

GUIDANCE NOTE GN804

on

CODESERIES FS 800, STATEMENT 804

THE MEASUREMENT OF THE ACCESS TO FINANCIAL SERVICES ELEMENT OF BROAD-BASED BLACK ECONOMIC EMPOWERMENT AS IT RELATES TO

SHORT-TERM INSURERS

1. Introduction

This document outlines the Target Market and Standards for the Access products to be developed by the Short-Term Insurance Industry under its commitments in terms of the Financial Sector Code gazetted on the 26 November 2012 (gazette number 359154).

In order for products to be classified as Appropriate Products and to be included for measurement and scoring purposes, they must meet all the standards set-out in this document, except where the Charter Council has agreed that products may be deemed to be Appropriate Products.

2. Objectives of this Guidance Note

The objectives of this Guidance Note are to:

- 2.1 Specify the products and target market for short term insurance access
- 2.2 Specify the measurement principles for qualifying products
- 2.3 Specify the scorecard for measuring access for the Short-term Insurance industry
- 2.4 Specify the minimum access product standards

3. Products and Target Market

- 3.1 A “sum insured” metric has been established as a basis of target measurement and performance across a broad range of short-term insurance sectors (but excluding cell-phone insurance and consumer credit insurance that has been adequately covered elsewhere in the market).

The sum insured metric has been structured to target those areas of the population that have been previously uninsured. The metric has been broadly based on products aimed at individuals earning below the tax threshold, households with an income below double the tax threshold and Black small businesses and small Black farmers. As such, all active qualifying policies sold can be claimed for scoring purposes.

3.2 The choice of products has been selected to meet the broader charter objectives. Qualifying short-term insurance access products are those designed to support the following areas and any other products that meet the relevant standard:

3.2.1 Low-income Housing

3.2.2 Exempted Micro Enterprises (EME’s) and Qualifying Small Enterprises (QSE’s).

3.2.3 Agriculture

3.2.4 Infrastructure

3.2.5 Low-income individuals

3.2.6 Co-operatives

3.2.6.1 *The original SAIA Access Position Paper identified Co-operatives as a separate product to be developed. This has been incorporated in the Draft Financial Sector. Subsequently it has been decided that Co-operatives should not be a separate class of product, as Co-operatives are a purchaser of Insurance and not an insurable asset. Co-operatives will therefore purchase policies from one of the identified product classes.*

3.3 *Liability insurance has been identified as a need for small businesses, therefore it is recommended that this product be included in the list of products qualifying for Charter recognition, with a target of 6% and a maximum sum insured of R1 million.*

3.4 The Target Market for commercial products for Black QSEs and EMEs will be Black QSEs and EMEs as defined in the Financial Sector Code under Empowerment Financing.

3.5 The Target Market for commercial products for Agriculture and Livestock will be Black farmers as defined in the Financial Sector Code under Empowerment Financing.

3.6 The Target Market for Individuals and Households will be adjusted based on changes to the tax threshold.

4. Appropriate Products

4.1 Appropriate products are any products developed that meet all the requirements of the Short-term Insurance Generic Access Standards.

4.2 Members are encouraged, however, to specifically develop products for the following:

Personal Lines:	Commercial lines:
Motor Vehicle	Equipment and contents
Household Contents	Liability
Homeowners	Property
Agriculture	Agriculture
Livestock	Livestock

5. Measurement

- 5.1** The key measurement of success is the product take-up by the target market and will be based on the number of active qualifying policies that meet all the relevant product standards, or as otherwise approved by the Financial Sector Charter Council as appropriate products.
- 5.2** The targets were determined based on the size of the potential market during 2011. The target is an industry target and not an individual company target. Individual company targets will be allocated by SAIA, based on the company's market share (Personal Lines market share for Personal Lines target and Commercial Lines market share for Commercial Lines target) as per the latest information available prior to the date of allocation.
- 5.3** Companies that currently offer both Personal and Commercial Lines products will be allocated a target for each product line and will be measured against each target. The weighting will be 5 points for each product line. Companies that currently only offer one of the product lines, will only be allocated a target against that product line, based on their overall market share, and that will have a weighting of 10 points.
- 5.4** Companies can score points in the following areas:
- 5.4.1** Up to 2 points for the development of products that meet the Charter Access standards, *or as otherwise approved as appropriate products by the Financial Sector Charter*. This has been included as a measurement as these are green fields products for the industry and this is done in order to encourage development of these products. This will be reviewed annually to assess the on-going suitability of this target and measurement.
- 5.4.2** Up to 10 points for the number of active qualifying policies that meet the relevant product standards, as at the date of measurement.
- 5.4.2.1** Products have to meet all the standards to be classified as qualifying products. Should a company deem a product appropriate for this market, but it does not meet all standards, such a company can apply to the Charter Council for the product to be approved as an appropriate product to be included for scoring purposes.
- 5.4.2.2** Where companies sell composite policies, each risk covered under the policy will be counted as a separate policy for scoring purposes. This is necessary in order to prevent the necessity to sell separate products to the same client, which will add to the cost of the insurance cover. Each risk covered will need to comply with the associated access standards.
- 5.4.3** Up to 2 points for Consumer Education initiatives that meet the Consumer Education standards.
- 5.4.4** Any products that do not meet all the Generic Access Standards can be submitted to the Charter Council for consideration and exemption from needing to comply with all the Generic Access Standards where the product will be appropriate for the Target Market. The Charter Council will need to assess the product on its appropriateness for the Target Market and the intention of the Charter Access provisions.

