

THE FINANCIAL COUNSELLOR'S TOOLKIT

Insurance excesses



FINANCIAL
OMBUDSMAN
SERVICE

What can go wrong?

Sometimes an insurer will not pay a claim until the insured person pays the **excess**. The excess is the contribution to a claim that the insured person has to pay. The amount and types of excess the person has to pay will be stated on their **certificate of insurance**.

What if a person is in financial difficulty and cannot afford to pay the excess for an insurance claim? The insurer might reject their claim as a result, leaving the person with a large repair bill they have no way of paying.

What is FOS's approach?

FOS takes the view that:

- a person's inability to pay the excess does not automatically allow the insurer to reject a claim that would otherwise be covered by the policy, and
- a person's inability to pay the excess does not prevent FOS from considering a dispute about the claim.

If a consumer cannot pay an excess because of financial difficulty, and if only their own property has been damaged, FOS *may* conclude that:

- the insurer should pay the claim amount minus the excess and the insured person should pay the excess over time, or
- the insurer should pay in cash the claim amount minus the excess.

Similar principles apply in cases where a person has damaged another person's property. FOS *may* conclude that an arrangement should be made to meet the other party's claim.

If the person only has a third party property damage policy, FOS *may* conclude that the insurer should pay the person the amount above the policy excess. However, the person will still need to deal with the other party's claim for the amount representing the policy excess.

For further information on how FOS handles these cases, please refer to the article 'Insurance Policy Excesses and Financial Difficulty' in Issue 3 of *The Circular*, which can be viewed at www.fos.org.au/circular.

How can I help my client?

If a client has had an insurance claim rejected because they cannot pay the excess, they should first complain to the insurer. To find the insurer's complaint contact details, go to www.fos.org.au/members or call us. Your client should explain that they are in financial difficulty and cannot currently afford the excess but that their claim is otherwise covered by their policy.

If your client is not happy with the insurer's response or does not get a response, then they should lodge a dispute with FOS.

You can lodge a dispute on our website or by calling 1300 78 08 08.

CHECKLIST

Before contacting FOS

We recommend that you or your client collect the following information before lodging a dispute with FOS:

- copies of the certificate of insurance and the insurance policy
- a written summary of the events leading up to the claim
- copies of all letters received from the insurer about the claim
- a written record of any conversations you or your client have had with the insurer about the claim, including the date and time of the conversation, the name of the person spoken to, and a summary of what was said.



Case study

Mark crashed his car into a parked car at a shopping centre. The accident was his fault. Mark had comprehensive motor vehicle insurance and he lodged a claim with the insurer for the repairs to both vehicles, which would cost around \$8,000.

The damage was covered by Mark's insurance policy. However, Mark was unable to pay the policy excess of \$2,000 because he was in financial difficulty. He had recently lost his job and was living off Centrelink benefits. The insurer denied Mark's claim because he could not pay the excess.

Mark spoke to a financial counsellor, who called the insurer and was given the same response as Mark was given. The counsellor advised Mark to lodge a dispute with FOS, which he did.

FOS concluded that because the damage was covered by Mark's insurance policy, the insurer should have approved Mark's claim, even though Mark could not pay the excess. However, Mark was still obliged to pay the excess.

The insurer agreed to pay out the claim to repair the two cars, and Mark agreed to pay the excess back to the insurer in instalments of \$100 a month.



Contact us

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