

# ClearDebt



ClearDebt

CLEA.L

## PAYMENT PROTECTION – THE GENUINELY ETHICAL APPROACH

ClearDebt has just announced an innovative scheme to insure creditors in an IVA against the risk of a debtor falling sick or being made redundant. ClearDebt itself is taking out a policy underwritten at Lloyds which will cover all IVAs which it supervises.

This results in a much lower cost because administration costs are lower with one policy than with a multitude of individual policies and premiums can be lower because firstly there is less risk of adverse selection and secondly the underwriter uses a slimmer contingency margin on group policies since the variability is proportionately less.

At a premium rate of 4% it looks an absolute snip compared to the shortfall of roughly 18% that Debt Free Direct (DFD) reports of contributions paid against contributions promised (excluding those completing their IVA early because things have got better).

This is partly because the debtor can recommence payments as soon as he/she gets back to work and complete the IVA, to everyone's benefit, partly because the policy only covers accident, illness, and redundancy that are outside the debtor's control and partly because ClearDebt has a better record on failures than DFD.

So there are three major advantages: reduced risk of non-payment leading to less need for bad debt provisions by the creditors, less worry and stress for a debtor in an IVA suffering an accident or illness (and stress is likely to make an illness worse), and fewer lapses or variation orders which inevitably cost time and money.

I also like the set-up where it is the beneficiary of the policy that pays the premium – in too many 'payment protection' policies the creditor is the beneficiary whereas the premiums are paid by the creditor which conflicts with a basic principle of insurance law.

As with ClearDebt's last innovative service - on re-mortgaging where John Charcol agreed to waive any fees payable by the Debtor in lieu of paying ClearDebt a commission, ClearDebt is providing a service for no payment to provide a better service to its clients.

Unlike certain companies that talk a lot about ethics, but regard ancillary services as a profit centre, ClearDebt acts ethically and provides ancillary services as a service.

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