Preferential rates not given now

Insurance for major firms has doubled

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THE cost of insuring some of SA's major companies has almost doubled this year, as short-term insurers have continued to grapple with prolonged underwriting losses and tough re-insurance conditions.

Steady increases in the cost of industrial and commercial insurance over the past two years are now being felt most sharply by major clients who have previously received preferential rates.

Brokers have reported a complete turnabout in the industry, with rates for most categories of big corporate insurance being renewed far more expensively than last year, when smaller clients bore the brunt of increased premiums.

This change in rating preference suggests that short-term insurance companies have been forced to put their market share at risk in order to return to profitability, as re-insurers have applied pressure by tightening control, reducing capacity and demanding higher premiums.

Previously, direct insurers tended to load their smaller corporate clients and apply relatively smaller premium increases to their major clients, in attempts to fend off fierce competition and maintain market share.

However, as capacity has shrunk and the need to recoup major underwriting losses has forced reinsurers to reduce their exposure, it has become more difficult for direct insurers to place major risks. Reinsurers have demanded higher income to justify the risks.

In certain cases, rates for some of the large categories of property and liability cover (normally including fire, consequential loss, crime and liabilities) have been pushed up by between 80% and 100%, while smaller increases in these categories have not been much less than about 35%, according to PFV's Den Gallimore.

Not only has insurance become more expensive. Certain vital areas of cover have tightened up considerably as a result of disastrous claims experience.

According to Willis Faber Enthoven broker David Way, fidelity guarantee insurance which covers employees against

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TREFWOORDE

1. Lambert Lesley
2. Kommentaar
3. Maatskappye
4. Styginge
5. Koste
6. Premies
7. Versekering
8. SASRIA
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Insurance costs rocket

corporate crime, has become increasingly difficult to purchase, while hail insurance on some fleets of cars in the Transvaal is virtually unobtainable.

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The screws have also been tightened on political riot insurance cover as international underwriters have limited their involvement in SA and increased costs. The SA Special Risks Association (SASRIA) which provides this cover on the local market, recently announced higher premiums.

As the cost of insurance has grown, major companies have taken on greater portions of insurance risk, by creating special self-insurance funds and increasing their excesses.

This trend is expected to gain momentum. Already many of the bigger Transvaal companies are estimated to be self-funding up to 40% of their high-frequency low-value risks and paying premium for the remaining 60%.

Many are paying premium and self-insurance costs in excess of R2,5m and rising costs are forcing some companies to reduce cover on major hazards.

Self-insurance has also been introduced into the personal insurance market, where premiums have increased although not as dramatically as in the corporate sector. One leading company has increased premiums in the hail and storm category for individuals living in Pretoria by over 80%. This was because of disastrous claims experienced after last year's Transvaal hail storms.