**DEFINITION OF INSURANCE**

**INSURANCE[[1]](#footnote-2)**

Insurance is a contractual agreement in which the insurance company indemnifies to compensate for the damage caused or losses suffered by the insured due to man-made/natural calamities or any other uncertain event, for consideration (premium). For example, term insurance policy promises to pay a certain sum of money in case the policyholder dies during the specific term (policy period). In case, policyholder survives the policy term, the insurance contract will become void and the insurance company is not obligated to pay any amount to the policyholder. In this, there is uncertainty surrounding the happening of the insured event. All the general insurance plans are insurance policies that provide protection against an anticipated event. For example, health insurance, fire insurance, marine insurance and motor insurance etc

In general some time the confusion lies whether the concept of insurance and assurance are same or not. Therefore to clarify the confusion it is along with knowing the concept of insurance the concept of assurance must be known.

**Assurance[[2]](#footnote-3)**

There are three Latin Words **'Assure', 'Ensure' and 'Insure'.**

Latin root secures (se = without, curus = care), i.e., without care.

**'Assure'** denotes to promise or say with confidence. I assure you of my support. **'**

**‘Ensure'** to make sure something will happen, please ensure that you read this newspaper regularly.

**'Insure'** to issue an insurance policy. My car is insured for Rs. 3 lacs.

The term 'assure' and 'insure' are related herewith as to insurance.

The terms 'Assurance' and 'Insurance are commonly used in insurance contracts. From historical point of view the word 'Assurance' is older, which was used in all types of insurance contracts by the end of 16th century. But Lloyds also used the word 'assurance for all classes of business. In U.S.A. the term "insurance" is favoured for use of all branches of insurance. In Australia also the use of the words insurance, insured and insurer instead of assurance, assured and assurer has become more common when referring to life contracts especially after the enactment of the Australian Life Insurance Act, 1945.

Assurance refers to an agreement wherein the insurance company assures to provide remuneration for an event that is certain to happen, such as death. Assurance policy provides persistent coverage till the death of the policyholder. For example, a whole life insurance policy which provides financial coverage as long as the policyholder is alive. In this, the insured event will certainly happen, sooner or later. Except for term insurance, most of the life insurance products that come with investment component are assurance policies

# DEFINITION -

Insurance may be described as a device to reduce or eliminate risk of life and property. Insurance is actually a contract between two parties hereby one party called insurer undertakes in exchange for a fixed sum called premium to pay the other party on happening of a certain event.

**In *Sumitra Devi v. LIC[[3]](#footnote-4)*,** it has been held that the policy of insurance is a contract between the insurer and insured. Payment of premium is one of the essential conditions to keep the policy alive and enforceable inter se parties. Non-payment of premium within the time prescribed results in lapse of the policy and in turn makes it unenforceable.

Insurance is a contract whereby in return for the payment of premium by the insured, the insurers pay the financial losses suffered by the insured as a result of the occurrence of unforeseen events. With the help of insurance, large number of people exposed to similar risks makes contributions to a common fund out of which the losses suffered by the unfortunate few, due to accidental events, are made good.

An insurer is a company selling the insurance; an insured or policy-holder is the person or entity buying the insurance. The insurance rate is a factor used to determine the amount to be charged for a certain amount of insurance coverage, called the premium.

Now insurance has assumed a social and economic necessity and in certain cases it has been made statutorily necessary.

The term 'insurance' has been defined by different jurists and experts. These definitions may be classified into the following three main categories for the convenience of the study. Namely;

### General Definitions -

The general definitions are given by the social scientists and they consider insurance as a social device to protect against risks. Or a provision against inevitable contingencies or a co-operative device of spreading risks.

### Functional Definitions –

These definitions are based on economic or business oriented since insurance is a device providing financial compensation against risk or misfortune. The social and constitutional functions have been illustrated by the Supreme Court in ***L.I.C. of India Case[[4]](#footnote-5),*** as follows –

Life Insurance Policies, in general are, are a measure of social security for the family members of the life assured and in the absence of adequate savings or securities, these policies are often the only financial security available to the family members of the deceased life assured. The Government of India has guaranteed the sum assured with bonus in all LIC policies under Section 37 of the Life Insurance Corporation Act, 1956 to ensure the availability of financial security to the family of the deceased.

In this connection the Supreme Court of India in ***L.I.C. v. Consumer Education and Research Center[[5]](#footnote-6),*** has ruled that the LIC discharges important constitutional functions and the policies issued by it are a measure of social security for the family of the life assured.

Further in above L.I.C.[[6]](#footnote-7) case the Supreme Court has held that insurance is a social security measure as was also reflected in the Statement of Objects and Reasons of the L.I.C. Act, 1956.

### Contractual Definitions -

These definitions consider insurance as a contract to indemnify the losses on happening of certain contingency in future. It is a contractual relationship to secure against risks. Some of such definitions are :

In the words of Justice Tindall, "Insurance is a contract in which a sum of money is paid to the assured as consideration of insurer's incurring the risk of paying a large sum upon a given contingency."

In the words of E.W. Patterson, "Insurance is a contract by which one party, for a compensation called the premium, assumes particularly risks of the other party and promises to pay him or his nominee a certain or ascertainable sum of money on a specified contingency."

In the words of Justice Channell, "Insurance is a contract whereby one person, called the insurer, undertakes in return for the agreed consideration called premium, to pay to another person called the insured, a sum of money or its equivalent on specified event."

*"Insurance is a risk management under which an insurer on premium undertakes to eliminate or reduce risk of life or property." Human life is exposed to many risks, which may result in heavy financial losses. Insurance is one of the devices by which risks may be reduced or eliminated in exchange for premium.*

*"Insurance is a contract in which a sum of money is paid by the assured in consideration of the insurer's incurring the risk of paying larger sum upon a given contingency."*

In its legal aspects it is a contract whereby one person agrees to indemnify another against a loss which may happen or to pay a sum of money to him on the occurring of a particular.

1. https://www.turtlemint.com/life-insurance/articles/difference-between-insurance-and-assurance [↑](#footnote-ref-2)
2. Ibid. [↑](#footnote-ref-3)
3. AIR 2014 Gau 71, 72. [↑](#footnote-ref-4)
4. L.I.C. v Insurance Policy Plus Service (P) Ltd., AIR 2016 SC 182 [↑](#footnote-ref-5)
5. (1995) 5 SCC 482 : AIR 1995 SC 1811. [↑](#footnote-ref-6)
6. Supra [↑](#footnote-ref-7)