

## ***Basis of Settlement - Motor Vehicle Claims***

It is important to realise that the option about how a motor vehicle claim is settled lies with the insurer. This means the insurer can decide, based on the extent of damage, whether a vehicle should be repaired or treated as a total loss. If the vehicle is a total loss, the insurer will usually offer a settlement based on the agreed value or market value of the vehicle, depending on the basis on which the insurance was arranged.

### ***Repair or total loss***

A vehicle will usually be treated as a total loss, if the insurer believes the vehicle is uneconomic and/or unsafe to repair. Some factors which influence this decision are; the sum insured versus the repair estimate; the estimated residual value of the damaged vehicle; the risk of hidden damage; and safety considerations, whereby it would be inappropriate to try to repair some damage.

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. This again is subject to availability of parts to effect a repair.

A motor 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. This is usually confined to non-mechanical parts. The use of good quality second-hand parts helps keep motor vehicle premiums down. However, some policies provide for replacement with a new vehicle when the "total loss" vehicle is less than 1 year old.

### ***Agreed value or market value?***

#### *Agreed value*

Some insurers are prepared to insure vehicles for "agreed value", which is the agreed amount the vehicle is insured for at the commencement of the insurance period. If the vehicle is damaged beyond economic or safe repair, or if the vehicle is stolen and not recovered, the insurer will pay the agreed value.

The agreed value should be adjusted at each renewal of the policy to reflect the vehicle's value at that time. Some insurers automatically adjust the agreed value, while others leave it to the insured to make the change. The agreed value at each renewal should realistically reflect the market value of the vehicle.

#### *Market value*

Most vehicles are insured for their "market value". This means that, if the vehicle is damaged beyond economic or safe repair, or if the vehicle is stolen and not recovered, the insurer will pay the pre-accident market value of the vehicle or the sum insured, whichever is the lesser.

Most motor vehicle policies provide a definition for market value, which is generally described as the retail value of the vehicle immediately before loss or damage, having regard to its age and condition.

### ***Establishing pre-accident market value***

It is reasonable for you to assume that your motor vehicle policy will enable you to replace the vehicle (which has been stolen or damaged beyond economic repair) with a similar vehicle. Therefore, it is important that insurers make a reasonable assessment of a vehicle's pre-accident value before settling a claim on this basis.

To establish a vehicle's pre-accident value, an insurer will usually obtain 2 independent valuations from specialist vehicle valuers. These valuations are often disputed by the insured, because the amounts indicated fall short of the vehicle's sum insured, or the insured's expectations of the vehicle's value. If you dispute the valuations obtained by the insurer, you should obtain your own valuation from a professional vehicle valuer. The insurer will generally take this valuation into account in making a settlement.

It is reasonable to expect that, in providing pre-accident market valuations, the valuers will have consulted the normal trade guides and allowed for any variance from the norm in the vehicle's odometer reading, its overall condition and any modifications which might have added value. Sometimes valuers are unable to inspect the vehicle (e.g. when it has been stolen and not recovered).

Consumers are often surprised by the pre-accident market value established for their vehicle. They incorrectly assume they will receive the amount the vehicle was worth (or insured for) when they first arranged the insurance, regardless of the vehicle's actual market value at the time of the incident giving rise to the claim.

### ***Sum insured***

Consumers often believe it is the insurer's responsibility to adjust the sum insured at each renewal to accurately reflect the vehicle's market value at that time. While some insurers attempt to do so, this can never be entirely satisfactory, because the insurer does not actually see the vehicle and is not in a position to assess its condition. You are in the best position to establish the vehicle's market value at any given time and, therefore, should take responsibility for doing so, prior to each annual renewal of the insurance on the vehicle.

### ***Tips***

1. Review the amount the vehicle should be insured for at each renewal to ensure the sum insured is realistic. This will have some affect on the premium charged.
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.

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