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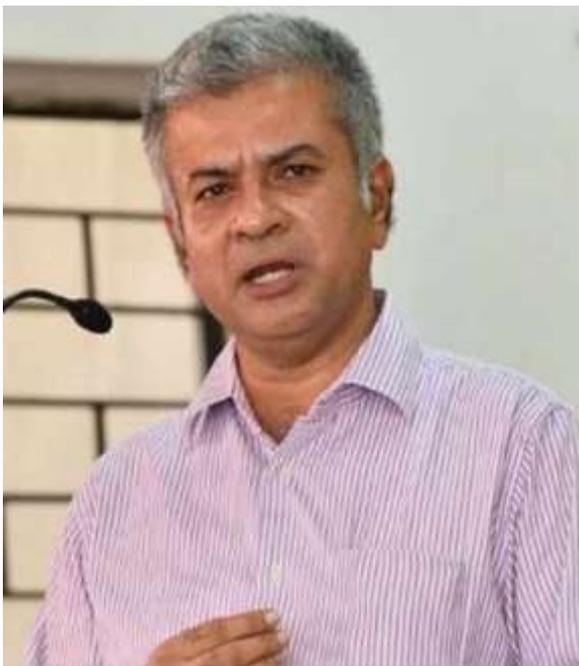
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ABOUT US



WHITE BLACK LEGAL is an open access, peer-reviewed and refereed journal providededicated to express views on topical legal issues, thereby generating a cross current of ideas on emerging matters. This platform shall also ignite the initiative and desire of young law students to contribute in the field of law. The erudite response of legal luminaries shall be solicited to enable readers to explore challenges that lie before law makers, lawyers and the society at large, in the event of the ever changing social, economic and technological scenario.

With this thought, we hereby present to you

INSURANCE LAW IN INDIA

AUTHORED BY - MRITUNJAY SACHDEVA

Abstract

"What is the most wonderful thing in the world?" asks Yakshaprashna of the Mahabharata. In the saga "Mahabharata," Yaksha questioned Yudhishtira. The most marvelous thing, according to Yudhishtira, is that people continue to believe in the afterlife despite seeing the daily procession of the dead to the graveyard. As a natural occurrence, death is also a magnificent subject for contemplation. So, as Shri Krishna said in the Bhagavad Geeta¹, one shouldn't worry about the things that can't be changed.

From the time he is created, man faces numerous risks that could threaten his well-being and goals. A man encounters a greater number of risks when engaged in business transactions. Certain risks arise from his commercial transactions, while others are intrinsic and require avoidance. His natural drive to survive motivated him to create effective plans for facing these threats. The current economic growth clearly demonstrates his success in this particular field. When it comes to the sources of capital for business and industry, insurance has rightfully taken center stage.

Introduction

To protect oneself against the possibility of an unforeseen and potentially disastrous loss, one strategy for managing risk is to get insurance. An insurance policy is a legally binding agreement that transfers financial risk from an insured party to an ins. co. in return for a premium. Simply put, ins. is a contract that allows many people who are vulnerable to the same risks to share in the financial burden of a few catastrophic events². This safeguards your financial well-being in the event that anything unexpected were to happen. In this deal, the insured pays the insurer a modest, predictable loss in return for insurer's confidence that it would cover or indemnify them on occurrence of a big, unexpected loss. An ins. policy is a

¹ *The Beginning (Life Insurance Compendium 1999-2000)(The Insurance Time, Calcutta, India) at page 3*

² *Dr. G. Gopalakrishna, Risk Management for Insurers, available at <https://www.insuranceinstituteofindia.com/.../Risk%20Management.pdf> accessed on 12/01/2011 at page 1*

legally binding agreement between an insurer and an insured that specifies the terms as per which the insurer will pay out benefits³.

Because of the exponential growth of risk in every facet of contemporary life, insurance has assumed a central role in our intricate modern world. The ins. industry expanded and new kinds of insurance policies have emerged as a result. As a financial middleman, the industry encourages investment and helps people save money. It has the capacity to impact a nation's economic growth, which in turn may help the industry to expand⁴. Ins. is a safety net that compensates a person on occurrence of a covered loss, protecting them from financial ruin.

Every person on this planet faces random, unanticipated risks that might put them and their loved ones in harm's way. It would be next to impossible for him to exist here without insurance, which also allows him to recuperate from his losses and go on with his life normally. When someone has insurance, they may get financial support to fulfil the costs associated with a loss or accident. Everyday dangers to your house, health, and finances may be shielded from you with its help⁵.

The most common understanding of life ins. is that it protects a family financially if the breadwinner dies. While some advantages are direct, others are less so. Individuals and their families get certain advantages, while the economy benefits from others. As an example, in return for relatively little premiums, an insurance firm assumes the risk of potentially catastrophic and unpredictable losses. By safeguarding against losses in case of misfortune, this provides reassurance and peace of mind⁶. By shifting a portion of the risk to the insurer, life insurance makes operations easier for large-scale commercial and industrial companies. One strategy to ensure financial stability in the future is to get insurance, especially life insurance. An annuity-paying life insurance policy combines security with financial gain. It improves the assured's creditworthiness as it can cover payback costs in the case of the assured's death. It lessens financial losses caused by things like fires, robberies, and theft. Not only that, but it also helps with social issues. Financial hardships due to old age, disability, or death⁷ are diminished, for example, compensation is offered to occupational damages and traffic accident

³ *"Ibid."*

⁴ *"Ibid."*

⁵ *"Ibid."*

⁶ *"The Beginning", (1999-2000) "Life Insurance Compendium at page 4"*

⁷ *"Ibid."*

victims. Overall national growth is aided by the insurer's investment of collected resources. Capital is often risk-averse, but if offered risk protection, a no. of investors would step forward to put their money into the venture.⁸

Social security programs offered by governments give some level of protection to individuals in many industrialized nations. Anyone who qualifies under these programs—due to illness, unemployment, disability, old age, etc.—is given financial assistance. Unlike in the West, social security in India has long rested on the shoulders of individuals and their communities. Nevertheless, social security systems that are institutionalized and controlled by the state, rather than by society, have become required due to industrialization, urbanization, the breakdown of the joint family structure, and the weakening of family bondage.⁹ The Indian Constitution's "Directive Principles of State Policy" address social security issues. On the other hand, 'social security insurance,' 'employment and unemployment,' 'provident fund,' 'employee's liability,' workmen's compensation, 'invalidity and old age pension,' and 'maternity benefits' are all covered under Item 24 of the Concurrent List. More and more people would enter the organized sector and, in due time, become eligible for official social security programs.¹⁰ That being said, actual life experiences have proven otherwise. With the increase in individuals participating in the informal economy, there has been a stabilization in employment within the official sector. The unorganized workforce is characterized by dispersed and fragmented employment sectors, seasonality, job insecurity, and inadequate legal protections. Out of approximately 400 million people, less than 10% of the global workforce currently has formal social security coverage. Although there are some government-operated social welfare programs like the National Old Age Schemes and the National Family Benefit Schemes, both the extent of coverage and the benefits offered are insufficient.

