

# What is Motor Insurance?

As the name suggests, motor insurance is insurance for motor vehicles. It offers financial protection against loss or damages caused to the motor vehicle because of an accident, theft, a natural calamity, etc. It provides cover to you, the insured vehicle, a third-party person, and their property.

## Two Important Things You Should Note

- As per the Motor Vehicles Act, 1988, it is mandatory to purchase third-party motor insurance. Driving a motor vehicle without insurance in a public place is a punishable offense under the Motor Vehicles Act.
- Irrespective of whether you're purchasing motor insurance online or offline, it is important that you purchase it from a company authorized by the Insurance Regulatory and Development Authority of India (IRDAI).

## Why Should You Purchase A Motor Insurance Policy?

### • Legal Compulsion

As per the Motor Vehicles Act, driving a motor vehicle without insurance in a public place is a punishable offense. The fine for driving without insurance starts from Rs. 2,000 for the first offense and Rs. 4,000 for the subsequent offense. It could also lead to imprisonment for 3 months within the law's discretion.

### • Financial Security

Now a days, cost of purchasing a new vehicle is high but cost of repairing a vehicle is also very high. A motor insurance policy provides financial protection to you against any unforeseen events like accidents, theft, or any other serious damage to your motor vehicle.

### • Covers A Wide Range Of Risks

A motor insurance plan offers protection against a variety of risks e.g. from thefts to accidents, from manmade disasters to natural calamities, etc. Further, it won't just provide protection to your own vehicle; but you will also be protected against any legal liabilities owing to damages or financial losses caused to a third party person or property.

# Benefits Of Buying Motor Insurance Policy Online

Here are some benefits of purchasing a motor insurance policy online-

- The buying process is simpler. You don't need to go through the hassles of submitting documents by standing in long queues and filling out forms.
- You can easily research, and compare the various options available - and then make an informed decision.
- You can avail discounts and special offers on the premium amount.
- The policy can be purchased and renewed from anywhere at any time - and in just a few clicks.
- The policy issuance, too, is quick. You don't need to wait for days or weeks to receive the policy papers.

## Types Of Motor Insurance Policies In India

You will come across various types of Motor Insurance policies in the market, such as -

- **Comprehensive Insurance Policy**

As the name suggests, it gives you complete enhanced insurance coverage. This type of insurance policy covers the third-party liability as well as the damages caused to your own vehicle. The best of both worlds!

- **Third-Party Insurance Policy**

This is the most basic vehicle insurance and a statutory requirement. Without this policy, it is illegal to drive your motor vehicle in India. This policy covers any injury/losses caused to a third party individual or property by your insured vehicle.

- **Own-Damage Insurance Cover**

This covers the damages caused to your own vehicle due to fire, rain, theft, etc. You can raise a claim under this policy to get compensation for the expenses incurred for repairing your vehicle.

# Categories Of Motor Insurance Policies In India

There are three main categories of motor insurance in India -

- **Private Car Insurance**

This insurance covers motor vehicles that are used for private or personal purposes against mishaps like burglary, accidents, man-made disasters, natural calamities, etc.

- **Two-Wheeler Insurance**

As the name suggests, this insurance covers two-wheelers , like bikes, scooters, etc., and offers protection against accidents and other mishaps such as fire, theft, etc.

- **Commercial Insurance**

This insurance policy covers all types of vehicles that are used for commercial purposes - and not for personal purposes. Examples include buses, cabs, auto-rickshaws, trucks, agricultural vehicles, ambulances, etc.

## Add-Ons Available With Motor Insurance Plans

The motor insurance comes with certain add-ons in case you want extra protection for your vehicle.

- **Zero/Nil Depreciation Cover**

With time, the value of your vehicle depreciates. If your motor vehicle gets damaged following a collision, and you have this add-on in your policy, you can claim the total cost of wear and tear of your car. The depreciation value of your vehicle won't be deducted from your claim amount. This cover is applied to vehicles that are less than 5 years-old.

- **Engine Protector Cover**

This protection covers you against the damages caused to the engine due to water seeping into the vehicle, leakage of lubricating oils, differential parts, or gearbox/engine failure.

- **Return To Invoice Cover**

This add-on provides you with compensation equal to the car's invoice value i.e. the original value of the car when you purchased it. The claim applies when a car is stolen or when it is beyond repair.

- **Consumable Cover**

With this add-on, the insurance coverage is expanded to the consumable parts of your vehicle, such as engine oil, coolant, grease, nuts, bolts, etc.

