

A FEW DRIVING PRINCIPLES

SMART MONEY



**MOTOR INSURANCE**

## A FEW DRIVING PRINCIPLES

Vehicle insurance is mandatory and there are many additional features on offer, depending on the risks you want covered

**A**fter six years of driving a compact Wagon R, 37-year-old Noida resident Arvind Tripathi is planning a shift to Maruti Brezza. The crossover SUV costs about Rs 15 lakh and Tripathi is exchanging his old car for the new one, which knocks off a couple of lakhs from the price. His family is excited about the shift, his two children are eagerly looking forward to long drives in the new vehicle. "The funding for Brezza looks easy with a little down payment and

exchange on my old car and some loyalty discount that the dealer offered, making the EMI affordable," says an excited Tripathi.

Tripathi is well aware that motor insurance can be transferred from an old car to the new one, and he plans to do just that with the 45 per cent NCB (no-claim bonus) that he has accumulated on his Wagon R. The move will significantly reduce the premium outgo on the Brezza, which would otherwise work out to a little over Rs 20,000. "But, I am

confused about add-on motor insurance that is being suggested," says Tripathi. For the uninitiated, add-on vehicle insurance is additional and specific risk cover that one can attach to their car insurance.

In India, every vehicle owner must have motor insurance. It has two components: liability cover and protection against own damage. The mandatory third-party liability insurer protects you against legal liabilities arising when an insured vehicle causes

injury or damage to a third-party person or property or vehicle in an accident. The own damage insurance provides insurance cover against accidents that may require repair and replacement of parts to make the vehicle fit for use.

A combination of the two is popularly known as a comprehensive motor insurance policy, which provides coverage for both third-party and own damages. In many ways, just having a comprehensive motor insurance isn't enough. "There are

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Illustration by SIDDHANT JUMDE

## CHOOSING AN ADD-ON

ADD-ON COVER	RISK EXPOSURE	BENEFIT	SUITABILITY
<b>Zero depreciation</b> 	<ul style="list-style-type: none"> <li>Vehicle value depreciates from the time you own it</li> <li>You pay for the depreciation and replacement of parts with spare ones following an accident</li> </ul>	<ul style="list-style-type: none"> <li>The insurance company does not deduct depreciation</li> <li>You are paid for the repair and replacement of plastic, fibre and rubber components</li> </ul>	Every vehicle, especially in the first five years, should consider it
<b>Engine protection</b> 	Engine may be flooded due to floods or waterlogging	<ul style="list-style-type: none"> <li>Standard cover provides engine repair only in case of accidents</li> <li>Getting engine opened and repaired is expensive</li> </ul>	Consider it if you reside in a flood-prone area or where rains could result in waterlogging
<b>No claim bonus (NCB) protection</b>	You lose out on the NCB when you make a claim	You retain the NCB even when you raise a claim	Useful when you own an expensive vehicle
<b>Consumables cover</b> 	Covers for cost of replacing consumables, such as oil, bearings and nuts	<ul style="list-style-type: none"> <li>Accident claims do not cover for consumables</li> <li>Consumables could add to considerable expenses</li> </ul>	<ul style="list-style-type: none"> <li>Handy if you are at a higher risk of meeting with accidents</li> <li>Useful for vehicles for which the cost accident repairs is high</li> </ul>
<b>Return to invoice cover</b> 	<ul style="list-style-type: none"> <li>Loss vehicle generally covers depreciated price</li> <li>A total loss in case of accidents also pays for the depreciated value of the vehicle</li> </ul>	The insurer gives you the entire sum stated on the car's purchase invoice	Suitable in theft-prone areas or if you have a high-end vehicle
<b>Roadside assistance</b> 	Standard cover does not include breakdown	<ul style="list-style-type: none"> <li>Vehicle repair when stranded</li> <li>Towing, taxi service, refuelling, tyre repair, etc. are available</li> </ul>	Useful if you live in areas that are thinly inhabited, where access to vehicle assistance is not available
<b>Passenger cover</b>	Disability or death of passenger in accident	Financial support till recovery from disability	Useful if you often have many people travelling together
<b>Personal belongings</b> 	Damage to items inside the vehicle	Laptops/smartphones and other expensive items inside the vehicle are paid for in case of damage during an accident	Useful if you carry expensive items with you in the vehicle
<b>Daily expense reimbursement</b>	The days your vehicle is unavailable you incur expenses towards commute	Pays for the cost of your commute if damage is owing to any covered peril	Useful if your work depends heavily on vehicle use

many other financial risks that a vehicle is exposed to such as depreciation. It means that the insurance company pays only up to a percentage of the actual cost of the part that needs replacement in case of an accident," says T.A. Ramalingam, chief technical officer, Bajaj Allianz General Insurance.

