

SOUTH AFRICA

# Beware the credit shortfall policy on car loans, warns short-term insurance ombud

27 May 2020 - 14:07

**Wendy Knowler**

CONSUMER JOURNALIST



When you're told by a salesman that a 'credit shortfall' policy will spare you from still owing your bank for a car which has been stolen or written off after an accident, you aren't getting the full story.

Image: Reuters

The large print giveth and the small print taketh away. That line, penned by musician Tom Waits more than four decades ago, is particularly apt in the case of "credit shortfall" insurance.

When you're told by a salesman that a "credit shortfall" policy will spare you from still owing your bank for a car which has been stolen or written off after an accident, you aren't getting the full story.

And that's why, of the almost 4,500 motor vehicle complaints the Ombudsman for Short-Term Insurance (OSTI) office dealt with last year, the main issue was claims settlement calculations – mostly disputes related to credit shortfall and uninsured accessories.

That was revealed in the ombud's 2019 annual report, released in an online conference on Wednesday morning.

Standard comprehensive motor vehicle insurance often doesn't cover the total amount owed to the bank in respect of a financed vehicle, especially if the car is fairly new and financed over a long period – eight years is not uncommon now – or has a large balloon payment due as the final instalment.

Vehicle credit shortfall is sold as filling the gap between the vehicle's insured value and the amount owing to the finance house. But in most cases the extra cover does not fill that gap, thanks to exclusions in the small print of the credit shortfall policy, says the ombud's CEO Edite Teixeira-Mckinon.

“What is often not disclosed at the time the insurance is sold, often on a dealership floor by the resident finance and insurance person, is that the policy does not cover interest, balloon payments or uninsured accessories on the car, such as roof racks, tow bars and canopies,” she said. “In other words, the way the credit shortfall policy is structured does not coincide with the way the finance agreement is structured.”

That means that even after a payout from a comprehensive policy on the vehicle, and the “top up” shortfall cover payout, the consumer still owes a large sum to the bank for a car they no longer have use of, and therefore can't afford to finance a new car.

“Many consumers approach us, incredulous that despite paying two insurance policies, they were still left in a bad financial situation,” Teixeira-Mckinon said. “In many cases these terms and conditions are not explained to the consumer, and if we can establish that, we find in their favour.

“It's not enough for the insurer to send the policy document to the consumer later. “They are obliged to highlight the critical terms and conditions of the shortfall cover, and get the consumer to initial them.”

The CEO advised consumers to insure any accessory that does not come standard with a car, and to interrogate the terms and conditions of a policy before signing. In 2019 OSTI formally opened 10,367 cases and on average one in four were settled in favour of consumers, with almost R95m paid out to consumers as a result – R7.7m more than in the two previous years.

That 25% “overturn rate” is slightly lower than the global average of 30%, something the CEO attributes to SA's financial sector being legally required to go beyond the letter of the law and “treat customers fairly” as part of the new policyholder protection rules published by the Financial Sector Conduct Authority.

Teixeira-Mckinon said her office had seen a sharp increase in travel, credit life and business interruption insurance complaints in recent months, all related to Covid-19, and had set up “special team of seasoned adjudicators” to deal with them case by case.

*GET IN TOUCH: You can contact Wendy Knowler for advice with your consumer issues via e-mail: [consumer@knowler.co.za](mailto:consumer@knowler.co.za) or on Twitter: [@wendyknowler](https://twitter.com/wendyknowler).*

Would you like to comment on this article or view other readers' comments? Register (it's quick and free) or sign in now.



REGISTER