



The
Insurance
Institute

Commercial General Insurance

CIP-04 KEY POINTS



CHAPTER 2

THE COMPULSORY NATURE OF MOTOR INSURANCES

Irish motor insurance legislation is derived from the six **EU Motor Insurance Directives (1972–2009)** and is contained in a series of acts and regulations beginning with the **Road Traffic Act 1961**.

It is illegal to drive, or be in charge of a mechanically propelled vehicle, in a public place unless there is an insurance policy in place that covers either the minimum required under Irish law (RTA cover) or the law of the member state being visited, whichever is greater.

The **European Communities (Road Traffic) (Compulsory Insurance) (Amendment) Regulations 1992** extended the definition of mechanically propelled vehicles to include trailers.

THE SCOPE OF COVER



Commercial motor policies contain two main areas of cover:

- liability cover
- property cover.

Policies are subject to limits of indemnity for damage to third party property. No limits apply to third party injuries, as this cover must be unlimited. The standard property damage limit of indemnity for a private car is €30 million (while covered either under a private car policy or a motor fleet policy) and €1.3 million for a commercial vehicle. Insurers will generally facilitate a request for an increase of the limit of indemnity for commercial vehicles if required by the client.

In the event of a total loss, cover for damage to the insured vehicle is generally based on its market value at the time of the loss.

Average is not applied to motor claims settlements.

Premiums are based on several exposure measures including:

- vehicle
- business description
- driver details
- location of use
- cover
- use
- past claims experience.

In the case of large fleet-rated risks, the most significant factor when rating a risk is past claims experience.

The following list of exclusions typically apply across all levels of cover:

- bodily injury to the driver
- racing, pacemaking and/or speed testing
- employers liability risk – except to meet RTA requirements
- tool of trade risk (although this may be added for an additional premium)
- crop spraying
- liability for death, injury or illness caused by goods supplied from the vehicle.
(These should be covered under a products liability policy.)

Road Traffic Act cover

RTA insurance cover applies in Ireland and throughout the EU and must provide indemnity for:

- bodily injury or death, caused to third parties, including passengers
- loss of, or damage to, property belonging to third parties, subject to a minimum of €1.22 million per claim
- third party claimants' costs and other expenses
- emergency treatment for third party injuries caused by, or arising out of, RTA liability

- liability arising from trailers attached to, or becoming detached from, the vehicle insured under the policy.

Cover is restricted to the use of the vehicle 'in a public place'.

Third party only cover

TPO cover also includes indemnity to:

- anyone driving or 'using' the vehicle with permission
- employer or partner
- those getting into or out of the vehicle
- the owner of the vehicle
- the person in charge of the vehicle
- the hirer of the vehicle
- or their personal representatives.

It also covers:

- third party emergency treatment where required by law
- loading and unloading risk
- third-party property damage increased to €1.3 million for any one accident
- legal representation to defend a charge
- unlicensed drivers where a licence is not required by law.

In addition to the typical exclusions applying to all covers (see above), TPO cover typically **excludes**:

- any loss or damage to the insured vehicle or the insured's property
- use other than for business activities of the policyholder
- driving of other vehicles.

Third party fire and theft cover

TPF&T cover also includes damage or loss to the insured vehicle:

- by fire, lightning or explosion
- during attempted theft or while it is stolen
- if stolen but not recovered.

In addition to the typical exclusions applying to all covers, TPF&T cover typically **excludes**:

- driving of other vehicles
- breakage of glass in windscreens and windows (insurer dependent)

Comprehensive cover

Comprehensive cover also includes loss of, or damage to, the insured's own vehicle, other than as a result of fire or theft, subject to an excess. This includes:

- spare parts and accessories kept in, or on, the vehicle
- radio (subject to limit) (e.g €750)
- breakage of glass in windscreens or windows
- indemnity to principals.

In addition to the typical exclusions applying to all covers, COMP cover typically **excludes**:

- depreciation, wear and tear
- mechanical/electrical fault or derangement
- isolated damage to tyres
- theft/attempted theft where unlocked
- loss/damage from the wrong fuel
- loss of use
- import costs from outside EU
- damage caused by solidifying of substances (e.g. concrete becoming hard in mixers/drums).

