
THE LEGAL STATUS AND RIGHTS OF NOMINEE HOLDERS IN INSURANCE POLICIES: BALANCING NOMINEE AND LEGAL HEIR CLAIMS IN INDIA

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ABSTRACT

Life insurance in India aims to provide social and financial security for the policyholder's dependents upon their passing away. However, what should be a safety net is currently challenged by ongoing legal disputes over the status of a nominee under Indian law. Before the 2015 amendment, the legal position was clarified by the Supreme Court ruling in *Smt. Sarbati Devi v. Smt. Usha Devi*, which established that a nominee acts only as a 'trustee' for the claim, responsible for collecting and distributing the money to the legal heirs. This created a disconnect between the common understanding of a nominee and the legal reality. Although the 2015 amendment under Section 39 aimed to close this gap by introducing the concept of a beneficial nominee, intended to give stronger rights to nominees from family categories, differing and conflicting views by the High Courts have complicated the situation. Courts are divided over whether nomination under insurance law grants a beneficial interest, a custodial right, or a legally limited right subordinate to inheritance. This paper critically examines the core principles of nomination, the judicial treatment of nominee rights prior to the 2015 Amendment, and the varied interpretations by High Courts following 2015. It also highlights ongoing issues, especially the conflict between succession law and insurance law, gaps in legislative drafting, and inconsistent judicial guidance. By comparing countries like the US and the UK, where beneficiaries or nominees under life insurance have clearer and more explicit rights.

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INTRODUCTION

Life insurance sits at the crossroads of contract law, family law, and social policy. Its main social function is immediate: after the insured person's death, it must quickly provide resources so that dependents can cover living costs, settle debts, and keep household stability.² Nomination under Section 39 of the Insurance Act was created to ensure this quick response by designating a single person for insurers to pay, who can also provide a valid discharge.³ However, in India, the legal effects of nomination remain unclear. While many insured individuals and laypersons believe the nominee is the beneficiary, courts have, over time, viewed the nominee as a collector or trustee, whose receipt of funds deposits them into the deceased's estate, subject to inheritance laws.⁴

The 2015 amendment to the Insurance Act, introduced by Parliament, aimed to bridge the gap between public expectations and legal reality by creating the concept of a "beneficial nominee" for immediate family members.⁵ The amendment was a policy effort to protect close dependents and enable swift relief. However, practically, the wording of the amendment did not clearly specify how a beneficial nomination interacts with the succession laws governing an individual, leading to conflicting decisions by High Courts across India. As a result, there is no uniformity in rulings, which undermines the statutory goal of reducing litigation and ensuring the prompt disbursement of funds. This paper examines the legal tension and suggests possible solutions.

CONCEPTUAL FRAMEWORK OF NOMINEE UNDER THE INSURANCE ACT

The nomination originates from Section 39 of the Insurance Act, 1938. It permits a policyholder to designate one or more individuals to receive the payout from a life insurance policy upon the policyholder's death. The main purpose of this provision is to simplify administrative procedures. The insurance company can then pay the death benefit to the nominated person. This facilitates a smooth settlement of claims, helping to speed up the process and allowing families to receive prompt financial support. The policyholder has the right to change or cancel the nomination at any time while the policy remains in effect.⁶

² See generally Standing Committee on Finance, 24th Report on the Insurance Laws (Amendment) Bill, 2008, Lok Sabha Secretariat (2009).

³ Insurance Act, 1938, No. 4 of 1938, § 39 (India).

⁴ See, e.g., *Sarbati Devi v. Usha Devi*, (1984) 1 SCC 424 (India); *Shipra Sengupta v. Mridul Sengupta*, (2009) 10 SCC 680 (India).

⁵ Insurance Laws (Amendment) Act, 2015, No. 5 of 2015, § 25 (India).

⁶ KSN Murthy and KVS Sarma, *Modern Law of Insurance in India* (11th edn, LexisNexis 2018) ch 12.

Distinction between Nominee, Policyholder, Beneficiary, and Legal Heirs

There remains significant confusion among laypeople in distinguishing these four key roles:

- **Policyholder** – The policyholder is the individual who owns the policy, pays premiums on time, and has the right to make changes to the policy, including updating the nomination.
- **Nominee** – The nominee is the person nominated by the policyholder to receive the settlement claim from the insurers upon the policyholder's death. As previously mentioned, their legal status as either a trustee or a beneficiary is the main point of debate.
- **Beneficiary** – A beneficiary is the individual entitled to receive the ultimate benefit of the policy. Typically, the nominee is referred to as the beneficiary, but in Indian law, a distinction is made between the two.
- **Legal Heirs** - Legal heirs are the individuals who, according to a valid will or relevant personal succession laws (such as the Indian Succession Act, 1925, or the Hindu Succession Act, 1956), are entitled to inherit the deceased person's property. They are legally entitled to the estate of the departed, which includes any money received from a life insurance policy.

