

**IN THE HIGH COURT OF DELHI AT NEW DELHI**

%

Judgment delivered on: 31.01.2018

+ **W.P.(C) 6945/2012**

**HARBHAJAN SINGH BAGGA**

..... Petitioner

Versus

**LIFE INSURANCE CORPORATION OF INDIA  
AND ORS**

..... Respondents

**Advocates who appeared in this case:**

For the Petitioner : Ms Sagari Dhanda.  
For the Respondents : Mr V.C. Mittal and Ms Suhani  
Dhingra.

**CORAM  
HON'BLE MR JUSTICE VIBHU BAKHRU**

**JUDGMENT**

**VIBHU BAKHRU, J**

1. The petitioner has filed the present petition, *inter alia*, impugning a circular dated 26.07.2011 (hereafter 'the impugned circular') passed by the Life Insurance Corporation of India (hereafter 'the LIC').

2. The petitioner is aggrieved by the impugned circular inasmuch as it clarifies that the procedure followed for payment of full maturity claims under endowment type of policies, where the last year's premium remains unpaid, would not be applicable to "Jeevan Shree policies".

3. Admittedly, the procedure followed by the LIC for settling claims under the endowment type of policies, where the last year's premiums remains unpaid, is to pay the entire maturity amount after deducting the last year's unpaid premium alongwith late fee/interest. In this manner, the policyholder who has failed or neglected to pay the last year's premium on the policy, is not deprived of the full maturity amount and the unpaid premiums are recovered alongwith late fee. In terms of the impugned circular, it was clarified that the said procedure was not to be followed in case of 'Jeevan Shree policies'. In such cases, the maturity amount would be settled on the reduced paid up value and not on the full sum assured. According to the petitioner, this is a material change in discharging the claims of the policyholders and therefore can be applied only for the policies purchased after the issue of the impugned circular and not in respect of the policy purchased by the petitioner.

4. Briefly stated, the relevant facts necessary to address the present controversy are as under:-

4.1 The petitioner had taken an insurance policy (Jeevan Shree Policy - hereafter 'the Policy') dated 05.01.1996 from the LIC in the sum of ₹10,00,000/-. The maturity period of the Policy was fifteen years; that is, the Policy would mature on 05.01.2011. The petitioner was required to pay half yearly premiums of ₹58,782/- for a period of 10 years. Thus, in all, the petitioner was required to pay 20 tranches of premium of ₹58,782/- each, over a period of 10 years.

4.2 The petitioner failed to pay the last premium of ₹58,782/-; in other words, the petitioner paid nineteen instalments of half yearly premiums of ₹58,782/- each but failed to pay the last premium.

4.3 On maturity, the LIC paid the sum of ₹10,21,201/- on 22.03.2011 by treating the value of the Policy as paid up to the extent of ₹9,50,000/- after deducting the loan and interest taken by the petitioner against the Policy. A tabular statement indicating the calculation of the amount paid by the LIC is set out below:-

|                                                           |                 |
|-----------------------------------------------------------|-----------------|
| S.A./S.B. Amt/P.U.<br>Value of the policy                 | Rs. 9,50,000=00 |
| Vested Bonus                                              | Rs.7,12,500=00  |
| Total                                                     | Rs.16,62,500=00 |
| Loan amount due<br>against the policy as<br>on 22/03/2011 | Rs.5,88,348=00  |
| Interest due on loan<br>amount                            | Rs.52,951=00    |
| Total amount due<br>with interest in loan<br>account      | Rs.6,41,299=00  |
| Balance paid as on<br>22/03/2011                          | Rs.10,21,201=00 |

4.4 The petitioner claims that in terms of the Policy, he was also entitled to certain guaranteed additions of ₹75/- per thousand per annum. However, such additions were not paid to the petitioner in entirety. In the circumstances, the petitioner made a representation dated 04.07.2011 before the Claims Review Committee. Since the petitioner did not receive any response to his representation, he filed a

complaint dated 26.12.2011 before the Insurance Ombudsman. The said complaint was also dismissed by an order dated 06.07.2012. The Insurance Ombudsman accepted the contention advanced by the LIC's representative that the petitioner's claim was decided as per the existing provisions and the impugned circular.

5. It is in the aforesaid backdrop that the petitioner has filed the present petition, *inter alia*, challenging the impugned circular.

