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# EVOLVING LEGAL LANDSCAPE OF MOTOR INSURANCE IN INDIA

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## ABSTRACT

Third-party motor insurance is an essential part of the Indian legal and financial system, which gives important guarantees to people affected by the road accidents and at the same time makes sure that the statutory requirements are followed. This is mandatory insurance that is enforced under the Motor Vehicles Act, 1988, and allows victims to get their money back in the form of compensation towards injury, death, or the destruction of property caused by the use of vehicles insured by the policy. Even though it is a must, the successful application of third-party insurance remains a daunting task especially when it comes to the issue of liability in insurance, delay in compensation claims and consistency in compensating the award. Although the legal structure has been developed over time with a series of legislative amendments and judicial interpretations, there are still a number of inefficiencies inherent in the system.

This paper reviews the dynamics of liability and compensation in the third-party motor insurance regime in India critically and finds out whether the legislation in its current form is effective in balancing the interests of the victims and insurers. It examines the loopholes in the current system through a critical review of the statutory provisions, judicial precedents, and proposed policy projects and provides suggestions on reforming the current system to come up with a fair, transparent, and efficient system in the compensation process. These reforms are not only necessary in order to enhance access to justice but also to ensure the financial sustainability of the insurance sector.<sup>1</sup>

**Keywords:** Third-Party Motor Insurance; Motor Vehicles Act, 1988; Compensation; Liability; Motor Accident Claims Tribunal (MACT); Judicial Interpretation

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<sup>1</sup> Insurance Regulatory and Development Authority of India, 'Annual Report 2022-23' (IRDAI 2023) <https://www.irdai.gov.in> accessed 5 October 2025.

## INTRODUCTION

In India, road accidents remain one of the primary safety issues of the society, leading to massive loss of life and other injuries as well as economic problems. Third-party motor insurance in this aspect is a very important kind of insurance cover as it means that the accident victims do not have to assume the full financial responsibility. Third-party insurance is as required by the Motor Vehicles Act, 1988<sup>2</sup>, a legal provision to all vehicle owners in India. Third-party coverage is a unique type of insurance that considers damages or injuries caused to another individual, car or property as a result of the insured vehicle being involved in an accident as opposed to comprehensive insurance which protects not only the insured but also others.<sup>3</sup>

The necessity of the third-party insurance is based on the fact that the accident victims need to be insured to cover those potential victims who may otherwise have no opportunity to obtain sufficient compensation.<sup>4</sup> Nevertheless, the current system is associated with a variety of challenges such as extended compensation delays, fraud investigations, and unequal court decisions. Insurance companies are increasingly under financial pressure as victims are forced to go through protracted legal battles to prove negligence and exaggerated claims or fraud. All these inefficiencies weaken the aim of the insurance structure in ensuring timely, just, and fair redress.<sup>5</sup>

The Motor Accident Claims Tribunals (MACTs) which were established to ease and speed up the process of adjudicating compensation claims are often overwhelmed by large cases outstanding to them which slow the delivery of justice. There is also a tendency of awarding compensation to differ depending on the jurisdiction hence a lack of uniformity and equity.<sup>6</sup> These issues point to the necessity that the regime of insurance that is provided by third parties in India must be reassessed in a holistic manner that will allow the provision of justice in a manner that is economically sustainable.

### 1.1 Research Questions

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<sup>2</sup> The Motor Vehicles Act, 1988 Act No. 59 OF 1988

<sup>3</sup> PS Atiyah, *Accidents, Compensation and the Law* (7th edn, Cambridge University Press 2006) 234-236.

<sup>4</sup> General Manager, Kerala State Road Transport Corporation v Susamma Thomas (1994) 2 SCC 176.

<sup>5</sup> Arun Mohan, 'Motor Accident Claims Tribunals: Challenges and Reform' (2019) 5 Journal of Indian Law Institute 45, 52-53.

<sup>6</sup> Law Commission of India (n 3) para 4.2.

This paper seeks to address the following research questions:

1. To what extent does India's third-party motor insurance regime under the Motor Vehicles Act, 1988, achieve a balance between providing adequate compensation to accident victims and maintaining the financial sustainability of insurance providers?
2. What are the legal and procedural processes of establishing liability in the third-party motor insurance claims in India?
3. What has been the impact of judicial proclamations on compensation trends and award calculations on motor accident cases?
4. What are the systemic issues with regard to settlement of claims and fair compensation payments in a timely manner?
5. What should be done to make the third-party motor insurance structure more efficient and fairer through technological and legislative changes?

## **1.2 Research Objectives**

1. To examine the legal framework that regulates third-party motor insurance according to the Motor Vehicles Act, 1988, and determine how far it has been successful in dealing with the current issues.
2. To discuss the mechanisms of determining liability, such as the fault-based and no-fault compensation systems, and also to discover the procedural inefficiencies that impact on the implementation of the systems.
3. To determine how the judiciary has been trending in awarding compensation based on a review of landmark judgments on the effect they have on standardisation of compensation calculation.
4. To determine the critical issues of accident victims and insurance companies, such as the lack of proper settlement of the claims, fraudulent claims, and regional inequality in compensation.

