

Course: BBA Part III

Paper: XIV

Topic: Objectives and Importance of Insurance

Teacher's Name: Prof. (Dr.) Reyazuddin

School: Commerce and Management

Date: 25/07/2020

Objectives of Insurance

Granting Security To People

Insurance primarily serves the purpose of granting security against losses and damages to people. It is an agreement entered into by two parties in which one promises to protect the other from losses in return for premium paid by the other party. One party is the insurance company and the other one is insured. Insurance companies guarantee the insured of compensation in case of any unfavourable contingency. Insured need to pay premium to insurance companies in return for guarantee of compensation.

Minimisation Of Losses

Insurance aims at minimisation of losses arising from future risks and uncertainties. It adds certainty of payments to people for happening of uncertain events. Insurance assures the individuals for compensation of losses. It minimises the risk through proper planning and administration. Insurance companies suggest people for taking safety measures like installation of fire detection devices, alarm and cameras system etc. They also join hands with various

organisations like fire brigade, health and various organisations which work for reducing losses and damages. This way insurance works toward minimising the happening of various losses.

Diversifying The Risk

Insurance works towards diversifying the risk among large number of people. It aims at reducing the adverse effects of any future contingency by spreading the overall risk associated with it. It is medium through which people share their risk with others. Insurance companies compensate the insured for losses out of premium they charged from their different policy holders. The loss incurred by single individual is diversified among large peoples by insurance companies by utilising the collected premium amount for paying compensations.

Reduces The Anxiety And Fear

Insurance policies relieves the individuals of any tension and fear regarding the future risks and uncertainties. It guarantees them of compensation in occurrence of any unfavourable contingencies. Assurance of compensation is the most relieving factor for tensed and worried people. They are certain of payment on occurrence of various uncertain events. It makes them confident and they focus on their activities with full attention.

Mobilises The Saving

Mobilisation of savings is another important objective of insurance. It attracts people for investments by presenting them with numerous insurance policies guarantying of compensation for losses. Large number of people takes this insurance policy in order to insure them against losses and damages. Insurance companies are able to generate large amount of funds in the form of premium that they charged from their policy holders regularly. These funds are then invested by these companies into securities and stock in market and earn incomes. Ideal lying resources with public are employed by insurance companies towards income generating sources.

Generation Of Capital

Insurance companies leads to capital generation by collecting large amount of funds from public. They regularly charges premium from their large customers for providing them protection against losses. These funds are invested for industrial development by subscribing to shares of companies. Companies are able to get their required capital through insurance industry as this invests in companies for earning dividends and other incomes. This boosts the industry performance and economic growth of country. Also, bigger investments lead to creation of various employment opportunities.

Importance of Insurance

1. Provide safety and security:

Insurance provide financial support and reduce uncertainties in business and human life. It provides safety and security against particular event. There is always a fear of sudden loss. Insurance provides a cover against any sudden loss. For example, in case of life insurance financial assistance is provided to the family of the insured on his death. In case of other insurance security is provided against the loss due to fire, marine, accidents etc.

2. Generates financial resources:

Insurance generate funds by collecting premium. These funds are invested in government securities and stock. These funds are gainfully employed in industrial development of a country for generating more funds and utilised for the economic development of the country. Employment opportunities are increased by big investments leading to capital formation.

3. Life insurance encourages savings:

Insurance does not only protect against risks and uncertainties, but also provides an investment channel too. Life insurance enables systematic savings due to payment of regular premium. Life insurance provides a mode of investment. It develops a habit of saving money by paying premium. The insured get the lump sum amount at the maturity of the contract. Thus life insurance encourages savings.

4. Promotes economic growth:

Insurance generates significant impact on the economy by mobilizing domestic savings. Insurance turn accumulated capital into productive investments. Insurance enables to mitigate loss, financial stability and promotes trade and commerce activities those results into economic growth and development. Thus, insurance plays a crucial role in sustainable growth of an economy.

5. Medical support:

A medical insurance considered essential in managing risk in health. Anyone can be a victim of critical illness unexpectedly. And rising medical expense is of great concern. Medical Insurance is one of the insurance policies that cater for different type of health risks. The insured gets a medical support in case of medical insurance policy.

6. Spreading of risk:

Insurance facilitates spreading of risk from the insured to the insurer. The basic principle of insurance is to spread risk among a large number of people. A large number of persons get insurance policies and pay premium to the insurer. Whenever a loss occurs, it is compensated out of funds of the insurer.

7. Source of collecting funds:

Large funds are collected by the way of premium. These funds are utilised in the industrial development of a country, which accelerates the economic growth. Employment opportunities are increased by such big investments. Thus, insurance has become an important source of capital formation.