Page 3400 - 3410 **DOI:** https://doij.org/10.10000/IJLMH.117833

INTERNATIONAL JOURNAL OF LAW MANAGEMENT & HUMANITIES

[ISSN 2581-5369]

Volume 7 | Issue 3

2024

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Analysis of Life Insurance Contract

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ABSTRACT

This research paper echoes the importance of understanding life insurance contracts by examining them through the lenses of contracts, wagering, contingent contracts, and indemnity. Life insurance contracts are unique agreements where the insurer promises to pay a sum of money upon the death of the insured or after a set period. Unlike wagering contracts, which are purely speculative and based on chance, life insurance contracts have a legal and financial purpose to provide security and financial stability to beneficiaries. They are also a form of contingent contracts, where the insurer's obligation to pay depends on the occurrence of a specific event, such as the death of the insured.

While indemnity is a key principle in many insurance contracts, life insurance operates differently since it provides a predetermined benefit rather than compensating for an actual loss incurred. This distinction sets life insurance apart from other types of insurance, such as health or property insurance, where indemnity plays a central role. By analyzing these aspects, this paper aims to highlight the unique characteristics of life insurance contracts, their legal implications, and their significance in the broader context of financial planning and security. The study will also explore the regulatory framework governing life insurance and discuss how these contracts balance the interests of policyholders and insurers.

Keywords: *Contingent contracts, indemnity, insurers, life insurance contracts, wager.*

I. INTRODUCTION

Life insurance contracts are instrumental in offering financial stability and assurance to individuals and their beneficiaries. However, within the intricate framework of these contracts lie various clauses that demand thorough examination. This research paper delves into the analysis of life insurance contracts, with a particular focus on two critical aspects: contingency and wagering.

Contingent contracts within life insurance agreements involve outcomes that depend on uncertain events, often pertaining to the policyholder's life or health. Understanding the intricacies of contingent clauses is essential for both insurers and policyholders, as it influences the validity and payout conditions of the contract.

Wagering contracts, on the other hand, involve an element of speculation or gambling,

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potentially voiding the enforceability of the insurance agreement. This research scrutinizes the fine line between legitimate risk-sharing and impermissible wagering, aiming to provide clarity on the legal and ethical dimensions of such arrangements.

By dissecting these elements, this paper aims to contribute valuable insights into the dynamics of life insurance contracts, fostering a deeper understanding of their implications for both policyholders and insurers. As we navigate the complex terrain of insurance law, this analysis seeks to illuminate the contractual nuances that shape the foundation of the life insurance industry.

II. Contract: a comprehensive analysis

The term "contract" is defined in **Section 2*(h)* of the Indian Contract Act, 1872,**[2] as: "An agreement enforceable by law is a contract."[3]

So mathematically, *Contract = Agreement + Legal enforceability*

In contract law, when promises are breached, the aggrieved party can seek remedies, typically in the form of monetary compensation or specific performance of the promise. Section 10 of the ICA outlines the conditions for agreements to be legally enforceable as contracts. According to this section, all agreements are considered contracts if they fulfill the following criteria:

a. Made by the free consent of parties

b. Parties are competent to contract

c. For a lawful consideration

d. With a lawful object

e. Not expressly declared void by law.

An agreement is considered a contract when it satisfies these conditions, indicating that there is consideration, both parties are capable of contracting, the agreement is made without coercion or undue influence, and the object of the contract is lawful.

III. Analysis of contingent contracts and wagering agreement

Contracts can be formed contingent upon the happening or non-happening of future uncertain events, rendering them "conditional." Additionally, there exists another type of agreement known as a "wager," which also revolves around speculating on the outcome of an uncertain event. However, unlike conditional contracts, wagers are void and unenforceable, though not

[2] Indian Contract Act, 1872, Acts of Parliament, 1949 (India).
[3] DR. R.K. BANGIA, CONTRACT-I 2 (Allahabad Law Agency 2022)

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necessarily unlawful, and do not impose legal obligations on the involved parties. In wager agreements, typically, one party stands to lose in favor of the other winning. While the terms "wager" and "contingent agreement" are sometimes used interchangeably, they have distinct differences. In a contingent agreement, the risk of the uncertain event is transferred to the promisor, whereas in a wager, risk is actively created as the parties participate in a game of chance. Due to its association with betting and gambling, a "wager" is deemed void.

