

## **FSCA COMMUNICATION 17 OF 2021 (INS) – Conduct of Business Supervision**

### **The FSCA's expectations regarding premium increases on funeral policies**

#### **1. Background**

1.1 The Financial Sector Conduct Authority (FSCA) notes with concern the high premium increases that are being implemented by insurers on funeral policies throughout the industry.

1.2 The FSCA is aware of the impact of COVID-19 on mortality rates and funeral policy claims; however, insurers are expected to ensure fair outcomes for policyholders. Insurers are therefore reminded of their obligations pertaining to premium increases. The following are the FSCA's expectations when insurers effect premium increases on their funeral books of business:

#### **2. Fair treatment of policyholders**

2.1 Insurers must ensure that in line with Rule 1.2 of the Policyholder Protection Rules (PPRs) issued under Section 62 of the Long-term Insurance Act, 52 of 1998 (LTIA), that they act with due skill, care and diligence when dealing with policyholders in implementing any increase in premiums.

2.2 It is the view of the FSCA that premiums must be priced correctly at the inception of the policy so that any increases which may be implemented would still result in fair outcomes for policyholders and the policy continuing to perform as expected.

Rule 1.4(e) of the PPRs provides that:

*“An insurer must have appropriate policies and procedures in place to achieve the fair treatment of policyholders. The fair treatment of policyholders encompasses achieving at least the following outcomes: policyholders are provided with products that perform as insurers or their representatives have led them to expect, and the associated service is both of an acceptable standard and what they have been led to expect”.*

### **3. Setting actuarially sound premiums**

3.1 Insurers must ensure that the premiums that they set are actuarially sound, in line with Section 46 (1)(a) of the LTIA which provides that:

*“A long-term insurer shall not enter into any particular kind of long-term policy unless the statutory actuary is satisfied that the premiums, benefits and other values thereof are actuarially sound...”*

3.2 Insurers must also ensure that the premiums they set at the inception of the policy reasonably balance the interests of the insurer and the reasonable benefit expectations of policyholders.

3.3 The premiums must be based on assumptions that are realistic and that the insurer reasonably believes are likely to be met over the term of the policy, in line with Rule 6(1) of the PPRs which provides that:

*“A premium payable under a policy must reasonably balance the interests of the insurer and the reasonable benefit expectations of a policyholder or member, and be based on assumptions that are realistic and that the insurer reasonably believes are likely to be met over the term of the policy.”*

The FSCA has noted that some of the recent premium increases may relate to historic books of business which were under-priced from inception of the policies. It is the FSCA’s view that if policies were not priced correctly at inception of the policy and exorbitant increases are thereafter implemented due to the impact of COVID-19 or underwriting losses, this would result in unfair outcomes for

policyholders. Such increases would not be compliant with Rule 15.5(e) of the PPRs, which provides that:

*“A review of a premium payable under a policy will not comply with 15.4 if the primary purpose or effect of the review is to allow for the **adjustment of a low initial premium** consciously based on overly optimistic assumptions .....”*

#### **4. Process for reviewing of premiums**

4.1 The FSCA reminds insurers that Rule 15(1) of the PPRs requires that:

*“a premium payable under a policy may only be reviewed if the policy provides for a review and states the frequency at which and the circumstances in which a review will take place”*.

4.2 The alleged practice by some insurers of increasing premiums more than once for the same policy within a 12-month period (even though the terms and conditions allow only for increases on the anniversary of the policy) falls foul of the requirements of Rule 15(1) of the PPRs.

4.3 The Authority has also noted that some insurers are exponentially increasing premiums on funeral policies without considering the requirements of Rule 15(4)(a) of the PPRs which provides that:

*“any review of a premium payable under a policy must reasonably balance the interests of the insurer and the reasonable benefit expectations of policyholders or members”*.

4.4 Insurers are further required to consider Rule 15.6 of the PPRs which stipulates that:

*“an insurer must timeously and in writing inform a policyholder of a pending review and the timing of the review if the review is expected to result in a premium increase”*.

4.5 Insurers must also take into account Rule 15.7 of the PPRs which provides that:

*“If a premium payable under a risk policy will be increased as a result of a review, an insurer must take reasonable steps to afford a policyholder alternatives (such*

*as the option to terminate the policy, to reduce the policy benefit or to enter into an alternative policy) to mitigate the impact of the increase on the policyholder.*

## **5. Compliance with Legislation**

The FSCA expects insurers who consider increasing policy premiums to their existing policies to consider the existing requirements and to follow the appropriate processes. Insurers must be able to demonstrate that they are complying with the provisions of the LTIA, particularly the PPRs and treating their customers fairly.

## **6. Enquiries**

For more information regarding this Communication please send an e-mail to Jacky Huma at [Jacky.Huma@fsca.co.za](mailto:Jacky.Huma@fsca.co.za)



**Kedibone Dikokwe**  
**Divisional Executive: Conduct of Business Supervision**  
**FINANCIAL SECTOR CONDUCT AUTHORITY**

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