

S. IYYAPAN

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v.

M/S UNITED INDIA INSURANCE COMPANY LTD. AND  
ANOTHER

(Civil Appeal No. 4834 of 2013)

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JULY 1, 2013.

[SURINDER SINGH NIJJAR AND M.Y. EQBAL, JJ.]

**MOTOR VEHICLES ACT, 1988:**

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*ss.149 read with ss.146 and 147- Insurer to satisfy awards against third party risk - Fatal accident - Held: It is the statutory right of a third party to recover the amount of compensation from the insurer - Insurer cannot disown its liability on the ground that although the driver was holding a licence to drive a light motor vehicle, it contained no endorsement to drive commercial vehicle - It is for the insurer to proceed against the insured for recovery of the amount in the event there has been violation of any condition of insurance policy - In the instant case, driver was holding a valid driving licence to drive light motor vehicle - Merely because he did not get any endorsement in the driving licence to drive the Maxi Cab, which is a light motor vehicle, High Court has committed grave error of law in holding that insurer is not liable to pay compensation because driver was not holding licence to drive commercial vehicle - Judgment of High Court set aside -- Insurer is liable to pay compensation awarded.*

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**The husband of respondent no. 2-claimant died as a result of the accident caused by a Maxi Cab. The Tribunal held that the driver possessing licence to drive light motor vehicle was entitled to drive the said Maxi Cab, and awarded compensation to be paid by the respondents before it. In the appeal filed by the Insurance Company, the High Court held that since the vehicle was being used**

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A as a taxi, i.e. a commercial vehicle, the driver was required to hold an appropriate licence and, there being a breach of the condition of the contract of insurance, the Insurance Company was not liable to pay any compensation to the claimant.

B In the instant appeal, the question for consideration before the Court was: "can an Insurance Company disown its liability on the ground that the driver of the vehicle although duly licensed to drive light motor vehicle but there was no endorsement in the licence to drive light motor vehicle used as commercial vehicle".

Allowing the appeal, the Court

D HELD: 1.1 The right of the victim of a road accident to claim compensation is a statutory one. Section 149 of the Motor Vehicles Act, 1988 made it mandatory on the part of the insurer to satisfy the judgments and awards against persons insured in respect of third party risk. [para 2 and 9] [49-C; 53-F-G]

E *Skandia Insurance Co. Ltd. v. Kokilaben Chandravadan* 1987 (2) SCR 752 = (1987) 2 SCC 654; *Sohan Lal Passi v. P. Sesh Reddy & Ors.* 1996 (3) Suppl. SCR 647 = (1996) 5 SCC 21; *Ashok Gangadhar Maratha v. Oriental Insurance Co. Ltd.* 1999 (2) Suppl. SCR 202 = 1999 (6) SCC 620; *New India Assurance Company, Shimla v. Kamla & Others* 2001 (2) SCR 797 = (2001) 4 SCC 342; *National Insurance Co. Ltd. v. Swaran Singh & Ors.* 2004 (1) SCR 180 = (2004) 3 SCC 297; *National Insurance Co. Ltd. v. Kusum Rai and Others*, 2006 (3) SCR 387 = (2006) 4 SCC 250; *National Insurance Company Ltd. v. Annappa Irappa Nesaria alias Nesaragi and Others* 2008 (1) SCR 1061 = 2008 (3) SCC 464- relied on.

*Oriental Insurance Co. Ltd. v. Nanjappan* 2004 (2) SCR 365 = 2004 (13) SCC 224 - referred to.

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S. IYYAPAN v. UNITED INDIA INSURANCE COMPANY 47  
LTD. AND ANOTHER

1.2 The heading "Insurance of Motor Vehicles against Third Party Risks" given in Chapter XI of the 1988 Act (Chapter VIII of 1939 Act) itself shows the intention of the legislature to make third party insurance compulsory and to ensure that the victims of accident arising out of use of motor vehicles would be able to get compensation for the death or injuries suffered. The provision has been inserted in order to protect the persons travelling in vehicles or using the road from the risk attendant upon the user of the motor vehicles on the road. The legislature has made it obligatory that no motor vehicle shall be used unless a third party insurance is in force. Sections 146 and 147 make it clear that in certain circumstances the insurer's right is safeguarded but in any event the insurer has to pay compensation when a valid certificate of insurance is issued notwithstanding the fact that the insurer may proceed against the insured for recovery of the amount. [para 17-18] [67-D-H]

1.3 Insurer cannot disown its liability on the ground that although the driver was holding a licence to drive a light motor vehicle but before driving light motor vehicle used as commercial vehicle, no endorsement to drive commercial vehicle was obtained in the driving licence. It is the statutory right of a third party to recover the amount of compensation so awarded from the insurer. Under s. 149, the insurer can defend the action inter alia on the grounds, namely, (i) the vehicle was not driven by a named person, (ii) it was being driven by a person who was not having a duly granted licence, and (iii) person driving the vehicle was disqualified to hold and obtain a driving licence. It is for the insurer to proceed against the insured for recovery of the amount in the event there has been violation of any condition of the insurance policy. [para 18] [67-H; 68-A-C]

