

(2025) 05 DEL CK 0815

In the Delhi High Court

Case No : Arbitration Petition No. 1549 Of 2024

Ms Inox World Industries Pvt Ltd

APPELLANT

Vs

IFFCO Tokio General Insurance Company Limited

RESPONDENT

Date of Decision : 02-05-2025

Acts Referred:

Constitution of India, 1950 — Article 14

Arbitration and Conciliation Act, 1996 — Section 7, 11, 11(6), 12, 16

Citation : (2025) 05 DEL CK 0815

Hon'ble Judges : Sachin Datta, J

Bench : Single Bench

Advocate : Vijay Kasana, Chirag Verma, Vishal Chaudhary, Avlokita Rajvi, Lakshya Khanna, Mrinal Ojha, Rajat Pradhan, Rishabh Agarwal, Nikita Rath

Final Decision : Disposed Of

Judgement

Sachin Datta, J

1. The present petition has been filed under Section 11(6) of the Arbitration and Conciliation Act, 1996 (hereinafter referred to as the 'A&C Act'), seeking appointment of a Sole Arbitrator pursuant to an arbitration agreement incorporated in a "Standard Fire and Special Perils Policy" bearing Policy No.12411458, issued by the respondent in favour of the petitioner for coverage of "building, plant and machinery, furniture, fixtures and fittings and office equipment and stocks" for the period from 13.01.2022 to 12.01.2023.

2. The arbitration clause in the policy is in the following terms:

"13. If any dispute or difference shall arise as to the quantum to be paid under This Policy (liability being otherwise admitted) such difference shall independently of all other questions be referred to the decision of a sole arbitrator to be appointed in writing by the parties to or if they cannot agree upon a single arbitrator within 30 days of any part of invoking arbitration, the same shall be referred to a panel of three arbitrators, comprising of two

arbitrators, one to be appointed by each of the parties to the dispute/difference and the third arbitrator to be appointed by such two arbitrators and arbitration shall be conducted under and in accordance with the provision of the Arbitration and Conciliation Act, 1996.”

3. The occasion to invoke the aforesaid arbitration clause arose in the backdrop of a fire that occurred in the intervening night of 23.02.2022 – 24.02.2022.

4. A surveyor was appointed by the respondent insurance company to conduct the assessment of loss suffered by the petitioner. The final survey report was submitted by the surveyor on 22.09.2023. However, no amount was paid to the petitioner in view of the fact that the claims of the petitioner were sought to be ‘repudiated’ by the respondent on 20.05.2024. Consequently, an arbitration notice dated 17.08.2024 was issued by the petitioner to the respondent inter alia stating as under:

“8. It is trite law that the survey report is an important document and cannot be disregarded without recording any reason. In the instance case you have failed to consider the Final Survey Report while repudiating the claim and have not considered findings contained in the said report. It would be pertinent to mention that the Hon’ble Supreme Court in case of UHD v. Roshan Lal Oil Mills Ltd. (2000) 10 SCC 19, has held that non consideration of Final Survey Report will result in serious miscarriage of justice and vitiates the entire process. Similarly in Shri Venkateshwara Syndicate v. Oriental Insurance Company Limited (2009) 8 SCC 507, the Hon’ble Supreme Court held that the surveyor is appointed under the statutory provisions and they are the link between the insurer and insured when the question of settlement of loss/damage arises and further held that the insurance company must give reasons for not accepting the Final Survey Report submitted by the surveyor. It is clearly evident from the aforesaid that the repudiation letter is bad in law and liable to be set aside. As the repudiation of our client’s legitimate claims is illegal, it cannot subvert the arbitration clause envisaged in the insurance policy. The arbitration clause is extracted herein below:

‘If any dispute or difference shall arise as to the quantum to be paid under this Policy (liability being otherwise admitted) such difference shall independently of all other questions be referred to the decision of a sole arbitrator to be appointed in writing by the parties to or if they cannot agree upon a single arbitrator within 30 days of any part of invoking arbitration, the same shall be referred to a panel of three arbitrators, comprising of two arbitrators, one to be appointed by each of the parties to the dispute/difference and the third arbitrator to be appointed by such two arbitrators and arbitration shall be conducted under and in accordance with the provision of the Arbitration and Conciliation Act, 1996.

