CASE LAW UPDATES

Supreme Court Explains Motor Insurance Policies: A Must-Read Judgment for CLAT PG 2027

Hanspal Bakul · 17 Aug 2026

Every year, thousands of families lose their loved ones on Indian roads. Many of these victims never receive compensation. Why? Because the vehicle involved had no valid insurance. The Supreme Court recently tackled this exact problem in ***National Insurance Co. Ltd. v. Smt. Thungala Dhana Laxmi & Ors. (2026 INSC 793)***. Let's break it down.

The Background

The case began with a tragic accident in 1996. T. Ramu was driving home from Tirupathi when an unidentified lorry hit his car from behind. He died during treatment. His family sought compensation under his *own comprehensive insurance policy*.

The Insurance Tribunal rejected the claim. It held that Ramu hadn't paid an extra premium to cover his own risk as the owner. However, the Telangana High Court reversed this decision. *It ruled that a comprehensive policy covers the vehicle owner too, since he was travelling as an occupant.* National Insurance Company *challenged this before the Supreme Court.*

What the Court Held on the Core Dispute

The Bench of Justice Sanjay Karol and Justice Prashant Kumar Mishra **upheld the High Court's ruling.** The Court relied on an ***IRDA circular dated 16.11.2009.*** *This circular states that insurers must compensate any occupant travelling in a vehicle under a comprehensive or package policy.*

The Court also made an important observation. *"Courts should avoid a hyper-technical approach in motor accident claims."*

Why This Case Became Bigger Than One Accident

Here's where the judgment gets interesting for aspirants. The Court didn't stop at deciding the appeal. It used this case to examine a much larger crisis.

Nearly 56% of vehicles on Indian roads remain uninsured. That's a staggering 16.54 crore vehicles out of 30.48 crore. This data comes from the Standing Committee on Finance Report, 2024-25.

The Court impleaded twenty-two insurance companies, IRDA, and the Ministry of Road Transport and Highways. It wanted answers on two things:

- Why isn't Section 146 of the Motor Vehicles Act being enforced properly?
- Should India have a uniform insurance structure for all vehicle occupants?

Types of Motor Insurance Policies

The Court categorized motor insurance into ***four types.***

Third-Party Liability Insurance covers injury, death, or property damage to third parties. It's mandatory under ***Section 146.*** It's also called an ***Act Only Policy***. Importantly, ***it doesn't cover the insured vehicle itself.***

Comprehensive Insurance Policy goes further. It covers occupants of *both vehicles involved in an accident. Pillion riders and passengers fall under this umbrella.*

Own-Damage Cove*r* is optional. It protects the insured vehicle against *accidents, fire, or theft.*

Commercial Vehicle Insurance applies to *business vehicles*. It covers third-party liability, goods carried, and damage to the vehicle.

The Four-Layer Structure

IRDA proposed a new framework before the Court. This structure aims to give vehicle owners clearer choices.

The base layer remains the ***mandatory Third-Party Only Policy***. Above this sits an optional ***Legal Liability Cover for occupants and pillion riders***. Next comes a ***Personal Accident Cover for the owner, driver, and occupants.*** Finally, ***an Own Damage Cover protects the vehicle itself.***

Customers will now receive a *"Customer Option Form"* at the time of purchase. They can opt into additional covers through simple checkboxes. This move promotes transparency and informed consent, both important themes in consumer protection law.

Directions on Enforcement

The Court didn't limit itself to policy structure. It issued several enforcement directions too.

ANPR cameras will now integrate with VAHAN and Insurance Information Bureau data. This will help **automatically identify uninsured vehicles**. State police will also get handheld devices to verify insurance status on the spot.

Interestingly, the Court extended the mandatory insurance period. ***Cars now require four years of third-party insurance instead of three***. ***Two-wheelers need six years instead of five.*** This modifies the earlier direction in *S. Rajaseekaran v. Union of India* ***(W.P.(C) No.295/2012)***

