

Know more about Insurance – appeared in Daily Mirror on 27th March 2007

Regulation of the Insurance Industry in Sri Lanka:

The Insurance Board of Sri Lanka was established with effect from 1st March 2001 as provided by the Regulation of Insurance Industry Act, No. 43 of 2000 for the purpose of development, supervision and regulation of the Insurance Industry of Sri Lanka. The object and responsibility of the Board is to ensure that insurance business in Sri Lanka is transacted with integrity and in a professional and prudent manner with a view to safeguarding the interests of the policyholders and potential policyholders.

Insurance Industry in Sri Lanka:

Fifteen (15) Insurance Companies (Insurers) registered with the Insurance Board of Sri Lanka (IBSL), are presently underwriting insurance business. Twelve of them are composite companies, three of them engage in General Insurance business and one company engages only in Long Term Insurance business. When a Company is registered to transact in both Long Term Insurance and General Insurance business, those companies are recognized as composite companies.

Fifty-Two (52) companies are registered with the IBSL as insurance brokers and they engage in insurance broking business, as at 23rd March 2007.

Apart from traditional insurance policies, Insurance companies design various types of insurance products for the public. Insurance Companies and Insurance Broking Companies engage agents and in-house sales teams to sell these insurance products to the public. The Insurance Broking companies function as intermediaries for placing insurance business with the insurance companies.

The Insurance Companies and Brokers appoint agents and they are required to maintain a register of agents on a continuous basis. The agents are not salaried employees. They are paid a commission for the business they bring to their companies. Insurance agent could work only for one insurance company or one broking company. The Board has mandated passing a pre-recruitment test for the agents. Passing this test is one of the pre-requisite for any person to function as an agent. The Sri Lanka Insurance Institute (SLII) has been authorized to conduct the pre-recruitment test on behalf of the Insurance Board. The Insurance Institute issues an identity card to every person who qualifies to practice as an insurance agent on passing of the pre-recruitment test. Any one interested in obtaining a Life Insurance Policy through an agent should first ensure that the person selling the policy carries an Identification Card authenticated by the SLII/Insurance Company or the Broking Company. Under the present law only individuals can function as agents.

What is Insurance?

Insurance is a risk transfer mechanism where by individuals & businesses attempt to transfer some of the uncertainties of life, to another entity, for a known payment, i.e. Premium.

What is Risk?

Risk is "uncertainty of Loss". In Insurance, the Risk is measured in financial terms.

Types of Insurance

There are two main types of insurance i.e. Life and General insurance.

Life Insurance	General Insurance
Insures you or your life against any mishap up to the sum assured.	Insures you against losses and damages other than those offered by Life insurance business.
Coverage period is usually more than a year, which requires periodic premium payments monthly, quarterly or annually.	Coverage period is usually one year which normally requires one time premium payment

Risks covered <ul style="list-style-type: none"> • Pre matured death • Income during retirement 	Risks covered <ul style="list-style-type: none"> • Property loss, ex. Stolen car or burnt house • Liability arising from damage caused by yourself to a third party • Accidental death or Disability due to an injury or illness
Main products: <ol style="list-style-type: none"> Whole life Endowment Term Investment linked Annuity/Pensions 	Main products: <ol style="list-style-type: none"> Motor Fire Personal Accidents Medical & Health Marine, Aviation, Transit

BASIC PRINCIPLES OF INSURANCE

Insurance contracts are governed by certain special principles evolved under common law in the United Kingdom. Subsequently these Principles, known as 'Fundamental Principles of Law of Insurance', have been adopted by other jurisdictions.

Insurable Interest:

You should have an interest in the insured item or life such that, a loss or damage to the item or life insured, would result in a financial loss to you.

The Insurable Interest is the "legal right to insure arising out of a financial relationship recognized in law between the insured and the subject matter of insurance".

Utmost Good Faith:

An insurance contract is a contract of utmost good faith. You, as the policy owner, must disclose all material facts when buying a policy. If you fail to disclose any material fact, the policy may become invalid.

It means that, all facts material to the proposed insurance must be disclosed voluntarily whether asked for them or not.

Proximate Cause

The principle of 'proximate cause' helps to establish whether the loss is caused by a peril insured against or whether the loss is caused by a peril, which is not insured. Before you can recover a financial loss you have sustained, from an insurance company, it is necessary to ascertain what is known as the proximate cause.

Indemnity

It is the method of providing financial compensation sufficient to place the insured in the same pecuniary position after the loss as he/she was immediately before the loss occurred.

Only applies to the physical damage to a property where the loss can be quantified in monetary terms. You cannot 'profit' from an insurance policy. In the event that you suffer a loss, the insurance company will pay or 'indemnify' you to lift you up to the position you were in before the loss.

