



**NOTICE:
INFORMATION REQUEST
FINANCIAL SERVICES BOARD
REPUBLIC OF SOUTH AFRICA**

**LONG-TERM INSURANCE ACT NO. 52 OF 1998
SHORT-TERM INSURANCE ACT NO. 53 OF 1998**

Address:	Long-term and short-term Insurers	File:	10.11.10.1-10.41.1.7.2 & 10.41.2.7.2
Issue date	Reply date	Information request	Status
15 December 2011	16 April 2012	3/2011 (LT&ST)	Issued
Subject: Request for information on consumer credit insurance			

1. PURPOSE

The purpose of this Notice is to, under section 4(2) of the Long-term Insurance Act No. 52 of 1998 and Short-term Insurance Act No. 53 of 1998 ("the Acts"), direct all long-term and short-term insurers to furnish information to the Registrar on consumer credit insurance business that they are undertaking.

The information is required, amongst others, to inform the policy and regulatory response to practices in the consumer credit insurance market.

2. CLARIFICATION OF TERMINOLOGY USED IN THIS REQUEST

For the purposes of this Notice, any word or expression to which a meaning has been assigned in the Acts has the meaning so assigned to it, and -

"credit insurance" means, with reference to section 1 of the National Credit Act No. 34 of 2005, an agreement between an insurer, on the one hand, and a credit provider or a consumer or both, on the other hand, in terms of which the insurer agrees to pay a benefit upon the occurrence of a specified contingency, primarily for the purpose of satisfying all or part of the consumer's liability to the credit provider under a credit agreement as at the time the specified contingency occurs, and includes -

- (a) a credit life insurance agreement;
- (b) an agreement covering loss of or damage to property; or
- (c) an agreement covering –
 - (i) loss or theft of an access card, personal information number or similar device; or
 - (ii) any loss or theft of credit consequential to a loss or theft contemplated in subparagraph (i); and

“credit life insurance” means, with reference to section 1 of the National Credit Act No. 34 of 2005, cover payable in the event of a consumer’s death, disability, terminal illness, unemployment, or other insurable risk that is likely to impair the consumer’s ability to earn an income or meet the obligations under a credit agreement.

3. TYPE AND FORMAT OF INFORMATION REQUESTED

Long-term and short-term insurers must provide the information as set out in Annexure A for –

- 3.1 credit insurance policies in force on 30 June 2011; and
- 3.2 credit insurance practices and market structures as at 30 June 2011.

4. TIMELINE FOR AND SUBMISSION OF INFORMATION

The Public Officer must submit the information by no later than 16 April 2012 to the FSB c/o ins.creditinfo@fsb.co.za.

5. FAILURE TO COMPLY WITH REQUEST

A failure to provide the specified information by or within the timeframe specified constitutes an offence under section 67 of the Long-term Insurance Act and section 65 of the Short-term Insurance Act. The failure therefore may be referred to the National Prosecuting Authority or the Enforcement Committee of the Financial Services Board, in accordance with the Financial Institutions (Protection of Funds) Act No. 28 of 2001.

6. INFORMATION SHARING

This information request is available on the website of the FSB (www.fsb.co.za).

Insurers must bring this Notice to the attention of their appointed auditors and statutory actuaries.



REGISTRAR OF LONG-TERM AND SHORT-TERM INSURANCE



Annexure A

INFORMATION ON CONSUMER CREDIT INSURANCE

INSTRUCTIONS:

1. This Form must be completed and submitted electronically by the public officer of registered long-term and short-term insurers to the FSB c/o creditinfo@fsb.co.za by no later than 16 April 2012.
2. Please attach examples of disclosure documents or other supporting evidence, where appropriate.
3. Where the insurer concerned undertakes multiple forms of consumer credit insurance business using different business models or arrangements, responses should be structured to distinguish between these different arrangements.

Insurer Name:

1. DISCLOSURE

1.1 Objective

To ascertain the disclosure practices for credit insurance and the effectiveness thereof in enabling freedom of choice for consumers.

