

Welcome all

Students in this particular session we are going to learn the topic **functions and importance of insurance** from Unit 2- introduction to insurance business.

Myself Harshala Malvankar Assistant Professor Government College of Arts, Science and Commerce Quepem.

Outline of the topic.

- Functions of insurance.
- importance of insurance.

Learning outcome.

The student will be able to

- ❖ Summarize various functions of insurance.
- ❖ Generalize the importances of insurance.
- ❖ Explain the function of risk bearing.

The various functions of insurance are as follows.

- ☐ Insurance provides certainty in payment of the amount.
- ☐ Insurance provides protection.
- ☐ Insurance Assist in capital formation.
- ☐ Insurance is risk bearing.
- ☐ Insurance solves social problems.
- ☐ Insurance stimulates business enterprises.
- ☐ Insurance promotes loss prevention and it encourages efficiency.

Let us see each function in detail,

The first function **insurance provides certainty in payment of the amount.**

Insurance provides certainty of payment for the risk of loss means the payment on the occurrence of the loss is very certain. Now Happening of event may be uncertain.

What do we mean by the happening of the event?

Here is the example.

There can be an accident during goods in transit or accidents happening to the vehicle when the goods are in transit. Accidents may take place or accidents may not take place. These both incidents are uncertain, but in case the accident takes place, definitely the insurance company is going to pay the amount of compensation. So there are some unanswered questions like whether risk will occur or not, that uncertain event will take place or not when it will occur. Every time the transportation vehicle out of the warehouse, taking the vehicle will meet with an accident. certainly Not ! But there are chances the

vehicle can meet with an accident. So how much will occur or how much loss is going to occur? The second example can be the risk of fire to godown. Goods may destroy by fire like fire may take place or fire may not.

Again these two Incidents are uncertain.

But in case the goods in godown catch fire, how much will be the loss? When there is any 100% guarantee that also and so did the godown is going to catch the fire, no, but if the godown catches fire and the goods are destroyed, then the payment of the amount of loss is certain by the insurance company.

2nd. Insurance provides protection. The insurance company protects the insured through insurance policy. Now this is very important because in the first topic itself the Students were made clear about who is insurer and insured. So it provides protection against the risk of loss. Insurance guarantees the payment of loss. There is a guarantee from the insurance company that on the happening of the event they are going to pay for the loss and thus protects assured from suffering. Insurance company agrees to make payment of loss to the insured party.

3rd Insurance assists in capital formation.

It provides capital to the society. Insured person on insurance policy pays the amount of premium to the insurance company from time to time and on the policy taken. So this amount gets accumulated with the insurance company which gets invested in the economic development of the nation. And towards the productive plans of the country.

4th Insurance is risk bearing.

Financial loss of individual entities is equitably distributed. In fire insurance policyholders pay a premium under a common pool. There is a group of people who pays the amount of premium in case of the fire insurance policy, but out of which the compensation will be paid to those who suffer loss or they are compensated.

5th insurance solves social problems.

Now there are some common social problems which are prevailing and which can be solved by taking the insurance policy. Since the various insurance companies have varied products to meet the requirements of the society, such a type of policy can be taken up - against the industrial accidents can be taken up, against the road accident to meet the requirement of old age, disability or death of a person. In case of the death, the insurance policy can help the family members of the policy holder. Next is that insurance can become a good instrument to solve social problems.

6th insurance stimulates business enterprises.

Yes, it promotes or it motivates the business enterprises to go ahead without any fear because that fear factor is transferred to the insurance company. Fear of goods being destroyed by fire ,goods vehicle

meeting with an accident. These problems are taken up by the insurance company when the business enterprise takes up the insurance policy. Accordingly a trader or businessman wants to carry their activities free from risk so this is happening of event. Also businesses want to be free from tension so as it is said the happening of the event is uncertain but on the happening of the event the payment of the compensation is very certain from the insurance company which keeps the insured free from tension.

Insurance safeguards capital of industrialists because otherwise from the different types of contingencies the capital can be frozen separately for different contingencies, which the business will have. So at least some sort of contingencies can be transferred to the insurance companies.

7th Insurance promotes loss prevention.

Insurance joins hands with those institutions which are engaged in preventing loss of society like the Fire Brigade Department who can very well help in minimizing the fire. The reduction in loss causes lesser payment to the assured.

More saving is possible for the insurance company, ultimately which can be used in the development programs of the nation. This results in reducing the premium, ultimately the insured or the policyholder have to pay the less premium towards the policy being taken.

Then insurance encourages efficiency. Insurance eliminates worries, an uncertainty of risk in life as well as in business. A person is relieved from hardships and anxiety. This encourages the efficiency of an individual as well as businesses.

The importance of insurance:

- Insurance contract protects against the possible occurrence of contingencies. Example, fire, flood, lightning, etc.
- Insurer undertakes to compensate the insured for the loss arising from the risk.
- Some of insurance contracts act as a cooperative way of spreading risk, like fire insurance,
- Payment of premium for insurance contract is sufficient to acquire the rights and remedies available to that person. Because only after payment of the first premium, the insurance policy comes into force.
- Insurance provides funds to the government and public, which helps in economic development.

In conclusion, we can say here that we have learnt the various functions of insurance and how it solves the social problems of the society, how it prevents losses, importance of having the insurance contract, or how important it is to have an insurance policy.

The references for the topics are given at the end.

Thank you.