Additionally, the thought of ins. becomes critically vital in a nation like ours, where it was once thought that there would be no option for jobless compensation during the development planning stages.¹¹

⁸ "Ibid."

⁹ "The Beginning", (1999-2000) *Life Insurance Compendium* at page 4

¹⁰ "Ibid."

¹¹ "Ibid."

Insurance Law in India

Insurance plays a crucial role in both the national economy and international trade. Investment capital is generated from the revenue generated by insurance premiums. A country's economic development is positively correlated with the level of insurance spending by individuals. The insurance industry's growth relies on the present and future economic conditions.¹²

This chapter delves into the origins and history of insurance in India, which is described as a contractual, financial, and legal concept.

The origins of insurance cannot be identified precisely due to its intricate and multifaceted nature. Hardy Ivamy first conceptualized insurance as an agreement between an insurer and an assured party, where the insurer commits to paying a specified sum in return for a premium, whether a situation occurs or not, or to compensate the assured for damages resulting from an unpredictable risk.¹³

Accidents, harm, and fatalities can occur to anything within our universe. A businessman founded his company based on the notion of taking chances. By conducting a probability investigation and giving adequate thought, he assumes the burden of risk. The insured has a potential benefit from the risk transaction through receiving indemnification or a fixed payment if the uncertain event causing loss actually happens. The insurance agreement is described as a method of distributing and managing risks¹⁴.

In this way, the insurance contract is primarily useful for two things¹⁵:

i. Because insurance allows for the sharing of risk among many people, it provides a measure of security.

part two. The country's economy and manufacturing sector benefit in the end. Reason being, many individuals put their money into insurance, which may then be used to establish businesses or insure company stocks, both of which contribute to the country's economic growth.

¹² "Law of Insurance, MBL –Part II, (Distance Education Department, National Law School of India University, Bangalore) at page 9"

¹³ "Ibid."

¹⁴ "Ibid."

¹⁵ "Law of Insurance, MBL –Part II, (Distance Education Department, National Law School of India University, Bangalore) at page 9"

PAST CIVILIZATION:

Both individuals and companies have consistently made risk mitigation a top priority. To protect themselves from these risks, having insurance is crucial.

To prevent maritime piracy, insurance was initially observed in China over five millennia ago. Piracy was so common that ships frequently traded cargo to ensure at least some would arrive safely if one vessel was targeted. In ancient Babylonia, around 4,500 years ago, traders would assume the risk of caravan commerce by loaning money that needed to be repaid with interest once the goods arrived safely. The Code of Hammurabi in 2100 BC officially approved the practice, and it also defined terms like "bottomry" for vessel bottoms and "respondentia" for their contents. They were the foundation of marine insurance contracts. These contracts consisted of three components: a loan using the ship, cargo, or freight as collateral; an interest rate; and a fee for loss compensation. Lenders acted as underwriters, while shipowners acted as insured parties¹⁶.

Shortly after, in ancient Rome, organizations were founded to cover the cost of members' burials and offer financial aid to those left behind. This marked the inception of life insurance. The concept of insurance continued during the Middle Ages, particularly among merchant and artisan guilds, even though most of its principles were disregarded after the decline of Rome around 450 A.D. Various risks such as fire, flood, theft, disability, death, and imprisonment were included in these insurance policies¹⁷.

Insurance in India has its roots in the Vedas. For instance, the corporate headquarters of LIC is called "Yogakshema," which is derived from the Rig Veda. Approximately in the year 1000 BC, the Aryans possibly established a form of "community insurance" referenced by the name. Just like how burial societies were created in Ancient Rome to help families, build houses, and protect children and widows, they were also established in the Buddhist era¹⁸.

In the event of a specific tragedy unfolding, the aim of insurance would be to minimize the effect on individuals' lives. Using the cooperative principle, we will ensure that the few do not

¹⁶ "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/"

¹⁷ "Ibid."

¹⁸ "Ibid."

bear the burden alone, but that it is shared by all in order to reach our goal. Not much information is available regarding the origins and initial days of insurance. As a result, the beginnings of insurance are unclear. Dr. C. F. Trenerry's work on "The Origin and Early History of Insurance" is considered one of the best, although other authors have also produced noteworthy research in this field"¹⁹Trenerry suggests that the earliest form of insurance, which evolved into modern marine policies, was likely what we now refer to as "marine and land insurance." In the past, travelers on land and sea were protected against the risk of losing their belongings, as piracy at sea and theft from caravans were accepted forms of earning a living. Ancient Babylonia and India both made early efforts to ease this intolerable situation²⁰.

A merchant who is a victim of theft while traveling is not responsible for his debts if he did not contribute to the situation, according to laws in the codes of Hammurabi and Manu²¹. Likewise, in the mid-4th century B.C., the Greeks created an advanced maritime agreement, possibly inspired by the Rhodians and Phoenicians. These were initial efforts to establish the modern insurance contract system, which enabled the sharing of trade risks among multiple parties. The summary of the provisions in both the Hammurabi and Manu codes shows a close similarity in the regulations regarding bottomry and respondentia contracts²²:

1. Only land travel was covered by the contract.
2. Sometimes, the contract involved a limited partnership loan, while other times it was a simple loan.
3. The lender did not keep the goods or funds loaned; rather, they were utilized by the dealer.
4. There was no correlation between the duration and the interest rate, which was far greater (often 100%) than the standard interest rate of 20% at the time.
5. If a contract-provided scenario materialized, the trader would not be liable for the debt.

As per the rules laid down in Manav Dharma Shastra²³:

- i. Both land and water transportation were included in the contract.
- ii. In every instance, the interest rate was structured according to the risks to be

¹⁹ "Ibid."

²⁰ 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 9

²¹ "Ibid." at page 10

²² "Ibid." at page 11

²³ 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 12

- undertaken and the duration for which the funds were needed, rather than being set at 100 percent.
- iii. 3. Experts in pricing goods and services over land or water were able to determine this interest rate by dividing the total cost by the anticipated duration and danger of the trip.
 - iv. 4. In the contract, this interest rate was laid forth and
 - v. If the borrower's items were stolen or did not arrive in good condition at the designated time or place, the borrower would not have to pay.

The Greeks do not mention a contract that equally addresses land and sea trade, let alone one as comprehensive as the Indian agreement. Approximately in the year 350 B.C., the Greeks reference a complex maritime agreement for the first time²⁴.

This probably originated from the Phoenicians and Rhodians, who initially concentrated on maritime trade and modified the Babylonian land agreement to suit their requirements. It is also believed that the Babylonians and Indians traded with each other in ancient times. Both groups probably discovered this protective concept at roughly the same time, leading to its creation to fulfill their individual needs. Since both countries probably participated in global trade, it is also possible that the agreements developed independently²⁵.