1.2 Questions

- 1.2.1 Please describe the insurer's practices in respect of disclosing key product features to the consumer in respect of credit insurance. Please summarise the types of policy information (e.g. the amount and frequency of the premium, who is the policyholder, terms and conditions, the circumstances under which policyholders can claim, exclusions or special conditions, where policyholders can complain, etc.) and the format in which information is provided at each of the following stages:
 - 1.2.1.1 Pre-sale;
 - 1.2.1.2 Post-sale;
 - 1.2.1.3 On an ongoing basis during the life of the policy;
 - 1.2.1.4 On the happening of any other events (including but not limited to disclosures in the event of missed premiums and at claim stage).
- 1.2.2 Where the insurer relies on intermediaries or other third parties to disclose key credit insurance product features to consumers, please describe the disclosure practices used, including the types of information provided, the stage at which the information is provided and the extent to which the provision of information is monitored by the insurer.
- 1.2.3 Please describe specifically how, when and by whom freedom of choice regarding both product and intermediary is disclosed to the consumer.
- 1.2.4 Please describe specifically how, when and by whom details of any relevant contractual relationships/conflicts of interest are disclosed to the consumer.
- 1.2.5 Please describe the level of testing of suitability of disclosures for the target market (e.g. simplicity, choice of language, etc.).

- 1.2.6 Please indicate the percentage of consumers of credit insurance policies during the insurer's financial years ending in 2009 and 2010 who –
- 1.2.6.1 exercised the right not to enter into the proposed policy and substitute a policy of the consumer's own choice (with reference to section 106(4)(a) of the National Credit Act);
 - 1.2.6.2 elected to take out optional insurance (with reference to section 106(3) of the National Credit Act);
 - 1.2.6.3 elected to take out a standalone credit insurance policy;
 - 1.2.6.4 elected to add ancillary benefits to a credit insurance policy.
- 1.2.7 When disclosing details of the relevant credit insurance product, name and type/class to the consumer buying a movable property -
- 1.2.7.1 Is the consumer informed what the policy actually covers and when it can be of benefit to the consumer;
 - 1.2.7.2 Is the awareness level and knowledge of the consumer taken into consideration during the explanation of the underlying financial product and, if so, how;
 - 1.2.7.3 Is any actual testing of the consumer's understanding of the financial product undertaken and, if so, how?
- 1.2.8 Please elaborate on how any and all fees or charges, including how the fee or charge was determined and what it is being charged for, are relayed to the consumer.
- 1.2.9 Please indicate at which point and in what manner the consumer is informed of who the underwriter is.
- 1.2.10 Please indicate if any relationship between the underwriter and intermediary is explained to the consumer and, if so, how?
- 1.2.11 Please indicate if the nature of monetary obligations to be assumed by the consumer is explained to the consumer and, if so, how?
- 1.2.12 Please indicate what information is provided to the consumer as to what the effect will be on the credit policy should the client pay the mortgage or other outstanding underlying debt amount in full without any insured eventuality occurring.
- 1.2.13 Please indicate how much time the insurer allows the consumer to make an informed decision before concluding the credit insurance agreement, and why the insurer regards this period as reasonable.
- 1.2.14 Please explain how the consumer is informed about her/his right to choose whether or not to take the available credit insurance and what steps are taken to allow the consumer to freely exercise that right.
- 1.2.15 Please describe, if the consumer chooses not to take the available credit insurance, what other alternatives are available or offered to the consumer and how they are offered.
- 1.2.16 Please indicate if a consumer advisory record is kept of every consumer buying a movable property that offers her/his own credit insurance.
- 1.2.17 Please describe how the relationship between the credit provider and the insurer is explained to the consumer.

2. PRODUCT STANDARDS

2.1 Objective

To ascertain the reasonableness of premiums, benefits, policy charges and terms and conditions of credit insurance.

2.2 Questions

- 2.2.1 Please describe how the premiums are determined and the typical level of charges and expenses of credit insurance (including how applicable commissions/fees are built into the charging structure).
- 2.2.2 Please indicate whether amounts are added to premiums or deducted from claim payments (including whether the total "premium" or other amount paid by insured exceeds the contractual premium paid to the insurer) and provide details of such amounts/practices.
- 2.2.3 Please describe the types of benefits and sums assured (including as % of overall book) of credit insurance during the insurer's financial years ending in 2009 and 2010.
- 2.2.4 Please describe the policy exclusions, waiting periods and time bars applicable to credit insurance policies.
- 2.2.5 Please describe when and what level of underwriting takes place for credit insurance.
- 2.2.6 Please describe whether, as a result of any medical underwriting performed, policies can be declined, rated or postponed and, if so, the percentage of applications to which such actions were applied during the insurer's financial years ending in 2009 and 2010.
- 2.2.7 Please indicate whether credit life insurance policies allow consumers to surrender the policies.
 - 2.2.7.1 Please describe the credit life policies that contain surrender values.
 - 2.2.7.2 Please indicate whether the surrender values are calculated in accordance with Part 5 of the Regulations made under the Long-term Insurance Act, 1998.
- 2.2.8 Please describe who is the policyholder (credit grantor or insured life) and who benefits are paid out to on credit insurance (including how any balance after settlement of the relevant debt is dealt with).
- 2.2.9 Please indicate whether credit insurance policies are structured as individual policies or group schemes and why?
- 2.2.10 Please indicate whether to your knowledge the credit grantor insists on credit insurance as a pre-condition for providing credit.
- 2.2.11 Please indicate, if the credit grantor insists on credit insurance, whether the credit grantor insists the cover must include specific types of benefits and, if so, which types of benefit.

