COVER NOTE TO APN 114 AND APN 115

1. INTRODUCTION

1.1. This cover note provides background information on Advisory Practice Notes (APNs) 114 and 115 (referred to hereafter as "the APNs") dealing with premium and benefit reviews of life insurance policies. The cover note is not intended to prescribe requirements nor provide formal actuarial guidance.

1.2. The cover note is structured as follows:

a) Rationale for the guidance
b) Status of the guidance
c) Scope of the guidance
d) Looking forward

2. RATIONALE FOR THE GUIDANCE

2.1. The ability to review premiums and benefits are commonplace in many South African life insurance products. This product feature provides discretion to insurers in terms of whether premiums or benefits are adjusted and also how they are adjusted, with this discretion often being exercised by members.

2.2. Any such discretion requires careful consideration of many factors, including regulation (including but not limited to the Policyholder Protection Rules and the Long-term Insurance Act), other actuarial guidance (e.g. APN 106 / 403), policy terms and conditions and policyholder reasonable benefit expectations, which itself depends on various factors internal and external to the insurer. The exercising of this discretion is thus very complex, as evidenced by the universal life products which have undergone various premium reviews over the past two decades.

2.3. The abovementioned complexity leads to the following rationale for the APNs under consideration:

a) It provides members with guidance whenever they perform work relating to premium or benefit reviews, and

b) Reduces professional and reputational risk to both individual members and the profession as a whole.

3. STATUS OF THE GUIDANCE

3.1. Consideration was given to whether the guidance should be Standards of Actuarial Practice (SAPs), APNs or Information Notes (INs).

3.2. The professional and reputational risk mentioned in Section 2.2 would be better mitigated through stronger guidance, i.e. APNs or SAPs, whereas INs would have very limited mitigating impact. A status of IN was thus deemed inappropriate.

3.3. The guidance covers aspects that are considered similar to those covered by APN 106 / 403 and the guidance is thus proposed to be in the form of APNs.

3.4. Consideration was given to including the guidance on premium and benefit reviews within APN 106 / 403. This was found to be inappropriate since APN 106 / 403 only applies to Heads of Actuarial Functions (HAFs) and those reviewing or supporting HAFs, whereas the guidance under consideration applies to a much wider group of members.

4. SCOPE OF THE GUIDANCE

4.1. The APNs are based on principles as opposed to being rules based, allowing its application to a wide variety of circumstances. This means a single APN could potentially be scoped to cover premium and benefit reviews of all individual life insurance business, including "old generation" universal life business, "new generation" pure risk business, as well as any other life insurance business with reviewable premiums or benefits. However, the specific nuances of each business type require careful consideration and the scope of each APN is thus limited to a specific product type, with APN 114 covering only "new generation" pure risk business and APN 115 covering only "old generation" universal life business.

4.2. The APNs apply to all facets of premium reviews throughout the product life cycle.

4.3. The APNs apply to members, not insurers, and particular care was taken to ensure that undue obligations are not placed upon members.

5. LOOKING FORWARD

5.1. Products other than "new generation" pure risk products and "old generation" universal life products could have similar discretion regarding reviews of product features. An example of this is the restructuring of rewards programmes which have secondary impacts on life insurance premiums. While these areas fall outside the APNs' scope, they represent similar reputational and professional risk, making it possible that guidance may need to be produced to cover these areas. However, nothing prevents a member from also applying the APNs' principles to these other areas (treating it similar to an Information Note), with this being stated in the APNs themselves.

5.2. Furthermore, there might also be a need for more generic guidance that would apply across product sets, as this would provide members with a framework within which to assess new products that are developed in future.

5.3. The IAA is in the process of developing a chapter on market conduct that is expected to address reviewability of product features. The future publication hereof could affect these APNs.