6. Ms Sagari Dhanda, the learned counsel appearing for the petitioner referred to clause 4 of the Policy, which expressly provided that the Policy would not be wholly void if at least three full year's premium had been paid. She contended that in terms of clause 4 of the policy, it could not be treated as void. She also relied upon the LIC's Claims Manual in support of her contention that the petitioner was entitled to full maturity amount after deduction of the amount of last premium alongwith late fee / interest.

7. She also submitted that in a similar case - case of one Smt Sangeeta Khera (Policy No. 372067394) - the claim of the policyholder was settled in the manner as set out in the Claims Manual and as canvassed by the petitioner. She stated that in that case, the Zonal Office of the LIC at Bhopal had referred to the Claims Manual and had opined that the unpaid premiums alongwith interest at the rate of 12% per annum should be deducted from the maturity value and the balance amount should be paid to the policyholder.

8. Mr V.C. Mittal, the learned counsel appearing for the LIC countered the submissions made on behalf of the petitioner. He stated that the petitioner had been given full credit for the premium paid by him and the Policy was not treated void. He contended that the guaranteed additions as accruing to the petitioner had also been paid on pro-rata basis; however, the petitioner was not entitled to receive the guaranteed additions accruing after the Policy had lapsed. Insofar as the case of Ms Sangeeta Khera is concerned, he submitted that the same was a “special case” and could not be treated as a precedent. However, he was unable to point out any material difference between the case of the petitioner and that of Ms Sangeeta Khera.

***Reasoning and conclusion***

9. The central issue that falls for consideration of this Court is whether the petitioner is entitled to guaranteed additions as per the policy after the petitioner had failed to pay the last half yearly premium.

10. Before proceeding, it would be relevant to refer to the relevant provisions of the Policy as relied upon by both the counsel. Clause 4 of the Policy, which provides for non-forfeiture in certain cases, is set out below:-

“4). **Non-Forfeiture Regulations:** If after at least three full years premiums have been duly paid in respect of this policy, any subsequent premium be not duly paid, this policy shall not be wholly void, but the sum assured by it shall be reduced to such a sum as shall bear the same ratio to the full sum assured as the number of

premiums actually paid shall bear to the actual number originally stipulated in the policy. The policy so reduced shall thereafter be free from all liability for payment of the within mentioned premium, but shall not be entitled to the future Guaranteed Additions. The existing vested Guaranteed Additions, if any, will remain attached to the reduced paid up policy.

Notwithstanding what is above stated, if after at least three full years premiums have been paid in respect of this policy, any subsequent premium be not only said to the event of the death of the Life Assured within six months from the due date of the first unpaid premium, the policy moneys will be paid as if the policy had remained in full force after deductions of (a) the premium or premiums unpaid with interest thereon to the date of death on the same terms as for revival of the policy during such period and (b) the unpaid premium being due before the next anniversary of the policy.

Notwithstanding what is above stated, if after at least five full years premiums have been paid in respect of this policy, any subsequent premium be not duly paid, in the event of the death of the Life Assured within 12 months from the due date of first unpaid premium, the policy moneys will be paid as if the policy had remained in full force after deduction of (a) the premium or premiums unpaid with interest thereon to the date of death on the same terms as for revival of the policy during such period and (b) the unpaid premiums falling due before the next anniversary of the Policy.”

11. The Policy also contains the special provisions for guaranteed additions, which are set out below:-

“Special provisions:

- 1) Guaranteed Additions: Provided the policy is in full force, a Guaranteed Addition of Rs.75 per thousand Sum

Assured will be added to the policy at the end of each policy anniversary and will be payable when the sum assured become payable.”

12. As is apparent from the plain language of clause 4 of the Policy as quoted above, in the event three full year’s premium has been paid, the Policy would not be treated as void but the sum assured would be proportionately reduced. In other words, the Policy would be treated to be in force, *albeit*, with the reduced sum assured.

13. The Claims Manual also contains the similar clause except the minimum premium payable is specified as 1/10<sup>th</sup> of the term. The relevant extract of the Claims Manual is set out below:-

“If under Jeevan Shree (Table 112, 151, 162) policies, premiums have been paid at least for 1/10<sup>th</sup> of the term (subject to a minimum of one full year’s premium) and any subsequent premiums be not duly paid, the policy shall not be wholly void but shall acquire paid-up value. The paid-up value shall be worked out equal to a sum that shall bear the same ratio to the full Sum Assured as the number of premiums actually paid shall bear to the total number originally stipulated in the Policy. Any vested Guaranteed Additions shall also remain attached to such Reduced Paid Up value. Such paid-up value shall become payable on maturity or earlier death.”

