

CASE STUDY

Large Developments Plc is a substantial property owning company. Much against his better judgment, its CEO, Larry Large, was persuaded by his brokers to move his insurance programme from Solid Insurance Plc to Shaky Insurance Plc. Prior to the inception of the new policy, Larry was asked to complete a proposal form but, being such a busy man, he forwarded it to his recently appointed Risk Manager, Charlie Cautious, to deal with. The proposal asked Charlie whether Large Developments had suffered any losses in the last three years and, without making proper enquiry, Charlie answered "No". In fact, the insured company had suffered a major loss in the preceding policy period when a security guard had deliberately set fire to one of the insured properties. The proposal asked Large Developments to warrant that the answers given were true and formed the basis of the contract - Charlie was content to give this confirmation.

Shaky accepted the insurance but imposed a warranty insisting that insured premises should be manned by security guards during the hours of 6pm and 6am. Shortly after the new programme incepted, two other properties were damaged in relatively short order in fires thought to have been caused by security guards as well. On learning of the second loss, Larry panicked and persuaded himself that if Shaky learnt that this was another security guard incident then it would decline the claim. He instructed Charlie to conceal the true cause of the fire from Shaky's notorious loss adjuster, Barry Bloodhound.

Shaky Insurance was not only known for its inflexible approach to policy terms and conditions but it did not have a happy reputation for handling claims quickly and efficiently. It was alarmed to receive two claims so soon after it acquired the risk from Solid Insurance and resolved to weed out anything suspicious. In some respects it was right to be concerned; Barry quickly discovered the existence of the pre-inception loss and while he was convinced that the first fire had started in the middle of the night, the evidence was unclear as to when the second fire had started. Secure-4-U, the employer of security guards, was insisting that the guards were present throughout the night; acting under duress from Larry, its biggest customer, it was also telling Barry that the second fire had nothing to do with the security guards and was caused by a trespasser.

Some 18 months later, Shaky Insurance wrote to Large Developments to say that both claims had been declined setting out as many reasons as it could possibly think of - policy avoidance, breach of warranty and fraud. Larry was apoplectic and resolved to take advice.