Types of Nominees Under Insurance Law

The Insurance Laws (Amendment) Act, 2015, introduced a significant distinction between the two categories of nominees, fundamentally changing the landscape of nomination law:

- **Trustee Nominee (or Collector Nominee)** - This is the default classification for any nominee who is not an immediate relative of the policyholder (e.g., a friend, a distant relative, or a sibling). A trustee nominee performs only a custodial or agency function.
- **Beneficial Nominee** - This new category was introduced under Section 39(7) of the amended Insurance Act. If the policyholder nominates their parents, spouse, children, or any combination of these, such persons are referred to as "beneficial nominees." The law explicitly states that they "shall be beneficially entitled to the amount payable by the insurer." The legislative intent behind this provision was to grant these close family members full ownership rights over the policy proceeds, excluding all other legal heirs.

While the regulatory framework aims to simplify and streamline the nomination process, the actual rights of the nominee over the legal heirs are ultimately determined through the interaction between the Insurance Act and the interpretation of relevant judicial rulings.

LEGAL STATUS OF NOMINEE HOLDERS: PRE AND POST 2015 AMENDMENT

The legal status of a nominee in an insurance policy has been the subject of a long and evolving jurisprudential journey in India. This journey can be divided into two distinct eras: the period prior to the 2015 amendment to the Insurance Act, which was governed by a clear Supreme Court precedent, and the period after 2015, marked by legislative change and subsequent judicial confusion.

Position of Nominees under the Unamended Insurance Act, 1938

Before 2015, the legal status of a nominee was determined by Section 39 of the Insurance Act, 1938.⁷ While this section provided a way to appoint a nominee to receive an insurance claim, it did not specify who ultimately owned those claims. This led to differing interpretations among various High Courts, with some ruling that the nominee was the outright owner, while others stated that they were merely a trustee for the legal heirs.⁸ This confusion was finally resolved by the Supreme Court of India in its landmark 1984 ruling in *Smt. Sarbati Devi v. Smt. Usha Devi*.⁹ After thoroughly examining Section 39 and succession law principles, the Court gave a clear and definitive decision:

- A nomination under Section 39 of the Insurance Act does not give the nominee any beneficial interest.¹⁰
- It simply designates the person authorized to receive the amount from the insurer, who then provides a valid discharge of the insurer's liability.¹¹
- The amount payable under the policy becomes part of the deceased policyholder's estate and is governed by the relevant law of succession (whether testamentary or intestate).¹²
- Therefore, a nominee is not an heir or legatee but acts as a trustee or agent, holding the proceeds for the benefit of the legal heirs.¹³

The Sarbati Devi ruling remained the law of the land for over thirty years. Its principle was repeatedly reaffirmed in subsequent Supreme Court cases, such as *Shipra Sengupta v. Mridul*

⁷ Insurance Act, 1938, No. 4 of 1938, § 39 (India).

⁸ See, e.g., *Life Ins. Corp. of India v. United Bank of India*, AIR 1971 Cal. 513 (Calcutta HC) (holding nominee had a preferential right); *Narayanaswami v. T. Munuswami*, AIR 1984 Mad. 70 (Madras HC) (holding nominee was only a receiver).

⁹ *Smt. Sarbati Devi v. Smt. Usha Devi*, (1984) 1 SCC 424 (India)

¹⁰ *Id.* at 427.

¹¹ *Id.*

¹² *Id.* at 428.

¹³ *Id.*

*Sengupta*¹⁴, and was applied to nominations in other financial instruments.¹⁵ The legal stance was clear: nomination was a procedural matter, not part of the succession process.

The Insurance Laws (Amendment) Act, 2015: The Birth of the "Beneficial Nominee"

The clear legal position established by *Sarbaty Devi* often conflicted with the intentions of policyholders, who usually nominated their closest dependents, expecting them to be the sole beneficiaries. This discrepancy was recognized by the Law Commission of India, which recommended amending Section 39 to reduce this uncertainty.¹⁶ In response, Parliament enacted the Insurance Laws (Amendment) Act, 2015, bringing a significant change to Section 39.¹⁷ The amendment introduced a new legal entity called the "beneficial nominee."

