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BE FULLY COVERED ON YOUR MOTOR WITH CREDIT SHORTFALL ADD-ON COVER

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When you have worked hard for something, or more exclusively, for everything that you own, you need to make sure that it is protected in case anything bad happens. Things like car accidents, property damage, illness and death can happen to anybody at any time and if one does not have any form of insurance, they could end up with real money issues. This article today takes aim to talk about insurance and is intended to take an extensive scrutiny into the vehicle insurance, also sometimes referred to as car insurance, motor insurance and/or auto insurance. More specifically, a cover extension or add-on cover in this type of insurance is known as a credit shortfall cover. When a person or a company finances the purchase of their vehicle through the bank, insurance cover for such a vehicle becomes a prerequisite to the bank for the period of the contract term and thus motor insurance is the most popular form of short-term insurance.

TYPES OF MOTOR INSURANCE COVER

In short, motor insurance cover can be divided into three main types; namely, Third Party Only cover, Third Party Fire and Theft cover and Comprehensive cover.

Third party only cover: the insured's vehicle is not covered but other people's cars or properties as well as their belongings as a result of loss and damage caused by the insured's vehicle. In essence, it covers the insured's legal liability for damages to another person's property as a result of an accident including the legal costs and expenses. In every insurance contract there are two parties; the insured and the insurer and everyone else is a third party.

Third party fire and theft cover: in addition to Third Party Cover, this cover extends to cover the insured's vehicle but only against the risk of fire and theft. There are certain conditions that must be met by the insured for the theft cover aspect to be valid.

Comprehensive cover: this cover will take up the accidental damages to the insured's vehicle on top of the two aforementioned covers. It is by far considered the most secure type of insurance cover since it includes third party, fire and theft as well as damages to the insured's vehicle. Having briefly dwelled on the covers that exist, there are however times whereby for vehicles financed by the bank a gap exists between the vehicle's market value and the outstanding principal of the insured's loan. The basis of insurance is the market value of a vehicle. However, in most cases uninsurable items such as licensing and registration costs, dealer delivery charges and banks' interests form part of the vehicle costs but not its market value and hence push the value of a person's loan far beyond the vehicle's market value. Therefore, credit shortfall insurance comes into play whereby the amount of finance is higher than the amount insured for.

WHAT IS CREDIT SHORTFALL?

Credit shortfall insurance is essential for people who have recently bought a vehicle, either a new car or a recent model (within years that qualifies to be financed by the bank) on hire purchase. Credit shortfall insurance covers the difference between your vehicle's market value (the sum insured) and what you have paid for the vehicle upon purchase (loan balance). This is an add-on to the Comprehensive Motor Insurance. The value drops considerably the instant it is driven off the showroom floor but there is no such corresponding drop in the amount owing to the bank. Should an insured event occur, such as a theft or an accident that writes off the vehicle, your insurer will cover it for the Market value which is now less than the purchase price.

WHAT YOU NEED TO KNOW.

For many of us, driving that dream car means getting finance through a bank or another financial services provider. With credit shortfall, insurance protects you as the borrower by paying the shortfall amount owing to your credit provider, in this case the bank. If in the event that you have a total loss to your vehicle due to an accident or damage or the vehicle is stolen or hijacked; then the amount received from your motor comprehensive insurer in the form of indemnification is inadequate to settle the loan on your vehicle. I illustrate below with an example on how credit shortfall insurance becomes handy for a person who has opted for it. At times, clients take out a large loan depending on the value of the vehicle(s) they are eying to purchase; say you have bought a new vehicle and the bank finances it for M 600,000.00 (being the cost of the vehicle plus finance charges). However, at the time of loss, the Market value of your vehicle less the applicable policy excess is M 501,000.00 and the outstanding loan balance is M540,000. Your comprehensive insurance will pay that Market value of M501,000 resulting in a shortfall of M 39,000.00. If the client opted for Credit Shortfall cover, that shortfall of M 39,000.00 would be cleared on his/her behalf excluding any arrears if any.

WHY DO YOU NEED CREDIT SHORTFALL??

First of all, it protects you from the scenario outlined above. Moreover, with frustrations in the event that one's vehicle is declared a write off, your credit rating at the bank is improved since the loan balance will be cleared. In the case that you need to replace your vehicle, it protects you from having less money available and you don't even have to pay off the vehicle that you don't even own anymore. Sometimes the quantum of this gap can run into many thousands, so it is important that you consider this product to ensure that you are adequately protected.

WHAT IS NOT COVERED?

While this cover is rendered important, it is however worth noting that excesses due during the processing of your claim, in arrears instalments that may be overdue and the interest that may have accumulated, other additional financing charges as well as early settlement penalties are all not covered. Again, the total shortfall payment will not exceed the amount of the vehicle insured after reduction of the excess amount.

In conclusion, accidents do happen, and vehicles being stolen, being hijacked and eventually being written off is a reality although we hope you will never have to experience any of these, or you don't again if you have before. Just in case you do, you will however thank yourself for making the responsible choice and taking out a credit shortfall insurance. For most vehicles purchased, reports show that the maximum exposure to this gap occurs from the date of purchase to around the 24 and 36 months through a standard loan of 48 and 60 months respectively. Hence, as you pay off your instalments, there will come a time where the amount owing is less than the value of the vehicle. When this point is reached, credit shortfall insurance is no longer required. This of course depend on the rate at which the vehicle depreciates and the number of instalments together with the additional payments towards settling the loan one does. This means that there is a time when you can opt out of this cover, but still be comprehensively covered.

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