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Assessment of expected Microinsurance Regulatory Impact: The case of a funeral administrator

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1. Introduction

On 28 July 2011, the South African National Treasury published a Policy Document[1] outlining detailed proposals for a microinsurance regulatory framework for South Africa. A regulatory roadmap setting out the planned implementation of the regulatory provisions in this regard is expected in early 2014. The proposals in the Policy Document provide a detailed overview of the direction that microinsurance legislation is likely to take, though the exact requirements are not yet cast in stone.

The Policy Document follows from an earlier Discussion Document on the Future of Microinsurance Regulation published in 2008. In developing the final Policy Document, National Treasury consulted widely and a number of stakeholders made formal submissions on the 2008 Discussion Document.

As part of its ongoing support to microinsurance development in South Africa, FinMark Trust has funded this "microinsurance readiness assessment" on a funeral administrator as a potential candidate for the new microinsurance licence proposed in the Policy Document. The funeral administrator has chosen to remain anonymous and will be referred to as "the administrator" throughout this document. This assessment is intended to inform both the administrator's compliance strategy, should the microinsurance regulatory framework be implemented, as well as the finalisation of the regulation.

Obtaining a microinsurance license may be regarded as a natural next step for the administrator as it progresses from distributing and administering funeral insurance policies to underwriting them itself. But will the administrator be large enough to meet the financial commitments of a microinsurance license in terms of capital and reserving requirements? And are there likely to be any other major implications of the proposed microinsurance regulation?

Section 2 of this document briefly introduces the administrator. Section 3 summarises the main impacts on the administrator of obtaining a microinsurance license and complying with the proposed legislation. The ability of the administrator to meet the financial commitments of a microinsurer is then examined in more detail in section 4 together with an analysis of any other potential financial impacts of obtaining a microinsurance license. Finally section 5 considers the potential policy lessons that emerge from this readiness assessment.

The following Appendices supplement the main text:

- A detailed line-by-line analysis of the potential impacts of complying with the proposed legislation is provided in Appendix 1
- Appendix 2 outlines FAIS registration requirements

[1] The Policy Document, titled "The South African Microinsurance Regulatory Framework" can be found at http://www.treasury.gov.za/publications/other/MicroinsuranceRegulatoryFramework/default.aspx . An overview of its contents has not been included in this report.

- Appendix 3 provides detailed information relating to the expected financial position of the administrator under two scenarios: (1) it continues operating as an administrator and (2) it obtains a microinsurance license.

2. Background information on the administrator

The administrator started trading in 2005. It is incorporated as a sole member close corporation that administers group funeral schemes for a variety of entities, but predominantly for funeral parlours. The schemes are fully underwritten by a registered insurance company. The administrator currently administers approximately 110 schemes covering approximately 30,000 policies and administers annual premium income of R4.5m (2011 financial year). Its relationship with other stakeholders in the insurance value chain is shown in Figure 1.

