

# HOW MUCH YOU KNOW?

## The Purpose

The principles of insurance are **foundational concepts** that guide how insurance works. They are designed to **ensure fairness, efficiency, and proper management of risk.**

## The Key Principles

### a) Principle of Utmost Good Faith

Both the insurer and the insured must disclose all material facts honestly, with the insured informing the insurer of any information that may affect the policy or risk.

### b) Principle of Insurable Interest:

To get insurance, you must have a financial interest in the item. For car insurance, you need to own the car, and for property insurance, you must own or have a financial stake in the property.

### c) Principle of Indemnity:

The purpose of insurance is to restore the insured to their financial position before the loss. It does not allow the insured to profit from the claim. Compensation is limited to the actual value of the loss.

#### **d) Principle of Contribution:**

If multiple insurance policies cover the same risk, the insurers will share the claim cost in proportion to their respective coverage, ensuring the insured is not over-compensated.

#### **e) Principle of Subrogation:**

After compensating the insured for a loss, the insurer has the right to pursue legal action against any third party responsible for the damage. This allows the insurer to recover the money paid out to the insured.

#### **f) Principle of Proximate Cause:**

This principle identifies the primary cause of the loss. The insurer will only pay claims if the loss results from an event or cause that is covered under the policy. The proximate cause helps determine whether the event falls within the scope of the policy's coverage.

These principles work together to ensure fairness, transparency, and proper management of risks in insurance.

Feel free to contact us for further clarification with no obligation attached.

***Contact us now for a free consultation:***

- 1.) *Mr. Chap : 012 – 286 1817*
- 2.) *Office : 03 – 2162 2515*
- 3.) *Email : insurance@edindings.com*