

Joint Communication 7 of 2024

Review of the regulatory framework for the distribution of funeral insurance in South Africa

PURPOSE

- 1.1 This Joint Communication (Communication) has been prepared by the Financial Sector Conduct Authority (FSCA) and the Prudential Authority (PA) (the Authorities) in recognition of concerns raised by representatives of the funeral parlour industry relating to the appropriateness and effectiveness of the current regulatory framework for the distribution of funeral insurance in South Africa.
- 1.2 The purpose of the Communication is to:
- Clarify the current regulatory position in respect of the funeral insurance market;
 - Highlight specific concerns of both the funeral parlour industry and the Authorities relating to the current regulatory position and prevailing market practices in respect to the distribution of funeral insurance;
 - Provide details of an inter-regulatory project initiated by the Authorities to review the framework for the distribution of funeral insurance in South Africa; and
 - Invite key stakeholders to participate in the aforementioned project to ensure an inclusive and proportional regulatory framework that protects policyholder interests while simultaneously encouraging sustainable market development for the funeral insurance sector.

2 BACKGROUND AND CONTEXT

- 2.1 In July 2011, the National Treasury (NT) published a document entitled *The South African Microinsurance Regulatory Framework*¹, setting out its policy position aimed at promoting better access for South Africans to affordable insurance products through the introduction of a Microinsurance (MI) Policy Framework.
- 2.2 The MI Framework was intended to achieve the following:
- Extend access to and take-up of a suitable range of good-value formal insurance products appropriate to meet the needs of low-income households (including funeral insurance), thereby supporting financial inclusion.
 - Facilitate formalised insurance provision by informal providers (including funeral parlours), and in the process, promote the formation of regulated and well-capitalised insurance providers and small business development.
 - Lower barriers to entry, which should encourage broader participation in the market and promote competition amongst providers, further supporting poverty alleviation through economic growth and job creation.
 - Enhance consumer protection within this market segment through appropriate prudential and conduct regulation, improved enforcement of regulatory

¹ Click [here](#) to access *The South African Microinsurance Regulatory Framework, National Treasury Policy Document, Republic of South Africa, July 2011*.

transgressions, and consumer education interventions targeted at understanding insurance and its associated risks and benefits.

- (e) Facilitate effective supervision and enforcement, supporting the integrity of the insurance market as a whole.

- 2.3 In the aforementioned document, the NT confirmed that the origins of the formulation for a more robust MI framework centred around identified abuses in the funeral insurance market where consumers were particularly vulnerable and exposed to exploitation.
- 2.4 Following the publication of the document, the NT worked closely with the Authorities over several years to reform the regulatory framework for funeral insurance in South Africa. This included, among others, developing a licensing framework that lowers regulatory barriers to entry for the funeral insurance market and facilitating access to the market for small businesses such as funeral parlours while striving to maintain an appropriate balance between sound prudential regulation and fair customer treatment. Details of these regulatory reforms, which were previously subject to extensive public consultation, are contained in **Annexure A**.
- 2.5 The Authorities acknowledge the crucial role played by funeral parlours in communities across the country. The inherent dignity in how the mortal remains of loved ones are dealt with has a profound cultural and social significance. Funeral parlours often play a key role in providing access to funeral insurance to sections of the community that may be underserved by the traditional insurance market. The Authorities further recognise the contribution of funeral parlours as small businesses towards job creation and sustainable economic growth in South Africa. The regulation and supervision of funeral insurance distribution, including through funeral parlours, has therefore, been the subject of extensive consideration by the Authorities over a number of years.
- 2.6 Notwithstanding the above, there continue to be significant concerns raised by both the funeral parlour market and the Authorities regarding the appropriateness and effectiveness of the current regulatory framework, as described in paragraph 3 below.
- 2.7 To address the aforementioned concerns, the Authorities have embarked on an inter-regulatory project aimed at reviewing and identifying potential areas for enhancement of the current regulatory framework. Further details about the project, including plans to ensure robust consultation with and participation by key stakeholders involved in the distribution of funeral insurance, are outlined in paragraph 4 below.