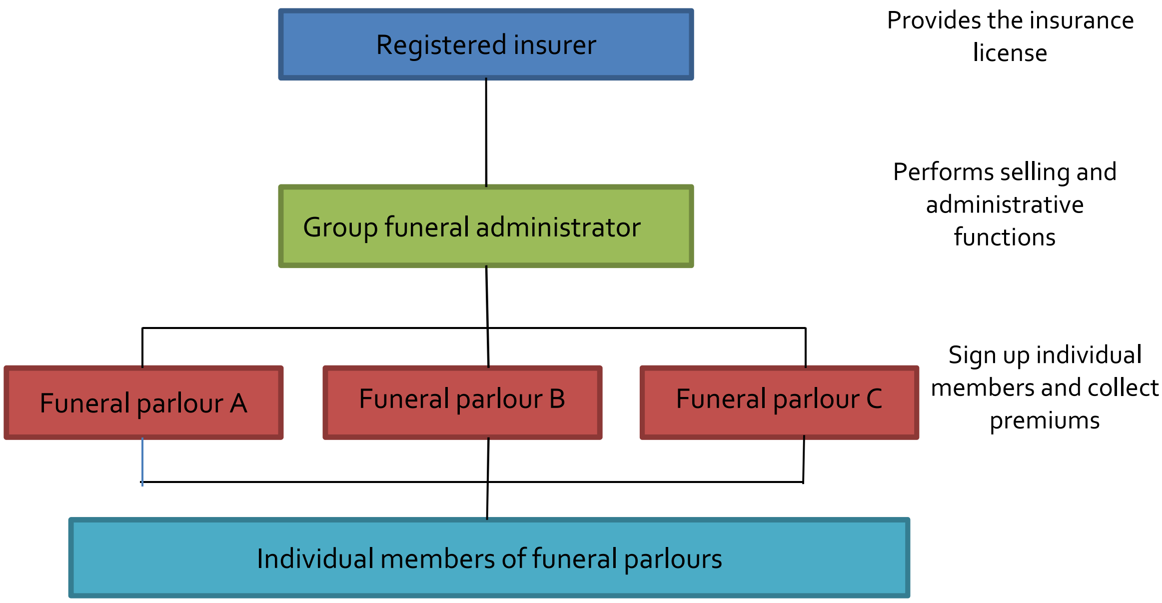

Figure 1: current relationships between stakeholders in the current insurance value chain

As Figure 1 shows, the administrator performs both sales and administrative functions on behalf of the underwriter. The sales function involves signing up new funeral schemes for the group funeral product underwritten by the insurance company. Administrative functions include premium collection, maintenance of membership records and claim assessment and payment. The administrator deals with the group scheme client (e.g. the funeral parlours) and has no direct contact with the individual members of the funeral schemes. Individual members are signed up to the group funeral scheme by the group scheme client (e.g. the funeral parlours) who also collects premiums and pays them over to the administrator. Claims are notified to the administrator via the group scheme client. Claim payments are made to the group scheme client, which would typically use the cash payment to provide the contracted funeral services to the member's family (in the case of a funeral parlour). The administrator also assists its group scheme clients with their own administration, having moved a number of funeral parlours from paper based administration systems to electronic systems.

The administrator is a registered Financial Services Provider licensed to provide advice and intermediary services under the Financial Advisory and Intermediary Services (FAIS) Act of 2002. Its group scheme clients are registered as its representatives.

The administrator distributes and administers only funeral products. The products provide a lump sum cash payment to the group scheme client on the death of one of the individual lives assured. Policies cover immediate family members and extended family members. The maximum cover provided is R18,000, the current maximum applicable to assistance business[2]. The average sum assured is approximately R5,000 at an average monthly premium of between R15.00 and R20.00.

3. Implications of obtaining a microinsurance license

The administrator has expressed an interest in obtaining a microinsurance license so it can progress from being a funeral scheme administrator to an entity that underwrites the risks that it currently administers. The proposed microinsurance regulation will not force the administrator to change and it can continue operating in its current form with little to no impact from the proposed regulation. It is thus the administrator's own choice to explore the viability of obtaining a microinsurance license, based on the potential opportunity to grow the current business that a microinsurance license would represent.

This report considers the impacts on the administrator of obtaining a microinsurance license as per the provisions contained in the Policy Document, including estimates of the financial viability of such a move. The impacts are measured against the status quo (i.e. the administrator continues operating in its current form) with the key implications summarised in this section. A detailed assessment against the proposals contained in the Policy Document is shown in Appendix 1.

The main expected implications are:

Taking over the underwriting function from the incumbent insurer. Should the administrator obtain a microinsurance license, the incumbent insurer will no longer form part of the value chain, which will now stretch from the members of the group funeral schemes to the new microinsurance company. The relationships between stakeholders under this new scenario are illustrated in Figure 2. The key difference from the status quo is that the new microinsurance company will now perform both the administrative and the underwriting functions.

[2] The limit on assistance business has been increased to R30,000 with effect from November 2013. The FSB's information letter in this regarded is available on the FSB's website: https://www.fsb.co.za/Departments/communications/Documents/Information%20Letter%209%20of%202013.pdf

