



Automobile Insurance:

Replacement Cost or Replacement Insurance?

The basic rule of damage insurance is to compensate the insured for the value of the property on the day the loss occurred. Let's say you buy a new car for \$30,000. Over time, its value will decrease. Thus, if you make a claim at the point in time where the car has lost 50% of its value, you will receive a maximum of \$15,000 in compensation.

If you want replacement cost compensation in the event of a loss, you have two options:

- Add additional coverage to your basic automobile insurance contract (Q.P.F. no. 1) by purchasing a **“replacement cost” endorsement (Q.E.F. no. 43)**.
- Opt for **replacement insurance (Q.P.F. no. 5)**, which is a separate insurance contract.

Are they equivalent to each other? Is one option better than the other? It all depends on your situation.

WHO CAN SELL THIS COVERAGE?

Both the **“replacement cost” endorsement (Q.E.F. no. 43)** and **replacement insurance (Q.P.F. no. 5)** are sold by **damage insurance agents and brokers**, who are certified professionals overseen by the Chambre de l'assurance de dommages (ChAD). It is their duty to advise the public and insureds. They are in the best position to help you compare the two products and identify the one that best meets your needs. Do not hesitate to ask them questions.

Replacement insurance (Q.P.F. no. 5) is also offered by **car dealerships**. It is mandatory for dealerships to provide you with information that describes the product, the nature of the coverage and the exclusions; they are not authorized to explain to you the difference between the two products. For this information, you must consult a certified professional—in other words, a damage insurance agent or broker.



Important: the new Q.P.F. no. 5 form is available as of March 1, 2019. For contracts purchased and in force before March 1, 2019, the coverage offered at the time of purchase continues to apply.








Regarding the purchase of replacement insurance from a dealership:

- If you bought coverage from a dealership when you purchased or leased your vehicle, you may **cancel the contract within 10 days** of signing it, at no cost.
- The premium for this insurance can be included in the vehicle's financing contract. In this case, interest is charged, which increases the cost.
- In 2018, the average premium for a five-year term was \$1,917 when sold by a dealership and \$1,261 when sold by an agent or broker—a difference of \$656.



All consumers should take the time to weigh the pros and cons of both options before making a decision. The following table outlines the main differences between the two options, from purchase to claim.


“Replacement cost” endorsement (Q.E.F. no. 43 ¹)	Replacement insurance (Q.P.F. no. 5)
Note: This table only concerns coverage for new vehicles .	

BUYING COVERAGE		
Suitable for what kind of vehicle?	<p>Usually for new passenger vehicles, motorcycles, ATVs, and snowmobiles, as well as certain demonstrators with a limited number of kilometers.²</p> <p> Did you know that... Equipment and accessories the insured adds subsequently are automatically covered for replacement cost if the insured purchases endorsement Q.E.F. no. 43 (inasmuch as they do not increase the value of the vehicle).</p>	<p>For new and used³ passenger vehicles and demonstrators, as well as motorcycles, ATVs, snowmobiles, and certain high-end vehicles for which endorsement Q.E.F. no. 43 is not offered.</p> <p> Did you know that... The vehicle’s equipment and accessories must appear on the contract to purchase or lease in order to be covered by replacement insurance. Otherwise, the insurer that issued Q.P.F. no. 1 will pay compensation for their depreciated value.</p>
Who can sell the coverage?	Only offered by damage insurance agents and brokers .	<p>Offered by damage insurance agents and brokers.</p> <p>Also offered by car dealerships. They are not authorized to explain to you the difference between the two products.</p> <p> Important: for <u>contracts entered into before June 13, 2019</u>, car dealerships must give the client a distribution guide.</p> <p> Important: for <u>contracts entered into on or after June 13, 2019</u>, car dealerships must give the client :</p> <ul style="list-style-type: none"> • a summary of the product; • a specimen of the policy; • an information sheet.
Number of insurance contracts	One single insurance contract, same insurer.	<p>Two separate insurance contracts: one for Q.P.F. no. 1 and its endorsements, and the other for Q.P.F. no. 5.</p> <p>Therefore, possibility of two different insurers.</p> <p> Did you know that... Q.P.F. no. 5 is a supplement to the primary automobile insurance contract (Q.P.F. no. 1). Thus, the insurer must pay compensation under Q.P.F. no. 1 in order to trigger compensation under Q.P.F. no. 5.</p>

¹ Endorsement Q.E.F. no. 43 offers options A to F. However, options A and E are the ones that insurers most commonly offer.

² Under very strict conditions, certain insurers agree to offer a replacement cost endorsement for used vehicles. In this case, you must ask for **Q.E.F. endorsement no. 43F**.

³ Q.P.F.no. 5 may be purchased for used vehicles. This table, however, only concerns coverage for new vehicles.



