Media Release

For Immediate Release

Beware of low insurance premiums normally accompanied by high excesses and limited cover

Comments from the Ombudsman for Short-Term Insurance on the caution that needs to be applied when considering taking out insurance with low premiums and limited cover/high excesses.

10 July 2018 – Johannesburg: When insuring valuable property, the duty is on you, as the owner of the property, to make sure that sufficient cover is provided by the policy before purchasing the insurance product. An insurance policy is a binding contract, which, like any other type of contract, is subject to specific terms and conditions. A lot of emphasis is placed on educating consumers about complying with specific contractual terms and conditions. This is because a failure to comply may lead to devastating results including the rejection of your claim. But what of limiting clauses or restrictive terms contained in the policy wording? Not taking careful note of these types of clauses may be as devastating at claim stage as being in breach of the policy conditions. Here's why.

Even though advertisements professing the ease and simplicity with which an insurance contract can be entered into are common place these days, taking out insurance is a serious business. It also remains a grudge purchase to those of us who are already cash strapped in today's tough economy. For most, the premium payment adds unwanted and unaffordable costs to the already high monthly instalments that we are paying in order to have the benefit of the property or item. It is only natural to want to keep the insurance payment as low as possible. Herein lays a trap that many a hapless policyholder has fallen into.

Nothing, or very little, is for free in life and this applies to insurance as well. Although shopping around for better premiums may land you a very competitive "*price*", if it looks too good to be true, it often is. Alarm bells should be going off when a quote for insurance cover appears disproportionately low to what you are accustomed to. Very low premiums often mean very high excesses or limited cover.

It is a fact that insurers will increase the excess as the premium comes down. Some insurers charge low premiums for comprehensive insurance cover and have low basic excesses. This seems like a win-win until you realise that the insurer charges more than one excess for a single loss, which is applied *cumulatively* and *in addition* to the basic excess. In other words, they are added together one-by-one and are charged over and above basic excess. Examples of the types of excesses that are added to these types of policies include first time insurance policyholder excess, licensed driver for less than two years excess, single vehicle accident excess, accident between the hours of 10pm and 4am excess and so on. Imagine that a policy has a basic excess of R10 000 and an additional R10 000 cumulative excess for each of these examples. If you are a first time insured who is a newly licensed driver and you hit a pothole late at night which results in an accident, your insurer will be entitled to deduct R50 000 from the amount that it pays to you!

Excess clauses are specifically named as limiting clauses in The Policyholder Protection Rules (a.k.a PPR) and therefore must be disclosed by direct marketers at sales stage **before** the inception of the policy. Therefore, the cost of the policy should not just be a consideration of how much the premium will leave you out of pocket, but also what excess or excesses will be payable when claiming. While you may be tempted to say "*Yes!*" to lower premiums, because a claim will never happen to you…. beware the consequences of the choice at claims stage.

Very low premiums or guarantees of a fixed premium may also be an indication of limited cover. Not all insurance policies provide comprehensive cover. This is very important when considering motor insurance. As soon as the consultant uses the words "*limited cover*", "*not comprehensive*" or "*build your own cover*", beware! It is not a comprehensive policy that the insurer is selling to you. When considering limited cover insurance, always ask the marketer or insurance representative, "*What does the policy NOT pay for?*" When considering the premium paid for limited cover, you may actually find that it is expensive for the cover you receive in return. Again, think of the consequences at claim's stage.

While low premiums are ideal, always make sure that you know what it is going to cost you at claim's stage. If you agreed to more than one excess or the basic excess is high, you may for example end up paying as much as R70, 000 excess on a R100, 000 claim and the insurer will only pay R30, 000.

Where you take out limited cover insurance, you may not even have cover for repairs to your own vehicle, towing of your vehicle from the accident scene or any cover at all until a number of consecutive premiums are paid.

Always know what you are paying for and nowhere is this truer than with insurance policies. Know your premium. Know the limits to your cover. Know your excesses.

About the Office of the Ombudsman for Short-Term Insurance

The office of the Ombudsman for Short-Term Insurance is an independent organisation appointed to serve the interests of the insuring public and the short-term insurance industry. By applying the law and principles of fairness and equity, it resolves disputes between short-term insurance companies and their clients.

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