The Concept and Effects of the Beneficiary in an Insurance Contract

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Abstract

The insurance beneficiary refers to any natural or legal person mentioned in the insurance contract, including the policyholder, who has an interest in all or part of the insured subject. According to Article 4 of the Insurance Act enacted in 1937, the person entitled to receive compensation is the one who has an interest in the insured property and benefits from its continued existence. It is presumed that the policyholder is also the insurance beneficiary. Accordingly, the absence of an insurable interest leads to the nullity of the insurance contract. The primary question arising in this context is: Who qualifies as the insurance beneficiary in an insurance contract, and under what conditions can an insurable interest be transferred to another party? Additionally, in a contract involving the transfer of property, if the transferee insures the asset and the nullity of the contract is subsequently discovered, who is deemed the insurance beneficiary? This study, conducted using a descriptive-analytical method, establishes that in the transfer of an insurable interest to another party, the rights and obligations arising from the insurance are transferred to the transferee under specific conditions. Based on the principle of insurable interest, if a person insures another's property, the beneficiary is the owner of the property. Furthermore, if, after the conclusion of the insurance contract, the owner transfers the insured property to another person, the policyholder's interest ceases. In cases where the nullity of the contract transferring the property is discovered, the real owner is considered the insurance beneficiary, and the policyholder is generally entitled to reclaim the premiums paid from the insurance beneficiary.

Keywords: Insurance law, insurance contract, insurance beneficiary, double indemnity, insurance of another's property

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1. Introduction

In various types of insurance policies, the beneficiary refers to a natural or legal person whose name and details have been included in the insurance policy at the request of the policyholder. This beneficiary receives all or part of the compensation or insurance benefits. If no beneficiary is specified in the policy, compensation is paid to the insured individual, and in the event of their death, the compensation is distributed among their legal heirs in proportion to their inheritance shares.

In property insurance, the insurer's obligation concerns indemnifying the damage sustained by the insured object, whether living or non-living. In contrast, in personal or life insurance, the insurer's obligation relates to the insured's death, survival, or bodily injury. In some cases, the policyholder is also the beneficiary, while in other cases, a different person is named as the beneficiary in the insurance policy. Examples include liability insurance and property insurance. Sometimes, an insurance policy is issued in the name of a carrier, but the insurance beneficiary is the owner of the goods.

Furthermore, according to the principle of insurable interest and Article 4 of the Insurance Act, the person entitled to receive compensation is the one who has an interest in the insured property. Accordingly, the absence of an insurable interest results in the nullity of the insurance contract because an insurable interest means that the policyholder benefits from the continued existence of the insured subject. In other words, the occurrence of the insured event must be something foreseeable for the policyholder. The presence of an insurable interest at the time of contract formation is a necessary condition, and determining the beneficiary at the outset allows the insurer to set the contract terms with full awareness of the circumstances, ensuring adequate protection of the insured subject by the policyholder.

Thus, the lack of an insurable interest, according to general principles governing insurance contracts, results in the nullity of the contract from the insurer's perspective, making them not bound by such an agreement. Although any person can insure another's property, they cannot receive compensation if an insured event occurs due to the lack of an insurable interest. Additionally, if, after concluding the contract, the owner of the insured property transfers it to another person (for example, by selling it), the policyholder's interest ceases. If the nullity of the contract transferring ownership is later discovered, ambiguity arises regarding whether the beneficiary is the original policyholder or the actual owner.

The significance of research is often determined by the gaps and deficiencies it seeks to address and the solutions it aims to find. One of the essential requirements of an insurance contract is the existence of a beneficiary. However, insurance law merely refers to the necessity of having a beneficiary without providing a definition, establishing the conditions for their recognition in insurance matters, or specifying the legal consequences of the absence of a beneficiary. Moreover, since the existence of a beneficiary is a fundamental element, the contract cannot be formed without it. Therefore, given the importance of this element and the discrepancies in certain judicial practices, further examination and investigation of this matter are necessary and of significant relevance.

