# CLASS OF BUSINESS TRAINING

## LONG TERM INSURANCE

## 2021

Class Three

NKWALI TRAINING CONSULTANTS (PTY) LTD

FP&M Accredited Provider

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## Class of business training legislative requirement

The Financial Sector Conduct Authority (FSCA) **Board Notice 194 of 15 December 2017: Determination of Fit and Proper Requirements** stipulates that a financial services provider (FSP) and a representative must complete the class of business (CoB) training relevant to those financial products for which they are authorised **before** rendering any financial service in respect of such products.

A key individual must complete the CoB training in respect of the classes of business for which he/she is seeking approved to act as a key individual **before** managing the rendering of any such financial services.

The Determination of Fit and Proper requirements define “Class of business training” as training in respect of a specific class of business and which training is provided and assessed by an accredited provider or an educational institution.

The Class of Business training applies to the following:

- All FSPs, Key Individuals, and Representatives appointed after 1 April 2018.
- FSPs, Key Individuals, and Representatives who seek authorisation, approval or appointment for new financial product categories after 1 April 2018.
- Representatives working under supervision as at 1 April 2018, or appointed under supervision after 1 April 2018.
- Certain exemptions apply, depending on the type of business one does, and how it is conducted. Please contact your compliance officer if in doubt.

FSPs, KIs, and Reps authorised before 1 April 2018 are considered to have completed the CoB training given their experience and are therefore exempt from CoB training unless they add new product categories to their licence or seek approval for new product categories

## Glossary of terms

| Term | Definition |
|---|---|
| **Accidental death** | A sudden and unforeseen event occurring at an identifiable place and time, which has a visible, violent, or external cause and results in the death of the life assured. |
| **Amendment** | An attachment to a policy that modifies certain policy benefits. |
| **Application** | A signed request for cover giving information about the prospective policyholder. |
| **Automated advice** | The furnishing of advice through an electronic media that uses algorithms and technology without the direct involvement of a natural person. |
| **Beneficiary** | Any recipient of the proceeds of a will or insurance policy. |
| **Cooling off period** | The policyholder may reconsider and/or cancel his/her contract during this period, without incurring any penalties, provided he/she has not made any claims. |
| **Death benefit** | Amount paid to the beneficiary upon your death. |
| **Death event** | The event of the life of a person or an unborn having ended. |
| **Dread disease** | Any critical illness that has an impact on a person's lifestyle, longevity, is expensive to treat and usually causes significant permanent residual morbidity. Examples are cancer, heart attack, and stroke, etc. |
| **Financial Services** | The Financial Sector Regulation Act, 2017 defines "financial service" to include among others, providing advice, recommendations, or guidance concerning a financial product, a foreign financial product, a financial instrument, or a foreign financial instrument. |
| **Financial Service Provider** | The authorised financial services provider that sells life insurance or other policy to you. |
| **Grace period** | The time, usually 30-31 days, following the premium date, during which you can pay an overdue premium while keeping your insurance policy in force throughout this period. |

| | |
|---|---|
| **Health event** | An event relating to the health of the mind or body of a person or an unborn, other than a disability event. |
| **Insurance Policy** | In insurance, the insurance policy is a contract (generally a standard form contract) between the insurer and the insured, known as the policyholder, which determines the claims which the insurer is legally required to pay. In exchange for an initial payment, known as the premium, the insurer promises to pay for loss caused by perils covered under the policy terms. |
| **Insured** | The one who is covered in an insurance policy. |
| **Insurer** | A person or company providing insurance to the public. |
| **Lapsed policy** | A policy terminated because of failure to pay the premium(s). |
| **Legislation** | The legislation refers to laws that the government makes. They are necessary to regulate and control the insurance industry. |
| **Material misrepresentation** | A significant misstatement in an application form. For example, you did not tell the truth about a situation or withheld crucial information at the time of applying for coverage which would have caused the company to deny your insurance if they had known the truth. |
| **Natural death** | A death that occurs from natural causes such as disease or old age, rather than from an act of violence or injury sustained in an accident. |
| **Policyholder** | The person or party who owns an individual insurance policy. |
| **Premium** | Money paid by the policy owner for coverage. |
| **Reinstatement** | The resumption of coverage under a policy that has lapsed because of non-payment of the premium after the grace period has ended. |
| **Risk** | Risk in insurance is the possibility of a loss or damage and is measured in terms of consequences and likelihood. |
| **Tax** | Tax can be defined as a compulsory contribution to state revenue, levied by the government on workers' income, business profits, or added to the cost of some goods, services, and transactions. |

| | |
|---|---|
| **Underwriting** | Underwriting is the function of evaluating the subject of insurance, whether a person, property, profession, business, or other entity, and determining whether to insure it. It is the process by which an underwriter accepts or declines a proposal for cover under a risk product. Where the proposal is accepted, underwriting will determine the specific terms on which the policy is accepted i.e. if the proposal for insurance is accepted at ordinary rates or if loading or exclusion is required. |
| **Waiting period** | The period after taking out the policy during which time premiums are payable but the policyholder cannot claim certain benefits. |

## Introduction

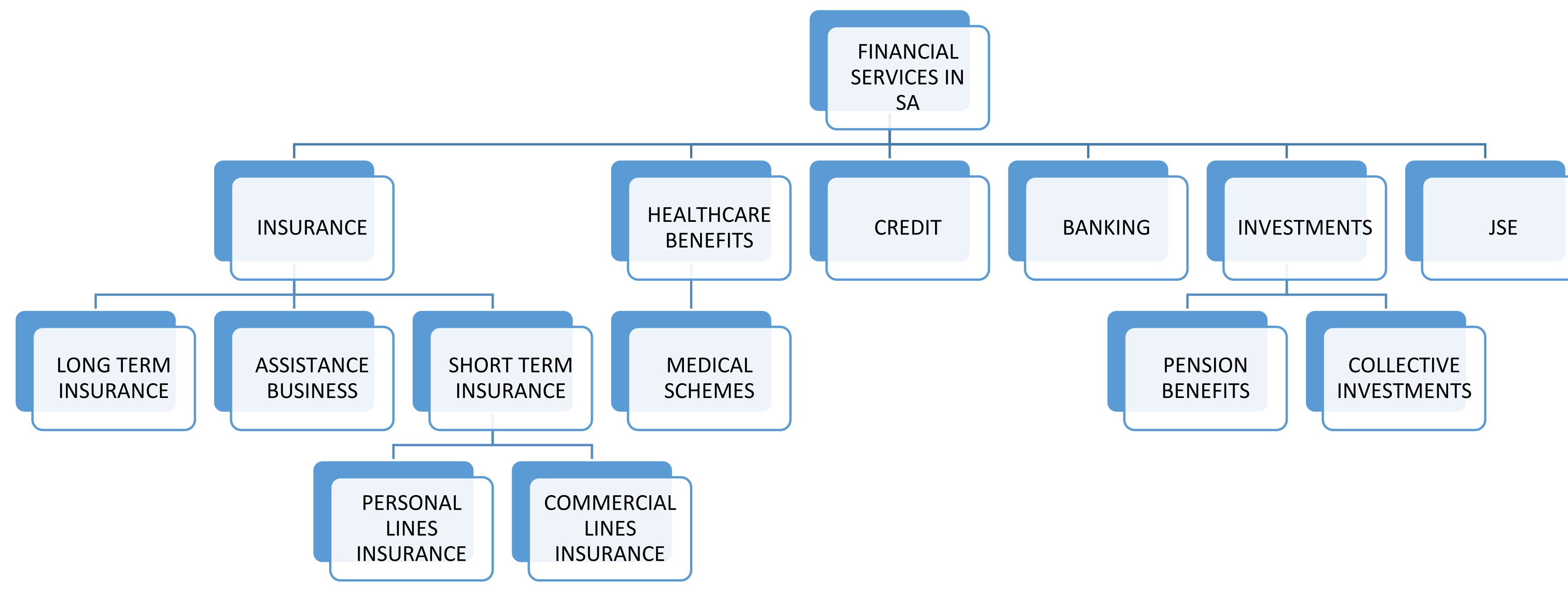
**Class of Business** is an industry classification of insurance products according to the perils insured and the exposure. The purpose of classifying the insurance business is to group homogeneous risks for purposes of rate development. - https://www.irmi.com/term/insurance-definitions/class-of-business.

Unlike product training, class of business training includes training on product features, including the typical fee structures and the suitability of different products or features for different types of clients. Class of business training also looks at the impact of current events on these products. Current events are but not limited to, technology, socio-economic factors, socio-political factors, and legislation changes.

**i) The structure of financial services in South Africa**

The financial services sector is made up of the following sectors (as shown in the diagram in the next page):

1. Insurance sector (consists of life and non- life insurance).
2. Healthcare benefits sector (medical aid schemes).
3. Banking sector (lending, deposits, withdrawal, financing, etc.)
4. Credit providers (strictly for lending and financing of personal and business projects).
5. Investments (collective investments, pension benefits).
6. JSE (multi-asset securities exchange – bonds, equities, options, etc. are traded).


FINANCIAL SERVICES IN SA
INSURANCE
HEALTHCARE BENEFITS
CREDIT
BANKING
INVESTMENTS
JSE
LONG TERM INSURANCE
ASSISTANCE BUSINESS
SHORT TERM INSURANCE
MEDICAL SCHEMES
PENSION BENEFITS
COLLECTIVE INVESTMENTS
PERSONAL LINES INSURANCE
COMMERCIAL LINES INSURANCE

**ii) The legal structure of the financial services sector**

| | Legislation & Compliance requirements | Registering / Supervising body |
|---|---|---|
| **Healthcare Benefits (Medical schemes)** | Register and comply as per the Medical Schemes Act 131 of 1998. | Registrar of Medical Schemes within the Council of Medical Schemes. |
| **Johannesburg Stock Exchange (JSE)** | Financial Markets Act,19 of 2012. | Financial Sector Conduct Authority (FSCA). |
| **Insurance – Life insurance** | Insurance Act of 2017 (replaced prudential framework of the Long-Term Insurance Act). | Licensed by the Prudential Authority<br>Financial Sector Conduct Authority (FSCA). |
| **Insurance – non- life insurance** | Insurance Act of 2017 (replaced prudential framework of the Short-Term Insurance Act). | |
| **Banking** | The Banks Act,1990<br>Financial Sector Regulation Act 9 of 2017<br>FSCA. | Licensed by the Prudential Authority. |
| **Retirement benefits** | The Pension Funds Act 24 of 1956. | Each fund is registered by the Registrar of Pension Funds. |
| **Collective investments** | Collective Investments Schemes Control Act 45 of 2002. | Registrar of Collective Investments<br>Classification of collective investments maintained by ASISA. |
| **Credit** | National Credit Act 34 of 2005. | National Credit Regulator. |

### iii) Regulators in the financial services market

#### 1. National Credit Regulator[1]

The National Credit Regulator (NCR) was established as the regulator under the National Credit Act 34 of 2005 (the Act) and is responsible for the regulation of the South African credit industry. It is tasked with carrying out education, research, policy development, registration of industry participants, investigation of complaints, and ensuring enforcement of the Act.

The Act requires the Regulator to promote the development of an accessible credit market, particularly to address the needs of historically disadvantaged persons, low-income persons, and remote, isolated, or low-density communities.

The NCR is also tasked with the registration of credit providers, credit bureaux and debt counsellors, and enforcement of compliance with the Act.

#### *2.* Commissioner

The natural person appointed by the Minister of Finance in terms of the Financial Sector Regulation Act to regulate the conduct of product suppliers and FSPs. The Commissioner was previously known as the Registrar. A commissioner is a regulator for the financial services sector in South Africa, whose job is to promote fair customer treatment and the efficiency and integrity of financial markets. A Commissioner works closely with a Deputy Commissioner in ensuring close working relationships between the FSCA and key stakeholders in the financial sector, including the National Treasury, South African Reserve Bank, National Credit Regulator, and Financial Intelligence Centre. They are also responsible for ensuring the FSCA participates and is properly represented in local coordinating structures as well as in the relevant international forum.

The current Commissioner for FSCA is Mr. Abel Sithole.

#### 3. [2]FSCA

The Financial Sector Conduct Authority (FSCA) is the market conduct regulator of financial institutions that provide financial products and financial services, financial institutions that are licensed in terms of a financial sector law, including banks, insurers, retirement funds, and administrators, and market infrastructures.

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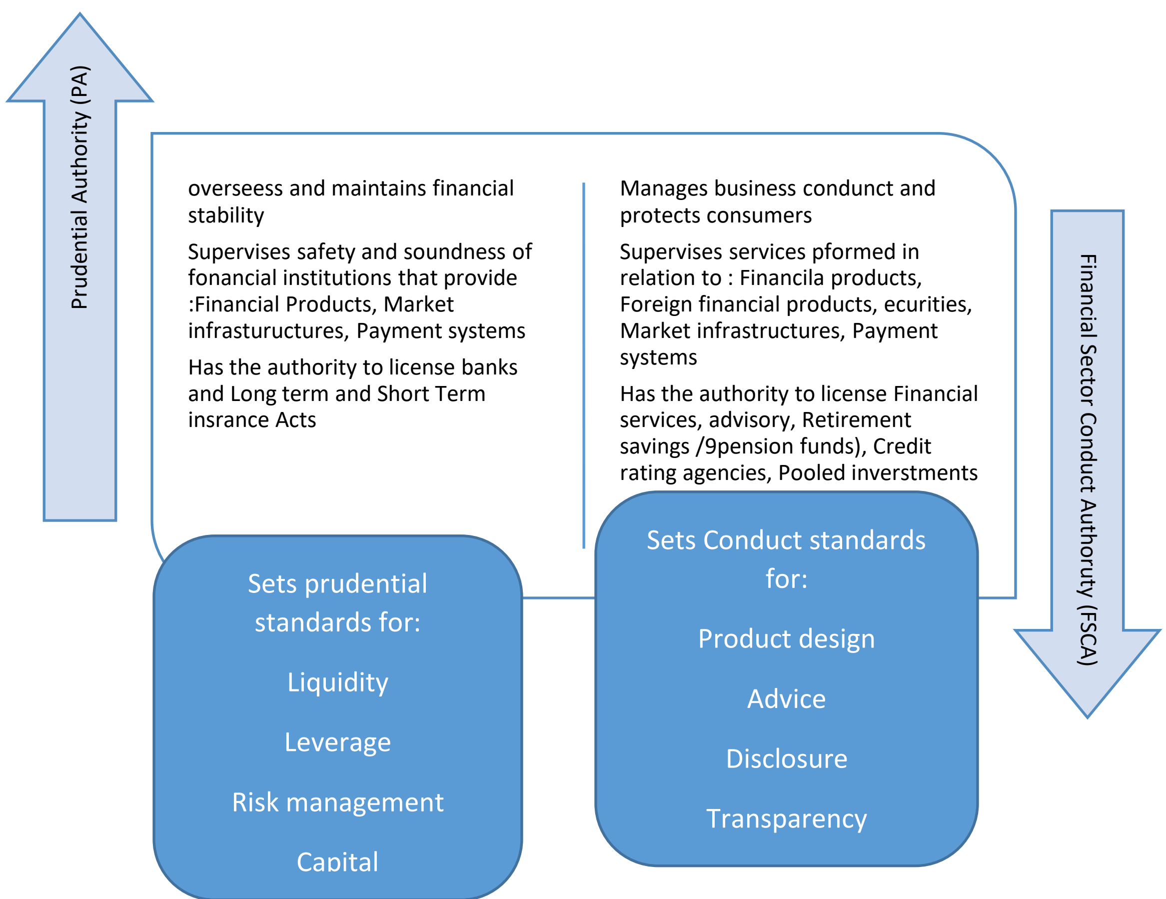
[1] www.ncr.org.za

[2] www.fsca.co.za

(FSCA) is responsible for market conduct regulation and supervision. FSCA aims to enhance and support the efficiency and integrity of financial markets and to protect financial customers by promoting their fair treatment by financial institutions, as well as providing financial customers with financial education. The FSCA will further assist in maintaining financial stability.
FSCA was previously known as the Financial Services Board (FSB).

### 4. Prudential Authority

Previously, all banks were regulated by the Banking Supervision Department of the South African Reserve Bank (SARB) and all non-bank financial institutions (FSPs, insurers, pension funds, collective investment schemes, and market infrastructures) are regulated by the Financial Sector Conduct Authority (FSCA) with each institution complying with its industry-specific piece of legislation.