(A) Contingent Contract

A contingent contract refers to an agreement to perform or abstain from an action based on the occurrence or non-occurrence of a future event that is uncertain.[4] It's crucial to emphasize that the uncertain event, upon which the contract's conditionality hinges, must be unrelated to the contract and should not be integral to the consideration. This condition may take the form of a condition precedent or a condition subsequent.

In contract law, a contingent contract is defined as a contract whose validity hinges on the happening or non-happening of a future event. A wagering agreement, which is essentially a bet, is also a type of contingent contract, but it is deemed void under **Section 30.**[5] It's important to distinguish between a contract that creates an immediate obligation but delays performance to a later date and a contract where there is no current obligation, and the obligation arises only if a certain condition is met or a specific event occurs in the future.

In a contingent contract, the fulfillment of certain conditions determines the promisor's obligation. The promisor is obligated only when the conditions associated with the contract are met. In the absence of an uncertain event crucial to the contract, it would essentially be considered an absolute contract, requiring unconditional performance. Furthermore, merely specifying the "mode" or "manner" in which performance is to be carried out does not constitute a contingent contract.

Nevertheless, the approval or "consent" of a legal authority can serve as a condition accompanying a contract. In the case of *Anjalidas v. Bidyut Sircar,*[6] the court ruled that a conditional decree for specific performance could be issued, subject to obtaining the necessary permission from any regulatory body as mandated by relevant legislation.

a. Enforceability of Contingent contract

The enforceability of contingent contracts depends on various factors, including the nature of

[4] Section 31, The Indian Contract Act, 1872, § 31, Acts of Parliament, 1949 (India).
[5] *Supra n.2*
[6] Anjalidas v. Bidyut Sircar, A.I.R. 1992 Cal. 7.

the contingency. These include:

1. Contracts that depend on a specific event happening.
2. Contracts that depend on a specific event not happening.
3. Contracts that depend on the future actions of a living person.
4. Contracts that depend on a specified event happening within a defined timeframe.
5. Contracts that depend on a specified event not happening within a defined timeframe.
6. Agreements that are contingent on an event that is impossible to occur.

b. Provisions on Contingent Contract in the Indian Contract Act, 1872

Section 32 addresses contracts that are contingent upon the occurrence of an event. For instance, if X agrees to purchase Y's car only if X survives Z, the validity of this contract relies on Z's demise occurring while X is alive.

Similarly, **Section 33** pertains to contracts contingent on the non-occurrence of an event.

Section 34 addresses contracts that depend on the future actions of a living individual. It states that if a condition is linked to a person's future behavior without specifying a time, and if that person's actions make it impossible to fulfill the condition, the contract is considered void. The case of *Frost v. Knight* [7] exemplifies this, where the defendant had promised to marry the plaintiff after his father passed away. However, he married someone else while his father was still alive, making it impossible for him to fulfill his promise. As a result, the court allowed the plaintiff to sue the defendant for breaching the contract.

Section 35 of the ICA pertains to contracts that are dependent on a specified event occurring or not occurring within a set time frame. It states that if the specified event fails to occur within the defined period, the contract is considered void. This provision applies to contracts that hinge on the event's occurrence as well as those contingent on its non-occurrence within the agreed-upon time.

The Supreme Court held that a promise to pay a time-barred debt, without fresh consideration, is not enforceable under Section 35.[8]

Meanwhile, **Section 36** declares that any agreement contingent upon an impossible event is considered void. In *Satyabrata Ghose v. Mugneeram Bangur & Co.*[9] the Supreme Court held that if the performance of a contract becomes impossible or unlawful after its formation but

[7] Frost v. Knight, (1872) LR 7 Ex. 111.
[8] Chiranjilal Shrilal Goenka v. Jasjit Singh, (1993) 2 SCC 507.
[9] Satyabrata Ghose v. Mugneeram Bangur & Co., 1954 AIR 44.

before the happening of the contingent event, such a contract becomes void.

(B) Agreement by Way of Wager

Section 30 declares wagering agreements as void.

30. ***Agreement by way of wager void -*** Contracts made in the form of wagers are invalid, and no legal action can be initiated to claim anything purportedly won through a wager or entrusted to someone based on the outcome of a game or any other uncertain event involved in a wager.[10]

The Supreme Court of India reiterated the principle that wagering agreements are void and unenforceable. The court held that contracts based on future fluctuations in market rates without any intention of actual delivery of goods are wagering contracts and therefore unenforceable.[11]

In the case of *K.R. Lakshmanan v. State of T.N.*[12], the Supreme Court held that betting on horse races, being a form of gambling, falls under the category of wagering agreements and is void under Section 30 of the Indian Contract Act, 1872.

