Section 39 of The Motor Vehicles Act and Its Effects on The Settlement of Insurance Claims

Authored by:

Naman Verma[1]

The Motor Vehicles Act of India is a crucial legislation that governs the use of motor vehicles in the country. One of the most important provisions of the Act is Section 39[2], which has significant implications for the settlement of insurance claims in cases of total loss of vehicle due to accident, theft etc

Theft of motor vehicles is a common occurrence in India, with thousands of vehicles being stolen every year. In such cases, the first step that the owner must take is to inform the police and file a First Information Report (FIR). Once the FIR has been filed, the owner must inform the insurance company about the theft and initiate the process of making a claim. This is where Section 39 of the Motor Vehicles Act[3] comes into play. The section prohibits keeping or driving a motor vehicle in a public space or anywhere else if it hasn't been registered in accordance with the provisions of this act. The true wording of the section is as under:

> *Section 39 - Necessity for registration : No person shall drive any motor vehicle and no owner of a motor vehicle shall cause or permit the vehicle to be driven in any public place or in any other place unless the vehicle is registered in accordance with this Chapter and the certificate of registration of the vehicle has not been suspended or cancelled and the vehicle carries a registration mark displayed in the prescribed manner: Provided that nothing in this section shall apply to a motor vehicle in possession of a dealer subject to such conditions as may be prescribed by the Central Government.*

The reason for this requirement of registration is to prevent fraudulent claims of theft and loss of vehicle due to other reasons. In the absence of a police report, it would be easy for a dishonest owner to claim that their vehicle was stolen and make an insurance claim. However, by requiring a police report, Section 39 ensures that only genuine cases of theft are considered for insurance claims.

[1] The author is working as a Legal Associate at Jurist and Jurist International Law Firm.
[2] https://www.indiacode.nic.in/show-data?actid=AC_CEN_30_42_00009_198859_1517807326286&sectionId=28312&sectionno=39&orderno=42
[3] https://www.indiacode.nic.in/bitstream/123456789/9460/1/a1988-59.pdf

Once the insurance company receives the FIR, they initiate an investigation to verify the claim. The purpose of the investigation is to ensure that the claim is genuine and that there is no attempt at fraud.

If the insurance company is satisfied that the claim is genuine, they proceed with the settlement process. The settlement amount depends on the type of insurance policy that the owner has taken. If the owner has taken a comprehensive policy, the settlement amount will be the insured value of the vehicle at the time of theft. If the owner has taken a third-party policy, the settlement amount will be limited to the legal liability of the insurer, which is the value of the vehicle at the time of theft minus the depreciation.

The Supreme Court has also emphasised the importance of complying with Section 39 of the Motor Vehicles Act in cases of theft. In the case of ***National Insurance Co. Ltd vs Swaran Singh & Ors (2004)***[4]The Supreme Court held that it is also essential for the owner of the stolen vehicle to take reasonable care to prevent theft. The Supreme Court has held that the insurance company is not liable to pay the claim if the owner has failed to take reasonable care to prevent the theft. The Court observed that the purpose of this requirement is to ensure that only genuine cases of theft are considered for insurance claims and to prevent fraudulent claims

In the case of ***National Insurance Co. Ltd. v. Laxmi Narain Dhut (2007)***[5]The Supreme Court held that the owner of the vehicle must take reasonable care to prevent the theft, and failure to do so would result in the insurance company being discharged from its liability to pay the claim. Furthermore, the Supreme Court has also held that the insurance company has the right to investigate the claim and verify the genuineness of the theft.

Therefore, Section 39 of the Motor Vehicles Act has a significant impact on the settlement of insurance claims in cases of theft. The requirement to report the theft to the police and obtain a copy of the FIR helps prevent fraudulent claims and ensures that only genuine theft cases are considered for insurance claims. However, the settlement process can be lengthy and may involve additional documentation and evidence.

However, if theft occurs and is not reported to the police or the insurance company within a reasonable amount of time, the insurance company may be entitled to settle the claim on a non-standard basis. A situation of settlement of insurance claims on a non-standard basis arises when the circumstances of a claim do not fit within the standard terms and conditions of the insurance policy.

At the same time, the supreme court has also held that if there was a delay in informing the police regarding the loss of the vehicle the insurer can still be bound to settle the claim on a non-standard

[4] National Insurance Co. Ltd. vs. Swaran Singh and Ors. (05.01.2004 - SC) : MANU/SC/0021/2004
[5] National Insurance Co. Ltd. vs. Laxmi Narain Dhut (02.03.2007 - SC) : MANU/SC/1233/2007

basis if the insured was using the vehicle outside the terms of conditions of an insurance contract, if the vehicle was stolen or looted etc., and the insurer has already applied for a permanent registration certificate.

