

# Motor Trade Insurance

## Introduction

For many learners and practitioners, motor trade Insurance has been a subject which has created much apprehension, confusion and even fear. Along with motor fleet insurance, motor trade insurance seems to have created a “mystique” around its handling and underwriting.

Here are some of the issues which cause motor trade insurance to be regarded as a “special” class of business:

- motor is a compulsory class of insurance
- motor traders require cover for a wide range of vehicles, drivers and use
- cover for vehicles is required:
  - on the road
  - on the policyholder’s premises
  - on some cases, on other people’s premises
  - occasionally, on a car transporter
- apart from driving accidents, motor traders require cover for a range of other liabilities which do not occur with other trades.
- the type and value of vehicles at risk can vary enormously from trader to trader and even from one day to the next.

It is for these reasons that only a relatively small number of insurers actively seek motor trade business and the following insurers are regarded as the main players:

Norwich Union

Allianz

Travelers

NIG

MMA

Tradex

Within this relatively small market there are many variations and preferences. For example, some insurers will only consider large, established risks where they will cover road risks and the non-motor commercial covers. Other insurers will only consider road risks cover.

The market is further diversified due to the existence of a number of special schemes for motor traders operated by the major insurers.

In its simplest form, a motor trade policy is a flexible commercial motor policy and where necessary allied to a combined commercial insurance policy, covering the motor, property and liability risks that relate to a motor trader’s business needs.

## Motor Trade Overview

Estimates suggest over 100,000 firms engaged in the motor trade in the UK. The vast majority of these will be sole traders or small firms but the range extends to the massive, UK-wide, all-embracing brand dealerships.

These figures will not include all the organisations which, although requiring motor trade-type covers, would not classify themselves as necessarily “motor traders”.

Before we go into the detail of the different types of motor trade policies, we will look at the different businesses which need motor trade policies and the reasons for this.

Basically, any business which is involved with vehicles which do not belong to them where they either use these vehicles or work on them requires the flexibility of a motor trade policy.

These would include:

- vehicle sales - this could range from main dealers to sole traders
- vehicle repairs - mechanical, electrical, bodywork
- panel beaters
- accessory fitters-audio, security, modifications
- paint sprayers
- coach and body builders
- exhaust and tyre fitters
- vehicle repossession
- vehicle testers
- vehicle breakers and dismantlers
- valeters and cleaners
- windscreen fitters.

Among these trades, clearly, many different types of vehicles could be on risk at any one time:

- cars - ranging from family saloons to high performance or exotic models.
- vans and small commercial vehicles
- breakdown vehicles
- heavy goods vehicles
- coaches and buses
- agricultural vehicles and implements.

Among these occupations, the policyholder may require a degree of flexibility in relation to who may drive the vehicles:

- principals and directors of the business
- employees
- relatives, spouses, partners and friends of directors etc.
- customers, for example, courtesy cars
- prospective purchasers who may require tuition and / or demonstration.

The policyholder will also require flexibility in what the vehicles can be used for:

- the policyholder's business
- motor trade purposes
- private use
- breakdown
- another business owned by the policyholder.

Taking all of the above into account, clearly, the motor trader requires a very "open" and flexible policy to cover; vehicles, drivers, use and business, without the need to be constantly contacting insurers to advise of changes.

## Motor Trade – Insurance Needs

Traditionally, motor trade insurances are split between:

- road risks which includes the minimum cover which satisfies the requirement for compulsory motor insurance cover and
- garage or premises risk, which is a combination of property, liability and financial loss covers similar to those required by most engineering or manufacturing types of business.

Where road risks only cover is required, the insurers will issue a policy and certificate of insurance.

There is a relatively small market for the type of motor trader who only requires road risks cover. These are generally small businesses, in many cases, operating from home or even waste ground or lay-bys.

This type of risk requires very careful underwriting, but there are insurers who specialise in these risks and who will only write road risks policies.

