

FSCA COMMUNICATION 6 OF 2024 (INS)

Publication of general exemption of Microinsurers from Rule 2A.6.1 of the Policyholder Protection Rules (Long-Term Insurance), 2017

1. PURPOSE

The purpose of this Communication is to inform stakeholders of –

- 1.1 the publication today by the Financial Sector Conduct Authority (“FSCA”) of FSCA INS Notice 3 of 2024 to provide a general exemption for microinsurers from Rule 2A.6.1 of the Policyholder Protection Rules (Long-Term Insurance), 2017 (LT PPRs); and
- 1.2 an overview of the inputs received from stakeholders during the public consultation on the draft notice that concluded on 14 November 2023.

2. BACKGROUND

- 2.1 On 3 October 2023, the FSCA published FSCA Communication 26 of 2023(INS)¹, together with the draft notice proposing the exemption of microinsurers from Rule 2A.6.1 of the LT PPRs. In this Communication, background was provided in respect of the policy document issued by the National Treasury titled “The South-African Microinsurance Regulatory Framework”² and the consequent introduction of Rule 2A into the LT PPRs.
- 2.2 It was further explained that read with Rule 2A.4.1 of the LT PPRs, which restricts a microinsurance policy contract term to 12 months, Rule 2A.6.1 of the LT PPRs essentially provides that a microinsurance policy cannot impose a waiting period of longer than three months for a death, disability or health event resulting from natural causes. This is at odds with the six-month waiting period that is permitted for so-called traditional insurers that offer funeral policies and leaves microinsurers at a competitive disadvantage. It may have unintended consequences which could be to the detriment of vulnerable low-income customers.
- 2.3 This restriction in respect of the waiting period leaves microinsurers at a competitive disadvantage because their products will be subject to higher rates of adverse selection, in turn meaning that their premiums may have to be priced higher than those of traditional insurers in respect of the same product type. Waiting periods are one of the only few risk-management tools insurers have to manage anti-selection risk, which is prevalent in the funeral market. A shorter waiting period for the same benefit offering could result in the

¹ Available at:

[https://www.fsca.co.za/Regulatory%20Frameworks/Temp/FSCA%20Communication%2026%20of%202023%20\(INS\).pdf](https://www.fsca.co.za/Regulatory%20Frameworks/Temp/FSCA%20Communication%2026%20of%202023%20(INS).pdf)

² Available at:

<https://www.treasury.gov.za/publications/other/microinsuranceregulatoryframework/policy%20document%20micro%20insurance.pdf>

microinsurer inheriting or attracting higher risks, which may have been deterred by longer waiting periods included on a comparable funeral product offered by other life insurers.

- 2.4 Therefore the proposed exemption would allow the microinsurers to provide similar waiting periods to traditional insurers, which aligns with the policy proposal mooted in the Microinsurance Regulatory Framework policy document, alluded to in 2.1 above. Input from stakeholders and the public was invited until 14 November 2023.

3. COMMENTS RECEIVED DURING THE PUBLIC CONSULTATION

- 3.1 The FSCA received comments from four industry stakeholders. All commentators confirmed support of what is contained in the draft Exemption Notice and the direction taken in this respect. Only one commentator sought clarity in respect of the condition set out in sub-paragraph 2.2 (c). The commentator wanted to understand whether sub-paragraph 2.2(c) of the draft Exemption Notice meant that the insurer must continue to provide insurance cover, even in the event of not receiving insurance premiums until the policy contract reached a 12-month period.
- 3.2 The conditions in the Notice must be read as a whole and the sub-paragraph must not be read in isolation. The 12-month period referred to in sub-paragraph 2.2(c) is the contractual period contemplated when a micro insurer imposes the waiting period as allowed for in terms of this exemption. It does not mean that the insurer must remain on risk if no insurance premiums are received. Where a policyholder does not meet its obligations to pay the premium, the insurer is not required by this condition in the Exemption Notice to continue providing cover.
- 3.3 No further queries or concerns were raised by stakeholders and the FSCA, with the concurrence of the Prudential Authority, proceeded according with the publication of the final notice.

4. GENERAL EXEMPTION FROM RULE 2A.6.1

- 4.1 As such, the FSCA, through the notice, exempts all microinsurers from Rule 2A.6.1 of the LT PPRs, subject to the conditions as set out in the notice. This will align the regulatory framework with the intended policy objectives of promoting market development, competition and financial inclusion by enabling microrinsurers to provide affordable and accessible policies to vulnerable and low-income consumers. The exemption will level the playing field between traditional insurers and microinsurers, promote market development within the microinsurance sector and deepen financial inclusion through competitive pricing.
- 4.2 As alluded to in FSCA Communication 26 of 2023 (INS), longer-term solutions will be considered as part of the process of developing a regulatory framework under the Conduct of Financial Institutions (CoFI) Bill and transitioning the existing sector laws (such as the Policyholder Protection Rules) to the new framework under the CoFI Bill. The exemption is therefore intended to serve as an interim solution pending the transition of the Policyholder Protection Rules to the new conduct framework under the CoFI Bill.

5. AVAILABILITY OF THE EXEMPTION NOTICE AND ENQUIRIES

- 5.1 The exemption Notice, together with this Communication, is available on the FSCA's website (<https://www.fsca.co.za>) under Regulatory Framework > Notices > Insurer / Microinsurer > 2024.

5.2 For more information regarding this Communication or FSCA INS Notice 3 of 2024, please contact the FSCA Regulatory Framework Department by emailing Johann.Vanderlith@fsca.co.za



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