Chapter 1
Historical Background of Health Insurance
INTRODUCTION:

In the field of Indian healthcare history, historians have paid more attention to the Indian systems of health care their scientific and technological aspects and their Relationship with the Indian philosophies. Although such writing on Indian health system have provided some very useful insight into the way medicine was practiced, a systematic exploration of medical care provision and the rules and legislation on it, is yet to be undertaken. The earliest Indian civilization known to us is the Indus Urban Culture of 3000 to 2000 BC. The archaeological evidence show that these cities had well-planned drainage system, almost all houses had bathrooms, many houses had latrines and most houses had wells for water supply. The renowned medical historian Henry Sigerist believed that public health facilities of Mohenjo Daro were superior to those of any other community of the ancient Orient. Unfortunately, we do not have much evidence on the way these societies were governed and the kind of entitlements provided by the state or the community to the individuals and the households. However, the extent of development of public health system points to some kind of state or community planning which enabled the citizens to get entitlement to hygienic public health arrangements. The written evidence of the state's involvement and the regulatory function is available from the Kautilya's *Arthashastra*. Kautilya considered famine as a bigger calamity than pestilence and epidemics, as the remedies can be found for the diseases.

The *Arthashastra* also makes mandatory for the doctor to report to the state whenever the doctor is called to a house to treat a severely wounded person. This also applied to treating the one suffering from unwholesome food or drink. Such immediate reporting was mandatory in order not to get accused by the crime committed by such patients. If the doctor failed to provide information to the state, he would be charged with the same offence committed by such patient. For not providing proper information to patient, for committing mistake in and for being negligent in treatment, the *Arthashastra* provides for punishment, fine, for the doctor and compensation for victim. *Arthashastra* is replete with prescriptions of so-called medieval punishments, including strong recommendations for using torture for getting information or confession, and even using it for punishment. While in the field of ancient medical ethics and laws, the code of Hammurabi prescribing "eye-for-eye" punishment for the doctor injuring patient in the treatment is well known, the punishments prescribed and practised in Kautilya's time are less known and talked about. *Arthashastra* is a very definitive and practical book. Its identification of each point of state-craft, economic management, infringements and the specific and detailed punishments partly read like a code. It has received less attention perhaps because its writing on the medical practitioners and their duties are part of crisis management, combating recurring famines and epidemics, and also a part of "consumer" protection in general. When we are still trying to properly codify and implement doctor's duty of giving proper information to the patient, the *Arthashastra* had made mandatory for the doctor to give punishment if the patient died or suffered injury. It prescribes the following prior information about treatment

2. Ibid,
involving life and having consequence of causing injury. A failure to give such information invited harsher punishment for "negligence" in treatment: Doctor not giving prior information about treatment involving danger to life with the consequence of Punishment prescribed Physical deformity or damage to vital organ same punishment as causing similar physical injury. Death of patient lowest level standard penalty (primarily fine) Death due to wrong treatment Middle level standard penalty (primarily fine but high amount) Thus, *Arthashastra* equated injury due to treatment given without explaining consequences to patient with the similar injury caused in any criminal offence. The death due to wrong treatment invited more penalty than the death as a consequence of correct treatment. Lastly, compensating injury with money, a practice in the present day medical malpractice litigation was known and practised during Kautilya's time. This is indeed an advance over the Hammurabi type "eye-for-eye" justice system for medical negligence and draws attention to the advancements made by the ancient justice system in India as compared to other countries of that time. This detailed description shows that state-craft of that time put certain. The known text books of *Ayurvedic* medicine took many centuries in getting fully complied. In this process (which also required meeting of scholars and practitioners) the state extended support from time to time. It is suggested that these texts emerged in real fixed form in the first five hundred years.

**Around the 12th century AD** the Muslims brought their own physicians with them and thereby introduced a new system of medicine knows as *Unani*. Jeffery has suggested that in this period, "successful practitioners were those who served Successful rulers and, either through regular service or because of some special Healing act were granted an area of land. These grants may have been supposed to Fund specifically medical activities -a dispensary or a small
medical school- or they May have been grants to the man and his heirs, even if they ceased practicing Medicine."³

