DegreeLive

B.Com Honours | Semester II | Calicut University

Life Insurance Fundamentals and Applications

Course Code: COM2MN106 • Module 1 Notes

1. Introduction to Life Insurance: Principles and Regulation

Life insurance is a contract between an insurance policyholder and an insurer, where the insurer promises to pay a designated beneficiary a sum of money upon the death of an insured person, in exchange for premium payments. Unlike general insurance, which is a contract of indemnity (reimbursing actual financial loss), life insurance is a contract of **assurance**—promising a fixed payout upon an inevitable event. This module covers the core principles of insurance, the evolution of life insurance globally and in India, its role in personal financial planning, tax benefits, and regulation under the IRDAI.

Principles of Life Insurance

1. Utmost Good Faith (Uberrimae Fidei)

Both parties must disclose all material facts honestly. The policyholder must declare any pre-existing medical conditions, family health histories, or hazardous occupations. Non-disclosure can void the policy.

2. Insurable Interest

The policyholder must stand to suffer a financial loss upon the death of the insured. An individual has insurable interest in their own life, their spouse, their children, and key business partners.

Evolution of Life Insurance in India

The Indian life insurance sector has undergone major structural shifts:

- **Early Beginnings:** The Oriental Life Insurance Company was established in Kolkata in 1818 as the first life insurer.
- **Nationalization (1956):** The Government of India merged 245 Indian and foreign insurers to form the **Life Insurance Corporation (LIC)**, establishing a state monopoly.
- **Privatization & Reforms (2000):** The sector was reopened to private players, allowing joint ventures with foreign capital.

Tax Benefits & Regulation under IRDAI

Life insurance plays a double role in India: providing protection and offering tax deductions:

- **Section 80C:** Premium payments for self, spouse, and children are tax-deductible up to ₹1.5 Lakhs annually from taxable income.
- **Section 10(10D):** Payouts received as death claims or maturity benefits are completely tax-free, subject to premium-to-sum-assured ratio rules.
- **IRDAI Functions:** The Insurance Regulatory and Development Authority of India (IRDAI) regulates the industry. It protects policyholders' rights, registers and monitors insurance companies, regulates premium rates, and maintains solvency margins.