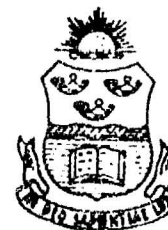


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SUNDAY TIMES

Jg..... Nr..... P..... Dat..... 11 MAR 1979

Cost shock over new political riot cover

**NIGEL
BRUCE
reports**

**What's the price
of protection if
the crunch comes?**

MASSIVE cost increases, which will hit businesses, universities, home-owners and a wide range of other organisations, are contained in the Government's new political riot cover insurance scheme.

On Wednesday the Government revealed privately the cost of this new riot cover and drew immediate protests from large businesses and insurance brokers.

In some extreme cases, obtaining this type of cover could mean rises of about 170 per cent in the total annual fire and combined insurance premiums paid by some undertakings, brokers tell me.

On average, however, it appears from initial studies that businesses could pay about 50 per cent more in premiums if they obtain political riot cover from the Government-backed SA Special Risks Assurance Association (Sasra), which is due to open for business next month.

Rough measure though it may be, the political riot claims experience since 1976

does not appear to justify the substantial rates Sasra has announced, brokers say, although they acknowledge the need for Sasra to build up its reserves rapidly.

Shortly after the announcement of these rates, moves were afoot to arrange a meeting between Sasra and insurance brokers to discuss the cost and conditions of this cover. It is to be held on March 20.

Brokers believe that there are serious anomalies in the rate structure and foresee practical difficulties in the implementation of some administrative requirements announced by Sasra.

TREFWOORDE

- 1 *Prime Minister*
- 2 *SA Special Risks Assurance Association*
- 3 *Vereniging*
- 4 *Mediese*
- 5 *Marshall*
- 6 *Landbou*
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on Sasra's terms its total premiums on fire and riot cover for its R2-billion of properties will jump from about R2,5-million to R4,5-million (an increase of about 78 per cent).

Yet experienced brokers in the riot market say similar cover with the same exclusions can be arranged abroad for an additional premium of less than R1-million.

Educational institutions, where the risk of politically-motivated damage is high, are likely (and understandably) to be the hardest hit. But the danger is that on Sasra's terms this type of cover could just prove to be too expensive.

A university which has property valued at R100-million, could find its insurance premiums sky-rocketing by about 170 per cent from R60 000 to R160 000 were it to cover itself adequately against this risk.

But for smaller companies, motorists and householders, not only is Sasra's cover more reasonably priced, but all that is available anyway, which is why the company was formed by the short-term insurance companies, who will run it and

carry a fraction of the underwriting risk, and Government, which is the ultimate underwriter.

The cost of Sasra cover on a house valued at R30 000 will push the existing annual premium up by only about R7,50 or 20 per cent.

Nevertheless, one brokers tells me that in his opinion, even including Sasra's rate, a house of that value could be insured for an annual premium of between R27,50 and R30 were it not for the stranglehold building societies have in determining rates in this market.

It is hardly surprising, therefore, that some societies have strong links with insurance companies.

Perhaps the best news is that Sasra's charge for insuring the contents of houses is cheap beyond a shadow of a doubt. Goods valued at R10 000 will require only a 2,5 per cent premium increase to buy this additional cover.

The motorist also comes off fairly well. Political riot cover will cost him only an additional R6 a year for cars valued at less than R15 000 and R8 for

more expensive ones.

On a car costing R7 000 that works out at roughly an increase of 4 per cent in annual premiums.

Similarly, a small truck owner will have to pay only R7 a year more in premiums while large trucks will attract an additional R9.

Brokers warn, however, that as many comprehensive motor policies contain elements of political riot cover, motorists should make certain when buying Sasra cover that their comprehensive premiums are adjusted to take the duplication into account.

An anomaly, however, appears to be that the cost of Sasra cover for company-owned vehicles not individually insured will at about R2,50 a year be less than half what the ordinary motorist has to pay for the same cover.

Another anomaly appears to arise from the method of adjusting Sasra's rates according to the distance the insured's immovable property is from a potential danger area, such as Soweto or Alexandra.

A broker has calculated that the increase in the premiums on a R100 000 warehouse in Johannesburg's suburb of Kew, which is close to Alexandria, will be 50 per cent whereas those on an office block of the same value in Randburg, about 10 miles away, will go up by 134 per cent.

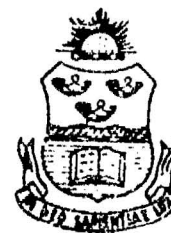
Moreover, no allowance appears to be made for any difference in the political riot risk on a house in Johannesburg's Orchards, which is also close to Alexandria, and one in Blairgowrie, which is on the opposite side of the city.

Nor is it yet clear to what extent the limited existing po-

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SUNDAY TIMES

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Riot plan sparks outcry

From Page 1.

Political riot cover in some fire and combined policies has been transferred to Sasra's cover. There appears to be an administrative problem, too, over political riot coupons being attached to hundreds of thousands of small householder policies and the issuing of them to members of employee group insurance schemes.

The rate for townships, where almost all the damage has occurred in the past, are, in comparison, not too high, especially in view of discount for volume, brokers conclude.

Of course, determining a uniform scale of rates to apply to a vast number of diverse risks must have been an inordinately difficult task and, accordingly, Sasra planners deserve some

understanding while final adjustments are made in the light of wider knowledge.

But it is also true that these planners chose not to seek advice from a broking community that has been forced to acquire skills in the international political riot market in the service of their larger clients; skills which in the light of Thursday's announcements might still prove to be of continuing value to some.

In any event, as the provision of political riot cover in most Western countries is acknowledged to be substantially the responsibility of government, can businessmen be blamed for expecting Sasra's rates to be shaved to the bone initially and adjusted later according to claims experience and the need to build reserves?

Certainly, if all those currently with fire policies decide to take this additional political riot cover, Sasra's first year's premium income would be a staggering R250-million, making it almost instantly the largest insurer in the country.

At that level of premium income, given a year or two of few claims, it will soon have amassed reserves at a whacking pace, which of course reduces government's ultimate, unlimited underwriting liability.

The problem is, of course, that at Sasra's rate demand is likely to be circumscribed. Brokers estimate that only about 25 per cent of the fire market will go in for this cover, which does introduce an element of self-defeatism into the whole grand plan.

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