

INSURANCE (LT) NOTICE 2 OF 2018

FINANCIAL SECTOR CONDUCT AUTHORITY

DRAFT DETERMINATION: FORMAT FOR REPLACEMENT ADVICE RECORD (INDIVIDUAL RISK POLICIES)

5 September 2018

The Financial Sector Conduct Authority invites submissions on the draft Determination: Format for replacement advice record (individual risk policies) to be determined in terms of rule 19.2.6 of the Policyholder Protection Rules made under section 62 of the Long-term Insurance Act, 1998 (Act No. 52 of 1998), as set out in the Schedule.

The draft Determination: Format for replacement advice record (individual risk policies) is available on the FSCA website at <https://www.fsca.co.za>.

Submissions on the draft Determination: Format for replacement advice record (individual risk policies) must be submitted in writing on or before 27 September 2018 to the Financial Sector Conduct Authority at FSCA.INSRPARformat@FSCA.co.za.



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For the FINANCIAL SECTOR CONDUCT AUTHORITY

SCHEDULE

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REPLACEMENT ADVICE RECORD (INDIVIDUAL RISK POLICIES)

Note to policyholder: If you are considering taking out a new risk policy that wholly or partly replaces any existing risk policy, your financial adviser must complete and discuss this document with you to help you decide whether replacing your existing policy is in your best interest.

It is **important** that you do not sign this document without ensuring that it has been fully completed and that you have carefully considered the information it contains.

PART 1: GENERAL INFORMATION

| | |
|--|--|
| Full names of policyholder: | |
| ID number of policyholder: | |
| Full names of financial adviser ¹ | |
| ID number of financial adviser: | |
| Name of financial services provider: | |
| FSP number: | |

PART 2: POLICY DETAILS

| New policy / policies | |
|-----------------------------|---------|
| Policy / Application number | Insurer |
| 1. | |
| 2. | |
| 3. | |

| Policy / policies being replaced | |
|----------------------------------|---------|
| Policy number | Insurer |
| 1. | |
| 2. | |
| 3. | |

Meaning "intermediary", as defined in the Policyholder Protection Rules made under section 62 of the Long-term Insurance Act, 1998 (Act No. 52 of 1998), who has provided advice to the policyholder regarding the replacement – i.e. the representative of the FSP concerned or sole proprietor, as the case may be. The financial adviser must complete this replacement advice record.

PART 3: POLICY COMPARISON

Note: Additional columns should be added to the table below where there is more than one new policy or replaced policy.

| Detail | New policy <i>[insert name of insurer and policy / application number]</i> | Replaced policy <i>[insert name of insurer and policy number]</i> |
|---|---|--|
| 1. Specific policy benefits² (including costs, exclusions and restrictions for each benefit type) | | |
| 1.1 Death benefits | | |
| (a) Death cover amount | | |
| (b) Death benefit premium | | |
| (c) Differences between the standard death benefit exclusions (including suicide exclusions) on the new and replaced policies | | |
| (d) Waiting periods (provide details) | | |
| (e) Benefit term / expiry age | | |
| 1.2. Lump sum disability benefits | | |
| (a) Type of cover and events covered | | |
| (b) Accelerated or standalone cover | | |
| (c) Cover amount | | |
| (d) Disability benefit premium | | |
| (e) Differences between the standard disability exclusions on the new and replaced policies | | |
| (f) Waiting periods (provide details) | | |
| (g) Benefit term / expiry age | | |
| 1.3. Income protection benefits | | |
| (a) Type of cover and events covered | | |
| (b) Cover amount | | |
| (c) Income protection benefit premium | | |
| (d) Differences between the standard income protection exclusions on the new and replaced policies | | |
| (e) Waiting periods (provide details) | | |
| (f) Benefit term / expiry age | | |
| 1.4. Accident benefits | | |
| (a) Type of cover and events covered | | |
| (b) Accelerated or standalone cover | | |

² If any benefit type or feature is not present on the policy, please indicate "None" in the applicable field. Do not leave the field blank.