3 CONCERNS ABOUT THE CURRENT REGULATORY FRAMEWORK

Concerns raised by the funeral parlour market

- 3.1 Representatives of the funeral parlour market have, individually and collectively, raised a number of concerns to the Authorities and the NT around potential issues in the current regulatory framework that may be hampering the ability of the market to achieve meaningful long-term growth and effectively serve its historically underserved customer base.
- 3.2 These concerns include, among others, the following:
 - (a) The introduction of the MI licensing framework under the Insurance Act, 2017 (Act No. 18 of 2017) (Insurance Act) has been slow to achieve the intended outcome of accelerating the transition of small and emerging entities into fully fledged insurers. Concerns within the industry stem from the licensing application process and market entry capital requirements, which are perceived to still be too high considering the nature, size, and complexity of relevant business activities.

- (b) The perception that the ability of funeral parlours and small intermediaries to enter into joint ventures or cell captive arrangements with larger entities or traditional insurers may have been impeded by overly onerous underwriting criteria, unaffordable pricing models, and excessive sales thresholds set by insurers.
- (c) Amendments to the definition of “group” in the Insurance Act, read with several amendments to the Policyholder Protection Rules (PPRs) under the Long-term Insurance Act, 1998 (Act No. 52 of 1998) (LTIA), have been perceived as unfairly divesting funeral parlours of the ownership and control of their client assets by transferring such ownership and control to insurers who are ultimately responsible for underwriting the policies of these clients.

3.3 Details on the above amendments, including the regulatory rationale for such, are contained in Annexure B.

Concerns raised by the Authorities

- 3.4 Prior to the regulatory amendments relating to “group” structures described in Annexure B, funeral parlours were the primary contracting party (policyholder) of group funeral policies. The clients of the funeral parlour were underlying members of the group policy but did not have a direct relationship or direct right of contact with the insurers responsible for settling their claims.
- 3.5 This structure was seen to hamper the ability of insurers to effectively underwrite these policies, manage their prudential risks and fulfil their obligations to ensure fair customer outcomes, due to a lack of access to key underwriting and member information that was held exclusively by the funeral parlours themselves.
- 3.6 The group funeral policy structure also resulted in some funeral parlours transferring “books of business” between insurers, without the knowledge and consent of their clients and often contrary to the best interests of such clients.
- 3.7 The change to the definition of “group” described in Annexure B was deemed necessary to address the above concerns. However, noting the potential unintended consequences of this change on the funeral parlour market, the Authorities welcome the opportunity to engage further and consider alternative mechanisms to address the concerns identified by the funeral parlours as part of the holistic review of the regulatory framework outlined in paragraph 4 below.
- 3.8 In the years following the regulatory developments described in Annexures A and B, the Authorities remain concerned about certain industry practices prevalent in the funeral insurance market that continue to compromise fair outcomes for vulnerable customers.
- 3.9 The Authorities are aware of a high number of unlicensed entities, including funeral parlours, that are engaged in the self-underwriting of insurance policies and unauthorised collection of “premiums” from their clients in contravention of prevailing insurance legislation². These practices expose customers to various risks, including uncertainty around the availability of funds and operational ability to have the full value of their claims settled in line with their expectations, as and when required. Besides the financial risks created, this also exacerbates the emotional distress experienced by families and communities rendered unable to bury their loved ones in a timely and dignified manner.
- 3.10 In instances where funeral parlours enter into legitimate distribution arrangements with licensed insurers, the Authorities have observed a concerning trend, whereby overly

² See also the *FSCA Regulation Actions Report 1 April 2022 – 31 March 2023* available [here](#).

restrictive or misguided interpretations of the regulatory framework by either the insurer or the funeral parlour's compliance function may be used to hinder the other party's ability to effectively execute its obligations to policyholders. This can result in a breakdown in the relationship between the insurer and funeral parlour, in turn resulting in prejudice to policyholders.