Documented medical relief in Medieval South India and noted that both state and religious institutions often subsidized and supported medical care. There hasn't been serious and sustained attempt in our country to document the System of self-regulation of physicians and the state laws to protect people from the misdeeds of physicians in these periods. However, the situation started changing from the British period in the modern history. The colonial power brought with it its own physicians and barber surgeons. In the mid-19th century, as the medicine got recognized in England, it slowly started having its impact in India, too. Further, the public health campaigns, the increasing intervention of the state in the provision and regulation of health care, establishment of hospitals and above-all the development of scientific medicine gradually led to the establishment of what we know as the organized health care service systems all over Western Europe. However, the colonial power was not interested in making the necessary investment in developing such well organized health care and public health campaigns for its subjects. After 1857 the main factors which shaped colonial health policy in India were its concern for the troops and the European civil population. After the enactment of the law establishing General Medical Council in 1857 in England, the British doctors employed in India were registered with the General Medical Council (GMC) and came under its disciplinary regulation.⁴

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3. Ibid,
4. Ibid,
As the number of doctors qualified in Indian medical colleges increased, creation of laws for them became necessary. Similar development took place for the nursing profession.

**Post independence developments**

The independence in 1947 inaugurated a new phase of development of organized Health care services creating more entitlement for the people. Along with that, the State also embarked on enactment of new laws, modification of the colonial laws and the judiciary developed case laws to consolidate people's entitlement of health care and to an extent, the rights. This development took place on the basis of numerous recommendations made by various committees. In this section we will briefly review reports of some of the committees while in subsequent sections we will examine in detail provisions of laws enacted. 3000 B.C., one finds evidence of well-developed environmental sanitation programmer such as underground drains, public baths in the cities etc.

'Arogya' or 'health' was given high priority in daily life and these concepts of health include physical, mental, social and spiritual well being. This cherished value regarding health is also enshrined in an ancient Sanskrit verse, Sarve Santu Niramayaha', which means 'Let all be free from disease/let all be healthy', and which was often used to express good wishes. The life style was conducive to health promotion and in the advocated daily activities of life called 'Dina Charya' the following essentials of health care were emphasized: health education, personal hygiene and habits, exercise,5 dietary practices, food, sanitation, environmental sanitation, code of conduct

and self-discipline, civic and spiritual values, treatment of minor ailments and injuries etc. In Ayurveda i.e. the 'Science of Life', one finds even in 1400 B.C. emphasis on health promotion and health education.

Unfortunately, for various reasons and particularly because of the onslaught of series of foreign aggressions and regimes leading to disruption of pre-existing Health services as a part of social and cultural interactions and exchanges, the great era was lost to darkness. Ayurveda not only failed to develop, but interact it languished because of want of adequate state patronage and recognition during the middle of the 18th century, the British Government in India established medical services which were primarily meant for the benefit of the British nationals, armed forces and a few privileged civil servants. But the vast Majority of the native population was denied access to the Western medicine.

Indigenous systems of medicine were totally neglected and allowed to languish. Services which were available in general hospitals located in big cities and Commercial centers were largely curative for the care of the sick and injured. Later on, some preventive measures were provided for the control of epidemics, and dispensaries were opened in some remote villages. Provincial health departments were established in 1919. But neither health planning nor medical education was related to the health needs of the people. This strong Western bias was largely responsible for blind adoption of sophisticated modern medicine for a few, neglecting the vital interests of the vast majority.6

Declaration of Alma Ata

In September 1978, the International Conference on Primary Health Care was held in Alma-Ata, USSR (now Almaty, Kazakhstan). The Declaration of Alma-Ata, co-sponsored by the World Health Organization (WHO), is a brief document that expresses "the need for urgent action by all governments, all health and development workers, and the world community to protect and promote the health of all the people of the world." It was the first international declaration stating the importance of primary health care and outlining the world governments' role and responsibilities to the health of the world's citizens. The Declaration of Alma-Ata begins by stating that health, "which is a state of complete physical, mental and social wellbeing, and not merely the absence of disease or infirmity, is a fundamental human right and that the attainment of the highest possible level of health is a most important worldwide social goal . . . " It goes on to call for all governments, regardless of politics and conflicts, to work together toward global health. These are still some of the fundamental principles that guide the work of the WHO today. Those who ratified the Declaration of Alma-Ata hoped that it would be the first step toward achieving health for all by the year 2000. Although that goal was not achieved, the Declaration of Alma-Ata still stands as an outline for the future of national and international healthcare.7

