

# MOTOR INSURANCE MARKET – QUO VADIS?

**T**he industry has been going through quite a tough time in the motor insurance environment over the past two years. The rise in claims frequency as well as quantum per claim has been exacerbated by the current economic environment. With motor sales down and inflation up, pressure on underwriting margins in this sector of our business is at its peak. The saying goes “something's gotta give” and the question is what?

The following questions and comments keep surfacing at functions and via emails to COVER:

- There seems to be many comments that the current pressures will lead to the strengthening of the direct insurers' hand and that online (internet) take up on motor business will increase dramatically. Where does this leave the broker?
- Is there still space for small brokers in the private motor insurance environment? Are we not flogging a dead horse?
- Is the increase in cost of repairs necessarily a bad thing, if rates are appropriate? Will scientific underwriting not sort out this problem?
- When will we see scientific underwriting becoming effective in the broker market?
- What does the future hold in the motor insurance market?

We forwarded these to a few companies and publish some extracts for our readers' interest:

## WHITHER THE MOTOR MARKET (AND THE SMALL BROKER)?

**Mark Haken, Director,  
Renesa Insurance Company**

The announcement of the M&F's results on the 5th August was accompanied by a comment bemoaning the “cyclical nature of short-term insurance results”. No doubt other insurers are experiencing an equally torrid underwriting performance (mainly out of their respective motor accounts), but it is

doubtful that the direct insurers are similarly afflicted. This is because the direct writers have full unfettered control of their underwriting data and are able to re-rate their respective



portfolios real time, all the time.

The answer to underwriting a profitable (motor) insurance account, undoubtedly, lies in scientific data reticulation and management in a real time system, which is well nigh impossible whilst data is held in innumerable broker and administrator bureau systems which pass on to insurers monthly drops of limited

“**A**DD TO THIS THE INCREASING BURDEN OF STATUTORY REPORTING AND COMPLIANCE REGULATION, AND THE LOT OF THE SMALL BROKER IS NOT A HAPPY ONE.”

information in differing formats. From this observation one could conclude that the life expectancy of the small/medium broker is indeed limited, for it is they who provide this limited data to the majority of broker friendly insurance companies.

If one also accepts that the deterioration in motor insurance results is systemic rather than cyclical (and there is irrefutable evidence that this is the case), one needs to compete through clever selection of risks to maintain market share at acceptable loss ratios whilst the market as a whole adjusts its rates and factors to the realities of

the environment. The direct writers have the systems to effectively do this (they have all of their data within their own systems) but most broker dominated insurers are unable to accumulate sufficient data in enough detail from disparate bureau systems to continuously correct underperforming schemes, and, as a result, often resort to unpopular “across the board” increases in rate of anything up to 50% and beyond or to arbitrarily cancelling entire schemes, leaving administrators and small brokers with few and unpalatable options. Add to this the increasing burden of statutory reporting and compliance regulation, and the lot of the small broker is not a happy one.

However, there is a compromise path available which should enable the small brokers to compete effectively with the direct writers while at the same time providing insurers with the data to enable them to underwrite scientifically in real time. It requires an IT system which is flexible enough to satisfy the needs of the broker, but robust enough to feed underwriting and claims data into an insurers' pricing models on a real time basis to ensure

proper scientific pricing to compete head on with the direct writers. Thus one provides the insuring public with a real choice – whether to deal with a service oriented personal broker or an impersonal call centre/internet page – both at competitive terms and conditions.

This model is already available in the market, so I certainly see a future for the smaller broker. As for the motor market, the real challenge isn't extracting a few more rands from an already beleaguered insuring public, but to entice the +75% of the uninsured motor vehicles into the insurance net.