| Detail | New policy [insert name of insurer and policy / application number] | Replaced policy [insert name of insurer and policy number] |
|---|--|---|
| (c) Cover amount | | |
| (d) Accident benefit premium | | |
| (e) Differences between the standard accident cover exclusions on the new and replaced policies | | |
| (f) Waiting periods (provide details) | | |
| (g) Benefit term / expiry age | | |
| 1.5. Severe illness / disease benefits | | |
| (a) Type of cover and events covered (include key differences in number, severity or definitions of covered conditions) | | |
| (b) Accelerated or standalone cover | | |
| (c) Cover amount | | |
| (d) Severe illness / disease benefit premium | | |
| (e) Differences between the standard severe illness / disease cover exclusions on the new and replaced policies | | |
| (f) Waiting periods (provide details) | | |
| (g) Benefit term / expiry age | | |
| 1.6. Loyalty / add-on benefits | | |
| (a) Types of benefits provided | | |
| (b) Value / calculation basis of benefit | | |
| (c) Cost of benefit | | |
| (d) Conditions to qualify for benefit | | |
| (e) Is benefit optional or not? | | |
| 1.7. Investment / savings benefits (if either policy has an investment or savings component) | | |
| (a) Nature of investment portfolio / assets | | |
| (b) Differences in nature of investment risk of new and replaced policy | | |
| (c) Amount of total premium allocated to investment | | |
| (d) Investment related fees or charges | | |
| (e) Investment performance guarantees | | |
| (f) Current value of investment benefit on replaced policy (before deduction of any termination charges or penalties) | | |
| (g) Details of any termination charges / penalties due to termination of the replaced policy | | |
| (h) Details of any other differences in the extent to which | | |

| Detail | New policy <i>[insert name of insurer and policy / application number]</i> | Replaced policy <i>[insert name of insurer and policy number]</i> |
|---|---|--|
| benefits on the new policy are realisable or the relevant funds are accessible as compared to the replaced policy, if not covered in (g) | | |
| (i) Benefit term / expiry age | | |
| 1.8. Any other policy benefits / special features / differences | | |
| (a) Type and value of benefits / features | | |
| (b) Cost of benefits / features | | |
| (c) Other relevant differences | | |
| <p>Summary of differences in specific policy benefits: Summarise the main differences between the specific policy benefits of the new policy and the replaced policy, as set out in Section 1 of this Record, focusing on each of the following:</p> <p>Benefit types and amounts <i>[Adviser to insert summary]</i></p> <p>Benefit costs <i>[Adviser to insert summary]</i></p> <p>Exclusions and restrictions <i>[Adviser to insert summary]</i></p> <p>Investment differences and termination charges (where applicable) <i>[Adviser to insert summary]</i></p> <p style="text-align: right;"><i>[Policyholder signature]</i></p> | | |
| <p>Note: Where it is not possible to provide any of the information required in Section 1 above, please list the relevant item/s below and explain why the information could not be provided.</p> <ul style="list-style-type: none"> • <i>[insert details]</i> • • | | |
| 2. General policy features³ | | |
| 2.1. Premiums and charges | | |
| (a) Total premium (including for loyalty / add-on benefits) | | |
| (b) Premium pattern | | |
| (c) Do premiums increase contractually? (Yes / No). If yes, describe the increase basis | | |
| (d) Do benefits increase contractually? (Yes / No). If yes, describe the increase basis | | |

³ If any feature is not present on the policy, please indicate "None" in the applicable field. Do not leave the field blank.

| Detail | New policy [insert name of insurer and policy / application number] | Replaced policy [insert name of insurer and policy number] |
|---|--|---|
| (e) Period for which the premium is guaranteed and date of next premium review | | |
| (f) Policy administration fees | | |
| (g) Any other fees (e.g. claims administrations fees; other transaction fees) | | |
| (h) Age of life insured when policy entered into; and effect of increased age or any health changes on the new policy premium | | |
| 2.3. Exclusions and restrictions | | |
| (a) Any specific exclusions or premium loadings applicable to the policyholder / life insured? ⁴ | | |
| (b) Any other exclusions, restrictions, special terms and conditions or circumstances in which benefits will not be provided, if not set out in Section 1 above. | | |
| 2.4. Tax treatment and implications | | |
| (a) Differences between the tax treatment and tax implications of the new and replaced policies | | |
| 2.5. Other material differences | | |
| (a) Any other differences (not covered elsewhere) between the new and replaced policy considered material to the replacement decision. Provide details. | | |
| (b) Any vested rights, guaranteed benefits or other guarantees or advantages that will be lost as a result of the replacement, or any other potential disadvantages of the replacements not covered elsewhere. Provide details. | | |
| <p>Summary of differences in general policy features: Summarise the main differences between the general policy features of the new policy and the replaced policy, as set out in Section 2 of this Record, focusing on each of the following:</p> <p>Premiums and charges (including implications of differences in premium pattern and premium guarantee) [Adviser to insert summary]</p> | | |

