

**Notes****3****MOTOR INSURANCE****3.0 INTRODUCTION**

This is the class of Insurance through which a majority of the people recognize general Insurance and that too because it is compulsory for all motorized vehicles to have an Insurance policy against third party liability before they can come on road.

Though this class of Insurance is the major source of premium earnings for the Insurance companies it is also the class which is showing the biggest losses.

**3.1 OBJECTIVES**

At the end of this lesson, you will be able to:

- Know the meaning of Motor insurance
- Buy the Motor insurance
- Settle the claim under Motor insurance/Third Party
- Know what is not covered under Motor insurance

For purpose of insurance, motor vehicles are classified into three broad categories:

- (a) Private cars
- (b) Motor cycles and motor scooters
- (c) Commercial vehicles, further classified into
  - (I) Goods carrying vehicles
  - (II) Passenger carrying vehicles e.g.
    - Motorized rickshaws
    - Taxis
    - Buses

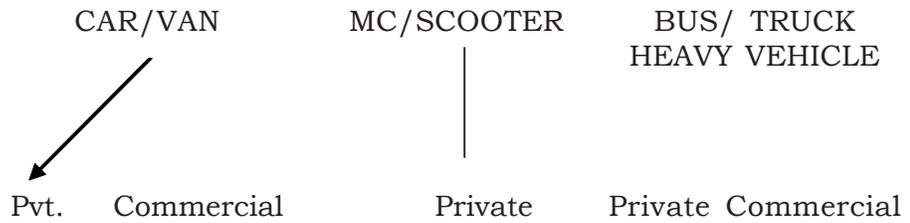


**Notes**

(III) Miscellaneous Vehicles, e.g.

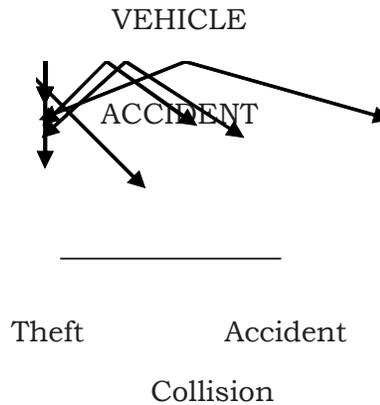
- Hearses (funeral van)
- Ambulances
- Cinema Film Recording & Publicity vans
- Mobile dispensaries etc.

**3.2 TYPES OF POLICIES**



Two Wheeler      Three Wheeler

**TYPES OF CLAIMS**



With Other Vehicle      Other External Object      Fire etc.

Own Damage	Third Party
Total Loss	
Cash loss	
Repair	Death Bodily injury      Property damage

**Motor Vehicles Act, 1988**

It is necessary to have knowledge of Motor Vehicles Act passed in 1939 and amended in 1988.

In the old days, many of the pedestrians who were knocked down by motor vehicles and who were killed or injured, did not get any compensation because the motorists did not have the resources to pay the compensation and were also not insured. In order to safeguard the interests of pedestrians, therefore, the Motor Vehicles Act, 1939, introduced compulsory insurance.

The insurance of motor vehicles against damage is not made compulsory, but the insurance of third party liability arising out of the use of motor vehicles in public places is made compulsory. No motor vehicle can ply in a public place without such insurance.

The liabilities which require compulsory insurance are as follows:

- (a) any liability incurred by the insured in respect of death or bodily injury of any person including owner of the goods or his authorised representative carried in the carriage.
- (b) liability incurred in respect of damage to any property of a third party;
- (c) liability incurred in respect of death or bodily injury of any passenger of a public service vehicle;
- (d) liability arising under Workmen's Compensation Act, 1923 in respect of death or bodily injury of:  
(i) paid driver of the vehicle; (ii) conductor, or ticket examiner (Public service vehicles); (iii) workers, carried in a goods vehicle;
- (e) liability in respect of death or bodily injury of passengers who are carried for hire or reward or by reason of or in pursuance of contract of employment.

The policy of insurance should cover the liability incurred in respect of any one accident as follows:

- (a) In respect of death of or bodily injury to any person, the amount of liability incurred is without limit i.e. unlimited.

**Notes**



**Notes**

(b) In respect of damage to any property of third party : A limit of Rs.6,000/-.

The liability in respect of death of or bodily injury to any passenger of a public service vehicle in a public place, the amount of liability incurred is unlimited.

