

# Premium Reviewability: Draft Professional Guidance

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**Date:** 18/05/2021

**Version:** v.0.1

# Background – Why draft this guidance?

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- Policyholder Protection Rules (Section 15)
- Conduct Of Financial Institutions Bill
- Premium reviews a specific focus area given discretion applied.
- APN106 does provide some guidance to HAFs but no specific focus on premium reviews.
- No guidance for the wider ASSA members involved in premium reviews.
- Reduce the **risk to members of non-compliance**

# Background – Survey

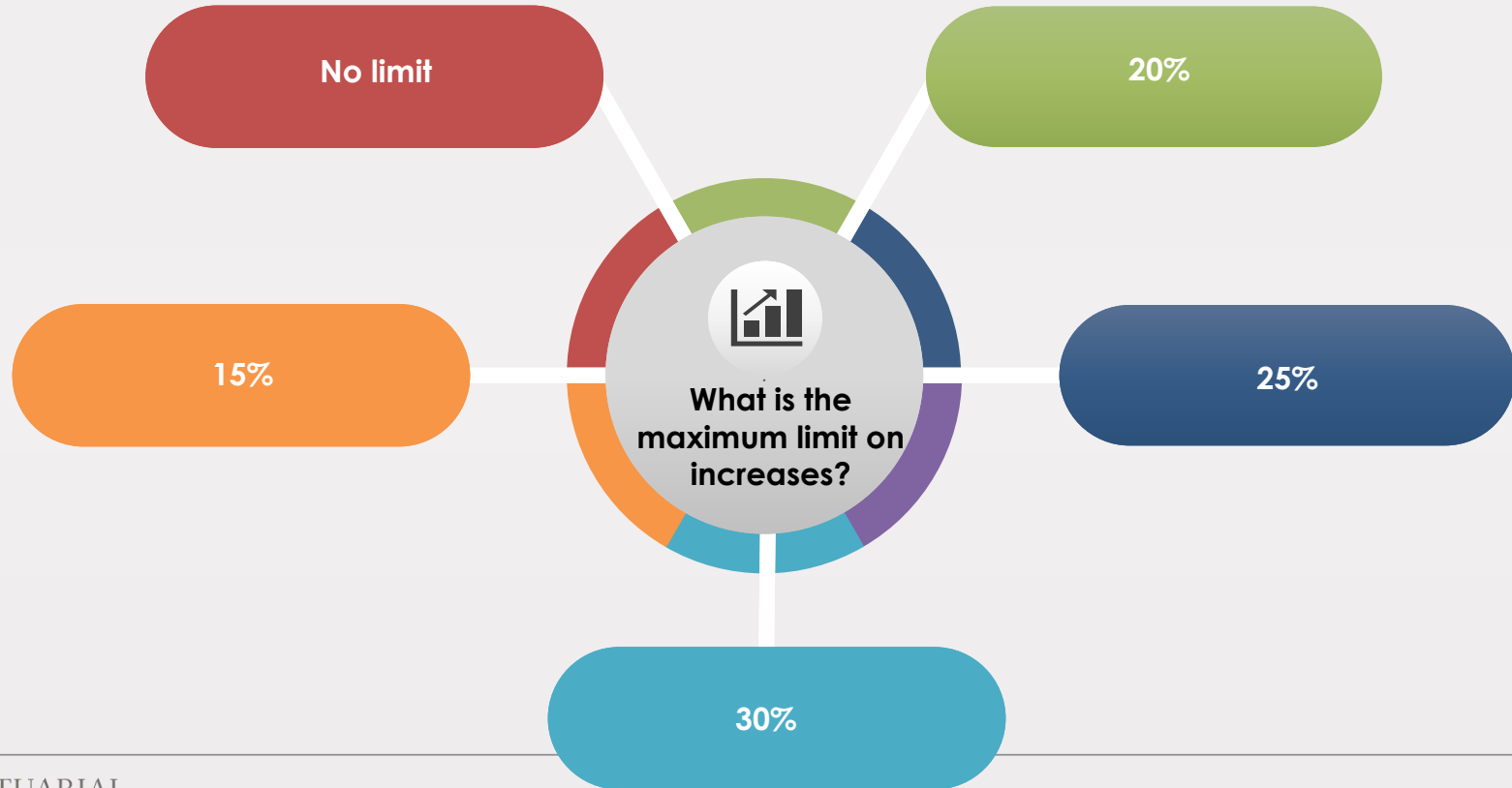
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- -A survey was conducted by the LAC's Market Conduct Sub-committee to collect **examples of premium review clauses** that are included in the policyholder terms and conditions.
- The survey focused on **new generation risk** products and the key results of the survey is summarised below.
- The survey was distributed to **18 South African insurance groups**, which included the 5 largest South African insurers. Responses were received from 17 of these groups.

