# FSA ADVISORY COURSE MANUAL

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# General Insurance Overview

**What is Insurance?**

This chapter looks at the principles and underwriting behind General Insurance [**GI**]. Insurance covers the unforeseen (the accidental), not the inevitable such as wear and tear (the certain). The only insurance to cover a certainty is *life*, and that is called 'assurance' as you are assured to die.

**Compulsory Insurance**

This chapter looks at the principles and underwriting behind General Insurance [**GI**]. There are many types of insurance policies available on the market some of which are compulsory and some that are not. It is a legal requirement under British law to provide, in response to public opinion and concerns, funds to compensate victims. This eases the state's burden of supporting victims.

**Private Individuals:** Third party motor
Public liability (dangerous pets)

**Businesses:** Third party motor
Employers/Public liability
Professional indemnity (insurance brokers)

**Risk:**

- Understanding risk and risk transfer
- Equitable premiums

**Insurable Interest:**

- What is an insurable interest
- Why is it important

**Proximate Cause:**

- Definition of proximate cause
- Understanding a train of events

**Contract & Agency:**

- How contracts and agency's are created
- Principles duties and responsibilities

**Good Faith:**

- Duty of disclosure
- Material Facts

**Indemnity:**

- What is an indemnity
- Limits of indemnity

# *Risk*

**Risk Transfer**

Insurance is a risk transfer mechanism – the Insured transfers his risk of financial loss to the Insurer; this does not eliminate risk, it transfers it to a risk carrier e.g If you have an accident in your car, you do not pay for the repairs, it is the insurance company that bears the risk and pays for the damage.

**Pooling Financial Risk**

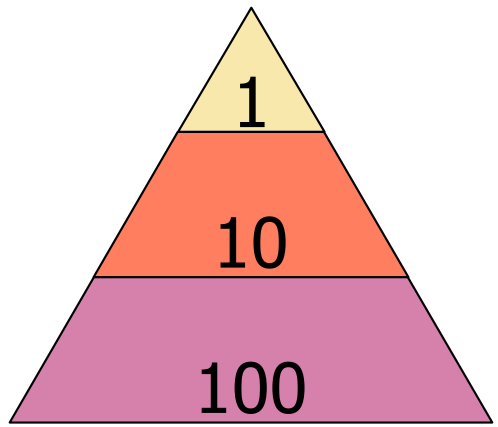
By using a system regarded as **'Pooling financial risks'** the insurer is able to predict the size and frequency of claims. They can foresee how much premium they will need to bring in to pay claims, run their offices and make a profit.

This is sometimes referred to as the **law of large numbers.** If the insurers pool of business is small they may not have collected enough premiums to pay the claim, but by increasing the numbers of policies they write and using the law of averages they can be certain to collect more than they payout on any one claim.

E.g If you are an insurer of just one football player that breaks his leg, you may not have collected enough premiums to pay the claim, therefore bearing all the financial risk without receiving any profit. However if you have insured the whole team and experience tells you that on average a player will break a leg every five years, you can accrue premiums to meet the claims when they arise.

This principle used to explained the relationship between frequency and severity is known as  the Heinrich Triangle:

for every 100 minor football sprains
there are 10 torn muscles but
only 1 broken leg.




The less severe the loss, the increased likelihood it occurring.

## Risk Types

An insurer takes a calculated risk, a known gamble, every time they underwrite a policy. Because of this they will only insure certain types of risk and will reject others, nobody wants to bet on the underdog!

To help them decide on the severity of the risk the insurer will put them into different categories:

- **Financial Risks**
  Simply a monetary risk with premiums going in and out
- **Pure Risks**
  This is where the insured can either make a loss or break even; the insured cannot make a profit
- **Particular Risks**
  These affect individuals and are insurable, e.g. ram raids are particular to electrical retailers
- **Speculative Risks**
  These are NOT insurable, e.g. you cannot insure against losing on the outcome of a bet
- **Fundamental Risks**
  Inherent risks which have high possibility of occurring, e.g. volcanic eruption on a volcanic island

### Equitable premiums

All policyholders pay a fair premium in proportion to the degree of risk they wish to transfer to the insurer, the contributions of the many paying for the losses of the few.

### Homogenous exposures

This means risks that are similar. If an insurer builds up a portfolio of transferred risks that are homogenous, they have a greater experience in predicting their **losses**, therefore reducing their risk to exposure. Specialisation of insures occurs to prevent the losses arising from the unpredictability of have differing risks and exposures.

*Insures **losses** are defined as the expected number and value of their claims.*

# Contract and Agency

**Contract**

A contract is an agreement which is enforceable under law e.g. purchase of a car.

