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Die Universiteit van die Oranje-Vrystaat



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LONG-TERM

The lurking bomb

The rise in the incidence of urban terror has important implications for policyholders and life offices alike

In recent years, the incidence of riot, and more especially terrorist activity in SA, has been on the increase, and there is considerable public awareness of the fact, says Ian McDonald, pensions marketing manager at Norwich Life.

Added to this, a war situation has existed in Namibia and Angola in which national servicemen have been involved. Some of these are undoubtedly members of their employers' personal health insurance (PHI) scheme.

McDonald says one of the advantages of group PHI contracts (which are underwritten by long-term insurers), as against short-term group personal accident policies, is that PHI contracts are non-cancellable. That is to say the cover cannot be cancelled by the insurer, provided the premiums continue to be paid as and when due.

As a result, and in order to protect themselves against the possibility of a greatly escalating incidence of related disability claims (for which the standard premium rates do not make allowance), insurers have found it necessary to add riot and terrorism exclusions to the standard war-exclusion clause.

In practice, says McDonald, where a claim associated with riot or terrorism has arisen, most insurers up to now have admitted these claims on an ex-gratia basis. But it is worth noting that such claims have, so far, "been few and far between."

The most recent development is that some insurers are offering to remove the entire war, riot and terrorism exclusion in return for an additional premium of between 5% and 11% of the standard rate.

On the face of it, this looks like a worth-

while exercise, but is it?

Normal practice is for this additional cover to be fully reinsured on a short-term basis (generally overseas) subject to a cancellation clause. This allows the reinsurer — for any reason — to terminate the cover at a month's notice, thus introducing a cancellable element into an otherwise non-cancellable contract.

It is not difficult to anticipate what would happen to this cover in the event of an escalation in claims related to riot and terrorism. So clients are paying these additional premiums for very limited additional security.

"We at Norwich Life take a very different view, in that we are strongly opposed to introducing any cancellable element into our contracts. The approach we have taken, therefore, in order to protect ourselves from possible extreme incidents, is to state in our contract that disability as a result of riot or terrorism is specifically covered, but that the maximum total amount of all claims we will admit under any one scheme in respect of any one incident is R15 000 benefit a month. This is a standard provision included in our standard rates," says McDonald.

Norwich feels that if the riot and terrorism situation in SA continues in its present pattern or even continues to escalate, it will very rarely (if ever) be necessary to impose this limitation. And Norwich feels it is providing the degree of security required by its clients — now and in the foreseeable future — within its standard rates of premium.

AA Life deputy GM (marketing) Bruce Howard says any analysis of the individual's

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nr.
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Onderwerp
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110246

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life assurance requirements should not exclude the very real possibility of injury or death resulting from terrorism.

Acts of terrorism are becoming of increasing concern to the man in the street, as the death toll mounts from these activities, says Howard. Since May 1985 more than 1 000

people have been injured and many killed as a result of terrorism directed at civilians. "Understandably, policyholders have begun to examine their life policies more carefully in order to determine just how well covered they are against this contingency."

It has been practice among life assurers to provide cover against the risk of death, but when it comes to accident and disability benefits, the policy wording often excludes cover against harm incurred through terrorist incidents.

In this context, AA Life was the first life assurer to liberalise and reduce its accident and disability exclusions, thereby providing up to R500 000 in the event of injuries sustained by victims of acts of terrorism, says Howard.

"Because AA Life does not believe in reams of fine print, there are none of the usual exclusions that would have precluded payment in any of the cases recorded. This is in line with AA Life's policy of providing benefits for the living. Unfortunately, indiscriminate acts of terrorism are fast becoming part of SA life. Now, more than ever, policyholders will have to pay attention to this aspect of life assurance planning."

Sanlam senior GM Johann Söhnge explains that in terms of the Insurance Act (Section 19), in general a life policy may not exclude liability for death in military service.

To understand the implications of this provision in the case of life assurance policies it is necessary to distinguish between two kinds of cover offered by life offices: benefits payable on death from whatever cause and benefits resulting from disablement or from death as a result of an accident or a particular disease.

Only the former is life business; the latter is personal accident business and, in general, may not be conducted by life offices. And note, says Söhnge, that personal accident business also embraces cover against the effects of a disease. A life office may, up to certain limits, add personal accident benefits to a life policy, or a life office may conduct a particular kind of personal accident business

with the approval of the Registrar of Insurance.

The prohibition in the Insurance Act of the exclusion of liability on death in military service is applicable only to life business, not to personal accident business.

As far as the normal benefits payable on death from whatever cause are concerned, a life office is not allowed to exclude all war risks. It is common practice for all life offices to grant full cover against war, riot and terrorism.

But many life offices, including Sanlam, exclude — for personal accident benefits — repercussions arising from hostilities, terrorism and similar events. Notwithstanding, Sanlam has up to now paid every claim for personal accident benefits arising from hostilities or terrorism, in spite of the relevant exclusion clause in its policy contracts.

"We would like to continue to do so," says Söhnge, "but in our view it would be finan-

cially unsound to remove the exclusion clause from the provisions of our personal accident benefits. If circumstances should change to such an extent that they cause severe financial implications, we would have to change our present policy of making full payments in all these cases. We hope it will not become necessary."

Liberty Life joint MD Mark Winterton says all full-premium life policies provide cover against war, riot and terrorism. Life companies usually protect themselves

against catastrophic risk by means of a "catastrophe treaty" of reinsurance. At present this can be provided only by sources outside SA.

There is no internal, government-supported body (comparable with Sasria for short-term insurance) that provides a facility for life assurers. And catastrophe treaty cover is renewable only on a yearly basis. "If there is a bad experience in any year — bearing in mind the possibilities arising out of politics and sanctions — it is unlikely that a treaty

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would be renewed the following year at anything like an acceptable cost.

If this overseas support were to fall away, local insurers would undoubtedly have to be more discriminating in providing cover," says Winterton.

The *FM* asks: what price a new kind of Sasria to provide a strong reinsurance umbrella to SA life offices so as to ensure full and guaranteed disability cover to victims of terror, now and in the future? Government should take the initiative. ■

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