2. Methodology

This study employs a descriptive-analytical research method. The data collection method is library-based, wherein various texts are analyzed using the note-taking technique, ultimately leading to conclusions.

3. FIndings

Based on the discussions presented, it can be acknowledged that insurance is a mechanism by which the insurer, considering certain factors, undertakes to compensate the policyholder for potential losses in the event of an incident occurring within a specified period or to provide specified services. In fact, insurance forms an obligation for the benefit of the beneficiary, and if the insurable interest and the beneficiary are not clearly specified in the insurance contract, the contract is rendered null and void.

Given the specific nature of insurance contracts, the principles of good faith and insurable interest are universally applicable across all branches of insurance; whereas the principles of indemnity and substitution are invoked in property insurance. In liability insurance, the indemnity principle prevails, and the substitution principle is not referenced (Babaei, 2014; Emami, 2009). In indemnity-based insurance founded on insurable interest, it is assumed that the insured is both interested and a beneficiary who seeks to prevent the occurrence of the insured risk. Therefore, the absence of legal provision regarding the consequences of lacking insurable interest, despite the emphasis on its necessity in the Insurance Law enacted in 1937 (Insurance Law, 1937), is open to criticism, and insurable interest, as a condition constituting the risk in an insurance contract, may also be examined as the subject matter of the contract in our legal system. Consequently, the insurable interest stipulated in Article 190 of the Civil Code (Civil Code, Article 190) can be considered one of the essential elements of contract formation; its absence results in a lack of subject matter and renders the contract void. In examining the beneficiary in different types of insurance, it can be acknowledged that insurable interest pertains exclusively to indemnity insurance, whereas in personal insurance the policyholder's consent is sufficient; therefore, in these types of insurance, the insurance beneficiary is considered a third party. This is also applicable to property insurance. In liability insurance, the insurance beneficiaries are likewise third parties. In any event, given the importance of insurable interest in the formation of an insurance contract, its absence renders the contract null and void; owing to the increased significance and recent enactment of the Mandatory Insurance Law (2016), the following discussions are provided.

In automobile insurance, the beneficiary encompasses both comprehensive insurance and third-party insurance. In comprehensive insurance—and in accordance with Article 6 of Regulation 53 of the Supreme Insurance Council and the annual mandatory attendance for vehicle technical inspections—deliberate faults in the vehicle or failure to participate in technical inspections are tantamount to exclusion from coverage for beneficiaries and policyholders. Moreover, considering the historical evolution of third-party insurance in the laws from 1968 to 2016, it appears that, based on clause (t) of Article 1 of the Mandatory Insurance Law (2016) (Mandatory Insurance Law, 2016), a third party is defined as any person who suffers bodily or financial damage due to incidents covered by this law, with the exception of the driver responsible for the incident. However, to benefit drivers at fault who may themselves be injured, the legislator has mandated that insurance companies conclude accident insurance for an amount equivalent to the blood money (diya) of a Muslim man during a non-forbidden month, which is an innovative and commendable measure (Katouzian, 2006, 2014). Therefore, under the Mandatory Insurance Law (2016) (Mandatory Insurance Law, 2016), firstly, the damages of all injured persons—whether or not they possess a driver's license—must be compensated; secondly, the criterion and the amount of payment are based on the diya, with no differentiation among the various cases, such that logically, similar rules and protections should apply in traffic accidents. Hence, the insurance beneficiary is the driver who is both at fault and the cause of the incident and has suffered losses, as well as the policyholder (who may be the vehicle owner). Furthermore, it should be noted that in cases of unlawful operation of a vehicle, the beneficiary is the person who has suffered damage from the risk, and due to the protection afforded to the injured party, the nullity of the original act of operation can be combined with the insurance coverage. In transferring the insurance to a new owner, the successor is deemed to act as the policyholder, with the transfer of rights and accessories—such as the transfer of the right to rescind, the right to renounce, and the right to detain—occurring accordingly (Mahmoudsalehi, 2002).