**iv) The legal structure of the insurance sector**

The Insurance Industry split into two: Life and non-life insurance (also known as long term insurance and short term insurance). The Insurance Act 18 of 2017 defines life and non- life insurance business as follows:

'Life insurance business'' means any activity conducted to enter into or meet insurance obligations under a life insurance policy.

''non-life insurance business'' means any activity conducted to enter into or meet insurance obligations under a non-life insurance policy.

''non-life insurance policy'' means any arrangement under which a person, in return for provision being made for the rendering of a premium to that person, undertakes to meet insurance obligations that fully or partially indemnify loss on the happening of an unplanned or uncertain event, other than— (a) a life event; or (b) a death event or disability event not resulting from an accident, and includes renewal or variation of that arrangement.

According to the Short Term Insurance Act, short-term policy means an engineering policy, guarantee policy, liability policy, miscellaneous policy, motor policy, accident and health policy, property policy or transportation policy or a contract comprising a combination of any of those policies and includes a contract whereby any such contract is renewed or varied.

Short term insurance products are sold under the different classes of insurance discussed above. In personal lines insurance, short term insurance products are:

- House owners' insurance.
- House contents insurance.
- Motor insurance (includes trailer, caravan, and golf insurance).
- All risks insurance.
- Watercraft insurance.

- Personal liability insurance (not a standalone policy, sold with buildings, contents, motor, and watercraft insurance).

**Registration requirements for life and non- life insurance business**

Life and non–life insurance companies register with FSCA to get their operating licence. An application is submitted to the Commissioner of the FSCA. Several licensing requirements should be met before a licence is granted to an applicant. These requirements are specified in the Financial Advisory and Intermediary Services Act 37 of 2002 (FAIS Act).

The licensing requirements are as follows:

1. Personal character qualities of honesty and integrity (no fraud, criminal proceedings) and good standing
2. Competence including experience, and certain qualifications, Regulatory Exams, Class of Business & Product Specific Training, and knowledge.
3. Operational ability.
4. Financial soundness (of the business), for example (enough financial resources).
5. Continuous professional development (workshops, seminars, qualifications and courses) related to the category one has a licence for.

Licensing requirements are discussed extensively under regulatory exams training material, as it forms a huge part of the knowledge required to pass the exam.

Once all these licensing requirements are met, the applicant is deemed to be fit and proper and is then granted a licence that authorises them to provide advice and/ or intermediary services on a selected license category. An insurer that meets all the licensing requirements is then known as an authorised financial services provider (FSP).

Different licensing categories separate FSP's businesses. Big insurance companies sometimes have licenses for more than one category.

| **Category** | **What is does** |
|---|---|
| **Category I Ordinary FSP** | A Category I FSP renders ordinary financial services in that they can only act on client instruction. We can distinguish between ***advice and intermediary service*** in this category. |

| | |
|---|---|
| | Advice is any recommendation, guidance or proposal of a financial nature, furnished, by any means or medium, to any client.<br><br>Intermediary Services is any act, other than giving advice, where a person acts on behalf of a client or product supplier concerning a financial product. |
| **Category II Discretionary FSP** | A discretionary FSP renders intermediary services of a discretionary nature regarding the choice of a particular financial product but without implementing any bulking.<br>**According to the Code of Conduct for Administrative and Discretionary FSPs**<br>” bulking” means the aggregation by an administrative FSP of:<br>(a) clients’ funds when buying or investing in financial products on behalf of clients, and the subsequent allocation of such financial products to each client separately in the records of the FSP; (b) the financial products belonging to clients when selling such financial products on their behalf, and the subsequent allocation of the proceeds of such sale to each client separately in the records of the FSP. |
| **Category IIA Hedge Fund FSP** | A hedge fund FSP renders intermediary services of a discretionary nature regarding the choice of a particular hedge fund or fund of hedge funds regarding a particular financial product. |
| **Category III Administrative FSP** | An administrative FSP renders intermediary services in respect of financial products on the instructions of a client or another FSP and through the method of ***bulking.*** |
| **Category IV Assistance Business FSP** | An assistance business FSP performs the administration of assistance policies* and includes a person who is a binder holder as defined in the Regulations under the Long-term Insurance Act, where such administration is performed by that binder holder. |

|  | ** Administration of assistance policies means work performed by a person relating to the offsetting of claims, processing of claims or payment of fees or commission in respect of an assistance policy.*<br>**Offsetting of claims means the payment of policyholders' claims and offsetting such claims against premium received from policyholder for remittal to a long-term insurer.* |
|---|---|

If an FSP desires to provide advice and/or intermediaries under more than one licence, then applications will need to be obtained for each and of the required categories for them to be deemed fit and proper.

**v) The role players in long-term insurance**

**a) Insured**

The person whose life is covered in an insurance policy.

**b) Policyholder**

The one who buys an insurance policy and the cover is issued in their name.

**c) Beneficiary**

A person nominated by the policyholder to receive policy benefits when the policyholder passes on.

**d) Key Individual**

**Key Individuals** (KI) are responsible for managing and overseeing the activities relating to the rendering of any financial service. KIs have an enormous **responsibility** to ensure that they carry out their **duties** with the necessary due care, skill, and diligence.

The Key Individual must meet set Fit and Proper requirements as per the FAIS Act.

**e) Intermediary**

Means any person, including a person employed or mandated by such first-mentioned person, who renders a financial service to a client for or on behalf of a financial services provider, in terms of conditions of employment or any other mandate, but excludes a person rendering clerical, technical, administrative, legal, accounting or another service in a subsidiary or subordinate capacity.

The representative must meet set Fit and Proper requirements as per the FAIS Act.

**f) Financial Service Provider**

Financial Service Provider (FSP) is a business offering financial advice and/or intermediary services (such as brokerages, insurance companies, etc.),

**g) Compliance Officer**

A natural person that monitors the compliance function of the FSP with the requirements of the FAIS Act and other subordinate legislation.

In terms of the FAIS Act the following roles are explicitly mentioned in the legislation:

- Monitor compliance with the FAIS Act.
- Submit compliance reports and other compliance-related reports to the Commissioner.
- Take responsibility for liaison with the Commissioner.
- Supervise the compliance function which is established by the FSP.
- Act with diligence, care, and degree of competency required from a compliance officer.
- Provide the FSP with written reports at least quarterly indicating the course of, and progress achieved with, compliance monitoring duties and make recommendations to the FSP.

The compliance officer must meet set fit and proper requirements as per the FAIS Act.

**h) Ombud for FSPs**

The Ombud considers and disposes of FAIS complaints if the internal FSP complaints procedure failed and the complainant wants to pursue the matter.

The Ombud is required to be independent and impartial.

**i) Regulators**

In South Africa, there is Twin Peaks regulation in the financial sector. This means there are two regulators; the **Prudential Authority (PA)** and the **Financial Sector Conduct Authority (FSCA).**

The PA is mainly responsible for prudential regulation where it looks at aspects like solvency ratios and meeting of capital requirements by insurers, whereas the FSCA regulates market conduct and consumer protection.

**j) Life underwriter**

[3]Underwriting is a process where the insurer checks who qualifies for insurance and how much they qualify for. Insurers set their pricing based on average risks. Underwriters are required to find out which people stand out from the average, and to charge them the correct premium for their unique risk. This keeps life insurance premiums fair for everyone.

While underwriting can seem painstaking, the process is streamlined as far as possible by only asking for essential information required to initiate policies. Truthful, comprehensive disclosure is imperative for underwriters to make accurate assessments.

A life underwriter is a person who stands in between a life insurance company and an insurance agent to evaluate whether an applicant for life insurance may pass for acceptance. Part of the functions of an underwriter is the determination of the amount of premium that the applicant will pay.

*Insuranceopedia explains Life Underwriters*

Life underwriters base their evaluation of an applicant's risks on the information written in the application form. Modern underwriting employs computer software to determine the level of risk for insurance applicants. If the standard evaluation is breached, the life underwriter may resort to other mechanisms for evaluation such as current medical condition, medical history, job functions, financial standing, and other factors that help establish the realistic level of risks carried by the applicant. Oftentimes, a life insurance agent is mistakenly called a life underwriter.

Some life risk policies and sinking fund policies require underwriting to assess the risk and determine the premiums one has to pay.

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[3] https://www.liberty.co.za/news-media/consumer-articles/Pages/why-the-process-of-underwriting-is-important.aspx

**k) Claims processor**

Insurance claims processors evaluate whether to issue a payment (and how much) on an insurance claim by a policyholder. Sometimes claims processors work with investigators to establish the validity and accuracy of claims; then, they will determine whether the claim is valid or not. The claims processor ensures that all necessary forms are included and that the documentation is complete. He/she then issues payment following the individual policy involved in the claim.

Claims procedures and required documentation for life risk policy and assistance policy claims are detailed in the next chapters.

**vi) Classes of business in life insurance**

A life insurance policy as an arrangement under which a person, in return for provision being made for the rendering of a premium to that person, undertakes to meet insurance obligations in the event of a life event, health event, disability event or death event, from a fixed determinable date or at the request of the policyholder, but excludes:
(i) A deposit with an institution authorised under the Banks Act, 1990 (Act No. 94 of 1990), the Mutual Banks Act, 1993 (Act No. 124 of 1993), or the Co-operative Banks Act, 2007 (Act No. 40 of 2007).
(ii) Participatory interests in a collective investment scheme registered in terms of the Collective Investment Schemes Control Act, 2002 (Act No. 45 of 2002).
It includes renewal or variation of that arrangement.
The classes of business in Long Term Insurance are as follows:

1. Assistance policy.
2. Life risk policy.
3. Life investment policy.
4. Fund policy.
5. Sinking fund policy.
6. Long-term reinsurance policy.

A detailed explanation of these classes of the life insurance business is provided in each of the next chapters.

In each of these classes of business, you will find life products as classified in Annexure A – Subcategories of FSPs. Long term insurance products are found in the following subcategories:

| CATEGORY | FINANCIAL PRODUCTS |
|---|---|
| **Long term insurance: Sub Cat A** | Assistance policies (funeral policies). |
| **Long term insurance: Sub Cat B1** | Life risk policies (Life and disability insurance). |
| **Long term insurance: Sub Cat B1-A** | Life risk policies which require no or limited underwriting (income protector insurance). |
| **Long term Insurance: Sub Cat B2** | Life investment policies with a guarantee (endowment policies with a guaranteed minimum amount/ guaranteed annuity). |
| **Long term insurance: Sub Cat B2-A** | Life investment policies which provide for the premiums to be invested in a portfolio with no option by the policyholder to request change or amendment to that portfolio. |
| **Long term insurance: Sub Cat C** | Life investment policies (endowment with no guarantee). |

# Chapter 1: Assistance policy

### Learning outcomes

By the end of this chapter, you should be able to:

- Describe the general characteristics, terms, and features of financial products in an assistance policy
- Explain the typical fee structures, charges and other costs associated with an assistance policy
- Identify the general risks associated with investing, purchasing or transacting in an assistance policy
- Validate the appropriateness of assistance policy products for different types of clients or a group of clients

The Insurance Act, 2017 defines an assistance policy as follows:

"Assistance policy" means a life policy in respect of which the aggregate of - (a) the value of the policy benefits, other than an annuity, to be provided (not taking into account any bonuses to be determined in the discretion of the long-term insurer); and (b) the amount of the premium in return for which an annuity is to be provided, does not exceed R30 000; and includes a reinsurance policy in respect of such a policy.

Funeral policies are assistance policies.

## 1.1 General characteristics, terms and features of financial products in an assistance policy

Funeral policies cover expenses related to the funeral expenses following the death of a loved one.

**i) Limit of cover**

Cover for funeral policies is anything from R2500 but not more than R30 000 (up to R100 000 as stipulated in the Insurance Act.) Funeral policies are designed to cover the insured in the following ways:

Funeral policies are sold as periodically renewable cover; this means that the policy can be cancelled anytime by either party.

**ii) The insured in a funeral policy**

Funeral policies are sold to cover:

- Policyholder only.
- The policyholder and immediate family members.
- The policyholder and extended family members.

**iii) Insured and immediate family members**

Only the insured and their spouse and children will be added to the family plan. Some insurers restrict the insured's children when they reach the age of 21; if the insured still desires to cover a child over 21 in their policy, they can only do so if the child still attends university or school full time. If a child is over 21 and they are do not attend school, then the insured will have to cover them under Extend family options where they can cover other relatives as well.

There is capped in terms of the age of a child dependant that still attends school should they remain covered under the family plan. Some insurers restrict the cover to 25 years, thereafter the child moves to an extended family plan regardless if they are still in school.

Sone family policies however offer cover for parents under what is known as a non-contributory benefit. The insured pays one policy under the funeral plan for him and their spouse and children; parents and parents-in-law will also be covered under the same policy at no additional cost.

A contributory family policy, however, works differently from a non-contributory one. In this case, the insured will pay an additional premium for every extended member of their family, depending on the level of cover they want.

**iv) Extended family member plans**

Extended families are relatives of the insured that the insured has insurable interest in. The cover normally incorporates extended family members like siblings, aunts, uncles, grandparents, parents, in-laws, cousins, etc.

Some companies provide a clear cut definition of what an aunt or uncle etc. is as it gets confusing at claims stage when a client claims for a life assured and it is established that it was their sister's child, yet they registered them as their own. This happens a lot in African families where no legal adoption of a sibling's child or a family member's child is done – one simply takes over the late parent's responsibilities and treats the child as their own.

**v) Classification of death**

Funeral policies will classify death into the following:

a) Accidental death - A sudden and unforeseen event occurring at an identifiable place and time, which has a visible, violent, or external cause, and results in the death of the life assured. Examples: gunshot, road accident, stabbing.
b) Suicide – planned to kill oneself. Examples: hanging, shooting self-etc.
c) Natural death – death from underlying medical conditions unlike trauma from an accident or shooting.

Different waiting periods are usually applied by insurance companies for each cause of death. Suicide might attract a 24 months waiting period whereas natural death is 3 months. Other insurers do not have a waiting period for accidental death for as long as the policyholder's premiums for that month of death would have been received.

**vi) Benefits in a funeral policy**

Over and above the death benefit that the insured and their beneficiaries are covered against, a funeral policy will also consist of additional benefits that come at no cost.

Some insurers also have extended benefits that the insured pays for, over and above the death benefit that is paid.

| **Additional benefits (included in funeral plan cover at no cost)** |
|---|
| Repatriation cost. |
| Legal assistance helpline (wills, lease agreements, sale /purchase contracts, etc.) |
| Telephonic medical advice. |
| Telephonic career counselling & tutor services for member's children. |
| Online tutorials for children in primary and high school. |
| Waiver of premium (free cover to remaining lives covered in the policy after the death of the main member for 6 months). |
| Tombstone unveiling discount from selected providers. |

| **Extended benefits (Available to policyholder and beneficiaries at an additional cost)** |
|---|
| Car hire. |
| Electricity voucher. |
| Meat voucher from a butchery. |
| Grocery voucher from selected shops. |
| Clothing benefit from selected retailers. |
| Drinks benefits from selected liquor shops. |
| Paid-up benefit (remain covered but stop paying premiums when you reach a certain age, normally at 65). |
| Premium waiver benefit (If the policyholder dies, everyone on the policy remains covered until the policyholder would have been 65 years old, or until your benefit ends – no premiums needed). |
| Premium holiday benefit -this allows you to skip your December premium payment after the first policy anniversary, so you can live a little more. |
| Monthly provider benefit (a certain amount of cash is paid to the beneficiaries per month for 12 months after policyholder or spouse pass on). |
| Cashback bonus (a percentage of premiums back after not claiming for several agreed years). |

**Depending on the insurer, some extended (optional benefits) may be offered as additional benefits by some insurers.*

### vii) Waiting periods

Funeral policies have waiting periods depending on the nature of death. This is the period when one pays premiums as agreed but does not submit any claims to the insurer. Any death of a loved one or the policyholder during the waiting period will not be paid for by the insurer.
Generally, natural death will attract a 6 months waiting period.

Suicide normally carries a 12- 24months waiting period and accidental death has no waiting period for some insurers. Some insurers will even pay double the benefit for accidental death.

### viii) Recent development: Burial of still born babies

In the High Court case of *Voice of the Unborn Baby NPC and Another v Minister of Home Affairs and Others (16402/17) [2021] ZAGPPHC 161 (26 March 2021),* it was decided that parents of a pregnancy loss can bury the remains of the pregnancy loss even if the foetus was less than 26 weeks old, a departure from the previous position which only allowed burial after 26 weeks of pregnancy. - http://www.saflii.org/za/cases/ZAGPPHC/2021/161.html

**Examples of current terms and conditions relating to cover for still borns:**

Source: OUTsurance funeral policy

**Additional Benefits**

Your schedule will display what additional benefits you have selected.

