

[How does 'Pay As You Drive' variant of motor insurance actually work?](#)



While the names 'Pay As You Drive' or 'Pay How You Drive' already give a basic idea of what the new customer centric variants of motor insurance have to offer, ET BFSI spoke to a few leading insurance companies in the motor segment to get an in depth understanding of how it works, along with other aspects like how it will affect the business, calculation of claims and the rising importance of User-Based Insurance in India.

In an attempt to make motor insurance more affordable as well as to increase its penetration in the market, the Insurance Regulatory and Development Authority of India ( Irdai ) has permitted insurers to launch ' Pay As You Drive PAYD )' motor insurance policies with premiums linked to mileage and quality of driving.

While every individual has different driving and vehicle usage patterns, currently all customers are classified into a single category and are priced the same.

Make your budgets work harder, and learn the value of rolling forecasts and performance measurement systems.

Register Now With the proposed add-ons, the one-size-fits-all pricing will be tweaked according to a customer's circumstances, usage, driving behavior and habits.

Within a month's time, while a number of leading insurance companies in the motor segment have announced the launch of their PAYD products, some have been playing around this concept for a long time.

Bajaj General Insurance launched the Pay As You Drive in 2019-20, when the company was allowed to do some experimentation in the sandbox environment and according to T A Ramalingam, Chief Technical Officer, Bajaj Allianz General Insurance, the company saw a great response by meeting all the basic requirements like having 10,000 policy or Rs 50 lakh premium in a short span of time.

"I'm quite sure that going forward this particular customer centric variant of motor policy should witness good success, now that the regulator has also given total freedom to pilot it as a separate product," he said.

As per Ramalingam's observation, a lot of people do not buy a full comprehensive cover if the vehicle is old, many houses also own multiple vehicles and the usage of one of the vehicles is typically lesser, this product also serves as a solution for these potential customers to opt for a comprehensive model.

Digit is also witnessing encouraging initial feedback and traction from customers for the Pay As You Drive add-on cover which was launched hardly two weeks back, said Vivek Chaturvedi, Chief Marketing Officer and Head – Direct Sales, Digit Insurance

"The add-on can be bought under Motor Own Damage (OD) policy and is aimed at individuals who are infrequent vehicle users. Based on historical averages, if someone drives 15,000 km a year or less, they can opt for this add-on during insurance renewal and get a discount of up to 25% on their premium," he added.

Since this is a usage-based add-on aimed at reducing the premiums, it will not affect the claims settlement process and all customers with or without the PAYD add-on under the policy will receive the same experience in case an insurance claim arises, he added.

Is PAYD applicable for Third Party Insurance?

Third party motor insurance is a mandatory cover for car owners and only covers third-party liabilities. This cover provides protection against damage to property, vehicle, disability, injury and death of a third party arising due to car owners' fault. Since there is no vehicle usage-based component under third-party insurance, an add-on like PAYD would not be applicable, Chaturvedi explained.

Pay How You Drive

Irdai has also allowed insurance companies to offer discounts based on the quality of driving but the question that comes to mind is how an insurance company is going to figure out the driving behavior of each policyholder at all times.

There are multiple ways to track and source the driving scores. For instance, smartphone-based telematics which uses phone sensors to analyse the driving patterns like the speed, distance covered, frequency of usage

etc and an OBD device which can be plugged-in to the car are few of the top options to track the driving behavior, explained Animesh Das, Senior Director – Motor Underwriting, ACKO.

"We at ACKO leverage disruptive technologies to enhance customer experience. For instance, with geo-tagging, we track the customer's circumstances and service them as per their unique requirements. We believe the move will add value, ease hassles, decrease the pricing burden on customers, and allow them to extract the most out of policies," he added.

Will the relaxation in premiums affect the motor insurance business?

An ideal customer for an insurance company is the one who travels or drives rarely, and the pandemic has added to the number of customers not driving to work because of hybrid style of working. This leads to premiums going down which results in claims also reducing. In the end, the customers are at a benefit since the insurers pass these savings done as premiums to the customers, Das explained.

Importance and scope of User Based Insurance (UBI) in India

User-based Insurance is still in its early days worldwide and makes for less than 5% of policies sold globally, however, Indian customers have been adapting to all kinds of innovations, said Das adding that if these products are positioned in a simple manner, then it is going to see a major uptake.

"Though the adoption may be slow because insurance is still sold through offline mediums where selling these variants of products may be tough for insurers," he added.

According to Shanai Ghosh, Executive Director & CEO, Edelweiss General Insurance, customers today want personalised solutions – so why should motor insurance be any different. They want to be in control of what they use and pay as per usage. Moreover, given that Indian customers are value conscious, usage-based insurance will have a huge appeal for them.

"This concept is a familiar one in more developed markets and in India, its time has come. At EGI, we have been working on the concept of usage-based insurance since 2020 and have launched 2 products on the same concept under IRDAI's sandbox. SWITCH is the only on-demand motor product in India that combines pay as you drive and pay how you drive benefits," she added.