Sub-section (7) was added to Section 39, stating: "*where the holder of a policy of insurance on his own life nominates his parents, or his spouse, or his children, or his spouse and children, or any of them, the nominee or nominees shall be beneficially entitled to the amount payable by the insurer to him or them...*"

The legislative intent was clear: to create an exception to the *Sarbaty Devi* rule for immediate family members. By declaring these specific nominees as "beneficially entitled," the law aimed to grant them full ownership rights over the policy proceeds, ensuring that the financial support meant for the deceased's closest dependents would not be diluted by claims from other legal heirs under succession law. For any nominee outside this category (e.g., a sibling, friend, or other relative), the old rule of "nominee as trustee" would still apply.

POST 2015 JUDICIAL INTERPRETATION: A STATE OF CONFLICT

The 2015 amendment, intended to clarify the law, has ironically become a source of significant legal dispute. Various High Courts across India have interpreted the amended Section 39(7) in markedly different ways, creating a legal divide that has reintroduced the very uncertainty the amendment sought to eliminate.¹⁸

¹⁴ *Shipra Sengupta v. Mridul Sengupta*, (2009) 10 SCC 680 (India).

¹⁵ *See Ram Chander Talwar v. Devender Kumar Talwar*, (2010) 10 SCC 671 (India) (applying *Sarbaty Devi* to provident fund nominations); *see also Indra Pal Singh v. Union of India*, (2014) 12 SCC 724 (India) (similar approach to gratuity nominations).

¹⁶ Law Commission of India, *190th Report on the Revision of the Insurance Act, 1938* 23–24 (2004).

¹⁷ Insurance Laws (Amendment) Act, 2015, No. 5 of 2015, § 25 (India).

¹⁸ *See generally* White & Brief, *The Nominee Conundrum: Legal Status, Sectoral Divergences, and the Quest for Consistency* (Jul. 15, 2025).

The View Supporting Succession Law: Several High Courts have maintained that even the amended Section 39 cannot override the core principles of personal succession law.

- In a notable 2025 decision in *T.S. Chandravva & Others*, the Karnataka High Court declared that insurance law and succession law function within separate constitutional spheres and one cannot supersede the other.¹⁹ The court reasoned that the phrase "beneficial title" in the amended section only applies when no legal heirs step forward to claim. If heirs assert their rights, succession law must prevail.²⁰

- Likewise, the Allahabad High Court in *Smt. Kusum v. Anand Kumar (2025)* ruled that even a "beneficial nominee" cannot eliminate the inheritance rights of other legal heirs.²¹ The court stated that the Insurance Act was never meant to govern inheritance rights and such issues should be resolved by statutes like the Hindu Succession Act.²²

The View Supporting the Nominee's Rights: Conversely, some High Courts have fully embraced the legislative intent behind the 2015 amendment.

- The Andhra Pradesh High Court in *Mallela Lakshmi Padmavathi (2023)* decided in favor of the nominee (the wife), recognizing her as the rightful and exclusive recipient of the insurance proceeds under the "beneficial nominee" clause of Section 39(7).²³

- This perspective aligns with the plain language of the amendment, which explicitly creates a special class of nominees with superior rights.²⁴

This judicial divergence has resulted in a significant research gap and a state of legal uncertainty. The rights of a nominee now vary depending on the jurisdiction where a dispute is litigated. The failure of the 2015 amendment to meet its goal of providing certainty highlights a fundamental tension between statutory provisions aimed at administrative simplicity and the traditional principles of personal succession law in India.

¹⁹ *Neelavva @ Neelamma v. Chandravva @ Chandrakala & Ors.*, RFA No. 100471 of 2023 (Karn. HC, Feb. 20, 2025).

²⁰ See Karnataka HC, *Neelavva @ Neelamma v. Chandravva & Ors.*, ¶ 36 ("...if the testamentary and non-testamentary heirs do not claim ... the title vests in the beneficiary nominee; ... if there is a claim by the legal heir/s, then the nominee's claim has to yield ...").

²¹ *Smt. Kusum v. Anand Kumar & Ors.*, Lucknow Bench, Allahabad HC, Neutral Citation: 2025 AHC-LKO-24631.

²² *Id.* ("...the rights conferred by the Hindu Succession Act ... will prevail ... the succession act being specific ... the Insurance Act general.").