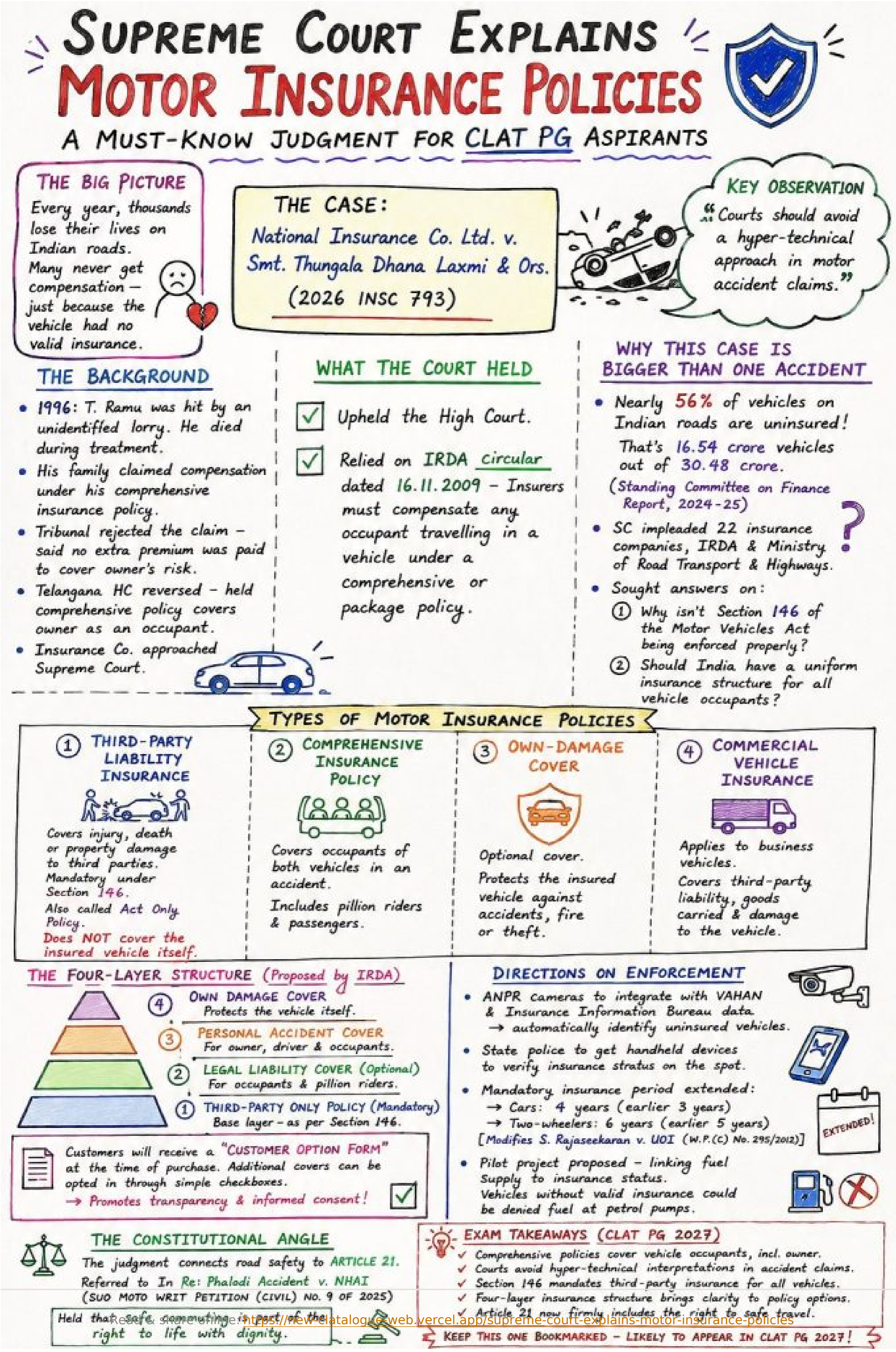
The Court even ***floated a pilot project linking fuel supply to insurance status***. Vehicles without *valid insurance could be denied fuel at petrol pumps.*

The Constitutional Angle

This judgment connects road safety to Article 21. The Court referred to its earlier ruling in ***In Re: Phalodi Accident v. National Highways Authority of India (SUO MOTO WRIT PETITION (CIVIL) NO. 9 OF 2025).*** There, it held that ***safe commuting*** is part of the *right to life with dignity.*

Remember these points before your exam. Comprehensive policies cover vehicle occupants, including the owner. Courts avoid hyper-technical interpretations in accident claims. ***Section 146 mandates third-party insurance for all vehicles. The four-layer insurance structure brings clarity to policy options. Article 21 now firmly includes the right to safe travel.***

Keep this one bookmarked. It's likely to appear in the CLAT PG 2027 paper.


