



**UTMOST GOOD FAITH**

# WHAT IS AN UTMOST GOOD FAITH?

- **Utmost good faith** is complete and total honesty—all statements must be true and all material facts must be revealed while applying for an Insurance Policy.
- Let's consider an example to understand the phenomenon of UTMOST GOOD FAITH.
- You want to get a Life Insurance Policy on your life but you are suffering from a serious illness which no one knows about.
- This key information that you are suffering from a serious illness is critical for an Insurance Company to know in order for it to decide whether they want to insure your life or not.
- However, you decide to conceal this information and the insurance company insures you on this concealed information.
- Now when a loss will occur and the insurance company finds out that this key information was hidden or concealed by you – they will deny the coverage or will not compensate you financially for that loss.

# COMPONENTS OF UTMOST GOOD FAITH

- Utmost good faith is usually divided into 3 components:
  1. **Representations:** are the statements made by the insured on the insurance application.
    - An insurance contract is voidable by the insurer if:
      1. *Any representation is material,*
      2. *was relied upon by the insurer,*
      3. *and was known to be false by the insurance applicant.*
  2. **Concealments:** is closely related to misrepresentation—it is the failure to disclose material information.
  3. **Warranties:** is a promise by the insurance applicant to do certain things or to satisfy certain requirements, or, it is a statement of fact that is attested by the insurance applicant. The warranty becomes part of the insurance contract. If the insured breaches the warranty, the insurer can void the contract and deny payment of a claim.