

INSURANCE

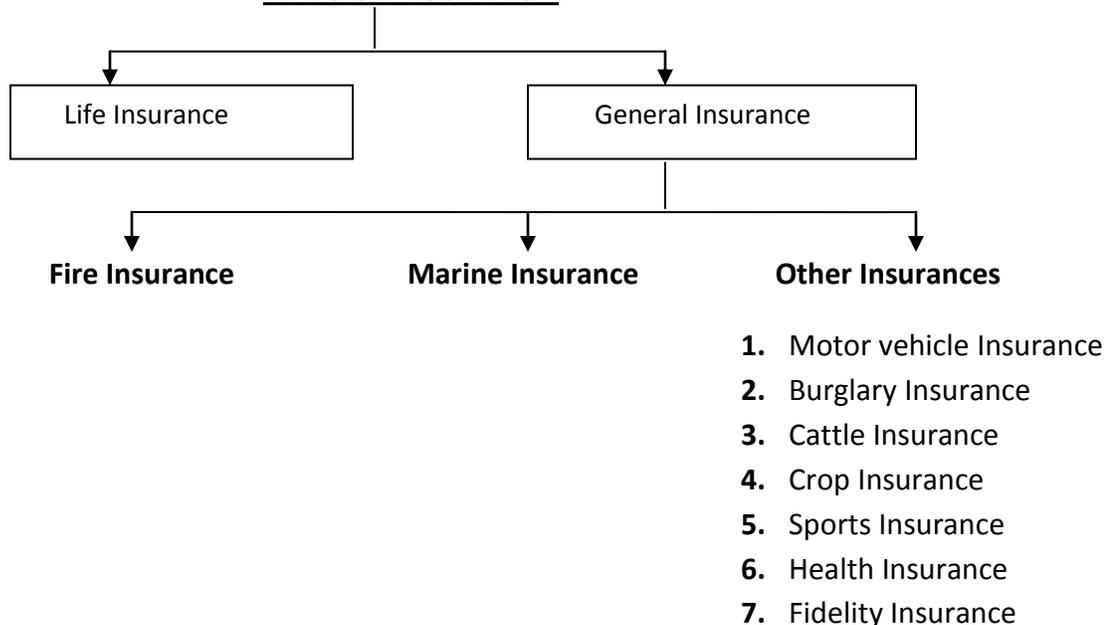
MEANING OF INSURANCE

Insurance is a form of contract under which one party (Insurer or Insurance Company) agrees in return of a consideration (Insurance premium) to pay an agreed sum of money to another party (Insured) to make good for a loss, damage or injury to something of value in which the insured has financial interest as a result of some uncertain event.

FUNCTIONS OF INSURANCE:

1. Providing Certainty: Insurance cannot remove the uncertainty involved in the business. However, it provides certainty of payment for the risk of loss.
2. Protection: Insurance cannot stop the happening of a risk. However, it gives protection against risk of a probable loss that may arise due to happening of an uncertain event like fire, theft, natural calamities, etc.
3. Risk Sharing: Insurance is an arrangement, in which large number of people, who are exposed to the same risk, contribute to a fund, maintained by the insurance company.
4. Assist in Capital Formation: The funds collected by the insurance company in the form of premium, are invested by them in various income generating schemes.

TYPES OF INSURANCE:



LIFE INSURANCE:

Life Insurance contract is a contract, under which, the insurer agrees to pay a specified amount on the death of the assured, or on the expiry of a certain fixed period, whichever is earlier.

Importance of Life Insurance:

1. Life Insurance provides **protection** to the family at premature death of an individual.
2. It provides adequate amount at **old age** when earning capacity is reduced.
3. Life Insurance is not only a protection, but is a sort of **investment** as certain sum is returnable to the assured at the time of death or expiry of certain period.

FIRE INSURANCE

Fire insurance is a contract whereby the insurer, in consideration of the premium paid, undertakes to make good any loss or damage caused by fire during the specified period upto the amount specified in the policy.

MARINE INSURANCE

A marine insurance contract is an agreement where the insurer undertakes to compensate the insured for the complete or partial loss at sea.

There are three things involved:

1. Ship or Hull Insurance
2. Cargo Insurance
3. Freight Insurance

PRINCIPLES OF INSURANCE:

1. Utmost Good Faith : Insurance contracts are based upon mutual trust and confidence between the insurer and the insured. It is a condition of every insurance contract that both the parties insurer and the insured must disclose each fact and information related to insurance contract to each other.

2. Insurable Interest : It means some pecuniary interest in the subject matter of insurance contract. The insured must have insurable interest in the subject matter of insurance i.e., life or property insured, the insured will have to incur loss due to this damage and insured will be benefitted if full security is being provided. A businessman has insurable interest in his house, stock, his own life and that of his wife, children etc.

3. Indemnity : Principle of indemnity applies to all contracts except the contract of life insurance because estimation regarding loss of life cannot be made. The objective of contract of insurance is to compensate to the insured for the actual loss he has incurred. These contracts provide security from loss and no profit can be made out of these contracts.

4. Proximate Cause : The insurance company will compensate for the loss incurred by the insured due to reasons mentioned in insurance policy. But if losses are incurred due to reasons not mentioned in insurance policy than principle of proximate cause or the nearest cause is followed.

5. Subrogation: This principle applies to all insurance contracts which are contracts of indemnity. As per this principle, when any insurance company compensates the insured for loss of any of his property, then all rights related to that property automatically get transferred to insurance company.

6. Contribution: According to this principle if a person has taken more than one insurance policy for the same risk then all the insurers will contribute the amount of loss in proportion to the amount assured by each of them and compensate him for the actual amount of loss because he has no right to recover more than the full amount of his actual loss

7. Mitigation: According to this principle the insured must take reasonable steps to minimise the loss or damage to the insured property otherwise the claim from the insurance company may be lost.