BBA 2nd Year 2nd Semester- 2020

Course Code: 208 (Insurance)

Book Recommended: Insurance Principles and Practice

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Insurance

Definition:

A. **From functional point of view-**Insurance is defined as

- a co-operative device to spread the risk
- The system to spread the risk over a number of persons who are insured against the risk.
- The principle to share the loss of each member of the society on the basis of probability of to their risk.
- The method to provide security against losses to the insured.

B. **From contractual point of view-**

Insurance is defined as to which a sum of money as a premium is paid in consideration of the insurer's incurring the risk of paying a large sum upon a given contingency. Certain sum, called premium, is charged in consideration, A large sum is guaranteed to be paid by the insurer who received the premium against the mentioned consideration, A certain definite sum will be made payment, The payment is made only upon a contingency.

Nature of Insurance

- ❖ Sharing of Risk
- ❖ Co-operative Device
- ❖ Value of Risk
- ❖ Payment at Contingency
- ❖ Amount of Payment
- ❖ Large Number of Insured Person
- ❖ Insurance is not a gambling/ wagering
- ❖ Insurance is not a charity

The Role and Importance of Insurance

- ❖ Provide safety and security
- ❖Generates financial resources
- ❖Life insurance encourages savings
- ❖Promotes economic growth
- ❖Medical support
- ❖Spreading of risk
- ❖Source of collecting funds

Risk: Risk is uncertainty of a financial loss. – **Mishra**

Risk is defined as uncertainty concerning a possible loss. Another words, risk is the variation in possible outcomes of an event based on chance. -Dorfman

3 Types of Risk in Insurance

A. Financial and Non-Financial Risks

• **Financial risks** are the risks where the outcome of an event (i.e. event giving birth to a loss) can be measured in monetary terms.
• The losses can be assessed and a proper money value can be given to those losses.
• Example-Theft of a property which may be a motorcycle, motor car, machinery, items of household use or even cash. The losses can be replaced, reinstated or repaired or even a corresponding reasonable financial support (in case of death) can be thought about. We would call financial risks as insurable risks and these are indeed the main subjects of insurance.

Non-Financial risks are the risks the outcome of which cannot be measured in monetary terms. Examples can be:

- o Choice of a car, its brand, color, etc.
- o Selection of a restaurant menu,
- o Career selection, whether to be a doctor or engineer etc.
- o Choice of bride/bridegroom,
- o Choice of publicity etc. Since the outcome cannot be valued in terms of money, we shall call these non-financial risks as uninsurable.

B. Pure Risk and Speculative Risks

Pure risk is the potential for losses where there is no viable opportunity for any gain. Insuring an automobile is an example of pure risk. If the insured auto is involved in an auto accident, there is most definitely going to be some sort of damage (loss). Pure risks are those risks where the outcome shall result in loss only or at best a break-even situation. We cannot think about a gain-gain situation. The result is always unfavorable, or maybe the same situation (as existed before the event) has remained without giving birth to a profit (or loss).

Speculative risks are those risks where there is the possibility of gain or profit. At least the intent is to make a profit and no loss (although loss might ensue). Investing in shares may be a good example. Pricing, marketing, forecasting, credit sale, etc. are yet examples falling within the domain of speculation.

C. Fundamental and Particular Risks.

Fundamental risks are the risks mostly emanating from nature. These are the risks that arise from causes that are beyond the control of an individual or group of individuals. The losses arising out of such causes may be catastrophic in dimension and felt by a huge number of populations, the society or by the state although an individual may be a part of that catastrophe. The common examples are:

- Flood & Cyclone, Subsidence & landslip,
- Earthquake & volcanic eruption, Tsunami,

Normally fundamental risks were not supposed to be insurable because of the magnitude and these were considered to be the responsibility of State. Now because of demand and insurers' strength, these risks are easily insurable.

Particular risks are which usually arise from actions of individuals or even group of individuals. These are mostly men created because of their negligence, error in judgment, carelessness, and disregard for law or respect. We may call these as risks of personal nature. The common examples are:

- Fire, Explosion,
- Burglary, housebreaking, larceny, and theft,
- Stranding, Sinking, Capsizing, Collision in case of a ship, including cargo loss

Insurance Contract

Insurance is a contract between two parties one party insurer undertakes in exchange of a fixed sum called premium to pay other party called insured a fixed amount of money on the happening of a certain event. Certain sum, called premium, is charged in consideration,

A large sum is guaranteed to be paid by the insurer who received the premium against the mentioned consideration,

A certain definite sum will be made payment, The payment is made only upon a contingency.

Elements of Insurance Contract

A. General Elements of Insurance Contract

- ❖Agreement (offer and acceptance)
- ❖Legal consideration (Premium)
- ❖Competent to make contract (not minor, man of sound mind, not disqualified by any law)
- ❖Free consent (free from coercion, undue influence, fraud, misrepresentation, mistake)
- ❖Legal object (not forbidden by law, not immoral, not opposed to public policy, doesn't defeat the provision of any law)

Special Elements /Principles of insurance

- ❖ Principles of Insurable Interest
- ❖ ,, ,, Utmost Good Faith
- ❖ ,, ,, Indemnity
- ❖ ,, ,, Subrogation
- ❖ ,, ,, of Causa Proxima

1. Insurable Interest

The insurable interest is pecuniary interest whereby the policy-holder is benefited by the existent of the subject-matter and is prejudiced death or damage of the subject-matter The principle of insurable interest states that the person getting insured must have insurable interest in the object of insurance. Essentials:

❖ There must be a subject-matter to be insured.

❖ Monetary relationship between the policy-holder and the subjectmatter.

❖ relationship between the policy-holder and the subject-matter should be recognized by law.

❖ policy-holder is economically benefited by the survival or existence and or suffer loss at the death or damage of the subject-matter.