Each of these benefits will be in addition to the Sum OUTsured paid out in the event of a valid claim for the main life OUTsured or spouse.

**Stillborn benefit**

We will pay out an amount of R5 000 in the event of a stillborn child after 26 weeks of pregnancy. The mother of the stillborn child has to be either the main life OUTsured or the spouse covered under the policy.

Source: Capitec funeral policy

**BENEFITS**

| Benefit | If a Life Assured Dies | Natural Death | Accidental Death |
|---|---|---|---|
| Funeral | We will pay | The cover amount | 2 times the cover amount |
| | When will we pay | • On the death of a life assured after 6 (six) months from the cover start date, if the death is from natural causes<br>• Stillbirth claims for You or Your spouse, if covered, for stillbirths that happen after the 28th week of pregnancy | • If a life assured dies because of accidental death<br>• From the cover start date |

Source : 1Life funeral policy

**Cover for still-born children**

Funeral insurance in terms of this policy will be provided for still-born children born to the mother who is a principal member (or spouse of the principal member) on the policy. Please refer to schedule for confirmation of this cover.

The following conditions must apply in order for the child to be covered:

- the child must have been born after 27 weeks of pregnancy;
- either show no signs of life or dies of natural causes within 24 hours of birth;
- the death must be documented and confirmed within 24 hours of birth by a qualified, certified medical professional; and
- the death should not be classified as self-inflicted termination as per the Choice of Termination Act 92 of 1996.

Most polices only cover a still born if the foetus was at least 26 /27/28 weeks old. This means that previously, a foetus that was less than 26 weeks old was discarded as waste and parents had no legal rights to bury the baby. All claims where the still born was less than 26 weeks old were thus rejected.

With these changes, the funeral industry will have to adjust their policy terms and conditions as to meet these changes. The funeral policy claims process must be reviewed as well so as to not encroach on the new constitutional rights now bestowed to funeral policy holders.

**ix) Claims handling**

A claim is only valid if the cause of death is covered and if all terms and conditions of cover have not been contravened. Premiums must be up to date and the policy must have been active at the time of death.

The common documents that most insurers require to settle a funeral claim are:

a) A funeral claim form completed by the claimant.
b) A certified copy of the death certificate. (The death certificate is usually verified by the claims department through a system that links them to the Department of Health.)
c) A certified copy of the identity document of the insured and claimant.
d) Some require a certificate from the attending doctor together with the doctor's practice number to reduce fraudulent claims.
e) Proof of bank account of the claimant (bank statement or letter from the bank with a bank stamp). This is to ensure that the benefit is paid to the right person; the one who would have submitted the claim.

## 1.2 Typical fee structures, charges and other costs associated with an assistance policy

**i) Calculation of premium**

Premiums are normally the same across the board and depend on the number of people that an individual wants to cover. Funeral cover is not medically underwritten. This means that there is no requirement for one to undergo medical tests before cover to determine whether they get the policy or not.

Premium payments will depend on the following factors:

a) The number of people added to the policy – the higher the number of people added, the higher the cost of cover. A family funeral plan for a policyholder and spouse and their children charges a flat fee for everyone in the plan. Plans for extended family members charge per additional dependant and based on their ages.
b) The ages of people added – older individuals generally pay more than younger people. Normally, those over the age of 65 find it expensive to get cover and if they do, they usually get decreased benefits even though they will be paying higher premiums.

An immediate plan will generally cover the spouse and the policyholder's children without an additional premium (only one premium is charged for a family plan). However, insurers tend to restrict the age of dependants that are classified as children – in most cases, children above the age of 21 pay a separate premium for as long as they do not attend school full time.

**ii) Costs for missed premiums**

A missed premium attracts double payment in the following month, a situation that might compromise the affordability of cover on the insured's side, depending on their financial position.

**iii) Deduction of premiums in the event of a claim following premium non-payment**

The Policyholder Protection Rules allow a 31 days grace period, where one still enjoys cover even though premiums have not been paid. Any claims during the grace period will be paid, less the outstanding premiums that the policyholder has not paid.

**iv) Costs for policy lapse**

Premium non-payment also leads to policy lapse. After the 31 days, the policy lapses and there is no cover. A policy can still be reinstated within two months after the expiry of a grace period, with no waiting period. No reinstatement of a policy will be allowed after the 2 months reinstatement period and policyholder will have to apply for a new cover and new waiting periods will be applied as though they never had covered with that insurer before.

**v) Commission**

Often insurance products are sold by other providers on behalf of the insurer. These products can be branded in the name of whoever is selling the product. These providers are then paid a commission for signing a member up, on an on-going basis, by earning a portion of the policyholder's on-going premium instalment.

## 1.3 General risks associated with investing or transacting in an assistance policy

Life insurers face their biggest battleground yet in South Africa – a heavily constrained economy, high unemployment, a growing burden of disease and technology, and distribution disruption that is upending traditional channels.

Added to this, changing customer expectations, social media and citizen journalism can quickly amplify an adverse experience – rightly or wrongly – when a dissatisfied customer feels they have been treated unfairly or when trust is breached.

Some of the risks in an assistance policy are as follows:

| Risk | Explanation |
|---|---|
| Inflation | Cover chosen can be eroded by inflation over time. If one purchased a cover for R30 000 5 years back, the buying power of R30 000 is not the same as it was back then. Policies with cash values lose value and policyholders get close to nothing when the policies reach maturity stages or when the beneficiaries claim. |
| Unemployment | With no source of income, the policyholder fails to pay for cover and in the event, loses all premiums that s/he would have paid. |
| Waiting periods | Any death that occurs during the waiting period is not covered, even if the policyholder would have [aid part of the premiums to the insurer. The premiums will not be refunded either. |
| Policy lapse | When a policy lapses, it means that cover ceases to exist and any death that occurs after a policy has lapsed will not be covered. A policy lapses due to premium non-payment. |

| Death following illegal activities | Any death of a life assured following them taking part in illegal activities (like robbery, hijacking, cash heist) will not be covered; premiums for the life assured will not be refunded either. |
|---|---|
| Relationship type | Any incorrect descriptions of the relationship will render the claim invalid. If you want to cover your mother's sister, that person must be described as an aunt and not a mother, even if culturally you view them as your mother. The same goes for nephews and nieces, those are your sibling's children and should not be added on the policy as if they are your children. |

## 1.4 The appropriateness of an assistance policy for different types of clients or a group of clients

a) A funeral policy is suitable for low-income earners. They normally cannot afford to buy other life policies due to the low income they earn and the number of responsibilities that they have. Funeral policies are cheap and a suitable option for anyone who does not afford life cover but worries about final expenses following their death or the death of a loved one.

b) Funeral policies are also suitable for those with a lot of responsibilities, yet earning lower incomes.

# Chapter 2: Life risk Policy

### Learning outcomes

By the end of this chapter, you should be able to:

- Describe the general characteristics, terms, and features of financial products in a life risk policy
- Explain the typical fee structures, charges and other costs associated with a life risk policy
- Identify the general risks associated with investing, purchasing or transacting in a life risk policy
- Validate the appropriateness of a life risk policy for different types of clients or groups of clients

The Insurance Act, 2017 defines a life policy as follows:

''Life policy'' means a contract in terms of which a person, in return for a premium, undertakes to— (a) Provide policy benefits upon, and exclusively as a result of, a life event; or

(b) Pay an annuity for a period, and includes a reinsurance policy in respect of such a contract.

The first part of the definition of a life policy covers life risk policies, whereas the second part refers to life investment policies.

A life risk policy provides risk benefits only. Risk cover is long-term insurance that provides financial protection in the wake of major life events such as critical illness, disability, retrenchment, or death.

Typical policies under this section are:

- Whole or term life policies.
- Disability policies.
- Dread disease cover.
- Income protector insurance.

## 2.1 The general characteristics, terms, and features of financial products in a life risk policy

### 2.1.1 Whole life policies

A whole life policy offers a guaranteed death benefit or pay-out which remains the same for life. The policy has a face value and one pay into the policy until such a time that the cash value matches the face value. If the policyholder dies, the beneficiary receives the face value of the policy regardless of the insured's age or what the cash value of the policy would have been. Premiums are payable for the whole of the insured's life.

A whole life policy with an investment option can be surrendered (at a fee) so that the insured access the cash value of the policy during their lifetime.
Whole life policies can be offered as a level premium or escalating premium basis. The escalating premium makes the policy cheaper at inception, but with premiums increasing at a specified percentage per year. Level-premium policies maintain a constant premium.

**Claims for whole life policy**

The following documents are required to settle a whole life claim:

- **a)** A fully completed Declaration by the claimant.
- **b)** A death claim form completed by the beneficiary. This form must be completed by the legal guardian in the case of a minor beneficiary.
- **c)** A certified copy of the death certificate.
- **d)** A police report completed by the investigating officer in the case of unnatural death.
- **e)** A letter of executorship if the nominated beneficiary is the estate or if there is no beneficiary nominated where the life assured and the owner is the same.
- **f)** A certified copy of the deceased's identity document. Certified copies of the beneficiary's/beneficiaries' and executor's identity document/s. If the beneficiary is a minor, we require a certified copy of an unabridged birth certificate, which reflects both parent's names.
- **g)** A copy of the claimant's bank statement or a cancelled cheque as proof of bank account details (less than three months old on official bank letterhead with a bank stamp).
- **h)** If the estate is payable, the insurer will need the Estate Late bank details.
- **i)** The DHA1663 (registration of death/stillbirth) form which can be obtained from the doctor who certified the death or the undertaker.

### 2.1.2 Term life policies

This is a life insurance policy that offers cover at a fixed rate for a selected period. If the policyholder passes away during the selected time frame, the beneficiaries will be paid out a lump

sum. The simplest form of a term life policy requires the insured to make equal premium payments throughout the term. This is known as a level-premium policy (All Life's term policies are all level-premium policies).
Level-cover term policies provide a fixed amount of cover throughout the term of the policy. All Life's 10-year and 20-year level cover policies are examples of this type of policy.

**Characteristics of term life**

- Term insurance products provide cover for a defined period.
- The cover is from the policy inception date until the end of the term period.
- At the end of the agreed term, the policy terminates.
- One is allowed to reapply after the end of the term.
- Suitable for young adults whose liabilities are short term (a personal loan for 5 years; car finance for 6 years etc.)

**Credit life policies** are good examples of term life insurance.
Credit life is an insurance cover that a consumer is compelled to take up when applying for a credit card or a loan.
For employed people, it covers the monthly instalments of up to 12 months in the case of loss of income or retrenchment, short-time, and compulsory unpaid leave. It also provides cover of instalments for up to 12 months in the case of temporary disability. In the case of permanent disability and death, the outstanding balance of the credit facility is settled. Loan or credit card customers who qualify should use their credit life insurance policy to cover their full monthly repayments on their loan for up to 12 months.

**Claims procedure for term life insurance**

a) Proof must be submitted that an individual has lost their job/source of income (in cases of credit life) as a result of the events covered in the policy
b) The claims personnel would attempt to establish if the insured knew about the pending income/job losses when they took the policy (will not be covered if the insured knew)
c) Bank statement confirming banking details.

### 2.1.3 Disability policy

Disability cover is widely available throughout South Africa and generally takes the form of either (a) a lump sum benefit or (b) an income protection benefit. The purpose of disability insurance is

to provide you with financial protection if you are unable to do your job and/or can no longer perform normal day-to-day functions such as bathing, dressing, or eating.

The Insurance Act, 2017 defines a disability policy as follows:

''Disability event'' means any event resulting in— (a) the loss of a limb or sense organ, or the use thereof by a person; or (b) a person becoming so physically or mentally impaired, whether totally or partially, or temporarily or permanently, that the person is unable to— (i) continue his or her employment or own occupation, profession or trade; (ii) participate in any employment, occupation, profession or trade that is reasonably suitable for that person given, amongst other matters, his or her education, skills, experience or age; or (iii) carry on the functions required for normal activities of life.

**Benefits in disability insurance**

a) Lump-Sum Disability insurance payable on permanent disability.
b) Income Disability insurance that provides monthly income benefits against the loss of income if a member is unable to work due to disability.
c) Managed Income Disability insurance which provides monthly income benefits together with disability management that complies with both the stipulations and the spirit of the Labour Relations Act.
d) Critical Illness and Severe Illness Insurance that provides a lump sum pay-out on the diagnosis of a critical or severe illness as defined for the standard and comprehensive product solutions.

**Claiming for disability benefit**

**a)** The declaration by claimant and doctor's statement plus forms to be completed by the treating specialist.
**b)** Copies of the reports or test results confirming the diagnosis.
**c)** A copy of the claimant's identity document.
**d)** A copy of the owner's identity document if you are not the policy owner.
**e)** A certified copy of the accident report if the claim event was caused by an accident.
**f)** A copy of the claimant's bank statement or a cancelled cheque as proof of bank account details (less than three months old on official bank letterhead with a bank stamp).

### 2.1.4 Dread disease

Also known as critical illness cover. [4]Dread disease cover is an insurance benefit that offers a lump sum, tax-free payment if you are diagnosed with a severe illness. Most dread disease benefits cover cancer, stroke, heart attacks, and coronary artery bypass graft surgery, with these four illnesses accounting for between 70% and 90% of all claims. However, cancer remains the leading cause of dread disease claims, with cancers and tumours accounting for around 30% of all severe illness claims. According to the 2014 National Cancer Registry, breast cancer is the most common cancer in women of all races, with a lifetime risk of 1 in 27 in South Africa. Most insurers offer dread disease cover as either a standalone benefit or a supplementary benefit to your life cover. As a standalone benefit, it is particularly attractive to those people who do not want nor require life cover. Most insurers also provide the option of purchasing dread disease as term cover which ceases at age 65 or as a whole-of-life cover that continues for the duration of your life if the premiums are being paid.

Common dread diseases that are covered by these policies are, but not limited to**:**

| Heart attack | Chronic coronary heart disease | Stroke |
|---|---|---|
| Major transplant like: | | Paraplegia |
| Kidney | Pancreas | Blindness |
| Heart | Bone marrow | Cancer |
| Lung | | Kidney failure |
| liver | | |

**Features of a dread disease policy**

- Can be used as a form of 'gap cover' for shortfalls in medical aid.
- No medical tests are required, normally one must disclose if there are pre-existing conditions that the insurer does not cover (an HIV test might be required though).
- Some dread disease policies do not have a waiting period, one is covered as soon as the insurer confirms cover.
- Pays out a lump sum amount that is tax-free.
- Pay-outs are calculated as per the **Standardised Critical Illness Definitions Project (SCIDEP).** Staging applies only to certain illnesses.

[4] www.moneyweb.co.za/financial-advisor-views/dread-disease-cover-is-a-truly-living-benefit/

**SCIDEP Levels**

| Severity Level | Benefit payout percentage |
|---|---|
| **A** | 100% of the available benefit. |
| **B** | 75% of the available benefit |
| **C** | 50% of the available benefit. |
| **B** | 25% of the available benefit. |

**Example – Discovery Life**

If a family is on Bronze Vitality status and there are no previous claims, then the maximum family benefit will be R 30 000,

If the principal member has a heart attack and a benefit claim is admitted at the 50% severity level, R 15 000 will be paid out, leaving a R15 000 benefit remaining.

At this point, the remaining balance for a heart attack benefit for the principal member will be R 30 000 less R 15 000 previously paid = R 15 000 should the principal member have another heart attack at a higher severity level.

**Benefits in a dread disease policy**

Premium waiver – if the policyholder becomes disabled, the premiums of a dread disease policy will not be paid for some time (some insurers have premium waivers for 6 months following a successful claim).

Other insurers have an automatic cover of the policyholder minor children.

Most insurers now have whole life policies or term life policies where all other risks like disability, retrenchments, and dread disease can be incorporated into the cover. These are then offered as accelerated benefits, meaning that, the benefits are available to the policyholder during their lifetime for as long the insured event under one of those sections has arisen. Some policies also have funeral expenses as a benefit included in the premium that the client is quoted.

A simple whole life or term life policy generally offers death benefits only, but insurance companies are changing that traditional approach to suit different client needs.

