CHAPTER - 3
CONCEPT, NATURE AND SCOPE OF LIFE INSURANCE

3.1 NATURE AND HISTORY OF LIFE INSURANCE:

3.1.1 Nature -

The life insurance is an arrangement through which man can plan for the continuation of income if death, disability, or old age which destroys his ability to earn a living. The life insurance in its generic meaning is used to include all forms of insurance designed to protect against loss of income arising from inability to work, whether this be caused by death, accidental injury, sickness or old age.\(^1\) In its specific meaning, life insurance implies protection in the event of death only. Income protection in the event of accidental injury or sickness is covered by the term “health insurance” and the word “annuity” is used to denote income replacement in old age, perhaps a better standard term for the broader field on human life is income insurance.\(^2\)

Every person must have a constant flow of income from cradle to the grave in order to pass through life without poverty. This income originates from two sources:\(^3\):

1) Man’s work producing income and
2) Man’s accumulated capital producing income.

It is the object of life insurance to provide the alternative source of capital as a producer of income when the first source i.e. labour ceases to produce income.


\(^2\) Ibid.

\(^3\) Ibid..
on account of old age, death or disability. A person has to earn income not only for him but also for his dependants like wife, and children, until the latter become independent.

A) Life insurance and human life-values:

The life insurance deals with the human life-values. Unfortunately, too many people tend to think of economic values solely in terms of tangibles: real estate, equipment, inventories. They do not consider the enormous value of the earning power of human lives. The risk in life insurance is measured in terms of monetary value of the life.

B) Life Value: Man, within himself, represents great worth that creates all utility in tangible property. After nature, everything we have in this universe springs from man. Life-value, therefore, is the basic value. There is so much financial value on human life. Ideas and energy make money in our life and both come from man himself. Man is endowed with highly intellectual ability and he makes ceaseless and untiring efforts for the betterment and advancement of his life, which ensures him the highest happiness, comfort and benefits.

The value of the property already in existence may be greatly enhanced by the human life value. The nation’s income from rent, interest and business profit after payment of taxes are probably doubled because of the intelligent direction given by the life value of the owners of the property involved.

Man always strives for financial independence, but that cannot be secured continuously unless the earned income is supplemented by property-income.


5 Ibid.

6 Ibid. at page 115.

7 Ibid.
Property-income means profit or income produced by such property acquired as was not designed for utility purposes. If that is not available and he is dependent upon other people.\(^8\)

While life has a very definite value, it is essential to a man’s long-run financial success that he either lives long enough to earn more or that it can be replaced through life insurance. Earnings represent the past ability, habits and character predicts the future. The value of that future cannot be discounted, however, though it can be replaced, in the event of premature death or permanent disability, through the use of insurance. The life insurance is the only way, which enables one to capitalize the life-value first, and then pay for the substitute value over his lifetime.\(^9\)

In majority of cases, the family depends for its livelihood on the current earnings of the head of the family, who, in other words, is the bread-winner of the family. The members of the family have a right to seek from him for adequate maintenance and it is his duty to provide maintenance to them as best as he can. If this source of income ends by death, the family would find it necessary to make economic and social adjustments, which might result in serious physical and psychological harm.\(^10\)

With respect to the human life-value, life insurance has two functions\(^11\):

i. To contribute towards human life conservation and

ii. To protect against financial losses resulting from the destruction of human life.


\(^9\) Ibid.

\(^10\) Ibid. at page 117

\(^11\) Ibid.
The fundamental idea of the life insurance is just spreading equally the few losses of life values over a large number of people so that some of the unfortunate who actually suffer the loss may not feel the burden of their loss. Such spreading is accomplished by an arrangement whereby a number of people agree to contribute a small amount to a common fund, out of which such amounts as have been agreed to in advance be paid on death to the representatives of the deceased. By the device of life insurance principle, modern man, whose happiness lies in financial independence, is able to recover the otherwise irrecoverable value of human life. Insurance principle safeguards the interests of one and all who have got a financial risk in the existence of a particular person or persons.\(^\text{12}\)

The ‘Human Life Value’ may be defined as the capitalized value of the net future earnings of an individual after deducting appropriate costs for self maintenance. From the point of view of dependents, an individual’s ‘Human Life Value’ represents the measure of the value of benefits they can rightfully expect to get from their bread-winner. Likewise, from the standpoint of an organization, the ‘Human Life Value’ on one of its key employees is a measure of the value of his or her services to the organization.\(^\text{13}\) In 1924, S.S Huebner of Wharton School of Finance and Commerce, University of Pennsylvania; U.S.A., suggested that the human life value concept is not just a statement that a human life has an economic value but implies the five aspects as follows\(^\text{14}\):

1. Appraisal and capitalization of Human Life Value
2. Recognition of family as an economic unit organized around Human Life Values


\(^\text{14}\) Ibid.
3. Human Life Value and its protection as the main link between present generation and the succeeding generation
4. Recognition of Human Life Value as creator of property values
5. Application of scientific principles of business management to life values

The capitalization of economic value of a human life is possible through life and health insurance. By guaranteeing this capitalized value in the event of death, life insurance tries to perpetuate the earning capacity of an individual life for the benefit of its dependents. With the bread winner’s death, the whole value will be swept away. Life insurance acts as a hedge against such a loss. It is the only scientific method of capitalizing the economic value of a human life and indemnifying for its loss in case of premature death.\textsuperscript{15}

3.2 HISTORY OF LIFE INSURANCE:

A reference is available in the \textit{Rig Veda} as stated by F. I. McLean in his book “Human Side of Insurance” as -

\begin{quote}
\textit{The Sanskrit term ‘Yogakshema’ (meaning well being) is found in the \textit{Rig Veda} and that some kind of commercial insurance was practiced by the Aryan tribes in India nearly 3000 years ago. The Vedic Rishis knew about it. Their songs of benevolence contained the term “Yogakshema” – an idea which has been vivifying the India throwing light since ancient times. The \textit{Manu Smriti} also supports the system of collective cooperation as practiced by the Aryans.}\textsuperscript{16}
\end{quote}

The Life insurance business, as it is known today, is a heritage from England. The industrial revolution accelerated the pace and the continents of Europe, America and Canada followed the same and have in course of time developed individual systems of their own. The first plan to form some sort of an insurance organization in this country was proposed at the Government level. Sir John Child (Governor of Bombay during 1861-1890) was instructed by the Court of Directors of the East India Company to constitute an insurance office on the


Bombay Island\textsuperscript{17}. The early insurance companies in India issued policies in sterling on the lives of Europeans who were engaged in the services of the East India Company and later on the lives of those in the Government of India. A few companies who attempted to write business on Indian lives either came to grief sooner or later or were absorbed by others.\textsuperscript{18}