Where the policyholder requires garage risks to be covered, there are several methods that can be used:

- an “internal risks” policy which complements the road risks cover by providing public liability cover and damage cover to vehicles when they are on the premises and not in RTA situations
- a comprehensive road and garage policy which brings both road risks and internal risks into one policy, usually providing extra covers, not available where road risks and internal risks are insured separately
- a combined policy, similar to those issued to non-motor risks with sections covering:
  - road risks
  - property-including vehicles on the premises.
  - liability
  - business interruption
  - glass
  - money
  - and other covers.

The majority of insurers offering garage risks cover will normally use the last of those listed above. The first two are relics from the days when property insurance was governed by tariffs which dictated what could and could not be insured under certain policies.

On a note of caution, even although only a small number of insurers issue motor trade policies, there are many variations in cover between these companies and even within the same company, there may be different motor trade products aimed at certain sectors of the market.

When recommending an insurer to a client, it is important to:

- establish what the client needs by a thorough investigation of the business operations
- study the various covers to make sure your recommended choice meets these needs.

## Motor Trade Covers – Road Risks

Under the road risks only policy, a typical definition of “vehicle” could be:

“Any motor vehicle, including any vehicle (mechanically propelled or otherwise) attached to the vehicle, which belongs to the policyholder or is in his custody or control for motor trade purposes and which is not:

- a steam driven vehicle
- a goods carrying vehicle used for hire or reward
- a vehicle transporter capable of carrying more than two vehicles.”

Clearly, this definition covers a very wide range of vehicles. It is important to note, however, that the vehicles must be in the trader’s hands in connection with the business. There would be no cover if the trader borrowed a friend’s car to go to a football match.

Cover is restricted to use on a “road” and this is usually set out in the policy in the following manner:

“Cover only operates while the vehicle is (within the policy territorial limits):

- on any road in the course of a journey
- on any air, sea or rail craft
- temporarily garaged during the course of a journey in or on premises not owned or occupied by the policyholder.”

Insurers may agree to cover any vehicle “whilst garaged at the private domestic garage or parked at the home of any permitted driver, provided that this home is not trade premises.”

In addition to covering the vehicle in UK, the policy will also comply with EU legislation and provide cover in most of Europe for the minimum cover.

A number of insurers will include a period of “free” foreign use under which the vehicle is covered abroad for the full policy cover. The practice and cover varies among insurers and it is necessary to check the wording before advising the client.

So cover is more restricted than say, a private car policy and there is no cover for cars parked on the forecourt or in the premises themselves. To cover these risks, the trader needs garage risks cover.

Some traders try to get round this problem by parking their vehicles on the road near their premises, but at least one road risks insurer combats this by excluding damage cover for any vehicles within 1 kilometer of the business premises.

This type of exclusion can cause problems if it is interpreted too literally. For example, if a driver is returning from a long journey, but has an accident as they are approaching the premises, there would be no damage cover! The same problem would exist when a driver was commencing any journey.

With regard to third party claims, the road risks policy would cover accidents occurring on or about the premises where the accident was considered to have happened “on a road or other public place”, for example, a customer injured by a car on the forecourt.

If, however, the injury occurred on a part of the premises not covered by RTA legislation, the road risks policy would not apply.

## Policy Limits

The road risks policy tends to follow the commercial vehicle policy as regards limits of indemnity:

- third party bodily injury - as required by RTA 1988, this is unlimited
- third party property damage - the current legal minimum is £1 million, but this is regarded as too low for commercial risks and most brokers will arrange limits of £2 million or £5 million (the standard limit on private car policies is £20 million)
- damage to vehicles - insurers will protect themselves against high exposures by inserting fairly conservative limits in respect of any one vehicle; usually there are separate limits for comprehensive and for third party fire and theft policies.

There are generally facilities for the trader to negotiate higher limits.

The policy is normally worded to the effect that, in the event of a total loss, insurers will pay the limit or the market value, whichever is the lower.

When settling total losses on vehicles owned by the trader, the insurer may stipulate that it is the trade market value figure that will be used. This can be considerably lower than the "book" value used in normal total loss settlements.

It assumes that the trader has access to this market which is not always the case. It is important, therefore that this aspect of the cover is checked carefully.