- **Tyre Protection Cover**

This add-on cover provides coverage for the repair and replacement cost of the vehicle tyres. It also covers the labour charges incurred during the process of repairing.

- **Key Replacement Cover**

If your vehicle key is lost, damaged, or stolen, this cover comes to your rescue. It gives financial compensation for the costs incurred while replacing or repairing the key and lock-set.

- **Loss Of Personal Belongings Cover**

This add-on provides financial coverage for any damage caused to your personal belongings or possessions kept inside the insured vehicle.

Motor Insurance is unique and important. You need to buy this insurance, even if your vehicle is off-road. Whenever you buy a new vehicle, take out some time, read the vehicle insurance details thoroughly, and invest in the cover that fits your needs to the best.

## **Motor Insurance Policy Types**

Motor insurance plan have a variety of options among which you can select the best one according to your specific needs. Some may find comprehensive motor insurance beneficial, while others may find the plan unsuitable depending upon their needs.

- **Third-Party Liability Only Cover**

According to the IRDAI, third-party insurance is mandatory in India for all registered vehicles. The third-party liability insurance shields you from any financial losses that may arise as a consequence of bodily injury, death, and property damage to a third party.

third-party liability cover damage caused to another person and their property in an accident involving your vehicle. The maximum compensation for property damage is limited to Rs.7.5 lakh and there is no limit to the compensation amount in case of death or disability.

The amount to be paid by the insurance company both in the case of damage to third party property as well as to the person is decided by the Motor Vehicle Accident Claims Tribunal.

## • **Own Damage (OD) Cover**

Own Damage Insurance is designed to protect your vehicle in case of an unexpected mishap. This policy covers the damages incurred to your vehicle resulting from any kind of loss or damage due to reasons like accidents, fire, natural calamities, etc.

A standard policy will pay the cost of repair after deducting depreciation for the age of the car, the cost of consumables, and a standard deduction called a compulsory deductible.

## • **Comprehensive Car Insurance**

The purpose of comprehensive car insurance is to provide coverage for the loss and damage incurred to both parties involved in the accident. If unpredictable event results in any loss or damage, this policy will help you get monetary assistance from your motor insurance company.

The policy includes comprehensive coverage for damages that your vehicle faced, as well as liability coverage for the third party.

The risks involved in driving in India are well known. Furthermore, an increase in private vehicles can increase the likelihood of road accidents and the violation of traffic laws. Even with the increased protocols taken by the government, accidents continue to occur. It is important that you choose a policy that provides adequate coverage so that you are protected physically and financially.

Now that you are aware of the various types of Motor Insurance policies available, we're sure you can go ahead and decide which policy serves your needs the best.

## **Type Of Coverage**

A person saves their hard-earned money to purchase the car of their own choice and does every possible thing to take care of it. If you drive carefully, park your vehicle under the shade to protect its glasses and interior from direct sun rays and wash it regularly to keep it clean. You put so much of efforts just to take care of your newly purchased car.

Don't you think you should put the same amount of effort into selecting an insurance plan to protect your car? A sudden accident, breakdown, natural calamity, man-made disaster, and other unexpected contingencies could damage your vehicle within minutes. And a motor insurance policy is a small price to pay for immeasurable peace of mind. It is mandatory to purchase an insurance plan for your vehicle. Driving without an active insurance plan can lead to legal repercussions and financial ones too- if your vehicle happens to face any damage.

All types of risks are not covered under a motor insurance policy. The policy will provide insurance coverage against specific hazards subject to certain terms and conditions.

In this article, let's learn about all the risks that are covered under a motor insurance policy.

## **Coverages Under Motor Insurance**

### **• Loss Or Damage Of The Vehicle Due To**

1. Accidents caused due to negligence.
2. Natural calamities like earthquakes, floods, storms, cyclones, hurricanes, tempests, inundations, hailstorms, frost, landslides, lightning, etc.
3. Theft, burglary, riots, strikes, etc. resulting from human intervention.
4. Malicious acts like hostilities, an explosion of war weapons, terrorism, etc.
5. Damage while in transit by rail, road, inland waterways, lift, elevator or air.
6. Fire, explosion, self-ignition.

**Please note:** This is just an indicative list. The types of risks covered under motor insurance may vary across insurance companies. Ensure you read all the relevant policy documents so that you're well-informed before making the purchase.

### **• Coverage For Accidental Disability And Death**

It is compulsory for insurance companies to offer personal accident cover in motor insurance policies. This cover offers protection to the owner of the vehicle in case they get injured in an accident.

Insurance companies also allow you to opt for personal accident cover for the passengers as well.

