NATIONAL TREASURY
REPUBLIC OF SOUTH AFRICA
Tel: +27 12 315 5645 Fax: +27 12 315 5126

# MEDIA STATEMENT: DISCUSSION PAPER ON CONTRACTUAL SAVINGS IN THE LIFE INSURANCE INDUSTRY

The National Treasury today released a discussion paper outlining far-reaching proposals designed to improve the cost and fairness of contractual savings products offered by the South African life insurance industry, such as retirement annuity funds and endowment policies.

Although there is currently a broader process of retirement reform underway, certain issues that are particular to the retirement savings products offered by the insurance sector require urgent attention.

The discussion paper follows the signing of a Statement of Intent between the Minister of Finance and the long-term insurance industry in December 2005 and is the outcome of extensive consultation with representatives from the insurance and intermediary industries. Though the Statement of Intent primarily addresses issues of poor benefits in the event of early termination of contributions, the agreement also included a commitment to examine other issues impacting on costs, including commission structures, disclosure standards and consumer education.

The key recommendations of the National Treasury and Financial Services Board task team include:

*Efforts to lower costs and improve effective competition, such as:*

- reducing barriers to effective competition, to be informed by a joint National Treasury, Financial Services Board and Competition Commission investigation of the insurance sector and other service providers in the long term contractual savings market; and
- improving disclosure requirements, consumer education and product standards.

*Regulatory changes to improve governance of retirement annuity funds, such as:*

- aligning disclosure requirements under the Pension Funds Act and the Long-Term Insurance Act;

- issuing a Code of Governance for Trustees to clarify the fiduciary duties of the trustees of retirement annuity funds; and
- issuing regulations and model rules on matters that must be included and addressed in all retirement annuity fund rules.

*Measures to better align the incentive structure of intermediaries, such as insurance brokers and financial advisors, with the interests of the client, including:*

- requiring that intermediaries must declare themselves to prospective policyholders as either an insurer agent or an independent financial advisor – the distinction being that insurer agents must be remunerated by the insurer only and independent financial advisors must be remunerated by the customer only; and
- requiring that only independent financial advisors may describe themselves as “advisors” or “providing advice”; and
- improving the quality of investment advice through higher standards of intermediary education and implementing a system of accreditation.

*Regulating the level and structure of sales commission subject to certain conditions, namely:*

- allowing only a limited proportion of the commission to be paid upfront, with the balance payable over the term of the policy, to provide an incentive to the sales agent to ensure that the policy is appropriate to the needs of the customer and to service the policyholder throughout the term of the policy;
- making the payment of ongoing commission conditional on the provision of ongoing support to the policyholder;
- giving the policyholder the right to re-direct ongoing commission to an alternative agent or discontinue it completely;
- paying commission on contractual contribution increases only as and when the increases occur, conditional on ongoing support to the policyholder;
- making allowance for transitional financing arrangements for small and emerging intermediaries so as to continue to support access to savings products by low-income investors; and
- applying the principles of commission regulations in a consistent manner to both risk products and savings products and determining a consistent approach for single premium products.

*Measures to ensure an improved “safety net” for investors in cases where the investor reduces or discontinues contributions to a contractual savings product, including:*

- regulations to give effect to the agreement contained in the Statement of Intent on minimum early termination values applicable to existing policies and policies terminated after 1 January 2001; and
- regulations covering enhanced minimum early termination values, to be applied to new policies from a date of implementation to be specified in such regulations, that provide for a graduated set of minimum values and an appropriate sharing of the risk of early termination between the policyholder, insurer, and intermediary, aligning as far as possible the interests of all parties.

It is anticipated that these measures will result in a significant improvement in consumer perceptions of the value offered by the savings products of the long-term insurance industry, particularly with respect to the burden of cost in the event of early termination.

The discussion paper contains recommendations on principles of reform and high-level proposals, with a view to eliciting comments that will assist in crafting detailed proposals and revised regulations. The process going forward will entail further consultation with all stakeholders.

The discussion paper is available on the National Treasury website: www.treasury.gov.za

The closing date for comment is 15 May 2006.

Should you have any media related enquires please contact Thoraya Pandy on 082 416 8416.

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