## Motor Trade – Road Risks – Rating Methods

The majority of road risks only covers are issued to small firms or individuals involved in either repairs or sales. In these cases, the most popular method of rating is the named driver basis and driving is restricted to these drivers.

The usual rating factors are:

- cover - comprehensive, third party fire and theft or third party only
- district
- number of drivers.

In addition, the underwriter will consider:

- age and experience of the drivers
- accident and claims history
- type of business
- vehicles owned and worked on.

As a further means of protection, at least one road risks insurer specifies a list of vehicles, typically high performance or expensive cars that are not covered if they are owned by the policyholder. The cover would operate, however, if such vehicles belonged to customers and were in the trader's hands to be worked on.

In the same way, another road risks insurer may specify a number of postcodes where there are restrictions on theft cover.

The premium arrived at will usually include private use for each of the named drivers, but there may be other extensions required such as:

- tuition and demonstration - to permit prospective purchasers to test drive the vehicles whilst accompanied by one of the named drivers
- separate business use - to permit a vehicle to be used for another business owned by the policyholder. If a vehicle is specifically allocated to this other business, the insurer will usually stipulate that it is insured separately.

When calculating premiums for this type of risk, the motor trade underwriter may compare their premium for the risk with their company's personal lines premium for the same cars and drivers. If the personal lines figure is higher, they may load their motor trade premium to match the higher figure.

### Trade Plate Basis

Under this type of policy, only vehicles carrying one of a number of specified trade plates are insured. On occasions, specified vehicles belonging to (or hired or leased to) the policyholder may also be added.

The use of trade plates is governed by regulations set down by the licensing authority for each particular trade plate and use must be only in connection with the motor trade. Social, domestic and pleasure use is not allowed by trade plate regulations and consequently, trade plate policies do not provide this cover.

### Points Rating Basis

This is the usual method of providing road risks cover for medium to large motor traders, as it is the most flexible. It is also the method used when the policyholder arranges garage risks cover to complement road risks cover. There are more extensions available to the trader under a policy rated on points than there is under a named driver policy.

The risk is assessed according to a number of features, each of which is allocated a number of points – the more points the higher the premium.

The points total is usually calculated as follows:

1. drivers -10 points per driver

2. vehicles owned or held for sale and licensed for road use – numbers and types -10 points per vehicle
3. trade plates - 20 points per trade plate
4. goods carrying vehicle used for hire and reward -25 points per vehicle
5. private hire cars or self-drive hire cars - 25 points for first car and 50 points for any additional cars
6. motor cycles - 5 points per machine
7. other vehicles - 5 points per vehicle.

Different insurers may use different factors and weightings but the end result is that they quote rates based on units of 100 points.

As with the named driver basis, other factors affecting the rating are:

- age and experience of the drivers
- accident and claims history
- type of business
- vehicles owned and worked on.

Prior to each renewal, the insurers will ask for the above information in order to calculate the new renewal premium and at the same time, monitor the characteristics of the business.

If there are any material changes, for example, an upgrading of cars, the insurer may review the premium and terms.

#### Fleet Rating

Motor trade insurances are subject to no claims discount (NCD) in the same manner as other motor risks, however, for the larger risks, a fleet rating arrangement is often more appropriate.

Usually the insurers regard 500 points as minimum before considering fleet rating.

#### Extensions To Points Rated Policies

The following extensions are available on policies rated on points.

##### Demonstration And Tuition

For some very large risks, insurers will consider unaccompanied tuition, for instance, where the customer may even have the car for a weekend whilst they make up their mind. Obviously, this has to be very carefully policed.

##### Private Use

This could be for:

- directors and principals
- spouses / partners of directors and principals
- named and unnamed employees.

##### Loan Or Hire

The trader may wish to have the facility to loan or hire vehicles to:

- customers whose vehicles they working on
- relatives and friends who may wish to borrow a vehicle.



