BIZCOMMUNITY

Lewis to return R67m to customers

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28 Oct 2015

Amid mounting pressure to root out bad credit practices, retailer Lewis Group says it will refund R67.1m to pensioners and self-employed customers for "mistakenly" selling them unemployment insurance.

The group laid the blame on "human error".

Photographer: Freddy Mavunda

Image source: Financial Mail

Like peers JD Group and Shoprite, Lewis had drawn the ire of the National Credit Regulator, which after a probe earlier this year, referred the retailers to the Consumer Tribunal for reckless lending and breaches of the National Credit Act.

Lewis Group CEO Johan Enslin said the repayment followed an internal investigation by the company, which was triggered by the regulator bringing to attention "three" instances of such sales of insurance.

Loss of employment insurance cover is used to settle customers' outstanding balances on their credit agreements in the event of retrenchment or redundancy. Pensioners and selfemployed people cannot be retrenched, and are obviously not eligible for such cover.

Like JD Group, Lewis's business model has come under the spotlight due to the greater quantum of revenue from ancillary products such as credit life insurance, extended warranties on goods and compulsory delivery fees - rather than the sale of furniture. Lewis is adamant that it has not contravened the National Credit Act and denies allegations that it does not undertake adequate affordability checks on customers. The retail group also dismisses claims that it has failed to provide sufficiently for bad debts and that its accounting for insurance income is inappropriate.

Dave Woollam, a partner at Summit Financial Partners, said "no way in a million years" was human error to blame for the insurance debacle.

"Sales people tell customers that it's mandatory and that you have no choice but to take out the insurance," he said.

"The vast majority of Lewis' customers are financially and mathematically illiterate. Some are completely illiterate so they sign with just an X."

The regulator's charges against Lewis and the other two retailers were based on results from in-depth investigations by Summit Financial Partners, which showed contravention of several sections of the National Credit Act.

"By the size of the fine, there are at least 50,000 cases. They deliberately and maliciously charged people for things that they didn't need to maximise revenues through exploitation of part of the population who simply didn't understand," Mr Woollam said.

He had also conducted undercover shopping trips, which exposed other unsavoury practices. This included a store assistant entering R10 as a customer's living expenses to let the customer qualify for greater credit.

Lewis said it had introduced a raft of preventative measures to ensure "human error did not happen again". The tribunal is yet to set a date for its hearing. Apart from an audit and refund, the regulator requested in July that Lewis pay a fine of R10m.

An analyst, who could not be named in line with company policy, said there had been a low level of compliance by the industry at large due to a relatively weak regulatory enforcement process in the past.

Source: Business Day