The failure of two large English companies, the European and the Albert, about the year 1870, affected a large number of persons in this country who had reposed their faith in them. Consequently, an attempt was made to float companies in India to underwrite business on Indian lives also.\textsuperscript{19}

Thus the “Bombay Mutual" was established in 1871. It was closely followed by the "Oriental" in 1874. The Colonial Life Assurance Company also established, in 1870, to extend its business to Indian lives and it is from that year that the modern Indian insurance may be dated.\textsuperscript{20}

As far back as 1818 an insurance company, named Oriental Life Assurance Company, was started in Calcutta mainly by Europeans. Later; Bombay Life Assurance Company was founded in Bombay on 1st May 1823. Then; Madras Equitable\textsuperscript{21} and Madras Widows company\textsuperscript{22} came which went into liquidation after the war. The next two companies established were the Christian Mutual in the Punjab and the Tinnevelly Diocesan Council Widows' Fund in Madras in the years 1847 and 1849 respectively. Later; the Universal Life

\textsuperscript{17} “The Beginning”, (1999-2000) \textit{Life Insurance Compendium} at page 3

\textsuperscript{18} \textit{Ibid.}

\textsuperscript{19} \textit{Ibid.}

\textsuperscript{20} \textit{Ibid.}

\textsuperscript{21} Established in 1829.

\textsuperscript{22} Established in 1834.
Assurance Company was established in England in 1836 and commenced writing business in India in 1840.\textsuperscript{23}

The rate tables constructed were distinctly on the heavy side. This was probably due to the influence of heavy mortality of troops in India, as evidenced by the official Army Reports. Nevertheless, the business done was considerable; possibly because of the fact that the field of insurance was not yet familiar and competition nearly non-existent.\textsuperscript{24} During the decade following 1860, a large number of haphazard amalgamations took place. The high prices were paid for taking over the business of smaller and unsound companies, bad management and bad selection of lives became the order of the day. The result was that a large number of insurance companies, including some of the most outstanding ones and with wide effect of business, went into liquidation. The public lost heavily in these failures. There arose great righteous anger throughout the nation and the British Parliament passed an Insurance Act in 1870.\textsuperscript{25} The main provisions\textsuperscript{26} of this Act were:

1. That all the life insurance offices should make uniform statements every year in a prescribed form, and actuarial reports at longer intervals\textsuperscript{27},

2. Every new company should make a deposit of 20,000, a provision not intended primarily as a security for policyholders but as a check on the formation of companies for the benefit of promoters. The deposit was to


\textsuperscript{24} Ibid.

\textsuperscript{25} Ibid.

\textsuperscript{26} Ibid.

\textsuperscript{27} Ibid. at page 20.
be returned when the life fund accumulated out of premiums amounted to 40,000\textsuperscript{28},

3. To require companies doing other business besides life insurance to keep a separate life fund,

4 To afford policyholders legal remedies for their protection.\textsuperscript{29}

The Act of 1870 was a wise one and the passing of the Act marked the opening of a period of prosperity and great development in the business of life insurance in England. In India no attempt was made to legislate for the control of life insurance business and matters were allowed to continue as previously. It appears, however, that pressure was brought to bear on the Government of India to establish a State-controlled Life Assurance Company in India, but to no benefit took place.\textsuperscript{30} The Government of India published certain arguments against the formation of such a company in India. The arguments are reproduced below, and throw an interesting sidelight on opinion about the system of life insurance in general in this country may seen:

1. The Government of India is not in possession of any sufficient statistics on the value of native lives and as European vital statistics cannot be adopted for natives of this country, it will be long before materials of the kind can be compiled; meanwhile in the absence of this information it would be impossible to construct the actuarial tables on which a system of assurance must be based,\textsuperscript{31}


\textsuperscript{29} Ibid.

\textsuperscript{30} Ibid.

\textsuperscript{31} Ibid.
2. Even with accurate statistics of native lives the data for the 

3. The people themselves are not prepared for the practice of assurance; so 
that it would be inoperative beyond the Presidency towns and the 
comparatively small body of native gentlemen throughout the country who 
are accustomed to European ideas. The number who would avail 
themselves of the concession would therefore in all probability be 
negligibly small as compared with the public at large and would not be 
such as to justify the constitution of an insurance office\footnote{Ibid.}.

4. Unless the institution were largely patronised by the public, its cost of 
management would bear a large proportion of income and to guard the 
Government from loss on this account and also on account of the 
uncertainty as to the value of native life, it would be necessary to fix upon 
a low rate of interest. This would prove an additional discouragement to 
assurance in a country where people are accustomed to high return on their 
money\footnote{Ibid.}.

5. To start a scheme of the kind, which might either occasion loss to the 
exchequer or become abortive from its being unsuited to the state of the 
country would cast discredit on the Government\footnote{Ibid.}.

6. There would be some difficulties in the way of procuring the necessary 
certificates of death and the inexpediency of any system of assurance by
which a motive could be given for the shortening of life has been noticed by native gentlemen themselves.\textsuperscript{36}

The Commercial Union Assurance Co. Ltd. was established in 1861 in the United Kingdom and commenced general insurance business, including life insurance business, in India in 1870. It accepted life insurance proposals from European residents in India. On enquiry at their Bombay Office, one can gather that the company was not keen on life business during its early career in this country.\textsuperscript{37}

This was probably due to the absence of any reliable mortality table of Europeans in India and consequently no rates of premium satisfactory to the insured and the company could be arranged. The company ceased to transact life assurance business in view of the requirements of the Insurance Act of 1938.\textsuperscript{38} Even during its long stay, extending over a period of about 70 years, the life insurance business was never considerable, and at the close of the financial year 1938 the total Indian business consisted of 516 policies assuring about Rs. 38 lakhs (inclusive of bonus) and guaranteeing annuity to the extent of about Rs. 11,000 annually.\textsuperscript{39}

As has been already pointed out, many foreign insurance companies were speedily increasing their connections in India and at least three new foreign companies, which have been referred to, created new connections in rapid succession during the early years of the last decade of the century. By this time the profitable nature of insurance business had been realised and amongst the several


\textsuperscript{37} Ibid.

\textsuperscript{38} Ibid.