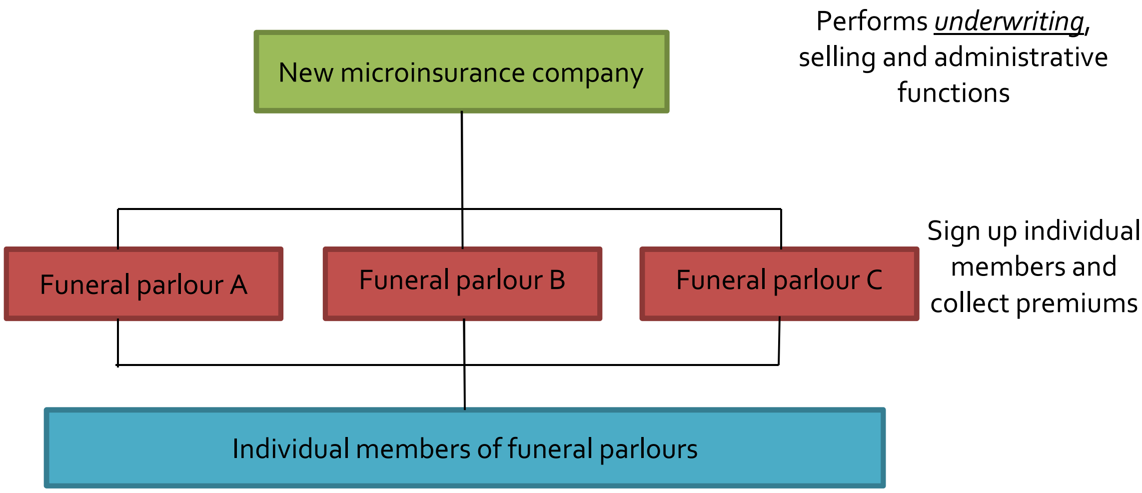

Figure 2: relationships between stakeholders in the value chain where the administrator becomes a microinsurer

Expanded product opportunities. The Policy Document proposes a cap of R50,000 per life for death events. This cap will allow the new microinsurance company to increase its maximum cover level from R18,000[3] to R50,000 if the need arises. Microinsurers will also be permitted to underwrite other long-term risks and short-term risks. These two changes provide substantial opportunity for the new microinsurance company to grow its business even further once the change to a microinsurer has been sufficiently bedded down.

Grace periods increase the cost of claims. The Policy Document proposes a minimum grace period of one month, which is increased by an additional month for each full year the policy has remained in force up to a maximum grace period of six months. This provision will directly increase the number of claims that will be paid by those lives that die during the longer grace period. Members are currently not covered if a premium is not received for him/her for a particular month. The cost of additional claims is estimated to lie between R367,500 and R500,000 during the first year of operation[4] and will grow in line with the in force book.

There is potential for the grace period provisions to have a significant impact on administrative processes and systems for applicants of a microinsurance license. This will particularly be the case where insurance is underwritten on a group basis with limited member data being stored. The lack of data will not pose a problem in the administrator's case as it already records monthly premiums and other relevant data at the member level.

[3] The limit on assistance business has been increased to R30,000 with effect from November 2013. The FSB's information letter in this regarded is available on the FSB's website: https://www.fsb.co.za/Departments/communications/Documents/Information%20Letter%209%20of%202013.pdf

[4] A number of assumptions were made in order to estimate the additional cost relating to the grace period proposal. The following key assumptions were made: the average sum assured is R5,000, the claim rate per policy is 0.028 per annum and the new microinsurance company will commence trading with 30,000 existing policies. Further assumptions relating to the in-force durations of policies and the proportion of policies that have arrear premiums have been based on detailed policy data for a large friendly society as the administrator did not provide the level of data required to make accurate assumptions.

No expected FAIS implications. As the administrator is already FAIS compliant, with the administered funeral parlours as its representatives, the move to a microinsurance license will not entail material impacts or any additional costs on the FAIS front.

Limited expected institutional implications. The administrator is trading as a close corporation, which will not be permitted to obtain a microinsurance license. It is expected the close corporation will convert to a private company. The conversion process is similar to that of registering a new company and holds no significant implications for the administrator.

No impact expected from product regulation. The funeral policies administered by the administrator fit quite well with the proposed microinsurance product standards and there are no significant product related impacts besides the longer grace period, even for existing members.

Reserving and capital requirements require substantial funding from shareholders. The Policy Document prescribes the basis for calculating the reserving and capital requirements for microinsurers. The financial projections described in more detail in section 4.2 show that the initial reserving requirements cannot be met from expected net cash flows and therefore must be financed by shareholders. The minimum capital requirement for microinsurers is R3m. However, the Policy Document proposes that microinsurers be allowed to build up their capital from an initial minimum amount of R1.5m to the prescribed minimum over the first three years of operation. Section 4.3 below shows that shareholders will be required to inject the initial capital amount of R1.5m and most of the additional R1.5m capital required over the following three years in order to reach the minimum required. This is because the new microinsurance company is expected to be only marginally profitable, with little surplus being available to contribute to meeting the minimum capital requirement.