Insurance in its early stages was disorganized and primarily focused on non-life related aspects. During that time, individuals were primarily concerned with the most imminent dangers such as the possibility of their house being set on fire or robbed, or realizing that the ship they had sailed on might not make it back home. Death and its consequences were distant, unpredictable, and daunting to ponder, but they were unexpected events that could happen suddenly. He never even thought about the concept of insurance as a better way to support his family instead of just saving money²⁶.

There was no disapproval for those who made arrangements for a proper funeral and did not view death as a financial risk. They believed that a peaceful death was necessary to guarantee

²⁴ "Ibid."

²⁵ "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 12"

²⁶ "Ibid."

the happiness and satisfaction of the person in their next life. The ancient Roman Collegia exemplified this strong belief in religion. While originally focusing on covering funeral costs, certain later groups broadened their services to also offer support and assistance to members in need of help. For example, a similar institution can be found in the Roman Collegia²⁷. However, it is highly improbable that the Romans participated in the life insurance or annuity sector, even though it was around the fourth century A.D. Ulpian, the Roman prefect, attempted to create a mortality table²⁸.

Following them, the Medieval Insurance Associations, also called the Anglo-Saxon Guilds, played a major role in the development of insurance during the Middle Ages. The Frith guilds, early associations, established a strong insurance practice for protecting property in case of fire or shipwreck by pledging mutual aid in emergencies. All social levels appear to have come together in the Frith Guilds, with every individual contributing a set sum to a shared fund used for various purposes like gatherings, penalties, funeral expenses, religious services, and support for members in distress.²⁹ During the Middle Ages, artisans served as both producers and salespeople for their goods. As they grew in numbers, they broke away from the Merchant Guilds and established Craft Guilds. Craft guilds emerged all over Europe as trade became more specialized³⁰.

The beginning of life insurance in Europe and England in the 16th century marked the start of the modern era, but early attempts, while resembling modern life insurance, were essentially gambling due to the lack of mortality tables, which are crucial to the life insurance industry. Additionally, the widespread utilization of borrowed funds for manufacturing did not happen until the beginning of the 1700s³¹, rendering life insurance funds nearly uninvestable. Therefore, the evolution of life insurance can be categorized into two distinct periods: (a) pre-eighteenth century efforts at collaboration, seen as precursors to contemporary insurance, and (b) the onset of scientific insurance in the eighteenth century³².

²⁷ "Ibid."

²⁸ "Ibid."

²⁹ "R. M. Ray, *Life Insurance In India Its History, Law, Practice And Problems*, available at http://www.archive.org/.../lifeinsuranceini032041mbp/lifeinsuranceini032041mbp_djvu. Text accessed on 10/10/2011 at page 12"

³⁰ "Ibid."

³¹ "Ibid." at page 14

³² "Ibid."

The origins of the life insurance industry can be traced back to England, where it began before spreading quickly across Europe, North America, and during the industrial revolution. In India, the initial insurance companies purchased sterling policies on the lives of European employees of the East India Company and the government³³. Many companies that attempted to develop insurance policies for Indian individuals either faced collapse or were acquired by larger firms. Around 1870, numerous individuals in this nation put their trust in two major English companies, the European and the Albert, both of which failed. Therefore, attempts were made to create Indian businesses to insure Indian individuals. The "Oriental" was released in 1874, shortly following that. Furthermore, in 1870, the Colonial Life Assurance Company chose to broaden its business³⁴.

This led to initiatives to start companies in India aiming to provide insurance for businesses that align with Indian lifestyles. The "Bombay Mutual" was established in 1871, followed by the establishment of the "Oriental" in 1874. In 1870, the Colonial Life Assurance Company made the decision to extend its operations to cover Indian lives, signifying the start of contemporary Indian insurance. The evolution of insurance in India was gradual due to various factors, including, but not restricted to³⁵:

- (1) The Hindu practice of joint families effectively incorporates the concept of insurance by providing automatic support to children and widows during times of necessity. For centuries, the Indian mindset had been mostly unchanged, leading to a strong hold of tradition over the population. The concept of ensuring financial support for loved ones through a tool activated by a person's passing was deeply disconcerting, as life insurance appeared to contradict their ancient spiritual and philosophical convictions.
- (2) Insurance serves as a method to set aside funds and grow them for the future, though our country has had limited opportunities for extended investments until recently.
- (3) Islamic teachings disapprove of usury as well. Given that the current insurance system heavily relies on interest, it is unlikely to be embraced by the Muslim community in the country, thus hindering progress.
- (4) The progress and expansion of insurance companies in India have been hindered by the poverty, lack of education, and biases of the Indian populace.

³³ "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 14" *Ibid.* at page 15"

³⁴ "*Ibid.*"

³⁵ "*Ibid.*"

There have been 5 distinct eras in the development of ins. in India³⁶:

1. the 1st phase, from what is regarded as the early stages up to 1870,
2. From 1870 to 1900, there was a steady expansion,
3. From the early 1900s until 1912, numerous projects supported by the swadeshi movement flourished, resulting in various challenges and the enactment of the Insurance Act in India.
4. From 1913 to 1930, a period of challenge and difficulty occurred.
5. The present age of contemporary insurance.

Since 1914, the Indian Government has been releasing the profits of life insurance companies in India. The Indian Insurance Manual's 1907 preface, published by Thacker Spink & Co., Calcutta, mentions the need for a comprehensive guide on Life and Fire Insurance in India due to the lack of suitable resources. This marked the initial official documentation of insurance in India. The ninth issue introduced the new title "The Indian Life Assurance Year Book," while the fifteenth issue introduced the new title "The Indian Insurance Year Book"³⁷.

To demonstrate how widespread the lack of knowledge on this topic is, even inside government agencies, one may cite the following:

The first Indian companies were established in Madras approximately eighty years ago; the oldest Bombay companies, such as the Bombay Mutual, the Oriental, and the Bombay Widows Pension Fund, were founded around forty years ago; life insurance wasn't introduced in Bengal until a later date, with many companies being established in that region and other parts of India in 1906³⁸.

Mr. N. R. Sirkar, who chairs the Reception Committee, expressed the following remarks in his welcome speech at the 1937 Indian Insurance Conference in Calcutta. The Oriental Life Assurance Company was founded in Calcutta in 1818, mainly by Europeans, to provide insurance services. Following its unsuccessful attempt in 1834, it was rebranded as 'New Oriental.' It is crucial to emphasize that this company is not at all affiliated with our leading

³⁶ 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 page14

³⁷ "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 page15"

³⁸ "Ibid."

Indian company from Bombay. Babu Muttylal Sen's endeavors were instrumental in persuading the company to value Indian lives. After that time, Indian business has made significant progress in Bengal, with influential individuals such as Dwarkanath Tagore, Rustomji Cowasji, and Ramtanu Lahiri actively involved in the growth of the insurance sector in the nation. Raja Ram Mohan Roy, a distinguished reformer and valued native of Bengal, was given the task of raising awareness on the necessity of protection at a national level. Calcutta plans to create a charity to assist impoverished widows³⁹.

