

*Patrick Ndururi and Pravin Pather of Centriq Insurance highlights some of the factors Insurers consider when calculating insurance premiums*

Insurers take numerous factors into consideration when calculating the cost of insurance. “With the support of statistical evidence, various factors that can potentially influence the likelihood and/or intensity of associated risks are considered,” explains Patrick Ndururi, senior manager of actuarial services at Centriq Insurance. “Should risk factors not be objectively quantifiable, proxies called rating factors are used, e.g. the ability of a driver is a major risk factor, but the driver’s age is used as a proxy as ability may not be easily quantified,” adds Ndururi.

In addition to these factors, Insurers operate in a competitive market which is subject to market cycles. When buying insurance cover, consumers need to understand which side of the insurance cycle the market currently is. Ndururi explains: “During the soft level of the insurance cycle, premiums are low because there are many players in the market undercutting each other’s premiums to increase their market share. This is however not a sustainable situation in the long term. When these players start making losses, they are forced to raise their premiums, sell out or close down. Premium rates start increasing as the cycle turns and hardens. In the hard level of the cycle, there are less players, all charging market-related premiums and profitability returns to the market. This attracts new entrants to the market, and the cycle begins all over again.” He adds that consumers can consult the financial media and/or an accredited broker for information on this.

In light of the above, future affordability and sustainability of the insurance cover consumers intend to buy needs to be considered. “Consumers are advised to factor in a 10 to 15% increase per year due to inflation and worsening risk trends,” notes Ndururi. He adds that by doing so, consumers can prevent their policy from lapsing, which is not only a costly exercise because of the hefty charges unpaid debit orders impose on bank accounts, but because it can leave consumers uninsured. “It may also be more expensive to take out the same policy in the future, as the cycle may have turned and the premium could be higher,” explains Ndururi.

Pravin Pather, senior underwriter at Centriq Insurance, adds that while all of these factors are important in understanding how premiums are calculated, the most common mistake consumers make when selecting insurance today is being overly price conscious. “While affordability will always remain a decisive factor in the type of insurance cover selected, it is important to look beyond price to determine the value proposition from the outset. Consumers should focus on understanding the products and the purpose they serve when they come into play as well as the terms and conditions that apply,” says Pather.

Pather adds that the experience and expertise of a good broker has proven invaluable in selecting the right cover. Therefore, he advises consumers who use the services of a broker to take the broker’s recommendations seriously. “In a world where we face an ever-increasing number of risks, a tick box approach is simply no longer appropriate. Consumers should rather play it safe and consult a broker who can assist them with a thorough needs

analysis, which will help them to identify the risks they will be exposed to in the future and what type of cover, and the level or amount of that cover, is appropriate,” he says.

Pather emphasises the importance of insuring assets for the appropriate value. “For a vehicle, it previously used to be market practice to insure at book value, which is the average between trade-in and retail value. But it is best to insure a vehicle, especially a new vehicle, at retail value, including the manufacturers’ optional extras. Household contents should be insured at replacement value, e.g. what it would cost to replace the items at today’s prices. This involves compiling a room-by-room inventory of your belongings. A contingency of 10% should be included as a buffer against the increase in replacement values over the year, and for any additional purchases,” says Pather.

There are also many risks consumers face in addition to those covered by the vehicle, house owners and household insurance, which could have financially crippling results. Additional cover is needed for this, e.g. motor top-up insurance, which covers the difference between the settlement balance, with the finance house and the insurance claim payout based on retail value, if a vehicle is written-off or stolen.

Another example is additional cover required following the change in the Road Accident Fund (RAF) legislation, restricting payments to a low, fixed amount. “In this case, relatively inexpensive personal accident cover will bridge the gap between potential financial losses and the RAF payments, covering events such as the loss of a limb or an eye as well as temporary or permanent disablement that will prevent a person from working,” says Pather.

He adds that consumers must also understand and accept any policy limitations, e.g. towing and storage fees. “Risks such as these may migrate from the insured / insurer to the actual supplier following the final implementation of the Consumer Protection Act,” notes Pather.

In order to ensure that a thorough needs analysis is done and that the right premium for the risk covered is calculated by the insurer, it is crucial that all relevant information is disclosed by the consumer. This includes, among others:

- the various drivers of the vehicle as compared with the most regular driver
- any business carried out from home
- security system details, e.g. an alarm that is not fully functional; and
- hobbies, e.g. modifying your vehicle to increase its speed and/or acceleration.

“Using belongings to generate an income, e.g. using a camera to take photos at functions or utilising your personal vehicle to call on clients to generate an income should also be declared. This will not only ensure that your broker can suggest the best policy for your particular needs, but will also prevent the potential non-payment of a claim,” comments Pather.

Once all the risks applicable to your unique circumstances and suitable covers have been identified, it is crucial to understand the terms and conditions imposed as well as the additional benefits offered by the various suitable insurance options. “Each policy has specific conditions, e.g. security requirements, exclusions and excess levels that will affect its appropriateness for consumers’ particular requirements. It is therefore imperative for

consumers to gain expert advice on what each insurance option will require from them before the cover becomes effective,” says Pather.

According to Ndururi, one of the most misunderstood policy conditions is the ‘excess payable’. “This is the portion of a claim amount that you are responsible for, and as such, if a claim amount is less than the excess amount, there is no claim payable by the insurer,” he explains.

“An excess amount is actually a critical factor in keeping insurance premiums affordable. In fact, you can even use the excess to reduce your premiums as insurers use the level of excess as a rating factor. If you are willing and/or in the financial position to accept a higher excess on your policy, your premium can be reduced accordingly,” says Ndururi.

Consumers are also encouraged to gain expert advice regarding the cost and value of product add-ons such as car hire or roadside assistance. “It is important to note that product add-ons are never “free”, so where roadside assistance would be crucial for a single mom, for example, it may not be important for a mechanic insuring his own vehicle. Similarly, if a family has two vehicles, a car hire extension may not be necessary,” adds Pather.

In conclusion, Pather says that consumers should ensure that they have a thorough understanding of the unique combination of risks they face, the different insurance products available to cover them against these risks, and the terms, conditions and benefits attached to each policy option. “By doing so, consumers will be able to select the policy that best covers their specific needs while getting value-for-money because they will only be paying for the cover they need.”

He adds that once consumers have selected the right cover for their needs, they should remember to review their policies at least once a year, and whenever there is a significant change in circumstances, e.g. when getting married, having a child or making a big new purchase. “This will ensure that the cover remains relevant and that consumers benefit from any new developments or insurance products that can meet their changing needs,” says Pather.