To widen the scope of financial protection on the comprehensive motor insurance policy, companies over the years have introduced add-on covers. "When I was buying the Wagon R, I somehow didn't look at the add-ons in detail," says Tripathi, "but I realised their value when my car was involved in an accident and, on raising the claim, I learnt about my contribution towards depreciation and consumables."

### CHOOSE ADD-ONS SMARTLY

The concept of add-on insurance is borrowed from the fast-food industry, where it is common to offer an additional item at a marginally incremental price. So, the fries and cola with the burger or pizza are add-ons, which often makes economic sense. Add-on covers are additional features that offer insurance cover for aspects the base plan does not include. These are optional and a consumer can choose the one they wish to add depending on the risk they want to cover. It is necessary as a prospective motor insurance buyer for you to spend some time understanding the add-ons available, the risk they cover and the financial implications you may face if you choose to forgo them.

"Just because there are several add-ons doesn't mean you have to take them all," explains Ramalingam. "You should consider your need and seek help from agents or from the dealer-

Q&A

# 'Use add-ons for greater protection'

Owners are possessive about their vehicles. Add-on covers can provide them financial cushion, explains **T.A. Ramalingam**, Chief Technical Officer, Bajaj Allianz General Insurance

## Q. COULD YOU TAKE US THROUGH THE GENESIS OF ADD-ON COVERS IN CASE OF MOTOR INSURANCE?

Motor insurance falls under the purview of the TAC (tariff advisory committee), which defines the standard scope for motor insurance cover. We cannot change the wording and have to offer and follow insurance cover as per the TAC. However, consumer needs are constantly changing and vehicle owners have shown interest in covers beyond the standard own damage policy that is available. Sensing an opportunity based on this demand, we and other insurers started to offer add-on motor insurance cover.

## Q. THERE ARE SEVERAL ADD-ON POLICIES. WHICH ONES ARE THE MOST SOUGHT-AFTER?

The zero depreciation add-on is the most popular and sought-after. Generally, a vehicle owner pays for

## OVER THE PAST DECADE, INSURERS HAVE EXPANDED THE NUMBER OF ADD-ON COVERS BASED ON FEED-BACK AND MARKET INTELLIGENCE

the depreciation and replacement of new spare parts when raising an accident claim. This add-on is structured to do away with this financial impact by covering this expenditure. The next most sought-after is the add-on consumable cover. It addresses the expenses that an insured



person has to bear towards consumables, like oil, nuts and bolts, which need replacement after an accident repair.

## Q. WHAT ABOUT ROADSIDE ASSISTANCE AND ENGINE PROTECTION?

Yes, these are also important and popular. We provide free roadside assistance cover to

gone up. The moment water gets into the engine, the repairs are very expensive, running into lakhs. This cover comes in handy.

## Q. HOW ARE THE ADD-ONS PRICED? ARE THEY AFFORDABLE?

Add-on pricing varies across insurers and is based on our claims experience and actuarial inputs. We price it competitively and some of them depend on the type of vehicle. They are definitely affordable compared to the cost one would otherwise incur if faced with the occurrence of the add-on risk.

## Q. HOW SHOULD ONE CHOOSE AN ADD-ON?

There is no standard format. But, I would recommend zero depreciation as a must-have add-on followed by the consumable cover. Roadside assistance, key protection and engine protection, etc. would depend on your circumstances such as the place you stay in, the kind of risks that are prevalent there and so on.

ship where you are buying the vehicle to choose the ones that may suit you."

The world of add-ons could be overwhelming. A caveat is therefore in order. Add-ons do not come free; there is a cost associated with each of them. It may seem affordable, but needs

to be evaluated, especially on what it does and how it could be useful for you (see *Choosing an Add-on*). "I realise that some of the add-ons are not necessary, but I do plan to take the zero depreciation and a few others," says Tripathi.

However, in the absence

of a standard add-on nomenclature or costs, it may not be easy to choose an add-on based just on costs. Choose an insurer and add-ons based on the claims experience that the company provides and the ease of claims processing and payments thereof.

It may seem a lot to choose an insurer and add-on when buying a vehicle, but remember that the exercise of choosing a vehicle is also not simple. Just the way vehicle-buying is a lot more than its price, add-on insurance too requires some effort on the part of the buyer. ■