

Media Release
Actuarial Society of South Africa (ASSA)
25 November 2020

Spring clean your short-term insurance cover before taking a decision to cancel

The economic shocks triggered by the Covid-19 pandemic have forced the majority of South Africans to revisit their monthly budgets and to tighten their belts, often right down to the last hole or even beyond. For many, doing away with grudge expenses such as short-term insurance premiums has become a very real consideration.

Deshni Subbiah, chair of the Short-term Insurance Committee of the Actuarial Society of South Africa (ASSA), says when consumers are faced with immense financial hardships, the last thing they want to hear are blanket statements such as “whatever you do, don’t cancel your short-term insurance cover”. Subbiah adds that when the choice is between having short-term insurance cover or a roof over your head and food on the table for your children, the decision to cancel your cover may, at that moment of extreme hardship, seem like the obvious decision to make. However, this may not be the right decision.

She cautions that a better approach would be to rationally weigh up how much risk you could financially absorb should something happen and critically consider what type of event could cripple you and your family financially before you take the decision to cancel all cover.

She explains that consumers who understand the importance of insurance cover realise that they need to weigh up the financial consequences arising from risks that they are exposed to on a daily basis against the cost of an insurance premium. Unfortunately, she adds, this requires the unpleasant task of considering that something bad like, for example, a car accident, hijacking or break-in could happen to you and your family.

According to Subbiah, the majority of South Africans prefer not to ask the “what could go wrong” question, with the consequence that approximately two thirds of all cars on South African roads are uninsured.

“If you are prepared to consider the ‘what could go wrong’ question, you would realise that if the majority of vehicles on our roads are not insured, the chances are very high that a road accident would probably involve at least one uninsured vehicle. If your vehicle is also uninsured, would you be able to cope with the unexpected costs of an accident? Also consider that if you were at fault, you would also be liable for the damages of the other uninsured party.”

Subbiah points out that if your financial situation was already so dire that you cancelled your short-term insurance to make ends meet, an event like a car accident, a hijacking, a fire in your home, or theft as a result of a break-in could significantly worsen your situation.

She reports that short-term insurers have seen a spike in claims as a result of car accidents since the hard lock-down was lifted. The majority of claims from consumers are

for motor vehicle accidents and the second highest number of claims are submitted for theft as a result of break-ins.

Take stock of your existing cover

Subbiah says that stress and emotions generally lead to poor long-term financial decisions. Therefore, before you cancel your entire short-term insurance policy, a better approach would be to work through the policy schedule and relook at your cover.

You may find, for example, that you are paying an additional premium for specified items such as jewelry, photographic equipment, bicycles, and laptops which you may no longer have. You may also at some point have added vehicle hire to your motor vehicle insurance.

Subbiah points out that all these small items add up and you may find that by doing an audit of your existing insurance cover and selecting necessary cover only, you could reduce the premium you are currently paying significantly without compromising your financial wellbeing.

She adds that by accepting a higher excess, you could further reduce your monthly premium. Just make sure that you have the excess amount saved for in case you need it.

Subbiah recommends that consumers sit down with an insurance broker or a financial adviser and do a needs analysis. This analysis may point out potential risks that you may not have considered. In addition, insurance brokers and financial advisers can also give advice on how to reduce insurance premiums without compromising your financial security.

Subbiah adds that you can also approach your short-term insurer to discuss options that may enable you to keep essential cover while at the same time reducing your premiums.

Questions to raise with your broker or short-term insurer:

- When last was your insurance premium for your vehicle adjusted to allow for depreciation? This should be done annually. This question is important because, generally, as the value of your car reduces, so should your premium.
- Insurers aim to reward good driving behavior, such as not driving at night or using public transport for commuting, so find out whether your policy and premium adequately reflects your personal circumstances.
- If you find that you are not driving as much as you used to, speak to your insurer or broker about an insurance product where your premiums are dependent on the mileage that you cover. If your mileage is low, you may qualify for a reduced insurance premium.
- If you opt for a higher excess amount, by how much can you reduce your monthly premium? In the case of a claim, you would be expected to pay this higher amount for the excess, but at least you will not be liable for the full cost of the loss or damages that you incurred.
- Expensive cars are expensive to insure. If you are already struggling to make ends meet, consider getting a basic car that is fuel efficient and not expensive to maintain.

- Go through your policy document with your broker or financial adviser and make sure you know exactly what you are covered for. Also check that you are not paying for items you no longer own or cover you don't need.
- If you still cannot free up enough money to cover your monthly insurance premiums, consider amending your motor insurance cover to third-party only, at least until your finances have recovered. If you have third party cover, your insurance will pay for damages to another vehicle, but not yours and in many instances will also offer legal cover to assist with the recuperation of costs from accidents where you were not at fault.

Subbiah concludes that: "You have worked hard over the years to acquire your assets – your home, your car, and your belongings. Make sure that you have appropriate insurance cover in place to protect you financially should that 'what could go wrong' scenario materialise. Let your insurance company take on that risk for you so that you can sleep easy, during these difficult times, knowing that you are covered."

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