

APN 114 PREMIUM AND BENEFIT REVIEWS ON RISK-ONLY PRODUCTS

Classification

This is an Advisory Practice Note (APN) that provides guidance to *members* of the Society relating to contractually permissible reviews on risk-only life insurance policies. This may be a review of premiums, benefits, claims criteria or a combination of any of these.

This note is classified as an Advisory Practice Note (APN). APNs provide advice to *members* to guide them in their relevant area of practice. Failure to comply with an APN will not in itself constitute grounds for a complaint under the applicable Actuarial Society of South Africa (ASSA) disciplinary procedures. However, the Disciplinary Committee investigating an allegation of unacceptable or unprofessional conduct will take into account the extent to which a *member* complied with an APN in this category. It is recommended that any departure from an APN be disclosed.

Abstract

Many *members* of the Society perform functions where they can influence outcomes related to reviews of life insurance policies. This APN provides guidance that *members* should take into consideration when advising an *insurer* in relation to such reviews.

Purpose

The purpose of this APN is to provide guidance that should be followed by *members* when considering the market conduct aspects related to contractually permissible reviews for life insurance policies.

Legislation or Authority

Rule 15 of the Policyholder Protection Rules made under the Long-term Insurance Act (52 of 1998) and the Actuarial Society of South Africa's Code of Professional Conduct.

Application

This APN applies to all *members* of the Society who perform functions where they can influence the practice related to life insurance policy contract reviews. For example, it applies to *members* who are involved in new product development and the management and servicing of customers of in-force products, including *members* who are involved in responding to customer complaints.

Disclaimer

Whilst ASSA takes all reasonable efforts to ensure that the content of this APN is correct and aligned with legislation and authority applicable as at the date of drafting and publishing under the governing laws of the Republic of South Africa, this APN is given as guidance to *members* of ASSA purely to assist with the subject matter covered in the APN.

ASSA does not warrant that this APN deals with every aspect relating to the subject matter and it does not constitute legal or financial advice. Accordingly, ASSA shall have no liability to any *members*, associates and/or any third party for any claim of any nature whatsoever which may arise out of the use of and/or reliance on the contents of this APN. *Members*, associates and/or any third parties hereby waive any rights to any claim of any nature whatsoever which may arise out of the use of and/or reliance on this APN, and further indemnify ASSA and hold it harmless against any claim of any nature whatsoever. The responsibility will be on *members* to

keep abreast of legislative developments, related guidance issued by regulators and any case law relevant to the subject matter. If there is any conflict between the contents of this APN and the aforementioned legislative developments, related guidance issued by regulators and any relevant case law, the guidance issued by regulators and any relevant case law shall prevail and *members* should obtain independent legal advice on how the legislative developments impact the contents of this APN.

Authors

Life Assurance Committee of the Actuarial Society of South Africa.

Status

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Version 2 Effective from 1 April 2025

DEFINITIONS

<i>ASSA or the Society</i>	Actuarial Society of South Africa
<i>Code of Conduct</i>	ASSA's Code of Professional Conduct ¹
<i>Control Function</i>	A function, as defined in the Insurance Act (18 of 2017), which forms part of an <i>Insurer's</i> governance framework.
<i>Head of Actuarial Function</i>	A <i>member</i> appointed by an <i>Insurer</i> in terms of the Insurance Act (18 of 2017) as the head of the actuarial <i>Control Function</i> .
<i>Insurer</i>	The insurance company (including mutual societies) writing life insurance business in respect of which the <i>member</i> or <i>members</i> can influence the practice of reviews.
<i>Investigation</i>	Process of assessing the adequacy of life insurance contract features to inform whether or not to perform a review.
<i>Law</i>	The applicable constitution, statutes, regulations, judicial decisions, case law and other statements having legally binding authority.
<i>Limited guarantee period</i>	A period, shorter than the full expected term of the policy, during which the <i>insurer</i> guarantees that certain features of the policy will not be reviewed (for example, that the premium payable will not be reviewed outside of the agreed annual contractual premium increases).
<i>Member or Members</i>	A member of ASSA as defined in the <i>Code of Conduct</i> or a member of another recognised actuarial association to whom this APN applies.
<i>PPRs</i>	The Policyholder Protection Rules ² aimed at policyholder protection made under Section 62 of the Long-term Insurance Act (52 of 1998), as amended in 2018 ³ .
<i>Reasonable benefit expectations</i>	The reasonable expectations of policyholders regarding future premiums, benefits and claims criteria, based on the <i>Insurer's</i> marketing literature, communications to the policyholder and initial sales representations.
<i>Review</i>	Any changes in life insurance contract premium rates, benefits or claims criteria, made at the discretion of the <i>insurer</i> following an <i>investigation</i> . This includes increases and decreases in premiums and/or benefits, as well as any amendments to claims criteria/definitions.

