

# Policy Excesses



## What is an excess?

An excess is the amount you must pay when you make an insurance claim. Your insurer pays the amount of the claim that is over the excess. Where the amount of the claim is less than the excess, no payment will be made by your

insurer.

The amount of the standard excess varies according to the type of insurance. For example, a car policy might have a standard excess of \$250 and a contents policy a standard excess of \$100.

## Do you have to pay the excess?

You must pay the excess when a claim is made and accepted, before the insurer will make any payment. The excess is part of your insurance contract.

In practice, the amount of the excess is usually deducted from any claim payment. However, with a car claim, you will probably have to pay the amount

of the excess to the repairer when you pick up your car after it is repaired.

Some policies have special provisions which mean you do not have to pay an excess in certain instances, e.g. broken glass/window screen. Check your policy for details of this.

## Do you have to pay the excess if you were not at fault for the accident?

In most cases, you have to pay the excess amount when your claim is accepted, regardless of fault. Some policies do have provisions, which mean you do not have to pay the excess if you are not at fault. Check your policy for details.

If the other person is insured and their company accepts they were

at fault, your excess may be refunded and your no claims bonus reinstated. If the "at fault" person is uninsured, you will have to recover the excess directly from that person i.e. through the Disputes Tribunal. Your insurer is not obliged to recover the excess for you.

## Do you have to pay more than one excess?

Sometimes, a number of policies, with different standard excess amounts, are involved in a claim or the insured property is damaged by a number of events. For example, a house fire often involves claims under a house

policy and a contents policy, or the different rooms of a house may be damaged by different events. Strictly speaking, an excess applies to each claim you make under each policy, or for each event that causes damage.

## 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** - This normally applies in car 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 an adult is driving, an excess of \$1,000 might apply when an under 21 year-old (son or daughter) is driving the vehicle.

**Imposed Excess** - Your insurer may impose a non-standard excess, because of the number of claims you have had, or other factors which may mean you are more likely to make a claim. 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.

The Insurance & Savings Ombudsman Scheme Inc. may be able to help you

The ISO Scheme is

- Fair and reasonable
- Independent
- Impartial
- Free to consumers

The ISO Scheme resolves complaints between consumers and insurers which are Participants of the ISO Scheme.



### The ISO Scheme's Complaint Process

1. Unhappy with a claim outcome?
2. Tell your insurer you have a complaint.
3. Go through your insurer's internal complaints process.
4. Unhappy with the outcome?
5. Get a letter of "deadlock".
6. Refer your complaint to the ISO Scheme within 2 months of the date of the letter of "deadlock".

## Why does a policy have an excess?

Insurers impose an excess because:

1. The excess is 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.

## Real Life Examples

- **John** insured his rental property with XYZ Limited. In April 2010, John made a claim to XYZ for damage from previous tenants. The damage consisted of stains on the carpet in the lounge/dining area and the 2 bedrooms (\$3,220 to replace), ripped vinyl on the laundry floor (\$790 to replace), a broken glass pane and lifting laminate on the kitchen bench.

XYZ paid John a cash settlement of \$2,010 for the carpet and vinyl damage, after deduction of the \$500 excess which XYZ applied to the damage in each room (4 excesses in total). XYZ replaced the bench, without applying an excess, because the fault with the laminate related to a previous claim for the bench. The broken glass pane was replaced for less than the \$500 excess.

- **David and Marie** contacted their insurer to make a claim for damage to their car caused when it was parked on the road. David said he wasn't sure when the scratches happened. The insurer inspected the car and found that there were at least 7 separate areas of damage. Therefore 7 excesses (\$1,750) would have been applied to the claim and this exceeded the quote for repairs of \$920.

## Key Points

1. Usually, you must pay the excess if you make a claim and it is accepted. Your insurer will either deduct it from the amount it pays under your claim, or ask you to pay it.
2. The amount of your excess may vary; check your insurance policy and schedule for details.
3. Even if you did not cause the accident, you may still have to pay an excess. Your insurance company is not obliged to recover your excess from the person who was at fault.
4. If the damage was caused by more than one event or damage has been caused to different things covered by more than one policy (e.g. house and contents), you may have to pay more than one excess.