

Car insurance eBook

What is car insurance and why is it needed?

What is car insurance?

A car insurance policy is a cover which is taken on the car. The policy covers financial contingencies which are suffered due to an accident involving the car. If the car harms another individual or causes damage to an individual's property, the policy pays the financial loss caused. Moreover, if a wider coverage is selected, the policy also pays for the damages which the car suffers.

Why is car insurance needed?

- According to the provisions prescribed by the Motor Vehicles Act, 1988, every car which wants to run on Indian roads should have a valid insurance cover on it. If the car is plying on the road without a valid insurance cover the car owner violates traffic rules and would be punished if caught. Thus, a car insurance policy is needed because it is legally necessary.
- Secondly, the coverage provided by the policy also helps the car owner financially. The policy pays for third party liability which might become unaffordable if an individual dies in an accident involving the car.
- If a comprehensive policy is taken, the car owner also gets financial assistance in case the car is damaged or stolen.

Types of car insurance in India

Car insurance policies in India come in two variants –

1. Third party liability policies

Third party liability policies are the basic car insurance policies which are mandated by the Motor Vehicles Act. These policies cover the third party liability faced by the car owner if

- An individual is physically harmed or killed due to the car, or
- The car causes damages to any property belonging to another individual.

For instance, in an accident the car kills a pedestrian. The car owner would face a financial liability to pay for the death of the pedestrian. The third party policy would pay for the financial liability which is incurred.

2. Comprehensive package policies

These policies provide a wider scope of coverage. They cover the mandatory third party liability and also provide coverage for the damages suffered by the car itself.

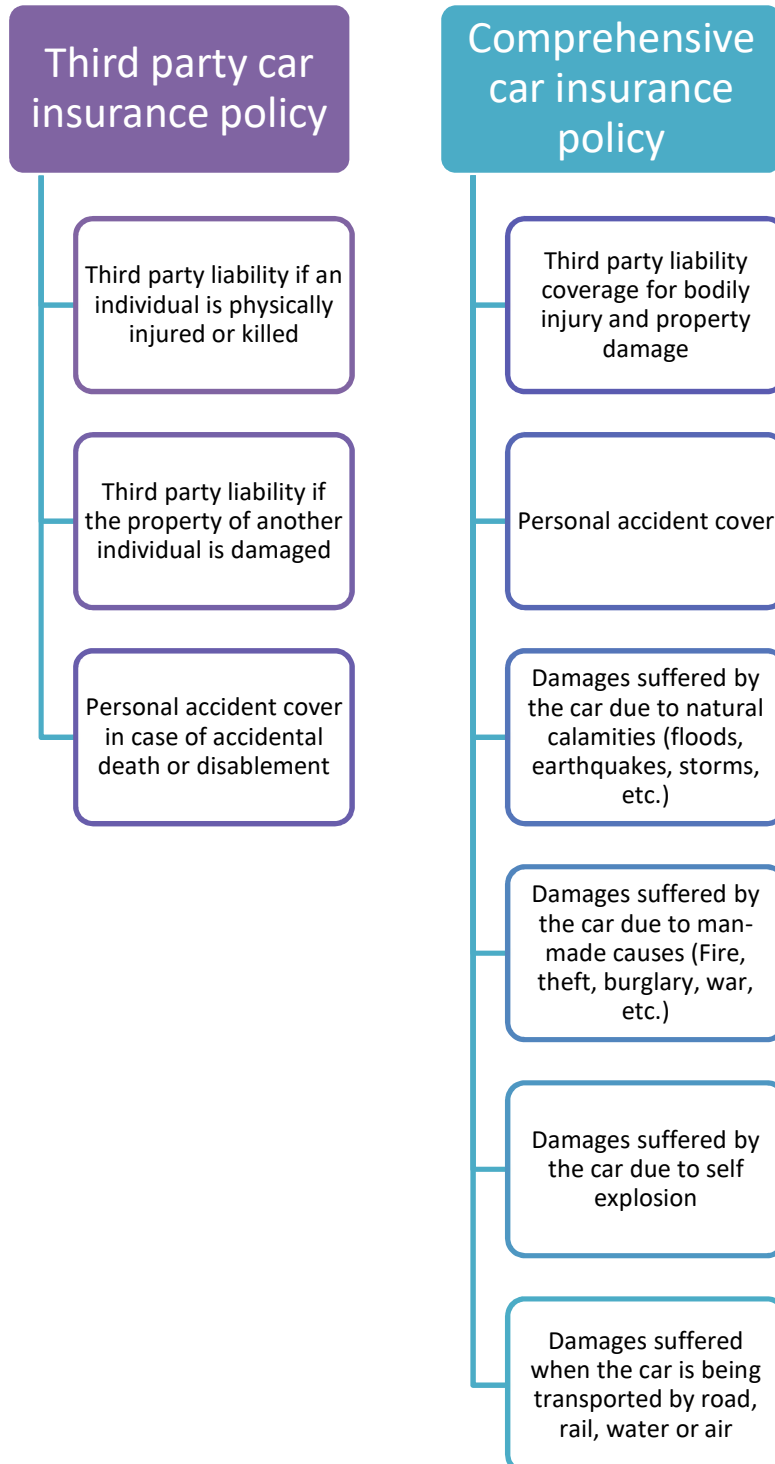
Which type of policy is better?

