



Current Articles 2001 – May

Diminished Value --- A Controversial Issue !

First of all, what is "diminished value" or that which is sometimes called "accelerated depreciation"? Diminished value is the reduction in the true value of a vehicle after it has been damaged. Suppose your car has an ACV value of \$16,000 and you are involved in an accident that requires repairs of \$10,000. The car is repaired and looks "as good as new". Unfortunately, because of the repairs the vehicle may not be worth the \$16,000 to sell or trade. This further reduction in the value following the accident and repairs is the diminished value.

In Ontario, whether you trade a car in to a dealer or sell it privately you must declare if the car has been in a serious accident and has had repairs made. As an example, let us suppose that there are two identical used cars for sale. They both are the same year, have identical mileage, same features, etc. One of these vehicles has been in an accident and the other similar vehicle has not been bent! If you were buying one of these vehicles would you be prepared to pay the same price for the one that sustained damages as compared to the other ? Not likely. This reduced value is the issue.

An article in the Toronto Star last September recalled some background into this issue and commenced a barrage of questions to brokers and insurers. The Ontario auto policy (OAP 1) limits coverage under the Loss or Damage section to direct damage. However the Direct Compensation section states "We will pay the cost of damage to the automobile " Both sections limit coverage to the actual cash value of the vehicle at the time of the accident. But the actual cash value may have been reduced as a result of the accident. The Toronto Star article, in following the above differences, suggest that any payment for diminished value will only apply to the extent that you are not at fault, i. e. Direct Compensation.

Insurers are not prepared to accept claims for diminished value. Part of the reason is trying to determine what a fair indemnity settlement would be. If the owner of the repaired vehicle continues to drive the vehicle "until the wheels fall off, then there would be no diminished value. Similarly if the vehicle were to be sold two years after being repaired the diminished value would be less than immediately after being repaired.

With our current proscription period for physical damages, insurers could deny the claim if presented after one year.

In the U.S.A., the insurance departments of 33 states and the District of Columbia have adopted legislation that allows insurers to write policies that exclude diminished value. But this has back-fired to some degree. If a person bought a policy or had a vehicle repaired before the diminished value exclusion, it has been interpreted that insurance companies in effect acknowledged that diminished -value coverage had previously been an element of previous policies and prior claims!

There is no answer to these scenarios and as a broker you might want to get the opinion of your insurers as to their opinion and stance on a possible diminished value claim. Better to be prepared for your clients questions and understand the situation, than to be caught in the dark.

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