⁴ Where this information is not available at the time this replacement advice record is completed due to underwriting processes, this field may be completed as "subject to underwriting". In the event where a specific exclusion or loading is subsequently imposed, the new insurer will need to make appropriate arrangements with the financial adviser so that the insurer can satisfy itself that the policyholder has subsequently been afforded the opportunity to consider the implications of such loadings or exclusions on the suitability of the replacement.

| Detail | New policy <i>[insert name of insurer and policy / application number]</i> | Replaced policy <i>[insert name of insurer and policy number]</i> |
|--|---|--|
| <p>Exclusions and restrictions (if not dealt with in Section 1) <i>[Adviser to insert summary]</i></p> <p>Tax treatment and implications <i>[Adviser to insert summary]</i></p> <p>Any other material differences <i>[Adviser to insert summary]</i></p> <p style="text-align: right;"><i>[Policyholder signature]</i></p> | | |
| <p>3. Adviser remuneration⁵</p> <p>(a) Provide the following details of any remuneration or other financial interest to be earned by the financial adviser or the FSP concerned in relation to the new policy/ies:</p> <p><i>Up-front commission:</i></p> <p><i>Ongoing commission:</i></p> <p><i>Any other direct or indirect remuneration or other financial interest:</i></p> <p>(b) Has the financial adviser or FSP earned any direct or indirect remuneration or other financial interest in relation to the replaced policy? (Yes / No)</p> <p>(c) If the answer to (b) is Yes, provide the following details of any remuneration or other financial interest earned by the financial adviser or FSP in relation to the replaced policy/ies in the past five years:</p> <p><i>Up-front commission:</i></p> <p><i>Ongoing commission:</i></p> <p><i>Any other direct or indirect remuneration or other financial interest:</i></p> | | |
| <p>Policyholder confirmation regarding adviser remuneration:</p> <p>I am aware of the remuneration being earned by my financial adviser on the new policy/ies. Where applicable, I am aware that my financial adviser also earned remuneration on the replaced policy/ies.</p> <p style="text-align: right;"><i>[Policyholder signature]</i></p> | | |

⁵ According to the General Code of Conduct for Authorised Financial Services Providers and Representatives made under section 15 of the Financial Advisory and Intermediary Services Act, 2004 (Act No. 37 of 2002), details of remuneration must be reflected in specific monetary terms, provided that where an amount is not pre-determinable the remuneration basis must be explained.

PART 4: REASONS FOR REPLACEMENT

4.1. Could the replaced policy/ies have been changed to better meet the policyholder's needs and objectives? (If not, explain why).

4.2. If the replaced policy/ies could have been changed, explain why a replacement is recommended instead of making such changes.

4.3. In light of the differences between the policies set out in Part 3, what are the main reasons why the new policy/ies is/are considered more suitable to the policyholder's needs and objectives than keeping or changing the replaced policy/ies? (If there is more than one reason, please number them).

DECLARATIONS

1. Intermediary (financial adviser) declaration:

I,.....
[Insert full name of Adviser], identity / passport number,
hereby confirm that –

- I have taken all reasonable steps to confirm that the information in this Replacement Advice Record is correct and complete;
- I have explained the implications of the policy replacement – including but not necessarily limited to the information provided in this Replacement Advice Record - to the policyholder in sufficient detail and in an appropriate manner, taking into account what I know or reasonably assume to be the policyholder's level of knowledge, to enable the policyholder to make an informed decision about the replacement; and
- Either (delete whichever is not applicable) -
 - The policyholder has elected to proceed with the replacement contrary to my recommendation and I have alerted the policyholder to the associated risks and have advised the policyholder to take particular care to consider whether the replacement is appropriate to the policyholder's needs, objectives and circumstances. ; or
 - I believe that the replacement is in the policyholder's best interests, that the policyholder has the ability to financially bear any costs or risks associated with the replacement and that the new policy/ies is/are more suitable to the policyholder's needs and objectives than the policy/ies being replaced.

Signature of Financial Adviser.....Date.....

2. Policyholder declaration:

I,.....
[Insert full name of Policyholder], identity / passport number,
hereby confirm that –

- The financial adviser who provided me with this Replacement Advice Record has explained all the information provided in it to me in a way that I understand;
- I have carefully considered this information; and
- Either (delete whichever is not applicable) –
 - The financial adviser has alerted me to risks associated with the replacement has advised me to take particular care to consider whether the replacement is appropriate to my needs, objectives and circumstances , but I nevertheless wish to proceed with the replacement; or
 - Based on this information, I agree that the replacement is in my best interests.

Signature of policyholder.....Date.....