This business, along with another Indian life ins. agency, is mentioned in Walford's 1872–1880 Ins. Encyclopedia:

Established in Bombay on May 1, 1823, the Bombay Life Assurance Company provided term insurance in three different options: one year renewable without a health certificate and a 30-year age requirement; three years renewable without a new health certificate and a 30-year age requirement; and five years renewable without a new health certificate and a 30-year age requirement.

No other information is available regarding the company. Afterwards, there was Madras Equitable, established in 1829, and Madras Widows, established in 1834 and went into liquidation during the war⁴⁰.

The life insurance industry in India began in 1818 when the Oriental Life Insurance Company was founded in Calcutta. Following a lengthy hiatus, the Indian Life Insurance Companies Act was passed in 1912, becoming the initial law to govern the life insurance industry. In the Insurance sector, the year 1956 was a significant period as the Central Government took control of 245 Indian and foreign insurers and provident societies, nationalizing them. LIC was also established through a 1956 Act of Parliament, with an initial investment of Rs. 5 million funded by the Indian Government⁴¹. The origins of the General Ins. industry in India can be connected to Triton Insurance Company Ltd., which was the country's first General Insurance Company set up by the British Govt. in Calcutta in 1850. In 1907, the Indian Mercantile Ins. Ltd. was established as the first company to conduct every type of General Ins. business. In 1972, the

³⁹ “*Ibid.*”

⁴⁰ “*Ibid.*”

⁴¹ “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 page16”

general ins. business in India was nationalized through the General Insurance Business (Nationalization) Act of 1972. 107 insurers were combined and organized into 4 companies namely the National Insurance Company Ltd., the New India Assurance Company Ltd., the Oriental Insurance Company Ltd., and the United India Assurance Company Ltd.

2.1 Insurance Concept:

In his book "General Principles of insurance Law," Hardy Ivamy states that ⁴²

In an insurance agreement, the insurer commits to reimbursing the insured a specific sum if a particular event happens, in return for a set premium.

The case of *Inland Revenue Comm. v. Prudential Ins. Co.*⁴³,
James from Channel J said

There has to be some doubt about the event's likelihood of ever occurring, or, if it's something that has to occur at a point, doubt about when exactly it is going to happen.

The following conditions are often included in a legally binding insurance contract: 35 –

- i. The "insured" and the "insurer" form a legally binding contract.
- ii. The contract is based on the potential loss from an event that may or may not happen in the future.
- iii. The payment made by the insured, known as compensation, is a sum of money.
- iv. If a loss occurs due to the unexpected event, the insurance company will provide compensation within the limits of available funds.

It is possible to insure a ship or a house in an insurance policy, but it cannot be guaranteed that the ship will not sink or the house will not catch fire. However, it is certain that the policyholder will be compensated with a specific sum of money if a specific event takes place.

2.2 Insurance Explanation:

Insurance involves making regular payments to ensure coverage in case of property damage, loss, or harm to a person. Its main purpose is to safeguard the policyholder from potential risks. In insurance law, for an incident to be classified as a risk, it must result in the insured

⁴² "Law of Insurance, MBL –Part II, (Distance Education Department, National Law School of India University, Bangalore) at page 13"

⁴³ (1904)2KB658

experiencing a loss or being subjected to some form of hardship⁴⁴.

The type of risk that needs to be covered determines the insurance coverage. For a set premium, the buyer is guaranteed repayment in case of a particular loss. Individuals purchase insurance to reduce both financial and emotional burdens, which plays a crucial role in both personal and professional spheres⁴⁵.

Even though insurance's main goal is to provide risk coverage, premiums for life insurance and other long-term policies consist of both the cost for risk coverage and a savings portion. This mixture of both is exclusive to life insurance and is more common in developing countries such as India⁴⁶.

Short-term life insurance policies in industrialized nations are equally prevalent whether or not they include a savings feature. In developing countries, life insurance is now seen as an important way to gather long-term funds, directly challenging other savings options and financial institutions because of its savings element and policy duration⁴⁷.

India's social security situation varies greatly from that in numerous developed nations. In India, the family or community traditionally was in charge of social security. Nonetheless, as a result of industrialization, urbanization, the decline of the joint family system, and the weakening of family ties, there is a growing need for formal social security measures overseen by the government rather than the community.⁴⁸ These programs provide financial assistance to qualified individuals due to factors like joblessness, seniority, illness, disability, etc. Clause 23 of the Concurrent List addresses issues related to "joblessness and employment" as well as "insurance for social security." Section 24 of the identical lineup covers topics such as "labor welfare including work conditions," "provident fund," "employee responsibility," "compensation for workers," "disability and retirement benefits," and "maternity support." These parts collectively address the social security concerns outlined in the Indian

⁴⁴ "Dr. G. Gopalakrishna, *Essentials and Legalities of an Insurance Contract*, available at https://www.insuranceinstituteofindia.com/.../Journal08_%20pg06-14_ess.pdf accessed on 27/06/2009 at page 6"

⁴⁵ "Ibid."

⁴⁶ "Ibid."

⁴⁷ "Insurance Sector in India", (December 2005) (Law Z magazine) at page 10

⁴⁸ Tapen Sinha, "An Analysis of the Evolution of Insurance in India" available at <http://www.icpr.itam.mx/papers/IndiaChapter.pdf> accessed on 21/05/2009 at pp 1-10

Constitution⁴⁹.

In the early stages of development and planning, it was expected that as development progressed, more workers would become part of the organized sector and later benefit from formal social security systems. Nevertheless, the real-life situation has shown a different outcome. Currently, there is nearly a halt in job growth within the formal sector due to more workers entering the informal sector. The disorganized labor force is defined by dispersed and fragmented job sectors, seasonal employment, absence of job stability, and minimal legal safeguards. At present, fewer than 10 percent of the estimated 400 million workforce have access to formal social security benefits. While the government does have some centrally funded social assistance programs such as the National Old Age Schemes and National Family Benefit Schemes, the amount of individuals covered and the benefits provided are very limited. Moreover, in a nation such as India, where there are no provisions for receiving benefits while unemployed, the importance of insurance is heightened⁵⁰.

2.2.1 Insurance contracts and their legal status –

The concept of insurance as a method for shifting risk was first suggested for application in the maritime sector. The utility of the idea was further proven when it was utilized for insurance other than marine, like life and fire insurance. These three categories were the main focus of insurance law until the mid-1800s. Today, the concept of insurance is applied more widely, including coverage for crops, livestock, as well as motor, accident, and fidelity insurance. Insurance is now commonly used for protection against future uncertainties and is a crucial aspect of the social and economic fabric of all contemporary societies⁵¹.