We define unauthorized insurance as a contract concluded by an interloper or the manager of an interloper (in the context of managing another's property) with third parties (insurers) without possessing any entitlement or insurable interest. The permission and execution of entering into an unauthorized insurance contract may occur either with the express consent of the owner and the genuine holder of the insurable interest or, alternatively, through the receipt of damages from the insurers, resulting in the implicit ratification of the insurance contract by the interloper (Amiri Ghaem Maghami, 1977; Karimi, 2008). In fact, unauthorized insurance is distinct from the management of another's property that leads to the conclusion of an insurance contract, because in unauthorized insurance an individual, by interfering in the affairs of others and without possessing any interest or material or spiritual objectives in the insured property, enters into an insurance contract—even though in many cases the policyholder (the interloper) may possess some interest. In contrast, in the management of another's property—which is solely aimed at benefiting the property owner or preventing harm in accordance with law and ethics—this duty is imposed on the manager, and the interloper's personal interest does not preclude the validity of such an insurance contract.

Due to the specific nature of insurance contracts, the existence of an insurable interest at the time of contracting does not necessarily prove the speculative nature of such a contract; moreover, considering insurable interest as a condition for the validity of an insurance contract—such that its absence renders the contract void—does not seem logical, as this approach would lead to unjust outcomes. In the absence of insurable interest, the contract should be deemed valid, allowing the policyholder to receive compensation; however, the absence of insurable interest obligates the policyholder to refund the total amount of damages paid to the actual holder of the interest, a characteristic that corresponds with the concept of managing another's property (Sadeghi Moghadam & Shokouhi Nejad, 2013). Therefore, the application of unauthorized insurance is limited to administrative actions and does not include actions whereby an individual alters or transfers their own property at will. Accordingly, the measures taken by a conscientious and prudent owner to preserve and manage their assets fall within the scope of administrative actions—even if such measures involve the transfer or partial disposal of property (e.g., home repair, desilting of qanats, irrigating farms and gardens, insuring, depositing funds, and fulfilling contractual obligations). The following discussion addresses the status and consequences of unauthorized insurance prior to approval or rejection.

If the owner does not ratify the unauthorized insurance or the unauthorized insurance contract (in cases where managing another's property is deemed unnecessary to prevent potential damage), some foreign laws consider the owner to be bound by the terms of the contract (French Civil Code, Article 1325), which is regarded as a more equitable solution; however, under Iranian law, accepting such a proposition is challenging because the owner does not participate in the formation of the contract and is involuntarily subjected to it. On the other hand, since the interloper is considered the policyholder in the insurance contract and given the principle of the relativity of contracts, they must adhere to all rights and obligations stipulated in the contract with the insurer (including insurance rights and remaining premiums). Regarding the status and consequences of unauthorized insurance after approval or rejection, it can be stated that the owner may reject the unauthorized transaction; in such a case, the contract is permanently nullified and has no legal effect (Safaei, 2005). However, based on the principles of managing another's property, which are grounded in benevolence, insuring another's property is valid and proper, and both the policyholder (the interloper) and the owner must adhere to the obligations arising therefrom. Therefore, from the perspective of the insurance contract and the insurer, the beneficiary in unauthorized insurance of another's property is considered to be the policyholder (the interloper); however, since they lack an insurable interest in the property, the primary beneficiary is deemed to be the property owner. Consequently, the policyholder (the interloper) must seek reimbursement for the incurred costs from the owner, the actual beneficiary of the insured property. Thus, "the existence of insurable interest" should be regarded as a condition for the completeness of an insurance contract rather than as a condition for its validity.