Section 140 of the Motor Vehicles Act 1988, provides for liability of the owner of the Motor Vehicle to pay compensation in certain cases, on the principle of “no fault”. The amount of compensation, so payable, is, Rs.50,000/- for death, and Rs.25,000/- for permanent disablement of any person resulting from an accident arising out of the use of the motor vehicle.

(Note: The principle of “no fault” means the claimant need not prove negligence on the part of the motorist. Liability is automatic.)

**Certificate of Insurance**

The Motor Vehicles Act provides that the policy of insurance shall be of no effect unless and until a certificate of insurance in the form prescribed under the Rules of the Act is issued.

The only evidence of the existence of a valid insurance as required by the Motor Vehicles Act acceptable to the police authorities and R.T.O, is a certificate of insurance issued by the insurers. The points covered under a certificate of insurance differ according to the type of vehicle insured.

**3.3 TYPES OF POLICIES**

For all classes of vehicles, there are two types of Policy Forms:-

Policy Forms

Form A

To cover Act Liability

Form “A” : to cover Act Liability.

Form B

To cover own damage + Act Liability

Form “B” : to cover Own Damage Losses and Act Liability. The policy can also be extended to cover additional liabilities as provided in the Tariff.

**Form “A”** is called “Standard Form for “A” Policy for Act Liability”. This form applies uniformly to all classes of vehicles, whether Private Cars, Commercial Vehicles, Motor Cycles or Motor Scooters, with suitable amendments in “Limitations as to Use”.

**Form “B”**, which provides wider cover as indicated above, varies with the class of vehicle covered. There are therefore Form “B” Policies for Private Cars, Commercial Vehicles, Motor Cycles/ Scooters, etc.

### **Policy Form B**

This policy provides the so-called ‘comprehensive’ cover and the structure of the policy form is the same for all vehicles, (with some differences which are pointed out, wherever applicable)

**Section I** : Loss or Damage (or “Own Damage”). The risks covered are :

- a) Fire, explosion, self-ignition or lightning.
- b) Burglary, house breaking or theft.
- c) Riot and strike.
- d) Earthquake (fire and shock damage)
- e) Flood, typhoon, hurricane, storm, tempest, inundation, cyclone, hailstorm, frost.
- f) Accidental external means.
- g) Malicious act.
- h) Terrorist activity.
- i) Transit by road, rail, inland waterway, lift, elevator or air.
- j) Landslide /rockslide.

### **Exclusions**

- i. consequential loss
- ii. depreciation
- iii. wear and tear; and



**Notes**



## Notes

- iv. mechanical or electrical breakdowns, failures or breakages
- v. Damage to tyres unless the vehicle is damaged at the same time. (Then, 50% of cost of replacement payable). For commercial vehicles, see Compulsory Excess Clause dealt with later
- vi. Loss when the vehicle is driven under the influence of intoxicating liquor or drugs

**(Notes:** 1. In the motor cycle and commercial vehicle policy there are additional exclusions :

- (1) Loss of or damage to accessories by burglary, housebreaking or theft unless the vehicle is stolen at the same time.
- (2) In commercial vehicle policy, there is a further exclusion: Damage caused by overloading or strain of the vehicle.

### Towing Charges

If the motor car is disabled as a result of damage covered by the policy, the insurers bear a reasonable cost of protecting the car and removing it to the nearest repairers, as also the reasonable cost of re-delivery to the insured. The amount so borne by the insurers is limited to maximum of Rs.2,500/- in respect of any one accident.

**(Note:** For motor cycles the limit is Rs.300/-, for cars Rs.1500/- and for commercial vehicles Rs.2500/-).

### Repairs

Ordinarily repairs arising out of damage covered by the policy can be carried out only after they are authorized by the insurers. However, the insured is allowed to carry out the repairs without authorization from the insurers, provided that:

- (a) the estimated cost of such repair does not exceed Rs-500/- (Rs.150/- for motor cycles).
- (b) the insurers are furnished forthwith with a detailed estimate of the cost; and
- (c) the insured gives the insurers every assistance to ensure that such repair is necessary and that the charge is reasonable.

**Compulsory Excess**

This applies to all vehicles. The insured has to bear a part of the claim amount in respect of each accident.

Further loss / damage to lamps, tyres, mudguards and / or bonnet side parts, bumpers and / or paintwork is not payable except in the case of a total loss of vehicle.