Insurance contracts are governed by a specific set of principles that accurately determine their characteristics. Insurance law is a specific part of contract law, and no matter the kind of insurance policy, it always signifies a mutual agreement between the policyholder and the insurance company. The basic components of a legal contract - offer and acceptance,

⁴⁹ M.N. Srinivasan, *Principles of Insurance Laws*, (6th ed. 1997-98) (Ramanuja Publishers, Bangalore) at page 37

⁵⁰ Jatinder S. Bedi, "Pre -launch Survey Report of Insurance Awareness Campaign", available at <http://www.policyholder.gov.in/.../Insurance%20Awareness%20Survey%20Report.pdf> accessed on 20/07/2013 at page 3

⁵¹ Dr. G. Gopalakrishna, "Essentials and Legalities of an insurance contract" available at <https://www.insuranceinstituteofindia.com/Indiainsurance/insurance/insurancemain/earlierIssues> accessed on 27/06/2009 at page 7

consideration, party capacity, shared understanding, and lawful object - also pertain to insurance agreements⁵².

2.2.2 Insurance fundamentals –

All types of insurance, whether marine, fire, life, etc., are governed by universal principles that explain the purpose of insurance contracts, including indemnity, insurable interest, utmost good faith, and the presence of risk.

Here are some of the key insurance principles:

(a) There is a presence of danger.

Every insurance policy is required to mention that the insured's belongings are susceptible to loss or danger if something unfortunate occurs. For instance, in the realm of marine insurance, the loss may occur as a result of natural calamities. In the realm of fire insurance, it is possible due to a fire occurrence⁵³. In life insurance, the occurrence can be the death of the assured, a definite event with an indefinite timing. Risk can be described as the possibility of experiencing negative outcomes. The reason may stem from a lack of understanding of the outcome of certain events, or it could be the result of various potential outcomes. The insurer's duty is to safeguard the insured from unforeseen circumstances in any scenario⁵⁴.

(b) Principle of indemnification:

Insurance at its core is essentially an agreement for compensation. The insured's claims will only be settled according to the actual amount of loss they have experienced. Hence, every insurance policy includes an implicit agreement that the insured will receive compensation for covered losses. This stops the insured individual from participating in deceitful actions like attempting to unfairly obtain or deliberately causing harm. The principle of indemnity is implemented according to the inherent nature of the contract, not with the aim of preventing crime or considering public

⁵² Dr. G. Gopalakrishna , “Essentials and Legalities of an insurance contract” available at <https://www.insuranceinstituteofindia.com/Indiainsurance/insurance/insurancemain/earlierIssues> accessed on 27/06/2009 at page 7

⁵³ “Ibid.”

⁵⁴ “Ibid.”

policy⁵⁵.

The principle of indemnity guides the determination of the payout on an insurance policy. Usually, ins. companies restrict their responsibility to a designated sum known as the "sum assured." If there is a loss, the insured will only receive the agreed-upon "sum assured," even if the premium paid is lower than that amount. Nevertheless, in specific situations like valued marine insurance policies, the insurer is obligated to compensate only for the actual loss, even if the "sum assured" is greater. In the context of "valued policies," both parties stipulate to mutually determine the value of the subject matter. The aim of these policies is to avoid disagreements over the amount of the assured's interest post-event⁵⁶.

Losses are typically quantified in monetary terms in life insurance, personal accident and sickness insurance contracts, as well as certain types of emergency insurance. These contracts differ from contracts of indemnity, like marine and fire insurance contracts. It is widely accepted that life insurance differs significantly from an indemnity contract. By consistently paying the premiums, the policyholder is building up a savings fund that can be accessed after the agreed-upon time period ends⁵⁷.

A life insurance policy aims to provide payment to the insured if they pass away unexpectedly; although it has similarities to an investment, it does not offer the same risk protection as an indemnity contract⁵⁸.

In general, individuals enter into indemnity agreements to compensate for financial losses. However, determining the worth of a life is difficult, and insurance can only provide compensation for losses to a certain extent. One major distinction between life insurance and other insurance types is that the concept of "subrogation," in which the insurer (the company) sues the at-fault party for a loss, does not pertain to life insurance⁵⁹.

⁵⁵ Dr. G. Gopalakrishna , "Essentials and Legalities of an insurance contract" available at <https://www.insuranceinstituteofindia.com/Indiainsurance/insurance/insurancemain/earlierIssues> accessed on 27/06/2009 at page 7

⁵⁶ "Ibid."

⁵⁷ "Dr. G. Gopalakrishna , "Essentials and Legalities of an insurance contract" available at <https://www.insuranceinstituteofindia.com/Indiainsurance/insurance/insurancemain/earlierIssues> accessed on 27/06/2009 at page 7"

⁵⁸ "Ibid."

⁵⁹ "Ibid." at page 8

(c) Ins. contracts and wagering agreements differ:

Initially, the core principle of indemnity, which serves as the foundation of much of insurance law, does not support the idea of equating insurance with betting agreements. In betting agreements, two individuals with opposing beliefs about an upcoming uncertain event agree that one will receive money from the other depending on the outcome of the event"⁶⁰

Once more, the difference between a contract and a wagering agreement depends on the interest in the subject matter of the individual forming the agreement. In other words, "the party will benefit if the event occurs, but will face a loss if it is prevented." The misunderstanding of insurance as a gamble likely stems from the common element of uncertainty found in both types of agreements⁶¹. Sir William Anson⁶², the "Law of Contract"—

Insurance was traditionally distinguished from pure gambling by its legal acceptance. At first, insurance was compared to a bet because there was no insurable interest. Yet, this view has changed over time, with insurance now seen as having only a surface-level similarity to a bet. The key difference is in the intention of the parties rather than the formal design of the contract that distinguishes insurance from a bet⁶³.

The main purpose of a betting agreement is to make a profit. The probability of an event happening is only important in terms of potential financial gain. Bets are based on the result of an occurrence and the subsequent settlement of differing interests. The emphasis is on the outcome of a event happening rather than the likelihood of it happening⁶⁴.

On the other hand, insurable interest is essential in insurance agreements. It is crucial for the insured party to have a vested interest in the subject matter being jeopardized.

⁶⁰“ Dr. G. Gopalakrishna , “Essentials and Legalities of an insurance contract” available at <https://www.insuranceinstituteofindia.com/Indiainsurance/insurance/insurancemain/earlierIssues> accessed on 27/06/2009 at page 7”

⁶¹ “Ibid.”

⁶² “Ibid.”

⁶³ “Ibid.”

⁶⁴ Dr. G. Gopalakrishna , “Essentials and Legalities of an insurance contract” available at <https://www.insuranceinstituteofindia.com/Indiainsurance/insurance/insurancemain/earlierIssues> accessed on 27/06/2009 at page 9

An insurance agreement is considered aleatory because both parties are uncertain about whether the event being insured will actually happen, therefore sharing mutual risk. For a small fee, the insurance company agrees to cover major losses. Nevertheless, these agreements generally follow actuarial principles, establishing insurance as different from simply gambling. Insurance is only possible when there is a risk that already exists, and it is distinguishable from a bet because it does not create a new risk at the beginning. When it comes to insurance, the party that assumes the risk before negotiations begins to gain protection, leading to a shift of risk instead of its origination. Therefore, one could argue that insurance operates in contrast to a wagering contract⁶⁵.

