Good Morning Students
This lesson is for class 10th for the subject of 'Commercial Studies'. The topic for today is 'Principles of Insurance and types of Insurance' which is covered in chapter 13 titled 'Logistics and Insurance' of your book.

This lesson is being submitted to you on 11.11.24.

Principles of Insurance:
All types of insurance contracts are based on certain fundamental principles which are given below:

(1) Utmost Good Faith: An insurance contract is based on utmost good faith on the part of both the parties. It is the duty of both the parties to disclose all the facts relating to the insurance. The proposer (who wants to take policy) must disclose all the material facts relating to subject to be insured because the insurer (insurance company) does not have any access about the subject to be insured. In case the proposer conceal any material fact (that can effect the judgement of insurer) about the subject to be insured, the insurer can repudiate (cancel) the contract of insurance.

2. Insurable Interest:-

Insurable interest is an essential element in every insurance contact. In the absence of insurable interest, a contract of insurance becomes a wegering contract which is null and void and unenforceable at law.

Insurable interest is financial interest in the subject matter of the insurance. A person is said to have an insurable interest in the subject matter of the insurance, if he is benefitted by its existence and suffers a loss by its destruction (any thing happens to subject matter of insurance).

For example, a trader has insurable interest in his goods and creditor has insurable interest in the life of the debtor till the loan is repaid.

3. Indemnity:-

Indemnity means a promise to compensate in case of loss. The object of every insurance contract is to place the insured as nearly as possible in the same financial position after the loss as he was before the loss. The insured is entitled to recover from the insurer only the amount of loss actually suffered. The maximum amount of compensation will be upto the sum insured or the value of the policy. The insured will not be allowed to make any profits out of the happening of any loss

covered by insurance contract.
All insurance contracts except those of life insurance are contracts of indemnity. This principle of indemnity is not applicable in case of life insurance because no amount of money can compensate for the loss of life.

4. Doctrine of Subrogation:
It implies that after indemnifying the insured for his loss, the insurer becomes entitled to all the rights and remedies relating to the property insured. The insurer shall step into the shoes of the insured.
For example, X insures his house against fire for ₹ 50,000. The house is put on fire by his neighbour Y. X gets a claim of ₹ 50,000 from the insurance company. Later on he also recovers ₹ 30,000 from his neighbour Y. Now X will have to return ₹30,000 to the insurance company.
Doctrine of subrogation is applicable to all contracts of insurance except to the life insurance.

5. Contribution:
It means the right of an insurer who has paid claim under an insurance policy to call upon other insurers to contribute to the payment. When an insured has taken more than one policy on the same property, he shall not be entitled to claim

from each insurer more than the total loss from all insurers put together.
The contributions payable by different insurers can be calculated with the help of following formule :.

$$\frac{\text{Sum insured with an insurance Company}}{\text{Total sum insured with all the insurance companies.}} \times \text{Amount of loss}$$

For example, X gets an insurance policy of ₹ 50,000 from A and Co., ₹ 30,000 from B and Co. and ₹ 20,000 from C and Co. for the same property. He suffers a loss of ₹ 40,000 due to fire. X will the claim from

$$\text{A and Co} = \frac{50000}{50000+30000+20000} \times 40000 = ₹\,20,000$$

$$\text{B and Co} = \frac{30,000}{50000+30000+20000} \times 40000 = ₹\,12,000$$

$$\text{C and Co} = \frac{20,000}{50000+30000+20000} \times 40000 = ₹\,8,000$$

This is called the principle of contribution.

6 Causa Proxima (Proximate Cause):-
In a contract of insurance, the insurer (company) is liable for only insured perils (risks) or the cause which has been nearest to the loss but not for expected or uninsured perils. Doctorine of 'proximate cause' means that the insurance company is liable for those risks which are insured and not for remote cause. This

could be understood from the following example.
For example, all passengers in an air flight are insured against death in the event of a plane crash. One passenger dies due to heart attack in the plane itself. The insurance company is not liable to pay compensation because plane crash is not the proximate cause of death.

7. Mitigation of Loss:-
According to this principle, it is the duty of the insured to take all possible steps to minimise the loss or damage in case of a mishap. The insured should not be careless in case of event of any accidental loss just because the property is insured. He should behave like a prudent person and make reasonable efforts to save the insured property.

Types of Insurance.
All types of insurance can be classified into two broad categories
(i) Life Insurance (ii) Non-Life Insurance

(i) Life Insurance:-
Life insurance may be defined as 'a contract whereby the insurer, in consideration of a premium, undertakes to pay certain sum of money, either on the death of the insured or on the expiry of a specified

period, whichever is earlier'.
The sum assured is paid to the policy holder on the expiry of the policy. In case of death before the expiry, the sum is paid to his nominees.
Life insurance is not a contract of indemnity because sum assured is always payable and only the time of payment is uncertain. Therefore, life insurance is also called 'Life Assurance'.

2. Non - Life Insurance / General Insurance :-
It includes, fire insurance, health insurance, marine insurance, motor insurance etc. Following general insurance policies are included in the syllabus :-

(i) Health Insurance :-
Health insurance means insurance for the protection of health against various types of diseases. In case of ill health, ~~to~~ the insured person receives the cost of treatment/hospitalisation upto the insured amount.
Mediclaim is the most popular health insurance policy. Under this policy, the insured person gets cashless facility from the specified hospitals. The cost of treatment in the hospital is directly paid for by the insurance company to the hospital.

(ii) Fire Insurance :- Fire insurance may be defined as a contract in writing whereby the insurance company in consideration of a sum of money (called premium) undertakes to indemnify the insured for any loss or damage to the insured property or goods caused by accidental fire. A fire insurance policy is generally for one year. Fire insurance is a contract of indemnity.

(iii) Marine Insurance:-

Marine insurance is a contract of indemnity whereby the insurance company undertakes to indemnify the insured for the loss or damage to the ship or cargo or freight on account of marine adventure. It is a contract under which the insurer agree to compensate the insured against risks incidental to marine adventure. A policy of marine insurance may be taken out for a particular period or for a particular voyage.

With this, I am ending my topic here. Write the answers of following questions in your note-books.

Q1. Explain Any two principles of Insurance.
Q2. What is life Insurance?
Q3. Explain various types of Non-life Insurance.

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