ACTUARIAL SOCIETY OF SOUTH AFRICA

Quantifying Risk, Enabling Opportunity.

Market Conduct Risk in General Insurance

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Market Conduct Committee

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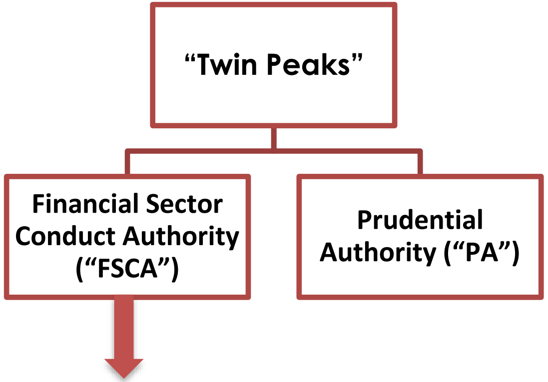
A brief recap/overview

Financial Sector Regulation Act, 2017



- Operates in conjunction with subsidiary legislation
- Including the Conduct of Financial Institutions Act (still awaited)
- But Financial Sector Regulation Act enables regulators to push ahead
- For example many Conduct Standards issued or in pipeline

What is “Market Conduct”?

Purpose and values

Recruitment and onboarding

Training

Products – design, pricing, promotion, post-sale services

Performance management including remuneration

Complaints / remediation

Communication

Governance

What is "Market Conduct"?

"TCF will require regulated firms to consider their treatment of customers at all stages of their relationship with the customer, from product design and marketing, through to the advice, point-of-sale and after-sale stages. Firms will ultimately be required to demonstrate – through management behaviours and monitoring – that they are consistently treating customers fairly throughout the stages of the product life cycle to which they contribute."

FSB TCF Roadmap document, 2011

What is “Conduct Risk”?

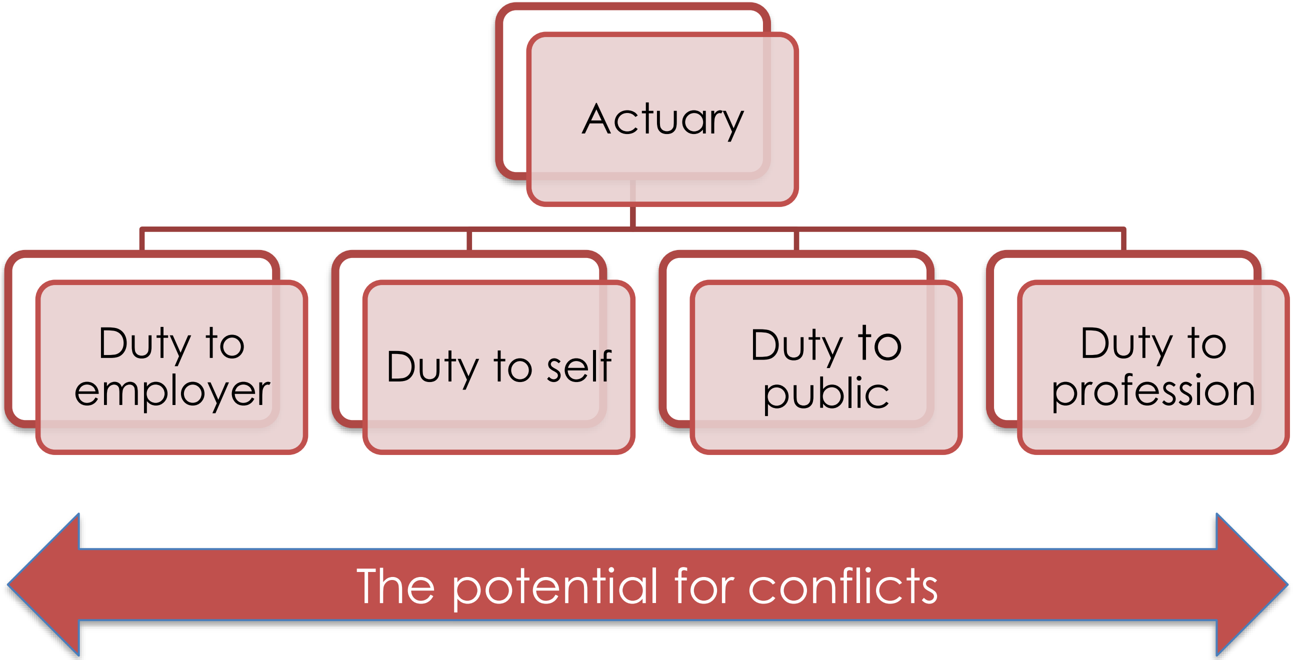
“Business” practices that can adversely affect customers, the organisation, other employees, and the marketplace.

