

Will higher premium dampen demand for two-wheelers this festival season?

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Mumbai, October 11

It is not just spiralling fuel prices and rising lending rates that could play a dampener on the sales of two-wheelers and cars this festival season.

Higher insurance costs could also play spoilsport, though a recent clarification by the insurance regulator – limiting the period of compulsory personal accident cover – could help cool prices.

A recent report by rating agency ICRA revealed that insurance costs have increased by 10 per cent to 19 per cent while buying a two-wheeler after the recent change in motor insurance policies.

The Insurance Regulatory and Development Authority of India recently increased motor third-party cover period from one year to five years for two-wheelers, and to three years for cars.

It has also increased the personal accident cover from



Rising fuel prices and lending rates may also affect sales

₹1 lakh to ₹15 lakh. “The changes in insurance guidelines have led to an increase in the on-road price of a two-wheeler across segments. The escalation in acquisition cost of the vehicle varies from 15 per cent to 19.5 per cent for a 100cc motor-cycle to up to 10 per cent to 13 per cent for a 500cc motor-cycle,” said Anupama Arora, Vice-President and Sector Head, ICRA, adding that higher fuel prices and increased interest rates have resulted in ownership costs rising by 12 per cent since January this year.

Typically, many people wait for the festival season – Navratri or Diwali – to make big purchases such as white goods and automobiles.

However, insurers believe that the amendments to motor insurance introduced by the IRDAI were much needed, and insurance costs *per se* do not play a role in deciding when to purchase a vehicle.

“It is not only insurance costs, but other factors such as fuel prices and lending rates have also increased. Enhancement of the long-term motor third-party insurance and compulsory personal accident cover are unlikely to play a significant role when people got to buy two-wheelers or cars.” said Gurneesh Khurana, President and Country Head- Motor Business, Bajaj Allianz General Insurance.

An executive with another general insurer pointed out that the long-term motor third-party policy means that

they are insulated from annual increases in premium of third party and own damage motor insurance policies.

IRDAI clarification

The IRDAI also recently clarified that it is the choice of the owner-driver to opt for a one-year compulsory personal accident cover (CPA) or long-term CPA cover, and that insurers should not compel owner-drivers to go in for long-term package policy or long-term CPA cover.

“All insurers are hereby directed to ensure that they necessarily offer the choice of one-year CPA cover to an owner-driver,” it has said.

Analysts said this will also help lower costs for motor insurance.

“A steep hike in the insurance cost had started hitting the sales of new two-wheelers. Hence, it is a big relief for two wheelers OEMs,” said Awanish Chandra and Vikas Rajpal of Centrum Broking.