Comprehensive car insurance plans are a better choice because of the following reasons –

- They provide a wider scope of coverage
- A benefit is paid if the car is completely damaged or stolen
- Comprehensive plans have add-ons which help in customising the plan and also increase the scope of coverage

What is covered by car insurance?

The coverage under a car insurance policy depends on the type of policy selected. Here's what is usually covered under car insurance plans –



What is not covered by car insurance?

There are some instances which are not covered by car insurance plans. These are called policy exclusions and they include the following –

- Depreciation and normal wear and tear due to usage of the car
- Mechanical or electrical breakdowns
- Damages suffered in the following instances –
 - When driving without a valid driving license
 - When driving under the influence of alcohol or drugs
 - When driving outside India
- Any type of consequential loss
- Damages suffered if the car is being used against its usage limitations
- Damages suffered due to deliberate acts or criminal acts.

Calculation of car insurance premium

What is car insurance premium?

Car insurance premium is the amount which is paid by the owner of the car to secure insurance coverage on his/her car.

How is the car insurance premium calculated?

Premium for a car insurance policy is calculated using various factors. These factors include the following –

Factors	How they affect premium calculation
The type of policy selected	Third party policies have lower premium rates than comprehensive plans.
The make, model and variant of the car	The make, model and variant determines the value of the car. Since premium is calculated based on the car's value, make, model and variant impacts the premium calculation directly
The registration year	Registration year helps determine the age of the car. Older the car lower would be the premium and vice versa
Registration location	If the car is registered at a metro city the premium would be higher compared to non-metro cities
Insurance history of the car	This is relevant if the car insurance policy is being renewed. In such cases the premium depends on when the policy is being renewed. If renewal is done within the due date, premiums are lower. If, however, the policy has expired, the premium charged would be higher
Insured Declared Value of the car	IDV represents the market value of the car after deducting the age-based depreciation. Higher the IDV higher would be the premium charged
Add-ons selected	Add-ons are available with comprehensive plans which help in increasing coverage. However, each add-on involves an additional premium. So, adding add-ons would increase the premium
No Claim Bonus discount	If, at the time of renewal, no claim has been made under the policy, a no claim bonus is allowed. This bonus discounts the renewal premium. So, the applicable NCB under an existing plan also affects premium calculation
Voluntary deductible discount	If the policyholder chooses a voluntary deductible he chooses to pay a part of the car insurance claim. Such a choice earns the policyholder a discount in premium.
Other available discounts	There are other discounts too. Each applicable discount reduces the premium charged. Discounts are available for – <ul style="list-style-type: none">• Being a member of a recognised

	<p>automobiles association</p> <ul style="list-style-type: none">• Installing safety devices in the car, etc.
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Add-ons in car insurance

What are add-ons?

