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Combine a poor credit record with insurance hopping, and you may just end up with an unaffordable insurance premium

A telesales agent bypasses your spam call blocker and entices you to switch your short-term insurance cover to another insurer by promising a lower monthly premium. With money tight and a growing mountain of debt to whittle down, you agree.

A couple of months later, your financial juggling act helped you pay off your car, but in the process, you defaulted on some debt and landed a court judgement against you. In desperation to keep at least your car insured, you try to switch to another insurer again, hoping to reduce your premium even more. This time, however, the insurance company notices a default judgement on your credit record, along with a caution from the credit bureau flagging you as an early cancellation risk. Based on this information, the insurer offers a significantly higher premium or possibly declines to cover you.

At this point, according to John Wessels, actuary and member of the Short-term Insurance Committee of the Actuarial Society of South Africa (ASSA), you are unlikely to find a short-term insurer willing to provide you with cover at the same premium you had before the judgement. Wessels explains that this is because your impaired credit record is not the only reason short-term insurers will no longer want your business. Ironically, your willingness to switch insurers also affects your premium.

"Consumers generally think that the insurer requests only a credit score from the credit bureau. In reality, the credit bureau provides the insurer with a comprehensive report outlining the risk you present, most notably fraud and lapse risk."

Wessels points out that credit bureaus gather a lot of information about consumers, not just their credit records. "Every financial step you take is recorded by a credit bureau: where you bank, whether you have a mobile phone contract, your credit purchases, debt defaults and court judgements, whether you jump around between insurers, how often you claim, and even your marital status and how many dependents you have. Any information you provide on a credit application is shared with credit bureaus, along with your payment history related to the agreement."

He explains that credit bureaus use this information to create insurance-specific scores on consumers who apply for short-term insurance cover. "These scores are calibrated specifically for the insurance industry by linking the credit and financial data they have on you with your insurance claims data."

Wessels explains that there is often a relationship between financial health and insurance claims, with the general theory being that people who are responsible with their finances tend to be responsible with their assets as well. Equally, he adds, the more desperate a consumer's financial situation, the higher the incentive to commit insurance fraud.
While the credit bureau models are proprietary and not even the actuaries know exactly how the various bits of information are weighted to produce your insurance score, Wessels says the following will impact your score and therefore your premiums:

- Are you responsible with debt and up to date with payments?
- Is your car payment reasonable given your income? People living on the edge of their affordability are less likely to maintain the vehicle as well as they should.
- Do you jump around between insurers or request quotes from different insurers too often? All insurers, even those that entice you to switch, prefer loyal customers who stay longer, making it easier for the company to recoup sales costs over time.
- Do you have a family? Insurance statistics show that men, in particular, seem to become more responsible when they have a family.

Honesty is critical

While short-term insurers tend to rely heavily on the insurance score provided to them by the credit bureau when assessing your application and determining your premium, your honesty when applying for cover will determine whether claims are paid.

"Insurers will check at claims stage that the information provided by the customer as part of the application process was truthful," says Wessels. "This usually relates to the regular driver of the vehicle, the type of use, the day and night address, and whether the client has had their insurance cancelled elsewhere."

If, for example, you insure your vehicle for personal use to benefit from a cheaper premium, but use it for business from time to time, your insurer is entitled to dismiss your claim should something happen and also cancel your policy even if the claims event did not occur while conducting business. This is because you were dishonest when you signed up for the policy and the premium you paid was lower than it should have been for your risk profile.

Wessels also points out that it is critically important to read the policy terms and conditions when applying for a policy, as exclusions are usually listed there. This could include the obligation to inform your insurer of an address change, as it may affect your vehicle's security.

"When it comes to insurance, the insurer relies heavily on your honesty and willingness to disclose important information when making underwriting decisions. The insurer is entitled to check that you were honest when you submit a claim, because if companies had to pay all claims without question, fraud would skyrocket, leading to higher premiums for all customers."

Wessels concludes that insurers also need to be careful not to reject claims unreasonably, which can erode customer trust and invite regulatory trouble.

Wessels adds that when insurers get it wrong, you are entitled to appeal a claim decision by submitting a complaint to the National Financial Ombud (NFO).

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To set up interviews, please contact:
Lucienne Fild
Independent Communications Consultant
082 567 1533
lucienne@fild.co

Issued on behalf of:
John Wessels
Actuarial Society of South Africa (ASSA)

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