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Insurance

Mr. Sachith Karunarathne

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JAYASEKERA MANAGEMENT CENTRE (PVT) LTD
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JMC Jayasekera Management Centre (Pvt) Ltd
Pioneers in Professional Education
65/2A, Chittampalam Gardiner Mawatha, Colombo 02 | T: +94 112 430451 | E: info@jmc.lk | F: +94 115 377917

Insurance

Insurance is a mean of risk management. The uncertain loss/risk is hedged beforehand. The insurance company (Insurer) offers insurance to persons who want to manage their risk. Insurance policy is a document detailing the terms and conditions of a contract of insurance.

The policy holder pays an amount periodically. Premium is the amount charged for the insurance coverage. The insurer promises to pay for loss caused by risks covered under the policy.

The contract is called the insurance policy; this includes all the details of the insurance agreement. The policy holder pays an amount periodically. When a loss is faced which is within the agreed terms and conditions, the policy holder can claim for his damage from the insurance company.

1. Fundamental Features of insurance.

1. Valid contract

There should have valid contract agreed by both parties.

2. Insurable interest

This means that when the insured

Asset/subject is damaged; there should be financial loss to the policy holder. Further, the policy holder should have a legal right over the asset/subject.

3. Utmost good faith

The policy holder and the insurer should act in good faith. Both should not disclose any false information to construct the agreement.

4. Indemnity

The insurance company indemnifies or compensates the insured in the case of certain losses only up to the amount of the damage. Any additional profits to the policy holder are avoided though this concept.

5. Risk must attach

There should be some risk that the insurance policy covers, if no risk is covered, need not insure.

6. Contribution

The allows a particular asset to be insured in various insurance companies under different insurance policies. However, when the damage is caused to the asset, the policy holder has no right to gain amounts from all the insurance companies that will exceed the loss of damage.

7. Subrogation

Whether as property is insured or not, when such property is damaged by a third party, the property owner has the right to claim damages from the third party.

8. Proximate cause

The cause of loss must be covered under the insuring agreement of the policy. Ex- if the property is has flood insurance, but the property is damaged by other accidents or theft the policy holder will not be able to claim for damages.

9. Term of policy

There should be an agreed period for the insurance policy. The policy holder will pay a period payment during the period, and the insurance company will bear the risk within this period.

2. Risk that can be insured

Risks should be financially measurable in order to insure it. For instance, a risk due to mental weakness, risk of changing designs, trends, fashion and price are difficult to measure and not insured.

The following factors should be fulfilled in order to decide whether the risk can be insured.

Predictability; can measure the probable risks.
Causality; the loss should be as a result of unexpected situations, not purposeful actions.
Un-connectedness; the loss should not have any other insured loss. It should be independent.
Verifiability; should be able to ascertain the reasons for the loss/damage, place, time and amount.

3. Types of insurance policies

- Marine insurance
- Fire insurance
- Motor insurance
- Theft insurance
- Life insurance
- Re-insurance
- Double insurance
- Underwriting
- Employment insurance – for employees at the work place
- Product liability insurance – risks that consumers might face by the policy holder's product.

Marine Insurance

There is a huge loss involved when goods are transported by ships. Hence, the ships and cargo can be insured. Importers and exporters mostly use this insurance policy. Fire, thunder, technical blasts, bad weather, ship sinking, employee strikes, delays etc. can cause damages when transporting goods from the ship. Such risk could be insured.

Fire Insurance

Fire damages could insure homes, business premises, any item in a building or any other property.

Motor Insurance

Any damages that could be caused by vehicles to people and properties can be insured. There are mainly three types of motor insurances as follows,

- **Act Only Motor Insurance Policy**

This is mandatory policy for all the vehicles that travel on the road. It provides the minimum cover required by the law. In terms of the Motor Traffic Act, the drivers of motor vehicles are required to have a motor insurance in place in order to ensure that drivers can meet their legal liabilities in terms of the Act if they cause bodily injury or death to a third party.

- **Third Party Insurance Policy**

Besides providing insurance cover against death or bodily injured to third parties, this also provides protection against damages to property of a third party or third parties. Your Car knocks another van and injures that van driver as well as the van. You can claim for damages caused to the driver only not the van.

