

## **GUIDANCE NOTE GN802**

**on**

### **CODE SERIES FS800, STATEMENT 802**

## **THE MEASUREMENT OF THE ACCESS TO FINANCIAL SERVICES ELEMENT OF BROAD-BASED BLACK ECONOMIC EMPOWERMENT AS IT RELATES TO LONG-TERM ASSURERS**

### **1. Introduction**

The purpose of this Guidance Note is to specify the minimum standards required and scoring mechanism for Access products for the Long-term Insurance industry.

ASISA, through the CAT (a.k.a.Zimele) Standards reaffirms its FSC based commitment to ensure that the Long-term insurance industry continues to develop and roll-out insurance products that will ensure that lower income households are able to access cover based on fair and equitable terms.

The standards detailed in this document apply for Group Schemes: In general if the sale of a product is made as part of any group scheme, the product must comply with the standards in the same way as if it was an individual policy. Where there are exceptions for Group Schemes business these will be stated in the relevant product standard.

### **2. Objectives of this Guidance Note**

The objectives of this Guidance Note are to:

- Specify general standards applicable to all insurance products
- Specify the minimum standards for Member and family Funeral Insurance
- Specify the minimum standards for Member only Funeral Insurance
- Specify the minimum standards for Parent and extended family Funeral Cover
- Specify the minimum standards for Credit Life cover
- Specify the minimum standards for Life cover
- Specify the minimum standards for Physical Impairment cover
- Specify the scoring methodology for access life products

### 3. Definitions

- 3.1 CAT** fair Charges, easy Access, decent Terms
- 3.2 Family** a partner and children.
- 3.3 Partner** a person married to the principal member.
- 3.4 Married** a marriage or union in terms of the law, tribal custom, common-law (including same-gender partners) or under the tenets of any Asian Religion, provided that the partner is the person designated by the principal member as such. For common-law relationships the two people had to be together for at least 6 months.
- 3.5 Child** a principal member's or the principal member's partner's natural, step or adopted child or grandchild who is unmarried and who has not attained the age of 21 when they are added to the policy.
- Cover will continue until age 21, or age 25 if they are students and financially dependent on the principal member. Stillborn babies, following 28 weeks of pregnancy, are covered as well.
- OPTIONAL: A child incapacitated by mental or physical infirmity, who is incapable of maintaining him/herself, provided such child is wholly dependent on the principal member for support and maintenance, will continue to be covered after age 25.
- 3.6 Parent** a legally recognised parent of the principal member, and includes any person married to that parent.
- 3.7 Extended Family Member** means a person who is a dependant of the principal member or the principal member's partner and whose relationship with the principal member or the principal member's partner can be described by one of the following:
- 3.7.1** Additional Partner
  - 3.7.2** Biological Brother or Biological Sister
  - 3.7.3** Niece or Nephew
  - 3.7.4** Aunt or Uncle
  - 3.7.5** Grandfather or Grandmother
  - 3.7.6** Brother-in-law or sister-in-law
  - 3.7.7** Children and grandchildren not qualifying under the definition of a Child (thus, an Adult Child).
- OPTIONAL:** Coverage beyond age 21 for Extended Family Members that were under age 21 when their coverage started until age 25 if they are students and financially dependent on the principal member.

- 3.8 Fixed Charge** R7 together with a 50c increase per year taking inflation into account. Fixed charge is R7 in 2012, R7.50 in 2013, etc.
- 3.9 Physical Impairment** Loss of use of at least one hand or one foot; loss of sight in both eyes; or any other condition that makes it impossible for the life insured to follow any occupation.

#### 4. Target Market

The target market has been defined as individuals earning below the tax threshold (R60,000.00 p.a.) for individual policies or double the tax threshold (R120,000.00 p.a.) for household policies.

The thresholds will be adjusted regularly in line with adjustments to the tax threshold.

#### 5. Minimum Sum Assured for family members, for funeral insurance:

Life assured	Multiple of principal member cover
Partner	1
Children age 14-21	1
Children age 6-13	0.5
Children age 1-5	0.25
Children age 0-11months	0.125
Stillbirths	0.125

#### 6. Minimum Sum Assured for Extended Family members below age 21, for funeral insurance

Age of extended Family Member	Multiple of selected cover amount
Children age 14-21	1
Children age 6-13	0.5
Children age 1-5	0.25
Children age 0-11 months	0.125

## 7. SCORING METHODOLOGY

Points are scored by measured entities as follows:

- 3 points will be allocated to **Appropriate Products**. Each compliant product made available by a company will score  $1/N \times 3$  points, where N is the total number of products for which standards have been developed (currently 6 per 4.2.1 - 4.2.6). Companies must also demonstrate that each qualifying product represents at least 5% of new business access product volumes for the previous year under measurement, or 1000 policies, whichever is the lesser, for the product to count under this category. The certification of product compliance under this category will remain the responsibility of the measured entity. The measured entity may obtain a report from an independent competent person as defined in BEE legislation for this purpose. The verification agency may then place reliance on the above report provided that they are satisfied as to the competence of the third party. Neither the FSC council nor ASISA will be responsible certifying product compliance to the relevant standards.

