

PRESS RELEASE

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Money for your mileage

Mark Stone, client manager at Centiq Insurance, discusses trends in South African motor insurance

Motor insurance is one the most essential insurances, especially considering the constantly escalating accident rate along with increasing crime trends.

But just how affordable is motor insurance these days and why do the premiums continue to increase? Recent research by Pricewaterhouse Coopers indicates that the rate of premium growth in the South African insurance market considerably outstrips its counterparts in the rest of Africa. It states that the South African industry accounts for 93% of Africa's life premiums and more than half of non-life premiums.

Mark Stone, client manager at Centriq Insurance conducted an investigation into trends in the motor insurance market and has a clear idea of factors attributed to the increase in motor insurance premiums.

To put it into perspective, Stone says that in 2007, motor insurance premiums accounted for 45% of the total insurance market or R19.17bn. This compared to the 44% or R16.54bn of the market in 2006, reflecting a 13,16% increase year-on-year. "Given that the general motor book ran badly again during 2008, this increase will continue to rise," he says. "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 increase. “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, road rage – the list continues.”

Stone also points out that the global recession will only start to adversely affect South Africa this year, which will result in the increased demand for second hand parts and therefore an increase in thefts. “The global recession may also lead to fraud by repairers

to keep margins up, while the weakening rand will result in the increased cost of parts for imported parts.”

And, says Stone, the decrease in new car sales will result in an increase in the cost of parts to keep the manufactures margins up.

While there are numerous factors that are negatively affecting the increasing cost of motor insurance premiums, the question remains: can you really afford to live without it?

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