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**Who gets the insurance payout—
nominee or legal heirs?**

Aprajita Sharma | 7 min read | 31 Mar 2025, 03:50 PM IST



A policyholder can add multiple nominees, specifying each nominee's share of the total insurance proceeds. (Image: Pixabay)

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While the 2015 amendment aimed to make insurance claims straightforward, conflicting court rulings have left policyholders confused.

Policyholders should take proactive steps to ensure their life insurance aligns with their estate planning, avoiding potential disputes for their loved ones

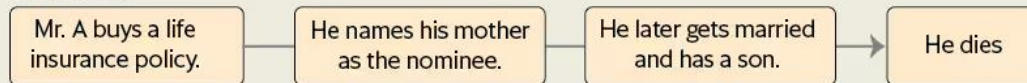
A life insurance nomination is meant to ensure a smooth transfer of funds, but legal complexities can sometimes get in the way. While policyholders assume that nominees will receive the payout without dispute, succession laws can complicate matters—raising questions about who ultimately has the rightful claim. This was the dilemma Mr. A's family faced. In his twenties, he bought a term life insurance policy and named his mother as the nominee. Years later, after marriage and fatherhood, he never updated the nomination. When he passed away unexpectedly, the question arose: Would the payout go to his mother, as named in the policy, or would his wife and child also have a claim under succession laws? This conflict arises at the intersection of insurance laws and succession laws, creating a legal grey area that has left many policyholders and their families uncertain. The Insurance Laws (Amendment) Act, 2015, sought to address this by introducing the concept of a "beneficial nominee." Under this provision, immediate family members—spouse, children, or parents—are granted full rights to the policy proceeds, ensuring a direct transfer without legal hurdles.

Further complicating matters, Indian courts have issued conflicting rulings on the matter. While some judgments uphold the rights of beneficial nominees, others emphasize that insurance payouts must be distributed in accordance with succession laws. This lack of uniformity has only deepened the uncertainty, leaving policyholders in a dilemma.

Nomination dispute: who gets life insurance payout?

Nominees are custodians, meaning they hold assets in trust for legal heirs. However, the 2015 insurance law amendment gave them absolute rights to life insurance proceeds, creating a conflict with succession laws.

Case study



Who gets the insurance proceeds?

Nominee (mother): As per section 39 of the Insurance Act, 1938.

Legal heirs (mother, wife and son): Succession laws apply, overriding the nominee's claim.

Exception: If the policy was bought under the Married Women's Property Act, 1874, only the wife and children can claim.

Who can be nominees?

Typically, only blood relatives.

Exceptions: Others can be nominees if they have an "insurable interest"—meaning they would suffer a significant financial and emotional loss if the policyholder dies.

Key legal conflict

Following the 2015 amendment to section 39, nominees now have the absolute right to claim death benefits.

Prior to 2015: Nominees were only custodians, not owners.

Karnataka High Court ruling

- ▶ It disturbs the 2015 insurance amendment
- ▶ Nomination does not override succession laws.
- ▶ Insurance proceeds must be divided equally among legal heirs (mother, wife and son).
- ▶ The HC cited Supreme Court precedents.
- ▶ The court also advised insurers to make provisions for two types of nominees:

Collector nominee – Collects and distributes proceeds among legal heirs.

Beneficial nominee – Has absolute ownership of the proceeds.



How insurers process claims

- ▶ Typically, verify nominees' identity and bank details.
- ▶ No-objection certificate from legal heirs not required.

What you should do

- ☑ Nominate wisely based on your wishes.
- ☑ Create a will and clearly mention beneficiaries.
- ☑ Ensure life insurance nominees match beneficiaries in the will.
- ☑ Update nominees as life situations change.

(Ref: The judgment was delivered in the case of Neelavva @ Neelamma vs Chandravva and others on 20 February 2025)

"Prior to the 2015 amendment, a nominee was only a custodian of the proceeds, and legal heirs could claim the money. The amendment clarified that 'beneficial nominees will have full right to the amount,'" said Sameer Yogishwar, chief operating officer, HDFC Life.

Yogishwar added that if a beneficial nominee passes away after the insured but before the claim is disbursed, their legal heirs or the holders of their succession certificate become entitled to the payout, subject to applicable legal provisions. While the amendment was intended to simplify the claims process and provide clarity, its interpretation remains contested due to varying judicial rulings.

Recently, Karnataka High Court has ruled that insurance policy nominations cannot override legal heirs' rights under India's succession laws. This would mean that if legal heirs of the deceased assert their claims, a nominee can't demand the full benefit solely based on the nomination.

However, two other high courts—Andhra Pradesh and Rajasthan HCs— have taken a different stance, upholding the absolute rights of beneficial nominees. The conflicting views have left policyholders and beneficiaries in a state of uncertainty.

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Mint spoke to experts to decode the legal complexities.

Karnataka HC judgment

Late Ravi Somanakatti had named his mother as the nominee in two of his life insurance policies, which had a combined coverage of ₹21 lakh.

