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LIFE INSURANCE : A GENERAL FRAMEWORK

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CHAPTER - III

LIFE INSURANCE : A GENERAL FRAMEWORK

Life risk cover i.e. financial protection to the family in case of an unforeseen event - say death, illness, disability on account of accident, etc – is the main purpose of insurance. But, it is also seen as a ‘compulsory savings’ leading to creation of wealth which can be utilized for education/marriage of children; for old age provision; for construction of house; etc. Policies are taken to get exemption from Income Tax and to assign these to financial institutions as collateral security while availing different type of credit facilities including housing loan. In order to meet various socio-economic needs of different people, LIC has designed more than 40 types of plans which include whole life policies, endowment policies with a definite term, joint life policies, money back policies having provision for periodical lump sum payments called survival benefits, term insurance policies which have low premium but high risk cover, pension plans, children plans, Unit Linked Plans which provide an opportunity to invest in capital market, etc. Each of LIC plans has distinct features covering certain type of benefits. The selection depends on insurer needs. etc. Life insurance in India made its debut well over 100 years ago.

3.1 Introduction

Life insurance is a written contract between the insured & insurer that provide for the payment of the insured sum on the date of the maturity of the contract or on the unfortunate death of the insured which ever occurs earlier. Life insurance is a contract that pledges payment of an amount to the person assured (or his nominee) on the happening of the event insured against.
The contract is valid for payment of the insured amount during:

- The date of maturity, or
- Specified dates at periodic intervals, or
- Unfortunate death, if it occurs earlier.

A family is generally dependent for its food, clothing & shelter on the income brought in at regular intervals by the breadwinner of the family. So long as he lives & the income is received steadily, that family is secure, but should death suddenly intervene the family may be left in very difficult situation and sometimes, in stark poverty. Uncertainty of death is inherent in human life. It is this uncertainty that the risk, which it give arise to the necessity for some form of protection against the financial loss arising from death. Insurance substitutes this uncertainty by certainty. It is a foundation of sound financial plan. It provides financial security for our family by protecting our financial resources, such as our present & future income, against the uncertainties of life. Life insurance helps to ensure that our family & loved ones are protected against financial difficulties in the event of a premature death. In other words, life insurance is a contract providing for payment of a sum of money to the person assured or, failing him, to the person entitled to receive the same, on the happening of certain event. Therefore, before we discuss about the life insurance sector & LIC of India, it is important to know the figures that entice each & every body in the sector.

Table no. 3.1  

<table>
<thead>
<tr>
<th>Life insurance statistics</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Indian population</td>
<td>1.21 Billion</td>
</tr>
<tr>
<td>GDP as on 2011</td>
<td>1.537 trillion</td>
</tr>
<tr>
<td>Gross domestic savings(gds) as% of GDP</td>
<td>33.70%</td>
</tr>
<tr>
<td>NCEAR estimate insurable interest</td>
<td>240 Million (out of which only 70 million is insured)</td>
</tr>
</tbody>
</table>

(Source: Journal of Insurance Institute of India)
India, is a country of over one billion people and an estimated middle class population of over 300 million, has a low level of insurance penetration. While the National Council of Applied Economic Research (NCAER) estimates the insurable population in India to be 240 million, the insured population is a mere 70 million. In the year 2000, the international average of life insurance premium as a percentage of GDP was 7.4%; in India it was less than 2%. This is even more surprising when looked against the fact that India is traditionally a country where people believe in saving and the gross domestic savings account for 26% of India’s GDP.

The spread & reach of insurance remains even after so many years skewed & urban oriented. In India, only 24% of its population is covered with insurance & around 2% of GDP is total premium income from insurance. It would surprise one to learn that though India with its population over one billion accounts for one sixth of the world’s population, our share of the world’s insurance market is a meager 0.5%. Clearly before the opening up of the sector, the Indian insurance industry was under performing. The gap of insurance coverage & needed & affordable cover in India is even more glaring when we compare it with other developed countries like USA, Japan etc. insurance premium as a percentage of GDP is only 2% for India against those of 7.3% of USA & 10.10% for Japan. The life premium as a percentage of GDP is very low as the following comparative data in the following table reveals.