4 ESTABLISHMENT OF INTER-REGULATORY FUNERAL INSURANCE PROJECT BETWEEN THE AUTHORITIES

4.1 As outlined above, the existence of an unlicensed funeral insurance market and prevailing poor practices in relation to the distribution of funeral insurance, even within the licensed market, remain significant concerns for the Authorities; this despite efforts over the years to refine and strengthen the regulatory framework in a proportional and inclusive manner.

4.2 The Authorities are also cognisant of the concerns highlighted by the funeral parlour industry regarding potential challenges posed by the current regulatory framework in advancing the sustainable growth and development of this market, which may in turn be hampering efforts to adequately formalise and transform the sector.

4.3 Consequently, the Authorities have initiated a collaborative project that specifically seeks to address the concerns relating to the distribution of funeral insurance, as described in paragraph 3. The project includes a review of the existing regulatory framework to evaluate any potential issues, including potential unintended consequences arising from, among others, the change in the definition of "group" in the Insurance Act.

4.4 The project also aims to promote compliance by identifying opportunities to provide increased regulatory support to small and emerging businesses that have limited compliance capability and strengthening the Authorities' supervisory and enforcement frameworks to deal with instances of non-compliance more effectively.

4.5 Based on the concerns and challenges identified to date, the Authorities envisage the project to cover the following aspects:

- (a) **Regulatory Framework Review:** This will entail a review of the overall insurance regulatory framework affecting the funeral parlour market to identify areas that may need improvement to facilitate increased formalisation, accelerated growth, and appropriate enforcement.
- (b) **Compliance Awareness and Capability Support:** This will include identifying opportunities for training and awareness workshops, as well as other support initiatives, to help strengthen understanding and capacity within the funeral parlour market of supervisory expectations in relation to the Insurance Act and the Financial Advisory and Intermediary Services Act, 2002 (Act No. 37 of 2002) (FAIS Act). Guidance and assistance should also be provided to unlicensed funeral parlours who wish to be authorised as FSPs under the FAIS Act.
- (c) **Supervision and Enforcement:** This will involve the improvement of supervision and enforcement strategies aimed at achieving the appropriate levels of compliance to ensure sound prudential and fair customer outcomes while keeping compliance costs as low as possible. This may include bringing various relevant agencies together to help design a coordinated and holistic approach for overseeing the funeral parlour market.
- (d) **Consumer empowerment:** This will entail the development of strategies to improve financial literacy and awareness of consumers of funeral insurance so that they are empowered to deal only with legitimate providers, gain an improved understanding of their rights and obligations when dealing with funeral parlours and insurers and are aware of their recourse options in the event of a complaint, non-settlement of a claim

or any other challenges they may encounter in respect of their funeral insurance policies.

5 STAKEHOLDER INVITATION

- 5.1 The Authorities are committed to ensuring that the project is undertaken in a consultative and inclusive manner by considering inputs that meaningfully reflect the interests of key market participants and impacted consumers.
- 5.2 To this end, the Authorities intend to hold stakeholder workshops during the first half of the 2025 calendar year, to further unpack the aspects outlined in paragraph 4.5 above. Inputs provided during these workshops will be critical to ensure the formulation of a pragmatic and balanced approach for the future regulation and supervision of funeral insurance in South Africa.
- 5.3 All persons with a material interest in the outcomes of the inter-regulatory project and who wish to participate in the aforementioned workshops are invited to confirm their interest by sending an email to FSCA.funeralins@fsca.co.za. The email should provide details of specific individuals to be included in the workshops, including names, email addresses, geographical locations, designations, and organisations being represented.
- 5.4 Further details regarding the logistics (including dates and times) and agenda of the workshops will be provided closer to the time.

6 CONCLUSION

- 6.1 The Authorities remain committed to promoting the growth and development of a formal funeral insurance market that recognises funeral parlours as key role players.
- 6.2 The development of this market must be done in a responsible and fair manner that does not compromise the integrity of the financial sector and the paramount interests of vulnerable and underserved consumers.
- 6.3 The Authorities look forward to constructive engagements with insurers, the funeral parlour industry, and other impacted persons to achieve these outcomes.
- 6.4 Any queries relating to this Communication may be emailed to FSCA.funeralins@fsca.co.za.