Section 294-A of the Indian Penal Code not affected - Nothing in this Section shall be deemed to legalize any transaction connected with horse racing.[13]

In the landmark case of *State of Bombay v. R.M.D. Chamarbaugwala,* [14]the Supreme Court held that betting and gambling on horse races are not merely matters of skill but also involve substantial elements of chance. The court observed that while Section 294-A does not legalize transactions connected with horse racing, it also does not make them illegal per se. Instead, the legality of such transactions depends on the specific laws regulating betting and gambling in each state.

a. What is a wagering agreement?

The Contract Act does not provide a definition for a wagering agreement. The description of such an agreement was explained by Justice Hawkins in the case of *Carlill v. Carbolic Smoke Ball Co.*[15] in the following manner -

"A wagering contract is one by which two persons, professing to hold opposite views touching the issue of a future uncertain event, mutually agree that, dependent upon the determination of that event, one shall win from the other, and that other shall pay or hand over to him, money or other stake; neither of the contracting parties having any other interest in that contract than the

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[10] Indian Contract Act, 1872, § 30, Acts of Parliament, 1949 (India).
[11] Sri Sai Balaji Rice Mill v. State of A.P., (2007) 10 SCC 75.
[12] K.R. Lakshmanan v. State of T.N., (1996) 2 SCC 226.
[13] Indian Penal Code, 1860, Acts of Parliament, 1949 (India).
[14] State of Bombay v. R.M.D. Chamarbaugwala, AIR 1957 SC 699.
[15] Carlill v Carbolic Smoke Ball Co, [1893] 1 QB 256.

sum or stake he will so win or lose, there being no other real consideration for the making of such contract by either of the parties."

b. Essentials of a Wagering Agreement

A wagering agreement is characterized by several key elements. Firstly, the involved parties must hold opposing views on an uncertain event, which can pertain to past, present, or future circumstances. Both parties must be uncertain about the outcome for a wagering contract to exist. Secondly, there must be a possibility of profit or deficit for both parties based on the resolution of the event. In other words, one party winning implies the other party losing.

A notable legal case, *Babasaheb v. Rajaram,*[16] illustrated that an agreement where gate money is collected and payment is made only to the winner of a game does not constitute a wagering contract. This is because both parties have a chance of winning something but no chance of losing anything.

Moreover, in a wagering contract, the only interest the parties have is in winning or losing the bet. This sets wagering agreements apart from other valid conditional contracts, like insurance contracts, where the individual purchasing the insurance must have an "insurable interest" in the item being insured. Insurable interest pertains to an interest in the ongoing existence or protection of the insured item.

IV. EXCEPTIONS TO A WAGERING AGREEMENT

(A) Contract of Insurance

A notable exception to the concept of a wagering agreement is found in contracts for insurance. Although an insurance contract shares some similarities with a wager, it stands apart due to the presence of an insurable interest. In an insurance contract, the insurer has a vested interest in the agreement. This means that the insurer provides financial protection to the insured party against potential losses caused by unforeseen events. These contracts are classified as contracts of indemnity, primarily aimed at protecting the parties involved from incurring losses rather than aiming for profits based on the outcome of an event. If the insurer does not have an insurable interest, the contract may be considered a wager.

(B) Life Insurance Contract

"Life Insurance Business," as per **Section 2(11)** of the Insurance Act, 1938,[17] refers to the business involving the establishment of insurance contracts on human life. This includes

[16] Babasaheb v. Rajaram, AIR 1931 BOMBAY 264.
[17] The Insurance Act, 1938, Acts of Parliament, 1949 (India).

contracts ensuring a payment upon the insured person's death (excluding death by accident only) and any contingency related to human life. It also encompasses contracts requiring premium payments for a term based on human life. The definition extends to:

(a) Providing additional benefits like disability and increased payout for certain accidents, as outlined in the insurance policy.

(b) Offering regular payments based on the lifespan of the insured individual.

(c) Giving retirement benefits and regular payments from a dedicated fund for individuals in a specific profession or their dependents.

Put simply, life insurance is a contract where the insurer agrees to pay a specified amount of money to the insured person or their chosen beneficiary if certain events outlined in the policy happen, in return for the payment of premiums, which can be a lump sum or regular payments.

(C) Formation of Life Insurance Contract

An insurance contract must meet specific requirements for it to be valid and enforceable. These additional conditions include the requirement of having an insurable interest and the obligation to act in utmost good faith.