**Dread disease claims**

The following documents are usually required when claiming for dread disease benefits:

a) The Declaration by claimant and Doctor's Statement forms to be completed by the treating specialist.
b) Copies of the reports or test results confirming the diagnosis.
c) A copy of your identity document.
d) A copy of the owner's identity document if you are not the policy owner.
e) A certified copy of the accident report if the claim event was caused by an accident.
f) A copy of the claimant's bank statement or a cancelled cheque as proof of bank account details (less than three months old on official bank letterhead with a bank stamp).

### 2.1.5 Income protector insurance

Income protection is a long-term insurance policy designed to supplement income following a loss of income due to an injury or illness, retrenchment, or loss of income from a business (if you are the business owner).

The level of income cover is based on a percentage of your income, typically between 50%-75%, but can be increased to 100% with top-up type income protection benefit structures.

The following is required when claiming for income protector benefits:

a) A copy of the medical certificate from a medical specialist that confirms the injury or illness and the exact period of sick leave. There may be further requirements depending on the period booked off as well as the medical condition.
b) Settlement letter for disability or sickness income received from other policies.
c) A copy of the claimant's bank statement or a cancelled cheque as proof of bank account details (less than three months old on official bank letterhead with a bank stamp).

## 2.2 The typical fee structures, charges and other costs associated with a life risk policy

**Influence of underwriting on insurance premiums**

Premiums for life risk policies are normally influenced by a client's risk factors which are determined through the process of underwriting. Underwriting is the process of analysing a client's risk profile and deciding whether to accept or decline cover based on the risk that the potential client presents.

The higher the risk that a potential client presents in a profile, the higher the premiums that the insurer charges for cover. At times, the risk can be so bad that the insurer rejects cover.
Some of the underwriting factors used are as follows:

- Smoking habits.
- Lifestyle.
- Profession (more premiums if a job is classified as high risk e.g. mining and firefighting).
- Health (obesity, family health history, pre-existing health issues attract higher premiums).
- Age (the older one gets, the more expensive premiums become).
- Lifestyle (high-risk activities like skydiving and other extreme sports attract high premiums).

Term policies are not underwritten like other life risk policies. This means that the client will not be required to undertake medical tests before the cover is extended to him/her. However, the costs for credit life will depend on the amount of cover required while paying close attention to the limits set by the National Credit Regulator.

In August 2017, the National Credit Regulator (NCR) decided to amend the National Credit Act so that credit life cover would be capped at a certain figure. In the past, credit life providers would charge as much as R50 for every R1,000 owed. On a debt of R5,000, this will add up to R250 each month, which is an incredible amount to cover regularly.
Today creditors are not allowed to charge more than R4.50 for every R1,000 owed. Based on the above example of R5,000 debt, you will pay R22.50 towards your credit life insurance each month. This is much less than the R250 credit life providers were able to charge in the past.

## 2.3 The general risks associated with investing, purchasing or transacting in a life risk policy

**Inflation risk and impact on long term insurance products**

Inflation is the general rise in prices.
Policies with cash values may lose value and policyholders could get close to nothing when the policies reach maturity stages or when the beneficiaries claim.

**The impact of emerging diseases on life insurance products**

The current Coronavirus pandemic is seen as a global disruptor in the insurance sector. The biggest financial loss for any insurer is where they must pay for claims arising from death as a result of a newly emerged disease because the policy exclusions were never clear about how such cases will be treated.

Insurers need to rethink processes on how to deal with a potential increase in claims volumes. Those that have excluded cover for epidemics also risk reputational risk as clients normally get frustrated by such disclosures at the claims stage.

A report by the *Financial Times* said that while experts agree that while many insurance policies may payout, quite a few policies also have deliberate exclusions for epidemics and pandemics. The experts added that it is too early to say how much the virus outbreak will cost the insurance industry.

Two of the insurer's operating entities in China, Allianz China Life Insurance and Allianz Jingdong General Insurance, have also launched some temporary emergency measures for the convenience of customers. These measures include implementing a fast track claims process, removing restrictions on designated hospitals and drugs, waiving deductibles, and eliminating waiting periods.

**Impact of fraud on life insurance**

Insurance fraud undermines this system, as fraudulent applications and claims deplete the funds paid in by the many honest customers to cover genuine losses. It also has an impact on society in general because insurance fraud can be used to fund criminal activity. It is likely that if you have submitted an intentionally fraudulent claim, your policy will be cancelled. "This not only affects your relationship with your current insurer. Your claims record may be shared with other insurers, reducing your chances of being able to take out insurance in the future."

According to the Global Economic Crime and Fraud Survey (2018) published by PricewaterhouseCoopers (PwC), South Africa's rate of reported economic crime is 77%, compared with the global average of 49%.

Insurance fraud impacts consumers by increasing premiums and the costs of consumer goods and services. The higher premiums are a result of insurance companies having to pass the costs of false claims — and fighting fraud — on to policyholders.\

**Risks of non-compliance with policy terms and conditions**

Non - disclosure refers to a situation where a proposer for insurance fails to reveal a material fact when applying for insurance cover. Non- disclosure can also be from the insurer's part, where terms and conditions of cover are not given to the client.

A material fact is any information that would have influenced an underwriter's decision to either accept or decline cover and influence the number of premiums that a client would have paid had the material fact been disclosed. Material facts also influence the terms and conditions imposed on a policy.

The material non - disclosure therefore must have compelled the insurer or the insurance proposer to enter into the insurance contract on the terms that it did, when it would not have done so had it not been misled.

| Consequences non-disclosure | |
|---|---|
| **Insurer** | **Insured** |
| • Can be fined.<br>• Can be sued.<br>• Licence can be suspended.<br>• Reputational risk.<br>• Lost market share. | • Benefits can be forfeited.<br>• Policy can be cancelled.<br>• One can be blacklisted.<br>• Claim can be repudiated. |

**The impact of exclusions on life policies**

Exclusion refers to an event that is not covered in a life policy.

Exclusions are necessary as they help control the type of risks that an insurer accepts. They help protect the insurer's pool of funds by ensuring that the participants in the pool are made up of clients that an insurer with present standard risks can profit from, since they are a business.

Some of the reasons for exclusions are:

- A potential loss could be catastrophic (e.g. a pandemic like COVID-19), war.
- Covered elsewhere (travel risks covered in travel insurance offered by non-life insurers).
- Easy to control.
- Illegal activities (murder for hire).

Exclusions must be in plain, clear language and should be explained to the policyholder right at the beginning of the contractual relationship. Failure to so do may prejudice the insurer and they could find themselves paying for risks that they would not normally pay for.

To the insured, exclusions may present huge financial hiccups, especially when the insured does not have the money to pay for a life event that they are going through.

**Common exclusions in long term insurance**

There are two kinds of exclusions – **general exclusions** that apply to all similar policies and **specific exclusions** that apply only to specific policies/ policyholders in some cases.

See an excerpt from 1Life insurance on the next page about General Exclusions in life risk policies.

# General Exclusions

| Exclusions | Life cover | Funeral cover | Disability insurance | Dread disease cover | Female dread disease cover | Expense Protector |
|---|---|---|---|---|---|---|
| The life assured dies as a result of their own act such as suicide or negligence in the first two years of the policy | ✓ | ✓ | | | | |
| The life assured or policy owner earns income from or takes part in criminal or illegal activities such as fraud, theft, murder | ✓ | ✓ | ✓ | | | ✓ |
| The life assured consumes excessive amounts of alcohol, poison, narcotics | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| The life assured participates in an act of war, civil commotion, terrorism | ✓ | ✓ | ✓ | | | ✓ |
| The claim is caused or aggravated by radioactivity or nuclear explosions | | | ✓ | ✓ | ✓ | ✓ |
| The life assured fails to follow reasonable medical advice | | | ✓ | ✓ | ✓ | ✓ |
| The claim is a result of self-inflicted injury or illness | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| The injury or death is a result of the life assured taking part in a hazardous sport unless this has been underwritten by the insurer | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| Elective termination of pregnancy | | | | | ✓ | |

Brought to you by: 1Life

## 2.4 The appropriateness of life risk products for different types of clients or group of clients

- If one has dependents, to give them financial peace should an unforeseen event happen.
- If one has a mortgage with a bank, they can cede the policy to the bank as collateral until all payments have been made.
- If one has a spouse who will not be able to provide for themselves or provide for the kids and cover debts accumulated as a couple should one die or be occupationally unable to work.
- Life policies are not necessary for old people; some may want to hold on to them to settle debt over their estates though.
- Life policies may also be purchased by small business owners where they cover the life of the other partner so that they benefit from the policy proceeds should the partner die unexpectedly. The proceeds may be used to settle debt accrued by the business when both partners were alive and keep the business afloat for some time.
- The accidental cover is useful as a supplementary cover for medical aid or medical insurance. It will also be suitable for a client, depending on how hazardous or dangerous their occupation is.
- Dread disease cover is important for those concerned about the health and their chances of contracting a dread disease, especially in circumstances where a close family member died from or has one of the diseases.
- Income protector insurance covers attract members that are in volatile jobs/ industries or those that are concerned about the state of the economy and worry about retrenchments. Can also appeal to a client whose job or hobbies are dangerous and likely to leave them disabled.
- Disability policies also appeal to those that worry about lifestyle adjustments in the event of a disability.

# Chapter 3: Life Investment Policy

### Learning outcomes

By the end of this chapter, you should be able to:

- Describe the general characteristics, terms, and features of financial products in a life investment policy
- Explain the typical fee structures, charges and other costs associated with a life investment policy
- Identify the general risks associated with investing, purchasing or transacting in a life investment policy
- Describe the investment and risk principles, options and strategies for a life investment policy
- Validate the appropriateness of a life investment policy for different types of clients or groups of clients

Insurance Act, 2017 defines an investment policy as follows:

An investment policy usually refers to a long term insurance policy, such as a life policy, which has a component of investment attached to it. Endowment policies are regarded as long term insurance investment policies.

## 3.1 The general characteristics, terms, and features of financial products in a life investment policy

### 3.1.1 Endowment policy

An endowment is an investment plan that helps you save over the medium to long term. This investment offers estate benefits and tax-efficient structures. Traditional endowments are made up of a life insurance policy with an underlying investment fund.

**Endowment vs sinking fund**

If you select to have your endowment plan structured with a life assured, and the life assured dies before the end of the policy term, the proceeds will become payable to the chosen beneficiaries.

If you select to have your endowment plan structured without a life assured (i.e. structured as a sinking fund), the investment will continue after the death of the investor until the end of the investment term or until earlier realisation.

**Withdrawals on an endowment policy**

In terms of current legislative restrictions (March 2019), one withdrawal is permitted during the first five years of your policy. Any withdrawal in the first five years may not exceed the contributions accumulated at 5% per year compound interest. After five years, you may make withdrawals from your investment as required.

**Contributions to an endowment policy**

You may make a once-off lump sum contribution or recurring monthly contributions to the endowment plan. If you made a lump-sum contribution, then additional (ad hoc) contributions into your endowment plan will not be permitted. In this case, a new endowment plan will be started for any additional contributions, with another five-year restriction period. If you have chosen to make recurring monthly contributions, you may also be entitled to make ad hoc contributions to your endowment plan.

To prevent the commencement of a new five year restriction period when an ad hoc contribution is made, the value of any ad hoc contributions is limited so that the total contributions (including ad hoc contributions) in any given policy year will not be more than 120% of the greater of the

contributions paid in the previous two years. If the contribution is larger than this, a new endowment plan will have to be started with another five-year restriction period

#### 3.1.2 The role of LISPs in investments

A linked investment service provider (LISP) is an independent administration company that offers investors access to collective investment schemes (or unit trusts) across several different management companies. One could use a LISP to invest proceeds in one of the following, although each would have different tax implications and fund restrictions:

- A unit trust investment.
- An endowment policy.
- A living annuity.
- A retirement annuity.

It is important to note that a LISP acts purely as an administrator and does not manage the fund assets nor does it provide investment advice.

### 3.2 The typical fee structures, charges and other costs associated with a life investment policy

Stopping or reducing premiums, withdrawing funds, and surrendering one's policy (cancelling before the maturity date) are some of the reasons why an insured might incur charges on their policies (over and above the agreed fees from onset).

Investment policies normally attract the following fees:

- Financial advisor initial fee - these are the fees paid to your financial adviser, who may charge on a consultation basis (a fee normally charged upfront), or on an ongoing basis for the management of your portfolio. In most instances, advisers prefer an ongoing basis so that they can oversee your portfolio over the lifetime of your investments. As a guideline, you should be wary of advisers charging more than 1.5% per annum (excluding VAT) on ongoing advice fees.
- Initial management fee – paid to the investment managers of the underlying investment choices you have selected.
- Tax recovery charges.
- Annual administration fee - When you invest, there is a certain amount of administration that the investment house must do. This includes carrying out your investment instructions and providing you with investment statements. Administration fees are often charged on a sliding scale: the larger your portfolio, the lower your fee becomes. Administration fees

typically range from about 0.096% per annum (excluding VAT) to 1.25% per annum (excluding VAT).

- Financial advisor annual fee - Your financial adviser may also charge an annual advice fee as a percentage of your investment fund value for managing your investment fund. Units will be redeemed monthly for this as 1/12th of the advice fee selected, increased by VAT.
- Other fees – and additional fee on offshore assets.
- Initial fees – depends on the size of the investment. For example, if you are making a lump sum contribution into your Discovery Invest Endowment Plan, your initial fee is based on the size of your contribution. If you invest more than R600 000 you will pay no initial fees. If you invest less than R600 000, you will pay fees on a tiered structure.
- Investment Manager Annual Fee - The investment managers to your underlying investment choices will normally charge an annual management fee as a percentage of your investment in their fund. This fee is divided by 365 and deducted daily in the unit prices provided by the investment.

## 3.3 Investment and risk principles, options and strategies for a life investment policy

The type of investment chosen depends on several factors, including the type of client that wants to invest, asset type, duration of investment, and the goal for investing.

### 3.3.1 Asset classes

**[5]Shares or equities**

A share represents a portion of ownership in a company. Companies issue shares to raise money to grow their businesses, which is then bought and sold by investors on stock markets such as the Johannesburg Stock Exchange (JSE). When an investor buys a share in a company, they are purchasing a portion of the company's profits (or losses), which is why these investors are referred to as shareholders. The terms shares and equity are used interchangeably. They are also known as stocks.

[5] https://businesstech.co.za/news/wealth/364364/investing-101-basics-to-build-your-wealth-in-south-africa/

So, if you were to buy a share, stock, or equity in Mr. Price, this would all mean the same thing – that you own part of the company. If Mr. Price then (hopefully) grew its business, it would pay you dividends each year, and eventually, you might be able to sell your shares at a profit.

### [6]Bonds

A bond is a financial tool that is used by governments, local authorities, SOEs, and companies to borrow money from investors. When an investor buys a bond, they essentially provide a loan to the bond issuer (the government or entity that created the bond). As compensation, investors usually then receive regular interest payments from the bond issuers in return.

These interest payments cease on the bond's maturation or "expiry" date, on which day bond issuers promise to repay investors the original amount loaned.
For instance, if you invested R1,000 in a 5-year RSA Fixed Rate Retail Savings Bond with an 8.5% yield, you would receive R85 (8.5% x R1,000) in interest each year for five years. At the maturity date, you would also be repaid the original R1,000 investment amount.

### [7]Property

There are many ways to invest in property, beginning with buying your own home or investing in a buy-to-let property, and becoming a landlord. However, you do not have to invest in a bricks-and-mortar house to invest in property.

Other options worth considering include investing in listed property, either through a real estate investment trust (REIT) or a property exchange-traded fund (ETF), which are both accessible via stock exchanges.

A REIT is a company that owns and often manages income-producing real estate, while a property ETF tracks the performance of various listed property companies.

### [8]Cash

Cash investments can refer to investing money in high-interest or fixed-deposit bank accounts, or investing in a money market fund that may hold Treasury bills, commercial papers, short-term certificates of deposit (CDs), and short-term bonds with maturation dates of less than a year.

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[6]

[7]

[8] https://businesstech.co.za/news/wealth/364364/investing-101-basics-to-build-your-wealth-in-south-africa/

However, while cash investments offer greater capital protection and lower risk, it also offers lower returns than other asset classes and is generally not suitable as a long-term investment if you want to defeat the value-eroding impact of inflation.

