

Insurance Proceeds Must Be Applied in Accordance with the Policy: Lessons from *KCB Bank Uganda Ltd v Kuti Investment Ltd & Phoenix of Uganda Assurance Co. Ltd* (2026)

The High Court's decision in **KCB Bank Uganda Ltd v Kuti Investment Ltd & Phoenix of Uganda Assurance Co. Ltd** is an important addition to Uganda's insurance jurisprudence. The judgment clarifies key insurance principles relating to **loss payee clauses, the application of insurance proceeds, the principle of indemnity, policy exclusions, and fraud**, providing practical guidance to insurers, financiers, brokers and policyholders.

Brief Facts

Kuti Investment Ltd obtained a loan from KCB Bank to purchase a commercial truck. As security for the loan, the truck was comprehensively insured with Phoenix of Uganda Assurance Co. Ltd, with KCB Bank named as the **loss payee** under the policy.

Following an accident involving the truck, Phoenix assessed the damage and paid the claim partly to the repair garage and the balance directly to KCB Bank. Kuti Investment later alleged that the Bank failed to apply the insurance proceeds towards repairing the vehicle, leaving it unable to resume business operations and repay the loan. The insurer, on the other hand, maintained that it had fully discharged its obligations under the policy. The dispute eventually came before the High Court for determination.

Insurance Proceeds Must Be Used for Their Intended Purpose

One of the central issues before the Court was whether a financier named as a **loss payee** could retain insurance proceeds without ensuring they were used to repair the insured vehicle.

The Court answered this in the negative.

Although KCB Bank was entitled to receive the insurance proceeds as the designated loss payee, the Court held that those funds remained subject to the terms of the insurance policy. Since the policy contemplated that compensation would be used to repair, replace or reinstate the damaged vehicle, the Bank could not divert the funds for another purpose. Its failure to apply the proceeds towards repairs amounted to a breach of its contractual obligations.

This decision reinforces an important insurance principle: **insurance proceeds must be applied for the purpose for which they are paid.**

A Loss Payee's Rights Are Not Absolute

The judgment also clarifies the legal position of a **loss payee**. While naming a financier as a loss payee gives it priority to receive insurance proceeds, it does not confer unrestricted ownership of those funds.

The Court held that a loss payee's rights remain governed by the insurance policy and the underlying contractual arrangements between the parties.

The Principle of Indemnity Remains Paramount

The Court reaffirmed the fundamental principle that insurance is a contract of indemnity. The objective of insurance is to restore the insured, as nearly as possible, to the financial position occupied before the loss.

Accordingly, compensation under the policy was intended to facilitate restoration of the damaged vehicle rather than serve as an alternative method of loan recovery.

Policy Exclusions Will Be Enforced

The insured argued that the insurer had failed to compensate the entire loss.

The Court rejected this argument, holding that the policy expressly excluded consequential losses. It further found that the insured had a continuing obligation to safeguard the damaged vehicle after the accident. Losses arising from vandalism, delay or failure to protect the vehicle therefore fell outside the scope of the policy.

This aspect of the decision demonstrates the courts' continued willingness to enforce clear policy exclusions.

Fraud Must Be Strictly Proved

The insurer also alleged that the claim was fraudulent because there were inconsistencies regarding the date of the accident.

The Court rejected the allegation, reiterating the well-established principle that fraud must be specifically pleaded and proved by cogent evidence. Mere suspicion or inconsistencies in documentation are insufficient to establish fraud.

Conclusion

This judgment offers valuable guidance on several important insurance principles. It confirms that:

- A loss payee's rights are governed by the insurance contract and are not absolute.
- Insurance proceeds must be applied for the purpose intended under the policy.
- The principle of indemnity remains the cornerstone of insurance law.
- Courts will enforce clear policy exclusions.
- Fraud must be specifically pleaded and strictly proved.

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