There are three elements of a contract: **Offer, Acceptance and Consideration**.

**Offer:**

- Must be communicated
- Time limit specified or 'reasonable'
- Distinct from 'Invitation to treat' (price in a car windscreen)

**Consideration:**

- Consideration – each party gives and receives something
- Contract is two promises.
- Essence of consideration is benefit to the promisor and detriment to the promisee.

**Acceptance:**

- Unconditional
- Ifs or buts (conditions) make a new offer
- Counter offer – first negotiations are at an end
- Must be communicated
- Posting a acceptance of an offer means the contract is made

**Rules:**

- Tangible (courts will not support vague promises,it would have to be real, but monetary value is not important)
- Not past (no need to pay later for services given for free)
- Need not be adequate (you will have to live with bad choices)
- Consideration must move from promisee (A promises to give B £5 if C washes A's car)
- Not be something already bound to do

**Example**

An insurance company **offers** to insure my car for £200; I **accept** the offer – we have a contract. I **pay** (**give**) the premium to the insurance company. They **receive** my premium and promise to pay if I have an accident. If they wrongly refuse to pay after I have an accident, I can enforce the contract in court.

**Agents**

In law, anyone who acts on behalf of another person is an agent.

Methods of Creating an Agent/Principal Relationship include:

| | |
|---|---|
| Consent: | Is the normal method of conducting an agent/principal relationship this is where both parties agree to enter into a legally enforceable agreement.<br>e.g. - a warranty provider gives a car dealership an agency to sell MBI policies. |
| Apparent Authority: | If third party has reason to believe an agent has authority, he can commit the principal to a course of action.<br>e.g. - the dealership had a sign saying "Aj's warranties" and had Aj's leaflets, so the customer had reason to believe he could purchase an Aj's policy. He does so and has a enforceable contract with Aj's warranty even though the dealerships agency was cancelled long before. |
| Necessity: | Person is entrusted with goods and has to act in an emergency to preserve those goods.<br>e.g. - the loss adjuster called to the scene of an overturned fruit lorry on a Bank Holiday; he sold the fruit that morning on behalf of the owners, even though he had not a clue who they were!! He was their agent of necessity, as the fruit would have perished. |
| Ratification Principal: | Agent (dealership) acts outside the scope of his authority, but the principal (insurer) accepts the act as being done on his behalf. Ratification does not strictly create an agency, because one already exists but the agent has acted beyond the scope of his authority. |
| Undisclosed Principal: | Person can act for an undisclosed principal whilst appearing to act on his own behalf.<br>eg. – Mike buying a car at auction on behalf of Renrod. The seller has a contract with Renrod |

**Double Agents!**

A broker can act as an agent for more than one party, although not at the same time. This will depend on whom they are acting on behalf of.

E.g.They are the agent of the Insurer whilst collecting the premium, but the agent of the policy holder when advising and helping them choose a policy.

The insurer is not liable for what the broker does while the broker is acting as the policyholder's agent.

The agent must conduct his business whilst abiding by a duty of care to:

- Obey the instruction of the principle to the letter [**Obedient**]
- Act personally and not delegate his duties [**Personal Performance**]
- Act with due care and skill [**Competence**]
- Not allow a conflict in interest [**Good Faith**]
- Keep count of all records and monetary transactions [**Accountability**]

**Agent of the Insured**

- Giving advice on cover.
- Placing of cover.
- Giving advice to the insured on how to make a claim.

**Agent of the Insurer**

- An insurer authorises an agent to receive and handle proposal forms on his behalf and confirm cover.
- The agent surveys and describes the property on the insurers behalf.
- The agent has authority to collect premiums.

**Duties of Principal**

Remuneration: Agent receives commission when contract is complete.

Indemnity: Agent is reimbursed for expenses incurred in acting on his principal's behalf.

# *Insurable Interest*

**Insurable interest** arises if you benefit from the subject matters existence and are prejudiced by its destruction. You only have a legal right to insure the subject matter if you have a financial relationship with it.