1.5 In the instant case, the driver was holding a valid

A driving licence to drive light motor vehicle. Merely because the driver did not get any endorsement in the driving licence to drive the Maxi Cab, which is a light motor vehicle, the High Court has committed grave error of law in holding that the insurer is not liable to pay compensation because the driver was not holding the licence to drive the commercial vehicle. The judgment of the High Court is set aside and it is held that the insurer is liable to pay the compensation so awarded to the dependants of the victim of the fatal accident. [para '19-20] [68-D-G]

*New India Assurance Company Ltd. v. Prabhu Lal* 2007(12) SCR 724 = 2008 (1) SCC 696; and *Sardari & Ors. v. Sushil Kumar & Ors.* 2008 ACJ 1307 - cited.

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## Case Law Reference:

	2007(12) SCR 724	cited	para 5
	2008 ACJ 1307	cited	Para 5
E	1987 (2) SCR 752	relied on	para 8
	1996 (3) Suppl. SCR 647	relied on	Para 11
	1999 (2) Suppl. SCR 202	relied on	para 12
F	2001 (2) SCR 797	relied on	para 13
	2004 (1) SCR 180	relied on	para 14
	2006 (3) SCR 387	relied on	para 15
	2004 (2) SCR 365	referred to	para 15
G	2008 (1) SCR 1061	relied on	para 15

CIVIL APPELLATE JURISDICTION : Civil Appeal No. 4834 of 2013.

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**S. IYYAPAN v. UNITED INDIA INSURANCE COMPANY 49  
LTD. AND ANOTHER**

From the Judgment and Order dated 31.10.2008 of the High Court of Judicature of Madras, bench at Madurai in Civil Miscellaneous Appeal No. 1016 of 2012. A

T.R.B. Sivakumar, K.V. Vijayakumar for the Appellant.

Ravi Bakshi, Rajeev Kumar Bansal, Akshay K. Ghai for the Respondents. B

The Judgment of the Court was delivered by

M.Y. EQBAL, J. 1. Leave granted. C

2. The right of the victim of a road accident to claim compensation is a statutory one. The Parliament in its wisdom inserted the relevant provisions in the Motor Vehicles Act in order to protect the victims of road accident travelling in the vehicle or using the road and thereby made it obligatory that no motor vehicle shall be used unless the vehicle is compulsorily insured against third party risk. In this background, can an Insurance Company disown its liability on the ground that the driver of the vehicle although duly licensed to drive light motor vehicle but there was no endorsement in the licence to drive light motor vehicle used as commercial vehicle. This is the sole question arises for consideration in this appeal. D E

3. This appeal by special leave arises in the following circumstances. F

4. On 23.5.1998, at about 8.30 P.M., when the deceased named Charles was riding his bicycle from east to west and reached in front of one house, one Sivananayaitha Perumal (driver of the vehicle who remained ex parte in the proceedings) came from west to east direction driving a Mahindra van at high speed and dashed against Charles and ran away without stopping the vehicle. Charles, who was admitted in a hospital, succumbed to the injuries sustained by him. It is evident from the Motor Vehicle Inspector's Report that the accident did not occur due to mechanical defect. On the claim petition filed by H

A deceased's wife (respondent No.2 herein), the Motor Accidents Claims Tribunal (Principal District Judge) at Kanyakumari (in short, "Tribunal"), after considering the evidence on record, awarded a compensation of Rs.2,42,400/- with interest at 12% p.a. from the date of petition - to be paid by the respondents before the Tribunal jointly and severally. The Tribunal was of the view that the person possessing licence to drive light motor vehicle is entitled to drive Mahindra maxi cab.

5. Insurance company preferred an appeal before the High Court challenging the judgment and award of the Tribunal. The Insurance Company did not dispute the quantum of compensation, but questioned the liability itself submitting that the driver of the vehicle was not having a valid driving licence to drive the vehicle on that day. Insurance company referred the decisions of this Court in *New India Assurance Company Ltd. v. Prabhu Lal* 2008 (1) SCC 696 and *Sardari & Ors. v. Sushil Kumar & Ors.* 2008 ACJ 1307 and submitted that a person having licence to drive light motor vehicle is not authorized to drive a commercial vehicle.

6. Per contra, on behalf of the claimant, this Court's decisions in *Ashok Gangadhar Maratha v. Oriental Insurance Co. Ltd.* AIR 1999 SC 3181 and *National Insurance Co. Ltd. v. Annappa Irappa Nesarai alias Nesaragi and Ors.*, 2008 (3) SCC 464 were referred and it was contended that a person who is having a licence to drive light motor vehicle can drive the commercial vehicle also.

