



CIVIL

No Loophole for Insurers: Supreme Court Upholds Liability in Incomplete Vehicle Transfer Case

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Introduction

This judgment from the Supreme Court of India in the case of Brij Bihari Gupta as the Appellant and Manmet & Ors.^[1] as the Respondent pertains to several civil appeals^[2] challenging the orders of the High Court of Chhattisgarh. The appeals concern the determination of liability for compensation awarded by the Motor Accidents Claims Tribunal following a motor vehicle accident. The central dispute is between the insurance company, which sought to avoid its liability, and the appellant, who was the driver and ostensible owner of the vehicle. The core legal issues revolved around whether the injured were gratuitous passengers and whether the vehicle's ownership had been legally transferred, thereby affecting the insurance company's responsibility to indemnify the registered owner.

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Background of the Case

The legal dispute stemmed from a series of appeals against the High Court of Chhattisgarh's orders, which had modified an award from the Motor Accidents Claims Tribunal (MACT). The MACT had initially granted compensation to the victims of a motor vehicle accident, holding the registered owner, the driver (Brij Bihari Gupta), and the insurance company jointly and severally liable. However, the insurance company challenged this decision in three of the eleven claim petitions. The insurer's main arguments for seeking to be absolved of liability were that the injured were gratuitous passengers and that the vehicle's ownership and possession had been transferred to the appellant/driver, thereby nullifying the insurance policy. The High Court accepted the insurer's contentions and exonerated it from its obligations. This led the appellant, Brij Bihari Gupta, who was the driver of the vehicle, to file the present appeals before the Supreme Court.

Legal Reasoning

The Supreme Court's legal reasoning focused on the interpretation of the Motor Vehicle Act, 1988, designed to protect the interests of accident victims. The Supreme Court's decision directly addressed and rejected the insurance company's two primary arguments for denying liability.

Insurer's Liability for Passengers in a Goods Vehicle

The first legal issue was whether the injured and deceased could be classified as **gratuitous passengers**, which would typically absolve the insurer of liability. The insurance company asserted they were, but the court found this claim to be a **mere assertion without substantiation**. The judgment relied on the claimant's depositions, which established that they were petty hawkers carrying their goods (fish and vegetables) in the vehicle. The court reasoned that in such a scenario, the individuals were not gratuitous passengers. This determination is supported by Section 147(1)(b)(i) of the Motor Vehicle Act, 1988, which specifically includes the "owner of the goods or his authorized representative carried in the motor vehicle" under the category of a "third party" to whom the insurance policy provides coverage. Therefore, the insurer's liability to indemnify the registered owner for their death or injury was upheld.

Transfer of Ownership:

The Court analyzed the agreement between the registered owner and the appellant. The agreement indicated that the transfer of ownership was conditional upon a final payment of Rs. 10,000, which had not been made at the time of the accident. As per Section 50 of the Motor Vehicle Act, 1988, the transfer of registration had not occurred, and thus, the registered owner remained the legal owner of the vehicle.

Liability After an Incomplete Vehicle Transfer

The second critical legal issue concerned who was liable for the accident when the vehicle's ownership was in a state of flux. The insurance company argued that since the appellant/driver had an agreement with the registered owner to take possession of the vehicle, the insurer was no longer liable. The Supreme Court, however, examined the agreement and found that the transfer of ownership was not complete. The agreement stipulated that the registration would only be transferred after a balance payment was made, and this payment was pending at the time of the accident. The court's reasoning was based on the legal requirement under Section 50 of the Motor Vehicle Act, 1988, which mandates that a transferee must report the transfer of a vehicle to the Registering Authority within 14 days. Since this legal requirement was not fulfilled, the court concluded that the ownership remained with the registered owner, and therefore, the insurer's liability to indemnify the registered owner persisted. The court reinforced this principle by citing its own precedent in **Naveen Kumar vs. Vijay Kumar & Ors.**^[3], which held that the definition of an "owner" under the Act should be interpreted to protect the claimant and not burden them with tracing successive transfers. The liability, therefore, falls "squarely on the registered owner," and the insurer must indemnify it.

