



FOR PROFESSIONALS
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UNDERSTANDING THE INTRICACIES OF MOTOR INSURANCE EXCESS

02 June 2015: When consumers take out a motor insurance policy it is of critical importance that they pay enough attention to the excess structure set out in the policy. This will enable them to have a clear understanding of their financial obligations should they be required to submit a claim, thereby avoiding any unexpected costs.

Nazeer Hoosen, Executive Director: PPS Short-Term Insurance, says that the motor excess plays a vital part of motor insurance. “Motor vehicle owners need to educate themselves about the different options available to them and how each will affect their personal insurance policy.”

Hoosen explains that a motor excess, or the first amount payable at time of claim, is described as the uninsured portion of the risk. “In the event of the car being damaged, the policyholder will be responsible for paying the excess as determined by the insurance provider, while the insurers will pay the panel beater’s cost of repairs, less the excess applicable. In the event of total loss, or should the car be stolen, the insurance provider will pay out the claim in accordance with the indemnity clause stated in the insurance policy less the applicable excess. This means that the claim will be reduced by the applicable excess.”

He says that the motor excess is designed to reduce the overall costs of claims administration and to contain premiums as the insured participates in the costs related to loss or damage to the vehicle. “However, claims falling within the motor excess do not relieve the policyholder of reporting these damages or losses to the insurance provider. In addition, the excess is also intended to make the policyholder more conscious to the insurance risks, as they are also affected by the losses.”

According to Hoosen, the motor excess structures in modern insurance policies have a high degree of flexibility and different insurance companies offer a variety of options. “The typical motor excess structures are generally segmented into the categories; basic excess, additional excess and windscreen excess.”

When consumers opt for a basic motor excess they have additional options to choose from, he says. “They can select a fixed excess in which the policy holder decides on a fixed amount to be paid in the event of theft or damage to the vehicle. The insured can also select the option of only paying a percentage of the claimed amount. In this instance the excess application will increase proportionally with the size of the claim.”

He adds that another alternative for policy holders is to choose a buy-back excess. “This type of excess provides the consumer with the option to reduce the amount of excess payable and rather pay a higher premium per month. This option mostly appeals to risk averse drivers.”

Additional excesses is in most instances, but not always, the second part of a motor excess structure and relates to the specific criteria of the driver, says Hoosen. "This is usually determined by a number of factors such as the driver having a drivers licence for less than two years, the driver being under the age of 25, whether a spouse or relative is driving the vehicle, or whether there is a satellite tracking device fitted to the car. All these specifics will be considered when the insurance provider determines the excess, as a specified amount which will be reflected in the insurance policy."

Hoosen says that windscreen excess involves payment of an excess amount only if the vehicle's glass parts are damaged. "A specific glass excess will apply in this type of instance."

He stresses that it is very important for consumers to fully understand what their motor excesses are in order to understand their financial commitment with the insurance company should loss or damage occur to the vehicle. "The excess is payable on an event basis (at claim stage) regardless of who is at fault for the incident. For example, should the vehicle get damaged during a hail storm or in the event of another vehicle colliding into the back of the insured's vehicle, the excess as stated in the insurance policy will be applicable. The insurer could attempt to recover against the third party in the second example, but there is no guarantee that this recovery will be successful."

As a final piece of advice, Hoosen says that it is advisable for consumers to appoint a qualified and reliable insurance broker who will establish the client's risk and affordability appetite in order to tailor the insurance policy to include an excess structure that best fits the client's profile which will, avoid financial strain when it comes to claims stage.