7. After hearing the learned counsel on either side and considering the aforesaid decisions, the High Court relying upon *Sardari's* case (supra), observed that since the vehicle was being used as a taxi, which is a commercial vehicle, the driver of the said vehicle was required to hold an appropriate licence. Hence, there being a breach of the condition of the contract of insurance, the Insurance Company is not liable to pay any compensation to the claimant. The view taken by the High Court is quoted hereinbelow:-

S. IYYAPAN v. UNITED INDIA INSURANCE COMPANY 51  
LTD. AND ANOTHER [M.Y. EQBAL, J.]

"It has not been disputed that the vehicle was being used as a taxi, which is a commercial vehicle. The driver of the said vehicle was required to hold an appropriate license therefore. The third respondent herein, who was driving the said vehicle at the relevant time, was holder of a license to drive a light motor vehicle only. He did not possess any license to drive a commercial vehicle. In the present case, R.W.2 has deposed that the driver of the vehicle was not having the license to drive a commercial vehicle on the date of accident. Therefore, it is clear that the driver was not having the driving license to drive commercial vehicle on the date of accident. Evidently, therefore, there was a breach of the condition of the contract of insurance. Having tested the present case in the light of the Supreme court Judgment in the case of *Sardari and Others v. Sushil Kumar and Others*, cited supra, this court is of the considered view that, since the driver was not possessing the driving license to drive a commercial vehicle, the Insurance Company is not liable to pay any compensation to the claimant and the owner of the vehicle is alone liable to pay the compensation to the claimant."

8. Time and again this Court on various occasions considered the aim and object of making the insurance compulsory before a vehicle is put on the road. Indisputably a new chapter was inserted in the Motor Vehicles Act only with an intention of welfare measure to be taken to ensure and protect the plight of a victim of a road accident. In *Skandia Insurance Co. Ltd. v. Kokilaben Chandravadan*, (1987) 2 SCC 654, this Court observed as under:-

"13. In order to divine the intention of the legislature in the course of interpretation of the relevant provisions there can scarcely be a better test than that of probing into the motive and philosophy of the relevant provisions keeping in mind the goals to be achieved by enacting the same. Ordinarily it is not the concern of the legislature whether the owner

- A of the vehicle insures his vehicle or not. If the vehicle is not insured any legal liability arising on account of third party risk will have to be borne by the owner of the vehicle. Why then has the legislature insisted on a person using a motor vehicle in a public place to insure against third party risk
- B by enacting Section 94? Surely the obligation has not been imposed in order to promote the business of the insurers engaged in the business of automobile insurance. The provision has been inserted in order to protect the members of the community travelling in vehicles or using the roads from the risk attendant upon the user of motor vehicles on the roads. The law may provide for compensation to victims of the accidents who sustain injuries in the course of an automobile accident or compensation to the dependants of the victims in the case of a fatal accident. However, such protection would remain a protection on paper unless there is a guarantee that the compensation awarded by the courts would be recoverable from the persons held liable for the consequences of the accident. A court can only pass an award or a decree. It cannot ensure that such an award or decree results in the amount awarded being actually recovered, from the person held liable who may not have the resources. The exercise undertaken by the law courts would then be an exercise in futility. And the outcome of the legal proceedings which by the very nature of things involve the time cost and money cost invested from the scarce resources of the community would make a mockery of the injured victims, or the dependants of the deceased victim of the accident, who themselves are obliged to incur not inconsiderable expenditure of time, money and energy in litigation. To overcome this ugly situation the legislature has made it obligatory that no motor vehicle shall be used unless a third party insurance is in force. To use the vehicle without the requisite third party insurance being in force is a penal offence. The legislature was also faced with another problem. The insurance policy might provide for
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**S. IYYAPAN v. UNITED INDIA INSURANCE COMPANY 53  
LTD. AND ANOTHER [M.Y. EQBAL, J.]**

liability walled in by conditions which may be specified in the contract of policy. In order to make the protection real, the legislature has also provided that the judgment obtained shall not be defeated by the incorporation of exclusion clauses other than those authorised by Section 96 and by providing that except and save to the extent permitted by Section 96 it will be the obligation of the insurance company to satisfy the judgment obtained against the persons insured against third party risk (vide Section 96). In other words, the legislature has insisted and made it incumbent on the user of a motor vehicle to be armed with an insurance policy covering third party risks which is in conformity with the provisions enacted by the legislature. It is so provided in order to ensure that the injured victims of automobile accidents or the dependants of the victims of fatal accidents are really compensated in terms of money and not in terms of promise. Such a benign provision enacted by the legislature having regard to the fact that in the modern age the use of motor vehicles notwithstanding the attendant hazards, has become an inescapable fact of life, has to be interpreted in a meaningful manner which serves rather than defeats the purpose of the legislation. The provision has therefore to be interpreted in the twilight of the aforesaid perspective."