### 3.3.2 When to use each investment option

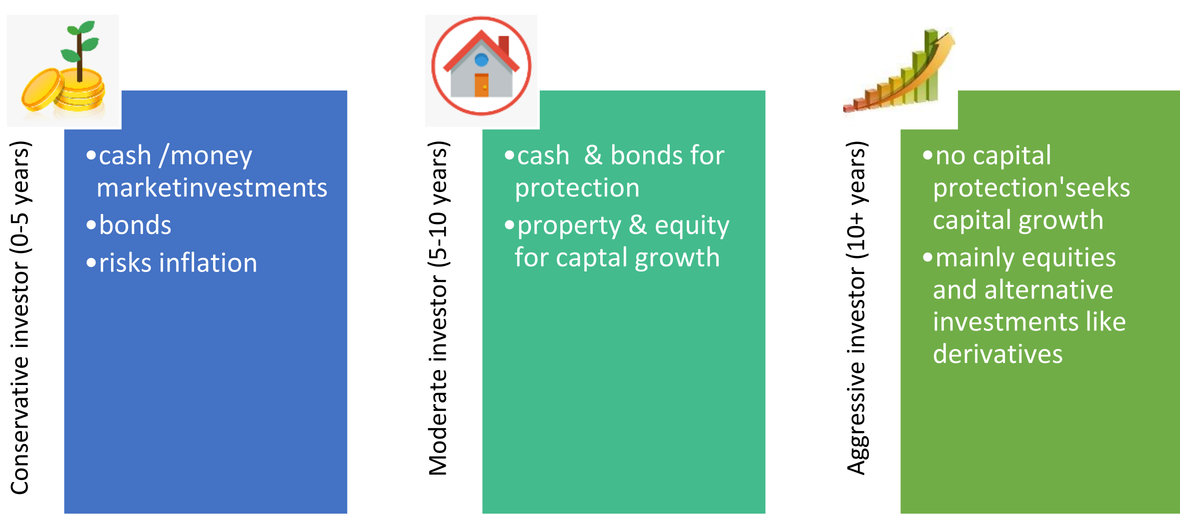
- Money market/ cash attracts lower returns, yet it carries a lower risk of loss. Suitable for capital protection.
- Bonds carry moderate returns and expose one to moderate risk of loss. This is suitable for capital protection.
- Property investments carry moderate to high returns and expose one to moderate risk of loss. Suitable for capital growth.
- Equities are the riskiest, at the same time attracting high returns if all market factors perform favorably. Suitable for capital growth and increasing an investment's real value.

### 3.3.3 Investor profiles

Investor profiling helps to determine the following:

a) Risk required – analysis of the client's financial goals.
b) Risk capacity – the level of risk the client is willing to take to achieve the goal.
c) Risk tolerance – what the client is willing to expose themselves to achieve their financial goal.

Risk tolerance and capacity depend on the following type of clients:




A client's risk profile may be influenced by the following:

a) Objectives and time frame (short term vs long term objectives).

b) Access to cash/liquidity - one cannot afford to invest in vehicles that are difficult to convert into cash if s/he does not have emergency funds for emergency events.
c) Age of investor – the older one is, the lesser the appetite for risky investments.
d) Existing wealth protection – those without existing wealth protection measures are likely to not complete the fill term of the investment (withdraw funds before the end of the agreed term).

## 3.4 The general risks associated with investing, purchasing or transacting in a life investment policy

**The impact of government monetary and fiscal policies on long term insurance**

If the political environment and policies drive the country to a recession, actuaries find it difficult to price risks. Rate increases and impact on life policies.

If the polices drive a country to junk status, the increased downward pressure on a sovereign rating also places downward pressure on corporate credit ratings. Insurers (and financial companies in general) are vulnerable to weaker corporate and sovereign ratings when they look to international markets for funding.

**Exchange rates and the impact on long term insurance products**

Currency volatility associated with low economic growth could affect some insurers depending on where their risk exposure and capital base is situated. For instance, if risk exposure is domestic and (revenue-generating) capital is located largely offshore, shocks to the exchange rate could have a real and significant impact on investment revenues. Also, from an offshore perspective, weak confidence in a country's economy could divert foreign financiers' attention away from local companies, including insurers who might need cash or alternate financing.

With the currency clause, reinsurance becomes expensive for local reinsurers as they battle with matching the Rand value of the foreign currency that was previously agreed in the clause.

**Interest rates and impact on long term insurance products**

On interest rates consider the SARB's MPC when they drop or raise interest rates.

| | Impact when the repo rate is cut |
|---|---|
| **Cash investments** | Less interest on savings and money market accounts. |

| | |
|---|---|
| | Those with existing fixed interest investments, no change will take place as interest returns on these instruments are locked in. |
| **Bonds** | Bond yields decline because bond returns become more attractive relative to cash instruments. Higher demand for bonds usually increases the price of local bonds and as a result reduction in yields. |
| **Equities** | The value of equities increases when interest rates decline. |
| **Property** | Property shares usually increase in value because property companies rely on debt to finance properties. The cut in the rate should see a reduction in interest expense and as a result improve the rental yield. |

**Stock Market volatility**

When the JSE takes a knock, it affects the performance of investment-linked life policies. Life investment policies that rely heavily on equities tend to suffer a lot and affect the face value of policies.

## 3.5 The appropriateness of life investment products for different types of clients or group of clients

Endowment policies are suitable for client whose:

- The marginal tax rate is higher than 30% and wants to benefit from tax savings (anything less than 30% you will be taxed more).
- Long term saving goals (5-10years).
- Comfortable with taking risks from market fluctuation and potential capital loss.

Endowments **will not** be suitable if:

- If you want to make more than one withdrawal before the end of the term and have not passed the restriction period).
- If you have high interest-bearing debts such as credit cards, personal loans, overdrafts, and mortgage bonds, then these should be tackled before investing in an endowment. The returns after tax, costs, and fees from the funds in the endowment are unlikely to achieve the same rate as your credit card.

# Chapter 4: Fund Policy

## Learning outcomes

By the end of this chapter, you should be able to:

- Describe the general characteristics, terms, and features of financial products in a fund policy
- Explain the typical fee structures, charges and other costs associated with a fund policy
- Identify the general risks associated with investing, purchasing or transacting in a fund policy
- Discuss the investment and risk principles, options and strategies for a fund policy
- Validate the appropriateness of a fund policy for different types of clients or a group of clients

Insurance Act, 2017 defines a fund policy as follows:

''Fund policy'' means a contract in terms of which a person, in return for a premium, undertakes to provide policy benefits for funding in whole or in part the liability of a fund to provide benefits to its members in terms of its rules, other than such a contract relating exclusively to a particular member of the fund or the surviving spouse, children, dependents or nominees of a particular member of the fund; and includes a reinsurance policy in respect of such a contract.

"fund" means - (a) a friendly society as defined in section 1 of the Friendly Societies Act, 1956 (Act No. 25 of 1956); (b) a pension fund organization as defined in section 1 of the Pension Funds Act, 1956 (Act No. 24 of 1956); (c) a medical scheme as defined in section 1 of the Medical Schemes Act; and (d) any other person, arrangement or business prescribed by the Authority;

In layman's terms, in a fund, your money is invested with other people's money as a collective. Money is managed by fund managers that use capital belonging to numerous investors to collectively purchase different investment instruments as discussed in the previous chapter. Each fund has a defined investment goal, duration, and is designed to meet the needs of investors that carry different risk profiles and an investment manager helps the investors decide if the fund is right for them.

## 4.1 The general characteristics, terms, and features of financial products in a fund policy

### 4.1.1 Money market fund

The fund invests in money market securities with a maturity of fewer than 13 months. The fund's weighted average duration may not exceed 90 days.
The fund aims to deliver a regular income and to outperform bank deposits over time while preserving capital.

An ultra-conservative portfolio caters to extremely low-risk tolerance and is designed for minimum capital fluctuations and volatility. It carries a short timeframe for investment. There are no growth assets in this portfolio, and it is a cash-based investment. The ultra-conservative portfolio aims to yield returns that are level with inflation. Capital protection is of prime importance.

#### 4.1.2 Equity fund

The fund aims to offer long-term capital growth through investing in a broad spectrum of South African and international shares.

The fund invests in shares across all sectors of the South African and international stock markets. The exposure to South African shares will focus predominantly on the top 100 shares by market capitalisation as listed on the FTSE/JSE All Share Index (J203). The offshore exposure is limited to 30% of its portfolio (with an additional 10% for African exSA investments). The fund aims to achieve its performance objective through well-researched and superior share selection. Derivatives may be used for efficient portfolio management purposes.

[9]A derivative is an agreement, or contract, between parties to mitigate or transfer the risk of loss through a promise or guarantee.

Derivatives exist across all asset classes: equities, bonds, commodities, property, and the money market, including the foreign exchange market. There are now even things such as weather derivatives, which are like insurance policies against bad weather.

A forward contract locks a buyer and a seller of an asset into a price that is payable on a specified date in the future, the expiry date. You own, for example, shares currently trading at R100 each.

You are not optimistic about the prospects of the company whose shares they are and expect the share price to fall. You agree with a buyer – who, conversely, expects the share price to rise – that you will sell him or her the shares in four months at, say, the price they are today, R100.

On the expiry date (also known as the settlement or delivery date):

* If the share price has dropped to R80, you will make a profit of R20 a share, and the buyer will be forced to pay R20 more than the market price.
* If the share price has risen to R120, you will have lost out on the R20 increase. After paying you the contracted R100 a share, the buyer can immediately sell the shares on the market at an R20 profit.

For you, the seller, this is a simple way of protecting yourself against your shares losing value, which may or may not happen.

[9] https://www.iol.co.za/personal-finance/derivatives-for-beginners-8069743

#### 4.1.3 Balanced Fund

This fund aims to achieve long-term inflation-beating growth. The fund has a growth asset bias and will invest more heavily in shares. The portfolio manager actively allocates to other asset classes to take advantage of changing market conditions and to manage the fund's volatility.

The fund is exposed to all sectors of the market (shares, bonds, and property) and may gain exposure to foreign assets up to a maximum of 30% of its portfolio (with an additional 10% for African ex-SA investments). Derivatives may be used for efficient portfolio management purposes.

#### 4.1.4 Global equity fund

The fund aims to offer superior returns over the medium to longer-term by investing in shares from developed countries around the world.

The fund has a broad-based exposure to quality shares from developed countries across the globe. This fund remains as fully invested in foreign equities as possible, given regulatory constraints.

#### 4.1.5 Stable Growth Fund

The fund aims to outperform inflation and provide a modest level of income while aiming not to lose money over any 18 months. The portfolio manager actively manages asset allocation to take advantage of changing market conditions.

The fund invests in cash, bonds, property, and shares. The fund may invest up to 40% of its portfolio inequities. The fund may also gain exposure to foreign assets up to a maximum of 30% of its portfolio (with an additional 10% for African ex-SA investments). Derivatives may be used for risk management purposes.

#### 4.1.6 Group Insured benefits

Group risk benefits are designed to assist employers to cover their employees (and at times their families) in the event of illness, disability, or death. Pension funds and preservation funds already form part of group risks. Group insurance benefits are:

a) Group life insurance.
b) Group accident insurance.
c) Disability income.
d) Group critical illness.
e) Group funeral cover.

All group insured benefits and premiums are payable until the employee resigns from the company or when the employees die, or the employment relationship is terminated due to ill health (including disability). The termination of an employment relationship also terminates cover extended to include the employee's children and spouse.

**Waiting periods**

Most group insured benefits do not have waiting periods BUT that still does not take anything away from those that have as the insurer is mostly concerned about protecting insurance funds.

**The medical evidence of good health**

Sanlam's group insurance is subject to a medical proof free limit for an employer group providing compulsory group cover to 10 employees or more. When an employee's cover exceeds the medical proof free limit of the scheme, the employee should first provide medical evidence of good health before he/she can enjoy the full potential cover exceeding the medical proof free limit. An employee is however not obliged to go for the medicals. This means the employee will qualify for the cover amount up to the medical proof free limit without providing Sanlam with medical evidence to prove their good health.

**Additional Group Insured Benefits**

Group insured benefits also carry additional benefits that neither the employer nor employee has to pay an additional premium to enjoy the cover. Some common examples of these are:

a) Repatriation.
b) Discount on coupons for groceries.
c) Emergency medical response.
d) Legal assist.
e) Trauma, assault and HIV counselling.
f) Loyalty programmes – information on health, finances safety, etc.

## 4.2 The typical fee structures, charges and other costs associated with a fund policy

Fund administrators normally make the schedule of charges available to clients on request. Fees Permissible deductions may include:

- Management fees.
- Transaction costs - brokerage fees, Securities Transfer Tax (STT), STRATE and Investor Protection Levy and VAT.
- Auditors' fees.
- Bank charges and trustee fees.

**Determining premiums for group insurance products**

Some group insured benefits' premiums are calculated using the:

- A multiple of the employee's salary (e.g. critical illness = up to 3x times an employee's annual salary).
- A fixed benefit amount might be agreed between the insurer and the employee.
- A percentage of an employee's life cover might be used to cover all other group insured benefits mentioned above.

Insurers at times use formulas that are generated after taking into consideration the nature of activities, employee's size, ages, occupations, and salaries at stake, etc.

*Source: www.10x.co.za*

| With the 10X Preservation Fund, we do not charge an initial fee and you only pay one annual investment management fee, at a maximum of 0.90% pa (excl. VAT) of your capital. The fee drops for amounts above R0, 5m. |
|---|

Allan Gray Money Market Fund fees:

All the Money Market Fund’s expenses, including the investment management fee, are deducted before performance figures are calculated. There are no separate or additional costs.

## 4.3 The general risks associated with investing, purchasing or transacting in a fund policy

**Money market fund risk**

a) **Inflation risk**

If the rate of inflation exceeds after-tax interest rates, then the spending power of your money will decline over time – this is called negative real interest rates. A money market fund is unable to protect from the erosion of capital should policymakers choose to administer negative real interest rates.

The returns of a money market unit trust often do not keep up with inflation over the long-term. If inflation exceeds the yield you may not lose a cent from the balance you see on your investment statement, but each cent will buy less the longer you keep your money in the unit trust. Put differently, money market unit trusts are usually not appropriate for long-term investing, like saving for retirement or your child’s education.

b) **Credit risk**

Money market funds invest in debt instruments. If the issuer of the debt instrument goes bankrupt, investors would likely bear a loss. Some funds, such as the Allan Gray Money Market Fund, try and buffer against this risk through diversification of issuers.

c) **Liquidity risk**

If, for example, a money market fund receives a request for an extremely large withdrawal amounts from its investors, then it may force the fund to sell a type of financial instrument commonly used by money market funds called long-dated paper, which could incur a loss for the fund and its investors.

**The impact of emerging diseases on group insurance products**

https://chro.co.za/article/do-employee-benefits-cover-the-coronavirus writes:

Most group insurance policies would not have exclusions for viral infections and illnesses as exclusions mostly focus on scenarios like active participation in riots, terrorism, or wars.

For example, in an instance whereby an employee contracts Coronavirus, due processes in terms of employee benefits would follow. The employee would most likely take sick leave and then utilise their medical scheme should they be hospitalised. In the unfortunate event that Coronavirus leads to death, members' death benefit will be payable from their employee benefits arrangement.
This does not mean Coronavirus would never be excluded in the future. Insurers and reinsurers monitor these types of events continuously to actively manage risks that in an extreme scenario could be detrimental to both policyholders and the sustainability of the broader insurance industry. Any changes to policy terms and conditions will be widely communicated.
But what about disability? If the virus is treated early on, recovery should be fairly quick and within most schemes' waiting period of disability benefits. Based on the incidences in China it seems that people can recover quickly from the virus if they receive treatment on time. For this reason, disability claims due to the virus are expected to be minimal.
As travel is part of many occupations, regular business trips are often an unavoidable necessity for many employees. Group insurance does not provide travel insurance; however, group insurance benefits are generally extended when people travel abroad. Insurers will typically limit cover. For example, employees will only be covered for the first twelve months of travelling outside of Southern Africa.
For group benefits, employers must examine what occupational disability and business interruption plans are in place. If contracting a virus results in a temporary disability, and staff have used their sick leave, such products would payout.

**The impact of government monetary and fiscal policies on long term insurance**

If the political environment and policies drive the country to a recession, actuaries find it difficult to price risks. Rate increases and impact on life policies.
If the polices drive a country to junk status, the increased downward pressure on a sovereign rating also places downward pressure on corporate credit ratings. Insurers (and financial companies in general) are vulnerable to weaker corporate and sovereign ratings when they look to international markets for funding**.**

## 4.4 The appropriateness of fund policy products for different types of clients or group of clients

A soon-to-be retiree may be more focused on capital preservation than on high growth and will use a defensive investment with a lower risk-return profile. A young investor is likely to want the best growth over a long-time frame with more risk, and thus more return.

