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What happens to my loan if I can't work anymore or if I die?

Do you want to get a personal loan or perhaps consider looking at a consolidation loan for bad credit? The question could pop into your mind - what will happen if I die, lose my job, become ill or disabled while I am still paying back my loan? Who will be responsible for my loan repayment?

Neil Thompson, Head of Product and Customer Value Proposition at African Bank, says the good news is that lenders anticipate these scenarios and include credit protection insurance for any loan applications.

“It’s important that you understand that your loan is covered by credit life, a policy which is taken out at the time the credit agreement is entered into,” he explains. “It’s easy to feel intimidated with the small print when signing an agreement so it’s worth asking questions and getting an explanation about what is included and under what circumstances you would be eligible to file a claim.”

Essentially credit life, loan or credit protection insurance or payment protection insurance (PPI) is designed to help policy holders by providing financial support in time of need. Whether the need is due to disability or retrenchment, this insurance can help protect monthly repayments and protect the insured from default. “It is also a great way to protect your credit score,” says Thompson. “Having payment protection insurance helps to maintain your current credit score because the policy enables you to keep up-to-date with repayments. By allowing you to continue paying off your debt in times of financial crisis, your credit score is not affected which is a real plus.”

So, what exactly does general credit life insurance cover? Here are five specific instances:

- **Death of the policy holder:** In this instance the loan is usually paid off in full. “Even though the bank will often be advised by home affairs or will check home affairs records, the sooner a family member contacts the bank the better. There

can sometimes be delays, particularly if the death was in an outlying area,” says Thompson.

- **Disability or temporary disability:** The insurance covers the loan repayment during the period the policy holder is disabled or temporarily unable to work. “The policy holder will need to make sure that the required medical information is submitted for approval of such a benefit. At African Bank if our customer is permanently disabled, the balance of the credit agreement will be settled.”
- **Retrenchment:** The policy holder needs to take their ID and a certified letter of retrenchment from the employer to the bank before the insurance can kick in and then there will be certain conditions attached. There is a 90-day waiting period from the time the contract is initially signed before any claims can be lodged. “At African Bank for example our benefit pays 12 instalments if you are retrenched.”
- **Short time:** This is common, particularly in a lot of the manufacturing or mining industries, where workers are faced with short time and this obviously impacts on their ability to repay an existing loan. Provided conditions are met, the policy will cover instalments during this period.
- **Lay off:** A lay off is where a company can close down for a couple of months during a quiet period and once again workers need protection.

“It’s very important that you read and understand the benefits and the fine print in these policies,” says Thompson, “and know when you can file a claim.”

He gives a scenario where a loan customer becomes injured and cannot work. If that person misses a payment and only files the insurance claim after the payment due date has passed without advising the bank, there will be a penalty and the person will be charged late payment interest and only be able to file a claim once the payments are up to date.

Thompson says it is important for customers to realise that if they default they will be charged interest in arrears. It is also equally important to realise that not all credit life policies are the same and they are regularly updated. “Policies differ, so check terms and conditions of the coverage to see what exclusions and clauses are stated in the policy and when they would start. You also need to check the conditions of the policy at the time you

actually took out the claim. This is generally on the website of all main institutions and should be provided or attached to the original loan agreement.”

“Understanding what is covered is really important as credit life insurance not only protects the bank as the lender, but also you, the borrower, particularly if there is an unexpected event like retrenchment or layoff. You don’t want your family members to have to bear the brunt of your debts in the event of your death or disability so get your facts in order and ask questions. Shop around. When looking at bank loan interest rates and loan repayments, make sure you look into credit life insurance too and get a good deal,” he concludes.

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