The Facade of Insurance Companies with Respect to Claims Under Tripartite Agreements

written by Abhishek Bagga | May 23, 2020

Insurance Companies and Farmers Claims Under Tripartite

Although the courts of India have taken into consideration on many occasions the plight of farmers, the loans hanging on their heads were not waived off completely. However, the Supreme Court was determined to provide some form of security as a temporary redemption from all their miseries. The Hon'ble Supreme Court, in *Canara Bank Vs. United India Insurance Co. Ltd and others,[1]* have categorically ruled that the Insurance Company shall be liable to pay each farmer, the value of their goods along with 12% interest per annum.

Facts

Around 91 claim petitions were filed by farmers who were engaged in growing *Byadgi chili* crops during the year 2012-2013. The farmers had stored their agricultural produce in the cold storage known as 'Sreedevi Cold Storage' and claimants obtained a loan from Canara Bank against the agricultural produce. Further, the cold storage was insured by the United India Insurance Co. Ltd. On the intervening nights of January 13, 2014 and January 14, 2014, a huge fire broke out in the cold storage, and the entire stock of agricultural produce was reduced to ashes.

After the incident, the cold storage, filed for an insurance claim, however, the claim was rejected on the ground that the fire was not accidental but a result of a conspiracy. Subsequently, the farmers issued a notice to the insurance company w.r.t. the plant, machinery, etc but it was dismissed again on the grounds that farmers lacked *locus standi* to make such a claim as the insurance policy applied only to the cold storage and not the farmers. Consequently, claim petitions were filed before the Karnataka State Consumer Disputes Redressal Commission, Bangalore (KSCDRC). The State Commission, considering the facts and circumstances of the case, held that the fire broke out as a result of a short circuit and not by any human intervention. It was further held that as per the terms of the tripartite agreement which was entered into between the farmers, bank & cold storage, the cold storage needed to ensure the goods that were hypothecated by the farmers to the bank. Thus, the insurance company and the cold storage were held jointly and severally liable. They were further directed to pay the value of the agricultural produce hypothecated with the bank/claimants according to the

tripartite agreement along with 14% interest per annum payable from six months from the date of the incident till the date of realization.

Appeal To NCDRC

Aggrieved by this Order, an appeal was filed before the National Consumer Disputes Redressal Commission (NCDRC). The NCDRC based on the arguments put forth concurred with the findings of the State Commission and held that the farmers were indeed consumers and the insurance company was well aware of the fact that the goods were held in trust. The NCDRC further opined that there, was no evidence to prove that the fire happened due to human intervention. However, the NCDRC partly allowed the appeal to reduce the interest from 14% p.a. to 12% p.a.

As far as the appeal of the bank was concerned, the NCDRC held that in the given facts and circumstances, wherein the farmers had suffered losses, the principal amount of the loan was to be remitted by the insurance company to the bank but any interest, etc was to be given to the farmers.

Appeal To Supreme Court

The decision of NCDRC was again challenged by the insurance company, farmers, cold storage, and the bank before the Hon'ble Supreme Court. The main contention brought forth by the insurance company was that, the fire in question was not accidental and the farmers were not consumers hence, the consumer fora lacked the requisite jurisdiction to decide upon the dispute. They contended that there was no privity of contract between the farmers and the insurance company. The insurance company referred to clause 5 of General Exclusion Clauses, along with General Conditions no. 178 of the insurance policy for non-disclosure of important facts by the cold storage and also pleaded that the terms of the insurance policy should have been strictly construed and by application of privity of contract. The insurance company at the time of arguments relied on *United India Insurance Co. Ltd. V. Harchand Rai Chandan Lal[2]* wherein it was held that terms of the policy shall govern the contract between parties and that they have to strictly adhere to the same.

The insurance company also relied on *Raghunath Rai Bareja v. Punjab National Bank[3]* wherein it was held in Para 58 that the literal rule of interpretation was not only followed by lawyers and judges but also by the layman in his ordinary course of life and what he states is what he means, thus, no other interpretation is to be made.

The bank, on the other hand, supported the case of the farmers and raised objections only to the interest portion of the amount being given to the farmers. The Apex Court, however, opined that the NCDRC could not have ordered that the interest on the amount payable to the farmers should not be paid to the bank till the liabilities on part of the bank are paid.

On the question of deficiency in service on part of the bank, the Court observed that the bank was remiss to an extent and held that the Bank cannot claim any interest at the contractual rate as the farmers were unnecessarily dragged into litigation because of its negligence in providing the tripartite agreement to the insurance company. Hence, the bank was entitled to only 12% interest p.a. from the date of grant of the loan.

It was also noted by the Court that a bare reading of the tripartite agreement along with the terms of the policy made it amply clear that the bank insisted the stock be insured and the farmers would pay the premium. The cold storage while fixing the rent factored the premium into the rent. Hence,

it was obvious that the parties intended that they would be compensated by the insurance company in case of any untoward loss.

Claim Amount

In respect of the claim amount, the farmers prayed that the goods be assessed on the date of the fire and not from the date of storage in the cold storage and referred to the insurance policy. The Apex Court in view of the insurance policy observed that the company had agreed to either reinstate the goods or replace the same or pay to the insured the value of the property at the time of destruction or any damage.

Unfortunately, both the State Commission and NCDRC rejected this claim by stating the difficulty in fixing the average price based on the quality and quantity. The Court though held the insurance company liable to pay the farmers, the value of the goods as on the date of the fire, agreed with the NCDRC's view that it was not possible to award an amount based on the periodic market price of Bengaluru because the exact amount could not be ascertained on the date of the fire. Therefore, the Court relied on the warehouse receipts, as the value for the goods was given by the farmers themselves.

Directions of the Court

The Hon'ble Supreme Court disposing of the appeals held the insurance company liable to compensate the farmers according to the value of their goods and based on the price mentioned on the warehouse receipts, along with interests which are calculated @12% p.a. from the date of the fire and directed the bank to file a certified statement of accounts before the State Commission showing the loan amount which was advanced to the farmers.

The Court also allowed the bank to calculate simple interest @ 12% p.a. till the date of fire by adjusting the payments received through the loan.The Court also specifically directed the bank to file the statement of accounts concerning the loan amount before the State Commission on or before March 2, 2020 and to set out the amount due with the prescribed rate of interest till April 30, 2020. Thereafter, the Court directed the State Commission to determine the amount payable to the farmer in each appeal after all the adjustments and deductions.

Further, the insurance company was directed to pay the loan amount with simple interest directly to the bank and to deposit the amount payable to the farmers with the State Commission on or before April 30, .2020.

Conclusion

The quintessence of this judgment is that the tripartite agreement between the farmers, bank and the cold storage, provided for the insurance company to compensate the farmers for the damages and destruction of their goods and the Court's interpretation of Section "2" of the Consumer Protection Act in its widest amplitude to include not only the person who hires or avails the services but to a person who may be a beneficiary of such services. The concept of privity of contract was also construed as to include not just the parties to the contract but also its beneficiaries. Thus, the farmers were also covered under the insurance policy and were entitled to compensation.

- [1] MANU/SC/0131/2020
- [2](2010) 10 SCC 567
- [3](2007) 2 SCC 230

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