



FSCA

Financial Sector
Conduct Authority

PRODUCT DESIGN

Microinsurance product standards in terms of Rule 2A of the Policyholder Protection Rules of the Long-Term Insurance Act 52 of 1998 and Short -Term Insurance Act 53 of 1998

Topics covered

- **Fair treatment of policyholders**
- **Product design**
- **Microinsurance product standards**

Requirements for fair treatment of policyholders (TCF)

- An insurer must act **honourably, professionally and with due regard** to the fair treatment of policyholders.
- An insurer must have appropriate policies and procedures in place to achieve the fair treatment of policyholders.

Fair treatment of policyholders (principles)

The fair treatment of policyholders encompasses achieving at least the following **outcomes**:

- ✓ fair treatment of policyholders is central to the insurer's **culture**;
- ✓ products are **designed** to meet the needs of identified types of policyholders and are targeted accordingly;
- ✓ policyholders are given **clear information** and are kept appropriately informed before, during and after the time of entering into a policy;
- ✓ where policyholders receive **advice**, the advice is **suitable** and takes account of their circumstances;
- ✓ policyholders are provided with **products that perform** as insurers have led them to expect, and the **service** is of an acceptable standard and what they have been led to expect; and
- ✓ policyholders do not face **unreasonable** post-sale **barriers** to change or replace a policy, submit a **claim** or make a **complaint**.

Product design

- In developing products an insurer must:
 - ✓ make use of adequate information on the **needs** of identified types, kinds or categories of policyholders;
 - ✓ undertake a thorough **assessment, by competent persons** with the necessary skills, of the main characteristics of a new product, the distribution methods intended to be used and disclosure documents;
 - ✓ to ensure that it is **consistent with insurers strategic objectives**, targets appropriate policyholders while mitigating risk of product being used by inappropriate policyholders and takes into account fair treatment of policyholders.
- Before an insurer starts to market, offer or enter into specific policies in respect of a new product, a **senior manager** of the insurer must in writing approve the product.
- This applies to new products and material changes to existing products.



NB: Insurer must determine its own *materiality* framework for changes to existing products... 6

Microinsurance product standards

Application of standards

- The standards apply to microinsurers (*and insurers licensed for the funeral class of business*);
- An insurer other than a microinsurer or any other person acting on behalf of that insurer **may not** use the term “**microinsurance**” or any derivative thereof in respect of a policy or in any advertisement in respect of a policy.

Microinsurance product standards

Structure of policy benefits

- Policy term: 12 months, upon expiry – auto renewed / terminated;
- Life: Policies may not prescribe that a benefit payable as a sum of money is payable directly to a service provider;
- Life: Where benefits are in kind, policyholder must be given the option of receiving the equivalent cash value.

Microinsurance product standards

Variation or renewal

Terms, conditions and provisions of a microinsurance or funeral policy may not be changed/varied during the first 12 months after inception, unless the insurer can demonstrate that:

- there are *reasonable* actuarial grounds; or
- the variation will be to the benefit of the policyholder or member.

Microinsurance product standards

Waiting period

- Waiting period may not exceed the shorter of $\frac{1}{4}$ of the term or 6 months in respect of a death, disability or health event resulting from natural causes.
- May not impose waiting period :
 - Benefits payable on the happening of a death, disability or health event resulting from an accident;
 - Other than as prescribed in NCA credit life regulations for credit life policies;
 - When policyholder changes insurers within 31 days, provided the cover was for similar risks relating to same lives assured and previous waiting period was completed;
 - A new insurer may impose a waiting period not exceeding the ***unexpired*** period under a previous microinsurance or funeral policy.

Microinsurance product standards

Excesses

- Only applicable to *non-life* policies;
- Excess on a non-life policy of R 120K or less may not exceed the lower of 10% of the policy benefit or R 1K;
- Excess on a non-life policy > R 120K may not exceed 10% of the policy benefit.

Microinsurance product standards

Exclusions

Life

- May not impose any exclusion for ***pre-existing*** health condition other than through a waiting period;
- May not impose an exclusion for ***suicide*** for a period > ***12 months*** from the inception of the policy.

Non-life

- Policy of ***R 120K or less*** may not impose exclusions other than those relating to unlawful conduct, special risks (SASRIA), condition of asset insured at inception of policy, maintenance and usage of insured asset against mechanical or electrical component failure, consequential loss.

Microinsurance product standards

Exclusions (*cont.*)

Non-life

- Policy > R120K may impose additional exclusions if the insurer can demonstrate that such exclusions will:
 - not erode the value of the policy benefits;
 - continue to render the policy suitable for targeted policyholders;
 - not compromise the consistent delivery of fair outcomes for policyholders.

Microinsurance product standards

Claims

- An insurer must within **2 business** days assess, make a decision and authorise payment, repudiate or dispute a claim after receiving all documents.
- If a claim is disputed the insurer must **within** 14 business days
 - further investigate the claim;
 - make a decision whether claim is valid or not; and
 - pay or repudiate the claim.
- An insurer may not repudiate a claim on the basis of **non-disclosure**, if the insurer did not request the information before the inception of the policy.

Microinsurance product standards

Reinstatement

- If the policy lapsed due to non-payment of premiums and is reinstated, the insurer must
 - do so on at least the same terms as the policy that lapsed;
 - may not impose a waiting period under the reinstated policy.
- If the insurer enters into a ***new policy*** with same policyholder within 2 months after the policy has lapsed due to non-payment of premiums, insurer may not impose a waiting period under the new policy.

Microinsurance product standards

Fees

- When providing a service or other non-monetary benefit under a policy, an insurer or any person acting on behalf of the insurer may ***not charge*** the policyholder or member any ***administration*** or ***similar fee*** in respect of that service / similar benefit;
- An insurer may ***not charge any fee*** in addition to the premium, unless it is permitted in terms of legislation.

Microinsurance product standards

Reporting of a new product

- An insurer must at **least 31 days before** launching a new product, notify the FSCA and submit a summary of the benefits, exclusions, terms and conditions, proposed commission structure and advertising material intended to be used.
- The FSCA may at any time by **notice** to an insurer -
 - (a) **object** to any of the benefits, terms and conditions, commission payable and advertisement of a microinsurance or funeral product, and
 - (b) **instruct** the insurer to –
 - stop advertising, marketing or offering;
 - not renew the policies;
 - terminate within 90 days of the determined date;
 - amend the benefits, terms and conditions and advertisements.

THANK YOU