### **• Third-Party Legal Liability**

A motor insurance policy also provides a third-party liability cover. It offers protection to the policyholder against legal liabilities that may occur due to the loss/damage caused by them to a third party.

Basically, it covers the vehicle owner's legal liability to pay compensation for -

Death or bodily injury to a third-party individual.

Damage to the third-party property.

## **Important:**

In case of injury or death of a third party, the amount that will be paid to the third party or their family will be decided by the court. There is no compensation limit.

In case of damage to third-party property, the amount that will be compensated cannot exceed the limit of Rs. 7.5 lakhs.

A motor insurance plan offers protection against the financial expenses of the damages caused to the insured vehicle, the policyholder, or to a third party depending upon the type of policy.

It is important to understand the inclusions and exclusions of the policy. Generally, mechanical or electrical breakdowns of the vehicle, wear and tear of the vehicle's tyres or tubes, and damage to the engine due to oil leakage are some of the situations not covered under a motor insurance policy.

Apart from these core coverage's, a motor insurance policy also offers multiple customizations in the form of add-ons or riders.

## **Insured Declared Value - Overview**

The Insured Declared Value (IDV) is the approximate market value of the vehicle you own. In simpler words, it's the price you might receive in the event you raise a claim in case of theft or total damage to the vehicle. And you, as the owner will get the declared IDV from the insurance company.

IDV is one of the most important aspects of motor insurance. It is crucial to understand how it affects coverage, premiums, and claims.

### **• IDV – How It Relates With Premium?**

Premium rates are determined based on the IDV. The insurance premium is directly proportional to the IDV of your vehicle. When your vehicle's IDV value increases, your premium shall also increase. When your IDV decreases, your premium shall also decrease.

The age of the car: The value of the car decreases as it gets old. This decreasing value due to wear and tear is called depreciation. The older the

car, the higher the depreciation, and the lesser your IDV. This includes depreciation of accessories too.

## • How Do You Calculate IDV?

To calculate the Insured Declared Value, the formula used is -

**(Manufacturer's listed price - depreciation) + (Cost of accessories not included in the listed price - a depreciation of these parts, if any.)**

Computing Depreciation

All vehicles depreciate over time. Depreciation begins as soon as you take the vehicle out of the showroom. This happens because of the age, and wear and tear of the vehicle.

The depreciation is computed based on the age of the vehicle and is decided by each insurer as per their method. Here is an indicative example of how depreciation would be calculated by an insurer -

| <b>Age Of The Car</b> | <b>Depreciation % For IDV</b> |
|-----------------------|-------------------------------|
| Up to 6 months        | 5%                            |
| 6 months to 1 Year    | 15%                           |
| 1 year to 2 years     | 20%                           |
| 2 years to 3 years    | 30%                           |
| 3 years to 4 years    | 40%                           |
| 4 years to 5 years    | 50%                           |
| Beyond 5 years        | To be negotiated              |

\*Depreciation is not taken into account for calculating the IDV of vehicles aged more than 5 years.

The depreciation rate and its current market value play an important role while calculating your IDV. The amount of the claim will be determined by these factors. So, your car's IDV decreases every year from the time it is purchased.

## • How Do You Calculate IDV?

1. The IDV is the maximum amount of compensation that you will receive in case of the total loss or theft of the car. This is to ensure that you get a sufficient amount to meet the financial losses incurred when the car is damaged beyond repair or the car is stolen.
2. Choosing a lower IDV can cut down your expenses, but this can prove to be a big headache during the claim settlement process as there might be situations wherein the loss or damage goes beyond the chosen IDV, for instance, if your vehicle is stolen.



3. Don't overstate the IDV of your vehicle. This will increase the premium and your claim will be settled based on the quantum of loss and not the IDV you have chosen.
4. Avoid making random calculations to fix the IDV. Stick to the formula mentioned above to determine your IDV as this shall help you avoid any kind of trouble that can happen during claim settlement.

**Note:** The IDV and other values can vary from insurer to insurer. Do read the policy wordings before purchasing it.

## Exclusions Under Motor Insurance

### • **Wear And Tear Of Vehicle**

Losses caused to the vehicle because of ordinary wear and tear of the vehicle do not fall within the ambit of the policy's coverage.

And, if the vehicle undergoes any damage in the regular course of action due to the following conditions, the same will not be covered by the policy -

1. Mechanical or electrical breakdowns
2. Engine/body part failure
3. Breakage because of rust or weather

### • **Damage To Tyres, Tubes, Or Electrical Components**

Tyres, tubes, and electrical components face damage due to regular use and severe weather conditions. Electrical components such as wires, battery, engine, etc. may also malfunction or stop working because of short circuits, oil leakage, or rodents. These damages will not be covered by the policy.

