

False claims cost everyone in the end

A TREND within the short-term insurance sector is that claims tend to rise during times of economic depression and job losses.

As a result, the consequences come to light far quicker, says Arnold van der Linde, president of the Financial Intermediaries Association of Southern Africa.

Fraudulent claims have the effect of increasing premiums across the board.

Paying a claim that is based on fraud breaches a basic principle of insurance — that each insured person should pay a “fair” premium for the risk covered, Van der Linde pointed out.

“Insurers are bound to take whatever steps they think are appropriate to limit fraudulent claims,” he said.

“This may result in added delays or administration requirements on insured customers, plus increased costs on the part of the insurers, with the ultimate burden of these costs having to be met by consumers in general.

“It’s not only the insured

population that feels the impact of these additional costs. Businesses faced with increased premiums tend to up the prices of their goods and services, resulting in overall price escalations.

“These, in turn, lead to higher inflation and, ultimately, the loss of even more jobs if companies become uncompetitive in the process.”

A legitimate strategy that would help cash-strapped policyholders is to scale down insurance.

In the case of long-term insurance, this may mean stopping premium payments and paying up policies for reduced benefits. A more drastic action is to cancel the policy entirely. This could result in additional costs for consumers and expose them to risk at a time when they can least afford it.

The same applies to short-term policies if they are cancelled, or a decision has been taken to reduce the degree of cover to an inappropriate level.

“This could have disastrous consequences, and it would be preferable to consult with an intermediary to try to maintain limited cover that will protect the essentials and give sufficient peace of mind,” Van der Linde said.

“There are ways to feasibly cut back on one’s insurance premiums, even if this is only a temporary measure until times get better,” Van der Linde said.

“Some long-term policies offer flexibility whereby the level of savings may be reduced without a decrease in risk benefits. A loan facility could also take care of the premiums for a period of time.”

Van der Linde added that short-term cover may be legitimately reduced in situations where there has been a meaningful change in risk because of a lifestyle adjustment.

For example, where people have been forced to sell off some of their possessions, the overall level of cover should be reduced accordingly.

In these instances, it would make sense to include items of jewellery under “normal” household cover rather than insuring these under expensive all-risks cover, and taking care to store these safely and not wear them, said Van der Linde.

‘There are various ways to feasibly cut back on one’s insurance premiums’