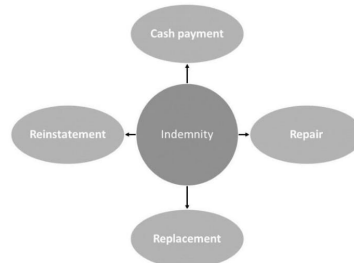


In most types of non-life insurance policies, which deal with insurance of property and liability, the insured is compensated to the extent of actual amount of loss i.e. the amount of money needed to replace lost or damaged property at current market prices less depreciation.

Indemnity might take one or more of the following modes of settlement:

- Cash payment
- Repair of a damaged item
- Replacement of the lost or damaged item
- Restoration, (Reinstatement) for example, rebuilding a house destroyed by fire

Diagram 1: Indemnity



But, there is some subject matter whose value cannot be easily estimated or ascertained at the time of loss. For instance, it may be difficult to put a price in the case of family heirlooms or rare artefacts. Similarly in marine insurance policies it may be difficult to estimate the extent of loss suffered in a ship accident half way around the world.

In such instances, a principle known as the Agreed Value is adopted. The insurer and insured agree on the value of the property to be insured, at the beginning of the insurance contract. In the event of total loss, the insurer agrees to pay the agreed amount of the policy. This type of policy is known as “**Agreed Value Policy**”

f) Subrogation

Subrogation follows from the principle of indemnity.

Subrogation means the transfer of all rights and remedies, with respect to the subject matter of insurance, from the insured to the insurer.