¹ <https://www.actuarialsociety.org.za/professional-resources-structure/professional-conduct/>

² <http://www.treasury.gov.za/legislation/regulations/ICRAndPPR/Annexure%20B.pdf>

³ https://www.gov.za/sites/default/files/gcis_document/201809/41928gon997.pdf

Universal life

Insurance contracts that provide risk benefits as well as an investment account, hence combining risk and savings benefits under one policy. Policy charges are deducted from the investment account, and hence the quantum of these policy charges influence the size and growth of the investment account.

Variation of a policy

As defined in the *PPR*, this means any act that results in a change to:

- (a) the premium;
- (b) any term;
- (c) any condition;
- (d) any policy benefit;
- (e) any exclusion; or
- (f) the duration of a policy,

excluding any explicit pre-determined or determinable variation stated or provided for in the policy, and "*variation of an existing policy*" and "*varying*" have corresponding meanings.

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1. INTRODUCTION

- 1.1. Life *insurers* offer individual life insurance policies with features which may not be guaranteed for the full duration of the insurance contract. There are many reasons for the *limited guarantee period*, including:
- a) Uncertainty around future demographic assumptions, such as mortality (including uncertainty around future medical diagnoses and improvements),
 - b) Uncertainty around future economic assumptions,
 - c) Potential changes in policyholder behaviour, and
 - d) Additional solvency capital required to be held as a result of guarantees.
- 1.2. The *insurer* can perform an *investigation* to assess the extent to which the view of future experience has changed from those on which the original contract features were based. When the *insurer* is contractually able to perform a *review*, e.g. after expiry of the *limited guarantee period*, the *insurer* then has the contractual right to implement a *review* in accordance with the updated view of likely future experience. This may result in a *variation of a policy*, e.g. an increase in premiums, a reduction in benefits or stricter claims criteria. The *insurer* could also reduce premiums, increase benefits or relax claims criteria if expectations of future experience have improved.
- 1.3. A consequence of allowing contract features to be reviewed after expiry of the *limited guarantee period*, is that the policyholder has the benefit of more favourable terms (for example, a higher sum assured for a given premium) initially but is subjected to the risk that these features could be adversely amended in the future. In essence, the policyholder shares some of the risks with the *insurer*.
- 1.4. A *limited guarantee period* may allow a less prudent pricing and product design approach and could lead to lower solvency capital requirements. The resulting lower premiums usually encourage and enable more people to take out insurance contracts, which has the societal benefit of increasing the financial stability and security of individuals and families.
- 1.5. The remainder of this guidance sets out the relevant regulatory and professional background, the scope of this APN and various requirements and principles that should be considered by the *member*. Some of the requirements and principles stem from other sources, for example, legislation, regulation or other professional guidance, with these being indicated by ***bold italics***, with references to these other sources being shown in brackets.

2. REGULATORY AND PROFESSIONAL BACKGROUND

- 2.1. The ability of an *insurer* to perform a *review* involves the exercising of discretion by the *insurer*. Where this discretion is applied by *members*, the *member* should always consider the requirements and principles already laid out in legislation, regulation and other professional guidance, such as:
- a) *PPRs* (Rule 11 and Rule 15 in particular),
 - b) ASSA's Advisory Practice Note (APN) 106 ⁴ Section 9.4 wherein the *Head of Actuarial Function* is advised to consider policyholders' *reasonable benefit expectations* when reviewing any material changes to a policy,
 - c) The appendix to ASSA's APN 106 provides guidance to members on policyholders' *reasonable benefit expectations*, and
 - d) ASSA's APN 904 that provides guidance to members related to market conduct and treating customers fairly.