## Contingent Cover

This cover is valuable in that it covers the policyholder in situations where a claim is made against them in the following situations:

- an employee has an accident whilst driving their own car on company business
- a customer hires or borrows a car and arranges insurance themselves; if they have an accident and this insurance is defective, the claim may be made against the policyholder as owner of the car.

## Private Hire Or Self-Drive Hire

The trader may request this cover and any cases have to be underwritten very carefully. These extensions are intended for say, the small town motor trader who operates a local service or has a one or two cars available for hire. If there is any suggestion of a serious hire business, it is better to issue separate policies.

## Unauthorised Movement

This is a fairly standard extension to commercial vehicle and motor fleet policies. In a motor trade situation, it is likely to occur when say, a motorist leaves their vehicle blocking the access road to the trader's car park.

The cover protects the trader against legal liability for injury or damage arising out of the movement of a vehicle.

If the vehicle had belonged to a customer who had left it with the trader for repairs or whilst they were driving a demonstration car, the movement would be covered by the main policy as the vehicle is in the custody or control of the motor trader.

## Unauthorised Use

This protects the trader (and the trader's firm alone, i.e. it will not indemnify the driver) where liability is incurred as a result of an employee using one of the insured's vehicles without consent or for a purpose not permitted by the policy. The cover will usually be subject to the policyholder showing that reasonable precautions have been in place to prevent such usage in the first place.

## Use And Driving

At this point, it is appropriate to explain how “use” and “driving” operate in motor insurance policies and we will use the motor trade road risks cover to demonstrate this.

Paragraph 5 of the standard motor trade certificate is headed “Persons Or Classes Of Persons Entitled To Drive”.

1. in respect of vehicles being used for motor trade purposes, this will be followed by either:
  - a list of names (named driver basis)
  - a statement to the effect that any employee may drive
  - if included, a statement permitting driving by anyone driving for demonstration and tuition purposes, provided they are accompanied etc.
2. In respect of vehicles being used for social, domestic and pleasure purposes again, this will be followed by a list stating who may drive for SDP purposes, for example:
  - a list of names (named driver or points basis)
  - a statement to the effect that any employee may drive
  - any partner or director of the firm.

Paragraph 6 of the standard motor trade certificate is headed “Limitations As To Use”.

1. use for motor trade purposes including the carriage of goods
2. use for social, domestic and pleasure purposes by-here will follow a list of persons or classes of persons who may use the vehicle for sdp, for example;
  - principals, directors etc
  - spouses of principals directors etc
  - named individuals or employees
  - possibly any employee.

The list under 5 is often different from the list under 6 and this creates confusion, but Paragraph 5 lists those who may drive under the policy whilst Paragraph 6 lists those who may use the vehicle.

### Example

The policyholder’s wife is named in paragraph 6 as having SDP use, but she is unlicensed and cannot drive. If she wishes to go shopping, her husband can ask one of the employees described in paragraph 5 as being permitted to drive for SDP to take her to the shops.

In the same scenario, if it was the employee’s wife who wanted to go shopping, as she is not named as having SDP use, there is no cover.

There have been misunderstandings where a person named as an SDP user in paragraph 6, but not named or described as an SDP driver in paragraph 5 has driven the vehicle thinking that they were insured to do so.

## Comprehensive Road & Garage Risks

Both internal risks and comprehensive road and garage risks policies have largely fallen into disuse since tariff restrictions were lifted and it is now much more common (and less complex) to insure road and garage covers on combined policies in the same manner as other commercial risks.

### Combined Policies For Motor Traders

This type of policy will be very similar to a combined policy issued any commercial engineering or manufacturing risk except that there will be certain covers peculiar to motor traders such as

- a road risks section and
- liability and property covers to meet the trader's special needs.

### Road Risks

This has been dealt earlier in the course and all the extensions mentioned are available under the combined policy.

### Liability - Repair Servicing And Maintenance (Defective Workmanship)

This covers the trader's liability where they have worked on a vehicle but an accident occurs due to the work being faulty. Cover only applies when the vehicle has been returned to the customer. Typical claims would involve:

- injury to the driver and passengers
- third party injury and damage
- damage to the vehicle itself.