The Hon'ble supreme court has in the case of ***National Insurance Co. Ltd vs Nitin Khandelwal on 8 May, 2008*** has thus held that:

> *13. ...In the case of theft of vehicle breach of condition is not germane. The appellant Insurance Company is liable to indemnify the owner of the vehicle when the insurer has obtained a comprehensive policy for the loss caused to the insurer.*
>
> *14. ...On consideration of the totality of the facts and circumstances in the case, the law seems to be well settled that in case of theft of vehicle, nature of use of the vehicle cannot be looked into and the Insurance Company cannot repudiate the claim on that basis.*

The apex court in the case of ***Om Prakash v. Reliance General Insurance (2017)***[6] has held :

> *11. It is common knowledge that a person who lost his vehicle may not straightaway go to the Insurance Company to claim compensation. At first, he will make efforts to trace the vehicle. It is true that the owner has to intimate the insurer immediately after the theft of the vehicle. However, this condition should not bar settlement of genuine claims particularly when the delay in intimation or submission of documents is due to unavoidable circumstances. The decision of the insurer to reject the claim has to be based on valid grounds. Rejection of the claims on purely technical grounds in a mechanical manner will result in loss of confidence of policy-holders in the insurance industry. If the reason for delay in making a claim is satisfactorily explained, such a claim cannot be rejected on the ground of delay. It is also necessary to state here that it would not be fair and reasonable to reject genuine claims which had already been verified and found to be correct by the Investigator. The condition regarding the delay shall not be a shelter to repudiate the insurance claims which have*

[6] Om Prakash vs. Reliance General Insurance and Ors. (04.10.2017 - SC) : MANU/SC/1259/2017

> *been otherwise proved to be genuine. It needs no emphasis that the Consumer Protection Act aims at providing better protection of the interest of consumers. It is a beneficial legislation that deserves liberal construction. This laudable object should not be forgotten while considering the claims made under the Act.*

The supreme court in the case of ***Narinder Singh v. New India Assurance Co. Ltd. (2014)***[7] thus held that:

> *14. …Nothing has been brought on record by the appellant to show that before or after 11.1.2006, when the period of temporary registration expired, the appellant, owner of the vehicle either applied for permanent registration as contemplated under Section 39 of the Act or made any application for extension of period as temporary registration on the ground of some special reasons.*

The supreme court has further held in the case of ***United India Insurance Co. Ltd. v Sushil Kumar Godara (2021)***[8] that:

> *10. …The respondent/complainant never alleged or proved that he applied for a permanent registration, or sought extension of the temporary registration beyond 19-07-2011.*
>
> *13 …There is nothing on record to suggest that the respondent had applied for registration or that he was awaiting registration*

In this case, it was held that the respondent, after the expiration of the temporary registration certificate, had neither applied for a permanent registration certificate nor had sought any extension of the temporary registration certificate and therefore was using the vehicle outside the terms of the insurance contract. If any of the two above mentioned exceptions are present then the use of the vehicle shall not have been considered as a fundamental breach of the conditions contained in the contract of insurance.

Therefore, even if a person is using a vehicle outside the terms of use of vehicle as per the insurance contract but at the same time has applied for a permanent registration certificate or if he has sought an extension for temporary registration certificate, then in such cases if the use of vehicle was not found to be fraudulent or materially affecting the coverage, then the insurer may be required to settle the claim on a non-standard basis.

[7] Narinder Singh vs. New India Assurance Company Ltd. (04.09.2014 - SC) : MANU/SC/0762/2014
[8] United India Insurance Co. Ltd. vs. Sushil Kumar Godara (30.09.2021 - SC) : MANU/SC/0743/2021

Conclusion

Overall, the directions of the Supreme Court of India regarding the settlement of insurance claims on a non-standard basis emphasises on the importance of transparency, fairness, and compliance with the terms and conditions of the insurance policy and the applicable law. In conclusion, the establishment of settlement of insurance claims on a non-standard basis has had a significant impact on the insurance industry in India. The decisions by the Hon'ble Supreme court have placed the burden of proving the materiality of non-disclosure on the insurance company and has interpreted any ambiguity in the terms of the contract in favour of the insured. This has led to greater protection for policyholders and has ensured that insurance companies cannot deny claims on flimsy grounds. The decision has also led to a more equitable settlement of insurance claims and has strengthened the confidence of the public in the insurance industry. Overall, settlement of insurance claims on a non-standard basis particularly in cases of vehicle theft has been a positive development for the insurance industry in India, and it is important for insurance companies to follow the principles established by the Supreme Court to ensure fair and just settlements of claims.

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