

# The AFCA Approach to motor vehicle insurance claim delays

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We have created a series of AFCA Approach documents, such as this one, to help consumers and financial firms better understand how we reach decisions about key issues.

These documents explain the way we approach some common issues and complaint types that we see at AFCA. However, it is important to understand that each complaint that comes to us is unique, so this information is a guide only. No determination (decision) can be seen as a precedent for future cases, and no AFCA Approach document can cover everything you might want to know about key issues.

# 1 At a glance

## 1.1 Scope

When a policyholder claims damage to insured property, a financial firm should progress the claim fairly, promptly and openly.

This document sets out what:

- AFCA reasonably expects of the financial firm when repairing damaged insured property
- the financial firm could do if repairs are delayed because parts are not available
- could form a fair and reasonable cash settlement if the financial firm decides to cash settle where parts are not available
- compensation AFCA may award if claims are unreasonably delayed.

This approach will assist financial firms and complainants with a complaint at AFCA about the repair of insured property.

The approach has been adopted from AFCA's predecessor scheme, the Financial Ombudsman Service.

## 1.2 Summary

AFCA considers a fair and prompt resolution of an insurance claim to be part of the financial firm's wider obligation to act with utmost good faith towards the policyholder.

In determining a complaint, AFCA will look at:

- 1 Whether the financial firm acted fairly and promptly to resolve the claim.
- 2 What steps the financial firm took to expedite the repair and ease the complainant's burden if the financial firm chose to repair the damaged property.
- 3 Whether a cash settlement, if offered, was fair and sufficient for the complainant to complete repairs that would have otherwise been authorised under the claim.
- 4 Whether the cash settlement is based on a quote for repairs provided by a licensed repairer prepared to honour the quote even if approached by the complainant outside of the claim.
- 5 Whether the financial firm and the complainant tried to negotiate a fair and workable solution in the face of a genuine difficulty in sourcing replacement parts.
- 6 Whether to award compensation if we find that the financial firm has unreasonably delayed resolving the complainant's insurance claim.

## 2 In detail

### 2.1 Resolving claims in a fair and 'reasonable' time

#### How should the financial firm resolve claims?

The financial firm has an obligation to resolve an insurance claim fairly and reasonably promptly where it decides:

- to repair damaged property
- to cash settle a claim.

There is no standard formula to assess what is a 'reasonable' time for the financial firm to resolve a claim, but AFCA looks at:

- the individual facts and circumstances of each claim
- the conduct of both parties.

#### What if parts are not available?

AFCA accepts that insurance claims can sometimes be delayed by circumstances beyond the control of the parties, especially if replacement parts are not available. However, a delay caused by parts not being available alone:

- is not a valid excuse for the financial firm not progressing the complainant's insurance claim.
- does not release the financial firm of its obligation to resolve the claim reasonably promptly.

AFCA does not consider it fair or satisfactory for a financial firm not to act, purely due to the non-availability of or difficulty in sourcing a part. The financial firm should make all reasonable attempts to source the required part(s), even if this required the financial firm to look outside the repairer/supplier network it usually uses.

#### What if the financial firm wants to use a preferred repairer?

Most insurance policies allow the financial firm to appoint a preferred repairer if it chooses to repair damaged property. If the financial firm exercises this right, it must ensure the preferred repairer is ready and able to complete the repair in a reasonable period.

If a delay is inevitable, the financial firm should:

- be clear about this with the policyholder from the outset
- do what it reasonably can to speed up the repair.

## What is a fair repair timeframe?

Where the financial firm chooses a preferred repairer to repair damaged property, we will look at whether the financial firm's proposed timeframe for the repairer to complete the work is fair to the complainant.

To work out an accurate repair timeframe, the financial firm could seek the following information from its preferred repairer before authorising a repair:

- whether the parts needed are immediately available, or
- a reasonable estimate for when the relevant parts will be available.

This helps to determine:

- as accurate a repair timeframe as possible
- if there will be delays as early as possible
- if there is a need to consider other options to speed up the repair.

## 2.2 Handling delays in repairs

### What if parts are not in stock?

AFCA understands that the financial firm's preferred repairers will not always keep replacement parts in stock, or not order them until they are contracted to do the repair work.

However, a preferred repairer should ideally check and confirm parts availability before submitting a repair estimate to the financial firm. This identifies potential delays at the outset, and allows the financial firm to take action to:

- find other repair options
- alert the policyholder and people most affected by such delays.

### What if parts are no longer made?

We also accept that repairs can sometimes be delayed because a manufacturer has stopped producing the parts, such as car parts for a discontinued model. In these cases, the financial firm might need to settle the insurance claim in another way.

Where the financial firm is allowed to use reconditioned or second-hand replacement parts for repair work, it should:

- tell the policyholder up front that the original parts are no longer available
- make reasonable attempts to source reconditioned or second-hand parts from elsewhere.

AFCA acknowledges that some insurers have subscribed to the Motor Vehicle Insurance and Repair Industry Code of Conduct, which imposes obligations on

participating financial firms and repairers to manage repair networks, approvals and repairs. AFCA believes that its approach on the issue of parts delay complements one of the code's aims, namely – the timely repair of vehicles.

### **What happens if a delay is unavoidable?**

We consider any attempts a financial firm makes to expedite repairs. We will also consider if the financial firm has proposed measures for easing the complainant's burden and whether they are reasonable.

These could include:

- authorising repairs to the complainant's nominated repairer (if available) or to repairers who can obtain the parts, even if this costs more than using a preferred repairer
- checking if other repairers can do the work faster than the preferred repairer
- checking if other spare parts suppliers have the parts needed
- doing a temporary repair using a second hand or recycled part (where possible) if the unavailable part is not critical to operation or safety, and agreeing to complete the repair once the part is available
- offering a courtesy car during the delay.