9. The rejection of liability of repudiation letter dated 20.05.2024 is contrary to the requirement set forth by various pronouncements by the Hon’ble Supreme Court herein above. Without prejudice to the aforesaid contentions the

arbitration clause inserted by the IRDAI in the Standard Fire Policy has been reviewed and has been replaced with a circular dated 27.10.2023 and now reads as under:

‘The parties to the contract may mutually agree and enter into a separate Arbitration Agreement to settle any and all disputes in relation to this policy. Arbitration shall be conducted under and in accordance with the provisions of the Arbitration and Conciliation Act, 1996’.

10. Furthermore, it is contended that the arbitration clause contained in Standard Fire and Special Perils Policy is contrary to Article 14 of the Constitution of India and amiable to challenge in a Section 11 petition.

11. In light of the foregoing, we have been left with no option but to invoke arbitration in terms of the insurance policy. It is contended that the repudiation/denial of liability is contrary to law and void ab initio. In terms of the said arbitration clause, we hereby call upon you to propose a name of a sole arbitrator, for our concurrence at the earliest.”

5. Having received no response to the arbitration notice, the present petition came to be filed by the petitioner.

6. Elaborate legal submissions have been made by the respective counsel for the parties as regards the scope of the arbitration agreement in the present case, in particular, whether it is permissible to appoint an arbitrator even when the claims of the petitioner have been repudiated by the respondent. According to the learned senior counsel for the petitioner, the legal position that has emerged in the aftermath of Interplay between Arbitration Agreements under Arbitration and Conciliation Act, 1996 and Stamp Act, 1899, in Re (2024) 6 SCC 1 and SBI General Insurance Co. Ltd. v. Krish Spinning 2024 SCC OnLine SC 1754, mandates that an arbitral tribunal be constituted and all other issue/s concerning arbitrability/ scope of the arbitration agreement, be left to be considered by the arbitral tribunal. It is also contended that the judgment of the Supreme Court in Oriental Insurance Company Limited v. Narbheram Power and Steel Private Limited (2018) 6 SCC 534 and United India Insurance Company Limited and Another v. Hyundai Engineering and Construction Company Limited and Others (2018) 17 SCC 607 are not applicable to the present case, in view of the legal position that has emerged in the aftermath of Interplay between Arbitration Agreements under Arbitration and Conciliation Act, 1996 and Stamp Act, 1899 (supra) and also on account of the fact that the arbitration clauses that fell for consideration in those cases (unlike in the present case) contained words of negative import which expressly debarred / precluded arbitration in the event of the insurer not accepting its liability under the policy.

7. Reliance has also been placed on behalf of the petitioner on Payu Payments Private Limited v. New India Assurance Co. Ltd., 2024 SCC OnLine Del 6777, which has expressly recognized that in terms of the contemporary legal position, it is impermissible at the stage of considering a petition under Section 11 of the

A&C Act to enter the arena of arbitrability of disputes.

8. The petitioner has also relied on a recent judgment of the Supreme Court, *Lombardi Engineering Limited v. Uttarakhand Jal Vidyut Nigam Limited* (2024) 4 SCC 341 wherein it has been held that any arbitrary pre-conditions to an arbitration agreement are to be examined on the touchstone of Article 14 of the Constitution of India and can be struck down if found to be arbitrary, unreasonable or violative of Constitutional principles.

9. On the other hand, learned counsel for the respondent has opposed the present petition inter alia contending as under:

(i) Clauses akin to the arbitration clause in the present case have been construed by this Court in *Vulcan Insurance Co. Ltd. v. Maharaj Singh & Anr.* (1976) 1 SCC 943, *Oriental Insurance Company Limited v. Narbheram Power and Steel Private Limited.* (supra) and *United India Insurance Company Limited and Another v. Hyundai Engineering and Construction Company Limited and Others* (supra). It is contended that in the said cases it has been recognized that an arbitration clause is required to be strictly construed and where the clause precludes arbitration unless liability is admitted by the insurance company, the Courts would give effect to such a covenant;