Add-ons are additional coverage benefits which are available with comprehensive car insurance plans. These add-ons can be chosen by the policyholder as per his/her coverage needs. Each add-on comes with an additional premium and the policyholder can choose multiple add-ons in the policy.

Popular add-ons available with car insurance plans

Some of the popular add-ons which can be found in car insurance plans include the following –

- **Zero depreciation add-on**

Under this add-on the effect of depreciation is ignored when a claim is made. In the absence of the add-on the insurance company deducts depreciation from the parts of the car which are damaged and replaced or repaired. This deduction reduces the amount of claim payable. If the add-on is selected the company pays the actual costs of the parts damaged thus increasing the claim payable. Zero depreciation cover is also called bumper-to-bumper cover.

- **Roadside assistance add-on**

This add-on provides the policyholder the promise of 24*7 assistance if the car breaks down in the middle of the road and cannot be taken to the nearest garage. The insurance company arranges for towing facilities and other assistance needed to make the car usable.

- **Engine protect add-on**

If the engine of the car is damaged due to water logging, such damages are not covered under a normal plan. However, with the engine protect add-on, such damages can be covered.

- **NCB protect add-on**

Though the car insurance policy allows a no claim bonus discount after every claim-free policy year, this discount becomes zero if a claim is made. NCB protect add-on protects the accumulated NCB discount in the policy even after a claim is made.

- **Loss of personal belongings add-on**

If the policyholder's personal belongings are stolen or lost from the car, this add-on pays the financial loss suffered due to such loss.

- **Lost key replacement add-on**

Under this add-on the insurance company arranges for spare car keys if the car keys are lost or stolen.

- **Consumables cover add-on**

The consumables used during repairs of the car are not covered under a car insurance claim. This add-on covers the cost of consumables used and increases the claim payable.

- **Personal accident cover for unnamed passengers add-on**

Normal car insurance policies provide personal accident cover only for the owner/driver. This add-on covers the unnamed passengers of the car too against accidental death and disablements.

- **Return to invoice add-on**

In case of total loss or theft of the car, the Insured Declared Value is paid. Under this add-on, however, the invoice value of the car is paid to the policyholder in such situations.

How to buy car insurance plans?

Almost every general insurance company offers a car insurance policy which offers similar coverage benefits. The premium, however, is different in different plans. Moreover, the value-added coverage benefits are also different across plans. So, a car insurance policy should always be purchased after comparing different plans. Comparing lets the policyholder choose the best car insurance policy which has the combination of comprehensive coverage benefits and low premium rates.

Considerations before choosing a car insurance plan

When the policyholder compares car insurance plans, the following things should be considered before choosing one plan –

- The coverage features offered by the plan – the higher the better
- The Insured Declared Value – the value should be proportionate to the value of the car and the age-based depreciation
- The premium charged – premiums should be low without compromising on the coverage features
- Add-ons allowed – whether the required add-ons are allowed by the plan or not
- Premiums charged for add-ons – the lower the better
- Premium discounts available – the higher the better
- The network of cashless garages – the higher the better
- The claim settlement ratio of the insurance company – the higher the better
- The claim process of the insurance company – the easier and quicker, the better

A plan which fulfils majority of the above-mentioned considerations would be the best plan and should be bought.

Summary – Top 10 things about car insurance

Here is a brief summary of the top 10 things about car insurance

1. A car insurance policy is mandatory for every car as per the provisions of the Motor Vehicles Act, 1988
2. Car insurance plans come in two variants – third party liability and comprehensive plan
3. Third party plans cover third party financial liabilities if an individual is hurt or someone's property is damaged by the car. Comprehensive plans cover third party liabilities as well as damages suffered by the car due to natural or man-made causes.
4. Personal accident cover is inbuilt in many third party plans. In case of comprehensive plans, however, personal accident cover is universally present.
5. There are different exclusions too which are common in all car insurance plans.
6. Add-ons are available in comprehensive car insurance policies. These add-ons help in increasing the scope of coverage of the plan
7. Premium of a car insurance policy is calculated after considering various factors. These factors can increase as well as decrease the premium rate
8. There are more than a dozen insurance companies offering car insurance policies in the market.
9. Individuals should buy a policy only after comparing the different available plans. Comparing would allow individuals to buy a policy which has the best coverage features at the lowest premium cost
10. While comparing, there are some important factors which individuals should consider.

