UDHNA CITIZEN COMMERCE COLLEGE
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ELEMENTS OF BANKING AND INSURANCE
CHAPTER - 1 INSURANCE

What is insurance ?

Insurance is a written contract in which insurer agrees to compensate the financial loss incurred by insuree in the case of uncertainty against the payment of fixed amount of premium. In this contract the insurer promises to recover the financial loss.

- Insurer – The company providing insurance coverage.
- insuree/Insured/Policyholder – The person or business purchasing the insurance policy.
- Premium – The regular payment made by the insured to the insurer.
- Claim – The request made by the insured to the insurer for compensation after the occurrence of the insured event.

Principles of Insurance

Insurance is not just a financial arrangement but a legal contract. For the contract to be valid and enforceable, it must be based on certain well-established principles. These principles protect both the insurer and the insured and ensure fairness in the insurance system.

(1) Principle of Utmost Good faith

The principle of utmost good faith means that both parties to an insurance contract—the insurer and the insured—must act honestly and disclose all material facts fully and accurately.

What is a Material Fact? Any fact that would influence the mind of a prudent insurer in deciding whether to accept the risk, and if so, at what premium rate.

Examples of Material Facts:

Life/Health Insurance:History of chronic illnesses, smoking habits, family medical history, or dangerous hobbies (e.g., skydiving).

Property Insurance:Proximity of the building to a chemical factory, construction materials used, or past history of theft/fire.

In insurance, the proposer (insured) knows more about the risk than the insurer. Therefore, the insured has a duty of full disclosure at the time of taking the policy. This includes revealing important details such as age, health condition, occupation, past losses, and existing policies. Similarly, the insurer must clearly disclose all terms, conditions, exclusions, and benefits of the policy so that the insured can make an informed decision.

A breach of utmost good faith can occur in two main ways:

1.Non-Disclosure (Concealment): Silently holding back material information that ought to have been declared (e.g., failing to mention a pre-existing heart condition).

2.Misrepresentation:Providing incorrect, false, or misleading statements on the proposal form (e.g., stating one's age as 30 when it is actually 40).

Legal Consequences of a Breach

- Voidable Contract:If a material fact is concealed or misrepresented, the contract becomes voidable at the option of the aggrieved party(usually the insurer).
- Loss of Claim:The insurer can legally deny any claims made under the policy.
- Forfeiture of Premium:Depending on local insurance laws (and whether fraud was intentional), the insurer may also refuse to refund the premium paid.

For example,If a person applying for life insurance hides a serious illness like heart disease, the insurer may issue the policy based on incorrect information. Later, if a claim arises due to that illness, the insurer can refuse to pay because the insured violated the principle of utmost good faith.

(2) Principle of Subrogation (Insurance)

Subrogation literally means "substitution of one person in place of another." The principle of subrogation means that after compensating the insured for a loss, the insurer acquires the legal right to step into the shoes of the insured and recover the loss from the third party responsible for causing it. This right arises only after the insurer has paid the claim.

The main objective of subrogation is to prevent double compensation. Like the Principle of Contribution, subrogation is a direct corollary of the Principle of Indemnity. It ensures that the insured is compensated only for their actual loss and does not make a double recovery (profit) by collecting money from both the insurer and the negligent third party.

By transferring the recovery rights to the insurer, this principle also ensures fairness and helps keep insurance costs lower. Subrogation is applicable mainly to contracts of indemnity, such as fire, marine, and motor insurance.

Essential Elements / Conditions : For the Principle of Subrogation to apply legally, the following conditions must be fulfilled:

- **Settlement of Claim:** The insurer can only exercise subrogation rights *after* they have fully settled and paid the claim to the insured.
- **Existence of Third-Party Liability:** The loss or damage must have been caused by the negligence, wrongdoing, or breach of contract of a third party.
- **Indemnity Contracts Only:** It only applies to contracts of indemnity (e.g., Fire, Marine, Motor, and Property Insurance).

