parties will win if the loss does not occur. Moreover, the gambling transaction never restores the loser to his former financial position. On the other hand, insurance financially restores the insured, in whole or in part, if a loss covered by the policy occurs.
- 1.18 In addition, in gambling, the parties involved are aware of when the event will take place, i.e. they will know when a football game will take place. In insurance, both the insured and the insurer will not know if and when a fire will occur.

2. TYPES OF RISKS

- 2.1 Now that we are clear what insurance is, and how it is different from gambling, let us proceed to the types of risks that can be insured, since not all risks are insurable.
- 2.2 To understand which risks are insurable and which are not, we must first take a look at the various types of risks. These are described below:
- Pure Risk and Speculative Risk;

- Fundamental Risk and Particular Risk; and
- Financial Risk and Non-Financial Risk.



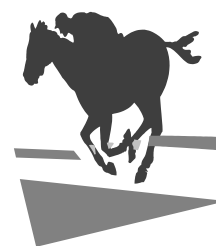
A "pure" risk does not include the possibility of gain.

A. Pure Risk

- 2.3 A pure risk involves the possibility of a loss only or at best a "no gain" situation.
- 2.4 A very good example of a pure risk is the risk of collision. If you own a car, it may be damaged in a collision or it may not be. A collision will cause you a financial loss, but the lack of a collision will not result in any gain to you.

B. Speculative Risk

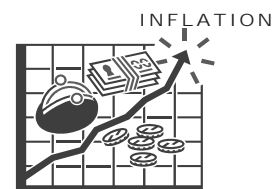
- 2.5 In contrast to a pure risk, a speculative risk is one that involves the possibility of either a loss or gain.
- 2.6 Examples of speculative risks are:
- investing in stocks and shares;
 - betting on a motorcycle or horse race;
 - investing in real estate; or
 - venturing into a food or wine business.



- 2.7 In all of these situations, both profits and losses are possible.
- 2.8 Normally, insurers will not insure speculative risks, because they are generally created by the persons involved. On the other hand, the car owner does not create the risk by buying a car. The risk of financial loss as a result of a collision exists for anyone who owns a car and that risk can be insured.
- 2.9 As such, speculative risks are not insurable, whereas pure risks are.

C. Fundamental Risk

- 2.10 A fundamental risk is one which affects the entire economy or large numbers of persons or groups within the economy, arising out of social, economic, political or natural causes. Hence, it is widespread in its effect.
- 2.11 Examples of fundamental risks are:
- war or nuclear incident;
 - epidemic, drought or famine; and
 - unemployment, high inflation rate or economic recession.



- 2.12 Each of the above examples arises from causes outside the control of any one individual, and the effects are widespread. As such, the consequences are normally better addressed via governmental or international relief, rather than commercial insurance (although an individual property owner may insure, for example, against earthquake, flood or thunderstorm).

D. Particular Risk

2.13 In contrast to a fundamental risk, a particular risk is one that affects only a single or relatively few individuals, not the entire economy.

- 2.14 Examples of particular risks include being:
- robbed while at an alley or in a lift;
 - bitten by a stray dog or monkey;
 - assaulted when walking in a dark lane; and
 - involved in a traffic accident.



E. Financial Risk

2.15 For a risk to be insurable, the outcome must be capable of measurement in monetary terms. Only such risks are insurable as opposed to non-financial risks.

- 2.16 Examples of financial risks are described below:
- Loss of or damage to the hull and machinery of a vessel: The financial value of the risk is the cost of repairing or replacing the different portions of the vessel.
 - Damage to fixed glass in a shop front: This risk is measurable since the cost of each piece of glass is known.
 - Loss of money through robbery while in transit between the business premises and the bank: The financial value of the risk is the amount of money which has been stolen.

2.17 One exception to this rule arises when insuring human lives. It is impossible to place a value on one's own life or on the life of a spouse. Hence, an agreed financial amount is determined at the time of effecting the insurance.

F. Non-Financial Risk

2.18 These are risks in which the outcome is not measurable in monetary terms. No accurate value can be placed on the outcome. Such risks usually involve personal decisions, which can produce happy or unhappy emotions, but primarily, they are not concerned with financial implications.

- 2.19 Examples of non-financial risks are:
- choosing a life partner; and
 - selecting the right school for one's child.



2.20 Each of the above examples (some, of course, are more important than others) will involve a degree of uncertainty or risk, and the result may be satisfactory or disappointing. However, such non-financial risks are uninsurable.

3. CHARACTERISTICS OF INSURABLE RISKS

3.1 Not every risk is insurable. A risk must usually meet certain requirements in order to be insurable.

A. Large Number Of Insureds



There must be a lot of people sharing risk of loss, in order for the law of large numbers to work.

3.2 Firstly, there must be a large number of persons available for insurance having a similar potential for loss. The law of large numbers works only when there are sufficient numbers of potential insureds who have a similar chance for loss, to make the chance of loss predictable.

B. Accidental Loss

3.3 Secondly, the loss must be accidental in nature. This means that it must generally be fortuitous, unexpected, unforeseeable, and not intentionally or wilfully caused by the insured. For example, the risk of a person being killed in an accident is unpredictable and is beyond the control of that person. Hence, insurance companies can offer Personal Accident Insurance policies to provide protection against financial losses caused by such accidents.



C. Definite Loss

3.4 Thirdly, the potential loss must be definite in terms of time and amount. An insurer must be able to know when the loss took place, and how much the claim will be. The insurer's risk exposures are generally restricted to the period of cover granted to the insured. Therefore, the insurer will be liable to pay only for losses that have occurred, or which have been made during that period of insurance.

3.5 The amount of claim to be paid depends on the type of insurance contracts issued. Basically, there are three types of insurance contracts, namely contracts of indemnity, valued contracts and benefit contracts.

C1. Contracts Of Indemnity

3.6 General insurance contracts are generally contracts of indemnity, i.e. in accordance with the principle of indemnity, the amount payable to an insured is based on the amount of the loss actually suffered by him. The insurer calculates the amount to be paid after an occurrence of a loss covered by the policy.

3.7 For example, a fire insurer will indemnify the insured based on the actual property damage and loss caused by the insured perils. The insurer will pay only the actual loss incurred, even if the sum insured exceeds the total value of the entire property.

C2. Valued Contracts

- 3.8 In a valued contract, the insured and the insurer agree to a specific value for the property, before the insurer issues the policy. If the property is lost or destroyed, the insured will collect the amount that has been agreed upon at the policy inception.
- 3.9 Valued policies are commonly issued for items, such as paintings, sculptures, antiques and items of jewellery, where it is difficult to determine the property's value after having been damaged or destroyed.
- 3.10 In agreeing upon the value of an item or group of items to be insured under a valued contract, the insurer may ask to see the original sales receipt, or may want to have the property appraised by a professional valuer.
- 3.11 One example of valued contracts is the Marine Insurance policy, as it is generally issued on an agreed value basis.

C3. Benefit Contracts

- 3.12 These are the contracts that pay a sum of money in the event of a contingency, irrespective of whether the insured suffers a financial loss, e.g. in the event of insured's accidental death or by natural causes, permanent disability or sickness, etc. However, the benefits defined in such policies are not related to the extent of financial loss resulting from the loss of life or health of the insured.
- 3.13 Examples of benefit contracts are Personal Accident Insurance (covering accidental death and permanent total disablement), Critical Illness Insurance, Hospital Income Insurance, and most Life Insurance policies, such as Term, Endowment, Whole Life Insurance, etc.

D. Financial Burden

- 3.14 The fourth requirement is that the loss must be large enough to create a financial burden for the individual involved. It is common for people to lose things like umbrellas, key pouches and sunglasses, but such losses are very unlikely to cause much financial burden to the owners. These types of losses are not normally insured, as it would probably cost more to administer the insurance programme than it were to simply buy new umbrellas and key pouches.
- 3.15 On the other hand, some types of losses could cause financial hardships to most people. For example, a fire gutted a row of residential housing. The resulting home loss would be significant to the residents.



E. Affordable Insurance

- 3.16 The fifth requirement for a risk to be insurable is that the insurance must be affordable. This requirement does not relate to the insured's budget, but rather in relation to the value of the item insured – meaning the cost of the insurance should generally be a small fraction of that item's value.
- 3.17 Consider this illustration: Brady wants to buy insurance for an antique painting that is valued at S\$5,000, and the premium for this coverage is S\$4,500 a year. It will not be viable for him to purchase the insurance, because the cost of insurance (i.e. the premium) is almost as much as the value of the painting; the loss of which is uncertain. There is little transfer of risk in this situation.
- 3.18 Hence, for insurers to offer insurance coverage at an affordable level, it is necessary to have a sufficiently large pool of similar risks to be insured, in order for the law of large numbers to operate properly. Often however, insurers face "anti-selection" or "adverse selection" in that those who seek to purchase insurance for their risks tend to be those risks, where the probability of loss is higher than average. As an example, those people who choose to insure their homes against the risk of flood are more than likely to be those whose homes lie in flood-prone areas. As a result, insurers may be faced with a portfolio of risks that present a higher than average flood exposure, and will have to take suitable measures to address such higher probabilities of loss, i.e. by charging higher rates for flood extension, or by limiting the coverage provided.

F. Particular Risk

- 3.19 The sixth requirement is that the loss must not routinely happen to a large number of insureds at the same time, i.e. catastrophic or fundamental risks are not insurable. Catastrophic losses can result in a massive and rapid accumulation of losses that can threaten the financial solvency of an insurance company. Examples are property damage caused by war and nuclear risks. In such cases, governments often accept responsibility for these risks. It is not accurate, however, to say that all fundamental risks cannot be insured, but insurers are very selective in the risks of this type that they are prepared to insure. Fundamental risks arising out of some natural causes, such as earthquake, hurricane, typhoon and flood, may be insurable, depending on the geographical location of the property, which is to be insured against these risks.

G. Pure Risk

- 3.20 Finally, the risk to be insured must be a pure risk as opposed to a speculative risk, as explained earlier.

4. PERILS & HAZARDS

4.1 The terms, perils and hazards, should not be confused with the concept of risk as discussed earlier.

A. Perils

4.2 A peril is defined as an event or occurrence which causes injury, loss or damage. If a house burns down because of a fire, the peril or cause of loss is the fire. If a person’s car is damaged in a collision with another car, the collision is the peril or cause of loss. Some common perils that cause property damage or loss are fire, lightning, windstorm, flood, earthquake, theft and burglary.

B. Hazards

4.3 A hazard is a condition that creates or increases the chance (risk) of loss. On first impression, the distinction between the two may not be that obvious.

4.4 We will use the examples given in the above section to help you to distinguish the difference between peril and hazard.

The fire that damaged the house.	Peril
The house was constructed of wood.	Hazard
The collision that damaged the car.	Peril
The driver of the car was drunk.	Hazard



4.5 Hazards can be sub-divided into moral hazards or physical hazards.

B1. Moral Hazards

4.6 Moral hazards arise from the attitude and conduct or behaviour of people. This is a situation, whereby people, through carelessness or by their own irresponsible actions, can increase the possibility of a loss.

4.7 The following examples demonstrate possible moral hazards.

- Charlie feels that insurance protects him, so he leaves his car unlocked whenever he goes fishing.
- A petrol station has an employee who frequently smokes, while working in the compound.

4.8 A moral hazard can also involve a situation in which a person engineers a loss on purpose, in order to make a false claim against an insurance company.

4.9 Examples are described below:

- Davy is having some serious business difficulties. So he plans to burn down his office (an act of arson), in order to make a claim on the Fire Insurance policy.

- Eddy “conveniently” leaves his insured gold chain in a train station, so that someone will take it. He can then file for his loss and claim a new one from the insurer.

B2. Physical Hazards

4.10 A physical hazard arises from the condition, occupancy, or use of the property itself, i.e. it relates to the measurable dimension and physical characteristics of the risk.

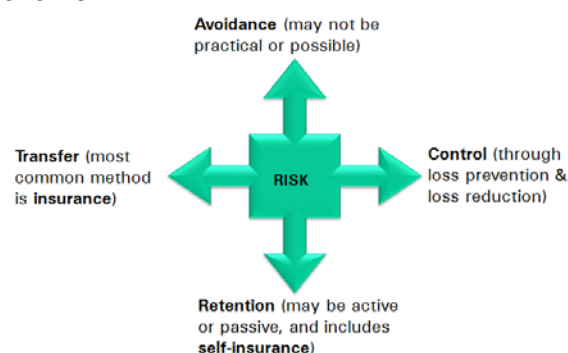
4.11 Examples are described below:

- Security protection at a jewellery shop: the better the security system, the lower will be the physical hazard level, as it may prevent or minimise a loss.
- The construction of the property: the higher the standard of construction, the lower will be the physical hazard for fire and similar risks, as the building will be more resistant to damage.

5. METHODS OF HANDLING RISKS

5.1 Risks are an inevitable part of human life. We have to learn how to handle them. There are four major methods as follows:

- avoidance;
- control;
- retention; and
- transfer.



A. **Avoidance**

5.2 This simply means avoiding the risk.

5.3 Examples are described below:

- Avoid car collision by never driving a car.
- Eliminate air accident by not travelling in an aircraft.

5.4 The major advantage of avoidance is that the chance of loss is reduced to zero. However, it may not be possible or practical to avoid risks. For example, it is impossible to avoid the losses resulting from natural catastrophes, such as earthquake and thunderstorm. It is certainly not practical for a regional sales manager of a company to avoid exposure to air accidents, by choosing not to travel by air, to negotiate business deals.

B. **Control**

5.5 Fortunately, risk avoidance is not the only method of managing a risk. You can also control the risk to some extent, by reducing both the frequency (loss prevention) and severity (damage reduction) of losses.

5.6 Examples of:

- Loss prevention – The strict enforcement of safety rules in construction sites forbids workers from smoking in an area where flammable materials are stored.
- Loss reduction – An office has installed a fire sprinkler system, so that a fire can be promptly put out, or placing flammable materials in a separate confined area, etc.



C. Retention

5.7 In some cases, people simply retain the risk, i.e. if any loss occurs, they will pay for it themselves. Sometimes, people retain only a portion of risk – the portion that remains after other means of managing the risk have been employed.

5.8 If people are aware of a risk and decide to retain it (or a portion of it), they do so intentionally and this is called active retention. For example, a motorist may wish to retain the risks of minor accidents to his car, by buying an insurance policy with a deductible (usually known as an excess in Motor Insurance) in exchange for a reduced premium; or a retail shop may deliberately retain the risks of petty theft and shoplifting, by not insuring these risks.

5.9 On the other hand, if people are not aware of a risk, they may retain it unintentionally and they may be surprised if a loss occurs – this is called passive retention. Risks can be passively retained because of indifference, ignorance or laziness. For example, a golfer does not know that he runs the risk of lightning strikes while playing golf in bad weather.

5.10 Self-insurance is a form of retention measure by which part or all of a given loss exposure is retained by the firm and self-funded when losses occur. This can happen when an organisation decides that it is faced with high-frequency, but low-severity losses. This will mean that the losses are fairly predictable. In such a case, a fund can be created out of which losses will eventually be met. These organisations decide to self-insure, because they feel that they are financially capable to carry such losses, and because the cost to them is lower than commercial premium rates, since they save on the insurers' administration costs and profits.

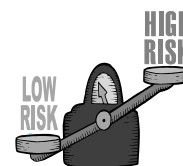
D. Transfer

5.11 The final method of managing risk is to transfer it, and the most common method of transferring risk is insurance. By purchasing an insurance policy, the insured transfers certain risks to the insurer. If a loss covered by the insurance policy occurs, the insurer, rather than the insured, pays it.

5.12 The basic principle of insurance is that the losses of the few are met by the contributions of many.

- 5.13 An insurance company gathers together relatively small contributions (in the form of premiums) from the insureds who want to transfer similar types of risks to the insurer, and put these premiums into a pool (the concept of risk pooling as mentioned earlier). The insurer will then compensate the losses of the few out of this pool. Each insured pays an equitable premium proportionate to the risk which he introduces to the pool. In operating the pool, insurers benefit from the law of large numbers, whereby the greater the number of persons insured against a peril, the more the actual loss experience will tend towards the expected loss experience. Risk and uncertainty will diminish, as the number of insured persons gradually increases. Thus, the larger the group insured, the more predictable will be the loss experience for the group as a whole. This then enables the insurer to calculate its likely losses, and thus, to charge a fixed premium, which is sufficient to meet losses and costs of operating and managing the pool, as well as to provide an element of profit for the insurer.
- 5.14 Non-insurance transfer refers to methods other than insurance by which a risk and its potential financial consequences can be transferred to another party. Non-insurance transfers are common in the building-construction business. Exposure to loss through contractual liability is of special importance to the contractor. The law generally recognises the right of two parties to agree in writing that one party will assume some liability that otherwise will fall on the other. This is done by inserting a “hold-harmless” clause in a contract by which one party assumes legal liability on behalf of another party. The practice of including “hold-harmless agreements”, in construction contracts, is widely prevalent and accepted.

6. ATTITUDE TOWARDS RISKS



- 6.1 In the earlier section, we have explored the different methods of handling risks. Although risks may be handled by different methods, the decision on which method that an individual adopts, to some extent, depends on the individual’s attitude towards risks.
- 6.2 An individual must recognise that risks exist, before he is able to handle them adequately. Everyday, we face risks of one kind or another, regardless of the type and nature. Whether or not people are aware of them, they exist. However, some of us may fail to recognise the existence of risks. Others may simply refuse to acknowledge their existence.
- 6.3 People have different attitudes towards risks because they view risks differently. People who are risk seeking or risk takers may choose to voluntarily assume risk. For example, a risk taker may choose to take on a hazardous occupation without insurance. He may prefer to retain the occupational risk, rather than to transfer the risk to others.
- 6.4 On the other hand, there are people who are risk averse. This group of people prefers not to venture out of their armchair, as they are afraid of taking risks and may insure any risk in sight. They highly value getting the risk off their

hands, so they will rather have the security of the policy coverage. Hence, they are willing to pay to avoid a risky situation.

- 6.5 In short, each individual's response to risky situations is different owing to different perceptions and attitudes towards risks. These differences will affect the individual's decision in selecting the method(s) to handle risks.

7. BENEFITS OF INSURANCE

- 7.1 Insurance brings many benefits to an individual and to society as a whole. It enables the risks of financial losses to be transferred from the insureds to the insurers as mentioned earlier. A number of other benefits are outlined in the sections below:

A. Provides Financial Stability

- 7.2 In a very obvious and personal way, insurance makes life better. Imagine the financial consequences that people can face without insurance. Let us say, Freddy met with an accident on his way to work this morning and damaged his car extensively. Could he pay a hefty repair bill right now? Or if Gary's apartment should burn down today, could he easily come up with the thousands of dollars that he would need to rebuild, and buy new furniture and personal effects? It would be tough, if not impossible. It could even be disastrous.

- 7.3 With insurance, even when losses occur, people can look at the bright side and get their money back for these losses. So, even if unfortunate events occur, their finances will not be drained, and they and their family's financial stability will not be undermined. They will be able to keep their present lifestyle and their future plans, such as buying a better car or home, can remain intact.

- 7.4 While insurance cannot totally eliminate risks, it will help to mitigate the financial impact or alleviate hardship on the insured if an unfortunate event or incident occurs during the period of insurance covered by the terms of the policy.

B. Provides Peace Of Mind

- 7.5 People can benefit from insurance even if they do not claim from it. By knowing that insurance exists to meet the financial consequences of certain risks provides peace of mind for an individual. Anxiety is also reduced if an insured knows that insurance is available to indemnify him when a loss occurs.

- 7.6 The indemnity function of insurance also relieves businesses from the worry and anxiety that they may have on how to meet the cost of risk. Insurance is, thus, a positive stimulus to their activities, and allows them to get on with their own business in the knowledge that they are financially protected against many forms of risk. The entrepreneurs will be more willing to put money into a

business venture, as they know that they can transfer some of the risks of being in business to an insurer, and that they will not lose everything, if they fall victim to some risks. As such, with more businessmen willing to invest in business ventures, more jobs are created, there are higher exports and a general increase in wealth for the economy.

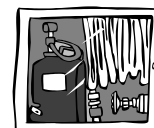


C. Stimulates Business Enterprise

- 7.7 In the course of their normal operations, business enterprises encounter a wide array of risks, such as a fire occurring in their premises; loss of a shipment of goods at sea; injuries suffered by employees in the course of their work; or potential lawsuits from consumers owing to a product defect. In the absence of insurance to protect them against such business risks, businesses would otherwise have to set aside large sums of money as a contingency, should such potential risks materialise. Hence, instead of having to set aside these contingency funds, businesses need to provide only a budget for a known cost – the premiums for the various types of insurance policies. As such, insurance serves to provide businesses with some level of financial security and certainty, as they can free up their available funds, which can then be deployed to more productive business investments. In this respect, insurance serves an important economic function in helping to stimulate business enterprise.

D. Encourages Loss Control

- 7.8 Insurers have an interest in reducing the frequency and severity of losses, not only to enhance their own profitability, but also to contribute to a general reduction in the economic waste following a loss. They employ risk surveyors whose primary function is to make visits to premises to be insured for the purpose of assessing the degree of risks that they pose for insurance purposes. They can, from their experience, often suggest ways in which the likelihood of some risks occurring may be reduced. In the course of their work, they may be able to spot some hazards that can pose potential dangers to the lives of employees. In this way, the insured can be advised on how to reduce these hazards, thereby saving the insured costs from paying for any injuries arising from such hazards.



E. Encourages Investments

- 7.9 Insurers have, at their disposal, large amounts of money. This arises from the fact that, under normal circumstances, there is a time gap between the receipt of a premium and the payment of a claim. The insurers can invest a part of these sums of money in a wide range of financial instruments. By having a spread of investments, the insurance industry helps national and international governments in their borrowing. It also helps industry and commerce, by making various forms of loans available and by purchasing shares which are offered on the open market. Insurers make up part of what are termed as institutional investors; the others include banks, finance companies, building societies, and the Central Provident Fund Board.



F. Enhances Provision Of Credit Facilities

7.10 Bankers and other financial institutions require the security of insurance in financing properties and overseas trade. For example, Fire Insurance makes it possible for mortgages on property to be granted, without fear of loss of property by fire. In this case, insurance enhances a borrower’s credit, because it guarantees the value of the borrower’s collateral, or gives greater assurance that the loan will be repaid in the event of an insured peril occurring during the period of insurance.

8. CLASSIFICATION OF GENERAL INSURANCE PRODUCTS

8.1 General Insurance products can broadly be classified as:

- Personal General Insurance; and
- Commercial General Insurance.

8.2 The difference between them is that individuals purchase Personal General Insurance products to protect themselves against risks that they face in non-commercial situations, as well as to meet statutory requirements, such as purchasing Private Motor Insurance and Foreign Domestic Worker Insurance. Examples of other Personal General Insurance products are Houseowner’s Insurance, Critical Illness Insurance, Personal Liability Insurance, Personal Accident Insurance, etc.




8.3 On the other hand, Commercial General Insurance products are purchased by business enterprises to protect themselves against risks that arise in the course of their business activities, such as Business Interruption Insurance, Professional Indemnity Insurance, Commercial All Risks Insurance, Industrial All Risks Insurance, Marine Hull Insurance, Aviation Insurance, etc.












Table 2.1 below illustrates the major classes of general insurance under each line of business and the major risks covered.

Table 2.1: Classes Of General Insurance

Personal Lines



Personal lines provide insurance cover for various risks faced by individuals and families. Examples include:













	Private Motor Car Insurance	Insures the risks associated with the ownership of private motor cars
	Private Motorcycle Insurance	Insures the risks associated with the ownership of private motorcycles
	Houseowner’s Insurance	Insures the structure of the building of private homes

	Householder's Insurance	Insures the household contents of private homes
	Packaged Household Insurance	Insures private home buildings and household contents, but also provides other benefits as well
	Valuable Articles Insurance	Insures the insured's antiques, paintings, sculptures, ceramics, clocks, and any such items of high monetary value
	Personal Accident Insurance	Insures the risks of accidents resulting in accidental death, permanent disablement or bodily injuries
	Travel Insurance	Insures the risks associated with travelling for business and/or leisure
	Personal Liability Insurance	Provides coverage for legal liability to third parties
	Foreign Domestic Worker Insurance	Insures the risks commonly associated with hiring a foreign domestic worker
	Golfer's Insurance	Provides comprehensive insurance coverage for golfers
	Electrical Protection Insurance	Covers accidental damage to or theft of the insured's electrical equipment (such as a camera, notebook or mobile phone)
	Pet Insurance	Covers the insured's veterinary bill and surgical treatment costs incurred arising from injuries, illnesses, emergencies, specified genetic condition relating to the insured's pets
	Personal Mobility Device Insurance	Covers a user of a mobility device, such as a bicycle, electric scooter, hoverboard, rollerblade or unicycle, against accidental death, permanent disability, medical expenses against injuries, and third-party liability arising from an accident while riding, mounting or dismounting from such an insured mobility device

Financial Lines

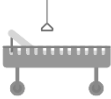

Financial lines provide insurance cover for various risks faced, which will result in a monetary loss, rather than a physical loss of or damage to the property. Examples include:

	Card Protection Insurance	Covers unauthorised or fraudulent use of the financial card by someone other than the cardholder
	Extended Warranty Insurance	Covers the cost of the insured's product repair or replacement for a set number of years beyond the manufacturer's own warranty period

	Identity Theft Insurance	Covers monetary loss suffered as a result of identity fraud
	Business Interruption/ Consequential Loss Insurance	Insures against loss of profit, overheads, wages and extra expenses incurred to minimise disruption and restore normal business condition owing to interruption as a result of fire and other extraneous perils
	Professional Indemnity Insurance	Insures professionals such as lawyers and doctors against professional negligence
	Directors' and Officers' Liability Insurance	Insures against wrongful acts committed by the company's directors or officers
	Libel and Slander Insurance	Insures the damages and costs associated with libel and slander
	Errors and Omissions Insurance	Insures against errors and omissions liability
	Cyber Risk Insurance	Covers a variety of risks resulting from the use of technology within the business, such as electronic fraud and identity theft, computer virus and hacking, and breach of data, among others
	Contingency Insurance	Provides coverage for financial loss resulting from cancellation, abandonment, postponement, interruption, curtailment or relocation of any type of indoor or outdoor event, such as a musical concert or trade show
	Fidelity Guarantee Insurance	Covers employee's defalcation, forgery or fraudulent acts
	Crime Insurance	Offers a wider coverage alternative compared to the traditional Fidelity Guarantee Insurance
	Credit Insurance	Provides credit risks protection
	Insurance Bond	Provides guarantee for one party's financial protection against a contractor failing to perform in accordance with the terms and conditions of a contract

Health

Health Insurances are purchased to provide benefits following the diagnosis of a critical illness, or to provide cover such as fixed benefits and/or medical expenses incurred by the insured arising out of hospitalisation and/or surgery. Examples include:

	Hospital Cash (Income) Insurance	Provides daily cash benefit for hospitalisation
	Critical Illness/Dread Disease Insurance	Provides cash benefit upon the diagnosis of a specified critical illness/dread disease















Hospital & Surgical Insurance

Provides inpatient and outpatient benefits as a result of being hospitalised and/ or undergoing surgical operations



Property

Property Insurances provide cover for the risks of damage to tangible or physical property, such as buildings, contents and fixtures & fittings. Examples include:

	Fire Insurance	Insures property destroyed or damaged by fire, lightning and other extended extraneous perils, such as explosion, earthquake, flood, typhoon, windstorm, riot and strike
	Theft/Burglary Insurance	Insures the business against theft on a full value or first loss basis
	Electronic Equipment Insurance	Provides a comprehensive cover for damage to electronic equipment, such as computers
	Glass Insurance	Insures all kinds of fixed glass against breakage within the business premises
	Commercial All Risks Insurance	Insures items such as machinery and equipment against unforeseen and sudden damage, subject to exclusions
	Industrial All Risks Insurance	Provides a combination of Material Damage (on all risks basis) coverage and Business Interruption Insurance, covering buildings, plants, machinery, stocks and others
	Terrorism Insurance	Insures property against physical loss or damage caused by act of terrorism or sabotage as defined in the policy
	Contractors' All Risks (CAR) Insurance	Covers all insurable loss or damage involved in a construction project
	Erection All Risks (EAR) Insurance	Covers the risks in the installation and erection of ready-built engineering projects, such as power plants
	Boiler and Pressure Vessel Insurance	Covers the risks from using boilers and pressure plants
	Machinery Breakdown Insurance	Covers machinery from unforeseen and sudden damage caused by breakdown
	Money/Cash In Transit Insurance	Covers loss of money and cash belonging to the business

Commercial Motor

Commercial Motor Insurances provide cover for the risks faced by businesses arising from the ownership or use of motor vehicles, including legal liability arising from the use of such vehicles and damage to the vehicles. Examples include:

	Commercial Motor Insurance	Insures the risks associated with the corporate ownership of motor vehicles and commercial vehicles, such as buses, coaches, lorries, taxis, tractors, trucks and vans
	Motor Trade Insurance	Insures the risks of businesses that deal primarily with motor vehicles, such as car dealers and car repairers

Liability



Liability Insurances provide cover for the legal liability to pay damages, compensation, legal expenses and costs awarded against the insured in favour of another party in respect of death, bodily injury, or loss of or damage to property. Examples include:

	Work Injury Compensation Insurance	Insures the employer's obligations to their eligible employees under the Work Injury Compensation Act (Cap. 354) against certain occupational diseases or accidents arising out of and in the course of employment
	Public Liability Insurance	Insures a business' legal liability to third parties for injury or property damage
	Products Liability Insurance	Insures against liability arising from defective products
	Carriers and Bailees Liability Insurance	Insures the insured's liability for loss of or damage to property held in their custody and control
	Commercial General Liability Insurance	Covers a wide range of legal liability under common law and contract
	Innkeeper's Liability Insurance	Insures the legal liability of innkeepers arising from loss of guests' property

Marine & Aviation

Marine Insurance covers the loss and damage of ships, cargo and goods in transit. Aviation Insurance covers damage to the aircraft and liability arising from the use of the aircraft. Examples include:

	Marine Cargo Insurance	Insures cargo during transit
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	Marine Hull Insurance	Insures the physical loss or damage to a vessel or ship
	Aviation Insurance	Insures the physical damage of aircraft and the insured's legal liability arising from the use of such aircraft

9. INDIVIDUAL & GROUP INSURANCE

9.1 General Insurance products can be sold on an individual or group basis. Group Insurance provides coverage on each of the individual member of the group, while only the individual who applies for the coverage is covered under Individual Insurance. **Table 2.2** shows the differences between them.

Table 2.2: Differences Between Individual Insurance & Group Insurance

Individual Insurance	Group Insurance
Only the individual who applies for the coverage is covered.	Only members who belong to the group and are actively at work are covered.
Each individual insured gets a policy contract.	Usually only one master contract (group policy) is issued to the employer or an affiliated organisation. The number of insureds is more than one.
An individual insured has the right to select the amount of coverage that he wants.	Insured members may or may not have the right to decide on the amount of coverage that they want. In the employer-paid plan/compulsory plan, the amount of coverage is determined by the employer.
For Accident and Health Insurance, individual's health and financial status are evaluated.	Group as a whole is evaluated depending on the gender and age distribution of the group, group size, occupation mix, and past claims experience.
Coverage continues until the individual or insurer chooses to terminate it.	The individual insured's coverage stops when he leaves the group (such as upon leaving the employment of the employer). However, the plan continues for the remaining members.
Cost of coverage is higher owing to individual underwriting and higher administrative costs.	Cost of coverage is lower owing to group underwriting and lower administrative costs.

Individual Insurance	Group Insurance
Individuals need only be insurable in order to be granted insurance coverage.	Members under a group must satisfy the eligibility requirements as stated in the group policy, before they are granted the coverage.

A. Group Insurance

9.2 As mentioned, Group Insurance provides coverage to many people under one master policy. The requirement is that several people must first be members of a group, before they become eligible to purchase the insurance. The group must have been formed for some purposes, other than to obtain insurance, such as companies, membership clubs, professional associations, trade unions and uniform groups.

9.3 The characteristics of Group Insurance include:

- (a) **Master Contract** – Group Insurance is issued under a single contract called the “master contract” (group policy) which is kept by the policy owner (policyholder). Unlike individual insurance, when an insured member of the contract dies or leaves the group, only this member’s coverage is terminated, provided that the total group size does not fall below a minimum as stipulated by the insurer. The plan itself will still carry on, because it belongs to the holder of the master contract.
- (b) **Minimal Underwriting Requirements** – This applies more to Group Accident and Health Insurance, where it is generally made available to the participating employees (in active employment) with simpler medical underwriting, if the group size is large. Usually, the underwriter may either require the employee to complete a health declaration form, or waive all underwriting, and rely on the pre-existing condition exclusion clause in the group policy to avoid anti-selection risks.
- (c) **Experience Rating** – It is usually underwritten based on the past claims experiences of the group to be insured. Such a practice is called experience rating. Some insurers also offer experience refund, i.e. amount returned by an insurer to a group policyholder, when the claims experience of a particular group (or class to which the group belongs) has been more favourable than anticipated.
- (d) **Cost Effective** – It provides low-cost protection owing to savings in administrative costs, in view that only one group policy document is issued.
- (e) **Plan Continuation** – The plan is usually renewable by the employer on a yearly basis. As such, at the end of each policy period, the corporate client will need to review the plan to assess the adequacy and comprehensiveness of the coverage. The intermediary will have to advise his client on this aspect.

(f) **Eligibility Requirements** – Group policies usually define eligible employees as those employees in a specified class or those in specified classes. For example, most group policies state that an employee must work full-time, in order to be eligible for coverage. Thus, part-time workers may be excluded from the class of eligible employees.

9.4 In addition, some group policies have an “Actively At Work” clause which requires an employee to be actively at work on the day that the insurance coverage takes effect, in order to be eligible for the cover. For such a group policy, an “Actively At Work” clause will require an employee who can report for work at the place assigned by the employer and can perform all the regular duties of his employment, as expected by the employer. This includes periods when the employee is on leave, but not on medical grounds. If the employee is not actively at work on the eligibility date of insurance cover, he will be eligible only when he returns to active service at work and in good health.

9.5 Some employers may also include a probationary period (typically one to six months), which defines how long a new employee must wait, before becoming eligible to enrol in the group insurance plan. Such an arrangement will avoid the administrative work involved with new employees resigning shortly after joining the company. It also helps to reduce the overall premium payable for the group policy.

9.6 An employer or organisation seeking a quotation for a Group Insurance plan must complete a Group Insurance Fact-Finding (GIFF) Form for submission to the insurer. The GIFF does not apply to a Group Travel Insurance proposal.

B. Compulsory & Voluntary Plans

9.7 Group Insurance policies can be issued on a compulsory or voluntary basis. For a compulsory (non-contributory) plan, all the eligible employees must be covered under the plan, and the premiums have to be paid by the employer. On the other hand, a voluntary (contributory) plan does not require full participation from the employees who are expected to pay part of the premiums. However, the insurer will normally require a minimum number of employees or percentage of participation in the plan. The advantages of both types of plans are described below:

(a) Advantages Of Compulsory (Non-Contributory) Plan

- (i) There is ease of administration, since there is no payroll deduction to monitor.
- (ii) There is lower cost owing to less administrative work involved and the greater pooling effect of risks as a result of many lives insured.
- (iii) The employer retains greater control in the benefit structures and coverage provisions.

(b) Advantages Of Voluntary (Contributory) Plan

(i) Employer

- Participating employees assume part of the costs of the benefits provided under the plan.

- It generates interest and appreciation from the participating employees in the plan.

(ii) Employees

It gives the participating employees some control over the plan. They can obtain coverage at a lower premium rate than buying it individually.



CHAPTER 3 PRINCIPLES OF INSURANCE

CHAPTER OUTLINE

1. Introduction
2. Insurable Interest
3. Utmost Good Faith
4. Principle Of Indemnity
5. Subrogation
6. Contribution
7. Proximate Cause

LEARNING POINTS

After studying this chapter, you should be able to:

- know the concept and essentials of insurable interest
- understand when insurable interest must exist and how it is being determined under the various classes of insurance
- understand the concept of utmost good faith and the meaning of material facts
- be familiar with the duty of disclosure at each stage of the insurance contract, as well as the duty of disclosure by the insured and the insurer
- know what is misrepresentation and understand the various types of misrepresentation
- differentiate between non-disclosure and misrepresentation
- be aware of the consequences of breach of utmost good faith by both the insurer and insured, and the remedies available to them
- know the principle of indemnity
- understand the various methods of providing an indemnity
- know the classes of insurance for which the principle of indemnity can be applied
- determine the indemnity for each of the main classes of insurance
- understand how indemnity may be modified, i.e. factors that limit or increase the amount of indemnity
- know what is under-insurance and how an average clause works
- know the concepts of:
 - excess or deductible
 - franchise
- explain subrogation, as well as its application and operation
- know the sources of subrogation rights
- understand how subrogation rights may be modified
- understand the concept of contribution and determine when contribution arises
- know how contribution may be modified
- define proximate cause and describe its application in insurance
- know how perils are classified in a policy



1. INTRODUCTION

- 1.1 In the previous chapter, we have introduced you to the concept of risks and insurance, as well as the benefits of insurance. In this chapter, we will explain a number of legal principles of insurance and concepts that are applicable to all general insurance contracts.
- 1.2 A number of legal principles apply to insurance contracts. These legal principles basically arise in Common Law¹, but at times are confirmed or even modified by statute or policy conditions.
- 1.3 The **six** essential principles that you need to know are described below:

Insurable Interest	– concerning the right to insure
Utmost Good Faith	– concerning the duty to disclose material information
Indemnity	– concerning the exact amount of compensation
Subrogation	– concerning rights of recovery
Contribution	– concerning double (or dual) insurance
Proximate Cause	– concerning the dominant cause of the loss



2. INSURABLE INTEREST

A. Concept

2.1 Insurable interest is the legal right to insure. It means that the person effecting the insurance has some legally recognised relationship to the subject matter of insurance. The first of such a relationship recognised at law is that of the owner. If you own a house or car, you will have an insurable interest in it because, if it is damaged or lost in any way, you will suffer to the extent of that damage or loss. Similarly, you have an insurable interest in an article which you have borrowed, because you may be liable to replace it if it is stolen or destroyed, e.g. a bicycle, digital camera, mobile phone or notebook. If you lend any of them to someone else, it will still be yours to insure, so that both parties will have an insurable interest in it.



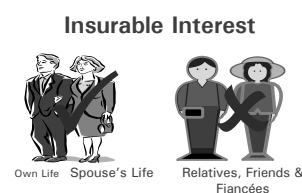
¹ Common Law is sometimes called “unwritten law” as opposed to Statute Law, which is contained in specific legislation or Acts of Parliament. Common Law has developed over many centuries and consists of the generally accepted rules and requirements that a civilised society will consider as automatic. It is given substance in countless decisions made in trial cases by judges over many years, forming a series of precedents, which are sometimes termed “Case Law”. Common Law may be modified or even abolished in certain areas by statute, and may also be modified by the mutual agreement of the parties to a contract.

2.2 Examples of people who have an insurable interest in articles in their possession of which they are not the owners include:

- | | |
|-----------------------------------|---------------------------------|
| ▪ Warehouseman | ▪ Shoe Repairers |
| ▪ Laundry Owners | ▪ Pawn Brokers |
| ▪ Watch Repairers | ▪ Audio-Visual Device Repairers |
| ▪ Hotel Proprietors or Innkeepers | ▪ Bicycle Repairers |

2.3 According to Section 57(1)(b) of the Insurance Act (Cap. 142), you have an insurable interest in your own life and in the life of your spouse, and vice versa. You also have an insurable interest in the lives of your children who are still minors (under the age of 18 years) and of anyone on whom you are wholly or partly dependent. Insurable interest for life insurance must be present at the time the insurance is effected. However, you DO NOT have any insurable interest in the lives of any others such as:

- relatives;
- friends; and
- fiancée.



2.4 However, it is possible for you to insure the life of someone who owes you money, a business partner or a key employee.

2.5 Insurable interest is a basic requirement of any contract of insurance. Without insurable interest, there will be no valid contract of insurance, since the policyholder will not be actually at risk with the insured event or peril. In other words, the insurance contract will be void if there is no insurable interest. Insurance without insurable interest will be a mere wager and, as such, unenforceable in the eyes of the law.

2.6 This is best expressed by Lord Justice Brett in *Castellain v. Preston* (1883) as follows:

“What is it that is insured in a fire policy? Not the bricks and materials used in the building the house, but the interest of the insured in the subject matter of insurance.”

B. Essentials Of Insurable Interest

2.7 There are four essentials of insurable interest as described below:

- There must be some property rights, ownership, interest or potential liability capable of being insured.
- That property must be the subject matter of the insurance.
- The insured must stand in a relationship, recognised by law, with the subject matter of the insurance.
- The proposer must benefit from the continued existence of the subject matter of the insurance contract, or be prejudiced by its loss.

C. Existence Of Insurable Interest

2.8 Different classes of insurance contracts require insurable interest to exist at different times for the contracts to be valid.

C1. Life Insurance Contracts

2.9 Section 57 of the Insurance Act (Cap. 142) requires all Life Insurance policies to have insurable interest at the time that the policies are effected. This is to ensure that the policies are not purchased to gamble on the lives of particular individuals and other events. There is no need for the insurable interest to exist throughout the term of the Life Insurance policy or in the event of a claim. A Life Insurance policy can be assigned to a third party who then becomes entitled to the proceeds of a claim, even though he has no insurable interest in the life insured. Also, in accordance with Sections 49L and 49M of the Insurance Act (Cap. 142), a Life Insurance policy owner can make nomination of appropriate beneficiaries to receive the death proceeds from the policy.



C2. Marine Insurance Contracts

2.10 For Marine Insurance policies, the proof of existence of insurable interest is not necessary at the time when the insurance is effected. However, insurable interest is required at the time of the loss as specified in Section 6 of the Marine Insurance Act (Cap. 387). Any Marine Insurance policy without insurable interest existing at the time of the loss is deemed to be void. This is particularly important in Marine Cargo Insurance, where the person holding the policy at the time the cargo is lost needs to show his interest only at that time, not when the voyage commences. This follows from the customs of maritime trading that the cargo may change ownership during transit.

C3. Non-Life & Non-Marine Contracts

2.11 Property and Liability Insurance contracts fall under this category. For this group of insurance contracts, insurable interest must exist at the time that the policy is issued and at the time of the loss.