5. To recommend effective changes such as integration of technology, systematic pay frameworks and mechanisms of resolving disputes in order to reach fair results.

### 1.3 Hypothesis

Although the present system on third-party motor insurance has subsumed detailed provisions of the law, it lacks fulfilment of its two-fold goals as a result of systemic inefficiencies in the determination of liability, inconsistency in compensation awards, and delays in the process, hence requiring wholesale legal and technological changes.

### 1.4 Literature review

The academic discourse on motor insurance in India has primarily focused on statutory compliance and compensation mechanisms. Scholars like K.S.N. Murthy have examined the regulatory framework<sup>7</sup>, while recent studies by Chandrasekaran highlight implementation challenges.<sup>8</sup> However, limited research exists on the intersection of technological innovation and legal reform in the Indian context. This paper addresses this gap by proposing a comprehensive framework that integrates digital solutions with legislative amendments.

## 2. EVOLUTION AND CURRENT POSITION- LEGISLATIVE AND JUDICIAL FRAMEWORK

The third-party motor insurance is one of the pillars of road safety and compensation system in India. It is majorly controlled by the Motor Vehicles Act, 1988 and controlled by the Insurance Regulatory and Development Authority of India (IRDAI)<sup>9</sup>. These legal tools combined will guarantee financial safety to victims of accidents as well as operational integrity of insurance companies. Section 146 of the Motor Vehicles Act provides that all motor vehicles based in India are required to be insured against third party risks, and Section 147 of the act stipulates the minimum conditions of the insurances, such as compensation in case of death, bodily injuries, or damage to third party property.

The Motor Accident Claims Tribunals (MACTs), established under Sections 165 and 166, are

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<sup>7</sup> KSN Murthy and KVS Sharma, *Modern Law of Insurance in India* (6th edn, LexisNexis 2021) 156-189

<sup>8</sup> K Chandrasekaran, 'Challenges in Implementation of Third-Party Motor Insurance in India' (2022) 12 Indian Journal of Law and Economics 78, 85-92.

<sup>9</sup> Insurance Regulatory and Development Authority Act 1999.

tasked with adjudicating compensation claims arising from motor accidents. Their purpose is to provide an accessible and expedited mechanism for victims seeking redress. However, challenges such as procedural delays, fraudulent claims, and disputes over the determination of liability continue to impede their efficiency. Over time, judicial interpretations have played a significant role in refining liability standards and ensuring fairness in compensation awards.<sup>10</sup>

The latest reforms and the efforts of IRDAI have been directed at influencing the transparency, digitization of the process of claims and the introduction of more vigilant methods to minimize manipulation and delay. Even with these developments, the disjunction between legislative intent and practice is still apparent, which will require more legal and procedural reforms to make sure that third-party motor insurance can perform its planned function of a vehicle of fair justice.

## **2.1 Statutory Provisions and Regulatory Framework**

The Motor Vehicles Act, 1988, serves as the backbone of third-party motor insurance in India, providing the legal framework for determining the responsibility of vehicle owners and the compensation of victims of road accidents. The law ensures that those who suffer injuries or loss due to motor vehicle accidents are financially protected, while also safeguarding vehicle owners from unlimited personal liability.

Historically, motor vehicle insurance in India evolved from the fault-based system established under the Motor Vehicles Act, 1939<sup>11</sup>. Initially, victims could only claim compensation by proving the negligence of the vehicle owner or driver. This “fault liability” principle created significant obstacles for victims, who often lacked the means or legal expertise to establish fault. Recognizing the inadequacies of this system, subsequent reforms introduced provisions for no-fault liability, beginning with Sections 92-A to 92-E in the earlier acts, which allowed for interim compensation without proving negligence.<sup>12</sup>

The 1988 Act consolidated these provisions and formally recognized both fault-based and no-fault liability mechanisms. Section 146 of the MVA mandates that all motor vehicles operating on public roads maintain an active third-party insurance policy. This statutory

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<sup>10</sup> *Sarla Verma & Ors v Delhi Transport Corporation* (2009) 6 SCC 121.

<sup>11</sup> Motor Vehicles Act 1939.

<sup>12</sup> Motor Vehicles Act 1988, ss 163-A, 163-B (now repealed).

requirement serves a dual purpose: it ensures that accident victims can seek timely financial redress, and it protects vehicle owners from personal liability that could arise from accidents. By making insurance compulsory, the law guarantees that victims have a reliable source of compensation without being entirely dependent on the financial resources of the wrongdoer.<sup>13</sup>

Section 147 specifies the minimum coverage required under third-party insurance policies.<sup>14</sup>

This includes payment for death, bodily injury, and damage to property caused by the insured vehicle. While the Act sets a cap on property damage liability at ₹7.5 lakh, policyholders may choose to extend coverage by opting for higher insured amounts. This provision reflects the legislature's attempt to standardize basic coverage while allowing flexibility for vehicle owners seeking additional protection. Notably, prior provisions related to interim compensation under no-fault liability, such as Section 140 (previously Sections 140-144)<sup>15</sup>, were amended by the Motor Vehicles (Amendment) Act, 2019.<sup>16</sup> The amendment simplified the procedure for no-fault compensation, providing fixed amounts, ₹50,000 for death and ₹25,000 for permanent disability, payable immediately, thus ensuring that victims receive timely relief without protracted litigation.

