VIVEKANANDA COLLEGE
(Empowered Autonomous)

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INSURANCE

B.COM. PART 1

SEMESTER 1ST

INTRODUCTION

Life is full of uncertainties due to different types of risk like death accident , loss of health and property ,floods and so on. Human being always sort some protection from such risks . Insurance is answer to these types of risks and uncertainties . Insurance is the process in which the loses of few are shared by many persons who are equally exposed to same risks.

MEANING

MEANING OF INSURANCE

Insurance is contact
of indemnity

in which insurance
company or insurer

in consideration of certain
periodical payment
i.e. premium

agrees to pay certain sum
of money

Occurrence of
uncertain event

to compensate loss
caused by

INSURANCE

An arrangement by which a company or the state undertakes to provide a guarantee of compensation for specified loss, damage, illness and death in return for payment of a specified premium.

Definition

In financial sense

- It is a social device in which
  - a group of individuals (insured)
  - transfer risk to another party (insurer)
  - in order to combine loss experienced, which
  - permits statistical prediction of losses and
  - provides for payment of losses from funds contributed (premium) by all members who transferred risk

In legal sense

- It is a contract by which
- one party (Insurer)
- in consideration of price paid to him
- proportionate to risk provides security to

the other party (Insured) that

- he shall not suffer loss, damage or prejudice by the happening of certain specified events.
- Insurance is meant to protect insured against uncertain events which *may* cause disadvantage to him

Principles of insurance

- INSURABLE INTEREST
- UTMOST GOOD FAITH
- INDEMNITY
- SUBROGATION
- CONTRIBUTION
- PROXIMATE CAUSE
- MITIGATION OF LOSS

PRINCIPLE OF INSUREABLE INTEREST

- A person can enter into a valid contract of insurance only if he has an insurable interest in the object or in the life of insured person.

- A person is said to have an insurable interest in the property, if he is financially benefitted by its existence and is suffering a loss by non existence

INSUREABLE INTEREST

IN LIFE INSURANCE	IN FIRE INSURANCE	IN MARINE INSURANCE
Husband/wife	Owner in his property	Owner of ship in the ship
Father/son	Partners in property of firm	The ship owner in the freight to be received
Employer/employee		

PRINCIPLE OF UTMOST GOOD FAITH

- Contract of insurance based on good faith.
- By GOOD FAITH we mean absence of fraud or deceit on the part of the parties to the contract.
- Both the parties to the contract are required to observe good faith and should disclose every material fact known to them.

UTMOST GOOD FAITH

IN LIFE INSURANCE

- ✓ Name , address ,occupation of insured person
- ✓ Date of birth, age, height, weight

Info. About health
- ✓ Of the proposer

IN FIRE INSURANCE

- ❖ Construction and description of building
- ❖ Situation of building
- ❖ Nature of goods and material

IN MARINE INSURANCE

- ➢ Name of shipper or client
- ➢ Full description of goods to be insured
- ➢ Method an type of packing

PRINCIPLE OF INDEMINITY

- *Indemnity means to make good the loss and nothing more than actual loss.*
- *All the contracts of insurance except life insurance, are the contacts of Indemnity.*
- *According to this principle the insured actual loss is indemnified on the occurrence of certain event*

EXAMPLE OF PRINCIPLE OF INEMINTY

MR. X gets a fire insurance of 1 lac for the goods lying in the factory premises

He suffers a loss of rs.1,50,000 . The insurance company will indemnify MR X upto Rs . 1 lac. Suppose the loss in the case is to the tune of 80,000, then the insured could have been compensated only upto Rs. 80,000.

PRINCIPLE OF SUBROGATION

- *This principle has been defined as the "Doctrine of Rights Substitution" which means that the insurer steps into the shoes of the insured after settling the claim or after compensating the loss.*

- *The right of ownership of affected property passes on to the insurer from insured*

EXAMPLE OF PRINCIPLE OF SUBROGATION

X GETS HIS PLANT AND MACHINERY INSURED WITH THE INSURER FOR RS. 1,50,000. AFTER SOME TIME PLANT IS DESTROYED DUE TO FIRE.

X CLAIM THE LOSS FROM INSURER . NOW THE INSURER GETS THE RIGHT OVER THE DESTROYED PLANT.

PRINCIPLE OF CONTRIBUTION

- *Some times a person gets a subject matter insured with more than one insurer called the "Double Insurance " whereby in the event of damage he can not claim anything more than the total loss from all insurer together.*

- *In such case, the total loss suffered by the insured is contributed by different insurers in the ratio of the value of policies issued by them for the same subject matter.*

Example of Principle Of Contribution

- **Suppose Mr. Singh insured his house against the risk with three insurer in thze following manner**

- **Sum assured with X** 50,000
- **Sum assured with Y** 1,00,000
- **Sum assured with Z** 1,50,000
- **Total** 3,00,000

- **The property is destroyed with fire and loss is estimated 60,000. in such case all the insurer contributed toward loses in proportion to their share**

