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Proposed hike in TP motor insurance to help insurers amid claim inflation

SURABHI
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The proposed hike in motor third-party (TP) premium after two years will have an impact on consumers but will benefit the industry, said experts, pointing out that there has been a high amount of inflation.

Customers who wish to avoid an increase in premium can renew their policies before the new rates become effective on April 1, 2022, said Ashwini Dubey, Head-Motor Renewals, Policybazaar.com.

"With the rise in the number of third-party claims after the initial drop during the Covid-19 pandemic, GICs had written to IRDAI, proposing the mandatory increase in TP rates, which has now been accepted. This will lead to an increase in insurance premiums for both comprehensive and third party as TP is a part of comprehensive. Since TP insurance is mandatory by law, this will impact all customers," Dubey said.

While third-party premium rates are revised on an annual basis by IRDAI, these were put on hold in 2020 and then again in 2021 to give relief to policyholders during the pandemic.

'Marginal hike'

TA Ramalingam, Chief Technical Officer, Bajaj Allianz General Insurance, welcomed the IRDAI's draft notification proposals on motor third party rates and said the industry had also been asking for a review given rising inflation.

"While this will take care of some of the concerns, considering annual inflation, the proposed hike in TP insurance rates may not be fully sufficient as the motor segment is as it is quite competitive in terms of pricing. For consumers, the hike is marginal. But this is only the draft notification and we must await the final policy," he said.

The government had on March 4 issued draft notification of motor third party premium rates for FY23 for stakeholder's consultation. According to the draft, Motor Third Party premium rates for private cars not exceeding 1,000 cc is proposed at ₹2,094 while for two wheelers not exceeding 75 cc, it is proposed at ₹538.

"As such, the impact of hike has to be seen through competitive intensity. If there is continued tepid growth in new motor sales, aggressive insurers may want to pass on the higher TP rates through lower OD prices. However, considering the already high overall loss ratios of the industry (overall loss ratio for the industry was at a cyclical high of 93 per cent as of H1 FY22), we expect improving profitability post this hike," said a report by ICICI Securities.