The declaration defines health as “a state of complete physical, mental, and social well-being and not merely the absence of disease” and declares health to be a fundamental human right. This statement that health care is a human right set the stage for an entire movement in public health, characterizing

health disparities and providing the ethical basis for providing health care for all. This, perhaps more than any other public statement, articulates a core value of family medicine and requires us to work at the systems level for social justice in the distribution of services to those in need. The declaration defines health as “a state of complete physical, mental, and social well-being and not merely the absence of disease” and declares health to be a fundamental human right. This statement that health care is a human right set the stage for an entire movement in public health, characterizing health disparities and providing the ethical basis for providing health care for all. This, perhaps more than any other public statement, articulates a core value of family medicine and requires us to work at the systems level for social justice in the distribution of services to those in need. The Declaration of Alma Ata also defines health comprehensively. It states that health systems should grow from specific economic political and socio-cultural conditions of countries and communities. It should address the principal and pervasive health problems in a society with prevention, curative, and rehabilitative approaches. The health care system should address education, nutrition, food supply, and clean water. It should embrace family planning, maternal-child health, immunization, and infectious disease control and treatment. In addition, it must address chronic illness care and the availability of appropriate pharmaceuticals.

8. Ibid,

http://www.who.int/hpr/NPH/docs/declaration_almaata.pdf
The Declaration goes on to identify other sectors such as communication, agriculture, and industry and calls for coordinated efforts to promote health. Individuals from the community are called upon to play a role in the development and direction of a community-responsive health care system. The Declaration calls on all health care workers to collaborate as teams to realize its vision. The Declaration of Alma Ata specifically prioritizes health care to those most in need. While this view of primary health care may go beyond what many of us think about on the way to the office, it challenges us to reflect on how health care delivery fits into other community services for the public good. Issues of food security, affordable housing, and health literacy are issues we cannot ignore in our communities. Team-based care is a genuine necessity for quality health care. The document further declares that gross inequalities in health status are politically, socially, economically, and morally unacceptable. These inequalities persist today, 30 years later, not only in the developing world but within our own communities. Closing the gap on health disparities must become one of the key quality indicators for our health care system and a directive for our own practices. The document links health and economic improvement to quality of life and, ultimately, to world peace, arguing that promoting health improvement is not only important for the population but a moral imperative incumbent on all nations. The Alma Ata declaration gives the people the rights and responsibilities for the planning and implementation of health care and goes on to describe primary health care as foundational to any health care system.\textsuperscript{10}

\textsuperscript{10} Ibid,
Universal Health Care (UHC) is a human right. The Health Survey and Development Committee, popularly known as the Bhore Committee (after is Chairperson Joseph Bhore), underlined this fact while constructing the national health plan:
"..We feel we can safely assert that a nation’s wealth prosperity and achievement and advancement, whether in the economic or the intellectual sphere, are conditioned by the state of its physical well being".
"..Expenditure of money and effort on improving the nation’s health is a gilt-edged investment which will yield not deferred dividends to be collected years late, but immediate and steady returns in substantially increased productive capacity. We need no further justification for attempting to evolve a comprehensive plan which must inevitably cover a very wide field and necessarily entail large expenditure, if it is to take into account all the more important factors which got the building up of a healthy, virile and dynamic people". The Bhore Committee made a global review of recent trends and developments in health care services. It looked at the developments in Britain, Australia, New Zealand, Canada, USSR and the USA and found an increased role of the state in providing health is. It concluded that the ferment of ideas arising out of the World War has resulted in an increasing awareness, on the part of the governments and people, of the need for measures which will ensure social security.\(^\text{11}\)
During pre independence era, to improve the preventive, promotive and curative heath services of country, a National Planning Commission was set up by the Indian National Congress in 1938.

\(^{11}\) www.cehat.org/pulication/pa05a8.html.
The rulers of that time, the British Empire realized the importance of Public Health and instituted the ‘Health Survey and Development Committee,’ in the year 1943 under the chairmanship of Sir Joseph Bhore. The committee was tasked to survey the then health conditions and health organizations in the country, and to make recommendations for future development. The committee submitted its report in 1946. The integration of preventive, promotive and curative health services and establishment of Primary Health Centre’s in rural areas were the major recommendations made by this committee.

**Important recommendations of the Bhore Committee**

- Integration of Preventive, Promotive and Curative services at all administrative levels.
- The development of Primary Health Centre’s for the delivery of comprehensive health services to the rural India. Each PHC should cater to a population of 40,000 with a Secondary Health Centre (now called Community Health Centre) to serve as a supervisory, coordinating and referral institution.
- In the long term (3 million plan), the PHC would have a 75 bedded hospital for a population of 10,000 to 20,000.¹²
- It also reviewed the system of medical education and research and included compulsory 3 months training in Community Medicine.

