

MEDIA RELEASE - All you need to know about excesses.

The Ombudsman for Short-Term Insurance comments on Excesses

Unless you have elected to pay an additional premium for an excess-free policy, you will almost always pay an excess when you claim from your insurer – whether you are at fault or not. So what exactly is an excess and why do insurers apply these charges to insurance claims?

What is an excess?

An excess is the uninsured portion of your loss or that portion of the claim you must pay for. When the amount that is claimed is less than the excess, no payment will be made by your insurer.

Why do you pay an excess?

Insurers use excesses as a way to make sure that you do not claim for every small loss. They do so not only for their own benefit but for all policyholders to ensure that insurance does not become unaffordable. Insurance should be there for when you cannot afford to pay for a loss yourself. An excess is designed to eliminate small value claims which have a high administrative cost relative to the value of the claim. Eliminating these claims and their associated costs helps keep premiums lower for you and other policyholders.

An excess also acts as an incentive to ensure that you take responsibility for the safety and security of your possessions.

Are there different types of excesses?

There are many different types of excesses used by insurers. The extent to which these excesses apply to your policy will depend on the agreement you have reached with your insurer. As a general rule of thumb – the lower the premium relative to the market standard, the higher the excesses.

Examples you can typically expect to find are:

- Standard/basic excess: the insurer's standard excess for the type of insurance.
- Voluntary excess: an excess you may agree to carry in addition to the standard excess in return for a discount on the premium.
- Additional excess: the insurer charges additional excess, for example, in car insurance where the driver is less than 25 years old or has a driver's license for less than 2 years.
- Imposed excess: an insurer may impose a non-standard excess because of the number of claims you have had or for other factors which may mean you are more likely to make a claim, for example, you have had several claims for leaking pipes, the insurer, if it is prepared to continue insuring you against such claims, might impose another excess for all such future claims.

The insurer needs to bring to your attention, when the contract of insurance is entered into, the standard excess and all other excesses that may be applicable when you claim. During the currency of the insurance, the insurer also needs to bring to your attention and changes to the excess(es).

You can always enquire from your insurer of an excess can be completely done away with. This is referred to as an excess waiver. Some insurers will structure your insurance so that you pay no standard excess at a slightly higher premium. Once you enquire and have the information, you can then decide what you would prefer, The important thing is that you understand why and when you pay an excess so that you can make an informed decision when taking out the insurance.

Does an insurer have to recover the excess you paid?

If someone else has caused your loss, the insurer may be able to recover the cost of the claim, including the excess you paid, from them or their insurer. If the insurer recovers the total value of the loss, including your excess, the insurer will reimburse the excess you paid.

There is no obligation on an insurer to recover the excess you paid but if an insurer is going to attempt to recover its claim cost from the party that caused the loss, then the insurer usually includes, in its recovery, the excess you paid. The success of a full recovery however depends on several factors, including whether you identified the other party, whether they admitted fault, whether there are any witnesses, whether they have insurance and if not, whether they have the ability to pay.

What if your insurer does not recover the excess you paid?

If the insurer decides that it is not going to attempt a recover of the claim cost or it does not succeed in making a recovery, the insurer should advise you so that you can decide whether to attempt a recover of your excess yourself. With the consent of the insurer, you may then proceed to recover your excess directly from the third party.

What to do if you have a dispute relating to your excess.

In order to get your claim processed quickly, for example to get your car repaired following an accident, pay your excess, even if you are unhappy with the excess your insurer says you need to pay, and then dispute it. If you refuse to pay your excess, such as in this example, to the repairer on completion of the repairs to your car, you may become liable for storage costs at the repairer while you dispute your excess with the insurer.

Should you have a dispute with your insurer relating to any aspect of your excess, try first to resolve it with your insurer but if you are still not satisfied, you can approach our office for assistance.

About the Office of the Ombudsman for Short-Term Insurance

The Ombudsman for Short-term Insurance (OSTI) is an independent, non-profit industry ombud scheme. Short-term insurance includes: motor, house owners (buildings), householders (contents), cell phone, travel, disability and credit protection insurance, and commercial insurance for small businesses and sole proprietors (with a turnover of less than R35 million per annum). OSTI's mandate is to provide the insuring public and the short-term insurance industry with a free, efficient and fair dispute resolution mechanism through an alternative dispute resolution process, applying the law and principles of fairness and equity. OSTI is not a court of law. It examines the information and evidence placed before it by the parties to a dispute and makes recommendations that are guided by the legal position and principles of fairness and equity. In rare instances where required, OSTI may make rulings. It does not, nor is it empowered to, procure evidence or witnesses, or investigate a complaint. OSTI, it must be stressed, operates independently of both the Financial Sector Conduct Authority and the Prudential Authority in its adjudication and dispute resolution process.

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