ASAP

Legal and Technical Update

Whole life policy vs Credit life policy

When obtaining a loan from a financial institution, they often require some form of life cover to provide security that the outstanding loan will be settled upon the death of the borrower. The lenders often offer a credit life policy as part of the loan facility and borrowers often accept the offer as it is easy and immediately available. In some instances they might even decide their whole life policies are no longer necessary. To ensure that an informed decision can be made when faced with the choice of taking out a long term whole life policy or a credit life policy, the following table will compare the most pertinent differences between the two options:

	Whole life policy	**Credit life policy**
What is it?	It is a long term insurance policy taken out by an individual to protect that person and dependents against financial risk associated with certain life events.	It is a term policy designed to pay off a borrower's debt if a borrower dies. Other events can also be covered by the policy.
Who is insured under the policy?	The policyholder and the life insured is not necessarily the same person. There can be multiple lives insured on a policy and also multiple policyholders.	The borrower/s will be insured on the policy.
What benefits are available?	The client selects the benefits to add to the policy. Each benefit is individually priced and underwritten. Benefits range from death, permanent or temporary disability benefits, critical illness benefits, impairment benefits, income protection benefits, retrenchment benefits. Some benefits are available in different levels depending on the breadth of cover and the number of events under which it will pay out.	The policy comes with predetermined benefits that are included in the price of the policy. The Credit Life Regulations (part of the National Credit Act) specifies minimum benefits and it includes: - Death or permanent disability in which case the full outstanding loan must be covered; - Temporary disability and retrenchment in which case the lessor of at least 12 payments must be covered or the term of the disability or duration of the loan. - They cannot be compelled to take out cover that provides for more extensive benefits.
How is the cover amount determined?	A financial adviser will conduct a financial needs analysis (FNA) to determine the client's financial risks and needs. The FNA will determine the benefits and cover amounts required to mitigate the risks and meet the needs of that client. This will be weighed up against the affordability before a final decision is made in respect of benefits and cover amounts. Cover amounts for different benefits do not have to be the same and it can also be altered during the lifetime of the policy to meet the changing needs of the client.	It is based on the outstanding loan amount. The client will not have a choice to alter the benefit amounts. The benefit amounts will reduce as the outstanding loan amount decreases and will eventually reduce to nil when the loan is repaid. Inevitably when the loan is settled the cover will expire.

<table>
<tr><th></th><th>Whole life policy</th><th>Credit life policy</th></tr>
<tr><td rowspan="2">Exclusions</td><td colspan="2">Exclusions may differ depending on the insurer and benefit in question, and the actual policy contract should be consulted to make sure what will be excluded.
Suicide is a common exclusion that will be applicable to both credit and whole life – the duration of the exclusion may differ.</td></tr>
<tr><td>Specific exclusions may be imposed due to health or other factors once the underwriting process is complete.</td><td>Pre-existing conditions may be excluded for a specific period of time and in some cases certain benefits may have waiting periods attached to it.</td></tr>
<tr><td>Underwriting at inception</td><td>A comprehensive underwriting process is followed before the policy is accepted.
The life insured must complete a health questionnaire and additional medical or blood tests may be requested.
The insurer will make a final decision based on the outcome of the tests.
The insurer can invoke certain exclusions or premium loadings based on the outcome.</td><td>A questionnaire is completed and based on that, the cover is accepted or rejected.</td></tr>
<tr><td>Premium</td><td>The premium is based on the benefits selected, the age, smoker status, habits and health of the life insured and other relevant socio-economic factors.
The premium will also depend on the premium pattern selected by the client as there are various options ranging from an age rated premium to a level (fixed) premium with certain guaranteed terms.</td><td>The premium is determined at inception of the policy and is based on the overall risk associated with the group of people that typically takes out the cover.
The specific client's data is not relevant when determining the premium.
The Credit Life Regulations in the National Credit Act prescribes maximum premium rates that may be applied.</td></tr>
<tr><td>Who pays the premium?</td><td>The policyholder pays the premium.</td><td>The borrower pays the premium indirectly as credit life is often added as an expense on the actual loan – which results in interest charges being levied on that premium paid.</td></tr>
<tr><td>Is there underwriting at claim stage?</td><td>Underwriting is done prior to acceptance.
Only if the life insured misrepresented information or withheld information will the life insurer be forced to review the policy and its benefits.
The life insurer will determine whether cover would have been given if all the facts were available at inception and if premium loadings, etc. would have applied; and they will place the client in the position they would have been in if all the facts were known from the start.</td><td>The questionnaire and medical information that were provided at inception will be scrutinised at claim stage and additional information may be requested at this time.
Exclusions related to pre-existing conditions can be applied at this time.</td></tr>
<tr><td>Who receives the payout?</td><td>The policyholder, nominated beneficiary, or the deceased estate if the policyholder is the life insured and no beneficiary was nominated.
If a benefit was ceded as collateral security for an outstanding debt, the payment will be made to that cessionary insofar as there is an outstanding debt. Depending on the wording of the policy contract and the practices of the lender, the surplus (over and above the outstanding debt) will be paid to the beneficiary or the deceased's estate.</td><td>The lender will receive the proceeds.
There will be no surplus as the cover amount reduces in line with the outstanding debt.</td></tr>
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