Long-term car insurance good for customers

While the cost of own damage could rise marginally, the third-party premiums will be locked at lower rates

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From September onwards, you will be able to buy five-year insurance policies for two-wheelers and two-year policies for cars. The Supreme Court has made it mandatory for new cars, bikes and scooters to have long-tenure third-party insurance.

While the insurance regulator is yet to finalise the guidelines, most insurers believe that the long-term policy is likely to be a comprehensive cover. "Splitting the third-party (TP) and own damage cover (OD) would require a change in many regulatory provisions, which may not be possible by the Supreme Court deadline" says Puneet Sahni, head-product development, SBI General Insurance.

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Every comprehensive auto insurance has two parts. The third party is mandatory by law, and it covers the liabilities arising from damage caused to a third party. The insurance regulator fixes the premiums for third-party every year. The own damage portion covers the vehicle.

Insurers are already selling cover for two-wheelers for up to three years. For the vehicle owner, the overall cost of buying a car can go up by 2-3 per cent as he will need to shell out more for long-term insurance. For two-wheelers, the cost would rise by 1-1.5 per cent. "By law, insurance premiums cannot be financed. For car buyers, it will be a big upfront cost," says Roopam Asthana, CEO, Liberty General Insurance. Whether the cost of insurance will come down in the long-term remains to be seen as insurers have not yet formulated the pricing for long-term car insurance. Insurers have price long-term two-wheeler policy cheaper than one year. If one-year comprehensive two-wheeler policy costs ₹1,037, the three-year would cost 2,905 – a saving of around 7 per cent. But in yearly plans, the vehicle owner also has a chance of getting a no-claim bonus (NCB) of up to 50 per cent that can bring down the premiums drastically. "It's not possible to build-in NCB in long-term products," says Asthana.

If an individual is buying a new car and has a no-claims bonus (NCB) from the previous policy, he can transfer it to the new one and get a policy at cheaper rates. But in longer-tenured policies, such individuals may not get the entire NCB. If an individual has 50 per cent no-claim bonus from the earlier insurance, for the new car he may end up getting a discount of, say, only 20 per cent. The discount is lowered as the insurer has to account for claims after the second year of the policy. At the same time, the vehicle owners get stable rates for third-party insurance which have been rising every year.

When it comes to multi-year insurance products, the insured declared value (IDV) of a vehicle is also a challenge. The IDV is the price an insurer would pay the vehicle owner if there is total loss of the vehicle. In the case of two-wheelers, insurers have adopted different ways to price the IDV. Some offer a single value for the entire tenure of the insurance, and others reduce IDV each year.

While a multi-year policy saves the vehicle owner hassle of renewing the insurance every year, it also has a disadvantage. The customer is tied to the same insurer for the long term even if he doesn't have a good experience or the product lacks features.

Long-term policy is cheaper upfront

Insurer policy	IDV	1-yr	2-yr	3-yr
Liberty General Insurance	38,502	980	1,900	2,778
HDFC Ergo	39,135	1,037	1,988	2,905
IFFCO TOKIO General Insurance	40,470	1,046	2,071	3,090
Bharti Axa General Insurance	37,426	913	2,252	3,196

Note: premiums for Honda Activa 3G – (110cc), make 2017, registered in Mumbai. Premiums are inclusive of GST. All figures in ₹ Source: Policybazaar.com

IMAGE: ISTOCK