# Background – Survey Results (Review Frequency)

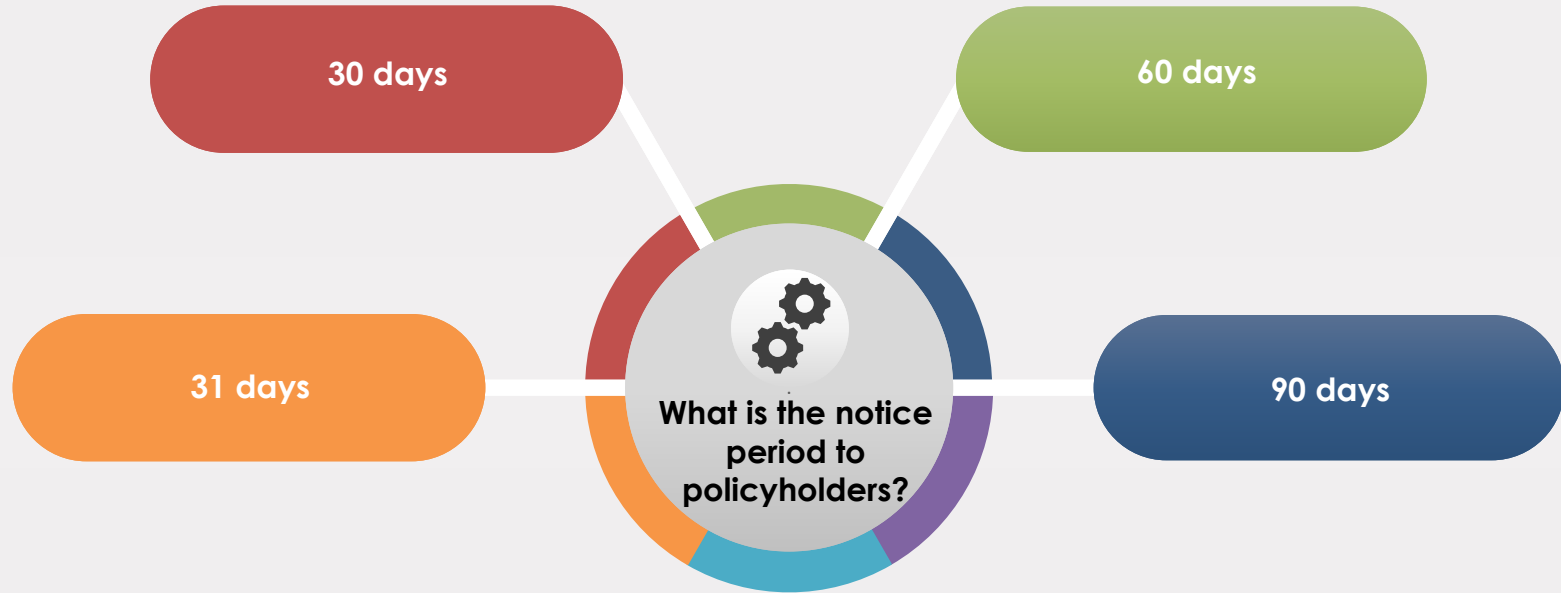


# Background – Survey Results (Increase Limits)



# Background – Survey Results (Notice Period)

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# Background – Survey Results (Review Conditions)

