



Car premium increases at renewal

The purpose of this communication is to expand on a common question asked by our policyholders: **“Why is my car premium increasing when my car’s value is decreasing?”**.

We insure your car for its current retail value as listed on the Auto Dealers’ Guide published by TransUnion Auto Information Solutions (Pty) Limited. The retail value is the best indication of how much you will need to buy a similar car in the event that your car is stolen or written off (known as a total loss claim).

Factors that influence your car premium

To calculate the premium needed to insure your car, we take the likelihood of the different kinds of claim events into account, including the estimated costs of a claim caused by these events. These claim events are:

- Total loss claims where we will pay the full retail value.
- Accident damage where we will pay the cost of repairs.
- Natural events (like hailstorms) where we will pay the cost of repairs, or the full retail value if your car is written off.
- Windscreen only damage where we will pay the cost of repairing or replacing the windscreen.
- Third party liability claims where you are at fault and we will pay for the cost of repairing damage to another person’s property.

How the premium is made up

The premium is made up of the following three main components:

- **Premium to cover claims for theft or write-off (total loss)** – At renewal, we use your car’s retail value as at the date that the renewal is processed to calculate the premium. If we were only covering total loss claims, then the premium for this reduced retail value will logically also be less. However, we also take other factors into account, like changes to your risk profile, and changes in general theft and write-off trends. Depending on the trend, the premium can either decrease or increase. Currently in South Africa, there is an increase in theft and write-off claims. The premium needed to cover total loss claims is only a small portion of the overall premium. As your car ages and the value of your car reduces, this portion becomes even smaller.
- **Premium to cover claims for accident damage** – The possibility of claims to repair accident damage make up the biggest portion of the total car premium. Repair costs are affected by a number of inflationary factors, including:

- Increase in the price of car parts. In addition, imported parts are also affected by exchange rates.
- Increase in paint prices.
- Labour rate inflation.

As a result, the total increase in the cost of repairs is often higher than the standard Consumer Price Index (CPI).

- **Premium to cover other costs** – The total car premium also includes a portion to cover our operational costs to administer a policy, including communication to clients, assessing and settling claims. These costs are also exposed to inflationary increases over time.