**Money market fund**

This fund is suited to investors who want a liquid investment that delivers a regular income and/or maximum capital protection, but who understand that their investment is unlikely to keep pace with inflation if held in the long term.

**Equity Fund**

This fund is suited to investors seeking long-term capital growth through exposure to a broadly diversified portfolio of South African and international shares. These investors can tolerate South African and international stock market volatility and exchange rate fluctuations.

**Balanced fund**

This fund is suitable for investors wanting moderate to high long-term growth, with less volatility in the short term than pure equity. It is suitable as a stand-alone retirement investment.

**Global equity fund**

This fund is suited to investors wanting to diversify their portfolios by adding an international equity component or investors who are taking a specific view on the performance of global equity relative to other asset classes.

**Stable Growth Fund**

Suitable for you if:

- You are risk-averse and want to prioritise protecting your capital.
- You are ideally investing for at least two years.
- You want to achieve returns better than inflation, but are comfortable with a lower potential return over time than you might earn in a unit trust that takes on more risk.
- You are comfortable with some market fluctuation within two years.
- You want a unit trust that complies with legal investment limits for retirement funds.

**Suitability of group insured benefits:**

- If one has medical issues or bad medical history, this is the right cover to belong to as there no medical checks required for basic cover. Medical checks will be required when one desires cover that exceeds the basic limit the company is offered by the insurer.

- There are no waiting periods on group insured benefit policies. The cover is effective the day one starts a contractual working relationship with an employer.
- If one is looking for policies that are beneficial in their wellbeing as an employee without paying much for cover, group insured benefit policies are the way to go.
- For women, if one joins a medical scheme and they are pregnant- medical aid will not pay. Group insured to cover for medical aid has no waiting periods on maternity benefits.

# Chapter 5: Sinking Fund Policy

### Learning outcomes

- By the end of this chapter, you should be able to:
- Describe the general characteristics, terms, and features of financial products in a sinking fund policy
- Explain the typical fee structures, charges and other costs associated with a sinking fund policy
- Identify the general risks associated with investing, purchasing or transacting in a sinking fund policy
- Discuss the investment and risk principles, options and strategies for a sinking fund policy
- Validate the appropriateness of a sinking fund policy for different types of clients or groups of clients

Insurance Act, 2017 defines a sinking policy as follows:

'Sinking fund policy'' means a contract, other than a life policy, in terms of which a person, in return for a premium, undertakes to provide one or more sums of money, on a fixed or determinable future date, as policy benefits; and includes a reinsurance policy in respect of such a contract.

Unlike a life investment, a sinking fund policy does not have a life insured and will only pay the policy proceeds to the policyholder upon reaching the contractual maturity date.
We discussed a life risk policy in Chapter Three. Remember, if you select to have your endowment plan structured without a life assured (i.e. structured as a sinking fund), the investment will continue after the death of the investor until the end of the investment term or until earlier realisation.

## 5.1 The general characteristics, terms, and features of financial products in a sinking fund policy

**Education policy**
Education policies are not risk policies, they are purely investment policies, but unlike fund policies, sinking fund policies have no life assured. The beneficiary is for ownership as opposed to proceeds. The funds set aside for education are put into different investment vehicles out there in the market. The minimum investment period for education policies is 5 years – making it a suitable investment vehicle for a conservative investor as well.

**Retirement annuity fund**
A retirement annuity fund, to which you also make monthly contributions, is completely independent of your employer. It allows you to choose what funds you invest this money in - limited by retirement fund regulations.

If you change jobs, it makes no difference to your RA and it will continue going. You also get to choose what funds you invest your money in. Upon retiring or reaching the age of 55, you will have access to one-third of your RA as a lump sum of cash, which is taxable, and the balance must be used to purchase an income product or annuity. If the total interest in the fund is less

than R247 500, then you can take the full amount as a cash lump sum. Note that the growth and income within your fund, while you are a member, is tax-free but when you access your funds it will be taxed.

**Compulsory vs voluntary annuity**

Compulsory purchase annuity is bought with your retirement savings from a pension, provident or retirement annuity fund. Legally you are required to buy a compulsory annuity with a minimum of two-thirds of the pay-out from your pension fund or retirement annuity fund savings. By contrast, you can buy a voluntary purchase annuity (VPA) at any time with your voluntary or discretionary savings (i.e. savings that you have accumulated separately from your pension, provident or retirement annuity fund). Both types of annuity pay you a guaranteed income.

A guaranteed life annuity is also known as an underwritten annuity or traditional annuity. It pays you a regular amount until the day you die, in other words for your life. In most cases when you die the payments stop.

**Features of sinking fund policies**

- Recurring or single premium investment.
- Other insurers allow the policyholder to add ad hoc lump sum investments.
- Minimum year investment term.
- the policy will continue until its maturity date or earlier surrender.
- they are taxed the same way as endowment policies.
- No insolvency protection as compared to the endowment policies as no life assured is nominated as a beneficiary.

## 5.2 The typical fee structures and charges in sinking fund policies

Fund policies usually carry the following fees, it all depends on the amount of investment you take:

- Initial advice fees.
- On-going advice fees.
- A platform charge.
- Annual fees.

## 5.3 Identify the general risks associated with investing, purchasing or transacting in a sinking fund policy

**Market performance and inflation**

For annuities, the value of your investment account depends on the market value of the underlying investments. If markets fall or returns are poor, then your capital could reduce or fail to keep pace with inflation. The account value increases with any additional transfers in and positive investment returns and decreases with drawdowns, negative investment returns, and applicable charges.

**High withdrawal from the fund**

If the income you choose to draw from your living annuity is too high, it will cause your capital to reduce over time. This means that your future income could fail to keep pace with inflation or even that you outlive your saving.

## 5.4 Validate the appropriateness of a sinking fund policy for different types of clients or group of clients

The choice of an investment plan for a child's education rests on some of the following risk and investment principles:

- If the investor wants their child to attend local or international institutions.
- How long the investor wants to put capital way for.
- Whether they want to get the returns in rand value or the dollar value.
- The investor's age. Retirement annuities are more attractive to the young who are still far from retirement, whereas compulsory annuities suit those that have received their pension or provident funds and seek to reinvest them further for increased returns.

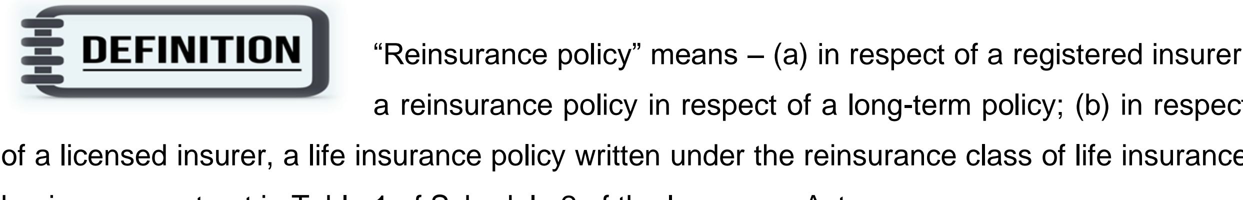
# Chapter 6: Reinsurance Policy

## Learning outcomes

By the end of this chapter, you should be able to:

- Describe the general characteristics, terms, and features of financial products in a reinsurance policy
- Explain the typical fee structures, charges and other costs associated with a reinsurance policy
- Identify the general risks associated with investing, purchasing or transacting in the reinsurance policy
- Validate the appropriateness of a reinsurance policy for different types of clients or group of clients

Insurance Act, 2017 defines a reinsurance policy as follows:

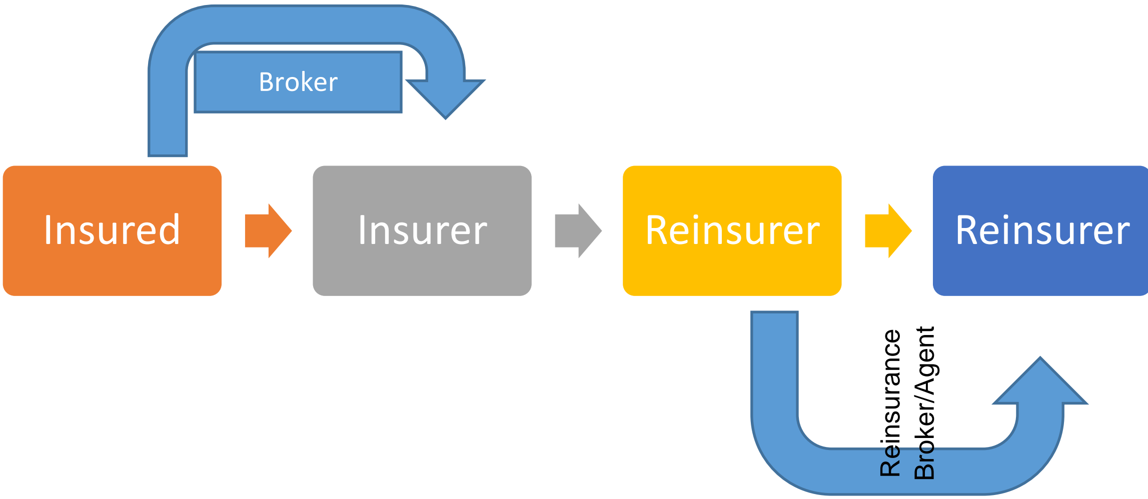



"Reinsurance policy" means – (a) in respect of a registered insurer, a reinsurance policy in respect of a long-term policy; (b) in respect of a licensed insurer, a life insurance policy written under the reinsurance class of life insurance business as set out in Table 1 of Schedule 2 of the Insurance Act.

### 6.1 Describe the general characteristics, terms, and features of financial products in a reinsurance policy

Reinsurance is "insurance for insurance companies", in other words, a "second level of insurance." It is an arrangement in which a company, the reinsurer, agrees to indemnify an insurance company, the ceding company, against all or a portion of the primary insurance risks underwritten by the ceding company under one or more insurance contracts.

**Reinsurance graphical representation**




Insurance - the transfer of risks from the policyholder to the insurer. Insurance can be purchased directly from the insurer or through intermediaries as shown in the diagram.

Reinsurance- an insurer cedes[10] all or a portion of risks to a reinsurance company. Reinsurance can be purchased directly from the reinsurer or through reinsurance brokers and agents as shown in the diagram.

[10] Cede – transfer risks from the insurer to the reinsurer

Retrocession – the transfer of risks from one reinsurer to another reinsurer.

Example

Thoko is a director for her company and she is worried about what would happen to her company and business partners when she passes on. Thoko purchases life insurance from ABC insurers for R5 million.

ABC insurers only have underwriting capacity to carry risks not exceeding R2million. They do not tell Thoko that this is over what they can carry, but they instead, approach XYZ reinsurers and place the surplus cover of R3million with them. Thoko does not have to know about this arrangement.

In the event of a claim, XYZ will pay the portion that was ceded to them and ABC insurers then pay Thoko's claim in full.

**The role of reinsurance**

a) Transfer risk - Insurance companies can issue policies with higher limits due to some of the risks being offset to the reinsurer.

b) Financial stability - The income of insurance companies can be more predictable by transferring highly risky insurance liabilities to reinsurers to absorb potentially large losses.

c) Keep less capital at hand - By offsetting the risk of loss in insurance liabilities, insurance companies do not need to keep as much capital on hand to cover potential losses. Thus, they can invest the capital elsewhere to increase their revenues.

d) Increase underwriting capacity - Reinsurance enables insurance companies to underwrite more policies, due to a portion of their liabilities being transferred to reinsurers. This enables insurance companies to take on more risk.

e) Reduce liability - by lowering claimant pay-out during catastrophic losses. Natural disasters such as earthquakes and hurricanes can cause death, injury, and sickness claim to be abnormally high. In such cases, an insurance company can potentially go bankrupt

by having to issue out payments to all the claimants. By shifting part of the insurance liabilities to reinsurers, insurance companies can remain afloat in such extreme events.

f) Increase capital - Insurance companies can potentially purchase reinsurance coverage from reinsurers at a rate lower than what they charge their clients. Reinsurers use their models to evaluate the riskiness of policies. Therefore, reinsurers may accept a lower insurance premium from the insurance company if they deem it as less risky.

**Types of reinsurance**

**a) Treaty reinsurance**

An insurer (referred to as the ceding company) agrees with one or more reinsurers to cede to them a portfolio of risks, as defined in the respective reinsurance agreement or treaty.

The ceding company agrees to cede, and the reinsurers agree to accept all the risks written by the ceding company that falls within the terms of the treaty, subject to the limits specified therein. For example, if the treaty terms are to accept all life risk policies, the reinsurer cannot choose to reject part of business ceded to it because they do not want it (might be of high risk, etc.).

**b) Facultative reinsurance**

The reinsurer must underwrite the individual “risk” making it costly and time-consuming. The reinsurer has the power or “faculty” to accept or reject all or a part of any policy offered to it.

For example, in a portfolio of life risk policies, the reinsurer can choose to access only term life policies and choose not to accept whole life policies for various reasons.

Treaty and facultative reinsurance agreements can be structured on **a “pro-rata” (proportional)** or **“excess-of-loss” (non-proportional) basis**, depending on the arrangement by which losses are apportioned between the two parties.

Proportional reinsurance - In a proportional agreement, most often applied to non-life property classes of business, the reinsurer and the primary company share both the premium from the policyholder and the potential losses.

In an excess of loss agreement, the reinsurer does not get involved unless the claim exceeds the pre-arranged limit.

## 6.2 Explain the typical fee structures, charges, and other costs associated with a reinsurance policy

a) Acquisition costs - Those costs that are primarily related to the acquisition of new or renewal of insurance contracts, e.g. commissions and management expenses. Acquisition costs are often expressed as a percentage of earned premiums and referred to as the acquisition cost ratio.

b) Ceding commission - Ceding commission is a **fee** paid by a **reinsurance** company to the ceding company to cover administrative **costs** and acquisition **expenses**.

c) Broker fee (where a broker is involved).

## 6.3 Identify the general risks associated with investing, purchasing or transacting in the reinsurance policy

**Exchange rates and the impact on long term insurance products**

Currency volatility associated with low economic growth could affect some insurers depending on where their risk exposure and capital base is situated. For instance, if risk exposure is domestic and (revenue-generating) capital is located largely offshore, shocks to the exchange rate could have a real and significant impact on investment revenues. Also, from an offshore perspective, weak confidence in a country's economy could divert foreign financiers' attention away from local companies, including insurers who might need cash or alternate financing.

**Currency clause**

With the currency clause, reinsurance becomes expensive for local reinsurers as they battle with matching the Rand value of the foreign currency that was previously agreed in the clause.

## 6.4 Validate the appropriateness of a reinsurance policy for different types of clients or group of clients

Facultative reinsurance will be suitable in the following instances:

a) Facilitates reinsurance of risks where no treaty protection available.

b) Facilitates a reduction in exposure on risks where a higher degree of a hazard than normal exists.
c) Facilitates capacity where the volume of business does not justify treaty arrangements – example - where new lines of business are written.
d) Facilitates specialist technical assistance from another office because when you phone the reinsurer, they might give you more insight into the risk being underwritten.
e) Facilitates Fronting of risks (this is when the insurance company is ceding 100% of the risk to the reinsurer because it cannot insure the risk in its account. The risk could be too hazardous.
f) Where the insurer has either accepted the entire risk in error and is unable to withdraw his share.

When to use treaty reinsurance:

a) When looking for an administratively cheaper reinsurance placement method.
b) When you want to cut on time as facultative reinsurance tends to be time-consuming since risks are placed individually.
c) If you seek a plan that pays a higher commission.

Other factors to take into consideration when deciding the need for reinsurance are as follows:

- Exposure of the portfolio to catastrophic risks like emerging diseases etc.
- Size of the company.
- Number of lines that a business writes.
- Insurers expanding into new geographical regions often use reinsurance.
- Insurers exiting markets or lines of business.
- Regulatory and rating agency considerations.