\textsuperscript{39} Ibid.
insurance companies promoted in this country during the last decade were three proprietary companies.\(^{40}\)

All the factors that lead to the better appreciation of life insurance were generally present at the close of the century. Due to improved sanitation in cities and facilities for medical treatment, the longevity of the people was fastly increasing. The secular trend of improved (lighter) mortality amongst the insured lives was also demonstrated by the results of the Mortality Investigations relating to these periods. The only setback that was met here was the severe epidemic of plague that prevailed during the years 1896-97. A certain amount of strain was put on the funds but all the Indian companies successfully met their claims as a result of judicious accumulation of sufficient funds in previous years.\(^{41}\)

In the third stage of the historical development of life insurance which relates to the period 1900 to 1912, the opening of the twentieth century finds several foreign companies and a few Indian companies (the majority of which were less than ten years old) having to themselves the whole field of life insurance business in India.\(^{42}\)

The setback during the closing years of the century, due to plague epidemic, was soon defeated, due to an increasing volume of new business as a result of appreciation of the benefits of insurance by the public. The few Indian companies were underwriting an increasing amount of new business, but in spite of this satisfying result, it cannot be truthfully said that they were patronized as they should have been. The foreign companies, especially British companies, were well patronised due to their wide organization in this country. The success of these companies and the strong Swadeshi Movement tempted the inevitable company


\(^{41}\) Ibid.

\(^{42}\) Ibid. at page 45
promoters and as a result several other concerns were floated which were financially unsound\(^{43}\). The failure of some of these unsound companies led to an agitation for the control of insurance companies, as a result of which the Insurance Act, 1912 and the Provident Insurance Act, 1912 were passed. The former was based on the English Act, 1909 and the latter on the Friendly Societies Act of England. The important provisions of the first Act have been discussed in a separate chapter dealing with the Law of Life Insurance.\(^{44}\)

In the fourth stage of the historical development, namely, the period after the passing of the Insurance Act of 1912 and extending up to the year 1930. One of the results of the Insurance Act was that some English companies ceased to write further business with a view to avoid submission of reports to the Government of India. In 1929; India was successful in securing a good amount of life business from the very commencement. It had, however, to cease business in India due to the outbreak of war, and observe now the unprecedented situation that has arisen out of this, and the difficulty of the policyholders who had insured with the company.\(^{45}\)

During the years; following the Great War, Indian companies began to write comparatively larger volumes of new business. In this attempt, however, they were faced with serious competition from the foreign companies. A strong public agitation was launched against this and the Government of India agreed to amend the Insurance Act, 1912 with a view to do away with certain defects in the Act and to impose certain restrictions, as the absence of which was affecting the interests of the Indian companies adversely. In the year 1925; a Bill was introduced in the Legislative Assembly. It was subsequently withdrawn to await the outcome and to take advantage of the recommendations of the Clauson

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\(^{44}\) Ibid.

\(^{45}\) Ibid. at page 80
Committee set up in England at that time to report on the existing insurance laws in that country and to suggest improvements thereon. In the meanwhile, stop-gap legislation was passed (Act XX of 1928) to enable the Government of India to collect data from all companies and to do away with certain glaring anomalies of the Insurance Act, 1912.

As a result of the passing of this Act, figures of Indian insurance companies writing business in foreign countries became available as also the particulars relating to the business written by non-Indian companies in India. Due to public agitation and pressure from commercial and insurance bodies (life and general), the Government of India decided to amend the Insurance laws. This we have dealt with separately and the new Insurance Act, except a few sections, came into force from the 1st of July 1939.

The remaining provisions became effective only since 1st January 1940. Several Indian States such as Kashmir, Baroda, Mysore and Travancore and others, as also the Province of Burma have either passed separate insurance legislation to control the business within their jurisdiction, or are contemplating such legislation. They are based more or less on the Insurance Act of 1938, and have similar rules regarding the deposits, etc. In some of these, the Indian companies incorporated in British India; are treated as foreign companies and are required to comply with the provisions of the separate Act of the particular State.

There is also a social aspect of Insurance. A family which depends upon the income of a person has a permanent interest in his life. With his death or incapacity it will suffer privation or have to depend upon charity, both unenviable.

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47 Ibid.

48 Ibid.

49 Ibid. at page 96.
prospects to which their natural protector should not expose them. By the payment of comparatively small sums at convenient intervals for an insurance an individual can provide for his dependents against his premature death and he can similarly provide for his own old age and incapacity. It is here that the institution of life insurance performs a valuable service.\(^{50}\) It is observed -

There are certain things which the society must do in justice to itself which it cannot safely allow individuals to demand in justice to themselves. If you give every man a right to a pension when he is incapable of self-support, you tacitly approve of his failure to provide for himself and his children. That the necessary degree of production and of economy by the community as a whole would be maintained, if such a point of view were adopted, seems highly improbable. We need measures which shall increase individual responsibility rather than diminish it; measures which shall give us more self-reliance and less reliance on society as a whole. We cannot afford to countenance a system of morals or law which justifies the individual in looking to the community rather than to himself for support in age or infirmity.\(^{51}\)

It will not be denied that certain persons must and should be supported at the public expense, but the fewer are of these, be supported on the finance and the morals of the community, and life insurance is continually reducing this dependent class.\(^{52}\)

It is not the man who lives to old age, supports and educates his children and saves a competency, who contributes to the class who are applicants for public charity; but the one who is taken away while his children are infants and who has not had the time given him, no matter how affectionate and thrifty he may be, to provide for their means, is a liberal contributor to the asylum and the alms-house. He may avoid this danger by postponing marriage for such time as will enable him to accumulate a sufficient sum to ensure the comforts of a family, but neither morality nor public welfare will be best served by the establishment of


\(^{51}\) Ibid.

\(^{52}\) Ibid.
such a principle.\textsuperscript{53} There is but one way by which he can follow the course which nature intended him to take, and that way is open to him through life insurance.

The insurance from the viewpoint of the family is also important. The family is the crucial social unit, the very keystone of society. If this view of the family be accepted then apparently life insurance is an important factor which contributes to the stability and continuance of the family as we know it. Life insurance tends to increase the sense of responsibility of the individual, and offers a scope for the exercise of those qualities of foresight and solicitude for one's family which distinguish a civilised man. The man who enters upon married life without considering not only the probabilities, but also the possibilities will find himself handicapped with responsibilities which he cannot transfer to others and which will be a source of anxiety in the future.\textsuperscript{54}

The life insurance is one of the agencies which improves the mental, moral or material circumstances of citizens, raises the condition of the community of which they are members and thus benefits the State.\textsuperscript{55}

The life insurance reduces the family discord and checks excess, by removing the main cause of anxiety, as the insured is sure that in case of his death the life insurance company will immediately make available to his dependants what he would have saved in future. This is the most common and pre-eminent characteristic of life insurance. The normal development of the family of the deceased husband is permitted since provision has been made for the education of the children and the maintenance of the wife. Thus life insurance promotes the welfare of society by properly caring for the social unit ‘the family’.\textsuperscript{56}


\textsuperscript{54} Ibid.

\textsuperscript{55} Ibid.

\textsuperscript{56} Ibid.
The relation between the insurance and the individual is also crucial. The life insurance is not to be regarded as primarily beneficial to others in a financial way upon the death of the policy holder. A life insurance policy always benefits two sets of persons, first the beneficiary named in the policy and secondly, the policy holder himself. Therefore, emphasis should be laid on the "life side" of the premium-payer as regards life insurance quite as much as the "death side".  