Microinsurance license has a mixed impact on profitability. The financial projections discussed in more detail in section 4.4 show that profitability for the new microinsurance company is expected to be significantly lower than is currently the case during the first year of operation. Thereafter, the option that provides the higher expected profits depends on premium volumes, with neither option expected to provide substantially higher profits than the other. The significantly lower profits during the first year of operation are caused by the need to set up the prescribed reserves and, to a lesser extent, the microinsurance related setup costs. The volume of premium income and profit margin is expected to be insufficient to offset the reserving requirements and setup costs. In later years, the assumed profit margin is largely offset by the increased cost of claims arising from the longer grace periods. A 10% of premiums profit margin was assumed for the financial projections, which will in future be retained by the new microinsurance company rather than passed on to the underwriter. This additional margin is the main incentive for considering changing from an administrator to a microinsurer. However, the microinsurer is expected to be too small for the additional margin to substantially exceed the costs associated with holding a microinsurance license.

4. Modelling the financial impact

A model has been developed that estimates the financial impact on the administrator of obtaining a microinsurance license by comparing projected financials of the new microinsurance company against those of the administrator if it were to continue operating in its current form. The model uses the 2010 and 2011 annual financial statements as the projection base. The projections assume the microinsurer begins operating in January 2014. This will not be the case, but the comparisons in this section remain valid. The projections have been performed for a 5-year period from 2014 to 2018. Important assumptions used in the model are provided in Box 1. The projected cash flows as well as reserving and capital requirements are shown in Appendix 3.

Box 1: Key assumptions made for the financial projections

The financial projections made for this readiness assessment are based on a number of assumptions that have a significant bearing on the results presented. The results are therefore shown for two different growth scenarios, a low growth and a high growth scenario, in order to reflect the uncertainty of the financial projections. Where possible, assumptions have been based on annual financial statements provided by the administrator for 2010 and 2011.

The financial projections were based on the following key assumptions:

- Premium growth: the annual growth rate assumed for the low and high growth scenarios was 4% and 8% respectively. The growth rate for the high scenario was based on the growth rates evident in the financial statements and prior budget estimates as well as a discussion with management. The high scenario growth rate was halved for the low growth scenario.

- Claims were assumed to make up 63% of the gross premium. This assumption was derived from the ratio of premiums paid to the underwriter to gross premiums (70%) contained in the financial data provided and the assumption that the current underwriter's administration and profit loading was 10%. This latter assumption is a key driver of the profitability shown in this readiness assessment since it becomes an explicit source of profit for the new microinsurance company.

- The administrator's current expense levels were assumed to increase at an annual rate of 2.5% and 5% for the low and high growth scenarios respectively. Other expenses were assumed to grow at 5% per annum.

- The accumulated surplus is assumed to be zero at the start of 2014 (i.e. no surplus is retained by the administrator when it becomes a microinsurer). The accumulated surplus for the administrator was also assumed to be zero at the start of 2014 for comparison purposes.

4.1. Operating expenses and claims

Becoming a microinsurance company will lead to once-off expenses such as those incurred to register a company and obtain the microinsurance license. Such costs are not expected to be particularly significant.

Increases are also expected to ongoing operating expenses as a result of obtaining a microinsurance license. The increase in operating expenses is once again not expected to be substantial with the main operating expenses relating to directors' remuneration and the cost of communicating to clients when premiums are in arrears.

Finally, there will be an increased cost from additional claims that arise during the extended grace periods, which was also highlighted in section 3 above. The cost of is estimated to lie between R367,500 and R500,000 during the first year of operation[5] and will grow in line with the in force book. This is a substantial additional cost given the expected size of new microinsurer.

Figure 3 below shows the expected increase in costs as a result of obtaining a microinsurance license, split between once-off (i.e. of a capital nature) and ongoing costs, and claims. The additional costs are only shown for the low growth scenario as they are very similar for both scenarios.

