IN THE HIGH COURT OF PUNJAB AND HARYANA AT CHANDIGARH

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FAO-5560-2025 (O&M)

New India Assurance Company Limited

. . . . Appellant

Vs.

Brijesh and others

. . . . Respondents

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Reserved on: 03.07.2026
Pronounced on:06.07.2026
Pronounced Fully/Operative Part: Fully

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CORAM: HON'BLE MR JUSTICE DEEPAK GUPTA

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Present: - Mr. R.C.Kapoor, Advocate, for the appellant.

Respondent N: 1 ex-parte

Service of Respondents N: 2 & 3 dispensed with

(ex-parte before Tribunal)

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DEEPAK GUPTA, J.

The present appeal has been filed by the appellant–Insurance Company assailing the award dated 31.05.2025 passed by the learned Motor Accident Claims Tribunal, Karnal, whereby the claim petition filed under Section 166 of the Motor Vehicles Act, 1988 by respondent No.1-claimant Brijesh on account of injuries sustained by him in a motor vehicular accident dated 04.08.2017, was allowed and compensation of ₹2,63,977/- was awarded in his favour along with interest.

2. The Tribunal held the driver and owner *(respondents no. 2 & 3 herein)*of the offending truck bearing registration No. UP-15CT-3487, as well as the appellant-Insurance Company jointly and severally liable to satisfy the award. However, while noticing that the premium cheque issued by the owner towards the insurance policy had been dishonoured, the Tribunal granted liberty to the

appellant-Insurance Company to recover the awarded amount from the insured after satisfying the award.

3. Learned counsel appearing on behalf of the appellant has not challenged either the findings of the Tribunal regarding rash and negligent driving of the offending vehicle or the quantum of compensation awarded to the claimant. The challenge in the present appeal is confined only to the question of liability.

4. It is contended that the cheque issued by the insured towards payment of premium was dishonoured on presentation due to insufficiency of funds. It is further submitted that immediately thereafter the insurance policy was cancelled and due intimation regarding such cancellation was sent to the insured as well as to the concerned Registering Authority. According to learned counsel, once the policy stood cancelled prior to the accident, there remained no valid contract of insurance on the date of occurrence and, therefore, the appellant deserves complete exoneration from its liability instead of being directed to satisfy the award with liberty to recover the amount from the insured. Reliance is placed upon the statements made by RW-1 and RW-2, including the dishonoured cheque, bank return memo and cancellation letters proved before the Tribunal.

5. I have heard learned counsel for the appellant and have carefully gone through the impugned award and the record.

6. The only question that arises for consideration is whether the Insurance Company can avoid its statutory liability towards a third-party claimant solely on the ground that the premium cheque stood dishonoured and the policy had thereafter been cancelled.

7. This Court is unable to accept the aforesaid contention.The evidence led before the Tribunal indeed establishes that the cheque issued towards premium was dishonoured and that the insurer thereafter issued cancellation letters to the insured and also informed the Registering Authority. However, the

aforesaid facts by themselves do not absolve the insurer from its statutory liability towards an innocent third-party claimant.

8. The Motor Vehicles Act is a beneficial social welfare legislation enacted primarily to ensure that victims of road accidents are adequately compensated. The statutory obligation cast upon an insurer under Section 149 of the Motor Vehicles Act cannot be defeated merely because disputes subsequently arise between the insurer and the insured regarding payment of premium. Once a certificate of insurance has been issued and the vehicle is permitted to ply on public roads, third parties are entitled to legitimately proceed on the assumption that the vehicle is duly insured.

9. The legal position on the issue is no longer res integra.In ***Oriental Insurance Co. Ltd. v. Inderjit Kaur, (1998) 1 SCC 371***, the Hon'ble Supreme Court observed as under :

> “Chapter 11 of the Motor Vehicles Act, 1988, provides for the insurance of motor vehicles against third party risks. Section 146 thereunder states that no person shall use or cause or allow any other person to use a motor vehicle in a public place unless there is in forced in relation to the use of the vehicle a policy of insurance that complies with the requirements of the Chapter. Section 147 sets out the requirements of policies and the limits of liability. A policy of insurance, by reason of this provision, must be a policy which is issued by a person who is an authorised insurer. Sub-section 5 reads thus:
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> > ''(5) Notwithstanding anything contained in any law for the time being in force, an insurer issuing a policy of insurance under this section shall be liable to indemnify the person or classes of persons specified in the policy in respect of any liability which the policy purports to cover in the case of that person or those classes of persons.''
>
> Section 149 refers to the duty of insurers to satisfy judgments and awards against persons insured in respect of third party risks. Subsection (1) thereof reads thus:
>
> > ''(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 in respect of any such liability as is required to be covered by

> a policy under clause(b) of sub-section (1) of section 147 (being a liability covered by the terms of the policy) (or under the provisions of section 163A) is obtained against any person insured by the policy, then, ***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 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 judgment.''