9. The defence which the insurer is entitled to take in a case for compensation arising out of the motor vehicles accident was provided under Section 96 of the old Act which is now Section 149 of the Act of 1988. Section 149 of the Motor Vehicles Act, 1988 made it mandatory on the part of the insurer to satisfy the judgments and awards against persons insured in respect of third party risk. For better appreciation, Section 149 is reproduced herein below:-

"(1) If, after a certificate of insurance has been issued under sub-section (3) of section 147 in favour of the person by whom a policy has been effected, judgment or award

A in respect of any such liability as is required to be covered  
by a policy under clause (b) of sub-section (l) of section  
147 (being a liability covered by the terms of the policy)  
or under the provisions of section 163A is obtained  
B notwithstanding that the insurer may be entitled to avoid  
or cancel or may have avoided or cancelled the policy, the  
insurer shall, subject to the provisions of this section, pay  
to the person entitled to the benefit of the decree any sum  
not exceeding the sum assured payable thereunder, as if  
C he were the judgment debtor, in respect of the liability,  
together with any amount payable in respect of costs and  
any sum payable in respect of interest on that sum by virtue  
of any enactment relating to interest on judgments.

D (2) No sum shall be payable by an insurer under sub-  
section (1) in respect of any judgment or award unless,  
before the commencement of the proceedings in which the  
judgment or award is given the insurer had notice through  
the Court or, as the case may be, the Claims Tribunal of  
the bringing of the proceedings, or in respect of such  
E judgment or award so long as execution is stayed thereon  
pending an appeal; and an insurer to whom notice of the  
bringing of any such proceedings is so given shall be  
entitled to be made a party thereto and to defend the action  
on any of the following grounds, namely:-

F (a) that there has been a breach of a specified  
condition of the policy, being one of the following  
conditions, namely:-

G (i) a condition excluding the use of the  
vehicle-

(a) for hire or reward, where the vehicle is on  
the date of the contract of insurance a vehicle  
not covered by a permit to ply for hire or  
H reward, or

**S. IYYAPAN v. UNITED INDIA INSURANCE COMPANY 55  
LTD. AND ANOTHER [M.Y. EQBAL, J.]**

**(b) for organised racing and speed testing, A  
or**

**(c) for a purpose not allowed by the permit  
under which the vehicle is used, where the  
vehicle is a transport vehicle, or B**

**(d) without side-car being attached where the  
vehicle is a motor cycle; or**

**(ii) a condition excluding driving by a named  
person or persons or by any person who is C  
not duly licensed, or by any person who has  
been disqualified for holding or obtaining a  
driving licence during the period of  
disqualification; or**

**(iii) a condition excluding liability for injury D  
caused or contributed to by conditions of war,  
civil war, riot or civil commotion; or**

**(b) that the policy is void on the ground that it was obtained  
by the non- disclosure of a material fact or by a E  
representation of fact which was false in some material  
particular.**

**(3) Where any such judgment as is referred to in sub-  
section (1) is obtained from a Court in a reciprocating F  
country and in the case of a foreign judgment is, by virtue  
of the provisions of section 13 of the Code of Civil  
Procedure, 1908 (5 of 1908) conclusive as to any matter  
adjudicated upon by it, the insurer (being an insurer  
registered under the Insurance Act, 1938 (4 of 1938) and G  
whether or not he is registered under the corresponding  
law of the reciprocating country) shall be liable to the  
person entitled to the benefit of the decree in the manner  
and to the extent specified in sub-section (1), as if the  
judgment were given by a Court in India:**

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A Provided that no sum shall be payable by the insurer in  
 respect of any such judgment unless, before the  
 commencement of the proceedings in which the judgment  
 is given, the insurer had notice through the Court  
 concerned of the bringing of the proceedings and the  
 B insurer to whom notice is so given is entitled under the  
 corresponding law of the reciprocating country, to be made  
 a party to the proceedings and to defend the action on  
 grounds similar to those specified in sub-section (2).

C (4) Where a certificate of insurance has been issued under  
 sub-section (3) of section 147 to the person by whom a  
 policy has been effected, so much of the policy as purports  
 to restrict the insurance of the persons insured thereby by  
 reference to any condition other than those in clause (b)  
 of sub-section (2) shall, as respects such liabilities as are  
 D required to be covered by a policy under clause (b) of sub-  
 section (1) of section 147, be of no effect:

E Provided that any sum paid by the insurer in or towards  
 the discharge of any liability of any person which is covered  
 by the policy by virtue only of this sub-section shall be  
 recoverable by the insurer from that person.

(5). .....

(6). ...."