¹². Module 1: Chapter 4 Various Health Committees Indian Association of Preventive and Social Medicine Gujarat Chapter.
Committee proposed the development of National Programs health services for the country.

The Bhore Committee made various recommendations on a health programme for the country and the first term of reference, of the Mudaliar Committee was to assess how far we had been able to implement those recommendations. The country has developed in many respects since 1946. Changes occurred in a very short time, politically, economically and socially the impact of which has been quite great. Under the Constitution the responsibilities of the States and Centre in the sphere of national health has been properly classified Rapid economic change is occurring in the country as a result of the rapid industrialization, community project programmers, land tenancy reforms etc. Our society is also changing at a rapid pace due to various factors such as spread of education, more employment, the Hindu Code Bill, the Employees' State Insurance Scheme, the family planning programme etc. The Mudaliar Committee has considered most of these developments in their report and taken them into account in making their recommendations.  

13. Ibid,
The health insurance initiatives of the state in the last 60 years

Over the last 60 years India has achieved a lot in terms of healthcare improvement. Health insurance continues to be one of the most dynamic and fast evolving sectors in the Indian Insurance Industry. In growing sector in India case of government funded health care system, the quality and access of services has always remained major concern. A very rapidly growing private health market has developed in India. This private sector bridges most of the gaps between what government offers and what people need and what people wants their health care. However, with spreading of various health care technologies and general price rise, the cost of care has also become very expensive and unaffordable to large segment of population. The government has insist financial assessments and people have started exploring various health financing options to manage problems arising out of growing set of complexities of private sector growth, increasing cost of care. The new economic policy and liberalization process followed by the Government of India since 1991 paved the way for privatization of insurance sector in the country. Health insurance, which remained highly underdeveloped and a less significant segment of the product portfolios of the nationalized insurance companies in India, is now poised for a fundamental change in its approach and management. The Insurance Regulatory and Development Authority (IRDA) Bill, recently passed in the Indian Parliament, is important beginning of changes having significant implications for the health sector. The privatization of insurance and constitution IRDA envisage improving the performance of the state insurance sector in the country by increasing benefits from competition in terms of lowered costs and increased level of consumer satisfaction. However, the implications of the entry of private insurance companies in health sector are not very clear. The recent policy changes will
have been far reaching and would have major implications for the growth and development of the health sector. There are several contentious issues pertaining to development in this sector and these need critical examination. These also highlight the critical need for policy formulation and assessment. Unless privatization and development of health insurance is managed well it may have negative impact of health care especially to a large segment of population in the country. If it is well managed then it can improve access to care and health status in the country very rapidly. Health insurance as it is different from other segments of insurance business is more complex because of serious conflicts arising out of adverse selection, moral hazard, and information gap problems. For example, experiences from other countries suggest that the entry of private firms into the health insurance sector, if not properly regulated, does have adverse consequences for the costs of care, equity, consumer satisfaction, fraud and ethical standards. The IRDA would have a significant role in the regulation of this sector and responsibility to minimize the unintended consequences of this change.

Health sector policy formulation, assessment and implementation are an extremely complex task especially in a changing the pattern of disease, epidemiological, institutional, technological, and political scenario. Further, given the institutional complexity of our health sector programmes and the pluralistic character of health care providers, health sector reform strategies in the context of health insurance that have evolved elsewhere may have very little suitability to our country situation.¹⁴

Proper understanding of the Indian health situation and application of the principles of insurance keeping in view the social realities and national objective are important. During the last 60 years India has developed a large government health infrastructure with more than 150 medical colleges, 450 district hospitals, 3000 Community Health Centers, 20,000 Primary Health Care centers and 130,000 Sub-Health Centers. On top of this there are large number of private and NGO health facilities and practitioners scatters though out the country. Over the past 60 years India has made considerable progress in improving its health status. Death rate has reduced from 40 to 9 per thousand, infant mortality rate reduced from 161 to 71 per thousand live births and life expectancy increased from 31 to 63 years. However, many challenges remain and these are: life expectancy 4 years below world average, high incidence of communicable diseases, increasing incidence of non-communicable diseases, neglect of women's health, considerable regional variation and threat from environment degradation. It is estimated that at any given point of time 40 to 50 million people are on medication for major sickness in India. About 200 million workdays are lost annually due to sickness. Survey data indicate that about 60% people use private health providers for outpatient treatment while 60% use government providers for in-door treatment. The average expenditure for care is 2-5 times more in private sector than in public sector. India spends about 6% of GDP on health expenditure. Private health care expenditure is 75% or 4.25% of GDP and most of the rest (1.75%) is government funding. At present, the insurance coverage is negligible.\(^\text{15}\) Most of the public funding is for preventive, promotive and primary care programs while private expenditure is largely

