national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

PRESS RELEASE

The Future of Micro-insurance Regulation in South Africa

National Treasury is releasing for public comment a discussion paper that proposes a new regulatory environment for entities offering insurance products to low-income earners, entitled: “The Future of Micro-insurance Regulation in South Africa”.

Micro-insurance as defined in the discussion paper is intended to catalyse the market provision of risk management tools for poor households. However, given the inherent complexity of insurance and the vulnerability of the target market, there are also risks of potential abuse and mis-selling. A balance therefore needs to be struck between market development and consumer protection.

Accordingly, the goal of the paper is to develop a coherent and clear regulatory framework that will encourage and facilitate the provision and distribution of good value, low-cost products that are appropriate to the needs of low-income consumers by a variety of market players, who must treat their policyholders fairly and manage the risks of providing insurance. This is in line with the government’s objective to increase access to financial services for the poor and providing a supportive regulatory environment for the implementation of the Financial Sector Charter.

An underlying principle of the paper is that regulation should be tailored to underlying risk. Thus insurers that only offer micro-insurance products as defined will operate under a reduced regulatory environment. This is justified as the risks inherent in this business are limited by the product limitations.

The new micro-insurance framework should allow for broad participation in this market and the graduation of entities from small, underwritten entities to larger more sophisticated options. Although it is technically feasible to give effect to this framework introduced through appropriate amendments to current legislation (the Long-term Insurance Act, the Short-term Insurance Act, the Co-operatives Act and the Friendly Societies Act), it is proposed that specific micro-insurance legislation should be considered for the sake of simplicity and user-friendly regulation

In short, the discussion paper proposes:

- A dedicated micro-insurance license. This license will be available to existing registered long-term insurers, short-term insurers, friendly societies as well as public companies and co-operatives which comply with the registration requirements;
- Allowing the license holder to write both long-term and short-term policies which comply with the product parameters set for micro-insurance products (including, subject to further actuarial modelling, a proposed benefit cap of R50 000 and a maximum policy term of 12 months);
- Simplified distribution requirements (under FAIS); and
- Special prudential regime commensurate to the risks applicable to micro-insurance policies.

All micro-insurers will fall under the supervision of the Financial Services Board (FSB). In addition to insurers currently registered under the Long-term or Short-term Acts, Friendly societies and Co-operatives registered under their respective acts will be allowed to obtain a micro-insurance license if they comply with the requirements.

The micro-insurance license will not be the only channel for the provision of market-driven risk mitigation instruments for low income households. This paper also considers the other options that need to be included in an overall regulatory framework for micro-insurance, for example underwriting or the cell captive mechanism.

A consumer awareness strategy will complement the legislative and regulatory reform process.

The micro-insurance regime presented is aligned to the proposed social security reforms and National Treasury will continue to ensure that the two processes are consistent and harmonised.

The deadline for comments is 31 July 2008. Comments are to be submitted to Ms. Katherine Gibson by email: Katherine.Gibson@treasury.gov.za or fax: +27 (0)12 3155206.

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