

## ***Policy Excesses***

### ***What is an excess?***

An excess is the amount an insured must meet in the event of a claim being made and represents an uninsured loss. The amount of the standard excess varies according to the type of insurance. For example, a private motor vehicle policy might have a standard excess of \$250 and a household contents policy a standard excess of \$100. While the amount of a standard excess can vary among insurers, in each case involving a valid claim, the insurer will pay the balance of the claim over the amount of the excess. Where the amount of the claim is less than the excess, no payment is made by the insurer.

### ***Why does a policy have an excess?***

Insurers impose an excess for the following reasons:

1. The excess introduces a measure of self-insurance on you. In theory, this should encourage you to take more care of your property.
2. The excess eliminates small "nuisance value" claims, which have a high administrative cost relative to the value of the claim. Elimination of small claims and their associated costs helps keep premiums lower than would otherwise be the case.

### ***Types of excesses***

- **Standard excess** - The insurer's standard policy excess for the type of insurance.
- **Voluntary excess** - You may elect to carry an excess higher than the standard excess, in return for a discount on the premium. This means you will meet the cost of small claims, rather than making a claim to your insurer.
- **Graduated excess** - Normally applies in motor vehicle insurance, where the standard excess is increased for young drivers. It is usual for a graduated scale of excesses to apply depending upon the driver's age. While a standard excess of \$250 might apply when mum or dad is driving, an excess of \$1,000 might apply when their under 21-year-old son or daughter is driving the vehicle. It is an established statistic that the driving risk increases substantially with young (particularly male) drivers.
- **Imposed excess** - While a standard excess forms an integral part of most insurance contracts, an insurer can impose a non-standard excess in light of an insured's poor claims history in a particular class of insurance, or for other unsatisfactory underwriting factors. For example, if household contents have been damaged on a number of occasions from leaking pipes in a particular house, the insurer, if it is prepared to continue insuring against such claims, might impose an excess of \$1,000 for all such future claims.

### ***Application of excesses***

- Multiple policies involved

Sometimes, a number of policies, with different standard excesses, are involved in a claim. For example, a house fire often involves claims under a house policy and a contents policy. In such circumstances, the excess under each policy can be applied to the respective claims.

However, in practice, if both policies are insured with the same insurer, the insurer will usually only apply the higher of the house and contents standard excesses. Where different insurers are involved, separate excesses will almost certainly be applied. Any voluntary and imposed excesses will usually also be applied in full. If a motor vehicle is also involved, it is usual for the vehicle policy excess to be applied in full.

- Motor vehicle accidents

Confusion often arises with motor vehicle claims where the “not at fault” party in an accident is still required to pay an excess. However, because an excess represents an uninsured loss, it must be paid when a claim is made, irrespective of which party is at fault. If the other party is insured and his/her insurer accepts its insured was at fault, the innocent party's excess will usually be refunded and, if applicable, the no claims bonus reinstated. If the “at fault” party is uninsured, the innocent party will have to seek recovery of the excess directly from that party, or through the Disputes Tribunal.

- Multiple areas of damage - separate events

Claims involving multiple instances and areas of damage (e.g. malicious damage to a number of rooms in a house), are more problematic for the application of excesses. Strictly speaking, an excess can be applied to each instance of damage. However, it is often difficult to determine whether the damage occurred as one event, or on a number of occasions. In such cases, insurers usually take a pragmatic approach, which might involve, for example, an excess being applied to each room which has sustained damage. The approach insurers take to this sort of situation will usually depend on the circumstances of the damage and the information available.

***Does the excess apply to every type of claim?***

The standard policy excess might not apply to some claims, for example, glass claims (broken window/broken windscreen). While such claims are not automatically “excess free”, the insurer might provide an excess “buy out” option whereby, for a small additional premium, the policy excess will not apply to such claims.

***Remember***

It is important to remember that the treatment of excesses in different claim situations can vary, depending on the insurer involved. However, you need to be aware that the standard policy excess is part of the contract and you must pay the excess when a valid claim is made and accepted, before the insurer will make any payment. In practice, the amount of the excess is usually deducted from the claim settlement. However, with a motor vehicle claim you will probably have to pay the amount of the excess to the repairer when you pick up the vehicle after it is repaired.



Insurance & Savings Ombudsman  
P O Box 10-845  
Wellington  
Phone: 04 499 7612  
Fax: 04 499 7614  
Freephone: 0800 888 202  
Website: [www.iombudsman.org.nz](http://www.iombudsman.org.nz)  
Email: [info@iombudsman.org.nz](mailto:info@iombudsman.org.nz)