

IN THE HIGH COURT OF KARNATAKA, AT DHARWAD
DATED THIS THE 17TH DAY OF FEBRUARY, 2026
BEFORE



THE HON'BLE DR. JUSTICE K.MANMADHA RAO
MISCELLANEOUS FIRST APPEAL NO.101530 OF 2018 (ECA)

BETWEEN:

THE DIVISIONAL MANAGER,
NATIONAL INSURANCE CO. LTD.,
2ND FLOOR, ARIHANT PLAZA, KUSUGAL ROAD, HUBBALLI.
NOW REPRESENTED BY ITS ADMINISTRATIVE OFFICER.

...APPELLANT

(BY SRI. SURESH S. GUNDI, ADVOCATE)

AND:

1. BETTAPPA S/O SHANKRAPPA @
SHANKARAGOUDA HOTTIGOUDRA,
AGE:43 YEARS, OCC: NIL (LABOUR IN SATEESH
GINNING FACTORY RANEBENNUR),
SINCE BOTH HANDS ARE AMPUTATED HENCE,
REPRESENTED BY HIS NEXT FRIEND,
SMT. VISHHALA W/O BETTAPPA
SHANKRAPPA @ SHANKARAGOUDA HOTTIGOUDRA,
AGE. 37 YEARS, OCC: HOUSEHOLD WORK,
R/O JPYISARAHARALAHALLI,
TQ: RANEBENNUR, DIST: HAVERI-581115.

2. SATEESH GINNING FACTORY,
KUNABEVU ROAD,
RANEBENNUR, DIST: HAVERI-581115.

...RESPONDENTS

(NOTICE TO R1 & R2-SERVED)

THIS MISCELLANEOUS FIRST APPEAL IS FILED UNDER SECTION 30(1) OF THE EMPLOYEES COMPENSATION ACT, PRAYING TO SET ASIDE THE JUDGMENT DATED 28.12.2017 PASSED IN ECA NO.90/2015 ON THE FILE OF THE IIND ADDL. SENIOR CIVIL JUDGE AND ADDL. MACT, RANEBENNUR & ETC.

THIS MFA HAVING BEEN HEARD AND RESERVED FOR JUDGMENT ON 05.02.2026 AND COMING ON FOR PRONOUNCEMENT THIS DAY, JUDGMENT WAS DELIVERED THEREIN AS UNDER:
CORAM: THE HON'BLE DR. JUSTICE K.MANMADHA RAO

CAV JUDGMENT

The present appeal is filed by the Insurance Company under Section 30(1) of the Employees Compensation Act, 1923 (hereinafter referred to as "the EC Act" for short) to modify the judgment and award dated 28.12.2017, in ECA No.90/2015 on the file of the II Addl. Senior Civil Judge and Addl. MACT, Ranebennur (hereinafter referred to as "the Commissioner" for short).

2. The appellant-Insurance Company herein is respondent No.2, respondent No.1 herein is the claimant and respondent No.2 herein-Owner of the factory is respondent No.1 before the Commissioner.

3. For convenience, the parties herein are referred to as per their rankings before the Commissioner.

4. The petitioner instituted the claim petition on 31.10.2013 under Section 22 of the Employees' Compensation Act, 1923 seeking compensation of Rs.30,00,000/- with interest at 18% p.a. and costs.

5. The brief facts of the case are that:-

The claimant/petitioner had been employed as a labourer for about one year in Satish Ginning Factory of respondent No.1 at Kunabevu Road, Ranebennur. On 31.10.2013 at about 4:30 p.m., during the course of employment, both his hands came into contact with the cotton bailing machine resulting in crushing and amputation of both hands. He was initially treated at OM Hospital, Ranebennur and thereafter at SPARSHA Hospital, Bengaluru for nearly two months, incurring medical expenses exceeding Rs.5,00,000/-. At the time of accident he was drawing a salary of Rs.9,000/- per month with daily batta of Rs.100/-, and he has suffered permanent disability. It is further pleaded that the factory was insured with respondent No.2-Insurance Company under the Employees' Compensation Act, 1923, making both respondents jointly and severally liable.

6. Respondent No.1-Employer, while admitting the employer-employee relationship and the existence of

insurance coverage with respondent No.2, contended that the claimant was receiving wages of Rs.9,000/- per day along with Rs.100/- daily batta and asserted that respondent No.2 alone is liable to indemnify, seeking dismissal of the claim against him. Respondent No.2, however, denied all material averments including the validity of insurance coverage, alleged non-compliance of mandatory notice by respondent No.1, failure to take safety precautions, non-maintenance of statutory registers, and characterized the compensation claim as exorbitant.