Business -> owners, employees, representatives/agents, partners

Consequences for the Actuary:

- Personal liability
- Personal reputational damage
- Reputational damage to the profession

Possible Risk Framework



Impact of social media

Some topical conduct issues

Life Insurance

- Underwriting practices
- Premium reviews
- Appropriateness of commission structures

General Insurance

- Pricing practices

Health Insurance

- Complexity of the medical aid packages
- Regulatory resistance to Low cost benefit options

Investments

- Return expectations
- Transparency of fees especially penalties
- The double dipping charging structure
- "Institutional" versus "retail" fee structures

Banking

- Published interest rates
- Blacklisted customers
- Can borrowing be made too easy?
- Lending practices
- Transparency of fees

Retirement Matters

- Penalties on Retirement Annuity terminations
- Living annuities sold in preference to guaranteed annuities

Damages

- Fees charged for actuarial reports/calculations in particular charging more for RAF reports than for other clients

Other

- Loyalty programmes
- Socio-economic pricing differentials
- "Free money"
- "Free services"
- … and what else…?

Conduct issues relevant to General Insurance

- Pricing practices
- Risks unknowingly not covered by the policy
- Claims repudiation due to hidden T&Cs
- Pandemic related responses

General Insurance

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Other

General Insurance : Examples in practice

- Premiums based on Sum Insured that reduce over time while premiums increase over time
- Market value vs Retail value for write-off claims
- Impact on shortfall for financed vehicles
- Repudiation of claims based on hidden T&Cs (gear locks, tracking devices)
- The "named driver" loophole
- Price walking
- Discriminatory rating factors
- Disadvantaging the disadvantaged

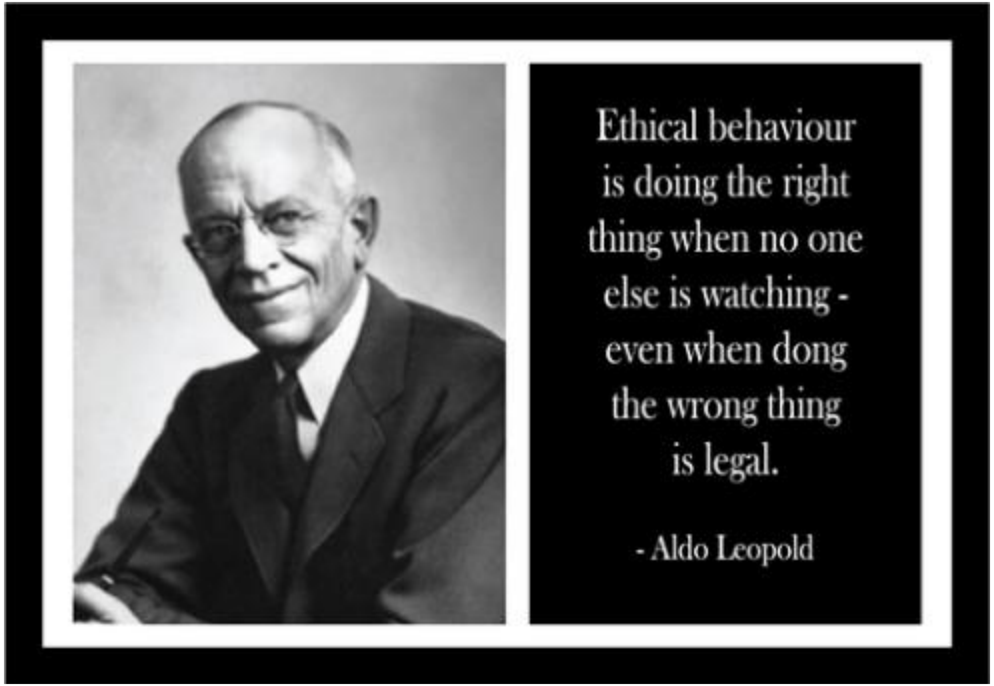
MOTOR PRICING

How can the general insurance actuary assist:

Product development and Pricing actuaries must play a role in embedding a culture of TCF within their organization

Underwriting procedures supported by technical actuarial pricing techniques should be monitored as part of the ACC for "unfair adjustments"

Claims procedures can also be indirectly monitored by the reserving actuary



Questions?

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