D. How Insurable Interest Is Determined

2.12 Let us look at how insurable interest is determined under the various classes of insurance.

D1. Life Insurance



2.13 A person has an insurable interest in his own life. Hence, as long as a policy is taken on the person's own life, insurable interest is said to exist. For third-party policies, there is a need to ensure that the relationship between the policy owner (policyholder) and the life insured (insured person) falls under one of the following categories:

- husband and wife, and vice versa;

- parent and minor child;
- guardian and ward;
- partner and partner in a business partnership;
- employer and employee (including keyman or keyperson);
- creditor and debtor, such as mortgagee (lender) and mortgagor (borrower).

2.14 Note that evidence of insurability is required in the latter two types of relationships.

D2. Property Insurance

2.15 Insurable interest for this class of insurance normally arises out of ownership, where the insured is the owner of the subject matter of insurance. This means to say that, as long as an insured is the owner of the subject matter, insurable interest is said to exist.

2.16 In the event that the insured is not the full owner, then there is a need to ensure that the insured falls under one of the following categories:

- Part or Joint Owners;
- Agents;
- Bailees; or
- Tenants.



- (a) **Part Or Joint Owners** - A person who is a part or joint owner in property has an insurable interest up to the limit of his financial interest. However, a part or joint owner can insure the property or its full value, as he is considered a trustee for any money that may be paid in the event of a claim and which may exceed his actual interest.
- (b) **Agents** - Where a principal has an insurable interest, his agent can insure on his behalf.
- (c) **Bailees** - Where someone holds property on a temporary basis on behalf of the legal owner, he is a bailee. He has an insurable interest in the property, since he may be liable to replace it if it is damaged or stolen. Examples of bailees include hoteliers, innkeepers, laundry owners, shoe repairers, and motor workshop owners.
- (d) **Tenants** - When someone is a tenant of a property, he is not the owner of it, but has an insurable interest in it. This is because the tenant may be liable for the cost of repairs in the event of damage to the property.

Do take note that bailees' and tenants' interests are in respect of possible liabilities only. Do also note that while shareholders own a limited liability company, they do not have insurable interest in the company's property as it is the company that owns such assets.

D3. Liability Insurance

- 2.17 A person has insurable interest to the extent of any potential legal liability from negligence, which may be incurred to pay damages (e.g. damages for property damage, injuries to third parties, defamation, etc.) awarded by a court of law and other costs. Legal liability can arise under contract, statute, or at Common Law.
- 2.18 A statute is a specific law passed by parliament and is mandatory to all, e.g. an employer under the Work Injury Compensation Act (Cap. 354) is liable to pay compensation for any personal injury by accident or certain occupational disease suffered by an employee, while arising out of and in the course of his employment with the employer.
- 2.19 Liability at Common Law usually involves some element of fault, perhaps the most obvious example being the “tort” of negligence. Liability under contract refers to what is known as “liability assumed under contract”, whereby one party agrees to assume another’s liability for negligence, and to hold such other person harmless for liability to third parties.
- 2.20 Thus, the key to determining whether insurable interest exists is to determine whether there is a chance of the insured event happening to the insured, e.g. a Professional Indemnity Insurance application from an investment consultant for cover against giving incorrect advice to the client resulting in a financial loss to the client can be accepted, as there is a chance of such an event occurring, resulting in him being sued by the client.

D4. Pecuniary Insurance

- 2.21 Pecuniary Insurance policies are financial involvements not within the categories as described above. “Pecuniary” means relating to money, and Pecuniary Insurance covers businesses against purely financial losses (e.g. from fraud, legal expenses or business interruption) rather than physical damage to property. They include the loss of profits following a fire (Consequential Loss Insurance or Business Interruption Insurance) and financial loss resulting from the acts of dishonest staff members (Fidelity Guarantee Insurance or Crime Insurance). For Pecuniary Insurance, it is quite easy to determine whether the insured event applied for is insurable. For example, the outbreak of a fire in a factory can cause much damage to the factory, while it is not usable. Hence, an application for a Consequential Loss Insurance policy against loss of profits from fire is an insurable risk, as the factory owner or operator will be clearly prejudiced by the loss of profits.

3. UTMOST GOOD FAITH

A. Concept

- 3.1 The duty of utmost good faith (uberrima fides) is central to the buying and selling of insurance. Insurance contracts are thus described as contracts uberrimae fidei



(of the utmost good faith). This means, in simple terms, that the insurer undertaking the risk and the person applying for insurance have a duty to deal honestly and openly with each other in the negotiations which lead up to the formation of the insurance contract. This duty may also continue while the contract is in force. If one party is in breach of this duty, the other party usually has the right to avoid the insurance contract entirely. In other words, a breach of utmost good faith renders the insurance contract voidable.

- 3.2 The doctrine of utmost good faith imposes two duties on the parties to the insurance contract, namely:
- a duty not to misrepresent any matter relating to the insurance, i.e. a duty to tell the truth; and
 - a duty to disclose all material facts relating to the contract, i.e. a duty not to conceal anything which is relevant.
- 3.3 This means to say that the parties to a contract must volunteer to disclose accurately, truly, and fully all facts material to the risk being proposed, whether requested or not.
- 3.4 In addition to one party not misleading the other party, and answering questions truthfully, he must not conceal anything which is relevant. As a general rule, if there is any doubt as to whether or not a situation constitutes a material fact, it should be declared to the insurer.
- 3.5 This is different from the doctrine of caveat emptor (let the buyer beware) that applies to other types of contracts, such as sales of goods. For many contracts for the purchase of a product, each party can examine the item which is the subject matter. For example, in the case of buying an electronic sound system, it can be examined and switched on to check that it works properly. However, this is not so easy with an insurance contract which is only "tested" at the time of a loss.
- 3.6 The nature of the subject matter of the insurance contract and the circumstances surrounding it are facts known mainly to the insured. The insurers are not generally aware of these facts, unless the insured tells them. The proposer can at least examine a specimen copy of the policy (or the actual policy purchased within the free-look period in the case of Life Insurance or Personal Accident Insurance) before accepting its terms. However, the insurer is at a disadvantage as he cannot examine all material aspects of the proposed insurance. Hence, the law requires the proposer to disclose the main material facts to the insurance contract, and any non-disclosure of material facts by the proposer will render the policy voidable.
- 3.7 In the case of *Rozanes v. Bowen* in 1928, Lord Justice Scrutton summed up the duty of disclosure as follows:

"As the underwriter knows nothing and the man who comes to him to ask him to insure knows everything, it is the duty of the insured ... to make a full disclosure to the underwriter without being asked of all the material circumstances."

3.8 As disclosure of material facts is very important in insurance, we shall look at the meaning of the term “material facts” before proceeding to discuss the duties of disclosure of the insurer and the proposer, as well as the consequences of non-disclosure.

B. Material Facts

3.9 A material fact is usually defined as one which will influence the judgement of a prudent underwriter whether or not to accept a risk and, if accepted, at what premium and on what terms and conditions.

3.10 Examples of facts which will be considered as material facts for each class of insurance are described below:

Material Facts	Relevant Class of Insurance
- that a factory has stocks of flammable materials	Fire Insurance
- that a shop has previous burglaries	Theft Insurance
- that an operator of a fleet of motor vehicles employs young drivers	Motor Insurance
- that a boiler is not well maintained	Engineering Insurance
- that the proposer has been refused insurance in the past	All types of insurance

3.11 However, the law accepts that some facts do not need to be disclosed. Examples of such facts include:

Types Of Facts	Reasons Why It Need Not Be Disclosed
- that smoke detectors, sprinklers, alarms and security fittings are installed in the building	- It reduces fire and burglary risks.
- that jewellery is attractive to thieves	- It is common knowledge.
- where a blank space on a completed proposal form is not followed up	- The insurer is deemed to have waived the need for disclosure.
- facts of the law	- Everyone is expected to know the law.
- facts disclosed in a report of a risk surveyor appointed by the insurer	- The insurer is aware of the relevant information.

C. Duty Of Disclosure

3.12 The duty of disclosure arises from the beginning of negotiations until the time that the insurance contract takes effect (i.e. the inception of the policy) and at other specific times after inception. The duty arises both at Common Law and under the terms of the policy.

3.13 Let us take a look at the duty of disclosure at each stage of the insurance contract.

C1. At Inception

3.14 At Common Law, the duty of disclosure starts at the beginning of negotiations and ends at the formation of the insurance contract. Sometimes, a policy wording will extend this duty, so that it is continuous throughout the period of insurance of the policy.



Duty of Disclosure:
 - At Inception
 - On Renewal

C2. On Renewal

3.15 On the renewal of a policy, the duty of disclosure by the insured is revived for short-term (such as general insurance, non-life policies) business. There is no such duty of disclosure for long-term (such as life policies) business.

(a) Long-Term Business

Policies which fall under this category include Life Insurance policies which are not usually renewable annually, but which are issued for a specific number of years or for life. For such policies, if the insured wishes to continue paying premiums, the insurer will be obliged to accept them. Therefore, there is no duty of disclosure at so-called "renewal", since no new contract is formed.

(b) Short-Term Business

General Insurance, such as Fire, Theft, Liability, Marine and Aviation Insurance, belongs to the category of short-term business. Such contracts are renewable usually after 12 months. When the contract ends and renewal terms are offered and accepted, a new contract is formed. The duty of disclosure is revived and is applied as for new contract negotiations.

C3. On Alteration

3.16 During the currency of a long-term or short-term insurance contract, it may be necessary to change the terms of the policy. The insured may wish to increase the sum insured, or change the description of the property insured. In these cases, the duty of disclosure is revived as a new contract is being formed. For example, a landlord at the time of proposal has disclosed that the building is rented out and is being used as an office. If, during the continuation of the policy, the tenants vacate the building, and the landlord subsequently rents it out to a person using it as a warehouse, then he must disclose this fact to the insurer, as there is a change of material fact, which affects the risk situation.

C4. Insured's Duty Of Disclosure

3.17 As we have seen earlier, the law imposes a greater duty of disclosure on the insured, since the nature of the subject matter of the insurance contract, and the circumstances surrounding it, are facts known mainly to the insured. The insurer is not generally aware of these facts, unless the insured conveys them to the insurer. Therefore, it is important that the insured must make full and complete disclosure of all material facts relating to the insurance contract if he wishes to ensure that, in the event of a loss covered by the terms of the policy, his claim is paid by the insurer, without dispute.

C5. Insurer's Duty Of Disclosure

3.18 The insurer also has a duty of disclosure to the insured. In order to fulfil this duty, the insurer must also exercise utmost good faith by, for example:

- notifying the insured of a possible entitlement to a premium discount resulting from a good previous insurance history, or having good preventive measures;
- taking on only risks which the insurer is registered to accept, i.e. avoid unenforceable contracts;
- ensuring that the statements made relating to the insurance are true, as misleading an insured about the policy coverage is a breach of utmost good faith.

D. Misrepresentation

3.19 Besides the failure to disclose material facts, the making of an untrue statement may also result in the voiding of the policy. Such false statement which induces the other party to enter the insurance contract is called "misrepresentation".

3.20 For a fact to be considered a misrepresentation, it must:

- be one of fact rather than a statement of law, opinion or belief;
- be made by a party to the contract;
- be material, i.e. something which has influenced a reasonable person in deciding whether to enter into the agreement;
- induce the contract, i.e. be something which the other party has relied upon in deciding to enter into the agreement;
- cause some loss or disadvantage to the person who has relied upon it.

3.21 Misrepresentation can occur under a number of circumstances as shown below:

(a) Fraudulent Misrepresentation – A false statement is made with the deliberate intention of misleading another, and putting him at a disadvantage, e.g. a proposer for Theft Insurance says that the premises are protected by a burglar alarm, when they are not.

(b) Innocent Misrepresentation – A statement made is false, but there is no intention to mislead the other party to the contract, e.g. a proposer for Motor Insurance declares that his second-hand car has not been modified in any way, when it has already been done so by the first owner.



- (c) **Negligent Misrepresentation** – A statement made is false, because the person making it does not take sufficient care to check that it is correct, e.g. a proposer for a Life Insurance policy states that his age as 25 years old, when he is actually aged 35 years, thereby erroneously paying a lower rate of premium.

E. Non-Disclosure & Misrepresentation

- 3.22 Where insurance is concerned, misrepresentation rarely occurs on its own as an issue distinct from that of non-disclosure. In fact, the dividing line between misrepresentation and non-disclosure is a very fine one. For example, a proposer for Life Insurance may say that he is in good health, when he knows that he is suffering from a serious illness. This will amount to both misrepresentation (an untrue statement about the proposer's state of health) and non-disclosure (a failure to tell the insurer about a serious illness). Therefore, if the insurer in this case wishes to avoid the insurance policy, it will probably raise both defences. In practice, misrepresentation and non-disclosure tend to be regarded as aspects of a general duty to act in utmost good faith.

F. Breach Of Utmost Good Faith

- 3.23 Both the insured and the insurer, as we have already seen, have to observe the principle of utmost good faith. Let us look at what will happen if they breach this principle.

F1. Breach By The Insured

- 3.24 A breach of utmost good faith may take the form of:
- misrepresentation which may be either innocent or fraudulent;
 - non-disclosure which may be innocent or fraudulent. If fraudulent, it is sometimes called concealment.
- 3.25 In each case, regardless of whether or not there is fraud, the insurer has the right to void the contract "ab initio" (from the beginning). The effect is that the contract is cancelled retrospectively, so that the insurer is not liable for any claim arising between the time of making of the contract and the time of voiding it.
- 3.26 If concealment or fraudulent misrepresentation is involved, the insurer may also have the right to claim damages (for the tort of deceit) and can, in addition, keep any premium paid by the insured.
- 3.27 If the insurer wishes, it may waive (give up) its right to any or all of these remedies, and allow the insurance contract to stand. The insurer must exercise its option within a reasonable period of time after the discovery of the breach. If it does not, it will be assumed that it has decided to waive its rights.
- 3.28 Take note that, in the event of a breach of utmost good faith, the insurer can either void or affirm the entire contract. The insurer cannot, for instance, refuse to pay a particular claim but, at the same time, affirm the contract and allow it to



stand. The insurer cannot accept liability for only a proportion of the loss. **Table 3.1** gives a summary of the remedies which the insurer has, when there is a breach of utmost good faith.

Table 3.1: Remedies For Breach Of Utmost Good Faith

	Innocent Breach By The Insured	Fraudulent Breach By The Insured
Right to void the policy as a whole?	YES	YES
Right to keep the premium as well?	NO	YES
Right to claim damages as well?	NO	YES
Right to ignore the breach, and allow the policy to stand?	YES	YES
Right to refuse a particular claim, but allow the policy to stand?	NO	NO

F2. Breach By The Insurer

- 3.29 The insurer, like the insured, can be liable for a breach of the duty of utmost good faith. If the insurer is in breach of its duty of utmost good faith, the insured will be entitled to void the insurance contract.
- 3.30 For example, if an insurer is aware that an agent has fraudulently issued a Cover Note for a Credit Insurance policy to his client, when the cover has not been completed, the insured in this case can sue the insurer for failing to disclose this fact to him and seek to void the contract.



4. PRINCIPLE OF INDEMNITY

A. Concept

- 4.1 The term “indemnity” means the protection of, or security against, damage or loss. Therefore, when an insurance policy is said to be a contract of indemnity, it is intended to provide financial compensation for a loss which the insured has suffered and put him back in the same position that he has enjoyed immediately before the loss.
- 4.2 The concept of indemnity thus implies that the object of insurance is to provide the exact financial compensation for the insured. It also implies that the insured should not be over-compensated and should not “make a profit” from his loss. In other words, the principle of indemnity requires that the insured should be fully compensated, but not over-compensated, for the loss.

B. Application Of Indemnity

4.3 The principle of indemnity can be applied to most classes of general insurance, including:

- Property Insurance;
- Liability Insurance;
- Pecuniary Insurance; and
- Marine Insurance.



4.4 The reason for these insurance policies being considered as contracts of indemnity is that they are intended to provide financial compensation for a loss which the insured has suffered, and to put him back in the same position that he enjoyed immediately before the loss.

4.5 Life Insurance and Personal Accident Insurance (covering accidental death and permanent total disablement), on the other hand, are not contracts of indemnity, as a financial value cannot be easily measured or placed on a person's life, or the effects of a bodily injury and, therefore, cannot provide indemnity for a loss which the insured has suffered.

C. Measure Of Indemnity

4.6 The exact amount of compensation under a policy of indemnity is not known in advance, but is fixed at the point of a claim, based on the actual amount of loss suffered by the insured. The method by which the indemnity is measured varies with the types of insurance involved and the nature of the subject matter insured. Let us now take a look at how indemnity is determined for each of the main classes of insurance.

C1. Property Insurance

4.7 Under a Property Insurance policy, the measure of indemnity is its value at the date and place of loss. This is a very broad guideline. The actual basis of settlement is dependent on the type of property insured, as you will see later.

(a) Buildings

Indemnity for loss of or damage to a building is calculated as the cost of repair or reconstruction at the time of loss. An allowance is made for improvements which may result from the repair or re-construction, e.g. new roof and re-decoration.

(b) Machinery & Equipment

The measurement of indemnity is dependent on whether there is a ready second-hand market for the item.

- When there is a ready second-hand market, the indemnity is the cost of the second-hand item plus any additional transport and installation costs.
- When there is no second-hand market, the indemnity is the cost of repair or replacement less an allowance for wear and tear, if applicable.

(c) Stock

The measurement of indemnity for stock is usually dependent on whether it is:

- manufacturers' stock in trade; or
- wholesalers' and retailers' stock in trade.

(i) Manufacturers' Stock In Trade – The stock in this case consists of raw materials, work in progress and finished stock. The indemnity value is the cost at the time and place of loss of replacing the goods, or returning them to the condition which they were in, immediately before they were damaged.

(ii) Wholesalers' & Retailers' Stock In Trade – The indemnity here is the cost of replacing the stock at the time of the loss, including the costs of transport to the insured's premises and handling costs.

One of the difficulties in measuring stock losses is that the stock may not have a definite constant resale value. In addition, some stocks may be obsolete. Items may be unfashionable or replaced by a more sophisticated model and, therefore, difficult to sell. In these cases, settlement must be made to maintain the insured's financial position and not to improve it.

To sum up, the insured, regardless of whether he is a manufacturer, wholesaler or retailer, is not entitled to payment in respect of any potential profit element on the sale of stock.

(d) Household Goods

In general, indemnity is based on the cost of replacing the items at the time of loss, subject to a wear and tear deduction. However, a more popular form of cover is available on a "new for old" basis (see later section of this chapter for more information), where no allowance is made for wear and tear.

C2. Liability Insurance

4.8 The indemnity under a Liability Insurance policy is the amount of damages awarded by the court of law, in addition to the insured's legal expenses and claimant's costs. However, in practice, most liability claims do not go to court. They are usually settled by negotiation between the insurer and the third party on the basis of what a court would award, if the case had come before it.

C3. Pecuniary Insurance

4.9 In the case of Pecuniary Insurance such as Money Insurance, the amount of indemnity is the actual amount of loss incurred by the insured.



C4. Marine Insurance

4.10 Marine Insurance policies are generally issued on an agreed value basis (see later section of this chapter). The amount of indemnity under this class of insurance is computed using the formula in the Marine Insurance Act (Cap. 387).

D. Modifying Indemnity

4.11 Indemnity is not a rigid principle, as it can be modified by agreement between the parties. This allows the insured to get either less or more than a strict indemnity settlement. In fact, the insured does not always receive full indemnity.

D1. Factors That Limit The Amount Of Indemnity

4.12 Factors that limit the amount of indemnity resulting in the insured receiving less than the full indemnity include:

(a) The Sum Insured Or Limit Of Liability

The maximum amount recoverable under many policies is limited by the sum insured or limit of indemnity (also known as limit of liability). In policies which have a sum insured or indemnity limit, the insured cannot recover more than this amount, even where the loss measured by the indemnity principle is a higher figure. However, there can be exceptions, where Liability Insurance is concerned. In Liability Insurance, the costs and expenses incurred are either included in the limit of liability or payable over and above the limit of liability.

(b) Other Policy Limits

Besides the sum insured or limit of indemnity, some policies also impose separate limits for particular types of loss or property. For example, a Householder's Insurance policy will often restrict the cover on the individual items covered under the policy to a certain percentage (e.g. 5%) of the sum insured. For example, a picture insured under a Householder's Insurance policy may be valued at S\$30,000, however, because it has been indicated in the policy that the amount payable is 5% of the sum insured (assumed to be S\$100,000), in the event of a fire, only S\$5,000 (5% of S\$100,000) will be paid for the picture. In other words, the policy owner receives an amount which is less than a full indemnity.

(c) Under-Insurance & Average Clauses

The policy owner will also not receive a full indemnity if the sum insured is not large enough to meet the loss. For example, if goods which are insured for only S\$50,000 are totally destroyed in a fire and cost S\$75,000 to replace, the policy owner receives only two-thirds of the costs incurred. In other words, the sum insured is always the maximum amount that will be paid, no matter how much an indemnity will be.

If the sum insured is inadequate and the policy contains an average clause, the amount of claim will be reduced. **Example 3.1** shows how an average clause works.

Example 3.1: How Average Works

Able Trading Company had a fire in its insured shop. The Company claimed a loss of S\$5,000 against its Fire Insurance policy. The loss adjuster, who was instructed by the insurer, was satisfied that the loss claimed was correct. However, the loss adjuster reported that, in his opinion, there was at least S\$10,000 in stock, but only S\$8,000 in insurance cover. The loss adjuster, therefore, adjusted the loss as follows:

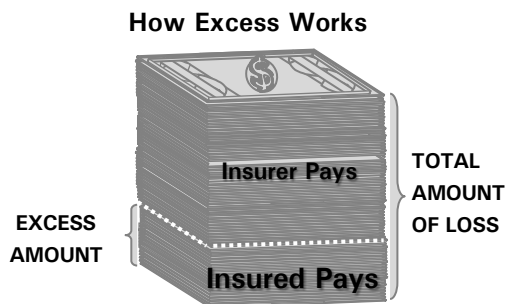
$$\frac{\text{Sum insured}}{\text{Value of goods at risk}} \times \text{Loss}$$

$$\frac{\text{S\$8,000}}{\text{S\$10,000}} \times \text{S\$5,000} = \text{S\$4,000}$$

If the policy was not subject to average, the insurer would have to pay the full S\$5,000. With average, the liability of the insurer was limited to only S\$4,000, as it had been deprived of receiving a higher premium. In this way, the Company (policy owner) receives an amount which was less than what it was actually entitled to be indemnified because of its under-insurance.

(d) Excess/Deductible

An excess or a deductible is the first amount of each and every claim which is not covered by the policy and is borne by the insured. The term **excess** is usually used in Motor and Household Insurance policies. The term deductible is sometimes used in commercial insurance, such as Industrial All Risks Insurance and Machinery Breakdown Insurance, where the amount retained by the insured is sizeable. The retention may be voluntary at the insured’s request, or compulsory as imposed by the policy conditions. Either way, the amount of claim is reduced by the amount of the excess or deductible as stated in the policy. If the amount of claim is equal or less than the amount of excess or deductible as imposed under the policy, nothing will be payable by the insurer. The following diagram briefly illustrates how excess works:



(e) Franchise

A franchise is similar to an excess in that there is no liability for any loss which is less than the franchise figure. However, once the franchise has been exceeded, the loss is payable in full. For example, if the franchise is S\$500 and the loss is S\$300, nothing will be payable under the policy; if the loss is S\$600, the entire S\$600 will be payable by the insurer.

D2. Extensions That Increase The Amount Of Indemnity

4.13 Extensions can be added to a policy, so that the insured can recover more than a strict indemnity. The examples are as follows:

(a) Reinstatement Clause

A reinstatement clause can be included in policies to take care of the depreciation in the value of a property owing to wear and tear. In the event of a claim, the insurer will pay an amount equivalent to the cost of rebuilding or replacing a property to a condition “equitable to or substantially the same as, but not better than or more extensive than, its condition when new”. In other words, no deduction is made for wear and tear. Therefore, the amount received by the policy owner is higher than the actual amount of indemnity due to the policy owner.

**(b) “New For Old” Clause**

A “New for old” cover is quite similar to that of the reinstatement cover. It is often included in Householder’s Insurance policies or Personal All Risks Insurance policies. With the inclusion of this clause, the insurer will pay the full replacement cost “as new” for any of the insured items lost or destroyed, with no deduction for wear and tear. This results in the policy owner receiving an amount that is more than what he is actually entitled to, according to the principle of indemnity.

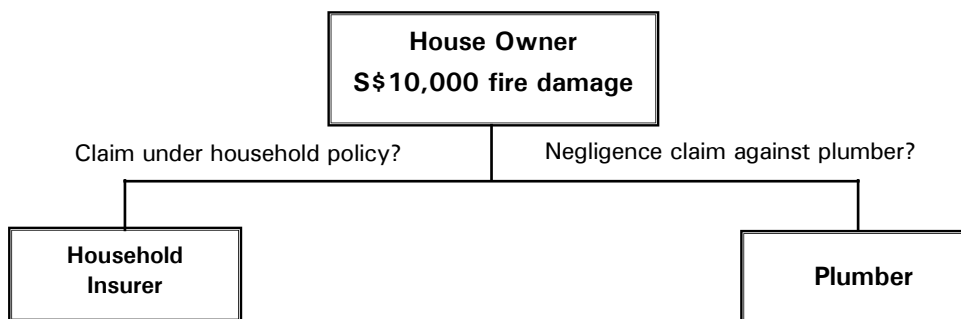
(c) Agreed Value Clause

The agreed value cover is often used if a property to be insured is unique, or of a type where there is limited market, e.g. “classic” cars. A policy that incorporates the agreed value cover is called the valued policy. Under a valued policy, the value of the subject matter of the insurance is agreed at the start of the contract and the sum insured is fixed accordingly. In the event of a total loss claim, the insurer must pay the agreed value as stated in the policy, regardless of the actual value at the time of the loss, even if it can prove that the value of the property has declined since the insurance was effected. In other words, the policy owner may receive an amount that is more than what he is actually entitled to, according to the principle of indemnity.

5. SUBROGATION

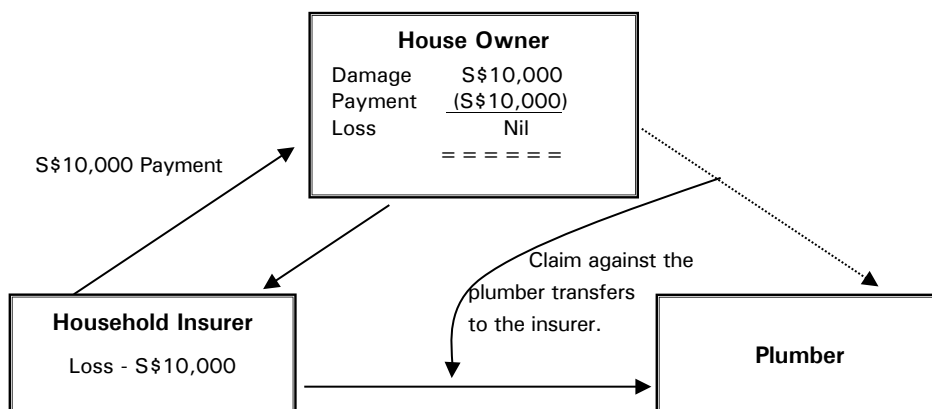
- 5.1 Subrogation is the legal doctrine, whereby one person takes over the rights or remedies of another against a third party. Subrogation is defined as the “right of one person (the insurer) to take over the rights of another (the insured)”. It is often described as “stepping into the shoes of another” and is applicable only to contracts of indemnity. The basic premise is that where one person, i.e. typically an insurer in this case, makes a payment on an obligation which, in law, is the primary responsibility of another party, then the insurer making the payment is subrogated to the claims of the insured to whom the insurer has made the payment with respect to any claims or remedies which are exercisable against the primarily responsible party.
- 5.2 Subrogation exists to make sure that an insured does not get more than an indemnity, by claiming for the same loss or damage from both the insurance policy and another source or sources. This is to say that subrogation will arise only, where the insured has suffered a loss and has another means of recovering for it, i.e. a claim on his own insurance policy and a legal right or claim against some other persons for the same loss. If the insured chooses the first option (a claim on his policy), then the alternative right, i.e. the claim against another, will pass on to the insurer. The effect is to prevent the insured from recovering twice for the same loss, so as to preserve the principle of indemnity.
- 5.3 For example, let us suppose that a house has been damaged in a fire started by the negligence of a plumber who has come to repair a pipe. The damage amounts to S\$10,000 and the house owner has a household policy which covers fire damage. The house owner has two means of recovering this loss. Firstly, he can claim under his own household policy. Secondly, he can make a claim against the plumber based on negligence. **Figure 3.1** illustrates the choices that the house owner has.

Figure 3.1: Choices Of The House Owner



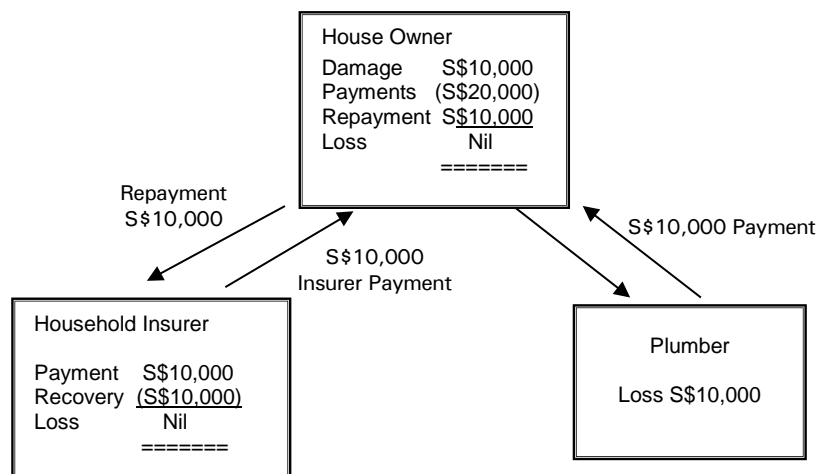
- 5.4 The easiest course is to claim against the household insurer. However, if the house owner receives an indemnity from his insurer (in other words, the insurer pays the claim), he will lose the right to recover from the plumber. This right is now transferred to the household insurer, who can sue the plumber in the name of the insured to recover the claim payment as shown in **Figure 3.2**.

Figure 3.2: Claim Against Household Insurer



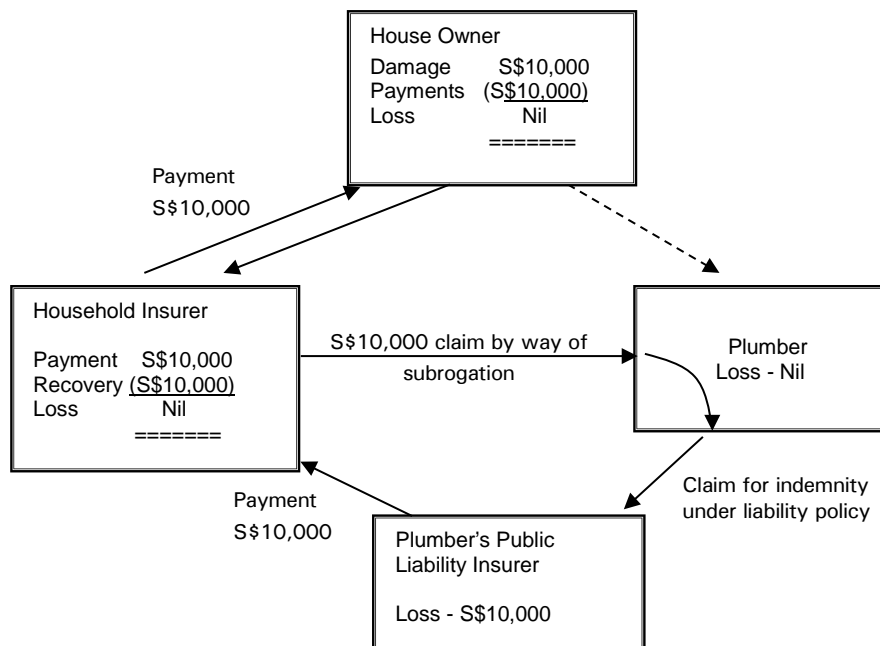
5.5 In the above example, the insurer has indemnified the insured, and the insured has not enforced his alternative rights to compensation. Thus, the insurer may “step into his shoes” and pursue any right of action available to the insured to reduce the loss insured against. However, if the house owner also receives compensation from the plumber, then he will have to pass on the money to the insurer. This is the second way in which subrogation can operate. **Figure 3.3** illustrates how it works.

Figure 3.3: What Happens When House Owner Receives Compensation From Insurer And Another Party?



5.6 There is yet another possible scenario to the above example, and that is, the plumber has his own insurance to protect against claims of this sort. For example, the plumber has a Public Liability Insurance policy which will reimburse him for the loss that he has to pay to the house owner. In such a case, the household insurer has the right of recovery against the Public Liability insurer. **Figure 3.4** illustrates how this works.

Figure 3.4: What Happens When There Is A Second Insurer Involved?



A. Operation Of Subrogation

5.7 The principle of subrogation can operate in two ways as you can see from the example given earlier. First, the insured may have actually succeeded in “recovering for the same loss twice”, i.e. collected a claim payment from his insurer and recovered compensation from another source for the same loss. Second, where the insured has not received compensation from another source, the insurer who has indemnified the insured in respect of the loss may then bring an action against the third party who is legally responsible for it. Let us look at this latter case in detail.

A1. Where The Insurer Brings An Action Against The Third Party

5.8 The practices as described below apply when an insurer brings an action against a third party.

(a) Action In The Name Of The Insured

The action against the third party must be brought in the name of the insured, and legally, it is regarded as the insured’s own action, although the insurer will ultimately get the benefit.

(b) One Action Only For The Whole Loss

The action must be for the whole loss and not just for the portion which has been borne by the insurer. The reason is that, as a general rule, the law allows one to sue a person only once for a wrongful act.

For example, if a motor car is damaged by the negligent action of another motorist and the cost of repair is S\$5,000, the car owner will be able to

claim for this loss, if he has a comprehensive Motor Insurance policy. However, he may also need to hire another motor vehicle, while his car is in the workshop for repair, and this cost (say, S\$500) may not be covered by his Motor Insurance policy. Therefore, the owner will have to claim this back from the other negligent motorist. Since the insurer has the right to sue in its name for the S\$5,000 which it has paid, it is important that it claims, in addition, for the S\$500 hire charges on behalf of its insured, as otherwise the right to recover this expense may be lost.

(c) Time When Subrogation Rights Arise

At Common Law, the insurers must indemnify the insured (i.e. pay the claim) before they can exercise subrogation rights. However, this means that the insurers do not have complete control from the date of loss, and their liability to recover can be seriously prejudiced by delay, or by some other actions taken by the insured.

For the above reason, insurers will always include an express subrogation clause in non-marine policies. This will allow the insurers to begin proceedings against a third party, before they have settled the insured's own claim. The clause will also give the insurers the right to control the proceedings. The effect is that the insured will not be able to bring an action against the third party himself (unless the insurers agree) and will be in breach of his duty to the insurers, if he prejudices his rights in any way (e.g. by waiving his rights against the third party, or entering into a compromise with the third party).

(d) The Amount Of The Recovery

The operation of the principle of subrogation may depend on the amount which is recovered.

(i) Recovery Equal To The Loss

In many cases, the amount of the recovery from the third party will be the same as the loss suffered by the insured. For example, if the insurers pay a loss of S\$5,000 in full and then recover S\$5,000 from the third party, they will be entitled to keep the whole of the S\$5,000 recovered. However, if they have paid only S\$4,750, because the policy is subject to an excess of S\$250, then the insurers will be allowed to retain only S\$4,750 and must pass on the S\$250 to the insured.

(ii) Recovery Greater Than The Loss

If there is any surplus after the insurers have recovered their money, the insured will be entitled to keep it. Take note that, once again, the insurers are not entitled to recover more than what they have paid out.

(iii) Recovery Less Than The Loss

In some cases, the recovery from the third party may be less than the loss suffered. If the insurers have paid for the whole of the loss, they will obviously be entitled to keep the whole sum which they have

recovered. However, if the insurers have not paid the whole of the loss because the policy is subject to an excess, a difficult question will then arise. Using the same example as illustrated earlier, if the insurers recover S\$4,000, it is not sure whether they can retain the full amount or only S\$3,750 (S\$4,000 - S\$250), since there is no clear law on this.

B. Ex-Gratia Payments

5.9 Subrogation arises only from payments made under the terms of the policy. If the insurer makes a payment outside the terms of the policy, making it clear that no legal obligation to pay is accepted, and that payment is made merely as a favour (known as “ex-gratia” payment), which usually arises from goodwill or good business relationship, the insurer will not be entitled to subrogate against a third party. The insured is entitled to retain any amount secured in this way.

C. Source Of Subrogation Rights

5.10 We have seen that the effect of the doctrine of subrogation is to pass on to the insurer a right to recover from a third party who is legally responsible for the loss suffered by the insured. There are two main sources for such a right. It may arise in:

- tort; and
- contract.

C1. Tort

5.11 Subrogation rights most frequently arise in tort. In most cases, the third party will have negligently damaged the property belonging to the insured covered under the latter’s Property Insurance policy. For example, a lorry driver may negligently drive his motor vehicle into a building causing damage. If the owners of the building claim for such damage under their Property Insurance, the insurers will, on the face of it, be able to exercise their subrogation rights against the lorry driver in the name of the insured owners.

C2. Contract

5.12 Subrogation rights may exist in contract. If the insured has an alternative contractual right of recovery, in addition to that provided by the insured’s own insurance, the insurers will be able to enforce this right for their own benefit. For example, property insurers that pay claims for damage to buildings may have rights of recovery against the insured’s tenant who is legally responsible for the damage under the terms of the lease agreement.



D. Modification Of Subrogation Rights

5.13 Subrogation rights are often modified as a result of agreements among the insurance companies. Sometimes, insurers agree to modify their rights to subrogation against third parties. This is particularly common where the third party is also insured. As we have seen, if the third party is covered by his own Liability Insurance, the result is that one insurer will end up claiming against another insurer. This will result in extra administrative costs and possibly wasteful and expensive litigation among insurers, if they cannot agree on which one of their insureds is to blame for the damage.

5.14 An example of such modification of subrogation rights is the Barometer Of Liability Agreement (BOLA) being used by motor insurers in the Singapore Motor Insurance market.



6. CONTRIBUTION

6.1 Contribution (known as double or dual insurance) is the right of one insurer to recover an equitable proportion of a paid claim from another insurer who is also liable for the same claim.

6.2 Like subrogation, contribution applies only to insurance policies which are contracts of indemnity. It effectively prevents the insured from “making a profit from his loss”. Contribution is concerned with the sharing of losses among insurers. It comes into effect when two or more insurers are liable to pay the same claim. If the insured claims from all of them, then he will recover more than the amount that he has lost, and this is a breach of the principle of indemnity. If the insured claims only from one insurer, then it will be unfair, as the other insurers have all received premiums to cover the risk. However, the principle of contribution has evolved to ensure that all insurers who are involved in covering the risk pay an equitable proportion or rateable share of the same claim.

A. When Contribution Arises

6.3 At Common Law, the following requirements must be satisfied before contribution arises:

- two or more policies of indemnity must exist;
- the policies must cover a common interest;
- the policies must cover a common peril which gives rise to the loss;
- the policies must cover a common subject matter; and
- each policy must be liable for the loss.

6.4 In the next few sections, you will see that for the principle of contribution to apply, there is a need only for interest, peril and subject matter to be common to all policies. There is no requirement that the policies must be identical, as long as there is some overlap in the insurance covers.

A1. Two Or More Policies Of Indemnity

6.5 Contribution will arise when there is more than one indemnity contract covering the same subject matter. Suppose Harry, who owns a restaurant, effects a new Fire Insurance policy with a new insurer, without cancelling an existing Fire Insurance policy, which the new policy is intended to replace. Hence, there will be two similar Fire Insurance policies covering the same restaurant. If a fire occurs at Harry's restaurant, contribution among the insurers will arise.

6.6 In such a case, the insured should claim only on one contract of insurance and should inform the insurer of the existence of another policy. It is then up to that insurer (not the insured) to work out the contribution arrangements. The insured is not entitled to claim on both policies. In any event, the claim form will usually contain a relevant question such as the following:

"Is there any other insurance covering the incident? If so, please state the policy number and name of the insurance company."

6.7 You must note that contribution does not apply in the case of a Life Insurance policy, or any other non-indemnity contract of insurance such as Personal Accident Insurance covering accidental death and permanent total disablement.

A2. A Common Interest

6.8 Different interests in the same property may exist in the case of landlord and tenant, mortgagor and mortgagee, or seller and purchaser of a building. If each of them effects a policy to cover only one's own interest, then there will be no double insurance and no contribution. However, if either or both parties insure for the benefit of the other, as well as themselves, contribution may arise. For example, where a husband and wife insure a property jointly, and a second insurance is subsequently arranged by any one of them to cover each own interest only, then there is double insurance.

A3. A Common Peril

6.9 The range of perils need not be identical, provided that there is an overlap between the policies. Therefore, an "All Risks" Insurance policy may be drawn into contribution with a Fire Insurance policy, where the source of loss is fire, despite the broader cover provided by the former.

6.10 It is also common for a person to have more than two policies covering the same peril. For example, Ivan's camera has been stolen from his car. The loss may be covered under Ivan's Motor Insurance policy (which may have been extended to cover theft of personal effects in the motor vehicle) and also covered under a Householder's Insurance policy or Personal All Risks Insurance policy. If Ivan has been on holiday during that time, there may even be an additional cover under a separate Travel Insurance policy. As such, contribution will arise among the insurers, so that each will pay an equitable proportion of the claim.

A4. A Common Subject Matter

- 6.11 The subject matter which is affected by the loss must be common to both policies. However, the policies need not cover exactly the same subject matter. For example, Best Trading Company may have one policy covering goods only in a particular warehouse in Ang Mo Kio Industrial Park, and another policy covering goods in all warehouses owned by the company throughout Singapore. Alternatively, a person may have a Householder's Insurance policy covering all their personal possessions and a separate "All Risks" Insurance policy covering only a small number of specified items, such as antiques, jewellery and art. The range of properties covered by the policies does not have to be the same types, provided that there is some overlap in the insurance covers.
- 6.12 You must also bear in mind that the subject matter may be something other than property. It can also be a legal liability that one assumes, or that of a possible financial loss.