### • **Damage Caused To The Vehicle If The Driver Doesn't Have A Valid Driver's License**

Possessing a valid driving licence in India is a compulsory requirement. It is issued by the Regional Transport Authority (RTA) or the Regional Transport Office (RTO).

Any damage caused to the vehicle if you do not have a valid driver's license will not be covered by your policy.

### • **Damage Caused To The Vehicle If The Driver Is Under The Influence Of Drugs Or Alcohol**

You can face legal repercussions under the Motor Vehicles Act if you drive a vehicle under the influence of alcohol or narcotics. Any damage caused to your vehicle during the course of such driving will not be covered by the insurance policy.

- **Damage Caused If The Vehicle Is Being Used For Any Other Purpose**

If the vehicle is used for a purpose other than the one specified in the insurance certificate, and it gets damaged as a result - the same won't be covered.

- **Violation Of Vehicle Manufacturer's Guidelines**

Each vehicle comes with a manual with information about the vehicle and guidelines that should be followed by the user. For instance, there may be instructions on how you should deal with overheating, etc. If you use any methods beyond these guidelines and as a result, violate them - any damage sustained by the vehicle will not be covered by the policy.

- **Damage Caused By War**

Any damage to the vehicle due to war, terror attack, civil war, radiation, or nuclear material/weapons, is not included within the scope of the policy coverage.

- **Damage Caused Beyond The Specified Geographical Area**

The coverage may also depend on the geographic location, in the following ways -

Insurers may be licensed to issue policies for a certain geographical area, or

The insurance policy may state a certain geographical area within which the coverage will be in force.

Any vehicular accident that happens outside these areas will not be covered under the policy.

**Note:** If you want to take your vehicle outside India, you need to cover the risks with a separate insurance policy.

- **Any Accident That Happens After The Insurance Policy Expires**

A motor insurance policy is a mandatory requirement, as stated by the Motor Vehicles Act and needs to be renewed within the specified due date. If any damage or loss, even if covered under the old policy, happens after the policy expires - it will not be covered.

## **How To Calculate Motor Insurance Premiums**

Imagine you and your neighbour own the same model of vehicle. And recently, both of you purchased motor insurance plans for your vehicles from the same insurance company, too. Your neighbour's motor insurance premium amount, however, is lower than yours.

Wondering why?

Besides the model of the vehicle, many other factors affect the premium of a motor insurance policy - such as the add-on covers you opt for, the age of your vehicle, your claim history, the deductible opted under the policy, your geographical location, etc.

### **Factors That Affect Motor Insurance Premium Rates**

- **Make, Model, Variant**

The make, model, and engine capacity of your vehicle are one of the most important factors that affect your motor insurance premiums. Premiums of a sports car will be higher than standard cars. Similarly, vehicles with bigger engine sizes are more prone to accidents. Hence, the premiums will be higher.

- **Location**

Motor insurance premiums will be higher if your car is registered in an area that experiences dense traffic, or has high cases of vandalism, etc.

- **Age Of The Vehicle**

The age of the motor vehicle is another important factor that calculates motor insurance premiums. The older the vehicle, the higher will be the depreciation (reduction in the value of your vehicle). This means that the premium amount will be less if you insure an old vehicle and more if you insure a new vehicle.

- **Any Previous Claims**

Insurance companies check whether you have made any claims in the past. If you have taken a claim, your policy will not be eligible for an NCB, which will increase your premiums- and vice versa.

- **Fuel Type**

The type of fuel affects the motor insurance premiums. For instance, if you own a petrol or a diesel car, the premiums will be relatively lower than a CNG car- because the cost of maintenance of CNG cars is higher comparatively.

- **Insured Declared Value**

IDV represents the estimated market value of the vehicle. It is the maximum amount the insurance company will pay in case a person files a claim under the policy.

Formula to calculate IDV:

**IDV = [Showroom price of the car + Cost of accessories (if any)] - Depreciation value as per IRDAI**

IDV is exclusively used for a comprehensive motor insurance policies, and the higher the IDV, the higher will be the premium amount of the policy.

- **Voluntary Deductible**

Insurers offer you the option to voluntarily opt for a deductible and as a result, reduce your premium amount. A deductible is the amount you will have to pay before the insurance company starts paying you.

For instance, you buy a motor insurance plan and opt for a deductible of Rs. 2500 and you get a discount of Rs. 750 on your own damage premium. A few weeks later you file a claim for Rs. 10,000. In this case, you will have to pay Rs. 2500 of the cost along with the compulsory deductibles out of your pocket every time you make a claim.

