

Motor insurance claims: Small lapses that can lead to costly rejections

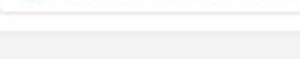
Everyday mistakes, from delayed reporting to unauthorised vehicle use, can lead to a claim being denied



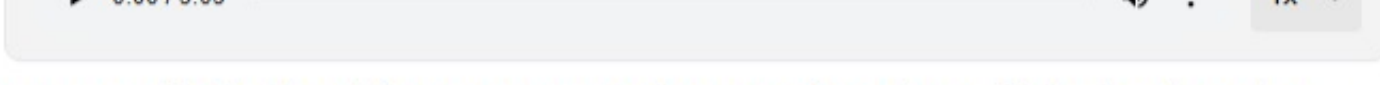
If a policy lapses before an accident, the vehicle has no active cover, and the insurer has no liability because the contract was not valid at the time of loss

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A recent ruling by the Delhi State Consumer Disputes Redressal Commission has shown how even minor lapses can cost policyholders their insurance claims. In Ramesh Rawat vs New India Assurance, the Commission held that leaving a car key, even if it was damaged, inside a Maruti Vitara Brezza which was stolen, amounted to negligence and a failure to take reasonable care. It ruled that the rejection of the claim was justified.

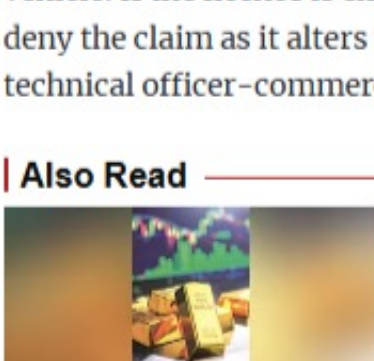
The ruling highlights a broader reality. Motor insurance claims are often denied not only because of major violations, but also because of routine oversights.

Driving without a valid licence

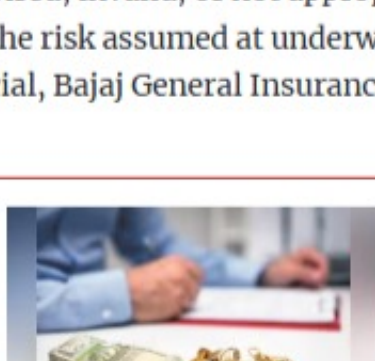
Driving without a valid and effective licence at the time of an accident breaches both the Motor Vehicles Act, 1988, and conditions that a motor insurance policy comes with. Insurers may reject claims on the ground that an unauthorised person was driving the vehicle, in violation of statutory and contractual requirements.

“Motor insurance policies require the driver to hold a valid licence for the specific class of vehicle. If the licence is expired, invalid, or not appropriate for the vehicle type, insurers may deny the claim as it alters the risk assumed at underwriting,” says Amarnath Saxena, chief technical officer-commercial, Bajaj General Insurance.

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To avoid disputes, policyholders should ensure that the licence remains valid, is renewed on time, suits the vehicle, and that the driver is not legally disqualified.

Drunk or drug-impaired driving

If an accident occurs while the driver is under the influence of alcohol or drugs, the insurer is likely to reject the claim. This violates both the Motor Vehicles Act, 1988, and policy terms. Motor insurance policies treat it as wilful negligence.

“Driving under the influence impairs judgment and increases accident risk, making insurers justified in denying liability. To avoid rejection, individuals should never drive while intoxicated and instead opt for safer alternatives such as a designated driver or ride-hailing services,” says Saxena.

Private vehicle used for commercial purposes

Using a private vehicle for commercial purposes, such as carrying passengers or making deliveries, violates the Motor Vehicles Act, 1988, and can lead to legal trouble, claim rejection, and financial loss.

“Motor insurance policies are issued based on declared usage, with premiums reflecting the associated risk. Commercial use increases risk and wear and tear. Without the appropriate policy, insurers may deny claims due to improper coverage,” says Paras Pasricha, head-motor insurance, Policybazaar.com.

Vehicle use must strictly comply with policy terms and legal provisions. “Any misuse or permit violation can void insurance coverage, so private vehicles should be used only for personal, not income-generating, purposes,” says Pasricha.