A5. Each Policy Liable For The Loss

- 6.13 Contribution will arise only where both insurers can be called upon to pay under their policies. This may not be the case if one insurer has the right to reject the claim, for example, for breach of condition.
- 6.14 For instance, an insured had two similar Home Insurance policies with Insurer A and Insurer B. The insured's semi-detached house caught fire recently and his neighbour's garden was damaged. Insurer A negotiated for a settlement of S\$50,000 with the neighbour. Following Insurer A's settlement with the neighbour, Insurer A claimed a 50% contribution from Insurer B. Insurer B refused to contribute on the grounds that the insured had failed to notify them of the loss and had breached a policy condition which required him to do so, so that there was no liability under the policy. Insurer A's claim for contribution may fail in the Court, as Insurer B may have the right to reject the claim.

B. Basis Of Contribution

- 6.15 There are various ways of calculating the amount of contribution for the various classes of insurance.

C. Modifications To The Principle

- 6.16 There are some situations in which the principle of contribution is modified. Some common examples are described below:

C1. Non-Contribution Clauses

- 6.17 Certain policies have what is known as a non-contribution clause. The effect of this clause is that the policy will not contribute if there is another insurance policy in force. However, the Courts do not favour such clauses, and in situations, where a similar clause applies to both or all policies, they are treated as cancelling each



other out. This means that each insurer will contribute its own rateable proportion or rateable share of the same loss.

C2. More Specific Insurance Clauses

6.18 Certain policies include a clause which restricts cover in situations, where a more specific insurance has been arranged. The most common example is a Householder's Insurance policy which restricts cover in this way. This is because many individuals insure jewellery and other items specifically, and it is not the intention for both policies to contribute.

C3. Market Agreements

6.19 Market agreements among insurers modify the application of contribution itself. This can happen in two ways. Firstly, insurers may agree to share losses in cases where, strictly speaking, contribution does not arise in law. An example is the agreement which some insurers have on Fire Insurance claims. Insurers may agree to share certain losses, where their policies cover the same subject matter against the same peril, even though the policies may not cover the same interest.

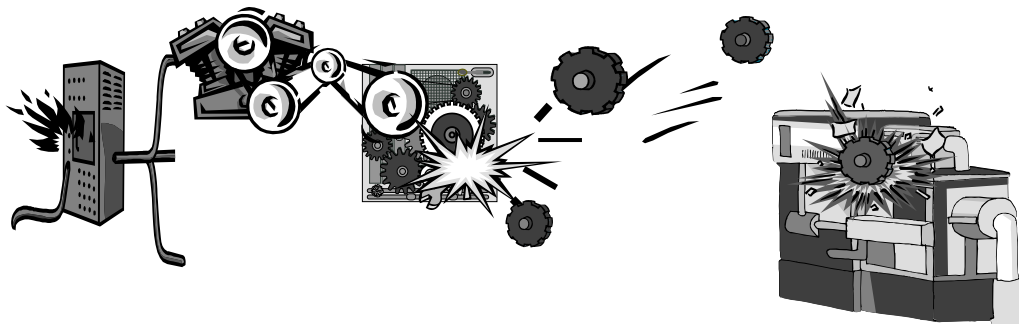
6.20 Secondly, they may agree to waive the rights of contribution in some cases, where such a right clearly exists, so that the whole loss is borne by one insurer. An example is when one person (A) drives a car belonging to another person (B) and injures a third party (C). Contribution may arise in law, if A is an insured driver under B's policy, and A also has his own policy with a "driving other cars' extension". Under the market agreement, B's insurer (who insures the motor vehicle involved in the accident) will provide the indemnity to A and not seek contribution from A's own insurers. A's insurer will be called upon to pay, only where A is not an insured driver under B's policy.

7. PROXIMATE CAUSE

7.1 Proximate cause was defined in the case law of *Pawsey & Company v. Scottish Union and National Insurance Company (1908)* as "the active efficient cause that sets in motion a train of events which brings about a result, without the intervention of any force started and working actively from a new and independent source".

7.2 The proximate cause (or *causa proxima* in Latin) of an occurrence is always the dominant cause, and there is a direct link between it and the resulting loss. A single event is not always the direct cause of a loss.

7.3 At times, additional events may occur between the proximate cause of the loss and the loss itself, but these events occur in a type of "chain reaction", with no other causal element interrupting the sequence. We shall illustrate proximate cause using **Example 3.2**.

Example 3.2: An Illustration Of Proximate Cause

A power station had a small fire in a control unit that caused a short-circuit in the electrical wiring. This caused one machine to stop operating. Since this machine regulated another, the second machine ran out of control and flipped a flywheel off its shaft, which badly damaged the adjacent machinery. In this example, the fire was the proximate cause of the damage to the machinery, because it started the chain reaction, and there were no other intervening causes.

A. Types Of Perils

7.4 Once the insurer has established the proximate cause of the loss, it must ensure that the peril is covered by the policy. Perils can be classified as described below:

Insured Perils	– those named in the policy as covered, e.g. collision under a Motor Car Insurance policy.
Uninsured or Unnamed Perils	– those perils not excluded in an All Risks Insurance policy, e.g. water damage caused by putting out a fire.
Excluded Perils	– those named in the policy as specifically not covered, e.g. fire as a result of war, etc.

7.5 The insurer will decide whether a claim is valid or not, by establishing which of the above categories that the peril (being the proximate cause of the loss) will fall into. It is only necessary to find the proximate cause of a loss, where the events before the loss are not all insured perils.

7.6 If the loss is due to an uninsured or unnamed peril, then the insurer will be liable if the proximate cause is an insured peril.

Examples 3.3 and 3.4 below show how proximate causes are classified.

Example 3.3: Classification Of A Proximate Cause

Suppose there is a Fire Insurance policy, which excludes damage from explosion, and suppose a tree branch falls onto the insured house:

- The resulting property damage will not be covered by the Fire Insurance policy, since damage by a falling tree branch is an uninsured peril.
- However, if the tree branch lands on some electrical circuitry and causes an electrical fault, which in turn starts a fire, the fire damage will be covered (fire is an insured peril).
- Finally, if the fire reaches a gas cylinder and causes an explosion, the resulting damage will not be covered (explosion being an excluded peril).

Example 3.4: Classification Of A Proximate Cause

Suppose a Householder's Insurance policy covers a direct physical loss to a property resulting from fire or lightning. A direct physical loss means that the fire or lightning must be the proximate cause of loss. Assume that a fire starts in the bedroom of a house. Also assume that the fire-fighters spray water onto the other rooms to keep the fire from spreading, and that the water causes considerable damage to the furniture, antiques, books, carpets and other household contents. In this instance, the entire loss is covered, including the water damage. This is because even though water damage is an uninsured peril, the fire which is the proximate cause of loss, is an insured peril.

CHAPTER 4 LAW OF AGENCY & CONTRACT

CHAPTER OUTLINE

1. Introduction
2. Law Of Agency
3. Law Of Contract
4. Vitiating Factors

LEARNING POINTS

After studying this chapter, you should be able to:

- understand the nature of law of agency
- define agents, principals and third parties
- know how an agency is created
- know the responsibilities and duties of an agent
- be familiar with the different types of agents' authority
- be aware of the consequences of an agent acting outside his authority
- explain waiver and estoppel in relation to the law of agency
- know the rights of an agent
- recognise how an agency may be terminated
- explain how the law of agency applies to insurance
- understand the agency relationships between the insurance brokers and the insured
- understand the agency relationships between insurance agents, principals and third parties
- understand how other agency principles are applicable to the law of insurance
- understand the role of agents in claims
- define a contract
- understand the elements of a valid contract
- understand how the law limits the following persons' contractual capacity:
 - minors
 - persons suffering legal disability
 - undischarged bankrupts
- explain the six vitiating factors that can render a contract invalid



1. INTRODUCTION

- 1.1 An agent is an appointed person who has the authority or power to act, in accordance with the Agency Agreement, on behalf of another person, known as the principal, to whom the agent represents. Usually, the task of the agent is to bring about a contractual relationship between his principal and a third person, referred to as a third party.
- 1.2 Agents are essentially intermediaries or “middle-men”. As insurance policies are often arranged through agents or brokers, it is important to have some knowledge on the law of agency as it applies to both agents and brokers.
- 1.3 In the first part of this chapter, we will introduce the general principles of the law of agency, as well as discuss the law of agency and insurance.
- 1.4 In the second part of this chapter, we will learn about the law of contract, in particular, the events that make a contract legally enforceable, as well as the obligations of both the parties under a general insurance contract.

2. LAW OF AGENCY

- 2.1 An agency is a legal relationship between two persons, whereby one person, called the principal, expressly or implicitly authorises the other person, called the agent, to act on his behalf in a matter that may create or affect his legal relations with a third party.
- 2.2 Its existence does not depend on the terminology used by the parties to describe their relationship, but on the true nature of the agreement and the exact circumstances of the relationship between the parties.
- 2.3 For example, if the agreement in substance contemplates the agent acting on his own behalf instead of a principal, no agency is created. Conversely, an agency may still arise, even though the agreement contains a provision that an agency does not arise.
- 2.4 The agent’s task may include negotiating and concluding a contract on behalf of his principal with a third party. However, one should note that the agent merely acts on behalf of the principal, and that he is not a party to the contract entered into between the principal (through the agent) and the third party.
- 2.5 Since insurance policies are often arranged through an insurance intermediary, namely an agent or a broker, it will therefore be necessary for you to have knowledge of the general principles of agency and their application to insurance.

A. Agents, Principals & Third Parties

2.6 Essentially, an agency contemplates the interaction of three parties:

A1. The Agent

2.7 Basically, an agent is a person who has the authority or power to act on behalf of his principal. The agent derives his authority from the principal's express or implicit consent to him to act on the principal's behalf. The agent's acts will be deemed to be acts of his principal and will be binding on his principal.

2.8 The essence of an agent's position is that he is only an intermediary. He may not be personally liable to the third party if he has simply acted as an intermediary. If the agent is liable, he may be entitled to an indemnity from the principal.

A2. The Principal

2.9 The principal, being the person who had authorised such acts and on whose behalf the acts were so performed by the agent, might incur a liability to a third party for the agent's actions so taken on his behalf.

A3. The Third Party

2.10 Any person, other than the principal and the agent, may be referred to as a third party in the context of an agency.

2.11 As stated earlier, the agent deals with the third party as authorised by his principal. It should be noted that any contract entered into by an agent within his authority will be binding on the principal, as if entered into it by the principal himself. As an agent, it is also important to note that all acts carried out by the agent, within the terms of the Agency Agreement or contract, shall have the same effect as being carried out by the principal.

B. Creation Of An Agency

2.12 The relationship of principal and agent may be created in the following manner:
(a) By agreement, whether contractual or not, between the principal and the agent that may be expressed, or implied from the conduct or situation of the parties.

(b) By retrospective ratification by the principal, of acts done on his behalf.

B1. Agency By Agreement

2.13 The basic way by which the agency relationship arises between the agent and principal is by agreement. This agreement does not need to be contractual, although some form of agreement will normally be necessary.

- 2.14 For example, a person may ask a friend or family member to perform certain tasks on his behalf, without any intention to create a contractual relationship with them in respect of such tasks. Nevertheless, the friend or family member who had agreed to the request and performed such tasks would be an agent of that person when performing the requested tasks.
- 2.15 It is also possible for an agent to bind his principal with respect to third parties if the principal is, in fact, willing for the agent to do so, even though the agent may not be aware of this.
- 2.16 For example, a principal grants his agent with a certain authority, but the agent has acted on the principal's behalf without knowledge of such authority. Nevertheless, the acts may be binding on the principal, as they are within the authority granted to the agent, even though the agent may not be aware that he has that authority when he performs the acts.
- 2.17 The agreement by which the agent is appointed may be express or implied from the conduct or situation of the parties.

(a) Express Agreement

- (i) The simplest and most common way from which an agency arises is by an express agreement, whether written or oral, by the principal, and acceptance by the agent.
- (ii) In the case of a written agreement, the terms of the agency, such as the duties, authority and power of the agent, the duration of the agency and the remuneration of the agent, will usually be set out expressly in the written agreement.
- (iii) As mentioned above, an agency may be created formally in writing or verbally. It may also be created by conduct without any formal appointment or contract. However, there are some circumstances, whereby a formal written appointment is essential and/or required by law. For example, under Section 35M of the Insurance Act (Cap. 142), the appointment of an insurance agent by an insurance company must be specified in writing as evidenced in an Agency Agreement.

(b) Implied Agreement

- (i) An agreement between the principal and the agent may also be implied from the conduct of the parties, where one party conducts himself in such a way that it is reasonable for the other party to infer from that conduct that an agency relationship has been created between the principal and the agent. This is to be viewed from the perspective of the principal and the agent, namely whether it will be reasonable for the principal and the agent to think that an agency relationship has been created between them.

B2. Agency By Ratification

- 2.18 The relationship of principal and agent may be created under the doctrine of ratification. Under this doctrine, where an act is done purportedly in the name or on behalf of another by a person who has no authority to do that act, the person in whose name or on whose behalf the act is done, may, by ratifying the act, make it valid and effectual as if it had been originally done with his authority.
- 2.19 This ratification is done retrospectively. It does not matter whether the act was done by an agent who had exceeded his authority, or by a person who had no authority to act for the principal at all.
- 2.20 However, ratification only validates past acts of the agent and only creates an agency in respect of the transaction ratified. It does not, *per se*, give the agent any authority for future transactions.
- 2.21 For this doctrine to apply, the following conditions must be satisfied:
- (a) Only an act that is capable of being done by means of an agent is capable of ratification. As such, void or illegal acts cannot be ratified.
 - (b) Only the person whose name or on whose behalf that the act purported to be done has the power to ratify the act. As such, an undisclosed principal cannot ratify. For example, the undisclosed principal cannot ratify an act if the agent has performed the act on his own behalf and not on behalf of the principal;
 - (c) The principal ratifying the act must have been in existence and competent at the time when the act was done.
 - (d) At the time of ratification, the person ratifying the act should have full knowledge of all the material circumstances in which the act was done, although knowledge of the legal effect of the act might be imputed to him.
 - (e) Ratification is not effective if it prejudices a third party. As such, the ratification should be done within a reasonable time;
 - (f) Ratification must be of the whole contract. As such, the adoption of a part of a transaction will operate as a ratification of the whole.
 - (g) As with the grant of authority by the principal to the agent that may be expressed or implied, the ratification by the principal of the agent's act retrospectively may also be expressed or implied:
 - (i) An express ratification is a clear manifestation by the principal that he treats the act, which was otherwise unauthorised, as authorised.

One example would be that of a shipmaster selling his ship without the authority of the owner. The owner may formally ratify the sale

and receive the purchase money with full knowledge of the circumstances in which the ship was sold.

- (ii) The ratification may be implied, when the conduct of the principal is such as to amount to clear evidence that he adopts or recognises the act in whole or in part. Depending on the circumstances, mere acceptance or inactivity by the principal may be sufficient.

For example, Ann receives the rents of a certain property for many years, without the authority of the owner. The owner sues Ann for possession and for an account of the rents and profit. This action by the owner is a sufficient ratification to render Ann, the agent of the owner, from the commencement of receiving the rent.

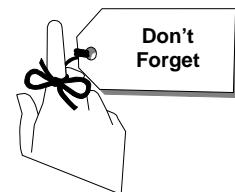
C. Responsibilities Of An Agent

2.22 The general principle regarding the responsibilities of an agent is clearly set out by Lord Wright J in *Montgomerie v. United Kingdom Mutual Steamship Association*:

“There is no doubt whatever as to the general rule as regards an agent, that where a person contracts as agent for a principal the contract is the contract of the principal, and not that of the agent; and, prima facie, at common law the only person who may sue is the principal, and the only person who can be sued is the principal. To that rule there are of course, many exceptions....”

2.23 It is beyond the scope of this Study Guide to discuss these exceptions. However, it should be noted that the agent “drops out” of the transaction and is not personally liable, unless:

- (a) the contract expressly provides that he should be liable.
- (b) he has not created any contract binding his principal at all, but has made the contract himself; or
- (c) he was in breach of the implied warranty of authority. An agent who contracts on behalf of his principal is normally regarded as warranting that he has the authority, or is in fact duly authorised to do so. He will be liable for a breach of this implied warranty, and for any loss caused to a third party who had been induced to enter into the transaction, which he would not have entered into, but for that assertion, if the assertion turns out to be untrue.



D. Duties Of An Agent

2.24 An agent owes his principal the following duties:

- (a) A duty to act in accordance with the terms of the Agency Agreement, but not exceed his authority. The agent must comply strictly with the terms of what he has agreed to do. He will be in a breach of contract if he exceeds his authority or fails to obey the principal's instructions. However, he is not under a duty to perform any act which is either illegal or void.
- (b) A duty to exercise reasonable care and skill in the performance of his duties.
- (c) A duty to carry out the contract with dispatch. Where no time for performance is stated, the agent must perform the contract within a reasonable time having regard to all the circumstances of the case.
- (d) A duty to perform personally and not delegate his duties, unless expressly authorised by the principal or implied from the circumstances, trade customs or necessity.
- (e) Fiduciary duties to act in good faith and not allow personal interest to conflict with those of his principal, including making full disclosure of matters that relate to a possible conflict of interest, and also any information acquired in the course of the agent's duties that may affect the principal's position. These fiduciary duties apply whether or not the agency is gratuitous. An agent must not, without the knowledge of his principal, accept any profit or benefit from his agency, other than that contemplated by the parties at the time of making the contract of agency.
- (f) A duty to account to the principal for all moneys received in the course of his agency duties. The agent is also not allowed to accept any bribe or secret profit, and must pay over to the principal such bribe and secret profit.

2.25 With regard to (f) above, the agent has a fiduciary duty to account for all moneys in his possession received on behalf of the principal. The principal's money and property must be kept separate from the agent's own money.

2.26 In insurance, many insurance agents/brokers are authorised by their principals to collect premium payments, in order to facilitate the application and underwriting processes. In Singapore, the GIA requires that all premiums due from the agents to their principals shown in the monthly statements of accounts (issued by their principals/insurers) shall be paid in full within the credit period allowed by their principals. The credit period shall not exceed 90 days after the close of the month as covered by such a statement of account. According to Regulation 7 (14) of the Insurance (Intermediaries) Regulation, brokers must pay, to the insurer, all premiums received from the policyholder by the 90th day from the date of commencement of cover.

E. Agents' Authority

2.27 A principal is bound, not only by acts that are within the actual authority of the agent, but also acts which are within the authority that he appears to have. The former, commonly referred to as "actual authority", is real in the sense that it was given expressly by the principal or by implication of law. The latter, commonly referred to as "apparent authority", is where the agent has no real authority to do the act in question, but appears in the eyes of a third party that he has such authority and is able to bind his principal.

E1. Actual Or Express Authority

2.28 Actual authority stems from the consent by the principal to the agent that the agent should represent or act for him. This authority given by the principal to the agent:

- (a) may take the form of oral words or be in writing, commonly referred to as "express authority". It forms part of the Agency Agreement between the principal and the agent; or
- (b) may be implied by the law because of the interpretation put by the law on the relationship and dealings of the two parties, commonly referred to as "implied authority". This includes:
 - (i) incidental authority, which is the implied authority to do whatever is necessarily, or ordinarily incidental to the effective execution of the expressed, authorised authority;
 - (ii) usual authority, which is the implied authority to do whatever an agent of the type concerned usually has authority to do, even though he may not be actually authorised to do so. In essence, the law recognises that the agent has been placed in a position which normally carries with it certain authority, and he is implied to have such authority, unless it is withdrawn from him; and
 - (iii) customary authority, which is the implied authority to act in accordance with such applicable business customs as is reasonable. This may include authority implied from the course of dealing between the parties and the circumstances of the case.

E2. Apparent Or Ostensible Authority

2.29 Apparent authority, also referred to as ostensible authority, stems from a manifestation made by the principal to a third party that the agent has the authority, and that the principal may be bound by the acts of the agent. This may take the form of an express representation. It may be one regarded by the law as a representation that the agent has authority. As such, the principal may be bound, as against a third party, by that agent's acts within the authority which that agent appears to have. This is so, even though the principal has not in fact given that agent such authority, or has limited that authority by instructions, not made known to the third party.

- 2.30 In essence, apparent or ostensible authority is the authority of an agent as it appears to others, and which the principal holds out or permits to be held out, as the authority which his agent is vested with. A third party dealing with the agent will not normally know the exact limit of his authority, and should be able to rely on what appears to be the authority as represented by the principal, even though unknown to such party, it is something different from what the agent on general criteria impliedly have, or even may not have given the prohibition known to the agent by the principal.
- 2.31 This means that a principal is bound not only by acts which are within the actual authority of the agent, but also by acts which are within the authority that they appear to have. A principal may be held liable on the grounds of apparent authority, even if the agent acted fraudulently and for his own benefit.

F. Acts Outside Authority

- 2.32 An agent may, at times, carry out certain acts in the course of his business, which do not fall within his authority. For example, Principal B authorises Agent A to buy, on their behalf, a specific quantity of wool and to not exceed a certain purchase price. Agent A enters into a contract with Seller C to purchase a greater quantity of wool and at a higher price than that authorised by Principal B. Because of Agent A's lack of authority, the contract between Agent A and Seller C does not bind Principal B, in addition, it does not create a contract between Agent A and Seller C.

G. Waiver & Estoppel

- 2.33 The doctrines of waiver and estoppel have direct relevance to the law of agency.
- 2.34 Waiver is defined as the voluntary relinquishment of a known legal right. For example, a court requires a party to produce evidence of a point that is critical to proceedings. If that party refuses to comply with the court's order, the court may deem that the party's refusal is a waiver of the right to contest that evidence, with the assumption that the opposing party could draw a conclusion that the required evidence would show whatever the opposing party claims it would and assume that the proof would show whatever the opposing party claims that it would.
- 2.35 Estoppel is a representation of fact made by one person to another person that is reasonably relied on by that person, to such an extent, that it will be inequitable to allow the first person to deny the truth of the representation. It means that, if one person makes a statement to another person who then relies on the statement to his detriment, the first person cannot later deny the statement was made.
- 2.36 The law of estoppel is designed to prevent persons from changing their minds to the detriment of another party. For example, if a landlord advises their tenant that he owes only 50% of the monthly rent because of repairs, the tenant can

reasonably treat that as a statement of fact. The tenant may write a cheque for 50% of the normal monthly rent and assume they have made the correct payment. Later, if the landlord attempts to sue the tenant for paying only 50% of the rent, the tenant may claim an estoppel. The landlord's verbal agreement to accept 50% of the rent should have been recognised as binding, even if the original rental agreement was not changed and it was reasonable for the tenant to pay 50% of the monthly rent. The tenant had a reasonable right to change his rent payment based on a perceived truth, which resulted from the landlord's statement.

H. Rights Of An Agent

2.37 An agent's rights and responsibilities are basically governed by the express terms of his Agency Agreement.

2.38 However, the law also imposes on the agent special duties of a fiduciary nature, since an agent has been conferred with the authority and power to affect and change the legal position of his principal.

2.39 Some of these duties and terms are implied by law and originate from equity. These duties and terms are in addition to the express terms of the Agency Agreement, unless overridden by explicit terms in the Agency Agreement.

2.40 Generally, the rights of an agent under an Agency Agreement include:

H1. Remuneration

2.41 The right to remuneration either expressly provided under the Agency Agreement or implied from the circumstances. In general, the mere employment of a professional person raises the presumption that parties have the intention of remunerating that person, unless there are circumstances to the contrary. The terms that are to be implied into the Agency Agreement will depend upon the normal rules for the implication of terms into the contracts. This includes the general principle that no term that is inconsistent with the express terms may be implied.

2.42 For example, the Agency Agreement expressly provides that the agent is only entitled to his remuneration upon completion of a task, so the agent will not be entitled to any remuneration until the completion of the sale. The agent will also not be entitled to any remuneration for any unauthorised transaction which has not been ratified by the principal, and in cases of misconduct, breach of duty or illegal or void transaction.

H2. Indemnity

2.43 The right to reimbursement of expenses that have been reasonably incurred and indemnity from liabilities incurred in the course of execution of his authority in the agency, unless the act was not authorised or ratified by the principal, or the agent was in breach of his duty, or the transaction was illegal or void.

H3. Right Of Lien

- 2.44 The right to a lien allows the agent to retain property belonging to the principal as security for commission or money owed by the principal to him – this lien, however, does not come with a general right to sell the retained property.
- 2.45 The application of an agent’s right of lien is more relevant in general insurance. In international commercial Marine Insurance, a broker often advances the premium on behalf of the client. In such a case, the broker has a lien (right to retain) on the policy until the premium is paid. Without the Marine Insurance policy, the insured will not be able to make a claim.



I. Termination Of Agency

- 2.46 In law, the word “agency” is used to connote the relation which exists where one person, namely the agent, has the authority or capacity to create legal relations between his principal and a third party. Given the special relations of the parties, the termination of authority between the principal and the agent may not affect a third party who does not have notice of the termination.

II. How To Terminate An Agency

- 2.47 The agency relationship between the principal and the agent may be terminated either by the act or conduct of the parties, or by the operation of law. The act or conduct of the parties may be in the form of an agreement between the parties to dissolve the relationship. It may also be based on the facts of the case. As in the case of the creation of an agency, the agreement to terminate may either be express or implied. The categories are as follows:

(a) **Withdrawal Or Revocation Of Authority By The Principal**

- (i) The principal may revoke the agent’s authority at any time before the authority is exercised. However, the principal may be in breach of contract if the agency contract requires a period of notice to be given.
- (ii) The agent cannot force his principal to abide by the contract, since an agency is a contract of personal services, but he can claim damages.
- (iii) Where the Agency Agreement involves a continuing relationship between the principal and the agent, the revocation by the principal is effective only when the agent has received or has been given notice of such revocation.

(b) **Renunciation By The Agent**

Generally, an agent may renounce his authority at any time before completion of the agency. Whether the renunciation by the agent is a breach of contract will depend on the terms of the Agency Agreement between the two parties.

(c) Breach By A Party

A breach by one party can cause the agency to be terminated by the other party. For example, non-payment for goods that have already been delivered by the agent is a sufficient cause to terminate the agency, since the non-payment by the principal will be a breach of the Agency Agreement.

12. Termination Of Agency By Law

2.48 The law, on the other hand, terminates the agency:

- (a) On the completion of performance of a specific task. The agent's official authority ends on completion of the performance of the specific task, and his authority to bind the principal terminates automatically.
- (b) On the expiration of time where a specific period of time was provided. However, it is not necessary that the time be expressly stated, since it may be presumed from the nature of the authority or facts of the case.
- (c) On the happening of an event which makes the principal incapable of continuing the contract, such as death, bankruptcy or unsoundness of mind of the principal.

Generally, as between the principal and the agent, the authority of an agent is terminated by the principal's death, by the principal becoming incapable by reason of mental illness of managing his affairs, or by the principal's bankruptcy. A contract made by an agent after the death, incapacitation or bankruptcy of the principal is not binding on the principal's personal representatives, but may be ratified by them if they think fit.

As between the principal and a third party dealing with the agent, without knowledge of the condition of the principal, the agent's authority to bind the principal continues.

- (d) On the happening of an event which makes the agent incapable of continuing the contract, such as death, bankruptcy or unsoundness of mind of the agent.

Generally, the death or incapacity of the agent to manage the principal's affairs by reason of mental illness terminates the agency. The bankruptcy of an agent will not automatically terminate the authority of the agent. This will depend on the construction of the Agency Agreement, and whether the bankruptcy will prevent the agent from carrying out his duties to the principal.

- (e) On the frustration of contract, or the happening of an event rendering the continuance of the agency unlawful. This occurs, for example, where the subject matter has already been sold, or the task was impossible to be performed or cannot be performed, because of illegality.

I3. Effects Of Termination

- 2.49 The termination of the agency contract basically dissolves the relationship between the principal and the agent. However, not all consequences of the relationship will cease. For example, commission already earned by the agent, indemnity vested to the agent, and the right to sue for breaches of contract by the principal or agent remains.
- 2.50 For a third party, when the agency is terminated by the act of the principal and agent, only the actual authority of the agent comes to an end, while the apparent or ostensible authority of the agent remains. A third party dealing with the agent will not normally know the exact limit of the agent's authority. Thus, it will have to rely on what appears to be the authority as represented by the principal. Therefore, the termination of the agency between the principal and the agent will not affect the apparent and ostensible authority of the agent *vis-à-vis* the third party, until and unless the third party has notice of such termination or has become aware of circumstances.
- 2.51 On the other hand, where the agency was involuntarily terminated by operation of law, for example, owing to the death and insanity of the principal or agent, the agency would come to an end, regardless of whether the third party was aware of it.

J. The Law Of Agency & Insurance

- 2.52 A general insurance agent is a person who is appointed by an insurer to procure new business and service his existing business for the insurance company (the "principal").
- 2.53 A broker, on the other hand, is an agent of the insured, although, as we will discuss, there are certain circumstances, whereby the broker can be an agent of the insurer¹.
- 2.54 A broker is engaged by the client to provide him with professional advice and to arrange for appropriate insurance coverage. Where the broker is acting within the scope of his authority, his acts will bind his principal (i.e. the client). Therefore, this relationship of agency between the insurance broker and his client also imposes legal duties on the broker.
- 2.55 As mentioned previously, the agent has a right to remuneration. The insurance agent is usually paid a commission (often based on a percentage of the premium paid by the insured) on the business procured through him.

¹ For example, the Insurance Act (Cap. 142) provides that, once a policy is issued, the insurance intermediary (including a broker) is the insurer's agent regarding premium payment, and the intermediary's receipt of the payments is effectively the insurer's receipt.

- 2.56 In the insurance industry, insurance agents play a variety of roles, depending on whether they are acting on behalf of the insured, the insurer or both:
- (a) When acting for the insured, an insurance agent, depending on the extent of the authority conferred on him by the insured, may be empowered to source for and effect a policy on behalf of the insured, fill up (but not sign) and submit the proposal form, renew an existing policy, handle the insured's claim in the event of a loss, and negotiate a settlement of the claim.
 - (b) When acting for the insurer, an insurance agent, depending on the extent of the authority conferred on him by the insurer, may be empowered to receive proposals, assess the risks involved in the insurance cover sought, negotiate the terms of the insurance cover, issue Cover Notes, collect premiums, receive notice of a loss or a claim, and take steps to effect a settlement of the claim.
 - (c) When acting for both the insured and the insurer, an insurance agent must ensure that he is not placed in a position of conflict, where he has to choose between the interests of the insured and the insurer.
- 2.57 Agents may bind their principal to acts of apparent or ostensible authority. For example, if an agent who is not authorised to amend the insurance policies (this may even be spelt out in his Agency Agreement) has been making amendments in policy contracts nonetheless, and the insurer has been accepting such amendments made by the agent, the insurer may be bound by an amendment made by the agent, notwithstanding the fact that the agent has acted outside his authority.
- 2.58 Agents may be human beings or they may be artificial persons such as corporations. An individual agent is an agent registered in his own name to transact general insurance business for insurance companies. A corporate insurance agent is an agency registered with the ACRA, set up to transact general insurance business, and needs to meet the paid-up capital requirement as specified in the GIARRs of the GIA.
- 2.59 All individual agents, corporate insurance agents, including Trade Specific Agents and their nominee agents must be registered with the ARB of the GIA and must comply with and satisfy its registration criteria, including the GIARRs and mandatory requirements of the Notice No: MAS 211. If general insurers choose to accept business from agents, it is mandatory that such agents are registered with the ARB of the GIA.
- 2.60 Although a distinction is usually drawn between an insurance agent and an insurance broker in insurance parlance, both are species of agent in the legal meaning of that word and are governed by the law of agency in law.
- 2.61 It is commonly recognised that the insurance agent is the agent of the insurer for the purpose of obtaining the insurance, whereas the insurance broker is the agent of the insured for the purpose of effecting his insurance. The broker is

regarded as the agent of the insured even though he is remunerated by a commission from the insurer.

- 2.62 In the course of business dealings, an agent of one party may at times find himself also acting as agent of the other party, provided that both parties have given their informed consent to such an arrangement. Thus, an insurance agent acting for the insurer may become the agent of the insured, for the purpose of filling in answers on the proposal form, if the insured has asked him to do so.

J1. Insurance Broker

- 2.63 The insured usually entrusts an insurance broker with the task of effecting or renewing an insurance policy. Like any agency relationship, an insurance broker's rights and responsibilities are governed by:
- (a) the express terms of his agency agreement with the insured; and
 - (b) those implied by law, unless overridden by explicit terms in the Agency Agreement.

- 2.64 The scope or limits of the broker's actual authority depends on each instance on his client's specific instructions as specified in the Agency Agreement. In carrying out his mandate, the broker's duty is to exercise that standard of care and skill that can be reasonably expected of an insurance broker in the course of the business.

- 2.65 The rule discussed earlier regarding apparent or ostensible authority may also apply to brokers. For example, when a broker does not have the insured's consent to negotiate a claim with the insurer. However, if the insured allows the broker to negotiate with the insurer on his behalf (though the insured has not given authority to the broker to settle the claim), the broker may seem to have apparent authority to negotiate a compromise settlement, and if one is reached between the broker and the insurer, the insured may be bound by the negotiated settlement owing to the apparent authority of the broker.

J2. Insurance Agents

- 2.66 An insurance agent's rights and responsibilities are governed by:
- (a) the express terms of his Agency Agreement with the insurer; and
 - (b) those implied by law, unless overridden by explicit terms in the Agency Agreement.

- 2.67 As in any agency relations, the extent and scope which an insurance agent may bind his principal, namely the insurer, vis-à-vis the insured and a third party, will depend on the actual or ostensible authority conferred on him by the insurer. For example, he may be authorised by the insurer to receive proposals, issue Cover Notes and collect premiums on behalf of the insurer. The usual duty to carry out the insured's instructions, to perform his duties with reasonable expedition, as well as to exercise the required skill and diligence, in the performance of his duties on behalf of the insurer, will apply.

J3. Other Agency Principles Applicable To The Law Of Insurance

2.68 The following principles of agency are also applicable to the law of insurance:

(a) Ratification By Principal Of Unauthorised Act

As mentioned previously, an insurance agent may, at times, carry out certain acts in the course of his insurance business, which do not fall within his authority. For example, the insurance agent/broker completing the insurance proposal form with the consent of the proposer is one such act. However, the insurance agent/broker should be aware that, whenever he fills in the insurance proposal form for the proposer, he is acting on behalf of the proposer. If the insurance agent/broker commits any mistakes or is negligent in filling in the proposal form, then the insurer may not be held responsible for it. This could result in the policy being repudiated should any such answer or statement in the proposal form subsequently prove to be incorrect, even though it was due to the insurance agent's/broker's mistake. Therefore, it is essential for insurance agents/brokers to be fully aware of their scope of authority, as well as to understand the consequences that they will have to face if they do not act within their authority.

It is an accepted agency principle that, where an agent purports to do an act on behalf of the principal, even though he has no or insufficient authority to do so, the principal may subsequently ratify the act, and thereby make it as valid as if it had been done with his authority in the first place. The principal will then enjoy the benefit of the act, even though he will also be liable for any adverse consequences of it.

However, the above principles are subject to the following:

- (i) Ratification is not permissible, where it will prejudice the third party. For example, it must be made within a reasonable time, and before the time fixed for the commencement of performance by the third party.
- (ii) The principal must have been in existence and capable of doing the act or entering into the contract at the time, when such act was originally done, or when the contract was entered into.
- (iii) A contract can be ratified only if the agent, when entering into it, had represented that he was acting on behalf of the principal, although it is not necessary that the principal should have been named.

(b) Indemnity Against Principal

The general principle is that, unless otherwise agreed, an agent is entitled to indemnity from his principal for all losses and liabilities incurred by the agent acting in pursuance of his authority, and to reimbursements of his expenses reasonably incurred in the course of the agency.

The agent loses this entitlement to indemnity, if the losses or liabilities arise in consequence of the agent's breach of duty, negligence, default or insolvency, or if his actions were unauthorised (unless subsequently ratified by the principal), or in respect of actions which he knew or should have known were unlawful.

(c) Gratuitous Brokers

A person who purports to assist another person in obtaining an insurance cover may end up being liable to the latter if, at the end of the day, an appropriate insurance cover is not obtained. This will be so, even if the former assists the latter without any payment and merely acts gratuitously.

(d) Waiver And Estoppel

As mentioned previously, waiver is defined as the voluntary relinquishment of a known legal right.

Should the insurer voluntarily waive a legal right under the contract, it could not later deny payment of a claim to the insured on the grounds that such a legal right was violated. For example, assume that an insurer receives a Health Insurance proposal form which contains an incomplete or missing answer. The insurer does not pursue the additional information, but issues the policy. The insurer later cannot deny payment of a claim on the basis of an incomplete proposal form.

In effect, the insurer has waived its requirement that the proposal form must be complete. Therefore, it is important for an insurance agent to ensure that the proposal form is complete, before submitting it to the insurer for underwriting.

As previously discussed, estoppel is a representation of fact made by one person to another person that is reasonably relied on by that person, to such an extent, that it will be inequitable to allow the first person to deny the truth of the representation.

This concept is more relevant to general insurance. In the above example, the insurer has waived its requirement that the proposal form must be complete. Therefore, the insurer is estopped from denying payment of a claim on the basis of an incomplete proposal form.

Hence, the law of waiver and estoppel can result in an insurer being legally liable to pay a claim that it ordinarily will not have to pay.

K. Role Of Agent In Claims

- 2.69 When the insured advises the agent of an incident which may give rise to a claim under the policy, the agent must inform the insurer without delay. The agent must also give prompt advice to the insured of the insurer's requirements concerning claim submission, including the provision of information required to

establish the nature and true extent of the loss. Information received from the insured must be passed to the insurer without delay.

- 2.70 The agent must also be careful not to give any indication of acceptance or rejection of the claim, or any admission or denial of fact or liability (unless expressly at the insurer's written instructions). The agent must make it clear to the insured that all correspondence made relating to the insurer's investigation and processing of a claim is strictly on a "without prejudice" basis.

3. LAW OF CONTRACT

- 3.1 A general insurance policy is the evidence of an insurance contract between the insurer and the insured. The obligations of the insurer and the rights of the insured are governed by this contract. In order for the contract to be valid, certain conditions must be met. Let us begin by first looking at the meaning of a contract.



A. What Is A Contract?

- 3.2 There are several ways of defining a contract. A contract is "an agreement enforceable by law". It can also be defined as "a legally binding agreement between two or more parties". The agreement involves a promise or a set of promises to perform one or more acts. The promise may be made by one of the parties to the contract, or by all the parties involved.

- 3.3 Therefore, a contract is an agreement. However, not all agreements need to be contracts. For example, an agreement between two friends to dine is not considered a contract, because there is no intention to legally enforce the agreement by one party if the other party fails to turn up. Contracts are only those agreements that give rise to rights which the law will protect, and obligations which the law will enforce. An example is an insurance contract, or the policy which is the evidence of the insurance contract.

An insurance contract is an agreement, enforceable by law, made between the insured and the insurer. The insured agrees to pay a premium to the insurer. The insurer agrees to indemnify the insured for damage to the subject matter caused by an insured peril covered by the policy.

B. Elements Of A Valid Contract

- 3.4 For a contract to be enforceable, it must meet all the requirements as prescribed by law for the formation of a valid contract, i.e. it must have the elements as described below:

**B1. Intention To Create Legal Relationship**

- 3.5 The first requirement of a contract is the intention of all the parties to enter into a legal relationship. Without such an intention, the contract cannot come into existence.

B2. Offer & Acceptance

- 3.6 A contract is an agreement, and for the parties to come to an agreement, there must be a “meeting of minds” (“consensus ad idem” in Latin) or mutual agreement between the parties to the contract.
- (a) Ordinarily, mutual agreement is evidenced by the making of an offer expressed either orally, in writing, or by conduct by one party (the offeror) and the acceptance of the offer by another party (the offeree). The offer must be unconditionally accepted (i.e. unqualified acceptance) to constitute an agreement. If the acceptance is conditional (i.e. new terms are introduced), it is only a counter-offer which is then open to be accepted or rejected by the person who has made the original offer. An offer may be withdrawn by the person making it, before it is accepted by the other party.
- (b) In the case of general insurance:
- (i) There is no definite rule as to which party (the proposer or insurer) makes the offer and which party accepts. Sometimes, the proposal form which is submitted to the insurer will be the offer, and the insurer will accept it, by confirming cover or issuing the policy. In any other case, the insurer may quote a premium based on information supplied in the proposal form and, in doing so, the insurer makes an offer which the proposer may then accept or decline.
- (ii) Sometimes, an insurance contract is finalised only after lengthy negotiations between the proposer and insurer, often involving a broker or other intermediary. In such case, there may be a long series of offers, rejections and counter-offers, before a firm acceptance is made by one party or the other.
- (c) Although an insurance contract will normally come into existence once an offer is accepted, the cover may not operate immediately. The parties may agree that the risk will begin to run at some date in the future (as in the case of Travel Insurance). In this case, there is a binding contract to insure, but the risk has not yet been attached. Sometimes, the insurer stipulates that the risk will be in force only if the premium is paid to the insurer (or the intermediary through whom the policy was effected) on or before the inception date or the renewal date of the coverage, e.g. Payment Before Cover Warranty in personal general insurance and bonds.

B3. Consideration

- 3.7 A contract is ordinarily based on reciprocity. When a party promises to do certain thing(s) under a contract, he is called the promisor. In giving the promise, the promisor must receive something in return, and what he receives for the promise is called consideration.
- 3.8 Consideration can be in money or monetary worth. It can be a return promise to do certain thing(s), or to abstain from doing certain thing(s), or to forbear some acts. All these shall constitute the consideration.
- 3.9 For example, if a person travels in a bus, the fare that he pays is the consideration for the right to travel in the bus. The wages paid to an employee are the consideration for the services rendered by him to the employer.
- 3.10 A contract is not enforceable at law, unless a consideration has passed from the promisee to the promisor. In a Personal Accident Insurance contract:
- the premium paid is the consideration for the promise contained in the policy; and
 - the commission is the consideration that the agent is entitled to receive for the work which he promises to do for the insurance company.