(D) Essential elements of a Life Insurance Contract

- **An Agreement (Section 2(h)(e)(b))**

The insured usually completes a written proposal for a 'Life Insurance Contract' using the insurer's provided proposal form. This proposal form contains four sections within the 'Life Insurance Contract.'

1. Proposal form
2. Medical report containing family history and medical examination details
3. Agent's report
4. Friend's report

The insurer is responsible for evaluating and approving the proposal. Upon receiving the application documents, the insurer scrutinizes them, and if found satisfactory, issues a letter of approval. This letter, also presented in a printed format, signifies the insurer's agreement to the terms of the contract.

- **Competency of Parties (Section 11)**

All individuals who meet the criteria for entering into a contract, are considered competent to

engage in a Life Insurance contract.[18]

In India, upon reaching 18 years of age, an individual achieves majority status. Nonetheless, if a guardian has been designated or the person's estate is under wardship, majority is achieved at 21 years of age. Consequently, the rate tables provided by Life Insurance Companies reflect varying starting points, with rates commencing at 18 years in some instances, 19 years in others, and most commonly at 20 years.

The verification of the proposer's age is important in insurance contracts for two primary reasons: firstly, to validate the contract, and secondly, to ascertain the appropriate premium rate.[19]

- **Free Consent**

Consent is described as the agreement of two or more individuals when they mutually concur on the same matter in the same understanding.[20]

In parallel, **Section 14** of the same Act characterizes Free Consent as consent that is not influenced by coercion, undue influence, fraud, misrepresentation, or mistake.[21]

- **Consideration**

The initial premium payment serves as consideration for the insurer, who, in return, agrees to indemnify the insured against specified risks outlined in the policy. The second and third premium payments are not essential for calculation purposes because the insurer cannot compel the insured to make these payments. If premium payments are missed, the insurer may not be obliged to pay the guaranteed sum but remains responsible under the policy for other guarantees, such as the surrender value.

- **Lawful Object**

In life insurance contracts, the law is significant, particularly regarding provisions related to suicide without insurable benefit. Wagering is against public policy, and an insurance contract lacking insurable interest is considered a wagering agreement and is invalid. Life insurance, as a specialized contract, must adhere to two additional principles: the Principle of utmost good faith and the Principle of insurable interest.

- **Principle of utmost good faith**

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[18] Indian Contract Act, 1872, § 11, Acts of Parliament, 1949 (India).
[19] Adv. Priscilla Rodrigues, *LiFe Insurance Contract – Functioning Of Lic*, IPLEADERS (Mar. 1, 2024, 4:35 PM), https://blog.ipleaders.in/life-insurance-contract-functioning-lic/#Features_of_Life_Insurance.
[20] Indian Contract Act, 1872, § 13, Acts of Parliament, 1949 (India).
[21] Indian Contract Act, 1872, Acts of Parliament, 1949 (India).

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In commercial contracts, the principle of caveat emptor, or "let the buyer beware," places the onus on the buyer to inspect the item or service being purchased. However, this principle does not apply to insurance contracts. In insurance contracts, the proposer typically has much of the information regarding the policy, such as their fitness, behavior, and personal and family history, which the insurer lacks unless disclosed by the insured. While the underwriter can request a medical report, there may be other undisclosed factors. Therefore, it is crucial for the proposer to disclose accurate information to the insurer, known as the "Principle of Utmost Good Faith." Failure to disclose material facts can render the contract invalid from the beginning.

- **Principle of Insurable Interest**

Insurable interest refers to the stake or involvement that can be safeguarded through an insurance agreement. The existence of uninsurable liabilities helps distinguish between an insurance contract and an illegal wagering contract, as outlined in **Section 30.**[22]

What distinguishes an insurance contract from a wagering contract is the requirement for the insured to have an insurable interest in the subject of the insurance. This means that the policyholder must have a tangible stake in the continued existence of the insured subject and would suffer a loss if its continuity is interrupted. In insurance contracts, this interest typically involves a financial or monetary stake in the insured subject. The insured should have a connection with the subject of insurance that involves benefiting from its well-being and experiencing harm if there is a loss or damage.

The court held that the absence of insurable interest would render the contract void, indicating that an insurance contract must have a legitimate purpose beyond mere speculation.[23] In the case of *Gammon (India) Ltd. v. Union of India*[24] the Supreme Court reaffirmed that an insurance contract must include insurable interest. It stated that an agreement without insurable interest is not a valid insurance contract but could be seen as a wagering contract, which is void under Section 30 of the Indian Contract Act, 1872.

