# TRINITY COLLEGE FOR WOMEN NAMAKKAL
# DEPARTMENT OF COMMERCE

## FUNDAMENTALS OF INSURANCE

## 19UCCE04/19UCME04 -EVEN SEMESTER

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# AGENDA

1. Meaning and Definition of insurance
2. General principles of insurance
3. Benefits of insurance
4. Meaning of Life insurance
5. Types of life insurance policies

# MEANING OF BUSINESS LAW

- An insurance is a legal agreement between an insurer (insurance company) and an insured (individual), in which an insured receives financial protection from an insurer for the losses he may suffer under specific circumstances.

- The literal meaning of insurance would be an assurance against unforeseen and unfortunate loss. This means, that if you encounter a less than normal event in your normal course of life, and happen to incur a financial loss because of it, you can be compensated.

- For example, you met with an accident on your way to the office in your car and the car suffers damage. Your insurer can reimburse the repair expenses in this case. However, the insurer will not reimburse normal wear and tear like a headlamp stopped working..

- Insurance is defined as a contract, which is called a policy, in which an individual or organisation receives financial protection and reimbursement of damages from the insurer or the insurance company. At a very basic level, it is some form of protection from any possible financial losses.

GENERAL PRINCIPLES OF INSURANCE:

1) Principal of Utmost Good Faith

Both parties, insurer and insured should enter into contract in good faith. Insured should provide all the information that impacts the subject matter Insurer should provide all the details regarding insurance contract.For example – John took a health insurance policy. At the time of taking policy, he was a smoker and he didn't disclose this fact. He got cancer. Insurance company won't pay anything as John didn't reveal the important facts.

2) Principle of Insurable Interest

Insured must have the insurable interest on the subject matter. In case of life insurance spouse and dependents have insurable interest in the life of a person. Corporations also have insurable interests in the life of it's employees. In case of life or marine insurance, insured must be the owner both at the time of entering of entering into the insurance contract and at the time of accident.

3) Principle of Indemnity

Insured can't make any profit from the insurance contract. Insurance contract is meant for coverage of losses only. Indemnity means a guarantee to put the insured in the position as he was before accident. This principle doesn't apply to life insurance contracts.

4) Principle of Contribution

In case the insured took more than one insurance policy for same subject matter, he/she can't make profit by making claim for same loss more than once.

5) Principle of Subrogation

After the insured gets the claim money, the insurer steps into the shoes of insured. After making the payment insurance claim, the insurer becomes the owner of subject matter.For example :- Ram took a insurance policy for his Car. In an accident his car totally damaged. Insurer paid the full policy value to insured.

6) Principle of Loss Minimisation

This principle states that the insured must take all the necessary steps to minimize the losses to inured assets.For example – Ram took insurance policy fo his house. In an cylinder blast, his house burnt. He should have called nearest fire station so that the loss could be minimised.

7) Principle of Causa Proxima

The Word “Cause Proxima” means “Nearest Cause”. An accident may be caused by more than one cause. In case property insured for only one cause. In such case nearest cause of the accident is found out. Insurer pays the claim money only if the nearest cause is insured.

## BENEFITS OF LIFE INSURANCE

1. Risk Coverage: Insurance provides risk coverage to the insured family in form of monetary compensation in lieu of premium paid.

2. Difference plans for different uses: Insurance companies offer a different type of plan to the insured depending on his need for insurance. More benefits come with the more premium.

3. Cover for Health Expenses: These policies also cover hospitalization expenses and critical illness treatment.

4. Promotes Savings/ Helps in Wealth creation: Insurance policies also come with the saving plan i.e. They invest your money in profitable ventures.

5. Guaranteed Income: Insurance policies come with the guaranteed sum assured amount which is payable on happening of the event.

6. Loan Facility: Insurance companies provide the option to the insured that they can borrow a certain sum of amount. This option is available on selected policies only.

7. Tax Benefits: Insurance premium is tax deductible under section 80C of the income tax Act, 1961.

# Life insurance

Life Insurance is different from other insurance in the sense that, here, the subject matter of insurance is the life of a human being. The insurer will pay the fixed amount of insurance at the time of death or at the expiry of a certain period.At present, life insurance enjoys maximum scope because life is the most important property of an individual. Each and every person requires insurance. This insurance provides protection to the family at the premature death or gives an adequate amount at the old age when earning capacities are reduced.

TYPES OF LIFE INSURANCE POLICIES

1. Term insurance plan

As the name says Term insurance plan are those plan that is purchased for a fixed period of time, say 10, 20 or 30 years. As these policies don't carry any cas value their policies do not carry any maturity benefits, hence their policies are cheaper as compared to other policies. This policy turns beneficial only on the occurrence of the event.

2. Endowment policy

The only difference between the term insurance plan and the endowment policy is that endowment policy comes with the extra benefit that the policyholder will receive a lump sum amount in case if he survives until the date of maturity. Rest details of term policy are same and also applicable to an endowment policy.

3. Unit Linked Insurance Plan

These plans offer policyholder to build wealth in addition to life security. Premiur paid into this policy is bifurcated into two parts, one for the purpose of Life insurance and another for the purpose of building wealth. This plan offers to partially withdraw the amount.

4. Money Back Policy

This policy is similar to endowment policy, the only difference is that this policy provides many survival benefits which are allotted proportionately over the period of the policy term.

5. Whole Life Policy

Unlike other policies which expire at the end of a specified period of time, this policy extends up to the whole life of the insured. This policy also provides the survival benefit to the insured. In this type of policy, the policyholder has an option to partially withdraw the sum insured. Policyholder also has the option to borrow sum against the policy.

6. Annuity/ Pension Plan

Under this policy, the amount collected in the form of a premium is accumulated as assets and distributed to the policyholder in form of income by way of annuity or lump sum depending on the instruction of insured.

# THANK YOU

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