Unathi Kamlana
Commissioner
FINANCIAL SECTOR CONDUCT AUTHORITY

Date: 6 November 2024



Fundi Tshazibana
Chief Executive Officer
PRUDENTIAL AUTHORITY

Date: 6 November 2024

ANNEXURE A

Overview of the current regulatory framework for funeral insurance in South Africa

1. **Insurance Act, 2017 (Act No. 18 of 2017) (Insurance Act)**

- 1.1 The provision of funeral insurance in South Africa is regulated under the Insurance Act, as administered by the PA.
- 1.2 The Insurance Act requires any person who conducts life insurance business, including providing funeral insurance policies (i.e. policies underwritten under the Funeral Class of life insurance business), to be licensed as an insurer. Licensed life insurers may only conduct insurance business in the classes of life insurance for which they are licensed by the PA.
- 1.3 Funeral insurance policies can be underwritten under any of the following classes of life insurance business, depending on the benefits provided under the policy:

CLASS		SUB-CLASS		DESCRIPTION
1	RISK	a	Individual Death	Lump sum or, specified or determinable equal or unequal sums of money payable at specified intervals payable on the happening of a death event
		e.	Group Death	Lump sum or, specified or determinable equal or unequal sums of money payable at specified intervals payable to a beneficiary on the happening of a death event
4	FUNERAL	a.	Individual	Lump sum or, specified or determinable equal or unequal sums of money payable at specified intervals not exceeding an amount prescribed by the Prudential Authority ³ to cover the cost associated with a funeral or the rendering of a service on the happening of a death event
		b.	Group	Lump sum or, specified or determinable equal or unequal sums of money payable at specified intervals not exceeding an amount prescribed by the Prudential Authority ⁴ payable to a beneficiary to cover costs associated with a funeral or the rendering of a service on the happening of a death event

- 1.4 The Insurance Act defines a “group” (as referred to above) in respect of the classes of insurance business as an insurance policy entered into with:
- (a) an autonomous association of persons united voluntarily to meet their common or shared economic and social needs and aspirations (other than obtaining insurance), which association is democratically controlled;
 - (b) an employer; or
 - (c) a fund,

³ Prudential Standard GOI 7 currently prescribes the maximum amount as follows: “maximum amount of R 100 000 (hundred thousand Rand) per life insured, escalating annually, from the commencement date of this Prudential Standard, by the Consumer Price Index (CPI) annual inflation rate published by Statistics South Africa, as defined in section 1 of the Statistics Act, 1999.”

⁴ The same as the limit referred to above.

Where the association, employer or fund holds the insurance policy exclusively for the benefit of a beneficiary.

- 1.5 Funeral parlours that are currently underwritten by licensed insurers may continue to intermediate insurance on the existing basis and must be authorised as FSPs under the Financial Advisory and Intermediary Services Act, No. 37 of 2002 (FAIS Act).
- 1.6 Funeral parlours that currently operate outside of the insurance regulatory framework (by carrying their own risks on a cash flow basis without underwriting from a licensed insurer or without a life insurance licence of their own) and those already playing an intermediary role but wishing to grow have the following options available to them:
 - (a) Enter into a cell captive, joint venture or partnering arrangement with an insurer;
 - (b) Obtain a microinsurance licence and separate the insurance business from the funeral parlour business by creating separate legal entities (be it a public company, private company or a co-operative) for each type of business; or
 - (c) Consolidate with other entities to form a microinsurer (whether as a public or private company or a for-profit co-operative).
- 1.7 Funeral parlours that provide only funeral services and consequently provide no other insurance-related or other financial services are not required to comply with any financial sector regulation.