The main definitions within Insurable Interest are;

- **Subject Matter**
  is defined as the item or event insured, or may be the financial interest in the subject matter
- **Legal Relationship**
  must exist to have an insurable interest, a moral relationship is not enough (e.g legal ownership of a car)
  Although there are some exceptions to the ownership rule;
  i/ **Bailees** - firms holding property on behalf of the owner (garages and workshops)
  ii/ **Joint Owners** - where more than one party owns the goods
  iii/ **Tenants** **-** via contract as they may be liable for repairs to the property
  iv/ **Agents** - cascaded down from the principle who has insurable interest
- **Financial Value**
  The item must have a monetary worth
- **Realised**
  The item must be real and physical (e.g you cannot insure a car from a order form, only when you own it)

*Insurable interest must exist at inception and at the time of the loss as they are contracts of indemnity* **.**

**Creation of interest**

There are three occasions when a insurable interest may be created;

- You have an interest in protecting your personal possessions [**Common Law**]
- An imposed contract on a third party (Landlord/Tennant) [**Under Contract**]
- Imposed or modified by an act of law [**Statute**]

# Utmost Good Faith

A proposer has a **Duty of Care** to inform the Insurers of all **Material Facts** concerning the risk being proposed, whether requested to do so or not. This allows the insurer to decide as to whether they wish to underwrite the policy, impose specialist conditions and as to what premiums are appropriate for that risk.

Disclosure of material facts also helps to prevent fraud, however it is impossible to disclose what you do not know. Both the Insurer and the Insured have a **Duty of Disclosure**. This is usual before the start of the policy or renewal, however certain policies have an *'Alteration of Risk'* clause allowing for mid-term disclosure.

## Consequences of Non Disclosure

Failure to disclose all relevant facts (excluding public knowledge, reducing factors, facts of law and spent convictions) will result in;

- Void Contract (*ab initio*) from conception – Premiums are refunded as there is no valid consideration to contract
- Avoid individual claim – but insurance continues to run
- Waive rights and ignore breach

The Road Traffic Act and Employers Liability Cover <u>ensure</u> that innocent third parties are paid although a policy may be void. It is then the responsibility of the insurer, once they have paid the third party claim on a non disclosed void policy, to recover any financial losses paid as a result of their insured .

## Moral and Physical Hazards

Factors effecting risk and disclosure are called '*hazards*' - moral and physical (below is an example for car insurance)

- Moral (relates to personal attitude & history)
  - Driving convictions
  - Lack of care by the insured
  - False claims history
- Physical (characteristics of the subject matter)
  - Condition of the car
  - Alterations to the vehicle
  - Kept in hazardous area

*The thing that gives rise to a loss is a **peril** (eg Theft), and a **hazard** influences the likelihood of a peril arising.*

# Proximate Cause

The proximate cause of an event is the **dominate cause** and there has to be a **direct link** between it and the **resulting loss.**

A single event is not always the direct cause of a loss; a loss sometimes occurs after a train of events. For a claim to be valid, the damage has to be due to the nearest (**proximate**) or most recent insured cause. The damage has to be due to the active, efficient cause that sets in motion a train of events, with no new or unnatural uninsured cause intervening.

If the real cause is itself an Insured **Peril**, the claim is covered.

**Dominate Cause** → **Link** → **Link** → **RESULTING LOSS**

----Proximate Cause-----------------------------Chain of Events----------------------------Damage-------------

**Example**

Whilst driving home from work yours eyes wonder, resulting in an accident. Your car is insured Third Party Fire and Theft Only, the crash does minor damage to the vehicle and as a result the fuel line is ruptured. Petrol leaks onto the exhaust manifold and causes a fire that totally destroys the car.

On investigation your Insurers refuse to pay. They say that the **proximate** cause of the loss of your vehicle was the accident, which is not covered.

I.e If you hadn't have had the accident the fuel pipe would not have leaked and your car would be intact.

**CRASH** → **Ruptured Fuel Pipe** → **Fuel Leak** → **FIRE**

# *Indemnity*

Most material damage policies are contracts of Indemnity.

**Indemnity** = **Financial compensation** sufficient to place the insured in the same financial position after a loss as he enjoyed immediately before the loss occurred.

- **Cash**
  In the majority of cases, insurance claims are settled by the insurers paying a sum of money.
- **Repair**
  Where possible, insurers opt to repair any damage. In this way they can often provide an indemnity at a lower cost than the insured might be able to achieve because of their negotiating power.
  E.g. - motor accident repairs dealt with at an approved garage.
- **Replacement**
  Insurers have agreements with a variety of suppliers and can get replacement goods at discount prices.
  E.g. - Car audio equipment
- **Reinstatement**
  Reinstatement as a method of providing indemnity and involves an insurer undertaking to rebuild a building or piece of machinery that has been damaged.

**Limits of Indemnity**

It is possible to have several limits to indemnity under the same policy (E.g. home contents insurance).

- Sum Insured – Maximum payout less excess which is deducted from the settlement
- Underinsurance – non-receipt of full premium

The principle of *equitable premiums* is proportional to level of risk transferred. I.e if the insurer receives 50% of the premiums they need only pay half the losses.

**Modifying Indemnity**.

**New for Old**: Common for cars up to 1 year old and caravans up to 3 years old

**Agreed Value**: Value of replacement is agreed at proposal stage.Commonly found on classic car policies, the sum insured will be paid on a total loss.
A partial loss is dealt with on an indemnity basis.

