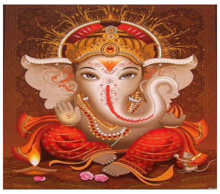

CASE STUDY-DEC 04- ACCIDENTAL DEATH CLAIM POLICIES

QUESTION: *Ashwini, aged 30 years, was employed as a supervisor in a bank.*

1. *On 4th June 2012, he took two life endowment insurance policies on his life for Rs. 50,000 each from Prudent Life Insurance Co. Ltd. Each policy had a different maturity term and period.*
2. *Both the policies had accident claim benefit of an equivalent amount, viz. in the case of death of the insured due to an accident, the amount payable by the insurer would be twice the amount of the sum assured.*
3. *Ashwini made his wife Smt. Asha as his nominee under the policies and also the legal assignee, since the couple had no issues then.*
4. *On 31st May 2014, Ashwini while going to his office on his two-wheeler was involved in a head-on collision with a motor car coming from the opposite direction and was severely injured. He was admitted to a hospital but succumbed to the injuries and died in the hospital on the morning of 2nd June 2014.*
5. *Smt. Asha filed a claim under the policies with the insurer for payment of the sum assured together with the accident benefits.*
6. *The company, after processing the claim, informed her on 15th July 2014 that they were rejecting the claim on the ground that Ashwini, while taking the policies, had suppressed material facts. The insurer indicated that Ashwini did not mention in the proposal form, the fact of an earlier ailment of having suffered from paratyphoid in June – July 2010 and having been away from his employer on medical leave between 6th June, 2010 and 5th July, 2010.*
7. *The nominee filed a complaint on 18th August 2014 with the District Consumer Forum stating that the repudiation of the claim was not justified. The insurer reiterated its argument that the non-mention of the previous ailment to it was a suppression of material facts and affected the fundamental nature of the contract.*
8. *The District Consumer Forum on consideration of the arguments before it held in favour of the insurer agreeing with it that the deceased had suppressed material facts at the time of the proposal. Smt.*
9. *Asha, not accepting the decision of the District Consumer Forum, filed an appeal with the State Forum. Her counsel contended before the Forum that even if the deceased had suffered from paratyphoid less than two years prior to obtaining the policies and*

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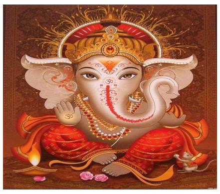

did not give the necessary information in the proposal form, it did not amount to a material suppression of facts. His main argument was that the cause of death was the accident with the motor vehicle and the cause had no nexus whatsoever with the alleged ailment. Thus, there was no suppression of facts.

10. *The State Forum after hearing the arguments of both the parties, allowed Smt. Asha's appeal and held that the cause of death was accident and not illness. The non-mention of the fact of illness and hospitalisation did not amount to any nondisclosure of material facts. The Forum granted the relief asked for and directed the insurance company to pay Smt. Asha Rs. 2,00,000 under the policies. The decision taken on 6th January 2015 also entitled the nominee with interest at 9% per annum from the date of filing the claim, viz. 18th August 2014.*

From the information given above, answer the following questions —

(a) Was the State Forum justified in its conclusion in terms of the conditions of life policies issued by Indian insurance companies? Give reasons for your answer. Cite relevant case law, if any.

(b) If Ashwini had died on account of an illness, and not in an accident, will the decision of the State Forum be different? Give reasons.

(c) What are the provisions of the Insurance Act, 1938 regarding the time-limit beyond which the terms of a life insurance policy cannot be questioned?

(d) What do you mean by 'guaranteed surrender value' in a life policy?

(e) Can a discontinued life insurance policy be revived by the insured and if so under what circumstances and on what terms?

(f) Can a disputed claim under a small value life policy (e.g. Rs.2,000) be settled in a quick manner?

(g) If death of the insured under a life policy takes place within two years of its commencement, by way of suicide, will the beneficiary get a claim?

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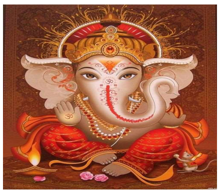

ANSWER 1(a) *The decision of the State Forum is justified on the following grounds: -*

(i) That the Death of Late Shri Ashwini Kumar was as a result of an accident and not any illness.

(ii) That Section 45 of the Insurance Act, 1938 provides that a policy of life insurance cannot be called in question by an insurer after the expiry of two years from the date on which it was effected on the ground that a statement made in the proposal for insurance or any other document leading to the issue of the policy was inaccurate or false.