**Section II Liability to Third Parties**

The insurers indemnify the insured against all sums which he may become legally liable to any person including occupants carried in the motor car (provided that they are not carried for hire or reward) by reason of death or bodily injuries caused to such third parties or by reason of damage to the property of third parties caused by or arising out of the use of the motor car. The insured's liability for damage to property of third parties is limited to Rs.6000/-; whilst liability for death of or bodily injury to third party is unlimited.

The legal costs and expenses incurred by such third parties are reimbursed in addition. The legal costs and expenses incurred by the insured are also reimbursed provided that they were incurred with the insurer's written consent.

The insurers are liable for the death of or bodily injury arising out of and in the course of employment, but only to the extent necessary to meet the requirements of the Motor Vehicles Act. The damage to property is not paid for, if the damaged property belonged to the insured or was held in trust by him or was in the custody or control of the insured.

**(Note:** This section is, more or less, the same for all vehicles, subject to some variations for motor cycles and commercial vehicles)

**Section III**

This appears in commercial vehicle policies only.

This section provides cover while the vehicle is towing one disabled mechanically - propelled vehicle. It provides that whilst the insured vehicle is being used for the purpose of towing any one disabled mechanically - propelled vehicle

(a) the cover provided by the policy remains operative, and

**Notes**



**Notes**

- (b) under Section II of the policy, indemnity will also be provided for the liability in connection with such towed vehicle. This however is subject to the following two provisions:
- i. The towed vehicle should not be towed for hire or reward and
  - ii. No cover is available under the policy for the damage to the towed vehicle or the property conveyed thereby.

**General Exclusions (applicable to all sections)**

These provide that the insurer shall not be liable in respect of:

- (a) any accident outside the geographical area specified in the policy, that is, India. The limit can be extended to cover Bangladesh, Bhutan, Nepal, Pakistan, Sri Lanka & Maldives on payment of extra premium.
- (b) contractual liability.
- (c) any accident when the vehicle is used not in accordance with the Limitations (Use Clause)
- (d) any accident when the vehicle is driven without an effective driving licence (Driver's Clause).
- (e) war, etc and nuclear risks.

**Conditions**

Apart from the usual conditions such as notice of loss, cancellation of policy, arbitration, etc. there are two conditions which are specific to motor policies.

- The insured is required to safeguard the vehicle from loss or damage and maintain it in efficient condition. In the event of an accident, the insured shall take precautions to prevent further damage. If the vehicle is driven before repairs any further damage is at insured's risk.
- The insurer has the option to repair or replace the vehicle or parts or pay in cash the amount of damage or loss. The insurer's liability cannot exceed the insured's estimated value of the vehicle (specified in the policy) or the value of the vehicle at the time of loss whichever is less.

**Rating/ Proposal Form**

The proposal form elicits all information necessary for rating and underwriting. Some examples of rating are given:

**Private Cars/ Scooters/ Motorcycles**

Rates are based upon the cubic capacity as given by manufacturers, Insured's Declared Value (IDV), the Zone of operation and age of the vehicle.

The cubic capacity of the vehicle indicates the power of the engine. Separate rates apply for cars upto 1000 cc, from 1000 cc – 1500 cc and above 1500 cc and scooters/motorcycles upto 150cc, 150-350cc & above 350cc.

Similarly there are different rates for vehicles in the age groups upto 5 yrs.; 5 yrs. to 10 yrs. and above 10 yrs.

There are two Zones of operation, Zone A and Zone B, as follows:

Zone A : Ahmedabad, Bangalore, Chennai, Hyderabad, Kolkata, Mumbai, N.Delhi & Pune

Zone B : Rest of India.

Note: The rates for Zone A are higher than those for Zone B.

**Commercial Vehicles**

The rating depends upon the Zone of operation, passenger carrying capacity/ gross vehicle weight, Insureds Declared Value (IDV) and age of the vehicle.

There are three Zones for commercial vehicles.

1. Zone A     Chennai, New Delhi, Kolkata and Mumbai
2. Zone B     All other state capital
3. Zone C     Rest of India

**Personal Accident Cover**

There is provision for Compulsory Personal Accident Cover for Owner-Driver of cars and commercial vehicles of Rs.2.0 lacs and Rs.1 lac for owner driver of scooters / motorcycles. It covers Death, PTD and PPD only.

