



BUSINESSSENSE BY TIMKELLY

# Insurance: rules of the game

The first rule of the game that you need to understand as a repairer is what motor insurance is. From the viewpoint of the repairer, your knowledge of motor insurance will stem from your interactions in dealing with insurers, their engineers, their claims staff, their management.

What you think you know will be based on what they believe to be correct, rather than what actually is correct. I have a video I use in my training which I love and I believe typifies insurers rather well (*see box below right*).

What do the five monkeys in a cage have to do with insurance, you might ask. Well, it relates to everything. Staff in insurance companies migrate from one company to another, they take what they “believe” to be correct to where they go next. This creates a whole industry utterly convinced they are correct because everyone else is doing it, saying it or they have been “trained” by their employer so it “must” be correct.

## #Challengeit

Forget what you think you know and start from scratch. Contrary to virtually everyone’s belief in the industry, motor insurance is nothing to do with repairing cars or vehicles.

The law relating to modern insurance dates back to the Marine Insurance Act 1906, however it goes back centuries. Mariners sought to insure the goods they were carrying from one country to another, and also to insure the vessel should it be lost. The primary purpose of insurance was to provide indemnity for financial loss. Nothing has changed.

How many of you have heard of a “Lloyd’s syndicate”? Dependent on what was being carried, where it was being carried and what the vessel was, could mean it was either a very risky passage or relatively straightforward. As the owner of the boat, you have contracted with whomever owns the goods, and as a “bailee” over this property you could be sued for the value should it be lost.

Finding someone to insure these vast sums was nigh on impossible, but if a few very wealthy business men formed a syndicate? And agreed to share this risk for a proportion of a premium? That is what a Lloyd’s syndicate is and how most insurers used to operate.

## How does it work?

There could be five people in a syndicate, each agreeing to cover the cost or a proportion of a risk for an equal proportion of the premium. The first person might insure from £0-to-£1,000; the next from £1,001-to-£10,000; the next £10,001-to-£50,000; then £50,001-to-£250,000; and the remaining £250,001-to-£1 million.

The person who insured the lowest amount was likely to get the most claims and had the highest risk, while the person insuring the highest amount had the highest potential loss but lowest risk. In both situations, the risk and loss counterbalance each other.

Now imagine the vessel was completely lost at sea – how would the syndicate fulfil their contract of indemnity? Would they replace the vessel or goods, or would they pay the insured in money?

All insurance contracts are about providing financial restitution (*restitutio in integrum*). And while we still have no mention of repairing vehicles, this is how insurers have duped everyone into believing what “normal” is. Insurers will advise they can oblige their contract one of three different ways – authorise repairs, total loss of the vehicle, or cash-in-lieu settlement.

## What about vehicle repairs?

You have a vehicle on site that is not a total loss, but the insurer will not authorise your cost? The only way the insurer can fulfil their contract is by providing the customer a cash-in-lieu settlement. But is the amount they wish to pay “reasonable”?

What is “reasonable” is the loss/cost that the consumer has to pay to get their vehicle repaired – that is, it costs what it costs, which for a consumer is a retail rate.

The insurer always has to indemnify this financial loss to provide “indemnity” or else they will be in breach of contract.

*Next month: the rules by which insurers are governed – FCA regulations.*



Click to watch the  
Five Monkeys video.

Tim Kelly is founder of [motorclaimguru.co.uk](http://motorclaimguru.co.uk) and an expert in insurance and assessing vehicles, a consumer advocate and bodyshop consultant whose goal is to change the industry and put repairers back in control of their profits.