Table No.3.2

<table>
<thead>
<tr>
<th>Country</th>
<th>Life premium as % of GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Japan</td>
<td>10.10 %</td>
</tr>
<tr>
<td>UK</td>
<td>9.10 %</td>
</tr>
<tr>
<td>USA</td>
<td>7.31 %</td>
</tr>
<tr>
<td>South Korea</td>
<td>9.0 %</td>
</tr>
<tr>
<td>Taiwan</td>
<td>3.5 %</td>
</tr>
<tr>
<td>India</td>
<td>2 %</td>
</tr>
</tbody>
</table>
3.2 Characteristics of Life Insurance

Insurance is a contract between two parties whereby one party called insurer in exchange for a fix sum called premiums, to pay the other party on happening of a certain event. In other words, it is a written contract between the insured & insurer that provides for the payment of the insured sum on the date of maturity of the contract or on the unfortunate death of the insured whichever occurs earlier. Life insurance helps to ensure that our family & loved ones are protected against financial difficulties in the event of a premature death.

Insurance Companies collect some predetermined amount in the form of premium, to provide for this protection, loss is paid out of this amount collected from the insuring public. The Insurance Company act as a trustee to the amount collected. Life insurance is the foundation of a sound financial plan. It provides financial security for our family by protecting our financial resources, such as our present & future income, against the uncertainties of life. More specifically, life insurance provides cash to our family after our death. This cash (death benefit) replaces the income; we would have provided & can meet many important financial needs. It can help to run the household, send the children for education & ensure that our dependents are not burdened with debt. Life insurance is not a felt necessity in India. Its purchase is driven by tax rebate & loan facilities. Life insurance, in short, is concerned with two hazards that stand across the life-path of every person:

- That of dying prematurely leaving a dependent family to feed for itself.
- That of living till old age without visible means of support.

Life insurance in India is characterized by the following conditions:

a) There is very limited coverage---Life insurance funds account for only 10% of gross household saving in financial assets. Life insurance premiums constitute only 6% of gross domestic savings (GDS).
b) **There are high premiums & low returns**—Presently the premiums are very high as compared to rate of return. It is expected that after opening up of the sector, the competitive industry will be able to increase coverage, mobilize larger savings & provide higher returns.

### 3.3 Principles of Life Insurance Business

Life insurance contracts are based on certain principles. The Principles of Life Insurance are elaborated as under:

#### 3.3.1 Principle Of Insurable Interest:

In Life insurance, the insured must possess an Insurable Interest in the life of the person to be insured. Insurable interest arises out of the pecuniary relationship that exists between the policyholder and the life assured so that the former stands to loose by the death of the latter &/or continues to gain by his survival. If such a relationship exists, then the former has Insurable interest in the life of the latter. The loss should be monetary or financial. Mere emotion and expectation do not constitute Insurable interest in the life of his friend or father merely because he gets valuable advice from them.

The Insurable interest in life insurance may be divided into following categories:

(a) **Insurable interest in Owns life**— An individual always has an insurable interest in his own life and the interest is unlimited, because the loss to the insured or his dependents cannot be measured in terms of money and therefore, no limit can be placed to the amount of insurance that one may take on ones own life. Thus, theoretically a person can take a policy to any unlimited amount on his own life, but in practice no insurer will issue a policy for an amount larger than amount seems suitable to the circumstances and means of the applicant. Generally, one can not purchase policy usually more than ten times of his one year’s income.
(b) **Insurable interest in others life**- Life insurance can be affected on the lives of third parties provided the proposer has insurable interest in the third party.

- Wife has insurable interest in the life of her husband.
- Husband has insurable interest in the life of his wife.
- A creditor has in the life of his debtor.
- A trustee has insurable interest in the life of his principal.
- A surety has insurable interest in the life of his principal.
- A partner has insurable interest in the life of each partner.

Insurable interest must exist at the time of the proposal. It is not essential that the insurable interest must be present at the time of claim. In business relationship, the value or the extent of the insurable interest must be determined, and insurance is limited only up to the amount of insurable interest. Thus, insurable interest must be there to form legal and valid insurance contract. Without insurable interest the contract would be null and void.

### 3.3.2 Principle of Utmost Good Faith:

Life insurance requires that both the parties should preserve the principle of utmost good faith. The utmost good faith means that both the parties, proposer (insured) and insurer must make full and true disclosure of the facts material to the risk, only then risk may be correctly ascertained. The facts are:

1. **Material facts** - In life insurance material facts are age, income, occupation, health, habits, residence, family history and plan of insurance.
2. **Duty of both parties** - It is not only the proposer but the insurer also who is responsible to disclose all the material facts, which are going to influence the decision of the proposer.
3. **Full and true disclosure** - Utmost good faith says that there should be full and true disclosure of all the material facts. It means that there should be no concealment, misrepresentation, half disclosure and fraud of the subject matter.
to be insured.

