INSURANCE - When ignorance can be misery...

Risk

...what you need to know to avoid disaster

We can confidently say that it is not possible to buy bad insurance, only insurance that is a bad fit... All insurers in SA are held to a very high standard but insurance can be a very technical subject. There is always a mountain of paperwork afterwards, lots of disclosures, and rules that can be quite intimidating to read, never mind understand. The problem is that within these rules lie the reasons most insurance claims get rejected - rules that most people do not read or understand. Throughout our decades of collective insurance experience, we have found that the following are the most important insurance concepts, rules and standards that regularly lead to disputes when insurance claims are made.

Read your documents:

It is very important that you read over your insurance policy and confirm that you have the correct insurance cover and amounts. Just because you think your new car is insured, does not mean that it is... it also helps for you to know what you are actually covered for, for example, some insurers will cover groceries that went bad in your car because of an accident, or even cover some of your medical bills... you might even have cover for your bar-tab at the golf-club if you hit a hole-in-one!

Average:

If you do not insure an asset for the correct full amount, you do not have full cover. For example, if your household contents are worth R1,000,000 but you only insure it for R800,000 ANY claims relating to the contents will only be paid in the same proportion. Clothing is most often under-insured. How many hangers do you have in your closet? If each hanger will on average cost R500 to replace and you have 45 hangers, it adds up quickly; then add shoes, underwear, casual wear and suddenly you are at R100,000 per adult and R70,000 per child.

Indemnity:

While average (as explained above) applies to when you are under-insured, you cannot intentionally over-insure an asset and be enriched after a loss. Short Term insurance is primarily based on the concept of indemnity – placing you back in the same financial situation you were before the covered event occurred. Insurers also have the option to replace, repair or pay out in cash to place you back in the same financial situation.

Regular Driver:

If a vehicle is insured with one regular driver, the premium is based on the risk profile of that driver. If anyone else drives the vehicle on a regular predictable basis, it is highly advisable to nominate a second regular driver. If the regular driver changes to someone else, your insurance must be updated accordingly.

Security Warrantee:

Your insurance might specify that you must have certain security measures in place for them to be able to be to give you cover. For example, all opening windows on the ground floor must have burglar-bars, all entrance/exit doors must have security gates and when no one is at the premises the alarm must be activated.

If these are not adhered to it can lead to an insurance claim not being paid out.

Due Care:

Insurance will always judge your actions in the light of "did you act like someone who doesn't have insurance cover; like someone who will have to pay any damages/losses in full themselves". For example:
- "Did you lock up your house like someone who does not have insurance?"
- "Did you drive your car like someone who does not have insurance?"

If you are found to not have acted with due care, you may have serious problems convincing your insurance to pay your claim.

Insurability:

Do you have the right to insure an item? Only if you stand to suffer a loss if something were to happen to that item. For example:
- I cannot insure a stranger's car, because if something were to happen to his car, I would not suffer any ill effect, thus I do not have insurability on that vehicle;
- If you insure your friend's house, you will not be worse off if his house burns down – you will not have a responsibility to rebuild his house, thus you do not have insurability on his house;
- if a parent buys their child a bicycle, the parent will have to replace the bicycle if it was stolen, so the parent does have insurability on the bicycle.

Insurance will only pay out a claim if there is insurability between the policyholder and the owner of the insured asset. Insurability must exist both when the policy is started and when a claim is submitted.

Brutal Honesty:

Another concept to remember when insuring or claiming – honesty is absolutely key! You must be 100% open and honest when working with any kind of insurance. Your insurer is very strictly regulated by various legislation and rules, and insurers make great effort to abide by these… and they expect the same in return from you. One of these rules is known as "Good Faith": It is based on fairness in the presence of Information Asymmetry and it means that the one who knows more about something, must disclose more about it to allow the other to make an informed decision. You know more about the risks that need to be insured and catered for, so you must be upfront and honest about these to allow the insurer to make an informed decision about accepting these risks for a fee. The insurer knows more about insurance, so they must let you know more about insurance (hence the mountain of paperwork afterwards). If you were not open and honest about the risks (such as your 19-year-old driving your car to university every day) the insurer has very good grounds to not pay out a claim if they were not given an opportunity to assess the actual risk and acceptance thereof. The same applies when submitting a claim.