Subrogation

Subrogation is the right of an insurance company having indemnified the insured under a contract of insurance to do so, to stand in the place of the insured and avail itself of all the rights and remedies of the insured, whether already enforced or not.

When a person is negligent and causes a loss to your property, that person shall be liable for the loss. You have the right to recover the loss from the negligent person, although the loss is recovered under an insurance policy. However, your right to recover from the negligent person is taken over by the insurance company after payment of the claim, by the operation of the principle of Subrogation.

Contribution

Contribution is the right of an insurer to call upon other insurance companies, which provided cover for the same risk, in order to share the cost of an indemnity payment to the insured.

You are not restricted to buy more than one policy to protect a particular property. If you do buy more than one, in the event of a claim, the insurance companies involved will then contribute the amount payable, according to the proportion of their liabilities.

Arbitration

Arbitration is a legal technique for the resolution of disputes outside the courts.

BASIC LEGAL REQUIREMENTS OF AN INSURANCE CONTRACT

Formation of an Insurance Contract is completed when the following essential elements are present.

1) Offer & Acceptance (Agreement)

An offer may be oral or written, that is by a letter or by a proposal form.

2) Intention to Create Legal Relationship

3) Consideration

This is the payment or offer of payment, which the insured pays or promises to pay. i.e. Premium.

4) Capacity to enter into an insurance contract.

Minors (persons under the age of 18 yrs.), people of unsound mind and those who are under the influence of liquor are considered as incapable of entering into contractual arrangements.

5) Legality of Object

The contract is valid only if the object of the contract is legal.

WHERE CAN YOU BUY AN INSURANCE PRODUCT

You can buy an insurance policy:

- Directly from insurance companies
- Through appointed insurance agents
- Through licensed insurance brokers
- From banking institutions having bancassurance arrangements with insurance companies

USEFUL POINTERS WHEN BUYING AN INSURANCE POLICY

- Understand the policy/plan including product features, conditions, benefits, limitations and exclusions.
- Ensure that the premium or contribution payable is affordable.
- Ensure that the amount of coverage taken is adequate and suits your needs.
- Ensure that all material facts are fully disclosed.
- Deal only with registered Agents/ licensed brokers or directly with an insurance company.
- Monitor the period of coverage and time for payment of premium.

HOW TO MAKE A CLAIM

- Check your policy or certificate, whether the loss or damage covered.
- Notify your insurance company about the event as soon as possible and seek advice on the documents required to support your claim.

- Be cooperative and give all the complete and correct information requested by your insurance company. Incorrect or incomplete information will cause delay in processing your claim.
- Keep copies and records of all documents. Ex: Bills, Reports, and Correspondences.
- Keep in regular contact with your insurance company until the claim is resolved. If the offer may does not meet your expectation, you may negotiate with your insurance company. Both parties should undertake negotiations in good faith.

INSURANCE AND SOCIETY:

- 1 Insurance helps the Public by compensating individuals, business, enterprises and organizations for losses in respect of insured Risks.
- 2 Insurance companies engage and promote various accident prevention activities and also assist to reduce the effects of accidents.
- 3 Insurance provides funds to help in the growth of business and to create jobs. Investment of insurance funds in Government Securities is a source of fund for the economic development of the country.
- 4 Banks and other Financial Institutions require the security of Insurance to finance home and overseas trade.
- 5 Anxiety is reduced if an Insured knows that insurance is available to compensate him when a loss occurs.
- 6 Need not set aside funds to compensate potential losses.
- 7 Entrepreneurs will take Risks, which they might not be willing to bear in the absence of insurance.

HOW TO MAKE A COMPLAINT

If you are unhappy with your insurance company or you feel that you have been unfairly treated you have several avenues for redress before going to Court.

Avenues for resolving disputes

You should first submit your complaint to the complaints unit of the insurance company or a responsible officer of the insurance company.

If you are not satisfied with the outcome of the complaint resolution, you can complaint to the Insurance Ombudsman

Insurance Ombudsman
143A, Vajira Road
Colombo 5
Telephone: 4528671 – 2, Fax: 4528670
Email: info@insuranceombudsman.lk
Website: www.insuranceombudsman.lk

If you have any further issues after consulting the Insurance Ombudsman, you can always contact the Insurance Board of Sri Lanka (IBSL).

Director General
Insurance Board of Sri Lanka
Level 7-2, East Tower, Echelon Square
World Trade Centre, Colombo 1
Telephone: 2396184 – 9 Fax: 2396190
Email: shirani@isplanka.lk
Website: www.ibsl.gov.lk

A PUBLIC AWARENESS PROGRAMME BY THE INSURANCE BOARD OF SRI LANKA