(iv) **Extent of The duty**-The duty of disclosure finishes at the moment when the proposal form has been fully and correctly fulfilled provided there is no such facts which proposer considers or expected to be consider material and have not disclose. The proposer cannot defend on the ground that he had omitted to disclose it by carelessness or by mistake or that he did not regard it material to the contract.

(v) **Legal Consequences** -In the absence of utmost good faith the contract will be voidable at the option of the person who suffered a loss due to non-disclosure. The intentional nondisclosure counts fraud and is void and the unintentional non-disclosure is voidable at the option of the party not at fault.

Once the party not at fault has validated the voidable contract, he cannot avoid the contract later on. For instance, if the insurer has continued to accept the premium when certain a non-disclosure say mis-statement of age, has been disclosed the insurer cannot refute to pay the amount of claim. If the party not at fault does not exercise its option, the contract will remain valid.

### 3.4 Nature & Functions Of Life Insurance

#### 3.4.1 Nature of Life Insurance

a) **Contract of Insurance**: A contract of insurance is a contract of utmost good faith technically known as uberrima fides. The doctrine of disclosing all material facts is embodied in this important principle. At the time of taking a policy; policyholder should ensure that all questions in the proposal form are correctly answered. Any misrepresentation, non-disclosure or fraud in any document leading to the acceptance of the risk would render the insurance contract null and void.

b) **Protection**: Savings through life insurance guarantee full protection against risk of death of the saver. Also, in case of demise, life insurance assures payment of the entire amount assured (with bonuses wherever applicable)
whereas in other savings schemes, only the amount saved (with interest) is payable.

c) **Aid to Thrift:** Life insurance encourages 'thrift'. It allows long-term savings since payments can be made effortlessly because of the 'easy instalment' facility built into the scheme. (Premium payment for insurance is monthly, quarterly, half yearly or yearly). For example: The Salary Saving Scheme popularly known as SSS, provides a convenient method of paying premium each month by deduction from one's salary. In this case the employer directly pays the deducted premium to LIC.

d) **Liquidity:** In case of insurance, it is easy to acquire loans on the sole security of any policy that has acquired loan value. Besides, a life insurance policy is also generally accepted as security, even for a commercial loan.

e) **Tax Relief**
Life Insurance is the best way to enjoy tax deductions on income tax and wealth tax. This is available for amounts paid by way of premium for life insurance subject to income tax rates in force. Assesses can also avail of provisions in the law for tax relief. In such cases the assured in effect pays a lower premium for insurance than otherwise.

f) **Money When You Need It**
A policy that has a suitable insurance plan or a combination of different plans can be effectively used to meet certain monetary needs that may arise from time-to-time. Children's education, start-in-life or marriage provision or even periodical needs for cash over a stretch of time can be less stressful with the help of these policies. Alternatively, policy money can be made available at the time of one's retirement from service and used for any specific purpose, such as, purchase of a house or for other investments. Also, loans are granted to policyholders for house building or for purchase of flats (subject to certain conditions).
3.4.2 Functions of Life Insurance

The functions of life insurance can be divided into two parts:

(A) **Primary functions**

(i) **Insurance provides certainty** - Insurance provides certainty of payment at the uncertainty of loss. The uncertainty of loss can be reduced by better planning & administration. But, the insurance relieves the person from such different tasks. Moreover, if the subject matters are not adequate, the self provision may prove costlier. There are different types of uncertainty in a risk. The risk will occur or not, when will occur, how much loss will be there? In other words, there is understanding of happening of time and among the loss. Insurance removes all these understanding and the assured is given certainty of payment of loss. The insurer charges premium for providing the said certainty.

(ii) **Insurance provides protection** – The main function of the insurance is to provide the protection against the probable chances of loss. The time and amount of loss are uncertain and at the happening of risk, the person will suffer loss in absence of insurance. The insurance guarantees the payment of loss and thus protects the assured from suffering. The insurance cannot check the happening of risk but can provide for losses at the happening of the risk.

(iii) **Risk sharing** – The risk is uncertain, and therefore, the loss arising from the risk is also uncertain. When risk takes place, the loss is shared by all the person who are exposed to the risk.

