HMRC - IPT03720 - Definitions Of A Contract Of Insurance

The following are two definitions of a contract of insurance.

The first is taken from Prudential vs. IRC [1904 KB 658]\_\_, which was an important test case and leading authority:

A contract of insurance then, must be a contract for the payment of a sum of money, or for some corresponding benefit such as the rebuilding of a house or the repairing of a ship, to become due on the happening of an event, which event must have… some degree of uncertainty about it and must be of a character more or less adverse to the interest of the person effecting the insurance.

The second is taken from ‘Chitty on Contract’ which is a leading publication on contract law:

A contract of insurance is one whereby one party (the insurer) undertakes for a consideration to pay money or provide a corresponding benefit to or for the benefit of the other party (the assured) upon the happening of an event which is uncertain, either as to whether it has or will occur at all, or as to the time of its occurrence, where the object of the assured is to provide against loss or to compensate for prejudice caused by the event, or for his old age (where that event is the reaching of a certain age by the assured) or for the benefit of others upon his death. It is these objectives which distinguish insurance from gaming or wagering.

If you have doubts about whether a contract is a contract of insurance, you should test it against the guidelines in IPT03710, which are used in determining whether a contract of insurance exists. If, having tested a contract against these criteria, you are still uncertain whether a contract is one of insurance you could consult other LIPTOs to see if they have dealt with a similar issue, or discuss the query with the UoE or Deductions & Financial Services Team (see IPT08100). IPT03730 to IPT03790 contains some examples to illustrate how the criteria are applied in different situations.

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