(ii) It is also contended that the judgment of the Supreme Court in *Lombardi Engineering Limited v. Uttarakhand Jal Vidyut Nigam Limited* (supra) has no application to the facts of the present case inasmuch as there was no controversy in *Lombardi Engineering Limited v. Uttarakhand Jal Vidyut Nigam Limited* (supra) that the disputes between the parties were arbitrable; the controversy in *Lombardi Engineering Limited v. Uttarakhand Jal Vidyut Nigam Limited* (supra) was only with regard to the validity of a provision which provided for 7% pre-deposit of the total claim amount as a pre-condition for invoking arbitration. It is contended that neither *Lombardi Engineering Limited v. Uttarakhand Jal Vidyut Nigam Limited* (supra) nor *Central Organisation for Railway Electrification v. M/s ECI SPIC SMO MCML (JV) A Joint Venture Company*, 2024 INSC 857 militates against the position that it is permissible to prescribe that recourse to arbitration can be taken only in the event of the insurance company admitting its liability, the arbitrable dispute being only as regards the quantum of amount to which the insured is entitled.

(iii) Learned counsel for the respondent has sought to distinguish the judgment of a Coordinate Bench of this Court in *Payu Payments Private Limited v. New India Assurance Co. Ltd.* (supra) by contending that in terms of Interplay between Arbitration Agreements under Arbitration and Conciliation Act, 1996 and Stamp Act, 1899 (supra) and *SBI General Insurance Co. Ltd. v. Krish Spinning* (supra), the examination as regards the prima facie existence of an arbitration agreement has to be in the context of Section 7 of the A&C Act. Thus, the examination for the purpose of the present proceeding should be to see if there is an arbitration agreement between the parties "pertaining to the disputes"

between the parties.

(iv) The respondent also relies upon an English Judgment rendered by the Kings Bench Division, Commercial Court in DC Bars Limited v. QIC Europe [2023] EWHC 245 (Comm) wherein the said Court has upheld the restrictive applications of an identically worded arbitration clause and has held that the same can be invoked only where the disputes involve assessment of quantum and not where the issue of liability is also in dispute.

Reasons and Conclusion:

10. In the opinion of this Court, the present case is clearly covered by the decision of a Coordinate Bench of this Court in Payu Payments Private Limited v. New India Assurance Co. Ltd. (supra). In that case, the Court dealt with a similar opposition to the Section 11 petition, based on the judgments of the Supreme Court in Oriental Insurance Company Limited v. Narbheram Power and Steel Private Limited. (supra) and United India Insurance Company Limited and Another v. Hyundai Engineering and Construction Company Limited and Others (supra). By taking note of the position of law, as explicitly set out in SBI General Insurance Co. Ltd. v. Krish Spinning (supra), it was specifically observed as under:

27. I am unable to agree with the submissions of Dr. George. For the first instance, the paragraphs from the judgment in SBI General Insurance, on which Dr. George placed reliance, do not clearly say that, where the claim of the claimant in the arbitral proceedings relates to the respondent's liability to pay insurance, the referral court cannot refer the disputes to arbitration.

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30. There is nothing in the decision in SBI General Insurance which holds that, where the claim of the insured party also relates to the liability of the insurance company, the dispute would not be arbitrable because of the exclusionary covenant in the insurance clause.

31. That apart, the argument of Dr. George, at the highest, is a challenge to the arbitrability of the dispute. The Supreme Court, in SBI General Insurance, has clearly held, inter alia in para 120 of the decision, that any question of arbitrability or non-arbitrability of the dispute has to be relegated to the arbitral tribunal. It is not possible, therefore, for this Court after SBI General Insurance, to accept Dr. George's contention, as doing so would amount to this Court returning a finding that the dispute is not arbitrable as the respondent has repudiated the petitioner's claim, which it cannot do, under Section 11(6).

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33. Apropos the decisions in Oriental Insurance and United India Insurance, these are both decisions which were rendered at a time when SBI General Insurance had yet to be pronounced. They pertain to an era in which the scope of

examination by a Section 11 court was radically different from the scope as it exists now.

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39. Both these decisions, therefore, were rendered at a time when the High Court, exercising jurisdiction under Section 11 of the 1996 Act, could enter into the arena of arbitrability of the dispute. That, indeed, was the law as it prevailed in several decisions prior to SBI General Insurance, including, notably, *Vidya Drolia v Durga Trading Corporation*.

40. The decision in SBI General Insurance, however, has resulted in a paradigm shift in the scope of examination by a Section 11 court. As of today, a Section 11 court cannot examine the aspect of arbitrability of the dispute.