	“Replacement cost” endorsement (Q.E.F. no. 43 ¹)	Replacement insurance (Q.P.F. no. 5)
	Note: This table only concerns coverage for new vehicles .	
Cost of the premium	<p>Premium is set at every renewal, generally annually. Premiums may vary from one insurer to another. Shop around.</p> <p>Calculated based on the driving record, the value of the vehicle and the insurer’s own specific criteria.</p> <p>Since the replacement cost endorsement is added to your basic automobile insurance contract (Q.P.F. no. 1), its cost is included in the overall premium. The insurer may offer you the option of spreading the payment over 12 months.</p> <p>Less expensive than Q.P.F. no. 5, although it increases yearly, especially after 24 months (could amount to between \$500 and \$1,000 over 5 years).</p>	<p>Fixed premium for the length of the contract (1 to 8 years).</p> <p>Calculated based on the vehicle’s value and the length of the contract, without regard to the insured’s driving record.</p> <p>Payment is separate from your automobile insurance (Q.P.F. no. 1). The premium can be included in the vehicle’s financing contract (term from 1 to 8 years), in which case interest will be charged and the cost will increase.</p> <p> In 2018, the average premium for a five-year term was \$1,917 when sold by a dealership and \$1,261 when sold by an agent or broker.⁴</p>

⁴ Autorité des marchés financiers, *Rapport annuel sur les institutions financières 2018 [Annual Report on Financial Institutions, in French only]*, p. 235.

“Replacement cost” endorsement (Q.E.F. no. 43⁵)	Replacement insurance (Q.P.F. no. 5)
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Note: This table only concerns coverage for new vehicles.

LENGTH AND END OF CONTRACT




Length of contract	The Q.E.F. no. 43 endorsement lasts the same length of time as your automobile insurance contract (Q.P.F. no. 1)—generally one, or occasionally two years. You may renew your coverage for a maximum of 4 to 5 years, depending on the insurer.	When you purchase the contract, you choose its length (between 1 and 8 years). The term can cover the entire financing period of the vehicle.
Terminating the contract <i>(Rescission, renewal, cancellation, etc.)</i>	<p>The Insured</p> <ul style="list-style-type: none"> When renewing your automobile insurance contract (Q.P.F. no. 1), you decide whether you wish to maintain the coverage. You may terminate the replacement cost endorsement at a time other than at renewal. You will be reimbursed on a pro rata basis for the unused portion of the endorsement. No cancellation fee will be charged. <p>The Insurer</p> <ul style="list-style-type: none"> The insurer may terminate at renewal time if, for instance, you have had several losses, or in the event of non-payment. The insurer may terminate without any explanation within 60 days of the contract coming into force. <p>After a claim (if total loss)</p> <ul style="list-style-type: none"> Q.P.F. no. 1 does not automatically end in the event of a claim and compensation. Q.P.F. no. 1 will be “transferred” to the replacement vehicle and you will then be able to purchase a new Q.E.F. no. 43 endorsement. 	<p>The Insured</p> <ul style="list-style-type: none"> You may terminate it at any time; cancellation fees will apply, calculated according to a cancellation table. <p> Right to rescind If you purchased your coverage from a dealership when you bought or leased your vehicle, you may cancel the contract within 10 days of signing, at no cost (section 441 of the Act respecting the distribution of financial products and services [theARDFPS]).</p> <p>The Insurer</p> <ul style="list-style-type: none"> The insurer cannot terminate it, other than for non-payment. <p>After a claim (if total loss)</p> <ul style="list-style-type: none"> Q.P.F. no. 5 ends after a claim is made (total loss) and the unused portion of the premium is reimbursed. A new contract is required for the new vehicle. <p> Did you know that... If you are considering dropping certain types of coverage from your primary insurance contract (Q.P.F. no. 1), ask your agent or broker about the impact doing so would have on your Q.P.F. no. 5 and whether it would be appropriate to cancel the latter.</p>

⁵ Endorsement Q.E.F. no. 43 offers options A to F. However, options A and E are the ones that insurers most commonly offer.

“Replacement cost” endorsement (Q.E.F. no. 43⁶)	Replacement insurance (Q.P.F. no. 5)
Note: This table only concerns coverage for <u>new vehicles</u> .	

IN THE EVENT OF A CLAIM		
Claims settlement process	<p>There is only one contract and thus one single insurer involved in the claims settlement process.</p>	<p>If two insurers are involved, there will be two claims files and the process could take longer.</p> <p> Please note: there is one single claim in the Fichier central des sinistres automobiles.</p> <p>First, the primary insurer (Q.P.F. no. 1) will pay compensation for the depreciated value that it has assessed. The Q.P.F. no. 5 insurer will then make up the difference between the depreciated value and the replacement cost.</p>
Will you have to pay a deductible?	<p>Generally speaking, yes. Check with your agent or broker to find out under which circumstances you will be required to pay it.</p> <p> Please note: Certain insurers offer endorsements with a \$0 deductible, or a diminishing deductible; some even waive the deductible for certain clients. Discuss this with your broker or agent.</p>	<p>If you are required to pay a deductible, it will be reimbursed by the Q.P.F. no. 5 insurer regardless of the circumstances of the loss, up to the amount stipulated in the Q.P.F. no. 5 contract.</p>

⁶ Endorsement Q.E.F. no. 43 offers options A to F. However, options A and E are the ones that insurers most commonly offer.

