



Jus Corpus Law Journal

Open Access Law Journal – Copyright © 2024 – ISSN 2582-7820
Editor-in-Chief – Prof. (Dr.) Rhishikesh Dave; Publisher – Ayush Pandey

This is an Open Access article distributed under the terms of the Creative Commons Attribution-Non-Commercial-Share Alike 4.0 International (CC-BY-NC-SA 4.0) License, which permits unrestricted non-commercial use, distribution, and reproduction in any medium provided the original work is properly cited.

Case Comment: Mithoolal v Life Insurance Corporation of India - Defying the Odds: A Legal Battle against Life Insurance Corporation of India

Ayushman Mishra^a

^aBennett University, Greater Noida, India

Received 26 June 2024; Accepted 27 July 2024; Published 31 July 2024

INTRODUCTION

Free consent is a necessary component of contract law¹, which involves parties' willingness to accept the terms without being forced, unduly influenced, or misinformed. For a contract to be valid in law, both parties must express their consent². Free consent is undermined by fraud which induces parties into signing agreements by deceiving them. Fraud means an intentional act of deception intended to result in unfairness or illegal gain³. The concepts of free consent and fraud are important because they affect the enforceability and legality of contracts directly and ensure fair business relationships as well as safeguarding parties from any losses⁴. In this regard, we will witness how far this free consent can extend, be applied to whom and what illustrative cases can explain this point like Mithoolal Nayak v Life Insurance Corporation of India⁵. This

¹ Indian Contract Act 1872, s 14

² Indian Contract Act 1872, s 13

³ Indian Contract Act 1872, s 17

⁴ Indian Contract Act 1872, s 19(a)

⁵ *Mithoolal v Life Insurance Corporation of India* (1962) 2 SCR SUPPL 571

case shows how important free consent is and how its violation with the use of any unfair or unacceptable methods may affect the conclusion of a contract, which will become null and void thereafter. Furthermore, all the judges' decisions concerning this case will be evaluated.

FACTS

Mithoolal Nayak had sought a policy from the Life Insurance Corporation of India (LIC). Furthermore, Nayak had also filled out and submitted an application form that provided details about his lifestyle and health. Additionally, it turned out that Nayak had lied about his habits and health omitting the fact that he had suffered from heart disease among other serious medical conditions. LIC realized that Nayak's application contained errors when it was submitted after he died. According to LIC, Nayak's false statements were material to the risk assessment and they would have refused issuance of the policy or done so on different terms if they were aware of his health conditions. As a result, LIC rejected the claim, claiming the violation of the insurance contract's governing principle of 'utmost good faith'. According to the insurer, the contract was nullified since the misrepresentations constituted fraud. The heirs of Nayak contested LIC's ruling, claiming that the falsehoods were either unintentional or negligible. The crux of the legal dispute thus revolved around the materiality of Nayak's misrepresentations and their potential impact on LIC's free assent to engage in the contract.

ISSUES

The primary issues before the court in this case were:

1. Whether the policyholder had misrepresented his health history on the proposal form.
2. Whether the risk that the insurance company had to bear, was materially affected by these inaccurate assertions.
3. Whether the insurance provider's rejection of the policy on the grounds of the purported misrepresentation was appropriate.

Plaintiff's Arguments: The insurer, Mithoolal Nayak, the plaintiff in this case, stated that he filled in all the standard information truthfully. He stated that he did not have fraudulent intentions or falsify the information filled in the policy document, and that apparently the LIC was attempting to rescind the contract subsequent to his death, which should be an injustice to the Rightful Claimants.

Respondent's Arguments: The respondent, the Life Insurance Corporation of India, claimed that Mithoolal Nayak hid vital information concerning his medical history at the time of applying for the policy. They maintained that this non-disclosure was fraudulent, and thus by fraudulent misrepresentation, the contract was void for the misrepresentation of the information given to LIC thus freeing LIC of its duties to honour the insurance entitlements.