6. The Scorecard

The Scorecard for Access to Financial Services as it relates to companies operating within the Short-Term Insurance Sector.

Element	Weighting	Industry Targets	Maximum Sum Insured
Appropriate Products	2	8	
Insurance Policies	10		
Motor vehicle		6%	R60,000.00
Household contents		6%	R100,00.00
Property / Homeowners		3%	R350,000.00
Black EMEs, QSEs and Co-operatives - equipment, contents		15%	R100,000.00
Black EMEs, QSEs and Co-operatives QSE's -premises		10%	R500,000.00
Agriculture		6%	<i>R35 million for property, R500,000 for equipment, R100,000 for produce</i>
Livestock		6%	R600,000
Consumer Education	2		Year 1: 0.25%; Year 2: 0.30%; Year 4: 0.40%

Companies that currently offer both Personal and Commercial Lines products will be allocated a target for each product line and will be measured against each target. The weighting will be 5 points for each product line. Companies that currently only offer one of the product lines, will only be allocated a target against that product line, based on their overall market share, and that will have a weighting of 10 points.

7. Scoring

7.1 Appropriate Products

Companies will score points for each product that they develop that meets the relevant product standards approved by the Charter Council. Each product developed will be scored at **0.20 points**. The available points have been split between the various products to encourage companies to develop as many products as possible.

Appropriate Products	Points
Personal Lines	
Motor Vehicle	0.20
Household Contents	0.20
Homeowners	0.20
<i>Other</i>	<i>0.20</i>
Commercial Lines	
Black EMEs, QSEs and Co-operatives: equipment	0.20
Black EMEs, QSEs and Co-operatives: <i>liability</i>	<i>0.20</i>
Black EMEs, QSEs and Co-operatives: property	0.20
Agriculture	0.20
Livestock	0.20
<i>Other</i>	<i>0.20</i>
Total	2

Companies that currently offer both Personal and Commercial Lines products will be allocated a target for each product line and will be measured against each target. Companies that currently only offer one of the product lines, will only be allocated a target against that product line.

Companies that will only have a target for either Personal Lines or Commercial Lines only, will score according to the tables overleaf.

7.1.1 Personal Lines

Appropriate Products	Points
Personal Lines	
Motor Vehicle	0.5
Household Contents	0.5
Homeowners	0.5
<i>Other</i>	<i>0.5</i>
Total	2

7.1.2 Commercial Lines

Appropriate Products	Points
Commercial Lines	
Black EMEs, QSEs and Co-operatives: equipment	0.33
Black EMEs, QSEs and Co-operatives: liability	0.33
Black EMEs, QSEs and Co-operatives: property	0.33
Agriculture	0.33
Livestock	0.33
Other	0.35
Total	2

8. ACCESS STANDARDS

Section	Generic Standard	Product Specific Standards		
		Motor Standards	Black EME's, QSE's and Co-operatives	Agriculture / Livestock
A) Physical Access	<p>No physical accessibility standards are necessary as products are marketed mainly through brokers, call centres or other financial entities' infrastructure, and claims processes are usually dealt with through centralised claims departments.</p> <p>Accessibility, also at claims stage, is crucial though. For this reason, the point of sale should also be a point of information regarding the claims process. This information must include the relevant contact numbers, the claims process, relaying a message to a contact centre to contact the client, and any other information and/or assistance necessary to give the client appropriate access to the claims process. Insurers must ensure that a policyholder can have access to the claims procedure via telephone and other electronic or other means.</p> <p>Insurance companies should also keep the geographical characteristics of a market area in mind when making available claims facilities, i.e. clients in rural and other areas must have easy access to the claims process.</p> <p>Claims ratios must be considered annually in order to determine whether the claims process is accessible and user friendly.</p>	Generic Standard	Generic Standard	Generic Standard
	<p>Telephonically and/or electronically available weekdays 07h00 - 19h00, and if possible on Saturdays 08h00- 14h00, including via telephone lines, cell phone technology, the Internet and any other relevant mediums.</p> <p>Availability can include a message service which will allow the insurer to contact the consumer during the same or the next working day.</p>	Generic Standard	Generic Standard	Generic Standard

