Introduction

Insurance is based on the principle of economic co-operation. It is a pooling of risks spread over a number of persons or corporations. The premiums are collected from individuals/corporations and an insurance fund is created. This fund supplies the compensation to the contributors who suffered a contingent loss. It is now a specialized branch of industry.
Here are the basic principles of Insurance.

1. Principle of Indemnity

This means the insured cannot make a profit from an insurance claim i.e. The value of loss occurred due to the incident is not compensated back completely.

Example: If you have a four year motorcar and it is damaged, the insurance company will only give you the current value not the value when it was new.

2. Principle of Insurable Interest

The insured must have an insurable interest in the subject matter of insurance, i.e. he/she must be benefited by its safety or be prejudiced by its loss.

Examples:
• You can insure your own home , but not your friend’s home.
• In the same way you can take out Assurance on your wife’s life, but not that of your neighbour.

3. Principle of Utmost Good Faith

The insured and the insurer are bound with good faith, honesty and fairness.
• To have transparency in policy coverage as well as degree of risk, law compels disclosure of information between parties.

Examples:
• If the loss occurs, they will check the facts and if in-accurate details have been given they will not pay damages to incurred.
• If the policy terms does not satisfy the customer they will not take that policy as insurance.

4. Principle of Contribution

One can insure the same propriety item with more than one insurance company, the insured can’t demand more than total loss from all companies put together
In sample words there is no advantage insuring the same risk with two companies.

Example: If a man losses his watch during holiday and has its risk cover under household policy and also has a travel policy from some other company then both companies will share the claim amount but not more than indemnity.

Principles of Insurance

5. Principle of Subrogation

• Insurance company has the legal right to claim compensation from any other party that caused the accident.
• The policy conditions provide such subrogation rights before the claim is paid but recovery from third party can only be received after claim is paid.

Example: An electric goods business man lost some property due to faulty toaster and claims for compensation from an insurance company. He will not be allowed to complain and claim compensation from the manufacturer instead insurance company will do on his behalf and will get the compensation from manufacturer after it pays off claim to the business man.

6. Principle of Mitigation of Loss

Under this principle, the insured must give his 100% to save his property and not just sit and watch destruction of his property. All tough his property is insured his effort should be there to minimize the losses.

7. Principle of Causa Proxima

• The damage to the prosperity can take place due to many causes, the insurer company will look first cause of damage or the original cause of damage.
• If the original peril is cored in policy then only claim is paid. If not then rejected.

Example: A man keep his furniture outside during a fire in his house and the furniture gets rotten due to rain then inspection will be done by insurer whether-
• Rainfall began just after the fire or after some time of extinguishing it (then main peril is fire).
• Or, due to keeping it for long outside even after fire was extinguished and in between rain damaged it (claim would not be entertained).

Principles of Insurance

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