

PRINCIPLES

INSURANCE



# ORIGIN OF INSURANCE

- ❖ Originated between 1000 BC & 2000 BC in India
- ❖ Insurance appeared mostly with foreign trade & ocean transport
- ❖ Piracy & natural calamities made a new form of insurance “ Marine Insurance”
- ❖ Fire, Life, etc gained importance later
- ❖ Insurance business started in India in 1818 with Oriental Life Insurance Company in Calcutta
- ❖ First General Insurance Company established in the year 1850 named Triton Insurance Company with major British share

❖ In 1907 Indian Merchantile Insurance Company Ltd was set up by Indians

❖ In 1956 LIC was established

❖ The general insurance business was nationalised after General Insurance Business Act 1972

❖ Later it was undertaken by GIC & its four subsidiaries.

❑ The Oriental Insurance Company Limited

❑ The New India Assurance Company Limited

❑ National Insurance Company Limited

❑ United India Insurance Company Limited

# DEFINITION

## FUNCTIONAL

Insurance is a source of distribution of loss of few persons into many persons

**ROCK FELL**

## CONTRACTUAL

Insurance is a contract whereby one party agrees to pay a certain specified sum, on the happening of a particular event, to the other party who in turn agrees to pay a sum in the form of premium for its consideration

**N S KOTHARI & PRAVEEN BAHL**

## FUNCTIONAL

- Co-operative system
- Risk spreads over a large number of persons
- Security to the insured person against the probable loss

## CONTRACTUAL

- Insurance is a contract
- There must be a consideration
- Risk of one party is assumed by another
- Sum is payable on a specified contingency



# INSURANCE CONTRACT



## OFFER AND ACCEPTANCE

- ✓ Mutually agreed by both the party

## CAPACITY TO CONTRACT

- ✓ Legally competent to enter into the contract
- ✓ Mentally unsound persons , minors are incapable of entering contract

## FLOW OF CONSIDERATION

- ✓ Insured : Premium paid to the insurer
- ✓ Insurer : promise for indemnification

## ABSENCE OF FRAUD

- ✓ The contract becomes void in the event of any fraudulent acts by either party

## LEGALITY

- ✓ Contract that violates any statute or public policy

# BASIC TERMS

## 1. INSURED

- Person who seeks protection
- Against a risk
- To whom the insurance policy is issued



## 2. INSURER / INSURANCE COMPANY/ ASSURANCE UNDERWRITER

- The institution which insures the risk of loss

### **3. INSURANCE POLICY**

- The document which contains the terms & conditions of the insurance contract

### **4. SUM INSURED / POLICY AMOUNT**

- The amount for which the insurance contract is entered into

### **5. PREMIUM**

- The amount which is paid by the insured to the insurer
- As a consideration of the insurance contract

### **6. PREMIUM INSTALMENTS**

- Premium paid once a year or half yearly or quarterly or monthly



# **FUNCTIONS**

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graph TD; A[FUNCTIONS] --> B[PRIMARY]; A --> C[SECONDARY]; B --> D[Provides certainty]; B --> E[Provides protection]; B --> F[Risk - sharing]; C --> G[Prevention of loss]; C --> H[Provides capital]; C --> I[Improves efficiency]; C --> J[Helps economic progress];
```

## **PRIMARY**

- Provides certainty
- Provides protection
- Risk - sharing

## **SECONDARY**

- Prevention of loss
- Provides capital
- Improves efficiency
- Helps economic progress

# NATURE & CHARACTERISTICS

1. Sharing of risk
2. co-operative device
3. Value of risk
4. Payment of contingency
5. Fixed amount of payment
6. Large number of insured persons
7. Insurance is not gambling
8. It is not charity

