

Replacement and indemnity cover

There are 2 common methods of calculating settlements for insurance claims:

- replacement cover
- indemnity cover

Most insurance policies will apply a mix of these settlement calculation methods.

Your contents insurance policy might contain replacement cover for laptops and cellphones that are less than 2 years old and indemnity cover for them if they're older.

EXAMPLE



Replacement insurance

Replacement value cover (also called as new or new for old cover) is about giving you back the functionality you had right before you suffered a loss.

When you have as new or replacement cover, your insurer may pay the reasonable cost to

- repair your home or the damaged item or contents to as new a state as possible or
- rebuild the home or provide you with a new item or contents to the equivalent quality, value and functionality to the one that was lost or damaged.
- or may otherwise provide you with a cash settlement (but there are conditions applying to this alternative).

You may need to pay an excess on your claim before your insurer can settle it. If you choose not the repair or replace then your cover may revert to indemnity (present day) value.

House insurance

Most homes in New Zealand are covered under replacement policies. If they are damaged or destroyed, insurers will pay the cost of repairing or replacing them, up to the sum insured shown on the policy schedule.



You can find out more about purchasing and renewing home insurance by visiting <https://www.icnz.org.nz/individuals/consumer-guides/>.

Limits and exclusions

Some limits apply to what insurers will replace. It's important to check your policy wording and talk to your insurer if you're not clear about what cover you have.

Items that become outdated very quickly and very old items often don't qualify for replacement cover. This may include

- clothing and shoes
- electronics.

EXAMPLE



Indemnity insurance

An indemnity value policy (also known as present day or market value cover) puts you back in the same financial position you were before a loss occurred.

When you have indemnity cover, if the item is not repairable, your insurer will pay you either

- what you would pay if you bought the item(s) second-hand
- the replacement cost of the item less an allowance (depreciation) for age and use.

Indemnity value is often referred to as market value or present-day value.

Sporting equipment and personal effects (shoes, phones) are often insured for indemnity value because they tend to depreciate quite quickly.

EXAMPLE