01

No specific conditions upon which premiums can be reviewed



02

Experience



03

Expectation of future claims / claims experience



04

Expectation of future investment returns on premium income



05

Expectation of future expense inflation / expense experience



06

Expectation of future expense inflation / expense experience



# Background – Survey Results (Review Conditions)

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07

The cost of reinsurance



08

Lapse rates different from expected



09

Shifts in socio-economic trends



10

Shift in demographics compared to pricing assumptions



11

Overall profitability of the product



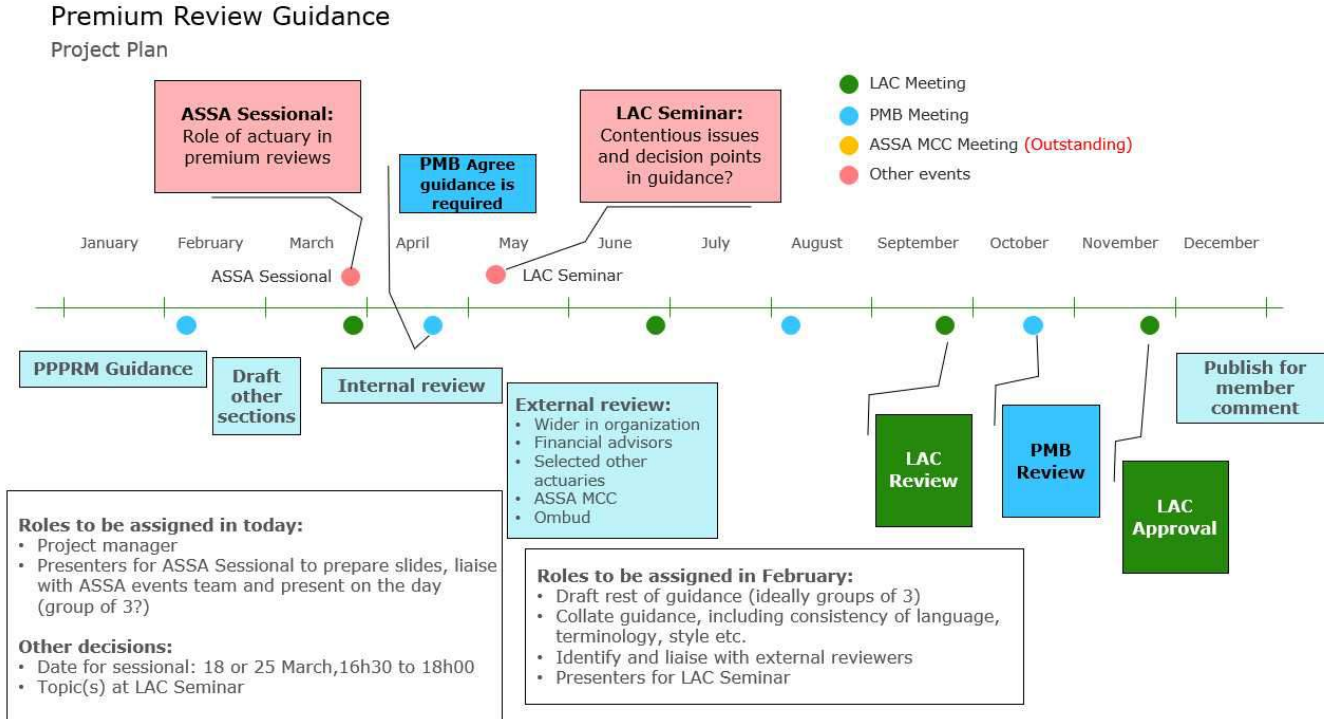
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Premium changes will not depend on individual circumstances, for example health, at the time of review





