

INDEMNITY, REPLACEMENT & INSURANCE

BY HARLOCKS PTY. LIMITED

Over the years domestic insurance, which covers residential buildings, your contents and valuable items, have changed from an indemnity cover, to replacement (new for old) insurance. These changes have been made by the Insurers on the basis of it being beneficial to you the Client, to such an extent that now you cannot obtain indemnity cover under Household Building and Contents Insurance.

The benefit to you the Client is obvious in respect of buildings, provided your sum insured is adequate for the new for old provision to apply, and that you have increased your sum insured each year on the insurance company's advice, to allow for such new for old reinstatement to occur should the building be totally destroyed. In respect of the Contents insurance, or Special Valuables cover, we are not convinced that new for old provisions are totally beneficial to you the Insured, as in claims settlements the Insurers usually insist upon replacing all the items lost, destroyed or damaged, with items of the nearest equivalent with the Insured receiving little, if any, cash settlement. For example, should you have a total sum insured of \$80,000 Contents, and it is agreed that this is the full new for old replacement value, then you could find in a total loss that you are forced to purchase all the items which have been lost, with the Insurers settling to the various suppliers and obtaining the discounts applicable, which on a claim of that size would be considerable.

Indemnity (depreciated) type insurance which is offered under the Harlock World Wide Multiple Cover Insurance Scheme, allows for negotiation between the Client and the Insurers, for cash settlement. Depending upon the make-up of the items claimed, we believe the predominant settlement would be cash to the Client, and if the Client is prepared to accept that certain items can be discounted, for example jewellery, then they should receive cash settlement based upon the new replacement purchase price less depreciation.

Under insurance claim settlement, most Insureds are not fully aware that it is the Insurance Company who has the right, at their option:

- to replace the property with new property, being the nearest equivalent available or
- to repair the property to a condition equal to but not more extensive than its condition when new or
- to pay you the cost of such replacement or repair, whichever is the least.

With minor claims where a television or CD player has been stolen, and the Client receives a similar television or CD, the new for old replacement policy works adequately. Should the item have been new (within 12 months old) then the indemnity policy would work similarly, and in most cases the Insurers would opt to replace the item with a new item. However, as the items get older, new for old equivalent is not normally the preferred option the Client wishes to take. Under the indemnity settlement the Insurers would take the recommended retail price of the item, less an allowance for depreciation for age, and cash settle to you the difference. If we take a television with a recommended retail price of \$2,000, the Insurers may obtain that item from a supplier for approximately \$1,200-\$1,300. If the item was some three years of age, your cash settlement from an indemnity policy would be in the order of \$1,600 and then you would have the option as to whether you wished to negotiate with various suppliers to purchase the item for that figure or, we would suggest, an even lower figure. You also have the option of not replacing the item at all, and retaining the cash settlement.

Losses for jewellery usually cause some concern when the Insured discovers that the Insurance Company is allowing him to purchase replacement jewellery from a Jeweller of their choice to the value of the sum insured. This is the normal settlement for jewellery losses, and under the new for old reinstatement policy the Insurers will take this option, as Jewellers normally allow discounts of between 20-35 % depending upon the size of the claim, and therefore you must purchase one or several items to the insured value. As an example, with a \$10,000 jewellery loss, under a reinstatement policy this would allow you to purchase jewellery to the value of \$10,000. The Insurers would settle to the Jeweller somewhere between \$6,500-\$8,000 depending upon the items making up the claim. Under the indemnity policy your claim would be treated similarly, but you would find that you could be offered a cash settlement of approximately \$8,000 with you then having the ability to purchase replacement jewellery if you wish, or retain the settlement.

It is our experience that throughout the world, Jewellers have discounting periods, for example in Sydney during January and February most Jewellers have genuine discounts of between 30- 45% so it would be prudent for a Client to accept the cash settlement and replace the jewellery if they wish when the suppliers are offering these discounts.

A debate could develop as to which is the better cover - indemnity (depreciation) or replacement (new for old). It is our opinion that logically replacement (new for old) is essential for Building insurance, however we would strongly recommend that an indemnity cover, particularly in relation to Special Risks insurance, is more beneficial to the Insured and it is for that reason that we have maintained the indemnity cover under our World Wide Multiple Cover Insurance, and are currently negotiating a similar provision in respect of Special Risks or Valuables cover within Australia. Currently Insurers within Australia are maintaining Contents cover on the reinstatement method. Should you wish to discuss with your Insurers the type of policy they provide, and how they would settle hypothetical insurance claims, we are sure you would experience a most interesting discussion.