Life insurance was previously viewed as immoral, compared to "betting on human life". This idea arose when policies were purchased without a valid reason and only for the purpose of speculation. Yet, life insurance is now mainly used and properly understood as a vital economic and social requirement, and if understood correctly, it should not be viewed as a type of gambling, despite the potential for significant financial gains in case of the insured's early death⁶⁶. On the other hand, while a gambling contract aims to make money through luck, the main purpose of life insurance is to protect against unexpected losses. Hence, a life insurance policy is not similar to a gambling agreement, which would be unenforceable because of public policy concerns. As early as 1854, life insurance was seen as a form of indemnity agreement, like other types of insurance agreements⁶⁷.

Consequently, below are the ways in which life insurance differs from other types of insurance⁶⁸:

Typically, insurance agreements are renewed annually in most instances. Nevertheless, the insurance company may have the authority to cancel the policy early and provide a partial refund of the premium for the remaining time frame of risk. On the flip side, life assurance contracts are usually enduring agreements that the insurer can only terminate if there is a error or flaw.

⁶⁵ *"Ibid."*

⁶⁶ *"Ibid."*

⁶⁷ *"Ibid."*

⁶⁸ Dr. G. Gopalakrishna , "Essentials and Legalities of an insurance contract" available at <https://www.insuranceinstituteofindia.com/Indiainsurance/insurance/insurancemain/earlierIssues> accessed on 27/06/2009 at page 9

The boy ran quickly to catch the bus before it drove away. Though the likelihood of the risk protected by fire, accident, or marine insurance policies happening is unknown, the event that a life assurance policy covers is guaranteed to happen.

The students must submit their assignments on time to receive a passing grade. Although life insurance is considered an assurance agreement, general insurance remains an indemnity contract.

(d) Principle of insurable interest:

In order for an insurance policy to be valid, there needs to be an "insurable interest," meaning an interest that would cause financial harm to the policyholder if the insured's risky actions occur, and that is covered or can be covered by an insurance policy⁶⁹.

In most insurance agreements, the insurable interest must be present when an event occurs, although this is not always required in life insurance agreements. This is since life ins. agreements are assurance contracts, while general insurance agreements are indemnity contracts. For eg, with fire insurance, the insured individual will not suffer any financial loss under the policy if they do not have any ownership stake in the property at the time of the loss or damage⁷⁰ – Acc. to McGillivray⁷¹

If the insured does not possess any stake in the subject matter at the time of the event, they will not be able to receive compensation for any damages and therefore do not have the right to be reimbursed. Likewise, if his focus is on a smaller value than the total worth of the matter, he will only experience a loss equivalent to his interest value at the time of the loss, therefore his compensation claim cannot surpass his interest value.

Life insurance approaches insurable interest differently in this context. It is not possible to measure human lives in the same way as tangible assets. However, we are able to determine the possible financial consequences of an individual's premature death. All

⁶⁹ "Ibid."

⁷⁰ "Dr. G. Gopalakrishna , "Essentials and Legalities of an insurance contract" available at <https://www.insuranceinstituteofindia.com/Indiainsurance/insurance/insurancemain/earlierIssues> accessed on 27/06/2009 at page 10"

⁷¹ "Ibid."

insurance agreements need some form of insurable interest to be valid; those without it are considered void. An insurable interest is when someone stands to benefit financially from the subject's life or suffer a loss from their death. For instance, a parent's entitlement to a child's work and income creates a definite insurable interest in their life⁷².

Insisting on the presence of insurable interest serves two purposes: to prevent gambling through insurance and to ensure the policyholder has a financial interest in the agreement. Yet, the customary law⁷³ does not generally forbid contracts in which no insurable interest exists⁷⁴.

(1) If an insured party has no ownership interest in the property at the time of loss, they are not responsible for any damages that may have happened.

Also, if the assured's stake is less than the total value of the subject matter, only his stake will be at risk and no further damage will occur.

The contract conditions in both situations outline the interest in the subject matter. This is since the insurance company promises to only compensate for legitimate damages.

Having a legally binding right, whether contractual or proprietary, that is enforceable in court is essential for establishing insurable interest. Insurable interest is primarily based on two main principles: it must be legally enforceable and beneficial to the insured in the long run. There is no need for a rigid legal or financial stake⁷⁵. When it comes to life insurance, the policyholder has unlimited insurable interest in their own life. Nonetheless, insurable interest criteria are crucial when someone purchases insurance for another individual's life. In contrast to marine and fire insurance, where legal or beneficial interest is enough, the individual who insures someone's life must have a connection showing a realistic

⁷² *Ibid*

⁷³ *Ibid*

⁷⁴ *Ibid*

⁷⁵ Dr. G. Gopalakrishna, "Essentials and Legalities of an insurance contract" available at <https://www.insuranceinstituteofindia.com/Indiainsurance/insurance/insurancemain/earlierIssues> accessed on 27/06/2009 at page 10.

expectation of benefit from the insured person's continued life. The key element is if there was a clear reliance on the insured person or an anticipation of gaining from their survival by the individual purchasing life insurance for them. The insurable interest requirement in insurance contracts has a two-fold effect. The insurance contract becomes similar to a bet when there is no insurable interest. Additionally, the concept of indemnity will not apply without a vested interest in the subject matter, as only the actual incurred loss will be compensated. As a result, the insurable interest rule prevents gambling policies and limits the payout to match the assured's losses⁷⁶.

Without an insurable interest in an insurance agreement, the policy becomes essentially a bet, and the principle of indemnification cannot be employed (as only the real loss would be compensated), thus avoiding betting policies and restricting recovery to the actual amount experienced by the insured party⁷⁷.

(e) Principle of utmost good faith:

In regular business transactions, it is often said "Caveat Emptor," which translates to "buyer beware." If one party fails to request specific details regarding the contract's subject matter, the other party is not obligated to provide them willingly. Nonetheless, both parties should refrain from purposely deceiving each other with untrue information. However, the responsibility falls on both parties to resolve these issues and reach the most beneficial agreement possible. In insurance agreements, the principle of "utmost good faith" establishes the norm⁷⁸.

Both parties involved in an insurance contract must follow the principle of utmost good faith to ensure the contract is valid. Insurance agreements are commonly known as uberrima fides agreements as they necessitate a greater level of good faith in comparison to regular legal agreements. While integrity and trustworthiness are basic concepts of equity and impartiality that are relevant to all contracts, individuals in

⁷⁶ "Ibid."

