Insurers may shift costs to clients as vehicle claims rise

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Professional services firm KPMG said the motor insurance divisions of short-term insurers are struggling as the average costs of claims increase and there are concerns that consumers will in future have to pick up the additional costs.

However, with consumers already under financial pressure, short-term insurers would have to respond to the challenges in a tactical way if they did not want to alienate clients.

"The average costs of settling claims were higher than thought. The average value of claims is now higher than what was seen before," Gerdus Dixon, director of financial services at KPMG. "Everybody is struggling with the motor insurance. We think that this may lead to the consumer picking up the additional costs of insurance."

Dixon, speaking following the release of the KPMG South African Insurance Survey 2013, said there was an expectation in the current reporting season for short-term insurers to report a deterioration in the loss ratio.

KPMG's 16th annual insurance sector survey called on the insurers to be more vocal about their achievements in order to improve their image with the public and the government.

High claims hurt profits

An example of the value of short-term insurance was that the sector had absorbed R2.1bn in hail and fire damage claims in the final quarter of last year.

The prompt settlement of these claims allowed the economy to remain unaffected by these losses.

The financial results of Mutual & Federal, the short-term insurance division of Old Mutual and SA's second-largest general insurer, demonstrated how tough the market is. Its adjusted operating profit dwindled in the six months to June from £31m last year to just £10m this year.

Sanlam, the owner of SA's largest short-term insurer, Santam, reported in its operational update for the first four months of this year that all of its businesses had reported strong earnings growth with the exception for Santam.

Santam said in its operational update that its profitability remained under pressure, partly because of a high level of claims and flood- related claims in Limpopo in January, and an increase in fire claims in commercial businesses.

Mutual & Federal's chief executive Raimund Snyders said last week that with the new generation of cars there had been an increase in write-offs as the costs of repairs were very high. The weakening of the rand had also posed a challenge for motor insurers as parts have to be imported.

Dixon said motor insurers would have to settle claims in a more efficient way by bringing down costs.

Source: Business Day via I-Net Bridge