

COMPULSORY MOTOR VEHICLE INSURANCE?

July 2010

The government's plans to make third party vehicle insurance compulsory for all South African drivers is likely to lead to a reduction in motor insurance premiums for those motorists who are already paying to insure their vehicles.

A few years ago, I witnessed a motor car accident scene on De Waal Drive, Cape Town, near the "famous" Hospital Bend! In peak hour traffic, a gentleman driving the proverbial rust bucket went into the back of a Mercedes Benz sports car. I remember asking myself: what are the chances that the "rust bucket" was insured??

According to Leigh Friend, Johannesburg Regional Manager for MUA Insurance – the executive home and motor insurer – the fact that more vehicles will be insured means that there will be a bigger premium pot for insurers. "Ultimately what this means is that lower premiums will be passed on to consumers, as the losses of the few will be compensated by the contributions of the many."

Friend says the idea of establishing a compulsory insurance body is crucial in a country such as South Africa, where very few motorists currently insure their vehicles. "Research suggests that South Africa has around 9.5 million motor vehicles, of which only around 35% are actually insured and this figure is expected to drop even further."

"Compulsory insurance is also critical for the motor industry as it will ensure an element of stability, allowing more repairs to be carried out, with the result that more of the vehicles on the road will be in an acceptable and roadworthy condition."

He says the scheme is also a very positive development for the insurance industry as the majority of claims are actually as a result of accidents rather than theft.

A report by SAIA showed that in 2002 between 60% and 70% of motor losses were in respect of theft and hijacking. This has now reversed, with only between 20% and 30% of motor claims being crime related and the remaining 70% to 80% being a result of accidents.

Friend, who is a member of the SAIA compulsory third party insurance workgroup, says that while the scheme is still under consideration, people should be aware that there are likely to be limits imposed on costs. "It is highly likely that the maximum amount paid out for repairs may be capped, still leaving those innocent parties with additional repair costs for their own account. Any guilty party will still carry all their own costs, however."

(NB: Insert in the second paragraph regarding the motor accident is by Trevor Daniels, Frontline's national underwriting manager.)