Delay in informing the insurer

Insurance companies may reject claims, especially theft claims, if the policyholder delays filing a First Information Report (FIR) or informing the insurer. “Policy terms require immediate or prompt intimation to both the police and insurer; delays are treated as a breach of contract. However, courts may allow genuine, well-explained delays, particularly if the FIR is filed promptly, ideally within 24 hours, even if the insurance company was notified later,” says Shilpa Arora, co-founder and chief operating officer (COO), Insurance Samadhan.

To avoid disputes, policyholders should notify the insurer within 24 hours and inform the regional transport office (RTO) to prevent misuse of the vehicle.

Unauthorised repairs before survey

Repairing a vehicle before an insurance inspection often leads to claim denial. “Only minimal or immediate repairs necessary to move the vehicle to a workshop are permitted under policy terms. Insurers require a survey and prior approval before repairs to verify the cause of damage, confirm policy coverage, and ensure that repair costs are reasonable,” says Arora.

This process helps prevent fraud, distinguish fresh damage from pre-existing issues, avoid overcharging, and ensure compliance with policy conditions.

Undisclosed modifications

Undisclosed vehicle modifications can lead to serious consequences, including claim rejection, policy invalidation, and reduced payouts. Insurers may deny claims, especially in cases involving undeclared compressed natural gas (CNG) kits, even if the damage is unrelated, because such changes alter the vehicle’s risk profile.

“Unauthorised modifications can also attract legal penalties and increase personal liability in third-party claims. Insurers reject such claims primarily due to non-disclosure of material facts, unapproved structural or fuel changes, increased risk exposure, and the illegality of modifications not certified by the Automotive Research Association of India (ARAI) or the RTO, which violates policy terms and the principle of utmost good faith,” says Arora.

Vehicle owners should inform their insurer immediately about any modifications to avoid claim rejection or policy cancellation.

Mechanical breakdown and consequential loss

Mechanical breakdown refers to the internal failure of components such as the engine, gearbox, or electrical system. It differs from accidental damage, which arises from an external event. Consequential loss refers to additional damage that follows an initial defect.

“Motor insurance typically covers only accidental external damage, not inherent defects, wear and tear, or losses that develop over time. Claims may also be rejected if the policyholder continues using the vehicle despite warning signs, as this can be treated as negligence,” says Shankey Agrawal, partner, BMR Legal.

Policy lapse before accident

If a policy lapses before an accident, the vehicle has no active cover, and the insurer has no liability because the contract was not valid at the time of loss. Policyholders should renew their policies on time, set reminders, and opt for auto-renewal where possible to maintain continuous cover.

“If the policy is not renewed on time, it may attract other consequences as well, such as the need to get the vehicle inspected before renewing the policy after a break. Additionally, you may lose the benefit of no claim bonus, if applicable, in case of a break in the policy,” says Abhishek Verma, general manager-motor underwriting, IFFCO-TOKIO General Insurance Company.

Failure to submit required documents

In theft claims, documentary compliance is crucial because it helps establish that the loss is genuine, that the insured owned the vehicle, and that the policyholder complied with policy conditions. Key documents usually include the claim form, policy copy, registration certificate, FIR, final police report or untraced report, and original keys.

“At the same time, negligence plays a significant role—insurers assess whether the owner took reasonable precautions and reported the theft promptly. Carelessness, such as leaving keys inside, not securing the vehicle, or delaying intimation, may be treated as a breach of policy conditions, leading to claim rejection,” says Agrawal.

Legal vs. illegal alterations

Legal/permissible

- Colour changes: Allowed, but requires RTO approval to update the Registration Certificate (RC)
- Vinyl wraps: Legal if the colour matches the RC or is a minor variation
- Tyres/alloys: Permitted if they fit within manufacturer-specified limits (do not stick out)
- Accessories: Minor, non-structural items like seat covers, rain guards, and door protectors
- CNG kits: Legal when installed with RTO registration

Illegal/prohibited

- Structural changes: Altering the frame, converting body types (e.g., hardtop to convertible)
- Loud exhausts: Systems exceeding 100 decibels are banned
- Tinted glass: Aftermarket tint films on windows/windshields are prohibited (50-70% visibility needed)
- External guards: Bull bars and crash guards are illegal
- Engine swaps: Replacing engines with higher capacity or different specs

Source: Insurance Samadhan

The writer is a Delhi-based independent journalist