TOPIC TEN

INSURANCE

10.0 Introduction

Insurance is a safeguard against risks or losses in commercial activities, based on a contract in which one party compensates the other upon the occurrence of a specified risk, provided agreed premiums have been paid.

In essence, it is a contract where the insured pays a premium and, in return, the insurer covers financial losses arising from unforeseen events. In Uganda, the insurance sector is regulated under the Insurance Act, with the current governing legislation being the **Insurance Act, 2017**.

10.1 Distinction Between Insurance and Assurance

While often used interchangeably, a technical distinction exists:

- **Insurance** provides coverage for events that **might or might not happen** (contingent risks). The policy is typically a **contract of indemnity**, aiming to restore the insured to their original financial position before the loss.
- **Assurance** provides coverage for events that **will definitely happen**, such as death or the end of a specific term. It is not a contract of indemnity but a form of financial security and investment.

Feature	Insurance (**non-life**)	Assurance (**Life/Endowment**)
Nature of Risk	Covers risks that **may or may not** happen - uncertain, contingent events (e.g., fire, theft, car accident).	Covers a risk/event that is **certain** to happen, though the timing is uncertain (e.g., death or maturity of a policy).
Contract Type	A contract of **Indemnity -** Aims to restore the insured to the financial position *before* the loss.	**Not** a contract of indemnity - Payout is a fixed or calculable sum since a life lost cannot be valued financially.
Insurable Interest	Must be present both at the time of **taking the policy** and at the **time of loss**.	Must be present only at the **time of taking out the policy**.
Purpose	Primarily **Protection** against a contingent loss.	Contains elements of **Protection** and **Investment/Savings**.
Surrender Value	Contracts generally cannot be surrendered for **cash before expiry.**	Contracts often acquire a **surrender value** and can be used as collateral.

Feature	Insurance (**non-life**)	Assurance (**Life/Endowment**)
Example	Motor insurance, fire insurance, medical insurance.	Whole life contracts, endowment contracts.

NOTE:

- **Surrender Value** is the amount of money an insurance company pays to the insured/assured if they decide to terminate a life insurance policy *before* its maturity date (i.e., before the policy expires or the insured event occurs). In simple terms, it is the **cash value you get back** for cancelling your policy early.
- **An Endowment contract** is a life assurance contract that provides both financial protection and a savings component over a fixed period. It guarantees a lump sum payment either at maturity, if the assured survives the term (Sum Assured plus bonuses/returns) or upon death during the term, in which case the beneficiary receives the Sum Assured with any accumulated bonuses.

10.2 Key Terminologies in Insurance

1. **Policy:** The risk which is covered by the insurance contract or accidental happenings which produce a monetary loss. E.g. A factory catching fire, a ship sinking or car accidents.
2. **Premium:** The payment made by the insured to the insurer in exchange for coverage against a defined risk. It can be a single payment or made periodically and represents the consideration for indemnifying the insured's potential losses.
3. **Subject Matter**: The person, property, or legal liability that is covered by the insurance policy (e.g., a car, a house, a life, or legal liability).
4. **Insured:** The person or company that pays for coverage and whose losses are protected by insurance.
5. **Insurer:** The company or organisation that agrees to cover a risk and compensate the insured for any losses.

10.3 Types of Insurance

Insurance is broadly categorised by the subject matter and risk covered:

(A) LIFE ASSURANCE

I. Life Insurance (Assurance): Provides financial support to beneficiaries (dependents) upon the policyholder's death. It can also serve as a long-term savings and investment vehicle.

- **Example**: A parent in Kampala purchases a Jubilee Life Insurance "Whole Life" contract to ensure their children's university education is funded in case of their untimely death or an investment-linked product from an insurer like UAP Old Mutual or Jubilee Insurance.

(B) GENERAL (NON-LIFE) INSURANCE

1.Health Insurance: Covers medical expenses due to illness or injury.

- **Example:** Jubilee Health Insurance or AAR Health Services offering plans that cover hospitalisation and outpatient care.

2. Property Insurance: Protects physical assets like buildings and contents against risks like fire, theft, and natural disasters.

I. **Motor Insurance:** Legally required in most countries, including Uganda, it covers vehicle damage and liability for third-party injuries, death, or property damage, while also protecting the insured's vehicle against accidental damage, fire, and theft. Coverage depends on the contract: *Motor Third Party* mandatory covers only third-party losses, whereas *Motor Comprehensive* provides wider protection, including the insured's own vehicle.
   - **Example**: A bodaboda rider in Mbale purchases third-party motor insurance from Prudential Uganda as required by law.

II. **Fire Insurance**: Covers loss or damage to property (buildings, machinery, inventory, etc.) caused by fire, lightning, and sometimes explosion.
   - **Example:** A coffee processing cooperative in Masaka holds a fire insurance policy with **UAP Old Mutual** to protect its warehouse and drying beds from fire outbreaks, which are a significant risk in agricultural processing.

