

## Car Insurance Primer

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A guide to auto insurance in India

18<sup>th</sup> February 2012

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In India, motor insurance is an important part of the rules of the road. Therefore, it is necessary for every owner to get his vehicle insured. According to the Motor Vehicle Act 1988, every vehicle plying on the road or in public areas in India must be insured for the liability towards third party. It is the vehicle owner's choice to get a comprehensive policy which includes the third party liability coverage. If caught without a valid insurance policy for the vehicle, the owner or the driver can be penalized for violation of the law.

Moreover, if a vehicle meets with an accident and doesn't have insurance coverage, the owner or the driver will be completely liable to pay the expenses incurred by the third party involved through physical injury or damage to property. The owner/driver will also be uninsured against any law suits filed by the third party involved.

Apart from the law compulsion, motor insurance also provides financial security and stability in case one's vehicle is involved in an accident or a mishap that results in damage to the vehicle, and hence, expenses for which the owner may not be prepared for. Therefore, from a risk management perspective and considering the traffic conditions in India, it is advisable to have an insurance policy that can provide protection against unforeseeable losses and expenses.

Thus, if one doesn't have motor insurance or fails to renew the insurance policy in a timely manner, the following situations are possible:

- Penalty, if caught, for violation of law
- Liability to pay expenses and costs of physical damages and loss of property to third party
- Law suit by third party
- Burden of paying the complete repair amount for own vehicle damage
- Bearing total loss in case of totaled vehicle or non-repairable damage
- No road assistance or guidance in case of a mishap

### **Policy Period**

Normally the period of a motor insurance policy is one year in accordance to the Indian Motor Tariff Act, but some companies do provide insurance coverage for a short period of time by extending the existing policy by a period less than 12 months. Such an extension would usually require an explanation to be submitted detailing the reasons of policy extension. If accepted by the insurer, the extended policy will carry a warranty that the policy will be renewed with the same insurer at the end of the extension period.

Apart from the exception of an extension, car insurance policies are issued for not more than a period of one year. For two-wheelers, however, the Act Policy or the Third Party Liability Policy can be availed under Form A, which provides insurance coverage until the time of cancellation of the vehicle's registration by the Regional Transport Authority (RTA). Such type of long term insurance

is ideal for old relatively older vehicles and for which a comprehensive insurance cover seems too expensive in consideration of the age and the market value of the vehicle.

It is also possible for the car owner to buy an insurance policy for a time period less than a year. Such a situation may arise owing to the car owner's decision to sell the vehicle and reluctance to get a renewal for the whole year. Thus, a short term insurance cover can be availed. However, the premium for a short term policy cost higher than an annual policy when compared on a pro rata basis.

## **Types of Insurance**

There are two basic kinds of insurance policies offered by most insurance providers. The first one being the Third Party insurance or the Liability Only insurance which refers to the policy that suffices the requirements of the Motor Vehicle Act according to which every vehicle must have at least the insurance cover against liability towards third party. The second type of policy offered is a Comprehensive insurance policy which in addition to the Third Party Insurance, also offers insurance against damages to the vehicle due to an accident and other man-made activities and natural calamities. A Comprehensive policy also provides a personal accident cover for the owner or the driver.

### Third Party Insurance

Insurance cover against liabilities towards third party:

- Physical injury or death to third party
- Damage to property of the third party
- Cover against all expenses and losses from liability towards third party up to the extent of the cost incurred or as directed by the policy terms and conditions

### Comprehensive Policy

The Comprehensive insurance includes:

- Third Party insurance
- Cover against own vehicle damage arising out of:
  - Man-made calamities such as theft, robbery, accident and malicious act
  - Natural calamities such earthquake, floods, storm, etc.
- Personal accident cover for the owner/driver against injury or accident while travelling in the vehicle or while mounting or dismounting from the vehicle

- The personal accident cover can be optionally extended to cover co-passengers

The coverage and options in the comprehensive policy may vary from one to another insurance provider and may include other added benefits such as road and post-accident assistance with variance in the premium amount.

### **Exceptions to the motor insurance policy**

There are certain exceptions to the coverage of the insurance policy, some of which are as following:

- Negligent driving
- Illegal use of the vehicle
- Driving under drug or alcohol influence
- Driving without a valid driving license
- Damages incurred while the vehicle was outside the geographical limit of the policy
- Depreciation charged on the vehicle annually
- Wear and tear of tyres (unless damaged due to claim concerned accident)

### **Insurance Providers**

After the independence of India, the insurance business was nationalized. The general insurance business came to be nationalized in 1972 and it was not till 1999 that the private companies were allowed to enter the insurance market with a foreign holding of maximum 26 percent. Owing to the strong presence of the nationalized insurance companies, there are now two kinds of insurance providers, public sector companies and private sector companies.