Practical illustration

- **The Scenario:** Suppose Driver **A** has a comprehensive motor insurance policy. While waiting at a red light, Driver **B** negligently crashes into Driver A's car, causing damages worth **₹5,00,000**.
- **The Insurance Settlement:** Driver A files a claim with their own insurer. The insurer evaluates the damage and pays **₹5,00,000** to Driver A to fix the car.
- **The Subrogation Action:** Under this principle, Driver A cannot now sue Driver B to pocket an additional ₹5,00,000. Instead, Driver A's insurer gains the legal right to sue Driver B (or Driver B's insurance provider) to recover the ₹5,00,000 they paid out.

Major Exception

- The Principle of Subrogation **does not apply** to Life Insurance or Personal Accident Insurance.
- **Reason:** Human lives and limbs are priceless; they are not contracts of indemnity. If a person dies in an accident caused by a third party, the beneficiaries can claim the full sum insured from the life insurance policy *and* simultaneously sue the negligent party for wrongful death damages.

Suppose goods are damaged due to the negligence of a transporter. The insurer compensates the insured for the loss. After payment, the insurer can take legal action against the transporter to recover the amount paid.

(3) Principle of Contribution (Insurance)

The principle of contribution applies when the same risk is insured with more than one insurance company. In other words the Principle of Contribution states that if an insured person takes out multiple insurance policies from different insurers to cover the **same subject matter** against the **same peril**, they cannot recover more than the actual loss suffered.

In such cases, if a loss occurs, all insurers share the loss proportionately, and the insured cannot claim the full amount from each insurer.

It is a direct corollary (extension) of the **Principle of Indemnity**, which dictates that insurance is meant to restore you to your pre-loss financial position, not to yield a profit.

The main objective of this principle is to prevent the insured from making a profit out of insurance. The insured is entitled to receive only the actual amount of loss, not more than that. If one insurer pays the entire claim, it has the right to recover a proportionate share from the other insurers.

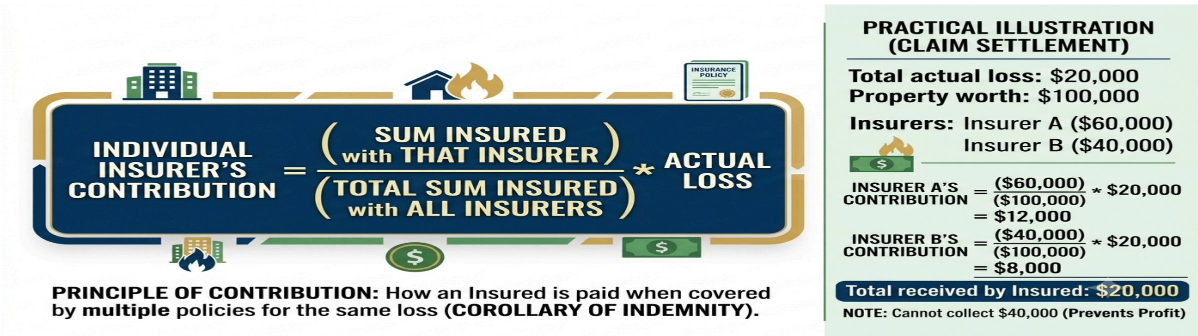
For contribution to apply, certain conditions must be fulfilled:

- There must be more than one policy
- All policies must cover the same subject matter and risk
- The policies must be in force at the same time
- The insured must have the same interest in all policies

How Claims are Settled An insured person has two legal ways to recover their loss under this principle:

(1) **Direct Pro-Rata Claim:** The insured files a claim with all insurers simultaneously. Each insurer pays their proportionate share directly.

(2) **Single Claim & Right of Recovery:** The insured recovers the entire actual loss from **any one** of the insurers (up to that insurer's policy limit). That chosen insurer then holds the legal right to claim a proportional refund (contribution) from the other co-insurers.



Key Exception

- The Principle of Contribution **does not apply** to Life Insurance or Personal Accident Insurance.
- **Reason:** Human life and physical well-being cannot be valued in monetary terms (they are not contracts of indemnity). If a person has multiple life insurance policies, their beneficiaries can collect the full sum insured from *every single* policy upon their death.

