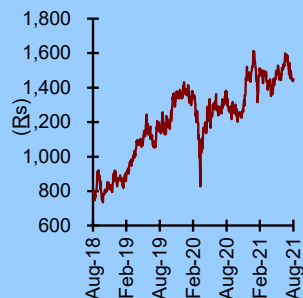


Sector update

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General insurance

Takeaways from the compulsory Motor OD verdict by Madras High Court

Madras High Court has ordered *mandatory* motor Own Damage (OD) insurance for new cars (third-party is already mandatory) for five years along with compulsory coverage for co-passengers apart from driver. This would imply that a person purchasing a new car would have to buy compulsory motor TP-OD as well as insurance of all co-passengers and driver. We believe this can raise the insurance premiums. We await further clarity on the co-passenger ruling considering that it is difficult to decide the number of co-passengers and adequate premium for all. Additionally, a 5-year combined product is not available as of now. As such, the product and the pricing have to be designed to begin with. In our view, a 5-year product will also make the motor business difficult for insurers without any OEM tie-ups.

In the past, we have seen that any increase in upfront premium pool resulting in higher float gets automatically passed to consumers leading to lower motor OD prices due to excess competition. As such, the long-term cost benefit for insurers will depend upon how volumes and pricing behave. Currently, growth in new motor registrations remains weak and mandatory motor OD as well as TP insurance will increase the cost of vehicle ownership.

Court verdict summary

"It is saddening to point out that when a vehicle is sold, the purchaser / buyer is not clearly informed about the terms of policy and its importance. Similarly, at the time of buying the vehicle, the buyer is also not interested in thoroughly understanding the terms and conditions of the policy, as he/she is more concerned about the vehicle's performance and not about the policy. When a buyer is ready to pay a huge amount for purchase of a vehicle, it is really shocking as to why the buyer is not interested in spending a paltry sum to take a policy so as to safeguard himself/herself and others."

"Therefore, this Court directs that whenever a new vehicle is sold after 01.09.2021, it is mandatory for coverage of bumper to bumper insurance every year, in addition to covering the driver, passengers and owner of the vehicle, for a period of five years. Thereafter, the owner of the vehicle must be cautious in safeguarding the interest of driver, passengers, third parties and himself/herself, so as to avoid unnecessary liability being foisted on the owner of the vehicle, as beyond five years, as on date there is no provision to extend the bumper to bumper policy, due to its non-availability. In view of untoward incidents like the present one on hand, the order shall be circulated by the Additional Chief Secretary, Transport Department, Chennai, to all the insurance companies and the said officer must ensure that the above direction is followed scrupulously in letter and spirit without any deviation. No costs."

Table 1: GDPI trend of motor segment for industry and ICICIGI

(Rs bn)	FY19	FY20	FY21	FY22TD
Motor OD - Industry	264.9	265.5	260.5	71.3
Motor OD - ICICIGI	34.1	36.9	36.9	8.4
ICICIGI Market share (OD)	13%	14%	14%	12%
Motor TP	380.3	424.3	424.6	106.8
Motor TP - ICICIGI	30.2	31.0	33.3	8.3
ICICIGI Market share (TP)	7.9%	7.3%	7.8%	7.8%
Overall Market share - Motor	10.0%	9.8%	10.1%	9.4%

Source: IRDAI. Note (FY22TD numbers are upto Jul'21)

Types of motor insurance: Broadly, there are two types of insurance policies that offer motor insurance cover:

- Liability-only policy (statutory requirement)
- Package policy (liability-only policy + damage to owner's vehicle usually called O.D. cover)

To be noted is that with only a liability-only policy, damage to own vehicle will not be covered.

What motor OD insurance covers: The damages to vehicle due to the following perils are usually covered under OD section of the motor insurance policy:

- Fire, explosion, self-ignition, lightning
- Burglary / housebreaking / theft
- Riot and strike
- Earthquake
- Flood, storm, cyclone, hurricane, tempest, inundation, hailstorm, frost
- Accidental external means
- Malicious act/s
- Terrorism act/s
- While in transit by rail / road, inland waterways, lift, elevator or air
- Landslide / rockslide

What motor third-party insurance plan covers: Third-party insurance offers protection against damages to the third-party by the insured vehicle. It covers physical injuries, damages to the vehicle, damage to the property, and death.

What motor insurance excludes: The following contingencies are usually excluded under the motor insurance policy:

- Not having a valid driving license
- Under influence of intoxicating liquor / drugs
- Accident taking place beyond geographical limits
- While vehicle is used for unlawful purposes
- Electrical / mechanical breakdowns

Basis of sum insured – For own damage: The sum insured under a motor insurance policy reflects the value of the motor vehicle determined based on the concept known as Insured's Declared Value. This is the value arrived at based on the manufacturer's present value and depreciation based on the age of the vehicle.

Basis of sum-insured – For third-party damage: Coverage is as per requirements of the Motor Vehicles Act, 1988. Compulsory personal accident cover for owner-driver is also included. Policy can also be extended to cover various other risks such as personal accident to occupants of vehicle, workmen's compensation to driver, etc. over and above the cover available to him under existing statute.

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