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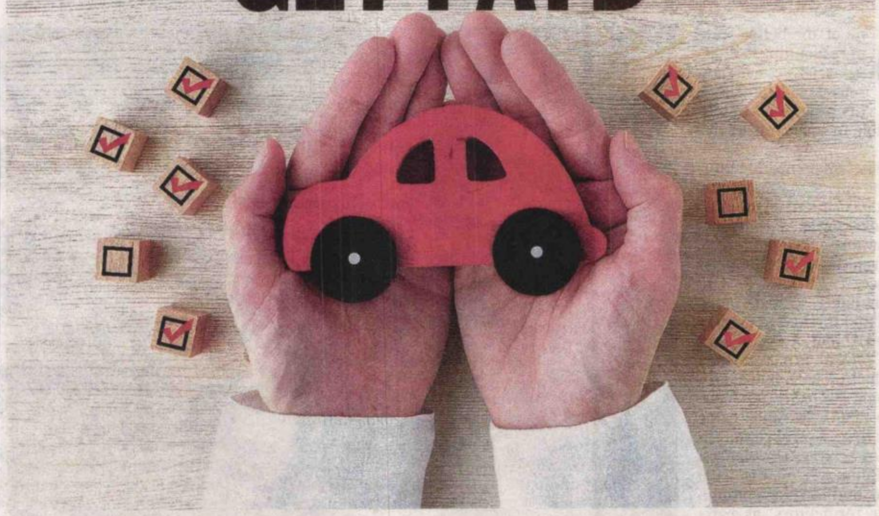

Subhasish Mazumder explores pay-as-you-drive cover — a cost-effective solution for car owners

Consumer preferences are evolving and the general insurance industry is also making significant changes to meet their expectations. Today's customers are increasingly focused on getting the right coverage while paying only for what they use.

In response to this shift in demand, insurers ave come up with personalised products. One of the innovative offerings in this space is the "Pay as You Drive" (PAYD) model.

Already popular in many developed countries, PAYD allows policyholders to pay premiums based on their actual use, making it a fresh concept for the Indian market, unlike the traditional mode of 'one size fits all'. This article explores what PAYD is, its benefits, and why you might consider opting for it.

Under the General Insurance Council of India, approximately 60 per cent of automobiles in India remain uninsured.

In 2015-16, India had approximately 19 crore registered vehicles, of which only 8.26 crore (less than half) were insured. This highlights a significant gap in motor insurance coverage, emphasising the need for vehicle owners to protect themselves and their assets through insurance.

Many vehicle owners view insurance as an unnecessary expense, leading to policy renewal lapses.

PAYD is an add-on cover that calculates the premium based on the actual use of the vehicle — specifically, the number of kilometres driven. This can be tracked either through telematics devices installed in the vehicle or through data provided by the insured.

Insurers offer various use slabs, allowing customers to choose a plan that matches their driving habits. These slabs, which vary between insurers, enable customers to pay premiums that reflect their vehicle usage.

Additionally, insurers often reward safe driving behaviour with further benefits, encouraging responsible driving.

With the rise of the shared economy, carpooling, more households with multiple cars, and improved public transport infrastructure, PAYD is gaining popularity.

This trend aligns well with the evolving needs of today's vehicle owners, offering a more personalised and cost-effective approach to motor insurance.

How does it work?

Customers select a kilometre slab based on their average daily or annual driving distance, and the premium is calculated accordingly.

While third-party coverage remains valid annually, the own damage coverage ends once the chosen kilometre limit is reached.

Policyholders can easily top up their kilometre limits to maintain coverage by paying an additional premium.

Typically, PAYD plans start with a base limit of 2,500 kilometres per year, with higher options such as 5,000, 7,500, 10,000 kilometres and more. Some policies offer grace kilometres to ensure that claims are not impacted in case a customer forgets to top up the plan.

Some insurers transfer unconsumed kilometres during renewal of motor insurance. These features give absolute peace of mind to the customer.

Who should buy it

Today's customers seek insurance products that are convenient, digitally accessible, and tailored to their specific needs.

The PAYD model can significantly lower overall insurance costs.

PAYD insurance is particularly well-suited for those not using their vehicles frequently.

It's ideal for individuals who use their cars occasionally for long-distance travel, those who own multiple vehicles but do not use them equally, and those who primarily rely on public transport or carpooling for daily commutes. For such users, PAYD is cost-effective.

What to keep in mind

■ **Assess your driving habits:** Before choosing a kilometre slab, accurately estimate your annual driving distance to avoid underestimating or overpaying for additional kilometres later.

■ **Understand coverage limits:** Own damage coverage ceases once the kilometre limit is reached. Ensure you know how to top up kilometres if needed as additional premium will apply.

■ **Discounts and slab differences:** Lower kilometre slabs generally offer higher discounts, but the savings decrease as the selected kilometre slab increases. Choose a slab that balances your driving needs and premium costs.

■ **Telematics and data sharing:** PAYD policies require you to report your kilometres manually. Be comfortable with your insurer's data-sharing requirements.

■ **Premium adjustments:** Premiums are directly tied to use. If your driving patterns change significantly, like a shift from remote work to daily commuting, be prepared for potential adjustments or the need to buy extra kilometres.

■ **Coverage for third-party liability:** Third-party liability coverage remains active annually, regardless of the kilometres driven, providing continuous protection.

■ **Renewal and top-up options:** Familiarise yourself with the policy renewal process or topping up kilometres to avoid coverage gaps, especially if you frequently reach your kilometre limit.

These factors will help ensure that a PAYD policy aligns well with your driving habits and budget, making the insurance experience smoother and more economical.

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