F 10. Section 149(2)(a)(ii) gives a right to the insurer to take  
 a defence that person driving the vehicle at the time of accident  
 was not duly licensed. In other words, Section 149(2)(a)(ii) puts  
 a condition excluding driving by any person who is not duly  
 G licensed. The question arose before this Court as to whether  
 the Insurance Company can repudiate its liability to pay the  
 compensation in respect of the accident by a vehicle taking a  
 defence that at the relevant time it was being driven by a person  
 having no licence. While considering this point, this Court in the  
 H case of *Skandia Insurance Co. Ltd.* (supra) observed:-

**S. IYYAPAN v. UNITED INDIA INSURANCE COMPANY 57  
LTD. AND ANOTHER [M.Y. EQBAL, J.]**

**"12. The defence built on the exclusion clause cannot succeed for three reasons, viz.:**

**(1) On a true interpretation of the relevant clause which interpretation is at peace with the conscience of Section 96, the condition excluding driving by a person not duly licensed is not absolute and the promisor is absolved once it is shown that he has done everything in his power to keep, honour and fulfil the promise and he himself is not guilty of a deliberate breach.**

**(2) Even if it is treated as an absolute promise, there is substantial compliance therewith upon an express or implied mandate being given to the licensed driver not to allow the vehicle to be left unattended so that it happens to be driven by an unlicensed driver.**

**(3) The exclusion clause has to be "read down" in order that it is not at war with the "main purpose" of the provisions enacted for the protection of victims of accidents so that the promisor is exculpated when he does everything in his power to keep the promise."**

**11. To examine the correctness of the aforesaid view, the matter was referred to a 3-Judge Bench because of the stand taken by the Insurance Company that the insurer shall be entitled to defend the action on the ground that there has been a breach of specified condition of policy i.e. the vehicle should not be driven by a person who is not duly licensed and in that case the Insurance Company cannot be held to be liable to indemnify the owner of the vehicle. The 3-Judge Bench of this Court in the case of *Sohan Lal Passi v. P. Sesh Reddy & Ors.*, (1996) 5 SCC 21 after interpreting the provisions of Section 96(2)(b)(ii) of the Act corresponding to Section 149 of the new Act, observed as under:-**

**"12. ....**

A ..... According to us, Section 96(2)(b)(ii) should not be  
interpreted in a technical manner. Sub-section (2) of  
Section 96 only enables the insurance company to defend  
itself in respect of the liability to pay compensation on any  
of the grounds mentioned in sub-section (2) including that  
B there has been a contravention of the condition excluding  
the vehicle being driven by any person who is not duly  
licensed. This bar on the face of it operates on the person  
insured. If the person who has got the vehicle insured has  
allowed the vehicle to be driven by a person who is not  
C duly licensed then only that clause shall be attracted. In a  
case where the person who has got insured the vehicle with  
the insurance company, has appointed a duly licensed  
driver and if the accident takes place when the vehicle is  
being driven by a person not duly licensed on the basis of  
D the authority of the driver duly authorised to drive the  
vehicle whether the insurance company in that event shall  
be absolved from its liability? The expression 'breach'  
occurring in Section 96(2)(b) means infringement or  
violation of a promise or obligation. As such the insurance  
company will have to establish that the insured was guilty  
E of an infringement or violation of a promise. The insurer  
has also to satisfy the Tribunal or the Court that such  
violation or infringement on the part of the insured was  
wilful. If the insured has taken all precautions by appointing  
a duly licensed driver to drive the vehicle in question and  
F it has not been established that it was the insured who  
allowed the vehicle to be driven by a person not duly  
licensed, then the insurance company cannot repudiate its  
statutory liability under sub-section (1) of Section 96. ...."

G 12. In the case of *Ashok Gangadhar Maratha v. Oriental*  
*Insurance Co. Ltd.*, 1999 (6) SCC 620, the appellant was the  
owner of a truck weighing less than the maximum limit  
prescribed in Section 2(21) of the Motor Vehicles Act. The said  
truck was, therefore, a light motor vehicle. It was registered with  
H the respondent insurer for a certain amount and for a certain

**S. IYYAPAN v. UNITED INDIA INSURANCE COMPANY 59  
LTD. AND ANOTHER [M.Y. EQBAL, J.]**

period. Within the period of insurance, the truck met with an accident and got completely damaged. The appellant's claim against the respondent was rejected by the National Consumer Disputes Redressal Commission. The National Commission accepted the respondent's contention that the truck was a goods carriage or a transport carriage and that the driver of the truck, who was holding a driving licence in Form 6 to drive light motor vehicles only, was not authorized to drive a transport vehicle and, therefore, the insured having committed breach of the terms of insurance policy and the provisions of the Act, the respondent insurer was not liable to indemnify the insured. Allowing the appeal, this Court held as under:-

"14. Now the vehicle in the present case weighed 5920 kilograms and the driver had the driving licence to drive a light motor vehicle. It is not that, therefore, the insurance policy covered a transport vehicle which meant a goods carriage. The whole case of the insurer has been built on a wrong premise. It is itself the case of the insurer that in the case of a light motor vehicle which is a non-transport vehicle, there was no statutory requirement to have a specific authorisation on the licence of the driver under Form 6 under the rules. It has, therefore, to be held that Jadhav was holding an effective valid licence on the date of the accident to drive a light motor vehicle bearing Registration No. KA-28-567."

