

Compulsory insurance vital for SA - but management a challenge 31 August 2010
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Wilhelm von La Chevallerie, Actuarial and Risk Services Director at CIB Insurance
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Compulsory third party motor insurance ? which the government has said is currently
under review - should ultimately result in lower premiums for South Africa's insured
motorists. However, it is vital that the scheme is properly managed to ensure that
motorists do not end up forking out even more than they do currently.

According to Wilhelm von La Chevallerie, Actuarial and Risk Services Director at CIB
Insurance Solutions (CIB), any potential problems are likely to depend on the exact
structure that the compulsory third party motor insurance scheme takes. ?We would
expect any project like this to have some initial teething problems; however, it is vital
that for the long-term sustainability of such a scheme, it should not become an additional
financial burden to the taxpayer. ?

Von La Chevallerie says, however, that the administration and funding of compulsory
third party motor insurance may also end up as the responsibility of the local insurance
industry, as opposed to a scheme similar to the Road Accident Fund (RAF) being
established.

Should the insurance industry carry the risk and administer this cover he cautions that
policyholders may be exposed to opportunistic underwriting and premium fluctuations.
?We do expect, however, that once the scheme is up and running and any issues have
been ironed out that the consumer should be better off in the long-term. ?

Whatever structure the compulsory insurance scheme does eventually take, it is a crucial
development for South Africa's motor insurance industry. A statement released by the
South African Insurance Association (SAIA) earlier this year suggested that only
between 30% and 35% of vehicles on South African roads are insured, meaning that of
the 9.5 million registered vehicles, only 2.85 million are insured.

?Higher traffic volumes coupled with an increasing number of unroadworthy and
uninsured vehicles, and a road-network that is under increasing pressure, means insured
motorists in South Africa have been exposed to an increased risk and escalating costs. ?

He says an increasing proportion of accidents involve uninsured vehicles, resulting in
lower recoveries (and higher tracing expenses) on the part of the insurer. ?Ultimately this
leads to higher claims costs being borne by the insurers, which in turn puts pressure on
loss-ratios and ends up in higher premiums for consumers. ?

?The success of a compulsory third party motor insurance scheme will ultimately depend on the policing of vehicles and control of potential corruption of administration schemes. It remains in the government?s best interest to ensure that the insurance industry as a whole is sustainable, including motor insurance and effectively managed, compulsory insurance should do just that. ?