Judicial Reasoning

The Supreme Court determined that the High Court's interference with the Tribunal's finding of fact was "perfunctory" and made "without any material". The High Court had erred in absolving the insurer of its liability. The Court found that the insurance company's assertions were unsupported by evidence, and the legal and factual realities of the case, as established by the Tribunal, pointed to the insurer's liability. The Court reinforced the principle that the registered owner is responsible for compensating accident victims, and this liability must be indemnified by the insurer.

The judicial reasoning in this case highlights the Supreme Court's commitment to a purposive interpretation of the Motor Vehicle Act, 1988, with the primary objective of safeguarding the rights of accident victims. The Court's reasoning can be summarized as follows:

- **Rejection of the High Court's "Perfunctory" Approach:** The Supreme Court found that the High Court had erred by interfering with the MACT's factual findings without proper justification. The High Court's conclusion to absolve the insurer of liability was described as "perfunctory" and based on a "mere assertion without substantiation" from the insurance company.
- **Protection of Third-Party Claimants:** The Court's reasoning was firmly rooted in the principle that the law, specifically the Motor Vehicle Act, is designed to protect third party claimants. By upholding the insurer's liability, the Court ensured that the victims would not be left to pursue a difficult and protracted legal battle against an individual whose legal ownership was in dispute.
- **Factual Findings of the Tribunal:** The Supreme Court gave due weight to the factual findings of the Tribunal, which were based on the evidence presented, including the claimants depositions. The Tribunal's finding that the passengers were travelling with their goods was accepted as a valid determination, thereby confirming their status as insured persons under the policy.

Outcome

The appeals (Civil Appeal Nos. 6338-6339 and Civil Appeal No. 6340) were allowed by the Supreme Court, which held that the High Court's decision to absolve the insurance company of its liability was incorrect. The Court directed the insurer to satisfy the compensation awards, including interest, as originally determined by the Motor Accidents Claims Tribunal (MACT). Additionally, two of the appeals (Civil Appeal Nos. 6341 and 6342) were dismissed as they had been settled in a Lok Adalat.

Conclusion

The Supreme Court concluded that the insurance company was not absolved of its liability. The Court reinstated the Tribunal's finding that the passengers were not gratuitous but were travelling with their goods, which is a permissible use of a goods vehicle under the Motor Vehicle Act. Furthermore, the Court found that the ownership of the vehicle had not been legally transferred from the registered owner to the appellant, as required by law. Therefore, the registered owner remained liable, and the insurer was

bound to indemnify that liability. The Court ordered the insurer to satisfy the awards, including the interest granted by both the Tribunal and the High Court.

This judgment is a commendable example of judicial activism aimed at strengthening the social welfare objectives of the Motor Vehicle Act, 1988. This Supreme Court’s ruling is a powerful endorsement of a **victim-centric approach** to motor accident claims.

I believe the Court’s rejection of the insurer’s arguments, particularly regarding gratuitous passengers and incomplete ownership transfers, demonstrates a principled stance against allowing technicalities to obstruct justice. The decision to consider hawkers travelling with their goods as non-gratuitous passengers is a significant interpretation that widens the net of protection for vulnerable individuals in the informal economy. It shows a clear understanding that the purpose of insurance is to provide a safety net for the public, including those who may not fit into conventional legal categories, not just to cover the vehicle.

Furthermore, the emphasis on the registered owner’s continuing liability, regardless of private agreements, is a crucial move to simplify the claims process for victims. This prevents insurance companies and vehicle owners from using legal loopholes to delay or deny compensation, thereby upholding the core mandate of the law. This judgment, in my opinion, sends a clear message that the judiciary will not tolerate attempts to undermine the spirit of the law and will prioritize the welfare of accident victims above all else.

For more details, write to us at: contact@indialaw.in

[1] Civil Appeal Nos. 6338-6339 of 2024

[2] Civil Appeal No. 6341 of 2024, Civil Appeal No.6340 of 2024 and Civil Appeal No.6342 of 2024

[3] (2018) 3 SCC 1

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