# *Claims Procedures*

**Claim Validity**

The onus is on the insured to prove that an insured peril has caused the damage and that they have suffered a tangible financial loss (I.e. An insured reason for the claim which has led to a financial loss).

It is the insurers responsibility for checking;

- The claim falls within the policy period and is made by the policy holder.
- The proximate cause is covered in the policy.
- All policy terms and conditions are met by the insured.
- There are no valid exclusions that may apply with Utmost Good Faith applying.

**Contribution**

Contribution is how insurers share the claim when there are more than two policies in force. Indemnity states that the insured cannot recover more than he has actually lost. Contribution allows the insurers to pay only their share, rather than pay the whole claim and recover a proportion from the other insurer.

Contribution can only arise where there is more than one policy in force covering the same *interest*, *subject matter* and *peril.*

Most general insurance policies that Renrod sell have a **non-contribution** clause in them, meaning the claim is invalid if the insured is covered under another policy I.e. two gap policies will cancel each other out.

**Subrogation**

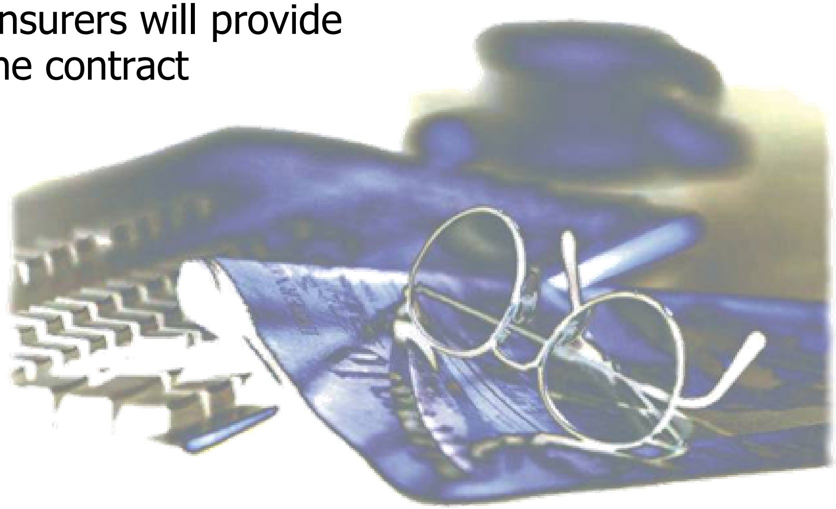
This is the right of the insurer to pursue a third party who may be legally answerable for the loss or damage, this usually arises due to negligence, breach of a statutory obligation or theft. The insurer may only recover the amount they have paid out. Often in motor insurance the salvaged vehicle will pass to the insurer once they have settled the claim with the insured.

**Ex-gratia** payments may be made by the insurer where they want to maintain a relationship with or avoid hardship by the insured. They are classed as a gift and do not attract rights of subrogation.

# Policy Wordings

- **Arbitration**
  Disputes over monetary values must go to arbitration prior to court action
- **Cancellation**
  Recorded delivery letter giving seven days notice of cancellation
- **Condition**
  A provision in the policy to which the insured must comply with to validate the claim
  Express – in writing
  Implied – known or common law does not need to be written to be binding
- **Excess**
  Voluntary or compulsory payment deducted from settlement
- **Exclusion**
  The insurer restricts the scope of the cover
- **Fraud**
  In the event of a claim by deception no matter how great the entire claim will fail
- **Heading**
  Title of the policy and or the insurance provider
- **Market Exclusions**
  A general exclusion used by all insurers
- **Operative Clauses**
  Is the main purpose/s of the policy cover

- **Policies**
  Are narratives or booklets with a schedule, they must include a heading operative clauses, recital and senior executives signature
- **Reasonable care**
  Negligence is allowed but not absolute reckless behaviour I.e. leaving your car parked with the keys in the ignition
- **Recital**
  Names the party and says Insured pays premium and Insurers will provide insurance described in policy; proposal is the basis of the contract



- **Representation**
  A statement of fact; Misrepresentation…an incorrect statement which induces the Insurer to give cover or affects the rate of premium
- **Signature**
  Printed version of senior executive's signature, with authority to form contracts.
- **Warranties**
  A requirement for good housekeeping – a promise by the Insured to do or not do something

# Motor Insurance

The **Road Traffic Act 1988** requires all motorists to be insured against their liability for injuries to others (including passengers) and for damage to other people's property resulting from use of a vehicle on a road. It is an offence to drive a car or allow others to drive it without insurance.