JUDGES' OBSERVATIONS

The Supreme Court of India made several significant observations about the fundamental ideas guiding life insurance plans, paying particular attention to the ideas of substantial misrepresentation and the highest good faith. The judges' main observations are as follows:

Principle of Maximum Good Faith: In *Mithoolal Nayak v LIC of India*⁶, the Supreme Court in its judgment reproduced the principles of Insurance Contracts and the High Court spoke clearly about the basics of insurance policies, including the principle of utmost good faith (*uberrima fides*). The principle requires the insured to provide all the information to the insurer when making an insurance policy. In this case, Mithoolal Nayak's wife who had an LIC insured under policy no. KMC/1102/000494/2008 the proposal form was filled out wrong and her state of health was concealed. This, therefore amounted to material misrepresentation. The absence of complete disclosure is one that touched on the raw underpinning of LIC's decision to offer coverage. Thus, the court supported LIC's right to terminate the contract. As demonstrated in this case, the integrity of the insured, as well as their reports are fundamental in sustaining the insurance contracts' validity⁷.

⁶ *Mithoolal v Life Insurance Corporation of India* (1962) 2 SCR SUPPL 571

⁷ *Vimal Kishor Shah and Ors v Jayesh Dinesh Shah and Ors* (2016) 8 SCC 788

Relevance of the Deception: In the case of *Mithoolal Nayak v LIC of India*⁸, it was underlined that for a policy to be rejected there should be very large prevarications which usually give considerable importance to 'materiality' in the insurance contract. This misrepresentation by Mithoolal Nayak's wife resulted in a major effect on LIC's decision because it was a medical-related policy. The court went on further to say that were such misrepresentations innocent, they still cannot justify a basis for not cancelling the contract. In this particular situation, the misrepresented health condition was indeed material because it affected LIC's risk analysis and the terms of the contract offered. Therefore, the court supported LIC's decision to cancel the policy stating that omission/fraud on the part of the policyholder leading to any prejudicial act which causes substantial misrepresentation can lead to policy repudiation.

False Information Dependency: The court, in the *Mithoolal Nayak v LIC of India*, said that an insurance contract can be declared voidable by the insurer only if there is a possibility of fraud, which means the risk arises out of that deception. The court was clear that LIC had made extensive efforts to prove that the above information was false and the specific information formed part of the reasons that provided coverage. Since the health misrepresentation specifically influenced LIC's decision regarding underwriting the policy, the Court affirmed LIC's consideration and privileged it to cancel the contract. This ruling re-affirms that insurers can avoid a policy if the deceit or failure to disclose materially affects the insurer's decision.

Proof Burden: As it was seen in *Mithoolal Nayak v LIC of India*⁹ where the court pointed out that it was on the insurance company to plead and establish that misrepresentation was gross. The original medical examination report of Mithoolal Nayak's wife disclosed certain facts that were not true. Consequently, LIC had to prove that this non-disclosure or misrepresentation of a material fact was not merely a mere misrepresentation or a mere concealment. They had to show that this dishonesty caused some considerable prejudice to the risk they were disposing of LIC's claim that they entered the policy as a result of a misrepresentation by the respondents was equally met with the standard required by the court that the misrepresentation materially influenced the decision made to issue the policy. As the inaccurate health information affected

⁸ *Mithoolal v Life Insurance Corporation of India* (1962) 2 SCR SUPPL 571

⁹ *Ibid*

LIC's risk assessment and led to its decision to offer cover, the court ruled in favour of LIC by denying the claim under the policy. This case just shows that indeed the insurers are required to come with clear evidence that a misrepresentation made by the insured would in some way impact the risk assumed by the insurer.

Openness and Truth: In *Mithoolal Nayak v LIC of India*¹⁰, where the court stated very clearly that the duty to disclose is absolute and the duty of disclosure comes into existence as soon as a proposal has been made and the person getting insurance is bound to disclose every fact that has a bearing on the risk to be covered even though it has not been asked by the insurer. Mithoolal Nayak's wife was in a position where she concealed her true medical state of affairs which is cardinal in making the investment decision. The court underlined that any negligence or intention not to reveal such information that is significant to the insurance agreement is void. Since her misrepresentation of health concerned the health of the patient which influenced LIC's risk assessment and the decision to accept to offer coverage for the policy, the court did not oppose the cancellation of the policy by LIC. The above case demonstrates the insured's obligation to make a full and accurate disclosure of the material facts is mandatory to make the insurance contract conform to the law¹¹.