Section	Generic Standard	Product Specific Standards		
		Motor Standards	Black EME's, QSE's and Co-operatives	Agriculture / Livestock
B) Non-discrimination	Contracts must be available in the legal languages of the country. All other documentation should be translated into the official languages and made available in the prevalent language of a province, and/or in the language preferred by the client.	Generic Standard	Generic Standard	Generic Standard
C) Appropriateness	Companies should allow the payment of small contributions but policyholders should have a choice of lump sum payments if this reduces costs. Due to competition reasons, it is not possible to set prices or price ranges. However, due to the competitive nature of the market, prices will be linked to the underlying risk and cost and must remain reasonable. To ensure reasonable pricing the following should be taken into account: <ul style="list-style-type: none"> • The cost of distribution needs to be addressed as this is the biggest contribution to cost • There should be a reasonable cost - benefit ratio to the client • Annual assessments of claims ratios must be undertaken to assess the cost / benefit to clients. 	Generic Standard	Generic Standard	Generic Standard
	Cover will continue for one month after the due date of the premium, if the premium is not received. The outstanding premium may be paid at any time during that month without compromising the cover. <i>A grace period for missed premiums must be incorporated into the product to allow for the fact that policyholders in this market may not have a regular income, with 1 month per year for a maximum of 6 years allowed for every year that the policy is renewed.</i> Should a policyholder submit a claim during the grace period, the value of the claim may be reduced by the sum of the unpaid premium/s including interest. <i>The contract starts with the payment of the first premium.</i>	Generic Standard	Generic Standard	Generic Standard

Section	Generic Standard	Product Specific Standards		
		Motor Standards	Black EME's, QSE's and Co-operatives	Agriculture / Livestock
	Policyholders should have the ability to pay premiums any day of the month.	Generic Standard	Generic Standard	Generic Standard
	The policy must cater for irregular premium payments and alternative premium collection methods should be catered for.	Generic Standard	Generic Standard	Generic Standard
	Due to the nature of the target market, alternatives to application in writing and changes in writing must be sought.	Generic Standard	Generic Standard	Generic Standard
	<p>As a minimum the policy must provide catastrophe cover and total loss cover.</p> <p>Benefits are on a sum assured basis,with claims for total loss plus a limited number of partial claims to provide value for this market, especially for motor insurance claims. Also a limited number of theft claims (minimum of 2) to be allowed of the sum assured per claim, if appropriate for the product.</p>	<p>As a minimum the policy must provide third-party motor property insurance cover and total loss cover.</p> <p>Benefits are on a sum assured basis,with claims for total loss plus a limited number of partial claims to provide value for this market.</p>	<p>Property: As a minimum the policy must provide catastrophe cover, and the loss and damage of property insurance.</p> <p>Equipment: As a minimum the policy must provide catastrophe cover, and the theft of equipment.</p> <p>Liability: Liability insurance must be included.</p> <p>Benefits are on a sum assured basis,with claims for total loss plus a limited number of partial claims to provide value for this market. Also a limited number of theft claims (minimum of 4 on aggregate or 2 per risk/product) to be allowed up to a minimum of 10% of the sum assured per claim, if appropriate for the product.</p>	<p>Property: As a minimum the policy must provide catastrophe cover, and the loss and damage of property insurance.</p> <p>Equipment: As a minimum the policy must provide catastrophe cover, and the theft of equipment.</p> <p>Life stock: As a minimum the policy must provide catastrophe cover, and the theft of life stock.</p> <p>Liability: Liability insurance must be included.</p> <p>Benefits are on a sum assured basis,with claims for total loss plus a limited number of partial claims to provide value for this market. Also a limited number of theft claims (minimum of 4 on aggregate or 2 per risk/product) to be</p>

Section	Generic Standard	Product Specific Standards		
		Motor Standards	Black EME's, QSE's and Co-operatives	Agriculture / Livestock
				allowed up to a minimum of 10% of the sum assured per claim, if appropriate for the product.
	Alternative distribution channels should be sought	Generic Standard	Generic Standard	Generic Standard
	<p>Proof of ownership is not always possible in this target market and should not be an absolute criterion. Other ways of providing proof of ownership, such as affidavits, should be considered by insurers in this market.</p> <p>In addition, other methods of settling a claim could be considered, such as vouchers or purchasing cards. Should claims history prove that this standard increases risk and cost, this standard must be reconsidered.</p>	Generic Standard	Generic Standard	Generic Standard