There is no cover for the expense of correcting the defective work itself.

## General Commercial Insurance for the Motor Trader

Under this section, we examine some of the non-motor general insurances that a motor trader requires and compare them with the requirements of other commercial engineering or manufacturing risks.

### Liability

We have seen how the motor trader has special needs for RTA liability cover and cover in the event of faulty workmanship. Other liability covers required are:

- employers' liability
- products liability - "products" include:
  - vehicles-both new and used
  - parts and accessories
  - fuel, oil
  - food etc from any shop or dispensing machine on the premises
  - note that there is likely to be an exclusion of cover for any products directly or indirectly exported to North America
- public liability - in respect of accidents happening:
  - on or about the premises
  - fire or explosion affecting surrounding premises
  - work "away" at the roadside or on other people's premises including "heat" application.
  - liability arising from the use of any advertising signs or boards away from the premises
  - liability arising from the use of; car wash machines, air machines or car vacuums on the forecourt

- property - loss of or damage to:
  - buildings
  - machinery, fixtures and fittings
  - tools and equipment, including employees' tools, both on the premises or away on sites
  - own or customers vehicles and their contents. the sum insured will represent the maximum value at risk, but there may also be a maximum limit on any one vehicle
  - oil and fuel installations on the premises
  - stock of:
    - vehicles - on the premises, forecourt or stored off the premises - the sum insured will represent the maximum value at risk, but there may also be a maximum limit on any one vehicle
    - food, drinks, cigarettes etc in shop or vending machines
    - refrigerated stock
    - fuel, oil, accessories and spare parts
    - radios, other in-car entertainment equipment and satellite navigation devices.

The above property would normally be insured on an "all risks" basis including theft.

In the same manner as other risks, buildings, machinery and fixtures and fittings would be insured on a reinstatement basis and index linking would apply.

#### Business Interruption

To cover loss of income resulting from damage insured under the property section. As well as ensuring that the indemnity period was long enough, the motor trader has to consider the following extensions:

- denial of access
- suppliers' and customers' extensions
- interruption due to failure of gas, electricity or water supplies
- loss of book debts.

In some cases, the trader may argue that all they need to continue in business is a plot of land and that full business interruption is not necessary. By doing this they are underestimating the effects that say, a serious fire, could have on their business and their customers.

#### Glass Breakage

Showrooms are likely to have extensive amounts of plate glass.

#### Goods In Transit

These could be parts or equipment. Vehicles carried on transporters are usually insured separately.

## Money

Although most transactions are done by cheques and transfers, there is still a fair amount of cash involved with the motor trade. Normally, the cover would include:

1. "assault" personal accident benefits
2. cash in safe
3. cash on premises
4. cash in transit.

## Fidelity Guarantee

This is cover against loss by dishonesty of employees.

## Wrongful Conversion

This is a cover peculiar to the motor trade and applies where a trader has bought a car, or has taken a car in part exchange. If it later transpires that the car was not the vendors to sell for example, it was stolen, or had an existing HP debt, the owner (i.e. the HP company) is entitled to recover the car and the trader has lost his investment.

This extension would cover this loss, but normally there is a condition that the trader does an HP check on all vehicles before completing a deal.

## Engineering - Insurance And Inspection

Much of the equipment on the premises will be subject to legislation requiring it to be inspected periodically. Typically this would include compressors, lifting tables or fuel installations. In addition, the trader will wish to insure most of the equipment against breakdown as well as the standard fire and perils or "all risks" cover.

## Uninsured Loss Recovery / Legal Expenses

The motor trader is exposed in the same way as other firms to litigation or to the cost of recovering uninsured losses. This cover is usually offered as a "bolt on" and is provided by a specialist insurer.

## Loss of Use - Customers' Vehicles

If the customer's vehicle is damaged when it is in the hands of the policyholder and there is a delay in returning it, the policy will pay any reasonable hire charges the customer may incur. Usually, claims under this section are avoided by the trader providing a courtesy car.

## Other Features

Other features peculiar to motor trade policies include those shown here.

