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Drive well and pay less premium: Irdai issues new vehicle cover plans

MITHUN DASGUPTA
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THE COUNTRY'S INSURANCE regulator, Insurance Regulatory and Development Authority of India (Irdai), has permitted general insurance companies to introduce tech-enabled concepts for motor own damage (OD) cover, in order to offer customers usage-based insurance covers as add-ons to the basic policies of motor OD insurance.

Issuing a circular on Wednesday, the regulator said the concept of motor insurance is constantly evolving and as a step towards facilitating technology-enabled covers, it is allowing the general insurers to bring in sophisticated add-ons, such as 'Pay as You Drive' and 'Pay How You Drive', to the motor own damage policy. The regulator has also allowed the insurers to introduce a floater policy for vehicles belonging to the same individual owner for two-wheelers and private cars. This circular will come into effect immediately.

"Introduction of the above options will aid in giving the much needed fillip to motor OD insurance in the country and increase its penetration," Irdai said in a release.

According to general insurance industry insiders, introduction of add-on covers like 'Pay as You Drive' and 'Pay How You Drive' will nudge customers towards a utility-based 'Pay as You Use' model, lending to greater flexibility and convenience in customer choice. Moreover, the usage-based covers as an add-on to an OD policy will give additional protection for customers who have a lower frequency of vehicle usage.

"This is a very positive development. The add-ons to the basic policies of Motor OD will



allow a purely asset-based rating mechanism to a mechanism, which encourages better driving behaviour and optimum usage. Policy premiums would certainly reduce for customers who drive better and use cars less," Sanjay Datta, chief underwriting, claims and reinsurance, ICICI Lombard General Insurance, told FE.

Datta said introduction of the floater policy for vehicles will allow customers to bring several vehicles together under a single policy. "Gathering data for introducing such add-ons would not be a problem for insurers. There will be a lot of partnerships among different stakeholders. Nowadays there are a lot of apps which can be utilised by the insurance companies. So, technologies are there to implement some of these things now," he pointed out, adding ICICI Lombard will "definitely" be looking into bringing in such add-ons to the basic policies of motor OD.

Udayan Joshi, president - underwriting & reinsurance, Liberty General Insurance, said it was a welcome move by the regulator, especially at a time when the pandemic has

changed the way people work and travel. And these add-on covers will definitely appeal to the customers who are working from home more often, thus making car insurance cost-effective for them. Further, this will give lower-mileage drivers more transparency and control over their auto insurance. "At Liberty General Insurance, we have tested the product concept of 'Pay as You Drive' under the regulatory sandbox, and feel excited about the opportunity. Further, the introduction of add-on covers such as these will also act as a catalyst in deepening the penetration of Insurance in the country," Joshi said.

According to TA Ramalingam, chief technical officer, Bajaj Allianz General Insurance, customers do not necessarily use their vehicles in a similar manner; some customers may have a lesser frequency of vehicle usage, or prefer to use public transport or organisational transportation facilities. Hence, this is where he felt Irdai's circular on motor insurance add-ons, which is principally a usage-based cover as an add-on to an OD policy, gives additional protection for those cus-

tomers who have a lower frequency of vehicle usage or also based on the driving pattern of the insured.

"The Irdai circular seems very customer-centric and positive move by the regulator. While exact product details would emerge later, this should cheer up the customer confidence and sentiment," said Susheel Tejuja, principal officer, founder & managing director - PolicyBoss.com.

Tejuja said introduction of covers such as 'Pay as you Drive' and 'Pay How You Drive' will nudge customers towards a utility-based 'Pay as You Use' model, lending greater flexibility and convenience in customer choice. Currently, there is price equity due to lack of user behavior based pricing of insurance premium, which will change. This will make it cost effective for low usage customers especially ones who drive less than 10,000 km a year.

On the flip side, Tejuja said such a move will eliminate the cross subsidy currently enjoyed by high usage customers, possibly resulting in slightly higher premiums for this set.

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