(4) Principle of Insurable Interest (Insurance)

The principle of insurable interest is a fundamental legal requirement in insurance contracts. It dictates that the policyholder must have a legitimate, recognized financial stake in the preservation or safety of the subject matter being insured.

In its simplest form, insurable interest dictates that the person seeking insurance must have a legally recognized, financial relationship with the subject matter of the insurance—whether that subject is a physical asset, a legal liability, or a human life.

To have an insurable interest means that you will suffer a direct economic loss or hardship if the insured event occurs, and conversely, you derive an economic benefit or peace of mind from its safety, preservation, or continued existence. Without this essential link, an insurance policy is legally void from its inception (*void ab initio*) and is treated as nothing more than an unenforceable wager.

Why is Insurable Interest Essential? The principle is not just a technical formality; it protects the entire structure of the insurance industry and society at large. It serves three main objectives:

Eliminating Gambling and Wagering : Historically, before the codification of insurance laws, people would buy life insurance policies on famous figures or public property purely to speculate on their demise or destruction. Insurable interest legally separates insurance from gambling. While gambling creates a brand-new risk for the sake of speculative gain, insurance is designed to mitigate an *already existing* risk of loss.

Reducing Moral Hazard : If you could insure a random stranger's warehouse, you would have a massive financial incentive to see that warehouse burn down to collect the payout. By restricting insurance to those who actually own, lease, or possess a financial stake in the property, the law removes the incentive for intentional destruction or negligence. It ensures the policyholder wants the asset to survive.

Measuring the Extent of Indemnity : In property and casualty insurance, insurable interest dictates the maximum financial recovery possible under the policy. You cannot recover more than the value of your actual financial interest, preventing a policyholder from profiting off a loss.

Application : The application of insurable interest varies depending on whether you are insuring an asset, a life, or a liability.

Property Insurance In property insurance, the interest must be measurable in terms of money. It usually stems from ownership, but it can also arise from possession, custody, or legal liability.

- Owners:A homeowner has an obvious insurable interest because damage to the house reduces their personal wealth.
- Creditors/Mortgagees:Banks and financial institutions have an insurable interest in the properties they finance up to the value of the outstanding loan.
- Bailees:A dry cleaner or a car repair shop (bailees) has an insurable interest in their customers' goods because they could be held legally liable if those goods are damaged while in their care.

Life Insurance Unlike property, human life cannot be assigned a precise monetary value. Therefore, insurable interest in life insurance is based on relationships—either familial bonds or economic interdependencies.

- Own Life:Every individual has an unlimited insurable interest in their own life.
- Spousal Relationships:Spouses are legally presumed to have an automatic, unlimited insurable interest in each other's lives due to mutual emotional and financial reliance.

- Business Partnerships:A business partner has an insurable interest in the life of their co-partner. If a partner dies, the business could face severe disruption or dissolution.
- Key Person Insurance : An employer can insure the life of a vital employee (like a chief researcher or top executive) whose sudden absence would cause direct financial harm to the company.
- Creditor-Debtor : A lender has an insurable interest in the life of a debtor, capped exactly at the amount of the outstanding debt.

The principle of insurable interest ensures that insurance remains a tool of economic preservation rather than speculation.

(5) The Principle of Indemnity

The **Principle of Indemnity** is the absolute foundation upon which all non-life insurance contracts are built. The word "indemnify" is derived from Latin roots meaning "to secure against hurt" or "to make good a loss."

In legal and commercial terms, this principle dictates that an insurance contract is a mechanism designed to provide financial compensation to the insured for a loss actually suffered. The definitive goal of the principle is **to place the insured, as far as practically and financially possible, in the exact same economic position after a loss as they occupied immediately prior to the mishap.**

The most crucial rule concerning the Principle of Indemnity is that **insurance is a tool for financial protection, not a vehicle for financial profit.**

- **The Moral Hazard Guard:** If an insured person were permitted to recover a payout greater than the actual damage sustained, it would create an incentive to intentionally trigger losses (such as committing arson on an over-insured building).
- **Prevention of Gambling:** The principle ensures that insurance contracts do not degenerate into wagers or gambling arrangements. By limiting the payout strictly to the actual financial loss, the law removes the speculative element from insurance.