**Notes**



**Notes**

**Extra benefits**

**All Vehicles**

- (a) The Third Party premium includes cover for third party property damage in excess of the required coverage of liability of Rs.6,000/- as per the M.V.Act. In case the insured wants to get only the liability as per act covered (i.e. Rs.6,000/-) then discount in T.P. premium is allowed.
- (b) Wider legal liability to persons e.g. paid drivers etc. employed in operation and / or maintenance of the vehicle i.e. under W.C. Act and at common law.
- (c) Personal Accident cover for unnamed passengers as per the registered carrying capacity of the vehicle upto a max. of Rs.2 lac/ person on payment of extra premium.

**Private Cars**

- (a) Extra fittings like radios, tape-recorders, air conditioners etc. (Also applicable to commercial vehicles)
- (b) Reliability Trials and Rallies in India (Also applicable to motor cycles).

**Discounts (some examples)**

- (a) Voluntary excess under Own Damage Section -(Applicable to all vehicles).
- (b) Membership of recognised Automobile Association (Private cars & motor cycles).
- (c) Deletion of Riot, Strike, etc.. Earthquake, Flood. (All vehicles).
- (d) Special discount for Anti-Theft device approved by AAI (2.5% on O.D. premium max. of Rs.500).
- (e) Special discount of 25% on O.D. premium for vintage cars

**No Claim Bonus**

A discount in the premium is allowed at renewal if there is no claim during the policy year for all vehicles.

1 <sup>st</sup> Year	20%	3 <sup>rd</sup> Year	35%	5 <sup>th</sup> Year	50%
2 <sup>nd</sup> Year	25%	4 <sup>th</sup> Year	45%		



**Notes**

**Underwriting**

There are several factors which are important for underwriting such as type of vehicle e.g. imported cars, sports cars, use of the vehicle, geographical area etc. But the most important is the age of the vehicle.

Generally, the approach of insurers is as follows :

	<b>Comp. Cover</b>	<b>Comp. Subject to Inspection</b>	<b>Comp. Subject Inspection + Excess</b>	<b>Act Cover Only</b>
<b>Pvt. Car</b>	10 Yrs.	10 – 15 Yrs.	—	Over 15 Yrs.
<b>Taxis</b>	3 Yrs.	3 – 5 Yrs.	5 – 7 Yrs.	Over 7 Yrs.
<b>Public Carriers</b>	5 Yrs.	5 – 6 Yrs.	6 – 7 Yrs.	Over 7 Yrs.

**INTEXT QUESTIONS 3.1**

1. How many sections are in commercial vehicles insurance policy?
2. In how many zones is India divided for the commercial vehicles?

**3.4 CLAIMS (OWN DAMAGE)**

On receipt of notice of loss, the policy records are checked to see that the policy is in force and that it covers the vehicle involved. The loss is entered in the Claims Register and a claim form is issued to the insured for completion and return.

The insured is required to submit a detailed estimate of repairs from any repairer of his choice. Generally, these repairs are acceptable to the insurers but they at times ask the insured to obtain repair estimate from another repairer, if they have reason to believe that the competence, moral hazard or business integrity of the repairer first chosen is not satisfactory.

**Assessment**

Independent automobile surveyors with engineering background are assigned the task of assessing the cause and extent of loss. They are supplied with a copy of the policy, the claim form and the repairer’s estimate. They inspect the damaged vehicle, discuss the cost of repair or replacement



---

**Notes**

with the repairer, negotiate as per the indemnity, and submit their survey report.

In respect of minor damage claims, independent surveyors are not always appointed. The insurer's own officials or their own automobile engineers inspect the vehicle and submit a report.

**Settlement**

The survey report is examined and settlement is effected in accordance with the recommendations contained therein. The usual practice is to authorise the repairs directly with the repairer to whom a letter is issued to that effect. In this letter the repairers are also instructed to collect direct from the insured the amount of the excess, depreciation, salvage, etc. If applicable to the claim, before delivering the repaired vehicle to him. The repairers are also instructed to keep aside the salvage of damaged parts, if there are any, for being collected by the salvage buyer nominated by the Insurers.

Or else, if the repairers are willing to retain the salvage, its value, as indicated by the surveyor, is deducted from the claim bill.

On receipt of their final bill of repairs after completion of repairs and a satisfaction note or voucher from the insured that the vehicle has been repaired to his satisfaction, the payment to the repairer is effected.

Sometimes, the repairer is paid directly by the insured in which case the latter is reimbursed on submission of a receipted bill from the repairers.

In either case, discharge voucher or receipt is obtained. The Claims Register and the policy and renewal records are marked that the claim is paid indicating the amount of claim and the amount of salvage, if any.

