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Sasria's spurious argument

You may have heard that the SA Special Risks Insurance Association (Sasria) has just sent out a circular to insurers advising them of a rate increase effective September 1 2009.

This increase is iniquitous. I am not sure of the actual percentage increase, but their justification is laughable. They maintain that "Sasria generally experienced a low claims ratio but over the past six years its risk exposure has increased dramatically. Sasria needs to build up its capital in order to cater for this increased risk exposure." This argument is absolutely spurious.

The overall loss ratio for the association in the past 10 years is less than 30%. They charge a rate percent based on the sum insured of the risk, so their premium escalates in line with their increased exposure and inflation. And they purchase catastrophe excess of loss reinsurance in the international reinsurance market for protection against a catastrophic loss, or series of losses.

Government, which is the sole shareholder, has extracted literally billions of rand as "dividends" over the past 10 or so years.

If any other monopolistic insurer had the temerity to try to increase rates with that loss ratio, there would be questions from government as well as consumer groups and corporate governance agencies.

Commercial insurers competing in the real world generally operate at a combined ratio (losses and expenses as a percentage of premium income) of well over 90% — Sasria's combined ratio is likely to be well under 50%.

I don't know what their justification can possibly be for increasing their rates in the current economic environment. Either there is an expectation of significant political unrest that is not being disclosed to the public, or more likely government sees this institution as a vehicle for increasing their revenue collection by way of a further stealth tax — either way they are being disingenuous.

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