APN 117 LIFE INSURANCE PRODUCT CONSOLIDATION AND LATE PRODUCT LIFE CYCLE MANAGEMENT

Classification

This is an Advisory Practice Note (APN) that provides guidance to *members* of the *Society* relating to life insurance product consolidation and management of products later in their life cycle.

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 consider 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

As life insurance products are closed to new business from time to time, mature and run off over time, members may be required to advise insurers on the management of these products. This guidance note is intended to assist members providing advice regarding the fair treatment of policyholders, particularly where insurers are unable to communicate effectively with the policyholders.

Purpose

The purpose of this APN is to provide guidance that should be followed by *members* when considering product consolidation and the management of life insurance products late in their product life cycle.

Legislation or Authority

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 product consolidation and the management of life insurance products late in their product life cycle as well as those members that are designing new products that need to consider future product management requirements when the products enter similar stages in their product life cycle.

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.

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Authors

Life Assurance Committee of the Actuarial Society of South Africa.

Status

Version 1 Effective from 1 June 2025

DEFINITIONS

Member or *Members*	A member of *ASSA* as defined in the *Code of Conduct* or a member of another recognised actuarial association to whom this APN applies.
ASSA or the Society	Actuarial Society of South Africa
Code of Conduct	*ASSA's* Code of Professional Conduct[1]
Control Function	A function, as defined in the Insurance Act (18 of 2017), which forms part of an *Insurer's* governance framework.
Product intervention	A product intervention in the context of this document refers to an amalgamation, consolidation, conversion, or migration of a book of policies, products, portfolios or funds.
Head of Actuarial Function	A *member* appointed by an *Insurer* in terms of the Insurance Act (18 of 2017) as the head of the actuarial *Control Function*.
Insurer	The insurance company (including mutual societies) writing and or managing life insurance business.
Investigation	Process of assessing the adequacy of life insurance contract features to inform whether to perform a *review*.
Law	The applicable constitution, statutes, regulations, judicial decisions, case law and other statements having legally binding authority.
Limited guarantee	A period, shorter than the full expected term of the policy, during which *period* the *insurer* 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).
Policy charges	Refers to any charges applied, including but not limited to charges for expenses and risk benefits.
PPRs	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].
Reasonable benefit expectations	Policyholders' reasonable expectations regarding future premiums, benefits, claims criteria or *policy charges*, based on the *Insurer's* marketing literature, communications to the policyholder and initial sales representations.
Review	Any changes in life insurance contract premiums, benefits, claims criteria or *policy charges*, made at the discretion of the *insurer* following an *investigation*. This includes increases and decreases in premiums, *policy charges* and/or benefits, as well as any amendments to claims criteria/definitions.
Run-off Plan	A set of activities to manage a book of policies, products, portfolios, or funds that are in the late stages of their life cycle, including the activities

[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

of the '*product interventions*', if any.

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.

SECTIONS

1. INTRODUCTION

1.1. As life insurance products are closed to new business from time to time, mature and run off over time, *members* may be required to advise insurers on the management of these products.

1.2. In doing so, unique challenges may arise that require careful consideration to ensure that all policyholders are treated fairly, particularly where insurers are unable to communicate effectively with the policyholders.

1.3. This guidance note is intended to assist *members* providing such advice to identify possible matters that require consideration. As business practices and product designs vary widely, the guidance should be considered as an important input into the decision and advice frameworks, but *members* would need to consider their applicability in the unique projects in which they may be involved.

1.4. The remainder of this guidance sets out various requirements and principles that may need to be considered by the *member*.

2. GENERAL CONSIDERATIONS

GENERAL REQUIREMENTS

2.1. ***Members of the Society must observe applicable laws*** (Paragraph 9 of the preface to the *Code of Conduct*).

2.2. ***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*).

2.3. ***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*).

2.4. ***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 draw their client's attention to such implications*** (Paragraph 12 of the *Code of Conduct*).

2.5. Conflicts of interest may arise between the *insurer* and the public for whom the insurance products were designed. The *member* should ensure that their services rendered consider the interests of all stakeholders.

2.6. Where the *member* provides an *insurer* with advice relating to a *product intervention* 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 address this within the governing structures of the insurer, and if necessary, consult with another independent *member* of *the Society* on the most appropriate steps to take, if any.

REASONABLE BENEFIT EXPECTATIONS (RBEs)

2.7. ***A plan for a product intervention must balance the interests of the insurer and the reasonable benefit expectations (RBEs) of policyholders*** (*PPR* 15.4.a). For *RBEs* of policyholders, the *member* should consider the following (if relevant and practically possible):

a) Contractual terms and conditions, including but not limited to guarantees, rights (including premium and benefit reviews)[4], options available, supplementary benefits, and investment portfolio choices,

b) Initial and ongoing policyholder communication,

c) Initial and ongoing marketing,

d) Demographics, vulnerability and financial sophistication of the various segments of the book,

e) Any legal advice received in terms of the product intervention,

f) Complaints or criticisms of any previous product interventions, or on any competitor products (to the extent that information is publicly available), and

g) Other external influences, for example, National Financial Ombud rulings, court case outcomes and the media.

