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Vehicle Insurance

Type of vehicle insurance

Vehicle insurance policies fall into a number of different categories:

- **Third party only** will cover you for damage you cause to other people's cars or property. If you are in an accident, the policy will cover damage to the other car but not your own.
- **Third party fire and theft** is as above, in addition to covering your own car if it is stolen or destroyed by fire.
- **Comprehensive** will cover all of the above, as well as damage to your car.

Comprehensive policies fall into two broad categories:

- **Agreed value policies** - you and the insurer agree on the value of your car, in the event that it is written off. This is likely to be adjusted each year as your car depreciates.
- **Market value policies** - in the event your car is written off, the insurer will pay you the market value of your car as at the time of the loss. Your premiums, however, will be based on the value you placed on your car at inception. These policies are more common than agreed value policies.

Each policy is different. Many policies will cover extras, such as free windscreen replacement, a hire vehicle while yours is being repaired, or cover for legal costs.

What to do:

1. Read your policy carefully.
2. If you are in doubt about the amount to insure the vehicle for, on an agreed value or market value basis, discuss this with your insurer.
3. Review the amount your vehicle should be insured for at each renewal and make sure the sum insured is realistic. This may affect the premium.
4. If you disagree with valuations obtained by the insurer for your written-off vehicle, consider getting your own independent

Settling vehicle insurance claims

Most vehicle insurance policies will allow the insurer to decide how to settle a claim. This means that the insurer decides whether a car will be repaired, or treated as a "*total loss*", also known as a "*write-off*".

If the car is written off, the insurer will pay the agreed or market value of the car, depending on the type of policy. This can cause confusion with market value policyholders, who believe they will be paid the value they indicated when they applied for insurance. While this value is relevant to calculate the premium, it usually has no bearing on the amount paid in respect of a claim.

Generally, an insurer will treat a car as a total loss if it believes the car is uneconomic to repair, or it would be unsafe to repair. Many consumers believe that their car will only be "*written off*" if it is so badly damaged that it is impossible to repair. This is not the case. If the cost of repairs is going to be higher than – or even close to – the market value of the car, an insurer will often treat the claim as a "*total loss*", and it is usually entitled to do so (depending on the policy wording).

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Establishing market value

Many cars are insured for their “*market value*”. This means that, if the car is damaged beyond economic or safe repair, or if the car is stolen and not recovered, the insurer will pay the market value of the car as at the date of loss (the “pre-accident value”), or the sum insured (whichever is less).

To establish a car’s pre-accident value, an insurer will usually obtain two independent valuations from specialist vehicle valuers, taking into account the car’s condition and modifications. These valuations are often disputed by car owners, because the amounts are less than what they expect.

Repairs

If an insurer does decide to repair a vehicle, its obligation is to ensure the vehicle is returned to a condition which is as close as possible to its condition before it was damaged, subject to availability of parts.

A vehicle policy does not usually provide replacement cover and, therefore, in some cases it is acceptable practice to use good quality second-hand parts in a repair, which helps keep motor vehicle premiums down. This is usually confined to non-mechanical parts. However, some policies provide for replacement with a new vehicle when the “total loss” vehicle is less than 1 year old.

Real examples:

Pat* had car insurance with XYZ*. His policy stated that if his car was stolen, XYZ would pay up to the market value of his car. “Market value” was defined as the retail value immediately before the loss.

XYZ obtained a valuation. The valuer estimated the car was worth $4,000, so XYZ offered Pat this amount. Pat disputed this, advising that reputable professionals had valued the car at $6,000. XYZ referred the case to a second valuer, who agreed the car was worth $4,000.

XYZ’s offer was calculated in accordance with standard industry practice. Pat was unable to produce reliable evidence to back up his position. As such, the IFSO Scheme believed XYZ’s position was fair.