13. In the case of *New India Assurance Company, Shimla v. Kamla & Others*, (2001) 4 SCC 342, a fake licence had happened to be renewed by the statutory authorities and the question arose as to whether Insurance Company would be liable to pay compensation in respect of motor accident which occurred while the vehicle was driven by a person holding such a fake licence. Answering the question, this Court discussed the provisions of Sections 146, 147 and 149 of the Act and observed:-

A "21. A reading of the proviso to sub-section (4) as well as  
the language employed in sub-section (5) would indicate  
that they are intended to safeguard the interest of an  
insurer who otherwise has no liability to pay any amount  
to the insured but for the provisions contained in Chapter  
B XI of the Act. This means, the insurer has to pay to the third  
parties only on account of the fact that a policy of insurance  
has been issued in respect of the vehicle, but the insurer  
is entitled to recover any such sum from the insured if the  
insurer were not otherwise liable to pay such sum to the  
C insured by virtue of the conditions of the contract of  
insurance indicated by the policy.

22. To repeat, the effect of the above provisions is this:  
when a valid insurance policy has been issued in respect  
of a vehicle as evidenced by a certificate of insurance the  
burden is on the insurer to pay to the third parties, whether  
D or not there has been any breach or violation of the policy  
conditions. But the amount so paid by the insurer to third  
parties can be allowed to be recovered from the insured  
if as per the policy conditions the insurer had no liability  
to pay such sum to the insured.  
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23. It is advantageous to refer to a two-Judge Bench of  
this Court in *Skandia Insurance Co. Ltd. v. Kokilaben  
Chandravadan* (1987 )2 SCC 654. Though the said  
decision related to the corresponding provisions of the  
predecessor Act (Motor Vehicles Act, 1939) the  
F observations made in the judgment are quite germane now  
as the corresponding provisions are materially the same  
as in the Act. Learned Judges pointed out that the  
insistence of the legislature that a motor vehicle can be  
used in a public place only if that vehicle is covered by a  
policy of insurance is not for the purpose of promoting the  
business of the insurance company but to protect the  
members of the community who become sufferers on  
account of accidents arising from the use of motor  
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**S. IYYAPAN v. UNITED INDIA INSURANCE COMPANY 61  
LTD. AND ANOTHER [M.Y. EQBAL, J.]**

vehicles. It is pointed out in the decision that such protection would have remained only a paper protection if the compensation awarded by the courts were not recoverable by the victims (or dependants of the victims) of the accident. This is the *raison d'être* for the legislature making it prohibitory for motor vehicles being used in public places without covering third-party risks by a policy of insurance.

24. The principle laid down in the said decision has been followed by a three-Judge Bench of this Court with approval in *Sohan Lal Passi v. P. Sesh Reddy* (1996) 5 SCC 21.

25. The position can be summed up thus:

The insurer and the insured are bound by the conditions enumerated in the policy and the insurer is not liable to the insured if there is violation of any policy condition. But the insurer who is made statutorily liable to pay compensation to third parties on account of the certificate of insurance issued shall be entitled to recover from the insured the amount paid to the third parties, if there was any breach of policy conditions on account of the vehicle being driven without a valid driving licence. Learned counsel for the insured contended that it is enough if he establishes that he made all due enquiries and believed bona fide that the driver employed by him had a valid driving licence, in which case there was no breach of the policy condition. As we have not decided on that contention it is open to the insured to raise it before the Claims Tribunal. In the present case, if the Insurance Company succeeds in establishing that there was breach of the policy condition, the Claims Tribunal shall direct the insured to pay that amount to the insurer. In default the insurer shall be allowed to recover that amount (which the insurer is directed to pay to the claimant third parties) from the insured person."

14. In the case of *National Insurance Co. Ltd. v. Swaran Singh & Ors.*, (2004) 3 SCC 297, a 3-Judge Bench of this Court

A held as under:-

"47. If a person has been given a licence for a particular type of vehicle as specified therein, he cannot be said to have no licence for driving another type of vehicle which is of the same category but of different type. As for example, when a person is granted a licence for driving a light motor vehicle, he can drive either a car or a jeep and it is not necessary that he must have driving licence both for car and jeep separately.

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C 48. Furthermore, the insurance company with a view to avoid its liabilities is not only required to show that the conditions laid down under Section 149(2)(a) or (b) are satisfied but is further required to establish that there has been a breach on the part of the insured. By reason of the provisions contained in the 1988 Act, a more extensive remedy has been conferred upon those who have obtained judgment against the user of a vehicle and after a certificate of insurance is delivered in terms of Section 147(3). After a third party has obtained a judgment against any person insured by the policy in respect of a liability required to be covered by Section 145, the same must be satisfied by the insurer, notwithstanding that the insurer may be entitled to avoid or to cancel the policy or may in fact have done so. The same obligation applies in respect of a judgment against a person not insured by the policy in respect of such a liability, but who would have been covered if the policy had covered the liability of all persons, except that in respect of liability for death or bodily injury.

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G 73. The liability of the insurer is a statutory one. The liability of the insurer to satisfy the decree passed in favour of a third party is also statutory.

