

The rights of insurance policy nominees require clarity

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In the complex world of asset distribution, the rights of nominees, particularly in life insurance policies, have been a subject of ongoing legal debate. Traditionally, nominees have been regarded as trustees, holding the proceeds of an insurance policy temporarily for the rightful legal heirs. However, a significant shift occurred with the 2015 amendment to the Insurance Act, 1938, which granted beneficial rights to certain close family members, including parents, spouses and children nominated by a policyholder.

Despite this change in India's insurance law, the legal landscape surrounding nominee rights remains fraught with ambiguity, as highlighted by a recent Karnataka high court ruling that challenges the scope of these rights in the face of succession laws in the country. This ruling adds to growing uncertainty in this area of law, which continues to evolve as Indian courts interpret the relationship between nominees and legal heirs.

A new interpretation of nominee rights: On 20 February 2025, the Karnataka high court ruled that despite the amendment to Section 39 of the Insurance Act, nomination does not automatically override the rights of legal heirs under succession laws.

The case involved an individual who had taken life-insurance policies and nominated his mother as the beneficiary. After his marriage and the birth of his son, he did not update his nomination. Following his death in 2019, his widow and minor son filed a suit claiming their rightful share in the insurance proceeds as legal heirs under the Hindu Succession Act, 1956.

The trial court ruled in their favour, granting equal shares to the widow, minor son and mother. The mother, as the sole nominee of the policies, made an appeal claiming she had an absolute right over the proceeds under the amended law.

The Karnataka high court dismissed the mother's appeal, holding that nominations do not override legal succession laws. A nominee does not automatically become the sole beneficiary of insurance proceeds, the court held. The amendment only grants beneficial interest to such specified nominees in the absence of competing claims from legal heirs.

Contradictory high court rulings and ongoing legal uncertainty: The Karnataka high court's ruling contradicts the Andhra Pradesh and Rajasthan high courts, which previously held that the 2015 amendment to the Insurance Act grants absolute beneficial entitlement to certain nominees, essentially creating a third line of succession.

This lack of judicial consensus has created uncertainty for policyholders and their families.

The Supreme Court has ruled definitively on nomination rights under other Indian laws, such as the company law, where it held that nominees merely hold shares in trust for legal heirs.

However, the Supreme Court has not yet addressed the impact of the 2015 amendment to the Act. Until the Supreme Court provides clarity, the rights of nominees versus legal heirs under the amended law remain an unsettled legal question.

We need legislative intervention: The Karnataka high court acknowledged that a

plain textual reading of the amendment could support the argument that certain nominees have absolute rights. However, it held that such an interpretation, in light of the Supreme Court's earlier ruling in the context of the company law, would contradict the intention of Parliament and constitutional principles govern-

ing inheritance.

This uncertainty leaves policyholders in a difficult position, as the implications of their nominations remain unclear. Unless lawmakers definitively clarify the legal position, families could face prolonged litigation over insurance claims.

Practical considerations for policyholders: Given the ongoing legal ambiguity, policyholders must take

proactive steps to prevent family disputes over insurance proceeds. Policyholders should consider executing a comprehensive will to supplement nominations, ensuring alignment between the nominee designation and legatee under the will.

Further, it is vital to regularly update

nominations and the will, especially after major life events like marriage, childbirth, or the death of a family member. One should seek legal advice to structure estate plans effectively to minimize future conflicts.

Role of financial institutions: Insurers and financial institutions must play a role in educating policyholders about the legal implications of nominations. Many individuals assume that a nominee is the absolute owner, unaware of the legal nuances. Institutions should communicate that nominations do not necessarily override inheritance laws and should encourage policyholders to review and update their nominations periodically to ensure smoother wealth transfers.

Conclusion: This recent Karnataka high court judgement reinforces the principle that succession laws exclusively govern inheritance, and nominations do not automatically confer absolute ownership. Until the Supreme Court provides a definitive ruling, or lawmakers step in to provide clarifications to remove ambiguity, the debate over nominee rights in life insurance policies will persist. Policyholders must act prudently to safeguard their legacy and avert inheritance battles.

These are the author's personal views.

Legislative action is needed to prevent family disputes between policy nominees and legal heirs