



national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA



MEDIA STATEMENT

TRANSFORMING THE INSURANCE SECTOR: MORE SUITABLE AND ACCESSIBLE INSURANCE PRODUCTS FOR SOUTH AFRICAN CONSUMERS

INVITATION FOR PUBLIC COMMENT ON DRAFT INSURANCE REGULATIONS

The National Treasury (“NT”) and Financial Services Board (“FSB”) today publish for public comment amendments to Insurance Regulations (“Regulations”) that give effect to a number of conduct of business reforms. These draft Regulations will be formally gazetted on 23 December 2016, and the gazette will be available on the NT and FSB websites after it is published.

These reforms will be given effect through existing Regulations made by the Minister of Finance and the Policyholder Protection Rules (“PPRs”) made by the Registrar of Long-term and Short-term Insurance under the Long-term Insurance Act, 1998 and the Short-term Insurance Act, 1998.

The proposed amendments to Regulations and PPRs are steps Government is taking to improve market conduct in the insurance sector. They aim to ensure that the industry treats its customers fairly, and that incentives are aligned to ensure that less complex, good-value products are provided to consumers to help deal with unforeseen life events like a car accident or retrenchment. Hard working families are often hit by uncontrollable “shocks”, and without insurance protection can readily fall into economic hardship and poverty. These Regulations and PPRs support Government’s objective to ensure that the right insurance products are available and accessible to all South Africans to mitigate these risks.

The proposed reforms address conduct of business risks and abuses that have been identified through supervision, and can be given effect to within the existing regulatory framework. A more comprehensive review of the Regulations will form part of the broader review of all conduct of business legislative frameworks across the various sectors regulated by the future Financial Sector Conduct Authority as part of the Twin Peaks reforms.

Summary of interim conduct of business reforms

The conduct of business reforms that will be given effect through the Regulations and PPRs relate to -

- Phase 1 of the 2014 Retail Distribution Review (“RDR”) which proposes a number of improvements to how financial products are distributed and sold, including: principles for remuneration of intermediaries to address conflicts of

interest (especially those relating to advisors representing both insurers and the consumer), ensuring that insurers who outsource critical functions remain ultimately responsible for those functions, and curbing poor advice and intermediary practices.

- Improvements to the requirements for binder agreements in support of the RDR which limit who may enter into a binder agreement, what sort of activity may be outsourced and what remuneration may be paid in a binder agreement, so as to address conflicts of interest.
- Certain matters identified in the consultations on the Technical Report on the Consumer Credit Market in South Africa published on 3 July 2014, which signalled concerns with respect to consumer abuses in the consumer credit insurance market. The amended Regulations and PPRs introduce alignment with planned dti Regulations dealing with caps on mandatory credit life premiums, as well as introducing a range of principles and requirements on fair treatment of policyholders that also apply to consumer credit insurance products.
- Improving policyholder protection in the Ombud system by compelling the insurer to display Ombud information to policyholders, keeping records of complaints and requiring cooperation with the insurance Ombuds.
- The Complaints Management Discussion Document published in October 2014 and the Complaints Management Thematic Review published on 17 October 2014, which aim to improve complaints management processes, including by introducing requirements for claims management procedures, monitoring and analysis of complaints and the reporting of complaints information to the regulator and Ombuds.
- The draft Information Letter on Advertising, Brochures and Similar Communications published for comment in December 2013, designed to ensure fair and not-misleading communication with potential policyholders.
- Appropriate minimum requirements for claims management.
- Additional critical protections for policyholders identified through supervision (principles to inform premiums and premium reviews, minimum data governance requirements and negative option marketing).
- Alignment with international standards in terms of the International Association of Insurance Supervisor's Insurance Core Principles.
- Alignment, in certain respects, with the Financial Advisory and Intermediary Services Act, 2002.
- Closing regulatory gaps and effecting technical improvements to clarify the intent and purpose of certain provisions.

The Regulations also introduce changes to the maximum causal event charges that apply to legacy contractual savings policies (entered into before January 2009) in the life insurance sector. The Regulations provide for the progressive reduction over

time of the maximum penalty that can be charged when a legacy policy is lapsed, surrendered, transferred or the premium reduced.

These changes follow consultation and recognition by the life insurance industry that Treating Customers Fairly (“TCF”) principles must also be applied to legacy products, in particular to ensure that customers are provided with products that perform as firms have led them to expect. Insurers are expected to deliver TCF outcomes to all their customers, not only customers who buy new products, but also holders of legacy products. Where it becomes apparent that products sold in the past are not meeting expectations initially created, insurers are expected to identify reasonable ways to improve outcomes for their customers. The Regulations, which will see the maximum penalty reduced from between 30% and 40%, down to 5%, over time, will ensure a level playing field in how insurers treat policyholders of legacy products.

The Regulations and PPRs form part of a bold reform programme to deliver better customer outcomes across the financial sector. The implementation of Twin Peaks will see market conduct requirements centralised in a Conduct of Financial Institutions (“CoFI”) Act that requires insurers taking more responsibility for the impact their products have on customers. Government is also considering how the industry can better support the National Development Plan, with particular attention on transforming the sector into a more inclusive one. More South Africans should be able to participate in the insurance sector, as suppliers on the one hand and getting the right insurance cover on the other.

Comment process and implementation timelines

Comments on the Regulations are invited from all interested stakeholders. Written comments should be sent to Dr. Reshma Sheoraj at ltregulations.insurance@treasury.gov.za (for the Long-term Insurance Regulations) or stregulations.insurance@treasury.gov.za (for the Short-term Insurance Regulations) or faxed to 012 315 5206 by **22 February 2017**.

The targeted effective date of the regulatory changes is **1 May 2017**, with appropriate transitional provisions where necessary.

To improve the quality of public consultations, the NT and FSB will convene meetings and workshops with stakeholders.

Amendments to the Policyholder Protection Rules will be released by the FSB on 15 December 2016 for public comment by 22 February 2017.

Supporting Annexures

The following supporting Annexures are also available on the National Treasury’s website at www.treasury.gov.za and the Financial Services Board’s website at www.fsb.co.za

Annexure A	Draft Long-term Insurance Regulations
Annexure B	Draft Short-term Insurance Regulations
Annexure C	Explanatory document supporting amendments

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