The Motor Accident Claims Tribunal (MACT), established under Sections 165 and 166, is the primary forum for resolving disputes regarding motor accident compensation. Designed as a faster and more accessible alternative to regular civil courts, MACT adjudicates claims under two main frameworks. Under Section 140, the no-fault liability principle applies, allowing victims or their families to receive compensation without proving negligence. This ensures immediate financial support, which can be critical in cases of death or serious injury. On the other hand, Section 166 governs fault-based claims, enabling claimants to seek higher compensation by demonstrating the negligence of the driver or owner. While this dual system balances fairness and efficiency, MACT proceedings have historically faced delays due to procedural inefficiencies, disputes over liability, and litigation strategies employed by insurers to minimize payouts.

In response to these challenges, reforms have been proposed and partially implemented.

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<sup>13</sup> MN Srinivasan, *Principles of Insurance Law* (9th edn, LexisNexis 2022) 234-237.

<sup>14</sup> Motor Vehicles Act 1988, s 147.

<sup>15</sup> Motor Vehicles Act 1988, ss 140-144 (before amendment).

<sup>16</sup> Motor Vehicles (Amendment) Act 2019.

Digitalization of claim procedures, fixed timelines for case resolution, and the introduction of standardized compensation slabs based on the severity of injury are expected to improve efficiency and consistency. Such measures aim to reduce delays, minimize arbitrariness in awards, and ensure that victims receive their rightful compensation promptly.

Beyond legislative mechanisms, the Insurance Regulatory and Development Authority of India (IRDAI)<sup>17</sup> plays a critical regulatory role in third-party motor insurance. IRDAI sets annual premium rates, balancing insurer solvency with policyholder affordability. It imposes requirements to maintain adequate reserves for claims, and has introduced various anti-fraud measures, including electronic verification of claims, vehicle tracking systems, and stricter documentation processes. Despite these efforts, insurance fraud continues to increase claim costs, contributing to rising premiums. Emerging technologies, such as artificial intelligence-based fraud detection and centralized digital accident databases, are being explored to enhance transparency, accuracy, and public trust in the claims process.

## 2.2 Judicial Shift from *Rylands v. Fletcher* to Present

The idea behind motor vehicle insurance dates back to the 18<sup>th</sup> century in the United Kingdom where the motor car was first introduced in England, in 1894. The first motor policy of insuring a third party was introduced in 1895 and this was mainly to cover the third-party liability, with a close consideration of the possible harm of this new mode of transport. During the post-World War I era, the number of road accidents increased significantly thus the enactment of legislation. In 1930 and 1934, the Road Traffic Act<sup>18</sup> established the third-party insurance as obligatory, establishing the base of the mandatory liability coverage in cars.

In India, the development of motor vehicle insurance went hand in hand with the development of the legislation. The principle of fault liability, in which compensation was subject to proving negligence or wrong-doing on the part of the driver was first enshrined in the Motor Vehicles Act, 1939, which was enacted by the British. Insurance being a public interest came under the Entry 35 of the Concurrent List of the Constitution where both parliament and states could legislate. Nevertheless, certain sections concerning third-party motor vehicle insurance

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<sup>17</sup> Insurance Regulatory and Development Authority Act 1999.

<sup>18</sup> Road Traffic Act 1930, s 35; Road Traffic Act 1934, s 10.

including those in Chapter XI of the Motor Vehicles Act<sup>19</sup> were regulated under Entry 47 of the Union List,<sup>20</sup> which states could not be amended by states.

After the independence, various efforts to modernize motor insurance laws were witnessed. The Motor Vehicles Act, 1988 was one of the milestones as it brought together and replaced the previous Act in 1939. This Act brought about detailed provisions to the third party insurance, at the time keeping the fault liability principle. Nevertheless, it also started to test the concept of no-fault liability since it is important to consider that even the victims should not be deprived of compensation simply because it might be hard to prove that the person is at fault. The no-fault liability system in India was established under Section 163-A and 163-B of the 1988 Act, in which interim compensation schemes and a target emphasis on providing speedy relief to victims were employed.

No-fault liability was enshrined in the law with the Motor Vehicles (Amendment) Act, 2019 that repealed the previous provisions and provided a simplified system of compensation. Section 164 under which the owner or the insurer of a motor vehicle is presently liable to pay fixed compensation of Rs.5 lakh in case of death and Rs.2.5 lakh in case of grievous injuries whether occurred through fault or not. There is also an address of hit-and-run cases, which gives Rs.2 lakh on death under 161. This legislative change is needed to guarantee that victims get compensated promptly and not to engage in protracted court battles to prove negligence.

