

Transport World Africa spoke to a number of experts to understand the effect of poor road conditions in the country on in the insurance industry.

More than 9,5-million live motor vehicles were recorded on South Africa's 754 000 kilometres of road infrastructure by the National Traffic Information System (eNaTIS) in September 2009. Local municipalities are struggling to keep up with the volume of road maintenance and repairs needed, and the challenges have been compounded by the amount of rain that has fallen recently. In addition, the country is currently spending around R9 billion on improving and extending the road infrastructure.

"Whilst the upgrading of the road infrastructure is absolutely necessary, traffic congestion caused by road works, potholes and broken traffic lights inevitably results in significant costs to road users, businesses and the economy in general," comments Sedick Isaacs, executive general manager: Claims at Mutual & Federal. "The reality is that poor road conditions result in extensive financial losses due to vehicle damage, accidents, and traffic delays. This affects productivity as a whole, and a decrease in productivity inevitably has a negative impact on the ability of business to produce effective results and help to grow the economy."

Increased risk

There is a number of ways in which poor road conditions increase the risk of damage and accidents covered by short-term insurance.

Gari Dombo, Managing Director, Alexander Forbes Insurance notes that the poor road conditions significantly extends a driver's journey time, increasing the risk of a claim occurring. "In addition, the construction work on the roads often necessitates unexpected detours and obstructions, which results in a loss of familiarity and contributes to a higher risk of accidents. Of course, accidents are also caused by drivers swerving across the road in an attempt to avoid potholes, or suddenly slowing down because of road conditions or obstructions."

"Broken traffic lights increase the risks for drivers too. Intersections where traffic lights do not function properly are an escalating cause of accidents. Motorists who find themselves delayed at these intersections are also exposed to opportunistic criminal activity such as smash-and-grab and hi-jacking," adds Isaacs.

If an accident does occur, the insurer is liable not only for the damage to its client's vehicle and injuries sustained by the driver, but also for any damage to other vehicles, injuries to other drivers, pedestrians or workers, and for damages to property such as goods carried in a vehicle. Given the number of vehicles and the congestion on our roads, more than one vehicle may be involved, and with the spiraling costs of repairs, the already significant cost of claims are pushed ever higher.

Bad road conditions further contribute to the general wear and tear on vehicles, and vehicles that are not roadworthy pose a significant risk on the road. In addition, the vehicle itself may be damaged as a result of a road hazard.

"In most cases, it is the wheels and shock absorbers, as well as windscreens, that are affected," says Dalisu Dube, head of motor at Etana Insurance. "We have seen a significant increase in the number of windscreen claims. On poorly tarred roads, pebbles flying onto windscreens, causing them to crack. The cost to repair or replace the damaged windscreens is paid by the insurer and significant sums can be involved, particularly in the case of sophisticated and large transport vehicles as well as certain makes of cars."

Generally speaking, insurers do not cover damages to tyres only, but will pay all claims where there is additional damage other than the tyres. Thus if the rims, suspension and under carriage are damaged, the claim will be entertained. Damages to tyres are theoretically covered by the Road Accident Fund (RAF). Aon believes that municipalities and road agencies may in future be held accountable for claims resulting from poor road conditions.

Hard numbers

The number of accident-related claims paid by insurers has certainly increased significantly, however, it is difficult to establish the exact extent of the impact of poor road conditions on this increase.

According to Aon, it is virtually impossible to get any statistics relating to accidents resulting from road conditions such as potholes, as in all motor claims areas, the only split in statistics is between accidents, theft or hijacking. The company believes that a new code needs to be introduced that will reflect accidents as a result of the poor state of our roads.

Alexander Forbes Insurance concurs. "It is not easy to quantify the number of claims caused by poor road conditions due to data constraints and the fact that accidents are often a result of a combination of factors. However, there is little doubt that poor road conditions is a contributing factor in a growing number of claims," explains Dombo. "Based on descriptions of claims including the words 'stone' or 'road works', we can infer a 5% increase in the proportion of claims from the previous year. Using windscreen claims as a proxy for claims resulting from poor road conditions, and there has been an increase on these claims over the past two years."

Aon's commercial division estimates that around 15% of all commercial motor claims are a direct result of potholes. Their domestic insurance division believes that the figure for personal vehicles could be as high as 50%.

Implications

Anthony Coward of Legacy Insurance Brokers comments that over the past few months, the company has handled a number of claims relating to accidents caused by the current road works. "We are finding that potholes are getting worse and that clients' claims are increasing in frequency and severity. As a result, the insurers are pushing up premiums to cover the losses and rates are higher."

Etana Insurance explains that in quantifying the level of risk inherent within the insurance business taken on, most insurers update their premiums by scientifically analysing past claims. "The risk of the poor state of South Africa's roads is generally not explicitly quantified in any actuarial rating model, although it is obviously a factor. Quantifying the risks borne by insurers – specifically due to the adverse state of our roads – is a very complex exercise," says Dube. "However, it must be remembered that a lot of work on our roads have been done and we have seen traffic congestion easing on those roads that have been completed. In the long run, if we continue improving the state of our roads, our claims frequency will significantly reduce and this will be reflected in the premium insurers need to charge to take on the risk."

Pravin Pather, technical and risk specialist at Centriq Insurance believes the state of the roads underscores the critical importance of vehicle insurance. "Considering the increasing number of accidents and the escalating costs of repairing accident damages, it is crucial that all vehicles have at least third-party insurance to cover any accidental damage caused to a third party's property. However, it is becoming increasingly important to have own damage cover as well as the vast majority of vehicles on our roads are uninsured, which means that a vehicle owner is unlikely to recover the costs of repairs from the third party who caused the accident."

Fact Box

- less than 30% of all vehicles on South African roads are insured
- the minimum average cost of repair following a motor vehicle claim is R16 000