

Principles of Insurance

In insurance, there are 7 basic principles that should be upheld, ie Insurable interest, Utmost good faith, proximate cause, indemnity, subrogation, contribution and loss of minimization.

1. Principle of Utmost Good Faith

This is a primary principle of insurance. According to this principle, you have to disclose all the information that is related to the risk, to the insurance company truthfully.

You must not hide any facts that can have an effect on the policy from the insurer. If some fact is disclosed later on, then your policy can be cancelled. On the other hand, the insurer must also disclose all the features of a life insurance policy.

2. Principle of Insurable Interest

According to this principle, you must have an insurable interest in the life that is insured. That is, you will suffer financially if the insured dies. You cannot buy a life insurance policy for a person on whom you have no insurable interest.

3. Principle of Proximate Cause

While calculating the claim for a loss, the proximate cause, i.e., the cause which is the closest and the main reason for a loss should be considered.

Though it is a vital factor in all types of insurance, this principle is not used in Life insurance.

4. Principle of Subrogation

This principle comes into play when a loss has occurred due to some other person/party and not the insured. In such a case, the insurance company has a legal right to reach that party for recovery.

5. Principle of Indemnity

The principle of indemnity states that the insurance will only cover you for the loss that has happened. The insurer will thoroughly inspect and calculate the losses. The main motive of this principle is to put you in the same position financially as you were before the loss. This principle, however, does not apply to life insurance and critical health policies.

6. Principle of Contribution

According to the principle of contribution, if you have taken insurance from more than one insurer, both insurers will share the loss in the proportion of their respective coverage.

If one insurance company has paid in full, it has the right to approach other insurance companies to receive a proportionate amount.

7. Principle of Loss Minimisation

You must take all the necessary steps to limit the loss when it happens. You must take all the necessary precautions to prevent the loss even after purchasing the insurance. This is the principle of loss minimization.