### Example:

There are currently 6 products standards:  $N = 6$

The company only provides compliant funeral insurance for Members, Members and Family and Parents and Extended Family = 3

Score is calculated as:

$$(3 / 6) \times 3 \text{ points} = 1.5 \text{ points}$$

- 7 points will be allocated to **Market Penetration**. The targets will be phased in over the period 2011 – 2017. The target will be based on an appropriate market share measure as a proportion of the overall industry target. The following general rules apply:
  - All qualifying policies must be sold to the target market. The target market for Life products will be based on income and pegged at the tax threshold for individuals and double the tax threshold for families. The target market definition is to be adjusted annually, based on changes to tax threshold.
  - All qualifying policies sold under this element must meet the relevant product standard.
  - Measurement will be based on “on book” compliant policies sold to the target market as at the measurement date.
  - All compliant policies sold to the target market besides credit life will count as 1 policy sale.
  - All compliant credit life policies will only count as 0.25 policies.
  - The full target as defined in the FSC (5,739,023 policies) will be split between ASISA members through an agreed formula. These targets will be communicated by ASISA to the

FSC council by 31 May 2013. Should a reporting entity not be a member of ASISA, it must nevertheless make application to ASISA for a target allocation based on the agreed formula.

- Market penetration scoring is as follows:

Assume measured entity is allocated a target of 500 000 policies by ASISA.

The measured entities targets will be phased in as follows:

- Measurement periods ending on or before 31/12/2012 – 75% of target = 375 000 policies
  - Measurement periods ending on or before 31/12/2013 – 80% of target = 400 000 policies
  - Measurement periods ending on or before 31/12/2014 – 85% of target = 425 000 policies
  - Measurement periods ending on or before 31/12/2015 – 90% of target = 450 000 policies
  - Measurement periods ending on or before 31/12/2016 – 95% of target = 475 000 policies
  - Measurement periods ending on or before 31/12/2017 – 100% of target = 500 000 policies
- 2 points will be allocated to **Transactional Access**. In order to be consistent with the provisions of the FSC code, it is proposed that the target for **transactional access**, should be 80% of adults that fall into the target market. To this end, equal-sized regular polygons of 40km in diameter will be developed and overlaid on a socio-economic mapping of the country in such a way that 80% of the adult population of the target market spend most of their time living and/or working within such polygons i.e. within that defined geographical area, utilising the least possible number of polygons to achieve this. Transactional Access will be achieved in any polygon if a measured entity:
    - is able to collect premiums and service the policy within the area defined by that polygon at least monthly; and
    - is able to process a claim in that polygon or any adjacent polygon at least every second day because of the existing servicing point
    - Points will be awarded as follows : For at least 80% coverage 2 points, for at least 70% coverage 1.5 points, for at least 60% coverage 1 point, for at least 50% coverage 0.5 points, for below 50% coverage 0 points.

Section	Generic Standard	Product Specific Standards					
		Funeral Insurance Standards			Credit Life	Life Cover	Physical Impairment Cover
		Member only	Member and Family	Parents and Extended Family Members			
a) Physical Access	80% of adults that fall into the target market. equal-sized regular polygons of 40km in diameter will be developed and overlaid on a socio-economic mapping of the country in such a way that 80% of the adult population of the target market spend most of their time living and/or working within such polygons.	Generic	Generic	Generic	Generic	Generic	Generic
b) Non-discrimination	<p><b>1. Underwriting:</b></p> <p>a) Underwriting is permitted and underwriting questions may be asked.</p> <p>b) No medical examinations or pathology tests (HIV or other pathology test) may be requested when underwriting.</p> <p>c) Existing information on record may be used in underwriting.</p> <p>d) Permissible results of underwriting are</p> <ul style="list-style-type: none"> <li>• acceptance of the proposal on standard terms or</li> <li>• decline.</li> </ul> <p>e) No loadings, exclusions or alternate terms may be offered. However, the applicant may be offered</p>	Generic	Generic	Generic	Generic	Generic	Generic