## Damage Excess

As with other forms of comprehensive motor insurance, most damage claims are subject to an excess. These may be used by the trader as a means of reducing the premium, but more likely by the insurer to "manage" the risk. There may be separate excesses for:

- damage claims, for example, collisions
- windscreen claims
- theft or malicious damage claims.

## Theft

There are numerous devices used by insurers to control the theft risk on motor trade policies:

- restrictions in certain postcodes
- requirements re alarms and immobilisers and disabling vehicles on forecourts
- limits on audio/visual and satellite navigation equipment
- warranties on key security on premises
- exclusion of theft

- whilst keys are left in the car
- by any hirer or by any customer who has been loaned or hired a car
- by deception, for example, a cheque being dishonoured.

#### Contract Price / Loss Of Value

The policy will usually make special arrangements to cover a “paper loss” where a car is damaged and even after repair, it is not possible to sell it for its original price, due to its history of damage.

#### New For Old

Where there is a total loss of a brand new car, the traditional “book” value settlement is usually inadequate and the insurers may operate a deal where they will replace the car with a another brand new car. This will only apply to cars owned and purchased by the trader and are less than 12 months old. It is an arrangement which has been operating for many years in the private car market.

#### Pollution

Whilst gradual pollution is an exclusion in most liability and motor policies, it is particularly significant for motor traders with premises. Where there are fuel installations, there is, inevitably, leakage from filling points and there may also be some escape from underground tanks.

Over the course of time this could lead to a degree of contamination of the land and its surroundings. This type of liability is not covered by any of the standard liability covers. Any pollution caused by an accident i.e. sudden and unforeseen would be covered.

Other features peculiar to motor trade policies include those shown here.

#### Loss Of MOT Licence

If the trader’s MOT Licence is suspended or withdrawn, this could result in a serious loss of income. This extension protects the trader against this loss, subject to a number of conditions, for example, that the suspension is not due to a criminal act or conviction.

#### Work On Or Products Incorporated Into Any Water, Air Or Spacecraft

This is a fairly normal exclusion in liability policies. Whilst it is unlikely that a motor trader will become involved with spacecraft, they could be asked to do work on boats or even on parts for small aeroplanes owing to the equipment they have at their disposal. These risks could result in very serious claims and, therefore the policy will exclude them-unless the underwriter can be persuaded to cover them in exceptional cases.

#### Vehicles In The Hands Of Sub-Contractors

In many cases, the trader may pass a vehicle on to have some specialist work done e.g. spraying, accessory fitting or MOT test. If the vehicle was damaged whilst with the specialist (sub-contractor), normally the sub-contractor’s insurance would cover this. However, if there was any difficulty with that cover, the trader’s policy would cover the damage and the insurers would attempt to recover from the sub-contractor.

#### Separate Business Use

This was mentioned earlier in the Road Risks Section. This cover is intended to cover situations where a trader may use one of his vehicles in connection with another business which he owns. If a vehicle is specifically allocated to this other business, the insurers will usually insist that it is insured separately.

#### Other Businesses Using The Premises

The trader may let off part of the premises to other associated trades e.g. Car wash & Valet, tyre fitters, exhaust fitters. Where this occurs, it is important that they have their insurances arranged correctly and that they indemnify the trader.

#### Agricultural Shows, Fairs And Exhibitions

Frequently, main dealers will take a stand at these events and display new vehicles. The full policy cover is required. It is necessary to enquire exactly what the exhibition involves as there could be “unusual” displays e.g. vehicles on platforms or driving events.

#### Sponsorship

A main dealer may agree to “sponsor” a sportsman or celebrity by loaning a car, complete with insurance-a risk which has to be carefully underwritten.

#### Insurances Sold And Financial Services Provided

Whilst these do not form part of the course, it is worth mentioning that main dealers will not only sell vehicles but will offer customers a range of products such as;

- continuing warranties
- gap insurance-protects the motorist against an HP debt if the vehicle is written off
- payment protection cover
- insurance for the vehicle itself
- “return to invoice” cover. this is a form of agreed value cover which operates in the event of a total loss.