Every person with a normal ambition desires, in the limited number of working years that are given to him, to accumulate an estate of decent proportion as viewed in the light of his scale of affairs, in the fulfillment of which desire life insurance pre-eminently serves the premium-payer creatively in six main ways, viz.,

(1) by promoting his initiative,

(2) by systematising and nurturing his economy,

(3) by increasing and maintaining his credit,

(4) by conserving and improving his savings through sound and profitable investment,

(5) by protecting the estate already created in other ways, and

(6) by prolonging the working life itself.

The worry and fear hinder human initiative and efficiency probably more than any other factor. The personal attainment and professional efficiency

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58 Ibid.
are impossible when a person is living under the shadow of fear and anxiety. The life insurance mitigates these evils and reduces the uncertainty which attaches to our economic affairs due to the risk of premature death. Through its protective influence the family and the business are transferred from a highly speculative, if not a gambling, plane to a condition of relative financial stability.\(^5\)

The life insurance constitutes a complete service within itself and judiciously combines saving on a convenient installment plan with permanent protection of the potential estate. It enforces economy, as the life insurance contract requires the assured to pay definite sums at stated intervals. Through lack of foresight or will-power few men save except under pressure. There is a constant temptation to over-value the present as against the future, not because the latter is uncertain in the minds of most men in their productive years but because the imminent pleasures of the present loom large while the pleasures of the future decline proportionately to their remoteness.\(^6\)

The life insurance policies afford an opportunity to make saving convenient and systematic so that at the end of his working life an ordinary man may develop up a substantial total. Moreover, it takes time to save an estate; the saving period should therefore always be protected against the premature removal by death of the person who does the saving. In this analysis we see that life insurance is time insurance. Time is a precious economic possession and should be insured against loss just as legitimately as any other economic value.\(^7\)

The life insurance is a powerful agency which creates and maintains the credit of the person insured. It enables persons with character and ability to obtain loans upon their life value against loss through death just as property when


\(^6\) Ibid.

\(^7\) Ibid.
covered by fire, marine and other forms of insurance can be freely used as pledge for loans. The life insurance furnishes tangible evidence and makes it available as security, equal to that of corporation stocks and bonds are now pledged as collateral for loans. From this point of view life insurance is eminently suited not only to increase greatly the volume of credit but to secure the debtor a better rate of interest.\(^62\)

From an investment point of view life insurance yields fair return on the premium paid to an insurance company. The primary object of insurance is prevention of loss. All types of insurance devote themselves to the preventing of loss of service from assets, human and material. The life insurance today is beginning to do in the field of life conservation what the various forms of property insurance are doing in the field of property conservation. Adding to the length of life, is of tremendous advantage to the insured, the beneficiary, the society and to the company generally.\(^63\) If the average working life of human beings can be extended by a few years, say 4 or 5, the benefits reaped will fully justify the cost involved. Lastly, life insurance indirectly creates wealth by enforcing thrift and saving and inculcating regular habits of living. It directly affects the distribution of wealth, in that; it is a fund collected from contributions of many and distributed without any necessary relation between the amount paid in and the amount paid out so far as any one individual is concerned.\(^64\)

Finally, it is pertinent to note that the life insurance exists for the purpose of repairing the loss occasioned by the death of an individual who earns a surplus over the cost of maintaining himself. Summarizing the above, the researcher found that life insurance is a process of mutual co-operation amongst the policyholders for their common good. By this association, the life insurance


\(^{63}\) Ibid.

\(^{64}\) Ibid.
eliminates the financial ill-effects of uncertain duration of life. The life insurance make possible a safe and profitable investment of the premium paid by the policyholders who provide for themselves and for those who come after them against the bad days. They help to promote economic welfare of a community by providing capital for the development of its commerce and industry.\footnote{R.M.Ray, “Life Insurance In India Its History, Law, Practice And Problems” available at http://www. archive.org/.../lifeinsuranceini032041mbp/lifeinsuranceini032041mbp_djvu. Txt accessed on 10/10/2011 at page 100.}

3.2.1 Modern form of life insurance -

The roots of modern form of commercial insurance can be traced into Babylonia, where traders were encouraged to undertake the risks of caravan trade through loan that were repaid only after the goods had arrived safely. With the growth of towns and trade in Europe, the medieval society undertook to protect their members from loss by fire and shipwreck, to ransom them from the custody of pirates and to provide decent burial and support in sickness and poverty\footnote{K.C.Mishra and C.S.Kumar, Life Insurance : Principles and Practice,(2009) (Cengage Learning India Pvt. Ltd., New Delhi) at page 2.}. By the middle of the 14\textsuperscript{th} century, as evidenced by the original known insurance contract,\footnote{Genoa, 1347} marine insurance was practically universal among the maritime nations of Europe. In London, Lloyd’s Coffee House\footnote{1688} was a place where merchants, ship owners and underwriters met to transact business. By the conclusion of the 18\textsuperscript{th} century Lloyd’s Coffee House had progressed into one of the first modern insurance companies.\footnote{K.C.Mishra and C.S.Kumar, Life Insurance : Principles and Practice,(2009) (Cengage Learning India Pvt. Ltd., New Delhi) at page 3.}

In fact, the life insurance started in England as a gambling business. Newspapers were publishing the names of prominent persons who were seriously
ill, Bets were placed at Lloyd’s on their anticipated dates of death. Reacting against such practices, 79 merchant underwriters broke away in 1769 and two years later formed a “New Lloyd’s Coffee House” that gained popularity as the “Real Lloyd’s”. Making wagers on people’s deaths ceased in 1774 when the Parliament forbade such practice.

The life insurance in its modern form entered in India from England in the year 1818. The Oriental Life Insurance Company started by Europeans in Calcutta was the initial life insurance company on Indian soil. Eventually, this company failed in 1834 and was altered into the New Oriental. All the insurance companies established for the period and were brought up with the purpose of looking after the needs of the European community. These companies were not insuring Indian inhabitants. However, later with the efforts of eminent people like Babu Muttylal Sen the foreign life insurance companies started insuring Indian lives. But Indian lives were being treated as sub-standard lives and heavy extra premiums were being charged on them.