Section	Generic Standard	Product Specific Standards		
		Motor Standards	Black EME's, QSE's and Co-operatives	Agriculture / Livestock
D) Affordability and fair value	<p>Moral hazard maybe a greater risk in this market. Cash payments could exacerbate this in financially lean times.</p> <p>It is therefore not advisable for cash settlement to be the first option, even though cash settlement would make the cover more affordable. Companies need to balance affordability with risk management.</p> <p>Repair and replacement must always be the first option. However, cash could be given as an option by individual insurers</p>	Generic Standard	Generic Standard	Generic Standard
	<p>The policy must offer cover at pre-determined levels. The cover that the insured selects is the cover that is paid at the time of a claim, except for partial losses. The product types and sum assureds are those defined in the FSC Access pillar. There will be no loss adjustments on Personal Lines policies for total loss but loss adjustment is allowed for partial losses. Loss adjustment will be allowed for Commercial policies.</p>	Generic Standard	Generic Standard	Generic Standard

Section	Generic Standard	Product Specific Standards		
		Motor Standards	Black EME's, QSE's and Co-operatives	Agriculture / Livestock
	<p>All valid claims should be paid within a period of two business days for Personal Lines and seven business days for Commercial and agricultural / livestock policies after the insurer received all the requisite documentation. Vouchers or purchasing orders could also be considered to assist clients.</p> <p>Repair and replacement may take longer and must be finalised as soon as possible. The following timelines should be followed with repair and/or replace claims:</p> <ul style="list-style-type: none"> • The administration and decisions around the claim must be finalised within 2 business days for Personal Lines policies and within 7 days for Commercial and agricultural / livestock policies. • The repairs and/or replacement should be affected within 5 business days. • Should it not be possible to affect the repair or the replacement within these time periods, the insurer and the client must agree on alternative timelines. In such cases, the client must be offered the available options in a clear and understandable manner, and should the client not be happy with the options on offer, cash settlement or other methods such as vouchers or purchasing cards must be offered. 	Generic Standard	Generic Standard	Generic Standard

Section	Generic Standard	Product Specific Standards		
		Motor Standards	Black EME's, QSE's and Co-operatives	Agriculture / Livestock
	<p>In order to reduce the incidence of fraud excess can be built into the policy. The following has been agreed to:</p> <ol style="list-style-type: none"> 1. A single excess should be allowed, which may include percentage increases to address the risk of multiple claims and other costs. 2. The excess should be explained clearly, simply and in an understandable manner. 	<p>In order to reduce the incidence of fraud excess can be built into the policy. The following is agreed:</p> <ol style="list-style-type: none"> 1. A standard excess should apply, with up to a maximum of 2 multiplications of the standard excess for additional risks identified upfront. 2. The excess or excesses should be explained clearly, simply and in an understandable manner. 	Generic Standard	Generic Standard
E) Simplicity and understandability	<p>Policies must provide standardised disclosure as per agreed key information statements agreed by the Treating Customers Fairly process.</p> <p>In short-term insurance policies, pre-existing conditions are often excluded. An example is a motor insurance policy, or a homeowners insurance policy, cannot cover damage incurred through an accident or other reason prior to the inception of a policy.</p> <p>Should exclusions apply, these should be highlighted and explained in simple, clear and understandable language, with relevant examples used.</p>	Generic Standard	Generic Standard	Generic Standard
	<p>Policies must be simple and easy to understand and policy documentation must be provided in plain language.</p>	Generic Standard	Generic Standard	Generic Standard

Maximum Sum Insured	Product	Sum Insured			
	Motor Vehicle	R 60,000.00			
	Household contents	R 50,000.00			
	Property / Homeowners	R 350,000.00			
	Other – Personal Lines	R 80,000.00			
	Black EME's, QSE's and Co-operatives: equipment	R 100,000.00			
	Black EME's, QSE's and Co-operatives: <i>liability</i>	R 1,000,000.00			
	Black EME's, QSE's and Co-operatives: property	R 500,000.00			
	Agriculture	R 35 million for property,			
		R 500,000.00 for equipment,			
		R 100,00.00 for produce			
	Livestock	R 600,000.00			
	<i>Other</i>	R 500,000.00			
The FSC Council will review the maximum sum insured each year and they will be in-line with CPI increases.					