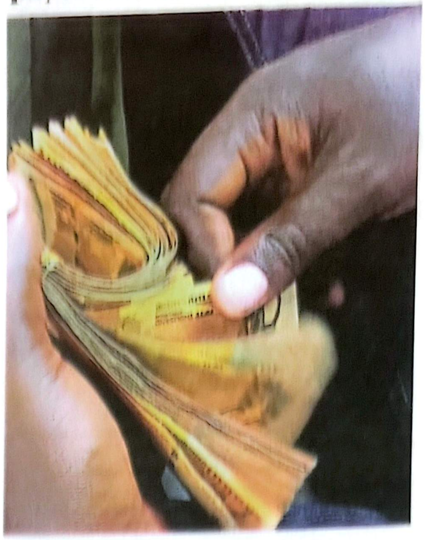
LETTERS

Loan buyoffs: Should borrowers pay twice for switching lenders?



A friend had long wanted to switch his loan from his old bank because of several issues, poor customer care, high interest rates and generally a frustrating experience.

An opportunity opened for him when another bank reached out with a loan buyoff offer at an interest, three percentage points lower than what he was currently paying.

This was his chance to switch and he would grab it with both hands. However, as he got into the details, the information exchange and calculations with the new bank, he realised that he would actually be paying more with the new "lower" interest rate.

The new bank had calculated credit insurance on the outstanding loan amount although he had paid credit insurance upfront on his original loan amount.

Loan buyoffs are meant to empower consumers by offering better interest rates, improved service, and more competitive financial solutions.

When a borrower transfers a loan from one bank to another, the insurer's responsibility should continue uninterrupted until the loan is fully settled, regardless of the institution that may now hold the facility.

The requirement for the borrower to pay for a credit policy on the outstanding loan amount at the new bank forces them to pay twice for protection against the same risk, resulting in an unfair duplication of cost.

Insurance, by principle, should follow risk, not institutions. Consider how motor vehicle insurance works: a car is insured as an asset, and its cover does not lapse because a different person is driving it.

The risk being covered remains tied to the asset itself. In the same way, a loan should be treated as the insured asset, regardless of the institution that takes it on.

This would open the door to a progressive solution, moving credit insurance from individual lenders and centralising it within a neutral entity like a credit reference bureau to allow coverage to be linked to the borrower's credit exposure.

Under such a system, when a loan is bought off, the insurance would move with the obligation, eliminating the need for borrowers to pay again for the same protection.

This would enhanced consumer protection by reducing unnecessary costs and ensuring that borrowers are not unfairly disadvantaged when switching lenders.

Without reform, the current structure discourages exactly the behaviour that financial systems should encourage, competition.

Borrowers may remain locked into existing banks, not because they offer the best value, but because switching comes with repeated costs that should be avoided.

Loan buyoffs should be simple, fair, and beneficial. Charging borrowers twice for insuring the same loan is none of these.

It is time for regulators and industry players to champion a risk-based model of credit insurance that puts consumers first and strengthens the integrity of Uganda's financial system.

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