B4. Capacity To Contract

- 3.11 A person of legal age, without mental or other incapacity, is legally competent to enter into a contract. Such a person is said to have contractual capacity. However, the law limits the capacity of certain persons to do so. The special features of some of the categories of persons are discussed below:



(a) Minors

- (i) Any person who has not attained the age of 18 years is treated as a minor. Under Section 35 of the Civil Law Act (Cap. 43), a contract entered into by a minor who has attained the age of 18 years shall have effect as if he were of full age, except as otherwise provided under other written law, and except for certain contracts like the sale and purchase of land.
- (ii) Section 58(1) of the Insurance Act (Cap. 142) also lays down special provisions regarding the capacity of minors to enter into insurance contracts. A minor who is over the age of 10 years, but is under the age of 16 years, has the capacity to enter into a contract of insurance with the consent in writing of his parent or guardian. Therefore, it implies that no such consent is required for a person who is 16 years old or above, and that he may enter the contract of insurance on his own.
- (iii) However, the law does not appear to give any rights to a minor to assign, mortgage or surrender his insurance policy. Neither does it make any provision for a policy owner, who is still a minor, to effect

policy transaction which involves the payment of policy money to him. Neither can the minor give a valid discharge in respect of the policy money payable to him under the policy, where he is the policy owner. Instead, the minor, who is the policy owner, will have to wait until he has attained the age of 18 years, before he can give a valid discharge in terms of the policy money payable to him upon the death of the life insured under the policy.

(b) Persons Suffering Legal Disability

A contract entered into by a person of unsound mind or a drunkard, will not be binding on him, except if the person, entering into a contract with such person was not aware of his mental state. In other words, a person of unsound mind can void the contract, only if the other party also knows or has reason to believe that he is unsound.

(c) Undischarged Bankrupts

The Bankruptcy Act (Cap. 20) places restrictions on the rights of undischarged bankrupts to enter into contracts.

4. VITIATING FACTORS

4.1 An insurance contract which contains the elements required by law as mentioned above may still be invalid owing to the following reasons:

- misrepresentation;
- duress;
- undue influence;
- illegal contract;
- mistake; and
- *non est factum*.

4.2 When a contract is induced by misrepresentation, duress or undue influence, it is voidable at the option by the innocent party. This means that the innocent party has a choice whether to uphold the contract or to call it off. However, a contract which is illegal or formed by mistake is void, which means that the Courts will treat the contract as never having existed.

A. Misrepresentation

4.3 A contract is voidable by a party to the contract if he was induced into entering the contract by misrepresentation on the part of the other party. At common law, in order for a contract to be invalidated, it must be shown that the misrepresentation or false statement:

- (a) was a statement of fact as opposed to a statement of opinion, law or belief. A promise being a statement about the future, is not a statement of fact;
- (b) was made by a party to the contract. A false statement by a non-party to the contract cannot invalidate a contract;

- (c) was material, such that it would affect the judgement of a reasonable man or, a prudent insurer in the case of an insurance contract;
- (d) induced the other party to enter into the contract. The other party must have relied on the false statement in deciding to enter into the contract; or
- (e) caused some detriment or disadvantage to the party who relied on it. If no detriment is caused to the party relying on the false statement, he may elect to continue with the contract.

B. Duress

- 4.4 A contract is formed by mutual consent of the parties. Accordingly, if a party is under coercion to consent, the contract may not be valid, as the consent given is not genuine.
- 4.5 Traditionally, the Courts have recognised that actual harm or a threat to harm a person or his loved ones will amount to duress which invalidates the contract. Hence, if Andrew points a gun at Bernard's son forcing Bernard to sign the contract, the contract is invalid. However, the threat must not be so trivial that a person with reasonable courage will not be coerced. For example, a threat to cut one's hair may not be held as duress which vitiates consent.
- 4.6 The threat must be illegal. Hence, if the threat is to prosecute a crime which has been committed or to a civil wrong, it does not amount to duress, and the contract cannot be impeached. However, the contract may be void on the grounds of public policy if it amounts to an agreement which perverts the course of justice.

C. Undue Influence

- 4.7 When there is inequality between the parties to a contract (such as where relations between the parties are such that one of the parties is in a position to dominate the will of the other party), and one of them (i.e. the dominator) takes an unfair advantage of the situation of the other and forces an agreement upon him, the contract may be set aside under the doctrine of undue influence.

D. Illegal Contract

- 4.8 It is important to know that certain types of contract are prohibited by statute or at Common Law on the grounds of public policy. No party can enforce such contracts in Courts. They are void and not voidable at the choice of the parties.
- 4.9 Section 5 of the Civil Law Act (Cap. 43) provides that all contracts or agreements, whether orally or in writing, by way of gaming or wagering shall be null and void. Accordingly, no one can sue for recovery of the moneys won under such circumstances. Hence, gaming and waging debts are not legal debts. There is nothing to prohibit parties from honouring their words in a game or wager, but the gates of justice will be shut at them.

4.10 Similarly, an insurance contract will amount to a wagering contract if the policy owner does not have the insurable interest on the insured subject matter and such policy owner cannot sue the insurer for payment under the policy.

E. Mistake

4.11 Sometimes, parties would reach an agreement without knowing that the facts, which were the very reason for the contract, did not exist, or not knowing the existence of certain facts, the existence of which would have caused the parties to not enter into the contract. In such cases, their consent is mistaken and the contract is therefore void *ab initio* (i.e. the contract is treated as if it had not existed at all).

F. *Non Est Factum*

4.12 The term "*non est factum*" means "this is not my deed". As a general rule, if a person who is not a person under any incapacity signs a contract, he will be bound by the contract whether he has read it or not. However, if he could show that the document which he signed was not the one he intended to sign and the mistake was not due to his carelessness, he might be able to avoid the contract on the ground of *non est factum*. Fraud is not an element required for the operation of this law. However, it presents itself in most of the cases involving *non est factum*. If Mrs Chan, an old and illiterate lady, was given a document by her grandson to sign, and told it was for entering a lottery game when it was in fact a guarantee for his debt, she could claim the defence of *non est factum* to avoid the contract, if she was subsequently sued on the guarantee.

4.13 The mistake must be a fundamental mistake as to the character or effect of the document. If a party was careless or ignorant as to what he was signing, he could not rely on the defence of *non est factum* to avoid the contract. Thus, if in the same case, if Mrs Chan had simply signed the document without asking her grandson what it was for, she would be bound by the guarantee.

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CHAPTER 5 INSURANCE DOCUMENTS

CHAPTER OUTLINE

1. Introduction
2. Proposal Form
3. Cover Note
4. Certificate Of Insurance
5. Insurance Policy
6. Endorsements
7. Renewal Notice Or Expiry Notice
8. Renewal Certificate
9. Claim Form

Appendix 5A – Sample Proposal Form For Motor Insurance

Appendix 5B – Sample Proposal Form For Public Liability Insurance

Appendix 5C – Sample Certificate Of Insurance (Motor Insurance)

Appendix 5D – Sample Certificate Of Insurance (Work Injury Compensation Insurance)

Appendix 5E – Sample Packaged Household Insurance Policy Document

Appendix 5F – Sample All Risks Insurance Policy Document And Schedule



LEARNING POINTS

After studying this chapter, you should be able to:

- know the purpose of a proposal form and explain how it forms the basis of the insurance contract
- be familiar with the main sections of questions asked for in the proposal form, including the declaration and the warning statement
- understand what a cover note is
- explain the functions of a certificate of insurance
- be familiar with the various sections of an insurance policy document
- understand the various types of conditions in an insurance policy
- know what warranties and the two types of warranties in insurance contracts are
- know the purpose of an endorsement and the renewal notice
- understand the uses of a renewal certificate and the information contained in it
- realise the importance and the uses of a claim form, as well as outline the main sections contained in it

1. INTRODUCTION

- 1.1 In the previous chapter, we have explained that a general insurance policy is an important contract governing the obligations of the insurer and the rights of the insured. In this chapter, we will examine the insurance policy in detail. Besides the policy document, there are other important insurance documents that will be explained. We shall begin with an insurance document that initiates the application for most insurance contracts – the proposal form.

2. PROPOSAL FORM

- 2.1 The proposal form (application form) is the most common tool by which the insurer receives information about the risks to be insured. The information provided by the proposer (intending insured) in most cases forms the only basis upon which the underwriter decides whether or not to accept the risk and on what terms and premium rates. As such, it is a very important document, as you will see in the next section. See **Appendix 5A** and **Appendix 5B** for a sample copy of proposal forms for Private Motor Insurance and Public Liability Insurance respectively.

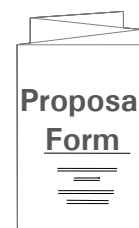
A. Basis Of Contract

- 2.2 The proposal form is the basis of the insurance contract and is incorporated into the contract. This has the effect of making the proposal form part of the contract, even though it is not actually reproduced and printed with the policy document. Therefore, the proposer has to be particularly careful when completing the proposal form, as it will become part of the contract.
- 2.3 The fact that the proposal form is the basis of the contract is further strengthened by the declaration of the proposer at the end of the proposal form. The declaration is also considered as part of the contract. By signing the declaration, the proposer is confirming that the information which has been provided to the insurer is true to the best of his knowledge and belief. Details of the declaration will be discussed later in this chapter.

- 2.4 Let us now proceed to look at the questions asked in various types of proposal forms.

B. Questions Asked In A Proposal Form

- 2.5 Proposal forms are of variable lengths depending on the nature of the risk, and the information which an insurer will need to be able to underwrite the risk.



2.6 Basically, questions asked in a proposal form can be broadly classified into five main sections:

<ul style="list-style-type: none"> ▪ Details Of The Proposer And/Or The Insured ▪ Period Of Insurance 	<p>These questions are not specific to the actual risk itself.</p>
<ul style="list-style-type: none"> ▪ Details Of The Risk To Be Insured ▪ The Subject Matter Of Insurance ▪ The Insurance History Of The Proposer And/Or The Insured 	<p>These questions 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.</p>

B1. Details Of The Proposer And/Or The Insured

2.7 In general insurance, the proposer and the insured are usually the same person. However, sometimes, the proposer can be another person who has an insurable interest in the subject matter of the insurance, e.g. the wife on the life of her husband in a Personal Accident Insurance policy.

2.8 The details required of the proposer and/or the insured are:

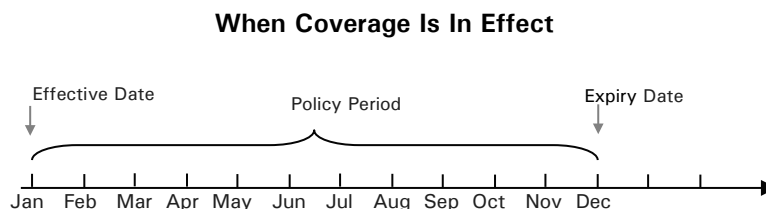
- (a) **Name in full** - This is required for the purpose of identification.
- (b) **Address** - This is required for identification and communication. It can also be a material factor (risk location) for the underwriting of the risk, e.g. in the case of Fire or Theft Insurance.
- (c) **Occupation or type of business** - This provides information for the insurer to underwrite the risk, especially with Personal Accident, Motor, Theft and Fire Insurance policies. It is obvious that the type of business can have a material bearing on the hazards involved in the risk.
- (d) **Interested party** - This will enable the insurer to know if there is any other party interested in the policy in the event of a claim, e.g. a mortgagee, or an owner named under a hire-purchase agreement.
- (e) **Other questions** - Depending on the class of insurance, various questions may be asked on the gender, nationality, date of birth, demerit points (in Motor Insurance), etc.

B2. Period Of Insurance

2.9 In general insurance business, the period concerned is normally a full year (12 months) from a date as determined by the proposer, although exceptions may arise, e.g. Travel Insurance where a shorter period may be indicated for

coverage of a single trip, or Foreign Domestic Worker (Maid) Insurance, where the period of insurance is usually 26 months as required by the Ministry of Manpower, Singapore. However, for most classes of insurance, the premium rates applied assume a normal policy period of one year.

- 2.10 The policy period begins on the policy’s effective date (the time and date that the coverage under the policy goes into effect) and it ends on the expiry date (the time and date that the coverage under the policy expires).



- 2.11 In most cases, the policy will lapse on the expiry date, unless the insured gives instructions to renew the policy, and the insurer accepts the renewal instructions.

B3. Details Of The Risk To Be Insured

- 2.12 In this section, the insurer attempts to elicit sufficient information to underwrite the risk. This process will involve a decision as to the insurability of the risk, and determining the premium charge and other contract terms.

- 2.13 Questions asked here vary widely between classes of insurance.

- 2.14 Examples are:

- (a) **Fire Insurance**

What is the construction of the risk? If the building is constructed of timber, it is almost certainly more hazardous than one built of concrete.

Where is the location of the risk? This is important for determining how far the risk is from a fire brigade station, as well as the surrounding risks in the neighbourhood.

What is the occupation of the premises? Are there hazardous goods stored in the premises? Are the manufacturing processes involved in hazardous chemicals, flammable materials or substances, etc.?



(b) Accident Insurance

In the case of Personal Accident Insurance, questions will be asked to elicit the following information:

- occupation (including nature of work or duties);
- age;
- health;
- previous history of injury and sickness; and
- any kind of physical defect or infirmity, etc.

(c) Motor Insurance

Questions will be asked on the driver and the motor vehicle, such as his age, occupation, driving experience, demerit points, claims experience for the last three years; make, model and year of the motor vehicle, its registration number, seating and engine capacity, as well as engine and chassis number.

The questions asked in a proposal form serve to elicit information on the physical and moral hazard of the risks to be insured.

B4. The Subject Matter Of Insurance

- 2.15 The subject matter of insurance is the object exposed to risk, such as people, building, house, factory, stock, vehicle, aircraft or sea vessel. The subject matter must be capable of being identified.
- 2.16 Proposal forms thus make provisions to record the description and the location, etc. of the insured subject matter. The proposer must take care to provide accurate descriptions of the subject matter. For example, in Fire Insurance policy forms, there is a condition which states that any mis-description of the insured subject matter or omission of material facts will not render the insurer liable for the policy, which means no claim will be paid.

B5. The Insurance History Of The Proposer And/Or The Insured

- 2.17 In addition to obtaining information on the past claim history of the insured, this section also attempts to solicit information on whether the proposer is currently and/or has previously insured with other insurers.
- 2.18 Thus, questions will be asked on whether the proposer has ever been declined, cancelled, accepted on special terms, or refused renewal by another insurer. If so, full details as to the name of the insurer, policy number, type of cover, etc. are required.
- 2.19 These questions assist the underwriter to be put on guard against proposers with bad claims experience, or those intending to defraud insurers.



C. Declaration & Warning Statement

- 2.20 At the end of all the questions, the proposer is required to:
- declare (sometimes to warrant) the truth and completeness of the answers given;
 - state that he has disclosed all material facts;
 - agree that the proposal is the basis of the contract;
 - agree that he accepts the normal terms, provisions, limitations, exclusions (exceptions) and conditions as contained in the policy; and
 - sign and date the proposal form.

NOTE: While the agent can assist the proposer to complete the proposal form, the latter must read through and check the answers and sign the form himself. The agent must not sign the form on the proposer's behalf.

- 2.21 As mentioned earlier, the purpose of the declaration is for the proposer to confirm that the information provided is true to the best of his knowledge and belief.

- 2.22 Besides including a declaration, every proposal form contains a warning statement in relation to Section 25(5) of the Insurance Act (Cap. 142), which states as follows:

"You are to disclose in this proposal form, fully and faithfully, all the facts which you know or ought to know; otherwise you may receive nothing from the policy."

- 2.23 The purpose of the warning statement is, therefore, to caution the proposer about the facts to be disclosed and the danger if any material facts are not dutifully disclosed. It also signifies the duty of disclosure by the proposer (intending insured), thereby reinforcing the principle of utmost good faith.

Compare & Contrast

Readers can gain a more complete knowledge of proposal forms, by comparing and contrasting the proposal forms of different insurers, concerning the questions asked for the same class of insurance and the declarations to be made.

3. COVER NOTE

- 3.1 It is not always possible to issue an insurance policy as soon as cover is required by an insured. Thus, while negotiations are underway, or while further information is being sought (e.g. risk surveys), temporary cover is given and a Cover Note is issued. A Cover Note may also be useful, when the insured has to prove to some other party of the existence of insurance or that insurance has been effected. The format of the Cover Note will vary with different classes of insurance.

- 3.2 The Cover Note usually contains a wording to the effect that it is:
- valid only for a certain period;
 - subject to the usual terms, exclusions and conditions of the insurance policy for that class of business; and
 - subject to any further special clauses, if applicable, and specified in the Cover Note.
- 3.3 A Cover Note may be thought of as a temporary policy and will normally contain 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, e.g. Motor Insurance.
- 3.4 Soon after the Cover Note has been given to the insured, a formal policy of insurance will be issued and it is cross-referenced to the Cover Note number.
- 3.5 A Cover Note has the same legal status as the actual insurance policy. If a loss occurs during the period of insurance, when a Cover Note is in force (i.e. before a formal policy of insurance is issued), the insurer is liable to pay the claim, subject to the standard policy wording, unless special terms have been included in the Cover Note.



4. CERTIFICATE OF INSURANCE

- 4.1 When insurance is compulsory by law, the law also requires that a prescribed Certificate of Insurance is issued to prove that a policy is in force. This does make sense. For instance, in the case of a motor accident, how will the police or someone involved know that a driver has complied with the law and has a valid insurance policy? We can make the driver carry the actual policy document with him all the time, but this is cumbersome. A small Certificate of Insurance thus becomes useful in such a situation.
- 4.2 A Certificate of Insurance is only evidence of, and is not equivalent to, a policy of insurance.
- 4.3 Certificates of Insurance are 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).

A. Motor Insurance

- 4.4 In Singapore, according to the Motor Vehicles (Third-Party Risks and Compensation) Act (Cap. 189), it is an offence to drive or use a motor vehicle on a public road, without a valid insurance policy insuring for at least "Act" cover, i.e. death of or bodily injury to third party.
- 4.5 In addition to the insurance policy, a Certificate of Insurance in the prescribed form required by the Act is issued to provide evidence of insurance to the police (as and when required), and the road tax collection centre authorised by the Land Transport Authority of Singapore. See **Appendix 5C** for a sample of the Private Motor Car Certificate of Insurance.
- 4.6 This Certificate of Insurance must be kept by the motorist at all times. In the event of an accident, details of the respective parties can be exchanged.
- 4.7 When the motor vehicle is sold, the law requires that the motor vehicle must be registered in the new owner's name within seven days of the sale. The insurer requires the Certificate of Insurance to be returned immediately after the sale (i.e. it is not transferable, unless the consent of the insurer is obtained. The latter will then issue a fresh Certificate of Insurance in the name of the new owner).
- 4.8 Different prescribed certificates are issued for commercial vehicles and motorcycles in Singapore.

B. Work Injury Compensation Insurance

- 4.9 Under the Work Injury Compensation Act (Cap. 354), it is required that a copy of the Certificate of Insurance must be prominently displayed at the insured's place of business. Where the insured has more than one place of business, the Certificate of Insurance must be displayed at each place of business at which he employs any employee covered by the insurance. As the insurer provides only one certificate, it is the responsibility of the insured to make sufficient copies for display. See **Appendix 5D** for a sample Work Injury Compensation Insurance Certificate.

C. Marine Cargo Insurance

- 4.10 The Motor Insurance and Work Injury Compensation Insurance certificates provide formal proof of the existence of insurance cover required by law. However, in Marine Cargo Insurance, the certificate has a different function. It is not required by law.
- 4.11 Often, insureds have regular shipments of cargo. It is sometimes inconvenient for the insurer to issue an insurance policy for each and every shipment.
- 4.12 Thus, an Open Cover - as a sort of master policy - is issued. This is the most common form of policy for insuring cargo. It incorporates pre-agreed details of

the class of the vessels, voyage, types of cargoes, basis of valuation and limits, terms and conditions of coverage, together with a rating structure. Certificates are then issued for each shipment and/or each buyer. The insured has to make declarations (monthly or quarterly) concerning all shipments, so that the appropriate premiums can be charged.

5. INSURANCE POLICY

- 5.1 A policy is not the contract, but it is the written evidence of the insurance contract. This contract is usually in force before the policy is issued.
- 5.2 As policies are legal documents, their wording is very important. In almost every case, the document is prepared by the insurer, and it sets out the terms of the insurance contract.
- 5.3 Since the policy is prepared by the insurer, any ambiguity in its wording will be construed against the insurer, in favour of the insured. This is known as the “contra proferentum” rule, which holds that the person drawing up a legal document is responsible for any defects in it and cannot profit from such defects.
- 5.4 In Singapore, policy wordings for Fire, Work Injury Compensation, Motor and Marine Insurance do not vary a lot among insurers. However, different insurers use different sizes, typography or colours for their policy documents.
- 5.5 As is the trend in the United States and the United Kingdom, policy wordings have been redrafted using layman terms (plain English) to help the man in the street to understand the contract better. In Singapore, some insurers are issuing plain English policies, mostly for, personal lines, such as Foreign Domestic Worker (Maid), Golfer’s, Health, Home, Motor, Personal Accident and Travel Insurance.



A. Policy Document

- 5.6 More insurance companies are now issuing what is termed as a scheduled policy, i.e. all the normal sections in a policy are pre-printed, and any amendments and specific details are stated in the Schedule (see **Appendices 5E** and **5F** for samples of scheduled policies).

- 5.7 A scheduled policy form is usually divided into the following sections:

A1. The Heading

- 5.8 It gives the name and address of the insurer and other relevant information which varies from company to company.

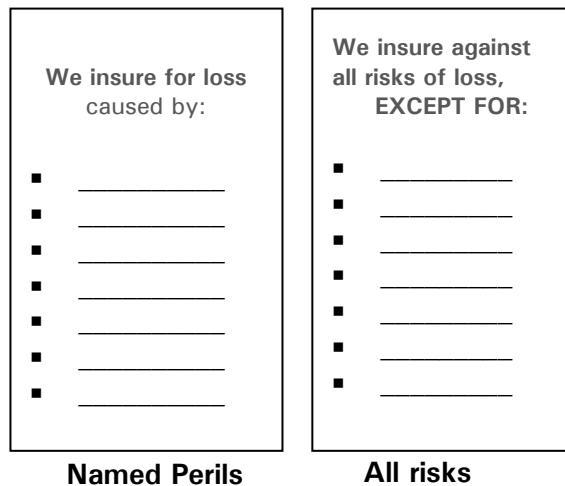
A2. The Preamble Or Recital Clause

5.9 This clause recites or states the parties to the contract (not mentioning their names). It also makes reference to the proposal form as the basis of the contract, and the premium, as having been paid or agreed to be paid by the insured (policyholder), as a consideration for the insurance provided by the policy.

A3. Operative Or Insuring Clause

5.10 The clause sets out, in detail, precisely what the policy is insuring. Sometimes, policies will be on a “named perils” (or “specified perils”) basis, which means that the causes of insured loss are stated individually. See **Appendix 5E** for a sample policy insured on a “named perils” basis.

Named Perils Versus All Risks



5.11 If the policy covers “all risks”, then all forms of unforeseen loss and sudden damage are covered, subject to specific policy exclusions. See **Appendix 5F** for a sample policy insured under an “all risks” basis.

5.12 The Operative Clause can be quite short, but with Motor Insurance, for instance, the clause will have several sections, such as:

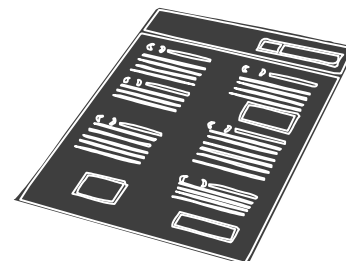
- Section I - Insurance On The Motor Vehicle;
- Section II - Liability To Third Parties;
- Section III - Medical Expense Benefits; and
- Section IV - Personal Accident Benefits.

5.13 It will be the sole responsibility of the insured to establish that a loss falls within the Operative Clause in the event of a claim arising under a policy.

A4. Schedule

5.14 This section contains all information relating to the particular policy concerned. Standard information for all policies in that class of business will be contained in the other sections. The schedule varies according to the class of business, but it will include the following data:

- policy number;
- date of issue;
- insured's name and address;
- agency (account) number;
- period of insurance;
- risks covered;
- the property insured;
- situation of the property insured;
- sums insured (limit of liability in case of liability cover)
- clauses or special provisions applying;
- warranties applicable;
- endorsements issued; and
- authorised signature.

**A5. Exclusions/Exceptions**

5.15 Exclusions or exceptions are perils, risks, subject matter and other circumstances that are specifically stated as not covered in an insurance policy. They define the boundaries of policy cover, and describe situations in which the insurer will not pay or admit liability for claims. Exclusions help to keep insurance premiums more uniform and reasonable.

5.16 Exclusions in a policy vary, depending on the type of coverage and the situations which the contract is designed to cover. Every insurance contract has exclusions. Even specified peril insurance policies, which automatically exclude any perils not specifically stated, list certain exclusions separately to explain or emphasise perils excluded from coverage.

5.17 As for a packaged or multi-sectioned policy, each section of the policy will contain its own specific exclusions. In addition, there is another section entitled "General Exceptions" which contains exclusions applying to all sections of the policy.

5.18 It is normally the responsibility of the insurer to prove that a particular exception applies, although the policy wording may require the insured to prove that the exclusion shall not apply.

5.19 Exclusions specified in a policy are to:

- assist in the management of moral hazard;
- eliminate cover that requires special underwriting consideration;
- eliminate cover that is available under another class of insurance;
- eliminate cover for risks that are considered unsuitable for insurance, e.g. fundamental risks; and

- eliminate losses that may be inevitable, unfortuitous or unexplained.

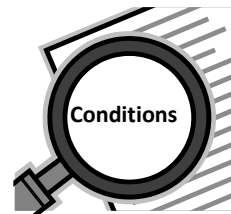
A6. Conditions

5.20 The Conditions section states the “ground rules” for the policy. It describes the responsibilities of both the insurer and the insured.

5.21 The conditions printed in a policy are called express conditions (such as exclusions, warranties, alteration, arbitration, subrogation, claim notification, policy cancellation, etc.) and they regulate the policy contract.

5.22 There are also some “implied conditions” (i.e. which apply, but do not appear in the policy document). These include:

- insurable interest;
- utmost good faith;
- existence of subject matter;
- identity of subject matter;
- proof of ownership; and
- legality of contract.



5.23 Also, conditions whether expressed or implied can be grouped as:

- (a) Conditions precedent to the policy - These are conditions which must be fulfilled, before the contract can become valid. For example, the implied condition of utmost good faith, requiring that all material facts must be disclosed during the negotiations leading to the contract. If such conditions are not complied with, there is doubt as to the validity of the entire contract.
- (b) Conditions subsequent to the policy - These are conditions which must be fulfilled if the contract is to continue, once it becomes binding. For example, under a Personal Accident Insurance policy, the insured is required to inform the insurer of any change in his occupation during the period of insurance.
- (c) Conditions precedent to liability - These are conditions which must be fulfilled, before the insured is legally entitled to recover a claim under the contract. For example, the insured is required to notify the insurer within a specified notification period, when a loss occurs under his policy. Failure to comply may prejudice the insurer’s decision to pay and the amount to be paid.

5.24 A breach of the implied conditions can affect the validity of the insurance contract. However, a breach of the express conditions may result in the repudiation of the claim, if it is a condition subsequent to the contract and/or precedent to liability, or the entire contract if it is a condition precedent to the policy.

A7. Warranties

- 5.25 A warranty is an undertaking by the insured that a certain state of affairs will or will not continue, or that something shall or shall not be done throughout the duration of the insurance contract. It goes to the heart of the contract.
- 5.26 A warranty in insurance is not a minor term of the contract, but one of great importance.
- 5.27 A warranty is essentially a promise made by the insured relating to the facts or to something that the insured agrees to do or not to do. A warranty may relate to past, present or future facts (i.e. it is a promise that something was so or is or will be so), or it may be a continuing warranty, in which the insured promises that a state of affairs will continue to exist. For example a warranty may require that no work will be carried out at a height greater than 12 metres, or that an intruder alarm is to be kept in good working order and regularly tested.
- 5.28 A warranty must be strictly complied with. If it is not, unless there is a waiver by the insurer, cover may terminate, even if the breach did not cause or have any connection with a loss, and even if the breach had been remedied by the time a loss occurred. Termination arises from the date of the breach. Some clauses are worded such that cover (and effectively the contract) will terminate ab initio (from the beginning) in the event of a breach by the insured. In such cases, unless fraud is involved, the premium will have to be refunded to the insured.
- 5.29 Warranties occur in most classes of insurance and are used by the insurer to make sure that a desirable situation, disclosed as a material fact during the application and the negotiations for the contract of insurance, actually stays desirable and is not allowed to disappear once the insurance contract is formed. Basically, there are two forms of warranties in insurance contracts, namely those which:
- simply denote the scope of cover; and
 - are promissory in nature.
- 5.30 For obvious reasons, they are usually imposed to ensure that:
- some form of “good housekeeping” or good management is observed, e.g. in Burglary Insurance, all doors are properly locked and the intruder alarm system is in good working order; and
 - features of higher risks are not introduced without the insurer’s knowledge, e.g. in Fire Insurance, no flammable chemicals are stored in the premises.
- 5.31 Warranties can also be classified as:
- (a) **Implied Warranties**
Those that do not appear in the policy, but are understood to automatically apply in the contract of insurance, e.g. under Marine Insurance, the vessel insured is seaworthy.

(b) **Express Warranties**

Those that are written in the insurance contract, e.g. under Marine Insurance, the goods are packed in tin-lined cases.

5.32 Generally, warranties must be strictly and literally complied with. Non-compliance with a warranty by the insured constitutes a breach of warranty, and the insurer is discharged from liability as from the date of the breach. In other words, the contract is voidable from the date of the breach. However, at times, the insurer may excuse a breach of express warranty if prior notification is received, and an additional premium (if necessary) is paid by the insured.

5.33 Refer to a later section of this chapter for a comparison of exclusions/exceptions, conditions and warranties.

A8. Comparison Of Exclusions/Exceptions, Conditions & Warranties

Exclusions/ Exceptions	Conditions	Warranties
<ul style="list-style-type: none"> ▪ They are used to define and restrict the boundaries of the policy coverage. ▪ They allow repudiation if the circumstances of a claim indicate that the exclusion applies. ▪ They are always specified in the policy, and usually require the insurer to prove that the exclusion applies. 	<ul style="list-style-type: none"> ▪ Implied conditions must be complied with, otherwise there is doubt as to the validity of the entire contract. ▪ Conditions precedent to the contract may either be concerned with the formation of contract or be ongoing. ▪ Conditions subsequent to the contract and/or precedent to liability give the insurers the right to repudiate a claim, but not to repudiate the contract in its entirety. 	<ul style="list-style-type: none"> ▪ They must be strictly and literally complied with. ▪ They give the insurer the right to repudiate on any breach, even if the breach did not result in the loss or damage. ▪ They are written into the policy, except where implied.

A9. Signature (Or Attestation) Clause

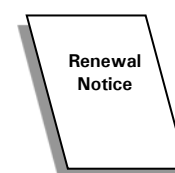
5.34 The wording of this clause which authenticates the policy document depends on each insurer’s procedure on the signing of the policy document. It may read as simply as “In witness whereof, this Policy has been signed by and on behalf of the Company”. This is usually signed by an authorised officer of the insurance company, and this binds the insurer to the insurance contract. The date is not stated as it appears in the schedule.

6. ENDORSEMENTS

- 6.1 Since everyone's circumstances are different, people often wish to make a change to a standard version of a policy. As things change, existing policies sometimes need to be modified. For example, an additional insured may need to be included in a policy, or additional protection may be needed for certain property. The insurer can effect any such change by passing (adding) an endorsement to the policy.
- 6.2 The policy, together with the schedule and any endorsement, forms the evidence of the insurance contract. Any endorsement must be read together with the policy, and any word or expression to which a specific meaning has been attached bears such meaning whenever it appears. The effective date (of the endorsement or changes) and the wording of the endorsement effecting the change are of significant importance.
- 6.3 Examples of circumstances that may necessitate endorsements are:
- change in sum insured;
 - change in interested party or insurable interest;
 - change in the physical risk, e.g. location, occupation;
 - change in address;
 - extension or change of period of insurance;
 - cancellation of insurance;
 - deletion of an exclusion; and
 - correction of data, such as spelling errors or errors of description.

7. RENEWAL NOTICE OR EXPIRY NOTICE

- 7.1 Usually, a month or so, before a policy expires, the insured receives a renewal notice, also known as an expiry notice, reminding the insured that the policy is due to expire, and the existing terms are usually specified.
- 7.2 Where the insurer is going to change the terms on renewal, the intentions are clearly stated in the notice, and the offer of renewal by the insurer is clearly stated in it.
- 7.3 At times, owing to adverse claims experience, the insurer may decline renewal of the policy, and such intention is either stamped or typed on the expiry notice.
- 7.4 It should be noted that, upon receipt of the renewal notice, the insured may of course change the sum insured, etc. However, at all times, the implied condition of utmost good faith applies, and the insured is duty bound to disclose all material facts existing at the time of the renewal.



- 7.5 The information as contained in the notice is usually the same information as in the original policy and any endorsement. In addition, there is a section for any amendments to be requested by the insured. The information includes:
- insured's name and address;
 - policy number;
 - expiry date or period of insurance;
 - sum insured;
 - renewal premium; and
 - existing brief descriptions.
- 7.6 A renewal notice is not a legal requirement, and the insurer has the option whether or not to send it. However, business efficiency normally dictates that it should be sent to the insured.
- 7.7 Furthermore, the Singapore General Insurance Code of Practice issued by GIA states that the insurer will inform the insured when he needs to renew his policy or when his policy will end, at least 30 business days before expiry of the policy, to allow him to consider and arrange for continuing cover. However, the Singapore General Insurance Code of Practice applies only to personal lines of general insurance.

8. RENEWAL CERTIFICATE

- 8.1 The insurer may issue a renewal certificate once the insured confirms that he is renewing the policy on the same terms, or with minor changes, such as the sum insured.
- 8.2 A renewal certificate is similar to the schedule of the policy, and it lists the relevant changes, if any, to the policy. It contains the following information for cross-referencing and identification purposes:
- insured's name and address;
 - policy number;
 - period of insurance;
 - agency/account number;
 - date of issue;
 - interests insured;
 - sum insured;
 - premiums; and
 - signature of authorised officer of insurance company.



9. CLAIM FORM

- 9.1 It is normal for an insurer to receive a phone call or an e-mail concerning an event leading to a claim almost immediately after the accident.
- 9.2 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.
- 9.3 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.
- 9.4 The insurer usually states on the claim form that it is issued without any admission of liability, or without prejudice.
- 9.5 The claim form is broadly divided into the following sections:

I.	<u>Policyholder's/Claimant's Particulars</u> a) Name, address and contact details b) Policy particulars
II.	<u>Details Of Accident</u> a) Circumstances of loss b) Date of loss c) Place of loss d) Any third parties involved e) Details of any witnesses
III.	<u>Details Of Injuries/Loss/Damage/Suffered</u> a) Description of property loss or damage b) Details of injuries sustained
IV.	<u>Details Of Reports</u> a) Police Report b) Medical Report c) Statements made (if any) to and/or by third parties, etc.
V.	<u>Insured's Declaration, Signature & Date</u>

NOTE: Since there are wide variations in the claim forms of various insurance companies, readers should do a compare-and-contrast study of various forms from different insurance companies.

- 9.6 Details of the handling and settlement of claims will be discussed in the next chapter of this Study Guide.



ABC INSURANCE COMPANY(SINGAPORE) LIMITED
 (Registration No: 2009-12345-A)
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 E-mail: contactus@abcinco.com.sg
 Website: www.abcinco.com.sg

PROPOSAL FORM FOR MOTOR INSURANCE

STATEMENT PURSUANT TO SECTION 25(5) OF INSURANCE ACT, CAP.142 (OR ANY SUBSEQUENT AMENDMENTS THEREOF)

You are to disclose in this proposal form, fully and faithfully, all the facts which you know in respect of the risk that is being proposed, otherwise the policy issued hereunder may be void.

PARTICULARS OF REGISTERED OWNER

Name		Sex <input type="checkbox"/> Male <input type="checkbox"/> Female	
NRIC/Passport No.	Driving Licence No.	Driving Experience	
Nationality <input type="checkbox"/> Singaporean <input type="checkbox"/> Others (Please attach documentary proof)		E-mail Address	
Address		Singapore	
Contact No. (H) (Hp)	(O)	Date of Birth	
Occupation Indoor <input type="checkbox"/> Outdoor <input type="checkbox"/>	Name of Employer	Language/Dialect	
Details of primary driver if registered owner is not driving (Name, NRIC No. date of birth, gender, driving experience, occupation - indoor/outdoor).			

PARTICULARS OF NAMED DRIVERS

1. Name		NRIC/Passport No.	Sex <input type="checkbox"/> Male <input type="checkbox"/> Female	Date of Birth
Registration Date of Driving Licence	Occupation Indoor <input type="checkbox"/> Outdoor <input type="checkbox"/>	Relationship to Registered Owner		
2. Name		NRIC/Passport No.	Sex <input type="checkbox"/> Male <input type="checkbox"/> Female	Date of Birth
Registration Date of Driving Licence	Occupation Indoor <input type="checkbox"/> Outdoor <input type="checkbox"/>	Relationship to Registered Owner		

DETAILS OF INSURANCE COVER

Period of Insurance: From	To	No Claim Discount (NCD) Entitlement _____%
To enable us to confirm your NCD Entitlement, please provide the details below:		
Previous Insurer _____	Policy No. _____	
Vehicle No. _____	Expiry Date _____	
I undertake to pay any difference in the premium payable under the policy issued by ABC Insurance Company Limited, if my previous insurer states that I am not entitled to a No Claim Discount or that my NCD Entitlement is lower than what is stated here.		
Cover Required		
<input type="checkbox"/> Quality Applicable to Private Car only - Repair must be carried out by our quality workshop (except for cars under warranty).		
<input type="checkbox"/> Comprehensive <input type="checkbox"/> Third Party Fire & Theft <input type="checkbox"/> Third Party		
Do you wish to insure COE and PARF value? (Applicable to Quality Comprehensive and Third Party Fire & Theft Cover only)		
<input type="checkbox"/> Yes <input type="checkbox"/> No		

ADDITIONAL OPTIONS

For Quality and Comprehensive plans only	Accessories (other than factory-fitted)
<input type="checkbox"/> Plus (waiver of basic excess and courtesy car benefit)	(a) Description _____
<input type="checkbox"/> NCD Protection (applicable only for 50% NCD)	_____
Additional Excess	Premium Reduction
<input type="checkbox"/> S\$ 500	8%
<input type="checkbox"/> S\$ 1,000	12%
<input type="checkbox"/> S\$ 1,500	15%
(b) Value _____	
Applicable to Motorcycle only: Details of additional authorised driver (1 driver only) (Name, NRIC No., date of birth, driving experience, occupation - indoor/outdoor)	

TYPE AND DETAILS OF VEHICLE			
Type <input type="checkbox"/> Private car	<input type="checkbox"/> Saloon	<input type="checkbox"/> Off-Peak Car	<input type="checkbox"/> SUV
	<input type="checkbox"/> Station Wagon/MPV	<input type="checkbox"/> Coupe	<input type="checkbox"/> Turbo
	<input type="checkbox"/> Anti-theft device (Car Tracker, please describe) _____		
<input type="checkbox"/> Commercial vehicle	<input type="checkbox"/> Standard Van	<input type="checkbox"/> Standard Lorry/Pickup	<input type="checkbox"/> Garbage Truck
	<input type="checkbox"/> Standard Lorry with Crane/Tailgate	<input type="checkbox"/> Refrigerated Vehicle	<input type="checkbox"/> Tanker
	<input type="checkbox"/> Trailer	<input type="checkbox"/> Tipper	<input type="checkbox"/> Mixer
	<input type="checkbox"/> Tow Truck	<input type="checkbox"/> Others (Please Specify) _____	
	<input type="checkbox"/> Bus <input type="radio"/> School children only <input type="radio"/> General purposes		
<input type="checkbox"/> Motor-cycle	<input type="checkbox"/> Side Car <input type="checkbox"/> Re-conditioned Bike		
Model	Registration No.	Usage <input type="checkbox"/> Private <input type="checkbox"/> Company <input type="checkbox"/> Others (Please Specify) _____	
Registration Date	Original Registration Date	Engine No.	Chassis No.
Seating Capacity (including driver)	CC/Tonnage	(For commercial vehicle only) Unladen Weight _____ Laden Weight _____	
Name of finance company (if under hire-purchase)			

OTHER PARTICULARS			
Have you or your named driver(s) been convicted of any driving offences for the past 3 years? If Yes, please give details.			<input type="checkbox"/> Yes <input type="checkbox"/> No
Have you or your authorised driver(s) been involved in any motor accident for the past 3 years? If Yes, please give details below:			<input type="checkbox"/> Yes <input type="checkbox"/> No
Date of Accident	Name of Insurance Company	Details of Claim	Amount of Claim (S\$)
_____	_____	_____	_____*(OD/TP)
_____	_____	_____	_____(OD/TP)
_____	_____	_____	_____(OD/TP)
* Delete where appropriate.			

DECLARATION	
I/We hereby declare that the Motor Vehicle described, shall be kept in GOOD CONDITION and that the information given above are in every respect true and correct. I/We hereby agree that this Declaration shall be the basis of the Contract of Insurance between me/us and ABC Insurance Company (Singapore) Limited (herein called the Company).	
_____ Signature of Proposer/Company Stamp	_____ Date
IMPORTANT	
<ol style="list-style-type: none"> Please note that the liability of the Company does not commence until this proposal has been accepted by the Company and the premium paid. Please do not leave any answer blank. Fill "Nil" or "NA" where applicable. The policy will carry a Payment Before Cover Warranty which requires the premium to be paid in full within a specific period failing which there would be no liability under the policy. If the Registered Owner is not driving the vehicle, the particulars of the Primary Driver must be stated in this Application Form. All private car policyholders shall be responsible for Unnamed Driver Excess of S\$2,500, in addition to the Excess stated under the Policy, if the said driver is aged 26 years and below or has less than 1 year relevant driving experience. The Unnamed Driver Excess is S\$500 if aged above 26 years. All motorcycle policyholders shall be responsible for Named Driver Excess of S\$500, in addition to the Excess stated under the Policy, if the said driver is less than 21 years or has less than 2 years relevant driving experience. 	

FOR OFFICIAL USE ONLY			
Agent/Representative:		Code No:	
Policy No.:	Date:	Premium:	Excess:
Entry By:	Date:	Checked by:	Date:
Policy Delivery: HAND/MAIL	Remarks:		



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IMPORTANT NOTICE

If this Proposal is accepted or when the cover commences, it is a fundamental and absolute Special Condition of this contract of insurance that the premium due must be paid and received by the insurers/brokers/agents within sixty (60) days from the inception date of the cover. Where the period of insurance is less than 60 days, the premium due must be paid and received within the period of insurance.
 If this Condition is not complied with, then this contract is automatically cancelled and insurers shall be entitled to the pro-rata premium for the period they have been on risk.