Cell captive insurers

- 1.8 A cell captive insurer is a type of insurer provided for in terms of the Insurance Act.
- 1.9 A cell captive insurer conducts business through cell structures. A cell structure is an arrangement under which a person (cell owner):
 - (a) holds equity participation in a specific class or type of shares of an insurer, in which equity participation is administered and accounted for separately from other classes or types of shares;
 - (b) is entitled to a share of the profits and liable for a share of the losses as a result of the equity participation referred to above, linked to profits or losses generated by the insurance business referred to below; and
 - (c) places or insures insurance business with the insurer referred to above, which business is contractually ring-fenced from the other insurance business of that insurer for as long as the insurer is not in winding-up.
- 1.10 A cell structure is another form of arrangement that can enable funeral parlours to gain experience in the insurance environment and share in profits and losses. Cell structures can therefore serve as an incubator for funeral parlours that aspire to become fully fledged insurers in the future.

Microinsurers

- 1.11 The Insurance Act provides for a dedicated microinsurance licensing framework.
- 1.12 A microinsurer is subject to less stringent prudential requirements (including reduced minimum capital requirements) in comparison to a traditional insurer, but is limited to conducting microinsurance business only, the latter being limited to specific classes of life

and non-life insurance business⁵ (including Risk and Funeral business) and benefits that are capped at certain limits.

- 1.13 The microinsurance licence category was established to provide for an insurer to support smaller businesses to enter the insurance environment and gradually progress to fully-fledged insurers.

2 Long-term Insurance Act, 1998 (Act No. 52 of 1998) (LTIA)

- 2.1 Apart from the requirements contained in the Insurance Act, life insurers are also subject to the LTIA, its Regulations and Policyholder Protection Rules (PPRs) published under the LTIA, as administered by the FSCA.

- 2.2 The Regulations and PPRs constitute the market conduct regulatory framework for insurers and deal with a wide scope of requirements relating to the fair treatment of customers, including requirements dealing with product design, advertising, disclosure, premium reviews, complaints, claims management and the like.

- 2.3 The LTIA recognises the outsourcing of binder functions⁶ which entail specific activities performed by a person/entity on behalf of an insurer (as its agent) as if the person/entity is the insurer itself (generally known as carrying the “insurer’s pen”).

- 2.4 Binder functions include instances where a person/entity is provided with the authority to enter into, vary or renew a policy on behalf of an insurer, settle claims under a policy on behalf of the insurer, or determine the wording of, premiums under or value of policy benefits under a policy.

- 2.5 A person/entity that performs binder functions is called a binder holder, and the latter can either be an “underwriting manager” as defined or a “non-mandated intermediary” (NMI) as defined. The main differences between an underwriting manager and an NMI are as follows:

- (a) an underwriting manager may not “sell” policies whilst an NMI may (and the latter can therefore earn a commission for selling policies);
- (b) an underwriting manager may only act on behalf of an insurer whilst an NMI can act on behalf of both the insurer and policyholder;
- (c) an underwriting manager may share in profits whilst an NMI may not; and
- (d) the discretion that an NMI can exert is more limiting than that of an underwriting manager.

- 2.6 Binder holders are paid binder fees by the relevant insurer for performing binder functions. An NMI that is authorised to provide advice and that is also a binder holder is subject to certain binder fee caps as set out in the Regulations under the LTIA. All other binder holders may be paid remuneration that is “reasonably commensurate” to the binder functions being performed.

- 2.7 The conclusion of binder agreements with insurers is another option available to funeral parlours who wish to perform additional activities beyond intermediary services, thereby supplementing their revenue streams over and above commission.

3 Financial Advice and Intermediary Services Act, 2002 (Act No. 37 of 2002) (FAIS Act)

⁵ Microinsurance business includes the Risk Death and Funeral Classes of life insurance business.

⁶ Section 49A of the Long-term Insurance Act, No. 52 of 1998 and section 48A of the Short-term Insurance Act, 1998 (Act No. 53 of 1998).

