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Topic- Difference between Contract of Idemnity and Life Insurance contracts.

Contract of Idemnity

A contract of indemnity is one of the most important forms of commercial contracts. Several industries, such as the insurance industry, rely on these contracts. This is because of the nature of these contracts. They basically help businesses in indemnifying their losses and, therefore, reduce their risks. This is extremely important for small as well as large businesses.

A contract of indemnity basically involves one party promising the other party to make good its losses. These losses may arise either due to the conduct of the other party or that of somebody else.

To indemnify something basically means to make good a loss. In other words, it means that one party will compensate the other in case it suffers some losses.

For example, A promises to deliver certain goods to B for Rs. 2,000 every month. C comes in and promises to indemnify B's losses if A fails to so deliver the goods. This is how B and C will enter into contractual obligations of indemnity.

A contract of insurance is very similar to indemnity contracts. Here, the insurer promises to compensate the insured for his losses. In return, he receives consideration in the form of premium. However, the Contract Act does not strictly govern these kinds of transactions. This is because the Insurance Act and other such laws contain specific provisions for insurance contracts.

Life Insurance contracts

Life insurance (or **life assurance**, especially in the Commonwealth of Nations) is a contract between an insurance policy holder and an insurer or assurer, where the insurer promises to pay a designated beneficiary a sum of money (the benefit) in exchange for a premium, upon the death of an insured person (often the policy holder). Depending on the contract, other events such as terminal illness or critical illness can also trigger payment. The policy holder typically pays a premium, either regularly or as one lump sum. Other expenses, such as funeral expenses, can also be included in the benefits.

Life policies are legal contracts and the terms of the contract describe the limitations of the insured events. Specific exclusions are often written into the contract to limit the liability of the insurer; common examples are claims relating to suicide, fraud, war, riot, and civil commotion.

Modern life insurance bears some similarity to the asset management industry[1] and life insurers have diversified their products into retirement products such as annuities.[2]

Life-based contracts tend to fall into two major categories:

- Protection policies: designed to provide a benefit, typically a lump sum payment, in the event of a specified occurrence. A common form—more common in years past—of a protection policy design is term insurance.
- Investment policies: the main objective of these policies is to facilitate the growth of capital by regular or single premiums. Common forms (in the U.S.) are whole life, universal life, and variable life policies.

Difference between Contract of Idemnity and Life Insurance contracts

The Study of Principle of Indemnity with respect to Insurance is of much importance as insurance is a Social security and Indemnity in insurance compensates the beneficiaries of the policies for their actual economic losses, up to the limiting amount of the insurance policy. Insurance is meant to protect men against uncertain events which may otherwise be of some disadvantage to them.

If it is an assurance that a sum of money will be paid to the person insured if a particular event happened. Insurance business and the need for the insurance cover are growing with the growing complexity of life, trade and commerce, and consequently, there is now bewildering variety of insurance covers. So it is essential that to know what are the essentials and exceptions attached to principle of Indemnity and insurance.

Insurance and Guarantee are the species of a same genus .i.e., indemnity or in other words the contract of insurance and the contract of Guarantee are the development on contract of indemnity. Similarly, the doctrine of Subrogation has been introduced to carry out the fundamental rule that of indemnity. Every contract of Insurance, except life assurance, is a contract of indemnity and no more than an indemnity.

Under English Law, the word **indemnity** carries a much wider meaning than given to it under the Indian Act. Under English law, a contract of insurance (other than life insurance) is a contract of indemnity. Life insurance contract is, however, not a contract of indemnity, because in such a contract different consideration apply.

A contract of life insurance, for instance, may provide the payment of a certain sum of money either on the death on a person or on the expiry of a stipulated period of time (even if the assured

is still alive) Indian Contract Act does not specifically provide that there can be on implied contract of indemnity.
Life insurance is one of the most popular and frequently purchased financial products and because of this insurer like life insurance Corporation of India and some private life insurance companies has become really big over time. The year on year growth rate is also satisfactory. Many of us may have one or more life or general insurance products in their name but at the same time many of us do not know that the concept of insurance is governed by a few basic principles.

Principle of indemnity suggests that the insured is compensated on a damage or loss which is covered under the policy up to the extent of loss suffered by him. This compensation by the insurance company will be such that he will be neither better nor worse than his situation just prior to the loss. As per this principle if the insurance company can get the damaged property repaired so that it functions just like before the loss occurred it is good and sufficient discharge of the insurer's duties.

This is followed as the insured cannot take undue benefit from the insurance mechanism and reduces the chances of moral hazard. It is due to this concept that prohibits fraudulent malpractices of purchasing insurance on old and dilapidated property and later claiming to get benefit out of the same. The principle of indemnity is basically implemented by charging depreciation and deducting salvage charges under an insurance contract.

The End