14. There is no dispute that the LIC has not treated the Policy in question as void and also paid the guaranteed additions that had accrued upto the date of default in payment of premium.

15. However, in so far as guaranteed additions post default in payment of the last premium is concerned, the LIC disputes that the same is payable. The LIC rests its case on clause 4 of the Policy,

which provides that in certain cases where all the premiums are not paid but at least three or more premiums have been paid, the sum assured by it shall be reduced to a sum as shall bear the same ratio to the full sum assured as the number of premiums actually paid shall bear to the actual number originally stipulated in the Policy. It also provides that the Policy so reduced shall thereafter be free from all liability for payment of within mentioned premium, but shall not be entitled to the future guaranteed additions.

16. Thus, on a plain reading of clause 4 of the Policy, the petitioner would not be entitled to future additions if the policyholder fails to pay further premiums after making payment of at least three full years premium. Clause (1) of Special Provisions also expressly provides that guaranteed additions would accrue at the rate of ₹75/- per thousand provided the Policy remains in full force. Clause (1) of the Special Provisions also expressly provides that guaranteed additions would be added "*Provided the Policy remains in full force*". Thus, on a plain reading of the terms of the Policy, the guaranteed additions after the petitioner has defaulted would not be payable.

17. The learned counsel appearing for the petitioner contended that paragraph 3.4 of the Claims Manual contained certain special provisions in respect of cases where the premiums in the last policy year have not been paid. The relevant extracts of paragraphs 3.4 and 3.5 of the Claims Manual are set out below:-

“3.4 Where premium/s in the last policy year has/have not been paid:

If any premium due in the last policy year has not been paid but the policy was in full force on the policy anniversary prior to the maturity date the claim should be paid for the full sum assured subject to deduction of unpaid premium/s for the last policy year together with late fee up to the date of maturity.

### 3.5 Discounted Value of Claims:

(A) Except for a Double Endowment Policy and the Pure Endowment policy, when an Endowment type of policy is desired to be surrendered within a period of one year before the date of maturity, the surrender transaction, if and when settled before the date of maturity, should be treated as a settlement of Maturity claim, the amount payable being the amount at maturity less discount at 5% / 9% p.a. compound interest using surrender value Table 7 or 7A.

The following procedure should be followed in this behalf.

XXXX

XXXX

XXXX

XXXX

8) If the policy is in force but has not become fully paid up and only one full year's or less than one full year's premium (that is 1 yearly or 2 or 1 half yearly or 4 or less quarterly or 12 or less monthly premiums) remain to be paid to make the policy a fully paid-up one, such unpaid premium/s should be taken as paid and the policy treated as fully paid for the purpose of calculation of discounted value in the last policy year. If the policy is under With Profits Plan and becomes entitled to interim bonus by virtue of its having been treated as fully paid the amount of interim bonus, if any, is to be added to be aggregate of full Sum Assured and the vested bonus and then Surrender Value should be calculated by discounting the total amount at the aforesaid rate. The unpaid premiums which are taken as paid in order to treat the policy as fully paid-up should be deducted from

the Discounted Value with interest or late fee on those premiums which have fallen due and remain unpaid on the date of settlement of the discounted value, in addition to any other deductions, such as, the amount of outstanding loan and interest thereon, indebtedness, etc. if any.”

18. Mr Mittal did not dispute that in terms of clause 3.4(A) of the Claims Manual, the policyholder who has failed to pay the premium for the last year (in whole or in part) of the Policy, would be entitled to the full maturity amount less the unpaid premium and the applicable late fee. He, however, stated that the provision of paragraph 3.4 of the Claims Manual was not applicable to the petitioner as the Policy was not an endowment type of policy. He stated that paragraph 3.4 of the Claims Manual referred to the policies where the premium was payable till the maturity. In other words, the premium paying term and the term of the policy are the same. However, in the case of the said policy, twenty half yearly premiums were to be paid for a period of ten years and the said policy would mature five years later.

19. A plain reading of clause 3.4(A) of the Claims Manual indicates that it is not strictly applicable. First of all, it provides for the procedure for premature surrender of Policy and not computation of the amount payable at maturity; and secondly, the clause does not apply for Pure Endowment Policy.

20. However, it is material to note that Mr Mittal also did not dispute that provisions of paragraph 3.4 of the Claims Manual had

been applied in case of policies similar to one provided to the petitioner, prior to the issuance of the impugned circular.