2.8. The *member* should not only consider the policyholder *RBEs* that apply at a single point in time, for example, at the *product intervention* date, but should rather consider how *RBEs* are likely to develop into the future, as the policy term progresses.

2.9. The *member* should consider how future policy benefits which are not guaranteed, such as surrender values, paid-up values, maturity values, and claim values, will change after a *product intervention* has taken place, and that each benefit should be within reasonable expectation.

2.10. The *member* should also consider the extent that policyholder *RBEs* 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 *run-off plans* for closed books.

2.11. Where the abovementioned divergence is due to historically inappropriate or inadequate management of *RBEs*, 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 actions.

2.12. Where policies or portfolios are merged with another product or portfolio, the *member* should consider fairness across all policyholders that are affected – e.g., not only those who are migrating but also those in the receiving product / portfolio / fund.

A SET OF PRINCIPLES OF FAIRNESS

2.13. The *member* should agree a set of principles of fairness with the insurer upfront to guide the project and allow regular review of the project. These should include, but not be limited to, the following:

a) Compliance with all legal and contractual requirements, including, but not limited to, relevant regulations, Principles and Practices of Financial Management (PPFMs), and agreements applicable to any cohorts of business previously transferred.

b) The actions to be taken for a voluntary change – i.e. with the consent of each policyholder, including actions to be taken if policyholders are not contactable.

[4] Covered in APN 114: on Premium and Benefit Reviews

c) The actions to be taken if there is no intention to request consent for the changes to be made.

d) For policyholders that are not contactable under a voluntary change and for changes not requiring consent, the actions should ensure that, *for each policyholder*, each benefit and the premiums at the date of the *product intervention* and shortly after the *product intervention*, are materially similar (or better than those) immediately before the *product intervention*. (This is necessary to afford policyholders the opportunity to assess the impact of the change and exercise any options available to them without prejudice). In addition, *members* should consider how RBEs would be met in various future scenarios (e.g. investment returns or policyholder options). The *member* needs to document how the default actions were arrived at, including implications for policyholders that will be subject to the default actions.

e) Future benefits and premiums may diverge from those that would have occurred if the product intervention did not take place but the RBEs of policyholders should be considered, and there should be little or no changes to the RBEs at the point of the *product intervention*. However, all accrued guarantees should remain intact.

f) The level of service, and quality and frequency of communication should at least comply with any regulations and consider policyholders' past experience and expectations.

g) The fair treatment of benefits that are not yet allocated to specific policyholders such as bonus stabilisation reserves should be considered.

h) Should there be a material change in RBEs, or a particular benefit or guarantee can no longer be offered, the type and form (tangible or intangible) of compensation should be agreed upon. There should be a like-for-like reimbursement where possible, for example, a monetary reimbursement for a loss of a monetary benefit. If the reimbursement is intangible, careful consideration is required to ensure that policyholders are adequately compensated either with an alternative benefit, options, or guarantee, or with some tangible benefit. Some benefits (e.g. risk benefit definitions) may need to be retained as they cannot readily be compensated for without policyholder consent.

i) The methods and bases of calculations should be agreed upon. The *member* should also agree with the insurer whether further adjustments should be made if actual experience borne is different to the assumptions made in determining the compensation.

j) There should be no unfair profiting by the insurer as a result of the product intervention beyond what would have been permissible had there been no product intervention. However, second order impacts, for example, reduction in expenses through efficiencies, may be acceptable.

k) The allocation of the costs associated with the change between policyholders and the insurer should be considered.

l) Any cross-subsidies that existed before and after the change should be considered and assessed for fairness. This would include, but not be limited to, cross-subsidies between different:
    - generations,
    - types of benefits (for example, surrender values versus maturity values),
    - durations,
    - products (for example, endowments versus whole life policies),
    - premium payment pattern (e.g. level vs. increasing), and

- policy sizes.

Consideration should be given to the fairness of the introduction of any new cross-subsidies, for example, the reasonability of reduced surrender values in favour of increased maturity values.

m) Any additional principles of fairness regarding policies with Discretionary Participation Features are considered under section 4 (Discretionary Participation Product Considerations).

IMPACT ON OTHER STAKEHOLDERS

2.14. The *member* should consider the impact of changes on other stakeholders such as advisors and the views of trustees.

2.15. The changes may be complex and may require the assistance of other stakeholders. Therefore, the *member* should consider any costs associated with remunerating these change partners in formulating their opinions.

3. LEGAL CONSIDERATIONS

3.1. If the contractual obligations are vague or open to interpretation, the *member* should take guidance from market conduct regulations, RBEs of policyholders, PPFMs, Transfer Agreements, and entrenched practices of the insurer and the industry. The *member* should also advise the insurer to seek legal advice if further clarification is required. Engagement with the relevant regulators (e.g. FSCA) may also be considered.

3.2. If a contractual obligation can no longer be honoured or policy changes result in obligations no longer being honoured, for example, through a change in legislation or a change in business practice, the *member* should ensure that legal advice is sought.

3.3. The *member* should take account of all legal opinions and advice in formulating their opinions and providing advice to the insurer.