The judicial interpretation has had a significant role in the motor insurance law in India. In *Srimati Manjushri Raha v. B.L. Gupta* (1977),<sup>21</sup> the Supreme Court acknowledged that this necessitated the development of no-fault liability to ensure that the victims do not suffer. On the same note, other courts such as *Eshwarappa v. C.S. Gurushanthappa*<sup>22</sup> demonstrate how the courts have always strived to affirm the principle of victim protection and compensation in time. The development of the principles of liability in India represents a more general juridical history that starts with English common law, in particular, with *Rylands v. Fletcher* (1868), which laid strict liability on the harm that comes because of inherently dangerous activities. Although *Rylands v. Fletcher* was handling land and substances of dangerous nature instead of

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<sup>19</sup> Motor Vehicles Act 1988, ch XI.

<sup>20</sup> Constitution of India 1950, Sch VII, List I, Entry 47.

<sup>21</sup> *Srimati Manjushri Raha v BL Gupta* (1977) 2 SCC 174; AIR 1977 SC 1158.

<sup>22</sup> *Eshwarappa v CS Gurushanthappa* (1993) 3 SCC 442.

automobiles, it established the principle of doctrinal basis of imposing liability regardless of fault—a principle which would be converted to legislation of the motor vehicle industry.

Introduction of no-fault liability into the contemporary Indian jurisprudence is a logical reaction to the growing complexity of road carnage and social need to provide relief to the situation immediately. Since the inception of the fault-based compensation in the early days to the current policy of fixed immediate payments, the history of third-party motor vehicle insurance reflects how a judicial activist and a legislative foresight interrelates. The courts have continuously upheld the fact that the insurance mechanism should safeguard the interest of the people that victims of road accidents should not be left without compensation because of technicalities or delays in the procedure.

Therefore, the effort of the fault-based approach inspired by the English law in early times to the modern form of no-fault compensation in India is not only a sign of legal development, but also a sign of social concern. It highlights the necessity of the reconciliation of the right of the insured and the necessity to protect the third parties so that the insurance of the motor vehicle could be not only a part of the contract but a means of social justice and social protection.

### **2.3 Comparative Analysis – International Perspectives**

Understanding how other countries handle motor insurance helps identify improvements for India's system. The UK has a Motor Insurers Bureau (MIB) that handles cases where the driver cannot be traced or is uninsured.<sup>23</sup> When accident victims cannot find who hit them, they can claim compensation from the MIB. This ensures innocent victims get help even when the guilty party cannot be found. India's hit-and-run scheme under Section 161 provides only Rs. 2 lakhs for death. Compared to the UK's comprehensive system, India needs improvement in coverage amounts and ease of claiming.<sup>24</sup>

Australia provides lifetime support for people seriously injured in motor accidents. The scheme focuses on helping victims recover through ongoing medical care and rehabilitation, not just money payments.<sup>25</sup> India can learn by expanding compensation beyond monetary awards to

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<sup>23</sup> Road Traffic Act 1988 (UK), s 145; Motor Insurers Bureau, 'Untraced Drivers Agreement 2017' (MIB 2017).

<sup>24</sup> Motor Vehicles Act 1988, s 161.

<sup>25</sup> National Injury Insurance Scheme Act 2013 (Australia), ss 15-20.

include rehabilitation costs and ongoing medical support.<sup>26</sup>

New Zealand has a unique government-run no-fault scheme where anyone injured in an accident automatically receives compensation without proving fault.<sup>27</sup> While India may not adopt this completely, the principle of guaranteed quick compensation without lengthy litigation is worth considering. India's current dual system could be improved by making no-fault compensation amounts more realistic.<sup>28</sup>

### **3. ISSUES AND OBSTACLES IN LIABILITY ASSESSMENT**

Determining liability in third-party motor insurance cases remains one of the most intricate and contested aspects of the compensation process. Although the Motor Vehicles Act, 1988, provides both fault-based and no-fault mechanisms for compensating victims, the practical execution of these provisions is fraught with inefficiencies.<sup>29</sup> Issues such as inaccurate or delayed police reports, prolonged tribunal proceedings, and fraudulent claims frequently undermine the system's credibility. Additionally, hit-and-run accidents introduce unique complexities, as the absence of an identifiable offender limits the ability to establish fault.<sup>30</sup> The convergence of these challenges not only delays justice for victims but also imposes financial strain on insurers, necessitating a careful balance between consumer protection and risk management.

#### **3.1 Fault-Based Liability vs. No-Fault Compensation**

The Motor Vehicles Act recognizes two primary systems of compensation, a. fault-based liability and b. no-fault liability, each serving distinct purposes within India's insurance framework. Under Section 166, fault-based liability requires claimants to prove that the accident resulted from the negligence of the vehicle owner or driver.<sup>31</sup> This aligns with conventional tort law principles, where the degree of fault determines the extent of liability. However, establishing negligence often entails lengthy and adversarial legal proceedings, as

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<sup>26</sup> Law Commission of India, 'Report No 232: Reform of the Motor Vehicles Act, 1988' (Ministry of Law and Justice 2009) para 6.3.