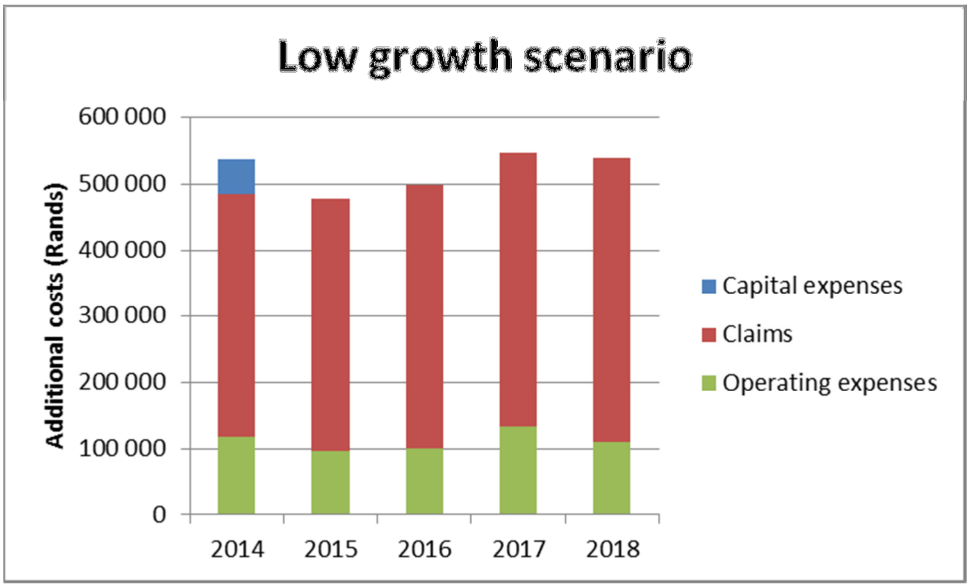

Figure 3: expected increase in costs and claims from obtaining a microinsurance license

The additional claims expected to arise from the grace period requirement are substantially higher than the expected increase to operating costs and have a material impact on the microinsurer's expected profitability. The expected once-off costs are minimal and only incurred in the first year of operations.

4.2. Reserving requirements

The new microinsurance company will be required to hold reserves to meet future policyholder liabilities. Part of the surplus generated will be set aside to cover the required reserves, to be calculated on the basis prescribed by the Policy Document. Policyholder

[5] A number of assumptions were made in order to estimate the additional cost relating to the grace period proposal. The following key assumptions were made: the average sum assured is R5,000, the claim rate per policy is 0.028 per annum and the new microinsurance company will commence trading with 30,000 existing policies. Further assumptions relating to the in-force durations of policies and the proportion of policies that have arrear premiums have been based on detailed policy data for a large friendly society as the administrator did not provide the level of data required to make accurate assumptions.

reserves are not available for distribution to shareholders. Figure 4 below shows the expected reserving requirements on both the low and high growth scenarios.

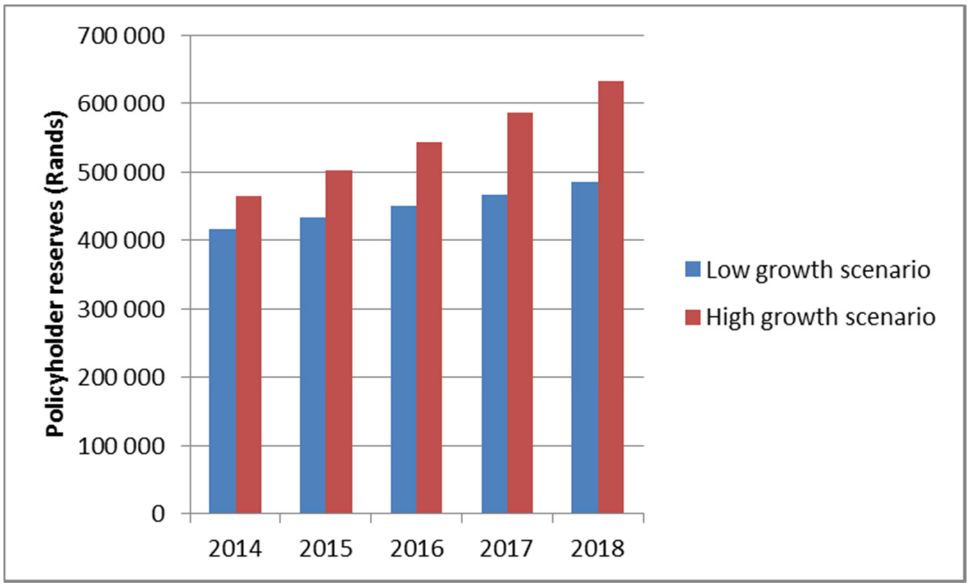

Figure 4: reserving requirements for the microinsurer on the low growth and high growth scenarios

An operating loss is expected during the first year of operations. Therefore, the funds to cover the reserves required at the end of 2014 (the assumed first year of operating) will have to be financed by shareholders. In subsequent years, transfers will be required from the surplus arising in each year to cover the *increase* in reserves. The surplus arising in each subsequent year is expected to exceed the required increase in reserves. The impact of reserving requirements on surplus arising is shown in section 4.4. The reserving requirements will grow in line with the expected growth in premium income.

4.3. Capital requirements

The Policy Document requires all microinsurers to hold a prescribed amount of capital based on net written premiums, subject to a minimum amount of R3m. Figure 5 below shows the required level of capital (the red line). The required capital under both the low growth and high growth scenarios is expected to remain at the minimum level of R3m throughout the 5-year projection period.