**Platinum Accident Repair Centres**

Many insurance companies have Platinum as an approved repairer, where they have arrangements in respect of costs of repairs to policyholders' vehicles. Although policyholders are not obliged to use a repairer recommended by their insurer, the progress of their claim will be swifter if they choose to do so. Platinum accident repair centre offer many of there insurance companies policy holders a scheme whereby the insured may be able to use a courtesy or hire car free of charge whilst repairs are carried out.

Similarly, many insurers have arrangements with specialist windscreen replacement companies. This greatly helps reduce fraud.

## Calculating the Premium

Commonly known as rating, the premium is calculated to take account of factors such as the type of cover purchased, who will drive the car and their motoring history, where it is kept, the uses to which it will be put, its attractiveness to thieves. These are just some of the factors which can affect the rate charged by the insurer. Common factors which often affect the premium charged include:

**Drivers**
Does the policy cover driving by the insured and specific named drivers or does it allow driving only by any qualified person with the insured's permission, possibly over a certain age limit? Insurers require full details of anyone who is likely to drive - particularly their age, experience, driving record and occupation. Increased excesses are commonly applied on a sliding scale to drivers aged 18 - 25 years.

**The vehicle**
Family cars with moderate repair costs are cheaper to insure than large or powerful cars which can be expensive to repair.Underwriters will also apply a higher rate to vehicles which are more attractive to thieves and to those which have been modified, perhaps to improve performance. High performance vehicles are generally more likely to be driven speedily or recklessly and the premium charged will reflect this.

**Geographic Area**
Insurance claims occur most in more urban areas so motorists in cities usually pay more for their insurance than those who live in the country. Each postcode in the UK attracts a different rate, with crime centres presenting the highest risk of theft and therefore attracting the highest rates.

**Policy Class**:
The policy document and certificate of insurance set out the cover for which the vehicle is insured. However there are four classes available along with each level of cover:

| | |
|---|---|
| Social, domestic & pleasure | - allowing for driving to and from work by the insured, as well as the aforementioned. |
| Class 1 | - allows the insured to drive a car for their own work and for social domestic and pleasure purposes E.g a self employed engineer |
| Class 2 | - covers company cars and allows people to drive on company business. |
| Class 3 | - covers cars used for carrying trade samples and cold calling on customers. |

## Standard Policy Cover

### Road Traffic Act Cover

This provides the bare minimum cover mandatory under the Road Traffic Act of 1998, including provisions for unlimited damages payable for death, injury to persons and costs, emergency treatment fees and hospital charges. There is also compulsory £250,000 liability cover for damage to Third Party property and indemnity for claimants costs and expenses. To comply with the Third EC Motor Directive, all policies must:

- Where vehicle is being used in an EU country provide the minimum cover for the country being visited or the minimum cover required where the vehicle is garaged, whichever is greater.
- Provide cover for liability to persons in the employment of the insured when travelling in the course of their employment..

### Third Party Cover

- Unlimited cover for Third Party property damage.
- Indemnity for insured whilst driving a car or motor cycle not belonging to him (does not include damage to the vehicle).
- Indemnity to anyone who is driving or using the vehicle on the insured's permission (if entitled to drive by the cert.)
- Indemnity to passengers, employers or partners if they are responsible for the accident.
- Legal costs incurred in defending a claim.
- Cover for legal representation following a prosecution for an offence which may give rise to a claim.

Exclusions:

- Damage to property of the insured or anyone claiming indemnity under the policy.
- Liability covered by any other policy (another car or motor cycle which is covered by its own policy).

**Standard Policy Cover Cont…**

**Third Party Fire & Theft**

Covers the above plus compensation if vehicle is:

- Damaged from fire, lightning or explosion
- Damaged from theft or attempted theft
- Stolen and not recovered.

Excludes loss of use (alternative transport if vehicle is being repaired/recovered).

**Comprehensive**

Covers accidental and malicious damage to the insured's vehicle, including a caravan/trailer when attached.

This is known as first party insurance as there is no requirement to prove negligence on the third party, however the policy conditions may stipulate that the vehicle is kept in a roadworthy condition. It will cover 'all risks' with these exclusions:

- wear and tear and depreciation
- loss of use, e.g repair time if off the road (although some policies cover this);
- mechanical and electrical failure or breakdown (if brake failure causes an accident, repair of the brakes is not covered but resultant damage to the vehicle is)
- damage to tyres caused by punctures/bursts

Policy additions may include;

- Personal Accident (benefits to insured and spouse)
- Medical expenses (additional minor medical expenses for insured and passenger)
- Rugs, clothing and personal effects (limit approx £100).

