RETRENCHMENT COVER.

The World Health Organization (WHO) on March 11 declared COVID-19 a pandemic, pointing to the over 118,000 cases of the coronavirus illness in over 110 countries and territories around the world and the sustained risk of further global spread. According to the WHO Director General Dr. Tedros Ghebreyesus, “This is not just a public health crisis, it is a crisis that will touch every sector and every individual must be involved in the fights.”

With the global Corona pandemic wrecking unprecedented havoc in terms of human and business cost, governments world over had to adopted lock down measures in order to contain the spread. This in turn adversely affected business productivity in terms of dwindling revenues and closures and Uganda was not spared. Naturally business entities and companies had to adopt radical measures of controlling expenses among other initiatives in order to remain liquid, this adversely affected the ordinary citizenry and precipitated various levels of redundancy or unpaid staff leave and job cuts among employees. This ordinarily also had a trickling down affect to running bank loans balances of these distressed borrowers falling into grave despair.

Not all hope is lost as insurance will provide some reprieve and redemption to some of these loan agreements that are incorporated with a financial protection clause that seeks to relieve the borrower of the undue financial burden in such un expected times as a result of being laid off due to redundancy. This type of insurance protection is called the retrenchment cover. It provides a loan repayment relief for a specified period against borrower or their immediate beneficiaries in this case the family as a result of financial crisis arising out of for instance cyclical unemployment.

This cover is mainly provided as a supplementary benefit to insurance taken on a loan (credit life policies) i.e. home loans, car loans and other credit agreements tied to salary, the benefit is normally a repayment of a loan for a specific period or as a percentage of the borrower’s salary. Rarely, is it provided as a standalone.

The insurance cover is extended to cover salaried employees with a full-time, permanent job or to a borrower who is part of an affinity group that took a group loan. The more often sought after qualification like for salaried employees, include for instance that the borrower must have been in employment without interruption for at least two years and employed at the time of distress for at least a year. In other instances, it is required that the cover should have been in place for at least six months before the financial distress situation to qualify for recovery.

Normally, this insurance pays out only if you are involuntarily retrenched as a result of your employer downsizing or facing closure for instance due to the business slow activity like presently with the COVID 19 pandemic, and also where the process of financial distress followed a legitimate retrenchment process in terms of the Employment Act, 2006.

There could be a waiting period of up to three months between your final salary pre the financial distress starting and the initiation of the claims recovery process with the insurance company. It's important to note however that this cover will take cognizance of all possible mitigations available before response is triggered like if you have declined a reasonable offer for an alternative job from either the employer that retrenched you or another potential employer and also if you are dismissed because of misconduct. It will also have limitations to pay out if you take a voluntary retrenchment package that severs your otherwise ongoing employment.