41. If this Court were to accept the submissions of Dr. George, and hold that the dispute that the petitioner seeks to be referred to arbitration cannot be referred because of the repudiation of the petitioner's claim by the respondent, it would amount to a finding that the petitioner's claims have, by reasons of their repudiation by the respondent, been rendered non-arbitrable. Such a finding would amount to this Court pronouncing on the arbitrability of the dispute while acting as a referral court. That this Court cannot do, in view of the law laid down in SBI General Insurance, particularly para 120 thereof.

42. It may be noted that the Supreme Court has, in para 114 of the report in SBI General Insurance, left no scope for doubt on this aspect at all, by observing that "the scope of enquiry at the stage of appointment of arbitrator is limited to the scrutiny of prima facie existence of arbitration agreement, and nothing else".

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44. I am not, therefore, inclined to accord, to the decision in SBI General Insurance, any interpretation which would dilute the intent of the said decision, which is to minimise the scope of examination at a Section 11 stage and to relegate as many issues in controversy as possible to the Arbitral Tribunal for decision.

11. The above observations squarely apply to the objections raised by the respondent in the present case as well. As noted, Interplay between Arbitration Agreements under Arbitration and Conciliation Act, 1996 and Stamp Act, 1899 (supra) and SBI General Insurance Co. Ltd. vs. Krish Spinning (supra) have resulted in a paradigm shift in the scope of examination in proceedings under Section 11 of the A&C Act. It is now impermissible for a Section 11 Court to dwell on the issues of 'arbitrability' or the scope of the arbitration agreement.

12. Issues concerning arbitrability / non-arbitrability are required to be relegated to the arbitral tribunal. In SBI General Insurance Co. Ltd. v. Krish Spinning (supra), the Supreme Court specifically took note of the fact that the position of law, as set out in *Vidya Drolia And Others v. Durga Trading Corporation*, (2021) 2

SCC 1, NTPC Ltd. v. SPML Infra Ltd. 2023 SCC OnLine SC 389 [and other line of judgments] in terms of which it was permissible for a Section 11 Court to weed out "ex facie non arbitration disputes" would not continue to hold good in view of the decision by a seven Judge Bench of Supreme Court in *Interplay between Arbitration Agreements under Arbitration and Conciliation Act, 1996 and Stamp Act, 1899* (supra). It was specifically observed as under:

114. In view of the observations made by this Court in *In Re : Interplay* (supra), it is clear that the scope of enquiry at the stage of appointment of arbitrator is limited to the scrutiny of prima facie existence of the arbitration agreement, and nothing else. For this reason, we find it difficult to hold that the observations made in *Vidya Drolia* (supra) and adopted in *NTPC v. SPML* (supra) that the jurisdiction of the referral court when dealing with the issue of "accord and satisfaction" under Section 11 extends to weeding out ex-facie non-arbitrable and frivolous disputes would continue to apply despite the subsequent decision in *In Re : Interplay* (supra).

13. It was also observed as under:

122. Once an arbitration agreement exists between parties, then the option of approaching the civil court becomes unavailable to them. In such a scenario, if the parties seek to raise a dispute, they necessarily have to do so before the arbitral tribunal. The arbitral tribunal, in turn, can only be constituted as per the procedure agreed upon between the parties. However, if there is a failure of the agreed upon procedure, then the duty of appointing the arbitral tribunal falls upon the referral court under Section 11 of the Act, 1996. If the referral court, at this stage, goes beyond the scope of enquiry as provided under the section and examines the issue of "accord and satisfaction", then it would amount to usurpation of the power which the parties had intended to be exercisable by the arbitral tribunal alone and not by the national courts. Such a scenario would impeach arbitral autonomy and would not fit well with the scheme of the Act, 1996.

14. It is also relevant that arbitration clauses that fell for consideration for the Supreme Court in *Oriental Insurance Company Limited v. Narbheram Power and Steel Private Limited*. (supra) and *United India Insurance Company Limited and Another v. Hyundai Engineering and Construction Company Limited and Others* (supra) contained the following words of negative import:

"It is clearly agreed and understood that no difference or dispute shall be referable to arbitration and hereinabove provided, if the company has disputed or not accepted liability under or in respect of this policy."