²³ *Mallela Manimala v. Mallela Lakshmi Padmavathi*, 2023 SCC OnLine AP 459.

²⁴ See Chambers, Nominee vs Legal Successor: Does Nomination Mean Ownership? ("... the Andhra Pradesh High Court, in *Mallela Manimala v. Mallela Lakshmi Padmavathi* (2023 ...), interpreted Section 39(7) to mean that such close family nominees receive the amount absolutely, excluding legal heirs.").

EXISTING ISSUES AND CHALLENGES

1. Undermining the core purpose of life insurance

This ambiguity, especially following the 2015 amendment to Section 39 of the Insurance Act, undermines the core purpose of life insurance: providing timely financial support to grieving families. The debate over whether a nominee is merely a trustee for the legal heirs or the outright owner of policy proceeds has led to various interpretations in the High Courts nationwide, with broader implications for claims settlement and added stress for families.

2. Limited Awareness Among Policyholders

The root of this confusion is the common misconception among policyholders that nomination equals inheritance. It is unusual for insurance agents or companies to clearly explain the difference between a nominee, a beneficial nominee, and a legal heir, or that a nomination should align with a valid will. Because of this lack of understanding, many policyholders unknowingly create the potential for future family disputes.

3. Practical Challenges for Insurers

The existence of nominees and legal heirs with conflicting claims creates operational challenges for insurers. Paying benefits to nominees risks litigation from legal heirs, while withholding payment can lead to accusations of delaying settlements. As a result, insurers often deposit proceeds in court to avoid liability, which undermines the goal of settling claims quickly.

4. Inconsistencies with Succession Laws

The issue is further complicated by incomplete alignment between the Insurance Act and personal succession laws. The 2015 amendment aimed to establish a specific framework for insurance proceeds, but the legislation's wording lacked clarity in overriding established succession principles. This results in inconsistent rulings across states, with one High Court upholding a nominee's full rights, while another treats the nominee as a trustee. Such inconsistencies weaken the application of a uniform national law.

5. Disputes Between Nominees and Legal Heirs

These legal ambiguities often lead to conflicts between nominees and legal heirs, as demonstrated in the case of T.S. Chandravva. Instead of providing prompt support, insurance proceeds often become entangled in litigation, resulting in both financial and emotional

hardship. Ultimately, these disputes undermine the protective purpose of life insurance and unnecessarily burden grieving families.

INTERNATIONAL PERSPECTIVES: THE NOMINEE AS BENEFICIARY

Several common law jurisdictions have adopted a clearer approach, aligning more closely with the presumed intention of the policyholder or depositor. In these systems, the nominee or designated beneficiary is generally considered the true recipient of the funds, with minimal risk of conflicting claims by legal heirs.

United Kingdom: In the UK, the use of nominations in life insurance is relatively limited, as policies are often set up through trusts. When a policy is placed “in trust,” the proceeds do not pass through the deceased’s estate but are instead paid directly to the named beneficiaries.²⁵ This setup not only protects the funds from claims by creditors or other heirs but also makes sure the policyholder’s intent is reliably fulfilled. A similar approach applies to other financial instruments, such as pensions, where the law explicitly allows for the nomination of beneficiaries entitled to receive death benefits.²⁶

United States: In the US, the practice is even more straightforward. Life insurance policies routinely permit the designation of a beneficiary, and this designation has binding legal effect. When the insured dies, the proceeds are paid directly to the named beneficiary, outside the estate and without probate delays.²⁷ The beneficiary’s right is considered primary, only challengeable on limited grounds such as fraud or undue influence. This process ensures quick and dependable transfer of funds, serving the protective purpose of life insurance.²⁸

These comparisons show that it is entirely possible to create a legal system where the policyholder’s chosen recipient is recognized as the absolute owner of the proceeds. Such a system prioritizes the clear expression of intent within the insurance contract, helping to avoid the uncertainty that comes from general succession rules overriding personal designations. From a policy standpoint, this model arguably better supports the social security goals of life insurance. In contrast, the Indian framework, with its conflicting interpretations, highlights the

²⁵ See generally JOHN BIRDS, BIRDS’ MODERN INSURANCE LAW 495–520 (11th ed. 2019).

²⁶ See Pensions Act 2004, c. 35 (U.K.); The Occupational Pension Schemes (Scheme Administration) Regulations 1996, SI 1996/1715 (allowing trustees to pay death benefits to nominated beneficiaries).