While the Insurance Act of 1938 does not provide a precise definition of insurable interest, judicial rulings have elucidated the conditions under which it is deemed to exist. One such ruling is that an individual possesses an unrestricted insurable interest in their own life.

V. INDEMNITY

[22] Indian Policy Act, 1872, Acts of Parliament, 1949 (India).
[23] Life Insurance Corporation of India v. Asha Goel, (2001) 3 SCC 682.
[24] Gammon (India) Ltd. v. Union of India (AIR 1974 SC 960).

The term "indemnity" originates from the Latin word "indemnis," signifying unhurt or free from loss. In the context of contracts, indemnity involves the transfer of liability from one party to another. Essentially, the party assuming the role of the "indemnifier" or "indemnifying party" commits to safeguarding the other party, known as the "indemnity holder" or "indemnified party," not only from loss, costs, expenses, and damages but also from any legal repercussions arising from the actions or omissions of the indemnifier, a third party, or any unforeseen events.[25]

Indemnity contracts and insurance contracts share striking similarities. In an insurance agreement, the insurer commits to providing compensation to cover the losses incurred by the insured. In exchange for this pledge, the insurer receives consideration in the form of a premium. It's important to note that such transactions fall outside the purview of the Contract Act. This is because regulations like the Insurance Act contain specific provisions that govern and regulate insurance contracts.

(A) Insurance Indemnity

Indemnity encompasses all types of insurance, excluding personal accident insurance. It involves an unconditional commitment to compensate the insured. In case of non-compliance, legal action can be pursued promptly, regardless of the actual damages suffered. If the indemnified party faces a definite liability, they have the right to demand that the indemnifier absolve them from the responsibility by addressing the incurred losses. Indemnity insurance, within this framework, refers to a policy that provides compensation for accidental damages or losses, typically up to the actual value of the loss itself. In a legal sense, it may also refer to an exemption from liability for damages.[26] The Supreme Court emphasized that indemnity insurance is intended to restore the insured to the same financial position as before the loss, and not to provide a profit.[27]

VI. Discussion

This research has provided a comprehensive analysis of life insurance contracts, shedding light on their intricate legal nature in relation to wagering agreements, contingent contracts, and indemnity. By delving into the historical evolution and contemporary legal frameworks governing life insurance, we have deepened our understanding of the underlying principles and

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[25] Indian Contract Act, 1872, § 124, Acts of Parliament, 1949 (India).
[26] Adam Hayes, *What Is Indemnity Insurance? How It Works And Examples,* INVESTOPEDIA (Jan 31, 2024, 3:35 AM), https://www.investopedia.com/terms/i/indemnity_insurance.asp#:~:text=Key%20Takeaways,specific%20event%20such%20as%20misjudgment.
[27] New India Assurance Co. Ltd. v. Tejpal Singh 2012 AIR 1647.

complexities of these contracts.

Through this study, I have personally gained insights into the nuances of contract law and its application in the realm of life insurance. The research process has underscored the importance of clarity and precision in drafting insurance contracts, ensuring that they adhere to legal standards and serve the interests of both parties.

As we move forward, it is essential to continue exploring the legal and ethical dimensions of life insurance contracts, particularly in light of evolving societal norms and regulatory frameworks. By fostering dialogue and collaboration among legal scholars, practitioners, and policymakers, we can further enhance the integrity and effectiveness of life insurance contracts, ultimately benefiting individuals and society as a whole.

VII. Conclusion

In conclusion, this research has probed the intricate landscape of life insurance contracts, examining key legal aspects such as wagering agreements, contingent contracts, and insurance indemnity. The analysis done by me underscores the significance of understanding the delicate balance between risk management and contractual obligations within the insurance industry. Unraveling the complexities of wagering agreements, this study illuminates the need for a nuanced approach in delineating genuine insurable interest from speculative motives. Additionally, the exploration of contingent contracts reveals the dynamic nature of insurance agreements, contingent upon uncertain events. The concept of insurance indemnity emerges as a cornerstone, emphasizing the fundamental principle of restoring the insured to their pre-loss financial position.

As this research demystifies the legal intricacies, it serves as a valuable resource for policymakers, practitioners, and scholars, fostering a comprehensive understanding of life insurance contracts and contributing to the ongoing discourse on insurance law and regulation.

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