



national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA



MEDIA STATEMENT

REQUEST FOR PUBLIC COMMENT ON A TECHNICAL REPORT ON THE CONSUMER CREDIT INSURANCE MARKET IN SOUTH AFRICA

The National Treasury (“NT”) and Financial Services Board (“FSB”) request public comment on a *“Technical Report on the Consumer Credit Insurance Market in South Africa”*.

This report identifies some of the abuses in market conduct or business practices in the Consumer Credit Insurance (“CCI”) industry, and provides a review of the market structure as well as the current policy and regulatory framework applying to the industry. The report outlines a set of policy responses to strengthen the existing regulatory framework in order to curb widespread abuses to improve the value of CCI to consumers. This review is part of the wider initiative taken by Government to address the problem of household over-indebtedness, and to ensure that consumers are treated fairly by financial services providers.

The public comments and further information received will inform Government’s response to deal decisively with abuses in the CCI market. Further technical work will inform the final policy proposals, thereafter draft legislation will be published for public comment and adoption.

This initial technical report is the outcome of work undertaken by a joint Task Team, set up to investigate whether the CCI market in SA is delivering on fair customer outcomes. The Task Team was established by the NT and FSB in 2011, and in doing its work, has taken into account comments from key regulatory agencies like the Department of Trade and Industry (“DTI”), National Credit Regulator (“NCR”) as well as the Competition Commission. It is the intention that the process to finalise policy proposals after taking into account public comment will be done in consultation with the DTI and NCR.

Key issues highlighted in the report

The findings of the review point to the following poor market practices:

- **Lack of transparency in the total cost of credit:** The full cost of credit, including the cost of CCI is not fully disclosed. The fact that CCI is bundled together with the credit offering and the inclusion of add-on products such as warranties and “club” membership fees make price comparisons difficult. In addition, disclosure of commission and fees is opaque.
- **High premiums and different pricing.** Premiums tend to be higher when a risk is insured under a CCI policy.
- **Product differentiation limits comparison:** Variance between CCI product features limits product comparability and substitutability, with questionable

competition benefits. Examples include different forms of cover for employment related events.

- **CCI cover does not meet the needs of the target market:** Some business models offer policy benefits that many in the target market might not actually be eligible for and by implication can never claim against. An example is retrenchment cover benefits offered to customers who are social grant beneficiaries.

There are weaknesses in the structure and operation of the CCI market as well. These include amongst others, lack of effective competition in the market; the inability of consumers to exercise an informed choice due to the nature of the product offering; and the interconnected structure of the CCI value chain. The combined effect of these abuses and weaknesses is that the value of CCI to consumers becomes questionable, as it is characterised by high prices and low realisation of benefits.

Key focus areas for public comment

The report proposes three areas of focus that need to be explored further, and the Task Team seeks comment on these approaches:

- **Focus area 1: Regulating the pricing of CCI:** This approach allows credit providers to continue to require CCI cover as a condition of granting credit, but within a framework where there is explicit regulation of credit and/or CCI pricing. Three further sub-options are considered under this approach, namely:
 - **Regulating the CCI premium rate.** Prescribe a “band” of recommended reasonable risk premium rates for different CCI cover types, or place a regulated cap on premium rates for different CCI cover types.
 - **Regulating the interest rate.** Introduce a maximum interest cap set at a lower level than the “unsecured loan” interest rate cap, for loans where the credit provider insists on mandatory CCI.
 - **Placing a regulated cap on the total cost of credit,** including interest, CCI premiums and other charges.
- **Focus area 2: Regulating market conduct non-pricing practices:** The report recognises that in addition to the possibility of price limits, there is a need to also deal with market conduct failings through sixteen potential regulatory measures which are set out in this report.
- **Focus area 3: Protecting consumers through insurance cover for credit providers:** It is recognised that for reasons related to both protecting the consumer, and to lower the risk to credit providers, an appropriate mechanism for insuring against credit risk is necessary, especially for relatively large credit transactions. The initial report notes the need to encourage or require credit providers to consider how to “self-insure” against loan default risks through purchasing insurance cover from insurers in their own names.

None of the above focus areas are mutually exclusive, and could all be considered in parallel, or to complement one another. In the interim, while consultation is ongoing, the NT and FSB are already considering the extent to which certain of the measures described under focus area 2 could be used to mitigate risk to consumers in the shorter term.

Process

Comments on the paper “*Technical Report on the Consumer Credit Insurance Market in South Africa*” may be submitted by 30 September 2014, to Ms Reshma Sheoraj, Director: Insurance, Private Bag X115, Pretoria, 0001 or by fax to 012 315 5206 or by email to cci@treasury.gov.za

The report and accompanying documents are available on the NT (www.treasury.gov.za) and FSB (www.fsb.co.za) websites. Comments should follow the format of the comment template provided in Annexure F.

To improve the quality of public consultations, workshops will be convened with key or interested stakeholders.

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