

Credit insurance at point-of-sale: Will SA follow suit?

July 2010

Michael Blain, CEO of Centriq Insurance:

Given South Africa's legal framework which is based largely on the UK's common law and our propensity to follow the UK's trends in regulation, South African insurance industry role players may be concerned about the United Kingdom's Competition Commission's plans to ban point-of-sale credit insurance products in their country. Michael Blain, CEO of Centriq Insurance, comments on the future of credit insurance in South Africa.

Point-of-sale insurance products, particularly credit insurance, which provides for the settlement of the outstanding balance on a loan, should the consumer become unable to honour monthly instalments for reasons specified in the policy, have been under scrutiny for some time. Hence the UK Financial Services Authority's (FSA) report issued in 2005 on payment protection insurance, as it is called in the UK, which highlighted some of the following issues pertaining to this type of insurance cover in the country.

- A significant lack of compliance with regulations due to the nature of the selling process, which increased the risk of inappropriate selling.
- An escalated risk of miss-selling of the product due to poorly trained members of the sales staff who were offered incentives for sales.
- Poor product documentation, which left consumers with little understanding of the insurance cover purchased.
- Flawed products, which resulted in disputed and/or non-payment of claims

Based on the findings of the 2005 FSA report, the UK Competition Commission decided to undertake a market investigation of payment protection insurance in January 2009, which culminated in a number of radical recommendations, including the banning of point-of-sale payment protection insurance products; the banning of single premiums for the duration of a loan; and the introduction of a seven-day-cooling-off period on payment protection insurance policies.

Unsurprisingly, UK financial institutions, including Barclays, objected to the Commission's recommendations and challenged the findings, saying that sourcing payment protection insurance after obtaining a loan would inconvenience customers. The Competition Commission however concluded that the financial institutions were overstating the loss of convenience, and is now continuing with their plans to ban payment protection insurance products at point-of-sale.

WILL SA FOLLOW SUIT?

"Since South Africa will in all likelihood follow UK trends and take guidance from their legislation and regulations, there is little doubt that the UK's stance on point-of-sale payment protection insurance products will influence the South African market's decision on the matter," says Michael Blain, CEO of Centriq Insurance.

He notes that an outright ban of point-of-sale credit insurance products locally however will not be in the best interest of consumers as it could in fact increase the cost of distribution and challenge the collection of ongoing premiums in a market where many consumers do not form part of the formal economy.

"Concerns raised after South Africa launched a commission of enquiry into point-of-sale credit insurance practices in the country in 2008 led to a revised code of conduct and changes to premium collection models. Hence there is more than enough regulation and protection for South African consumers, although the real challenge lies in the governance and enforcement of regulations at the end of the day," explains Blain.

He believes that many of the issues around point-of-sale credit insurance products are relatively easy to address. "For example, regulation should ensure that products are affordable, that a limitation is placed on commission, and that the product design affords consumers a reasonable prospect of realising the policy benefits, given the unique circumstance in the country," he says.

He would also like to see that minimum standards for compliance in terms of disclosure and advice dispensed at point-of-sale is adhered to and that insurance providers take it upon themselves to comply with the spirit of the industry code of conduct.

"In order to secure the future of point-of-sale credit insurance products in the country and to prevent South Africa from simply following the UK example in implementing an outright ban, it is crucial that our insurance industry actively engages the regulator on this issue," notes Blain. "If we as industry players in South Africa apply our minds to the situation, instead of blindly following international trends, we can ensure that consumers enjoy the benefits that credit insurance offers, along with the convenience of point-of-sale access, without sacrificing the appropriate advice and consumer protection customers are entitled to," he concludes.