**Motor Insurers' Bureau.**

A fund to which all insured motorists contribute to meet valid property, death and injury claims caused by uninsured drivers and valid death and injury claims caused by untraced drivers. The MIB members pay the third party claim once there is an unsatisfied (i.e.unpaid) court judgement against an identified but uninsured driver.

Uninsured drivers may agree to co-operate with the MIB and reimburse the compensation paid to their victim.

In the case of untraced drivers (hit and run) the MIB effectively acts as though it were the insurer of the culprit. Where there is a technical defect in Third Party cover, such as the policyholder driving the wrong vehicle, his insurers deal with any valid Third Party injury or damage claims and may then pursue their policyholder for a recovery.

**Utmost Good Faith**

At the proposal stage the proposer must complete the proposal form honestly and fully and must disclose any material fact which could affect the underwriter's decision to insure the vehicle or could influence the price charged or any terms or conditions applied. The insured must also notify the insurer of any changes in circumstance during the period of insurance such as change of address, occupation, type of car and motoring convictions including fixed penalties. It is an offence under the Road Traffic Act to make a false statement.

Insurers share information with one another to detect fraudsters who have failed to disclose material facts such as motoring convictions or previous claims, or who are perhaps trying to make multiple claims under parallel policies. The Motor Insurance Anti Fraud and Theft Register [**MIAFTR**] and the Claims and Underwriting Exchange [**CUE**] are central databases designed to track multiple fraudsters by matching claims and underwriting information. They are both widely used in the UK.


Some typical facts that would have to be disclosed for a Motor Insurance Policy

- Ages of drivers
- Occupations
- Classes of use
- Model of vehicle
- Any modifications (Cosmetic or performance enhancements)
- Convictions (Live driving convictions show a record of bad driving history and thus a greater risk)
- Accidents (NCD shows a good driving record)

# Courtesy Car Insurance

**Renrod Courtesy Car Insurance:**

Renrod hold a 'Motor Trade' insurance policy that allows those with expressed permission to drive a vehicle own by the company, or one which it has an insurable interest in. The cover is fully comprehensive and allows for road use only in the UK. The charge for use of a courtesy car is £15 plus VAT per day and this is fee not to cover insurance or the use of the vehicle, but to maintain and valet the car.

Before the customer can organise a vehicle, a courtesy car authorisation form must be completed and a copy of the customers driving licence obtained.

In order to keep Renrods premiums low, a range of access charges has be established for anyone driving under our policy.

| Terms | Access Charge |
|---|---|
| **Basic Charge** | **£500** |
| Under 21 years of age | Basic + £100 |
| Age 21 to 25 | Basic + £50 |
| License held for under 12 months (must be over 21) | Basic + £100 |
| Non UK License | Basic + £100 |

** Full terms and up to date conditions may be obtained form Renrod Head Office*
*Correct at time of first publication 10/2005*

# Extended Warranty/MBI

**What is an Extended Warranty?**


A new vehicle warranty covers the cost of repair or replacement of defective parts to repair a material, assembly or manufacturing defect recognised by the manufacture. It also covers consequential damage to the vehicle resulting from the principle defect. Technically, a warranty is not an insurance covered by the scope of the FSA, but a *guarantee,* between the manufacture and the customer, in the form of a contract. Although most warranties are underwritten and backed by a insurance policy they are not subject to insurance premium tax [**IPT**].

A manufacturers extended warranty is simply an continuation of their guarantee.

**Common exclusions**

Although the vehicle owner is assured that during the term of the cover the parts and labour for the replacement or repair of covered mechanical systems will be met, there are many exclusions dependant upon the manufacturer. Typical exclusions include:

- Exclusions covered by the original manufacturers warranty
- Wear and tear on moving parts
- Cost or damage caused by the failure of an excluded part
- Failure to maintain policy conditions e.g. regularly service intervals
- Tyres and battery
- Liability to damage of property or injury to a person as a result of vehicle failure
- Intangible such as inconvenience loss of time or use of the vehicle as a result of a breakdown
- Breakdowns caused by negligence I.e. overheating due to lack of coolant
- Cost or damage by continued use after failure of a covered part

*Please refer to your manufactures policy terms and conditions*

## What is a Mechanical Breakdown Insurance?

A mechanical breakdown insurance [**MBI**] is unlike an extended warranty, in that it is an insurance policy to provide financial compensation for the mechanical failure of a vehicle. It is underwritten by an insurance provider and is covered by the FSA. MBIs are commonly found on used vehicles that are outside or prohibited from manufacturer warranty cover and cover can normally be transferred on the vehicle sale for a small administration cost.