The period of fifty years, commencing with 1818 was one in which sincere efforts were made to find ways and means to write life insurance scientifically. Life insurance business was being done haphazardly in the absence of mortality data. This was a period of trial and a number of companies were absorbed by other companies or were forced into liquidation. During this period, around 300 companies were formed and around 175 companies were closed by 1870 in English. To stop this evil, the British Parliament enacted the Insurance Act, 1870. Its main provisions are that each life insurance company should make uniform


71 Ibid.

72 Ibid.

73 Ibid.
statements every year in a prescribed format and produce actuarial reports at larger intervals and apart from that, they should make deposit of Rs. 20,000.\(^7^4\)

In India, prior to 1866 insurance companies were not governed by any Act. At that time, the British Government promulgated the Indian Companies Act, which covered all companies, including those engaged in insurance.\(^7^5\)

Formal Indian Insurance Act was passed in 1912, with re-enactment in 1938 and amendment in 1950. Inspite of this, 25 life insurance companies went into liquidation, malpractices and unethical business practices. To regulate the activities of the life insurance companies and prevent them from becoming speculative, a need was felt for checks and controls to be applied on the operation of life insurance businesses, so that they would act on sound actuarial principles.\(^7^6\) Shri. C.D. Deshmukh as the then Finance Minister initiated with the era of nationalized Life Insurance business in 1956, and in subsequent years, in 1972, even the non-life insurance companies were nationalized under the head of General Insurance Company of India.\(^7^7\)

By the end of 1955, the life insurance touched only a fringe of the urban population. The immense benefits of modern concepts of the life insurance remained largely unknown to the large sections of the people and thus the country did not derive full benefit from the system. The loopholes noticed in the life insurance business were due to unhealthy business practices of some insurance companies. Also, a large number of foreign insurers charged a much higher premium compared to the Indian insurers, thus caring to only the higher income


\(^7^5\) Ibid.

\(^7^6\) Ibid at page 4

\(^7^7\) Ibid.
groups. It is believed that insurance is a type of business that ought never to fail if it is properly run. But it was found that during the decade 1945-1955, as many as 25 life insurance companies went into liquidation and another 25 had so badly loss their resources that their business had to be transferred to other companies at a loss to the policyholder’s savings. Hence, effective mobilization of people’s savings was given as one of the major reasons for nationalization as a nation’s savings are the prime mover of its economic development.

The amount of capital required for starting or running an insurance company is extremely small as compared to the total life fund that it may come to control. Once, however the control is secured, the tendency has been to utilize the funds frequently to meet the capital requirements of enterprises in which the companies are interested rather than those which are clearly in the interests of policy-holders. This was another reason ascribed for the nationalization of the insurance sector. There were many small units that were rendered insolvent, which was revealed by their valuation-deficits and they eventually found it difficult to meet claims on matured policies. In such a situation, they either sought absorption with some other company or went into liquidation. During the period 1950-1954, 43 Life Insurance offices exited from the business. This can be partly ascribed to the amendment Act of 1950, which necessitated reorganization and control on expenses.

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79 Ibid.

80 Ibid.

3.3 NATIONALIZATION OF LIFE INSURANCE:

The nationalization of life insurance is an important step in India’s march towards a socialist society. Jawaharlal Nehru says - “Its objective will be to serve the individual as well as the State. The requirement of the life insurance to spread rapidly all over the country and to bring a measure of security to our people”. 82

The first step towards nationalization of life insurance was taken on 19th January 1956 by the promulgation of the Life Insurance (Emergency Provisions) Ordinance, 1956. In terms of this Ordinance, the management of the ‘controlled business’ of insurers was vested in the Central Government. The period between 19th January 1956 and 31st August 1956 was utilized as a period of preparation to facilitate the subsequent integration of the various insurers into a single State-owned Corporation. 83

Before nationalization, the insurance industry was organised into 243 autonomous units, each with its own separate administrative structure of office and field staff, its own separate set of agents and of medical examiners. Their offices concentrated in the large cities and their field of operation was confined to the major urban areas. Out of 145 Indian insurance companies, as many as 103 had their head offices in the four cities of Bombay, Calcutta, Delhi and Madras. When the Corporation was constituted on 1st September 1956, it integrated into one organization and the controlled business of 243 different units, Indian and foreign, which were engaged in the transaction of life insurance business in India. The total assets of the above 243 units as on 31 August 1956 were about Rs 4,110 million and the total number of policies in force was over five million assuring a total sum of more than Rs 12,500 million. The total number of salaried employees

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83 Ibid.
was nearly 27,000. These figures give a broad idea of the magnitude of the problem involved in setting up an integrated structure.  

When the Parliament set up Life Insurance Corporation as a monopolistic public undertaking, it was argued and believed that elimination of competition and the malpractice that competition has given rise to, would lead to:

a) Better and more economical management of the business of the life insurance,

b) Reduction in administrative expenses,

c) Improvement in the quality of service,

d) Increase in volume of business and

e) Maximization of social advantages that insurance can provide through higher returns on investments of life fund, consistent with safety and liquidity of the invested funds.

The Life Insurance Corporation had an Executive Committee consisting of the Chairman, two Managing Directors and two other Members of the Life Insurance Corporation. There was also an Investment Committee consisting of the Chairman, a Functional Director, and five other persons, to advise the Life Insurance Corporation in matters referred to it relating to the investment of its funds. The whole country had been divided into five zones and the zonal head

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85 Ibid.
offices were located at Bombay, Calcutta, Madras, Delhi and Kanpur. The Central Office of the Corporation was located at Bombay.\textsuperscript{86}

Every full-time employee of the insurers whose business was transferred to and was vested in the Corporation became an employee of the Life Insurance Corporation. They held the same positions at the same remuneration, upon the same terms and conditions and with the same rights and privileges as before. The Life Insurance Corporation was required, once at least in every two years, to cause an investigation to be made by the actuaries into the financial condition of the business of the Life Insurance Corporation, including a valuation of its liabilities, and submit the report to the Central Government.\textsuperscript{87}

### 3.4 DEFINITION AND FORMATION OF LIFE INSURANCE CONTRACT:

The researcher initially, gives following two important definitions:

1. “Life Insurance Business” means\textsuperscript{88} the business of effecting contracts of insurance on human life, including any contract whereby the payment is assured on death (except death by accident only) and the happening of any contingency dependent on human life, and any contract which is subject to payment of premiums for a term dependent on human life and shall be deemed to include -

   (a) the granting of disability and double or triple indemnity accident benefits, if so provided in the contract of insurance;

   (b) the granting of annuities upon human life; and


\textsuperscript{87} Ibid.