Key Corollaries of Indemnity

To enforce the Principle of Indemnity seamlessly and prevent the insured from recovering more than 100% of their loss, the legal framework relies on two vital sub-principles:

aA. The Principle of Subrogation

- Once an insurer completely compensates the insured for a loss, all legal rights to sue or claim damages from a negligent third party (the wrongdoer who caused the damage) are legally transferred to the insurer.
- The insured cannot collect a payout from their insurance company and subsequently sue the wrongdoer to pocket a second payout.

B. The Principle of Contribution

- If an insured holds multiple insurance policies from different companies covering the exact same asset against the exact same peril, they cannot claim the full amount of the loss from each individual company.
- The insurers will contribute to the loss on a pro-rata basis, distributing the financial burden proportionally according to the sum insured under each policy.

Major Exceptions to the Principle of Indemnity

While indemnity is rigidly enforced across property, liability, and commercial lines, there are specific insurance sectors where it cannot logically apply:

- **Life Insurance:** Human life cannot be quantified in monetary terms, nor is there a "replacement cost" or "depreciation" for a human being. Life insurance policies are **valued contracts** rather than contracts of indemnity. Upon the death of the insured, the company must pay the full, absolute sum assured written on the policy to the beneficiaries, irrespective of any calculation of financial loss.
- **Personal Accident Insurance:** Similar to life insurance, physical limbs, sight, or general well-being cannot be valued on the open market. If an individual loses a limb or undergoes permanent disablement, a predetermined, fixed financial sum is paid out as stated in the policy schedule.
- **Valued Policies (e.g., Antiques, Fine Art):** For highly rare or unique items whose value fluctuates wildly or is nearly impossible to establish post-destruction, the insurer and the insured agree upon a fixed valuation at the time the contract is signed. If the item is destroyed, the agreed-upon value is paid in full, bypassing any calculations of depreciation or actual market value at the time of loss.

Principle of proximate cause

The Principle of Cause Proxima (or the Principle of Proximate Cause) is one of the fundamental tenets of insurance law. Which means that The immediate, and not the remote, cause is to be considered, this doctrine determines whether an insurer is legally obligated to pay a claim when a loss occurs.

What is the Proximate Cause?

In insurance, a loss is rarely the result of a single isolated event. More often, it stems from a chain or sequence of events. When multiple factors lead to damage, the proximate cause is not necessarily the **first event** in the chain, nor is it automatically the **last event** before the loss occurred.

Instead, the proximate cause is the dominant, effective, and efficient cause that sets the entire chain of events in motion, leading directly to the damage without any independent, intervening force interrupting the process.

If a loss involves multiple contributing factors, insurance policies do not look at every minor cause. They pinpoint the primary, dominant cause that triggered the chain reaction.

Why Is Causa Proxima Essential?

Insurance contracts are designed to cover specific, agreed-upon risks. Policies explicitly distinguish between three main categories of risks:

1.**Insured Perils**:Risks specifically covered by the policy (e.g., fire, theft, explosion).

2.**Excepted (Excluded) Perils**:Risks explicitly left out or excluded from coverage (e.g., war, wear and tear, intentional damage).

3.**Uninsured Perils**:Risks that are neither specifically named as covered nor explicitly excluded.

The principal purpose of *Causa Proxima* is to determine whether the dominant cause of a loss falls under an **Insured Peril**. If the proximate cause is an insured risk, the insurer must indemnify the policyholder. If the proximate cause is an excluded or uninsured risk, the insurer is not liable to pay.

Practical examples

(1) In marine insurance, the classic landmark case *Hamilton, Fraser & Co. v. Pandorf & Co.* (1887) clearly illustrates this rule.