⁷⁷ "Dr. G. Gopalakrishna , "Essentials and Legalities of an insurance contract" available at <https://www.insuranceinstituteofindia.com/Indiainsurance/insurance/insurancemain/earlierIssues> accessed on 27/06/2009 at page 9"

⁷⁸ "Ibid."

agreements outside of insurance are free to discuss their own conditions⁷⁹. In sales contracts of goods, the seller is not required to reveal all information that could affect the buyer's decision, following the principle of "Caveat Emptor". Nevertheless, insurance agreements require an extra obligation towards the insurer, in addition to being honest and transparent, because of the risk transfer aspect. Not revealing an important detail, whether intentional or unintentional, may result in the insurance contract being voided. The insured must give the insurer all pertinent details that may impact their decision, regardless of the insured's personal view on the importance of such details. The importance of a fact is determined regardless of how the insured views it⁸⁰.

This basic rule can be applied to every area of the insurance sector. It is contained within one of the multiple judgments given⁸¹:"

The insured must disclose all pertinent information within their knowledge. Standardized questions relating to all individuals are used for life insurance policies. Nevertheless, there could be particular situations specific to the person that the insurance company might not know about, and if they were known, they probably would have been asked about in detail. Both parties in a contract share the responsibility of acting in good faith, but the insured party should prioritize following the principles. The information provided by the policyholder heavily influences the company's choice to offer life insurance. Since the company receives proposals from unknown individuals, it is important for the proposer to provide all pertinent information that may affect the company's decision-making. The proposer has all the necessary information about the insurance risk. The person making the proposal is required by both moral and legal obligations to disclose any critical information related to the agreement⁸².

If there is a disagreement, it can be resolved by either a court or a group of arbitrators, but the opinion of the person who suggested the idea cannot be trusted on this matter. Every factor that could affect an insurer's decision on setting premiums or accepting risks is deemed significant. This description is enshrined in the Marine Insurance Act, 1906 and is also relevant to life

⁷⁹ "*Ibid.*"

⁸⁰ "Dr. G. Gopalakrishna , "*Essentials and Legalities of an insurance contract*" available at <https://www.insuranceinstituteofindia.com/Indiainsurance/insurance/insurancemain/earlierIssues> accessed on 27/06/2009 at page 9"

⁸¹ "*Ibid.*"

⁸² "*Ibid.*"

insurance. Nevertheless, the person suggesting something does not have to reveal certain information⁸³:

1. What is the insurer already aware of?
2. What information does the insurer require?
3. What information is not shared with the insurer?
4. Characteristics that reduce risk/danger?

In an insurance agreement, both parties depend on the trustworthiness of the other. If a party purposely conceals or distorts crucial information, the contract becomes invalid and unenforceable. If done intentionally, the policy is also invalid. The insurer has the right to cancel the policy within two years if no wrongdoing is found. In actuality, policies are usually maintained with modifications if the insurer believes the policyholder did not have the intention to deceive them⁸⁴. As previously stated, the proposer must disclose any relevant information that impacts the risk. This is due to the principle of uberrima fides, which regulates the insurance sector. The proposer's statements in the proposal and to a medical examiner are classified as either representations or warranties in legal terms⁸⁵.

Marine insurance, the earliest form of insurance to be developed for commercial purposes, introduced the concept of warranties, which are statements or conditions in the policy that pertain to the risk represented by the applicant and are assumed to have been trusted by the insurer when the contract was issued.

In the Marine Insurance Act of 1906 (England), a guarantee is described as follows⁸⁶:

The word "warranty" means a promise made by the insured that something specific will happen or not happen, a requirement will be fulfilled, or a certain situation will or will not occur. According to this legislation, a warranty as defined above is a requirement that must be fulfilled precisely, no matter the level of risk involved.

⁸³ "Dr. G. Gopalakrishna , "Essentials and Legalities of an insurance contract" available at <https://www.insuranceinstituteofindia.com/Indiainsurance/insurance/insurancemain/earlierIssues> accessed on 27/06/2009 at page 9"

⁸⁴ "Ibid."

⁸⁵ "Ibid."

⁸⁶ Dr. G. Gopalakrishna , "Essentials and Legalities of an insurance contract" available at <https://www.insuranceinstituteofindia.com/Indiainsurance/insurance/insurancemain/earlierIssues> accessed on 27/06/2009 at page 12

The responses given by the proposer that are not considered guarantees are known as representations. In life insurance policies, a recital clause establishes the answers provided in the proposal and to the medical examiner as the basis of the contract, giving them a warranty status⁸⁷. At present, insurance agencies typically view responses as representations, and evaluate any inaccuracies accordingly. If considered important by the insurer, an important error in information could lead to the insurer attempting to cancel the policy because of not disclosing information or providing incorrect information, as long as they also agree to reimburse the premiums⁸⁸.

Courts also tend to avoid unfairly interpreting responses in proposal forms too strictly. However, the proposer should still ensure that they confirm the accuracy of their answers to the best of their knowledge and belief to greatly safeguard their interests.

2.3 What Insurance Covers:

Insurance has several purposes, which are discussed in this section. These include distributing risk, providing financial security via life insurance and annuities, assisting the elderly and the needy, and facilitating social investment.

Insurance has a social role by shifting an individual's risk of loss to a risk-taker in return for a small fee known as a premium. During this procedure, the insurance company gathers a small amount of money from numerous individuals and, if any of them experience a loss, the insurer will provide the funds to compensate for the loss. The insurance company refers to this as a method for pooling uncertain risks of individuals in a group to make them more certain; individuals make regular contributions to create a fund to reimburse those who experience losses."⁸⁹

To put it simply, "insurance is a protection against financial loss taking place on the happening of an unexpected event." Everyone has assets—houses, cars, factories, etc.—and intangible ones, like a singer's voice, a football player's leg, an author's hand, etc.—that can be insured against the risk of their non-functionality due to disasters or

⁸⁷ "Ibid."

⁸⁸ "Ibid."

⁸⁹ S.Krishnamurthy and et al, "Insurance Industry in India: Structure, Performance and Future Challenges", *Vikalpa*, Volume 30, No.3, July –September 2005 93-105.

accidents.

Here are the two main ways in which insurance functions⁹⁰:

Part One : Essential Roles,

Part Two: Secondary Roles and

Thirdly: Additional Roles

Among Insurance's Principal purposes are –

- i. Offer protection—Insurance's principal role is to prevent financial loss by distributing the risk among policyholders in the event of an accident or other unforeseen event.
- ii. Collective risk — Ins. is a medium for spreading out a few people's financial losses to a larger group of people. The insured pay premiums into a pool from which the people at risk of a certain risk receive compensation.
- iii. Risk assessment—Insurance estimates the likely amount of risk by looking at the many things that might cause it. Risk is also the basis for deciding on a premium rate.
- iv. Assure - Insurance is a tool that may transform a state of uncertainty into one of certainty. It's a way to make risks that were before uncertain more certain.

