



# ESSENTIALS OF A VALID CONTRACT

# WHAT IS AN INSURANCE CONTRACT?

- An **insurance contract** is a document representing the agreement between an [insurance company](#) and the insured.
- Central to any insurance contract is the **insuring agreement specifying:**
  - *The risk that is covered*
  - *Limits of the Policy*
  - *Term of the Policy*
- In addition, all Insurance Contracts must specify;
  - **Conditions:** which are requirements of the insured, such as paying the premium or reporting a loss;
  - **Limitations:** which specify the limits of the policy, such as the maximum amount that the insurance company will pay;
  - **Exclusions:** which specify what is not covered by the contract.

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- There are 4 requirements for a Valid Insurance Contract:

1. **Offer & Acceptance:** In insurance, the offer is typically initiated by the insurance applicant through the services of an [insurance agent](#), who must have the authority to represent the insurance company, by filling out an **application for insurance**. **Acceptance** is when the Insurance Company decides to undertake the risk associated with the offer and issues an Insurance Policy post receipt of the 1<sup>st</sup> Premium.

2. **Consideration:** is the value that the parties(Insurance Company & the Customer) to a contract give to each other — it is the reason why the contract is agreed to. In insurance contracts, the insurer promises to pay for covered losses that the insured suffers, and the insured promises to abide by the contract and pay the premium.

- **Competent Parties &**

- **Legal Purpose**

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- 3. Competent Parties:** The parties to the contract must be legally competent to agree to them. Most adults have legal capacity to agree to contracts, unless they are intoxicated, mentally ill, or mentally retarded. The key requirement is that the parties must know what they are agreeing to — a meeting of the minds; otherwise, there could be no agreement. To protect minors, the law does not give them legal capacity to agree to contracts except where specified by law. An insurance company has legal capacity if it is licensed to sell insurance in that particular state, and is acting within the scope of its charter.
- 4. Legal Purpose:** All contracts must have a legal purpose to be enforceable by the court of Law.