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	another policy which does not have to be CAT compliant, but which will not count for points-scoring purposes. In the event that a CAT compliant product is offered as an alternative and accepted, such a sale will count as a sale of a CAT compliant product.						
	2.No HIV/AIDS exclusions or reduction in benefit amount may be applied at claims stage on lives accepted onto the policy.	Generic	Generic	Generic	Generic	Generic	Generic
	3.Age rating only: No rate differentiation may be made for any policyholder except for age. In other words the same rate will apply to all policyholders of the same age at entry. Rates may differ between groups for group schemes and affinity based distribution but the only differentiation factor permitted within a group is age.	Generic	Generic	Generic	No rate differentiation may be made for any policyholder. In other words the same rate will apply to all policyholders. Rates may differ between groups for group schemes or affinity based distribution but no differentiation is permitted within a group	Generic	Generic

Section	Generic Standard	Product Specific Standards					
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c) Appropriateness	<p>1. Throughout the term of the policy, if a premium is not paid when due there will be one month of grace i.e. cover will continue and the policyholder has one month to pay the premium.</p> <p>If the premium is not paid within that month, the cover will cease. However, after the policy has been in force for one year, the grace period will be extended by one month for each 12 month period the policy has been in force, with no reduction in cover, with a maximum of 6 months of non-payment.</p> <p>However if there is a claim after one or more month's premiums are unpaid, the claim value may be reduced by the unpaid premium/s. E.g. if a person pays continuously for 5 years and then is unable to maintain premium payments, he/she will enjoy "free" cover for up to 6 months although a claim during this period may be reduced by unpaid premiums.</p>	Generic	Generic	Generic	<p>If the premium is not paid within that month, the cover will cease. After the policy has been in force for one year, the grace period will be extended by one month for each 12 month period the policy has been in force, with no reduction in cover, with a maximum of 3 months of non-payment.</p>	Generic	Generic



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	2. In order to prevent abuse in the case of Group Schemes with a bulk premium, any premiums owed may be offset against any claims made to derive a net payment due to the scheme.	Generic	Generic	Generic	N / A	Generic	Generic
	3. The extended grace period will include all automatic cover/premium increases since inception based on the original inception date. Voluntary increases do not need to be included i.e. insurers may calculate the grace period for the increased portion of the premium from the date of the voluntary increase.	Generic	Generic	Generic	N / A	Generic	Generic
	4. Same-terms reinstatement: During the term of the policy at least one "Same-terms Reinstatement" must be available to the client for 3 months from the date of last premium payment, without requirement for catch-up on the unpaid premiums. No cover needs to be provided in this period. On reinstatement of cover the terms must be the same as the original policy - same cover, same price, no	Generic	Generic	Generic	N / A	Generic	Generic

Section	Generic Standard	Product Specific Standards					
		Funeral Insurance Standards			Credit Life	Life Cover	Physical Impairment Cover
		Member only	Member and Family	Parents and Extended Family Members			
	additional temporary exclusions (waiting period). Limited underwriting may be done before reinstatement, such as a declaration of health. On reinstatement, the allowance for interrupted premiums (grace period) may be reset to one month.						
	5. Minimum and maximum cover	The minimum cover may not be less than R5 000 for the principal member, and the maximum cover may not be more than R50 000.		The minimum cover may not be less than R1 000 for each member, and the maximum cover may not be more than R50 000.	Death benefit only or Death and permanent total physical impairment  Cover may not exceed the outstanding debt amount  This product may not be used to provide cover on a mortgage loan.	Minimum cover may not be less than R50 000	
	6. Additional Benefits and requirements	Parents and Extended Family members may be added, provided that the premium rate for each additional member does not exceed that applicable to Parents and Extended Family Members (excluding the fixed charge), and all terms and conditions will be identical to			If temporary physical impairment or retrenchment benefits are included as compulsory benefits, they must	Level Term or with a specified annual increase in cover.  Minimum policy term: The policy term must	Benefits may not be spread over more than 24 months.  If additional benefits are

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		those for Parents and Extended Family Members (except that there is no minimum cover).			be provided without exceeding the maximum premium. If they are voluntary options, the premium must be disclosed separately.	be at least 5 years.  If additional benefits are provided, they must be voluntary and associated premiums must be separately disclosed	<p>provided, they must be voluntary and associated premiums must be separately disclosed</p> <p>Minimum policy term: A policy must be at least 5 years.</p> <p>The claim event can be either sickness or accident during the term of the contract.</p> <p>Claims will only be paid if physical impairment has continued for 6 months and is considered to be of a permanent nature. (Companies may pay out</p>