2.4.2. Insurance's ancillary roles include⁹¹ -

- i. Loss prevention—Insurance encourages individuals and businesses to take precautions to avoid unfortunate outcomes caused by risk, such as following safety protocols, installing automatic sprinkler or alarm systems, etc. Insurers pay less to the assured, leading to more savings in premiums. This, in turn, attracts more business and provides better protection to the insured.
- ii. Minimal outlay of money to mitigate substantial risk — Insurance helps business owners by letting them pay a small premium to cover the costs of potential risks and uncertainties, relieving them from the financial burden of security investments.

⁹⁰ "Ibid."

⁹¹ S.Krishnamurthy and et al, "Insurance Industry in India: Structure, Performance and Future Challenges", *Vikalpa*, Volume 30, No.3, July –September 2005 93-105.

- iii. Support for the growth of larger industries— Insurance provides opportunities for bigger industries that encounter higher risks when starting out. Banks might be open to providing loans to industrial units in financial trouble if they have insured their equipment and facilities.

Insurance also serves the following other purposes⁹²:

1. It's a way to save and invest – Ins. is a way to save and invest; it's a mandatory way to save, and it restricts the insured's excessive spending. People invest in ins. for a variety of categories, including to take advantage of income-tax exemptions.

Ins. is a global industry, thus the government may earn foreign currency in a number of ways, one of which is by issuing marine insurance policies.

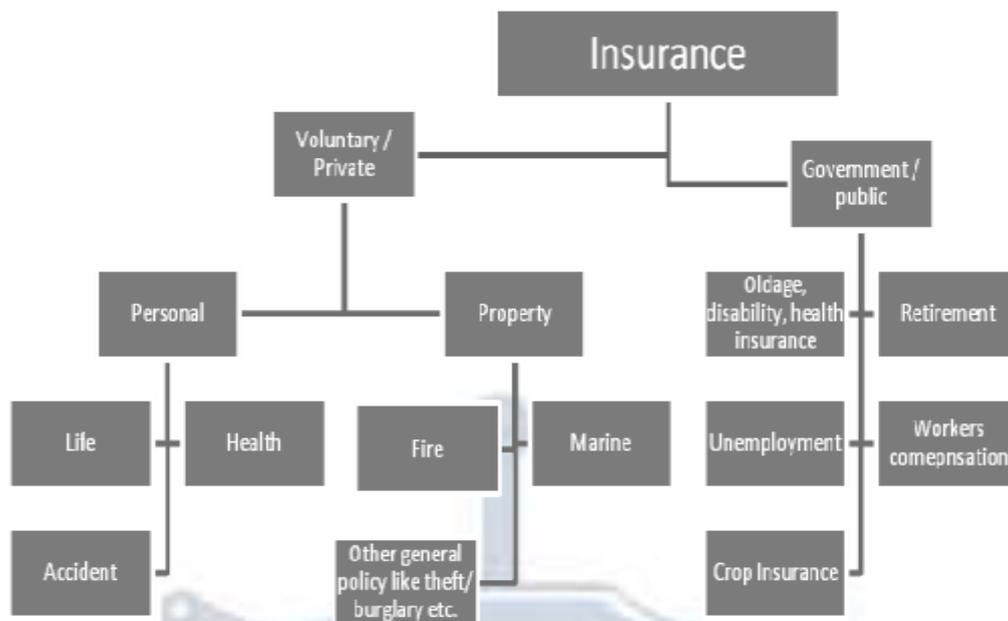
In addition, insurance promotes export insurance, which, through different policies included in marine insurance coverage, allows international trade to proceed without risks.

2.4 Insurance Types:

Both private and public insurance provide coverage for a vast array of assets, encompassing items such as bodies and real estate, living and inanimate objects, personal belongings and chattels, mobile and stationary items, as well as various body parts. The total coverage of insurance, depicted in the flowchart below, has evolved to become one of the most sought-after and commercially viable tertiary sectors globally⁹³:

⁹² “S.Krishnamurthy and et al, “Insurance Industry in India: Structure, Performance and Future Challenges”, *Vikalpa*, Volume 30, No.3, July –September 2005 93-105”

⁹³ *Law of Insurance, MBL –Part II, (Distance Education Department, National Law School of India University, Bangalore) at page 22.*



2.5 Extent of Coverage:

The increasing wealth and possessions, along with the rising systemic uncertainty, offer a huge chance for the insurance sector. In reality, we live on an extremely dangerous planet. Trade globalization is speeding up. The speed of technological advancements and the rate at which things become outdated is growing. Insurance is vital in reducing the risk burden for individuals and businesses in today's ever-changing world, as proven by recent ample evidence. Insurance processes need to be flexible and able to change with the times⁹⁴.

Increasing insurance coverage for more individuals and more items is a main objective of India's insurance sector. The industry should follow these principles: (1) give policyholders efficient and timely service; (2) invest funds to achieve the highest yield while ensuring the safety of capital for policyholders; and (3) set premiums at a level that aligns with strict actuarial considerations. Expanding the insurance network can be achieved through a creative corporate strategy and a steadfast commitment to improving service⁹⁵.

Chances of employment are expected to shrink. A number of insurance-focused websites, financial publications, and schools have been emerging lately. Educational institutions are either offering courses in insurance now or are evaluating the possibility of doing so. Because

⁹⁴ Dr. C. Rangarajan, "The widening scope of Insurance", available at http://www.eac.gov.in/aboutus/chspe/rep13_widescop.doc accessed on 12/10/2012 at page 2 .

⁹⁵ "Ibid."

life insurance offers the opportunity to accumulate a significant amount of money over the long term, it has become more prevalent in all market economies. In order to achieve a future without financial worries, it is necessary to have a life insurance market that is properly regulated and flexible, offering personalized policies to suit individual needs.

By examining its legal characteristics, principles, and roles, the term "insurance" offers a more definitive grasp of its definition and acts as the basis for various insurance products.

Conclusion

In conclusion, the modernization of the solvency framework by the IRDAI is crucial for aligning with international standards and enhancing the stability of the Indian insurance sector. A risk-based capital approach is essential, as it allows for tailored regulation that reflects the unique risks insurers face. Implementing a systematic strategy, including the adoption of IFRS 17 and IAIS Insurance Capital Standards, will enable IRDAI to address the diverse needs of insurers, particularly smaller entities. Furthermore, a shift toward a risk-based supervisory model will enhance oversight and governance, ensuring that regulatory practices prioritize risk assessment over mere compliance.

Moreover, improving collaboration with other financial regulators and fostering communication with international supervisors will strengthen oversight of cross-border operations. Addressing financial vulnerabilities in public sector insurers and reassessing investment regulations will further stabilize the market. Additionally, creating a comprehensive disclosure framework and considering the implementation of a compensation scheme for policyholders will bolster consumer confidence. Through these initiatives, IRDAI can promote a resilient insurance environment that balances regulatory rigor with market growth, ensuring long-term sustainability and stability in India's insurance landscape.