15. It is notable that such words of negative import are not to be found in the present arbitration agreement. Whether or not the same has any bearing on the scope of the arbitration agreement would require an interpretative exercise. Necessarily, such exercise is best left to be done by a duly constituted arbitral tribunal.

16. Learned counsel for the petitioner has also sought to assail the pre-condition in the present arbitration agreement viz. that the insurance company must admit its liability under the policy before the insured can take recourse to the arbitration clause. It is further contended that the arbitration agreement cannot be construed/applied in a manner so as to permit the respondent to avoid arbitration on the basis of a self serving, untenable repudiation.

17. The petitioner relies upon Lombardi Engineering Limited v. Uttarakhand Jal Vidyut Nigam Limited (supra) to contend that the arbitration clause in the policy be construed in a manner so that the right of the petitioner to seek arbitration, is not defeated on account of any arbitrary action of the respondent. For this purpose, reliance is sought to be placed on the following observations in Lombardi Engineering Limited v. Uttarakhand Jal Vidyut Nigam Limited (supra):

83. The concept of "party autonomy" as pressed into service by the respondent cannot be stretched to an extent where it violates the fundamental rights under the Constitution. For an arbitration clause to be legally binding it has to be in consonance with the "operation of law" which includes the Grundnorm i.e. the Constitution. It is the rule of law which is supreme and forms parts of the basic structure. The argument canvassed on behalf of the respondent that the petitioner having consented to the pre-deposit clause at the time of execution of the agreement, cannot turn around and tell the Court in a Section 11(6) petition that the same is arbitrary and falling foul of Article 14 of the Constitution is without any merit.

18. Whether or not arbitration is precluded in the present case or whether the claims sought to be raised by the petitioner are liable to be resolved through arbitration in view of the aforesaid submissions of the petitioner, will hinge on the interpretation of the arbitration agreement. The same shall necessarily be done by a duly constituted arbitral tribunal. All attendant factual aspects, including the issue as to validity / invalidity of the 'repudiation' on the part of the insurance company and/or any other aspect which has a bearing on the issue of arbitrability, will also necessarily be considered by a duly constituted arbitral tribunal.

19. This court also finds it untenable to accept the contention of the respondent that an arbitration agreement is required to be 'strictly construed' so as to preclude even appointment of an arbitrator. While observations to this effect may have been made in some earlier judgments, the contemporary view that has emerged is that where two interpretations are possible, the Court must favour the one that gives effect to the agreement to arbitrate.

20. It has been observed by the Supreme Court in the case of Chloro Controls India Private Limited v. Severn Trent Water Purification Inc., (2013) 1 SCC 641, as under:—

"96. Examined from the point of view of the legislative object and the intent of the framers of the statute i.e. the necessity to encourage arbitration, the court is

required to exercise its jurisdiction in a pending action, to hold the parties to the arbitration clause and not to permit them to avoid their bargain of arbitration by bringing civil action involving multifarious causes of action, parties and prayers.”

21. In *MTNL v. Canara Bank*, (2020) 12 SCC 767, it was observed as under:

9.5. A commercial document has to be interpreted in such a manner so as to give effect to the agreement, rather than to invalidate it. An “arbitration agreement” is a commercial document inter partes, and must be interpreted so as to give effect to the intention of the parties, rather than to invalidate it on technicalities.”

22. In *Govind Rubber Ltd. v. Louids Dreyfus Commodities Asia (P) Ltd.*, (2015) 13 SCC 477, it has been held as under:—

“17. We are also of the opinion that a commercial document having an arbitration clause has to be interpreted in such a manner as to give effect to the agreement rather than invalidate it. On the principle of construction of a commercial agreement, *Scrutton on Charter Parties* (17th Edn., Sweet & Maxwell, London, 1964) explained that a commercial agreement has to be construed, according to the sense and meaning as collected in the first place from the terms used and understood in the plain, ordinary and popular sense (see Article 6 at p. 16). The learned author also said that the agreement has to be interpreted “in order to effectuate the immediate intention of the parties”. Similarly, *Russell on Arbitration* (21st Edn.) opined, relying on *AstroVencedorCompania Naviera S.A. v. Mabanft GmbH* [((1970) 2 Lloyd's Rep 267], that the court should, if the circumstances allow, lean in favour of giving effect to the arbitration clause to which the parties have agreed. The learned author has also referred to another judgment in *Paul Smith Ltd. v. H and S International Holdings Inc.* [(1991) 2 Lloyd's Rep 127] in order to emphasise that in construing an arbitration agreement the court should seek to “give effect to the intentions of the parties”.

