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Pay-as-you-drive: If you drive less, you can get a discount on your insurance premium

Pay-as-you-drive motor insurance tailors insurance premiums based on the distance driven rather than fixed flat premium.

Customers choose a kilometre option based on average daily run, and the premium is computed accordingly.

Kilometres-based plans typically start with a limit of 2,500 kms a year Soumya Das, a Kolkata based professional has two cars, a Honda City which he and his wife uses for daily commute and a Maruti Jimny which he uses occasionally for off-roading trips. Should he pay the same insurance for both the cars? Insurance companies, in the bid to attract new clientele, are designing schemes to address this.

Welcome to the world of pay-as-you-drive insurance where your insurance depends on how much you drive the car. While this concept has existed in more developed economies for some years now and is now making an entry in the Indian market.

Under basic car insurance, the premium is classified under a single slab, irrespective of the driving and usage patterns of the users. However, the fact remains that there are many customers, who do not drive frequently, but need to pay a similar amount of premiums as the person with higher car usage.

“To bridge this gap, the add-on cover of Pay-as-you-drive (PAYD) has been introduced, which tailors insurance premiums based on the distance driven rather than fixed flat premium,” says Parthanil Ghosh, president, retail business, HDFC ERGO General Insurance Company.
“This is a breakthrough in motor insurance given that a huge number of people, especially those living in metros, working in corporates/jobs, hardly take out their cars, use more of public transport and taxis, therefore are at lower risk of damage/accidents,” says Vivek Chaturvedi, CMO, head direct sales, Digit General Insurance.

So, how does the PAYD cover work?

Customers choose a kilometre option based on average daily run, and the premium is computed accordingly.
Third-party coverage is annual, and own damage coverage ceases once the kilometre limit lapses. Customers can top up kilometres by paying an additional premium.

“A policyholder who primarily uses public transport or works from home pays premiums based on limited car usage, leading to substantial cost savings compared to traditional flat-rate premiums.” says Neel Chheda, senior executive vice president and head- auto and actuarial analytics, Tata AIG General Insurance Company.

Kilometres-based plans typically start with a limit of 2500 kilometres per year, with additional slabs like 5000, 7500, 10000, and so on.

“Customers choosing a 2500 km plan receive coverage up to that limit from the policy start date, and in case a customer feels that they are about to exhaust their kilometers, they can purchase additional kilometers during the policy based on their requirement. Lower kilometer slab plans come with higher additional discounts, while higher km slab plans have lower additional discounts,” says Nitin Kumar, head, motor insurance, Policybazaar.com.

For example, if a customer is driving, say, less than 6,000 kilometres per year, other parameters remaining the same, they will pay a lesser premium than a customer who drives say more than 10,000 kilometres per year.

The PAYD add-on ensures that policyholders are not charged a substantial premium based on the car's make and model. Instead, the payment is determined by the frequency of the vehicle's usage.

How does the car company keep track?

“We have an OBD device that is linked to the mobile phone that captures the data of the vehicle and is linked to our system. Otherwise it is purely based on the odometer reading at the time of the claim,” says T A Ramalingam, T A Ramalingam, Chief Technical Officer, Bajaj Allianz General Insurance.

Saving on premiums

The amount of savings with PAYD insurance depends on factors such as the vehicle's make, model, age, and place of registration and also the number of kilometres it is driven in a year.
*PAYD policy with HDFC Ergo