

insurance

THE ECONOMIC TIMES Wealth September 3-9, 2018

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Long-term third party insurance cover decoded

While the move will ensure compliance, the cost component will be steep for new vehicle buyers.



GETTY IMAGES

by Preeti Kulkarni

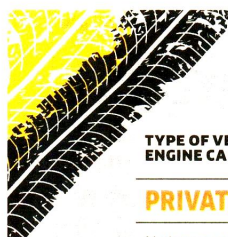
If you are planning to buy a car or a two-wheeler, be prepared to spend more on insurance. The Insurance Regulatory and Development Authority of India (Irdai) has directed insurers to start offering three- and five-year third party liability covers for new four- and two-wheelers respectively and has spelt out the premiums.

Irdai's move is in line with a Supreme Court order that mandated long-term third-party covers, considering that only six crore out of the total 18 crore registered vehicles on Indian roads are insured. "It is a positive move, given that many forget to renew their policy after the initial years," says Rakesh Jain, CEO, Reliance General Insurance. It will also mean more certainty in terms of price as well as compliance. "Vehicle-owners often miss renewing their covers. With long-term covers, this uncertainty is eliminated. For third parties, there will be no doubt on the insurance status of the vehicles. The new rule will benefit the entire ecosystem," says Sanjay Datta, Chief, Underwriting, Claims and Reinsurance, ICICI Lombard General Insurance.

The implications

As with any major regulatory change, this move, too, comes with its share of advantages and drawbacks. "It will offer price stability and convenience as customers will not need to renew their policy every year and will also be insulated from yearly hikes in third-party premiums. It will minimise the presence of non-insured vehicles," says Subrata Mondal, Executive Vice President (Underwriting), IFFCO Tokio General Insurance.

A comprehensive motor insurance policy comprises third-party (TP) cover, own damage (OD) component and add-ons,



For car owners, the one-time outgo will be high

TYPE OF VEHICLE AND ENGINE CAPACITY	ANNUAL THIRD PARTY RATES BEFORE (₹)	LONG-TERM THIRD PARTY RATES NOW* (₹)
PRIVATE CARS		
Not exceeding 1,000 cc	1,850	5,286
Exceeding 1,000 cc but not exceeding 1,500 cc	2,863	9,534
Exceeding 1,500 cc	7,890	24,305
TWO-WHEELERS		
Not exceeding 75 cc	427	1,045
Exceeding 75 cc but not exceeding 150 cc	720	3,285
Exceeding 150 cc but not exceeding 350 cc	985	5,453
Exceeding 350 cc	2,323	13,034

*Three years for cars and five years for two-wheelers

Source: Irdai

out of which, only the third-party element is mandated by law. "For two-wheeler owners, this is a good move. This segment slips up on renewing policies every year and premiums are lower. But for car-owners, it will mean a steep one-time premium outgo," says Kapil Mehta, Co-founder, *SecureNow.in*, an insurance broking firm.

For insurers, offering a combination of say a three-year third-party cover and an annually-renewable own damage component could be complicated. "The challenge lies in pricing and ensuring easy administration in case of a bundled product as it has a long-term TP cover and yearly OD part," says Mondal. Affordability therefore, will be majorly affected.

While most insurers have largely wel-

comed the move, some players argue that though this move was necessary for the two-wheeler segment, for the private car category, it will only mean higher costs with little or no benefits. "As per Insurance Information Bureau (IIB) data for 2016-17, the insurance renewal rate for the private car segment is upwards of 90% in the first three years, so there is no problem of compliance. Why is the customer being burdened by being asked to pay for three years and being robbed of the freedom of switching insurers?" asks the CEO of a private general insurer, who did not wish to be named. "Providing long-term insurance will only increase the cost to customer and potentially act as deterrent." He contends that the onus of ensuring the vehicle is in-

sured ought to be on law enforcement agencies. "Why can't the authorities check the third party insurance too? If not available, there should be a fine. Gap in enforcement is the problem, but it is being solved by placing a burden on the customer," he rues.

The intricacies

A clear picture on the workings will emerge only after insurers fine tune the nitty-gritties. "Premiums and no-claim bonus for the own damage component will have to be worked out. It is too early to comment on what shape the new structure will take. Insurers should follow a uniform approach," says Jain.

Two insurance companies—New India Assurance and ICICI Lombard—have been offering long-term covers for two-wheelers since 2015. Now, Irdai has allowed insurers to offer comprehensive long-term packages offering both third party and OD policies as well as bundled products where the third party element will carry the applicable long-term tenure while the OD component can be renewed yearly. The OD pricing will be decided by the insurers. It has also allowed insurers to issue long-term add-ons. "Policyholders will have the long-term third party cover in place for five years and will only need to renew the own damage cover every year. If they choose a five-year own damage cover, the no-claim bonus will come into play after the end of this period. We already do it for our long-term two-wheeler covers," says Datta.

Given that the long-term third party covers are now compulsory as per law, you have little choice in the matter. However, you can exercise your choice in case of the own damage and add-on covers.



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