- **Comprehensive Motor Insurance Policy**

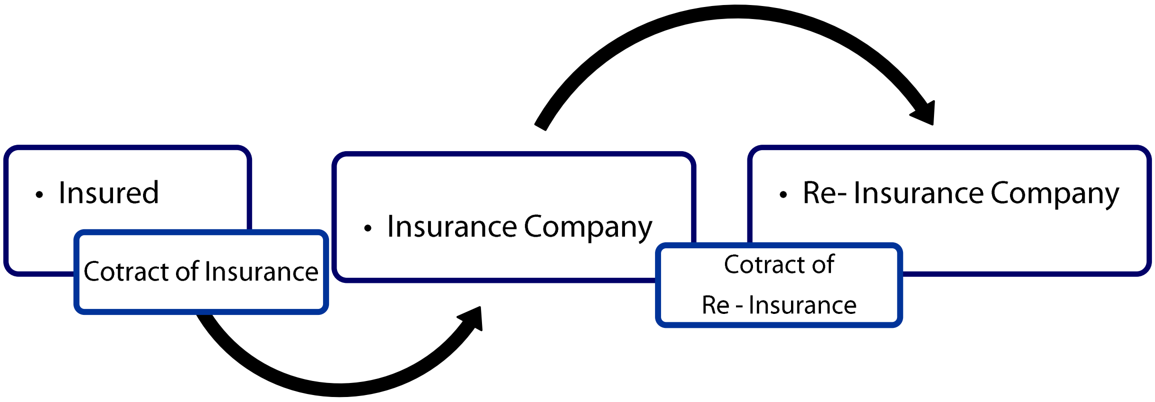
This covers damages not only for the third party persons and properties, but also to the considered vehicle and its travelers. Policy holder may include theft public disturbance, terrorism etc.

Re-insurance

The insurance company insures the assets via another company. So the insurance company is insuring the risk that they have to face by insuring a particular asset.

Mr. Piyasena → AB Insurance Company

AB Insurance Company → XY Company

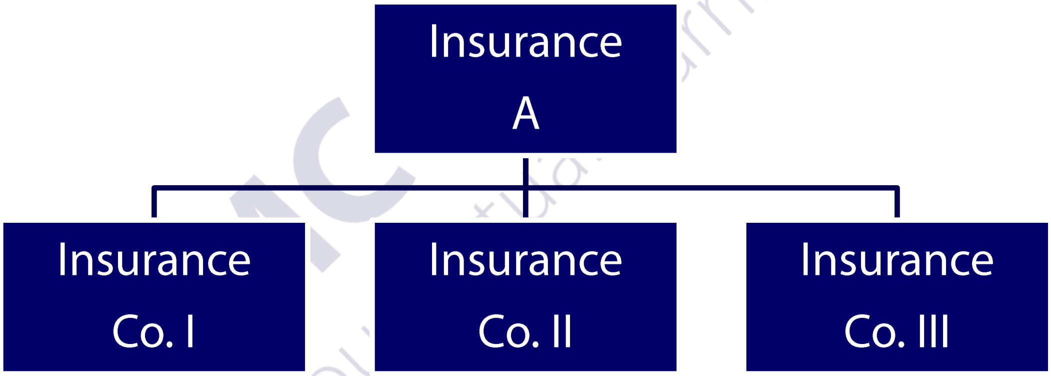


Double Insurance

When the same property is insured in two or more companies.

However, the total amounts of all the insurance premiums should exceed the value of the asset, for it to be called as double insurance.

Suppose Mr. A insures his house against fire from three insurance companies-I, II & III for Rs.50, 000,1,00,000 and 1, 50,000 respectively. His house is destroyed by fire entailing a loss of Rs.60, 000. He can claim in all Rs.60, 000the actual amount of loss in the ratio of 1:2:3 i.e. Rs. 10,000, Rs.20, 000 and Rs.30, 000 from insurance companies I, II and III respectively.



Underwriting

This is used for property that has a very high value like cargo and ships. A single company cannot cover such losses. Hence, a number of insurance companies will insure the property collectively.

Each insurance company will be responsible for an agreed portion of the asset.

Life Insurance

This insures the risk of individual life. The main aim of this insurance scheme is financially to compensate the threats of a loss of life /health disabilities.

The compensation can be gained by the policy holder as well his/her dependents. Sudden accidents, health related problems, surgeries, hospital charges etc. can be covered in the life insurance as desired.

Differences between life insurance and other types of insurance

Feature	Life Insurance	Other Insurance Policies
Uncertainty	The risk of life (deaths) is definite, only the time occurrence is uncertain.	The risk of fire, cargo, etc insurance are uncertain.
Indemnity	Does not apply	It applies to all the other types.
Insurable interest (Ownership)	Should be there only at the time of the insurance contract.	Should be there at the time of loss as well to claim for damages.
Time	Has a very long term	Short term policies.
Living/ Non Living	A life is insured	A non living item is insured.(Vehicle, Property, equipment)
Investment Perspective	Can be considered as an investment/saving. Since full amount can be gained in the end	Cannot be considered as an investment. Only the amount to the loss will be recovered, not the total insurance premium amounts.