The Chain of Events:

1. Rats on a cargo ship chewed a hole through a lead pipe.

2. Seawater leaked through the hole into the hold.
3. The seawater damaged a shipment of rice.

Applying Causa Proxima:

- The policy covered "perils of the sea" (e.g., seawater damage), but did *not* cover damage caused by pests/rats.
- The court ruled that the **proximate cause was the entry of seawater** (a peril of the sea), not the rats chewing the pipe. The insurer had to pay.

(2) Imagine a business owner has a Standard Commercial Policy that covers **Fire Insurance**, but
explicitly excludes **Water Damage**.

The Chain of Events:

1. A short circuit causes a fire inside the warehouse.
2. The local fire department arrives and uses high-pressure water hoses to extinguish the flames.
3. The fire is put out, but thousands of dollars worth of stored electronics suffer severe water damage from the hoses.

Applying Causa Proxima:

- **Immediate Cause of Loss:** Water damage.
- **Dominant/Proximate Cause:** Fire.

The Verdict: The insurer **must pay the claim**. Even though water damage is an excluded peril on paper, the water was used as a direct, necessary response to extinguish the fire (an insured peril). The chain of events was continuous and unbroken.

The Principle of Causa Proxima provides a clear, logical framework for settling insurance claims fairly. By focusing on the **efficient and active cause** Rather than secondary or remote triggers, it ensures that policyholders are compensated for genuine covered losses while protecting insurers from liabilities outside the scope of the policy agreement.

Principle of Mitigation of Loss

In insurance law, the **Principle of Mitigation of Loss** is a fundamental legal and ethical principle. It dictates that in the event of an accident or disaster, the insured person must take all reasonable and necessary steps to prevent further damage to the insured property, rather than passively watching the damage escalate.

Simply put, just because you have insurance does not mean you can stand by and watch the losses increase after an accident occurs. You are required to take immediate and reasonable action to minimize the loss.

Primarily, this principle prevents policyholders from becoming negligent or indifferent simply because they hold insurance. It expects them to act exactly as an uninsured person would—someone who would have to pay for the damages entirely out of their own pocket.

Key Characteristics

- **Reasonable Action:** The insured person is only required to take steps that are practical, safe, and reasonable. They are not expected to risk their life.
- **The Penalty for Doing Nothing:** If you fail to take action due to laziness or negligence, the insurance company has the legal right to pay you a reduced claim amount. They will not cover the additional loss that you could have easily prevented.
- **Expense Reimbursement:** Most insurance policies cover the reasonable expenses incurred by the insured while attempting to minimize the loss (for example, hiring a plumber to stop a burst pipe or paying for a tarp to cover a damaged roof).

Practical Examples

- **Fire:** If a small fire breaks out in a warehouse, the owner should immediately call the fire brigade and use available fire extinguishers, rather than letting the entire building burn down.
- **A Broken Window:** If a stone breaks your shop window, you should cover it with plywood or boards to prevent burglars from entering. If you leave it wide open and goods get stolen at night, the insurance company may reject that portion of your claim.

Importance of Insurance

• Insurance plays a vital role in modern life for individuals, businesses, and the economy. Its importance can be explained as follows:

a) Importance to Individuals

• **Financial Security** – Provides monetary help in case of death, accident, illness, or property loss.

• **Encourages Savings** – Life insurance promotes disciplined savings and investment.

• **Peace of Mind** – Reduces anxiety by covering unexpected risks.

• **Medical Protection** – Health insurance covers hospitalization and treatment costs.

b) Importance to Businesses

• **Risk Coverage** – Protects against losses due to fire, theft, accidents, natural disasters, liability, etc.

• **Continuity of Business** – Insurance ensures business operations continue smoothly even after a major loss.

• **Employee Welfare** – Group health/life insurance boosts employee morale and loyalty.

• **Encourages Entrepreneurship** – By reducing fear of loss, insurance promotes investment in new ventures.

c) Importance to Society

• **Social Security** – Provides support to families after death, accident, or disability.

• **Reduces Burden on Government** – Private insurance reduces dependence on public funds during emergencies.

• **Promotes Social Welfare** – Insurance funds are invested in infrastructure, housing, and development projects.

d) Importance to the Economy

• **Capital Formation** – Premiums collected are invested in banks, industries, and development projects.

