

LIFE INSURANCE

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- Life Insurance is a social contract to share the risk of loss of life.
- An agreement in which one party agrees to pay a given sum of money upon the happening of a particular event contingent upon duration of human life in exchange of the payment of consideration.
- A contract in which the insurer, in consideration of a certain premium, either in lump sum or in form of any other periodical payments, in return agrees to pay to the assured, or to the person for whose benefit the policy is taken, a stated sum of money on the happening of a particular event contingent upon duration of human life in exchange of the payment of a consideration.

Nature & Concept

Nature of life insurance contract undoubtedly occurs in the case titled

○ Dalby v. India and London Life Assurance Company (1854) 15 CB 365

(Contract of Life Insurance is not a contract of indemnity)

○ Chandulal Harjivandas v. CIT AIR 1967 SC 816

(The contract in behalf of assessee was entered into between his father and LIC as the assessee was then a minor. The important point to be noticed is that if the assessed adopts the policy upon attaining majority, the corporation becomes liable to pay the sum assured to the assessee on the stipulated date of majority, if the assessee was alive)

Nature of Life Insurance Contract may be summarized under the following heads:-

- Unilateral Contract
- Contract of utmost good faith
- Conditional contract
- Aleatory Contract
- Contract of Adhesion
- Contract of certain amount

Formation of Life Insurance contract must satisfy the following essentials of a valid contract:-

- Offer and acceptance
- Consideration
- Competence of parties
- Free consent of parties
- Legality of object

- **Offer & acceptance**

(The intention of the proposer's intention to buy insurance is the offer, while the insurer's willingness to undertake the risk, is the acceptance)

- **Consideration**

The payment of first premium is the consideration for the insurer and the insurer's promise of indemnity to the assured from the stipulated risk is the consideration to the assured.

○ *Raj Narain Das Mahapatra* (1881) 7 Calcutta 594

(cashing of cheque was an acceptance of the risk whether policy was issued or not).

- **Competence of parties**

(Only those insurers can grant insurance policies who have been issued license under IRDA).

- **Free consent of parties**

(Not caused by Coercion, or undue influence or fraud or misrepresentation or mistake – section 14, Indian Contract Act, 1882)

- Bernarsi Das v. New India Assurance Co. Ltd. AIR 1959 Pat 540.

(in case of a person who is illiterate or who is not in a position to understand the content of a document, the contract cannot be imposed upon him.)

- Kurta Ammal v. Oriental Government Security Life Assurance Co. Ltd. AIR 1954 Mad 636.

(in case of an illiterate person, it is necessary to prove the fact that he had knowledge of what was stated in the proposal)

- **Legality of object**

**(the object of an agreement must be lawful u/s 23,
Indian Contract Act, 1882.)**