(B) **Secondary Function**

(i) **Prevention of Loss**: The insurance joins hands with those institutions which are engaged in. preventing the losses of the society because the reduction in loss causes lesser payment to the assured and so much saving is possible which will assist in reducing the premium. Lesser premium invites more business and more business cause lesser share to the assured. So again premium is reduced to,
which will stimulate more business and more protection to the masses. Therefore, the insurance assist financially to the health organization, fire brigade, educational institutions and other organizations with are engaged in preventing the losses of the masses from death or damage.

(ii) **Provides Capital**: The insurance provides capital to the society. The accumulated funds are invested in productive channel. The dearth of capital of the society is minimized to a greater extent with the help of investment of insurance. The industry, the business and the individual are benefited by the investment and loans of the insurers.

(iii) **Improves Efficiency**: The insurance eliminates worries and miseries of losses at death and destruction of property. The carefree, person can devote his body and soul together for better achievement. It improves not only his efficiency, but efficiencies of the masses are also advanced.

(iv) **Helps in Economic Progress**: The insurance by protecting the society from huge losses of damage, destruction and death, provides an initiative to work hard for the betterment of the masses. The next factor of economic progress, the capital, is also an immensely provided by the masses.

### 3.5 Objectives of Life Insurance

Life insurance entertains following objectives:

(a) Family protection

(b) Provision for old age,

(c) In exceptional cases, the object of life insurance may be,

(i) To serve as security to educational funds in respect of loans advanced for educational purposes, or

(ii) To provide donations to charitable institutions like hospitals & schools.
3.6 **Contract of Life Insurance**

A contract of life insurance is a contract of utmost good faith technically known as uberrima fides. The doctrine of disclosing all material facts is embodied in this important principal. The proposer, who is one of the parties of the contract, is presumed to have means of knowledge which are not accessible to the corporation, who is the other party to the contract. Therefore, the proposer is bound to tell the insurer everything affecting the judgment of the insurer; no matter howsoever unimportant it may seem to him. Misrepresentation, non-disclosure or fraud in any document leading to acceptance of the risk automatically discharges the corporation from all liability under the contract.

Although the Sec. 45 of the insurance Act, 1938 provides that no policy can be called in question after a period of two years from the date of its issue on the ground that any statement in the proposal or a related document was false or inaccurate (making the policy indisputable ) this provision is not applicable if the corporation can prove that misrepresentation or non-disclosure was on a material fact & was fraudently made & that the policyholder knew at that time that the statement he made was false. It is therefore, in the interest of the, would be policy holder to disclose all material facts to the corporation to avoid any complications when the claim arises.

3.7 **Economic & Social Significance of Life Insurance**

Insurance provides several benefits, to the people by paying a small amount of premium to the insurance company. Some of the most prominent benefits of life insurance are:

a) **Superior to any other saving plan**—Unlike any other saving plans, a life insurance policy affords full protection against risk of death. In the event of death, of the policy holder, the insurance company makes available the full sum assured to the policy holder’s near & dear ones. In comparison, under any other
saving scheme the total accumulated savings will be available on the date of
death which will be considerably less than the sum assured if death occurs
during early years. Evidently, the potential financial loss to the family of the
policy holder is sizeable.

b) Encourages and enforces thrift--A saving deposit can easily be withdrawn
but, the payment of life insurance premiums, is however, considered sacrosanct
& is viewed with the same seriousness as the payment of interest on a mortgage.
Thus, a life insurance policy in effect brings about compulsory saving.
c) Easy Settlement and protection against creditors-- The life assured can name
a persons (nominees) to whom the policy money would be payable in the event
of his death. The proceeds of life insurance policy can be protected against the
claims of the creditors by effecting a valid assignment of the policy.
d) Administering the legacy for beneficiaries-- It often happens that a provision
which a husband or father has made through insurance is quickly lost through
speculative for unwise investment or by unnecessary expenditure on luxuries.
These contingencies can be provided against in the case of insurance. The
policy holder can arrange that in the event of his death the beneficiary should
receive instead of a single sum,
(i) Payment for the net claim amount by equal installments over a specified
period of years, or
(ii) Payment of the claim amount by smaller monthly installment over the
selected period followed by a lump sum at the end there of.
e).Ready market ability and suitability for quick borrowing--In life insurance
policy, after a certain period (generally three years) if the policy holder finds
himself, as unable to continue payment of premiums he can surrender the policy
for a cash value. Alternatively, he can tide over a temporary difficulty by taking
a loan on the sole security and of the policy without delay. Further a life
insurance policy is sometimes acceptable as security for a commercial loan.
f). **Disability benefits**--Death is not the only hazard that is insured; many policies also include disability benefits. Typically, these provide for waiver of future premiums & payment of monthly installments spread over certain period.

g). **Accidental death benefits**--Many policies can also provide for an extra sum to be paid (typically equal to the sum assured) if death occurs as a result of accident.

h). **Tax Relief**-- Under the Indian Income tax act, the following tax relief is available:

i) 20% of the premium paid can be deducted from our total income tax liability.