“Replacement cost” endorsement (Q.E.F. no. 43 ⁶)	Replacement insurance (Q.P.F. no. 5)
Note: This table only concerns coverage for <u>new vehicles</u> .	
<p>Compensation in the event of a total loss</p> <p><i>(Generally speaking, a vehicle is declared a total loss if repairs cost more than replacement.)</i></p>	<p>When you make the claim, you may choose to either:</p> <ul style="list-style-type: none"> replace your vehicle; or receive compensation. <p>If you decide to replace the vehicle, you may do so at the dealer of your choice. You may then choose:</p> <p>a) a new vehicle with the same characteristics, equipment and accessories (or similar characteristics, equipment and accessories) as the vehicle being replaced.</p> <p> The insurer has the right to find a new vehicle of the same year as the vehicle being replaced, if it finds one, or a new vehicle from a later year.</p> <p>b) a different vehicle (new or used). In this case, the insurer will pay the higher of the following two amounts: either the price paid for the insured vehicle or the price of the vehicle you wish to buy or lease, without exceeding the replacement cost of the insured vehicle.</p> <p>If you decide to receive compensation, the insurer will pay the lesser of the following two amounts:</p> <ul style="list-style-type: none"> the price paid for the insured vehicle; or the current price of the insured vehicle on the day of purchase; <p>without exceeding the replacement cost that the insurer would have paid had you decided to replace the vehicle (option “a)” above).</p> <p> For contracts entered into after March 1, 2019:</p> <p>The insurer will pay you compensation to replace your vehicle at the dealer of your choice.</p> <p>Replacement is mandatory.</p> <p>The vehicle will be replaced by a vehicle from the current year or a more recent one (not from the preceding year).</p> <p>The Q.P.F. no. 5 insurer will pay the difference between:</p> <ul style="list-style-type: none"> the “value on the day of the loss”, as determined by the primary insurer; and the value of the replacement vehicle. <p> For contracts entered into before March 1, 2019, the insured must decide at the time of purchase whether he will choose:</p> <ul style="list-style-type: none"> <u>Option 1:</u> replace the vehicle at the original dealership; or <u>Option 2:</u> receive compensation, and replace the vehicle somewhere else. <p>Consumers must be offered both options. The law does not allow “pre-selecting” one option over the other.</p> <p>If the vehicle is not replaced, Q.P.F. no. 5 does not apply and the client loses the benefit of the coverage.</p>
<p>Compensation in the event of a partial loss</p>	<p>Damaged parts are replaced by new, genuine parts if they cannot be repaired.</p>

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Costs to temporarily rent a vehicle in the wake of a loss	<p>In the case of theft: the primary insurer (Q.P.F. no. 1) will pay for temporary car rental after 72 hours (waiting period). Maximum \$40 per day and \$1,200 per claim.</p> <p>In the case of an accident for which the insured is not responsible, the primary insurer (Q.P.F. no. 1) will reimburse the insured for reasonable rental costs (no limit) from the first day forward (no waiting period).</p> <p>If the insured is partially responsible for the accident, the claim for compensation of reasonable rental costs will be processed exactly as noted above, however compensation will be calculated according to the percentage of the loss for which the insured is not responsible.</p> <p>If the insured is responsible for the accident: adding endorsement Q.E.F. no. 20 to the insurance contract will allow for the reimbursement of rental fees, under certain conditions. Speak to your agent or broker.</p>	
	Endorsement Q.E.F. no. 43 does not provide compensation for rental costs.	<p>Q.P.F. no. 5 provides compensation for rental costs after compensation from Q.P.F. no. 1 and endorsement Q.E.F. no. 20 (if applicable) have been exhausted.</p> <p>In the case of theft, Q.P.F. no. 5 will cover costs incurred during the first 72 hours.</p>

Protection of the Public and Recourse

All damage insurance representatives are certified professionals who are overseen by the ChAD and governed by the *Code of ethics of damage insurance representatives*, and the ARDFPS and its regulations. If an insured feels that his professional has caused him harm, he may complain to the Syndic’s Office of the Chambre de l’assurance de dommages.

In the case of fraud, the insured can turn to the *Fonds d’indemnisation des services financiers* of the Autorité des marchés financiers.

If Q.P.F. no. 5 is sold by a car dealership, the ChAD has no jurisdiction since the product was not distributed by a certified representative. Furthermore, in a case of fraud, the insured is not eligible for compensation from the *Fonds d’indemnisation des services financiers* of the Autorité des marchés financiers because dealerships are not governed by the ARDFPS.

⁷ Endorsement Q.E.F. no. 43 offers options A to F. However, options A and E are the ones that insurers most commonly offer.