⁴ <https://www.actuarialsociety.org.za/committees/series-100-dealing-with-life-offices/>

- 2.2. This APN contains extracts from relevant legislation, regulation and other professional guidance, including the *PPRs*. It should be noted that:
- a) Some of these extracts have been adjusted in minor ways to accommodate the flow and context of this APN;
 - b) While these extracts are deemed to be an accurate reflection of the relevant requirements, they do not replace the requirements themselves and do not absolve *members* from familiarising themselves with the most recent versions of the relevant legislation, regulation and other professional guidance; and
 - c) The scope of this APN is broader than that of the *PPRs*, as per Section 3.5 below.
- 2.3. The *member* should take into account that *PPRs* 15.1 to 15.3 do not apply to policies entered into before *PPR* 15 came into operation on 1 July 2018. However, this does not prevent a *member* from considering whether some of the principles contained within *PPRs* 15.1 to 15.3 could be relevant to such policies.

3. SCOPE

- 3.1. This APN covers all individual life insurance policies that provide only risk benefits. The inclusion of cash back benefits or other rider benefits does not exclude a policy from this APN.
- 3.2. This APN also applies to the risk component of individual life insurance policies that provide both risk and investment benefits, but only in cases where the investment component operates independently of the risk component. This means that *universal life* policies are excluded from the scope of this APN due to risk charges on such policies being deducted from the investment component.
- 3.3. The APN excludes group business since it is usually renewable on an annual or more frequent basis. The APN also excludes reinsurance, which is consistent with the scope of *PPR* 15.
- 3.4. While it falls outside the scope of this APN, *members* could also apply the principles within this APN when performing functions relating to any other *variations to policies* which are at the discretion of the *insurer*, for example, saving-type policy charges or changes to rewards programme structures which affect premiums, charges and/or benefits.
- 3.5. The *PPRs* create regulatory requirements for the review of premiums but do not explicitly create any requirements for reviews of benefits or claims criteria. However, any extracts from the *PPRs* that are contained within this APN should be read as also creating professional requirements relating to reviews of benefits and claims criteria.
- 3.6. The considerations set out in this APN provide guidance for *investigations* and *reviews*, but should also be considered when:
- a) Developing products or making adjustments or enhancements to existing policies and making any adjustments to policy terms and conditions relating to reviews,
 - b) Performing *investigations* that are carried out to determine the need for a review but do not result in a review, and
 - c) Performing other *investigations* to support policyholder communication related to guarantees and reviews.

4. GENERAL REQUIREMENTS

- 4.1. **Members of the Society must observe applicable Law** (Paragraph 9 of the preface to the Code of Conduct).

- 4.2. **Members of the Society are expected to render quality services to their clients through the demonstration of** professional and **ethical behaviour, especially in doing actuarial work** (Paragraph 1.b of the Code of Conduct).
- 4.3. **A member of the Society must act honestly, with integrity, competence and due care, and in a manner that fulfils the profession's responsibility to the public and upholds the reputation of the actuarial profession** (Paragraph 9 of the Code of Conduct).
- 4.4. **In fulfilling assignments, members of the Society must consider the likely implications of their recommendations for all parties that are likely to be materially affected, and also draw the attention of their clients to such implications** (Paragraph 12 of the Code of Conduct).
- 4.5. Conflicts of interest may arise between the *insurer* and the public for whom the insurance products are designed. The *member* should ensure that their services rendered consider the interests of all stakeholders.
- 4.6. Where the *member* provides an *insurer* with advice relating to reviews and such advice is not followed, the *member* should document the advice that was provided. Further to this, if the *member* expects the *insurer's* course of action to result in materially unfair policyholder outcomes, then the *member* should consult with another *member* of the Society on the most appropriate steps to take, if any.