The status of insurable interest in another's property was examined under three scenarios: invalidity, non-interference, and validity. In the case of invalidity, in light of Article 4 of the Insurance Law and the absence of insurable interest, the lack of subject matter renders the contract void (Insurance Law, Article 4). Moreover, obtaining an insurance policy by a person lacking insurable interest can be considered an impermissible act, implying that insurance without insurable interest amounts to a form of gambling and, based on Articles 190 and 217 of the Civil Code (Civil Code, Articles 190 & 217), is condemned as void. Non-interference occurs when a defect arises in the essential elements of the contract or when a legal act is precluded from taking effect in order to protect the interests of third parties or for other reasons (Khodabakhshi, 2017). Therefore, the possession of insurable interest is considered an integral element in forming an insurance contract, and if the policyholder lacks such capacity, the transaction is analyzed as an unauthorized insurance transaction. The conclusion is that, given the aforementioned principles inherent in property insurance, adherence to the validity of insuring another's property without insurable interest—under the specified conditions—appears more logical.

Finally, various manifestations of property insurance in different contracts were examined, as outlined below. In several instances of mortgaged property insurance, it can be observed that, despite the property being mortgaged, there are three categories of actions: (1) actions that contravene the rights of mortgage and pledge and result in the destruction or diminution of the property's value (e.g., demolishing a house or slaughtering a sheep); (2) actions that are not inconsistent with the concept of mortgage but upon which the continued existence of the mortgaged property depends (e.g., repairing or renovating the mortgaged property); and (3) actions that fall between the two categories—such as a sale—which do not conflict with the essence of a mortgage. In cases where the continued existence of the mortgaged property depends on such actions, the mortgaged property is also covered by insurance (Izanloo & Fouladgar, 2014). Therefore, anyone who benefits from the preservation and maintenance of the mortgaged property is considered a beneficiary in insuring the mortgaged property, whether as the mortgagor or the mortgagee, creditors, legal entities, etc.

Furthermore, in the case of insuring a sold property involved in a void contract—which includes insurance of a void sale and stolen property—and considering the case discussed regarding void sales, the direct effect of a void contract is its nullity and the restitution of each of the exchanged items to their original positions, as stipulated in Article 366 of the Civil Code (Civil Code, Article 366). The provisions of this article apply in cases where a contract is executed with receipt and where no prior debt existed (e.g., gifts, endowments, usufruct rights, and mortgages), and its restitution is subject to the principle that "what is assured in validity is assured in invalidity." In the insurance of stolen property, if the insurance contract for the stolen property was concluded prior to the theft, the insurer is obliged to pay compensation to the policyholder or the beneficiary; thereafter, if judicial and law enforcement authorities recover the property and identify the thief, the insurer may seek reimbursement from the thief for the damages. Conversely, if the insurance contract for the stolen property is concluded after the theft—given that the owner is unable to deliver the property at the time of contracting—the insurance contract is void, and any agreement to the contrary is impermissible except in the form of a settlement contract. Moreover, if the thief insures the stolen property, due to the lack of insurable interest, compensation is not paid to the thief; rather, it is paid to the rightful beneficiary, namely the original owner. Additionally, in the insurance of misappropriated property, if such property is deemed to be subject to void transactions (owing to its wrongful acquisition), subsequent contracts based on it will also be void; however, in some cases, the voidness is not enforced—meaning that upon proving the nullity of the initial contract, subsequent contracts and obligations toward third parties remain valid, attributable to the inability to assert claims against third parties and the legislator's silence on the matter (Kharoushi, 2011; Khodabakhshi, 2017).

The insurance involved in cases of contract cancellation, rescission, and annulment represents another form of property insurance. In buyer–seller relationships, in some instances, both parties simultaneously possess insurable interests and may claim the entire value of the insured property. Under Iranian law, ownership is transferred upon offer and acceptance, and possession is not a condition for the validity of the contract in specific cases. Consequently, by virtue of a sale contract, ownership is transferred to the buyer, who thereby obtains an insurable interest in the property. However, this does not imply that the seller is considered to lack an insurable interest with respect to obtaining an insurance policy on the property once ownership is transferred; rather, considering that the guarantee is not transferred simultaneously with ownership under Iranian law, the presumption of insurable interest for the seller—based on the exchanged guarantee—remains intact.

