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Court Awards' Inflation – A Reality for Indian Motor TP Reserves

Article by Advisory Group on General Insurance of Institute of Actuaries of India

Motor third-party liability (TP) insurance, being mandatory for all vehicles plying on Indian roads, forms a critical component of the Indian general insurance industry. Motor insurance accounts for approximately 30% of the industry's gross direct premium income (GDPI), with motor TP contributing nearly 60% of total motor insurance GDPI. This translates into an estimated ₹64,000 crore of annual GDPI from motor TP alone. The reserves carried by the industry for this class are significantly large i.e. ~₹1.5 lakh crore as at the year ended March 2026. This reflects the long-tailed nature of motor TP claims, where delays are observed both in reporting and settlement, with average claims settlement periods around 7 to 10 years. Since most settlements are routed through the legal system and the insurer's liability is unlimited—unlike many other lines of business where exposure is constrained by the policy sum insured—the ultimate claims cost remains highly sensitive to judicial, economic and social developments.

The motor TP claim payouts are mainly influenced by the age of the victim, income, no of dependants etc. and the claims inflation is influenced by wage inflation and medical inflation. Additionally, the claim payouts historically have witnessed a step increase every 3-5 years driven by landmark rulings through the Hon'ble Supreme Court of India e.g. *Sarla Verma v. Delhi Transport Corporation* (2009), *Pranay Sethi v. National Insurance Co. Ltd.* (2015), *Kirti v. Oriental Insurance Company Ltd.* (2021) etc. In one such latest landmark ruling by the Hon'ble Supreme Court of India, in the case *Shishu Pal @ Shish Ram & Ors. v. Surjeet & Ors.* on 11 June 2026, has directed addition of a new non-pecuniary head of damage titled "loss of domestic care" while determining compensation in cases involving the death of a homemaker in a road accident. This head recognises the combined value of household management, loss of maternal support for children, and loss of spousal. The Court directed that a composite amount of ₹30,000 per month should be considered as a minimum notional income where all these elements are applicable, with the amount to be increased cumulatively by 10% every three years. It further clarified that this amount would serve as the base income where the homemaker had no proven monetary earnings, while in cases where the homemaker was also earning, the value attributable to loss of domestic care would be added over and above the proven income.

The ruling should not be viewed in isolation. The jurisprudential foundation had been laid through earlier decisions where the courts recognised that the work performed by homemakers has real economic value for the family and society. In *Kirti v. Oriental Insurance Company Ltd.* (2021), the Supreme Court observed that the contribution of homemakers cannot be treated as economically insignificant merely because it is unpaid. The Court also noted that there can be no rigid formula for determining notional income and that the facts and circumstances of each case must guide the award of just compensation. Earlier decisions such as *Arun Kumar Agrawal v. National Insurance Co. Ltd.* (2010) and *Rajendra Singh v. National Insurance Co. Ltd.* (2020) had similarly contributed to the evolving recognition of the economic value of domestic work.

The ruling will not only affect any new Motor TP claims but is also expected to have a material impact on the unsettled claims and thereby the claims reserves held by insurance companies in respect of such claims. As per recent MoRTH reports, around 15% of the annual road accident fatalities involve female victims. Further, 75% of female victims are aged above 25-years and thus ~10% of the overall annual death claims are expected to be affected by the above judgement. Additionally, allowing for the urban-rural mix, proportional of death claims and notional income currently used to settle claims suggest ~10% to 12% increase in Motor TP average claims severity. This could translate into a multiplicative impact on motor TP loss ratios, subject to each insurer's portfolio composition, claims mix, settlement practices and case-level reserving approach. The above impact in claims severity could plausibly emerge over time through awards, settlements and claims handling experience.

While the case referred under the ruling pertains to death of a homemaker, the ruling is also expected to affect compensation awarded under injury claims particularly those involving permanent disability or grievous injury as these are also based on the income of the victim.

While these estimates may appear significant, the effect of any landmark judgment typically materialises gradually as it is cited, interpreted and applied in subsequent awards and settlements. The experience following earlier landmark rulings is instructive. *Sarla Verma v. Delhi Transport Corporation* (2009) introduced greater standardisation in the methodology for determining compensation in MACT claims, while *Pranay Sethi v. National Insurance Co. Ltd.* (2015) refined the framework for future prospects and conventional heads of compensation. The full reserving impact of such decisions often emerged only over subsequent years (2 to 3 years). However, insurers and actuaries should recognise that the current environment is different: greater digitisation, wider access to legal information and faster dissemination through social media could accelerate the rate at which this ruling influences claims negotiations and tribunal awards.

From a reserving perspective, insurers may begin by reviewing their open claims portfolio to identify claims involving female deceased or injured claimants, particularly cases where household contribution may be relevant. Depending on the outstanding claims reserving methodology followed, case estimates may need to be revisited to reflect the potential implications of the ruling. Claims teams may also need to be sensitised to the judgment, with appropriate guidance for settlement strategy, litigation management and documentation. Enhanced monitoring will be important to detect any shift in claims mix, pleading patterns or settlement behaviour. For actuaries, the key challenge will be to assess whether the ruling represents a step change in claims severity, a gradual inflationary trend, or a combination of both. This will require close collaboration with legal and claims teams, case-level analysis of awards, and careful consideration of the rate at which the ruling is reflected in settlements. Any adjustment to IBNR, IBNER or statistical outstanding reserve assumptions should therefore be evidence-led, scenario-tested and proportionate to the insurer's own claims experience.

The judgment is therefore more than a legal development; it is a reminder that actuarial assumptions must remain responsive to changes in social recognition, judicial interpretation and claims settlement behaviour. For motor TP insurers, the immediate priority is not to overreact, but to monitor early signals with discipline, strengthen communication between actuarial, claims and legal functions, and ensure that reserving frameworks remain sufficiently forward-looking. For the actuarial profession, the ruling reinforces the importance of combining quantitative analysis with contextual judgment. As compensation jurisprudence evolves, actuaries will play a central role in translating such developments into balanced, transparent and financially sound reserving decisions.

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