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							earlier if the loss is definitely permanent, e.g. physical loss of limb.) The benefit can be paid as a lump sum or in monthly instalments over a maximum of 1 year.
	7. Minimum Age	Minimum entry age may be no lower than 14 and no higher than 18.	Minimum entry age for principal member and partner may be no lower than 14 and no higher than 18.	N / A	N / A	N / A	N / A
	8. Maximum Age	Maximum entry age may be no lower than 65	Maximum entry age for principal member and partner may be no lower than 65	Maximum entry age may be no lower than 75.	N / A	Maximum age at entry may not be less than 60.	Maximum age at entry may not be less than 55.
	9. Standardised exclusion wording must be used.	Generic	Generic	Generic	Generic	Generic	Generic
	10. Temporary natural causes exclusion	Generic	Generic	Generic	N / A	Temporary exclusion for natural causes: Cover for death by natural causes may	Temporary exclusion for natural causes: Cover for natural

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						be scaled but cover must reach 25% after 6 months, 50% after 12 months, 75% after 18 months, and 100% after 24 months.	causes may be scaled but cover must reach 25% after 6 months, 50% after 12 months, 75% after 18 months, and 100% after 24 months.
	11. No temporary exclusions (waiting period) for accidental death: Accidental death cover must commence on receipt of the first premium.	Generic	Generic	Generic	No temporary exclusions (waiting period) for any cause of death: Death cover must commence on receipt of the first premium	Generic	No temporary exclusions (waiting period) for accidental impairment causes: Cover for accidental causes must commence on receipt of the first premium.
<b>Only the following exclusions will be allowed:</b>							
	12. Suicide excluded for 2 years	Generic	Generic	Generic	Generic	Generic	N / A

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	13. Pre-existing conditions	N / A	N / A	N / A	For life and physical impairment. Pre-existing conditions: All conditions that existed 12 months prior to inception of the policy will be excluded for a maximum of 12 months.	Pre-existing conditions: All conditions that existed up to a maximum of 36 months prior to the inception of the policy will be excluded for a maximum of 24 months after inception.	
	14. Additional exclusions	Maximum duration of natural causes exclusion: A maximum 6 month exclusion for death by natural causes may be applied for all lives covered. The full sum assured must apply after this period		Maximum duration of natural cause's exclusion: Maximum 12 month exclusion for death by natural causes may be applied for all lives covered. The full sum assured must apply after this period.	For physical impairment only 1. self-inflicted actions 2. war or armed conflict (whether war is declared or not), civil unrest and social revolt 3. being affected by alcohol or drugs not prescribed by a registered medical practitioner 4. refusing medical treatment by a registered medical practitioner	N / A	For physical impairment only 1. self-inflicted actions 2. war or armed conflict (whether war is declared or not), civil unrest and social revolt 3. being affected by alcohol or drugs not prescribed by a registered medical practitioner 4. refusing medical

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					5. radio activity or nuclear explosion 6. involvement in criminal acts.		treatment by a registered medical practitioner 5. radio activity or nuclear explosion 6. involvement in criminal acts.
	15. Over Insurance	N / A	N / A	N / A	N / A	N / A	Benefits restricted due to over insurance: Insurers may reduce the amount of cover that is applied for, if over insurance is found to be present.
	16. Beneficiary nomination provided for: Provision must be made for a beneficiary for proceeds to be nominated as the person to receive payment in the event that the policy owner is not alive at time of claim. Payments may not be made directly to an undertaker as a condition of the contract.	Generic	Generic	Generic	N / A	Generic	Generic

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d) Affordability and fair value	1.If more than one product is “bundled” together and sold as a single product with multiple benefits, each element of the bundled product must comply with these standards or the bundled product must be CAT standardised. E.g. if funeral benefits for extended family are added to a CAT standard funeral policy, the extended family benefits or the policy as a whole must be CAT standardised. If not, the policy will not be counted for scoring purposes. The reason is to prevent the bypassing of CAT by applying excessive premiums to ancillary benefits.	Generic	Generic	Generic	Generic	Generic	Generic
	2.Benefits in addition to those stipulated in the CAT standards may be included on a compulsory basis in CAT standardised products, only to the extent that this does not result in the maximum premium for that product being breached	Generic	Generic	Generic	Generic	Generic	Generic