(ii) 100% of the premium paid is deductible from your total taxable income.

The proposed rate of Income tax applicable is as follows:

**Income-Tax Rates For Financial Year 2012-2013 (Assessment Year 2013-2014)**

<table>
<thead>
<tr>
<th>Income Slabs</th>
<th>Income Slabs</th>
<th>Income Slabs</th>
<th>Tax Rates</th>
</tr>
</thead>
<tbody>
<tr>
<td>Individual &amp; HUF below age of 60 years</td>
<td>Individual 60 years of age and more but less than 80 years</td>
<td>Individual 80 years of age and more</td>
<td>NIL</td>
</tr>
<tr>
<td>Income up to `2,00,000</td>
<td>Income up to `2,50,000</td>
<td>Income up to `5,00,000</td>
<td>NIL</td>
</tr>
<tr>
<td><code>2,00,001 to </code>5,00,000</td>
<td><code>2,50,001 to </code>5,00,000</td>
<td>--</td>
<td>10%</td>
</tr>
<tr>
<td><code>5,00,001 to </code>10,00,000</td>
<td><code>5,00,001 to </code>10,00,000</td>
<td><code>5,00,001 to </code>10,00,000</td>
<td>20%</td>
</tr>
<tr>
<td>Above `10,00,001</td>
<td>Above `10,00,001</td>
<td>Above `10,00,001</td>
<td>30%</td>
</tr>
</tbody>
</table>

**Education Cess** : An additional surcharge called as 'Education Cess' is levied at the rate of 2% on the amount of Income tax in all cases shall be levied.
Secondary and Higher Education Cess: An additional surcharge, called the "Secondary and Higher Education Cess on income - tax" at the rate of 1% of income-tax and surcharge (not including the "Education Cess on Income - tax") in all cases shall be levied.

Some important income tax benefits available under various plans of life insurance are:

1) Deduction allowable from Income for payment of Life Insurance Premium (Sec. 80C).

(a) Life Insurance premia paid in order to effect or to keep in force an insurance on the life of the assessee or on the life of the spouse or any child of assessee & in the case of HUF, premium paid on the life of any member thereof under an insurance policy, (other than a contract for a deferred annuity,) issued on or before the 31st day of March 2012 shall be eligible for deduction only to the extent of 20% of the actual capital sum assured.

(b) Life Insurance premia paid in order to effect or to keep in force an insurance on the life of the assessee or on the life of the spouse or any child of assessee & in the case of HUF, premium paid on the life of any member thereof, under an insurance policy, (other than a contract for a deferred annuity,) issued on or after the 1st day of April 2012 shall be eligible for deduction only to the extent of 10% of the actual capital sum assured.

(c) Contribution to deferred annuity Plans in order to effect or to keep in force a contract for deferred annuity, on his own life or the life of his spouse or any child of such individual, provided such contract does not contain a provision to exercise an option by the insured to receive a cash payment in lieu of the payment of annuity is eligible for deduction.
(d) Contribution to Annuity Plans - New Jeevan Dhara , New Jeevan Dhara - I & Jeevan Akshaya - VI

2) **Jeevan Nidhi Plan & New Jeevan Suraksha - I Plan (U/s. 80CCC):** A deduction to an individual for any amount paid or deposited by him from his taxable income in the above annuity plans for receiving pension (from the fund set up by the Corporation under the Pension Scheme) is allowed.

**NOTE:** The aggregate amount of deduction under u/s 80C, 80CCC & 80CCD(1) shall not in any case exceed one lakh Rupees. However, there is no sectoral cap i.e. the limit of `1,00,000/- can be exhausted by paying premium under any of the said sections.

