CLAIMS REJECTED DUE TO NON-PAYMENT OF PREMIUM

During tough economic times, cash-strapped consumers are forced to prioritise their monthly expenses to keep their heads above water. Unfortunately, consumers often sacrifice their short-term insurance cover in attempting to save money by not paying premiums during lean financial times.

For many, this is an interim solution with disastrous consequences. When claims are rejected because the premium has not been paid, consumers suffer the loss of the insured item. In many cases the insured item is a financed vehicle or a house that is subject to a loan. In such a case, the consumer still needs to repay the loan to the financier despite the item no longer being in use or having been written off as a total loss.

Principles that apply to monthly policies:

- If no premium has been paid for a specific month, then there is no cover for that month.
- It is the responsibility of the consumer to ensure that there are sufficient funds in his/her bank account to cover the deduction of the premium payment.
- The insurer does not need to notify the consumer of a non-payment of the premium.
- Most policies contain an exclusion against cover if the consumer places a 'stop payment' (a request made by a consumer to a financial institution to cancel a payment that has not yet been processed) on the premium.. A stop payment is regarded as a cancellation of the policy by the consumer. In such circumstances, the insurer will not continue debiting the premium in the months that follow.
- Premiums are paid in advance, in other words, in the case of a monthly policy, a premium is paid for a consumer to be covered in the event of a loss or damage for the month ahead.

The period of grace:

The Policyholder Protection Rules ('PPR') have introduced a safeguard to give consumers who fail to pay a premium another opportunity to pay the premium in order to ensure that the policy continues to provide cover.

Rule 7.5 of the Policyholder Protection Rules provides that:

> '*An insurer shall ensure that a policy contains a provision for a period of grace for the payment of premiums of not less than 15 days after the relevant due date: Provided that in the case of a monthly policy, such provision must apply with effect from the second month of the currency of the policy.*

In terms of this provision of PPR, in the event of the non-payment of the premium for a specific month, insurers are obliged to have a clause in their policy wordings which grants consumers a grace period to pay the premium.

Whilst PPR does not prescribe the actual period of grace that an insurer must give to a consumer, it states that this period may not be less than 15 days. Therefore any policy wording that provides for a grace period of less than 15 days from the agreed premium payment date would be in breach of PPR.

In short, the grace period may be 15 days or more than 15 days after the agreed payment date but it may not be less than 15 days.

When does the grace period come into effect?

According to PPR the grace period applies from the second month after the policy incepts or starts.

The following example will be used to better illustrate the application of the 15 day grace period:

The policy incepts on 28 June 2015 and the first premium is due on 30 June 2015. On 30 June 2015 the premium is not received due to insufficient funds. In this instance, the consumer need not be given a grace period within which to pay the premium as the first premium was payable during the first month of the policy starting. The effect of this non-payment is that the policy did not actually start and any loss/damage that took place will not be covered.

However, if the first premium is payable on 01 July 2015 and the premium is not paid, then PPR stipulates that the insurer's policy wording must contain a clause giving the consumer a grace period of not less than 15 days in which to pay the premium in order to enjoy cover.

It must be emphasized that the words ***not less than 15 days*** do not mean ***within 15 days*** – the grace period in this instance will ***commence*** on 16 July 2015 until the period set out in the policy wording.

Prescribed methods of payment of the premium during the grace period:

If the policy wording states that the premium may only be paid by debit order, the policy must explain how the premium must be paid during the grace period.

If the policy wording says that the premium must be paid by debit order but is silent on the manner in which the premium must be paid in the grace period, then the insurer will usually attempt to re-debit the consumer's bank account in order to obtain the premium during the grace period.

However, where the policy wording does not set out the method of payment, then the insurer cannot refuse an offer by the consumer to pay the premium directly into the insurer's bank account during the grace period.

Consumers should pay special attention to these important points to ensure continuous cover:

- During the sales conversation, consumers will be asked on which date they want the premium to be debited from their bank accounts. This date must be carefully chosen by the consumer to ensure that there will always be sufficient funds available for the premium payment;
- If the premium is not received on the due date, some insurers will give a grace period of 15 days whilst others will double debit the consumer's account the following month by debiting the premium not received and the premium due for the next month. In other words, these insurers give a grace period of one month and not just 15 days.
  In addition, some policies allow insurers to charge an administration fee in the event of the non-payment of the premium. Therefore consumers must familiarise themselves with the relevant provisions of their policy wordings dealing with the insurer's rights and the implications for the consumer in the event of the non-payment of premium.
- Premiums that have not been paid cannot be paid retrospectively, in other words, premiums cannot be paid to give cover going back.
- The insurer may amend the policy terms and conditions at any point provided the consumer has been given 30 days' notice of the changes.
  Consumers must therefore ensure that they read all correspondence received from insurers as it could relate to the insurer giving notice of an increase in the premium. In such event, the obligation is on the consumer either to accept the increased premium, and ensure that there are sufficient funds in his/her bank account to meet the new premium, or to cancel the policy with the insurer by giving proper notice if he/she is not prepared to accept the increase in the premium.
- If a policy is cancelled by an insurer on the basis of a non-payment of the premium, then the consumer, when taking out another policy with a new insurer, will need to disclose this cancellation to the new insurer when asked whether an insurer has ever cancelled a policy.

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