Different companies providing car insurance

As stated earlier, almost every general insurance company offers a car insurance policy since the policy is mandatory as per law. So, here is a list of the companies and a brief about the car insurance policies that they offer –

Insurance company	Name of the policy	Salient features	Network of cashless garages	Incurred Claims Ratio for 2016-17
Bajaj Allianz	Car insurance	<ul style="list-style-type: none"> Inbuilt roadside assistance cover Drive Smart Telematics Service to help track and monitor the car 	4000+	78.50%
Bharti AXA	Car insurance	<ul style="list-style-type: none"> 24*7 claim assistance Separate third party plan is also available 	3500+	76.88%
Cholamandalam MS	Car insurance	<ul style="list-style-type: none"> Roadside assistance is available Range of other add-on covers also available 	4500+	40.07%
Future Generali	Car insurance	<ul style="list-style-type: none"> Easy claim process using Future Xpress and Future Xpress+ facilities Towing facility in case of accidents 	2500+	78.93%
HDFC Ergo	Private car insurance	<ul style="list-style-type: none"> Facility of overnight car repair services Minimal documentation required for buying the policy 	5300+	50.76%
ICICI Lombard	Car insurance	<ul style="list-style-type: none"> Easy purchase process through the online medium Garage cash cover add-on allows a daily allowance when the car is being repaired 	3400+	90.22%
IFFCO Tokio	Car insurance	<ul style="list-style-type: none"> No limit on zero depreciation add- 	4300+	104.30%

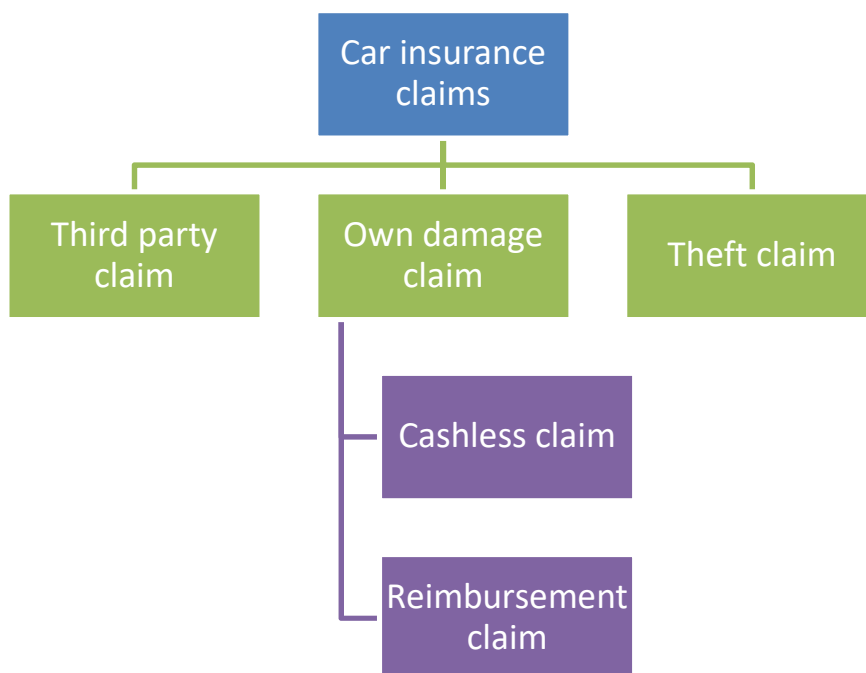
		<ul style="list-style-type: none"> on cover CNG/LPG kit can also be covered 		
Kotak Mahindra	Kotak Car Secure	<ul style="list-style-type: none"> Attractive premium discounts Ease of online purchases 	Wide network of garages	51.42%
Liberty General Insurance	Private car package policy	<ul style="list-style-type: none"> Claim settlement within 7 days Different add-ons are available 	1900+	74.36%
Magma HDI	Private car package policy	<ul style="list-style-type: none"> Three add-on covers are available Different premium discounts are available 	Wide network of garages	180.98%
National Insurance	Private car insurance	<ul style="list-style-type: none"> The policy is available online Coverage is allowed for both third party liability as well as own damage 	Wide network of garages	126.98%
New India Assurance	Private car insurance	<ul style="list-style-type: none"> Both liability only and comprehensive policies are issued Add-on covers are also available 	Wide network of garages	102.94%
Oriental Insurance	Private car insurance	<ul style="list-style-type: none"> Premium discounts help in reducing premium Free emergency services available in case of breakdowns in some instances 	Wide network of garages	118.23%
Reliance General Insurance	Car insurance	<ul style="list-style-type: none"> Different types of car insurance policies are offered Expired policies can also be renewed easily 	3800+	98.49%
Royal Sundaram	Car insurance	<ul style="list-style-type: none"> Free roadside assistance cover 11 add-ons are available with the plan 	3300+	62.09%
SBI General	Motor private car	<ul style="list-style-type: none"> Available add-ons 	2500+	53.43%

