

Credit Insurance

Retrenchment benefit – extent of cover.

The complaint concerned the extent of the retrenchment benefit payable in terms of a credit life policy. When taking out the policy the complainant had been under the impression that in the event of her retrenchment the balance owing on her vehicle would be settled.

The relevant clause in the policy read, however, as follows:

“In the event of your loss of employment as a result of retrenchment, (the insurer) will permit an advance against your policy in order to cover any additional interest which may become due by you in respect of each instalment deferred, excluding that of the first instalment. This benefit will cease upon your re-employment or after 6 (six) monthly benefits have been granted in terms of this policy, whichever occurs first.”

In terms of this provision retrenchment would therefore only result in an advance against the policy, for a period of six months, to cover the additional interest accruing in respect of each instalment deferred. It did not provide for the settlement of the outstanding balance as the complainant assumed.

This sort of retrenchment benefit, covering as it does only the interest concerned, is rather unusual, and would therefore require that policyholders are suitably warned at sales stage of its limitation. The office therefore focused on this question.

Whilst at the point of sale the telesales consultant had failed to explain the nature of the retrenchment benefit to the complainant, the insurer had subsequently sent the complainant a letter wherein it stated:

“Just as important, if you were retrenched we would defer your instalments for up to six months by the same period and pay the extra interest incurred. This whilst you are looking for employment.”

On the basis of the above letter the office was satisfied that the insurer had adequately explained the nature of the retrenchment benefit to the complainant, and that any prejudice suffered by her was the result of her own failure to read the insurer's letter or the policy, which would have resulted in her properly understanding the extent of the cover.