- 3.1 The distribution of funeral insurance is subject to the FAIS Act, which is also administered by the FSCA.
- 3.2 The FAIS Act requires that every person authorised to provide financial services to a client be fully qualified to do so, in order to improve the flow and quality of the information in the market and to ensure consumers receive full disclosure and professional advice.
- 3.3 Anyone offering financial services must be licensed as an FSP under the FAIS Act or act as a representative of a licensed FSP. An FSP, therefore, acts as a conduit between the insurer and the policyholder and provides a wide range of services to policyholders.
- 3.4 In the insurance environment, in return for the provision of these functions, FSPs are remunerated by earning commission which is paid by the insurer concerned. The payment of commission by an insurer to an FSP is, however, regulated⁷ and in most instances commission is capped at a maximum amount. The exception is for commission paid in respect of policies written under the Funeral Class, which is uncapped.
- 3.5 Amongst other things, the FAIS Act imposes certain fit and proper requirements on FSPs. These include requirements pertaining to honesty and integrity, competency (which in turn comprises minimum experience and qualifications, regulatory examinations, class of business training and product specific training) and continuous professional development.
- 3.6 The FAIS Act provides various dispensations for small business FSPs such as funeral parlours and representatives conducting funeral insurance business, especially in relation to reduced competency requirements.

⁷ In terms of the Regulations under both the Long- and Short-term Insurance Acts.

ANNEXURE B

Chronology of events and rationale relating to definition of “group” in the Insurance Act

1. *Position under the Policyholder Protection Rules (PPRs) in 2004⁸*

- 1.1 Part VII of the 2004 PPRs under the Long-term Insurance Act, No. 52 of 1998 (LTIA) (2004 PPRs) dealt with “assistance business group schemes”, which was defined as the provision of policy benefits under an assistance policy⁹ to a group where:
- (a) individual persons are the policyholders;¹⁰
 - (b) no individual underwriting takes place;
 - (c) the individual person whose life is insured is directly or indirectly paying premiums;
 - (d) the policy may be cancelled by either party to the policy; and
 - (e) the policy has term cover only.
- 1.2 Part VII of the 2004 PPRs also recognised an “administrator” of an assistance business group scheme as a person with a written mandate from an insurer to do administrative work in respect of a specific assistance business group scheme, and who is licensed as an FSP or a representative of an FSP. In many instances, a funeral parlour would be the main policyholder (issued with a master policy) under an assistance business group scheme and/or the administrator of the scheme.
- 1.3 However, this structure resulted in poor customer outcomes as the individual members of the group schemes did not enjoy the protection provided for under the PPRs. Part VII of the 2004 PPRs attempted to provide members of these funeral group schemes protection by describing the definition of an assistance business group scheme in such a way that the individual members must be policyholders (and policyholders enjoy various protections in terms of the PPRs), but this attempt was flawed in that the “requirement” that the individual members must be policyholders was contained in a definition and not set out as a separate substantive requirement.
- 1.4 Many insurers consequently subverted the intent of Part VII of the PPR by merely structuring group schemes in a manner that “avoided” the definition of an assistance business group scheme.
- 1.5 Put differently, if an insurer structured its group scheme in such a way that the individual members were not policyholders, the group scheme would not be an assistance business group scheme as defined, and the requirements of Part VII of the PPRs would not apply. As a result, many undesirable group scheme structures were established, such as a group scheme in which a third party (such as a funeral parlour) would be the policyholder and the underlying clients would not be policyholders nor enter into any form of contractual arrangement with the insurer. This meant customers could not exercise any rights under the group scheme arrangements. Furthermore, the third party (policyholder) would claim the policy benefits itself and exercise its discretion on how much of the benefit would be paid to the ultimate life assured or their beneficiaries.

2. *Amendments introduced in terms of the Insurance Act in 2017¹¹*

⁸ The 2004 PPRs were administered by the Registrar of Long-term Insurance under the former Financial Services Board (FSB).

⁹ Prior to the Insurance Act, assistance policies were, in terms of the LTIA, essentially funeral policies with a value of R30,000 and below.

¹⁰ This effectively meant that all members were deemed to be policyholders.

¹¹ The Insurance Act, 2017 was promulgated by the Minister of Finance and its implementation is overseen by the Prudential Authority.