\(^{15}\) Ibid,
for curative care. Over the period the private health care expenditure has grown at the rate of 12.84% per annum and for each one percent increase in per capital income the private health care expenditure has increased by 1.47%. Number of private doctors and private clinical facilities are also expanding exponentially. Indian health financing scene raises number of challenges, which are:

- increasing health care costs,
- High financial burden on poor eroding their incomes,
- Increasing burden of new diseases and health risks and
- Neglect of preventive and primary care and public health functions due to underfunding of the government health care.  

**STIMULATING THE GROWTH OF HEALTH INSURANCE.**

The individual revolution accelerated the urbanization of our population and encouraged to increase vocational specialization At the time, new and considerable hazard's of injury and I'll health arose as a result of people living together in crowded environment. Men's inherent for security demanded the development of socioeconomic mechanisms as a replacement for the individual independent that had been lost. Health insurance is provide a collective security, need of the security, such as provided by insurance, became greater as the science of medicine progressed.

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The profession of medical discovered how to prevent or cure many of the infectious disease that afflicted the young. The scientific progress of medicine has resulted in techniques requiring use of costly equipment and highly trained and expensive personal. These medical advance, there has come into being a greater appreciation of the importance of early and adequate health care. Government, which has always had the response responsibility for the care of the indigent. has moved in to make provision not only for the prevention of disability through the public health insurance but for the alleviation of its effect thru the requirements of workmen's compensation benefits, compulsory cash sickness plans payment of social security benefits to certain classes of permanently disabled persons and a variety of other programs physicians, hospitals and insurance, all of whom have a natural interest in disability and its effect have served as important instrument of general education to develop a wider appreciation of the importance of owning adequate voluntary health insurance.\textsuperscript{17}

Health insurance is unique way to sure money or protect health of the people. It not only performs the necessary serious of providing funds out of which income may be continued during disability repaying the heavy expense of illness, and maintain the disabled insured credit, but it accomplishes these purposes without imposing sever restrictions on the individual or society. In the field of health insurance and enormous variety of difficult benefits or policies, no other field of insurance these is no varieties of insurance in terms of organization or type of benefit.

\textsuperscript{17} Edwin J. Faulkner “Human life values Role of health insurance” life and health insurance Handbook, chapter 3 page no 31-32...........
Enormous types of benefits several plans, the principal division of the business, between insurers providing cash benefits and plans of fried service benefits secure money for long period, has encourage whole some competition and estimated improvement of all plans in the public interest. This is very easy for people to take health insurance become the provision has given in the prospective insured the opportunities to pick and choose the type and amount of benefits best suited to this personal needs.\textsuperscript{18}

\textbf{Understanding Principles of Insurance}

The main objective of every insurance contract is to give financial security and protection to the insured from any future uncertainties. Insured must never ever try to misuse this safe financial cover. Seeking profit opportunities by reporting false occurrences violates the terms and conditions of an insurance contract. This breaks trust, results in breaching of a contract and invites legal penalties. An insurer must always investigate any doubtable insurance claims. It is also a duty of the insurer to accept and approve all genuine insurance claims made, as early as possible without any further delays and annoying hindrances.

\textsuperscript{18} Edwin J. Faulkner “Human life values Role of health insurance” life and health insurance Handbook, chapter 3 page no 31-32.............
General Insurance include different types of insurance like insurance of property against fire, burglary etc, personal insurance such as Accident and Health Insurance, and liability insurance which covers legal liabilities. Suitable general Insurance covers are necessary for every family. It is important to protect one’s property, which one might have acquired from one’s hard earned income. Losses created disaster such as the tsunami, earthquakes, cyclones etc. have left many homeless and penniless. Such losses can be highly destructive and destroy but insurance could help mitigate them. Property can be covered, so also the people against Personal Accident. A Health Insurance policy can provide financial relief and financial securities to a person undergoing medical treatment whether due to a disease or an injury.

