NEWS BRIEF

Provided by: The Risk Hub Ltd

The Insurance Act—What Organisations Need to Know

The Insurance Act, a piece of legislation designed to modernise and support the growth of Britain's insurance industry, received Royal Assent on **12th February 2015**, thus making it law. The Act ushers in a more modern regime for the industry by updating the 100-year-old regulations governing contracts between businesses and insurers. The government believes that updating the regulations will lend transparency to the industry and lower the number of legal disputes, better equipping UK insurers to survive against global competitors who have already adopted more modern regimes for governing insurance.

The Act contains three main areas of reform: disclosure and misrepresentation in business and other non-consumer insurance contracts, warranties, and remedies for fraudulent claims.

What the Reforms Mean for Businesses

The three main reforms benefit the insurance industry and businesses throughout the UK:

1. **Disclosure and Misrepresentation in Business Insurance Contracts** – The Act obligates business owners to disclose honest assessments of the potential risks associated with their particular businesses before entering into insurance contracts. This fair presentation of risk requires business owners to disclose information in a clear and concise manner in order to minimise ambiguity or misunderstandings. In the event there is a breach of fair presentation, the Act provides remedies that could allow insurers to invalidate the policy, refuse all claims and keep the insured's paid premiums.

2. **Warranties** – The Act abolishes 'basis of the contract' clauses, which automatically transform pre-contractual information supplied to insurers into a warranty. In the event that the insured breaches a warranty, the insurer's liability is suspended. If insured parties can remedy the breach before a loss has occurred, their cover is reinstated. After a warranty has been breached, an insurer cannot decline continued cover if the business owner can provide proof that the breach did not increase the risk of loss.

3. **Remedying Fraudulent Claims** – If a business submits a fraudulent claim, the insurer has the option to terminate the contract at the time of the fraudulent act and, as such, is not responsible to pay the claim. If the insurer had distributed any funds to the owner prior to the discovery of the fraudulent claim, the insurer would be able to recover those payments. However, the insurer would remain liable for any genuine losses that the business experienced prior to the fraudulent claim.

Next Steps for Businesses

The Act's reforms came into effect in **August 2016**. Be aware of how the reforms will affect your current contracts and what changes you need to make in the interim to stay compliant and successful.