Microinsurers will be permitted to build capital up to the minimum required level over a 3-year period starting from the enactment date of the proposed microinsurance regulation, subject to a minimum amount of R1.5 million at start-up. The solid bars in Figure 5 show how capital is expected to build up towards the minimum requirement of R3m. Since the surplus arising is relatively small or negative during the first three years, it has been assumed that shareholders will inject the initial R1.5m required at the start of 2014 followed by additional injections of R0.5m at the end of 2014, 2015 and 2016 to reach the required capital amount after three years.

The figures shown represent the amount of capital required at the end of the year. The capital requirement for 2013 therefore represents the amount of capital required before operations commence at the start of 2014.

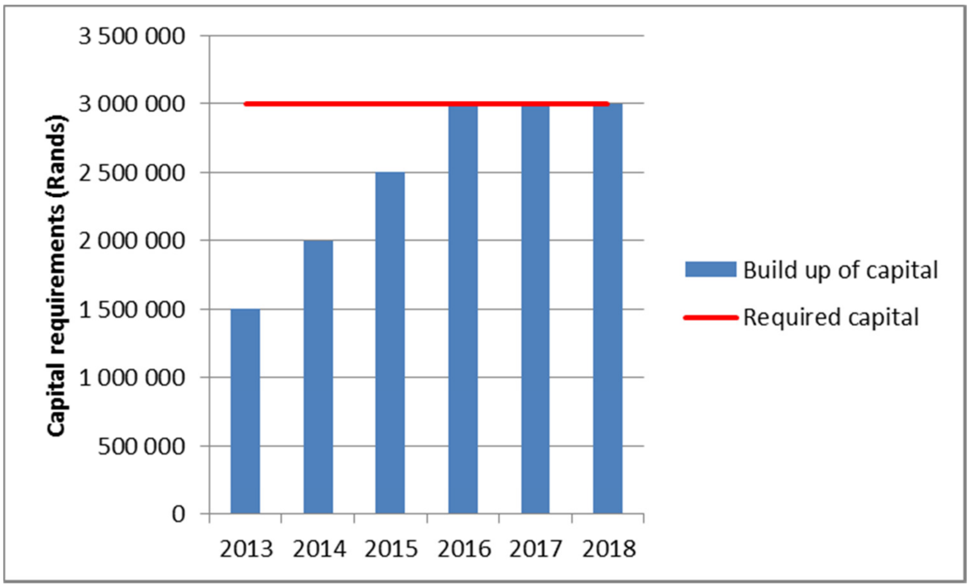

Figure 5: minimum capital requirements and how capital may build up to the minimum requirement under both low growth and high growth scenarios

The capital requirements are substantial relative to the level of expected profits, resulting in low expected return on capital. This is explained in further detail in section 4.4.

4.4. Impact of microinsurance license on profitability

This section compares the annual surplus expected to arise from the new microinsurance company against that if the administrator were to continue operating unchanged. The annual surplus for the administrator is calculated as the net cash flow for the year (revenue less expenses) plus investment returns on any accumulated surplus minus corporations tax. The annual surplus for the microinsurer is calculated in a similar way, but also reduced by transfers to reserves.

The solid lines in Figure 6 below compare the expected annual surplus (before adjustments for investment returns, tax and transfers to reserves) of the microinsurer against that expected for the administrator on the low growth scenario. The dashed lines compare the annual surplus after adjustments.

Surplus before adjustments is expected to be lower for the microinsurer in all years, despite the assumed 10% administration and profit loading that is taken by the current underwriter which will be retained by the new microinsurance company. The additional claims arising from the prescribed longer grace periods are expected to exceed the 10% margin. The expected lower profitability of the microinsurer is illustrated by the gap between the two solid lines in Figure 6 and Figure 7.

The administrator's surplus after adjustments (the dashed blue line) is marginally lower than that before adjustments, which is largely the impact of corporations tax.

The microinsurer's surplus after adjustments (the dashed brown line) is significantly lower than that before adjustments in 2014 due to the reserves that must be established at the end of 2014. Thereafter the surplus after adjustments is significantly higher, since investment returns on reserves and capital are expected to more than offset the required increases in reserves.

The comparison of surplus after adjustments (the two dashed lines) illustrates the impact of reserving requirements in 2014. Thereafter the combination of the 10% margin which is retained by the microinsurer and investment returns on reserves and capital more than offset the increased cost arising from the grace period provisions to give the microinsurer a higher surplus after adjustments. However, the difference is not that significant.