III. **Marine Insurance:** Covers loss or damage of ships **(hull Insurance**) and cargo during transit (cargo **Insurance**) or to the third-party liability associated with the ship's operation. Crucial for international trade (UK, USA, and European companies rely heavily on this).

3. Liability Insurance: Protects against legal liabilities for causing injury to other people or damage to their property.

- **Example**: A supermarket in Kampala holds public liability insurance with Sanlam Uganda in case a customer slips and falls on its premises.

4. Specialised Insurance

I. **Agricultural Insurance:** Critical in agricultural economies like Uganda, protecting farmers against crop failure or livestock loss due to weather (drought & floods) or disease.
   - **Example:** A maize farmer in Masaka uses a mobile-based index insurance product from Acre Africa to protect against drought.

II. **Cyber Insurance:** A rapidly growing global product covering losses from data breaches, cyber-attacks, and business interruption due to cyber events.
   - **Example:** A growing Ugandan FinTech company, like MTN Mobile Money or Airtel Money, purchases a cyber insurance policy from a local provider to protect itself and its customers in the event of a system hack that compromises user data and halts transactions.

III. **Political Risk Insurance:** Protects businesses operating in politically unstable regions against losses from **expropriation** (government seizure of assets), **political violence** (war, civil unrest, terrorism), and **currency inconvertibility** (inability to convert local profits and transfer them out of the country).
   - **Example:** Vodacom Congo (DRC) could purchase Political Risk Insurance from the African Trade Insurance Agency (ATI) to protect telecom investments from expropriation, licence revocation, or political violence.

IV. **Travel Insurance**: Covers various risks associated with traveling, such as trip cancellations, lost luggage, medical emergencies, and travel delays.
   - **Example:** As a large conglomerate with executives frequently travelling for supply chains, conferences, and market exploration, Mukwano Group would obtain annual Corporate Travel Insurance from Jubilee Insurance.

10.4 Principles of Insurance

These principles form the legal and ethical foundation of all insurance contracts.

1. **Utmost Good Faith (Uberrimae Fidei):** The insured must disclose all material information about the subject matter of insurance that affects the insurer's decision on risk, terms, and premium. Breach allows the insurer to void the contract and refuse claims.
    - *Example:* When applying for health insurance in Uganda, you must disclose a pre-existing heart condition. Failure to do so could lead to a claim being denied. Or, when insuring a car in Uganda, failing to declare prior accident damage may lead to a claim being denied.
2. **Insurable Interest:** The insured must have a legal and financial interest in the subject matter of the insurance and would suffer a financial loss or any loss if the event occurs i.e. must be either the owner or trustee of the minor.
    - *Example:* You have an insurable interest in your own car and your spouse's life. You do not have an insurable interest in a stranger's car.
3. **Indemnity:** The purpose of insurance is to restore the insured to the same financial position they were in immediately before the loss, not to allow them to profit.
    - *Example:* If your insured laptop worth UGX 2 million is stolen, the insurer will pay you the current market value of a similar laptop, not the original purchase price and certainly not UGX 3 million.
4. **Subject Matter of Insurance:** The insured must clearly state the specific person, property, or legal liability that is being insured. This provides clarity and prevents any ambiguity over what is covered.
    - *Example:* When taking out a car insurance policy with APA Insurance, the policy schedule must precisely describe the vehicle using its registration number, engine number, and chassis number. You cannot have a vague policy for "my car"; it must be for a specific, identified asset. Similarly, a "Key Man" life insurance policy taken out by a company on its CEO must clearly name the individual executive.
5. **Contribution:** If the insured holds multiple covers for the same risk with different insurers (double insurance), the total claim payment cannot exceed the actual loss. The insurers will contribute proportionally to the loss.
    - *Example:* A Ugandan business insures its warehouse for UGX 500 million with Jubilee Insurance and UGX 500 million with Excel Insurance Company Limited. If a fire causes a UGX 400 million loss,

Jubilee Insurance and Excel Insurance Company Limited will each contribute UGX 200 million.

6. **Reinsurance**: When an insurer takes on a risk that exceeds its capacity, it may transfer part or all that risk to another insurer. The original insurer retains an insurable interest only up to the amount it has insured.
    - *Example*: A Ugandan insurer insures a large industrial factory in Kampala for UGX 10 billion but cannot retain the full exposure. It passes UGX 6 billion of the risk to a reinsurer while keeping UGX 4 billion on its own books.
7. **Subrogation:** After compensating the insured, the insurer acquires the legal right to pursue any third party responsible for the loss.
    - *Example:* If your car is damaged by a negligent driver, your insurer (e.g., Britam insurance) will pay for the repairs and then exercise its right of subrogation to recover the costs from the negligent driver's insurer.
8. **Proximate Cause:** The assured /insured can only recover the loss if it is immediately caused by any of the risks insured against whether directly or indirectly. Compensation is only for Insured risks mentioned in contract but not for uninsured and expected or excluded dangers.
    - *Example:* The cargo of rice in a ship was destroyed by seawater flowing in the ship through a hole made by rats in bathroom lead pipe. The court ruled that the insured was liable for compensation. The proximate causa of the damage in this case is sea water. If, however, the loss was caused directly by rats or vermin, the insurer wouldn't have been liable. [Hamilton Fraser & Co. vs Pandroff (1887)].
9. **Mitigation of Loss:** The insured has a duty to take all reasonable steps to minimise the insured loss when an insured event occurs.
    - *Example:* If a pipe bursts in your house, you must turn off the main water supply to prevent further flooding; you cannot let the water run and expect a larger payout.