²⁷ GEORGE GLEASON BOGERT & GEORGE TAYLOR BOGERT, THE LAW OF TRUSTS AND TRUSTEES § 243 (3d ed. 2007) (explaining beneficiary designations operate outside probate).

²⁸ See, e.g., *Kent v. United States*, 343 F.2d 349, 351 (1st Cir. 1965) (beneficiary designation controls unless invalidated for fraud, duress, or undue influence).

importance of learning from these more streamlined and beneficiary-focused systems.

SUGGESTIONS

It is unacceptable that there is currently a legal ambiguity surrounding the rights of nominees, which directly contradicts the primary goal of life insurance. For the same dependents the policy was meant to protect, this can lead to disastrous financial consequences, create uncertainty, and drive litigation. The need for legal clarity, honoring policyholder intent, and improving the social security system make comprehensive reform both necessary and urgent. Some suggestions include:

- **Requirement of Greater Legislative Clarity as to the Rights of Nominees**

The 2015 amendment was a step in the right direction, but its wording has been insufficient to prevent conflicting judicial interpretations. The law needs to be clearly defined to avoid any ambiguity. Policyholders purchase life insurance with a specific goal in mind: to care for their loved ones. When the law does not clearly reflect this intention, public confidence in the entire insurance system is eroded.

- **Harmonization between the Insurance Act and Succession Laws**

Reform is also necessary to align the Insurance Act with the broader legal framework of succession. The current conflict arises because the amended Section 39 appears to introduce a special, non-testamentary form of succession for insurance proceeds, yet it does so without the explicit "notwithstanding anything contained in any other law" language typically found in laws like the EPF Act. This allows courts to continue relying on general succession law. A straightforward reform would either explicitly prioritize a valid nomination over personal succession laws or provide a clear method for reconciling the two.

- **Awareness and Disclosure Reforms to Avoid Disputes**

Aside from legislative reforms, there is an urgent need to improve policyholder awareness. Most conflicts between nominees and legal heirs could be prevented if policyholders were better informed about the legal implications of their decisions when buying a policy. The current lack of proper disclosure is a significant failure in protecting consumers. Reforms should require insurers and intermediaries to provide clear, concise, and unambiguous information about the differences between a nominee and a legal heir, as well as the specific

rights of a "beneficial nominee."

- **Judicial Intervention: The Need for a Definitive Supreme Court Ruling**

The most urgent step toward resolving the current uncertainty is a clear and authoritative interpretation of the amended Section 39 of the Insurance Act, 1938, by the Supreme Court of India. The Supreme Court's ruling should definitively determine whether Section 39(7) establishes a statutory mode of succession that overrides personal succession laws. Such a decision would unify the conflicting decisions among High Courts, ensuring consistency and legal certainty throughout the country. It would also strengthen public confidence in the coherence of India's insurance legal framework.

- **Legislative Clarification: Strengthening Section 39**

While judicial clarification would provide immediate relief, legislative action remains necessary to ensure long-term consistency. Parliament should consider amending Section 39 of the Insurance Act to make the legislature's intent unmistakably clear. The revised provision could include a non-obstante clause similar to that in the Employees' Provident Funds Act. For example, Section 39(7) might be rephrased accordingly.

"Notwithstanding anything contained in any other law for the time being in force, where the holder of a policy of insurance nominates his parents, spouse, or children, such nominee or nominees shall be beneficially entitled to the amount payable under the policy."

This would remove ambiguity, prevent conflicting judicial interpretations, and clearly establish the superior rights of beneficial nominees as intended by the 2015 amendment.

CONCLUSION

This study has demonstrated that the existing confusion is not merely a theoretical issue, but a genuine crisis that leads to family conflicts, prolonged claim settlement, and a profound erosion of public confidence in the insurance industry. The absence of a harmonized legal standard across various financial assets contributes to this confusion, as citizens must navigate a complex maze of contradictory regulations. Although initially designed as a straightforward process to expedite claim settlement, nomination under Indian insurance law has become a significant source of legal uncertainty. This mainly stems from conflicting judicial interpretations following the 2015 amendment. Family disputes, delayed payouts, and a loss of public trust in the insurance system are some of the real consequences of this confusion. The

only way to resolve this crisis is for the Supreme Court to issue a clear, definitive ruling, along with an amendment to Section 39 by Parliament in straightforward terms. Most importantly, IRDAI must improve disclosure standards and increase public awareness. Only then can the nominee framework regain clarity and effectively serve its true purpose, providing security and peace of mind for families when they need it most.