

Balancing good faith with good business

The pervasive perception in the broader consumer market that insurers try to find reasons not to pay claims is obviously a concern for the industry.

However, in many instances, this perception is shaped by consumer expectations that are based on a misunderstanding about the meaning of paying claims in good faith.

COLLOQUIALLY SPEAKING

In the colloquial context, good faith on the part of the insurer suggests a belief and trust in the policyholder that they are making a legitimate claim against their policy conditions. Basically, it means taking the claim at face value.

However, in the context of an insurance policy, good faith refers to a requirement to act reasonably to meet contractual obligations, to ensure a fair resolution of claims on the part of both the insurer and the policyholder.

The idea that insurers should pay claims based on the colloquial definition creates this gap between the expectations of policyholders and the industry reality, which is what leads to misunderstanding. The fact of the matter is that both the insurer and the policyholder have contractual obligations which must be satisfied to warrant a pay out at claims stage.

From the policyholder's perspective, they need to firstly ensure that they are purchasing an insurance product that they need and one that will provide the cover they require, whether there is an adviser involved in the process or not.

A MATTER OF UNDERSTANDING

Secondly, they need to understand the conditions under which a claim will be paid. Ambiguity in an insurance contract will always favour the policyholder. Accordingly, there is very little ambiguity in the insurance sector today with contract conditions stating clearly what is covered and conditions under which claims are payable.

In cases where there is a dispute, there are independent platforms, such as the

Ombudsman for Long Term Insurance, which can adjudicate on matters where there may be a divergence of views. Also of immense importance is full disclosure at the policy inception stage. Insurers use this information to rate risk.

If there was material non-disclosure at the underwriting stage, the insurer would be prejudiced and within their right to decline a claim, or possibly refund the premiums without making a full payout.

This also protects the insurer from those who try to exploit insurance policies for financial benefit, which is particularly prevalent during periods of depressed economic conditions.

COMPLEXITY VS TRANSPARENCY

Clarifying these contractual conditions at claim stage is too late. However, this is often when the expectations of policyholders are not met and reputational issues for the industry at large arise, even when there are valid reasons for an insurer not to pay claims in good faith.

From the insurer's perspective, to minimise the gap between the expectations of policyholders and the reality at claims stage, products need to be straightforward and transparent to be easily understood.

Rather than develop and push unnecessarily complex products that insurers believe the market wants, the industry should listen more to consumers to better understand their requirements and then design products that meet these specific needs.

Currently, there are many complex insurance offerings targeted at consumers who are then required to make an assessment on the applicability of these products in relation to their needs.

By making this process unnecessarily complicated, insurers simply perpetuate this situation where policyholders do not get what they expect, mainly because they did

not understand what they were purchasing in the first place.

For these reasons, consumers should also be weary of insurance products that are overly complicated. They should also remember that they have a choice about which products they purchase.

And if more insurers chose to simplify products, more claims would be paid in good faith, because each could be assessed against clear, unequivocal criteria and evidence, effectively making the colloquial concept an industry moot point.



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