

PRESS RELEASE

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Money for your mileage

While there are numerous factors that are negatively affecting the increasing cost of motor insurance premiums in South Africa today, the question to ask consumers is *can* you afford to live without it?

The constantly escalating accident rate along with increasing crime trends makes it one of the most essential insurances today.

But just how affordable is motor insurance these days?

Mark Stone, client manager at Centriq Insurance recently conducted an investigation into trends in the motor insurance market and has a clear understanding of factors that attributed to the increase in motor insurance premiums over the past few years.

Says Stone: "In 2007, motor insurance premiums accounted for 45% or R19.7bn of the total insurance market. This, compared to the 44% or R16.54bn of the market in 2006, reflects a 13,16% increase year-on-year."

Given that the general motor book ran badly again during 2008, Stone foresees the increase in motor premiums to rise. "The trend of most motor underwriters continuing to reflect a loss will necessitate a large general increase in premiums which may be as high as 25%," Stone adds.

Non niche underwriters continue to decline unsupported motor business, and an increased return on equity expectations from re-insurers, means increased cost of capacity which also results in increased premiums.

"Then there is the increased regulation of insurers resulting in increased internal costs, along with the fact that investment markets are very volatile and risky," notes Stone. He says due to current market conditions, insurers are investing more in cash instruments and therefore realise lower returns than previously. This means they require increased underwriting returns.

Another factor contributing to the increase in motor insurance premiums is the fact that parts on newer vehicles are vastly more expensive than older vehicles as detailed below:

- 2008 increase in paint cost was 19%
- 2008 increase in paint labour was 14%
- 2008 increase in mechanical labour costs was 15%
- 2008 increase in mechanical parts cost was 12%

Stone says the majority of these increases came through in the last quarter, with the trend still continuing as new technology on new cars continues to be more expensive to repair.

“Far more lower-level vehicles are imported and the parts are therefore more expensive,” says Stone. He also notes that some of the newer manufacturers may not have the repair infrastructure which will result in increased repair costs.

Stone points out the increase in the number of inexperienced drivers meaning increasing incidents of collisions. The number of unlicensed drivers remains high, and all the while, the number of vehicles on South African roads continues to rise. “The state of the roads continues to deteriorate with higher traffic volumes and construction, not to mention traffic lights out and no police to police,” he says.

Work pressures are increasing and people are working longer hours, are more stressed and in a greater hurry. All this contributes to fatigue, reckless driving and road rage.

The global recession will furthermore continue to result in an increased demand for second hand parts and therefore an increase in thefts. “We also expect fraud by repairers to keep margins up, while the decrease in new car sales will result in an increase in the cost of parts to keep the manufactures margins up,” Stone concludes.

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