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BEING STREETWISE

Decoding hike in pvt vehicle premiums

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MUMBAI: The Insurance Regulatory Development Authority of India (IRDAI) has proposed to hike insurance premiums of two-wheelers and private cars purchased before September 1. However, insurance premiums of new private cars and two wheelers sold after that stay put for the on-going financial year. This essentially means that the hike is in the renewal premiums and not the long-term premiums. For cars below 1,000 cc, the premium will go up to ₹2,120 from ₹1,850 for the financial year 2019-20 and for cars between 1,000 cc and 1,500 cc, premium has been proposed to be increased to ₹3,300 from ₹2,863. Premiums for those exceeding 1,500 cc remains at ₹7,890.

"The regulator has asked for comments on the circular up till May 29 but the proposed rates are expected to be rolled out only from June 1," said Sajja Praveen Chowdary, head-motor insurance, Policybazaar.com. The regulator has increased the premiums by 15 to 20%. "We had earlier expected an increase of 20 to 25%," said Chowdary.

The regulator proposed an increase to counter the effects of cost increases for the insurers.

"The claim costs for the companies have gone up owing to inflation and rise in the levels of court awarded claims. The regulator has proposed to correct this imbalance of premium to claims through this increase," said Shanai Ghosh, chief marketing and commercial strategy, Edelweiss General Insurance.

The proposed long-term three-year premium for new private cars and five-year premiums of two-wheelers remain the same. The three-year premium for new private cars below 1,000 cc is ₹5,286, for cars between 1,000 cc and 1,500 cc, the premium is ₹9,534 and for those exceeding 1,500 cc, the premiums remain at ₹24,305.

"Most cars are less than 1,500 cc and very less are in the category exceeding 1,500 cc and the increase has happened in the first two categories," said Chowdary.

THE REGULATOR PROPOSED AN INCREASE TO COUNTER THE EFFECTS OF COST INCREASES FOR INSURERS

The five-year single premium for new two wheelers for vehicles less than 75 cc is at ₹1,045, more than 75 cc but less than 150 cc is at ₹3,285, more than 150 cc but less than 350 cc at ₹5,453 and for vehicles exceeding 350 cc, the premium remains at ₹13,034.

"The new draft proposal does not have any impact on new business as there has not been any change in insurance premium of new purchase of two-wheelers and cars," said Rakesh Jain, executive director and chief executive officer of Reliance General Insurance.

"Since there is a slight increase in premiums, the customers may buy their insurance plans in the next few months before the plan rolls out," Jain said.

IMPACT ON OVERALL PREMIUMS

Your overall motor insurance premium includes own damage premium and third party premium.

"The own damage rates has not seen any upward movement in recent times. So for you, the increase in premium will only be due to any increase in third party rates," said Ghosh.

Keeping the current development in mind, you may think that under all circumstances, your overall premium will increase. However, that is not the case.

"For motor insurance renewal, the own damage premium generally goes down for the consumer year on year due to a decrease in the value of the vehicle because of depreciation. If there are no claims made in the previous year, this drop in own damage premium in absolute terms may actually offset the proposed increase in third party premium," Ghosh added.

You will get a discount on your premiums if you do not claim in the previous year hence the offset.

"Typically for a three-year old car, the split between own damage and third party premium is 60:40. So, for a similar vintage car, a 15% increase in premium will translate into a 6% increase on total premium," said Ghosh.

MOTOR VEHICLES ACT

WHAT IS IT?

The Motor Vehicles Act 1988 makes it mandatory for every vehicle to have a third-party insurance cover. Until last year, vehicles plied on the road were insured under one-year policies which required annual premium.

The regulator issued a directive last year making three-year third-party and five-year third-party insurance policies mandatory for four and two-wheelers respectively.
The damage cover can be taken separately or in packages along with the third-party cover.

In future, the premiums may not be raised any further from the proposed rates. This has roots in the impending motor vehicles act. "The act had proposed that the third-party claims need to be filed within six months of the accident.

Earlier, this period was eight years, said Chowdary. "The shortened period lessens the chances of fraudulent claims. This will have a positive impact on the insurer's claim ratio and if they trickle down the benefits to the customers, the premiums may stay put in future," said Chowdary.