Module # 1 Component 1

Apply Knowledge and Insight into Aspects of the Long Term Insurance Act, Act 52 Of 1998

Tasks for this Module

KNOWLEDGE CRITERIA
The Acts that govern Insurance and an explanation for why there is more than one Act
The Short Term and Long Term Acts compared in terms of indemnity and non-indemnity cover
The Short Term and Long Term Insurance Acts compared with reference to the criteria used to assess the risk

The Fundamentals of Long Term and Short Term legislation in South Africa

The Acts that govern Insurance and an explanation for why there is more than one Act

The main pieces of legislation that govern insurance and related services are:

- ☑ The Long Term Insurance Act (Act 52 of 1998);
- ☑ The Short Term Insurance Act (Act 53 of 1998);
- ☑ The Pension Funds Act, 24 (Act 24 of 1956);
- ☑ The Friendly Societies Act (Act 25 of 1956); and
- ☑ The Medical Schemes Act.

Other pieces of legislation, which cover the financial industry as a whole (e.g., including banks), and which include the insurance industry, are:

- ☑ The Financial Advisory and Intermediary Services Act (Act 37 of 2002);
- ☑ The Financial Intelligence Centre Act (2001); and
- ☑ The Promotion of Access to Information Act, 2 of 2000.

The Financial Services Board (FSB), now known as the **Financial Services Conduct Authority** (FSCA), established as a statutory body by the Financial Services Board Act, 97 of 1990, supervises the activities of the insurance industry through the abovementioned legislation. The FSCA entrusts regulatory functions to the Registrar of Long-and Short-term Insurance, Friendly Societies, Pension Funds, Unit Trust Companies, Stock Exchanges and Financial Markets. Included in such functions are also regulatory control over Insider Trading, as well as the participation bonds industry, certain trust and depository institutions and central security depositories responsible for the safe custody of securities. (The FSCA is also responsible for the financial supervision of the Road Accident Fund.)

The provisions of the legislation, which governs insurance specifically, are mainly contained in the Long Term Insurance Act and the Short Term Insurance Act. These acts ensure that insurers remain solvent and are able to discharge their duties to the public, and also ensure that the insured public is protected. Insurers are required to register and strict conditions are imposed on registration. Unregistered persons are forbidden to do insurance business.

The Short Term And Long Term Acts Compared in Terms of Indemnity and Non-Indemnity Cover

The reason for the existence of a long term insurance act, as well as a short term insurance act, lies in the difference in nature between short and long term insurance. Long term insurance focuses on the life events, such as death or retirement of a person (non-indemnity insurance), whereas short term insurance focuses on the replacement value of objects (e.g., a motor vehicle) in the event of a loss (indemnity insurance), with personal accident and sickness also covered. Each type of insurance business therefore has its own legislation/regulations governing its insurers and the way they conduct, manage, market and maintain their business.

The concepts of indemnity and non-indemnity‖ are further explained as follows:

- ☑ Contracts of life are non-indemnity insurance, in that the sum assured does not necessarily bear any relation to the actual loss (e.g. to a man's wife, his life may either be worth more than a sum assured of R10 000 or it may be worth nothing at all).
- ☑ Under contracts of indemnity insurance the insured is entitled to recover the actual commercial value of what he has lost. Indemnity insurance includes all insurance against damage to property, such as fire, motor, burglary, public liability, etc.

The Short Term and Long Term Insurance Acts Compared with Reference to The Criteria Used to Assess the Risk

The risks that can be covered by a long-term insurer depend on the policy classes for which the insurer is registered under the LTIA (Long Term Insurance Act). The following policy classes are defined in the act:

- ☑ Life
- ☑ Assistance
- ☑ Disability
- ☑ Health
- ☑ Fund
- ☑ Sinking Fund

The types of risks that can be covered therefore are those that relate to:

- ☑ The life of a person or unborn beginning, continuing, having continued for a given period or ending. Policies that insure or reinsure these risks, or pay an annuity for a defined period, are life policies.

- ☑ If the sum of all the benefits to be provided under a life policy, or the annuity premium in the case of an annuity, does not exceed R10 000, these risks can also be written in assistance policies.

- ☑ The risks taken by a friendly society (as defined by the Friendly Societies Act), pension fund (as defined by the Pension Funds Act) or medical scheme (as defined by the Medical Schemes Act), as contained in their rules. Policies that insure or reinsure the whole or part of such liabilities (except if they relate only to a single member or the dependants of a single member) are fund policies. The functional ability of the mind or body of a person or unborn becoming impaired. Policies that insure or reinsure these risks are disability policies.

- ☑ The health of the mind or body of a person or unborn being affected. Policies that insure or reinsure these risks are health policies, unless:

    - The benefits are not defined amounts of money.
    - The benefits are provided on a person having incurred expenses in respect of any health service, to defray these expenses.
    - The benefits are to be provided to a provider of health services in return for providing such services.
    - The policy is a fund policy as defined above.

- ☑ The risks taken on in providing benefits at a fixed or determinable future date.

- ☑ Policies that insure or reinsure these risks but fall outside the definition of life policies are sinking fund policies. This means this class is used for policies that are not dependent on what happens to a given person, but rather have a defined term, such as a pure investment contract.

How do you assess long-term risk?

1) A long-term insurance policy promises benefits based on some unknown future outcome. The unknowns can be grouped broadly into demographic and economic unknowns. Demographic unknowns relate to the risks of living or dying, becoming disabled or sick, etc. while economic unknowns relate to interest and inflation rates, investment returns, etc.

2) Included in developing a policy is determining an appropriate premium to charge for a given level of risk, with a given contractual definition and processes to support it.

3) Whether the premium charged for a policy is appropriate depends on the actual outcome of both the demographic and economic unknowns versus what was allowed for in the premium. It is however also affected by the extent to which the underlying contract and processes have supported it. The most important of these processes are those that relate to underwriting and the assessing of claims.

4) To determine an appropriate price is not just finding an expected future outcome and determining the required premium for it, but rather modelling the risk to try and understand the financial outcome of charging a given premium for a variety of possible future demographic and economic outcomes, as well as the sensitivity of the result to each variable.

- ☑ How policyholders are protected when their risk is assessed

  - The regulations that a registered insurer has to comply with, specifically those relating to disclosure.

  - **Market forces.** If an insurer assessed the risk too highly, it would not secure business, if too low it would make losses.

  - Ensuring that an insurer will be able to meet its obligations when they fall due. The most direct comment in this regard is probably that the statutory actuary of a registered life office has to be satisfied that the policies sold are financially sound and that all policies are regulated by the Financial Services Board.