The seven principles of insurance are:-

- Principle of Uberrimae fidei (Utmost Good Faith),
- Principle of Insurable Interest,
- Principle of Indemnity,
- Principle of Contribution,
- Principle of Subrogation,
- Principle of Loss Minimization, and
- Principle of Causa Proxima (Nearest Cause)

1. Principle of Uberrimae fidei (Utmost Good Faith)

Principle of Uberrimae fidei (a Latin phrase), or in simple English words, the Principle of Utmost Good Faith, is a very basic and first primary principle of insurance. According to this principle, the insurance contract must be signed
by both parties (i.e. insurer and insured) in an absolute good faith or belief or trust. The person getting insured must willingly disclose and surrender to the insurer his complete true information regarding the subject matter of insurance. The insurer's liability gets void (i.e. legally revoked or cancelled) if any facts, about the subject matter of insurance are either omitted, hidden, falsified or presented in a wrong manner by the insured. The principle of Uberrimae fidei applies to all types of insurance contracts. Both the parties to a commercial contract are by law required to observe good faith. Let us say that you go to a shop to buy an electrical appliance. You simply will not enter, pay and pick up any sample piece but will check two, three or even more pieces. You may be even ask the shopkeeper to give a demonstration to ensure that it is in working condition and also ask several questions to satisfy yourself about what you are buying. Then when you go home you find it does not work or is not what you were looking for exactly so you decide to return the item but the shopkeeper may well refuse to take it back saying that before purchasing you had satisfied yourself; and he is possibly right. The common law principle “Caveat Emptor” or let the buyer beware is applicable to commercial contracts and the buyer must satisfy himself that the contract is good because he has no legal redress later on if he has made a bad bargain. The seller cannot misrepresent the item he has sold or deceive the buyer by giving wrong or misleading information but he is under no obligation to disclose all the information to the buyer and only selective information in reply to the buyers queries is required to be given.

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But in Insurance contracts the principles of “Uberrima fides” i.e. of Utmost Good Faith is observed and simple good faith is not enough.

2. Principle of Insurable Interest

The principle of insurable interest states that the person getting insured must have insurable interest in the object of insurance. A person has an insurable interest when the physical existence of the insured object gives him some gain but its non-existence will give him a loss. In simple words, the insured person must suffer some financial loss by the damage of the insured object.

For example: - The owner of a taxicab has insurable interest in the taxicab because he is getting income from it. But, if he sells it, he will not have an insurable interest left in that taxicab.

From above example, we can conclude that, ownership plays a very crucial role in evaluating insurable interest. Every person has an insurable interest in his own life. A merchant has insurable interest in his business of trading. Similarly, a creditor has insurable interest in his debtor.

3. Principle of Indemnity

Indemnity means security, protection and compensation given against damage, loss or injury. In Insurance the word indemnity is defined as “financial compensation sufficient to place the insured in the same financial position after a loss as he enjoyed immediately before the loss occurred.” According to the principle of indemnity, an insurance contract is signed only for getting protection against unpredicted financial losses arising due to future uncertainties. Insurance contract is not made for making profit else its sole purpose is to give compensation in case of any damage or loss.
In an insurance contract, the amount of compensations paid is in proportion to the incurred losses. The amount of compensations is limited to the amount assured or the actual losses, whichever is less. The compensation must not be less or more than the actual damage. Compensation is not paid if the specified loss does not happen due to a particular reason during a specific time period. Thus, insurance is only for giving protection against losses and not for making profit. However, in case of life insurance, the principle of indemnity does not apply because the value of human life cannot be measured in terms of money.

4. Principle of Contribution

Principle of Contribution is a corollary of the principle of indemnity. It applies to all contracts of indemnity, if the insured has taken out more than one policy on the same subject matter. According to this principle, the insured can claim the compensation only to the extent of actual loss either from all insurers or from any one insurer. If one insurer pays full compensation then that insurer can claim proportionate claim from the other insurers. First being that the Insurers should pay in the proportion to the sum insured for example;