5. REASONABLE BENEFIT EXPECTATIONS

- 5.1. **Any review of a premium payable under a policy must reasonably balance the interests of the insurer and the reasonable benefit expectations of policyholders** (PPR 15.4.a). For *reasonable benefit expectations* of policyholders, the *member* should consider the following (if relevant and practically possible):
- a) Contractual terms and conditions,
 - b) Initial and ongoing policyholder communication,
 - c) Initial and ongoing marketing,
 - d) Reviews previously conducted on the same product,
 - e) Reviews on other products of the same *insurer* (as high-level principles might have been established),
 - f) Reviews on competitor products (to the extent that information is publicly available), and
 - g) Other external influences, for example, National Financial Ombud Scheme rulings, court case outcomes and the media (where relevant).
- 5.2. The *member* should not only consider the policyholder *reasonable benefit expectations* that apply at a single point in time, for example, at the review date, but should rather consider how *reasonable benefit expectations* are likely to develop into the future, as the policy term progresses.
- 5.3. The *member* should also consider the extent that policyholder *reasonable benefit expectations* might have diverged from the contractual terms and conditions. The *member* should bring such divergence to the attention of the *insurer*, along with any implications thereof on reviews.

- 5.4. Where the abovementioned divergence is due to historically inappropriate or inadequate management of *reasonable benefit expectations*, the *member* should consider how this could be improved going forward. For example, the *member* could advise the *insurer* to:
 - a) Provide training to intermediaries, and/or
 - b) Enhance policyholder communications, to not only manage expectations of the future, but also to clarify historical experience and reviews.
- 5.5. The *member* should consider fairness across all policyholders who purchased the product and not only those that are reviewed, e.g. are the terms offered on review to policyholders with a *limited guarantee period* fair relative to other customers who paid higher premiums from the inception of their policies for fully guaranteed benefits.
- 5.6. The *member* should provide the *insurer* with advice on how to manage policyholder *reasonable benefit expectations* related to reviews. Such advice should not only be provided when a review is performed, but should also cover the sales process and the rest of the product life cycle.

6. FREQUENCY OF INVESTIGATIONS AND REVIEWS

- 6.1. ***A premium payable under a policy may only be reviewed if the policy provides for a review and states the frequency at which and the circumstances in which a review will take place (PPR 15.1).***
- 6.2. ***Where a policy provides for a review an insurer may only undertake the review at the frequency stated in the policy and when the circumstances contemplated in the policy prevail (PPR 15.2).***
- 6.3. The *member* should advise the *insurer* to carry out an *investigation*, within a suitable time frame, having considered the timeframe within which the policy contract states a review will take place, as well as the time required to implement reviews.
- 6.4. The *member* should advise the *insurer* to communicate the results of an *investigation* to policyholders where this is expected to support the management of policyholder *reasonable benefit expectations*. Even when an *investigation* did not result in a review, the *member* should consider whether communication to policyholders is required to support the management of policyholder *reasonable benefit expectations*. An example where such communication might be appropriate is where there is a significant deviation of experience which may lead to a premium increase.
- 6.5. Where *investigations* have not been conducted in the past or, they have been conducted, but the results not communicated to customers, the *member* should consider what communication exercises can be conducted now in order to help manage policyholder *reasonable benefit expectations* going forward and preferably before a next review is implemented.
- 6.6. Where reviews are allowed in the terms and conditions of a policy, the *member* should advise the *insurer* to monitor experience on a regular basis even if a full *investigation* is not performed. This could result in better policyholder outcomes by preventing large adjustments later in the contract's term if, for example, smaller adjustments are made at earlier durations.
- 6.7. However, where reviews have not been completed timeously in the past and current reviews indicate that large adjustments to premiums, benefits and/or claims criteria are now required, having a negative impact on customers, the *member* should consider what steps can be taken to minimise the customer impact. For example, applying smaller than required adjustments, noting that this will require a shareholder subsidy and

the *member* should thus consider the financial soundness of the *insurer* (which is covered in other regulations and professional guidance).