**Claims Documents**

Apart from claim form and Survey report the other documents required for processing the claim are:

- (1) Driving Licence
- (2) Registration Certificate Book

- (3) Fitness Certificate (Commercial Vehicles)
- (4) Permit (Commercial Vehicles)
- (5) Police Report (Taxis, commercial Vehicle need F.I.R./ spot survey if loss is heavy or T.P. loss occurs)
- (6) Final Bill from repairers
- (7) Satisfaction Note from the insured
- (8) Receipted bill from the repairer, if paid by insured.
- (9) Discharge voucher (full and final payment)

**Notes****Total Loss Claims**

Whenever a surveyor finds that a vehicle is either beyond repairs or the repairs are not an economic proposition, he negotiates with the insured to assess the loss on a **Total Loss basis** - for a reasonable sum representing the market value of the vehicle immediately prior to the loss.

If the **market value** is more than the insured value, the settlement will be brought about for the insured value. The Insured will be paid in cash and the Insurers will take over the salvage of the damaged vehicle which will thereafter be disposed of for their own benefit calling tenders through advertisements in newspapers.

However, before the actual payment is made to the Insured, the Insurer will collect from him the Registration and Taxation books, ignition keys and blank TO. and T.T.O. forms duly signed by the insured, so that the salvage is usually not encouraged, unless insured desires, so as to avoid the hassle of salvage disposal.

**Theft Claims**

Total losses can also arise due to the theft of the vehicle and its remaining untraced by the police authorities till the end. These losses will have to be supported by a copy of the First Information Report (FIR) lodged with the Police authorities immediately after the theft has been detected.

The police authorities register the complaint allotting it a number of the entry made in the Station Diary. This number which is usually known as SDE No. or C.R. No. (Crime Register) has to be quoted by the Insured in the claim intimation to the Insurers.



## Notes

The police keep the investigations going until the vehicle is traced and delivered to its owner. However, if they do not succeed in recovering the vehicle after a period of, say 1-2 months, they file away the case certifying that the case is classified as true but undetected. This police certificate referred as “Non-Traceable” certificate is essential before a total loss following theft is settled by the insurers.

The documents to be submitted by the Insured will be the same as those described above. If the **R.C. Book** and **Taxation Certificate** are **also stolen** along **with the vehicle**. It will be necessary for the insured to obtain duplicate ones from the Registering Authority and thereafter deposit them with the Insurers.

The **only additional documents** will be addressed by the **Insured to the R.T.O.** informing about the loss of the vehicle due to theft and filing a Non User Form so that he is not made liable to pay the taxes.

Some insurers also obtain from the insured a special type of a Discharge on a stamped paper whereby the Insured undertakes to refund the claim amount if the vehicle is subsequently traced and delivered to him by the police. He also undertakes in the Discharge Form to pay any taxes which may be outstanding against the stolen vehicle. The ignition keys R.C.Books etc. are preserved by the Insurer in their custody so that these are made readily available if the vehicle is traced at a later date.

It is always prudent to inform the concerned Registering Authority by a Registered A/D letter that a total loss claim is being processed for payment in respect of the stolen vehicle and to request them not to transfer the ownership of the vehicle to any one. This will prevent the thief from disposing of the stolen vehicle.

### 3.5 THIRD PARTY CLAIMS

Section 165 of the Motor Vehicles Act 1988, empowers the State Governments to set up Motor Accident Claims Tribunals (MACT) for adjudicating upon third party claims.

When a tribunal has been set up for an area, no civil court has any jurisdiction to entertain any claim falling under the tribunal’s jurisdiction.

The aggrieved party has to move the tribunal within a period of six months from the date of accident.

While making the award, the tribunal has to specify the amount payable by the insurer.

The procedure for third party claims is briefly described as follows:

On receipt of notice of claim from the insured, or the third party or from the MACT, the matter is entrusted to an advocate.

Full information relating to the accident is obtained from the insured. The various documents are collected and these include

- Driving Licence
- Police report
- Details of driver's prosecution, if any
- Death certificate, coroner's (PM report) report, if any (fatal claims).
- Medical Certificate (bodily injury claims)
- Details of age, income and number of dependants etc.

A written statement is then filed on the facts of the case with the MACT by the advocate. Eventually, if the award is made by the MACT, the amount is paid to the third party against proper receipt.

