The Insurance Institute

Personal General Insurance

CIP-03 KEY POINTS

Advancing *Your* Career.

CHAPTER 2

THE COMPULSORY NATURE OF MOTOR INSURANCES

Motor insurance is the only complete class of insurance business that is compulsory by law in Ireland.

The current Irish motor insurance legislation is derived from the sixth **EU Motor Insurance Directives (1972–2009)** and is contained in a series of acts and regulations beginning with the **Road Traffic Act 1961**. This Act introduced the requirement for insurance protection for the interests of innocent victims of road accidents for death, injury and damage to their property.

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. Under the **Road Traffic (Compulsory Insurance) (Amendments) Regulations 1992**, a 'mechanically propelled vehicle' now includes trailers.

Due to the compulsory nature of motor insurance, Insurance Ireland operates the **Declined Cases Agreement (DCA)**. The Agreement's purpose is to ensure that the insurance market will not refuse to provide motor insurance to any individual seeking cover. The individual must attempt to obtain a quotation from at least three insurers and, in general, the insurer first approached will be required to offer a quotation. Where an individual has held a policy within the previous three years, the insurer of that previous policy is obliged to provide a quotation. The insurer can only refuse to provide cover where to do so would be contrary to public interest.

THE SCOPE OF MOTOR INSURANCE POLICY COVER

Motor policies contain two main areas of cover. The first element relates to injury, loss or damage caused to third parties or their property. The second (non-compulsory) element deals with loss or damage to the insured vehicle and additional policy benefits.

Motor insurances tend to be subject to **limits of indemnity** for third party aspects (but not in relation to injuries, where the **liability** cover must be unlimited).

Cover for the insured vehicle is generally based on **market value** rather than a sum insured. There is no question of **'average'** being applied to claims settlements when the vehicle is insured on a market value basis.

Premiums are based on several exposure measures including:

- vehicle
- driver details
- location of use
- cover required
- use of the vehicle
- past claims experience
- accidents / previous convictions / penalty points / health issues that may affect driving.

The different types of motor insurance policy cover available are:

- **Road Traffic Act** cover
- third party only
- third party, fire and theft
- comprehensive.

Each of the covers have specific exclusions that apply to them. However, the following list of exclusions typically apply across all types of cover:

- bodily injury to the driver
- loss of use
- racing, pacemaking and/or speed testing
- employers liability risk – except to meet RTA requirements
- liability more appropriately covered by any other insurance policy.

Road Traffic Act cover

Road Traffic Act (RTA) is the minimum level of cover required by law. It applies in Ireland and throughout the EU and must provide indemnity for:

- bodily injury or death caused to third parties, including passengers (unlimited in amount)
- loss of, or damage to, third parties' property, subject to a minimum of €1.12 million per claim
- third party claimants' costs and other expenses of handling a claim
- 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.

RTA cover is restricted to the use of the vehicle 'in a public place'. A public place would include a road, a public car park or a private field (if there was a special event to which people had vehicular access, such as a garden fete etc.). No indemnity is given if a third party is injured away from a 'public place' e.g. in a private driveway.

RTA cover serves the purpose of ensuring that even those considered to be high risk drivers have the most basic motor insurance cover. It is only recommended and issued in exceptional circumstances.

Third party only cover

In addition to the cover provided under an RTA only policy, TPO policies also provide indemnity to:

- anyone driving the vehicle with permission, if allowed on the certificate,
- anyone 'using' the vehicle
- an employer or partner
- the owner of the vehicle or their personal representatives
- the hirer of the vehicle.

TPO policies also cover:

- third party emergency treatment where required by law
- loading and unloading risk
- higher third-party property damage limit per claim (€30 million is a standard limit provided by insurers)
- legal representation at inquest or fatal injury enquiry – €1,300 limit
- unlicensed drivers.

The **'driving of other cars'** extension may be offered. This usually only applies to the policyholder, who must have the permission of the owner of the other car, and is restricted to third party cover regardless of the insurance cover held.

Third party, fire and theft cover

In addition to the TPO cover, third party, fire and theft (TPF&T) policies provide cover for damage or loss to the insured vehicle in the following circumstances:

- by fire (including self-ignition, lightning or explosion)
- during an attempted theft or while it is stolen
- if stolen but not recovered.

Cover may be subject to an excess and includes damage to or loss of (as a result of theft) spare parts and accessories kept in, or on, the car, or kept in the policyholder's private garage. Loss of or damage to any permanently-fitted radio as a result of fire or theft is typically covered also, but usually subject to a limit.