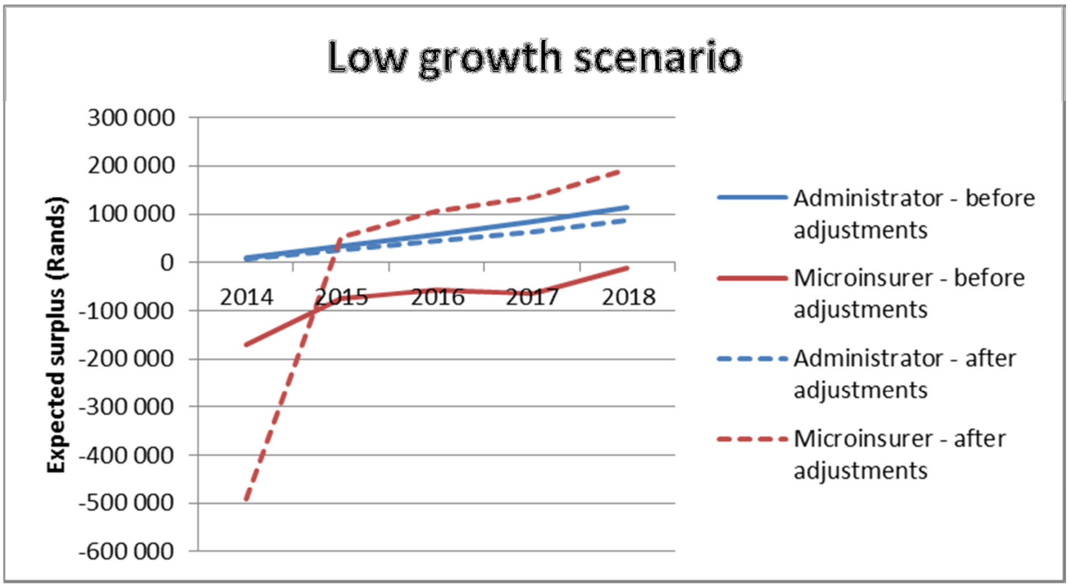

Figure 6: a comparison of surplus (before and after adjustments) between the microinsurer and the administrator on the low growth scenario

Figure 7 below shows the same comparison for the high growth scenario. The comparison shows very similar results to the low growth scenario, although the microinsurer's profits remain lower than the administrator's for longer.

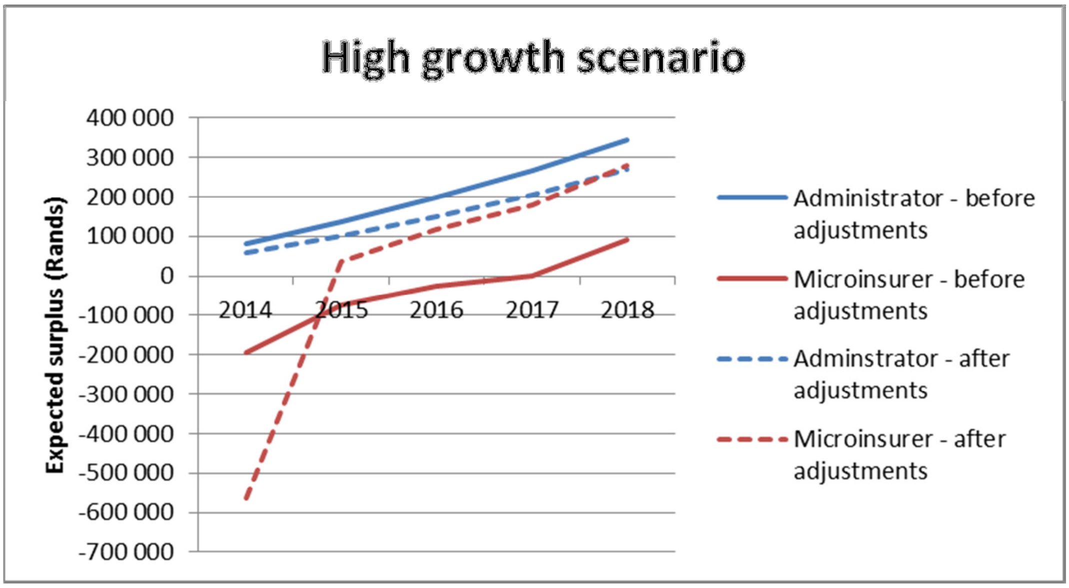

Figure 7: a comparison of surplus (before and after adjustments) between the microinsurer and the administrator on the high growth scenario

Expected return on capital is very low. The expected surplus for the microinsurer is not substantially different than that for the administrator. This is despite shareholders having to contribute significant amounts of capital to cover the microinsurance capital and reserving requirements. It should be no surprise that the expected return on capital is very low, as shown in Table 1. Such low expected returns are unlikely to attract investors (a return of 15% to 20% would usually be regarded as good).