---

**INTEXT QUESTIONS 3.2**

---

1. Who assesses the Claim of the Motor vehicle in case of accident?
  2. Who sets up the MACT and why?
- 

**Compromise Settlements**

Where there is clear liability under the policy, claims are negotiated with the third party to accept a compromise settlement, which if accepted by the third party, is registered with the MACT and its consent obtained. The cheque is deposited with MACT for disbursement to the rightful beneficiaries.

**Notes**



## Notes

**Lok Adalats**

Pending cases with the MACT where the liability under the policy is not in doubt are placed before the Lok Adalat or Lok Nyayalaya, for a voluntary and amicable settlement between the parties. A copy of decision in the prescribed memo and the cheque is deposited with MACT. Lok Adalat sessions are organized regularly by the insurance companies in liaison with the Legal Aid Board of each State and MACT to effect amicable settlement of third party claims.

**No Fault Liability**

These claims can be made by depositing the appropriate amount with the MACT after obtaining death certificate, medical certificate and police report.

**3.6 SUMMARY**

It is very important class of insurance as no vehicle can run on the roads without having the insurance especially third party. Any claim on account of damage of the vehicle will be paid by the insurance company subject to the assessment of loss by the independent Surveyor.

Third party claim is settled by the court and the government has laid down the procedure to settle these cases.

**3.7 TERMINAL QUESTIONS**

- a. Discuss the procedure to insure the vehicle for own damage as well as third party insurance.
- b. How the third party claim is settled?
- c. Explain No Claim Bonus in vehicle insurance.
- d. Write short notes on
  - Theft Claims
  - Lok Adalats
  - Types of policies

**3.8 OBJECTIVE TYPE QUESTIONS**

1. **The validity of a Motor Cover Note may be extended for a maximum period of \_\_\_\_\_.**
  - a. two months
  - b. one month
  - c. three months
  - d. fortnight



Notes

2. **Which of the following Statement is true?**

**Statement A:** Voluntary 'excess' under own damage section is applicable to all vehicles.

**Statement B:** Compulsory 'excess' is applicable only to commercial vehicles.

- a. Both Statements
- b. Neither of the Statements
- c. Only Statement A
- d. Only Statement B

3. **Which of the following premium rating factors does not apply to motor cycles and scooters (own damage cover)?**

- a. Geographical area of operation
- b. cubic capacity
- c. Insured's estimated value
- d. Purchase price

4. **Choose correct Statement**

**Statement A:** Third Party Liability premium of the State transport vehicles are part of TP Pool

**Statement B:** Third Party Liability premium of the private vehicles are not part of TP Pool

- a. Both Statements
- b. Neither of the Statements
- c. Only Statement A
- d. Only Statement B

5. **Sec.163 (a) of the MV Act deals with the following:**

- a. No Fault Liability
- b. Structured compensation
- c. Defences available to Insurance Company
- d. Appeal to High Court

6. **Private Car policy does not cover the following use:**

- a. Used for social purpose
- b. Reliability test



**Notes**

- c. Used for domestic pleasure purpose
  - d. Carrying samples belonging to insured
7. **Own damage is covered under which Section of the Package Policy?**
- a. Section II
  - b. Section III
  - c. Section I
  - d. None of these
8. **Compulsory deductible is applicable to:**
- a. Commercial Vehicle only
  - b. Private cars
  - c. Miscellaneous vehicles
  - d. All the above
9. **In case of double insurance with different insurers, which of the policies would be cancelled?**
- a. At the option of the insured
  - b. At the option of insurer
  - c. Any one policy
  - d. Policy commencing later
10. **Geographical Zone for the purpose of rating is based upon:**
- a. Area of operation of the vehicle
  - b. Area of the insurance company
  - c. Location of R T O concerned
  - d. At the option of insured/ insurers

---

**3.8 ANSWERS TO INTEXT QUESTIONS**

---

**3.1**

- 1. There are 3 sections.
- 2. There are Zones i.e Metros, State Capitals and other cities.

**3.2**

- 1. The Approved Loss Assessor and Survey.
- 2. State Govt for speedy settlement of third party claims

---

**3.8 ANSWERS TO OBJECTIVE TYPE QUESTIONS**

---

- |      |       |      |      |
|------|-------|------|------|
| 1. a | 2. a  | 3. c | 4. d |
| 5. b | 6. b  | 7. c | 8. d |
| 9. d | 10. c |      |      |



---

**Notes**