

## Customary business practice regarding insurance companies setting a timeframe for clients to get documents required for insurance indemnification



Article 14 (3) of the Republic of Armenia Law on Financial System Mediator establishes that in making a decision Mediator shall be based not only on the requirements of the Armenian legislation but also on the rules of business conduct and ethics, and customary business rules. For continued viability of operations of the Financial System Mediator as well as aimed to apply a customary business practice, the Office of Mediator inquired, on March 28th of this year, all insurance companies operating in Armenia about the timing within which these companies make a decision to pay or not to pay insurance indemnity after they have been notified of an insurance event. So, the Office asked the insurance companies to clarify on the following:

a) Within which timing should insurance companies obtain all necessary documents?

b) Within which timing should insurance companies make a final decision on paying insurance indemnity so that a policyholder's right to get insurance indemnity is least contravened?

The thing is that in some insurance companies there are internal policies and procedures in place that determine a specified timeframe for this purpose which, however, starts to work only after all necessary documents have been received by the company. Whereas, the timing within which the companies should obtain all necessary documents and make a final decision on insurance indemnification is not clear.

Explanations and clarifications which we have received from insurance companies made us to conclude as follows:

a) According to internal policies and procedures in most companies, the duty to obtain the required documents is left with the policyholder. Insurance companies insist that this requirement reflect the interest of both parties as this makes the policyholder to get all necessary documents promptly and avoid undesired delays. Companies will only take part in the process at their discretion or when necessitated by individual circumstances.

b) Insurance contracts between the policyholder and the company or, which is more trivial, Terms on Classes of Insurance, which is an integral part of the general contract, contain an explicit

list of the documents which the policyholder shall submit to the company. Some companies, however, use a notion “Other documents” which allows the company to require other support documents when it finds there is need to do so.

c) Referring to the timing for obtaining required documents, some companies voiced an opinion that any customary business practice or legislative act shall not be designed so as to limit an insurance company’s capacity for obtaining necessary documents whatever. Others say, by reference to Article 10001 (3) of the Civil Code that vests insurance companies with the right to scrutinize details of an insurance event personally, that following an investigation of the details of an insurance event the company may reschedule its final decision on indemnification or non-indemnification for an indefinite period of time.

Others argue that the timing for collection of necessary documents does not depend on insurance companies since the list of required documents may sometimes include documents which are issued by any particular authority in connection with any specific case. And because such authorities issue these documents at different time intervals, the insurance company concerned chooses not to determine a more definite timeframe for collection of the documents. This is done to the benefit of the policyholder because, in case the insurance company sets a fixed timeframe, the policyholder may fail to meet the timeframe thus lose his chance due to the insurance company’s decision to refuse insurance indemnity.

It should be noted, however, that there are clear timeframes for collection of documents which insurance companies have set in respect of individual classes of insurance. These timeframes vary from 15 days to 2 months depending on the class of insurance. For example, the Terms applicable within 5 insurance companies set a two-month period for collection of documents in respect of Vehicle Insurance.

d) Once the set of the documents required from the policyholder is complete, an insurance company makes a reasonable decision to pay or refuse paying the insurance indemnity. We may conclude that Customary Business Practice on the subject matter is non-existent across insurance companies as different companies have posed different views on this matter.