

Proposed motor vehicle law removes cap on liability, sets minimum compensation of ₹5 lakh for death and ₹2.5 lakh for grievous injury

3rd-party liability to remain a sore point for insurers

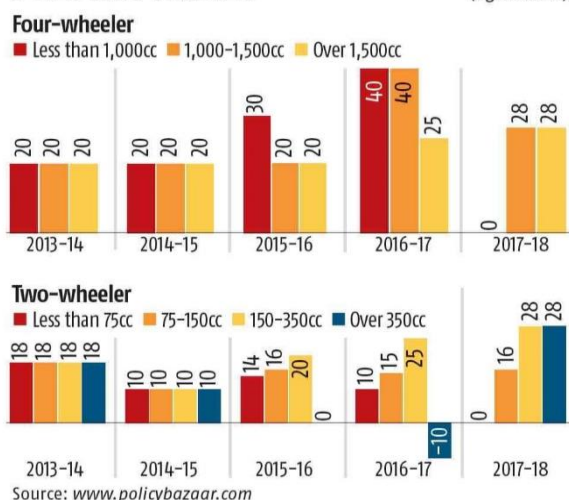
TINESH BHASIN
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Provisions regarding third-party claims in the Motor Vehicles (Amendment) Bill, 2016, have given some relief to policyholders, but general insurance companies are largely unhappy with the proposed rules.

To add to insurers' dismay, the Insurance Regulatory and Development Authority of India (Irdai) on Monday revised downwards the premiums for cars and motorcycles with more powerful engines, weeks after hiking these in March. The hike in premiums for cars over 1,000 cubic centimetres (cc) and motorcycles over 150cc will now be 28 per cent, which was raised by 40 per cent earlier. For less powerful vehicles, the premiums remain same as announced last month.

In the new motor vehicle legislation, which initially proposed to cap insurers' liability at ₹5 lakh for grievous injury and ₹10 lakh for death, the restrictions were removed in the final Bill that was passed by the Lok Sabha on April 10. Instead, it has raised the minimum compensation to ₹2.5 lakh for grievous injury and ₹5 lakh for death. This means the maximum compensation will be open-ended.

PREMIUM HIKES



The minimum compensation will be awarded under a "no-fault" provision. "No-fault liability triggers when a person driving the vehicle is not at fault. If the claimant, however, wishes to seek higher compensation, he needs to prove to the Motor



MOTERING CHANGE-II

Accident Claims Tribunal (MACT) that the vehicle owner (other party) was negligent or involved in a wrongful act,"

explained Sanjay Datta, chief underwriting and claims, ICICI Lombard General Insurance. To claim this amount, the claimant needs to forgo the right to pursue the case any further.

While the no-fault provision existed earlier, the compensation had to be sought through the Tribunal, and the amounts paid out were 10 per cent of the proposed compensation – ₹25,000 for grievous injury and ₹50,000 for death.

Recently, an insurance company had to pay a compensation of ₹3.35 crore to the father of a 28-



were required to pay the compensation first, irrespective of the fault of the driver or the rider. They had to later file a case for recovery of the compensation paid to the policyholder. The insurers can now deny third-party liability claims, if the person behind the wheels or riding a motorcycle does not have a proper licence or permit, is under the influence of alcohol, or has not paid insurance premium," says Mangesh Gandhi, head-third party claims, Bajaj Allianz General Insurance.

This will give insurance companies more control on claims. "While they may not see increased profitability, the bleeding in third-party liability insurance will reduce. Reduction in litigation will help save costs further," says Ashvin Parekh, managing partner at Ashvin Parekh Advisory Services.

Parekh, however, believes the third-party insurance premiums would continue to see an increase like they have in the past. That's because insurance firms would continue to face unlimited liability claims, which has been affecting their claims ratio, he says.

Insurance premiums in the motor segment have been moving up at an alarming pace. According to data from PolicyBazaar.com, for four-wheelers of less than 1,000 cubic

centimetres (cc), third-party premiums have almost doubled between FY14 and FY18. And, for four-wheelers of 1,000-1,500 cc and above, premiums have risen even more.

However, despite the sharp rise in premiums, the third-party insurance has been a sore point for insurers, as the payout has been higher than the premiums collected. Irdai regulates the premiums of third-party liability plans. Recently, the regulator hiked the premium up to 40 per cent for four-wheelers above 1,000cc and two-wheelers above 150cc.

The new legislation also gives power to the central government to prescribe 'a base premium and the liability of an insurer in relation to such premium for an insurance policy'. In other words, the government can allow insurance companies to have different plans under the third-party liability cover and link it to the compensation. In future, the insurance regulator can allow insurers to offer restricted compensation for lower premiums and unlimited compensation for higher premiums. The Bill is yet to be tabled in the Rajya Sabha and will then be signed by the President.

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