FUNDAMENTAL PRINCIPLES OF INSURANCE

INSURABLE INTEREST	INDEMNITY	SUBROGATION
CONTRIBUTION	UTMOST GOOD FAITH	PROXIMATE CAUSE

PRINCIPLE OF INSURABLE INTEREST

'Insurable Interest' is said to be existing when

- ✓ They stand to gain or benefit
- ✓ From the continued existence (safety)
- ✓ And well-being of the person or property insured
- ✓ And would suffer a financial loss
- ✓ In case of damage or loss of the person or property

Insurable Interest is the legal right of the person to insure the subject matter with which they have a legal relationship recognised by law.

IMPORTANCE OF INSURABLE INTEREST

Insurable Interest forms the legal basis for deciding whether insurance can be taken or not.

Financial interests of the policyholder in the subject matter of insurance is insured.

The relationship with subject matter of insurance should be recognised by law.

The subject matter of insurance policy must be legal and not against public policy.

EXISTENCE OF INSURABLE INTEREST

COMMON LAW

- SELF
- SPOUSE
- CHILDREN
- PARENTS
- ASSETS

CONTRACT

- EMPLOYER – EMPLOYEE
- COMPANY – KEYMAN
- PARTNER
- SURETY – DEBTOR
- CREDITOR – DEBTOR
- BANK – MORTGAGE
- OWNER - TENANT

STATUTE

- EXECUTORS
- TRUSTEES
- BAILEES

PROOF OF INSURABLE INTEREST

- AT THE TIME OF TAKING THE POLICY

Eg: Life Insurance

- AT THE TIME OF TAKING POLICY AN ALSO AT THE TIME OF MAKING THE CLAIM

Eg : Property Insurance, Marine Hull Insurance

- AT THE TIME OF MAKING THE CLAIM

Eg : Marine Cargo Insurance

PRINCIPLE OF INDEMNITY

According to the Principle of Indemnity, Insurance should place the inured in

- the same financial position
- Or close to the same financial position
- After the loss
- As they enjoyed before the loss
- Not in better position

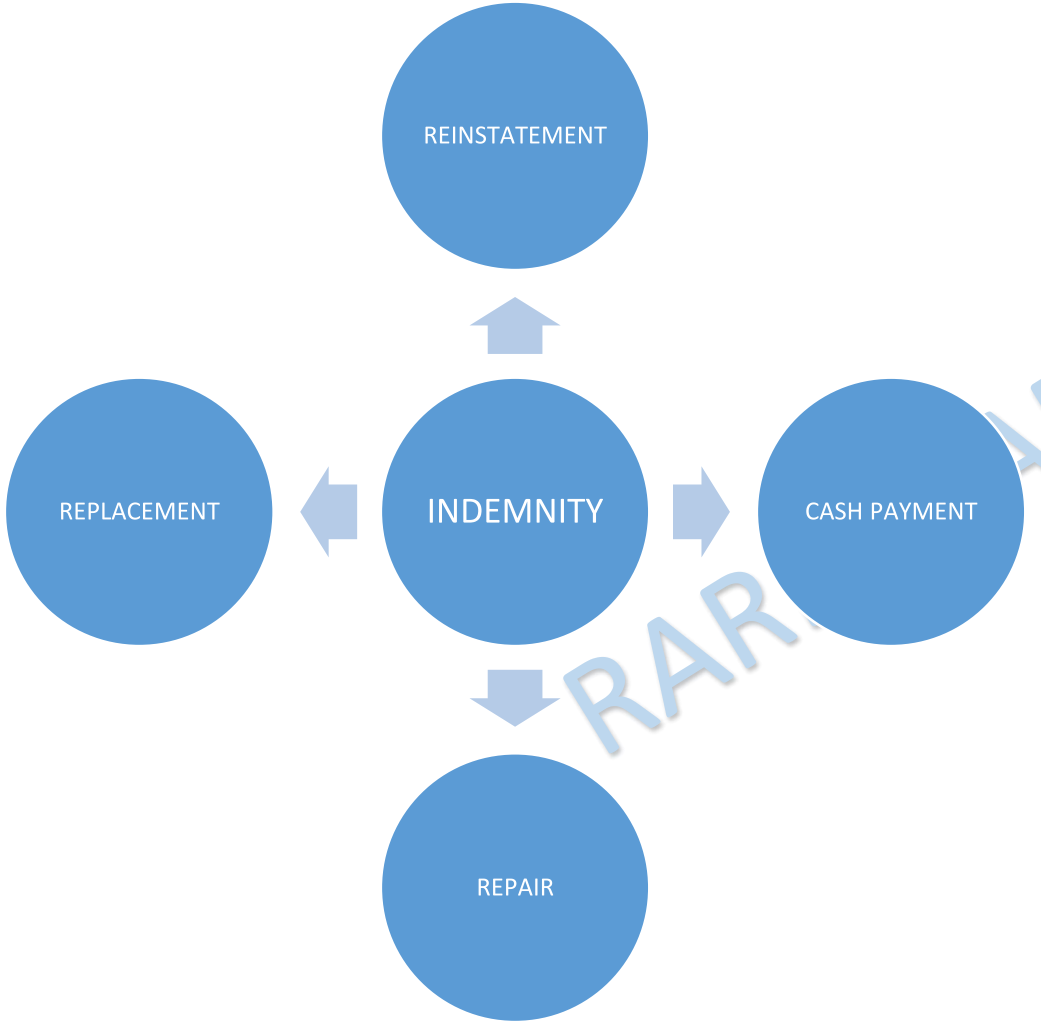
The insured should neither be better off nor worse off after claim settlement