23. Similarly, the United States Supreme Court in *Mitsubishi Motors Corp. v. Soler Chrysler-Plymouth, Inc.*, 473 US 614 (1985), 626 (U.S. S.Ct.1985), has affirmed as under:—

“... The Arbitration Act establishes that, as a matter of federal law, any doubts concerning the scope of arbitrable issues should be resolved in favor of arbitration, whether the problem at hand is the construction of the contract language itself or an allegation of waiver, delay, or a like defense to arbitrability.”

24. In the United Kingdom, in *Premium Nafta Products Ltd. v. Fili Shipping Company Ltd.*, [2007] UKHL 40 (House of Lords), it was held as under:—

“The proposition that any jurisdiction or arbitration clause in an international commercial contract should be liberally construed promotes legal certainty. It serves to underline the golden rule that if the parties wish to face issues as to the validity of their contract decided by one tribunal and issues as to its meaning

or performance decided by another, they must say so expressively. Otherwise, they will be taken to have agreed on a single tribunal for the resolution of all such disputes.”

25. With regard to the view taken in some older authorities to the effect that the arbitration clauses must be interpreted restrictively, it is stated by Gary B. Born in *International Arbitration : Law and Practice*, Third Edition as under:

“The “restrictive” presumption is generally explained on the grounds that arbitration is a derogation from otherwise available access to civil justice and the “natural judge” of the contract, and that such derogations must be construed narrowly. Thus, in an older decision, a French appellate court declared that “[t]he arbitration agreement must be strictly interpreted as it departs from the norm - and in particular from the usual rules as to the jurisdiction of the courts.” This restrictive interpretative presumption is archaic and out of step with the ordinary intentions of commercial parties; it is generally not applied in contemporary decisions.”

26. It is again emphasized that in terms of the settled law, the scope of examination in the present proceedings is confined to ascertaining prima facie, the existence of an arbitration agreement. All other issues, including the objections raised by the respondent, are required to be dealt with by a duly constituted arbitral tribunal.

27. In the circumstances, this Court finds no impediment to constituting an arbitral tribunal in view of the prima facie existence of an arbitration agreement. Further, in terms of the judgment of the Supreme Court in *Union of India (UOI) v. Singh Builders Syndicate*, (2009) 4 SCC 523, and judgments of this Court in *Twenty-Four Secure Services Pvt. Ltd. v. Competent Automobiles Company Limited*, 2024 SCC OnLine Del 4358, *Jhajharia Nirman Ltd. v. South Western Railways*, 2024: DHC:7801, *Palghar Road Project Pvt. Ltd. vs State of Maharashtra*, 2024: DHC:8368 and *M/S Arun Kumar Pushpdeep Infrastructure (JV) v. Union Of India & Anr*, 2024:DHC:10016, it would be apposite to appoint an independent Sole Arbitrator to adjudicate the disputes between the parties.

28. Accordingly, Mr. Justice (Retd.) L. Nageswara Rao, former Judge, Supreme Court of India (Mob.: 9810035984) is appointed as the Sole Arbitrator to adjudicate the disputes between the parties.

29. It is made clear that the respondent’s objections as regards arbitrability and jurisdiction are left open for consideration by the learned Sole Arbitrator; it shall be open for the respondent to move an appropriate application under Section 16 of A&C Act, which shall be duly considered and decided by the learned Sole Arbitrator in accordance with law.

30. All rights and contentions of the parties are expressly reserved.

31. The learned Sole Arbitrator may proceed with the arbitration proceedings subject to furnishing to the parties the requisite disclosures as

required under Section 12 of the A&C Act.

32. The learned Sole Arbitrator shall be entitled to fee in accordance with IVth Schedule to the A&C Act; or as may otherwise be agreed to between the parties and the learned Sole Arbitrator.

33. Needless to say, nothing in this order shall be construed as an expression of this court on the merits of the case.

34. The present petition is disposed of.