X $\frac{50{,}000}{3{,}00{,}000}$

Y $\frac{1{,}00{,}000}{3{,}00{,}000}$

Z $\frac{1{,}50{,}000.}{3{,}00{,}000}$

PRINCIPLE OF PROXIMATE CAUSE

- *The term proximate cause is a Latin word which means NEAREST OR IMMEDIATE CAUSE.*

- *In case ,loss is occur due to more than one causes then according to this principle, the nearest or the direct cause to loss is to be considered as the actual cause of the loss not the remote cause.*

Example Of Principle Of Proximate Cause

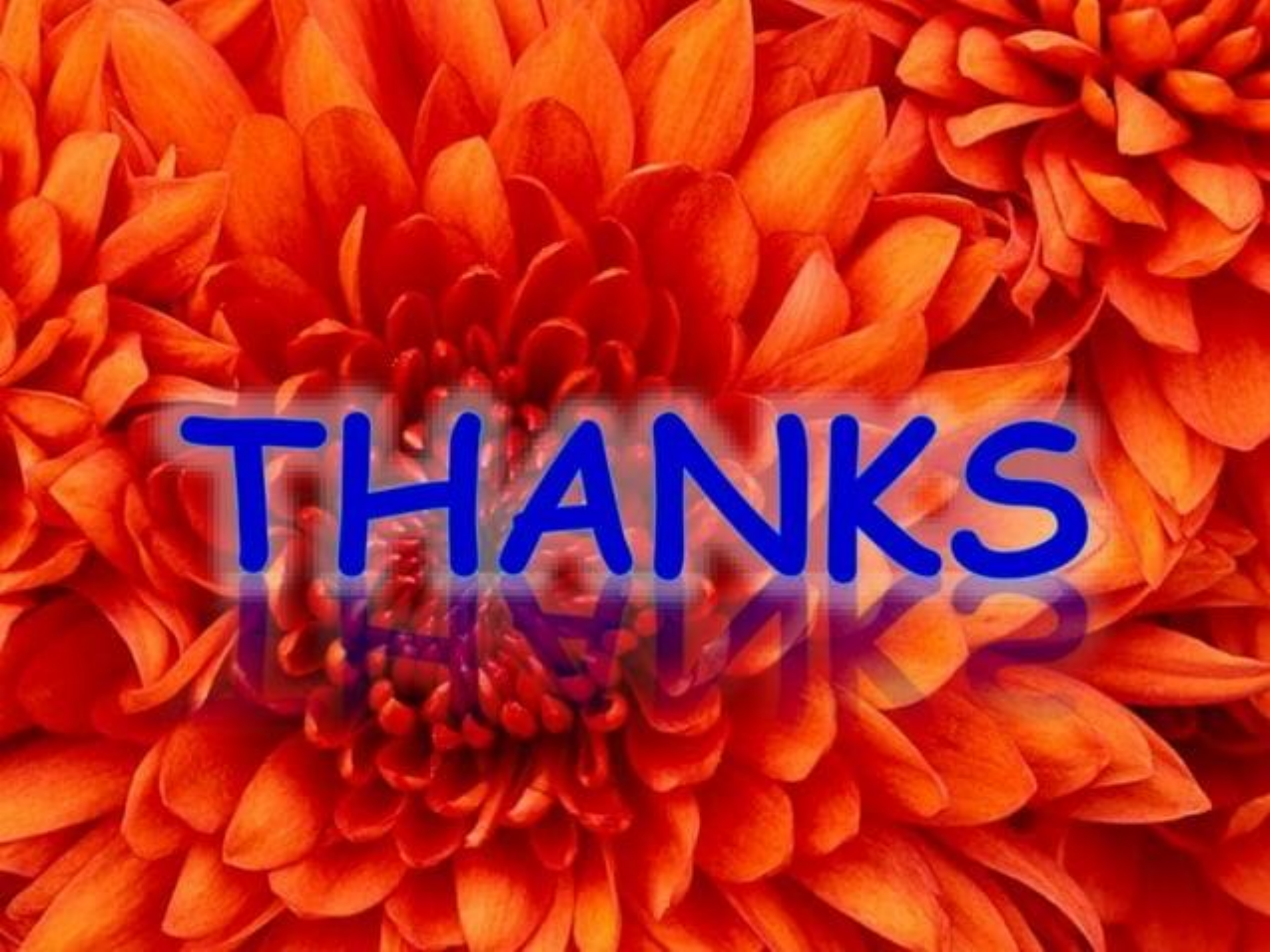
An insured suffered injuries in an accident and was admitted to the hospital.

While undergoing treatment he contracted an infectious disease which caused his death.

The court held that the proximate cause of death was the disease and original cause of death was merely a remote cause. As such , the claim is not payable under personal accident insurance.

PRINCIPLE OF MITIGATION OF LOSS

- Mitigation of loss means to minimise or decrease the severity of loss.
- Whenever the loss occurs , it is the duty of the insured to take all the reasonable steps to minimise the loss as would have been taken by any person who is not insured.
- As such, it is the duty of the insured to act to minimise the loss.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