- 2.1 To address poor customer outcomes resulting from, among others, the definition of “assistance business group scheme” in the 2004 PPRs, the Schedule 2 of the Insurance Act introduced a new definition of a “group” in 2017.
- 2.2 The Insurance Act defines a “group” in relation to an insurance policy entered into with an employer, fund or autonomous association of persons united voluntarily to meet their common or shared economic and social needs and aspirations (other than for the purposes of obtaining insurance). The definition furthermore provided that the employer, fund or autonomous association must hold the insurance policy exclusively for the benefit of a beneficiary. Any policy construction that does not meet the definition of a “group” in Schedule 2 of the Insurance Act must either be issued as an “individual” policy, as defined, or cannot be written at all.
- 2.3 The introduction of the new definition of “group” in Schedule 2 of the Insurance Act resulted in the statutory voidance of the old assistance group scheme structures which could no longer be established. Historic structures that did not meet the new definition had to phased out over time or converted into individual policies. Third parties like funeral parlours could only be the policyholder in instances where it was an autonomous association of persons united voluntarily to meet their common or shared economic and social needs and aspirations (other than for the purposes of obtaining insurance), which was generally not the case in the old assistance group scheme structures.
- 2.4 The Insurance Act acknowledged the need for a transitional period to convert insurers registered under the LTIA to insurers operating under the Insurance Act and the new classes of insurance business introduced in Schedule 2.
- 2.5 Item 6(2) of Schedule 3 to the Insurance Act provided for a period of two years for registered insurers to be converted to a licence under the Insurance Act. Insurers with group schemes that were not aligned with the new definition of a “group” had a period of two years to phase out legacy schemes and either comply with the new definition of a group or issue individual policies to the members of the schemes.

3 Amendments to the Policyholder Protection Rules in 2017¹²

- 3.1 As part of an extensive insurance regulatory reform process, the 2004 PPRs were replaced by a new set of PPRs in December 2017 (2017 PPRs).
- 3.2 The 2017 PPRs considered the provisions of the Insurance Act and attempted to align the requirements in the PPRs dealing with group schemes with those in the Insurance Act. Part VII of the 2004 PPRs was thus omitted from the 2017 PPRs, but the 2017 PPRs included provisions relating to group schemes, specific requirements relating to the termination of group scheme policies and communication with group scheme members. The term "group schemes" in this context however refers to "group" policies as defined in the Insurance Act.
- 3.3 The 2017 PPRs also acknowledged that insurers would be subject to a two-year licence conversion process by the PA under the Insurance Act (as explained above). As a result, the 2017 PPRs provided for various transitional provisions, including a reference to the repeal of Part VII of the 2004 PPRs occurring 24 months after the publication date of the 2017 PPRs (which coincided with the Insurance Act conversion timelines). As a result, the "old" (Part VII) group schemes were allowed to continue until the conversion process had been completed, after which they would no longer be recognised. This conversion process was successfully completed on 1 July 2020.

¹² The 2017 PPRs were introduced and administered by the Registrar of Long-term Insurance under the former FSB.

4 Further amendments to the Policyholder Protection Rules in 2018¹³

- 4.1 In September 2018, the 2017 PPRs were amended. Amongst the changes was the addition of Rule 2A, which introduced product standards for microinsurance and funeral insurance policies.
- 4.2 The aim of Rule 2A was to support the microinsurance framework established under the Insurance Act by introducing proportional but robust regulatory expectations for the fair treatment of customers of microinsurance and funeral insurance products.
- 4.3 Given the particular vulnerabilities of the target market for microinsurance policies, the intention of Rule 2A was, among other things, to promote simple, affordable and appropriately designed products. As consumers of funeral insurance policies are often an equally vulnerable position, Rule 2A was also made applicable to funeral policies in general.
- 4.4 Accordingly, traditionally licensed insurers that provide funeral policies are subject to the same product standards outlined in Rule 2A as for microinsurers, which deal with a range of requirements, including in respect of the structuring of policy benefits, variation and renewal of policies, waiting periods, exclusions, settlement of claims, policy reinstatements, reporting requirements for new products and so forth.

¹³ The 2018 amendments to the PPRs were introduced, and are currently administered by, the Financial Sector Conduct Authority subsequent to its establishment under the Financial Sector Regulation Act, 2017 (Act No. 9 of 2017).