Only for the period you paid for:

When a claim ends up being rejected, people tend to immediately try to quote how long they have been paying insurance premiums… unfortunately, this is regarded as irrelevant in the greater scheme of things. Insurance is exclusively for the period covered by the premium paid and everything before or after is not relevant. For example:
- If you miss a premium payment and have a claim you simply do not have insurance cover, even if you paid every other premium in the last 20 years.

But the opposite side of the scale is also true…
- If you take out insurance today for a month and have a valid claim tomorrow, the claim will be paid.

You get what you pay for:

SA has very strict legislation that governs almost every aspect of Financial Services, all with the end-goal to protect the client and ensure absolute fair treatment. SA has gone so far as to deploy a set of rules for Financial Service Providers that actively drives placing "Treating Customers Fairly" at the very core of every Financial Services Provider. You will get what you pay for, but nothing more.

Some insurers manage to discount their premiums by placing more rules and excesses around exactly what scenarios they will cover you for – and these are the **only** scenarios you are covered for. As with the *Regular Driver* and *Security Warrantee* mentioned earlier, an insurer can limit the exact situations you have insurance cover for and charge you a lower premium because the risk they accept is lower. If an insurer accepts your money, they **will** honor your claims, but only within the rules set out in your policy documents. If your claim falls outside the set of covered scenarios you will not be indemnified. The lower the premium, the more rules will apply – which can be perfect for some, but not everyone.

Excessive Excesses:

One effective way an insurer can discount their premiums is by adding extra excesses for certain scenarios. You will have cover for these scenarios, but you may be shocked at exactly how much you have to pay towards the claim from your own pocket… For example, an Insurer may have a standard excess of R6,000 for any car accident, but to be able to offer you a very low premium (and so limiting the risk they accept) the Insurer will also add an extra R4,000 excess if the regular driver was not behind the wheel at the time of the accident, an extra R5,000 excess if the driver was under 25, an extra R3,000 excess if the driver's license is not a code B license and an extra R3,000 excess if the car accident happened between 22:00 and 05:00.

This sounds perfectly acceptable if you are a retired and living alone, but it can be devastating if your 22-year old son asked to borrow your car for a movie-date; you could be in for a total R21,000 excess…

The value of a good consultant:

Gone are the days where just anyone can sell you insurance… Insurance Consultants are now highly trained and regulated professionals with equally high levels of accountability for the advice they dispense. Having an insurance consultant who can offer you multiple different providers ensures that they can build a product perfectly suited to your unique needs. They also have years of experience with insurance claims and renewals and are most often backed up by a support team to help them look after you better and faster.

The old proverb stands true: "*A man who is his own lawyer has a fool for a client*" and a similar version can be said to apply to Insurance. An independent and experienced view of your risk exposure can make all the difference between having some cover and having the right cover - This is why an Insurance Consultant will always be a valued part of any business that is serious about protecting itself, and indispensable to those individuals who realize that the right insurance is the difference between surviving and thriving.

A good Insurance Consultant will help you navigate through the gauntlet of endorsements, warrantees, excesses, exclusions and exceptions. They leverage off years of experience over hundreds of clients to give you the right insurance cover at the right price and support you every day thereafter with the needed amendments, additions and claims.

It can be cheaper to go with a direct insurer, who sells you a single product from a single provider, but cheaper insurance today can be mighty expensive later if you are not covered correctly.

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If you found this useful and interesting, please feel free to distribute it to anyone else who might also find it valuable. We would love this to be spread far and wide as we have a deep-seated passion for Insurance and the customers it serves. If you would like to know more, please get in touch by
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