

INSURANCE-2

FUNCTIONS OF INSURANCE

ARCHNA SINGH
Assistant Professor
FACULTY OF LAW
University of Lucknow
Lucknow

DISCLAIMER

The e-content is exclusively meant for academic purposes and for enhancing teaching and learning. Any other use for economic/commercial purpose is strictly prohibited. The users of the content shall not distribute, disseminate or share it with anyone else and its use is restricted to advancement of individual knowledge. The information provided in this e-content is developed from authentic references, to the best of my knowledge.

Form for uploading e-content on Higher Education website

Content Creator Name	Archna Singh
Stream Name	Law
Subject Name	Insurance Law
Topic Name	Functions of Insurance
Course (Class)	LLB 3 Years
Year/Semester	3 rd
No. of Pages	3
University Name	University of Lucknow
Content Language	English
Content Type (Notes / PPT / Text/Media)	Notes
Search Keywords (Comma Separated)	Assurance, Insurance & Gambling
URL for Videos	

The following form has to be sent in word format for each e-content that is being sent for uploading

FUNCTIONS OF INSURANCE

The functions of insurance may be categorised as below:

1. Primary Functions
2. Secondary Functions
3. Other Functions

1. Primary Functions

The primary functions of insurance include the following.

1. Provide protection : The primary purpose of insurance is to provide protection against future risk, accidents and uncertainty. Insurance cannot check the happening of the risk, but can certainly provide for the losses of risk. Professor Hopkins observes, "Insurance is a protection against economic loss by sharing the risk with others." He further adds "Insurance is the protection against economic loss".

2. Collective bearing of risk : Insurance is a device to share the financial loss of few among many others Dinsdale opines, insurance is a mean by which few losses are shared among longer people. Similarly, William Bevirgde observes. "The collective bearing of risks is insurance." All the insureds contribute the premiums towards a fund and out of which the persons exposed to a particular risk is paid. Similarly, Rigel and Miller observe. "Insurance is a device whereby the uncertain risks may be made more certain."

3. Evaluation of risk : Insurance determines the probable volume of risk by evaluating various factors that give rise to risk. Risk is the basis for determining the premium rate also.

4. Provide certainty against risk : Insurance is a device which helps to change from uncertainty to certainty. This may the reason that John Magee writes that the function of insurance is to provide certainty.

Similarly, Riegel and Miller observe, "The function of insurance is primarily to decrease the uncertainty of events."

5. Spreading risks : Professor Thomas has correctly written that "Insurance is the device for spreading or distributing risks."

II Secondary Functions

1. Prevention of losses : Insurance cautions individuals and businessmen to adopt suitable device to prevent unfortunate consequences of risk by observing safety instructions; installation of automatic sparkler or alarm systems, etc. Prevention of losses cause lesser payment to the assured by the insurer and this will encourage for more saving by way of premium. Reduced rate of premiums stimulate for more business and better protection to the insureds. The loss Prevention Association of India formed by the Insurers, alerts the people about future risks and uncertainties through publicity measures.

2. Small capital to cover larger risks : Dinsdale observes, insurance relieves the businessmen and others from security investments, by paying small amount of premium against larger risk and uncertainty. There is no need for them to invest separately for security purpose and this money can be invested in other activities.

3. Contributes towards the development of larger enterprises : Insurance provides development opportunity to those larger enterprises having more risks in their setting up. Even the financial institutions may be prepared to give credit to sick industrial units which have insured their assets including plant and machinery.

III Other Functions

There are indirect functions of insurance which benefit the economy indirectly. Some of such functions are :

1. Means of savings and investments: Insurance serves as savings and investment. Insurance is a compulsory way of saving and

it restricts the unnecessary expenses by the insureds. For the purpose of availing income-tax exemptions also, people invest in insurance. In the words of Magee "Although investment is not the primary function of insurance investment service is proved to be an important benefit of insurance."

2. Source of earning foreign exchange : Insurance is an international business. The country can earn foreign exchange by way of issue of marine insurance policies.

3. Promotes exports : Insurance makes the foreign trade risk free through different types of policies issued under marine insurance cover. In case of loss of cargo and others due to marine perils the insurance makes good the loss.

4. Provides social security : Through various social protection plans, the insurance provides social security to people. It not only provide security at the time of death but also provides assistance to the insureds at the time of sickness, old age, maternity etc.

REFERENCES

1. R. N. Chaudhary, General Principles of Insurance Law, Central Law Publication First Edition, 2012
2. R.K. Nagarjun, Law of Insurance, New Era Publication, Second Edition, 2012
3. M. J. Mathew Insurance Principle & Practices, RBSA Publishers, 2nd Revised Edition, 2005
4. Avtar Singh, Law of Insurance, Eastern Book Publication, 3rd Edition 2017