NOTICE: Statement pursuant to Section 25(5) of the Insurance Act (Cap. 142) (or any subsequent Amendments thereof). You are to disclose in this Proposal Form, fully and faithfully, all the facts which you know or ought to know in respect of the risk that is being proposed. Otherwise, the policy issued hereunder may be void.

PROPOSAL FORM FOR PUBLIC LIABILITY INSURANCE

Proposer's Full Name: _____

Address: _____

Business: _____ Tel: _____
 (State whether Manufacturer, Wholesaler or Retailer. If Contractor, please state kind of work undertaken.)

Period of Insurance: From: _____ To: _____

Amount of Indemnity Required: _____ Any One Accident
 _____ Any One Period of Insurance

SCHEDULE OF PREMISES OR OUTSIDE CONTRACTS TO WHICH THE INSURANCE IS TO APPLY

Situation of Premises or Sites of Contracts	Number		Description of Premises (e.g. office, shop, store, factory, showroom or contracts)	Freeholders, Leaseholder or Tenant
	Building	Employees		

THE FOLLOWING QUESTIONS MUST BE ANSWERED BY THE PROPOSER (PLEASE TICK APPROPRIATE BOX BELOW)

1. Do you occupy the whole of the premises? If No, state which part you occupy. If you have tenants or sub-tenants, please give particulars.	<input type="checkbox"/> Yes <input type="checkbox"/> No
2. Do you or any of your employees undertake duties away from the premises for the purposes of your business? If Yes, please give particulars.	<input type="checkbox"/> Yes <input type="checkbox"/> No
3. Does your company use any lifts, elevators, escalators in your business which are to be included in the insurance? If Yes, please give particulars.	<input type="checkbox"/> Yes <input type="checkbox"/> No
4. Does your company use any Machinery, Electrical or other Mechanical Appliances (other than lifts, elevators and escalators)? If Yes, please give particulars	<input type="checkbox"/> Yes <input type="checkbox"/> No
5. Does your company or any of your employees handle or use (a) explosives or chemicals? (b) radioisotopes, radioactive substances or other sources of ionising radiations?	(a) <input type="checkbox"/> Yes <input type="checkbox"/> No (b) <input type="checkbox"/> Yes <input type="checkbox"/> No

5. Insurance Documents

<p>6. Does your company have any (a) Highly inflammable goods used, stored or carried? (b) Any effluent, fumes or anything of a noxious nature discharged from your premises. If Yes, please give details.</p>	<p>(a) <input type="checkbox"/> Yes <input type="checkbox"/> No (b) <input type="checkbox"/> Yes <input type="checkbox"/> No</p>
<p>7. Have any claims been made upon you during the last 5 years in respect of bodily injury or property damage at law? If Yes, please give details.</p>	<p><input type="checkbox"/> Yes <input type="checkbox"/> No Date of Claim Nature of Claim Amount of Claim (S\$)</p>
<p>8. Have you ever proposed for insurance or been insured against the liability to which this proposal relates? If Yes, state name of Insurer.</p>	<p><input type="checkbox"/> Yes <input type="checkbox"/> No</p>
<p>9. Has any company (a) declined to insure you? (b) required special terms to insure you? (c) cancelled or refused to renew your insurance?</p>	<p>(a) <input type="checkbox"/> Yes <input type="checkbox"/> No (b) <input type="checkbox"/> Yes <input type="checkbox"/> No (c) <input type="checkbox"/> Yes <input type="checkbox"/> No</p>
<p style="text-align: right;">Total Premium _____ 3% GST _____ Grand Total _____ Deductible _____</p> <p>I/We hereby declare the above statements and particulars to be true and correct and agree that they shall be the basis of the contract between me/us and ABC Insurance Company (Singapore) Limited.</p> <p style="text-align: right;">Proposer's Signature & Company Stamp</p> <p>Agent's Code _____ Agent's Name _____ Agent's Contact No. _____</p> <p style="text-align: right;">Date: ____ / ____ / ____ Day Month Year</p>	

Note: No Liability is undertaken until the Proposal has been accepted and the Premium paid in full.

CERTIFICATE OF INSURANCE

Motor Vehicles (Third-Party Risks and Compensation) Act (Chapter 189)
 Motor Vehicles (Third-Party Risks and Compensation) Rules, 1960
 Road Transport Act, 1987 (Malaysia)
 Motor Vehicles (Third-Party Risks) Rules, 1959 (Malaysia)

CERTIFICATE No.

1. Index Mark and Registration Number of Vehicle
Chassis Number

2. Name of Policyholder

3. Effective Date of the Commencement of Insurance for the purposes of the Ordinance/Regulations

4. Date of Expiry of Insurance

5. Persons or Classes of Persons entitled to drive*

- (a) The policyholder.
- (b) Any other person who is driving on the policyholder's order or with his permission.

Provided that the person driving is permitted in accordance with the licensing or other laws or regulations to drive the motor vehicle or has been so permitted and is not disqualified by order of a court of law or by reason of any enactment or regulation in that behalf from driving the motor vehicle.

6. Limitations as to use:*

- (a) Use for social domestic and pleasure purposes and in connection with the Policyholder's business or profession.

The policy does not cover:

- (i) Use for hire or reward.
- (ii) Use for racing, pace-making, reliability trial or speed-testing.
- (iii) Use for the carriage of goods (other than samples) in connection with any trade or business.
- (iv) Use for any purpose in connection with the Motor Trade.

* Limitations rendered inoperative by Section 8 of the Motor Vehicles (Third-Party Risks and Compensation) Act (Chapter 189) and Section 95 of the Road Transport Act, 1987 (Malaysia), are not to be included under these headings.

We hereby Certify that the policy to which this Certificate relates is issued in accordance with the provisions of the Motor Vehicles (Third-Party Risks and Compensation) Act (Chapter 189) and Part IV of the Road Transport Act, 1987 (Malaysia).

For ABC Insurance Company (Singapore) Limited

Agency:
 Date of Issue:
 Reprint:

Countersigned By:

Authorised Officer

Chief Executive

WORK INJURY COMPENSATION ACT
(Chapter 354)

WORK INJURY COMPENSATION

INSURANCE REGULATIONS 1975

CERTIFICATE OF INSURANCE
[(Regulation 3(1))]

POLICY NUMBER:

1. Name of Insurer: **ABC Insurance Company (Singapore) Limited**
2. Name of Insured:
3. Policy Effective Date:
4. Policy Expiry Date:

We certify that the Policy to which this Certificate relates is issued in accordance with the provisions of the Work Injury Compensation Act (Chapter 354).

ABC Insurance Company (Singapore) Limited

AUTHORISED INSURER



ABC INSURANCE COMPANY (SINGAPORE) LIMITED
 (Registration No: 2009-12345-A)
 21 Any Street, ABC Centre, Singapore 654321
 Tel: (65) 6789 8181 Fax: (65) 6789 8282
 E-mail: contactus@abcinco.com.sg
 Website: www.abcinco.com.sg

PACKAGED HOUSEHOLD INSURANCE POLICY

WHEREAS the Insured has applied to the Company for the insurance hereinafter contained and has paid or agreed to pay the Premium as consideration for such insurance.

NOW THIS POLICY WITNESSETH that in respect of events occurring during the Period of Insurance and subject to the terms, exceptions and conditions contained herein or endorsed hereon (hereinafter collectively referred to as the Terms of this Policy) the Company will indemnify the Insured in accordance with the Terms stated in the various Sections of the Policy.

DEFINITIONS

Wherever the following words are used in this Policy or on the SCHEDULE they shall have the meanings given below:

ACCIDENT / ACCIDENTAL

An event which is sudden, unforeseen or unexpected.

BODILY INJURY

Injury resulting solely and directly from accidental means and does not include any medical condition, sickness or disease, or any naturally occurring condition, or the result of any gradually operating cause.

BUILDING

The building structure of the Insured Dwelling at the Situation of Risks as described in the SCHEDULE including garages, outbuildings, hard courts and in-ground pools, drive paths, patios, terrace, landscaping and the walls, gates and fences around excluding foundations and drains.

HOUSEHOLD CONTENTS

Any moveable household item and Personal Effects belonging to the Insured and/or members of his family including those belonging to the landlord for which the insured is responsible but excluding:

- (a) property more specifically insured under another policy.
- (b) motor vehicles and accessories, pedal cycles and watercraft
- (c) money, deeds, bonds, bills of exchange, promissory notes, cheques, traveller's cheques, securities for money, stamps, certificates or documents of any kind, manuscripts, medals, contact lenses, hearing aids and livestock unless specially mentioned herein.
- (d) any part of the structure or ceilings of the Building(s), wallpapers and the like or external television and radio antennae, aerials, aerial fittings, masts and towers.
- (e) any property the value of which is included in the Total Sum Insured on Renovation, Fixtures and Fittings or Building(s).
- (f) landlord's fixtures and fittings.
- (g) property owned or held in trust in connection with any business profession or trade.
- (h) livestock and pets

INSURED DWELLING

A HDB flat, private flat or private dwelling house and its fenced-up compound around the house including all domestic offices (as approved by the Company) insured in this policy which is built of brick, stone or concrete and roofed with concrete slates tiles and/or other incombustible materials located at the Situation of Risks as described in the SCHEDULE.

INSURED PERILS

Refers to the following:

1. FIRE, LIGHTNING, THUNDERBOLT OR SUBTERRANEAN FIRE.
2. EXPLOSION excluding loss of or damage to boilers, economizers, or other vessels, machinery or apparatus in which pressure is used or their contents resulting from their explosion and any act of any person acting on behalf of or in connection with any organization with activities directed towards the overthrow by force of the Government de jure or de facto or to the influencing of it by violence.
3. AIRCRAFT OR OTHER AERIAL DEVICES or any article dropped therefrom.
4. BURSTING OR OVERFLOWING OF A DOMESTIC WATER TANK, APPARATUS OR PIPE or water or oil escaping from a fixed heating or cooling installation excluding damage thereto and loss or damage occurring whilst the Insured Dwelling is left unoccupied for more than sixty (60) consecutive days.
5. THEFT ACCOMPANIED BY ACTUAL FORCIBLE AND VIOLENT BREAKING into or out of the Insured Dwelling or any attempt thereat excluding loss or damage occurring whilst the Insured Dwelling is left unoccupied for more than sixty (60) consecutive days.
6. IMPACT WITH THE BUILDING(S) by any road vehicle not belonging to nor under the control of the Insured or any member of his family normally residing with him.
7. EARTHQUAKE OR VOLCANIC ERUPTION, including Flood or Overflow of the Sea occasioned thereby.
8. HURRICANE, CYCLONE, TYPHOON OR WINDSTORM, including Flood or Overflow of the Sea occasioned thereby, excluding any building in the course of construction, reconstruction or repair (unless all outside doors, windows and other openings thereto are complete and protected against such perils).
9. FALLING TELEVISION OR RADIO ANTENNAE, antennae fittings, masts, towers or solar heating panels due to breakage or collapse.
10. FALLING TREES or branches but not loss or damage caused by falling or lopping of trees by or on the Insured's behalf.
11. RIOTS, CIVIL COMMOTION OR ACTS OF STRIKES or locked-out workers or persons taking part in labour disturbances.
12. MALICIOUS DAMAGE, loss of or damage to property insured directly caused by the malicious acts of persons, whether or not such acts is in the course of a disturbance of public peace, excluding loss or damage occurring whilst the Insured Dwelling is left unoccupied for more than sixty (60) consecutive days.
13. SUBSIDENCE OR LANDSLIP CAUSED BY FLOOD ONLY but excluding the first S\$10,000.00 or 10% of claim cost whichever is greater for each and every loss.

LOSS OF SIGHT

Physical loss of an eye, or permanent and total loss of sight, which shall be considered as having occurred in one or both eyes if the degree of sight remaining after correction is 3/60 or less on the Snellen Scale (this means seeing at 3 metres what you should see at 60 metres) as confirmed by a fully qualified Ophthalmic Specialist.

LOSS OF SPEECH OR HEARING

Medically certified total and irrecoverable loss of the sense of speech and hearing.

LOSS OF USE

Loss in terms of physical incapacity or disability and not in terms of professional or occupation incapacity or disability of the Insured.

PERSONAL EFFECTS

Articles of personal use designed specifically to be worn or carried e.g. Clothing, Jewellery, Watches & Camera Equipment etc. Excluding money, mobile phones, pagers, portable computers/diaries and items which are used in connection with any business profession or employment, as well as items insured under a separate policy.

RENOVATIONS, FIXTURES AND FITTINGS

Internal improvements, additions, fixtures and fittings including landlord's fixtures and fittings in the Insured Dwelling.

VALUABLES

Jewellery, watches, antiques, paintings, furs, works of art, curios, stamps or coin collections, items of gold, silver, platinum or other precious metals and other collectable property.

DESCRIPTION OF BENEFITS

The following Sections will attach to and form part of the policy only when so specified on the SCHEDULE.

SECTION 1 - RENOVATIONS, FIXTURES AND FITTINGS

The Company will indemnify the Insured to the extent of the Insured's insurable interest, against loss of or damage to the Renovations, Fixtures and Fittings of the Insured Dwelling caused by an Insured Peril.

SECTION 2 - CONTENTS**(A) BASIC HOME COVER**

The Company will indemnify the Insured against loss or damage to the Household Contents, Valuables and other Personal Effects belonging to the Insured and/or any member of his family normally residing with him or for which he is legally responsible, whilst contained in the Insured Dwelling caused by an Insured Peril.

(B) ENHANCED HOME COVER

The Company will indemnify the Insured to the extent of the Insured's insurable interest against loss of or damage to the Household Contents, Valuables and other Personal Effects belonging to the Insured and/or any member of his family normally residing with him or for which he is legally responsible, whilst contained in the Insured Dwelling caused by an Insured Peril or accidental means. Subject to an excess of S\$100.00 on each and every claim except if due to an Insured Peril.

LIMITS OF INDEMNITY FOR SECTIONS 1 & 2

The Company's maximum liability in the aggregate for all claims in respect of Section 1 & 2 shall not exceed the Sum Insured specified in the SCHEDULE respectively.

The Company's liability for loss or damage to Valuables shall not exceed

- (a) S\$2,500.00 for any one article unless specially agreed and specified in the SCHEDULE and
- (b) one-third of the Sum Insured for Section 2 in the aggregate unless specially agreed and specified in the SCHEDULE.

MAIN EXCLUSIONS TO SECTIONS 1 & 2

The Company shall not be liable in respect of:

- (a) any loss by theft
 - (i) by deception unless deception is used to enter the Insured Dwelling
 - (ii) of property in any part of the building to which any other tenant has right of access not involving entry to or exit from the Insured Dwelling by forcible and violent means
 - (iii) if the Insured Dwelling is lent, let or sublet unless force is used to enter the Insured Dwelling
- (b) scratching or denting of property.
- (c) any loss, destruction or damage due to wear, tear, depreciation, the process of washing, cleaning, dyeing, alteration, repair or restoration of any article, the action of light or atmospheric conditions, moth, insects, vermin or any other gradually operating cause.
- (d) any loss or damage resulting from theft by deception and/or by any person lawfully in the Insured Dwelling.
- (e) electrical electronic or mechanical breakdown except as provided for in Extension (P) – Deterioration of Foods and Drinks in Refrigerator as stated below.
- (f) breakage of strings in respect of any musical instrument.
- (g) damage to films when in use in a camera or projector.
- (h) breakage of tubes and or bulbs unless the apparatus is damaged at the same time.
- (i) business or professional use in respect of photographic and sporting equipment and accessories and musical instruments.
- (j) any loss or damage from the Insured Dwelling arising from Bursting or overflowing of a domestic water tank, apparatus or pipe, Theft or any attempt thereof or Malicious acts during any period in excess of sixty (60) consecutive days during which the Insured Dwelling is left unoccupied, unless written consent has been obtained from the Company.
- (k) cost of reproducing data whether recorded on tapes, cards, discs or otherwise.
- (l) delay, confiscation or detention by Customs Official or Authorities.
- (m) any loss or damage of property left in the open outside the confinement of the Insured Dwelling.
- (n) mysterious disappearance or unexplained loss.
- (o) damage to sports equipment whilst in play.

- (p) theft of property in:
- (i) unoccupied touring or convertible vehicles or
 - (ii) other unoccupied vehicles unless all windows, doors, luggage compartment, boot, roof and windscreen are completely closed and securely locked.
- (q) loss or damage to any property as a result of inherent fault or defective workmanship or defective design or use of defective materials.

EXTENSIONS TO SECTION 1 & 2

(A) Awnings, Blinds and Signs Clause

This insurance extends to cover loss or damage to awnings, blinds and signs as a result of an Insured Peril up to S\$5,000.00.

(B) Cost of Replacement for Locks and Keys

This insurance extends to cover cost of replacement of locks and keys of all external doors of the Insured Dwelling up to S\$750.00 following a break-in.

(C) Damage to Security System

This insurance extends to cover loss or damage to security system up to S\$500.00 as a result of theft or any attempt thereat.

(D) Fire Extinguishing Expenses

This insurance extends to cover cost of replenishment of fire fighting appliances and destruction to such appliances up to 10% of the Total Sum Insured for Section 1 and 2 or the amount of loss whichever is lower.

(E) Loss of Rent and Additional Expense of Alternative Accommodation

In the event the Insured Dwelling is rendered uninhabitable by an Insured Peril, the Company will indemnify the Insured up to S\$10,000 per month or in any one Period of Insurance, an aggregate limit of 10% of the Total Sum Insured for Section 1 and 2 or S\$50,000 whichever is the lower, for:

- (a) reasonable additional expense for alternative accommodation; and/or
- (b) loss of rent payable to the Insured

actually incurred by the Insured during the period necessary for the reinstatement of the Insured Dwelling.

Where a claim is made under this extension under Sections 1, 2 or 8, the Company's maximum liability is limited to S\$50,000.

(F) Loss or Damage to Mobile Phones Pagers & Portable Computers/Diaries

This insurance extends to cover the loss of or damage to Mobile Phones, Pagers and Portable Computers/Diaries/Personal Digital Assistants and the like caused by the Insured Perils, whilst contained in the Insured Dwelling, up to the replacement cost.

(G) Loss or Damage to Pedal Cycles

This insurance extends to cover loss or damage to pedal cycles belonging to the Insured and/or any member of his family normally residing with him whilst contained in the Insured Dwelling caused by an Insured Peril excluding motor-assisted pedal cycles.

(H) Professional Fees Clause

This insurance extends to cover Architects' Surveyors' Consultants' and Legal Fees as prescribed by the respective professional institutes but excluding any fees incurred in preparing a claim up to 10% of the Sum Insured for Section 1.

(I) Removal of Debris Clause

This insurance extends to cover costs of Removal of Debris, dismantling or demolishing, shoring or propping-up of the damaged part of the Insured Dwelling up to 10% of the Total Sum Insured for Section 1 and 2.

(J) Identity Fraud Expenses (strictly NOT applicable where the Policy is issued to a corporate entity)

1. Subject to the conditions herein below, this Policy extends to indemnify the Insured or members of the Insured's family residing with him for Identity Fraud Expenses incurred by the Insured as a result of a third party (who is not a member of the Insured's family) knowingly perpetuating an unlawful act by using their respective means of identity without their respective express authority.

2. The Company will indemnify the Insured or members of the Insured's family residing with him for Identity Fraud Expenses:

- up to 10% of the sum insured for Section 2 – Contents subject to a maximum aggregate sum of S\$7,500 for any one policy period for the Enhanced Home Cover

or

- up to 10% of the sum insured for Section 2 – Contents subject to a maximum aggregate sum of S\$2,500 for any policy period for the Basic Home Cover

3. Identity Fraud Expenses refer only to the following expenses reasonably incurred by the Insured or members of the Insured's family residing with him with the prior written approval of the Company:-

(a) reasonable lawyers' fees and disbursements directly related to:-

- The defence of any legal proceedings by businesses or their collection agencies.
- Legal proceedings undertaken to challenge, remove, vary or set aside any criminal or civil judgments entered against Insured or members of the Insured's family residing with him, including any changes or variation to the information regarding their respective consumer credit report.

(b) costs of notarising or certifying affidavits and other necessary documents, including the costs of sending all necessary affidavits and documents to law enforcement agencies, financial institution, credit agencies or similar entities where reasonably incurred.

but shall exclude the following:-

- (i) Any identity fraud expenses incurred whereby the unlawful act of the third party as stipulated in paragraph 1 above occurs outside the policy period.
- (ii) Any identity fraud expenses incurred 6 months after the expiry of the policy period in respect of an unlawful act of the third party as stipulated in paragraph 1 occurring within the policy period regardless of when the unlawful act was discovered.
- (iii) Any claim where the Insured or members of the insured's family residing with him have experienced a third party perpetuating an unlawful act on them as stipulated under paragraph 1 hereof before the commencement of the policy.
- (iv) Any claim arising from or related directly or indirectly to any business activities of the Insured or members of the Insured's family residing with him.
- (v) Any claim arising from or related directly or indirectly to any fraudulent, dishonest or criminal act by Insured or members of the Insured's family residing with him or their authorized representative.

The following list of Extensions (K) to (U) shall apply only with ENHANCED HOME cover for Section 2 - Contents as specified in the SCHEDULE

(K) Temporary Removal

This insurance extends to cover Accidental loss or damage to the Household Contents and Personal Effects, whilst temporarily removed from the Insured Dwelling but remaining in Singapore. Provided that:

- (a) this extension shall not apply to:
 - (i) property otherwise insured and/or

- (ii) property removed for sale or exhibition or to a furniture depository.
- (b) for the purpose of this extension only, "Household Contents" shall include pedal cycles (but not motor-assisted pedal cycles).
- (c) the amount recoverable under this extension shall not exceed 15% of the Sum Insured for Section 2 subject to each article not exceeding S\$500.00.

(L) Accidental Breakage to Fixed Glass

This insurance extends to cover accidental damage to fixed glass at the Insured Dwelling up to the replacement cost.

(M) Cost of Replacement of Title Deeds

This insurance extends to cover accidental loss or damage to title deeds and other legal documents up to S\$750.00 for the cost of replacement.

(N) Loss or damage to Domestic Servant's Property

This insurance extends to cover accidental loss or damage to Personal Effects of any domestic servant of the Insured and normally residing with the Insured up to S\$1,000.00 in any one period of insurance whilst contained in the Insured Dwelling provided that a valid claim is also made for the Insured's own contents.

(O) Visitors' Personal Effects

This insurance extends to cover accidental loss or damage to visitors' personal effects whilst contained in the Insured Dwelling up to S\$500.00 in any one period of insurance.

(P) Loss of Money

This insurance extends to cover loss of money, ATM Cards, Credit Cards, belonging to the Insured and/or any member of his family and/or domestic servant normally residing with him as a result of an Insured Peril whilst kept in the Insured Dwelling used solely for private, social and domestic purposes up to S\$1,000.00 in any one period of insurance.

(Q) Deterioration of Foods and Drinks in Refrigerator

This insurance extends to cover deterioration of food and drinks in any Refrigerator or Freezer whilst contained in the Insured Dwelling due to breakdown or explosion up to S\$200.00 in any one period of insurance excluding loss or damage resulting from the deliberate act of any power supply authority or the withholding or restricting of power by such an authority, or deliberate act or neglect of that of the Insured and/or any member of his family and/or domestic servant, and provided that the Refrigerator or Freezer is less than six (6) years old.

(R) Household Removal By Professional Movers

This insurance extends to cover accidental loss of or damage to the Insured's Household Contents in the course of removal which are packed by professional packers between the Insured Dwelling and new permanent residence within Singapore of the Insured excluding valuables, china, earthenware and other items of brittle nature subject to a limit of up to S\$1,500.00 in any one period of insurance.

(S) Conservancy Charges

This insurance extends to cover conservancy charges payable by the Insured up to a maximum period of three (3) months subject to a maximum limit of S\$1,000.00 in the event that the Insured Dwelling suffers loss or damage by an Insured Peril, rendering it uninhabitable.

(T) Accidental Loss or Damage to Pedal Cycles

Further to Extension (G), this insurance extends to cover accidental loss or damage to pedal cycles belonging to the Insured and/or any member of his family normally residing with him whilst contained in the Insured Dwelling subject to a maximum limit of S\$500.00 for any one period of insurance, excluding motor-assisted pedal cycles.

(U) Accidental Loss or Damage to Mobile Phones Pagers & Portable Computers/Diaries

This insurance extends to cover accidental loss of or damage to Mobile Phones, Pagers and Portable Computers/Diaries/Personal Digital Assistants and the like, up to the replacement cost.

SECTION 3 - FAMILY PERSONAL LIABILITY

The Company will indemnify the Insured and/or members of his family and domestic servant permanently residing with him in Singapore against all sums for which they may be legally liable to third party including legal costs and expenses in respect of:

- (1) accidental bodily injury (whether fatal or not)
 - (2) accidental damage to property
- occurring during the period of insurance subject to the Territorial Limits as stated herein for this Section.

The Company will also pay:

- (a) legal liability as owner of the Insured Dwelling up to the limits of indemnity stated in this Section;
- (b) legal liability as tenant and occupier of the Insured Dwelling up to a limit of S\$100,000.00 for damage to landlord's fixtures, fittings and Building, subject to an excess of S\$100.00 for each and every claim.

LIMITS OF INDEMNITY

The liability of the Company for compensation under this Section shall not exceed the limit of indemnity as stated in the SCHEDULE in the aggregate for all claims in respect of or arising out of one occurrence or in respect of or arising out of all occurrences of a series consequent on or attributable to one source or original cause.

In the event of the death of the Insured the Company will, in respect of the liability incurred by the Insured, indemnify the Insured's personal representatives in the terms of and subject to the limitations of this Section provided that such personal representatives shall as though they were the Insured observe, fulfil and be subject to the Terms of this Policy in so far as they can apply.

MAIN EXCLUSIONS TO SECTION 3

The Company shall not be liable in respect of

- (a) bodily injury to any person being a member of the Insured's family or household or at the time of sustaining such injury engaged in and under the service of the Insured.

- (b) damage to property belonging to or in the charge of or under the control of the Insured or a member of the Insured's family or household or of a person in the service of the Insured.
- (c) bodily injury or damage arising out of or incidental to:-
 - (i) the Insured's profession or business.
 - (ii) the use of lifts, elevators, vehicles, watercraft, aircraft or aerial devices.
- (d) any liability which attaches by virtue of an agreement but which would not have attached in the absence of such agreement.
- (e) any liability resulting directly or indirectly from the transmission of any communicable disease by the Insured, a member of the Insured's family, domestic maid or pets.
- (f) any liability caused by or arising from or in connection with the Insured's ownership of Category A dogs (as defined by the Agri-food & Veterinary Authority of Singapore) or unlicensed dogs.
- (g) any liability arising from ownership of any other Building or land other than the home occupied by the Insured solely as a private residence.
- (h) any liability arising from the occupation or use of any premises other than as a private residence unless specially agreed and specified in the SCHEDULE.
- (i) any liability in respect of bodily injury illness and/or loss or damage caused by or in connection with or arising from alterations, additions and repairs to the Insured Dwelling and/or whilst the Insured Dwelling is undergoing renovation or construction.

TERRITORIAL LIMITS

Anywhere in Singapore and Worldwide excluding USA and/or Canada, its territories or possessions in respect of travel or stay overseas provided such travel shall not exceed ninety (90) consecutive days in any one period of insurance.

SECTION 4 - PERSONAL ACCIDENT FOR INSURED & SPOUSE

For the purpose of this Section the expression "the Insured" shall be deemed to include the legal spouse of the Insured.

If the Insured shall suffer bodily injury caused by accidental means sustained whilst at the Insured Dwelling, and if such bodily injury shall within three (3) calendar months result in the death or permanent disablement of the Insured, the Company will pay compensation in accordance to the Table of Benefits stated below to the Insured or in the event of his death to his legal personal representatives.

Hospitalisation Allowance arising from accidents covered under this Section is payable up to sum insured specified in the SCHEDULE per person where the Insured is hospitalised as an inpatient for more than twenty-four (24) hours during the period of insurance.

The death and permanent disablement benefit shall be payable in accordance to the Table of Benefits here below:

DESCRIPTION OF PERMANENT DISABLEMENT	<u>TABLE OF BENEFITS</u>	PERCENTAGES OF THE SUM INSURED SPECIFIED AS STATED IN SECTION 4 OF THE SCHEDULE
1. Death		100%
2. Total and Permanent Disablement from engaging in or attending to employment or occupation of any and every kind		100%
3. Total and Permanent Loss of all sight in one or both eyes		100%
4. Total Loss by physical severance or Total & Permanent Loss of use of:		
(a) one or both hands at wrist	}	
(b) arm at shoulder	}	
(c) arm between shoulder and elbow	}	
(d) arm at or below elbow	}	100%
(e) leg at hip	}	
(f) leg between knee & hip	}	
(g) leg at or below knee	}	
5. Total and Permanent Loss of:		
(a) sight in one eye except perception of light		50%
(b) lens of one eye		50%
6. Total Loss by physical severance or Total & Permanent Loss of use of:		
(a) thumb & fingers of one hand		50%
(b) 4 fingers of one hand		40%
(c) thumb		25%
- 1 phalanx		10%
(d) index finger		15%
- 3 phalanges		10%
- 2 phalanges		5%
- 1 phalanx		10%
(e) middle finger		7%
- 3 phalanges		3%
- 2 phalanges		10%
- 1 phalanx		7%
(f) ring finger		3%
- 3 phalanges		10%
- 2 phalanges		7%
- 1 phalanx		3%
(g) little finger		10%
- 3 phalanges		7%
- 2 phalanges		3%
- 1 phalanx		18%
(h) all toes of one foot		6%
(i) great toe		3%
- 2 phalanges		3%
- 1 phalanx		3%
(j) any other toe		3%
7. Total & Permanent Loss of :		
(a) hearing in both ears		75%
(b) hearing in one ear		20%
8. Total & Permanent Loss of speech		50%
Third Degree Burns		

TABLE OF BENEFITS (con't)	
DESCRIPTION OF PERMANENT DISABLEMENT	PERCENTAGES OF THE SUM INSURED SPECIFIED AS STATED IN SECTION 4 OF THE SCHEDULE
9. (a) Head – Damage as a Percentage of Total Body Surface Area	
(i) equal to or greater than 2% but less than 5%	50%
(ii) equal to or greater than 5% but less than 8%	75%
(iii) equal to or greater than 8%	100%
(b) Body – Damage as a Percentage of Total Body Surface Area	
equal to or greater than 10% but less than 15%	50%

The aggregate of all percentages payable under permanent disablement benefit in respect of any accident shall not exceed 100%. Any claim payable under accidental death benefit shall be reduced by a sum equal to any claim payable under permanent disablement benefit in respect of the same accidental injury.

PROVISOS

1. This Section does not cover Insured above seventy (70) years of age next birthday.
2. The cover under this Section will cease for the Insured upon any Permanent Disablement claim.
3. Before the Company will pay item (2) in the Table of Benefits above, Total and Permanent Disablement from all gainful employment of any and every kind shall have lasted for twelve (12) months and have been proved to our satisfaction to be permanent and without expectation of recovery. However, if it can be proved to the reasonable satisfaction of the company that total disablement from all gainful employment is permanent, then the Company may at their discretion pay this item before the expiry of twelve (12) months.

MAIN EXCLUSIONS TO SECTION 4

This Company shall not be liable in respect of bodily injury sustained by the Insured

1. as a result of, or is contributed by any medical condition, pre-existing conditions, physical defect or infirmity;
2. as the result of intentional self-injury, suicide or attempted suicide (whether felonious or not) while sane or insane, provoked assault, intoxication, drugs, insanity, venereal disease, childbirth or pregnancy (other than miscarriage caused by accidental falling of the Insured with external injury or by traffic accident) or abortion or any complication following therefrom;
3. as the result of, or is contributed to by or attributable to HIV (Human Immunodeficiency Virus) and/or any HIV related illness including AIDS (Acquired Immune Deficiency Syndrome) and/or any mutant derivative or variations thereof however caused;
4. whilst engaged in illegal acts.

SECTION 5 - TWENTY-FOUR (24) HOUR EMERGENCY HOME ASSISTANCE SERVICES

This policy is extended to provide Home Assistance Services available directly from Globe Assist Pte Ltd (hereinafter referred to as "Globe Assist"). Any contracts entered into for such services or any request for such services shall be deemed to be made between the Insured and Globe Assist.

The Company is authorised by Globe Assist to represent that Globe Assist will provide the Insured the services described in Emergency Home Assistance Services but the Company does not in any way accept any liability to provide such services or for the performance thereof.

Following a sudden and/or unforeseen event at the Insured Dwelling and the Insured is in need of Emergency Assistance Services, the following Emergency Assistance Services benefits shall be available directly from the Globe Assist upon specific verbal notification by the Insured to the specified Globe Assist twenty-four (24) hour Alarm Centre, provided that the Insured will not be entitled to the reimbursement of any such expenses incurred or paid directly by the Insured without prior authorisation of Globe Assist, subject to the limitations as specified below.

Globe Assist undertakes to pay for the Services rendered as provided under Section 5 below subject to a limit of S\$100 per event.

BASIC HOME ASSISTANCE

(i) Locksmith Assistance

In the event the Insured is unable to access the Insured Dwelling because:

- (a) the Insured is locked out of his/her Insured Dwelling; and/or
 - (b) the Insured is not in possession of the keys to the Insured Dwelling,
- the Insured shall contact Globe Assist and Globe Assist shall arrange for a locksmith to assist the Insured at the Insured Dwelling.

Exclusion: Globe Assist shall not extend this Service to an Insured who is locked out of his/her bedroom in the Insured Dwelling.

(ii) Plumbing Assistance

In the event that the Insured Dwelling contains:

- (a) a clogged water supply system;
- (b) a clogged drainage system; and/or
- (c) leaking water pipe(s)

Exclusions: Globe Assist shall not extend this Service to an Insured whose Insured Dwelling has (a) a leaking water tap which requires refurbishing, or (b) leaking water heater/shower head, or (c) water leaking from the Insured Dwelling's ceilings.

(iii) Electrical Assistance

In the event of an electrical power failure/wall switch failure in the Insured Dwelling, Globe Assist shall arrange for a competent electrician to attend to and repair the problems.

Exclusion: Globe Assist shall not extend this Service to failure or malfunction of electrical appliances like televisions, refrigerators, rice cookers, ovens, water heaters, etc.

(iv) Air-Conditioning Engineer Assistance

In the event that an air-conditioner unit in the Insured Dwelling is not working, Globe Assist shall arrange for an engineer to repair the air-conditioning unit.

Exclusion: Globe Assist shall not extend this Service to an air-conditioning unit that is not cold or leaking because the said unit has not been serviced for six (6) months prior to the date of call.

(v) Pest Control Services

In the event that Insured Dwelling is infested with pests, including but not limited to bees and termites, Globe Assist shall arrange for a pest control services to remedy the situation.

SECTION 6 - PET DOG COVER

(A) ACCIDENTAL DEATH OF PET DOG WITHIN INSURED DWELLING

The Company will indemnify the Insured for the cost of replacing the pet dog(s) with another of the same breed and sex in respect of accidental death caused by violent external and visible means, occurring while the pet dog(s) is/are confined within the Insured Dwelling up to S\$500.00 in the aggregate for any period of insurance in respect of all insured pet dogs.

(B) ENHANCED PET DOG EXTENSION

VETERINARY FEES

The Company will indemnify the Insured for payment of veterinary fees including necessary hospital expenses of up to S\$750.00 in the aggregate for any period of insurance.

ACCIDENTAL DEATH OF PET DOG

Sub-Section 6(A) is hereby extended to cover "Anywhere in Singapore" subject to the policy terms conditions and exceptions.

RECOVERY COSTS

The Policy will indemnify the Insured in respect of costs approved by the Company in advertising and/or reward for the recovery of the lost strayed or stolen pet dog subject to a maximum of S\$250.00 in the aggregate for any period of insurance.

CREMATION/BURIAL EXPENSES

The Company will indemnify the Insured in respect of payment of cremation and burial costs upon the death of the pet dog subject to a maximum of S\$100.00 in the aggregate for any period of insurance.

MAIN EXCLUSIONS TO SECTION 6

The Company shall not be liable:

- (a) where the pet dog(s) is/are having any physical defects, illness or disease known to the Insured when the Policy was taken up or at renewal and not accepted in writing by the Company
- (b) where the pet dog(s) is/are aged under three (3) months or over five (5) years old.
- (c) where the pet dog(s) is/are undergoing or has undergone surgery not necessitated by accidental bodily injury nor necessary to save the pet dog(s) life, which results in its death
- (d) where the pet dog(s) is/are not registered with the Agri-food & Veterinary Authority of Singapore
- (e) for the first S\$50.00 of each and every claim incurred for Veterinary Fees
- (f) Veterinary Fees incurred in connection with:
 - (i) preventive vaccinations or preventive treatment congenital or hereditary treatment
 - (ii) spraying or castration
 - (iii) whelping or kitting or conditions arising directly or indirectly therefrom
 - (iv) any illness arising within ten (10) days of the commencement of the insurance under Section 6 Sub-Section (B).

SECTION 7 - WORLDWIDE PERSONAL EFFECTS COVER

The Company will pay to the Insured any Accidental loss of or damage to the Insured's Personal Effects during the Period of Insurance within the territorial limits specified in this Section. Provided that the liability under this Section shall not exceed 50% of the Sum Insured for Section 2 during any one period of insurance unless otherwise agreed and specified in the SCHEDULE.

(A) UNSPECIFIED ARTICLES

In the event of any loss or damage to articles of Personal Effects not specifically and individually itemized in the SCHEDULE, the Company will pay, up to the replacement cost or maximum S\$1,000.00 any one article, and in aggregate not exceeding the total sum insured as specified on the SCHEDULE.

(B) SPECIFIED ARTICLES

In the event of any loss or damage to articles of Personal Effects that are specifically and individually itemized and declared with a corresponding sum insured for each article listed in the SCHEDULE, the Company will pay up to the replacement cost of each article or the sum insured specified in the SCHEDULE, whichever is the lower.

It is a condition that sums insured for Section 7 Sub-Section (B) will at all times be maintained by the Insured at not less than the full cost of replacement without deduction for wear and tear or depreciation except in respect of wearing apparel.

TERRITORIAL LIMITS

Anywhere in Singapore and Worldwide in respect of travel overseas provided that such travel shall not exceed ninety (90) consecutive days in any one period of insurance.

EXCESS

Subject to an excess of S\$100.00 on each and every claim except if due to an Insured Peril at the Insured Dwelling.

MAIN EXCLUSIONS TO SECTION 7

The Company will not cover loss or damage resulting from:

- (a) any loss by theft
 - (i) by deception unless deception is used to enter the Insured Dwelling
 - (ii) of property in any part of the building to which any other tenant has right of access not involving entry to or exit by forcible and violent means

- (iii) if the Insured Dwelling is lent, let or sublet unless force is used to enter the Insured Dwelling
- (b) scratching or denting of property
- (c) delay, confiscation or detention by Customs Official or Authorities
- (d) any loss, destruction or damage due to wear, tear, depreciation, mechanical or electrical defect, the process of washing, cleaning, dyeing, alteration, repair or restoration of any article, the action of light or atmospheric conditions, moth, insects, vermin or any other gradually operating cause.
- (e) business or professional use in respect of photographic and sporting equipment and accessories and musical instruments.
- (f) breakage of strings in respect of any musical instrument.
- (g) damage to films when in use in a camera or projector.
- (h) breakage of tubes and or bulbs unless the apparatus is damaged at the same time.
- (i) theft of property in:
 - (i) unoccupied touring or convertible vehicles or
 - (ii) other unoccupied vehicles unless all windows, doors, luggage compartment, boot, roof and windscreen are completely closed and securely locked.
- (j) cost of reproducing data whether recorded on tapes, cards, discs or otherwise.
- (k) property whilst in transit unless hand-carried.
- (l) any loss or damage from the Insured Dwelling arising from Bursting or overflowing of a domestic water tank, apparatus or pipe, Theft or any attempt thereat or Malicious acts during any period in excess of sixty (60) consecutive days during which the Insured Dwelling is left unoccupied, unless written consent has been obtained from the Company.
- (m) mysterious disappearance or unexplained loss.
- (n) damage to sports equipment whilst in play.

SECTION 8 - BUILDING

The Company will indemnify the Insured to the extent of the Insured's insurable interest, against loss of or damage to the Building caused by an Insured Peril. Where this Section is arranged as a Standalone cover, the expression "Building" shall be deemed to include Renovations, Fixtures and Fittings.

It is a condition that the sum insured for this Section will at all times be maintained by the Insured at not less than the full reinstatement value of the Building. The full reinstatement value shall include that for Renovations, Fixtures and Fittings where Section 1 is effected simultaneously.

LIMIT OF INDEMNITY FOR SECTION 8

The Company's maximum liability in the aggregate for all claims in respect of this Section shall not exceed the sum Insured specified in the SCHEDULE.

MAIN EXCLUSIONS TO SECTION 8

The Company shall not be liable in respect of:

- (i) any loss or damage from the Insured Dwelling arising from Bursting or overflowing of a domestic water tank, apparatus or pipe, Theft or any attempt thereat or Malicious acts during any period in excess of sixty (60) consecutive days during which the Insured Dwelling is left unoccupied, unless written consent has been obtained from the Company.

EXTENSIONS TO SECTION 8

(A) Capital Additions Clause

This insurance extends to cover alterations, additions and improvements to the Insured Dwelling but excluding any appreciation in value in excess of the Sum Insured subject to an amount not exceeding 10% of the Sum Insured for Section 8.

(B) Loss of Rent and Additional Expense of Alternative Accommodation

In the event the Insured Dwelling is rendered uninhabitable by an Insured Peril, the Company will indemnify the Insured up to S\$10,000 per month or in any one Period of Insurance, an aggregate limit of 10% of the Total Sum Insured for Section 8 or S\$50,000 whichever is the lower, for:

- (a) reasonable additional expense for alternative accommodation; and/or
- (b) loss of rent payable to the Insured

actually incurred by the Insured during the period necessary for the reinstatement of the Insured Dwelling.

Where a claim is made under this extension under Sections 1, 2 or 8, the Company's maximum liability is limited to S\$50,000.