\textsuperscript{88} According to Section 2(11), Insurance Act,1938
(c) the granting of super-annuation allowances and annuities payable out of any fund applicable solely to the relief and maintenance of persons engaged or who have been engaged in any particular profession, trade or employment or of the dependents of such persons.\textsuperscript{89}

2. There is no statutory definition of “the Life Insurance” but it may be defined as “a contract in which the insurer, in consideration of a certain premium, either in a lump sum or in 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 on the duration of human life”.\textsuperscript{90} In \textit{Dalby v. London and India Life Assurance Company}\textsuperscript{91}, the term ‘life insurance’ is defined as a ‘contract to pay a certain sum of money on the death of a person in consideration of the due payment of a certain annuity for his life calculated according to the probable duration of life’.\textsuperscript{92}

3.4.1 The essential features of life insurance\textsuperscript{93} are -

1. It is a contract relating to human life,

2. There need not be an express provision that the payment is due on the death of the person,

3. The contract provides for payment of lump sum money,

4. The amount is paid at the expiration of a certain period or on the death of the person.

\textsuperscript{89} S. Balchandran, \textit{Practice of Life Insurance}, (Reprint September 2003)( Insurance Institute of India, Mumbai).

\textsuperscript{90} K.S.N.Murthy & Dr. K.V.S.Sarma, \textit{Modern Law of Insurance in India} (4\textsuperscript{th} ed. 1995)( LexisNexis Butterworths India, New Delhi) at page 137.

\textsuperscript{91} (1884) 15 CB 365

\textsuperscript{92} K.S.N.Murthy & Dr. K.V.S.Sarma, \textit{Modern Law of Insurance in India} (4\textsuperscript{th} ed. 1995)( LexisNexis Butterworths India, New Delhi) at page 137

\textsuperscript{93} \textit{Ibid.}


3.4.2  **Formation of a life insurance contract:** Like any other contract, a contract of insurance must satisfy the essentials stated in the Contract Act, 1872 and as per Section 10 of the said Act, “All agreements are contracts if it is made by the free consent of the parties competent to contract, for a lawful consideration and with a lawful object, and are not hereby expressly declared to be void”.

From this, it follows that every contract including Life Insurance contract must contain the following essential elements namely,

a) An Agreement,
b) Competency of Parties,
c) Free Consent,
d) Consideration and
e) Lawful Object.

Following is the in brief information about above essential element:

**a) An agreement:** Section 2(h) of the Indian Contract Act, 1872 defines a Contract as “an agreement enforceable by law”. Therefore all contracts are agreements but all agreements are not contract. Section 2(e) of the Indian Contract Act, 1872 defines “an agreement as “every promise and every set of promises, forming the consideration for each other”. Section 2(b) defines a promise as “a proposal when accepted becomes Promise”. Thus, the proposal and acceptance are the two essentials of an agreement.

In the ‘Life Insurance Contract’, the proposal is usually made by the assured in the printed form of the proposal supplied by the insurer. In the ‘Life Insurance contract’, the proposal is contained in four parts, namely -

a) Proposal form,

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94 A proposal is defined as per Section 2(a) of the Indian Contract Act, 1872 ‘when person signifies to another his willingness to do or to abstain from doing anything, with a view to obtain the assent of the other to such act or abstinence, he is said to make proposal’.

b) Medical report consisting of two parts:

i. family history and

ii. medical examination report,

c) Agent’s report and

d) Friend’s report.

In the ‘Life Insurance contract’, the acceptance\(^{96}\) is to be made by the insurer. The insurer on receiving the papers containing the proposal scrutinizes them and when they are found in order, he signifies his assent thereto by a letter and the letter is called as the letter of acceptance which is also in printed form.

**b) Competency of an insured (party to the insurance contract):** Any person who is competent to enter a contract as per Section 11 of the Indian Contract Act, 1872, is also competent\(^{97}\) to enter into the Life Insurance contract.

In India, a person is said to attain majority on the completion of the age of 18 years and if a guardian has been appointed or his estate is under Court of wards, on the completion of 21 years. Therefore, in rate-tables issued by Life Insurance Corporation, the rates commence from 18 years in some cases and 19 years in other cases but in most of the cases 20 years. The proof of the age of the proposer is relevant in insurance contracts for two purposes namely i) to determine the validity of the contract and ii) to determine the rate of premium.

After the memorable decision of the Privy Council in *Mohoribibi v. Dharmodas*

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\(^{96}\) An acceptance is defined as per section 2(b) of the Indian Contract Act, 1872 as ‘when the person to whom the proposal is made signifies his assent thereto, the proposal is said to be accepted’.

\(^{97}\) Section 11 of the Indian Contract Act, 1872 declares following persons as competent to enter into a contract: i. Major, ii. Sound mind, iii. Not disqualified by any law in force at the time of entering into a contract.
Ghose\textsuperscript{98}, in India, a contract by a minor is not merely voidable but is altogether void, but he can enter into a contract through a guardian. Therefore, a parent or a guardian of a child, can take a policy under the scheme of ‘Children’s Deferred Assurance’, ‘Children Education Policy’, ‘Children Marriage Policy’ etc.

A person of unsound mind, an alien enemy and an un-discharged insolvent are incompetent to enter into contract and so they are also incapable of effecting the life insurance policies.

c) **Free consent**: Section 13 of the Indian Contract Act, 1872 defines Consent as “two or more persons are said to consent when they agree upon the same thing in the same sense” and Section 14 of the same Act defines Free Consent as “a consent is said to be not free when it is obtained by i) coercion ii) undue influence iii) fraud iv) misrepresentation or v) mistake”. The first four factors lead to *error in causa* and contract become voidable while the last one leads to *error in consensus* and makes contract void. These factors also apply to the Life Insurance contracts and hence insured can reject the policy on any of these grounds.\textsuperscript{99}

d) **Consideration**: The payment of the first premium is the consideration for the insurer and the insurer’s promise to indemnify the assured from the stipulated risk in the policy is the consideration to the assured. The second and further premiums cannot be strictly called part of consideration because the insurer cannot compel the assured to pay them. If default in payment of subsequent premiums is made, the insurer may be released from the promise to pay the sum assured but remains bound by the various subsidiary promises in the policy like surrender value.

\textsuperscript{98} 30 Cal 539 (PC)

e) **Lawful object:** In its applicability to Life Insurance contracts, the rule assumed importance with reference to the suicide clause and policies without insurable interest. One of the recognized objects against public policy is ‘wager’ and a contract of insurance without insurable interest is a wagering agreement and is void.

As life insurance is a specialized type of contract, apart from the above essentials of a valid contract, insurance contracts are subject to two additional principles *viz.* Principle of utmost good faith & Principle of insurable interest.

f) **Principle of utmost good faith:** Commercial contracts are usually subject to the principle of *caveat emptor* i.e. let the buyer beware. It is assumed that each party to the contract can examine the item or service, which is the subject matter of the contract. But in case of insurance contracts, this principle does not apply. Most of the facts relating to health, habits, personal history, family history etc. which form the basis of the Life Insurance contract are known only to the proposer. The insurer cannot know them, if the insured does not disclose them. The underwriter can ask for a medical report. Yet there might be certain aspects, which may not be brought out, even by the best medical examination. Some of these facts may affect the life expectancy of the proposer. Non-disclosure of such facts would put the insurer as well as the community of the policyholder, at a disadvantageous position. Hence, the contract may become unfair as one of the parties to the insurance contract is in a more advantageous position.