However, after getting married and having a son, he never updated his nomination document to reflect his changed family circumstances. Following Somanakatti's death, his widow and minor son filed a suit against his mother, claiming rightful share in the insurance proceeds.

The trial court ruled that the benefits must be divided equally among the wife, son and mother despite the nomination. Somanakatti's mother, however, appealed to the Karnataka High Court, citing Section 39 of the Insurance Act, 1938, as amended by the Insurance Laws (Amendment) Act, 2015, to argue that as the nominee, she was entitled to the entire sum.

However, the court referred to the 1984 Supreme Court ruling in Sarbati Devi vs Usha Devi and similar cases, concluding that nominations do not override succession laws.

"The usual mode of succession is not to be impacted by such a nomination. Legal heirs, therefore, have not been excluded by nomination," the Karnataka high court stated in its judgment.

The court also noted that the 2015 amendment did not explicitly state that it supersedes succession laws. "Under Section 39(7), there is no such obligation as long as there is no claim by legal heirs. In the absence of any claim by legal heirs, the title vests in the beneficial nominee," the judgment added.

Experts weigh in

Tanmay Patnaik, partner, Private Client Practice at Trilegal, explained that the court ruled against treating a nominee as having testamentary rights over assets, emphasizing that a nomination does not equate to a legal declaration of inheritance.

"You are providing an individual (read nominee) a testamentary right over assets as happens when creating a will. Executing a nominee form is not akin to it. The court also acknowledged that the Rajasthan and Andhra Pradesh high courts' judgments, which gave effect to the plain meaning of the text of the amended act, could no longer be followed in light of subsequent judicial precedent," Patnaik said.

Rajat Dutta, founder and initiator, Inheritance Needs Services, echoed this view. "The Karnataka high court judgement by justice Anant Ramnath Hegde has put all speculations to rest and paved the way to recognise the testamentary and non-testamentary inheritance by giving due importance to applicable succession laws."

Testamentary inheritance occurs when a person leaves a will or trust deed specifying how their assets should be distributed. Non-testamentary inheritance follows applicable succession laws when no will exists. Succession laws, however, do not apply if a policy is purchased under the Married Women's Property Act, 1874. In such cases, only the policyholder's wife and children have absolute rights to the death benefit, shielding it from other claims.

If a policyholder assigns his policy to someone else, the latter or his legal heirs will have a right on policy proceeds unless the assignment agreement says otherwise.

How do life insurers process claims?

The 2015 amendment to Section 39 of the Insurance Act was introduced to simplify the process of claim payments and provide clarity on nominee rights. However, it never explicitly stated that it overrides succession laws, said Dutta.

When a valid nomination is in place, insurers directly transfer the proceeds to the nominee without verifying legal heirs, unless a legal dispute arises.

"The nominee only holds the money in trust with other legal heirs being entitled to a share. In case of conflicting claims, unless a court grants a stay, the money can be paid to a nominee. Under Section 37 of the Insurance Act, the insurer can also deposit the money into court, in case of legal disputes," said Anil PM, head of Legal, Compliance, and Fraud Prevention Unit at Bajaj Allianz Life Insurance.

A policyholder can add multiple nominees, specifying each nominee's share of the total insurance proceeds. "Some insurers ask for all KYC documents of the nominees in the first stage itself, while others may only ask you to mention the name and contact details such as mobile number and email IDs," said Anil PM.

At the time of the claim, the nominee must simply prove their identity and provide bank details. "If a nomination is there, we just have to establish the identity of the nominee (through KYC) and get his/her bank account details. No-objection certificate from legal heirs is not required," said Anil PM.

Can you make a non-blood relation a nominee? "Usually, it is not permitted due to a moral hazard. Some insurers may allow it if insurable interest can be established, but only blood relations are normally permitted in nominations in most cases," said Anil PM.

The way forward

Before the 2015 amendment, the Law Commission of India had recommended that Parliament distinguish between a "collector nominee" and a "beneficial nominee" under Section 39 of the Insurance Act.

The Karnataka high court echoed this suggestion, stating that policyholders should have the option to explicitly declare whether a nominee is meant to hold the payout on behalf of legal heirs (collector nominee) or retain full ownership of the proceeds (beneficial nominee). The court also advised insurers to incorporate provisions for such a distinction.

While Karnataka HC judgement does suggest that succession laws will prevail over insurance laws, unless the language of the Insurance Act changes, more such cases may keep arising. "Whenever different High Courts take a different view in interpreting the law, the law maker should spring into action and clarify the position by way of an amendment and should not wait for the issue to be resolved by the Apex Court as the process may take a considerably long time," said Justice Hegde in the judgement.

He further advised lawmakers to write laws in simplest language. "There should be a conscious endeavour to frame/structure the law in simplest and easy to follow short sentences. The wholly undesirable practice of framing law, with long and complicated sentences is to be discarded at any cost," said Justice Hegde in the judgement.

Until such clarity is established, policyholders must choose their nominees carefully. If they have a will, it should be aligned with the nominations in their insurance policies to avoid legal disputes. Nominations can be updated at any time during the policy period, and the process is simple— changes can be made online or by visiting the insurer's branch office.

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