- 6.8. *Investigations* and, where relevant, *reviews* should be performed as soon as the *member* would reasonably expect that the view of future experience has changed to the extent that it could possibly result in *variations of policies*. Furthermore, the *member* should advise the *insurer* to monitor experience during a *limited guarantee period*. Such monitoring could be used to identify proactive actions the *insurer* can take during the *limited guarantee period* that would reduce the magnitude of the policyholder impact of future reviews and/or appropriately manage policyholder *reasonability benefit expectations*.

7. DISCRETION IN THE HANDS OF MEMBERS

- 7.1. The ability of the *insurer* to exercise discretion means the *member* should consider upfront the principles by which such discretion will be exercised. Where these principles already exist, the *member* should assess the current principles and recommend adjustments, if required.
- a) Such principles could be defined generically across an *insurer's* full product set, with appropriate variations for specific products.
 - b) For new products, the *member* should consider and define such principles during the product development process before policies are sold.
 - c) For existing products where such principles are not defined, the *member* should consider defining appropriate principles.
 - d) The *member* should consider what the trigger points would be for an *investigation* to be initiated and/or a *review* to be implemented.
- 7.2. The *member* should recommend that such principles be documented and approved by the *insurer*.

8. FACTORS AFFECTING REVIEWS

- 8.1. **The circumstances referred to in PPR 15.1 and PPR 15.2 (which refer to the terms of a policy, see paragraphs 6.1 and 6.2 above) may not give an insurer the discretion to increase profitability margins beyond those assumed at the outset of the policy (PPR 15.3.a).**
- 8.2. **The primary purpose or effect of a review may not be to:**
- a) **Allow the insurer to recoup its losses on the policy incurred prior to the date of the review (PPR 15.5.a), nor to**
 - b) **Increase profitability margins beyond those assumed at the outset of the policy (PPR 15.5.b).** Profitability margins are influenced not only by explicit premium loadings, but also by other factors such as changes to risk discount rates and margins over best estimate assumptions. Care should be taken to ensure these elements are not used indirectly to increase expected profitability margins above those originally priced.
- 8.3. When, as part of a *review*, policyholders are offered the ongoing policy benefits in another product, the *member* should consider the differences in profitability margins between the different products.
- 8.4. **Any review of a premium payable under a policy must be justified with reference to the extent to which the assumptions on which the premium were based have been met (PPR 15.4.b).** The *member* should consider the extent that those assumptions are no longer relevant for the future. As part of the pricing at outset or subsequent repricing exercises, the *member* should thus document the assumptions on which the premiums

are based. When assessing expected future experience at the time of review, the *member* could consider the relevance of the assumptions used to price new business at the time.

- 8.5. ***The primary purpose or effect of a review may not be to seek to cover losses or increased expenses arising in the business not related to the profitability of the product concerned*** (PPR 15.5.d). The *member* should consider equity between policyholders, for example:
- a) Equity between different generations of policyholders, especially where experience changes over time.
 - b) Equity between different products, for example, it is unlikely that offsetting experience variances across products is appropriate.
- 8.6. ***A premium payable under a policy must reasonably balance the interests of the insurer and the reasonable benefit expectations of a policyholder, and be based on assumptions that are realistic and that the insurer reasonably believes are likely to be met over the term of the policy*** (PPR 6.1).
- 8.7. ***The circumstances referred to in PPR 15.1 and PPR 15.2 (which refer to the terms of a policy, see paragraphs 6.1 and 6.2 above) may not allow an insurer to adjust premiums that were not based on assumptions that meet the aforementioned standard in PPR 6.1*** (PPR 15.3.b). Nor should a *member* perform an *investigation* relative to assumptions which are deemed to have been unrealistic at the outset. For example, ***the primary purpose or effect of a review may not be to allow for the adjustment of a low initial premium consciously based on overly optimistic assumptions about investment performance*** (PPR 15.5.e).
- 8.8. By implication *members* should then price products as accurately as possible at the outset using realistic assumptions and appropriate margins to avoid large premium, benefit or claims criteria changes at the time of review due to overly optimistic pricing and product design practices.
- 8.9. The relative optimism of assumptions should be assessed based on the economic environment and outlook at the time those assumptions are set.
- 8.10. In cases where the *member* has reasonable evidence that premiums at the outset were not based on realistic assumptions, or where the assumptions upon which premiums were based at the outset are not available, the *member* could consider the following approach:
- a) Recalibrate any unrealistic assumptions to levels that the *member* deems would have been realistic at the outset, taking care to not apply hindsight bias.
 - b) Perform an *investigation* relative to such recalibrated assumptions, i.e. compare expected future experience against the recalibrated assumptions instead of comparing it to the assumptions that were actually used at outset; and
 - c) Apply any premium increase flowing from the abovementioned *investigation* to the original premiums that were determined at the outset, i.e. to the premiums that were based on unrealistic assumptions or for which assumptions are not available.
- 8.11. ***The primary purpose or effect of a review may not be to unfairly target a particular group of policyholders for an increase in premium*** (PPR 15.5.c). For example, reviews should be based on experience deviations and not on price optimisation, meaning that reviews should not optimise *insurer* outcomes by considering price sensitivity and the propensity to lapse. Reviews should also be performed in reasonable cohorts.