JUDGEMENT

The court found that LIC was justified in cancelling the insurance policy due to inaccuracies. This ruling supported insurers' ability to terminate policies in cases of misrepresentation and emphasized the fact that insurance transactions involve high levels of accurate disclosure¹². The *Mithoolal Nayak v LIC*¹³ is one of the most significant judgements in insurance law, recognizing the ability of insurers to refuse policies if the proposer does not give accurate information when the insurance policy is being issued and the principle of the utmost good faith is also taken into consideration. This decision to date has offered guidance for how the courts protect the rights of both parties to honour the sanctity of the insurance contracts.

¹⁰ *Ibid*

¹¹ *United India Insurance Co. Ltd. v M.K.J. Corporation* (1996) 6 SCC 428

¹² The Insurance Act 1938

¹³ *Mithoolal v Life Insurance Corporation of India* (1962) 2 SCR SUPL 571

ANALYSIS

Mithoolal Nayak v LIC¹⁴ holds significance due to the fundamental values it has tried to lay down when creating an insurance contract. It further explained the fact that insurance is a relationship between two parties built on utmost honesty and transparency and so they must disclose all the true material information to each other.

Concentrating on the case and the approaches taken by the court, it is possible to reveal several conspicuous characteristics of insurance law. The following observations were made at the core of insurance laws, which state that an insurance contract is based on utmost good faith¹⁵. While getting involved in an insurance policy, honesty is insisted on by both parties; the insurer and the person getting insurance must give all the relevant information in the policy. The court also noted that a lie or deceit whether small or big, especially the health status could invariably have a profound impact on the insurer's underwriting decision.

LIC was given the authority based on fundamental non-disclosure to cancel the contract because such non-disclosure was a material breach of the contract by Mr. Nayak¹⁶. The court clarified what constitutes material misrepresentation: The consideration and reliance should be considerable to warrant the insurer's entry into the policy.

Another significant factor that was discussed in the ruling was the standard of proof. The court in particular noted that it was the duty of the insurance company to demonstrate that the given misrepresentation was both material and serious¹⁷. This amended Policy seeks to guard policyholders against premature cancellation of their policies. As a result, the court sought to ensure that bringing a dispute relating to alleged misrepresentation would be equally difficult for both the insurer and the insured.

The judgment in the case Mithoolal Nayak v LIC¹⁸ applies to both insurers and policyholders. This just goes to show how important truth in risk disclosure is and the importance of reviewing

¹⁴ *Ibid*

¹⁵ *Life Insurance Corporation of India v G.M. Channabasemma* (1991) 1 SCC 357

¹⁶ *Joel v Law Union and Crown Insurance Company* [1908] 2 KB 863

¹⁷ *Satwant Kaur Sandhu v New India Assurance Co. Ltd.* (2009) 8 SCC 316

¹⁸ *Mithoolal v Life Insurance Corporation of India* (1962) 2 SCR SUPL 571

the disclosures that potential policyholders make before agreeing to issue a policy¹⁹. The decision of the court also has a teaching effect for insurers to be honest and give their clients accurate information so that there is no future conflict and the insurance sector operates efficiently.

CONCLUSION

To understand the case of *Mithoolal Nayak v Life Insurance Corporation of India*²⁰, it is important to know the concept of substantial falsehood in insurance which is upheld by the Supreme Court of India hence the legal provisions in this case as well. The fact that LIC rejected a policy of insurance for serious health falsifications grabs the attention to the fact that one must tell the truth and avoid any form of concealment in such contracts. This case falls under the category of the major cases through which one can say that this was a turning point in the legal history of the country. This implies that it should also be suitable for the insurer hence the only material misrepresentation or a standard that would affect the risk of such a contract would make it void.

¹⁹ Mandakini Sharma, 'Principle of Uberrimae Fidei: Fraudulent Suppression of Facts in Life Policies' (2010) 3(12) International In-house Counsel Journal <<https://www.iicj.net/subscribersonly/10august/iicj6aug-insurance-mandakinisharma-standardlife-india.pdf>> accessed 17 June 2024

²⁰ *Mithoolal v Life Insurance Corporation of India* (1962) 2 SCR Supl 571