4. DISCRETIONARY PARTICIPATION PRODUCT CONSIDERATIONS

4.1. Whilst other factors mentioned in this framework are also relevant for products with discretionary participation features, further considerations in respect of this type of business are outlined below:

a) The tontine impact during the run-off of discretionary participation business can result in unfairness between different policyholders, both within the same generation and different generations. Inaction during the run-off period can therefore result in unfairness between policyholders.

b) Consolidation or intervention in which a product conversion rate of less than 100% is obtained may exacerbate both the tontine effect and other risks associated with legacy products. As such, consolidation or intervention without policyholder consent is the most likely form such a project will take and as such, demonstrating that every policyholder is in a materially similar or better position allowing for the principles in Par 2.13(d).

c) The *member* should ensure that the bonus stabilisation reserves (BSRs) of the discretionary participation funds being consolidated are aligned in accordance with *RBE* and the PPFM through special bonus declarations or other means available prior to consolidation to ensure fairness between the policyholders of the different funds.

d) The *member* should take caution that enhancements to benefits funded by the BSR should not be communicated as benefit enhancements because of the consolidation. BSRs represent policyholder monies that are yet to be distributed.

e) The *member* should ensure that any alterations or consolidations at the time of the *product intervention* are done in line with the stipulations of the PPFMs of the fund(s). In the absence of stipulations, the member should ensure that any changes made are expected to result in a similar (or better) outcome for the affected policyholders. This expectation should consider the expected costs and variability in outcomes between leaving the fund as is and the alternative.

f) Future bonuses and investment strategies should also pay attention to the relevant stipulations in the PPFM. The *member* should ensure that changes to the future expected bonuses and the investment strategies place policyholders in a similar or better position.

5. CLIENT COMMUNICATION

5.1. Members should ensure that a clearly defined communication strategy is documented and put in place for any *product intervention*. The following should be considered:

a) The communication should comply with the requirements of any applicable regulations such as the PPRs and any contractual obligations.
b) All impacted policyholders should be communicated with regarding the *product intervention*, regardless of whether consent is being sought or not.
c) The timing and frequency of the communication should allow policyholders sufficient time to make a decision or take appropriate action.
d) The communication should be clear and easy to understand (follow plain and simple language principles).
e) Sufficient information should be provided to enable a policyholder to make an informed decision, including information regarding any alternative options for the policyholder. It should be clear to the policyholder what default options will apply if the policyholder does not make an active selection.
f) Any changes to the terms and conditions following a *product intervention* should be clearly defined.
g) The communication should clearly articulate what action is expected of the policyholder, if any. The communication should detail what support is available to the policyholder if they need more information, assistance or advice in making a decision. Any communication strategy should have due consideration for both intermediated and un-intermediated policyholders.
h) The communication should provide details of how the policyholder can lodge a complaint should the policyholder not be satisfied with the outcome of the *product intervention*.

5.2. The quality of contact data should be assessed before embarking on a communication campaign for a *product intervention*. Given the typically poor quality of legacy policyholder data, the *member* should consider what actions might be necessary to improve the quality of the data. The *member* should also consider what steps will be

taken if customers are not contactable. An insurer should be able to demonstrate what reasonable steps were followed to contact the customer.

5.3. Any default action needs to be clearly articulated in any communication to policyholders.

5.4. The communication strategy should detail how subsequent objections following the *product intervention* will be dealt with. The *member* should consider consistency across policyholders when dealing with subsequent objections.

6. FUTURE PRODUCT DESIGN CONSIDERATIONS

6.1. This section includes matters that *members* may consider when designing new products to avoid some of the complexity and challenges presented by current legacy products as addressed in this APN.

6.2. The *member* should design the product with future product closure requirements in mind. To ensure an easy product closure, the *member* should avoid unnecessary complexity as far as possible.

6.3. The *member* should consider taking immediate action as soon as new regulation becomes available or environmental (e.g. market) changes occur to avoid delays impacting RBE and fair treatment of policyholders.

6.4. The *member* should endeavour that every product has a good servicing capability as this will allow the policyholder to make changes on a voluntary basis as soon as the policyholders' needs or the market changes.

6.5. The *member* should consider including clauses in the policy wording that will enable product interventions to be in the best interest of the policyholder and the shareholder. These clauses should include principles that will be followed in the *product intervention* instead of specific terms and conditions that can be very binding and not appropriate at the time. Different clauses to consider are the following:

a) Sunset clauses will introduce the ability to convert into another product once the product reaches the end of its life cycle. These clauses should include wording that will allow changes to be made to the product even if the insurer is unable to contact the policyholder.
b) A living terms and conditions clause will allow the change of ancillary definitions considering new technology, medical advances, and new illnesses. The *member* should consider regular claim definition updates rather than a big change in definition at the time of *the product intervention*. The *member* should consider whether any claim definition updates will result in any changes in premiums.
c) Clauses in the policy wording that will allow the insurer to change the design of the product in light of changes in regulation.
d) Defaults that will be applied for premium reviews could be included in the terms and conditions of the policy document.
e) For linked investments the *member* should allow for a clause to be able to change the linked asset if specified conditions change.