

# FUNCTIONS OF INSURANCE

Subject: Banking and insurance

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**PRIMARY  
FUNCTIONS**

PROVIDING  
PROTECTION

COLLECTIVE RISK  
BEARING

EVALUATING  
RISK

PROVIDE  
CERTANITY

**SECONDARY  
FUNCTIONS**

PREVENTING  
LOSSES

COVERING LARGE  
RISK WITH SMALL  
CAPITAL

HELPS IN  
DEVELOPMENT  
OF LARGER  
INDUSTRIES

PROVIDES  
CAPITAL

**OTHER  
FUNCTIONS OF  
INSURANCE**

SAVING AND  
INVESTMENT  
TOOL

MEDIUM OF  
ERANING  
FOREIGN  
EXCHANGE

RISK FREE TRADE

# ***PURPOSE OF INSURANCE***

- There are at least *two reasons* why insurance is purchased.
- The first, and perhaps most important, is for protection against loss from some catastrophic event.
- A car accident, an illness or injury, or death can lead to serious financial consequences. Insurance helps to provide protection against these financial losses.
- Another reason for purchasing insurance is that some *insurance is required by law*.
- In INDIA , car owners are required to purchase automobile insurance.
- You must provide your insurance information when registering a car. No insurance, no registration. It's as simple as that.

# ***PURPOSE OF INSURANCE***

Insurance is a contract between an insurance company and you under which you agree to pay for the insurance (called insurance premiums), and the insurance company agrees to pay for losses under certain carefully defined circumstances.

# ***NEED OF INSURANCE***

- Spread the cost of losses
- Reduces the need for individual insurance funds
- Provides investment capital for governments and industry
- Encourages loss-prevention activities

# *Six Principles Of Insurance*

Each of the six principles of insurance defines a fundamental rule of action or conduct that represents the legal side of the insurance industry. In total, they make up legal, binding guidelines for entering into an insurance contract and for preparing, lodging and managing lawful insurance claims.



# *1. Utmost Good Faith*



**Utmost Good Faith, What  
the Insurer and Insured  
should expect.**

- It is the primary duty of the applicant to voluntarily and fully disclose all facts which are material to the risk being proposed.
- It is also the duty of the insurance company to disclose all the benefits, risks, and materials facts to the applicant.

## 2. Insurable Interest

- The insured must have insurable interest in the subject matter of insurance. In the general insurance, it must be present at the time of the taking policy and also at the time of the occurrence of the loss.
- The owner of the party is said to have the insurable interest as long as he is the owner of it. It is applicable to all contracts of insurance.

### INSURABLE INTEREST

- **In Life Insurance :** It must exist at the time of taking insurance.
- **In Marine Insurance:** It must exist at the time of loss.
- **In Fire Insurance:** It must exist both at the time of effecting as well as at the time of loss.





# 3. Indemnity



- Indemnity means security or compensation against loss or damage. Such principle of insurance states that an insured may not be compensated by the insurance company in an amount exceeding the insured's economic loss.
- This is a regulatory principal. This principle is observed more strictly in property insurance than in life insurance.

## 4. Proximate Cause

The damage to the prosperity can take place due to many causes. The insurer company will first look cause of damage or original cause of damage. If the original perils core in policy the only claim is paid, if not then rejected.



**What Does  
That Mean?**

**proximate cause**

## 5. *Subrogation*

# Subrogation

Real money that's attainable and goes back in your budget



- Subrogation is a principle of substitution and recovery. The principle of subrogation enables the insured to claim the amount from the third party responsible for the loss.
- It allows the insurer to pursue legal methods to recover the amount of loss.

# 6. Contribution

The contribution principle states that if you can hold more than one insurer liable for your losses, they have to share the loss.



## CONTRIBUTION



- ◆ The amount which each insurer has to contribute to the cost of a loss when the loss is covered by two or more insurers



To know more about how these principles affect your insurance plan and to know more about insurance plans suitable for you, Visit Direct Insurance Network website at <http://directinsurancenetwork.com>.