Regarding the insurance of entrusted property (deposits) and loans for use, Article 5 of the Insurance Law has recognized the right of the property owner's representative or beneficiary, as well as the custodian appointed by the owner, to obtain an insurance policy. Given that the foundation of trust and deposit is based on the custodian's character, in two instances—(a) the requirement for a guarantee condition for the custodian in the contract, and (b) the inherent quality of trust in items such as gold and silver loans—the custodian's pledge operates as a counter to the rule that if the custodian is at fault it is considered a guarantee pledge, and if they are not at fault, it is considered a trust pledge. Consequently, based on the relevant jurisprudential and legal principles, the waiver of the custodian's pledge in cases of remorse for fault obliges the custodian to pay a compensation fee (ajrat al-mithl) to the owner in exchange for maintaining control over the entrusted property during the period of the custodian's guarantee. Thus, for periods involving unauthorized or usurped actions by the custodian that result in damages to the owner, the custodian is deemed to have an insurable interest in insuring the entrusted property. Furthermore, in conditional deposit contracts such as those for parking facilities, where a release clause or limitation of liability is imposed, if damage occurs the parking facility is not held liable and no compensation is paid; otherwise, it must compensate the vehicle owners, regardless of whether it has insured its liability with an insurance company or must cover it independently. In the insurance of leased property, the tenant holds an insurable interest in three respects—the ability to utilize the property, the payment of rent, and the undertaking of major repairs in accordance with the contract. Additionally, the landlord, as the owner of the leased property, has an unlimited interest in the property after the lease is concluded—not only by virtue of ownership but also, in cases where they are legally or contractually obligated to perform repairs, may insure the property up to its full value, even if repairs are undertaken by the tenant, which does not preclude the landlord (lessor) from insuring the property.

4. Conclusion

The present study examined the concept of the beneficiary in insurance contracts and the legal consequences of insurable interest. Given the fundamental role of insurance in mitigating risks and compensating for potential losses, it is crucial to establish clear legal parameters regarding the nature and scope of the beneficiary's rights and obligations. The findings of this research underscore that insurance is not merely a contractual arrangement between an insurer and a policyholder but also a legal obligation that directly impacts third parties. The existence of a beneficiary and the recognition of insurable interest are vital elements in determining the validity and enforceability of insurance contracts. The absence of these elements can render an insurance contract void, creating significant legal and financial implications.

The study highlighted that, in accordance with the principles of indemnity and insurable interest, an insurance contract is inherently designed to protect a person who has a genuine financial or legal interest in the insured subject. This ensures that the insurance mechanism is not misused for speculative or fraudulent purposes. Under Article 4 of the Insurance Law (1937), only a party with a legal or financial interest in the insured asset is entitled to compensation, reaffirming the necessity of insurable interest at the time of contract formation. The findings indicate that the absence of insurable interest at the inception of an insurance contract results in its nullity, as the contract would lack a lawful subject matter.

A significant aspect explored in this study is the distinction between different types of insurance policies and how the concept of the beneficiary varies across them. In property insurance, the insured object—whether tangible or intangible—is the focus, and the indemnity principle is applied. The insurer's commitment in such policies is to compensate for the actual financial loss suffered by the insured party. The principle of subrogation is also relevant in property insurance, allowing insurers to recover compensation from liable third parties. On the other hand, in personal insurance (such as life or accident insurance), the policyholder's consent alone is sufficient to designate a beneficiary, and the principle of indemnity does not strictly apply. This means that in personal insurance, the insured sum is payable to the designated beneficiary regardless of the financial loss incurred. This distinction underscores the critical role of insurable interest in defining the nature of insurance contracts.

