

## **MEDIA RELEASE**

### **The Ombudsman for Short-Term Insurance comments on private, business and commercial use of motor vehicles.**

During the sale of a motor insurance policy, an insurer will usually ask a prospective client what the intended use of the vehicle is. This question is asked in order to ascertain whether the client intends to use the vehicle for private, business or commercial purposes so as to determine the correct risk profile of the client and to calculate the correct corresponding premium. Understanding the distinction between the various usages is important because if an insurable incident occurs at a time when the vehicle is not being used in accordance with the specified usage, the insurer may reject the claim. Many consumers provide incorrect information to their insurer in response to this question because they do not understand what is meant by private, business and commercial use.

#### **Private Use**

Private use of a vehicle refers to use **only** for private and social purposes. In most instances this includes driving to and from the insured's regular place of employment, but does not include any other form of business travel. This means that a vehicle will not be covered if an insured is involved in incident whilst at or driving to any place other than his or her regular place of business.

Two recent complaints that were brought to this office serve as useful examples of the limited extent to which an insured is covered for personal use of a vehicle. In both cases the complainants had personal use cover and were thus only covered whilst their vehicle was being used for personal use or whilst at or travelling to their principle place of business.

The first complaint was brought by an insured after his insurer rejected a claim for a motor vehicle collision that occurred when he was on his way to meet a friend for dinner to discuss a business proposition. The insurer argued that, because the insured was not using the vehicle for personal use at the time of the accident, but instead was driving to a business meeting at a location other than his regular place of business, he did not enjoy cover at the time of the incident. Because the insurer rejected the claim in accordance with a proper interpretation of the terms of its policy, this office upheld the rejection.

The second complaint also concerned a motor vehicle collision which occurred whilst the insured, a work-from-home bookkeeper, was delivering statements to a client. The insurer rejected the claim on the grounds that the incident occurred whilst the car was being driven for business purposes and not for private use. Again, this office upheld the rejection because it was in accordance with a proper interpretation of the terms of the policy.

## **Business Use**

Business use refers to the use of a vehicle as part of an insured's work function. This is, for example, when an insured has to travel to clients or attend meetings outside of his or her primary place of employment. A vehicle that is insured for business use will also be covered for private use.

In both of the above examples set out under the discussion relating to personal use, the correct form of cover that the complaints ought to have taken out was business use cover. Other examples of business use include driving to or parking at:

- meetings away from the office;
- training courses or conferences;
- banks, if carrying out a business related transaction;
- post offices, if collecting business correspondence;
- company team-building events;
- business-related social or networking events.

Naturally the above list is not exhaustive but merely illustrative of the types of uses contemplated under business use. If a consumer uses his or her car for anything other than commuting to a single place of work, he or she will most certainly require business use cover.

## **Commercial Use**

Commercial use covers vehicles used to generate an income. Examples of commercial use include the use of a vehicle to carry goods for business purposes, to carry fare-paying passengers or for trade purposes. Within this context an issue which often arises is whether car-pooling constitutes commercial use of a vehicle.

With rising fuel costs, many resort to carpooling in an effort to reduce commuting costs. If an insured can show that he or she is not making a profit from carpooling, it is not necessary to take out commercial use cover. However, if any profit is made, an insured should notify his or her insurer that the vehicle is used for commercial purposes.

## **Carpooling as an example of personal, business and private use**

Using the example of carpooling, the following scenarios demonstrate the three different categories of vehicle usage.

### Personal use:

Eve is a full time mother and does not engage in any form of employment. She uses her vehicle primarily to drive her children to and from school and to extra mural activities. Eve lives close to two other full time mothers, Nadia and Thandi. In order to reduce the costs associated with driving the

children, Eve has entered into a car-pooling arrangement with Nadia and Thandi whereby each of the mothers takes turns to drive the children to and from school.

On Mondays, Delia, another mother from the school attends to her sick mother and is unable to drive her children home. She lives in the opposite direction from Eve but Eve has nonetheless offered to assist Delia by driving her children home. Delia pays Eve a small amount to cover the additional petrol used by Eve to make this extra trip. Eve does not make any profit from this payment.

Accordingly Eve uses her car for personal use only.

#### Business use

As times are tight, Eve has decided to embark on a part-time business venture in order to earn extra money. She is a qualified tax consultant. Nadia and Thandi are both required to submit tax returns each year and have engaged Eve's services in order to assist them in doing so. On the days when Eve drives to Thandi or Nadia's house to drop off their children, she spends a few minutes consulting with them on their tax issues. She also uses this opportunity to deliver or collect documents that she needs in order to reconcile their accounts.

Eve is using her vehicle for personal and business use and must therefore insure it for business use.

#### Commercial use:

Thandi has been offered full time employment and is no longer able to carpool with Eve and Nadia. Eve offers to take over Thandi's lifting obligations in exchange for a small payment. After covering her petrol costs, Eve enjoys a small profit from this arrangement.

Eve is accordingly using her vehicle for commercial purposes.

#### **Conclusion**

It is important for consumers to understand the differences between personal, business and commercial use. If the incorrect description of the vehicle's use is given to the insurer it may result in the rejection of a claim.

If a vehicle is being used to generate an income, no matter how small that income is, an insured must notify his or her insurer of the fact that the vehicle is being used for commercial purposes. A failure to do so may result in a rejection of a claim. In many instances, where only a marginal profit is earned from using a motor vehicle, it may not be to the benefit of an insured to earn that profit given the higher cost of the premium for commercial vehicle insurance. This is because the higher premium may cancel out or even exceed the extra money earned.

## **About the Office of The Ombudsman for Short-Term Insurance**

The office of the Ombudsman for Short-Term Insurance is an independent organisation appointed to serve the interests of the insuring public and the short-term insurance industry. By applying the law and principles of fairness and equity, it resolves disputes between short-term insurance companies and their clients.

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