Hence, it is the most important duty of the proposer to disclose the true facts to the insurer and is called as ‘Principle of Utmost Good Faith’ or ‘*Uberrima fides*’. The implication is that, in the event of failure to disclose material facts, the contract can be held to be void ab initio. Hence in a proposal of Life Insurance

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contract, the proposer makes a declaration to the effect that all the statements in the proposal form are true in every respect and if any untrue statement be contained therein, the insurer would be entitled to treat the contract as null and void and forfeit all the money paid thereof. The effect of his declaration is to turn the representations in the proposal into warranties, which must comply \textit{in toto}.\textsuperscript{103}

\textbf{g) Principle of insurable interest:} An insurable interest means an interest which can be or is protected by a contract of insurance. All risks are not insurable; otherwise, an insurance contract would be no different from a wagering contract which is illegal as per Section 30 of the Indian Contract Act, 1872. What distinguishes an insurance contract from a wagering contract is that the insured must have an insurable interest in the subject of the insurance i.e. the proposer must have interest in the continuance of the subject insured and could suffer a loss, if the continuance is hampered. The financial or pecuniary interest in the subject matter of insurance is insured in insurance contract. The insured must be in a relationship with the subject of insurance, whereby he benefits from its safety and well-being and would be prejudiced by its loss or damage.\textsuperscript{104}

The Insurance Act, 1938 does not define insurable interest. But, Court judgments have established the circumstances in which insurable interest is deemed to exist. It has been held that a person has unlimited insurable interest in his own life. Other instances of insurable interest in Life Insurance contract are –

- A husband has an insurable interest in the life of his wife and \textit{vice-versa},
- An employer has an insurable interest in his employee to the extent of value of his service,
- A creditor has an insurable interest in the life of the debtor, to the extent of the debt,

\textsuperscript{103} P.S.Madhyastha and \textit{et al, Legal Aspects of Life Insurance,(Reprint August 2006)( Insurance Institute of India. Mumbai)} at page 61.

\textsuperscript{104} \textit{Ibid.}
• Partners have an insurable interest in the lives of each other to the extent of the financial stakes,
• A company has an insurable interest in the life of an employee etc.\(^{105}\)

About the Children’s insurance policy, it is presumed that parents have an insurable interest in the life of a child so long as he is child. Hence, the policies on the lives of the children incorporate a clause, whereby the policy vests in the child on the attainment of his majority.\(^{106}\)

Thus; when these essential elements are present, then only a contract will be treated as valid and binding and an insurance contract is no exception. When a valid contract is concluded, it is a practice of the insurers to issue a written version of the contract and that document is called a ‘Policy of Insurance’. The Life Insurance Corporation of India Act, 1956 empowers the Government to make regulations which may provide for the form and manner in which policies may be issued and contracts binding on the Insurance Companies may be executed.

3.5 **TYPES OF LIFE INSURANCE POLICIES:**

In its origin, the life insurance has the object of securing some support to the members of the family of the assured which ceases on his death and with this object, life policies are taken by agreeing to part with a small portion of the annual income in favour of the insurer as premiums. These are ‘Simple Whole Life Policies’. As time passed on, it was realized that the assured’s income may cease even during his lifetime say by retirement and in such cases he needs money not only for the maintenance of his family but also for himself and so ‘Endowment

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\(^{105}\) P.S.Madhyastha and *et al*, *Legal Aspects of Life Insurance*, (Reprint August 2006)( Insurance Institute of India. Mumbai) at page 61.

\(^{106}\) *Ibid.*
Policies’ came into vogue. In modern times, Life Insurance has taken many forms called as ‘Plans’ or ‘Policies’.\textsuperscript{107} Some of the important among them are:

\textbf{3.5.1 Whole life insurance} – This is the original form of insurance. Under this policy, the assured agrees to pay fixed premiums periodically throughout his life. The policy amount is payable on the death of the assured to his legal representatives, assignee or nominees. This is intended for the benefit of the members of the family of the assured after his death.\textsuperscript{108}

\textbf{3.5.2 Endowment insurance} – Under this policy, the assured agrees to pay fixed premiums periodically, not throughout his life but for a term of years or until he attains a particular age say 50 or 55 years. The policy amount is payable to the assured at the end of the stipulated time, but if he dies before that time the amount is payable to his legal heirs or assignees or nominees.\textsuperscript{109}

\textbf{3.5.3 Annuity insurance} – Under this policy, the insurer undertakes to pay a certain fixed sum as annuity by monthly payment either after the expiration of the specified period or earlier if death occurs to the assured.\textsuperscript{110}

\textbf{3.5.4 Terms insurance} – Under this policy, the insurer agrees to pay the amount only in the event of the assured dropping before a certain time or age. This type is frequently adopted as collateral security for loan. It also provides a right to continue from term to term on payment of the required premium.\textsuperscript{111}

\textsuperscript{107} P.S.Madhyastha and \textit{et al. Legal Aspects of Life Insurance},(Reprint August 2006)( Insurance Institute of India. Mumbai) at page 61.

\textsuperscript{108} \textit{Ibid.}

\textsuperscript{109} \textit{Ibid.}

\textsuperscript{110} \textit{Ibid.} at page 33

\textsuperscript{111} \textit{Ibid.}
3.5.5 **Joint-Life insurance** – It is an insurance on the joint-life of husband and wife and the money under the policy becomes payable on the death of either of them.\(^{112}\)

3.5.6 **Advance insurance** – This policy provides for the payment of a lump sum amount to the assured in consideration of his agreeing to pay the premiums for a specified period or for the life of the assured if his life terminates before the end of that period.\(^{113}\)

3.5.7 **Group insurance** – This is a joint life policy on lives of group of persons, usually the employees under the same employer, under one policy. Employees Insurance Corporation is engaged in that type of business.\(^{114}\)

3.5.8 **Children’s insurance** – In this type, insurance is taken on the lives of children, who are not major. In these policies, risk on the life of the insured child will begin only when the child attains a specified age. The time gap between the date of the commencement of the policy and the commencement of risk is called ‘deferment period’. There is no insurance cover during the deferment period. If the child dies during the deferment period, the premiums will be returned\(^{115}\).