The public sector comprises four insurance companies providing general insurance:

- The National Insurance Company
- The Oriental Insurance Company
- The New India Assurance
- The United India Insurance Company

The private sector has many general insurance providers such as:

- The Bajaj Allianz General Insurance Company
- The ICICI Lombard General Insurance Company
- The IFFCO-Tokio General Insurance Company
- The Reliance General Insurance Company

- The Royal Sundaram Alliance Insurance Company
- The TATA AIG General Insurance Company

All the insurance providers, whether public or private, are governed by the Insurance Regulatory and Development Authority (IRDA) which regulates the Indian insurance industry and protects the interests of the policyholders. It forms the rules and guidelines for the insurance policies provided by the insurance companies. Hence, the basic motor policies in India offered by the insurance providers are similar except for a few added benefits.

The other factors that determine the choice of insurer are:

- The customer service: Customer service entails access to services, benefits, assistance and information. Smooth and easy access to the same would result in better customer service
- The claim settlement ratio: It is a measure of the percentage of claims settled by an insurance company out of the total claims filed. The higher is the number of claims settled, the better are the chances of a policyholder receiving the insurance amount when a claim is filed

### Insurance Premium

The insurance premium is determined on the basis of certain factors which are decided by the India Motor Tariff Act. The following factors determine the insurance premium for a motor policy:

- Insured's Declared Value (IDV)
- Deductable
- Engine Cubic Capacity (cc)
- Age of the Vehicle
- Geographical Region
- No Claim Bonus (NCB)
- Discounts
- Voluntary Excess

Insured's Declared Value: According to the India Motor Tariff Act, the sum insured in a motor policy is the Insured's Declared Value (IDV) which is calculated with the manufacturer's listed selling price of the model and brand after adjusting depreciation for up to 5 years. The value of any accessories and equipment installed in the vehicle is likewise determined through the manufacturer's listed price for the same. If the manufacturer doesn't have the listed price for the accessories, the actual cost is taken to be added to the IDV.

If the vehicle is aged above 5 years and the vehicle model has been discontinued by the manufacturer, the IDV is determined through mutual understanding between the insurer and the insured.

**Deductable:** Deductable is also a significant factor on which the insurance premium depends. It applies to Own Damages as a part of the comprehensive policy and is a predetermined and fixed portion of an insurance claim. This portion of the claim is not covered by the insurance company and is borne by the policyholder. If one wishes to reduce the amount of insurance premium on the vehicle, he/she may choose a higher deductible, resulting in a higher liability for the policyholder in terms of actual expense of a claim. In other words, in order to earn a discount on the insurance premium, the policyholder may choose to bear a higher portion of the deductible, in the event of an insurance claim.

On the other hand, if a person wants additional insurance cover instead, the premium would be higher in accordance with the additional covers.

**Engine Cubic Capacity (cc):** Another determinant of the motor premium is the engine capacity or the engine displacement. A higher cubic capacity would result in a higher premium charged.

**Age of the Vehicle:** The age of a vehicle affects the amount insured by changing the value of the vehicle each year. Every year an amount for depreciation is charged on the value of the vehicle. The age of the vehicle also affects the IDV since, after 5 years of age, the IDV is decided through an understanding between the insurer and the insured.

**Geographical Region:** The insurance premium is also governed by the place or region of registration of the vehicle. The premium tends to be higher in Tier I cities or the Metros since the claim instances are relatively higher than Tier II and Tier III cities.

**No Claim Bonus (NCB):** An existing policyholder may get the benefit of not making claims in the previous year at the time of renewal or purchase of insurance. It may extend up to 50 percent on the premium for Own Vehicle Damage cover. The bonus can be availed in form of a discount, the amount of which depends on the NCB accumulated over the years or the number of years for which insurance claim was not filed.

### **Insurance Certificate**

On purchase of an insurance policy, an Insurance Certificate is issued to the policyholder as a proof of the vehicle's insurance. The certificate is required to be carried at all times along with the vehicle so to produce it as proof to the traffic inspectors and/or in case of an accident or mishap.

