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Case Law

Shanti & Ors. Vs. National Insurance Company: Supreme Court Upholds Statutory Interest on Delayed Compensation

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JUDICIAL INSIGHT

SHANTI & ORS. VS. NATIONAL INSURANCE COMPANY: SUPREME COURT UPHOLDS STATUTORY INTEREST ON DELAYED COMPENSATION

Facts of the Case:

- The case revolves around a claim under the *Employee's Compensation Act, 1923* following the death of an individual who was employed as a cleaner in a truck owned by his father. The claimants, the deceased's mother and siblings, approached the Commissioner for Employee's Compensation to seek compensation.
- The insurance company, which had issued a policy for the vehicle, was impleaded in the claim proceedings. However, the insurance company contended that it was not liable for the compensation due to several reasons, primarily because the employer (the deceased's father) had failed to notify the insurer about the accident. Additionally, the insurance company argued that they should not be responsible for any failure on the part of the employer to make provisional compensation payments under Section 4A(2) of the *Employee's Compensation Act, 1923*.
- The Commissioner, after considering the evidence, awarded compensation and imposed a penalty on the employer for defaulting on payment. The insurance company was directed to pay the compensation, interest, and penalty. The insurance company contested this decision, seeking a modification of the order, specifically challenging the responsibility to pay the interest and penalty.

Issue Involved:

The key legal issue in this appeal was whether the insurer could be held liable for the interest due to the employer's default under the *Employee's Compensation Act*, particularly under Section 4A(3), which mandates the payment of 12% interest when there is a delay in payment of compensation.

Supreme Court's Analysis:

1) Statutory Interest Rate:

The Court reviewed the provisions of Section 4A(3) of the *Employee's Compensation Act*, which mandates an interest rate of 12% per annum in the event of an employer's default in paying compensation. The Court noted that the rate of interest prescribed was statutory, meaning it could not be reduced or modified by the insurance company or any other party.

Case Title

Shanti & Ors. Vs. National Insurance Company CIVIL APPEAL No. 2586 of 2025 @ SLP (C) No. 1530 of 2022



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2) **Mandatory Nature of Interest:**

The Court emphasized that the interest on default under Section 4A(3)(a) is mandatory, and the only discretion available to the Commissioner under the law is to enhance the rate of interest, but it cannot exceed the lending rate prescribed for scheduled banks. In this case, the insurance company's challenge to the interest rate was found to be without merit, as the statutory provision requires the award of 12% interest.

3) **Insurance Company's Liability:**

The Court also considered whether the insurance company could seek to recover the interest amount from the employer. It held that the insurance company, having not appealed the Commissioner's decision regarding the liability to pay compensation, could not now avoid its responsibility to pay the awarded interest. The Court noted that the insurer was liable for both compensation and interest under the statutory provisions of the *Employee's Compensation Act*, and it could not seek to recover this from the employer.

4) **Penalty Imposed on Employer:**

The Commissioner had also imposed a penalty on the employer for failing to make timely payments of the compensation, which was confirmed in the appellate proceedings. The insurance company's contention that the penalty should not apply to them was also dismissed by the Court.

5) **Final Decision:**

The Court concluded that the insurance company was liable for the 12% interest from the date of the accident and could not seek to recover this amount from the employer. The Court modified the previous decision to reflect the correct statutory rate of interest, setting it at 12% per annum, as per the provisions of Section 4A(3)(a).

Supreme Court's Ruling:

The Supreme Court allowed the appeal and modified the award by applying the statutory interest rate of 12% per annum from the date of the accident. The decision affirmed that the insurance company was liable to pay the interest, and it could not recover this from the employer.

Key Takeaways:

- 1) **Mandatory Interest Rate:** The statutory interest rate of 12% per annum applies automatically in cases of delay in payment of



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compensation, and the discretion lies only in applying a higher rate, which cannot exceed the prescribed lending rate for scheduled banks.

- 2) **Insurance Company's Liability:** The insurance company cannot escape liability for interest due to the employer's default. The liability to pay the awarded compensation and interest cannot be shifted to the employer once the insurer has been made liable in the claim.
- 3) **Employer-Employee Relationship:** The Court also touched upon the issue of whether the deceased's employment with his father's truck could be used to claim compensation under the Act. This issue was already addressed by the lower courts, and the Court did not revisit it at this stage

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