## Calculating premiums

Like any insurance product premiums are calculated on a risk basis with the insurer taking into consideration the following criteria's:

- Age of the vehicle
- Mileage at conception of policy
- Policy period (usually maximum of 4 years)
- Claims limit
- Policy cover
- Certain specialist vehicles I.e. 4 x 4

## Types of cover and exclusions

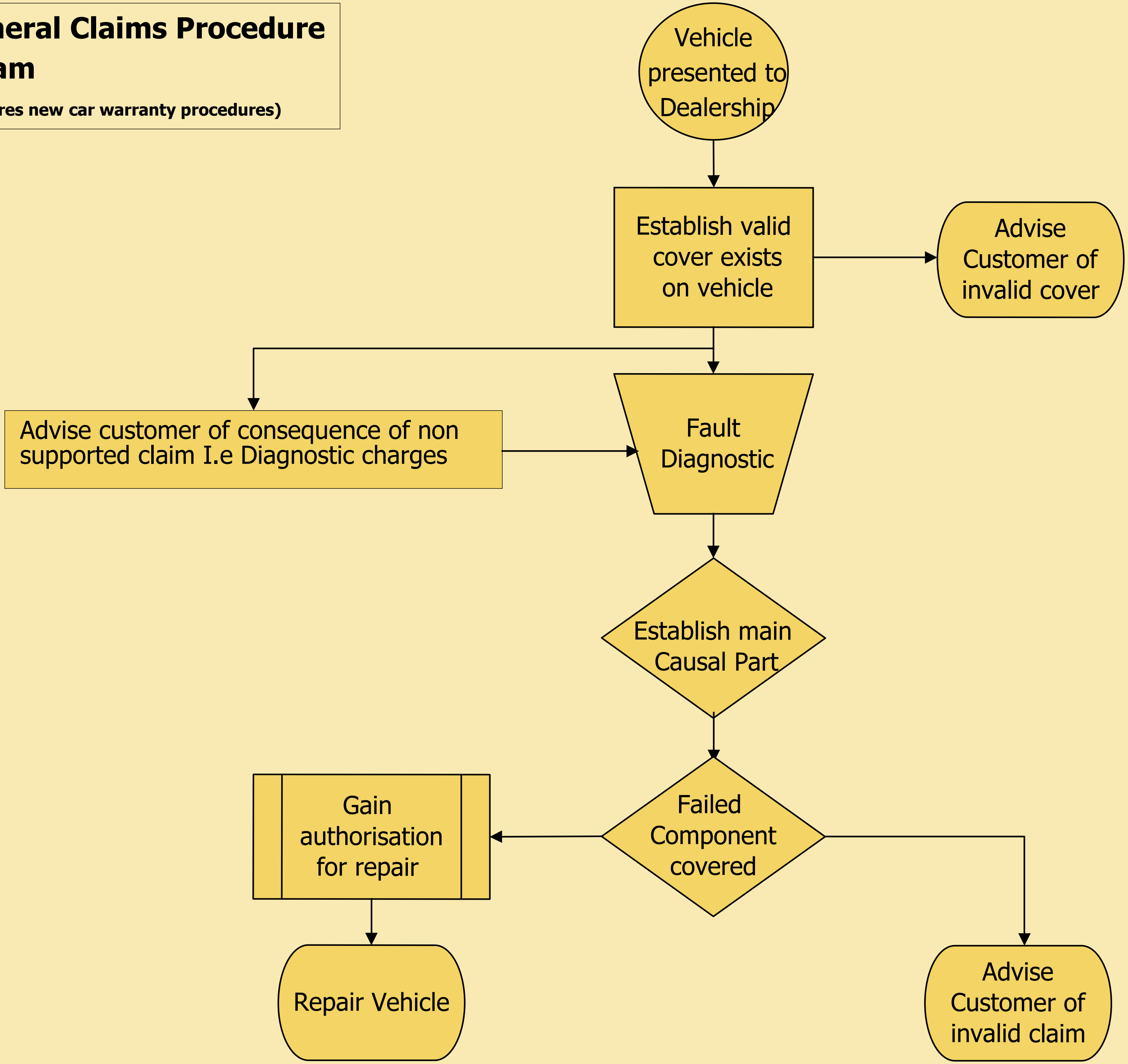
There are many types of MBI available all with differing levels of cover. Claims limits range from as little as £250 up to vehicle purchase price, most will cover vehicles up to eight years of age with mileage restrictions. The more comprehensive policies are known as '*all mechanical and electrical*' and these try to replicate the manufacturers original warranty cover. There are also additional products and optional covers which may apply to the policy, these include:

- Roadside assistance and recovery
- Certain 4 x 4 vehicles
- Continental use
- Turbo cover
- Vehicle hire or overnight accommodation
- LPG conversions

Exclusions are usually common to those found on warranties with the addition of a pre-existing clause – a breakdown which occurred before the policyholders purchase of the vehicle and which would have been obvious and apparent had the component had been properly inspected at the time of purchase.