# Background – Drafting of the Guidance



**Wait, you mean premiums aren't guaranteed?**

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# Source of restrictions on premium reviews

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## Company and policy specific

- Contractual policy terms
- Marketing material and client communication

## Legislation / industry wide

- Policyholder Protection Rules (contained within Long Term Insurance Act)
- S46 of Long Term Insurance Act
- The Promotion of Equality and Prevention of Unfair Discrimination Act
- [Future] COFI Bill and subordinate legislation

## Actuarial Society

- Policyholder Reasonable Expectations
- Code of Conduct
- APN106 especially section 9
- SAP104 s2.5.5
- Draft guidance or information note on market conduct
- Draft APN on Premium Review

# Scope and nature of guidance

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- Also covers universal life and review of say loyalty programme structures

# Practicalities

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**Do we need a PPPRM?**  
*(Principles and Practices of  
Premium Review Management)*

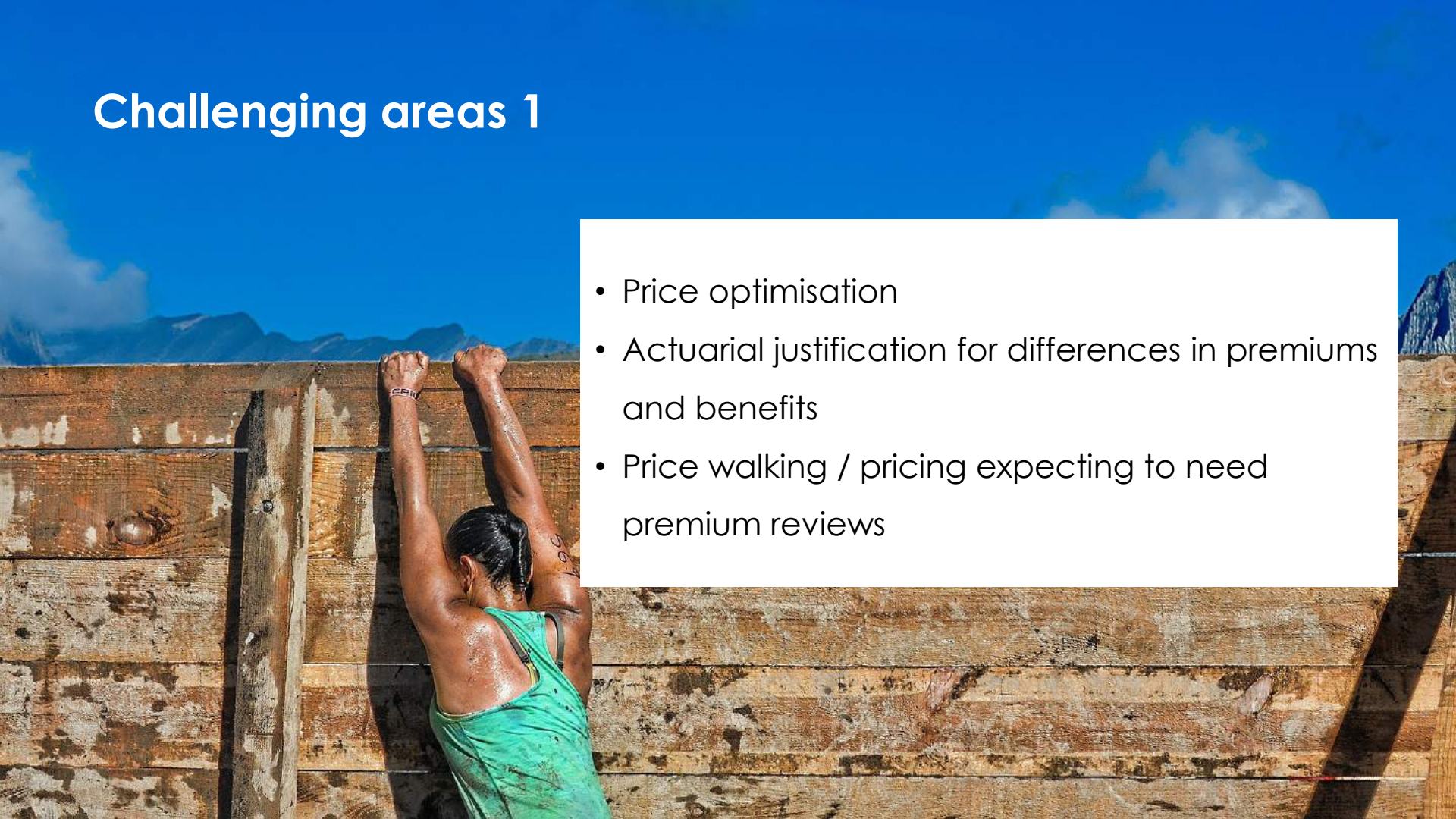
- The actuary **should consider** upfront the principles by which such a review should be conducted
- The actuary **should recommend** that such principles be documented and approved by an appropriate governance forum within the insurer.
- When developing policy terms and conditions the actuary **should consider** explicitly defining experience items which may be used to inform a premium review
- The PPRs outline a clear process of communication with policyholders. This can take time!
  - Is more communication with policyholders better?