Third Party, fire and theft cover typically excludes:

- theft or attempted theft if keys are left unsecured or in/on an unattended car
- depreciation, wear and tear
- mechanical/electrical fault or derangement
- malicious damage or vandalism
- breakage of glass in windscreens and window (although they can be available as an optional extra cover for an additional charge).

Comprehensive cover

In addition to the cover provided under TPF&T, COMP cover also includes accidental loss of, or damage to, the vehicle, other than as a result of fire or theft, subject to an excess. This cover may include:

- replacement/'new for old' cover
- spare parts and accessories kept in, or on, the vehicle or in the policyholder's private garage
- radios to 5% of vehicle value or €750, whichever is less
- breakage of glass in windscreens or windows.

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

- depreciation, wear and tear
- mechanical/electrical fault or breakdown / derangement
- isolated damage to tyres e.g. from punctures or blow-outs
- the cost of hiring a replacement vehicle
- loss/damage from using the vehicle in a rally, competition or on any race track or circuit
- loss/damage resulting from putting the wrong fuel in a vehicle
- import costs of parts from outside the EU.

Additional benefits:

- Driving of other cars
- Roadside/driveway assistance (which may provide repairs plus up to 1 hour's roadside assistance, completing the journey and towing)
- Courtesy car
- Personal accident
- Medical expenses
- Personal effects
- Legal protection.

THE CLASS OF USE

There are four categories of use. The following classes and their wordings are indicative of market practice:

1. Class 1(a), social, domestic and pleasure use only.
2. Class 1(b), including use for business by the policyholder only with limited business mileage (usually between 1,000 and 5,000 kilometres per year).
3. Class 2. This permits the carriage of goods or samples belonging to the policyholder or their employer, and for other drivers named on the certificate of insurance to use the vehicle for the business of the policyholder.
4. Class 3. This permits Class 2 use, but also permits commercial travelling or soliciting orders.

Every class of use excludes use for motor trade purposes, racing, rallying and carriage of passengers for hire and reward.

POLICY EXCLUSIONS AND CONDITIONS

General policy conditions

- There is a continuing duty on the part of the policyholder to disclose all material facts to their insurer.
- The vehicle must be maintained and roadworthy and have a valid NCT certificate where applicable.
- Insurers are entitled to seek recovery from the policyholder of sums they have been obliged to pay by virtue of 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**
- Most insurers will include a condition of fraud or deception that outlines that they may void or cancel a policy in the event of underwriting fraud (misrepresentation or non-disclosure of a material fact) or claims fraud.

General policy exclusions

- Use of the insured vehicle outside of the uses that the policy permits
- Contractual liability
- Radioactive contamination
- War and kindred risks
- Racing, pacemaking
- Terrorism
- Earthquake
- Riot or civil commotion
- Sonic bangs.

NO CLAIMS DISCOUNTS

Insurers allow NCDs in the following circumstances:

- for successive years of claim-free driving – earned NCD
- as an incentive for drivers who have not yet earned an NCD in their own name (but have a good driving record under someone else's policy) – introductory NCD
- to allow an NCD earned on a private motor policy to also be used on a commercial motor policy – **mirrored** NCD.

Types of NCDs

- Step back arrangements
- Protected NCD
- Guaranteed NCD.

QUESTIONS TO ASK THE CONSUMER AND WHY

A number of key factors are taken into account in the pricing and **underwriting** of private motor insurance:

- proposer's name and address
- driver(s) details
- vehicle(s) type and details
- use of the vehicle(s)
- cover required.

Presentation of risk information

Where there have been past claims or other adverse features and an intermediary is considering alternative insurers, it may be necessary to make a formal presentation to the insurer.

In these circumstances, the insurers considering the risk will require the confirmed claims experience and a fully completed proposal form from the intermediary before providing a quotation.

There is no regulatory pressure on a prospective insurer to provide a quotation if another insurer already holds the business.

MOTORCYCLE INSURANCE

Motorcycles are also subject to the terms of the various **Road Traffic Acts**. In broad terms the cover options are similar, and third party cover has the same limits of indemnity as for private car insurance.

The motorcycle insurance market

This market is limited in size, and a significant proportion of products are offered on a direct basis only or arranged through schemes. Sale of motorcycle insurance may be limited to more experienced or specialised advisers.

The underwriting and pricing of cover is strongly influenced by the age profile of the motorcycle riders and the significant risk of injury to which they and their passengers are exposed.

The motorcycle insurance policy

The format of the motorcycle policy is much the same as, although simpler than the private motor policy. Third party only cover, which covers the insured's legal responsibilities to third parties only, is the minimum level of cover provided.

