Insurance – A Matter Of Trust

No matter what is covered by a given insurance policy, it involves trust. Insurance policies are written agreements that involve at least two parties. One is the insurance company that provides the applicable form of protection. The other is the party who is protected by the policy. These two parties have a contractual relationship with each other. The insurer agrees to protect the insured if the insured agrees to pay for the protection.

The trusting relationship begins before any policy is issued. When an insurance company seeks customers, it has the goal that their policies are issued to persons who meet their qualifications. Qualified persons are discovered by using applications. Besides collecting identifying information, applications also gather details that help a company determine if a person is eligible for a type of coverage. Where does trust come in? The insurer relies on the information that an applicant provides on the application. It acts on that information by reviewing it and deciding whether a policy should be issued. The information also helps the insurer decide how much to charge for the coverage, what level of coverage it should agree to grant and the conditions for providing the protection.

The insured should also to be able to trust the insurer. He, she (or a business entity) has to rely on the company actually issuing the type of coverage it promises. The insured also trusts the company to pay for a loss (that is eligible under the coverage) and to handle any loss fairly and efficiently. Both parties must approach the contractual agreement honestly and fairly. The contract is affected if either party fails to act in good faith.

When an insurance company refuses to cover an eligible loss without a valid reason or when an insured refuses to pay for the policy; these are instances of breaking the contract. An insured may also break the contract if he or she either withheld information or intentionally supplied false information. Of course the information must involve some significant item that would have affected the company's decision to accept the insured. Breaching a contract may allow an insured to sue a company for coverage or allow a company to void the policy it issued.

Whenever policies are not handled in good faith, there are consequences that impact more than just the two parties. Third parties, such as other businesses or persons, may also be harmed by insurance contracts that turn out to be invalid. Modern economies depend upon the role played by insurance contracts. It would be impossible to handle large transactions without a way to protect all parties against possible losses. Further, many parties would not even attempt certain types of transactions without the support of insurance, such as large building projects, major equipment sales, vehicle rentals and numerous other transactions.

Certainly there are many times when one party fails to handle their insurance obligations in good faith. However, such instances are the exception. Our economy and standard of living are made possible because most parties deal with each other honestly and we all benefit when that happens.