(C) Public Authorities Clause

This insurance extends to include such additional cost of reinstatement of the destroyed property herein insured as may be incurred solely by reason of the necessity to comply with Building or other Regulations under or framed in pursuance of any Act of Parliament or with By-Laws of any Municipal or Local Authority up to 10% of the Sum Insured for Section 8 provided that :-

The amount recoverable under this Extension shall not include:

- (a) the cost incurred in complying with any of the aforesaid Regulations or By-Laws:
 - (i) in respect of destruction or damage occurring prior to the granting of this Extension;
 - (ii) in respect of destruction or damage not insured by the Policy;
 - (iii) in respect of which notice has been served upon the Insured prior to the happening of the destruction or damage;
 - (iv) in respect of undamaged property or undamaged portions of the property;
- (b) the additional cost that would have been required to make good the property damaged or destroyed to a condition equal to its condition when new had the necessity to comply with any of the aforesaid Regulations or By-Laws not risen;
- (c) the amount of any rate, tax, duty, development or other charge or assessment arising out of capital appreciation which may be payable in respect of the property or by the owner thereof by reason of compliance with any of the aforesaid Regulations or By-Laws.

(D) Professional Fees Clause

This insurance extends to cover Architects' Surveyors' Consultants' and Legal Fees as prescribed by the respective professional institutes but excluding any fees incurred in preparing a claim up to 10% of the Sum Insured for Section 8.

(E) Removal of Debris Clause

This insurance extends to cover costs of Removal of Debris, dismantling or demolishing, shoring or propping-up of the damaged part of the Insured Dwelling up to 10% of the Total Sum Insured for Section 8.

GENERAL EXCEPTIONS

The Company shall not be liable in respect of:

1. any loss or damage or liability directly caused by or contributed to by or arising from ionizing radiations or contamination by radioactivity from any nuclear fuel or from any nuclear waste from the combustion of nuclear fuel.
2. any loss (whether temporary or permanent) of the Insured Dwelling or any part thereof by reason of confiscation requisition detention or legal or illegal occupation of such property or any premises vehicle or thing containing the same by any government authorities.
3. any accident loss damage expense liability or bodily injury occasioned by or through or in consequence directly or indirectly of
 - (a) war invasion act of foreign enemy hostilities or warlike operations (whether war be declared or not) civil war
 - (b) mutiny military or popular uprising insurrection rebellion revolution military or usurped power martial law or state of siege or any of the events or causes which determine the proclamation or maintenance of martial law or state of siegeIn any action suit or other proceeding where the Company alleges that by reason of the provisions of this General Exception any accident loss damage expense liability or bodily injury is not covered by this insurance the burden of proving that such accident loss damage expense liability or bodily injury is covered shall be upon the Insured.
4. any loss damage or liability which is insured by or would but for the existence of this Policy be insured by other policy or policies except in respect of any excess beyond the amount which would have been payable under such other policy or policies had this insurance not been effected. This exclusion does not apply to Section 4.
5. any consequential loss or damage of any kind whatsoever unless otherwise stated.
6. any loss or damage occasioned through the wilful act of or with the connivance of the Insured and/or any member of his family and/or domestic servant normally residing with him.
7. pressure waves caused by aircraft and other aerial devices travelling at sonic or supersonic speeds.
8. any loss or damage arising from illegal acts.
9. any loss or damage arising whilst the Insured Dwelling is undergoing renovation or construction.

GENERAL CONDITIONS

1. INTERPRETATION

This Policy and the SCHEDULE shall be read together and any word or expression to which a specific meaning has been attached in any part of the Policy or of the SCHEDULE shall bear such meaning wherever it appears.

2. JURISDICTION CLAUSE

The indemnity under this Policy shall not apply in respect of judgments, which are not in the first instance delivered by or obtained from a Court or tribunal of competent jurisdiction within the Republic of Singapore.

3. BASIS OF SETTLEMENT

Sections 1 & 8

The basis of settlement of any claim shall be the cost of reinstatement of the property destroyed or damaged to a condition substantially the same as, but not better or more extensive than the condition when new. If repair or restoring is not carried out and completed within twelve (12) months, or if there is other insurance in force which does not provide for replacement or reinstatement on a similar basis, the Company will settle claims on an indemnity basis i.e. the cost of replacement or repair of lost or damaged property less an amount for wear and tear or depreciation.

Sections 2 & 7

The basis of settlement in the event of theft or total destruction will be replacement in the same form without deduction for wear and tear or depreciation except in respect of wearing apparel, curtains, bed sheets or bed linens. In the event of loss or damage to any insured item forming part of a pair or set, our liability shall not exceed a proportionate part of the value on the pair or set.

4. DUTY OF CARE

The Insured shall:

- (a) use all reasonable diligence and care to keep the Insured Dwelling in proper state of repair and if any defect therein be discovered shall cause such defect to be made good as soon as possible and shall in the meantime cause such additional precautions to be taken for the prevention of injury, loss or damage as the circumstances may require and the Company shall not be liable for any injury, loss or damage caused by defect which the Insured has failed to remedy after having received notice of such defect either from the Company or any person or public
- (b) exercise all reasonable precautions for the maintenance and safety of the property insured body and to prevent accident, loss or damage and
- (c) provide for the Insured dog(s) under Section 6 at all times with proper care.
- (d) the Insured must take all reasonable precautions to prevent becoming a victim of the unlawful act as stipulated in Extension (J) – Identity Fraud Expenses.

5. OTHER INSURANCE

- (a) The Insured shall give notice to the Company of any insurance or insurances already effected, covering anything hereby insured with the exception of Personal Accident and unless such notice be given and the particulars of such insurance or insurances be stated in or endorsed on this Policy by or on behalf of the Company before the occurrence of any loss or damage, all benefits under this Policy in respect of the Property so insured shall be forfeited.
- (b) If at any time of any happening giving rise to any loss, damage, expense or liability for which indemnity is provided under this Policy there shall be any other insurance against such loss, damage, expense or liability or any part thereof the Company shall not be liable for more than its ratable proportion thereof.

6. AVERAGE CLAUSE

If at the time of any loss or damage for which indemnity is provided under

- (a) Section 1 – Renovation Fixtures & Fittings, where this section is arranged as a Standalone cover or where cover under Section 8 is simultaneously effected under this Policy
- (b) Section 2 – Contents, where this section is arranged as a Standalone cover
- (c) Section 7(B) – Worldwide Personal Effects Cover for Specified Articles or
- (d) Section 8 - Building

be of greater value than the Sum Insured specified for the sections, then the Insured shall be considered as being his own insurer for the difference and shall bear a ratable proportion of the amount of such loss or damage accordingly and every item of the respective Sections shall be separately subject to this Condition.

7. NOTICE OF MATERIAL CHANGES

- (a) The Insured shall give reasonable notice to the Company of any change in the nature of the occupation of or other circumstances affecting the building insured or containing the insured property be changed in such a way as to increase the risk of loss or damage.
- (b) If the Insured fails to give notice of the changes to the Company, the Company may reject any claim that may arise.
- (c) The Insured must inform us in writing as soon as possible about any change which may affect Extension (J) – Identity Fraud Expenses. If the Insured fails to inform the Company, the Company may declare the extension invalid or reduce the cover provided. The facts the Company need are those which the Company consider important in assessing or accepting the insurance. If the Insured is in any doubt as to whether to inform the Company about any change, the Insured should inform the Company anyway.

8. CLAIM NOTIFICATION

In the event of any happening which may give rise to a claim under this Policy, the Insured (or in the case of a claim under Section 4, the Insured's personal representatives):

- (a) shall give immediate notice in writing to the Company or in any event not exceeding fourteen (14) days
- (b) shall make a police report within twenty-four (24) hours of the occurrence if there has been theft malicious damage or vandalism or any loss of money or any attempt thereat
- (c) notify the issuing company immediately of the loss of any insured credit card or ATM card
- (d) shall at his (or their) own expense supply the Company with full particulars in writing as soon as possible and in the case of a claim under Sections 1, 2, 7 and 8 not later than thirty (30) days after the occurrence of the loss or damage
- (e) if a claim may arise under Section 3, shall immediately send to the Company any writ, summons or other legal process issued or commenced against the Insured and shall give all necessary information and assistance to enable the Company to settle or resist any claim or to institute proceedings
- (f) in the event of accidental bodily injury of the Insured dog(s) under Section 6 to arrange for a veterinary surgeon to attend and where necessary, to certify at the Insured's own expense the cause of death
- (g) shall not incur any expense in making good any loss or damage without the written consent of the Company and shall not negotiate, pay, settle, admit or repudiate any claim without the like consent
- (h) shall give the Company all such information as the Company may reasonably require.
- (i) shall file a report with the police and/or relevant financial institution within 24 hours and must report and submit a claim to the Company within 30 days of discovery of the unlawful act by the third party as stipulated within Extension (J) - Identity Fraud Expenses

9. RIGHTS AND RESPONSIBILITIES

The Company shall be entitled:

- (a) on the happening of any loss or damage for which indemnity is provided under Sections 1, 2, 7 and 8 to enter any building where the loss or damage has happened and to take and keep possession of the property insured and to deal with the salvage in a reasonable manner and this Policy, or any copy thereof certified by the Company, shall be proof of leave and licence for such purpose but no property may be abandoned to the Company
- (b) to undertake in the name and on behalf of the Insured the absolute conduct, control and settlement of any proceedings and to take proceedings at its own expense and for its own benefit, but in the name of the Insured, to recover compensation or secure indemnity from any third party in respect of anything covered by this Policy
- (c) to pay at any time to the Insured the Limit of Indemnity under Section 3 or any lesser amount for which any claims can be settled and upon such payment the Company shall relinquish conduct and control of and be under no further liability under that Section in connection with such claim or claims except for costs or expenses recoverable from the Insured or incurred with the written consent of the Company in respect of the conduct of such claim or claims before the date of such payment

10. FORFEITURE

If any claim under this Policy is fraudulent or if any fraudulent means or devices are used by the Insured or anyone acting on his behalf to obtain any benefit under this Policy, all benefit hereunder shall be forfeited.

11. TRANSFER OF INTEREST

Unless otherwise expressly stated nothing contained herein shall give any rights against the Company to any person other than the Insured. Further the Company shall not be bound by any passing of the interest of the Insured otherwise than by death or operation of law unless and until the Company shall by endorsement declare the insurance to be continued. The extension of the Company's liability in respect of the property of any person other than the Insured shall give no right of claim hereunder to such person, the intention being that the Insured shall in all cases claim for and on behalf of such person and receipt by the Insured shall in any case absolutely discharge the Company's liability hereunder.

12. CANCELLATION

This Policy may be cancelled at any time at the request of the Insured in writing to the Company and the Premium shall be adjusted on the basis of the Company receiving or retaining the customary short-term premium or minimum premium of \$65.00 provided no claims has been made under the policy. No refund shall be given where a claim has been lodged under the policy. The Policy may also be cancelled by the Company by seven (7) days' notice given in writing to the Insured at his last known address and the Premium shall be adjusted on the basis of the Company receiving or retaining pro rata premium, subject to minimum premium of \$65.00.

13. ARBITRATION

If any difference shall arise as to the amount to be paid under this Policy (liability being otherwise admitted) such difference shall be referred to an arbitrator to be appointed in accordance with the statutory provisions in that behalf for the time being in force. Where any difference is by this condition to be referred to arbitration the making of an award shall be a condition precedent to any right of action against the Company.

Unless any such action or suit be commenced within six (6) months of the making of an award the Company shall not be liable to make any payment in excess of the amount of the award.

14. SUBROGATION OF RIGHTS

The Insured shall at the expense of the Company do and concur in doing and permit to be done all such acts and things as may be necessary or reasonably required by the Company for the purpose of enforcing any rights and remedies or of obtaining relief or indemnity from other parties to which the Company shall be or would become entitled or become necessary or required before or after his indemnification by the Company.

ADDITIONAL ENDORSEMENTS

The following endorsements shall apply to this Policy unless otherwise stated and/or deleted in the Policy Schedule.

CONDITION PRECEDENT IN THE POLICY

The validity of this Policy is subject to the condition precedent that:

- (a) for the risk insured, the named insured has never had any insurance terminated in the last twelve (12) months due solely or in part to a breach of any premium payment condition; or
- (b) if the named insured has declared that it has breached any premium payment condition in respect of a previous policy taken up with another insurer in the last twelve (12) months:
 - (i) the named insured has fully paid all outstanding premium for time on risk calculated by the previous insurer based on the customary short period rate in respect of the previous policy; and
 - (ii) a copy of the written confirmation from the previous insurer to this effect is first provided by the named insured to the Company before cover incept.

TERRORISM EXCLUSION ENDORSEMENT

Notwithstanding any provision to the contrary within this insurance or any endorsement thereto it is agreed that this insurance excludes loss, damage cost or expense of whatsoever nature directly or indirectly caused by, resulting from or in connection with any act of terrorism regardless of any other cause or event contributing concurrently or in any other sequence to the loss.

For the purpose of this endorsement an act of terrorism means an act, including but not limited to the use of force or violence and/or the threat thereof, of any person or group(s) of persons, whether acting alone or on behalf of or in connection with any organization(s) or government(s), committed for political, religious, ideological or similar purposes including the intention to influence any government and/or to put the public, or any section of the public, in fear.

This endorsement also excludes loss, damage, cost or expense of whatsoever nature directly or indirectly caused by, resulting from or in connection with any action taken in controlling, preventing, suppressing or in any way relating to any act of terrorism.

If the Underwriters allege that by reason of this exclusion, any loss, damage, cost or expense is not covered by this insurance the burden of proving the contrary shall be upon the Assured.

In the event any portion of this endorsement is found to be invalid or unenforceable, the remainder shall remain in full force and effect.

CONTRACTS (RIGHTS OF THIRD PARTIES) ACT 2001

A person who is not a party to this Policy contract shall have no right under the Contracts (Rights of Third Parties) Act 2001 to enforce any of its terms.

CLARIFICATION CLAUSE

Property damage covered under this Policy shall mean physical damage to the substance of property.

Physical damage to the substance of property shall not include damage to data or software, in particular any detrimental change in data, software or computer programs that is caused by a deletion, a corruption or a deformation of the original structure.

Consequently the following are excluded from this Policy:

- A. Loss or damage to data or software, in particular any detrimental change in data, software or computer programs that is caused by a deletion, a corruption or a deformation of the original structure, and any business interruption losses resulting from such loss or damage. Notwithstanding this exclusion, loss of or damage to data or software which is the direct consequence of insured physical damage to the substance of property shall be covered.
- B. Loss or damage resulting from an impairment in the function, availability, range of use or accessibility of data, software or computer programs, and any business interruption losses resulting from such loss or damage.

PREMIUM PAYMENT WARRANTY CLAUSES

This Policy is subject to a Premium Payment Warranty Clause in the following. The application of the clause is determined from its relevance to the context specified within each clause.

PAYMENT BEFORE COVER WARRANTY (Applicable to Policy issued to an individual)

1. The premium due must be paid to the Company (or the intermediary through whom this Policy was effected) on or before the inception date ("the inception date") or the renewal date of the coverage. Payment shall be deemed to have been effected to the Company or the intermediary when one of the following acts takes place:
 - (a) Cash or honoured cheque for the premium is handed over to the Company or the intermediary;
 - (b) A credit or debit card transaction for the premium is approved by the issuing bank;
 - (c) A payment through an electronic medium including the internet is approved by the relevant party;
 - (d) A credit in favour of the Company or the intermediary is made through an electronic medium including the internet.
2. In the event that the total premium due is not paid to the Company (or the intermediary through whom this Policy was effected) on or before the inception date or the renewal date, then the insurance shall not attach and no benefits whatsoever shall be payable by the Company. Any payment received thereafter shall be of no effect whatsoever as cover has not attached.
3. In respect of insurance coverage with Free Look provision, the policyholder may return the original policy document to the Company or intermediary within the Free Look period if the policyholder decides to cancel the cover during the Free Look period. In such an event, the policyholder will receive a full refund of the premium paid to the Company provided that no claim has been made under the insurance and the cover shall be treated as if never put in place.

PREMIUM PAYMENT WARRANTY (Applicable if the policy is issued to a business or commercial establishment)

1. Notwithstanding anything herein contained but subject to clause 2 hereof, it is hereby agreed and declared that if the period of insurance is 60 days or more, any premium due must be paid and actually received in full by the Company (or the intermediary through whom this Policy was effected) within 60 days of the inception date of the coverage under the Policy, Renewal Certificate or Cover Note.
2. In the event that any premium due is not paid and actually received in full by the Company (or the intermediary through whom this Policy was effected) within the 60-day period referred to above, then:
 - (a) the cover under the Policy, Renewal Certificate or Cover Note is automatically terminated immediately after the expiry of the said 60 day period;
 - (b) the automatic termination of the cover shall be without prejudice to any liability incurred within the said 60-day period; and
 - (c) the Company shall be entitled to a pro-rata time on risk premium subject to a minimum of S\$25.00.
3. If the period of insurance is less than 60 days, any premium due must be paid and actually received in full by the Company (or the intermediary through whom this Policy was effected) within the period of insurance.

SPECIMEN



ABC INSURANCE COMPANY (SINGAPORE) LIMITED

(Registration No: 2009-12345-A)

21 Any Street, ABC Centre, Singapore 654321

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E-mail: contactus@abcinco.com.sg

Website: www.abcinco.com.sg

We like to remind you that you must disclose to us, fully and faithfully, the facts which you know or ought to know, otherwise you may not receive any benefit from your policy.

ALL RISKS INSURANCE POLICY AND SCHEDULE

WHEREAS the Insured has by a Proposal which the insured has agreed shall be the basis of this contract and be held as incorporated herein applied to the Company for the Indemnity hereinafter contained

IN CONSIDERATION of the Insured paying to the Company the First Premium for or on account of the said Indemnity the Company agrees subject to the terms exclusions limits and conditions contained herein or endorsed hereon that if during the Period of Indemnity the Property Insured or any part thereof shall suffer any unforeseen and sudden physical loss or damage from any cause other than those specifically excluded in a manner necessitating repair or replacement while in the Situation then the Company will by payment or at its option by reinstatement or repair indemnify the Insured against such loss or damage

EXCLUSIONS

The Indemnity hereinbefore contained shall not apply to nor include

1. loss or damage directly or indirectly occasioned by or through or in consequence of
 - (a) war invasion act of foreign enemy hostilities or warlike operations (whether war be declared or not)
 - (b) civil war mutiny civil commotion assuming the proportions of or amounting to a popular rising military rising insurrection rebellion revolution conspiracy military or usurped power
 - (c) martial law or state of siege or any of the events or causes which determine the proclamation or maintenance of martial law or state of siege
 - (d) any act of any person acting on behalf of or in connection with any organisation with activities directed towards the overthrow by force of any de jure or de facto Government or to the influencing of it by terrorism or violence
 or loot sack or pillage in connection with any of the aforementioned occurrences
2. any consequence of strike or riot
3. theft of property left in (a) unoccupied touring or convertible cars or (b) other unoccupied vehicles unless all windows doors luggage compartment or boot roof and windscreen are completely closed and securely locked
4. loss or damage arising from wear and tear gradual deterioration depreciation mechanical or electrical breakdown or derangement moth vermin any process of cleaning dyeing repairing or restoring or action of light atmospheric or climatic conditions (other than lightning)
5. breakage or scratching of glass or other substances of a brittle or fragile nature not due to fire or thieves
6. loss or damage arising from detention confiscation destruction or requisition by Customs House or other Officials or Authorities or by seizure or sale under any process of Law or abandonment of the Property Insured
7. any loss or destruction or damage or expense whatsoever resulting or arising therefrom or any consequential loss directly or indirectly caused by or contributed to by or arising from ionising radiations or contamination by radioactivity from any nuclear fuel or from any nuclear waste from the combustion of nuclear fuel Solely for the purpose of this exclusion combustion shall include any self-sustaining process of nuclear fission
8. any loss or destruction or damage directly or indirectly caused by or contributed to by or arising from nuclear weapons material

WAR AND TERRORISM EXCLUSION

Notwithstanding any provision to the contrary within this policy or any endorsement thereto it is agreed that this policy excludes loss, damage, cost or expense of whatsoever nature directly or indirectly caused by, resulting from or in connection with any of the following regardless of any other cause or event contributing concurrently or in any other sequence to the loss;

(1) war, invasion, acts or foreign enemies, hostilities or warlike operations (whether war be declared or not), civil war, rebellion, revolution, insurrection, civil commotion assuming the proportions of or amounting to an uprising, military or usurped power; or

(2) any act of terrorism.

For the purpose of this endorsement an act of terrorism means an act, including but not limited to the use of force or violence and/or the threat thereof, of any person or group(s) of persons, whether acting alone or on behalf of or in connection with any organisation(s) or government(s), committed for political, religious, ideological or similar purposes including the intention to influence any government and/or to put the public, or any section of the public, in fear.

This policy also excludes loss, damage, cost or expense of whatsoever nature directly or indirectly caused by, resulting from or in connection with any action taken in controlling, preventing, suppressing or in any way relating to (1) and/or (2) above.

If the Insured alleges that by reason of this exclusion, any loss, damage, cost or expense is not covered by this policy the burden of proving the contrary shall be upon the Insured.

In the event any portion of this clause is found to be invalid or unenforceable, the remainder shall remain in full force and effect.

LIMITS

The liability of the Company under this Policy during any one Period of Indemnity shall not exceed

- (a) in respect of any one item of the Property Insured the sum set opposite thereto
- (b) in respect of loss or damage to any article forming part of a pair or set the value of the particular part or parts which may be lost or damaged without reference to any special value which such part or parts may have as forming a pair or set but in any event not exceeding a proportionate part of the sum insured in respect of the pair or set
- (c) in respect of all loss or damage the Total Sum Insured

If at the time of any loss or damage the sum insured by any item shall be less than the total value of the property covered thereby the Insured shall be considered his own Insurer for the difference and shall bear a rateable proportion of such loss or damage.

CONDITIONS

This Policy and the Schedule shall be read together as one contract and words and expressions to which specific meanings have been attached in any part of this Policy or of the Schedule shall bear the same wherever they may appear.

1. The insured shall take all reasonable precautions for the safety of the property insured and on the happening of any event giving rise or likely to give rise to a claim under this Policy the Insured shall immediately the same shall have come to his knowledge:-
 - (a) in case of theft or loss give immediate notice to the police and take all practicable steps to cause the discovery and punishment of any guilty person and to trace and recover the property
 - (b) give to the Company notice in writing and within seven days thereafter deliver to the Company a claim in writing and supply all such detailed particulars and proofs as may be reasonably required.

In no case shall the Company be liable for any loss or damage not notified to the Company within thirty days after the event.

2. The Company may at any time at its own expense use all legal means in the name of the Insured for recovery of any of the property lost and the Insured shall give all reasonable assistance for that purpose. The Company shall be entitled to any property for the loss of which a claim is paid hereunder and the Insured shall execute all such assignments and assurances of such property as may be reasonably required.
3. If at the time of any loss or damage there be any other insurance effected by or on behalf of the Insured covering any of the property the liability of the Company hereunder shall be limited to its rateable proportion of such loss or damage.
4. No claim shall be recoverable hereunder if the benefit of the contract herein contained shall become vested in any person other than the Insured unless the written consent of the Company thereto be first obtained.

5. The Insurance by this Policy may be cancelled by sending seven day's notice by registered letter from the Company to the Insured's last known address and in such event the Company will return a pro rata portion of the premium for the unexpired Period of Indemnity.
6. All differences arising out of this Policy shall be referred to the decision of an Arbitrator to be appointed in writing by the parties in difference or if they cannot agree upon a single Arbitrator to the decision of two Arbitrators one to be appointed in writing by each of the parties within one calendar month after having been required in writing to do so by either of the parties or in case the Arbitrators do not agree of an Umpire appointed in writing by the Arbitrators before entering upon the reference. The Umpire shall sit with the Arbitrators and preside at their meetings and the making of an award shall be a condition precedent to any right of action against the Company. If the Company shall disclaim liability to the Insured for any claim hereunder and such claim shall not within twelve calendar months from the date of such disclaimer have been referred to arbitration under the provisions herein contained then the claim shall for all purposes be deemed to have been abandoned and shall not thereafter be recoverable hereunder.
7. The due observance and fulfilment of the terms, conditions and endorsements of this Policy by the Insured in so far as they relate to anything to be done or complied with by him and the truth of the statements and answers in the said proposal shall be conditions precedent to any liability of the Company to make any payment under this Policy.

SPECIMEN

AGENCY:

SCHEDULE

POLICY NO:

INSURED'S NAME:

ADDRESS:

BUSINESS/OCCUPATION:

PERIOD OF INSURANCE:
(BOTH DATES INCLUSIVE)

PREMIUM: S\$

SITUATION:

PROPERTY TO BE INSURED:

ENDORSEMENTS/CLAUSES:

PROPERTY DAMAGE CLARIFICATION CLAUSE

Property damage covered under this Policy shall mean physical damage to the substance of property.

Physical damage to the substance of property shall not include damage to data or software, in particular any detrimental change in data, software or computer programs that is caused by a deletion, a corruption or a deformation of the original structure.

Consequently the following are excluded from this Policy:

- A. Loss of or damage to data or software, in particular any detrimental change in data, software or computer programs that is caused by a deletion, a corruption or a deformation of the original structure, and any business interruption losses resulting from such loss or damage. Notwithstanding this exclusion, loss of or damage to data or software which is the direct consequence of insured physical damage to the substance of property shall be covered.
- B. Loss or damage resulting from an impairment in the function, availability, range of use or accessibility of data, software or computer programs, and any business interruption losses resulting from such loss or damage.

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CHAPTER 6 CLAIMS

CHAPTER OUTLINE

1. Introduction
 2. General Claims Procedures
 3. Onus Of Proof
 4. Duties Of The Insured After A Loss
 5. Use Of Loss Adjusters & Other Claims Professionals
 6. Average And Other Claims Conditions
 7. Insurance Fraud
 8. Claim Settlement Options
 9. Reinstatement Of Sum Insured
 10. Rights Of The Insurer After A Claim
 11. Claim Disputes
- Appendix 6A – Sample Property/Liability Claim Form



LEARNING POINTS

After studying this chapter, you should be able to:

- acquire some basic knowledge of the general claims procedures
- know how claims are reported or notified
- know how claims investigation and assessment are done
- understand what is included in a plan of investigation
- understand what goes into preparing a proof of loss
- determine with whom the onus of proof of a loss/damage rests
- understand the duties of the insured after a loss
- recognise the role and functions of loss adjusters and other claims professionals
- identify how the following claim conditions operate to affect claims:
 - average
 - contribution
 - limitation period
 - reinstatement
- understand what is insurance fraud and industry's efforts to combat insurance fraud
- describe the various claim settlement options available
- know the working on the reinstatement of sum insured
- know the rights of the insurer after a claim
- explain the common methods of settling claim disputes

1. INTRODUCTION

- 1.1 The basis of insurance is risk pooling which carries the obligation of paying losses. Therefore, claims must be paid promptly and fairly. A poor claims handling service can result in an insurer gaining an unfavourable reputation. As such, an insurer that does not pay its valid claims will soon be without customers. Hence, prompt and equitable claims handling is an important aspect of the insurance service.
- 1.2 The claims handling process may vary for different classes of insurance. Each and every insurer has its own methods and procedures of administering claims. However, the approach to claim handling is generally very similar among all classes of insurance.
- 1.3 In this chapter, we will examine the basic claims procedures covering the notification of loss, the investigation and assessment, and the preparation of proof of loss. We will also look at the legal requirements and conditions for a valid claim, the duties of the insured after a loss, claim conditions, the claim settlement options, rights of the insurer after a claim, and claim disputes.

2. GENERAL CLAIMS PROCEDURES

A. Notification Of Loss

- 2.1 The first and most important point to make is that the notification of a claim is the responsibility of the insured. The insurer will want speedy notification of the claim and will often lay down time limits (notification period) within which a claim must be reported to insurers.
- 2.2 Prompt notification is important because the sooner the insured notifies the loss, the sooner the insurer can make any investigation. It will also enable the insurer to suggest measures to be adopted, in order to minimise the loss and to take steps to salvage the loss.
- 2.3 Upon receipt of the notice of the loss or damage, the insurer will record and register the claim in its computer system. This serves as a record of the claim registered in the system. In a manual system of work, this will be known as a "claim register". The register serves to hold a central record of all claims lodged with the insurer. This will enable the insurer to access the claim history of a customer, when underwriting new business and processing claims. It is also for the purpose of checking the claim history of a particular policyholder, or for checking on the possibility of fraud. Although most computer systems will have built-in self-checks, the insurer will also perform a preliminary validation based on the following checklist:
- Has the policy been issued and whether it is still in force at the material time of the loss or damage?
 - Is the loss the result of an insured peril? Is the loss covered?
 - Is the property covered by the policy?



- Is the claimant entitled to the payment?
- Did the loss occur in a place covered by the policy?
- Has notice of the loss been received by the insurer without undue delay (i.e. within the notification period as specified)?
- Is there any other claim evidence and information required?

2.4 The means by which claims are normally reported is the claim form. An example of the claim form is shown in **Appendix 6A** at the end of this chapter. This is for a property/liability policy, and you can see the kind of questions that are being asked.

2.5 While the claim form (together with the relevant supporting documentary evidence), which collects pertinent information on the loss is the main means by which the insurer receives notification of a claim, other forms of notification are also acceptable to the insurer e.g. by phone, e-mail, etc. It is prudent to follow up a phone call to the insurer with a written notification. In the event of a claim in which the loss is large or involves more details, the insurer (at its own expense) will appoint a loss adjuster. We will look at the role of the loss adjuster later in this chapter.

B. Investigation & Assessment

2.6 On receipt of the claim form from the insured, the claims officer will have to decide on whether further investigation and assessment are required. Usually with a very small loss, where fraud is not suspected, detailed investigation is generally waived, and the valid loss is settled on the basis of information submitted in the claim form by the insured or claimant.

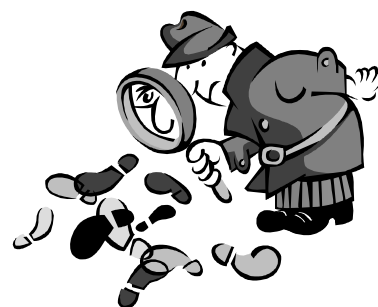
2.7 Claim investigation involves ascertaining the existence of loss, assessing whether actions by the insured have invalidated the claim, as well as determining the amount of the loss.

2.8 Small claims are usually investigated and verified by the claims officer, while large or complicated losses are normally handled by an independent loss adjuster appointed by the insurer, at its own expense.

C. Plan Of Investigation

2.9 The experienced loss adjuster will plan his investigation of loss in an orderly manner in the following sequence:

- check coverage;
- meet with the insured;
- inspect the property;
- protect property from further damage;
- determine the cause of loss;
- determine the value of the loss and/or damage;
- determine the insurer's liability; and
- determine recovery possibilities.



- 2.10 The pattern of investigation and areas of enquiry listed above are matters common to the adjustment of all property losses. It applies equally to the investigation and adjustment of third-party property losses under any Liability Insurance, or loss of cargoes under a Marine Cargo Insurance policy.
- 2.11 For property claims, one of the important items which the loss adjuster always takes into account when investigating and compiling the report is to ascertain whether the sum insured of the policy is adequate, i.e. the value of the property at the time of the loss does not exceed the sum insured. If the sum insured is not adequate and if the loss is partial, the insurer will not pay the claim in full. Thus, the insured will have to bear the loss in respect of the uninsured proportion of the loss. The application of the average condition has been explained earlier.

D. Preparation Of Proof Of Loss

- 2.12 Once the investigation is complete and the coverage is established (i.e. a liability has arisen and it falls within the scope of the policy), the loss adjuster will submit a final report to the insurer. This report summarises the on-site findings and recommendations concerning the loss settlement. If the insurer accepts the recommendations and the claimant agrees to the amount of compensation, a Form of Acceptance is usually executed by the claimant, and submitted to the insurer for effecting the payment of the claim under the relevant policy.
- 2.13 Before effecting payment, it is important to confirm once again that the claimant is legally entitled to receive the claim payment. For example, for payment of a death claim under a Personal Accident Insurance policy, a grant of probate or letter of administration will have to be submitted by the legal representatives, unless there is a nomination of beneficiary or beneficiaries in accordance with Section 49L or 49M of the Insurance Act (Cap. 142). A Marine Cargo Insurance claim is paid to the claimant only when the original policy is produced or endorsed in his favour.
- 2.14 The claims officer must ensure that a proper discharge under the policy is obtained, so as to avoid any dispute in the future, before making a payment under the policy. When the insured gives his consent or signs the discharge form or cashes the cheque, further rights to pursue the claim are waived.

3. ONUS OF PROOF

- 3.1 In the event of a loss or damage, the onus of proving that a loss has occurred rests with the insured. Thus, it is usually the insured's responsibility to prove:
- (a) that an insured peril has arisen : The insured must prove that he has suffered a loss directly caused by a peril which is insured by the policy; and

- (b) the amount of the loss : The insured must also prove that he has suffered a financial loss and identify the amount of financial loss suffered. The insured cannot simply claim for a lost or damaged item, without proving the value of the item. This proof may take the form of a purchase receipt, a repair account, or a valuation. It is not for the insurer to prove the value of the loss.



- 3.2 The insurer has responsibilities of its own too. It has to ascertain that:
- the loss has occurred or a claim is made during the period of insurance;
 - the insured is the correct insured as named in the policy;
 - the peril that has caused the loss is covered by the policy;
 - the insured has taken reasonable steps to minimise losses;
 - the policy conditions and warranties have been complied with;
 - no exclusion or exception is applicable;
 - no non-disclosure of material facts or misrepresentation of facts has been committed by the insured; and
 - the claim is legitimate, not a fraudulent one, and the value of the loss is reasonable.
- 3.3 The above list contains the legal requirements for a valid claim. Therefore, in effect, a claim is invalid if the above conditions are not complied with, or if fraud can be proved. An insurer may provide less than a full indemnity, either as a result of the insured's choice of the type and extent of insurance cover, or owing to poor insurance arrangements, e.g. under-insurance.

4. DUTIES OF THE INSURED AFTER A LOSS

- 4.1 The duties of the insured following a loss can be divided into the following two categories:
- implied duties; and
 - express duties.

A. Implied Duties

- 4.2 These are duties imposed by Common Law. For example, the law requires that the insured should act as if he were uninsured and take all reasonable steps and precautions to minimise his loss or damage. As such, in taking steps to minimise the loss or damage in the event of a loss occurrence, it may be implied that the insured should advise the appropriate authorities, e.g. advising the fire service in the event of a fire as soon as the fire starts - this will also help to prevent the loss from spreading, or reporting to the police in the event of a theft.

4.3 Where expenses are incurred by the insured with a view to averting or minimising a loss recoverable under the policy, such expenses are known as "Sue and Labour charges". If the policy contains a "Sue And Labour" clause provision, the insured may recover these charges from the insurer. A "Sue And Labour" clause is commonly found in Marine Hull Insurance. A similar provision can be found under the "Duty of Assured" clause in Marine Cargo Insurance, whereby it is the duty of the insured and their employees and agents in respect of loss recoverable, to take such measures as may be reasonable for the purpose of averting or minimising such loss. The insurer will, in addition to any loss recoverable, reimburse the insured for any charges properly and reasonably incurred in pursuance of these duties.

B. Express Duties

4.4 Express duties are duties written into the contract, and are usually found as the conditions in the policy. A breach of such conditions allows the insurer to repudiate liability or to reject the claim.

4.5 In most policies, there are a number of conditions and some of these relate to claims. In particular, one sets out the duties of the insured upon the happening of the event insured against. This condition is often entitled "claims procedures" or "actions by the insured".

B1. Notification Condition

4.6 Basically, the condition identifies the actions required of the insured, namely:

- give prompt notification to the insurer;
- submit the claim in writing with full details of loss or damage and supporting documentary evidence within a certain period of time, e.g. 21 or 30 days (notification period);
- bring the motor vehicle (whether damaged or not) to the insurer's approved reporting centre or authorised workshop within 24 hours or by the next working day, in the event of a motor accident claim.

5. USE OF LOSS ADJUSTERS & OTHER CLAIMS PROFESSIONALS

5.1 As previously mentioned, large or complicated losses are normally handled by independent loss adjusters. 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.

A. Loss Adjusters

- 5.2 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.
- 5.3 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.
- 5.4 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.

B. Other Claims Professionals

- 5.5 Other than loss adjusters who are most commonly used, there are other experts or specialists who can be appointed (if necessary), to carry out investigations into a claim.
- 5.6 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, etc) 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.

C. Approved Reporting Centres

5.7 Following a motor vehicle accident, the Motor Insurance policyholder is required to make an accident report at one of the Approved Reporting Centres (including approved motor repairers and authorised workshops) as determined by the insurer, within 24 hours, or latest by the next working day. This is not only in accordance with the GIA's Motor Claims Framework, but clearly stipulated as a condition in the policyholder's Motor Insurance policy.

6. AVERAGE & OTHER CLAIMS CONDITIONS

6.1 In this section, we will examine the principles concerning the operation of other policy provisions affecting claims, namely the operation of the following policy provisions:

- average;
- contribution;
- limitation period;
- reinstatement; and
- fraud.

A. Average

6.2 The application of the average clause has been explained earlier in this Study Guide.

B. Contribution

6.3 The principle of contribution has been explained earlier in this Study Guide. Here, we will show you two ways in which the "rateable share" to be paid by the respective insurers may be calculated.

(a) Respective Sums Insured

This is the traditional way of calculation with contribution. Here, the insurers contribute to the loss payment in the proportion to which they contribute to the total amount of coverage purchased.

(b) Independent Liability

Under this method, the amount payable under each policy is calculated, and the loss will be shared in proportion to the independent liabilities of the two policies.

Sometimes, the two methods of calculation will produce the same result, but a simple example will illustrate the difference between the two methods (see **Example 6.1**).

Example 6.1: Difference Between “Respective Sums Insured” And “Independent Liability” Methods

Assume the following:

An insured has a policy with Insurer A for S\$75,000 and Insurer B for S\$25,000.

Both policies are subject to average.

A loss arises to the sum of S\$40,000 (for ease of calculation, ignore any question of under-insurance).

(i) With “Respective Sums Insured”, the insurers contribute as follows:

$$\frac{\text{Sum Insured by Individual Insurer}}{\text{Total Sum Insured}} \times \text{Loss} = \text{Insurer's Liability}$$

i.e. Insurer A pays:

$$\frac{\text{S\$75,000}}{\text{\$75,000} + \text{S\$25,000}} \times \text{S\$40,000} = \text{S\$30,000}$$

Insurer B pays:

$$\frac{\text{S\$25,000}}{\text{S\$75,000} + \text{S\$25,000}} \times \text{S\$40,000} = \text{S\$10,000}$$

Total = S\$40,000

(ii) With “Independent Liabilities”, the insurers contribute as follows:

Insurer A (if the only insurer) will pay S\$40,000.

Insurer B (if the only insurer) will pay S\$25,000.

Since the insured must receive indemnity only, the two amounts are scaled down, so that:

Insurer A pays: $\frac{\text{S\$40,000}}{\text{S\$40,000} + \text{S\$25,000}} \times \text{S\$40,000} = \text{S\$24,615}$

Insurer B pays: $\frac{\text{S\$25,000}}{\text{S\$40,000} + \text{S\$25,000}} \times \text{S\$40,000} = \text{S\$15,385}$

Total = S\$40,000

When both insurers fully cover the loss, this method results in an equal split.

(c) Which Is The “Correct” Method?

For Liability Insurance, contribution is likely to be dealt with on the independent liability basis, following a legal decision in the United Kingdom (UK) to that effect.

For property and other insurance subject to indemnity, the traditional basis of respective sums insured may be applied in Singapore, but it should be

noted that in the UK, independent liability is the norm (especially for members of the Association of British Insurers), because it is felt that this is fairer, especially where average may be involved.

C. Limitation Period

6.4 An action against another party must be brought under the law within a prescribed time frame. If not, the action will become time barred. This simply means that, if legal action is not brought within the time allowed under the law, then the courts will not consider the action. The limitation period is that time during which legal action may be brought and, once it is over, all further legal actions are barred.

6.6 However, limitation of actions is not part of Common Law, but is set by statute to regulate actions under Common Law. All legal actions pertaining to damages for negligence, nuisance or breach of duty must commence before the expiration of the applicable statutory limitation period. In Singapore, this is set out in Section 24A of the Limitation Act (Cap. 163), which provides that damages for negligence, nuisance or breach of duty actions in respect of latent injuries and damages:

- in respect of personal injuries – three years from the date on which the course of action accrued;
- in respect of those other than personal injuries – six years from the date on which the course of action accrued.

6.7 A limitation period may also be inserted outright in the policy itself. For example, a Fire Insurance policy may insert a clause which states: "In no case whatever shall the Company (insurer) be liable for any loss or damage after the expiration of 12 months from the happening of the loss or damage, unless the claim is the subject of pending action or arbitration."

D. Reinstatement

6.8 Reinstatement refers to the situation when the insurers decide to exercise their option to reinstate, instead of paying cash as an indemnity. See later section of this chapter for further discussion on reinstatement.



7. INSURANCE FRAUD

7.1 Insurers cannot avoid paying some claims and, in a mechanism which is designed to pool the premiums of the many in order to settle the claims of the few, it is perhaps not surprising that the opportunities for fraud may be exploited by some members of the pool.

7.2 The following examples illustrate what insurance fraud is:

- inventing a loss event which in reality never took place, e.g. a robbery;
- exaggerating the number of items stolen during an otherwise honestly reported break-in;

- deliberately creating an insured event, e.g. throwing paint over an insured carpet at home; or
- exaggerating the effects of an insured event, e.g. pretending that a personal injury is more serious than it really is, in order to receive higher compensation.

7.3 A fraudulent claim is a breach of the duty of utmost good faith. There is usually a condition in the policy to state that any benefit shall be forfeited if:

- the claim is in any respect fraudulent, including inflating or exaggerating the claim, or submitting forged or falsified documents;
- any fraudulent means or devices are used to obtain any benefit or payment under the policy;
- the loss, damage or destruction is caused by the wilful act (e.g. arson) of the insured, or anyone acting on behalf of, or in the collusion or connivance with the insured; or
- the claim has been rejected and, within three months, no action or suit is taken against the insurer.

7.4 If the insurer wishes to avoid a payment under the policy on grounds of fraud, it must have adequate proof beyond reasonable doubt, as this is a serious allegation.