- Principle of indemnity ensures that the insured does not profit from insurance. It also ensures that insured does not make claim for same loss from two insurance companies.

PRINCIPLE OF INDEMNITY – LIFE INSURANCE

- Principle of Indemnity does not apply to Life Insurance.
- Loss Assessment is not applicable.
- Claim from multiple insurers is possible.
- Full sum assured is paid.

PRINCIPLE OF INDEMNITY – GENERAL INSURANCE



PRINCIPLE OF SUBROGATION

- Principle of Subrogation is corollary of Principle of Indemnity.
- Once claim is settled, the right of the insured gets transferred to the Insurance Company.
- Subrogation is the process of transfer of rights from Insured to Insurer

Subrogation ensures

- Insurer gets the right to recover damages from the party who caused.
- Insured does not profit by claiming from another insurance company or the party who caused damage
- Insured is not compensated more than once for same claim

PRINCIPLE OF SUBROGATION

- Subrogation ensures that Insurance company does not suffer due to negligence / mistake / irresponsible behaviour / carelessness of third party.

- Subrogation rights are transferred to Insurer after payment of claim
- In Marine Insurance, Subrogation rights are transferred even before settlement of claim to protect the interests of insurer.

- Insurer can not profit from Subrogation as Insurance company can not recover more than what it paid as claim.

PRINCIPLE OF CONTRIBUTION

- Principle of Contribution is also corollary of Principle of Indemnity.

Principle of Contribution ensures

- The insured can not recover their loss from more than one insurer.
- The insured does not profit by making separate claims to multiple insurer
- Each insurer pays only their proportionate share of loss

Principle of Contribution also do not apply to Life Insurance.

PRINCIPLE OF UTMOST GOOD FAITH

- Insurance contracts are based on trust.
- Relevant facts are known to one party (proposer)

MATERIAL FACTS

Material Fact is one who affects the underwriting decision to accept / reject the risk or determine rates / terms / conditions, if accepted.

Material facts determines

Assessment of Risk

Premium

PRINCIPLE OF UTMOST GOOD FAITH

NON-DISCLOSURE

The fact must be known to proposer

The fact must not have been known to insurer

The fact is a material fact

The fact is deliberately not disclosed to insurer with the intention of obtaining better terms of insurance

MIS-REPRESENTATION

Giving wrong information

INDISPUTABILITY OR INCONTESTABILITY CLAUSE

SECTION 45 OF INSURANCE ACT, 1938

- A Policy can not be called in question after THREE YEARS of it being issued.
- Fraudalent claims can be rejected anytime.
- Applies to Life Insurance only.
- Onus on the insurer to prove the claim is fraud.

CONCEPT OF PROXIMATE CAUSE

- Concept of General Insurance.
- The dominant, effective or operative cause of an event is Proximate Cause.
- Proximate Cause determines whether the cause of loss is due to insured peril or excluded peril.