

Car Insurance: Agreed value vs market value

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If your car was written off tomorrow, would you know how much you'd receive?

Disputes over vehicle valuations rank among the most common complaints received by the Australian Financial Complaints Authority (AFCA). Understanding how insurers determine the value of your car, particularly the difference between agreed value and market value can help you avoid an unexpected shortfall when it comes time to make a claim.

What is market value?

Market value is what your car would likely sell for on the open market just before it was stolen or written off. Your insurer calculates this figure *at the time you make a claim*, not when you first took out the policy.

To arrive at this figure, insurers typically use industry pricing guides (for example RedBook, Glass's Guide, AutoGrab) alongside recently sold prices for comparable vehicles. They'll factor in the car's age, condition, location and mileage.

What is agreed value?

Agreed value is a fixed dollar amount you and your insurer set when you take out or renew your policy. If your car is written off, you receive that amount regardless of what the car may be worth on the open market at the point in time.

Agreed value offers more certainty on how much you would be paid out, however as you'd expect, selecting an agreed value for your car which is higher than market value will likely be reflected in the premium.

How do they compare?

Market value is calculated at claim time: Your payout is based on what the insurer assesses your car is worth when you lodge your claim. This figure can go down over time as your car depreciates.

Agreed value is agreed in upfront: Your payout is the amount you and your insurer agreed on when the policy was set up or last renewed. It stays fixed regardless of market shifts.

Example

You insure your car today and it's currently worth \$25,000. Six months later, the car is written off in an accident.

With market value: Because cars lose value over time, it might only be worth only \$21,000 by the time of the claim and that's what you'd receive.

This information is general in nature only and does not constitute financial product advice. Before making any decisions, please read your Product Disclosure Statement or contact your insurer directly.

With agreed value: You'd still receive the full \$25,000 you locked in at the start of the policy

Can agreed value ever be lower than market value?

Yes. For instance, in the period immediately after Covid, the market price for used cars went up significantly and in many instances significantly exceeded the agreed value policyholders had selected.

Certain cars also unexpected spikes in demand due to their rarity, popularity or other factors, pushing their market value higher than anticipated.

That's why it's important you review how much your car is worth before renewing or signing up for a policy.

Why might my final payout amount be lower than expected?

A few other things may affect your final payout amount:

- Any applicable policy excess will be deducted from your payout
- If you pay your premium by monthly instalments any outstanding amount may be deducted
- If your vehicle is under finance, the outstanding balance will be paid to your lender first, with any remainder released to you

What if I disagree with my insurer's valuation?

If your policy is based on 'market value' and at the time of making a claim you believe the amount offered doesn't reflect the car's current market value, you can:

1. **Raise it with your insurer:** Provide evidence such as recent sold prices for comparable listings or an independent valuation to support your case.
2. **Lodge a complaint with your insurer:** If you're still not satisfied, you can lodge a formal complaint through your insurer's internal dispute resolution which is outlined in your product disclosure statement.
3. **If the matter is unresolved, contact AFCA:** Contact the Australian Financial Complaints Authority (AFCA) at afca.org.au or 1800 931 678 for free, independent assistance.

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