- 8.12. ***An insurer shall not make a distinction between the premiums, benefits or other values of different long-term policies unless the Head of the Actuarial Function is satisfied that the distinction is actuarially justified*** (Long-Term Insurance Act (52 of 1998) Section 46.1.b and APN 106 Section 9.9). Members, and not only heads of actuarial functions, should consider whether such distinctions are actuarially justified, both at inception and at review stage.

9. EXPERIENCE ITEMS CONSIDERED FOR REVIEWS

- 9.1. The *member* should carefully consider the experience items which may be used to inform a review and that these align to the policy terms and conditions. Experience items may be defined explicitly, e.g. by referring specifically to mortality and expense experience, or it may be defined to be more open ended, e.g. by referring to "any adverse deviation in experience items". Where the latter is used, consideration should be given to any complexities created thereby, including the impact on the management of policyholder *reasonable benefit expectations*. This consideration is also relevant when developing product terms and conditions.
- 9.2. Throughout the product life cycle, the *member* should consider to what extent the following should reasonably affect a review without being unfair towards policyholders:
- a) Management actions taken since inception of a policy that have influenced future experience, for example, a reduction in expenses,
 - b) Changes in policyholder behaviour since inception of a policy that have influenced future experience, for example, persistency,
 - c) Changes in the cost of reinsurance, taking into account the reasons for such changes,
 - d) Implicit assumptions allowed within pricing, for example, business volumes and business mix,
 - e) Experience impacts arising directly as result of the *review* being performed e.g. once-off expenses or increased lapses, and
 - f) Corrections of modelling errors made during the product's development.
- 9.3. The *member* should take particular care whenever a *review* results in a distinction between premiums, benefits or other policy values that is based on either more or less granular rating factors than those applied at the outset of the policy, as this would generally be considered unfair towards policyholders.
- 9.4. Consideration should be given to assumptions as a whole such that the original profit target is not exceeded as a result of the *review* (reference PPR 15.5 b). Improvements in expected future experience in one basis element should be considered in combination with worsening future experience expected in other basis elements.

10. OTHER CONSIDERATIONS

- 10.1. ***An insurer must timeously and in writing inform a policyholder of a pending review and the timing of the review if the review is expected to result in a premium increase*** (PPR 15.6).
- 10.2. ***If a premium payable under a risk policy will be increased as a result of a review, an insurer must take reasonable steps to afford a policyholder alternatives (such as the option to terminate the policy, to reduce the policy benefit or to enter into an alternative policy) to mitigate the impact of the increase on the policyholder*** (PPR 15.7). Similarly, the *member* should also advise the *insurer* to provide alternatives if the review results in reduced benefits or more stringent claims criteria.

- 10.3. The *member* could advise the *insurer* to take other management actions during the *limited guarantee period* in order to reduce the risk and/or magnitude of future reviews.
- 10.4. Where premiums are required to increase after a *review*, the *member* should consider the quantum of the premium increase in the context of other considerations like customer's affordability, reputational/market conduct challenges etc.
- 10.5. When providing policyholders with alternatives the *member* should **consider the disclosure requirements outlined in Rule 11 of the PPRs**.