In case, the insurance company doesn't provide a certificate immediately, it must be ensured that the company issues a cover note in lieu of the insurance certificate. The cover note acts as a temporary proof of insurance coverage and is valid for 60 days from the date of issuance or until the original insurance certificate is received, whichever is earlier.

## Insurance Premium Discounts

One can avail various discounts on insurance premium while renewing an existing policy or buying a new policy. There are various ways one can become eligible for a discount on the insurance premium, some of which are as follows:

- No Claim Bonus
- Membership of a recognized Automobile Association
- Vintage Cars
- Anti-theft device
- Laid-up vehicle
- Voluntary Excess

No Claim Bonus: A discount can be availed if a policyholder has an accumulation of No Claim Bonus which is a result of not filing a claim in the previous policy period and the amount of discount would depend upon the number of years the claim has not been filed. Thus, the No Claim bonus can accumulate for a number of years and the longer the period of No-claim, the higher discount one can avail on the renewal or purchase of an insurance policy, up to an amount of 50 percent.

In the event of buying or selling a used vehicle, although the policy is transferred to the new owner, the No Claim Bonus is retained by the seller and can be transferred to the next vehicle he/she purchases.

Membership of a recognized Automobile Association: A discount of up to Rs. 200/- and up to Rs. 50/- can be availed for private cars and two-wheelers respectively if the insured is a valid member of a recognized Automobile Association. However, membership of two or more associations doesn't allow multiple discounts on the same policy and only one membership will be considered for discount.

Vintage Cars: A discount of 25 percent can be availed on the Own Damage premium for private cars certified as Vintage cars by the Vintage and Classic Car Club of India.

Anti-Theft device: Vehicles installed with Automobile Research Association of India (ARAI) approved anti-theft devices can avail a discount of 2.5 percent on the Own Damage component up to a maximum of Rs. 500/-.

Laid-Up Vehicles: For vehicles which are laid-up in garage and not in use for two months or more, a pro-rata return of the premium to the policyholder is allowed for the period in which the vehicle was laid-up. The return of the premium will not be executed in cash and will be adjusted at the time of renewal as discount. Moreover, cash refund is not allowed even if the policyholder wishes to switch to a new insurance provider.

Alternately, the policyholder may choose to extend the policy by the time period for which the vehicle was laid-up. Moreover, in case of a comprehensive policy, the vehicle will retain the fire and theft cover during the laid-up period, as applicable to the class of the vehicle concerned, and thus, the premium will be adjusted after subtracting the amount of the fire and theft cover.

Voluntary Excess (Deductible): The insurance premium is also affected if vehicle owner chooses to bear a predetermined amount of loss on every claim filed, thus increasing the liability of the owner on every claim and reducing the financial risk for the insurer. This would decrease the insurance premium to be paid by the insured.

### **Insurance Renewal**

Before the insurance policy of the vehicle ends, it is imperative that the policyholder must either renew the existing policy with the insurance company or switch to a different insurance provider. The policy renewal is a simple process where the policyholder can intimate the insurance company to renew the policy and pay the premium for the renewal, after applying the various discounts, on or before the date of termination. Most insurance providers offer a grace period and a 'Last Date for Insurance Renewal' and send reminders and notifications to the policyholder about the termination of the insurance policy.

One might choose to buy insurance policy from another insurance provider at the time of renewal. This would require fresh proposal to the new insurance provider. A physical inspection of the vehicle may also be conducted by the new insurer.

While switching the insurance policy from one insurance provider to another, the No Claim Bonus can be transferred to the new company and accordingly the respective discount can be availed based on the time period of no claims.

### **Insurance policy transfer while buying and selling vehicle**

When a vehicle is sold and changes ownership, the insurance policy for the vehicle must be transferred to the new owner in order to avoid a conflict in case of an insurance claim. Thus, as soon as the ownership of the vehicle changes, the insurance company must be notified.

There can be two cases as to the fate of the existing insurance policy:

- The existing policy be cancelled and the new owner can buy a new insurance policy
- The existing policy be transferred in the name of the new owner

In case the existing policy is transferred to the new owner, one the period of the policy ends, he/she will have to either renew the policy or buy a new one.

In either case, the No Claim Bonus will stay with the original owner and can be applied to another vehicle.