(iii) That the Death of Shri Ashwini Kumar was within two years of taking a life Insurance Policy from "Prudent Life Insurance Company". The policy was taken on the 4th of June 2012 and the death of the assured occurred on 2nd of June 2014.

(iv) That the accident of Motorcycle with car resulting in death of the assured had nothing to do with any illness and hence cannot come under the purview of section 45 of the Insurance Act.

In the light of the foregoing, the decision taken by the state forum was correct and in conformity with law. Relevant Case law; In Life Insurance Corporation of India v. Shakuntala Bai on 17 July 1973 (AIR 1975 AP 68)

ANSWER 1(b) *Had the Death of Late Shri Ashwini Kumar occurred on account of illness and not accident on 2nd of June 2014, the same would have come under the purview of section 45 of Insurance Act, 1938 of two years limitation and hence the illness of the deceased on account of Para-Typhoid would have been a material fact and its non-disclosure in the proposal form would have prejudiced admission of liability under the claim. The Decision of the District Forum in repudiating the claim would than have been justified.*

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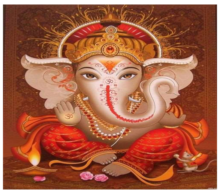

ANSWER 1(c) *The Section 45 of the Insurance Law (Amendment) Act, 2015 clearly stipulates that no policy of life insurance shall be called in question on any ground whatsoever (other than fraud) after the expiry of three years from the date of the policy, i.e., from the date of issuance of the policy or the date of commencement of risk or the date of revival of the policy or the date of the rider to the policy, whichever is later.*

ANSWER 1(d) *The Guaranteed Surrender Value is the amount guaranteed to the policy holder in case of voluntary termination of a policy before maturity. The minimum surrender value allowed is equivalent to an assured percentage of the total amount of premium paid by the policy holder.*

Surrender value is the amount that a policy holder receives from the insurer in case he plans to terminate the policy before its maturity. If a policyholder decides to end the policy before it matures, he is liable to receive a certain sum that has accrued as his saving. From this amount the insurer deducts the surrender charge, and the remaining is transferred to the policyholder.

A regular premium policy acquires guaranteed surrender value after the policyholder has paid the premiums continuously for three years if the premium paying term is 10 yrs or more. For policies where premium paying term is less than 10 yrs, policy acquires guaranteed surrender value after 2 years premiums have been paid. When an individual decides to terminate his policy, all the benefits attached with it cease to exist, including the life cover. Therefore, the policy holder should only terminate the policy if he feels that it no longer fulfils the requirement or if he realizes that the policy was sold with false promises.

ANSWER 1(e) *Yes, a discontinued life insurance policy can be revived by the insured. If the life policy has lapsed, it may be revived during the lifetime of the assured, but within a period of 3 years from the date of first unpaid premium and before the date on which the Annuity Vests, on payment of arrears of premium together with interest as may be decided by the insurer. Revival is a fresh contract wherein the insurer can impose fresh terms and conditions. It varies from policy to policy, insurer to insurer; Generally, a declaration of the insured state of health at the time of reinstatement is taken by the insured.*

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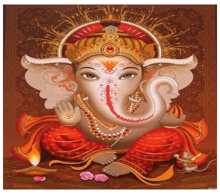

ANSWER 1(f) *Yes, in the event of any dispute relating to the settlement of a claim on a policy of life insurance assuring a sum not exceeding two thousand rupees (exclusive of any profit or bonus not being a guaranteed profit or bonus) issued by an insurer in respect of insurance business transacted in India, arising between a claimant under the policy and the insurer who issued the policy or has otherwise assumed liability in respect thereof, the dispute may at the option of the claimant be referred to the Authority(i.e. IRDA) for decision and the Authority may, after giving an opportunity to the parties to be heard and after making such further inquires as he may think fit, decide the matter.*

The decision of the Authority under above clause shall be final and shall not be called in question in any Court and may be executed by the Court which would have been competent to decide the dispute if it had not been referred to the Authority as if it wore a decree passed by that Court.

ANSWER 1(g) *If death occurs within certain period of time as mentioned in the policy document (generally 2 years) of taking a Life Insurance Policy, the beneficiary /nominee would receive the premium back but not the death benefit.*

DISCLAIMER: *the case study presented here is only for sharing information with readers. In case of necessity do consult with professionals.*

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