

The realities of AARTO and insurance

By [Yolande Van Niekerk](#)

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Although the Administrative Adjudication of Road Traffic Offences Act (AARTO Act), signed into law by President Cyril Ramaphosa on 13 August 2019, only takes full effect in June 2020, the implications for the insurance sector require considerable preparations.



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1. AARTO impact on the industry as a whole

The AARTO Act will not only impact how the insurance industry underwrites and issues policies, but the Claims processes may also change. So, unfortunately, the AARTO Act could potentially impact the insurance sector negatively. Among other impacts,:

- Drivers may not be able to get insurance, even if they have only committed minor parking offences such as parking fines.
- More uninsured vehicles may be on the road as more people are likely to take a chance to drive without a licence.
- The insurance sector could get smaller as the insurance of vehicles is a big part of the sector in South Africa. In turn, this may lead to job losses.

2. AARTO effect of demerits

There are some infringements, among others, which come close to the maximum of 12 demerits and significantly affect insurance cover:

- Exceeding the speed limit (Minus 2 to 4 points).
- Exceeding the speed limit by 40km/h (Minus 6 point).
- Driving under the influence (Minus 6 points).
- Accumulated 12 points because of lousy driver behaviour on the roads (Licence suspended for 3 months).
- Driving without a licence or professional driving permit or operator card (No insurance cover).



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3. AARTO and a suspended licence

Top tips for policyholders if their licence gets suspended.

- Notify your insurance company immediately. Your policy may not pay out if you drive unlicensed and have an accident.
- Adjust the wording of your policy (if allowed) and nominate another person to drive your vehicle.
- If your licence gets suspended, do not cancel your policy, as your vehicle remains covered for other insured perils. You can arrange limited cover for fire and theft while you wait for your licence to be reinstated.

4. AARTO effect on policy underwriting

It is perhaps alarmist to say in policy underwriting: No licence! No insurance! However, the new AARTO Act will no doubt impact the underwriting and wording of insurance policies in future. AARTO has a profound effect on how insurers may view new applications.

How so?

Firstly, clients must disclose suspended licenses. Insurers consider this as material information and non-disclosure could lead to rejection of claims. However, such disclosure can be an advantage to the insurance industry as it may lead to a reduction in fraudulent claims.

Secondly, we predict it to be conditional before the issue of any insurance policy to obtain the client's consent to access their AARTO information to make sure that their licence has not been suspended. Also, the insurer can then better determine whether they can sign on a client, especially if their licence has been suspended several times. Besides, the insurer must then investigate the reasons for the suspension of the licence. For example, several small speeding or parking fines will probably not be considered as dangerous as driving under the influence.

However, if a client's licence gets suspended and they must retake it, there may be no or less cover until due process

is complete. The driver may have no cover until due process has been completed to reinstate their licence.

5. AARTO effect on claims

From a claims perspective, insurers may implement a verification system to ensure that licences get checked quickly and accurately. The cost to verify licences in all likelihood to be costed towards the insurer's account.

6. AARTO: Any good news?

Yes, indeed! AARTO also holds many benefits for the insurance sector:

- Insurers could reward law-abiding drivers by discounting their premiums.
- Underwriters may be able to assess the risk of a prospective insured before they sign a contract. They would require a prospective client to declare at inception or during renewal, their demerit status and history over three to six months or even longer.
- Insurers can determine if a prospective insured is a high-risk driver by considering their demerit status for purposes of coverage and for charging the appropriate premium.

In summary

The AARTO is a reminder that the world keeps changing and to stay in the game; it is essential to adapt with ease and agility to new legislation and other disruptions. Instead of fighting the old, it is more fruitful to embrace the new. To do so, insurers must find out how new legislation will impact the insurance sector.

As for the insured, open disclosure to their insurers enables a mutually beneficial resolution to AARTO related implications.

ABOUT THE AUTHOR

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