Buying car to cost less: These motor insurance rules change from August 1

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If you are planning to buy a new car or a bike from August 1 onwards, you have a good news. Thanks to the insurance regulator IRDA, now you will shell out lesser amount than before while buying a new two-wheeler or a four-wheeler. IRDA has mandated insurers to discontinue long-term own damage (OD) cover that added extra cost to the vehicle showroom price.

Notably, the Supreme Court had made it compulsory to buy minimum three years of third party (TP) liability cover for new cars and five years for two-wheelers, while OD cover was kept optional. Pursuant to the SC order, the insurance companies started offering two types of motor insurance policies - one year of OD cover along with three years of TP insurance (bundled product) and three years of OD and TP insurance both (long-term cover). Now IRDA has mandated to roll back the three-year OD cover from August 1, while three-year TP insurance will continue.

"The overall price of the vehicle to the customer includes cost of the vehicle, registration and road tax and insurance. Considering the above change, the cost of insurance where the customers were opting for long term cover shall come down. Accordingly the total cost of buying the vehicle will also come down," says Pankaj Arora, MD and CEO, Raheja QBE General Insurance.

Why the long-term cover has been withdrawn

Lately, it was observed that customers were mis-sold the long-term motor insurance policies even as the OD cover was optional. "Some showrooms were giving no other options to customers as they pushed a 3+3-year policy instead of giving an option to buy 3+1 to unaware customers. Also, no-claim bonus (NCB) benefits were not very clear to some agents let alone customers. So, customers were misinformed sometimes," says Naval Goel, CEO and Founder of PolicyX.com.

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On the part of insurers, they faced issues in pricing the policy since premiums on long-term policies remain fixed for entire three years and five years as the case may be. "Insurers price their product based on claim expectations and they adjust the pricing on each renewal. In this case, they were having to take a risk of three years as the pricing was fixed for three years. Insurers were more comfortable in pricing their risks every year instead of for three years. Also, if a new car launches in the market, insurers do some estimations on risks, but in a long term policy, they will have to take a three-year risk upfront," says Goel of PolicyX.com.

What could be negative repercussions

While the move may put a full-stop to the mis-selling, it may end up in slightly higher premiums for OD cover as long-term covers come with handsome discounts. "The insurers pass on the benefit of savings in administrative cost to the customer in the form of lower premium," says Arora. This may not happen in one year policy. Besides, few customers prefer to buy a long-term policy to avoid hassle of renewing policies each year. They will have to renew their OD cover each year now.

If you are all set to buy a new car or a bike now, it is advisable to go for a comprehensive motor insurance cover which includes one-year OD and three-year compulsory TP insurance. "TP premium is anyway uniform across the industry. So you just need to compare the prices for comprehensive cover. This reduces the hassle of maintaining two separate policies and keeping track of their renewals," says Goel.