Sum Insured Policy A = 10,000/-

Sum Insured Policy B = 20,000/-

Sum Insured Policy C = 30,000/-

Total = 60,000/-

In case of a claim of Rs.6000/- the three insurers would be liable to pay in the proportion 1:2:3 i.e. ‘A’ pays Rs.1000/-  ‘B’ pays Rs.2000/- and ‘C’ pays Rs.3000/- However, the drawback of this simplistic method is that the terms
and conditions of the policies may be different and it would not be prudent to ignore these terms and conditions. For example, the condition of average may apply to one or more policies or there may be an excess clause in one policy which may affect their share of contribution to the loss. It would therefore be correct to assess the loss as per the terms and conditions of the individual policy and pay the claims accordingly. If by following this method the total sum of the liability of the Insurers is more than the claim amount then the Insurers shall pay in proportion to the amount of liability of each. So, if the insured claims full amount of compensation from one insurer then he cannot claim the same compensation from other insurer and make a profit. Secondly, if one insurance company pays the full compensation then it can recover the proportionate contribution from the other insurance company. 20

5. Principle of Subrogation

Subrogation means substituting one creditor for another. Principle of Subrogation is an extension and another corollary of the principle of indemnity. It also applies to all contracts of indemnity. According to the principle of subrogation, when the insured is compensated for the losses due to damage to his insured property, then the ownership right of such property shifts to the insurer. This principle is applicable only when the damaged property has any value after the event causing the damage. The insurer can benefit out of subrogation rights only to the extent of the amount he has paid to the insured as compensation.

For example: - Mr. John insures his house for $ 1 million. The house is totally destroyed by the negligence of his neighbor Mr. Tom. The insurance company shall settle the claim of Mr. John for $ 1 million. At the same time, it can file a law suit against Mr. Tom for $ 1.2 million, the market value of the house. If insurance company wins the case and collects $ 1.2 million from Mr. Tom, then the insurance company will retain $ 1 million (which it has already paid to Mr. John) plus other expenses such as court fees. The balance amount, if any will be given to Mr. John, the insured.

6. Principle of Loss Minimization

According to the Principle of Loss Minimization, insured must always try his level best to minimize the loss of his insured property, in case of uncertain events like a fire outbreak or blast, etc. The insured must take all possible measures and necessary steps to control and reduce the losses in such a scenario. The insured must not neglect and behave irresponsibly during such events just because the property is insured. Hence it is a responsibility of the insured to protect his insured property and avoid further losses. For example: - Assume, Mr. John's house is set on fire due to an electric short-circuit. In this tragic scenario, Mr. John must try his level best to stop fire by all possible means, like first calling nearest fire department office, asking neighbors for emergency fire extinguishers, etc. He must not remain inactive and watch his house burning hoping, "Why should I worry? I've insured my house.

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21. Ibid,
7. Principle of Causa Proxima (Nearest Cause)

Principle of Causa Proxima (a Latin phrase), or in simple English words, the Principle of Proximate (i.e. Nearest) Cause, means when a loss is caused by more than one causes, the proximate or the nearest or the closest cause should be taken into consideration to decide the liability of the insurer. The principle states that to find out whether the insurer is liable for the loss or not, the proximate (closest) and not the remote (forest) must be looked into. For example: - A cargo ship's base was punctured due to rats and so sea water entered and cargo was damaged. Here there are two causes for the damage of the cargo ship - (i) The cargo ship getting punctured because of rats, and (ii) The sea water entering ship through puncture. The risk of sea water is insured but the first cause is not. The nearest cause of damage is sea water which is insured and therefore the insurer must pay the compensation. However, in case of life insurance, the principle of Causa Proxima does not apply. Whatever may be the reason of death (whether a natural death or an unnatural death) the insurer is liable to pay the amount of insurance. 22

THE USAGE OF HEALTH INSURANCE

1. Income Replacement- The primary function of health insurance is income replacement. For most people, inability to work means ending or harsh reduction of income. Personal and family expenses continue during disability, and without the means out of which of repay them, the individual and family become a burden on society.

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22. kalyan-city.blogspot.com/2011/03/principles-of-insurance-7-basic-general.html
Health insurance to replace income is regarded as primary because it keeps the family integrated, puts bread on the table, and maintains a roof over the family's head. Insurers have made great progress in improving the disability income benefits. Formerly issued in modest amounts for relatively short durations benefits are now widely available for total disability in amounts approaching after tax earned income. In addition, formerly bulky requirements of house confinement as a condition to sickness benefits payment have been eliminated for the most part also the duration of benefits has been extended to five years 10 years age 65 or for life and the contract have been made available on a guaranteed renewable or no cancellable basis to age 65.