Territorial limits

Territorial limits for full policy cover apply within the Republic of Ireland, Northern Ireland, Great Britain, the Isle of Man and the Channel Islands or travelling between these territories.

Policies automatically provide the minimum required by law for territories within the EEA. Some commercial insurers may be willing to provide full policy cover in certain circumstances but usually at an additional cost.

Optional extensions

- Trailers
- Third-party working risk (tool of trade)
- Fatal accident benefit
- No claim discount protection or step-back option.

Policy conditions and exclusions

General policy conditions:

- The policyholder has a continuing duty of disclosure.
- The policyholder must maintain the vehicle(s) in a roadworthy condition.
- Insurers are entitled to seek recovery from the policyholder of sums they are required to pay under RTA legislation.
- An insurer is entitled to cancel a motor insurance policy by giving notice in writing to the policyholder. While the Road Traffic Act specifies that the insurer must give the policyholder a minimum of 7 days' notice, general insurance market practice is that the insurer gives the policyholder 10 days' notice by registered post.
- Any dispute over policy cover must be referred to arbitration.
- Contribution and subrogation conditions apply.
- Claims conditions.

General policy exclusions:

- Persons not permitted to use the vehicle
- Contractual liability
- Radioactive contamination
- War and kindred risks
- Racing, trials, pacemaking
- Terrorism
- Earthquake
- Riot or civil commotion
- Airside use of vehicle at an airport/airfield
- Pollution/contamination
- Sonic bangs.

Comparisons with private motor insurance



The following are not available under commercial motor policies in comparison to private motor policies:

- Driving of other vehicles
- Provision of a new replacement vehicle
- Personal accident benefits
- Foreign travel outside EEA.

There are also lower levels of cover for third-party property damage (TPPD) for commercial cars (€1.3 million) than private cars (€30 million).

CONSIDERATIONS FOR DIFFERENT TYPES OF COMMERCIAL VEHICLE

Goods-carrying vehicles

A typical commercial motor policy wording defines a goods-carrying vehicle as ‘any motor vehicle primarily manufactured and used for the carriage of goods, which is not an agricultural vehicle.’

For many larger commercial vehicles, the value is both a rating factor and a policy limit in the event of a total loss.

Additional excesses are also applied to young, inexperienced or provisionally licensed drivers.

Vehicle trailers (and semi-trailers):

Trailers (attached or unattached) are subject to the compulsory Road Traffic Act (RTA) insurance requirements while they are on a road or in a public place.

The cover available for trailers is outlined below:

- Third party attached trailer cover.
- Third party unattached trailer cover.
- Specified trailer attached/unattached full policy cover.

Passenger-carrying vehicles

Passenger-carrying vehicles can be divided into two broad categories:

- public service vehicles
- self-drive hire and funeral vehicles.

Public service vehicles:

PSVs are divided into:

- large PSVs
- small PSVs, including:
 - public hire vehicles
 - private hire vehicles.

The high level of use of PSVs represents a significantly increased risk of accident and claims.

For large PSVs, own-damage cover carries quite high excesses and very high values.

Self-drive hire and funeral vehicles

Policies are arranged on a fleet basis and cover the individual hirings.

The typical permitted use is for social, domestic and pleasure (SDP) and business purposes by any person to whom the policyholder has hired the vehicle out to.

Policies exclude use for the carriage of passengers for hire or reward unless specially arranged.

Higher excesses may be used, taking the form of a monetary amount or a percentage of the value.

Special type vehicles

This category covers the widest range of vehicle types with particular implications for insurance purposes:

- Forklift trucks

- Ambulances
- Mobile retailers and businesses
- Cement mixers.

Construction equipment

For construction equipment, there is a significant fire, theft and malicious damage risk:

- Cranes
- Dumpers
- Mechanical navvies and other mobile plant
- Other 'special types'.

Agricultural vehicles

Although cover choices and policy features are broadly similar to other commercial vehicle policies, there are some differences that reflect the particular nature of agricultural use and the common practices within the farming industry:

- Suspension of cover
- Crop spraying
- Hiring practices
- Use warranty.

Road-worthiness testing is now being introduced in Ireland for 'fast tractors'. A 2014 EU Directive introduced the compulsory testing of tractors used for commercial road haulage purposes with a maximum designed speed exceeding 40km/hr ('fast tractors'). As of May 2018, fast tractors must be tested periodically and must display certificates of roadworthiness (CRWs). More information on the fast tractor test requirements is available at www.cvrt.ie.