3) **Deduction under section 80D :**
   a) Deduction allowable upto `1.15,000/- if an amount is paid to keep in force an insurance on health of assessee or his family (i.e. Spouse & dependent children) or any contribution made to the central Government Health Scheme or on account of Preventive health check - up of the assessee or his family.
   b) Additional deduction upto `1.15,000/- if an amount is paid to keep in force an insurance on health of parents or on account of Preventive health check - up of the parent of the assessee, whether dependent or not.
   c) In case of HUF, deduction allowable upto `15,000/- if an amount is paid to keep in force an insurance on health of any member of that HUF
   d) In Case the amounts are paid in (a) or (b) or (c) on account of preventive health check up, the deduction for such amounts shall be allowed to the extent it does not exceed in aggregate `5,000 /-. 
   e) For the purpose of deduction, the payment shall be made by
      i. Any mode, including cash. In respect of any sum paid on account of preventive health check up.
ii. Any mode other than cash in all other cases.

Note: If the sum specified in (a) or (b) or (c) is paid to effect or keep in force an insurance on the health of any person specified therein who is a senior citizen, then the deduction available will be upto `20,000/-. Here senior citizen means the person who is of sixty year or more during the previous year.

5) **Jeevan Aadhar Plan (Sec.80DD):** Deduction from total income upto `50,000/- allowable on amount deposited with LIC under Jeevan Aadhar Plan for maintenance of an handicapped dependent (`1,00,000/- where handicapped dependent is suffering from severe disability)

6) **Exemption in respect of commutation of pension under Jeevan Suraksha & Jeevan Nidhi Plans:** Under Section 10(10A) (iii) of the Income-tax Act, any payment received by way of commutations of pension out of the Jeevan Suraksha & Jeevan Nidhi Annuity plans is exempt from tax under clause (23AAB).

7) **Income tax exemption on Maturity/Death Claims proceeds under Section 10(10D):** Under the provisions of section 10(10D) of the Income-tax Act, 1961, Maturity/Death claims proceeds of life insurance policy, including the sum allocated by way of bonus on such policy (other than amount to be refunded under Jeevan Aadhar Insurance Plan in case of handicapped dependent predeceases the individual or amount received under a Keyman Insurance Plan), is exempted from income-tax. However any sum (not including the premium paid by the assessee) received other than death claim under an insurance policy issued on or after the 1st day of April 2003 but on or before the 31st day of March, 2012 in respect of which the premium payable for any of the years during the term of the policy exceeds twenty per cent of the actual capital sum assured will no longer be exempted under this section. Further any sum (not including the premium paid by the assessee) received other than death claim
under an insurance policy issued on or after the 1st day of April 2012 in respect of which the premium payable for any of the years during the term of the policy exceeds ten per cent of the actual capital sum assured will no longer be exempted under this section.

3.8 **Insurable Interest In Life Insurance**

All policies of life insurance are void unless there is an insurable interest in the life assured. The insurable interest is the pecuniary interest whereby the policy holder is benefited by the existence of the subject matter and is prejudiced by the death or damage of the subject matter.

The essentials of a valid insurable interest are the following:

a) There must be a subject matter to be insured.

b) The policy holder should have monetary the relationship with the subject matter.

c) The relationship between the policy holder and the subject matter should be recognized by law. In other words, there should not be any illegal relationship between the policy holder and the subject matter to be insured.

d) The financial relationship between the policy holder and subject matter should be such that the policy holder is economically benefited by the survival or existence of the subject matter and / or will suffer economic loss at the death or existence of the subject matter.

Insurable interest is essentially a pecuniary interest that is the loss caused by the happening of the insured risk must be capable of financial valuation. No emotional or sentimental loss as anxiety would be the ground of the insurable interest. The event insured should be one that if death happens the party suffers financially and if it does not happen, the party is benefited by the existence. But in case of insurance on ones life, husband’s life and wife’s life any question of pecuniary interest need not arise because insurance interest is to be presumed in
these cases. A man has unlimited interest in his own life and in the life of his wife, and a woman in the life of her husband.

Thus, an Insurable interest:

(i) Must have a pecuniary basis.
(ii) Must exist at the time the policy is affected.
(iii) It must therefore be

- Definite
- Capable Of valuation
- Of such a nature that it is Valid and subsisting according to law and that it might involve a Legal liability

Thus, mere love and affection are not sufficient per se to constitute in insurable interest, not will merely moral obligation as distinguished from a legal obligation, contribute an insurable interest.

Thus, insurance is represented by some specific characteristics & governed by well defined principles. The penetration of life insurance in India is very low & still there is very good scope of raising per capita insurance premium. In India, life insurance is considered as only a tax saving tool & not as a risk minimization tool. But now the people started understanding the need & other benefits of life insurance. Wide ranges of products as a combination of basic products are available in the market.