



FSB

INSURANCE DIVISION

MICROINSURANCE POLICY FRAMEWORK UPDATE

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INSURANCE REGULATORY SEMINAR

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AGENDA

- BACKGROUND
- POLICY OBJECTIVES
- POLICY FRAMEWORK
- INSURANCE BILL
- COMPLEMENTARY REFORMS
- NEXT STEPS



BACKGROUND

- NT Policy document published in July 2011
- Joint FSB/NT Steering Committee established to oversee the drafting of Microinsurance legislation
- Various Work Groups set up to investigate & facilitate microinsurance proposals stipulated in policy document, including:
 - Products Standards Working Group
 - FAIS/Intermediation Working Group
 - Actuarial Working Group



POLICY OBJECTIVES

- Promote financial inclusion
- Facilitate formalisation of insurance provision by currently informal providers
- Lower barriers to entry
- Ensure consumer protection
- Facilitate effective supervision and enforcement



POLICY FRAMEWORK

- **Product standards and benefit limits**
 - Simplified product standards – no exclusions, restricted waiting periods, claims payments & grace periods
 - Benefits restricted to risk products, and no cash-back and/or savings component allowed
 - Restricted contract term of max 12 months, 6 months maximum waiting periods, no selective non-renewal in group policies



POLICY FRAMEWORK (CONT.)

- Microinsurance benefits to be provided on a sum assured basis

Benefits limits to be as follows:

- A maximum benefit of R50 000 per insured life, per insurer for any insurance related to a death event. Different benefit caps for children will apply
- A maximum benefit of R100 000 per person, per insurer, per contract period for all insurance on assets only
- A maximum benefit of R50 000 per insured life, per insurer, for all other risk events

Note: Above benefit limits will be reviewed as part of finalising microinsurance product standards



POLICY FRAMEWORK (CONT.)

- **Permissible institutional forms**
 - Member-based entities (i.e. co-operatives), public companies, as well as private companies
 - An existing insurer wishing to apply for a microinsurance licence should set up a separate legal entity
- **Adherence to Corporate Governance requirements**
 - Transparency: submit annual audited, quarterly unaudited returns
 - Proportionate fit & proper requirements
 - All corporate MIs must have a board of directors of at least 4 members
 - MI to have an Audit Committee & appoint auditor irrespective of legal form



POLICY FRAMEWORK (CONT.)

- **Prudential requirements**
 - Full licensing – min R3m upfront capital
 - Provisional licensing – min R1.5m capital, with allowance to build up capital to R3m in three years

Note: Above capital requirements to be reviewed prior to finalisation

- MI to appoint Microinsurance Actuarial Technician (MAT) for actuarial sign-off on total premium & changes in pricing
- Board of MI to ensure fairness of premiums
- MI to invest only in cash or liquid investments



POLICY FRAMEWORK (CONT.)

Intermediation

- Since the 2011 Policy Document, RDR talks about:
 - Special dispensation (including remuneration) for advice and distribution in the low income market
 - Linked to provision of products that meet certain standards (e.g. MI product standards)
- FAIS Act will provide for new category of MI FSP:
 - All persons rendering financial services in respect of a MI product must be authorised as a MI FSP or must be appointed as a representative of a MI FSP
 - Specific Code of Conduct for MI FSPs



POLICY FRAMEWORK (CONT.)

- Different fit and proper requirements for different types of MI products depending on their nature, complexity and whether product sold on a low or no advice basis (possibly no qualification requirements in some cases)
- No regulatory examinations for MI representatives, but still required for sole proprietors and KI's
- Product training must be provided by MI
- Less onerous financial soundness, operational ability and compliance requirements



INSURANCE BILL

- Introduces legal framework for microinsurance
- Defines microinsurer as an insurer licensed to conduct only microinsurance business
- Defines microinsurance business
 - Limited to certain classes and sub-classes of insurance business
 - Limits aggregate value of the insurance obligations under an insurance policy to the maximum amounts prescribed
 - Policies must comply with product standards to be prescribed in the Policyholder Protection Rules
- Permissible life insurance classes:
 - risk, credit life, funeral & corresponding reinsurance
- Permissible non-life insurance classes:
 - motor, property, legal expenses, consumer credit, accident & health, reinsurance and liability (as it relates to classes above)



INSURANCE BILL

Definition of “group” in Schedule 2 –

relates to an insurance policy entered into with –

- an autonomous association united voluntarily to meet their common or shared economic and social needs and aspirations (other than obtaining insurance), which association is democratically-controlled;
- an employer; or
- a fund,

where the association, employer or fund holds the insurance policy exclusively for the benefit of a beneficiary

Note: for-profit commercial entities will not be able to enter into “group” policies on behalf of their “members” – such business will have to be written as individual policies underwritten on a group basis, so as to improve policyholder protection



COMPLEMENTARY REFORMS

- Further analysis / consultation has concluded that not all objectives of the Microinsurance Policy Document will be fully met through the proposed MI framework, and that complementary reforms are necessary
- Funeral parlours:
 - Not all informal providers of insurance-like services – particularly funeral parlours – will be able to meet the lower MI licence requirements, and the risk pool may be too small
 - FSB, in consultation with FP industry, exploring alternative paths for formalisation, including:



COMPLEMENTARY REFORMS (CONT.)

- Formal registration with the FSB;
- Allowed to provide funeral services in return for the payment of a monthly premium (no monetary benefit);
- Replacement of individual capital requirement with a monthly contribution to a guarantee fund, regulated and administered by the FSB or another agency;
- Regular returns, limited to key data;
- Basic good business practices and market conduct requirements



COMPLEMENTARY REFORMS (CONT.)

- Group policies:
 - Prohibition on insurers providing certain types of group policies (particularly funeral policies and credit life policies) through channels (e.g. funeral parlours, credit providers, retail partners) in a manner that does not ensure sufficient protection of fair customer outcomes (e.g. conflicts of interest, insufficient disclosure)
- Other types of inclusive insurance products:
 - Need to support business models operating in the low-income segment that will not meet envisaged MI product standards (e.g. investment products), but could contribute to an inclusive insurance market if products are affordable and appropriate to customer needs
 - Such products will not qualify for the simplified MI prudential framework – but could qualify for lighter market conduct requirements, particularly re. advice/distribution, subject to certain customer protection safeguards (products should be “low-risk” from a customer outcomes perspective)
 - e.g. a sub-set of TFSA products



NEXT STEPS

- *Discussion Paper – Regulation and Supervision in support of an Inclusive Insurance Market*
 - An update and roadmap for implementation of microinsurance regulatory framework
 - Further details on envisaged complementary reforms
 - Release end-2015 / early-2016
- Microinsurance standards
 - Details of MI regulatory framework will be contained in MI standards, covering:
 - MI business thresholds
 - Financial soundness (prudential)
 - Governance
 - Reporting
 - Released for consultation end-2015 / early-2016 (following tabling of Insurance Bill)



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QUESTIONS