



ALL GENERAL INSURERS (OTHER THAN STAND-ALONE HEALTH INSURERS AND SPECIALISED INSURERS)

Re: Withdrawal of Long Term Package cover offering both Motor Third Party Insurance and Own Damage Insurance for three years or five years

Pursuant to the decision of the Supreme Court in the matter of WP No.295/2012 of Shri.S. Rajaseekaran vs Union of India and Ors, the Authority issued Circular Ref: IRDAI/NL/CIR/MOT/137/08/2018 dated 28th August, 2018, directing that all general insurers (except the stand-alone health insurers and the specialized insurers) shall offer only three-year Motor Third Party insurance policies for new cars and five year motor third party insurance policies for new two-wheelers with effect from 1st September, 2018.

2. With the introduction of the aforesaid long term covers, the general insurers were advised to provide insureds the following two options to choose from:

(i). Long Term Package cover offering both Motor Third Party Insurance and Own Damage insurance for three years or five years as the case may be.

(ii). A bundled cover with a three-year or five-year term (as applicable) for the third party component and a one-year term for the Own Damage.

3. In addition to the above covers and effective 1st September, 2019, the insurers shall make available stand-alone annual Own Damage covers (including stand-alone OD cover for fire and/or theft [GR 45 A and 45 B] if opted for by the policyholder) for Cars and Two-wheelers, both new and old in terms of Circular Ref: IRDAI/NL/MOTOD/095/06/2019 dated 21st June, 2019.

4. The Authority has reviewed the various options of long term and annual motor insurance covers now being offered to the prospects/policyholders pertaining to Own Damage. After a careful examination of the performance of Long Term Package covers and the following concerns relating to its implementation since its introduction in September, 2018, the Authority has decided to withdraw Long Term Package covers offered for three years or five years for new cars and new two-wheelers respectively with effect from 1st Aug, 2020.

- Actuarial pricing has been a challenge for insurers for long term Own Damage cover.
- Distribution of package policies has its challenges due to affordability factors for a large section of owners of vehicles.

- The possibility of forced selling due to financial interest/ being linked to loans is high.
- In case of deficiency in services, policyholders would be saddled with a long-term product with no flexibility to change options.
- The No Claim Bonus (NCB) structure is not uniform among insurers and this could lead to confusion and dissatisfaction amongst the policyholders.

5. Except for withdrawal of the long-term package products (and the add-ons thereon) with effect from 1st August, 2020, all other extant provisions shall continue *mutatis mutandis*.

6. No Claim Bonus in respect of long-term package policies already issued will accrue only when the policy term has been completed.

Please acknowledge this circular and confirm having noted its contents.



(T.L. Alamelu)
Member (Non-Life)

8/6.