10.5 Importance of Insurance

Transfer of Risk: It allows businesses to transfer the financial burden of large, potential losses to the insurer.

Financial Security and Stability: Provides a critical safety net, offering compensation for loss of property, medical costs, or income, ensuring that an unexpected event doesn't lead to financial ruin or collapse of the business.

Facilitates Credit and Investment: Banks and financial institutions often require insurance (e.g., a mortgage requires property insurance) before extending credit, as it protects their collateral, thereby promoting investment and lending.

Supports International Trade: By mitigating risks (e.g., fire, marine, political risk), insurance gives businesses the confidence to invest, expand, and engage in international trade, thereby maximising profits.

Promotes Savings (Life Assurance): Certain life insurance contracts combine protection with a forced-savings or investment component (endowments). This can be a long-term source of finance to the business.

Regulatory Compliance: It ensures legal and responsible operation, especially in areas like motor vehicle (Third Party) and legal liability.

10.6 Challenges and Limitations in the Ugandan Insurance Sector

While insurance is vital, the sector in Uganda faces several challenges.

1. **Low Insurance Penetration:** A very small percentage of Uganda's population has formal insurance coverage.
2. **Affordability and Product Relevance:** Premiums are often perceived as high, and many products are not tailored to the needs of the majority (e.g., low-income earners, farmers).
3. **Limited Public Trust:** Misunderstandings about insurance contract terms and negative experiences with claims settlement erode public trust.
4. **Infrastructure and Distribution Gaps:** Reaching customers in rural areas remains a challenge due to limited physical infrastructure.
5. **Economic Pressures:** Economic volatility affects the pricing and demand of businesses' products, making it difficult for many businesses to maintain consistent premium payments.
6. **Cultural Factors:** A preference for informal risk-sharing systems (e.g. community savings groups), which are more accessible and relatively affordable.

Online Video resources

- Insurance Fundamentals – Financial Markets by Yale University #9
  https://www.youtube.com/watch?v=TVoY5cXooGY
- Principles of Insurance
  https://www.youtube.com/watch?v=L-LPhV7pNf4
- Principles of Insurance (Insurance, Insurance Contract & Insurance Practices)
  https://www.youtube.com/watch?v=-vpGpV7jhFc
- Introduction to Insurance [Fundamentals of Insurance]
  https://www.youtube.com/watch?v=wk208hErznc
- COP27 journey: how insurance is helping farmers in Uganda build climate resilience
  https://www.youtube.com/watch?v=_tCawEgkdo8
- Why Ugandan farmers are not taking up agricultural insurance
  https://www.youtube.com/watch?v=ocR_Gth1wFg
- Basic principles of insurance
  https://www.youtube.com/watch?v=IbhuV9xS8vc
- Insurance Principles Explained – Subrogation and Contribution
  https://www.youtube.com/watch?v=2GYhM2c3WqY

Case Study: Crop Insurance in Uganda

In 2016, the Government of Uganda launched the **Uganda Agriculture Insurance Scheme (UAIS)** in partnership with private insurers and the Insurance Regulatory Authority of Uganda. The aim was to protect farmers against risks such as drought, floods, pests, and crop diseases that often lead to massive losses.

One of the beneficiaries was **Sarah**, a maize farmer in Masindi District. She decided to take a **crop insurance policy under UAIS** after severe drought in 2015 destroyed her entire harvest, leaving her in debt. By paying a subsidised premium, Sarah secured insurance coverage for her 10-acre maize farm.

In 2018, heavy rains caused flooding that destroyed more than half of her crop. Because she had valid crop insurance, Sarah received compensation from her insurer, which helped her repay a loan she had taken for farm inputs and restart

planting the following season. Without insurance, she would likely have lost her farm and her main source of income.

However, many farmers in her village have not taken up insurance. Some argue that the premiums are still unaffordable, while others do not trust insurers to pay claims promptly. Additionally, cultural reliance on informal saving groups discourages many from engaging with formal insurance schemes.

Discussion Questions

1. What key risks was Sarah exposed to, and how did crop insurance help her manage these risks?
2. Why do you think many farmers in Sarah's village are hesitant to take up crop insurance despite its benefits?
3. In your opinion, what measures could the Ugandan government and insurers take to increase insurance penetration in rural areas?
4. Do you think informal community-based risk-sharing systems (like SACCOs and burial groups) can complement or replace formal insurance schemes? Why or why not?