7.12.2022

Re: Exposure Draft on Long-Term Motor Products covering both Motor Third Party Insurance and Own Damage Insurance.

1. Further to the Authority's Circular bearing Ref. IRDAI/NL/CIR/MOT/ 137/08/2018 dated 28th August, 2018 for Implementation of the directions of the Hon'ble Supreme Court of India (in the matter of WP No.295/2012 of Shri. S. Rajaseekaran vs Union of India and Others) and the Circular Ref. IRDA/ INT/ CIR/ Comm/ 139/ 08/ 2018 dated 29th August 2018 on 'Payment of Commission, remuneration, rewards and distribution fees under Long-Term Motor Insurance Policies', the Authority vide Circular bearing Ref. IRDAI/NL/CIR/MOTOD/095/06/2019 dated June 21, 2019, clarified the issuance of cover for Motor Own Damage risks for Cars and Two-wheelers. This was followed by the Master Circular regarding Motor Insurance Products bearing Ref. IRDAI/NL/CIR/MOT/06/2020 on June 8, 2020.

2. In order to allow the policyholders a wider choice, it is proposed to permit all General Insurers to offer the long-term Motor Insurance policies as specified hereunder.
    a) 3-year in respect of Private cars co-terminus with Motor Third Party Liability cover.
    b) 5-year in respect of Two-Wheelers co-terminus with Motor Third Party Liability cover.
    c) Long-term Own Damage cover in case of renewal of standalone Own Damage policies such that the long-term Own Damage cover is co-terminus with the Motor Third Party Liability cover.
    d) 3-year in respect of erstwhile Indian Motor Tariff Class D (Miscellaneous and Special Types of Vehicles hereafter referred as Class D Vehicles) co-terminus with Motor Third Party Liability cover.
    e) Motor add-ons co-terminus with the Motor Own Damage cover in respect of Private Car, Two-wheelers and Class D vehicles

3. There shall be a 'Board-approved policy' set up by the Insurer containing aspects relating to operational matters, accounting (including provisioning requirements) and disclosures for addressing the issue pertaining to cancellation of policy including claw-back of commission.

4. Pricing of long-term policies is to be made based on sound actuarial principles considering all the relevant aspects of rating including claims experience, lower anti-selection, reduced policy administration and acquisition costs given higher renewal rates, long-term discount, expected NCB level by the end of the policy period and

applicable government taxes etc. The pricing of add-on and optional covers may likewise consider the cost efficiencies of policy administration.

5. The Insured Declared Value (IDV) (the Sum Insured) agreed to by the policyholder, the Premium and the add-ons applicable for each year shall be mentioned in the policy schedule. The depreciation rate to apply on the IDV agreed shall not exceed 10% per annum during the policy period.

6. The premium for the entire term of the policy coverage shall be collected at the time of sale of insurance. But the premium for the year shall only be recognised as income and the remaining amount shall be treated as "Premium Deposit" or “Advance Premium".

7. All long-term policies would have standard conditions relating to Cancellation/refund of premium as below:

    a. Every long-term Motor Own Damage policy shall have a 30-day free-look period from the date of inception of the policy, to enable the policyholder to review the terms and conditions of the policy. The policyholder is entitled to refund of premium on pro-rata basis in the event of exercising the free-look cancellation.

    b. The long-term motor Own Damage policy can be cancelled during the tenure of the policy either by a policyholder or by the insurer by giving the notice of cancellation. The refund of premium in such instance would be as under:
        i. Future Year Premiums - to be refunded in full
        ii. For the policy year in which policy is cancelled:
            a. Where no claims are reported during the year - Refund of pro-rata premium pertaining to the year of cancellation
            b. Where claims are reported during the year – No refund of premium
        iii. GST and other government taxes – refund to the extent permissible from the concerned authorities

    c. The detailed conditions and terms of cancellation of the policy shall be specified in the policy contract, the prospectus and on the website of the insurer.
    d. Cancellation in respect of long-term Motor Third Party Liability policy would be as per extant guidelines.

8. The existing No Claim Bonus (NCB) grid as specified for 1-year Motor Own Damage policies would also be applicable for long-term policies and the NCB applicable at the end of the policy tenure in case of long-term policies would be same as that would have been earned if such policies were renewed annually. In case of long-term standalone Own Damage policies which are issued to be co-terminus with Motor Third Party Liability cover, 9-month of policy tenure can be considered as full year for recognition of NCB during the year.

9. With respect to accounting and financial disclosure the following norms shall be complied with

i) Recognition of Premium should be in-line with Para 2 of Part I of Schedule B of IRDA Preparation of Financial statements and Auditor reports of the Insurance companies) Regulation 2002.

ii) Recognition of acquisition cost (including commission) should be in-line with the recognition of premium.

10. In addition to the extant norms, Insurers must maintain sufficient reserves including Unearned Premium Reserve (UPR)/ Premium Deficiency Reserve (PDR) / Claims 'Intimated But Not Reported' (IBNR) Reserves to meet future obligations at all times. Such reserves should form part of the solvency calculations.
11. In order to monitor pricing, reserving and assessing capital requirements of long-term policies separately, Insurers shall monitor the transaction-level data pertaining to long-term policies at regular intervals of at least one-year .
12. Except for the provisions highlighted above, all other provisions of IRDAI (Product filing Guidelines for General Insurance), 2016 as amended from time to time shall be applicable *mutatis mutandis*.

i) Commission to agents and intermediaries and distribution fees to the MISPs shall be paid in the year in which the premium is booked as income by the Insurer.

ii) The commission, remuneration, reward and distribution fees to Insurance Agents and Insurance Intermediaries shall be in accordance with the extant IRDAI (Payment of Commission or Remuneration or Reward to Insurance Agents and Insurance Intermediaries) Regulations 2016 as amended from time to time.

iii) Long-term products shall be filed under the Use and File procedure as permitted vide circular no. IRDAI/NL/CIR/MISC/212/10/2022 dated October 13, 2022. All the other provisions and requirements of Guidelines on "Product Filing procedures for General Insurance Products" shall remain applicable.

All stakeholders are requested to forward their comments on the above exposure draft by 22nd December, 2022 in the attached format at the e-mail id pradeep.singh@irdai.gov.in.

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