21. In the case of Ms Sangeeta Khera, the policyholder had failed to pay the last two quarterly installments. It is not disputed that her case was referred to the Zonal Office at Bhopal. The affidavit filed on behalf of the LIC in compliance of the orders passed by this Court on 02.03.2015 indicates that Smt Sangeeta Khera's case to be treated as a "special case". However, it is not disputed that the provisions of paragraph 3.4 of the Claims Manual had been applied in the case of Smt Sangeeta Khera and the Central Zonal Office at Bhopal had opined that the two unpaid premiums alongwith interest at the rate of 12% should be deducted from the maturity value and the claim should be settled treating the policy as fully paid and the guaranteed additions attached to the Policy should also be paid for the full term of the Policy.

22. The petitioner had asserted that not only he was being deprived of the guaranteed additions on the maturity value but he was also being deprived of the pro-rata guaranteed additions on the premium already paid. During the course of arguments, the learned counsel appearing for the LIC had disputed the same. Plainly, if the LIC had considered the policy to be fully paid *albeit* in the sum of ₹9,50,000/- instead of ₹10,00,000/- and had provided the guaranteed additions on the said basis, it would be equally equitable option as the procedure followed in terms of paragraph 3.4 of the Claims Manual (that is, to

make the payment of the full maturity value of the Policy after deducting the unpaid premium with interest).

23. The Executive Director of the LIC had also made an unequivocal statement before this Court that “*respondent no.1 corporation has paid to the petitioner not only the policy value but also the guaranteed addition, albeit on a proportionate basis*”. However, it transpires that this is not correct.

24. The petitioner has not been provided any guaranteed additions, on a pro-rata basis on the premiums paid by the petitioner for the period of five years, that is, the period after the premium paying period had expired.

25. This Court had also called upon the LIC to furnish an affidavit clearly indicating the amount that would be payable to the petitioner had the petitioner’s case been processed in the same manner as Sangeeta Khera’s case; that is, in terms of paragraph 3.4 of the Claims Manual. The affidavit filed on behalf of the LIC in compliance with the aforesaid directions indicated that the petitioner would have been paid a sum of ₹6,22,676/- more than what was disbursed to the petitioner. The tabular statement indicated the difference in the calculations as set out in the affidavit filed on behalf of the LIC, which is reproduced below:-

“

| Particulars | Amount computed as per Sangeeta Khera’s case, as directed by | Amount actual paid by the LIC as per policy terms |
|-------------|--------------------------------------------------------------|---------------------------------------------------|
|             |                                                              |                                                   |

|                                                                               |                           |                 |
|-------------------------------------------------------------------------------|---------------------------|-----------------|
|                                                                               | Hon'ble High Court<br>Rs, | and conditions. |
| Sum Assured                                                                   | 10,00,000=00              | 09,50,000=00    |
| Guaranteed<br>additions                                                       | 11,25,000=00              | 07,12,500=00    |
| Loyalty additions                                                             | 02,50,000=00              |                 |
| Total                                                                         | 23,75,000=00              | 16,67,000=00    |
| Less                                                                          |                           |                 |
| Premium for the<br>half year 07/2005<br>to 01/2006                            | 00,58,782=00              |                 |
| Interest on<br>premium up to<br>01/2011 i.e, up to<br>the date of<br>maturity | 00,31,042=00              |                 |
| Loan amount due                                                               | 05,88,348=00              | 05,88,348=00    |
| Interest accrued on<br>loan                                                   | 00,52,951=00              | 00,52,951=00    |
| Total amount<br>deductible                                                    | 07,31,123=00              | 06,41,299=00    |
| Net amount<br>payable                                                         | 16,43,877=00              | 10,21,201=00    |
| Amount paid                                                                   | 10,21,201=00              | 10,21,201=00    |
| Difference                                                                    | 06,22,676=00              | Nil             |

”

26. Concededly, there is no difference in the case of the petitioner and that of Smt Sangeeta Khera. Thus, the petitioner's grievance that he has been discriminated against is understandable. However, given the plain language of the Policy, it is not possible to accept that the LIC has any obligation to pay guaranteed additions after the default in payment of the last premium. As observed above, the provisions of the Claims Manual that are relied upon by the petitioner are not applicable. The fact that the LIC settled the claims in the case of Ms

Sangeeta Khera contrary to the terms of the Policy, does not entitle the petitioner to claim higher amount than payable under the Policy.

27. The petition is, accordingly, dismissed. The parties are left to bear their own costs.

**JANUARY 31, 2018**  
**RK**

**VIBHU BAKHRU, J**



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