

PRESS RELEASE

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INSURANCE GRATIFICATION WITHIN REACH

Pravin Pather, technical and risk specialist at Centriq Insurance discusses the role of insurance ethics in consumer gratification

When undertaking an insurance transaction via a professional, independent broker the consumer generally expects some form of instant gratification to materialise. A registered broker is, after all, legally obliged to advise the consumer correctly.

The consumer has legal recourse against the broker for any failure in delivery e.g. where the broker neglects to perform a proper needs analysis, fails to reconcile the outcome of the needs analysis with the consumer or where the broker's actions results in a financial loss to the consumer, among others.

Take Policyholder X's R1-million Porsche motor claim settlement, for example. Policyholder X will risk receiving his indemnity if his vehicle is underinsured. E.g. If the Rand / US\$ exchange declines from R 7 / US\$1 to R10 / US\$1 and Policyholder X neglects to adjust his Porsche's insured value by 30%, he will be indemnified less 30% or R300 000 in monetary terms. The insured, otherwise known as Policyholder X, may therefore have a R300 000 claim against the broker.

It is also important to note that it severely prejudices the insurer if Policyholder X makes a conscious decision *not* to purchase a 30% increase in cover at a 30% increase in cost at a time when his disposable income is under pressure.

The insurer on the other hand risks his reputation. The insurer would also most likely have to pay for a partial damage repair claim without having collected an adequate risk premium into his risk premium pool.

This means that other policyholders in the risk premium pool are prejudiced too as they would have to subsidise the short payment of the insurance premium pool through future premium increases. And so the cycle perpetuates itself.

LACK OF TOP-UP COVER

The failure to purchase Motor Policy Credit Shortfall Cover Extension, otherwise known as Top-Up Policy Standalone Cover, also comes as a devastating cost to consumers and their financiers. This is due to the fact that the consumer and/or his broker often neglects to purchase this type of cover, meaning motor claims often result in a total loss motor settlement with a portion of the loss being uninsured. This is a cause for great concern as a large portion of South Africans employed in the formal sector commute with a private motor vehicle.

And even though most motor policies indemnify the motor policy holder at the current listed retail price, the reality often is under-insured and unsecured debt for the consumer and the financier as the market value of a vehicle declines.

LAX MAXIMUM FINANCE ABUSE

An unsavory but relatively well known practice is that of a motor retailer abusing the lax maximum amount a bank would finance when a vehicle is purchased. By doing so, debt from the trade-in vehicle is added on to the purchase price of the new vehicle under the guise of extras fitted and invoiced, or when the retail price is generally discounted in the market. This results in the capital owing on the purchased vehicle not being reduced in good time, which is harmful to the consumer. This is because of the rapidly declining equity in the retail value of the financed vehicle, not to mention the prejudice that insurers are exposed to when underwriting this credit shortfall.

AVOID FALLING PREY

It goes without saying that consumers should always exercise due care when entering into any contractual agreement.

The insurer has to produce a simply worded Standard Policy Wording that supports his intention if not obligation to contract with certainty. The insurer and the broker is also obliged to declare all clauses which are not widely practiced by most of the insurance market.

That said, the consumer and his broker/representative should make an effort to accurately insure and declare the risk exposure of the subject matter. The insurer should then underwrite or ignore the pertinent risk details at its peril.

This practice of disclosure and review should be continuously updated as soon as the position of the policyholder changes. If effort is continuously made by both parties to declare and review all information in terms of the insurance contract, then in theory, instant gratification should also manifest itself to the consumer following a more substantial indemnifiable loss.

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