3. CLAIMS AND COMPLAINTS HANDLING

3.1 Objective

To ascertain the effectiveness of claims and complaints handling processes for credit insurance.

3.2 Questions

- 3.2.1 Please indicate the following during the insurer's financial years ending in 2009 and 2010) for credit insurance:
 - 3.2.1.1 Lapse rates;
 - 3.2.1.2 Claims ratios;
 - 3.2.1.3 Claim rejection rates.
- 3.2.2 Please describe the claims handling processes for credit insurance and how fair treatment of customers is ensured during this process.
- 3.2.3 Please describe the complaints handling processes for credit insurance and how fair treatment of customers is ensured during this process
- 3.2.4 Please indicate how and when consumers are informed of the relevant ombud to whom they can complain.

4. MARKET STRUCTURE

4.1 Objective

To ascertain the types of distribution models used and contractual relationships between various parts of the value chain for credit insurance.

4.2 Questions

- 4.2.1 Please describe the types of distribution models used for credit insurance.
- 4.2.2 Please indicate which of the following types of distribution models are used for credit insurance as a % of overall credit insurance distribution:
 - 4.2.2.1 Direct marketing via telesales / call centre;
 - 4.2.2.2 Direct marketing via Internet;
 - 4.2.2.3 Face-to-face by insurer's own individual representatives ("tied agents") or juristic representatives (please indicate which);
 - 4.2.2.4 Face-to-face by independent intermediaries (FSP's that are not representatives of the insurer);
 - 4.2.2.5 Other (please describe and state %).
- 4.2.3 Please provide details regarding the target market for credit insurance.
- 4.2.4 Please describe the competency levels of financial services providers and/or representatives used for credit insurance (e.g. FALS licence category fit & proper levels, whether "representatives" for FALS purposes, etc.) and how these competency levels are monitored by the insurer.
- 4.2.5 Please describe the contractual and financial relationships between various parts of the value chain regarding credit insurance (e.g. the relationships between the insurer, the distribution channels used and the credit grantor).
- 4.2.6 Please indicate if cell captives are used for issuing credit insurance and, if so, the total gross premiums placed with cell captives during the insurer's financial year ending in 2009 and 2010 as a % of total credit insurance business undertaken.
- 4.2.7 Please indicate if functions for credit insurance are outsourced to binder holders or other parties together with a description of the services, binder holders and other parties.

4.2.8 Please list the premium payment collection methods used for credit insurance and the percentage of total payments from each collection method.

5. REMUNERATION

5.1 Objective

To ascertain the remuneration to independent intermediaries in the form of commission and fees and to representatives of long-term insurers in cash or in kind complying with the principle of "Equivalence of Reward" and to other parties in the form of fees, profit shares or other consideration for rendering "binder" or other outsourced administration services on credit insurance.

5.2 Questions

5.2.1 Please provide details of commissions paid to independent intermediaries on credit insurance (quantum and as % of total commissions paid on all insurance) during the insurer's financial year ending in 2009 and 2010 and whether any other forms of benefits were paid or provided to independent intermediaries and why?

5.2.2 Please indicate what rate of regulated commission is paid on each of the agreements contemplated in credit insurance and motivate why the particular rate is paid (i.e. specify what "category" on the commission regulation tables is being used and how this is determined).

5.2.3 Please indicate the form, structure and frequency of payment to representatives of the insurer in respect of credit insurance (i.e. commission, other benefits, fixed salaries, production bonuses, etc.) and, if applicable, how the remuneration is split between initial/upfront and on-going/trail payments.

5.2.4 Please provide details (including amounts and % of total gross premiums) of any other payments to other parts of the value chain for credit insurance, during the insurer's financial year ending in 2009 and 2010, e.g.-

- fees to binder holders;
- other fees for outsourced administration;
- profit shares (excluding to cell captive owners);
- profit shares / dividends (to cell captive owners);
- profit shares (to persons under joint venture arrangements and / or arrangements similar to cell captives).

I (Name of Public Officer), identity /passport number hereby certify that the answers and attached information are complete, accurate, true and not misleading in any manner.

Signed:

Date: