

Assignment

What is Assignment in Insurance?

In insurance, **Assignment** refers to the legal transfer of rights, title, and ownership of a policy from the original policyholder to another person or institution. After assignment, the assignee (the new owner) gains the right to receive benefits and exercise control over the policy.

It is commonly used as security for loans or for transferring benefits to a family member or organization.

Simple Example:

Ramesh has a life insurance policy worth ₹20 lakh. He takes a loan from a bank and assigns the policy to the bank as security. If Ramesh dies before repaying the loan, the bank (assignee) first recovers its dues from the claim amount, and the remaining balance (if any) is paid to Ramesh's nominee or legal heirs.

Why is Assignment Important?

1. Loan Security

- Policies can be assigned to banks or financial institutions as collateral for loans.

2. Financial Planning

- Policy benefits can be transferred to family members for their security.

3. Legal Transfer

- Provides a legally recognized way to shift rights of an insurance policy.

4. Flexibility

- Policyholder can use their insurance policy as an asset to meet different financial needs.

How Does Assignment Work?

- The policyholder (assignor) transfers rights to another person or institution (assignee).

- Assignment must be made in writing and communicated to the insurer.
 - Once the insurer records the assignment, the assignee becomes the policy's new owner for the assigned rights.
 - The assignee has full rights to claim maturity or death benefits as per the assignment terms.
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Types of Assignment

1. Absolute Assignment

- Complete transfer of all rights and ownership of the policy.
- Example: A father assigns his policy to his son, giving him full ownership.

2. Collateral Assignment (Conditional Assignment)

- Transfer of policy rights as security for a loan.
 - Rights are limited to the amount due to the lender.
 - Once the loan is repaid, rights revert to the original policyholder.
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Key Features of Assignment

- Must be endorsed on the policy document or through a separate assignment deed.
 - Requires written notice to the insurance company.
 - Effective only when recorded by the insurer.
 - Overrides nomination: after assignment, the nominee cannot claim benefits unless assignee releases rights.
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Assignment vs Nomination

- **Assignment** transfers ownership and rights of the policy.
- **Nomination** only authorizes someone to receive the benefits but does not transfer ownership.

- In case of assignment, the assignee has priority over the nominee in claim settlement.
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Common Uses of Assignment

1. Loan Against Policy

- Policy assigned to bank or lender as loan security.
- Bank recovers dues, balance (if any) goes to nominee.

2. Family Protection

- Policyholder assigns policy to spouse or child for their financial safety.

3. Charitable Assignment

- Policy benefits can be assigned to trusts, charities, or institutions.
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Legal Aspects of Assignment

- Governed by Section 38 of the Insurance Act, 1938 (India).
 - Assignment deed must clearly state: assignor details, assignee details, policy number, and terms.
 - Once recorded, insurer recognizes only the assignee for policy rights.
 - Assignment cannot be made if policy is already under legal dispute.
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Common Mistakes to Avoid

- Not informing the insurance company of the assignment.
 - Assuming nominee rights remain after assignment.
 - Using vague or incomplete assignment documents.
 - Forgetting to reassign policy after loan repayment.
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Final Word

Assignment is a powerful feature in insurance policies that allows transfer of rights and ownership for financial or personal reasons. Whether used as security for loans or as a gift to loved ones, assignment ensures that the policyholder can make practical use of their insurance asset.

By understanding and using assignment carefully, policyholders can unlock the hidden financial potential of their insurance policies, while ensuring that benefits reach the right hands as per their intentions.