2. **Compensation of Medical Expense**…. The rapid growth of health insurance to meet the costs of health care has tended to obscure the basic income replacement function of health insurance. The costs of care in a serious illness or injury are spectacular and for this reason, probably many people are stimulated to buy medical expense coverage before insuring their income against cessation because of disability. 23

The interest of doctors and hospitals in the spread of health insurance to defray the costs of their services is evident and motivating factor in the great expansion of think kind of coverage. Not only are the financial problems of the insured and his family diminished when health insurance provides the funds out of which to pay the costs of health care,

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but the financial problems of the doctor and hospital are also abated. Care paid for by insurance proceeds is a principal source of income for most hospitals. A substantial part of physicians’ income is derived directly or indirectly from insurance benefits. Medical expenses insurance is available on many different plans. Insurance company contacts usually provide cash benefits to reimburse the insured person for incurred medical. Hospital, and miscellaneous health care costs subject to the specific limits stated in the contract. Buyer’s may select from contracts that schedule the benefits to be paid for each specific kind of expense or the board unallocated type of coverage exemplified by major medical expense without limit as to particular type of expense, subject to an overall maximum amount and deductible and coinsurance provisions..

3. **Encourage to Adequate Health Care** ....While facilities are available to provide treatment for the indigent person, lack of personal means causes many people to defer seeking needed health care. When such funds are available through insurance, the financial obstacle to early and adequate treatment is removed and the way opened to speedier recovery. No small factor in restoring the insured to good health is the relief from financial worry provided by adequate insurance program protection. Peace of mind imparted by the existence of a sound insurance program helps relive the high tension of modern living and the fear of insecurity that in and of themselves cause of intensify illness...

4. **Maintenance of Credit**- Disability changes the income producer into a large-scale consumer. Without the income provided by health insurance, the disabled person credits kibbles. Recognizing that disability is a principal
reason for default in the payment of obligations creditors look with great favor on adequate plans of health insurance. Purchase of expensive consumers goods items on the installment plan has become a feature of American life. The installment loan almost always has to be paid out of earned income. When disability strikes down the breadwinner without insurance, the payments due on the automobile, the refrigerator, or the television set are not made. To prevent delinquencies of this kind creditors offer plans of health insurance with benefits indictable in the amount of the installment loan obligation when the insured is disabled. While consumer credit health insurance is more widespread than health insurance applied to protect mortgage loan obligations this use is also becoming popular...

5. Safeguard of the Insurance Estate. --- Health insurance insures other insurance. In times of emergency the benefits of the health insurance contract provide the funds out of which life insurance and property insurance may be maintained. The principal sum or accidental death benefit provisions of the health insurance contract constitutes a kind of life insurance limited to the sudden death of the insured by accidental bodily injuries.

6. Business Insurance. -- The important use of health insurance is financial value to business enterprises. Originally thought of as the principal support of the individual and family during the disability of the breadwinner, health insurance now plays significant roles as business key man insurance and business and professional overhead expense indemnity. When the sole proprietor, the business partner, or the corporation key man is disabled, the enterprise is confronted not only with the loss of his services but with the necessity of continuing his compensation while hiring a replacement. For
some businesses, such a financial burden, long continued, can be bankrupting. By arranging adequate health insurance on the key personnel, the enterprise transfers this risk of loss to the insurer. Increasingly, health insurance also is a vital factor in providing the financial means for implementing buy and sell agreements that become effective in the event of prolonged disability of one of the parties. Business and professional overhead insurance has been developed to reimburse the entrepreneur or professional man during periods of disability for office overhead expenses such as rent, utilities, and employees wages which continue even though he cannot serve his clientele...

Health insurance also serves business as an important means of improving and solidifying good employer - employee relations. Freed of worry over the costs of disability, employees tend to be more productive. An adequate health insurance program is an important inducement by which business attract and hold the services of skilled and talented people....

7. Health Conservation....-- many lines of insurance finds their most important contribution in the prevention of the hazard underwritten. The inspection service of steam boiler and machinery insurers is the most signification benefit they provide. Health insurers are conscious of the important of doing all that can be done to abate disability. They encourage their insured and the general public to be safety -conscious and to take timely measures to prevent or cure illness. The nature of the health hazard is such, however, that except.24

By supporting and encouraging medical research and public education in health care matters, insurers, for the most part, can do little to prevent illness and injury. The preventive services of health insurance will expend only as medical science progress. The insurer’s role in prevention is one of supporting the education work of the public health service, doctor, and hospitals. Without infringing on individual prerogatives, the insurer cannot coerce the insured in health care matters...  