We have, therefore, this position. Despite the bar created by Section 64-VB of the Insurance Act, the appellant, an authorised insurer, issued a policy of insurance to cover the bus without receiving the premium therefor. By reason of the provisions of Section 147(5) and 149(1) of the Motor Vehicles Act , the appellant became liable to identify third parties in respect of the liability which that policy covered and to satisfy awards of compensation in respect thereof notwithstanding its entitlement (upon which we do not express any opinion) to avoid or cancel the policy for the reason that the cheque issued in payment of the premium thereon had not been honoured.

The policy of insurance that the appellant issued was a representation upon which the authorities and third parties were entitled to act. The appellant was not absolved of its obligations to third parties under the policy because it did not receive the premium. Its remedies in this behalf lay against the insured.

We may note in this connection the following massage in the case of ***Montreal Street Railway Company vs.Normandin, A.I.R.1917 Privy Council 142***;

> ''When the provisions of a statute relate to the performance of a public duty and the case is such that to hold null and void acts done in neglect of this duty would work serious general inconvenience or injustice go persons who have no control over those entrusted with the duty and at the same time would not promote the main object of the Legislature, it has been the practice to hold such provisions to be directory only, the neglect of them, though punishable, not affecting the validity of the acts done.'

> It must also be noted that it was the appellant itself who was responsible for its predicament. It had issued the policy of insurance upon receipt only of a cheque towards the premium in contravention of the provisions of Section 64-VB of the Insurance Act. The public interest that a policy of insurance serves must, clearly, prevail over the interest of the appellant."

10. Thus, it was authoritatively held that even where the cheque issued towards premium is dishonoured, the insurer cannot avoid its statutory liability towards third parties. It was observed that the insurer, having voluntarily issued the policy of insurance, remains liable to satisfy third-party claims and its remedy lies against the insured for recovery of the amount.

11. The aforesaid principle was reiterated in ***New India Assurance Co. Ltd. v. Rula, (2000) 3 SCC 195***, wherein it was held that cancellation of the policy after dishonour of the premium cheque would not affect the accrued rights of third parties.

12. Again, in ***National Insurance Co. Ltd. v. Seema Malhotra, (2001) 3 SCC 151***, the Hon'ble Supreme Court clarified that although the insurer may be entitled to avoid the contract inter se the insured on account of dishonour of the premium cheque, such avoidance does not defeat the statutory rights available to third-party victims under Chapter XI of the Motor Vehicles Act.

13. The distinction between contractual liability towards the insured and statutory liability towards third parties has been consistently maintained by the Hon'ble Supreme Court. While the insurer may avoid the contract against the insured because consideration failed, the statutory obligation to satisfy an award in favour of a third-party victim continues to operate by virtue of Section 149 of the Act.

14. In the present case also, the accident admittedly occurred after issuance of the insurance policy and certificate of insurance. The claimant is an innocent third party having no concern whatsoever with the internal dispute between the insurer and the insured regarding dishonour of the premium cheque.

Such claimant cannot be deprived of statutory compensation merely because the insured failed to maintain sufficient funds in his bank account.

15. The argument that cancellation had been communicated to the insured as well as the Registering Authority also does not advance the appellant's case. Such cancellation may regulate the contractual relationship between the insurer and the insured and may furnish a valid ground for recovery from the insured, but it does not extinguish the statutory liability of the insurer vis-à-vis third-party claimants.

16. The Tribunal has, therefore, rightly directed the appellant-Insurance Company to satisfy the award in the first instance while simultaneously granting it liberty to recover the awarded amount from the owner/insured in accordance with law. Such direction is fully consistent with the law declared by the Hon'ble Supreme Court in the decisions noticed above and warrants no interference.

17. Consequently, no illegality or perversity can be found in the impugned award on the question of liability.

18. Accordingly, the appeal, being devoid of merit, is dismissed. The appellant-Insurance Company shall satisfy the award, if not already satisfied, and shall remain entitled to recover the amount so paid from the insured/owner by initiating appropriate proceedings in accordance with law, without being required to institute a separate civil suit.

(DEEPAK GUPTA)
JUDGE

06.07.2026
Jiten

Whether Speaking/reasoned *Yes*
Whether reportable *No*

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