# PPR summary (paraphrased and incomplete!)

1. Can only review if policy Ts and Cs allow for it
2. Can only review if, when and how the policy Ts and Cs allow
3. Premium increases cannot increase profit above initial target and must still be reasonable
4. Premium increases must balance shareholder and policyholder interests, reflect assumptions that have not been borne out, consider RBE
5. Cannot:
  1. recoup past losses
  2. unfairly target a particular group
  3. seek to recover losses unrelated to profitability of contract
  4. Adjust for too-low premium based on unrealistic investment assumptions
6. Insurer must tell policyholder they are embarking on premium review if premium increase is expected
7. If a premium increase results, alternatives must be offered

# Challenging areas 1

- Price optimisation
- Actuarial justification for differences in premiums and benefits
- Price walking / pricing expecting to need premium reviews



## Challenging areas 2

A motocross rider in a red and white suit is performing a stunt on a motorcycle, flying through the air against a blue sky with scattered clouds. The rider is upside down, with their legs tucked and arms outstretched. The motorcycle is also upside down, with the front wheel visible. The background is a bright blue sky with soft, white clouds.

- When to make premium reviews, and what to do even when not reviewing premiums
- Premium reductions or benefit enhancements
- Fairness between new and existing policyholders



# Really Challenging Areas



- Experience differences vs model errors / corrections or change in practice
- Better persistency experience
- Expense changes
- Premium reviews where there is no original pricing basis
- Retention activities

# What if your advice isn't followed?

## What is the actuary's role?

Created through policy Ts and Cs?

Created through company policy?

Created through legislation?

Created through actuarial guidance?

*The APN is not binding on insurers and does not create new legislation.*

It is guidance to actuaries.

Identify and manage conflicts of interest

Code of Conduct applies

# Summary

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Be aware of requirements

Prepare policies and processes

Apply discretion rationally and consistently

# Nature of the guidance?

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# Questions to ponder

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1. Should this be a Standard of Actuarial Practice (SAP), Advisory Practice Note (APN), or Information Note?
2. Should insurers be allowed to re-price because of model errors at product development stage?
3. Should better persistency be an acceptable reason for a premium increase?
4. Should higher expenses be a reason? Higher expenses through restructuring? Changes in group allocations?
5. Should Price Optimisation be allowed?
6. Should we be communicating with policyholders (about premium reviews) even when no premium increases are likely?