### **Insurance Cancellation**

One may get the insurance policy of the vehicle cancelled and the avail the refund on the basis of short period scale of rate. It will, however, be necessary to either show proof of insurance coverage from another insurance provider or the proof of cancellation of the vehicle's registration. The refund will be further subject to the following:

- There should have been no claims during the policy, which would mean that the policyholder has availed the benefits of the policy
- The minimum premium will be retained by the insurance company as per the Tariff in accordance with the Short Period Scale rate

#### If the Insurance Policy gets lost

In case the policyholder loses the policy or misplaces it, the insurance company should immediately be notified and requested to issue another copy of the policy. Nowadays, for the convenience of the policyholders, many of the insurance companies provide a digital insurance policy which can be accessed and printed out at any time necessary. However, the policyholder must always carry a copy of the policy at all times to produce as proof of insurance.

### **Insurance Claims**

An insurance claim is an appeal by an insurance policyholder to the insurance provider to function as directed by the insurance policy to bear the expenses and provide assistance in the event of an accident or an incident that may have caused damage or loss to the policyholder or to a third party involved. The terms and conditions and wording of a policy clearly state the coverage of the policy, according to which the insurance company must bear the expenses of the damage and loss and provide any other assistance agreed upon in the policy.

Every insurance company provides a procedure of filing an insurance claim. Normally the following procedure is followed:

- The insurance company must be informed immediately if the vehicle
  - meets with an accident
  - injures a third party
  - damages the property of a third party
- An accident involving a third party and damage to third party property should be reported to the police

- In case of theft of vehicle or damage by miscreants, terrorists or arsonists, an FIR (First Information Report) must be obtained from the Police
- The vehicle should be taken to a reputed workshop and a repair estimate be procured
- The estimate must be submitted to the insurance company who will deploy a surveyor to inspect the vehicle and ascertain the damage and validity of the claim
- On the basis of the surveyor's report, the final settlement is made by the insurance company

Documents Required: At the time of filing a claim there are certain documents which are supposed to be submitted along with a claim form. These documents should always be kept handy and safe and at the time of submitting the claim form for verification purposes. The following will be required to be submitted along with the claim form:

- A copy of the Registration Certificate of the vehicle
- A copy of the Driving license of the person driving the vehicle at the time of the accident
- An estimate of repairs provided by the auto mechanic
- A copy of the Police FIR is required in case of
  - Theft
  - Third party personal injury/death
  - Third party property damage

### Total Loss

In accordance with the requirement of the situation, such as total loss or damage, there may be other documents which may be required to be attached with the claim form as proof and verification of the events. A Total Loss refers to complete damage or loss when a vehicle involved in an accident or fire is beyond repair or the cost of repair is higher than 75 percent of the insured value of the vehicle. Such a situation requires the insured to produce the following:

- RTO transfer papers
- Original Registration Certificate book
- Original Insurance policy
- Vehicle's original keys
- No objection certificate for transfer of the vehicle
- A letter of indemnity on judicial stamp paper
- A letter of subrogation on judicial stamp paper

If the total loss of the vehicle is due to fire, a report must be procured from the Fire Brigade Authority and be submitted along with the other documents.

### Vehicle Theft

If the vehicle has been stolen, the Police must immediately be informed of the event and a First Information Report (FIR) must be filed. Also, the Regional Transport Authority (RTA) must be informed about the theft and loss of the vehicle.

### Accessories damaged or stolen

The policyholder may include the expenses and cost of damaged or stolen accessories, if included in the coverage of the policy, in the claim filed with the insurance company. After the requisite inspection, the company will settle the claim by compensating the amount after adjusting the depreciation on the accessories.

### Geographical Location

The insurance policy provided by any insurance company in India is applicable, by default, throughout the country. Even if the accident takes place at a location other than the place of issuance, the policyholder can file claim for damages. For enhancing the geographical coverage of the policy, one may add certain areas by pay the requisite amount of additional premium.

In case of commercial vehicles however, if the vehicle does not have the permit to carry on commercial activities for certain regions, such as commercial permit for only one or a fixed number of states, the claim for damages may be considered invalid. This refers to the policy exceptions to coverage wherein the vehicle may be used for an activity that is not permissible or violates the terms of the policy.

### Driver/Owner

The policyholder may file claims for damages or loss even if the vehicle was being driven by another person, provided that the person, at the time of accident:

- was a licensed driver
- held a valid license
- was not under the influence of drugs or alcohol
- was not involved in any illegal activity
- was not violating the terms and conditions of the insurance policy in any way

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