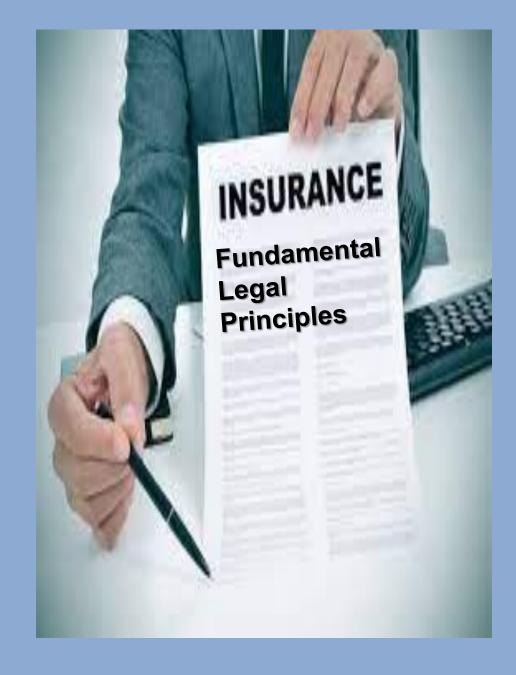
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College Administration and
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Insurance
Stage 2

Chapter 3

Fundamental Legal Principles

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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

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

• 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

- 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?

- —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 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 consen
- 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?