

# Consumer credit insurance in South Africa: Consumer friendly or unnecessary burden?

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# What is consumer credit insurance?

- Insurance which covers repayment of consumer's debt
- Also known as payment protection insurance in other jurisdictions
- Intended to protect both the consumer and credit provider
- Hybrid species of insurance law and credit law
- Often procured by low-income earners or vulnerable consumers

# Consumer credit insurance

- Often procured at the point of sale
- Procured at the insistence of the credit provider
- Single premium or monthly instalments which forms part of total monthly instalments
- Credit life insurance
  - distinguish from ordinary life insurance
- Short term insurance
- May be compulsory – legislation allows this

# Law reform

- National Credit Act 34 of 2005
- UK PPI Scandal 2008
- SA: Report of Panel of Enquiry 2008 (Nienaber Report)
- Investigation into premiums and commissions

# Rules on CCI

- S106 National Credit Act
  - Can be compulsory
  - Credit provider cannot demand consumer take out CCI that is unreasonable or at an unreasonable cost to the consumer
  - Consumer has the right to choose their own policy and must be informed of this right
  - Credit provider must disclose cost of insurance and any fees/commission
  - Credit provider must explain terms & conditions and provide consumer with copy of the policy

# Rules on CCI

- Credit Life Insurance Regulations – took effect 9 August 2017
  - Prescribes a maximum cost of credit life insurance
  - For an unsecured credit transaction: R4.50 per R1000 of outstanding amount
  - Exclusions and limitations of cover are prescribed and regulations stipulate that these **must be explained** to the consumer at time of entering into the credit agreement

# Potential benefits of CCI

- Provides a buffer against unexpected events
- Enables consumers to obtain credit in circumstances where ordinarily wouldn't be able to access credit
- Can assist consumers with “worry reduction” and provide comfort to consumers
- Following 2008 Nienaber Report the rules governing CCI are consumer friendly and aim to prevent abuse by credit providers
- Covid-19 as examples of job loss and deaths

# Challenges

- Many consumers still unaware of the existence of CCI policy = major problem
- Low claims ratio
- Claims barriers – exclusions, waiting periods  
(- though the regulations limit these)  
- problem when CCI sold to pensioners or people who are self-employed = lack of due diligence by credit providers
- Is it problematic that CCI can be mandatory?



# Findings on CCI as currently regulated

- Not inherently a predatory form of lending
- But when consumers are not alerted to the existence of CCI taken out, then this is problematic
- Law in action v law on paper
- On paper: consumer friendly
- Need monitoring of CCI practices by regulators especially NCR
  - empirical research and further mystery shopping studies

# Recommendations

- Clear need to promote **financial literacy** of consumers
- **Educate consumers** on their rights
  - consumers should inform family members of existence of CCI policies
- Need for credit providers to alert consumers to the existence of their CCI policy
- Should legislation be amended?
  - risks of over-regulation
  - problem rather with implementation and monitoring
- NCR should enforce credit providers' obligations

END

THANK YOU!

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