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xxx                      xxx                      xxx

**S. IYYAPAN v. UNITED INDIA INSURANCE COMPANY 63  
LTD. AND ANOTHER [M.Y. EQBAL, J.]**

110. The summary of our findings to the various issues as raised in these petitions is as follows: **A**

(i) Chapter XI of the Motor Vehicles Act, 1988 providing compulsory insurance of vehicles against third-party risks is a social welfare legislation to extend relief by compensation to victims of accidents caused by use of motor vehicles. The provisions of compulsory insurance coverage of all vehicles are with this paramount object and the provisions of the Act have to be so interpreted as to effectuate the said object. **B**

(ii) An insurer is entitled to raise a defence in a claim petition filed under Section 163-A or Section 166 of the Motor Vehicles Act, 1988, inter alia, in terms of Section 149(2)(a)(ii) of the said Act. **C**

(iii) The breach of policy condition e.g. disqualification of the driver or invalid driving licence of the driver, as contained in sub-section (2)(a)(ii) of Section 149, has to be proved to have been committed by the insured for avoiding liability by the insurer. Mere absence, fake or invalid driving licence or disqualification of the driver for driving at the relevant time, are not in themselves defences available to the insurer against either the insured or the third parties. To avoid its liability towards the insured, the insurer has to prove that the insured was guilty of negligence and failed to exercise reasonable care in the matter of fulfilling the condition of the policy regarding use of vehicles by a duly licensed driver or one who was not disqualified to drive at the relevant time. **D**

(iv) Insurance companies, however, with a view to avoid their liability must not only establish the available defence(s) raised in the said proceedings but must also establish "breach" on the part of the owner of the vehicle; the burden of proof wherefor would be on them. **E**

**F**

**G**

**H**

- A (v) The court cannot lay down any criteria as to how the said burden would be discharged, inasmuch as the same would depend upon the facts and circumstances of each case.
- B (vi) Even where the insurer is able to prove breach on the part of the insured concerning the policy condition regarding holding of a valid licence by the driver or his qualification to drive during the relevant period, the insurer would not be allowed to avoid its liability towards the insured unless the said breach or breaches on the condition of driving licence is/are so fundamental as are found to have contributed to the cause of the accident. The Tribunals in interpreting the policy conditions would apply "the rule of main purpose" and the concept of "fundamental breach" to allow defences available to the insurer under Section 149(2) of the Act.
- C
- D
- E (vii) The question, as to whether the owner has taken reasonable care to find out as to whether the driving licence produced by the driver (a fake one or otherwise), does not fulfil the requirements of law or not will have to be determined in each case.
- F (viii) If a vehicle at the time of accident was driven by a person having a learner's licence, the insurance companies would be liable to satisfy the decree.
- G (ix) The Claims Tribunal constituted under Section 165 read with Section 168 is empowered to adjudicate all claims in respect of the accidents involving death or of bodily injury or damage to property of third party arising in use of motor vehicle. The said power of the Tribunal is not restricted to decide the claims inter se between claimant or claimants on one side and insured, insurer and driver on the other. In the course of adjudicating the claim for compensation and to decide the availability of defence or defences to the insurer, the Tribunal has necessarily the
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**S. IYYAPAN v. UNITED INDIA INSURANCE COMPANY 65  
LTD. AND ANOTHER [M.Y. EQBAL, J.]**

**power and jurisdiction to decide disputes inter se between the insurer and the insured. The decision rendered on the claims and disputes inter se between the insurer and insured in the course of adjudication of claim for compensation by the claimants and the award made thereon is enforceable and executable in the same manner as provided in Section 174 of the Act for enforcement and execution of the award in favour of the claimants.**

**(x) Where on adjudication of the claim under the Act the Tribunal arrives at a conclusion that the insurer has satisfactorily proved its defence in accordance with the provisions of Section 149(2) read with sub-section (7), as interpreted by this Court above, the Tribunal can direct that the insurer is liable to be reimbursed by the insured for the compensation and other amounts which it has been compelled to pay to the third party under the award of the Tribunal. Such determination of claim by the Tribunal will be enforceable and the money found due to the insurer from the insured will be recoverable on a certificate issued by the Tribunal to the Collector in the same manner under Section 174 of the Act as arrears of land revenue. The certificate will be issued for the recovery as arrears of land revenue only if, as required by sub-section (3) of Section 168 of the Act the insured fails to deposit the amount awarded in favour of the insurer within thirty days from the date of announcement of the award by the Tribunal.**

**(xi) The provisions contained in sub-section (4) with the proviso thereunder and sub-section (5) which are intended to cover specified contingencies mentioned therein to enable the insurer to recover the amount paid under the contract of insurance on behalf of the insured can be taken recourse to by the Tribunal and be extended to claims and defences of the insurer against the insured by relegating them to the remedy before regular court in cases where**

A on given facts and circumstances adjudication of their  
claims inter se might delay the adjudication of the claims  
of the victims."