## **2.3 Making a cash settlement**

### **What makes a fair cash settlement?**

If the financial firm offers the complainant a cash settlement when parts are not available, it must be fair in the circumstances. The complainant must be able to effect repairs with the settlement amount when the parts become available.

Factors we consider in determining if the financial firm's cash settlement offer is fair include whether:

- the financial firm made reasonable attempts to source the unavailable parts or merely relied on the advice of preferred repairers before deciding to cash settle
- the offer reflects possible price rises when the replacement parts become available, or the financial firm agreed to adjust the offer to cater for possible price rises
- the complainant can reasonably have the repair completed by a nominated repairer in a timely manner based on the amount offered.

## 2.4 Reaching agreement

### Have negotiations been open and fair?

AFCA recognises that a delay in the financial firm reinstating damaged property can be a major burden on the complainant.

However, the complainant should also recognise the genuine difficulties that the financial firm faces when it cannot complete repairs without significant delay, for example, where parts are not readily available.

AFCA encourages the parties to openly discuss and try to agree on a fair and workable solution in such circumstances.

For example, open discussions between insurers and policy holders led to only a few complaints being lodged at FOS, AFCA's predecessor scheme, after the Perth and Melbourne hailstorms of March 2010. This was despite large delays in financial firms completing repairs due to a high number of claims and a lack of qualified repairers. This open communication that took place reinforces our approach to this issue.

## 2.5 Awarding compensation

### When do we consider giving compensation?

Where we determine there are unreasonable delays in the way the financial firm handles a claim repair, AFCA can consider awarding compensation to the complainant under section D.3.3 of the AFCA Rules. AFCA may award compensation of up to \$5,400 per claim for non-financial loss and up to \$5,400 for consequential financial loss.

### What is the difference between consequential financial and non-financial loss?

We may consider compensation for consequential financial loss if a claimant can show that the financial firm's handling of a claim has caused the claimant extra financial loss.

Compensation for non-financial loss is awarded where we determine the financial firm has caused an unusual degree of inconvenience or loss of enjoyment to a claimant, such as when the financial firm fails to resolve a claim in a reasonable time.

Our capacity to award compensation is strictly discretionary. We will not award compensation if we do not consider it fair in all the circumstances to do so.

## 3 Context

### 3.1 Case studies

The case studies below are based on determinations by one of AFCA's predecessor schemes, the Financial Ombudsman Service. While previous determinations (by AFCA or by its predecessor schemes) are not binding precedents, where relevant they will inform AFCA's approach to an issue.

#### Case 1: Financial firm did not unreasonably delay repair

The complainant claimed for damage to her motorcycle, which the financial firm accepted and authorised its repairer to repair. However, the repairer could not complete the repair for more than a year because:

- some parts were unavailable locally and had to be ordered from overseas
- there were delays in the delivery of the parts.

FOS did not consider it appropriate to award compensation in this case because the evidence showed:

- the financial firm did not unreasonably delay the repair
- the financial firm was experiencing a genuine difficulty in sourcing the parts locally
- the motorcycle was an imported model and its parts were not readily available locally
- the repairer ordered the required parts from overseas early in the claims process and, in the meantime, painted most of the parts it had
- the complainant was told that there would be a delay early in the claims process as parts had to be ordered from overseas.

#### Case 2: Complainant received compensation after unreasonable delay by the financial firm

The complainant claimed for damage to her car, which the financial firm accepted and authorised its repairer to repair. However, the repairer did not complete the repair for some 9 months because of:

- the lack of a wiring harness that had to be ordered from overseas
- there was a delay in the delivery of the part.

FOS considered it appropriate to award compensation in this case because the evidence showed:

- the financial firm had unreasonably delayed the repair

- the financial firm authorised the repair to its preferred repairer without finding out if the complainant's preferred repairer or other repairers were able to complete the repair more quickly
- the financial firm did not try to source the unavailable part elsewhere
- the financial firm did not make any reasonable attempts to speed up the repair
- the financial firm gave the complainant several estimated completion dates, although it had no idea when the part would arrive from overseas or the repair would be completed
- the complainant was overwhelmingly left on her own to pursue the claim
- the financial firm asked the complainant to chase the manufacturer for the part, although it undertook the obligation to repair
- the vehicle was poorly repaired.
- the complainant was awarded:
  - compensation for consequential financial losses arising from the financial firm's delay, such as storage cost, subject to her supplying evidence of the loss
  - \$3,000 for being subjected to unusual inconvenience, delays and interference with her enjoyment of her car.

## 3.2 References

### Definitions

Term	Definition
Complainant	individual or small business that has lodged a complaint with AFCA
Financial firm	An organisation or individual such as an insurer, that is a Member of AFCA
Preferred repairer	repairer the financial firm routinely uses for property insurance claim repairs

### Useful links

Document	Link
<a href="#">Rules</a>	<a href="http://www.afca.org.au/rules">www.afca.org.au/rules</a>
<a href="#">Determination 252880</a>	<a href="https://forms.fos.org.au/DapWeb/CaseFiles/FOSSIC/252880.pdf">https://forms.fos.org.au/DapWeb/CaseFiles/FOSSIC/252880.pdf</a>
<a href="#">Determination 244914</a>	<a href="https://forms.fos.org.au/DapWeb/CaseFiles/FOSSIC/244914.pdf">https://forms.fos.org.au/DapWeb/CaseFiles/FOSSIC/244914.pdf</a>