Another key issue addressed is the role of third parties as beneficiaries in various insurance policies. In liability insurance, for instance, the insured party is not the direct recipient of compensation; rather, third parties who suffer damage due to the insured's actions are the rightful claimants. This legal framework ensures that liability insurance serves its intended protective function and aligns with broader public policy objectives. In third-party automobile insurance, the distinction between policyholders, insured persons, and third-party beneficiaries is especially relevant. The recent reforms in the Mandatory Insurance Law (2016) have further clarified the entitlements of third parties and have introduced additional protections for drivers at fault, demonstrating the evolving nature of insurance law.

The study also explored the legal complexities surrounding the transfer of insurable interest. If the insured property is transferred after the conclusion of an insurance contract, the original policyholder's interest ceases, raising questions about the continuity of coverage. In such cases, the new owner may step into the shoes of the original insured and assume the benefits and obligations of the contract. However, in instances where the initial contract itself is void or defective, ambiguity arises regarding whether the original policyholder or the actual owner should be deemed the rightful beneficiary. This legal uncertainty highlights the necessity of more precise legislative provisions on the transferability of insurable interest in different types of insurance policies.

Unauthorized insurance (or *bimeh-ye fozooleh*), where an individual takes out an insurance policy on another's property without authorization, was another critical topic of discussion. In principle, such contracts lack legal validity unless subsequently ratified by the rightful owner. The study illustrated that unauthorized insurance is distinct from managing another's affairs (*modiriyat-e fozooleh*), as the latter is typically carried out in good faith to preserve the property's value. The legal treatment of unauthorized insurance varies across jurisdictions, with some legal systems (such as the French Civil Code) recognizing its binding effect on the owner, while Iranian law remains more restrictive. This legal divergence underscores the need for clearer jurisprudential interpretations to balance the interests of unauthorized insurers and property owners.

Furthermore, the research addressed specific legal scenarios involving insurable interest, such as the insurance of mortgaged property, leased property, and assets subject to void contracts. In the case of mortgaged property, both the mortgagor and mortgagee have legitimate insurable interests, given that each party has a financial stake in the asset. Similarly, in leased property, both the lessor and lessee may hold insurable interests based on their respective contractual rights and obligations. The findings suggest that in such cases, insurance law should accommodate multiple beneficiaries while preventing potential conflicts over claims.

The issue of fraudulent or speculative insurance contracts was also analyzed. The study emphasized that obtaining an insurance policy without an insurable interest could be construed as an attempt to exploit the insurance system for unjust enrichment. Such contracts could be deemed void on public policy grounds, as they resemble gambling transactions rather than genuine risk management instruments. The study reinforced that insurable interest is not merely a contractual formality but a fundamental legal principle that underpins the legitimacy of insurance contracts.

Overall, this study has demonstrated that the legal framework governing beneficiaries and insurable interest in insurance contracts is essential for ensuring the integrity of the insurance system. The research findings suggest that further legislative refinements are necessary to address gaps and ambiguities in existing laws. In particular, clear guidelines on the transferability of insurable interest, the recognition of third-party beneficiaries, and the treatment of unauthorized insurance contracts would contribute to greater legal certainty and efficiency in insurance transactions. Given the evolving nature of insurance law and the increasing complexity of modern insurance products, a more dynamic legal approach is required to balance the rights of insurers, policyholders, and beneficiaries.

In conclusion, insurable interest remains a cornerstone of insurance law, ensuring that insurance contracts serve their intended protective function rather than being used for speculative or fraudulent purposes. The beneficiary's rights and obligations must be clearly defined to prevent disputes and ensure fair compensation mechanisms. Future legal reforms should focus on harmonizing insurance law with contemporary financial and contractual realities while preserving the fundamental principles of indemnity, good faith, and legal certainty.

Ethical Considerations

All procedures performed in this study were under the ethical standards.

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Conflict of Interest

The authors report no conflict of interest.

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