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BUSINESS SERVICES

Types of Insurance

Various types of insurance exist by virtue of practice of insurance companies and the influence of legal enactments controlling the insurance business. Broadly speaking, insurance may be classified as follows:

LIFE INSURANCE

Since life itself is uncertain, all individuals try to assure themselves of a certain sum of money in the future to take care of unforeseen events or happenings. Individuals in the course of their life are always exposed to some kind of risks.

The risk may be of an event which is certain that is death. In that case, what will happen to the other members of the family who are dependent on a particular individuals income. The other risk may be living too long in which an individual may become too old to earn i.e., retirement. In this case also, the earnings will decline or end. Under such circumstances, individuals seek protection against these risks and life insurance companies offer protection against such risks.

A life insurance policy was introduced as a protection against the uncertainity of life. But gradually its scope has widened and there are various types of insurance policies available to suit the requirements of an individual. For example, disability insurance, health/medical insurance, annuity insurance and life insurance proper.

Life insurance may be defined as a contract in which the insurer in consideration of a certain premium, either in a lump sum or by other periodical payments, agrees to pay to the assured, or to the person for whose benefit the policy is taken, the assured sum of money, on the happening of a specified event contingent on the human life or at the expiry of certain period. Thus, the insurance company undertakes to insure the life of a person in exchange for a sum of money called premium. This premium may be paid in one lump sum, or periodically i.e., monthly, quarterly, half yearly or yearly. At the same time, the company promises to pay a certain sum of money either on the death of the person or on his attaining a certain age (i.e., the expiry of certain period). Thus, the person is sure that a specified amount will be given to him when he attains a certain age or that his dependents will get that sum in the event of his death.

This agreement or contract which contains all the terms and conditions is put in writing and such document is called the policy. The person whose life is insured is called the assured. The insurance company is the insurer and the consideration paid by the assured is the premium. The premium can be paid periodically in instalments.

This insurance provides protection to the family at the premature death or gives adequate amount at old age when earning capacities are reduced. The insurance is not only a protection but is a sort of investment because a certain sum is returnable to the insured at the time of death or at the expiry of a certain period.

Life insurance also encourages savings as the amount of premium has to be paid regularly. It thus, provides a sense of security to the insured and his dependents.

The general principles of insurance discussed in the previous section apply to life insurance also with a few exceptions. The main elements of a life insurance contract are:

(i) The life insurance contract must have all the essentials of a valid contract. Certain elements like offer and acceptance, free consent, capacity to enter into a contract, lawful consideration and lawful object must be present for thecontract to be valid;

(ii) The contract of life insurance is a contract of utmost good faith. The assured should be honest and truthful in giving information to the insurance company. He must disclose all material facts about his health to the insurer. It is his duty to disclose accurately all material facts known to him even if the insurer does not ask him;

(iii) In life insurance, the insured must have insurable interest in the life assured. Without insurable interest the contract of insurance is void. In case of life insurance, insurable interest must be present at the time when the insurance is affected. It is not necessary that the assured should have insurable interest at the time of maturity also. For example, a person is presumed to have an interest in his own life and every part of it, a creditor has an insurable interest in the life of his debtor, and a proprietor of a drama company has an insurable interest in the lives of the actors;

(iv) Life insurance contract is not a contract of indemnity. The life of a human being cannot be compensated and only a specified sum of money is paid. That is why the amount payable in life insurance on the happening of the event is fixed in advance. The sum of money payable is fixed, at the time of entering into the contract.

A contract of life insurance, therefore, is not a contract of indemnity.