Financial Sector
Conduct Authority

FSCA Press Release **4 October 2021**

FSCA statement on universal life policies

The Financial Sector Conduct Authority (FSCA) has been alerted by the office of the Ombudsman for Long-term Insurance (OLTI), that there have been various complaints received over the last few months, relating to policies known as universal life policies. The complaints include high premium increases, lack of suitable alternative policy cover options being provided, premiums being deducted from the savings portion of the policies without the permission of policyholders and policies becoming unaffordable, especially for the elderly policyholders after the guaranteed periods. In response, the FSCA has begun consultations with industry to develop solutions that are aimed at achieving fair customer outcomes, in addition to the existing policy interventions made in the past few years.

Universal life policies are life insurance policies where the total premium payment has two components to it, i.e., the risk premium and a payment towards an investment or savings component of the policy. The cost of the risk premium component covers the cost of providing the death benefit and administrative fees, and that is typically the minimum premium amount needed to keep the policy in effect. Any amount which forms part of the premium payable over and above the risk premium adds to the policy's investment or savings component. This is also known as the cash value, subject to the limits in the policy.

The complaints from the OLTI relate to substantial premium increases in these policies, that often follow a guaranteed period that allows for a fixed premium.

Universal life policies have been a topic of consideration for the FSCA for some time and following engagements with the four main life insurers that offer these policies, certain additional requirements were introduced into the insurance legislation to address some of the concerns mentioned in paragraph 1 hereof. The additional requirements were included in the Regulations and Policyholder Protection Rules (PPRs), issued in terms of the Long-term Insurance Act, No. 52 of 1998 (LTIA). The additional requirements are aimed at ensuring that insurers focus on the value the products provide to a policyholder, during the lifetime of the product. These additional requirements are as follows:

- Rule 2 - Product design;
- Rule 6 - Determining premiums;
- Rule 11 - Disclosures;
- Rule 14 - On-going review of product performance;
- Rule 15 - Premium reviews; and
- Regulation 5.8 - Amendments to actuarial basis and values.

Despite the introduction of the above requirements, the OLTI notes that these types of policies may still result in unfair outcomes to policyholders. Further consideration of these policies has been undertaken. The FSCA has also engaged with various industry bodies and insurers to obtain a better understanding of the current concerns.

The Authority has also decided to collaborate with the Life Market Conduct Committee of the Actuarial Society of South Africa to conduct a further review of these policies.

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