• **Economic Stability** – Reduces financial shocks and maintains stability during disasters.

• **International Trade Growth** – Marine and export insurance reduces risks in global trade.

• **Employment Generation** – Provides jobs in the insurance sector and allied industries

Application of principles of insurance in different insurance policies

The principles of insurance form the foundation of how insurance contracts operate, regardless of the specific type of insurance. These principles guide the relationship between the insurer (insurance company) and the insured (policyholder) and ensure fairness, transparency, and reliability in the insurance process. Let's explore how these principles apply to different types of insurance :

1. Principle of Utmost Good Faith (Uberrimae Fidei):

According to this principle requires both the insurer and the insured to provide complete and accurate information regarding the subject matter of insurance.

This principle emphasizes the importance of full and honest disclosure of all relevant information by both the insurer and the insured. It applies to all types of insurance and ensures that both parties have accurate and complete information to assess risks and determine appropriate coverage and premiums.

(a) Application in Life Insurance: In life insurance, applicants must provide accurate and complete information about their health, lifestyle, and other relevant factors.

(b) Application in Marine Insurance: Marine insurance applicants must provide accurate details about the cargo, vessel, and voyage to determine the risk profile and premium.

(c) Application in Motor Vehicle Insurance: In motor vehicle insurance the insured person must provide accurate information about the vehicle's condition and usage. Vehicle owners must accurately report driving history and details about the vehicle.

(d) Application in Universal Insurance : Policyholders must provide complete and accurate information about the assets or properties they want to insure under a universal insurance policy Applicants must provide truthful information about the assets and liabilities they wish to insure.

(e) Application in Kidnap and Ransom Insurance: Policyholders and insurers exchange complete and accurate information about the potential risks, which is crucial for determining coverage and terms. Clients must provide accurate information about their security measures and potential risks.

2. Principle of Insurable Interest :

The insured must have a financial interest in the subject matter of insurance, meaning they would suffer a financial loss if the insured event occurs. This principle states that the insured must have a legitimate financial interest in the subject matter of the insurance. It applies to all types of insurance and prevents individuals from insuring something in which they have no direct financial stake.

(a) Application in Life Insurance: In life insurance, the policyholder must have a financial interest in the life of the insured person, often involving familial or business relationships. Policyholders must have a financial interest in the life of the insured person, typically a family member or business partner.
(b) Application in Marine Insurance: The owner of the cargo or vessel must have a direct financial interest in the property being insured. Parties must have a financial interest in the cargo or vessel being insured.
(c) Application in Motor Vehicle Insurance: The vehicle owner has an insurable interest due to ownership and potential financial losses from accidents or damage. Vehicle owners have an insurable interest in the vehicle they own.
(d) Application in Universal Insurance: Policyholders have an insurable interest in the properties they want to insure. Applicants must demonstrate a financial interest in the assets they wish to insure.
(e) Application in Kidnap and Ransom Insurance : Individuals or organizations with a legitimate interest in the well-being of the insured person have an insurable interest. Individuals or organizations at risk of kidnapping have an insurable interest.
Summary: In life insurance, the insured must have a financial interest in the life of the person insured. In marine insurance, the owner of the cargo or vessel must have an insurable interest. In motor vehicle insurance, the owner of the vehicle has an insurable interest.

3. Principle of Indemnity :

Insurance aims to compensate the insured to the extent of their actual financial loss, preventing over-compensation. The principle of indemnity states that insurance aims to restore the insured to the same financial position as before the loss occurred, without creating a profit. It primarily applies to property and casualty insurance.
(a) Application in Life Insurance: Indemnity doesn't apply directly; life insurance provides a specified sum assured upon the insured's death.
(b) Application in Marine Insurance: If a cargo is damaged during transport, the insurer compensates the insured for the actual financial loss suffered due to the damage. Compensation aims to restore the insured's financial position after a maritime loss.