B 15. In the case of *National Insurance Co. Ltd. v. Kusum  
Rai and Others*, (2006) 4 SCC 250, the respondent was the  
owner of a jeep which was admittedly used as a taxi and thus  
a commercial vehicle. One Ram Lal was working as a Khalasi  
C in the said taxi and used to drive the vehicle some times. He  
had a driving licence to drive light motor vehicle. The taxi met  
with an accident resulting in the death of a minor girl. One of  
the issues raised was as to whether the driver of the said jeep  
was having a valid and effective driving licence. The Tribunal  
relying on the decision of this Court in *New India Assurance  
Co. v. Kamla* (supra) held that the insurance company cannot  
D get rid of its third party liability. It was further held that the  
insurance company can recover this amount from the owner of  
the vehicle. Appeal preferred by the insurance company was  
dismissed by the High Court. In appeal before this Court, the  
insurance company relying upon the decision in *Oriental  
Insurance Co. Ltd. v. Nanjappan*, 2004 (13) SCC 224 argued  
E that the awarded amount may be paid and be recovered from  
the owner of the vehicle. The Insurance Company moved this  
Court in appeal against the judgment of the High Court which  
was dismissed.

F 16. In the case of *National Insurance Company Ltd. v.  
Annappa Irappa Nesaria alias Nesaragi and Others*, 2008 (3)  
SCC 464, the vehicle involved in the accident was a matador  
having a goods carriage permit and was insured with the  
insurance company. An issue was raised that the driver of the  
vehicle did not possess an effective driving licence to drive a  
G transport vehicle. The Tribunal held that the driver was having  
a valid driving licence and allowed the claim. In appeal filed by  
the insurance company, the High Court dismissed the appeal  
holding that the claimants are third parties and even on the  
ground that there is violation of terms and conditions of the  
H

S. IYYAPAN v. UNITED INDIA INSURANCE COMPANY 67  
LTD. AND ANOTHER [M.Y. EQBAL, J.]

policy the insurance company cannot be permitted to contend that it has no liability. This Court after considering the relevant provisions of the Act and definition and meaning of light goods carriage, light motor vehicles, heavy goods vehicles, finally came to conclusion that the driver, who was holding the licence duly granted to drive light motor vehicle, was entitled to drive the light passenger carriage vehicle, namely, the matador. This Court observed as under:

"20. From what has been noticed hereinbefore, it is evident that "transport vehicle" has now been substituted for "medium goods vehicle" and "heavy goods vehicle". The light motor vehicle continued, at the relevant point of time to cover both "light passenger carriage vehicle" and "light goods carriage vehicle". A driver who had a valid licence to drive a light motor vehicle, therefore, was authorized to drive a light goods vehicle as well."

17. The heading "Insurance of Motor Vehicles against Third Party Risks" given in Chapter XI of the Motor Vehicles Act, 1988 (Chapter VIII of 1939 Act) itself shows the intention of the legislature to make third party insurance compulsory and to ensure that the victims of accident arising out of use of motor vehicles would be able to get compensation for the death or injuries suffered. The provision has been inserted in order to protect the persons travelling in vehicles or using the road from the risk attendant upon the user of the motor vehicles on the road. To overcome this ugly situation, the legislature has made it obligatory that no motor vehicle shall be used unless a third party insurance is in force.

18. Reading the provisions of Sections 146 and 147 of the Motor Vehicles Act, it is evidently clear that in certain circumstances the insurer's right is safeguarded but in any event the insurer has to pay compensation when a valid certificate of insurance is issued notwithstanding the fact that the insurer may proceed against the insured for recovery of the amount. Under Section 149 of the Motor Vehicles Act, the insurer can

A defend the action inter alia on the grounds, namely, (i) the vehicle was not driven by a named person, (ii) it was being driven by a person who was not having a duly granted licence, and (iii) person driving the vehicle was disqualified to hold and obtain a driving licence. Hence, in our considered opinion, the insurer cannot disown its liability on the ground that although the driver was holding a licence to drive a light motor vehicle but before driving light motor vehicle used as commercial vehicle, no endorsement to drive commercial vehicle was obtained in the driving licence. In any case, it is the statutory right of a third party to recover the amount of compensation so awarded from the insurer. It is for the insurer to proceed against the insured for recovery of the amount in the event there has been violation of any condition of the insurance policy.

D 19. In the instant case, admittedly the driver was holding a valid driving licence to drive light motor vehicle. There is no dispute that the motor vehicle in question, by which accident took place, was Mahindra Maxi Cab. Merely because the driver did not get any endorsement in the driving licence to drive Mahindra Maxi Cab, which is a light motor vehicle, the High Court has committed grave error of law in holding that the insurer is not liable to pay compensation because the driver was not holding the licence to drive the commercial vehicle. The impugned judgment is, therefore, liable to be set aside.

F 20. We, therefore, allow this appeal, set aside the impugned judgment of the High Court and hold that the insurer is liable to pay the compensation so awarded to the dependants of the victim of the fatal accident. However, there shall be no order as to costs.

G R.P.

Appeal allowed.