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	<p>3. Unless otherwise stated, premium increases are permissible up to the maximum price stipulated in the standard. If at any stage the premium rates exceed the maximum applicable rate for the particular product and policyholder's age at entry the product will cease to be CAT compliant.</p> <p>The maximum rates may be amended at the discretion of the Charter Council on request by the ASISA.</p>	Generic	Generic	Generic	Generic	Generic	Generic
	<p>4. Maximum rates to policyholder: Maximum, age-banded, monthly prices to policyholder are set. No additional administration fee or levy may be added to the maximum premiums detailed, which must be the maximum total cost to the policyholder.</p>	Generic	Generic	Generic	<p>Maximum rates to policyholder: Maximum prices to policyholder are set. No additional administration fee or levy may be added to the maximum premiums detailed, which must be the maximum total cost to the policyholder.</p>	Generic	Generic

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	5. Maximum Premium rates are set on an “age at entry” basis, i.e. they do not allow for automatic increases triggered by the movement of a life insured into another age bracket.	Generic	Generic	Generic	N / A	Generic	Generic
	6. Maximum monthly prices to policyholder:	<ul style="list-style-type: none"> <li>Below age 55 = Fixed Charge + R4 per 1 000</li> <li>Age 55 to age 65 = Fixed Charge + R6 per 1 000</li> </ul>	<ul style="list-style-type: none"> <li>Below age 55 = Fixed Charge + R8 per 1 000</li> <li>For age 55 to age 65 = Fixed Charge + R13 per 1 000</li> </ul> <p>For example, R5000 cover for a Member and Family below 55 will cost a maximum of R47 per month.</p>	<p><b>Prices are per member:</b></p> <ul style="list-style-type: none"> <li><b>a.</b> Below age 21 = Fixed Charge + R1 per 1 000</li> <li><b>b.</b> Age 21 to 55 = Fixed Charge + R4 per 1 000</li> <li><b>c.</b> Age 55 to 65 = Fixed Charge + R6 per 1 000</li> <li><b>d.</b> Age 66 to 74 = Fixed Charge + R8 per 1 000</li> <li><b>e.</b> Age 75 and over = Fixed Charge + R24 per 1 000</li> </ul> <p>For Extended Family – the above-mentioned rates can be a maximum of double the above rates.</p>	<ul style="list-style-type: none"> <li><b>a.</b> Life Cover Only = Fixed Charge + R3,80 per R1 000 of initial cover</li> <li><b>b.</b> Life and Physical Impairment Cover = Fixed Charge + R4,60 per R1 000 of initial cover</li> </ul>	<ul style="list-style-type: none"> <li><b>a.</b> Below age 55 = Fixed Charge + R2,7 per 1 000</li> <li><b>b.</b> From age 55 to below age 65 = Fixed Charge + R4,5 per 1 000</li> <li><b>c.</b> From age 65 to below age 75 = Fixed Charge + R6,3 per 1 000</li> <li><b>d.</b> For age 75 and above = Fixed Charge + R12,6 per 1 000</li> </ul>	<ul style="list-style-type: none"> <li><b>a.</b> Below age 55 = Fixed Charge + R1 per 1 000</li> <li><b>b.</b> From age 55 to below age 65 = Fixed Charge + R2 per 1 000</li> <li><b>c.</b> From age 65 to below age 75 = Fixed Charge + R3 per 1 000</li> <li><b>d.</b> For age 75 and above = Fixed Charge + R6 per 1 000</li> </ul>

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	7. If cover is offered to members over the age of 65, the natural causes exclusion may be extended to a maximum of 12 months.	Maximum premium applicable: <ul style="list-style-type: none"> <li>• age 66 and below age 75 = Fixed Charge + R8 per 1 000</li> <li>• For ages 75 and over = Fixed Charge + R24 per 1 000</li> </ul>	Maximum premium applicable: <ul style="list-style-type: none"> <li>• age 66 and below age 75 = Fixed Charge + R19 per 1 000</li> <li>• age 75 and older = Fixed Charge + R 32 per 1 000</li> </ul>	N / A	N / A	N / A	N / A
e) Simplicity and understandability	1. Use of standardised policy terms: Sample policy documents will be prepared for each CAT standard product – these should be used for guidance in the usage of standardised terms.	Generic	Generic	Generic	Generic	Generic	Generic
	2. Product description, sales process and fulfilment/servicing documentation must be provided in an easily understandable way, where applicable.	Generic	Generic	Generic	Generic	Generic	Generic
	3. A summary of policy terms must be provided to the client in writing. This must be available on request in any of the eleven official languages.	Generic	Generic	Generic	Generic	Generic	Generic