Insurance		<ul style="list-style-type: none"> increase the cover Long term car insurance policy is also available 		
Shriram General Insurance	Car insurance	<ul style="list-style-type: none"> Easy option to buy and renew the policy online Unnamed passenger cover is also available 	Wide network of garages	38.57%
TATA AIG	Auto Secure-Private car package policy	<ul style="list-style-type: none"> Comprehensive policy is offered by the company A list of 13 add-ons to choose from 	Wide network of garages	57.20%
Universal Sampo	Motor Private Car Insurance Policy	<ul style="list-style-type: none"> Optional extensions and add-ons make the policy comprehensive Different policies for goods carrying and passenger carrying cars 	Wide network of garages	85.07%
United India Insurance	Motor insurance policy	<ul style="list-style-type: none"> Two policies are offered for liability only and package coverage Various discounts are available to reduce the premium 	730+	138.51%

(Source for ICR ratios - <https://www.relakhs.com/latest-health-insurance-incurred-claims-ratio-2016-17/>)

Car insurance claims

A claim in a car insurance policy occurs in the following three instances –



What is third party claim?

Third party claims occur in any of the three cases –

- An individual is killed due to the car
- An individual suffers bodily injury due to the car
- A property belonging to another individual is damaged due to the car

What is own damage claim?

Own damage claim is when the car is itself damaged due to natural or man-made causes. Under this type of claim, cashless claim means claims where the insurance company settles the repair bills directly with the garage. In case of reimbursement, though, the policyholder bears the repair costs and then gets the costs reimbursed from the insurance company. Cashless claims are allowed if the car is repaired at a garage tied up with the insurance company. If, however, repairs are done at a non-networked garage, claims would be paid through reimbursement only.

What is theft claim?

If the car is stolen, a theft claim arises. Theft claim is payable only in case of comprehensive car insurance plans.

Process of car insurance claim

Making a car insurance claim following the correct process is necessary so as to get easy and quick settlement. The process depends on the type of claim incurred. Here are the three types of claims and the process for each –

Third party claims

- In case of third party claims, a police FIR should be filed immediately after the mishap
- The insurance company should be informed about the claim
- The claim would be taken to the motor accidents claim tribunal which would rule the amount of financial compensation payable by the policyholder
- After the tribunal gives its ruling, the insurance company would pay the financial compensation to the third party

