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B.Com Honours | Semester V | Calicut University

FUNDAMENTALS OF BANKING AND INSURANCE

Course Code: COM5EJ303 • Module 3 Notes

Module III: Fundamentals of Insurance & General Principles

Covers the economic concept of insurance, social security role, core legal principles of insurance contracts, and structural classification into Life and General Insurance.

Unit 11: Concept & Need for Insurance as Social Security Tool

Risk-pooling mechanism where many individuals contribute premiums into a common fund to compensate few who suffer financial loss. Acts as social security cushion and drives long-term infrastructure investment.

Unit 12: Core Legal Principles of Insurance

1. Uberrimae Fidei (Utmost Good Faith): Duty of full material facts disclosure by both parties.
2. Insurable Interest: Financial stake in safety of insured subject matter (must exist at inception for Life; at inception AND loss for Marine).
3. Indemnity: Restores insured to exact pre-loss financial position (does NOT apply to Life Insurance).
4. Subrogation & Contribution: Right of insurer to step into insured's shoes after paying claim / Pro-rata sharing among co-insurers.
5. Causa Proxima (Proximate Cause): Direct active cause of loss determines policy liability.

Unit 13: Classification of Insurance – Life vs General Insurance

Life Insurance: Assurance contract paying fixed sum on death or maturity (Endowment, Whole Life, ULIP).
General Insurance: Indemnity contracts covering property (Fire, Marine, Motor, Health, Personal Accident).

Practical Case Framework (Life Insurance vs General Insurance Comparative Matrix): Differentiate contract nature, insurable interest timing, indemnity application, and policy tenure.

Life Insurance vs General Insurance Structural Comparison Matrix:

Contract Dimension	Life Insurance Contract	General Non-Life Insurance Contract
Nature of Contract	Contract of Assurance (Event of death/maturity is certain)	Contract of Indemnity (Loss event is uncertain)
Application of Indemnity	Does NOT apply (Human life value cannot be indemnified)	Strictly applies (Loss reimbursement up to sum insured)
Insurable Interest Timing	Must exist ONLY at the time of taking the policy	Must exist at the time of taking policy AND at loss (Marine/Fire)
Policy Duration / Tenure	Long-term (10 to 30+ years / Whole Life)	Short-term (Usually 1 year renewable)
Investment / Savings Element	Combines Protection AND Investment Savings	Pure Risk Protection only (No surrender value)