# Chapter 7: Business Cycles

## Learning outcomes

By the end of this chapter, you should be able to:

- Describe the different cycles is an economic cycle
- Explain the impact of economic cycles on economic indicators
- Explain the impact of a recession on the insurer and the policyholder

## Introduction

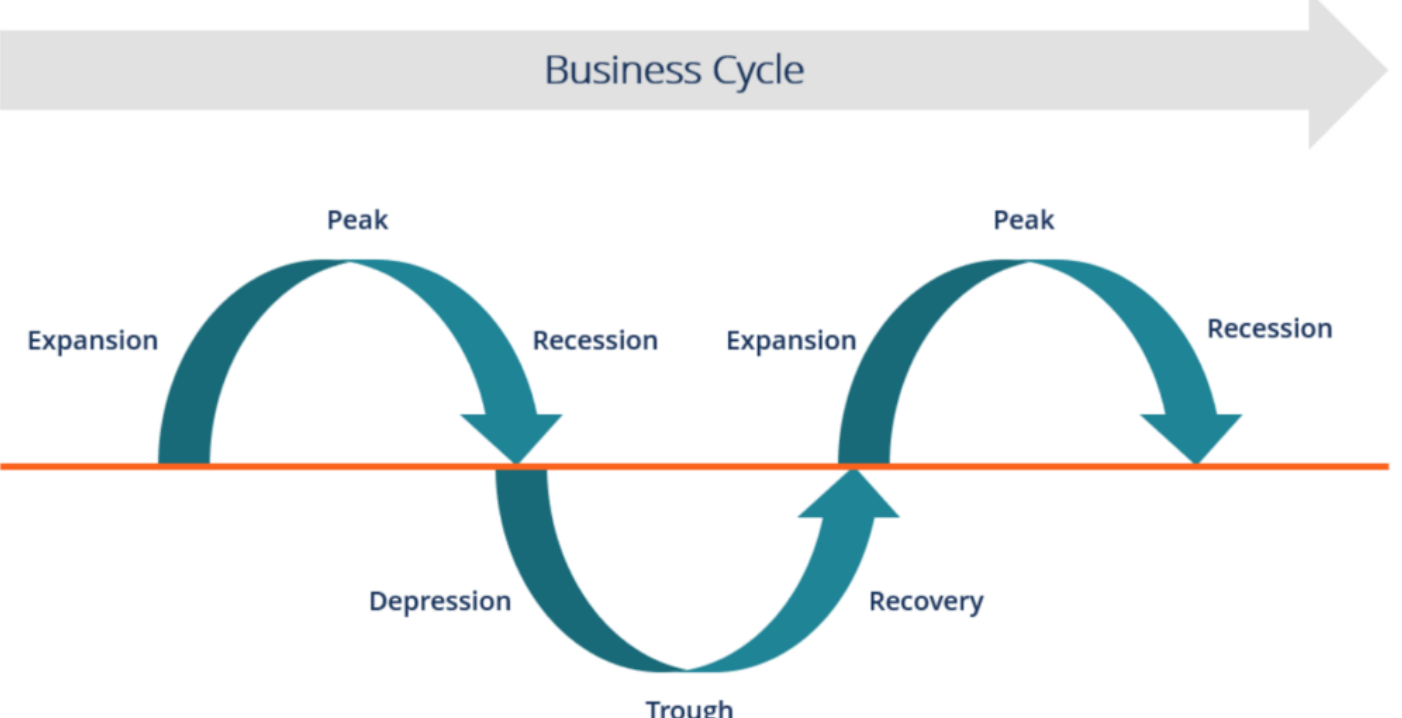
Economic cycles show the periodic winding of business activities within a country.

Insurance companies pay close attention to economic cycles as they have a huge influence on the performance of insurance sales as well as the investments that fund managers make on behalf of clients.

## 7.1 What is the business cycle?

Each phase in an economic cycle has a different economic impact and affects economic indicators in a different manner Economic cycles are made of the following cyclic phases:

1. Trough.
2. Expansion.
3. Peak.
4. Depression.
5. Recession.




*Steady growth line*

**Source:** https://corporatefinanceinstitute.com/resources/knowledge/economics/business-cycle/

| The table below explains what happens in each business cycle. | | |
|---|---|---|
| | Economy reaction | Economic indicators |
| **Expansion** | Increase in economic growth | • Increase in employment, income, output, wages, profits and demand & supply of goods and services.<br>• This process continues if economic conditions are favourable for expansion. |
| **Peak** | Saturation point, maximum economic growth has been reached | • No further growth in economic indicators.<br>• Prices are at their peak. |
| **Recession** | A decline in economic activities/growth | • Fall in economic indicators like prices, income, output, wages, Etc. |
| **Depression** | Growth declines significantly | • A fall in economic activities below the steady growth line.<br>• Unemployment is rife. |
| **Trough** | Economy is negative | • There is further decline until the prices of factors, as well as the demand and supply of goods and services, reach their lowest point.<br>• There is an extensive depletion of national income and expenditure. |

| | | |
|---|---|---|
| **Recovery** | Economy recovers from the negative growth rate | • Demand starts to pick up due to the lowest prices.<br>• Supply starts reacting positively too.<br>• Positive attitude towards investment, employment, and depreciated capital is replaced by producers, leading to new investments in the production process. |

| The impact of a recession on the insurer | |
|---|---|
| **Insurance policy lapses** | • Projected sales decline.<br>• Reduced spending results in higher insurance policy lapse rates for life insurance companies, with a resulting increase in operating costs, which will harm financial results. |
| **Lower premiums** | • A business environment such as this generally pushes premiums lower.<br>• In an already price-sensitive market, it is an easy win to gain market share, but at the expense of margin squeeze and a race to the bottom. |
| **Business sales decrease** | • New business sales will also decrease, further affecting life insurance company profits. |
| **Claims experience** | • A more direct impact on claims experience will come from an expected increase in fraudulent claims.<br>• Times of recession invariably result in increased disability claims, with increased back and psychology claims showing a direct correlation to economic prosperity.<br>• Claims experience may also begin to deteriorate, due to higher lapses not necessarily being experienced across the board. |
| **Increase in operating expenses** | • The combination of higher lapse rates increased fraudulent claims and an increase in invalid claims will increase operating expenses (Insurance companies will have increased staff to deal with these operational and administrative demands.)<br>• At a time when premium income is under pressure, expense ratios will become an even more critical measure and can be expected to cause further difficulties. |

## 7.2 Impact of a recession to the insurer & the policyholder

| The impact of a recession on the client |
|---|
| • Retrenchments reduce the buying power of individuals.<br>• Disposable income becomes a scarce commodity and insurance premiums are invariably among the first items to face the 'axe' from household budgets.<br>• Fraudulent claims might increase as consumers battle with rising household expenses and retrenchments/ job cuts.<br>• Psychological issues due to stress from a constrained economy increase disability claims.<br>• The increase in inflation impacts on the cash payments for life policies, affecting the real value of pay-outs. |

# Chapter 8: Impact of Legislation and tax on life insurance policies

## Learning outcomes

By the end of this chapter, you should be able to:

- Explain the impact of the FAIS Act on representatives
- Explain the impact of FICA on life insurance
- Explain the impact of PPRs on life insurance
- Explain the impact of POPIA on life insurance
- Explain the impact of the Insurance Act on life insurance
- Explain the impact of FRSA on life insurance
- Explain the impact of LTI on life insurance
- Describe the types of tax that affect life insurance policies

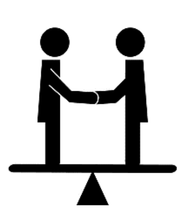
## Introduction

A representative is any person who renders a financial service for or on behalf of a financial services provider, in terms of conditions of employment or any other mandatory agreement, but excludes a person rendering a clerical, technical, administrative, legal or accounting service, which service does not require judgment on the part of that person or does not lead a client to any specific transaction in respect of a financial product in response to general enquiries.

The rep's duties and obligations are affected by several legislations in the industry.

### 8.1 Application of FAIS Act

**Duties of a representative as indicated in the FAIS Act 37 of 2002 Code of Conduct**

| | |
|---|---|
|  | You have to act honestly and fairly, and with due skill, care, and diligence, in the interests of clients and the integrity of the financial services industry.<br>Disclose all terms and conditions of cover to the client. |
| | When representations are made or information provided to a client, it must be factually correct; it must be provided in plain language; it should not be misleading; it must be adequate and appropriate given the level of knowledge of the client and it must be provided timeously to afford the client reasonably sufficient time to make an informed decision.<br>Do not use abbreviations; they mean nothing to the client. |
| | You should obtain appropriate and available information regarding clients' financial situation, financial product experience, and objectives in connection with the financial service required.<br><br>If a proper analysis of a client is done, you will not sell the same product to the same client. The duplication of policies will be a thing |

|  |  |
|---|---|
|  | of the past. This also reduces the number of refunds the business does due to misinformation. |
| | Take reasonable steps to ensure that the client understands the advice and that the client is in a position to make an informed decision.<br><br>Explain clearly to the client the benefits of unnatural and natural death. Explain the requirements when the child is overage and what it means to the policy. |
| | You must have and effectively employ the resources, procedures, and appropriate technological systems for the proper performance of professional activities.<br><br>You have been given resources to enable you to perform this duty. |

**A client may not sign an incomplete form**

Section 7(2) of the FAIS Code of Conduct states that "*No provider may in the course of the rendering of a financial service request any client to sign any written or printed form or document unless all details required to be inserted thereon by the client or on behalf of the client have already been inserted.*"

This implies that you may not request a client to sign a blank application form that you complete later, on behalf of the client.

These **must never be** given as reasons to justify the submission of blank forms:

- I wanted to have the form on file so that the client could complete a transaction later when I phone them.
- I wanted to save the client time and planned to fill in the form after the meeting.
- I sent the client a form to complete and sign, and then the client returned a blank or incomplete but signed form.
- A document should also not be dated after a client has signed it.

You may complete a form for a client, but the client must check the information and sign the form.

The best practice is to return a signed form to a client by e-mail, so there is a record of communication with the client, and then destroy the incomplete copy

By obtaining clients' signatures in the right manner and ensuring all documents and forms are filled in correctly and completely, your clients will be able to acknowledge your integrity. You will also be well-positioned to defend yourself should a client complain.

All alterations on application forms need to be signed for, this verifies that the amendment was indeed done by the client

Once the client signs this form, the responsibility remains solely with the client to furnish the insurer with the required information.

**Documentation required under FAIS to complete financial transactions**

The FAIS Act requires that every communication with clients be recorded either electronically or manually (for as long as the information will be retrievable when needed). A record of advice provides a rundown of the advice given to the client concerning their needs.

In www.masthead,co.za ("The importance of a Client Advice Record and Financial Needs Analysis,")

A documented record of advice and financial needs analysis is therefore not only important for the client but of great significance for a financial advisor who has been accused of non-compliance and is now required to prove that the advice rendered was adequate and appropriate for the client's risk profile and financial needs and circumstances.

The client must then be presented with a policy schedule (or contract of insurance) showing that agreement for cover has been reached as well as a policy wording detailing the terms and conditions of cover. The schedule and policy wording must be sent to the client within 31 days to allow the client to make up their mind on whether they want to continue with the sale or not; without incurring any charges (cooling-off period).

**Non-compliance penalties**

The penalties of noncompliance with the FAIS Act are steep. Offenders face fines of up to R10 million and/or imprisonment for up to 10 years, as well as the withdrawal of the FSP's licence or

debarment of a representative. All staff in an FSP must, therefore, be aware of the seriousness and possible implications if a client signs a blank or incomplete form and fulfil their duty to comply with this provision.

## 8.2 Impact of FICA

The purpose of the Financial Intelligence Centre Act 38 of 2001 (FICA) is to combat money laundering activities and the financing of terrorist and related activities.

**Verification of clients**

Section 21(1) requires an accountable institution to **identify new clients** and **verify** the particulars before any transaction may be concluded or any business relationship is established.

**How do we identify clients?**

1. Make sure that the client identifies themselves by providing their 13-digit ID Number.
2. Client to fill in all personal information:
    a. Name.
    b. Surname.
    c. Residential address.
    d. Work address.
    e. Contact number.
    f. Email address.
3. Client to provide policy numbers if need be.
4. Make sure that the client provides ID numbers/ Date of births for the dependents that they add to their policy.
5. A client must specify the relationship they have with the dependents that they add.

Address- Clients home address is expected to be filled in full, clients that are in rural areas with no specific address can fill in their voting ward, a well-known tuck shop close to the client's house.

**Verification of details**

ID Numbers- the 7th digit on an ID number determines gender, any number that is 4 or less is for a female ID and numbers that are 5 or more are male.

Pay attention to these when members add dependents or supply their documentation and ID numbers of their dependents.

**Client acting on behalf of another client**

FIC Act states that if the client is acting on behalf of another person, establish and verify

(i) the identity of that other person; and

(ii) (ii) the client's authority to establish the business relationship or to conclude the single transaction on behalf of that other person; and

If another person is acting on behalf of the client, establish and verify—

(i) the identity of that other person; and

(ii) that other person's authority to act on behalf of the client.

**Consequences of non-compliance with FICA**

The FIC Act has two types of penalties for contraventions or acts of non-compliance with the FIC Act.

The first is administrative sanctions (section 45C (3)) for non-compliance with the FIC Act which includes:

- A caution not to repeat the conduct which led to the non-compliance referred to in subsection (1).
- A reprimand.
- A directive to take remedial action or to make specific arrangements.
- The restriction or suspension of certain specified business activities.
- A financial penalty not exceeding R10 million in respect of natural persons and R50 million in respect of any legal person.

The second type of penalty is the criminal sanction for contraventions of certain offences. The maximum penalty for these offences is 15 years or a fine not exceeding R100 million. Certain lesser offences carry penalties of maximum sentences of five years or a fine not exceeding R1million.

**8.3 Application of the Policyholder Protection Rules**

PPRs apply to all new and existing policies.

**Rule 1: Fair treatment of customers.**

Rule 1 Introduces the Treat Customers Fairly outcomes and how their implementation in business ensures the fair treatment of customers.

1.1 includes a potential member, where appropriate to the context.

1.2 An insurer, at all times, must act with due sill, care and diligence when dealing with policyholders.

1.3 An insurer must:

1.3.1 In nay agreement with a policyholder, and in all communications and dealings with a policyholder, act honourably, professionally and with due regard to the fair treatment of the policyholder ;and

1.3.2 At the start of any engagement initiated by the insurer clearly explain the purpose thereof.

**The TCF comprises of 6 outcomes:**

**Outcome 1: Customers can be confident they are dealing with firms where TCF is central to the corporate culture.**

Professionalism and transparency build customer confidence. These can only be found in accompany that treats its customers with respect and fairly.

Your role as a rep is to ensure that you maintain consistency in the fair treatment of clients. All policy limitations and charges must be transparent. Disclosure around bundled products must enable customers to understand the different components of the bundle.

**Outcome 2: Products & services marketed and sold in the retail market are designed to meet the needs of identified customer groups and are targeted accordingly.**

It is important to ensure that products are tailor made to meet customer's requirements. Any product that does not meet a customer's need cannot meet fairness in any way.

When selling a plan to a member who wants to cover Extended family members, guide the client correctly in terms of extra cover that they need for this.

An immediate family plan excludes extended family members; the client must purchase the relevant Extended family cover to enjoy the full cover.

**Outcome 3: Customers are provided with clear information and kept appropriately informed before, during, and after the point of sale.**

Disclosure requirements and the importance of such is already highlighted under the FAIS Act.

Disclosure about the product terms and conditions is important in ensuring that the customer makes an informed decision to buy or not buy a financial product.

**Outcome 4: Where advice is given, it is suitable and takes account of customer circumstances.**

Consider the following before recommending a financial product to a client:

- The financial circumstances of the client
- The client's financial objectives
- The level of experience the client has regarding the required financial product

Use this information to build a risk profile for a client and match it to the suitable products.

Ascertain that client has a policy covering the same event before selling them a policy that offers the same benefits as what they have. Ascertain if the policy covers exactly what the client needs.

**Outcome 5: Products perform as firms have led customers to expect, and service is of an acceptable standard, and as they have been led to expect.**

Products can only perform to the customer's expectations if we do things right the first time; and that is, at the sales stage. The only time a client fully benefits from the policy is when a loss occurs, and the insurer must pay out the claims with little or no inconvenience to the client.

Example

When we sell a life policy to a client with accelerated benefits as per the client's expectations, the policy should pay out as expected when an unforeseen event like disability or any dread disease occurs (as per the initial terms and conditions of the policy).

**Outcome 6: Customers do not face unreasonable post-sale barriers imposed by firms to change product, switch providers, submit a claim, or make a complaint.**

The complaints procedure must be explained to the client right at the sales stage.

