

Slahadeen university  
College Administration and  
Economics  
Dep: Finance and Banking  
**Vehicle and property**  
**Insurance**  
Stage 2

## Chapter 3

# Fundamental Legal Principles

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Shangar .J. Naqshbandi



# *Agenda*

- Principle of Indemnity
- Principle of Insurable Interest
- Principle of Subrogation
- Principle of Utmost Good Faith
- Requirements of an Insurance Contract
- Distinct Legal Characteristics of Insurance Contracts
- Law and the Insurance Agent

# ***Principle of Indemnity***

***The insurer agrees to pay no more than the actual amount of the loss***

***What is the principle of Indemnity?***

- ***Purpose:***

- ***To prevent the insured from profiting from a loss***

- ***To reduce moral hazard***

***What is the principle of Indemnity? The purpose of their use in insurance companies***

# ***Principle of Indemnity***

- In property insurance, indemnification is based on the actual cash value of the property at the time of loss methods to determine the actual cash value :

## ***How is insurance indemnification determined?***

There are three main

1- Replacement cost less depreciation( lowering)

2 -Fair market value is the price a willing buyer would pay a willing seller in a free market

3-Broad evidence rule means that the determination of ACV should include all relevant factors an expert would use to determine the value of the property

## ***How is the loss calculated according to the principle of Indemnity***

# ***Principle of Indemnity***

- There are some exceptions to the principle of indemnity:

-1- A valued policy pays the face amount of insurance if a total loss occurs

-2- Some states have a valued policy law that requires payment of the face amount of insurance to the insured if a total loss to real property occurs from a peril specified in the law

***There are some exceptions to the principle of Indemnity: what are the exceptions?***

## ***Principle of Indemnity***

- 3- Replacement cost insurance means there is no deduction for depreciation (lowring) in determining the amount paid for a loss
- 4- A life insurance contract is a valued policy that pays a stated sum to the beneficiary upon the insured's death

***There are some exceptions to the principle of Indemnity: what are the exceptions***

# ***Principle of Insurable Interest***

The insured must stand to lose financially if a loss occurs

Purpose:

***What is the Principle of Insurable Interest?***

- To prevent gambling
- To reduce moral hazard
- To measure the amount of loss

***What is the purpose of its use principle of insurable interest in insurance companies?***

- Property insurance: at the time of the loss
- Life insurance: only at inception of the policy

***When must insurable interest exist?***

# ***Principle of Subrogation***

Substitution(exchange ) of the insurer in place of the insured for the purpose of claiming indemnity from a **third person** for a loss covered by insurance.

*What is the Principle of Subrogation?*

- Purpose:
  - 1- To hold the negligent person responsible for the loss
  - 2- To hold down insurance rates

*What is the purpose of the Principle of Subrogation of their use in insurance companies*



# ***Principle of Subrogation***

3- The insurer is entitled only to the amount it has paid under the policy

4- The insured cannot impair the insurer's subrogation rights

5- Subrogation does not apply to life insurance and to most individual health insurance contracts

6- The insurer cannot subrogate against its own insured's

***What is the purpose of the Principle of Subrogation of their use in insurance companies?***

# ***Principle of Utmost Good Faith***

A higher degree of honesty is imposed on both parties to an insurance contract than is imposed on parties to other contracts

***what is the meaning of the Principle of Utmost Good Faith?***

- Supported by three legal doctrines:

-Represent ations are statements made by the applicant for insurance

1-A contract is voidable if the representation is material, false, and relied on by the insurer

2-An innocent misrepresentation of a material fact, if relied on by the insurer, makes the contract voidable.

***What are the legal doctrines that support the principle of good faith in insurance?***

# ***Principle of Utmost Good Faith***

3-A concealment is intentional failure of the applicant for insurance to reveal a material fact to the insurer.

*What are the legal doctrines that support the principle of good faith in insurance?*

- A warranty is a statement that becomes part of the insurance contract and is guaranteed by the maker to be true in all respects
- *What is the warranty in the principle of Utmost good faith in insurance companies?*
  - Statements made by applicants are considered representations, not warranties

# ***Requirements of an Insurance Contract***

- To be legally enforced able,, an insurance contract must meet four requirements:
  - 1 Offer and acceptance of the terms of the contract
  - 2 Consideration – the values that each party exchange
  - 3 Legally competent parties, with legal capacity to enter into a binding contract
  - 4 The contract must exist for a legal purpose

***What are the insurance contract requirements?***

# ***Distinct Legal Characteristics of Insurance Contracts***

- **Aleatory**: values exchanged are not equal
- **Unilateral**: only the insurer makes a legally enforceable promise
- **Conditional**: policy owner must comply with all policy provisions to collect for a covered
- **-personl**: property insurance policy cannot be validly assigned to another party without the insurer's consent
- **Contract of adhesion**: since the insured must accept the entire contract as it is written, any ambiguities are construed against the insurer

## **What are the legal characteristics of insurance contracts?**