Agenda

- Position and themes
- Terms and conditions
- Business case
- Inception and transfer
- Other considerations
Position and themes

- Promote new entrants & formalise “existing arrangements”; and
- Ease of business administration; however:
  - Classes & sub-classes of business;
  - Policy terms (12-months only – excluding funeral);
  - Lower sums assureds;
  - Lower capital & reserving requirements; and
- Lighter governance and operational requirements.
Position and themes

• “Micro-insurer” means an insurer licensed to conduct only micro-insurance business.

• Composite licence:
  • Life & non-life

• Nature of micro-insurance licence:
  • “Traditional” structure; and/or
  • Cell-captive structure.
Position and themes

• Licence application & conversion process:
  • Three tranches in the conversion process;
  • Cell captive insurers and Micro-insurers form part of tranche one;
  • July 2018 – January 2019 of the conversion process...
Classes of business

- Life Insurance Business:
  - Class 1 – Risk;
  - Class 3 – Credit Life;
  - Class 4 – Funeral; and/or
  - Class 9 – Reinsurance
Classes of business

• Non-life Insurance Business:

• Class 1 – Motor (personal and commercial lines);
• Class 2 – Property (personal and commercial lines);
• Class 3 – Agriculture (personal and commercial lines);
• Class 9 – Legal Expense (personal and commercial lines);
• Class 11 – Consumer Credit (personal and commercial lines);
• Class 14 – Accident and Health (personal and commercial lines);
and/or
• Class 17 – Reinsurance (Proportional or Non proportional in respect of class or sub-class referred to in above.)
Caps and restrictions

• Life risks:
  • R100k per life insured (escalating annually by CPI);
  • Aggregate value of the benefit(s).

• Non-life risks:
  • R300k per policy (excluding accident and health which is R100 000 per life insured);
  • Benefits escalating annually by CPI.
Policy restrictions

• No loyalty benefits may be offered without the approval of Prudential Authority.
• No no-claims bonus option may be offered without the approval of PA.
• No premium rebates may be offered without the approval of PA.
• Rider benefits may only be offered only in respect to the same class of business.
Commission restrictions

- No commission caps in respect of any life policies, besides credit life:
  - Commission capped at 7.5%.

- No commission caps in respect of any non-life policies, besides motor:
  - Commission capped to 12.5% only in respect of motor policies between R120k and R300k.
  - No caps apply to motor policies below R120k.
Prudential standards

• Effective 1 July 2018.

• Financial Soundness Standards:
  • FSM 1 - Framework for Financial Soundness
  • FSM 2 - Valuation of Assets, Liabilities and Eligible Own Funds

• GOM - Governance and Operational Standards
  • Appropriate regulatory requirements with appropriate adjustments for marching effect.
Capital requirements

• Licence:
  • Minimum capital requirement of R4m for licence.

• Cell:
  • Minimum capital requirement of R250k per cell.
Business case considerations

• Own licence (separate legal entity) vs micro-insurance cell captive:
  • Reduced but similar financial, governance and operational requirements for own licence.

• Micro-insurance licence applications will be similar to that of current life and non-life insurers, but with the capital, reserving regime and operational requirements differing.
Business case considerations

- Applicants must submit:
  - A standard application form;
  - A memorandum and articles of association (company) or constitution (co-operative);
  - A business plan and 5 year financial projections;
  - A personal questionnaire to be completed by board members and management to ensure that they are fit and proper;
  - An application for approval of the auditor(s).
Business case considerations

- Retain existing (life and/or non-life) cell vs incept & transfer to micro-insurance cell:
  - Classes & sub-classes of risks;
  - Capital requirements;
  - Prudential requirements.
Transfer process

• Likely section 50 application of Insurance Act:
  • Cumbersome process;
  • Time considerations;
  • Costly exercise.

• Unilateral cancellation of the policies (where possible).
Specific standards

• Period to authorise and pay claims: 2 business days.
• Period to dispute claims: 14 business days.
• Specific non-disclosure requirements with regards to group compulsory schemes.
• Reinstatement/new policy period: reduced (from 6) to 2 months.
• PA to approve loyalty benefit, no-claim bonus or rebate in premiums.
Thank you