7. Based on the pleadings, oral and documentary evidence, the Commissioner framed issues and partly allowed the claim petition and awarded the compensation of Rs.16,70,000/- with interest at the rate of 12% per annum from the date of one month after the accident till realization and the liability to pay compensation award was fastened on the respondent No.2-Insurance Company.

8. The learned counsel appearing for the appellant-Insurance Company would contend that the Commissioner

had failed to appreciate that the policy is purely an indemnity contract, under which the primary statutory liability to pay compensation rests upon the employer, who may thereafter seek reimbursement from the insurer strictly in accordance with the policy terms. The award of medical expenses and interest against the insurer is thus contrary to the contract of insurance.

9. It is submitted that respondent No.2 herein-owner of the factory had erroneously produced the old policy terms before the Commissioner due to a *bona fide* clerical mistake, which in no manner alters or varies the actual contract of insurance. The correct and applicable Employees Compensation Insurance Policy now produced before this Court by way of interlocutory application which expressly excludes liability for medical expenses and interest.

10. It is further submitted that the policy clearly stipulates that no premium was collected for such coverage and that these heads of liability are specifically excluded

under the policy conditions. Further, the Commissioner has misconstrued the scope of the insurance contract and wrongly fastened liability for interest and medical expenses upon the insurer, contrary to Exclusion (e) of the policy which bars liability for medical expenses connected with treatment of employee injuries.

11. The learned counsel for the appellant-Insurance Company had raised the below substantial questions of law for consideration of this Court:-

(i) Whether the Judgment passed by the Commissioner for Employee's Compensation is in accordance with section 4(2A) of Employees' Compensation Act, as much as imposing liability of medical expenses on the appellant in view of the Exclusion clause contained in the contract of policy?

(ii) Whether the Commissioner is justified in coming to the conclusion that the Respondent No.2/ appellant is liable to pay interest as per Section 4-A of Employees' Compensation Act, as against exclusion clause in the policy condition?

12. Heard learned counsel appearing for the appellant and perused the material available on record.

13. Upon hearing the learned counsel for the appellant-Insurance Company and on a careful examination of the impugned award, this Court finds that the liability of the insurance company under the Employees' Compensation Act, 1923 is required to be examined strictly in accordance with the statutory scheme of the EC Act and the terms of the contract of insurance.

14. Further, Section 4 of the EC Act prescribes the manner of computation of compensation, while Section 4-A of the EC Act mandates that the employer shall pay compensation as soon as it falls due and provides for interest and penalty in the event of default. Thus, the obligation to pay compensation together with interest and penalty is statutorily fastened on the employer alone. The EC Act does not contain any provision analogous to the MV Act compelling the insurer to satisfy the entire award in favour of the claimant. The right of the claimant under the EC Act is to recover compensation from the employer, and not directly from the insurer. The liability of the insurance company arises only by virtue of a contract of insurance

entered into with the employer and is therefore one of indemnification, governed exclusively by the terms and conditions of the policy.

15. In view of the above this Court deems it appropriate to place reliance on the judgment of the Apex Court in the case of the ***New India Assurance Co. Ltd. V. Harshadbhai Amrutbhai Modhiya and another*** reported in ***(2006) 5 SCC 192***, while interpreting Section 17 of the EC Act, has categorically held that the said provision merely prohibits a contract which absolves or reduces the liability of the employer vis-à-vis the workman, but does not prohibit the employer and insurer from entering into a contract limiting the extent of indemnification. It has been clearly laid down that, in the absence of a statutory mandate, contractual exclusions in an insurance policy excluding liability towards interest or penalty must be given effect to. The Apex Court in paragraph 24 held as under:

"24. Section 17 of the Workmen's Compensation Act voids only a contract or agreement whereby a workman relinquishes any right of compensation

from the employer for personal injury arising out of or in the course of the employment and insofar as it purports to remove or reduce the liability of any person to pay compensation under the Act. As my learned Brother has noticed, in the Workmen's Compensation Act, there are no provisions corresponding to those in the Motor Vehicles Act, insisting on the insurer covering the entire liability arising out of an award towards compensation to a third party arising out of a motor accident. It is not brought to our notice that there is any other law enacted which stands in the way of an insurance company and the insured entering into a contract confining the obligation of the insurance company to indemnify to a particular head or to a particular amount when it relates to a claim for compensation to a third party arising under the Workmen's Compensation Act. In this situation, the obligation of the insurance company clearly stands limited and the relevant proviso providing for exclusion of liability for interest or penalty has to be given effect to. Unlike the scheme of the Motor Vehicles Act the Workmen's Compensation Act does not confer a right on the claimant for compensation under that Act to claim the payment of compensation in its entirety from the insurer himself. The entitlement of the claimant under the Workmen's Compensation Act is to claim the compensation from the employer. As between

the employer and the insurer, the rights and obligations would depend upon the terms of the insurance contract. Construing the contract involved here it is clear that the insurer has specifically excluded any liability for interest or penalty under the Workmen's Compensation Act and confined its liability to indemnify the employer only against the amount of compensation ordered to be paid under the Workmen's Compensation Act. The High Court was, therefore, not correct in holding that the appellant Insurance Company, is also liable to pay the interest on the amount of compensation awarded by the Commissioner. The workman has to recover it from the employer."

16. In the present case, the insurance policy placed on record expressly excludes liability towards payment of interest under Section 4-A of the EC Act and it is not disputed that no additional premium was paid to cover such liability. In view of the law declared by the Apex Court in the aforesaid judgment, the Commissioner committed a clear error of law in fastening liability on the appellant-Insurance Company to pay interest on the compensation amount. Consequently, the liability to pay interest under

Section 4-A of the EC Act rests solely upon the employer not on the insurer.

17. Similarly, the EC Act does not treat medical expenses as a component of "compensation" payable under Section 4 of the EC Act. Reimbursement of medical expenses is not a statutory liability imposed on the insurer under the Act. Where the insurance policy specifically excludes liability towards medical expenses incurred for treatment of injuries sustained by an employee, and no premium is paid for such coverage, the insurer cannot be fastened with liability contrary to the terms of the contract. Any direction requiring the insurer to reimburse medical expenses, despite an express exclusion in the policy, is therefore unsustainable in law and beyond the scope of the insurer's contractual obligation. With regard to the determination of wages, is concerned, the wages taken by the Commissioner is just and proper which is in accordance with policy.

18. In view of the above, the wages of the claimant is Rs.8,000/- per month and that premium was paid on that basis alone. Hence, considering the wages of the claimant at Rs.8,000/-, 60% of Rs.8,000/- comes to Rs.4,800/- (Rs.8000/- x 60%). In respect of loss of earning capacity of the claimant is taken into consideration to multiply the same from the relevant factor i.e., Rs.4,800/- x 100% disability = 4,800. As per Schedule IV of the EC Act, for the age of 42 years, the relevant factor is 178.49. Considering the same, the loss of earning capacity of the claimant comes to $4800 \times 178.49 = \text{Rs.}8,56,752/-$.

19. In view of the aforesaid statutory provisions and the binding precedent of the Apex Court, the impugned award insofar as it fastens liability on the appellant-Insurance Company to pay the interest is legally unsustainable and warrants interference while leaving the employer's statutory liability under the Employees' Compensation Act intact.

20. In view of the foregoing discussions, calculation, and the law laid down by the Apex Court in ***Harshadbhai Amrutbhai's case (supra)***, the claimant is entitled for the compensation of Rs.8,56,752/- as against Rs.16,69,414/- awarded by the Commissioner.

21. In the result, this Court proceeds to pass the following:-

ORDER

- (i) This appeal is ***allowed in part***.
- (ii) The judgment and award dated 28.12.2017, in ECA No.90/2015 on the file of the M.A.C.T. No. III, Bagalkot is hereby modified.
- (iii) The claimant is entitled for total compensation of Rs.8,56,752/- as against Rs.16,69,414/- awarded by the Commissioner.
- (iv) The appellant-Insurance Company is liable only to pay the said total compensation amount and is not liable to pay medical expenses and interest on the compensation amount awarded by the Commissioner.

- (v) The appellant-Insurance Company shall deposit Rs.8,56,752/-, if not already deposited, within a period of four weeks and any excess amount deposited shall be refunded to the appellant.
- (vi) On deposit, the amount shall be released in favour of the claimant, in accordance with law.
- (vii) No order as to costs.

Sd/-
(DR. K.MANMADHA RAO)
JUDGE

Rsh,CT:VP