<sup>27</sup> Accident Compensation Act 2001 (New Zealand), ss 20-25.

<sup>28</sup> Motor Vehicles Act 1988, s 140.

<sup>29</sup> Motor Vehicles Act 1988, ss 140, 166; Law Commission of India, 'Report No 232: Reform of the Motor Vehicles Act, 1988' (Ministry of Law and Justice 2009) para 4.2.

<sup>30</sup> Rakesh Malhotra, 'Hit-and-Run Accidents: Legal and Practical Challenges' (2021) 9 Road Safety and Law Journal 89, 95-98.

<sup>31</sup> Motor Vehicles Act 1988, s 166

insurers commonly contest claims to minimize financial exposure. Consequently, many victims experience significant delays in obtaining compensation, exacerbating their financial and emotional distress.<sup>32</sup>

To mitigate such delays, Section 140 of the Act introduces a no-fault compensation mechanism.<sup>33</sup> This provision allows victims or their families to claim a fixed amount of ₹50,000 in cases of death and ₹25,000 in cases of permanent disability, without the need to prove negligence. While this framework ensures prompt financial assistance, the fixed amounts are typically inadequate to cover long-term medical costs or loss of livelihood. As a result, victims frequently pursue additional compensation through the fault-based system, leading to overlapping proceedings and further delays. Although the coexistence of both systems aims to promote fairness and accessibility, it has inadvertently created procedural complexity. Reforms that introduce standardized compensation slabs for various categories of injuries and establish streamlined adjudication processes could enhance both efficiency and equity in claim settlements.<sup>34</sup>

### 3.1.1 Critical Analysis of Dual Liability System:

The no-fault compensation under Section 140 provides Rs. 50,000 for death and Rs. 25,000 for disability. However, these amounts are far too small. Average funeral expenses in cities often exceed Rs. 2 lakhs.<sup>35</sup> This raises an important question: does the no-fault system actually provide meaningful help, or is it just a token gesture? Many experts argue such small amounts do not fulfil the law's purpose of providing immediate relief.<sup>36</sup> The dual system also creates confusion. Many victims do not understand they can claim under both systems. Some settle for the small no-fault amount without knowing they can pursue larger compensation through MACT.<sup>37</sup> Critics suggest India should either increase no-fault amounts significantly or simplify to one comprehensive mechanism.<sup>38</sup>

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<sup>32</sup> National Law School of India University, 'Study on Motor Accident Compensation in India' (NLSIU Research Report 2021) 45-48.

<sup>33</sup> Motor Vehicles Act 1988, s 140.

<sup>34</sup> Law Commission of India, para 6.1

<sup>35</sup> National Statistical Office, 'Household Consumer Expenditure Survey 2022-23' (Ministry of Statistics 2024) Table 4.7.

<sup>36</sup> Arun Mohan, 'Motor Accident Claims Tribunals: Challenges and Reform' (2019) 5 Journal of Indian Law Institute 45, 58-61.

<sup>37</sup> National Law School of India University, 'Study on Motor Accident Compensation in India' (NLSIU Research Report 2021) 45-48.

<sup>38</sup> Avtar Singh, \*Law of Insurance\* (10th edn, Eastern Book Company 2023) 289-294.

### 3.2 Legal and Practical Challenges in Establishing Liability

Although the system of determining the liability in India is statutorily elaborate, there are systemic obstacles to the working of the system that have remained to be a constant issue in practical implementation. Police records and police evidence is often dubious because of the inherent ineffectiveness of the system of investigation and reportage. The process is further complicated by the fact that delays in the tribunal processes are common, and in most cases, a large number of the victims are fraudsters.

One of the most pressing issues lies in the inadequacy of police reporting and evidence collection. In most accident cases, the First Information Report (FIR) serves as the foundation for establishing negligence. However, delays in filing FIRs, reluctance by police to register cases, and jurisdictional conflicts frequently obstruct the claims process. Inaccuracies in police documentation, whether arising from human error, negligence, or external influences further undermine the credibility of evidence. The absence of advanced investigative tools, such as accident reconstruction analysis and vehicle telematics, often leaves tribunals reliant on inconsistent witness testimony, which can compromise the accuracy of liability findings.<sup>39</sup>

Another major impediment is the significant backlog of cases in Motor Accident Claims Tribunals (MACTs). These tribunals, established to ensure swift adjudication, are burdened by an overwhelming volume of pending cases. Complex fault determinations and frequent disputes raised by insurers regarding pre-existing injuries or inflated claims further extend litigation timelines. Even after compensation is awarded, procedural inefficiencies in fund disbursement often delay payment to victims, eroding confidence in the justice system.<sup>40</sup>

The growing incidence of fraudulent claims compounds these challenges. Staged accidents, exaggerated injuries, and duplicate filings have become increasingly common, straining the financial and administrative capacities of insurers. To counter this, insurance companies have tightened their verification mechanisms, which, while necessary, inadvertently delay legitimate claims. This vicious cycle underscores the urgent need for systemic reforms to distinguish between genuine and fraudulent cases more effectively.