Voluntary deductible is one of the measures used to control premiums of a motor insurance policy. Generally, the motor insurance premium will be lower if you opt for a higher deductible and vice versa.

- **Type Of Coverage**

The premium will also be affected based on the coverage, add-ons, etc. you opt for. The more covers you opt with your base motor insurance plan; the higher will be the premium amount.

- **Where Do You Compare Car Insurance From?**

Premiums may vary for the same car value, with the same customizations, add-on coverage, etc. from platform to platform, agent to agent.

## **Components Of A Motor Insurance Premium**

- **Premium Of Own Damage Cover**

Damages caused to the insured vehicle because of an earthquake, storm, fire, accident, etc. are covered under the own damage cover. The premiums for this type of cover will vary across insurers.

- **Premium Of Third-Party Liability Cover**

A third-party insurance policy is mandatory for every vehicle owner in India, as per Motor Vehicles Act, 1988. It offers you financial protection against legal liabilities that occur due to the loss/damage caused to a third-party individual or property. The premiums of a third-party liability cover are decided after taking into consideration the cubic capacity of your vehicle engine.

- **Compulsory Personal Accident Cover**

Looking at the increase in cases of road accidents, the government has made it mandatory for vehicle owners to purchase a personal accident insurance cover. This cover provides financial protection against death, permanent and partial disability caused due to an accident.

- **Riders/ Add-On Covers**

Riders are ready-made extensions that provide an extra coverage under specific situations. There are several add-ons you can buy with a motor insurance policy like zero depreciation cover , engine cover, lock and key replacement cover, No Claim Bonus protection cover, etc. The premiums will be higher if you opt for more add-ons and vice versa.

- **Other Components**

Other than the above-mentioned components, several discounts will also affect your motor insurance premiums. These will include the discounts you get for -

- **No Claim Bonus Percentage**

- Insurance companies offer a discount on premiums if you don't make a claim under the motor insurance policy in the previous policy year. You can earn a discount of around 20% to 50% in 5 years if there

are no claims made.

- **Being A Member Of Automobile Association**

You can get a discount on your motor insurance premiums if you are a member of a recognized automobile association.

- **Installing Recognized Anti-theft Devices**

Installing anti-theft devices in your vehicles can help you fetch discounts from the insurance company. Anti-theft devices help to prevent theft. For example, a thief will prefer to steal a car that doesn't have any security rather than stealing a car with a tyre lock. Anti-theft devices use multiple technologies that enhance the security of your vehicle.

- **Formula To Calculate The Overall Motor Insurance Policy Premium**

Overall Premium = [Own Damage Cover + third-party liability cover + Add-ons (eg. bonus coverage)] - [Discount & Benefits (No Claim Bonus, Theft Discount, etc.)]

- **Keep your eyes on the road and save with discounts**

Driving safely will reduce your chances of getting into an accident. No accidents is equal to no claims. So, if you don't raise a claim during the policy year, your insurance company shall reward you with a No Claim Bonus, i.e, a discount you get from your insurer for not filing claims during your policy term. It can range from 20% to 50%.

- **Avoid raising a claim for minor damages**

It may seem pointless to file a claim for minor damages, like a cracked headlight, small scratch, etc. If you raise a claim, even for such a small amount, you will lose out on the No Claim Bonus at the time of renewal. You can save quite a bit by not filing claims for smaller amounts which can be paid by you.

- **Move NCB to your new policy**

If you are planning to sell your car and get a new one, the new one will require an insurance policy as well. Save up on the new policy's premium by transferring the NCB from the old policy to this new policy. You can do this by obtaining an NCB retention letter from the old insurance company, which will retain the discount on your premiums for your new policy.

- **Become a member of the Automobile Association**

Insurers give discounts to drivers who are members of certain automobile associations in India. By joining the Automobile Association of India (AAI) or Western India Automobile Association (WIAA), you can receive discounts on your motor insurance premiums.

- **Keep the policy up-to-date**

Renew your policy on time to prevent any lapses. The insurance company may charge you a higher amount on premium for renewing a policy that has already expired, as non-payment of premium is considered risky. You might also lose out on your No Claim Bonus.

- **Don't needlessly opt for every available add-on**

An add-on cover for motor insurance offers additional protection for your vehicle. You can buy these add-ons at a certain extra cost. It's important that you pick the add-ons after analysing your needs and requirements. Every add-on may not be essential, and you can lower your premium by eliminating those and choosing the ones you actually require.