MOTOR TRADE INSURANCES

Road risks cover

Generally, this refers to motor cover for all road risks and policies must meet the minimum legal requirements.

Some policies provide cover 'on the road and while in the course of a journey', while others state 'anywhere other than the policyholder's premises'.

Certificates of Motor Insurance are needed for motor trade road risks policies.

The three bases for insuring are:

- Named driver basis
- Open drive basis
- Trade plate basis.

Choice of third party only, third party fire and theft or comprehensive is available. Extensions are available to allow private use, private hire, demonstration and tuition, loan or hire of vehicles to customers, and foreign use.

Internal risks policies

As road risks policies exclude cover 'at the premises', the internal risks policy fills that gap.

Internal risks policies cover includes the insured's liability for:

- accidental injury or death to third parties
- accidental damage to a third party's property
- injury and damage arising from the sale of new and used vehicles, parts and accessories
- injury or damage caused by defective workmanship on a vehicle (technically an extension to the standard cover but is usually a requirement of these businesses).

Combined road and garage policy

In addition to the motor (road risks) cover and internal risks cover, a combined policy will also include property damage, business interruption and employers liability cover.

Because of the road risks cover contained within the policy, a Certificate of Motor Insurance is needed in order to meet minimum legal requirements.

MOTOR FLEET INSURANCE

Motor fleet policies differ from standard policies in the following ways:

- The policyholder has more flexibility when changing vehicles and/or drivers.
- Premiums for larger fleet-rated risks are based on the claims experience of the fleet.
- Certain optional covers may be added.

- For smaller fleets, the no claims discount for each individual vehicle is replaced by a fleet discount.

Cover arrangements

Cover for damage to third party property is mostly restricted to €30 million for private cars under the fleet, and to €1.3 million (or up to €6.5 million) for commercial vehicles.

Motor fleet insurance is normally arranged on a declaration basis (e.g. annual, six monthly) which means that vehicle additions or deletions only need to be notified to the insurer in line with the agreed declaration period.

Cover is usually arranged on an open drive basis and driving is restricted to a particular age range.

Insurers may apply cover restrictions for young/inexperienced drivers.

On an annually-adjusted policy, mid-year alterations are automatically catered for.

Extensions of cover



- Contingent third party – employees' vehicles
- Occasional business use
- Driving by unlicensed drivers
- Breakdown assistance
- Increased third party property damage limit of indemnity.

LIGHT COMMERCIAL VEHICLES

These vans are usually underwritten by the personal lines department as they are very similar to private motor vehicles.

Insurers provide cover for LCVs for commercial use (carriage of own goods or carriage for hire and reward) in their commercial lines department.

- Private motor vehicle
- Light commercial motor vehicle
- Heavy goods vehicle.

Key considerations for LCVs: make, model, engine size, year and value, along with driver details, areas of use and no claims discount history. Other important factor is the business description – determine the use of the vehicle.

Private motor insurance has Classes 1(a), 1(b), 2 and 3, while commercial vehicles (HGV and LCV) have two different main classes of use:

- use to carry the insured's own goods
- use including the carrying of goods for hire and reward (known as haulage).

The goods themselves are not covered under the motor policy, only the vehicle. The goods can be separately insured under a 'goods in transit' insurance policy (see Chapter 4E).

Insurers' personal lines departments: Risks that are broadly similar in nature, are sufficiently numerous to make rating reasonably accurate, and do not have specific underwriting requirements (e.g. the cover provided can, in most cases, be the standard cover). LCVs fall into this category, which is often referred to as commodity type business. If the underwriting requirements/rating are non-standard, the insurance business is usually handled in the commercial lines department. Underwriting of non-standard risks requires an awareness and knowledge of non-standard features that underwriters in the commercial lines department would be more familiar with.

QUESTIONS TO ASK THE CLIENT

Specific questions are required that relate to particular sections of the insurance policy cover. While the complexity of what is needed will vary from one client to another, a basic template should cover the following areas:

- Client
- Claims experience
- Vehicles and trailers
- Use

- Drivers
- Cover basis.