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<sup>39</sup> Institute of Road Traffic Education, 'Scientific Accident Investigation: Need and Implementation' (IRTE Report 2020) <https://www.irte.in> accessed 5 October 2025.

<sup>40</sup> Kavita Singh, 'Delayed Justice in MACT: Causes and Consequences' (2021) 13 Access to Justice Review 201, 212-215.

### 3.3 Resolving Inconsistencies in Liability Determination

Reforming liability determination mechanisms in third-party motor insurance is essential for ensuring both fairness and efficiency. The first step should be the digitization of accident and claims records, enabling the creation of a centralized database that consolidates FIRs, medical reports, and investigation details. Such a system would allow law enforcement agencies, insurers, and tribunals to access reliable, tamper-proof data, thereby reducing delays and minimizing the scope for fraud.

Secondly, tribunal proceedings should be expedited through **time-bound adjudication frameworks** and the introduction of alternative dispute resolution (ADR) mechanisms, such as mediation, for smaller claims. This would help reduce the burden on MACTs and provide victims with quicker access to justice. The establishment of independent accident investigation units, equipped with scientific tools like skid mark analysis, digital mapping, and vehicle damage assessment, could enhance the precision of fault determination.<sup>41</sup>

Furthermore, combating insurance fraud requires a combination of legal deterrence and technological innovation. Stronger penalties for fraudulent claimants, along with the deployment of AI-based fraud detection systems, could help identify and prevent suspicious claims. Incorporating blockchain technology into insurance record-keeping could also create a transparent and immutable system that minimizes the risk of data manipulation or duplication.<sup>42</sup>

Finally, public awareness initiatives are vital to ensuring that victims are informed of their legal rights and available compensation mechanisms. Many claimants remain unaware of their entitlements, leading to unnecessary delays and missed opportunities for redress. The Insurance Regulatory and Development Authority of India (IRDAI) should take a proactive role in conducting outreach programs and disseminating information about third-party insurance procedures and legal protections. A combination of legal reform, digital transformation, and public education can significantly enhance the credibility, transparency, and responsiveness of India's third-party motor insurance system.<sup>43</sup>

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<sup>41</sup> Institute of Road Traffic Education, 23-26

<sup>42</sup> Blockchain Research Institute India, 'Blockchain Applications in Insurance Industry' (2022) <https://www.briindia.org> accessed 6 October 2025

<sup>43</sup> IRDAI, 'Policyholder Protection and Education Framework' (IRDAI Guidelines 2021)

## 4. TRENDS IN COMPENSATION AND THEIR LEGAL IMPLICATIONS

Third-party motor vehicle insurance has taken the place of being one of the pillars in the protection of victims in India where it provides financial stability to victims and families of road accidents. This system has been highly reformed, both legislatively and judicially, over the decades as needs and economic realities in society changed. The compensation given on such insurance policies is meant to compensate on a loss of life, disability, or injury and at the same time offer financial sustainability to insurance providers. But current trends show that the number of claims is rising, the premiums are concurrently rising, there are delays in the process, and varying compensation awards across regions which all have significant legal consequences.

### 4.1 Fault-Based to No-Fault Liability

The history of motor vehicle insurance legislation in India started with a law known as the Motor Vehicles Act, 1939 which was largely based on the principle of fault liability. In this system claimants had to demonstrate negligence or wrongdoing of the driver or vehicle owner before they would receive compensation. Such a strategy tended to create a long legal battle and slow victim help.<sup>44</sup>

This was to be changed when the Motor Vehicles Act, 1988, came up with organized guidelines on the insurance against the third-party risks. Section 146 to 164 gave clear directions on the liability of the third party, whereas, Section 163-A and 163-B gave the foundation of the nofault liability where interim compensation is provided regardless of whether negligence has been proved to have occurred. This framework was further polished by the Motor Vehicles (Amendment) Act, 2019. Section 164 has made vehicle owners or insurers to make fixed damages 5 lakh against death and 2.5 lakh against grievous injuries without the claimant having to establish fault. Also, there are cases related to hit and run dealt with under Section 161 that ensures Rs.2 lakh in case of death. These legislative developments indicate that there has been a major transformation of victim-centered relief and expedited accessibility to compensation.

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<sup>44</sup> Motor Vehicles Act 1939; BC Mitra, *The Law Relating to Motor Vehicles* (5th edn, Universal Law Publishing 2020) 89-92.