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\(^{112}\) P.S.Madhyastha and *et al.*, *Legal Aspects of Life Insurance*, (Reprint August 2006) (Insurance Institute of India, Mumbai) at page 26

\(^{113}\) *Ibid.* at page 31

\(^{114}\) *Ibid.* at page 41

\(^{115}\) *Ibid.*
3.6 LIFE INSURANCE POLICIES AS PROPERTY:

A policy of Life Insurance is a movable property and it is also an actionable claim, the transfer of which is regulated by Section 38 of the Insurance Act, 1938 -

- The General Clauses Act, 1897 defines in Section 3(36); the term ‘Movable Property’ shall mean property of every description except immovable property,
- Whereas section 3(26) of the same Act defines ‘Immovable property’ as include land, benefits to arise out of land and things attached to the earth, or permanently fastened to anything attached to the earth’,
- Further, a contractual right to receive or recover a debt, money or damages for a breach of contract is a chose in action under the English Law coming under the category of personal property. The Transfer of Property Act adopts the expression ‘actionable claims’ in the place of ‘chose in action’ but the expression has been defined as – ‘A claim to any debt, other than a debt secured by mortgage of immovable property or by hypothecation or pledge of movable property or to any beneficial interest in movable property not in possession, actual or constructive, which the Civil Court recognizes as affording grounds for relief, whether such debt or beneficial interest be exist, accruing, conditional or contingent’.116

The mere deposit of a policy will not create any charge in favour of the person with whom it is deposited. Where, therefore, a policy is offered as security for loan, a written instrument in the nature of an assignment will be necessary. A

loan within the surrender value of the policy is an investment approved under Section 27A of the Insurance Act, 1938.\textsuperscript{117}

The ‘assignment’ of a Life Insurance policy means the act of transferring the rights of property in the policy from one person to another. The person who transfers his right is called the ‘assignor’ and the person whom the right is transferred is called the ‘assignee’.\textsuperscript{118}

Thus, apart from security in case of death, retirement etc., the Life Insurance policy also provides as a facility for raising loan and hence proved as a real purpose of being a property.

3.7 RIGHTS UNDER LIFE INSURANCE POLICIES:

Following are the various rights of the insured on his/her life insurance policy, exercise of these rights etc.

3.7.1 Right of assignment - The term ‘assignment’ ordinarily means a transfer of property by writing as distinguished from one by ‘delivery’. The ‘Assignment of a Life Insurance policy’ means the act of transferring the rights of property in the policy from one person to another. The person who transfers his right is called the ‘assignor’ and the person whom the right transferred is called the ‘assignee’.\textsuperscript{119}

3.7.2 Right of nomination - The proposer is the person with whom the contract of insurance is made and in most of the cases the proposer is also the life assured. While proposing for insurance, the proposer would normally designate himself as the person to whom the proceeds of the resulting policy shall be

\textsuperscript{117} P. S .Madhyastha and \textit{et al}, \textit{Legal Aspects of Life Insurance}.(Reprint August 2006)( Insurance Institute of India. Mumbai) at page 105.

\textsuperscript{118} \textit{Ibid.} at page 106.

\textsuperscript{119} \textit{Ibid.} at page 110.
payable and in accordance with the wishes of the proposer, the amount secured by the policy shall be payable to the proposer or his estate.\textsuperscript{120}

The life assured, when he himself is the policy holder, is competent during his lifetime to transfer the policy to any person in accordance with the procedure prescribed by law. But in the absence of any law, he may not be competent to designate a person to receive the policy money on his death. But Section 39 of the Insurance Act, 1938 enables him either at the time of effecting the insurance or any time subsequent thereto to nominate any person to receive the policy money in the event of his death. A nomination may be changed or cancelled by an endorsement or by a will.\textsuperscript{121}

3.7.3 Loss of policies - If the policy be lost or destroyed, a suit may nevertheless be instituted to recover the money secured thereby provided that secondary evidence of its terms may be adduced. The insurer will ordinarily issue a duplicate policy where the original is irretrievably lost, damaged or mutilated. A duplicate policy confers on its owner the same rights and privileges as the original policy.\textsuperscript{122}

\textsuperscript{120} P. S. Madhyastha and \textit{et al}, \textit{Legal Aspects of Life Insurance}, (Reprint August 2006)( Insurance Institute of India. Mumbai) at page 120.

\textsuperscript{121} \textit{Ibid} at 121

\textsuperscript{122} \textit{Ibid} at page 134
3.8 BENEFITS OF LIFE INSURANCE:

There are various benefits of the life insurance contract and are as below:

3.8.1 From economic perspective, life insurance eliminates worry and improves production – In order to eliminate the speculative element and reduce violent fluctuations in the losses shared from year to year, it is necessary to apply the principle of large numbers to the insurance operation. The basic principle is that larger the number of separate risks of a like nature combined into one group, the less uncertainty there will be incurred within a given period.\(^{123}\)

Although life insurance serves indirectly to increase the productivity of the community by eliminating worry and increasing initiative, its direct economic function is to change uncertainty into certainty and thus enable the insured to transfer the hazard of premature death to the insurer at the lowest possible cost.\(^{124}\)

3.8.2 Life insurance encourages savings – A policy of saving can yield only a small amount at the start, while a policy of insurance from its beginning guarantees the full face value and thus safeguards the policyholder against failure through early death, to have sufficient time to save adequately through other channels. For instance, if one is able to save Rs.500 annually, it will take nearly twenty years to accumulate a fund of Rs. 10,000, assuming that the accumulations are safely invested annually at 4 percent, compound interest.\(^{125}\)

Yet, the resolution of the head of the family to protect the home with such a savings fund contingent upon his surviving the full period and might be defeated by death before the savings have reached any appreciable sum. To depend entirely on saving as a means of providing for the future of the family is, to say the least, a highly uncertain policy to pursue. The first requisite in providing for the future

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\(^{124}\) *Ibid*.

\(^{125}\) *Ibid*. at page 8.
support of dependents is absolute certainty, and this can be secured only by using life insurance as a protection against the possible failure to continue the annual accumulations to the savings fund because of early death. Through life insurance the suggested fund of Rs.10,000 can be assured in any case.\textsuperscript{126}

3.8.3 Commercial benefits - The need was felt in commercial organizations, as they are also in need of protection against the loss of the valuable lives that give them vitality and success. An enormous amount of insurance has been written on the lives of business men who have had in mind, chiefly, the stabilization of their business through the establishment of better credit relations and the procurement of protection against loss through death of those most valuable employees or partners of its success.\textsuperscript{127}

Thus; one can observe from the above discussion that, Life insurers are the custodians and managers of substantial investments of individuals; and policyholders need to be confident that their insurer will be able to meet their promised liabilities in the event that claims are made under a policy. The Regulatory authorities therefore seek to ensure that the financial performance of life insurance companies is in sound condition. The Life Insurance is a big opportunity in a country like India with a large population and unexploited potential and in this current scenario of growing customer base, one of the principal concerns underlying the regulation of the insurance companies is the need to protect the interest of and secure fair treatment to policyholders, so that the policy holder can enjoy all the benefits of life insurance.


\textsuperscript{127} Ibid.