SUPREME COURT EXPLAINS
MOTOR INSURANCE POLICIES
A MUST-KNOW JUDGMENT FOR CLAT PG ASPIRANTS
THE BIG PICTURE
Every year, thousands lose their lives on Indian roads. Many never get compensation — just because the vehicle had no valid insurance.
THE CASE:
National Insurance Co. Ltd. v. Smt. Thungala Dhana Laxmi & Ors.
(2026 INSC 793)
KEY OBSERVATION
"Courts should avoid a hyper-technical approach in motor accident claims."
THE BACKGROUND
1996: T. Ramu was hit by an unidentified lorry. He died during treatment.
His family claimed compensation under his comprehensive insurance policy.
Tribunal rejected the claim – said no extra premium was paid to cover owner's risk.
Telangana HC reversed – held comprehensive policy covers owner as an occupant.
Insurance Co. approached Supreme Court.
WHAT THE COURT HELD
Upheld the High Court.
Relied on IRDA circular dated 16.11.2009 – Insurers must compensate any occupant travelling in a vehicle under a comprehensive or package policy.
WHY THIS CASE IS BIGGER THAN ONE ACCIDENT
Nearly 56% of vehicles on Indian roads are uninsured!
That's 16.54 crore vehicles out of 30.48 crore.
(Standing Committee on Finance Report, 2024-25)
SC impleaded 22 insurance companies, IRDA & Ministry of Road Transport & Highways.
Sought answers on:
1 Why isn't Section 146 of the Motor Vehicles Act being enforced properly?
2 Should India have a uniform insurance structure for all vehicle occupants?
TYPES OF MOTOR INSURANCE POLICIES
1 THIRD-PARTY LIABILITY INSURANCE
Covers injury, death or property damage to third parties.
Mandatory under Section 146.
Also called Act Only Policy.
Does NOT cover the insured vehicle itself.
2 COMPREHENSIVE INSURANCE POLICY
Covers occupants of both vehicles in an accident.
Includes pillion riders & passengers.
3 OWN-DAMAGE COVER
Optional cover.
Protects the insured vehicle against accidents, fire or theft.
4 COMMERCIAL VEHICLE INSURANCE
Applies to business vehicles.
Covers third-party liability, goods carried & damage to the vehicle.
THE FOUR-LAYER STRUCTURE (Proposed by IRDA)
4 OWN DAMAGE COVER
Protects the vehicle itself.
3 PERSONAL ACCIDENT COVER
For owner, driver & occupants.
2 LEGAL LIABILITY COVER (Optional)
For occupants & pillion riders.
1 THIRD-PARTY ONLY POLICY (Mandatory)
Base layer – as per Section 146.
Customers will receive a "CUSTOMER OPTION FORM" at the time of purchase. Additional covers can be opted in through simple checkboxes.
→ Promotes transparency & informed consent!
DIRECTIONS ON ENFORCEMENT
ANPR cameras to integrate with VAHAN & Insurance Information Bureau data → automatically identify uninsured vehicles.
State police to get handheld devices to verify insurance stratus on the spot.
Mandatory insurance period extended:
→ Cars: 4 years (earlier 3 years)
→ Two-wheelers: 6 years (earlier 5 years)
[Modifies S. Rajaseekaran v. UOI (W.P.(C) No. 295/2012)]
EXTENDED!
Pilot project proposed – linking fuel supply to insurance status.
Vehicles without valid insurance could be denied fuel at petrol pumps.
THE CONSTITUTIONAL ANGLE
The judgment connects road safety to ARTICLE 21.
Referred to In Re: Phalodi Accident v. NHAI
(SUO MOTO WRIT PETITION (CIVIL) NO. 9 OF 2025)
Held that safe commuting is part of the right to life with dignity.
EXAM TAKEAWAYS (CLAT PG 2027)
Comprehensive policies cover vehicle occupants, incl. owner.
Courts avoid hyper-technical interpretations in accident claims.
Section 146 mandates third-party insurance for all vehicles.
Four-layer insurance structure brings clarity to policy options.
Article 21 now firmly includes the right to safe travel.
KEEP THIS ONE BOOKMARKED – LIKELY TO APPEAR IN CLAT PG 2027!