Own damage claims

- The insurance company should be informed immediately after the claim is incurred
- The policy number should be mentioned to the company along with the accident details
- The company would then advise the policyholder to take the car to the nearest preferred garage for repairs. If the car cannot be taken to the garage, the company might also arrange for a towing facility
- Once the car is at the garage, a surveyor of the insurance company would visit the garage and assess the damages
- The surveyor would then prepare a claim estimate and submit it with the insurance company
- The company would assess and approve the claim based on the surveyor's report
- Once the claim is approved, repairs would begin on the car
- After the repairs are done the insurance company would settle the claim directly with the garage. The policyholder would have to pay a part of the claim which is not paid by the insurance company and take delivery of the car.
- If the car is repaired at a garage which is not tied up with the insurance company, the policyholder pays the repair costs. The repair bills and other relevant documents are then submitted to the insurance company. The company assesses the claim and then reimburses the policyholder.

Theft claims

- The insurance company should be informed immediately after the car is stolen.
- A police FIR should be filed reporting the loss of the car
- The police authorities would try and find the stolen car. If the car is not able to be located, the police would issue a non-traceable report to the policyholder
- This non-traceable report should be submitted to the insurance company along with the claim form. The company would then pay the Insured Declared Value of the car as the claim amount.

Renewal of car insurance policies

What is car insurance renewal?

Car insurance policies come with a fixed period. After the period is over the policy should be renewed for continued coverage. Continuing car insurance coverage is called renewal. It is done by paying the renewal premium.

Why is car insurance renewal necessary?

Renewal of car insurance policies is necessary because of the following reasons –

- Continued coverage is mandatory as per Motor Vehicles Act, 1988
- If the policy is not renewed coverage stops and the policyholder becomes liable to bear any financial loss which is faced due to the car
- If the policy is not renewed on time the accumulated no claim bonus of the policy is lost

Things to consider before car insurance renewals

Before the policy is renewed, there are some things which the policyholder should consider. These include the following –

- The coverage – the policyholder can increase or decrease the coverage of the car insurance plan at the time of renewal
- Add-ons – necessary add-ons can be added and unnecessary ones can be removed from the car insurance policy at the time of renewals
- Different plans should be compared before the policy is renewed. The policyholder can change the insurance company on renewal if a better plan is available
- The accumulated no claim bonus should be used to reduce the renewal premium
- Renewals should be done within the due date to avoid lapse of the policy. If the policy lapses renewal would be allowed only after inspection of the car which would be time consuming.

Top 5 reasons for rejection of car insurance claims

Though car insurance claims are settled quickly by most companies, there are instances when the car insurance claim can be rejected. Here are 5 such instances of rejection of car insurance claims –

Reason #1 – The claim is made for an excluded coverage

Car insurance policies have certain exclusions in which claims are not paid by the company. If a claim is made for such excluded cover, the claim would be rejected. For instance, claims made when driving without a license or driving under the influence of alcohol or drugs would be rejected by the insurance company.

Reason #2 – The policy has lapsed

If the due date of the car insurance policy has expired and the policy has not been renewed, the plan would lapse. In case of a lapse, coverage under the plan is not available. If a claim is made in a lapsed car insurance policy, the claim would be rejected.

Reason #3 – The claim-related documents are not submitted

When a car insurance claim is made, some important documents should be submitted to the insurance company so that the company can process the claim and settle it. If the documents are not submitted, the claim might get rejected.

Reason # 4 – Delay in informing the insurance company of the claim

In case of any type of car insurance claim the policyholder is required to inform the insurance company immediately about the claim. If the company is not informed and the policyholder continues using the damaged car, the car would suffer consequential losses. These losses are not covered by car insurance plans and in such cases delay in informing the insurance company would result in claim rejection.

Reason # 5 – The car insurance policy is not in the name of the policyholder

This is relevant in case of buying and selling a used car and transfer of ownership. If a second hand car is bought and the insurance policy is not transferred in the name of the buyer, any claim faced would not be honoured by the insurance company since the buyer of the second hand car is not recognised as the policyholder of the car insurance policy.

So, the policyholder should understand these possible reasons for rejection of car insurance claims and try and avoid them.