Key elements – comprehensive, fire and theft:

- Loss of, or damage to, the vehicle is covered, subject to an excess
- Cover for damage to or theft of spare parts and accessories only applies while they are on or in the motorcycle, or kept in a locked private garage, and only if the motorcycle is stolen at the same time. Wordings in this regard vary, with some insurers insisting that accessories and spare parts are permanently fitted to the motorcycle for a claim to be valid.
- Cover is limited to market value or policyholder's estimate, whichever is lower.
- Some insurers offer cover on an **agreed value** basis.
- Removal to the nearest repairer if the policyholder cannot drive it following an accident.

There may be extensions available or automatically provided for:

- side cars
- trailers
- indemnity to employer
- driving other cycles (third party only)
- breakdown and recovery
- legal protection cover.

There are no personal accident benefits, medical expenses or personal effects cover.

An NCD earned under a motorcycle policy is not normally transferable to a private car insurance policy. Often the scale used is at a lower level. For example, for motorcycle insurance, the top of the NCD scale could be 50% while the top of the private motor insurance NCD scale could be up to 75%.

GUARANTEED ASSET PROTECTION INSURANCE

Motor insurers settle total-loss claims on the basis of the market value of the car at the time of the accident or theft. This may not be sufficient to cover other financial liabilities the policyholder may have in relation to the car or to enable the policyholder to purchase a 'like for like' replacement car.

GAP policies provide cover for such shortfalls. There are two different types of GAP insurance cover currently available in the market. These policies provide cover for the difference between the motor insurance policy claim and either the:

- value of the car at the time the GAP insurance was purchased – known as Return to Value (RTV); or

- invoice price paid for the car originally – known as Return to Invoice (RTI).

GAP insurance allows the policyholder to replace their vehicle quickly or avoid a situation of ‘negative equity’.

GAP insurance is purchased as stand-alone cover and is usually sold by a motor trader in conjunction with a car sale or by an adviser as an ‘add on’ to the motor insurance policy.

Cover is subject to monetary limits, which vary between insurers. Some policies also include cover for the motor insurance policy excess.

Cover will not apply where the:

- theft or ‘writing off’ of a vehicle is not covered under the insured’s motor insurance policy
- motor insurer offers to provide a replacement vehicle as settlement of the claim.

Typical underwriting criteria include the following:

- the car must normally be less than 7 or 8 years old
- the car must normally have been purchased from a dealer no more than 3 months before the GAP policy is arranged
- the car must be of an Irish specification, and must not have any non-standard modifications
- the recorded mileage on the car must be no more than a specified amount e.g. 80,000 or120,000 km.

LIGHT COMMERCIAL VEHICLE INSURANCE

The rise in recent years of the manufacture of ‘car vans’ (i.e. commercial vehicles but very similar in looks and other respects to private cars, typically 2-door vans with storage area in the back, no rear passenger seats and no rear side windows) has influenced insurers to underwrite such vehicles in their personal lines departments. Insurers calculate premiums and provide policy cover for these LCVs in a similar way to private motor vehicles. This also explains why most insurers underwrite LCVs in their personal lines department rather than in the commercial lines department.

Underwriting considerations

Insurers will vary in their acceptance criteria and this should be checked on a case-by-case basis.

In underwriting LCVs, the key considerations, similar to a private motor policy, will include the make, model, engine size, year and value of the vehicle together with driver details, areas of use and no claims discount history.

Commercial vehicles (HGV and LCV) have 2 different main classes of use:

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

Policy cover comparison

The main differences with private cars are as follows:

- Third-party property damage limit

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

Non-standard vans/light commercial vehicles

Non-standard features of an LCV risk may arise from the use, occupation, nature of goods carried or increased potential exposure from the following sources:

- pollution risks due to types of goods carried and nature of work e.g. waste removal contractor
- access requirements to high-risk/hazardous locations, e.g. airports
- indemnity to principal
- third party property damage limits
- loading/unloading, e.g. for a carpet-fitting company or a glazier
- use of trailers – increased frequency of use, the size of the trailer, its actual use (potential increased risk depending on loads) and liability to third parties cover relating to trailers (subject to compliance with RTAs)
- different risks relating to the liability to passengers

No claims discounts

Insurers also offer no claims discounts (NCDs) on light commercial vehicle policies. The system works in the same way as in private motor insurance. The number of claims free years and the corresponding NCDs allowable vary between insurers. The maximum discount allowable would be 60%. The numbers and values of claims allowable would also vary between insurers.