# Renrod General Claims Procedure Flow Diagram

**(refer to manufactures new car warranty procedures)**



# MOT Insurance

**What is MOT insurance?**


In order to keep vehicles in a safe working order, all cars over 3 years old must have an annual MOT (Ministry of Transport) Test before they can legally be used on the road.
In the event of a vehicle failing it's test then a list of reasons for the failure is produced on a MOT failure sheet (Form VT30), all of which must be put right before the vehicle can be re-tested and a valid certificate (VT20) can be issued. Carrying out these repairs or adjustments can be expensive and so drivers can opt to cover themselves against unexpected costs by obtaining MOT Insurance.

This covers the most common areas in which a vehicle can fail its MOT Test. It can be purchased as stand alone insurance, or can form part of a vehicle's warranty or MBI.

**Provided Cover**

Obviously the older the vehicle gets, and the higher its mileage the greater the likelihood of it failing a MOT. As the claims are relatively small, there tends to be a nominal excess charges, however the insurer will limit the conception age and mileage of the vehicle.

The policy provides cover for the repair, replacement or alteration of certain parts. As well as paying for the cost of labour and the VAT, it commonly covers:

- Lights- This will include lamps, reflectors, indicators and bulbs which fail due to breakages, water ingress, corrosion, discolouration and misalignment. although damage through accident or vandalism is excluded.
- Steering- Manual and power steering units, track rods/ends, shock absorbers, wheel bearings, sub frames, road springs, mountings, wishbones and swivel joints, covered for failure due to wear, seizure, leakage and insecurity.
- Brakes- Brake pipes, hoses, cables, wheel cylinder, callipers, discs/drums, master cylinder, load compensator, ABS modulator/sensors and computers covered for failure due to wear, seizure, splits/cracks, corrosion and adjustment. Some policies may exclude friction components such as brake shoes, pads or drums.
- General- Carburettor, fuel injection or EMU as a result of emissions failure, horn, and speedometer.

*Please refer to your policy terms and conditions and Manufacture Service Schedules*

# Recovery / Breakdown Insurance

Roadside recovery is one of the simplest forms of motor vehicle insurance. It is usually included with a warranty or MBI product. Renrod seldom sell stand alone breakdown insurance. There are a large number of providers offering these services that will vary dependant upon the manufacturer warranty or MBI provider. In essence all of the policies offered by these organisations have the same goal in mind. To assist the motorist when their vehicle has been immobilized due to unforeseen circumstances.

**Main Benefits**

The fundamental purpose for a breakdown insurance is to repair your vehicle at the **roadside** or to recover you and your vehicle to the nearest garage or your home, providing that you are a minimum distance from home usually ¼ mile. In addition to this you can opt to benefit from the following;

| | |
|---|---|
| • Relay | If a breakdown can't be fixed locally within a reasonable time, we'll take you, your car and a number of passengers to any UK destination. |
| • Home start | Breakdown assistance from your home. |
| • European | Cover whilst driving in a EU country. |
| • Courtesy Car | Provides a hire car for up to a specified period or hotel accommodation until you are able to continue your journey. |
| • Onward Travel | Will transport you to your chosen destination. |
| • Car/Driver | Certain policies will provide cover for the vehicle concerned not the driver whilst others will protect the individual no matter on the vehicle they are driving. |

*Cover will vary as will the wording of the additional elements please refer to either the manufacturers or providers terms and conditions*

**Common Exclusions to Cover**

There are a number of exclusions that an insurer MAY place upon the roadside recovery insurance these include:

- The vehicle should be in a legally roadworthy condition with a current MOT certificate.
- The insured should not have known of any immobilizing mechanical defect prior to purchasing the insurance cover.
- The vehicle should be maintained in accordance with the manufacturers instructions.
- Some insurers will exclude vehicles over a certain age.
- Most insurers will only allow for one call out per fault. They will not recover to a friend's house and then recover later to a garage.
- The breakdown should not have been as a result of a road traffic accident.
- Some organizations may reserve the right to restrict the number of call outs in a given period.
- Vehicles over a certain size and or vehicles used to carry over a certain number of passengers
  e.g. Green Flag - driver and up to 5 passengers.
- Vehicles used for racing, rallying or pace making.
- Weight, length and width restrictions may apply.
- Vehicles not displaying a current Road Fund Licence
- The cost of replacement parts

*Check the insurers terms and conditions for policy specific exclusions*