



Decoding Insurance Proposal Forms: What You Need to Know

A proposal form is a formal application document submitted by an assured pursuant to which an insurance policy is issued by an insurer. While a seemingly innocuous document, the information supplied in the proposal form is actually the basis on which the risk is underwritten by an insurer. Considering that insurance is based on the principle of “utmost good faith”, any misinformation, misrepresentation or concealment in the proposal form is likely to result in repudiation of a claim as it gives the legal right to an insurer to void coverage. That apart, in the event of a dispute on interpretation of a policy clause, the proposal form serves as evidence of the intent of the parties on the risk that was intended to be covered and on what terms.

Therefore, a proposal form, being the very substratum of your policy, must be filled with utmost care and awareness. If you are an individual or a company submitting a proposal form to avail an insurance cover, here is what you need to know.

Provide accurate information: Ensure that the information provided is truthful, accurate and comprehensive. Avoid vague and unclear statements. Be mindful that the proposal form will record a declaration that the information is true and correct to the best of the assured’s knowledge and therefore, review is imperative. Please reach out to your broker for any assistance.

Disclose all relevant information / documents: Assess each question in the form and ensure full and fair disclosure of information that is not only a direct answer but also if at all, it may be relevant to the question. Depending on the coverage, you may also be called upon to provide documents, which must be collated and supplied diligently.

Have a basis for the information: All information being provided must have a basis or an underlying document that supports it. This is crucial in case of a future check for the basis of the information.

Understand the coverage: Be crystal clear on what the policy will cover, subject matter and quantum. On quantum, adequacy of sum insured is key to avoid deduction of underinsurance in case of a claim. Please seek advice from your broker.

Understanding the add on covers / endorsements: Remember, you pay extra premium for every additional cover / endorsement. Thus, understanding the utility of your additional cover / endorsements is a must. Please seek advice from your broker.

Know your standard deductibles: Standard deductibles / retention is often part of policies and this quantum of loss is to the account of the assured before the policy pays. So, assess this commercially and fully understand financial implications before availing a policy. Please seek advice from your broker.

Update information: Be vigilant about any change in circumstances between the submission of the proposal form and issuance of the policy and intimate the insurer of such change. Please keep your broker informed at all times of any changes.

Have a Standard Operating Procedure: In case of company, having an SOP is crucial so your proposal is not dependent on the diligence of the individual in-charge but is governed by watertight processes.

Limit the knowledge: In case of companies, particularly larger organizations, caveat the accuracy of declarations etc. and information to an identified group of people. In case of change of circumstances also, knowledge needs to be limited to an identified group of people / designations.

Be mindful of privilege: There is no privilege in what you share with the insurer and can be used against the assured in a dispute.

Seek professional help: For complex covers, take professional help from your broker/ agent/ financial advisor.

Ask questions: In case of an unclear question or requisition, reach out to either the insurer or your broker/agent/ financial advisor.

Deciding the signatory: In cases of companies, authority to sign a proposal form on behalf of the company must be delegated to a responsible officer.

Review the information: Once the proposal form is filled out, review and verify the information to avoid errors by oversight.

Keep a copy and organize your record: Retain a copy of the executed proposal form, accompanying documents, proof of submission and retain these in your file along with contemporaneous communication and the basis on which the information was filled in.

Follow these good practices to ensure a robust mechanism for availing insurance and avoid repudiation of claims on the grounds of misrepresentation. Remember, a stitch in time, saves nine!

Each business is unique and complex business models and assets require appropriate insurance covers. For a customized checklist suited to your business, please reach out to Khaitan Legal Associates and the Marsh team on the coordinates mentioned below.

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