LIFE ASSURANCE

How to get cover for your debts

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A creditor can make granting you a loan conditional on your either buying credit life assurance or ceding your existing life assurance policy to the creditor.

Credit life assurance ensures your debt is paid off should you die or find yourself in financial difficulties due to retrenchment, critical illness or disability.

A creditor may try to convince you to buy a particular credit life assurance policy at the time it grants you a loan or credit. However, although a creditor may make credit life assurance a condition of the loan, you are not obliged to take out a policy sold by the credit provider or a life assurance company of the provider's choice.

In terms of the National Credit Act (NCA), you may source your own credit life assurance or cede a portion of your existing life assurance policy to a creditor.

Creditors will have different processes if you choose to cede a portion of your existing life assurance and there is no cost implication if you choose this option.

The cancellation of the cession is usually automatic once your debt is paid off, but as a responsible consumer, you should go back to your insurer to make sure that the cession is cancelled.

You should ask your financial adviser to calculate the amount of life cover you will need for your beneficiaries and to determine whether your existing life cover is sufficient to cover both your long-term needs and your debt.

If you cede your life assurance policy, make sure that the contract contains a clause stipulating that if any value remains in the policy after the debt has been settled, the money must go to your beneficiaries when you die.

You should also check that your existing life cover policy includes protection against events such as retrenchment or your becoming disabled. A creditor can reject your existing life cover and insist that you take out credit life assurance to cover the contingencies of retrenchment or disablement.

Decreasing cover

Unlike life assurance policies that provide for a fixed or an increasing amount of cover, credit life assurance usually provides for a decreasing amount of cover: the benefit payouts decrease as you repay the debt.

This structure minimises the cost of the cover so that you pay only for the level of cover you need.

Also unlike other life assurance policies, credit life policies are usually only for the term of the loan.

Credit life assurance policies can be more expensive than life assurance policies because they have higher commission structures. So, instead of buying credit life assurance to cover a loan, it could be better for you to cede your existing life assurance policy to a creditor.

However, credit providers sell credit life assurance on a group basis. This means that everyone who buys one of these policies pays the same premium regardless of their age or state of health.

You don't have to undergo a medical examination before you may buy a credit life assurance policy.

If you are old and in poor health, a credit life policy could work out cheaper for you than an individual life assurance policy.

Repayment plus premium

If you buy credit life assurance from a credit provider, it forms part of your credit agreement and your premiums will be added to your repayments.

Under the NCA, creditors are not allowed to charge you a single upfront lump sum for credit life assurance on your credit agreement but have to break it down into monthly or annual repayments. This is to prevent creditors from adding the lump-sum credit life insurance to the contract and then charging you interest on the entire amount, increasing your debt commitments unnecessarily.

If you buy credit life assurance directly from a creditor, ask the salesperson who the insurer is or which company is underwriting the policy so that you can make a claim if and when the need arises.

Note that the creditor will not claim on your behalf. It's up to you or your family to contact the insurer and make a claim so that your outstanding debt can be settled.

Credit life assurance policies contain exclusions, which should be disclosed to you when you sign the policy. You should also read the policy terms and conditions so that you are aware of all the exclusions before you have cause to claim.

An example of an exclusion would be that the disability benefit is payable for a maximum of three months unless you can prove you are permanently disabled.

Another example would be to exclude you from claiming a retrenchment benefit for the first three months from the start of the policy.

You may also not be allowed to claim retrenchment benefits for a second time unless you have been permanently employed for at least three months after submitting the first retrenchment claim.

Common exclusions
Common exclusions include:

- Claims for any disabilities or critical illnesses that arise from health conditions you had before you took out the policy;
- Claims for death benefits after a suicide or disability claims for self-inflicted injuries;
- Claims that arise from drunk driving, acts of war, criminal activities or hazardous sports; and
- Claims that arise from your refusing to follow a course of treatment recommended by a medical practitioner.

When making a claim
Most credit life assurance policies require you or your family to make a claim within three months of the event - death, disability or retrenchment - that results in the need to claim.

The first thing you need to do is contact the insurance company that underwrote your policy and obtain a claim form.

When you receive the claim form, make sure you complete all the required details and sign it.

Read the form carefully for any supporting documents that may have to be attached to your claim. For example, if you are submitting a death-related claim, you will need a certified copy of the deceased's identity document (ID) and a certified copy of the death certificate.

For a disability claim, you will need a certified copy of your ID and medical records, as well as doctors' letters that support your claim and provide evidence that your disability meets the stipulations of your insurance contract.

If you are making a claim due to retrenchment, you're likely to need a certified copy of your ID and the original letter from your employer notifying you of your retrenchment, or a certified copy of it.

WHAT YOU MUST BE TOLD
When you buy credit life assurance, the person or company that sells you the policy is obliged to give you the following information:

- The commission being earned on the sale of the policy; and
- Any penalties or administrative charges you may have to pay if you cancel the policy because you want to settle your debt early.

Because the commission on life assurance policies is paid on your behalf, you have the right to negotiate the commission (although most intermediaries will resist this) and you should ensure that you enjoy the benefit of this negotiation by way of reduced premiums.

The Long-term Insurance Act regulates the commission payable on credit life insurance. The maximum commission is 22.5 percent of your premium.

In addition, you should make sure that the person or company that sells you the policy is accredited to do so.

In terms of the Financial Advisory and Intermediary Services (FAIS) Act, the adviser should have a financial services provider (FSP) number from the Financial Services Board (FSB). If you are buying the policy from a company (such as a motor dealership), the company should have an FSP number and the representative who sells you the policy should be registered with the FSB as an agent of the FSP.

You can verify this information by going to the FSB's website, www.fsb.co.za. If you click on the FAIS link at the top right corner of the home page, you will be taken to a page that will enable you to search for FSPs by name or FSP number. You can also contact the FSB call centre on 0800 110 443.

Charles Pillai, the Ombud for Financial Services Providers, says the problem with credit life policies that are sold predominantly to the lower-income market is that consumers are given very little, if any, meaningful information about the terms, conditions and circumstances under which the policies are sold.

"There is a great degree of mis-selling and mis-communication. Typically, the credit life policy and other financial products are slapped on top of the principal debt without the consumer knowing this. If there is proper explanation of the choice that consumers have, it is more than likely that they will seek other options," he says.

Pillai says retailers make huge profits from selling financial products and this is one reason why mis-selling is so prevalent.

If you are sold credit life insurance without being fully informed of your rights, you can complain to the ombud by calling him on 0860 324 766 or sending an email to info@faisombud.co.za