(c) Application in Motor Vehicle Insurance: Insurers compensate policyholders for the actual repair costs or value of the vehicle in the event of a covered loss. Policyholders receive compensation to repair or replace the vehicle, not to profit from the claim.
(d) Application in Universal Insurance: based on the actual financial loss suffered. Compensation is paid to the policy holders.
(e) Application in Kidnap and Ransom Insurance : Compensation aims to cover expenses related to resolving a kidnapping situation.
Summary: In marine insurance, the principle of indemnity is evident in the valuation of cargo or vessels. In motor vehicle insurance, it guides the compensation for repair costs or the market value of the vehicle.

4. Principle of Contribution :

If an insured item is covered by multiple insurance policies, the insured can claim compensation from each policy proportionately, but not exceeding the actual loss. This principle ensures that when the same risk is insured with multiple insurers, each insurer contributes proportionally to the claim payment. This principle applies when the insured has multiple insurance policies covering the same risk. It prevents the insured from claiming more than the actual loss.
(a) Application in Life Insurance: If a person has multiple life insurance policies, the principle of contribution ensures that the total payout doesn't exceed the actual loss in case of death. It may apply if the insured is covered by multiple life insurance policies.
(b) Application in Marine Insurance: It can apply if the same cargo or vessel is insured by different policies.
(c) Application in Universal Insurance: If the same asset is insured under different policies, each insurer contributes proportionally to any losses. Universal Insurance: Relevant when an asset is insured by multiple policies.
(d) Motor Vehicle Insurance: If the same vehicle is covered by multiple policies, insurers share the claim payout.
(e) Kidnap and Ransom Insurance: It may apply if there are multiple policies covering the same risk.

5. Principle of Subrogation:

After paying a claim, the insurer assumes the rights of the insured to recover from any third party responsible for the loss. Subrogation allows the insurer to assume the rights and remedies of the insured after compensating for a loss. It prevents double recovery and enables the insurer to recover the amount paid from third parties responsible for the loss.

(a) Application in Life Insurance: Typically not applicable

(b) Application in Marine Insurance: If the insurer pays a claim for damaged cargo, they may seek recovery from the party responsible for the damage. After settling a claim, the insurer may pursue claims against responsible third parties.

(c) Application in Motor Vehicle Insurance: After compensating a policyholder for an accident caused by a third party, the insurer may pursue legal action to recover the amount paid. After compensating the insured, the insurer may recover costs from at-fault parties.

In motor vehicle insurance, if the insurer pays for the repair of a damaged vehicle, they may seek reimbursement from the at-fault driver's insurance.

(d) Universal Insurance: It may apply when the insurer compensates the insured's financial loss due to another party's actions.

(e) Kidnap and Ransom Insurance: Insurers may pursue legal action against kidnappers or third parties involved.

6. Principle of Proximate Cause :

The cause that sets a series of events in motion, leading to a loss, is considered the proximate cause. This principle determines the primary cause of a loss and whether it's covered by the insurance policy. It prevents the insurer from being liable for remote or unrelated causes of loss.

(a) Application in Life Insurance: Proximate cause may be the insured's death due to natural causes or accidents.

(b) Application in Marine Insurance: In marine insurance, if cargo is damaged due to unseaworthiness of the vessel, the proximate cause is the unseaworthiness. Losses caused by maritime perils (e.g., storms, collisions) are covered.

(c) Application in Motor Vehicle Insurance: Accidents or damage due to covered perils are compensated.

(d) Application in Universal Insurance: Compensated events are directly related to the insured's financial assets.

(e) Application in Kidnap and Ransom Insurance: Coverage applies to kidnapping events and related expenses.

7. Principle of Loss Minimization :

The insured must take reasonable steps to minimize the loss or damage after an insured event occurs. Policyholders have a duty to take reasonable steps to minimize the loss or damage after an insured event has occurred.

Application in Kidnap and Ransom Insurance: If a kidnapping occurs, the insured and their advisors are expected to take measures to ensure the safety and secure the release of the victim. In kidnap and ransom insurance, policyholders are expected to cooperate with authorities and take precautions to minimize the risk of kidnapping.