Motor insurance

M94: 2018–19 edition

Web update 2: 25/07/2018

Please note the following update (amendments in **bold**) to your copy of the 2018–19 edition of the **M94** study text:

Chapter 1, section D2E, page 1/29

The minimum liability limits were increased. The UK limit for TPPD was duly increased from £250,000 to £1m. **While the limit was subsequently increased to £1.2m with effect from 31 December 2016, this was not as a direct result of the Fifth EU Motor Directive.**

Chapter 7, section D2B, page 7/30

If a claim is being settled on a total loss basis, then the insurer will invariably retain the salvage and will sell it to defray costs. Depending on the ABI Code of Practice for salvage classification, the vehicle will either be scrap only, broken for parts, or repaired and then returned to the road.

The ABI Code of Practice **was updated in 2017**. It states that there are four different categories:

Category A	Category B	Category S	Category N
• **Scrap. (Deemed not suitable to be repaired. Must be crushed without any parts being removed. This vehicle will be classed as waste.)**	• **Break. (Deemed not suitable to be repaired. Usable parts can be recycled. This vehicle will be classed as waste.)**	• **Structurally damaged repairable. (Repairable vehicle which has sustained damage to any part of the structural frame or chassis and the insurer/self-insured owner has decided not to repair the vehicle.)**	• **Non-structurally damaged repairable. (Repairable vehicle which has not sustained damage to the structural frame or chassis and the insurer/self-insured owner has decided not to repair the vehicle. While the damage to the vehicle has been noted as non-structural, there may still be some safety critical items that require replacement e.g. steering and suspension parts.)**

Motor vehicle salvage has been an opportunist's source for fraud. The identity of broken or crushed vehicles were taken and used on stolen vehicles – 'ringing'. Vehicles could be cheaply and unsafely repaired before being sold on with the history hidden or salvage being re-used in insurance accident or theft claims.

The insurance industry, in conjunction with salvage buyers and government departments, have sought to control the disposal of salvage. The first line of defence was to deny policyholders' requests for retention of salvage, although in most cases the policyholder would not wish to retain it. Exceptions are where the value of the vehicle is so low as to make even moderate cosmetic damage uneconomical to repair. Further insurance cover on the vehicle might depend upon proof of repair.

As indicated above, all salvage is categorised **A, B, S or N** in accordance with guidelines issued by the **DVLA**. **Categories A and B are the most extensively damaged and should not be returned to road use. Categories S and N relate to more minor damage, which could be repairable but would be uneconomical given the overall value of the vehicle.**

All category A and B vehicle/motorcycles must be reported to the DVLA and it will enforce rules that will ensure either no further registration of a vehicle/motorcycle or various levels of compulsory inspection before a vehicle/motorcycle registration document is granted. The DVLA can and does arrange for a random inspection of vehicles/motorcycles that have previously been advised as being insurance write-offs.

As a further safeguard against fraud, insurers register through the ABI all total losses and thefts on an industry computer database. Subsequent insurers will then be alerted if a further total loss or theft claim arises on the same vehicle.

Under the terms of the standard motor policy, any cash (or, in reality, cheque) settlement will be made to any known finance company which has an outstanding hire purchase or lease agreement on the vehicle. In practice, this only occurs where the vehicle is being treated as a total loss and the insurer is retaining and selling the salvage. If this were not done then the finance company may be able to claim the value of the vehicle from the insurer under the common law doctrine of conversion.

Insurers will ask for details of any finance at inception and/or claim time, but to safeguard against missing such vital information a check can be made with HPI Ltd – now automatically done when a vehicle is registered on MIAFTR2 – who hold a computer database of the vast majority of finance agreements. Salvage companies buy vehicles based upon the probable profit margin from resale either as a whole repairable vehicle or as parts.

Most insurers have contracts with one or more major salvage dealers which work on a swings and roundabouts basis, with salvage bought at a fixed percentage of the vehicle's pre-loss market value, i.e. the amount for which the claim was settled with the policyholder.