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Demand For Pay As You Drive Motor Insurance Policies On The Rise. Here Is All You Need To Know

Let us say you have two cars, one which you drive every day to office and another which you drive occasionally on weekends. However, assuming both the cars are of the same make, you pay the same insurance for each. Is that fair? Actually, it is not and that is where pay-as-you-drive or PAYD insurance comes in. “With kilometre-based PAYD options, customers choose a mileage tier that reflects their typical daily driving. The premium is then calculated based on this chosen distance. It is important to note that while third–party liability (TP) coverage remains valid for the entire year, own damage (OD) coverage stops working once the selected mileage limit is reached,” says Neel Chheda, Senior Executive Vice President and Head, Auto and Actuarial Analytics, TATA AIG General Insurance.

In fact, according to Policybazaar.com, an insurance portal, 30-50 per cent are choosing PAYD plans when offered. The premium depends on how much you drive the car, starting with a base limit of 2,500 km annually, with options to increase coverage in increments like 5,000 km, 7500 km, 10,000 km, and more.

How Much Do You Save?

The savings will depend on the vehicle's make, age, place of registration and the kind of coverage selected. “On an average, PAYD plans can cost 40-60 per cent cheaper as compared to regular comprehensive car insurance. Here’s a detailed premium comparison for a 4-year-old Delhi-based car between a regular comprehensive car insurance and PAYD plan,” says Nitin Kumar, Head, Motor Insurance, Policybazaar.com.

Premium for Own-Damage Cover with Zero Depreciation add-on
Make
Insured Declared Value (IDV)
Regular Plan
PAYD plan
Tata Nexon
Rs 5 lac
Rs 5,256
Rs 2,920

Maruti Dzire
Rs 5 lac
Rs 5,766
Rs 3,551
Hyundai Venue
Rs 5 lac
Rs 5,857
Rs 3,156
Hyundai i20
Rs 4 lac
Rs 4,906
Rs 2,625
For a slab of 2,500 km, Source: Policybazaar.com

When You Cross The limit

Let's say you've selected a PAYD plan covering 2,500 km, and you've reached your mileage limit. “If a policyholder anticipates exceeding the limit, they can opt for a top-up feature to extend their coverage for the rest of the policy period. Insurance companies track the distance driven using the odometer reading of the vehicle. Policyholders are required to provide the odometer reading at the start and end of the policy period,” says Rakesh Jain, CEO, Reliance General Insurance.

This way, insurers can verify if the vehicle has stayed within the declared kilometre range. If the limit is exceeded, the claim will be honoured basis the policy’s term and condition.

Flexibility Is Key

To sum up, PAYD offers you a lot of flexibility. “The customer has the option of choosing the kilometre slab while buying the policy. If he exhausts the kilometre, he has the option of topping it up. Also, if he has purchased for 10,000 km and not used it, it can be moved to next year. We also give some grace kilometres once he overruns it,” says Subhasish Mazumder, Head, Distribution, Bajaj Allianz General Insurance.

So, if you use the car pool or public transport for your daily commute and drive less, a PAYD policy can help you save on premiums. But if you drive a lot, a standard motor insurance policy works better. And as the saying goes, money saved is money earned.