PRINCIPLES OF INSURANCE

1.UTMOST GOOD FAITH:- A contract found on utmost good faith,Both the insurer and the insured should display good faith towards each other in regard to the contract. E.g,Mr. X is a heart patient but he hides this fact to the LIC while taking a life policy. On his death due to a heart attack,LIC can refuse to pay compensation to his legal representatives because a material fact was not disclosed by the insured.

2. INSURABLE INTEREST:- The insured must have an insurable interest in the subject matter of insurance.Insurable interest means some pecuniary interest in the subject matter of the insurance contract.e.g. a businessman has insurable interest in his stock of goods.It should be present at the time of taking policy in case of Life Insurance,both at the time of taking policy & at the time of loss, and at the time of loss in the case of marine insurance.

3. INDEMNITY:- All insurance contracts of fire or marine insurance are contracts of indemnity. The insurer undertakes to compensate the insured for the loss caused to him/her due to damage or destruction of property insured.This principle of indemnity is not applicable to life insurance because one cannot estimate the loss due to the death of a person.

4. PROXIMATE CAUSE(CAUSA PROXIMA):-According to this principle,when the loss is the result of two or more causes,the proximate cause of loss should be taken into consideration.The insurance company is not liable for the remote cause.e.g. If there had been no fire and goods would have destroyed due to excessive heat,the insurance company would not be liable to pay compensation.

5.SUBROGATION:_After the insured is compensated for the loss or damage of the property insured by him,the right of ownership of such property passes on to the insurer.This is because the insured cannot make any profit by selling the damaged property.The isnured has not right over the damaged parts since he has already got compensation for the loss,because he gets the insurance claim and gets damaged parts replaced with new ones.

6. Contribution:- When more than one insurance policy is taken to cover the same risk ,then it is known as “Double Insurance”.then all the insurers will contribute the amount of loss in proportion to the amount assured by each of them and compensate him for the actual amount of loss.The insured cannot claim total loss from each insurer because he has no right to recover more than the full amount of his actual loss.e.g. A businessman gets his factory insured against fire for Rs. 5,00,000 with insurer A and Rs. 3,00,000 with insurer B. Due to fire a loss of Rs. 1.60,000 occurred.Then,insurers A and B will contribute the loss in the ration 5:3 and will be liable to pay Rs. 1,00,000(5/8*1,60,000) and Rs. 60,000(3/8*1,60,000) respectively to the businessman.

7. Mitigation of loss:- According to this principle,the insured must take reasonable steps to minimize the loss or damage to the insured property:otherwise the claim from the insurance company may be lost.e.g if goods kept in a store house catch fire and the ownder of the goods does not try to save them from fire just because there is an insurance cover,he will lose insurance claim.