A. Industry's Efforts To Combat Insurance Fraud

7.5 The GIA has, through its Insurance Fraud Committee, made efforts to educate members of the public on insurance fraud, as well as on how it can help to prevent it. Special Investigation Units (or SIUs) were initiated by the Insurance Fraud Committee. Members with SIU have developed fraud indicators or "red flags", which have helped GIA members to detect fraudulent claims, which were reported to the police for further investigation. It also urges GIA members to support and participate in training sessions conducted to share fraud detection techniques.

7.6 In December 2013, the GIA launched the Motor Insurance Fraud Hotline. This proved to be highly effective in encouraging members of the public to report suspicious fraudulent activities. The GIA encourages the public to call the hotline if they have information on possible fraudulent claims filed with motor insurers, have been offered money by touts to submit inflated/fraudulent claims to motor insurers, or if they have evidence that they were the victim of a staged motor accident. There is also a Form For Reporting Fraud on the GIA Website, for any member of the public to complete and submit a report on fraud. At the same time, the GIA ran a campaign in 2014 to further educate and engage members of the public on insurance fraud and how they could help in preventing it.



8. CLAIM SETTLEMENT OPTIONS

8.1 After the insurer has admitted the claim and the insured has agreed on the compensation amount, it is time to consider the settlement options available. There are basically four methods of settlements, namely:

- repair;
- replacement;
- reinstatement; and
- cash payment.



8.2 We shall go through each in turn, and then take a brief look at the Claim Settlement Agreements.

A. Repair

8.3 Insurers paying for the cost of repair is common in a Motor Insurance claim. Usually, the insurer will request that the insured submits a written estimate of the cost of repair. Depending on the amount of estimate, the insurer may appoint a motor claim assessor to assess the extent of damage and recommend an estimated repair cost. Thereafter, the insurer will authorise the repair and bear the repair cost, paying the authorised workshop or repairer directly, except that the insured is to pay the excess (if any) to the workshop.

B. Replacement

8.4 Replacement can be arranged for lost or damaged goods or property. Replacement is often seen in some Motor Insurance claims, such as the replacement of a broken windscreen. However, replacement is more commonly used in Glass Insurance claims, where insurers can get favourable discounts from glaziers. Replacement might also be used as a settlement option for a household property loss, where the lost item was new, or unlikely to have depreciated in value (e.g. new television set or jewellery).

C. Reinstatement

8.5 The term “reinstatement” is often associated with property claims, particularly buildings. When a building is severely damaged by fire, the insurer can arrange to indemnify the insured by reinstating the building, if the insurer feels that it is the most equitable way of settling the claim. This means to rebuild the existing building to its immediate “pre-loss” condition. The rebuilt building will be the same as the original building in terms of its size, design and material used, and the reinstatement can be carried out on another site. Reinstatement work must also be carried out and completed within a stated period of time (e.g. 12 months).

8.6 The extent to which reinstatement is to be carried out is usually stated in some form in the operative clause. However, a condition may be inserted in the policy requiring that the insured will give the insurer all assistance in obtaining the

information needed to carry out such reinstatement. It may also state that the insured will provide such assistance at his own expense.

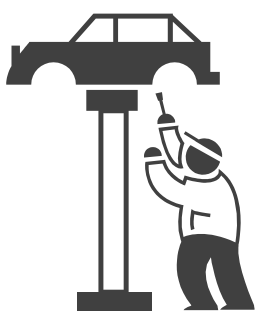
- 8.7 It should be noted that replacement is distinct from reinstatement in that the replacement of a building can be done by:
- erecting a new building using modern materials; or
 - purchasing an existing building.



D. Cash Payment

- 8.8 The easiest and usual way of settling a valid claim is to make cash payment by cheque directly to the claimant. This form of settlement provides flexibility in the way in which the claim payment will be used.
- 8.9 The selection of these settlement options depends on the type of policy, its stipulated terms and conditions, and the negotiations between the claimant and the insurer. In practice, more than one option is often adopted with some classes of business, particularly with property damage claims. This is because property damage claims can range from small amounts (where a repair may be suitable) to a total destruction (where a cash settlement may be more appropriate). In the case of liability claim, payment is usually made to the wronged party (i.e. third party), not the insured.

Claim Settlement Options



Repair



Replacement



Reinstatement



Cash Payment

Example 6.2: Combination Of Repair, Replacement & Cash Payment Options

Kenny's car had a head-on collision with Lenny's car while on the way to work. Kenny's car was severely damaged. Its windscreen was smashed, the bonnet was badly dented, and both the front fenders were crushed and buckled. Lenny's car windscreen was smashed, headlights were broken and the bonnet was slightly dented. Both Kenny and Lenny submitted their claim estimates to their respective insurers. In turn, they appointed their motor claim specialists to examine the damaged cars.

After having examined the badly damaged car, the claim specialist of Kenny's insurer was satisfied that Kenny's car was damaged beyond economic repair. He recommended that the insurer settled on a cash basis and paid Kenny the market value of the car.

The claim specialist of Lenny's insurer, after having examined the car, judged that the damaged bonnet was repairable. Hence, he authorised Lenny to have the repairs carried out. He also ordered the windscreen and the two headlights to be replaced as they were broken.

E. Claim Settling Agreements

8.10 There are claim settlement agreements relating to claim settlement options.

E1. Barometer Of Liability Agreement (BOLA)

8.11 Since 13 May 2003, the Barometer Of Liability Agreement (BOLA) has replaced the Knock-For-Knock Agreement (KFKA) to speed up motor accident claims processing. All motor insurers in Singapore use BOLA to determine how much each party is liable for, in the event of a motor accident, through the use of predetermined charts of various motor accident claims scenarios in which the apportionment of liability has been agreed by all motor insurers. However, BOLA does not diminish the right to contest liability under the law.

8.12 Under BOLA, the No Claim Discount (NCD) will not be affected if the liability is 20% or less in an accident involving an identified motor vehicle. In all other cases, the NCD may be affected.

E2. Treasury Agreement

8.13 This is an Agreement¹ made between the Government of the Republic of Singapore and all motor insurers in Singapore (each insurer enters into a separate, but similar agreement with the Government), which specifies the damage treatment, as a result of collisions occurring between:

- a Government-owned motor vehicle; and
- a motor vehicle insured by the insurer.

¹ The full title of the agreement is "Collision Agreement between the Government and the Insurer".

- 8.14 Essentially, this Agreement spells out how the cost of damage (material damage to the motor vehicle or its accessories, including towing charges, but excluding survey fees) to the two motor vehicles involved in a collision are to be borne by the Government and the insurer, regardless of who is to be blamed for the accident. For example, if the cost of damage to either motor vehicle does not exceed S\$500, each party shall bear its own loss.
- 8.15 The damage treatment differs according to the type of policy insured by the insurer (i.e. Comprehensive or Third Party), the monetary amount, and various other factors. Collisions involving more than two motor vehicles are not within the scope of this Agreement. Claims involving damages for personal injury or monetary damages exceeding S\$10,000 also do not fall within the scope of this Agreement.



9. REINSTATEMENT OF SUM INSURED

- 9.1 This should not be confused with the “Reinstatement” condition mentioned in the earlier sections of this chapter.
- 9.2 When a total loss is declared or the total sum insured is paid under a policy, the insurer’s obligations under the insurance contract are clearly extinguished by performance. Where payment is made in respect of a partial loss, the policy may specify its position concerning the amount of cover for the remaining period of insurance. With some classes of insurance (e.g. Fire Insurance), a partial loss payment reduces the sum insured by the amount paid, and an extra premium is required to reinstate the amount of cover for the remaining period of insurance.
- 9.3 On the other hand, partial loss payments for some classes of business (e.g. Marine Insurance) do not reduce the subsequent amount of cover.



10. RIGHTS OF THE INSURER AFTER A CLAIM

A. Right To Salvage The Property

- 10.1 Insurers are interested in the question of salvaging the property whether it is lost or damaged. This aspect of salvage² does not only apply to the perils of fire, but also to all losses or damage regardless of their cause. For example, in Motor Insurance, in the event of a serious accident (e.g. head-on collision or total wreck), the insurers are very interested in whether the motor vehicle can be repaired, or whether it is to be treated as a total loss, and if the latter, the value that can be obtained for the salvage.

² Under maritime law, “salvage” or “salvage charges” also means the charges incurred to save property at sea. Such salvage charges can be covered under Marine Insurance. See Section 65 of the Marine Insurance Act (Cap. 387).

A1. Salvage Condition

- 10.2 The importance of this question of salvaging the property can be seen by the fact that insurers normally have a condition in the policy document, which allows the insurer to deal with the salvage in a “reasonable manner”.

A2. Abandonment

- 10.3 In Marine Insurance, there is a long established principle that, where the insured (usually known as the assured in Marine Insurance) has been paid for a total loss, the insurer is entitled to claim for its own benefit, anything that remains of the insured subject matter. The action of giving up the subject matter by the insured to the insurer is referred to as abandonment. This is specified under Sections 62 and 63 of the Marine Insurance Act (Cap. 387).

- 10.4 Abandonment is particularly important in Marine Insurance, because it recognises not only “actual total loss” (where the subject matter is completely destroyed), but also “constructive total loss”, i.e. where the subject matter is not destroyed, but the insured is deprived of the possession of his ship or goods, and:
- it is unlikely that he can recover the ship or goods; or
 - the cost of recovering the ship or goods will exceed their value when recovered.

- 10.5 In the case of a “constructive total loss”, the insured must serve a notice of abandonment to the insurer if he wishes to be paid for a total loss³.

- 10.6 Unlike Marine Insurance, in Property Insurance, it is usually not permitted for an insured to abandon his property and then claim for a total loss. The insurer is liable for loss by a peril only to that part of the property that is damaged or destroyed.

A3. Total Loss & Salvage

- 10.7 An insurance loss normally arises as a result of an injury to the insured or to a third party, or damage to the insured's own property or a third-party property brought about by an insured peril that results in a claim. Every loss is either “total” or “partial”. A total loss may be “actual” or “constructive”. Under an “actual total loss” in respect of a property insurance claim, the insurer will pay the full sum insured, or the market value of the property, depending on the terms of the policy. The insurer will be entitled to any salvage value realised from the wreckage under such circumstances. However, the insurer may decide not to deal with the salvage on some occasions, because there may be little or no value remaining.

³ There are situations, where the insurer does not accept or agree to the notice of abandonment. However, when this happens, the insured's rights under the policy will not be prejudiced.

- 10.8 An "actual total loss" occurs when the whole subject matter of insurance is completely destroyed by an insured event or peril. For example, this can happen when an insured building is totally burned to the ground, or when an insured vessel sinks into a deep ocean and cannot be completely retrieved or salvaged.
- 10.9 On the other hand, a "constructive total loss" describes a situation in which the subject matter of insurance is not completely destroyed, but is damaged beyond economical repair. What this means is that it will cost more to repair than to pay the sum insured to the insured, as if it is a total loss. For example, a motorcycle insured under the comprehensive cover of a Motor Insurance policy is damaged in a head-on collision and wrecked, such that the total repair cost will exceed its sum insured or market value. Rather than repair the motor vehicle, the insurer can choose to pay the replacement value to the insured. Any salvage value to be realised from the wreck is for the benefit of the insurer. In essence, the subject matter is not totally and physically destroyed, but the replacement value is paid out, and hence, the term "constructive total loss" is used to describe such a situation.
- 10.10 A "partial loss", is any loss or damage short of, or not amounting to a total loss. In this instance, a loss covered by a policy does not totally destroy or render worthless the insured property. Where the insurance is subject to "average" and there is under-insurance, the insured will be paid only a proportion of the "partial loss".

B. Subrogation

- 10.11 At Common Law, the insured has certain rights to recover the losses or damages from the parties at fault. The insurer can take over these rights and take any action in the name of the insured against the wrongful parties, after having fully indemnified the insured under the policy. If the insurer has taken over these rights, the insured will have to give all necessary cooperation to the insurer for the latter to recover the losses or damages.
- 10.12 Subrogation has become a contractual matter after a modification of the Common Law position. In any insurance policy, except for a Marine Insurance policy, there is an express condition stating that an insurer may take over the rights of an insured, before or after any payment is made by the insurer. In other words, the insurer can immediately pursue action against the wrongful parties, without having to wait for the claim to be settled. For example, if an insured is involved in a motor accident caused by the negligence of another driver, the insurer may immediately take action against the negligent driver (even before any claim payment has been made to the insured), holding him responsible for the damage to the insured motor vehicle.
- 10.13 However, this is not the case for Marine Insurance claims. It is upon settlement of a claim that the insurer is entitled to any sums received from negligent third parties only up to the amounts paid by them. This is stated under Section 79 of the Marine Insurance Act (Cap. 387). This principle, in turn, is clearly reinforced in Marine Insurance policies. Nevertheless, Marine Cargo Insurance policies will

provide that the insured is required to hold the carrier liable upon a loss occurring to the cargo.

C. Right To Investigate & Enter Premises

10.14 This condition relates to the insurer's investigation and attempt to ascertain the extent and value of the claim being made by the insured. It is often impossible for the insurer to decide whether to contest the validity of a claim until all the circumstances of the loss have been investigated. Decisive evidence of fraud, for instance, may not be forthcoming until after a prolonged examination of the debris. The insurer, having the right to investigate, must ensure that any action taken in accordance with the condition will not introduce any possibility of an estoppel, if the insurer subsequently wishes to deny liability.

10.15 In many cases, the insurer will appoint a loss adjuster to deal with the claim intimated, and this condition gives the loss adjuster the right to enter the premises to investigate and adjust the claim.

D. Recovery Of Lost Property

10.16 When the insured property is lost or stolen, the insurer may give the insured a full indemnity. When that property is later recovered, the right to the property will vest with the insurer. Depending on the policy terms, the insurer may compel the insured to take back the property and return the claim amount to the insurer. However, in practice, when a considerable time has elapsed or passed before the recovery, or if the recovered property is damaged, the insurer cannot force the insured to take back the property, because the insured may not have any more use for the item.

E. Insurers Must Act Reasonably

10.17 The insurer must be careful in the way that it exercises its rights. The insurer must act in a reasonable way, as otherwise, it may lose its rights. This can be illustrated in the cases as mentioned below:

▪ ***Cumberland v. Albert Insurance Co (1866)***

When the insurer occupied the premises for what was considered an unreasonable length of time, it was held that the insurer was liable for trespass.

▪ ***Ahmedbhoy Habbibhoy v. Bombay Fire & Marine Insurance Co (1912)***

After occupation of the premises by the insurer, the insured's machinery suffered through lack of maintenance, and it was held that the insurer was liable for the resultant depreciation.



11. CLAIM DISPUTES

11.1 Claim disputes between the insured and insurers may arise, because the insured is dissatisfied with the insurer with respect to the quantum of loss, or if the insurer denies liability for the loss. Although court proceedings may be instituted to settle such disputes, they can be expensive and time consuming. Hence, other means of settlement, such as mediation, arbitration and having the Financial Industry Disputes Resolution Centre Ltd (FIDReC) involved in settling such disputes are considered, instead of seeking a legal resolution through court proceedings which invariably involves onerous court procedures and legal expenses.

11.2 We shall examine these three basic types of claim dispute settlements.

A. Mediation

11.3 Mediation is a form of alternative dispute resolution in which the parties agree to submit any dispute to a neutral mediator, whose purpose is to achieve a mutually acceptable settlement and compromise of the dispute, rather than issue a formal ruling and decision on the merits, as occurs in arbitration. Depending upon the parties' agreement, the results of mediation can be binding, or non-binding. It is a voluntary process in which an impartial third party, namely a mediator, assists parties involved in a dispute to resolve their differences in an amicable manner. Lawyers may represent the parties during the process. The mediator's opinion is strictly on a without-prejudice basis. More details on mediation are available from the website of Singapore Mediation Centre at: www.mediation.com.sg



B. Arbitration

11.4 If the dispute concerns only the amount of compensation (called "quantum"), arbitration may be resorted to as a means of resolving the dispute. If the dispute is regarding the denial of claims by insurers, FIDReC may well be involved.

11.5 Insurance contracts have provisions in them for parties to refer to arbitration in the event of "all disputes", or the clause may specify that the dispute must be one in respect of "quantum".

11.6 More details on arbitration are available from the website of Singapore International Arbitration Centre at: www.siac.org.sg

C. Litigation

11.7 Despite attempts at negotiation and alternative forms of dispute resolution, such as mediation and arbitration, there will be occasions when a claims handler is unable to negotiate an amicable solution to a claim. In these circumstances, a claimant may have to resort to litigation.

11.8 Litigation is the word used to describe the use of the courts by parties in a dispute to hear, and to obtain a ruling on their differences of opinion.

D. General Differences Between Mediation & Arbitration

11.9 In a mediation process, essentially, the mediator helps the parties to settle their disputes by discussing and narrowing differences. The mediator helps the parties to arrive at an agreed solution. He does not decide on the dispute. A successful mediation results in an agreement signed by the parties, whereas a contested arbitration results in a decision by the arbitrator himself, without the agreement of the parties concerned. In mediation, there is no such thing as a winning or losing party, because there is no binding decision, without both parties agreeing to one.

11.10 In an arbitration process, the arbitrator looks into the legal rights and wrongs of a dispute and makes a decision. Once the arbitrator has arrived at a decision, it is usually binding on the parties whether or not they may agree with it. It is very much like the way a court case is decided by a judge, except that the process does not take place in a court room, and it is not open to the public. As in a court case, there is usually a winning and a losing party in an arbitration process.

11.11 Arbitration is a less formal procedure than court litigation, and it is conducted in private, away from the glare of the media and the public. Parties are free to appoint their own arbitrators, and can choose more practical procedures and rules for the conduct of arbitration. Generally, arbitration can also be more cost-efficient and speedier than court litigation in which the proceedings involved can be expensive and time consuming.

11.12 A typical Mediation/Arbitration clause appearing as a condition in a policy reads as follows:

“All disputes arising out of this Policy may be submitted to the Singapore Mediation Centre for settlement by mediation in accordance with the mediation procedure for the time being in force, if the parties so agree. The parties agree to take part in the mediation in good faith and undertake to honour the terms of any settlement reached. If any dispute is not referred to mediation or if mediation fails, the dispute has to be referred to arbitration. Arbitration shall be conducted in accordance with the Arbitration Rules of the Singapore International Arbitration Centre.”

Appendix 6A



ABC INSURANCE COMPANY (SINGAPORE) LTD
 (Registration No: 2009-12345-A)
 21 Any Street, ABC Centre, Singapore 654321
 Tel: (65) 6789 8181 Fax: (65) 6789 8282
 E-mail: contactus@abcinco.com.sg
 Website: www.abcinco.com.sg

PROPERTY/LIABILITY CLAIM FORM

IMPORTANT: This form must be completed and returned to us AS SOON AS POSSIBLE. No liability is admitted by us by the issue of this form.
NOTE: Sections I & II must be completed.

(I) PERSONAL PARTICULARS

Name of Insured	NRIC No. (For Individuals)	
Address Postal Code	Tel No.	Fax
	Policy Type	Policy No.
Business / Occupation	For company/business/organisations - Are you GST-registered?	
E-mail Address		

(II) DETAILS OF OCCURRENCE

Date & Time	Place
Please give an account of how the incident occurred.	
Please give particulars of person responsible for the loss/damage/injury.	
Have you made a claim upon the person responsible for the loss/damage/injury?	
If claim for damage/loss is arising from theft/malicious act, please give us details of where and when the police report was made.	
How was entry into premises gained? Was there any signs or evidence of forcible and violent entry?	
Was the premises occupied at the time of the occurrence? If not, when was it last occupied?	
Particulars of eyewitnesses, if any.	
Please give us particulars of persons other than yourself who have any interest in the property concerned and state the nature of their interest.	
If there are other insurance covering the property concerned, please state the names of the insurers and their policy numbers.	
Please state the current total value of all the property insured under the policy.	
Please give details of your claim in Section (IV).	

(III) LIABILITY CLAIM				
<p>This section should be filled only if a claim is being made against you. When were you first notified of the incident?</p>				
<p>If loss/damage/injury is attributed to defects in your Premises, equipment or plant, please give us details.</p>				
<p>If anyone has been injured, please give: (a) full particulars of person injured (b) details of injuries sustained</p>				
<p>Has any intimation of claim been made against you? If so, by whom? (Please give details of the claim amount in Section IV)</p>				
<p>NOTE: No payment, offer or promise of any payment or admission of any liability should be made. All letters from third parties should be forwarded to us immediately upon receipt.</p>				
(IV) DETAILS OF CLAIM				
<p>Please give details of your claim below:</p>				
Description of Item	Details of damage/loss	Date Purchased/Date Incurred	Cost	Amount Claimed
<p>NOTE: Relevant invoices and other documents to support your claim should accompany this form.</p> <p>I/We hereby declare that the statements and particulars given by me/us in this form are true and correct.</p>				
<p>_____ Signature of Insured & Company stamp</p>			<p>_____ Date</p>	

CHAPTER 7 REINSURANCE

CHAPTER OUTLINE

1. Introduction
2. Objectives Of Reinsurance
3. Methods Of Reinsurance
4. Types Of Reinsurance
5. Comparison Between Reinsurance & Co-Insurance

LEARNING POINTS

After studying this chapter, you should be able to:

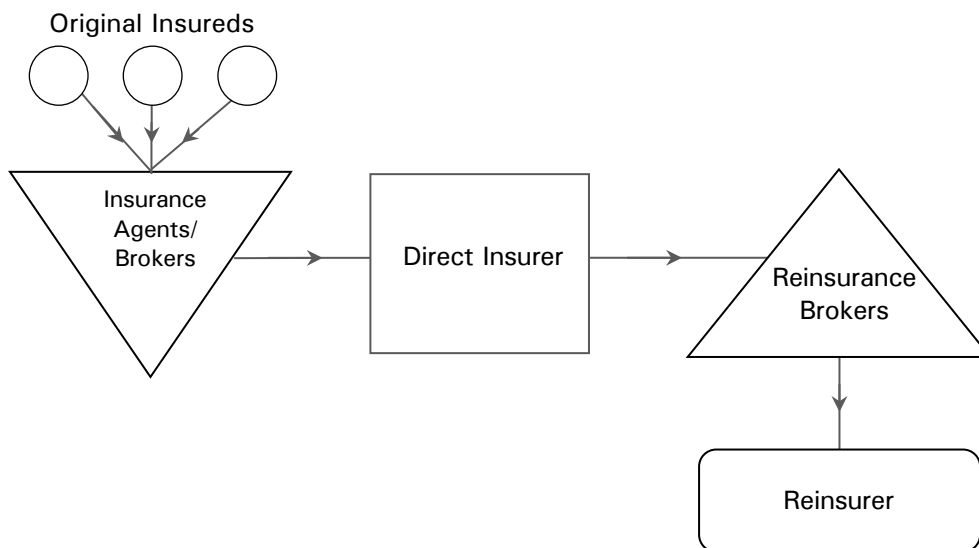
- define reinsurance and describe the cedant and the reinsurer
- understand the reinsurance transaction process in general
- understand the objectives of reinsurance
- discuss the various methods of reinsurance:
 - facultative reinsurance
 - treaty reinsurance
- identify the types of reinsurance:
 - proportional reinsurance
 - non-proportional reinsurance
- determine the insurer and reinsurer's share of losses under the various types of reinsurance
- define co-insurance and explain how it is different from reinsurance



1. INTRODUCTION

1.1 Reinsurance is an extension of the fundamental concept of insurance, namely the sharing of risks. It is a risk transfer mechanism, whereby the original insurer (called the reinsured, cedant or ceding company) cedes or transfers part of a single risk or several risks to another insurer or insurers. The company that accepts the transfer of risks is known as the reinsurer.

Reinsurance Transaction Process



Note: Intermediaries (reinsurance brokers) may or may not be involved in the process.

1.2 A contract of reinsurance is strictly between the direct insurer and the reinsurer. The original insured is not a party to any reinsurance agreement that the direct insurer enters into. The direct insurer remains liable to the original insured for the whole risk that is accepted and will seek recovery from the reinsurer separately. There is no communication or any contractual relationship between the original insured and the reinsurer, as the reinsurer is not permitted to write direct business.

1.3 It is also common for reinsurers themselves to transfer risks. When this happens, the act of the reinsurer passing (retroceding) risks to other reinsurers is called a retrocession. The assuming reinsurer is the retrocessionaire, and the ceding reinsurer is the retrocedent.

1.4 Reinsurance can be defined as “insurance of risks assumed by an insurer”, or simply put as “insurance of insurance”. It is best thought of as “insurance for insurance companies”, a way for an insurer to protect against catastrophic or extraordinary losses.

2. OBJECTIVES OF REINSURANCE

A. Security & Confidence

- 2.1 Like insurance, reinsurance aims to reduce or eliminate the uncertainty of losses and provides peace of mind, and confidence to the direct insurer.

B. Stability

- 2.2 Reinsurance helps to stabilise the direct insurer's losses by smoothing the fluctuations of the losses from year to year. The profitability of the direct insurer will then fluctuate less drastically, and this will help to stabilise the direct insurer's financial performance.

C. Capacity

- 2.3 Owing to its financial limitation, the direct insurer may not be able to accept risks that are beyond its underwriting capacity. By transferring part of the risks to the reinsurer, the direct insurer will be able to increase its capacity to accept more or larger businesses for its own portfolio.

D. Catastrophe Protection

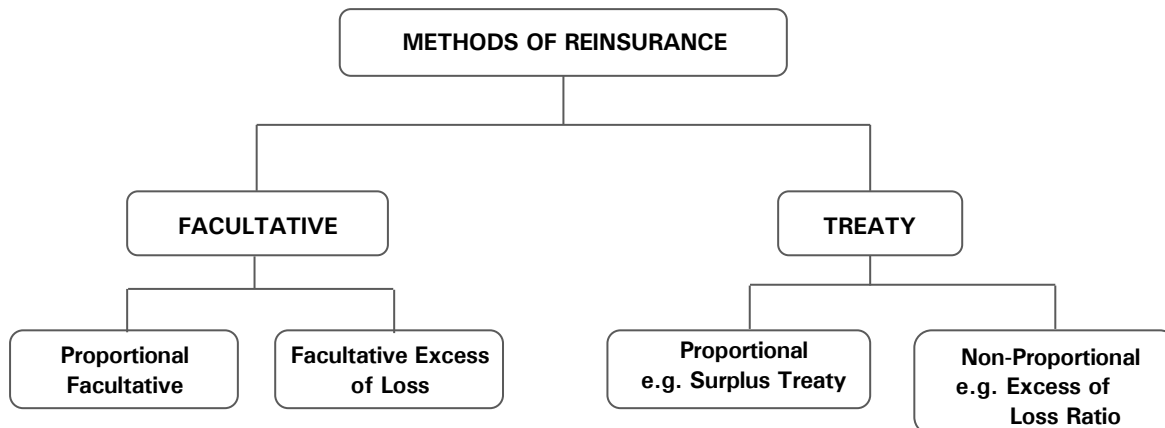
- 2.4 In the event of a catastrophe, which can result in massive claims, the financial resources of an insurer may be severely strained. By way of reinsurance, the effects of a catastrophe can be cushioned.

- 2.5 In addition, reinsurers and/or reinsurance brokers also provide advisory services to ceding companies by:
- defining their reinsurance needs and devising the most effective reinsurance programme, so as to better plan their capital needs and solvency margin;
 - supplying a wide array of support services, specifically in terms of technical training, organisation, accounting and information technology;
 - providing expertise in certain highly specialised areas, such as the analysis of complex risks and risk pricing; and
 - enabling ceding companies to build up their business, even if they are temporarily under-capitalised, particularly in order to launch new insurance products that require capacity.

Note: Reinsurance does not discharge the ceding company from its liability to its policyholders.

3. METHODS OF REINSURANCE

3.1 There are basically two methods of reinsurance, namely facultative and treaty.



A. Facultative Reinsurance

3.2 Under this arrangement, the ceding company reinsures or cedes each risk or policy on an individual basis. The ceding company is at liberty to decide which risk that it wants to reinsure, how much it wants to be reinsured, and how much it will retain for itself. It also has the freedom to offer the reinsurance to any reinsurer that it wishes. Similarly, the reinsurer is under no obligation to write the risk being offered, i.e. it is at liberty to decline the risk, or write a share, if it sees fit.

3.3 To place a facultative reinsurance, the ceding company must make available to the reinsurer all the relevant underwriting details. As such, this method of placement is generally time-consuming and costly to administer. It is usually sought for risks that are considered more complex or hazardous and/or those that are beyond the insurer’s financial capacity. Another reason for placing facultative reinsurance is for the exchange of business between insurers on the basis of reciprocity.

3.4 Facultative reinsurance may be placed on a proportional basis (also called Proportional Facultative Reinsurance), or on a non-proportional basis (usually known as Facultative Excess of Loss) – see later section of this chapter.

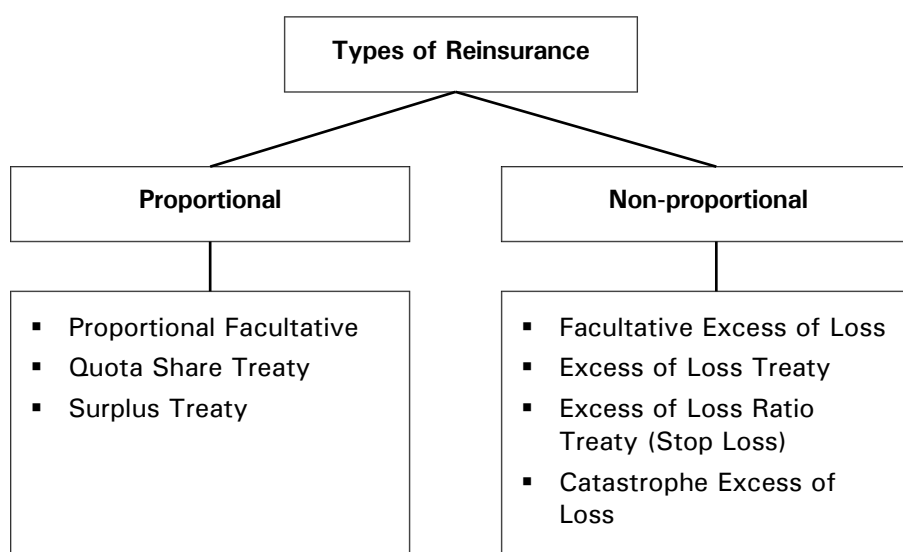
B. Treaty Reinsurance

3.5 This is an agreement by which one or more reinsurers will automatically accept all reinsurance risks which fall within the pre-determined terms and limits. Most treaties are “blind”. This means that the reinsurers are bound to accept risks, without prior knowledge. The reinsurer cannot decline the risks that fall within the treaty, nor can the insurer select which risks that it can retain for its own account.

- 3.6 This method of placement is administratively less cumbersome and less costly, as compared to the facultative method.
- 3.7 Treaty reinsurance may be placed on a proportional basis, e.g. Surplus Reinsurance and Quota Share Reinsurance. Treaty reinsurance can also be placed on a non-proportional basis. Excess of Loss Reinsurance and Excess of Loss Ratio Reinsurance are examples of non-proportional treaties.

4. TYPES OF REINSURANCE

- 4.1 Both facultative and treaty reinsurance can be arranged either on a proportional or non-proportional basis.



A. Proportional Reinsurance

- 4.2 Under proportional reinsurance, the amount of risks and premiums are shared in the same proportion by the direct insurer and the reinsurer. Examples of proportional reinsurance are:
- Proportional Facultative Reinsurance;
 - Quota Share Treaty Reinsurance; and
 - Surplus Treaty Reinsurance.

A1. An Example Of Proportional Facultative Reinsurance

Example 7.1 is an example of Proportional Facultative Reinsurance.

Example 7.1: Proportional Facultative Reinsurance

A direct insurer insures a risk with a sum insured of S\$1 million and its retention on this risk is S\$600,000. Hence, the direct insurer will approach the reinsurers to absorb the remaining S\$400,000. In short, the direct insurer will retain its share of the risk, i.e. 60% after reinsuring 40% of the total sum insured.

If there is a loss of S\$200,000, then the direct insurer's share of the loss will be S\$120,000 (60% of S\$200,000). The balance of the loss amount of S\$80,000 will be payable by the reinsurers, sharing 40% of the loss.

A2. An Example Of Quota Share Treaty Reinsurance

4.3 Under a Quota Share treaty arrangement, every risk is reinsured in a fixed proportion, subject to a maximum limit. See **Example 7.2**.

Example 7.2: 60% Quota Share Treaty

(a) Risk S\$200,000	Reinsurer accepts S\$120,000 (60% of S\$200,000) Direct insurer retains S\$80,000 (40% of S\$200,000)
Loss S\$100,000	Reinsurer pays S\$60,000 (60% of S\$100,000) Direct insurer pays S\$40,000 (40% of S\$100,000)
<hr/>	
(b) Risk S\$600,000	Reinsurer accepts S\$360,000 (60% of S\$600,000) Direct insurer retains S\$240,000 (40% of S\$600,000)
Loss S\$300,000	Reinsurer pays S\$180,000 (60% of S\$300,000) Direct insurer pays S\$120,000 (40% of S\$300,000)

A3. An Example Of Surplus Treaty Reinsurance

- 4.4 The insurer decides upon its maximum acceptance limit for each type of risk to be included in the treaty. The reinsurer (or more commonly reinsurers), once satisfied with the acceptance levels, agrees to provide cover in multiples of the original limit retained by the insurer (the limit retained by the insurer is called a "line"). The treaty will have a maximum of multiples of "lines", as agreed between the insurer and reinsurer(s). It is up to the insurer to decide in individual cases how many lines that it places on the treaty (so long as it does not exceed the maximum), thus the more that is retained, the more that can be ceded.

Example 7.3: 5-Line Surplus Treaty

Risk S\$300,000	Reinsurer accepts S\$250,000 (5 times of S\$50,000) Direct insurer retains S\$50,000
Loss S\$75,000	Reinsurer pays S\$62,500 (i.e. $\frac{250,000}{300,000} \times S\$75,000$) Direct insurer pays S\$12,500 (i.e. $\frac{50,000}{300,000} \times S\$75,000$)

B. Non-Proportional Reinsurance

- 4.5 Non-proportional reinsurance is a form of reinsurance in which the ceding company and its reinsurers do not share either the premiums or the losses in the same proportion, as in the case of proportional reinsurance.
- 4.6 Under this type of reinsurance, the reinsurer automatically accepts liability for all losses in excess of an agreed amount. This agreed amount is referred to as "deductible" or "priority" or "retention". Examples of non-proportional reinsurance are Excess of Loss Reinsurance (Facultative or Treaty) and Excess of Loss Ratio Treaty Reinsurance. The Excess of Loss Ratio Reinsurance is also known as Stop Loss Reinsurance.

B1. Facultative Excess Of Loss Reinsurance

- 4.7 The direct insurer selects a fixed monetary amount to retain on a particular risk (or account), and arranges excess of loss protection with reinsurers for any claim amounts which may exceed that fixed monetary retention up to a further (defined) monetary amount.

Example 7.4: Facultative Excess Of Loss Reinsurance

A direct insurer insures a risk on a sum insured of S\$10 million, and his deductible on this risk is S\$2 million. It reinsures the risk under a Facultative Excess of Loss cover of S\$8 million in excess of S\$2 million (or S\$8 million XS S\$2 million).

If there is a loss of S\$1 million, the direct insurer will pay the entire loss itself. However, if the loss is S\$5 million, then the direct insurer's share of the loss will be his deductible, which is S\$2 million. The balance of the loss amount of S\$3 million will be payable by the reinsurer.

B2. Excess Of Loss Treaty Reinsurance

- 4.8 This is a treaty for individual risks, but claims are not shared proportionately between the insurer and the reinsurer. With Quota Share and Surplus treaties, premiums and claims are shared in proportion to the sums insured ceded. However, this is not so for Excess of Loss. There is usually more than one treaty involved, and the cover is expressed in layers.
- 4.9 Compared to proportional reinsurance, Excess of Loss reinsurance allows the insurer to retain more premiums, as it is liable for the first part of any loss. This means that the insurer may have to pay for all losses in a particular year, if individually, they do not exceed the threshold of the excess of loss cover. On the other hand, reinsurers do not have to pay, unless the loss exceeds the threshold of the Excess of Loss cover.

Example 7.5: Excess Of Loss Treaty Reinsurance

Insurer's deductible is S\$10,000.

1st reinsurer S\$90,000 in excess of S\$10,000 (or S\$90,000 XS S\$10,000).

2nd reinsurer S\$140,000 XS S\$100,000.

3rd reinsurer S\$250,000 XS S\$240,000.

TREATIES		HOW ARE LOSSES SHARED			
Third Layer	S\$250,000 XS S\$240,000			S\$20,000	S\$250,000
Second Layer	S\$140,000 XS S\$100,000			S\$140,000	S\$140,000
First Layer	S\$90,000 XS S\$10,000		S\$90,000	S\$90,000	S\$90,000
Insurer	S\$10,000 Deductible	S\$10,000	S\$10,000	S\$10,000	S\$10,000
	Total Capacity S\$490,000	Total loss S\$10,000	Total loss S\$100,000	Total loss S\$260,000	Total loss S\$500,000

S\$10,000

These treaties do not cover losses in excess of S\$490,000, so the S\$10,000 represented by the shaded area will be paid by the original insurer. This is an example of the way in which treaties can be arranged with the reinsurer.

B3. Excess Of Loss Ratio Treaty (Stop Loss) Reinsurance

- 4.10 As mentioned before, under an Excess of Loss reinsurance, the insurer may have to pay for all losses in a particular year, if individually, they do not exceed the threshold of the Excess of Loss cover. Therefore, it is possible that the insurer's net deductible is affected by the aggregate of numerous small losses (occurring within the insurer's net deductible).
- 4.11 As given by the name, a Stop Loss treaty ensures that the loss ratio of the insurer (ceding company) is stopped at an agreed ratio of losses to the premium. Its purpose is to protect against the unexpected deterioration in results over a period of time.

- 4.12 The Stop Loss treaty is not intended to protect individual losses or aggregate losses arising out of a single occurrence. It is intended to protect a portfolio or a specific class or classes of business.
- 4.13 There are two methods of expressing the Stop Loss treaty:
- (a) The first method is to express the protection as a percentage of the net retained premium (see **Example 7.6**).
 - (b) Another method is to express the protection in monetary terms, e.g. S\$5,000,000 excess of S\$10,000,000 in the aggregate any one year. If the total of all the losses in the year exceeds S\$10,000,000, the Stop Loss treaty will pay up to a limit of S\$5,000,000. Otherwise, no claim is payable by the Stop Loss treaty if all the losses amount to less than S\$10,000,000.

Example 7.6: Excess Of Loss Ratio (Stop Loss) Reinsurance

An Excess of Loss Ratio Reinsurance cover is arranged by the direct insurer, so that the reinsurer will pay 10% loss ratio in excess of 70% loss ratio.

Assume that the net premium income is S\$10,000,000.

If losses amount to S\$6,500,000, then the loss ratio is 65%. No claim is payable under the Stop Loss, as the loss ratio is less than 70%.

However, if the losses amount to S\$7,500,000, then the loss ratio is now 75%. The Stop Loss will pay 5% loss ratio, i.e. 75% minus 70%.

In monetary terms, the Stop Loss reinsurer will pay 5% of S\$10,000,000 = S\$500,000.

If the losses amount to S\$9,000,000, the loss ratio is 90%. The reinsurer will pay up to a limit of S\$1,000,000 or 10% of S\$10,000,000, as the reinsurance cover is merely 10% loss ratio in excess of 70% loss ratio.

B4. Catastrophe Excess Of Loss Reinsurance

- 4.14 Regardless of the method that the insurer chooses to protect each and every one of its risks, the insurer must also consider the likelihood and possible effects of a major or catastrophic event that will result in a number of original insureds, making claims against the insurer at the same time. The insurer will recover a proportion of any such losses on individual policies from any proportional reinsurance arrangements that the insurer has in place (and also from any risk Excess of Loss cover that the insurer has purchased). However, the amount of any such recovery may be restricted by the inclusion of event limits in the reinsurance protections. The insurer can purchase Catastrophe Excess of Loss protection to reduce the effect of such situations (see **Example 7.7**).

Example 7.7: Catastrophe Excess Of Loss Reinsurance

An insurer arranges a Catastrophe cover for S\$2 million excess of S\$1 million any one loss occurrence, allowing the insurer to underwrite risks up to a capacity of S\$3 million in total to cover the Maximum Probable Loss (MPL) in one area. In the event of a major catastrophe causing a total loss to the cover, the insurer pays for the total of the losses and recovers up to the limit of S\$2 million from the reinsurer.

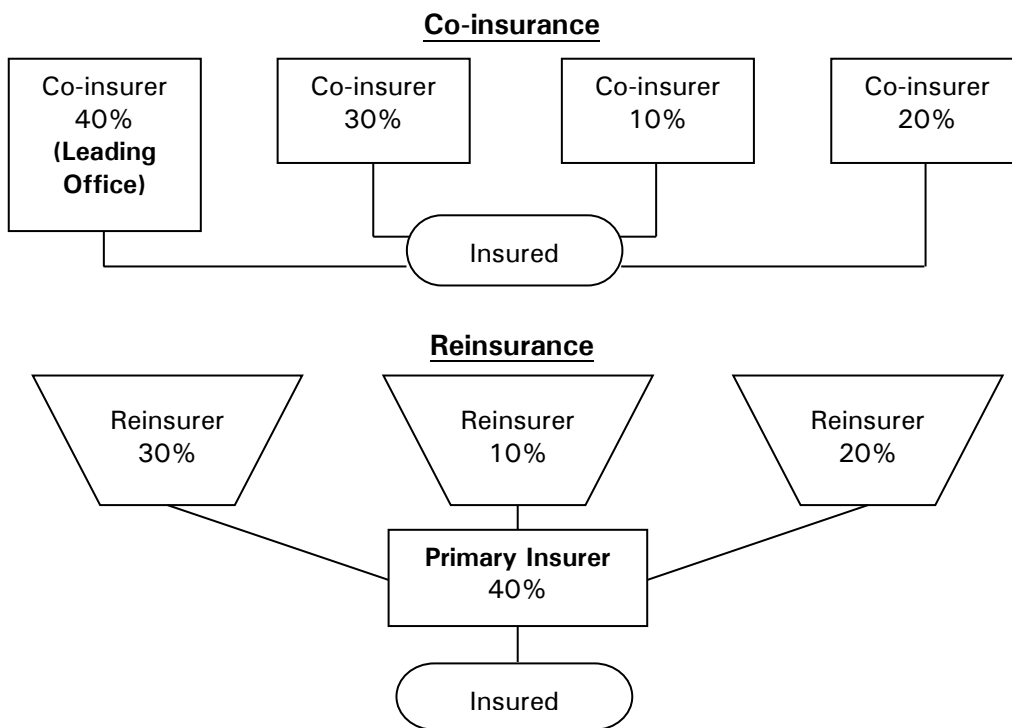
5. COMPARISON BETWEEN REINSURANCE & CO-INSURANCE

- 5.1 Co-insurance is a method, whereby one insurer (known as the leading office or primary insurer) shares direct responsibility for a risk with one or more insurance companies (known as co-insurers) on a proportional basis. It provides an alternative means of increasing the capacity of an insurer or market to underwrite risks. As such, several insurers are usually involved, each taking a stated proportion of the risk, each receiving that proportion of the premiums, and each being responsible for that proportion of any claim made under the policy. The lead insurer (which may or may not be the one with the largest proportion of the cover) administers the co-insurance arrangement.
- 5.2 Co-insurance is fairly common for large property risks, but is rarely used for liability cover. The method of operating co-insurance procedures is straightforward and suitable for many risks. However, there are some drawbacks:
- (a) The first concern is that, in the event of a large loss, all the co-insurers send separate cheques. This can clearly be a cumbersome system if many insurance companies are involved.
 - (b) The second disadvantage is that a broker, in placing a very large or complicated risk, will need to approach many different insurers to complete the placement, if each of them is prepared to grant only a limited cover, or accepts a small proportion of the risk.
- 5.3 The concept of reinsurance is different from the concept of co-insurance as follows:

Reinsurance	Co-insurance
<ul style="list-style-type: none"> ▪ Reinsurance involves one insurer covering the risk and insuring again ("re-insuring") part or parts of it with reinsurer(s). As mentioned before, the insurance contract is between the insurer and the insured with the reinsurer(s) not being a party to this insurance contract. 	<ul style="list-style-type: none"> ▪ Co-insurance implies that two or more insurers directly insure the risk, so that the insurers share the risk.