## 4.2 Judicial Pronouncements

***Srimati Manjushri Raha v. B.L. Gupta*, (1977) 2 SCC 174; AIR 1977 SC 1158; (1977) 9 UJ 212.<sup>45</sup>**

The claim in *Srimati Manjushri Raha v. B.L. Gupta* (1977) concern the claimant who was claiming compensation due to the death of her husband Satyendra Nath Raha who was killed in a motor vehicle accident. The Claims Tribunal had allowed compensation of Rs. 60,000 and this was appealed on the basis of inadequacy. The Supreme Court noted that the statutory provisions which were in existence such as the section 95(2)(d) of the Motor Vehicles Act, 1939, had gross limitations on compensation meaning that the compensation amounts were very low compared to the real loss incurred by the victims. The Court pointed out the importance of judicial activism to help in making compensations in line with actual loss incurred, and not in line with the old statutory limits. This case provided the basis of courts actively interfering in claims of motor accidents and a paradigm shift in the compensation award system towards a more victim-centered orientation.

***Sarla Verma (Smt.) & Ors. v. Delhi Transport Corporation & Anr.*, (2009) 6 SCC 121; AIR 2009 SC 3104; (2009) 3 AWC 2138 (SC).<sup>46</sup>**

In the case of *Delhi Transport Corporation* (2009), the death of one of the family members in a motor accident was addressed and concerned the standardization in the calculation of the compensation. The High Court had used the multiplier technique, depending on the age of the deceased, yet there were disagreements over incorporating future prospects, the multiplier to be used and on deduction on personal expenses. The Supreme Court used a standard multiplier, the multiplier being the age of the deceased, and it gave a possibility to include future projections in the multiplier. The decision emphasized that the compensation must be based not only on the present earnings, but it should also take into account the future possible career advancement and increased earning potential. It also highlighted the need to consider the medical cost, rehabilitation and other associated costs. The case was a major move towards creating uniformity in the awards of compensation in various jurisdictions in India.

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<sup>45</sup> *ibid.*

<sup>46</sup> *ibid.*

***National Insurance Co. Ltd. v. Pranay Sethi, (2017) 16 SCC 680; AIR 2017 SC 5157.***<sup>47</sup>

The Supreme Court in the case *National Insurance Co. Ltd. v. Pranay Sethi* (2017) dealt with the computation of compensation in situations of death of a permanent employee. The most critical question was whether compensation should be with regard to future prospects and career growth. The Court supported the case and set certain principles of consideration of future prospects: 50 percent increase in cases with victims under 40 years of age, 30 percent in cases with 40-50-year-old people, and 15 percent with 50-60-year-old ones. The case pointed out that the amount of compensation should not be higher than the real loss incurred by the dependents, and they should be just and fair. The Court offered a systematic methodology, which made tribunals and courts in India to adopt a more systematic approach thereby minimizing the disparity in awards and encouraging evidence-based relief that is victim-oriented.

***General Manager, Kerala State Road Transport Corporation v. Susamma Thomas, (1994) 2 SCC 176; AIR 1994 SC 1631.***<sup>48</sup>

The case involved the death of a permanent employee due to a motor vehicle accident and how the compensation due to dependents should be computed. The Court believed that the true income that the deceased earned at death may not be the full earning capacity. The Court therefore emphasized on the fact that future prospects were to be included in determining the loss of dependency. The case solidified the concept that an award ought to capture the entire effects of the death of a victim on the people who depend on the victim, considering not just the current income but also future career advancement, the prospects of promotion, and so on.

***Magma General Insurance Co. Ltd. v. Nanu Ram Alias Chuhru Ram, (2018) 18 SCC 130; 2018 INSC 828.***<sup>49</sup>

The case of *Magma General Insurance Co. Ltd. v. Nanu Ram Alias Chuhru Ram* (2018) involved the compensation of the family of a self-employed person who lost his life in a motor accident. The Court decided that the principle of looking at future perspective does not apply to the salaried employees but equally to the self-employed victims. In the case of self-employed individuals who are less than 40 years, the Court advised that the calculated income should rise

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<sup>47</sup> *ibid.*

<sup>48</sup> *ibid.*

<sup>49</sup> *ibid.*

by 40% in consideration of career development and the increase in possible income. The decision not only expanded the definition of evidence-based compensation calculations but also made sure that dependents of victims who are self-employed can obtain a fair and reasonable compensation, which corresponds to their real financial loss.

### **4.3 Increment in Claims and Premium Pressures**

The motor insurance claims involving third parties have significantly risen in the past ten years. This has increased with a better public awareness, access to the justice system and a judiciary that has shifted its attention towards protecting the victims. Although these trends are advantageous to the accident victims, they have escalated the economic expense of insurance companies. Therefore, to be financially sustainable, the insurers regularly revise the premiums as per the direction of the Insurance Regulatory and Development Authority of India (IRDAI).

