



बीमा विनियामक और विकास प्राधिकरण

**INSURANCE REGULATORY AND
DEVELOPMENT AUTHORITY**

Exposure Draft

Ref: IRDA/NL/MOTOR/EXDRFT

16th October 2012

Exposure Draft on Proposed Modifications to "GR 9: Depreciation on Parts for Partial Loss Claims" of the erstwhile India Motor tariff

The General Regulation (GR) 9 of the erstwhile India Motor Tariff (IMT) deals with the rates of depreciation that shall apply for replacement of parts for partial loss claims in respect of all categories of vehicles / accessories. The wording of the GR 9 is reproduced hereunder:

1. Rate of depreciation for all rubber, nylon/ plastic parts, tyres and tubes, batteries and air bags : 50 %
2. Rate of depreciation for all fibre glass components: 30 %
3. Rate of depreciation for all parts made of glass: NIL
4. Rate of depreciation for all other parts including wooden parts is to be as per the following schedule:

AGE OF THE VEHICLE	% OF DEPRECIATION
Not exceeding 6 months	Nil
Exceeding 6 months but not exceeding 1 year	5%
Exceeding 1 year but not exceeding 2 years	10%
Exceeding 2 years but not exceeding 3 years	15%
Exceeding 3 years but not exceeding 4 years	25%
Exceeding 4 years but not exceeding 5 years	35%
Exceeding 5 years but not exceeding 10 years	40%
Exceeding 10 years	50%

It is being brought to the notice of the Authority that when partial loss repairs and/or replacement of parts involved painting, the different practices as regard to application of depreciation on painting are being followed by the non-life insurance companies. The Authority is also informed that since the painting applied on the parts of a vehicle has a limited life, it is critical that the depreciation aspect of paint material is recognized at the time of settlement of a motor OD claim to maintain the principle of indemnity, though the GR 9 is not specific to the issue.

The Authority has also received a representation from the General Insurance Council (GI Council) highlighting the need to recognize the depreciation aspect and also to have a uniform practice across the country and across all the non-life insurance companies. The GI Council had meetings with the Society of Indian Automobile Manufacturers (SIAM) and the Federation of Automobile Dealers Association (FADA) on the subject and together they have come to a consensus on application of depreciation on painting material.

The Authority, after analyzing the issue, is of the opinion as under:

1. The paint as a material is having a limited life and is subject to depreciation looking into the exposure the motor vehicles have to varying weather conditions,
2. The paint shall be included in the category of "rubber, nylon/ plastic parts, tyres and tubes, batteries and air bags" which attract 50 % depreciation, as paint material is polymer based and hence the depreciation as applicable to plastic parts can be applied,
3. Presently, many State Governments are having their own bifurcation proportion between material cost & labour cost of the total painting charges.

We have observed that standard deduction of labour considered by various States ranges from 20 % to 30 %, except for the states of Goa & Uttar Pradesh where it is 50 % & 40 % respectively.

However, for the purpose of applying depreciation on painting charges, the material component shall be taken as 35 % of total painting charges or the actual (if provided) whichever is lower. The depreciation rate of 50 % shall apply only on the material cost component of the total painting charges. The net effect would be the maximum depreciation rate of 17.50 % being applied on the total painting charges.

4. The change shall be implemented prospectively, i.e. for all motor package policies whose risk inception date falls on or after the date which the Authority shall decide and convey through its notification on the issue.

In view of the above, the GR 9 and wordings of Individual motor package policy of the erstwhile IMT shall need to be partially modified as under:

(A) GR 9: Depreciation on Parts for Partial Loss Claims

(The proposed changes are shown in bold letters)

The following rates of depreciation shall apply for replacement of parts for partial loss claims in respect of all categories of vehicles / accessories.

1. Rate of depreciation for all rubber, nylon/ plastic parts **(INCLUDING PAINT MATERIAL),** tyres and tubes, batteries and air bags : 50 %
(In case of Painting Charges, the depreciation rate of 50 % shall be applied only on the material cost which shall be 35 % of total painting charges or the actual (if provided) whichever is lower)
2. Rate of depreciation for all fibre glass components: 30 %
3. Rate of depreciation for all parts made of glass: NIL
4. Rate of depreciation for all other parts including wooden parts is to be as per the following schedule:

AGE OF THE VEHICLE	% OF DEPRECIATION
Not exceeding 6 months	Nil
Exceeding 6 months but not exceeding 1 year	5%
Exceeding 1 year but not exceeding 2 years	10%
Exceeding 2 years but not exceeding 3 years	15%
Exceeding 3 years but not exceeding 4 years	25%
Exceeding 4 years but not exceeding 5 years	35%
Exceeding 5 years but not exceeding 10 years	40%
Exceeding 10 years	50%

(B) Individual Package Policy Wordings:

(The proposed changes are shown in bold letters)

Wherever the reference is drawn to the depreciation rates to be applied for replacement of parts for partial loss claims in respect of all categories of vehicles / accessories under package policy wordings, the wordings need to be changed as above.

Accordingly, the Section I: Loss of or Damage to the Vehicle Insured of the individual motor package policy shall need to be partially modified as under:

The Company will indemnify the insured against loss or damage to the vehicle insured hereunder and / or its accessories whilst thereon

- i. by fire explosion self ignition or lightning ;
- ii. by burglary housebreaking or theft ;
- iii. by riot and strike;
- iv. by earthquake (fire and shock damage);
- v. by flood typhoon hurricane storm tempest inundation cyclone hailstorm frost;
- vi. by accidental external means;
- vii. by malicious act;
- viii. by terrorist activity;
- ix. whilst in transit by road rail inland-waterway lift elevator or air;
- x. by landslide rockslide.

Subject to a deduction for depreciation at the rates mentioned below in respect of parts replaced:

1. For all rubber, nylon/ plastic parts ***(INCLUDING PAINT MATERIAL)***, tyres and tubes, batteries and air bags : 50 %
(In case of Painting Charges, the depreciation rate of 50 % shall be applied only on the material cost which shall be 35 % of total painting charges or the actual (if provided) whichever is lower)
2. For all fibre glass components: 30 %

3. For all parts made of glass: NIL
4. Rate of depreciation for all other parts including wooden parts will be as per the following schedule:

AGE OF THE VEHICLE	% OF DEPRECIATION
Not exceeding 6 months	Nil
Exceeding 6 months but not exceeding 1 year	5%
Exceeding 1 year but not exceeding 2 years	10%
Exceeding 2 years but not exceeding 3 years	15%
Exceeding 3 years but not exceeding 4 years	25%
Exceeding 4 years but not exceeding 5 years	35%
Exceeding 5 years but not exceeding 10 years	40%
Exceeding 10 years	50%

All stakeholders are invited to provide their comments on this draft proposal so as to reach the Authority by e-mail addressed to randip@irda.gov.in on or before 09th November 2012.


(M Ramaprasad)
Member (Non-Life)