Reinsurance	Co-insurance
<ul style="list-style-type: none"> The reinsurance contract is between the insurer and the reinsurer with the insured not being a party to it. This means that if a reinsurer fails, the insurer is still liable to the insured under the terms of the insurance contract, notwithstanding that the insurer is unable to recover the share of the loss from the reinsurer. 	<ul style="list-style-type: none"> The insured will have a separate insurance contract with each co-insurer, albeit there is only one insurance policy issued by the leading office, with the identities and respective percentage shares of each co-insurer indicated. Therefore, the insured has a direct relationship with each insurer for its share of the risk. Should any of the co-insurers fail, the other co-insurers are liable to the insured only for their respective proportionate shares of the loss. They are not liable for the failed co-insurer's share.

5.4 The following diagram illustrates the difference between co-insurance and reinsurance:



5.5 You will see that, in each case, the leading office or primary insurer holds 40% of the risks – the difference arises in the relationship among the parties.

CHAPTER 8 ETHICS & PROFESSIONALISM

CHAPTER OUTLINE

1. What Is Ethics?
 2. Ethics Is Not Compliance
 3. Why Ethics Is Important To The Insurance Industry
 4. General Ethical Principles
 5. Courage
 6. Benefits Of Ethical Behaviour
 7. Unethical Acts
 8. Professionalism
 9. Requirements For A Profession
 10. Responsibilities Of Professionals
 11. The Singapore General Insurance Code Of Practice
 12. Personal Data Protection
- Appendix 8A - The Singapore General Insurance Code Of Practice

LEARNING POINTS

After studying this chapter, you should be able to:

- understand what ethics is and why ethics is not compliance
- understand why ethics is important to the insurance industry
- understand the general ethical principles that agents and brokers should adhere to
- recognise the importance of courage in adhering to the ethical principles
- know the benefits of ethical behaviour and be mindful of some unethical acts
- identify the characteristics of professionals and the requirements for a profession
- know the responsibilities of professionals
- outline the Singapore General Insurance Code Of Practice
- know the Personal Data Protection Act 2012, its provisions and enforcement



1. WHAT IS ETHICS?

- 1.1 Ethics is both a field of study and a skill. As a field of study, it is a branch of philosophy that investigates *how* we should behave. Specifically, people who study ethics focus on three questions:
- What does it mean to characterise an action as “good” or a person as “good”?
 - What do we owe to other people?
 - How should we respond when the obligations which we owe to others (and ourselves) come into conflict? In other words, which obligation takes priority?
- 1.2 Applied ethics, or ethics as a skill, is the ability to apply our moral beliefs of what is “good” and “bad” to situations that we face each day. Ethics, in the business arena, is about *how* people conduct business. Ethics is the strong base that holds the entire economic and free enterprise system together. Without ethical behaviour, business deals will collapse, the working environment will be intolerable, and trust will be non-existent. In business activities, we act based on trust that our business associates will act ethically. To be an ethical person, one must not only think ethically but must also act in this manner. Ethical behaviour implies doing what is right, and that is sufficient justification.
- 1.3 Law and ethics are both standards of conduct that govern a country, the morality of an organisation and the moral actions of individuals. However, in the next section, we outline why ethics is not compliance.



2 ETHICS IS NOT COMPLIANCE

- 2.1 Ethics, however, is not compliance. Fulfilling legal obligations does not exhaust moral obligations. Ethics requires more than compliance with a set of rules and regulations. An ethical person is one who applies his moral beliefs, in the form of principles and values, to his business practice, because he believes that it is good to do so; and the right thing to do.

3. WHY ETHICS IS IMPORTANT TO THE INSURANCE INDUSTRY

A. Insurance Business Is Based On Trust

- 3.1 The insurance industry is one that is based on trust. Insurance products, unlike consumer products, are intangible and carry benefits that may not be apparent until a covered risk occurs. One cannot enjoy or display “financial security” or “risk protection” in the way that one can with a new house or a new car.
- 3.2 The client cannot always measure the value and suitability of the insurance products and advice that they purchase. They are not sure whether the advice

that they are paying for is necessarily all that good, or that the products that they purchase are the best fit. This is because insurance products are complex, and policy wordings are hard to understand. As a result, policy benefits may be misrepresented, the products sold may not meet the needs of the clients, and the clients may not fully understand what they are buying. The clients may suffer financial distress if they do not receive proper advice. Increasingly more and more insurers are using simple layman's English in their policy wordings. This is an important part of ethical sales behaviour, which is extremely crucial for the insurance sector.

B. Ethics Affects the Industry's Public Image

- 3.3 Insurance is a public-interest industry, meaning that the insurance industry is not just in business for itself – the public obtains substantial benefit from the availability of insurance. The unethical behaviour of a few can tarnish the image of the industry and cause a loss of public confidence. The reputation of an entire industry is at stake if we tolerate unethical sales behaviour or unethical business practices.



4. GENERAL ETHICAL PRINCIPLES

- 4.1 Obviously, the specific applications of ethics will be varied, but there are certain general ethical principles that can be borne in mind, whether one's code of ethics is internally generated or externally prescribed by a recognised authority.
- 4.2 It may be helpful to consider these general principles by looking at each of the letters in the word "ETHICS" and making an appropriate application (of course, not necessarily in order of importance).

E-xcellence
T-rustworthiness
H-onesty
I-ntegrity
C-aring
S-elflessness

A. E - Excellence

- 4.3 Excellence is the quality of being outstanding. To excel, to be the best that one can be, will certainly require ethical behaviour.
- 4.4 Gains obtained through unethical actions are lost eventually, and along with them reputation, self-esteem and trust. Perhaps the means of making one's livelihood will also be lost. On the other hand, ethical actions generate respect and confidence from clients and colleagues. In the general insurance business, ethical behaviour and excellence certainly go hand in hand.

B. T - Trustworthiness

- 4.5 To be a responsible agent/broker, one must be reliable and trustworthy. This is an essential element in the ethics of the professional general insurance agent/broker because, as we have said before, the general insurance business is built on trust.

4.6 The general insurance agent/broker possesses specialised technical knowledge of insurance products that an average insurance buyer does not usually possess. As a result, insurance buyers must rely on agents/brokers for their professional expertise. General insurance agents/brokers have ethical obligations to accept and fulfil their responsibilities to the best of their abilities.

C. H - Honesty

4.7 Honesty is a cornerstone of ethical behaviour, and means “telling the truth.” Someone who is honest takes care not to deceive others, either by what they say, or what they fail to say.

4.8 For example, suppose an agent has told a client that the policy covers accidental death on a 24-hour worldwide basis, we will not consider that agent honest, if the policy excludes accidents occurring in the United States of America and Canada, since the agent has not clearly made known the exclusions to the client. The statement may have been accurate as far as it goes, but the agent has withheld a material fact which will likely result in a misunderstanding on the part of the client. Honesty requires telling the whole truth.

4.9 Besides being truthful, honesty also means being fair. Honesty means making sure that others receive what they are entitled to, and not accepting things to which one is not entitled. Clients pay for an objective evaluation of their general insurance needs, for an objective recommendation about what will best meet their needs, and for ongoing service to ensure that their needs are continually met, and they should get nothing less.

4.10 Being honest is essential to creating the kind of trust in the agent-client relationship that allows the client to make an affirmative and informed buying decision. Clients are not going to buy general insurance from an agent whom they think has been dishonest with them, nor will they refer that agent to other people whom they know. At the same time, clients are eager to work with agents whom they know have made a competent evaluation of their general insurance needs, as well as an objective recommendation on how they should meet those needs.

4.11 In addition, agents/brokers who handle themselves in an honest and professional manner have no trouble in obtaining referrals to other high quality prospects.



D. I - Integrity

4.12 Integrity is similar to honesty, but integrity carries with it the connotation of being incorruptible, no matter how great the temptation is to be dishonest. A person who has integrity does the right thing, regardless of the consequences. Some people only want to be honest, as long as it does not cost them too much.

- 4.13 The price which these people are willing to pay varies. For example, for the sake of being honest, some may be willing to risk losing a small sale, but not a large one. Some may be willing to risk losing sales of any size, but not their job.
- 4.14 The higher degrees of honesty may be more commendable, but the highest degree of honesty, and the most commendable, is being willing to risk anything and everything for the sake of being honest. That is integrity.
- 4.15 In the short term, fraud, deception or theft may lead to greater profits than honesty and truthfulness. However, agents/brokers who are involved in illegal schemes, because they opt for short-term profits at the expense of the long successfully insurance careers, and can tarnish the image of the insurance community. Those who lack personal integrity will not last very long in the business.

E. C - Caring



- 4.16 Having a caring attitude is the motivation behind the work of the professional general insurance agent/broker. No amount of money or recognition is rewarding enough for the challenges that general insurance agents/brokers must face day after day and year after year in their careers.
- 4.17 The real payoff is knowing that they have helped people with their business, managed risks and kept their financial houses in order: that individuals will have resources upon which they can count on when they are hospitalised or disabled; that there will be monetary compensation to help keep the businesses operating during disasters and catastrophes; that the community can continue to provide jobs and services to the society and benefit the economy as a whole, because the risks are contained through adequate and appropriate insurance.
- 4.18 Being caring also enables professional general insurance agents/brokers to act in their clients' best interests. For, if agents/brokers care about their clients, they would do for their clients what they would do for themselves, as if they were in the clients' situations.

F. S - Selflessness

- 4.19 Selflessness is the opposite of selfishness. Selfishness is concerned only with oneself and a disregard for others. One should readily see that the general insurance business is no place for the selfish person. General insurance agents/brokers have to put others first, because the purpose of the general insurance business is to be of service to others, to identify the risks, and to obtain and provide adequate cover for the risks which the client is facing. General insurance agents/brokers succeed the most by putting others first. By directly serving others' best interests, the agents/brokers indirectly serve their own interests.

- 4.20 Agents who feel a sense of service towards their customers and principal companies, put someone else's interest before their own. They set aside their own interests and concentrate on doing what has to be done in the best interest of their customers or prospective customers. In the long term, this will pay off for the agent in both material and non-material outcomes or results.



5. COURAGE

- 5.1 Besides the above six ethical principles, it also takes courage to be ethical. The right thing may always be the best thing in the long term, but in the short term, there may be a price to pay.
- 5.2 To be ethical, individuals may find that they have to stand up to a client, or to a colleague, or to a superior, or even to their family members, who do not want to risk the material loss upon coming to toe the ethical line. It takes courage to stand up to those persons whose expectations that we are ordinarily eager to meet.
- 5.3 All the good intentions in the world will not amount to anything, unless one acts on one's principles. Courage is the quality that converts ethical intention into ethical action.
- 5.4 On the positive side, courage is a universally admired trait. When individuals demonstrate that they have the courage to stand up for their principles, they win the respect of their peers, their superiors, their clients, and their family members. Individuals who at first feel alone, when faced with an ethical situation requiring courage, often end up finding a great deal of support for having done the right thing.
- 5.5 One situation which takes courage for an insurance agent/broker is declining to work with a party with whom the insurance agent/broker feels that he cannot establish a mutually beneficial professional relationship. For example, an insurance agent/broker may be introduced to a client who does not value ethical behaviour. It is hard to turn down the possibility of making a sale. However, insurance agents/brokers must keep in mind that clients are likely to provide referrals to other people like themselves. It is better to give up one sale than to try to build a career out of ethically compromised actions. It is easier and more profitable for insurance agents/brokers to work with ethical people who will appreciate the value of their services, as well as their ethical orientation, and who will refer them to more people whose values that they share.



6. BENEFITS OF ETHICAL BEHAVIOUR

- 6.1 A truly professional insurance agent/broker will want to exhibit ethical behaviour, because he is convinced that the benefits of demonstrating ethical business behaviour far outweigh the costs of not doing so. What then are the benefits of ethical behaviour?

A. Self-Respect

- 6.2 To people with high ethical standards, self-respect is more important than any reward that someone else can offer. The fact does not change even when unethical people seem to benefit from their behaviour, or when ethical behaviour goes unrecognised. Ethical people do the right thing, because to them, it is the right thing to do.

**B. Freedom From Fear Of Discovery**

- 6.3 The honest man never needs to fear an audit. The dishonourable one lives in a state of constant worry that he will be found out and exposed.

C. Prestige & Esteem

- 6.4 Knowing that people trust you and rely on you for accurate advice, and act according to your advice, pertaining to their financial needs, has an enormous psychological influence, not to mention boosting one's self-esteem.

**D. Respect From One's Peers & Associates**

- 6.5 The true ethical professional will obtain recognition from his profession. This may manifest itself in the insurance agent/broker's increased profile in professional gatherings, or in being asked to assume office in professional associations, societies or clubs. All these will contribute to an increased awareness of your standing, which can only be to your professional advantage.

E. Continuity Of Business

- 6.6 It is a fact that people like to do and continue to do business with someone whom they trust. A long-standing client is an automatic advertisement for the insurance agent/broker. If the client is satisfied with your service for the particular policy, you will well be the first in his thought, if he has other insurance needs that come to his mind.
- 6.7 Additionally, the client will not be slow in recommending family members, business associates, colleagues and friends to place their required insurance covers through you. The importance of repeat and growth business stemming from a satisfied client cannot be over-estimated. An insurance agent/broker rarely builds a successful career out of making one-time sales to strangers. Insurance agents/brokers need referrals, and repeat sales come only when a relationship of trust has been established between insurance agents/brokers and clients. Trust and reputation are built over time.

F. Boosting The Image Of The Insurance Community

- 6.8 By demonstrating ethical behaviour and building up a good reputation for himself, the insurance agent/broker also helps to develop the public's sense of respect and trust for the insurance community. This will, in turn, make it easier

for the insurance agent/broker to do business in the future. The insurance agent/broker will not be met by an air of scepticism to whatever he says. The regulatory authorities will also not necessarily respond to unethical behaviour of insurance agents/brokers, by imposing new rules or tightening current ones. Thus, as a whole, the insurance industry will have more flexibility in doing business.



7. UNETHICAL ACTS

7.1 It is not possible to give a complete list of acts and omissions which will constitute unethical behaviour. Nor will it be wise to attempt to do so. With questions concerning ethics or morals, as soon as any written criteria are made known, there will immediately be “grey areas” or borderline cases, with a temptation to apply legalistic rigidity to an area in which such an approach is just not appropriate. However, it may be helpful to mention some obvious examples of unethical behaviour, with a view to avoiding such lapses. Hence, the following maybe considered unethical.

A. Misrepresenting Cover

7.2 A client will probably have little or no insurance knowledge, so it will be easy to give assurances, which in fact are untrue. Sometimes, insurance agents/brokers do this, because they themselves do not understand what they are selling. Such cases are a “double” breach, in that they represent an ignorance which the professional should not have, and a dishonesty which an ethical person should not practise.

B. Unfairly Criticising Competitors Or Colleagues

7.3 Sometimes great liberties are taken with the truth, directly or indirectly, in an attempt to belittle others or justify oneself. In a moral sense, another quotation may help: “I do not make myself big by trying to make you look small”.

C. Unauthorised Alteration Of Proposal Forms

7.4 The insurance agent/broker may well assist the client in completing a proposal form. He must not tell the client what to say, he must not “doctor” the information given in any way, with or without the consent of the proposer. He must get the client to review or go through what he has filled in the proposal form, before requesting the client to sign it. Also, the insurance agent/broker must not sign the proposal form on behalf of the client.

7.5 The insurer relies upon the integrity of the information supplied (in some cases exclusively) to underwrite the risk. Any such interference or undue influence upon the information supplied is, in fact, committing fraud.



- 7.6 The insurance agent/broker must be aware of the important implications of Section 25(5) of the Insurance Act (Cap. 142). This section provides that:

“No Singapore insurer shall, use in the course of carrying on insurance business in Singapore, a form of proposal which does not have prominently displayed therein a warning that if a proposer does not fully and faithfully give the facts as he knows them or ought to know them, he may receive nothing from the policy.”

- 7.7 In the interest of any of his clients, the insurance agent/broker should explain the importance of this warning, which is in the proposal form, to the client who is proposing for the insurance. This also reinforces the principle of utmost good faith and its importance.



D. Fraud

- 7.8 It goes without saying that any cheating, stealing or otherwise illegal act on the part of the insurance agent/broker is unacceptable. This may range from failing to pass on premiums, to dishonest involvement and conspiracy with the policyholder to defraud the insurer.

E. Motivated Primarily By Commissions To Be Earned

- 7.9 In suggesting an insurance policy or programme, the question of the insurance agent's/broker's remuneration must always be subordinate to the needs and wishes of the client.



F. Exaggerated Advertising & Promotional Activity

- 7.10 While marketing is an essential element of the insurance agents/brokers, all advertising and other promotional endeavours must be consistent with the truth and reasonable belief by the insurance agents/brokers making them. Misleading, as well as outright dishonest selling, is certainly unethical.

G. Mixing Clients' Money With One's Own

- 7.11 This is normally expressly forbidden in an agency contract. However, even if it is not specifically stated in the agency contract, it is not a good practice to do so.
- 7.12 Every insurance agent/broker must be sure to comply with all laws and rules governing the handling of premiums, because any violation is a breach of the insurance agent/broker's fiduciary duty, even if no harm is done to the existing or prospective client.
- 7.13 Accounting of all clients' financial transactions involving money transmissions in respect of insurance arrangements must be properly documented and kept at all times by the insurance agent/broker.

H. Inappropriate Replacement Of Existing Insurance

- 7.14 Unless the insurance product offered is clearly more suitable for the client's needs, no attempt should be made by the insurance agent/broker to persuade the client to cancel and replace an existing insurance cover. True and fair competition is perfectly legitimate in a free market, but business growth must not be achieved at the expense of truth and the client's interests.

I. Failure To Disclose Material Information

- 7.15 The insurance agent/broker has an obligation to disclose all material facts relevant to the client's decision to purchase. In addition, it is also unethical not to reveal all pertinent information that has a bearing on the placement of an insurance policy to the insurer. The insurance agent/broker must not withhold facts that the insurer needs to know, in order to underwrite prudently. At the time of application, the client must first fully understand the importance of providing accurate information, and the serious consequences of not doing so.

J. Failure To Maintain Confidentiality



- 7.16 Agents/brokers gather a great deal of personal, corporate and financial information about their clients. Such information may be of a highly sensitive nature. Other than to provide underwriting information to the insurer, agents/brokers should make it a rule never to discuss business or personal matters of a client with anyone, but the client. The trust relationship between an agent/broker and client will be damaged if the agent/broker fails to keep sensitive information confidential. To violate the trust that clients place in them will be a breach of ethics.

K. "Padding" The Premium Quoted & Keeping The Difference

- 7.17 "Padding" the premium quoted and keeping the difference means that the agent actually quotes to the policyholder a premium above the premium as set by the agent's principal (the insurer), and then pockets the difference.
- 7.18 "Padding" is tantamount to cheating and it is a criminal offence. The ARB under the GIA takes a very serious view of this malpractice, and will not hesitate to suspend or cancel the registration of any insurance agent/broker who is guilty of such misconduct. Likewise, the MAS will not hesitate to suspend or cancel the licence of any insurance agent/broker being guilty of such misconduct.

L. Sub-Agency Practice

- 7.19 An insurance agent must not engage in sub-agency practice. He must not allow anyone (unless he is a Nominee Agent registered with the ARB) to act on his behalf, to solicit any general insurance business, or to carry out any general insurance selling or advisory activity. The practice of using a sub-agent to distribute any part of its business is unacceptable. Such malpractice will

constitute a breach of the provisions of the GIARRs and will result in suspension or termination of the registration with the ARB under the GIA.

8. PROFESSIONALISM



A. Characteristics Of Professionals

8.1 Using doctors, lawyers, teachers and others as models of what professionals should be, Dr Solomon Huebner, the founder of The American College, in 1915 cited four characteristics of the professionals, being still remain relevant today:

- “▪ The professional is involved in a vocation that is useful and noble enough to inspire love and enthusiasm in the practitioner.
- The professional’s vocation requires an expert’s knowledge in its practice.
 - The professional should abandon the strictly selfish commercial view and ever keep in mind the advantage of the client.
 - The professional should possess a spirit of loyalty to fellow practitioners, of helpfulness to the common cause they all profess and should not allow any unprofessional acts to bring shame upon the entire profession.”

9. REQUIREMENTS FOR A PROFESSION



9.1 These are:

(a) Possess A Body Of Specialised Knowledge

- Any profession that has at its core a body of subject matter which must be sufficiently technical, so that the average layperson cannot readily understand it.

(b) Entry Barriers Into The Profession

- An individual cannot be a self-declared professional. A profession, needs to have, as one of its hallmarks, a barrier to entry. This frequently involves examinations on the technical subject matter through which the prospective professional demonstrates his competence and expertise.

(c) Continuing Education

- As knowledge keeps evolving, professionals will continue to keep their professional knowledge and skills up-to-date through continuing education.

(d) Governed By A Society’s Code Of Ethics

- Professionals belong to professional bodies and are guided by a professional code of ethics.

10. RESPONSIBILITIES OF PROFESSIONALS

- 10.1 Being a professional demands increased responsibilities to clients:
- responsibility for delivering high quality informed service to clients;
 - responsibility to be aware of ethical and compliance issues, and to act ethically in compliance; and
 - fiduciary responsibility.



11. THE SINGAPORE GENERAL INSURANCE CODE OF PRACTICE

- 11.1 The GIA has developed a General Insurance Code of Practice, which came into effect from 1 June 2004. The latest revised version has taken effect since 1 July 2016 (see **Appendix 8A**).

A. Introduction

- 11.2 The aim of the Code of Practice (the “Code”) is to provide clear and consistent standards for the general insurance industry, so that a better and more informed relationship between general insurers and their policyholders can be established, thereby improving policyholders’ confidence and trust in the general insurance industry.
- 11.3 It also seeks to establish transparency in the insurance products, as well as insurance practices, so that policyholders are able to make informed choices when making purchasing decisions. Insurance products and services covered under the Code encompass all general insurance policies issued to an individual.
- 11.4 The Code advises on the dispute resolution mechanisms and procedures in relation to complaints and disputes between insurers and their policyholders. The revised Code applies only to general insurers, and does not attempt to set the standards for intermediaries.
- 11.5 All members of the GIA adopt the Code. It operates alongside the various rules and regulations governing the conduct of the general insurance industry.
- 11.6 If insurers fail to meet with any standards under the Code, policyholders may lodge complaints against them in accordance with established procedures. The Code does not provide anyone with the right to take legal action against any insurer.



B. Insurers’ Commitments

- 11.7 The Code outlines insurers’ commitments in the areas as described below:

(a) Business Practice

For example, insurers undertake to act fairly and reasonably when they deal with policyholders.

(b) Advertising

For example, insurers will withdraw any advertising and promotional materials if they become aware that the information provided is not accurate, not clear, or misleading.

(c) Protecting The Policyholder's Interest

An example is advising policyholders to deal with registered agents or brokers.

(d) Confidentiality

For example, insurers will undertake to safeguard policyholders' data and comply with the Personal Data Protection Act (2012).

(e) Conflicts of Interest

For example, in circumstances where avoidance of conflicts of interest may not be practicable, the insurer's employee and/or intermediary will disclose to the policyholder the conflict of interest arising from the relationship with the insurer, including any material information or facts that may compromise his objectivity, before the insurance is arranged.

C. Buying Insurance

11.8 Where the policyholder buys the insurance directly from the insurer, the Code details insurers' commitments in the following areas:

- Providing policyholders information about products and services;
- Matching the individual policyholder's requirements;
- Providing policyholders with information on costs (this includes fees, commissions, incentives or other charges); and
- Giving policyholders a "Free Look" (see section below).

D. "Free Look"

11.9 For policies which offer a "Free Look" feature, policyholders are given a "Free Look" period of at least 14 business days from the date that they receive the policy document.

11.10 Should policyholders decide not to continue with the insurance purchased, they can cancel their covers within this period and get all their money back, if they have not made a claim. Insurance cover will deem to have attached, and no benefits shall be payable under the policy. An administration charge may be imposed by insurers.

11.11 However, this benefit does not apply to:

- Motor Insurance;
- Travel Insurance;
- Domestic Maid Insurance;
- Short-term insurance with a term less than one year
- Policy renewal; and
- Any other compulsory insurance stipulated by law.



E. Service Standards of Insurers

- 11.12 The Code also outlines the insurers' commitment of service standards in the areas of:
- Documentation;
 - Policy Servicing;
 - Claims; and
 - Complaint Management.
- 11.13 More details concerning these service standards can be found in **Appendix 8A**.

12. PERSONAL DATA PROTECTION



A. What Is Personal Data?

- 12.1 Personal data refers to data, whether true or not, about an individual who can be identified from that data; or from that data and other information to which the organisation has or is likely to have access. Personal data in Singapore is protected under the Personal Data Protection Act 2012 (PDPA), which has been in force since 2 July 2014.

B. What Is The Personal Data Protection Act?

- 12.2 The PDPA establishes a data protection law that comprises various rules governing the collection, use, disclosure and care of personal data. It recognises both the rights of individuals to protect their personal data, including rights of access and correction, and the needs of organisations to collect, use or disclose personal data for legitimate and reasonable purposes.
- 12.3 The PDPA provides for the establishment of a national Do Not Call (DNC) Registry. The DNC Registry allows individuals to register their Singapore telephone numbers to opt out of receiving marketing phone calls, mobile text messages, such as SMS or MMS, and faxes from organisations.

C. How Does The Personal Data Protection Act Work?

- 12.4 The PDPA will ensure a baseline standard of protection for personal data across the economy by complementing sector-specific legislative and regulatory frameworks. This means that organisations will have to comply with the PDPA, as well as the common law and other relevant laws, that are applied to the specific industry that they belong to, when handling personal data in their possession.
- 12.5 The PDPA takes into account the following concepts:
- Consent – Organisations may collect, use or disclose personal data only with the individual's knowledge and consent (with some exceptions);

- Purpose – Organisations may collect, use or disclose personal data in an appropriate manner for the circumstances, and only if they have informed the individual of purposes for the collection, use or disclosure; and
- Reasonableness – Organisations may collect, use or disclose personal data only for purposes that will be considered appropriate to a reasonable person in the given circumstances.



D. Enforcement Of The Data Protection Provisions

- 12.6 If the Personal Data Protection Commission Singapore (PDPC) finds that an organisation is in breach of any of the data protection provisions in the PDPA, it may give the organisation such directions that it thinks appropriate to ensure compliance. These directions may include requiring the organisation to:
- stop collecting, using or disclosing the personal data in contravention of the Act;
 - destroy personal data collected in contravention of the Act;
 - provide access to or correct the personal data; and/or
 - pay a financial penalty of an amount not exceeding S\$1 million.
- 12.7 Insurers and intermediaries (insurance agents and brokers) frequently collect a number of personal facts of customers (prospective clients and existing policyholders) arising from quotations, applications, supplementary questionnaires and claims processes, including information on the medical conditions, family history and lifestyle of the applicants or proposers. Insurers and intermediaries have to be fully aware of the restrictions imposed on the use of personal data under the PDPA. Customers expect insurers and intermediaries to respect the confidentiality and privacy of their personal data.
- 12.8 Beyond the PDPA requirements, organisations will also have to ensure that corporate data must also be protected from industrial espionage, malicious alterations, as well as deliberate destructive acts, such as cyber attacks. Personal data need to be protected from being used for any blackmail and unauthorised disclosure.

**THE SINGAPORE GENERAL INSURANCE CODE OF PRACTICE
("THE CODE")
[AS AT 1 July 2016]**

1. Introduction

The aim of the Code of Practice is to provide clear and consistent standards for the general insurance industry so that a better and more informed relationship between general insurers and their policyholders can be established, thereby improving policyholders' confidence and trust in the general insurance industry.

It also seeks to establish transparency in the insurance products as well as insurance practices so that policyholders are able to make informed choices when making purchasing decisions. Insurance products and services covered under the Code encompass all general insurance policies issued to an individual.

Mechanisms and procedures for the resolution of complaints and disputes between insurers and their policyholders will also be made clear.

All members of the General Insurance Association of Singapore (GIA) will adopt this Code. This Code operates alongside the various rules and regulations governing the conduct of the general insurance industry.

If insurers fail to meet with any standards under the Code, policyholders may lodge complaints against them in accordance with established procedures (as laid out under item 7). The Code does not provide anyone with the right to take legal action against any insurer.

Within the Code, 'you' refers to the individual policyholder and 'we' and 'us' refer to the general insurer.

2. Our commitments

2.1 Business Practice

All insurers will ensure compliance with existing rules and regulations governing the general insurance industry. We will also commit to keep ourselves updated with the latest business practices, corporate governance standards and to have in place internal procedures to ensure compliance to any changes in legislation, including Monetary Authority of Singapore (MAS) regulations.

We promise that we will:

- Act fairly and reasonably when we deal with you.
- Make sure all the information we give you is clear and not misleading.
- Give you enough information and help so that you can make an informed decision before committing to buying an insurance policy.
- Handle your claims fairly and promptly.
- Handle your complaints fairly and promptly.

2.2 Advertising

We will make sure that all advertising and promotional materials are clear, fair and not misleading.

Insurers will withdraw any advertising and promotional materials if they become aware that the information provided is not accurate, not clear, or misleading. [International Association of Insurance Supervisors (IAIS) Insurance Core Principle 19.4.2].

2.3 Protecting your interest

To ensure that you obtain suitable general insurance products and services, we advise you to deal only with:

- Insurers who are members of the General Insurance Association of Singapore (GIA). Refer to website: www.gia.org.sg for details.
- Insurance agents who are registered with the Agents' Registration Board (ARB).
- Financial Advisers (FAs) who are registered with the Agents' Registration Board (ARB).
- Registered insurance brokers or exempt insurance brokers under the Insurance Act listed in the Directory of Financial Institutions on the Monetary Authority of Singapore's website at www.mas.gov.sg

2.4 Confidentiality

- We will implement and maintain proper procedures to preserve confidentiality of information we receive from a policyholder or which relates to a policyholder.
- A policyholder's personal data will not be collected, used or disclosed unless:
 - (a) the policyholder has given his consent to the collection, use or disclosure; or
 - (b) the collection, use or disclosure, is required or authorised under any written law.
- We will undertake to safeguard policyholders' data and comply with the Personal Data Protection Act (2012) details of which are available at <http://www.pdpc.gov.sg/personal-data-protectionact/overview>.
- We will not use concealed numbers when making outbound calls such as for marketing, servicing, claims or renewals.
- The Personal Data Protection Act (2012) provides for establishment of a national Do-Not-Call (DNC) Registry. We will take the necessary steps to comply with the DNC provisions.

2.5 Conflicts of Interest

A conflict of interest occurs when an insurer's employee or the insurance intermediary has a personal interest that conflicts or might possibly conflict with his role to provide the best possible advice or service to a policyholder. This may occur as a result of employment / intermediary relationship, employee's or intermediary's family or personal relationships with insurer. In circumstances where avoidance of such conflicts of interest may not be practicable, the insurer's employee and/or intermediary will disclose to the policyholder the conflict of interest arising from the relationship with the insurer, including any material information or facts that may compromise his objectivity, before the insurance is arranged.

3 Buying Insurance**3.1 Information about products and services**

If you are dealing directly with us, we will provide you with enough advice and information, including information on our website, printed materials, portals, electronic documents or via our call centres to help you make an informed decision before committing to buying an insurance policy.

We will explain all the main features of the products and services that we offer, including: -

- Providing a product summary highlighting important details of cover and benefits.
- Any significant or unusual restrictions, warranties or exclusions.
- Any significant conditions or obligations which you must meet.

If we do participate in any independent insurance portal, we will ensure that the above are adhered to by the independent insurance portal.

3.2 Matching your requirements

We will use the information that we obtained from you:

- to assist you in the identification of your insurance needs.
- to offer products that meet those needs.

3.3 Information on costs

We will provide you with the details of the costs of your insurance, including: -

- Separate insurance premiums for each of the individual products or services we are offering.
- Any fees and charges other than the insurance premium.

- Payment Before Cover Warranty and how it applies to your policy. (Please click on the Premium Payment Framework: <http://www.gia.org.sg/pdfs/PremiumPaymentFramework.pdf>)
- When you need to pay the premium, fees and charges, and an explanation of how you can pay.
- If requested by you, we will disclose any remunerations such as commissions, fees, incentives and/or other benefits that the insurance intermediary has received or will receive that are directly related to the sale of the insurance product.

3.4 "Free Look"

For policies which offer a 'Free Look' feature, we will give you a 'Free Look' period of at least 14 business days from the date you receive the policy document.

Should you decide not to continue with the insurance purchased, you can cancel your cover within this period and we will refund you the premium that has been paid, if you have not made a claim. Insurance coverage would deem not to have attached, and no benefits shall be payable under the policy. An administration charge may be imposed by us.

However, this benefit does not apply to: -

- Motor insurance
- Travel insurance
- Domestic maid insurance
- Short term insurance with a term less than 1 year
- Policy renewals
- Any other compulsory insurance stipulated by law

4 Documentation

4.1 Confirming your cover

- We will provide an insurance quotation within 7 business days after receipt of the required information.
- The quotation will provide enough information on the coverage as well as important exclusions.
- We will confirm coverage in writing by the next working day upon receiving instructions from you to proceed.

4.2 Standards of written information

We will ensure that all the written information and documents we send you are plain and clear.

4.3 Despatch of policy

- We will despatch the policy documents to you within 15 business days from the date of confirmation of cover.
- The policy can be sent electronically or via hard copy documents.
- Policy document received by your broker is deemed to be received by you.

5. Policy Servicing

We will answer any questions promptly and give help and advice to you whenever needed.

5.1 Changes to your policy

We will deal with any changes to your insurance policy promptly by providing you:-

- Written confirmation of any changes to your policy within 7 business days upon receipt of all supporting documents.
- Full details of any premiums or charges that you are expected to pay or that will be returned to you.
- Any certificates or documents that you need to have by law.
- A receipt as proof of payment, if you pay by cash. We may not issue receipt if payment is made by cheque.
- Refunds of the premiums, fees or charges due to you within 30 business days from the date of endorsement/cancellation.
- The endorsement / documents can be sent to you electronically or via hard copy documents.

5.2 Notice of renewalAnnually Renewable Policies

We will inform you when you need to renew your policy or when the policy will expire, at least 30 business days before expiry, to allow you to consider and arrange continuing cover. We will also: -

- advise you of any changes to the cover or service being offered.
- bring to your attention the need to disclose material information to insurers.
- inform you and provide you with an explanation if we decide not to renew your policy.
- send you the policy document within 7 business days when your policy is renewed. Please note that policy document received by your broker is deemed to be received by you.
- The policy / documents can be sent to you electronically or via hard copy documents.

Auto-Renewable Policies

We will inform you at least 30 business days before the end of the period of insurance that your annual policy will automatically be renewed upon payment of premiums, be it via GIRO or credit card payments on an annual or monthly basis.

This will not be applicable to monthly auto-renewable policies.

6. Claims

We are committed to handle all claims fairly, reasonably and promptly.

6.1 Making a claim

We will ensure that there are clear instructions on how policyholders can make a claim under their insurance policy and will explain the claim procedures to you when you first become a customer. Such instructions can appear in policy documents as well as our website or via our call centre. There will also be references made to claims management procedures appearing on the GIA website at www.gia.org.sg.

6.2 Our commitmentAcknowledgement:

- Within 3 business days of receiving your claim, we will send you an acknowledgement.
- We will request for additional documents within 7 business days if claim documents are incomplete.
- If we appoint a service provider to adjust your claim, we will inform you of the appointment. If a firm is appointed, we will provide you with details on the name of the firm appointed and where possible, the name of the individual involved.
- Once we receive all necessary information and have completed a full investigation required to assess your claim, we will decide to accept or decline your claim and inform you of our decision within 7 business days.
- We will tell you how the claim is progressing by providing you with updates. The intervals for such updates may vary from insurer to insurer.
- A reminder will be sent after 30 business days if there is no response from you.

Settlement:

- Once we have agreed to settle your claim and on receipt of all relevant documents, we will issue the payment within 10 business days.

7. Complaint Management**7.1 If you make a complaint to us**

When you first become a customer, we will explain and give you details of our complaints procedures appearing in our policy or service documentation.

We will handle your complaints in a fair and reasonable manner in accordance with the following complaint management guidelines:-

- Acknowledge your complaint within 7 business days.
- If we need additional information, we will contact you within 7 business days from the date of your complaint.
- We will endeavour to resolve all complaints as soon as possible. If your complaint takes longer to resolve, we will update you within 15 business days of our last communication to you.

- We will assign a complaint officer to handle your complaints.

7.2 Recourse

If the outcome of your complaint is not handled to your satisfaction, you can write to the Chief Executive of the insurance company to appeal. We will respond to your appeal within 15 business days.

7.3 Tracking Process

We will maintain a Complaint Register in which complaints will be managed or tracked.

8. Disputes Resolution

8.1 Insurance Disputes Resolution Scheme

If you are still dissatisfied with the Chief Executive's response, we will refer you to the following independent dispute resolution organisation

Contact Details:

Financial Industry Disputes Resolution Centre Ltd (FIDReC)
36 Robinson Road #15-01, City House, Singapore 068877
Telephone: +65 6327 8878 Fax : +65 6327 8488 / +65 6327 1089
Email: info@fidrec.com.sg Website: <http://www.fidrec.com.sg>

8.2 Mediation (Singapore Mediation Centre)

Where claims are small, expensive and prolonged litigation can exhaust time and resources, mediation may be the solution to take control of the outcome of these disputes in a timely and cost-efficient manner.

Contact Details:

Singapore Mediation Centre
1 Supreme Court Lane, Level 4, Singapore 178879
Tel: +65 6332 4366 Fax: +65 6333 5085
E-mail: enquiries@mediation.com.sg

8.3 Arbitration (Singapore International Arbitration Centre)

Any dispute, difference or question which may arise at any time hereafter in relation to true construction of the policy or our respective rights or liabilities under this policy, will be referred to arbitration in Singapore and Singapore laws will apply. The arbitration will be heard by a single arbitrator to be agreed by your respective insurer and you within 14 business days of the commencement of the arbitration.

Contact Details:

Singapore International Arbitration Centre
32 Maxwell Road, #02-01, Maxwell Chambers, Singapore 069115
Tel: +65 6221 8833 Fax: +65 6224 1882

9. Other information

9.1 Service Standards of Insurers

We have appended in **Annex 1** a summary of the Service Standards of Insurers for ease of reference.

9.2 Copies of the Code

Copies of the General Insurance Code of Practice are available free from the GIA website at <http://www.gia.org.sg> or from the General Insurance Association of Singapore.

9.3 More information

If you have any questions about the Code, please contact the General Insurance Association of Singapore (GIA) at the address below.

General Insurance Association of Singapore
 180 Cecil Street #15-01
 Bangkok Bank Building
 Singapore 069546
 Tel: +65 6221 8788
 Fax: +65 6227 2051
 Email: feedback@gia.org.sg

10. Disclaimer

Nothing in this code shall give any general insurance customer any right or cause of action whatsoever against GIA or its Members.

Annex 1 Service Standards of Insurers

Item	Transactions	Response Time (Business Days)	Remarks
4	Documentation		
4.1	Provide Quotation	7	After receipt of required information
4.1	Confirm Coverage	1	Upon receiving instructions to proceed
4.3	Despatch of Insurance	15	From date of confirmation of cover
5	Policy Servicing		
5.1	Changes to policy details	7	Notify you of the changes
5.1	Refunds of premiums, fees or charges due	30	From the date of endorsement or cancellation or according to your payment mode
5.2	Renewals		
	▪ Annual renewable policy	30	Before Expiry
	▪ Policy document	7	Upon renewal of policy
	▪ Auto-renewable policy	30	Before end of period of insurance of an annual policy
6	Claims		
6.2	Acknowledgement of notice of claim	3	Upon receipt of your claim
6.2	Request for additional documents	7	If claim documents are incomplete
6.2	Accept or decline claim	7	Upon receipt of all necessary information
6.2	Reminder	30	If there is no response from you
6.2	Agreed to pay	10	Make payment once we agree to settle your claim
7	Complaint Management		
7.1	Acknowledgement of complaint	7	Upon receipt of your complaint
7.1	Request for additional information	7	From the date of your complaint
7.1	Update you on progress	15	From the date of our last communication
7.2	Respond to your appeal	15	Upon receipt of your appeal

Source: General Insurance Association of Singapore

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You can also access the e-Mock examination via an active link labeled as “E-MOCK EXAMINATION” in the Table of Contents of the e-book Study Guide (PDF or PC version).

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**Basic Insurance Concepts and Principles (5th Edition)
Version Control Record**

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* The relevant amendments will be applicable to examinations conducted after the stated effective date.



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