Increased premiums however have come with unintended effects. The stiffening financial pressure on many commercial vehicle owners to insure their vehicles is leading to the rising numbers of vehicles with no insurance coverage in Indian roads. This weakens the legislative aims of third-party insurance, and the victims of accidents have few ways of seeking redress. The regulatory and legal systems should thus create a balance between proper compensation of the victim and affordability and access to insurance cover.<sup>50</sup>

### **4.4 Procedural Delays and Alternative Dispute Resolution.**

Sluggish compensation payment remains to be a major problem. It is common practice to spend years waiting to be compensated because of prolonged litigation in Motor Accident Claims Tribunals (MACTs), adjournment after adjournment, and poor administration of documentation procedures. Such delays negate the welfare intent of the motor insurance laws and indicate the inefficiency of the motor insurance system processes.

#### **4.4.1 Analysis of the ADR Mechanism**

In order to solve these problems, the courts have focused more on applying Alternative Dispute Resolution (ADR) mechanisms. Examples of Lok Adalats include the effectiveness of quick and amicable resolution of insurance disputes by Lok Adalats. ADR processes such as

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<sup>50</sup> IRDAI, 'Annual Report 2023–24' (IRDAI 2024) 78-82; Ministry of Road Transport and Highways, 'Road Accidents in India – 2023' (Government of India 2024) 156-160.

mediation can enable the lessening of the cases that the tribunals will handle and give the victims of the process quicker access to justice. Also, implementation of digital case management systems in MACTs can also facilitate adjudication. Online registration, effective filing of documents and tracking of cases in real time make it more transparent, minimise bureaucracy and seek faster compensation.<sup>51</sup>

Lok Adalats achieve settlement rates exceeding 60% for motor accident cases, much higher than regular courts.<sup>52</sup> However, insurance companies sometimes refuse to participate, and Lok Adalats have limited power for cases above Rs. 10 lakhs. Additionally, The National Consumer Disputes Redressal Commission has successfully piloted ODR for consumer disputes.<sup>53</sup> An ODR platform for motor insurance claims under Rs. 5 lakhs could resolve thousands of cases quickly, freeing MACTs for complex claims.<sup>54</sup>

#### **4.5 Insurer Responsibility in fraud prevention.**

The other trend that has arisen is the increase in fraudulent claims such as false accidents and inflated injuries. These practices add to the financial burden on the insurers and also lead to increment in the premiums of every policyholder. In response to this, insurance organizations are putting more money on technologically advanced verification mechanisms, centralized databases of accidents and cooperative mechanisms with the law enforcement agencies.

Education on the part of the population is also important. Teaching citizens about the legal and moral implications of making false claims will help to deter fraud as well as build confidence in the insurance system. Technological innovation coupled with regulatory controls as well as education to the people can ensure that the insurers remain financially stable and at the same time safeguard the rights of the real claimants.

## **CONCLUSION AND SUGGESTIONS**

The analysis of the third-party motor insurance system of India presents the fact that even

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<sup>51</sup> KK Anand, 'Reforming MACT Proceedings in India: Towards Speedy and Fair Compensation' (2021) National Law Review 4(2) 231, 240-242; National Legal Services Authority, 'Report on Lok Adalats and Settlement of Motor Accident Claims' (NALSA Report 2022).

<sup>52</sup> National Legal Services Authority, 'Report on Lok Adalats and Settlement of Motor Accident Claims' (NALSA Report 2022) 67-72.

<sup>53</sup> National Consumer Disputes Redressal Commission, 'Annual Report on ODR Pilot Project' (NCDRC 2023) <<https://ncdrc.nic.in>> accessed 10 October 2025.

<sup>54</sup> IRDAI, 'Policyholder Protection and Education Framework' (IRDAI Guidelines 2021) para 3.2.

though there is a strong legislative base through the Motor Vehicles Act, 1988, there are a number of implementation weaknesses that are still hindering the system. The twin goals of justice to the victims and sustainability to the insurers are eroded by persistent issues of procedural delays, fraudulent claims and inconsistent compensation awards. The increasing number of claims, in addition to the long time of settlements, are not only influencing the financial stability of insurers, but also robbing accident victims of prompt relief.

In order to resolve these issues, there is a need to address them through comprehensive reforms. Enhanced accuracy and quickness of the liability assessment can be achieved by strengthening the process of collecting evidence, which may be done by enhancing the police investigation procedures and encourage the development of digital reporting about accidents. The possibility of introducing systematic compensation patterns based on national standards would assist in establishing fairness and homogeneity in the various states and tribunals. The guidelines laid down in Pranay Sethi and Sarla Verma ought to be put in place at all times to ensure a level of consistency in the calculation of compensation.

In addition, legal reforms must focus on the claim settlement in time-bound claims in MACTs and promote the greater application of alternative dispute resolution mechanisms like Lok Adalats to reduce tribunal back-log. Simultaneously, the application of technology in fraud detection systems that are powered by AI and digital claim management will improve accountability and efficiency in payment claims.

In the final verdict, the development of a sustainable balance between consumer protection and insurer viability is a multi-dimensional approach, which should include legal changes, digital innovation, and public education. Through fixing the inefficiencies, equalizing compensation schemes, and adopting technology India will be one step to a fairer, more transparent, and sustainable third-party motor insurance system one that will provide justice to the victims and the health of the overall insurance industry in the long-term.

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