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Cracking The Code: The Rights Of Nominees Of Insurance Policies Explained

In India's complex inheritance landscape, the law and jurisprudence concerning life insurance nominations have become increasingly dissonant.

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In India's complex inheritance landscape, the law and jurisprudence concerning life insurance nominations have become increasingly dissonant. At the heart of the issue lies a fundamental question: Does naming someone as a nominee on a life insurance policy give them absolute ownership of the proceeds, or are such nominees merely trustees holding the amount for the benefit of the legal heirs?

While the laws governing nominations for other asset classes (such as shares of companies, funds in bank accounts, or units of housing societies) has been clarified at the Supreme Court level, a key 2015 amendment to the Insurance Act ostensibly sought to create a class of beneficial nominee, being those specified family members (i.e., the parents, spouse, children or any combination thereof, of the policy-holder) who become beneficially entitled to the proceeds upon the demise of the policy-holder. Subsequent High Court rulings have underscored the lack of judicial consensus on the issue, answering the fundamental question at times in favour of the nominees, and at times in favour of the legal heirs. The absence of a definitive Supreme Court ruling on the amended law leaves families and policyholders in a precarious position.

Nominees as Trustees: The Traditional View

Historically, Indian courts have held that a nominee is not the owner of a policy's proceeds, but simply a person authorised to receive the money from the insurer. This position was firmly established in the Supreme Court's decision in *Sarbati Devi v. Usha Devi* (1984), where it ruled that nomination under Section 39 of the Insurance Act does not override the rights of legal heirs under succession law. The insurance payout, being a part of the deceased's estate, must be held by the nominees in trust for the legal heirs of the deceased and distributed accordingly.

The 2015 Amendment

In 2015, Parliament amended Section 39 of the Insurance Act to introduce the concept of "beneficial nominees." This change provides that if the nominee is the policyholder's spouse, parent, or child, they are not just entitled to receive the amount but to also retain it as the rightful owner, unless it is proved that the policyholder could not have legitimately conferred such beneficial entitlement.

This marked a significant shift in the legal position of nominees. For the first time, Indian insurance law seemed to create a limited class of nominees who could claim beneficial ownership of the insurance proceeds.

Judicial Divergence: The Clash Between Nomination and Succession Law

Despite the amendment, Indian courts have not been consistent in their interpretation. Several recent High Court cases have taken differing views:

- In *Mallela Manimala v. Mallela Lakshmi Padmavathi* (2023), the Andhra Pradesh High Court upheld the wife's right as a beneficial nominee, holding her entitled to the full amount in the absence of any contrary intention.
- In contrast, cases such as *Arun Kumar Singh v. Jaya & Ors.* (2022) and *Neelavva v. Chandravva* (2023) emphasized that even post-amendment, a nominee does not automatically become the owner unless there is clear evidence that the policyholder intended to confer such ownership.
- In *Smt. Kusum v. Anand Kumar* (2025), the Allahabad High Court reiterated that even a "beneficial nominee" under Section 39 (7) cannot extinguish the rights of other legal heirs. The question of beneficial ownership, it held, must be tested in light of the amended act and the facts of the particular case through a civil court proceeding.

The Supreme Court's Recent Ruling on Nominations (But Not Specifically for Insurance Policies)

In *Shakti Yezdani v. Jayanand Salgaonkar* (2023), the Supreme Court clarified that nominations under company and depository laws do not grant ownership. The nominee merely acts as a caretaker until the rightful heirs step in. This ruling, though not specifically dealing with life insurance, is now influencing how High Courts interpret nominee rights in insurance cases as well.

The logic is compelling: nomination is not a third form of succession. A nominee is not a substitute for a Will or for the laws governing intestate succession (i.e., personal laws of the deceased). Laws regulating insurance, companies, banking, and housing societies must ultimately give way to the law governing succession in contests of title.

A Need for Legislative and Judicial Clarity

The concept of nominees as trustees, rather than as legal heirs under a third line of succession is consistent with the principle that succession rights flow from personal law and / or testamentary instructions, and not from administrative acts like filling in a nominee form.

The 2015 amendment, while aiming to streamline insurance claim processes, has inadvertently created a parallel succession regime – one that lacks clear boundaries and conflicts with established legal principles. This conflict is further exacerbated by the Parliament's omission of key provisions distinguishing 'beneficial nominees' from 'collector nominees' as originally recommended by the Law Commission (discussed in length in *Neelavva v. Chandravva* (2023)), wherein the Court noted the departure between the Law Commission's original recommendations, which

specifically spelled out the differences between collector nominees and beneficial nominees. The actual text of the 2015 amendment, however, omits this nuance and instead deals only with certain kinds of 'beneficial nominees'.

Unless Parliament or the Supreme Court steps in to definitively clarify the scope and limits of Section 39(7), this uncertainty will continue to generate succession disputes and protracted litigation. For policyholders and families, the legal ambiguity can turn a straightforward insurance claim into a costly and emotionally draining ordeal.

Practical Advice for Policyholders

In the meantime, what can individuals do to ensure their loved ones receive the proceeds of insurance policies as they intend?

- Review nominations regularly, especially after key life events like marriage, childbirth, or divorce.
- Align nominations with Wills and broader estate plans to avoid contradictions.
- Seek legal advice to ensure that nominations align with your long-term intentions.

Too often, people assume that nominating someone is sufficient to secure their wishes. However, nomination is just one piece of the puzzle, and unless backed by a clear Will or trust structure, it may not hold up against claims from other legal heirs.

Role of Insurers and Financial Institutions

Insurers and financial advisors also have a role to play. Many policyholders are unaware of the distinction between a nominee and a legal heir. Institutions should take proactive steps to educate customers and periodically prompt them to review and update their nominations.

Conclusion

The 2015 amendment to the Insurance Act was an attempt to clarify the law relating to nominations and to provide certain rights to specific nominees. Unfortunately, it has added a new layer of complexity. The High Courts remain divided on this issue. The Supreme Court has not yet ruled on the amended Section 39.

Until the Supreme Court definitively clarifies the issue, the prudent approach is to treat nomination as a mechanism to *receive*, not *own*, policy proceeds, unless there is explicit legislative backing to the contrary. Clarity through legislation or a binding Supreme Court judgment is urgently needed. Until then, careful estate planning is the best safeguard.

The content of this article is intended to provide a general guide to the subject matter. Specialist advice should be sought about your specific circumstances.