Please ensure that you explain the claims process clearly to clients so that there is no delay in the claims process. The claims process has already been explained in Under Rule 1: FCT Outcome 6.

Example

If submitting a claim requires, among other things, a police report in the event of accidental death, this should be explained to the client at the beginning of the contract.

**Rule 9: No insurer or intermediary may permit a policyholder to sign a blank or incomplete form.**

No insurer or intermediary may in connection with any transaction relating to a policy require, permit or allow policyholder , potential policyholder, member or potential member or claimant or potential claimant to sign any blank or partially completed form necessary for the purpose of the transaction , where another person will be required , permitted or allowed to fill in other required detail, or conclude anu such transaction where any such signing and providing of detail have occurred.

This has already been addressed under the FAIS Act Code of Conduct in Section 1.

**Rule 11: Disclosure requirements**

Disclosure of information must be made "In good time" before inception and throughout the policy. Any communication to a policyholder must be:

- Plain language, not misleading.
- Monetary value or calculate method of premium, value, charge, fee, remuneration, the obligation must be explained to the client.

Explain features, T&C's, benefits, exclusions, limitations, duration.

## 8.4 Application of POPIA

There are 8 Principles defined within the Act which must be addressed to be compliant with the Protection of Personal Information Act no. 4 of 2013 (**POPIA)**.

**Principle 1: Accountability**

You must ensure that all the POPI principles discussed below are adhered to.

**Principle 2: Lawful and fair manner**

The client's personal information must be obtained lawfully and fairly. Ask for the client's permission to provide further marketing of other products to the client by MHA and its associated companies.

**Principle 3: Specific purpose**

The information must only be obtained and recorded on MHA specific forms to meet the purposes for which it was collected. Use the right forms for each request to ensure that you collect information that is required from a client for that specific purpose only.

**Principle 4: Further Processing of Information**

Our forms stipulate how the client's information is going to be processed further. Consent from a client must be sought for this. Bring this to the attention of the client and after ensuring that they understand, let them sign and date the agreement to this.

**Principle 5: The quality of information**

The information must be relevant, up to date and accurate and must not be misleading. See the picture below from Assupol regarding the non-completion of information on forms and how it will complicate processes for MHA in the future.

**Principle 6: There must be openness and transparency**

The clients must be aware that their information is going to be processed. Explain why such details are needed. For example, the Policy Amendment Form states this:

| ID number of policyholders | • **For identification processes**<br>• **Helps monitor fraud** |
|---|---|
| **Contact details** | • To send all correspondence (sending policy documents, any changes to the agreement, etc.)<br>• Assists in cases of investigations.<br>• Helps monitor fraud. |
| **ID number of dependent** | • For identification purposes.<br>• Combating fraud. |

**Principle 7: Adequate safeguarding of personal information**

All forms completed and submitted by clients to you must be kept safe from loss/destruction and away from unauthorised access to personal information provided by the clients.

**Principle 8: Participation of data subject**

Clients must be given access to all the personal information they gave to the insurer. Clients have the right to update and correct any information that was wrongly captured.

**Consequences on non-compliance with POPIA**

The following are the consequences of not being compliant:

- Administrative penalties (Fines up to R10 million and/or 10 years in jail per incident).
- Civil action ("distress" pays out millions in damages to a civil claim action.)
- Enforcement penalties (Stop processing personal information.)

## 8.5 The application of the Insurance Act 18 of 2017 to long term insurance

The Act brought with it changes to the Long-term Insurance Act (LTIA), Short Term Insurance Act (STIA), and more specifically the Policyholder Protection Rules (PPR), creating new opportunities for existing insurers and providing for licensed micro-insurance products.

| Changes | Impacted class of business |
|---|---|

| | |
|---|---|
| a) A 48-hour turn-around time for funeral pay-outs after receiving all claim documentation.<br>b) Caps on the maximum benefit for funeral policies, whether provided by micro-insurers or traditional insurers, at R100,000.<br>c) Micro-insurance policies and funeral policies may only provide risk benefits with no surrender value or investment elements. | Assistance policy |
| a) Waiting periods are restricted to a quarter of the contract term for death or disability due to natural cause; no waiting periods are allowed for policies covering accidental death or disability.<br>b) no waiting periods are allowed for credit risk policies.<br>c) no waiting period may be imposed when a policyholder cancels a policy with one insurer in favour of a policy providing similar cover with another insured<br>d) Exclusions will not be allowed for funeral and credit life classes of micro-insurance policies.<br>e) exclusions for suicide will be allowed for a period not exceeding 12 months from inception of the policy regardless of whether a micro-insurance policy or a funeral policy has been renewed during the 12 months.<br>f) No exclusions should be allowed for pre-existing health conditions for funeral policies and credit life insurance policies | Life policy<br>Assistance policy |
| The Insurance Act introduced new authorisation classes for the life industry, namely:<br>(i) Risk<br>(ii) Fund risk<br>(iii) Funeral<br>(iv) Life annuities<br>(v) Individual investment<br>(vi) Fund investment<br>(vii) Income drawdown | All classes<br><br><br>All |

| (viii) reinsurance | |
|---|---|

## 8.6 The Financial Sector Regulation Act 9 of 2017

The Financial Sector Regulation Act 9 of 2017 created two brand new regulators – the Prudential Authority and the Financial Sector Conduct Authority. The Prudential Authority is responsible for regulating the prudential aspects of banks and all non-bank financial institutions and the Financial Sector Conduct Authority (previously known as FSB) is responsible for regulating market conduct and safety of financial consumers.

Practically, this new set-up saw the Banking Supervision Department of the SARB being dissolved and replaced with the Prudential Authority as well as the FSB transforming into the Financial Sector Conduct Authority. While the conducting authority will be responsible for protecting consumers, it does not do so when it comes to credit. The regulation of credit and protecting customers against lending abuse, continues to fall under the country's 13-year old National Credit Regulator which is responsible for enforcing the National Credit Act.

## 8.7 The Long-Term Insurance Act 52 of 1998

The purpose of the Act is to provide for the registration of **long-term** insurers; for the control of certain activities of **long-term** insurers and intermediaries, and matters connected therewith.

You will notice that some sections of the Act were deleted and changed into the Insurance Act of 2017. Some parts of the Act like the financial soundness of an insurer are no longer managed under this Act, they were all moved to the Prudential Authority as discussed above.

## 8.8 Implications of tax on long term insurance products

### Impact of Income-tax, Capital Gains Tax and Estate Duty on life risk policies

Life risk policies that pay out a predetermined sum of money to beneficiaries or policyholders in the event of a loss are subject to tax. The income received, together with the interest earned is fully taxable; rebates and annual tax exemptions are taken into consideration when the calculation is done. The applicable income tax tables are used.

**Application of Estate Duty**

**For example,** if the net value of the estate is R6 million, the estate duty payable is R**500 000 (**R6 million – R3.5 million x 20%).

**The impact of tax on sinking fund policies**

The contributions made to the sinking fund policy will not be tax-deductible as it is an expense of a capital nature. The proceeds payable by the policy will be tax-free. The capital gains tax exemption that applies in respect of all long-term insurance policies will also apply to the sinking fund policy. So, if the policy pays out to the original beneficial owner or that owner's nominee the policy will be free of capital gains tax. As with all long-term insurance policies, the sinking fund policy will be subject to taxation in terms of the five-fund approach. If the policy is owned by a corporate entity, the funds are allocated to the Company Policyholder Fund which has an income tax rate of 28%, and a capital gains tax rate of 22.4%. If the policyholder is a trust with natural persons as beneficiaries, the underlying funds will be held in the Individual Policyholder Fund which has an income tax rate of 30%, and a capital gains tax rate of 12%. Dividend withholding tax is levied at 20% in the Individual Policyholder Fund – the Company Policyholder Fund is exempt.

The sinking fund policy is generally owned by a business entity or a trust and therefore estate duty will not be relevant. However, if a policyholder is a natural person and he/she dies, the policy's value will be an asset in his/her estate for estate duty purposes. If an endowment policy was used by the entity (instead of a sinking fund policy), there will be one or multiple lives insured. If there are multiple lives insured and one dies, the policy will continue to exist, and it will not payout. In this instance, there is no estate duty impact. If, however, the only life insured or the last surviving life insured dies, the policy will payout and the proceeds will be a deemed asset in the estate of that deceased life insured.

## Articles on the impact of tax on life insurance products

Read the article below about the impact of tax on life insurance:

**Are life insurance pay-outs taxed?**

The short answer is that for income tax and capital gains tax purposes, life insurance pay-outs are not taxable. However, life insurance pay-outs do have an impact on your estate and estate duties.

When no beneficiary is nominated, the pay-out will form part of your estate and the estate duty calculation will determine the tax payable. With no beneficiary nominated the life insurance pay-out will increase the value of your estate which could also increase executor fees payable.

If a beneficiary is nominated, the life insurance pay-out will be a deemed asset in your estate. The deemed asset will not increase the value of your estate for executor fees but will be taken into account for estate duty. If you do not nominate a beneficiary, it makes your estate amount bigger and could increase executor fees. However, it is important to note that the deceased estate is not liable for the full amount of payment of estate duty due to SARS if the proceeds of the policy were paid to a beneficiary (other than the estate).

Estate duty will be apportioned between the beneficiary and the deceased estate. This means that if there is money due to SARS as part of the estate duty, the beneficiary of a life insurance pay-out is liable to pay in their share. How is each share decided? The executor of the estate will determine how much the beneficiary will be responsible for paying towards the estate duty.

Source: www.miway.co.za

**Is the interest on a pay-out taxable?**

Yes, if you inherit a sum and it gains interest in the bank, the interest will be taxable in the hands of the beneficiary as it is earned on the capital received

**How does the estate duty tax work?**

This is quite a complex process. Essentially, you can deduct a total of 3.5 million rands from the overall value of your estate. Of the amount leftover, 20% is payable to SARS. This is known as estate duty. Of the 20%, the executor will determine what percentage the beneficiary of a life insurance pay-out needs to contribute.

Source: https://www.glacier.co.za/mediacentre/media-category/media-releases/The%20Tax%20Advantages%20of%20Endowments

Endowments offer an attractive tax-efficient option for people who want to save more than the maximum annual limit for tax-free savings accounts, and those who have exhausted their annual tax allowances such as tax-free interest income.

The recent increase in the CGT inclusion rate means:

- An 18% effective tax rate on capital gains for individuals in the highest income tax bracket, and 36% for trusts.
- For an endowment policy, the effective CGT rate for these individuals and trusts is just 12%.

Also, income tax is 30% for endowments as opposed to 45% when these individuals are taxed according to their marginal tax rates in other investment vehicles. This tax treatment is also beneficial for other income categories as well (i.e. for everyone with a marginal tax rate above 30%).

## 4.7 Tabulated summary of the impact of tax on life insurance

| INVESTMENT VEHICLE | CONTRIBUTIONS INCOME TAX DEDUCTIBLE | PERSONAL INCOME TAX ON BENEFITS / PROCEEDS | CAPITAL GAINS TAX | ESTATE DUTY |
|---|---|---|---|---|
| **Shares trading (short term)** | No | Yes | Yes | Yes |
| **Shares investing (long term)** | No | No | Yes | Yes |
| **Bank investments** | No | Yes | No | Yes |
| **Unit trust** | No | Yes | Yes | Yes |
| **LISP** | No | Yes | Yes | Yes |
| **Life policy** | No | No | No | Yes |
| **Endowment policy** | No | No | No | Yes |
| **Sinking fund policy** | No | No | No | Yes |
| **Retirement annuity** | Yes | Yes | No | Yes |
| **Compulsory annuity** | No | Yes | No | No |
| **Voluntary annuity** | No | Yes | No | No |
| **Disability income replacement policy** | Yes | No | No | No |

# Chapter 9: The applicable Industry Codes

### Learning outcomes

By the end of this chapter, you should be able to interpret the following:

- The Global Forex Code of Conduct
- The FAIS General Code of Conduct
- The FAIS Specific Code of Conduct
- The FAIS Discretionary Code of Conduct

## 9.1 Global Forex Code OF Conduct

[11]The Association for Savings and Investment South Africa (ASISA) has reviewed the content of the FX Global Code (Code) and acknowledges that the Code represents a set of principles generally recognised as good practice in the wholesale foreign exchange market (FX Market). ASISA confirms that its members act as market participants as defined by the Code and are committed to conducting FX Market activities (Activities) in a manner consistent with the principles of the Code. To this end, the members of ASISA have taken appropriate steps, based on the size and complexity of their activities, and the nature of their engagement in the FX Market, to align their activities with the principles of the Code.

The Global Code is organised around six leading principles:

a) Ethics: Market Participants are expected to behave ethically and professionally to promote the fairness and integrity of the FX Market.
b) Governance: Market Participants are expected to have a sound and effective governance framework to provide for clear responsibility for and comprehensive oversight of their FX Market activity and to promote responsible engagement in the FX Market.
c) Execution: Market Participants are expected to exercise care when negotiating and executing transactions to promote a robust, fair, open, liquid, and appropriately transparent FX Market.
d) Information Sharing: Market Participants are expected to be clear and accurate in their communications and to protect Confidential Information to promote effective communication that supports a robust, fair, open, liquid, and appropriately transparent FX Market.
e) Risk Management and Compliance: Market Participants are expected to promote and maintain a robust control and compliance environment to effectively identify, manage, and report on the risks associated with their engagement in the FX Market.
f) Confirmation and Settlement Processes: Market Participants are expected to put in place robust, efficient, transparent, and risk-mitigating post-trade processes to promote the predictable, smooth, and timely settlement of transactions in the FX Market.

[11] www.asisa.org.za

## 9.2 FAIS General Code of Conduct

This Code applied to all services and advice in financial products not covered under the Specific Code. The Specific Code is only for short term business.

The General Code applies in conjunction with the Discretionary and Administrative Codes.

It provides specific instructions across 14 key areas that upon clients:

1. Duties of the FSPs.
2. Information on product suppliers.
3. Information on FSPs.
4. Contacting clients.
5. Information about the financial service.
6. Furnishing of advice.
7. Record keeping.
8. Custody of financial products and funds.
9. Risk management.
10. Direct marketing.
11. Adverting.
12. Complaints.
13. Termination of agreement or business
14. Other miscellaneous issues – wavering of rights, client confidentiality, insurance, signing of incomplete forms, etc.

## 9.3 FAIS Administrative Code of Conduct

This Code applies to FSPs that render intermediary services in respect of all financial products specified in the FAIS Act; on the instructions of a client or another FSP and through the method of bulking.

The 9 provisions contained in the Code certain the following:

1. Prohibitions.
2. Duties of an Administrative FSP.
3. General functions.
4. Dealing with clients.
5. Termination of relationship with clients.
6. Record keeping.
7. Insurance.
8. Independent nominees.

9. Reporting clients.

## 9.4 FAIS Discretionary Code of Conduct

This Code applies to FSPs and their representatives who render a discretionary intermediary service. (CAT II)

There are 6 provisions under this Code:

- Prohibitions.
- Duties of a Discretionary FSP.
- Mandates.
- Reporting to clients.
- Insurance.
- Nominee companies.

## 9.5 ASISA standards[12]

**Long term insurance standards:**

(ASISA Standard on Genetic Testing - currently under review)

ASISA Standard on Disclosure for Critical Illness Products - effective Jul 2014

ASISA Standard on Living Annuities - 3 Mar 2018

ASISA Standard on Living Annuities - Questions & Answers - 5 May 2017

ASISA Standard on Living Annuities - Submission Template - Feb 2018

ASISA Standard: Government Payroll Deductions - 28 May 2019

ASISA HIV Testing Protocol - Jun 2019

**Investment management industry**:

Global Investment Performance Standards (GIPS) - www.gipsstandards.org

ASISA Hedge Fund Classification Standard - 19 Sep 2019

ASISA CIS in Hedge Funds Investment Management Fee Standard - effective 1 Mar 2019

ASISA Standard NAV Calculation for CIS Portfolios - Nov 2015

ASISA Fund Classification Standard - effective 30 Oct 2018

ASISA Guideline on the Completion of the Fund Classification Application - effective 7 Mar 2017

ASISA Fund Classification Application - effective 23 May 2017

ASISA Standard on CIS Performance Fees - effective 1 Jan 2017

ASISA Investments Reporting Template - effective 1 February 2020

ASISA Solvency Assessment & Management (SAM) Reporting Template - 11 Nov 2015

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[12] **Further reading https://www.asisa.org.za/codes-standards-guidelines/standards/**

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