	2014	2015	2016	2017	2018
Low growth scenario	-31%	2%	4%	4%	6%
High growth scenario	-36%	1%	5%	6%	9%

Table 1: expected return on capital on the low and high growth scenarios

Small size impacts attractiveness of microinsurance license. The administrator currently administers approximately 30,000 funeral policies with an annual premium income of R4.5m (2011 financial year). However, the relatively low levels of profitability combined with the proposed capital requirements appear to make a microinsurance license an unattractive investment for the administrator. Sensitivity analysis has shown that a microinsurance license would have been attractive had the administrator been materially bigger (e.g. annual premium income of R10m).

5. Policy lessons for microinsurance framework

Overall, there appear to be few areas of the proposed microinsurance regulatory framework that will present significant barriers to the administrator's aspirations of becoming a microinsurer (refer to Appendix 1 for a detailed impact analysis of the provisions contained in the Policy Document) other than its size. This implies that the proposed regulation has been well thought through and designed.

Proposed market conduct regulation is unlikely to have a significant impact. The situation of the administrator with respect to the proposed market conduct regulation is markedly different when compared against the friendly society that was the subject of the previous readiness assessment[6]. The impact is insignificant in the administrator's case because it has a fairly limited distribution footprint and already complies with the proposed regulations. This was not the case for the friendly society that was previously assessed.

No significant impact expected from institutional requirements. The close corporation under which the administrator operates will be converted into a private company. This process is similar to registering a new company and does not involve any material implications.

[6] The previous microinsurance readiness assessment was conducted on the OAC Burial Society. The main policy lessons included: (1) that market conduct regulation may be a substantial barrier to entry, but will be dependent on fit and proper requirements; (2) grace periods will substantially increase the amount of benefits paid; and (3) the proposed institutional, prudential and product regulation is not expected to have a material impact. The full report can be found at: http://cenfri.org/documents/microinsurance/2013/OAC%20readiness%20assessment.pdf.

The main expected areas of impact, and the policy implications thereof, are:

Prudential requirements make a microinsurance license unattractive to the administrator. The financial analysis presented in section 4 shows that the administrator is expected to be too small to be an attractive proposition for investors, with the expected return on capital below 10%. This is despite an annual premium income of between R5m and R8m under the two financial scenarios considered. The low return on capital is caused by the capital requirements and, to a lesser extent, the reserving requirements contained in the Policy Document. These requirements are likely to be a substantial barrier to the administrator obtaining a microinsurance license. The conclusion is that prospective microinsurance licensees must have the potential to produce a minimum annual premium income that will be somewhat higher than R8m.

Grace period requirements have a substantial impact on benefits paid. The grace period structure proposed by the Policy Document holds a material cost implication for the new microinsurer. However, it must be noted that the actual cost will depend on the proportion of policies that are in arrears with their premiums and how long policies have been in force. The administrator did not provide data to perform an accurate calculation of the cost and assumptions have been made based on data from a previous readiness assessment, obviously leading to a similar result. It is proposed that policymakers consider giving microinsurance license applicants the option to apply the grace period retrospectively, but make it compulsory only for future members. The grace period proposal as it currently stands may place potential microinsurers in financial difficulty if they are not easily able to increase premiums in response to the increased benefit costs or do not have a substantial accumulated surplus.

Potential for extensive policy administration implications. The grace period requirement noted above and the requirement to notify policyholders when they skip premiums are two fairly minor provisions contained in the Policy Document. However, both require administrative records to be kept at the individual member level rather than on a scheme level. This may have substantial administrative implications for potential microinsurance licensees that currently perform their administration only at the scheme level. Administration systems may need to be upgraded and additional administration capacity may be required. Both will have cost implications that could be substantial. However, this is not the case for the administrator since both its administrative systems and existing capacity are expected to be sufficient to administer the provisions contained in the Policy Document.

Treatment of existing members must be carefully considered. The funeral policies administered by the administrator fit quite well with the proposed microinsurance product standards and there are no significant product related impacts besides the longer grace period, even for existing members. Other potential microinsurance license holders may not be in such a fortunate position with existing products having to change substantially. It will be important to consider the extent to which the proposed product standards should be applied to existing policyholders. On one extreme, a potential solution is to make compliance with product standards optional for existing policies. But this could give rise to significant prudential risk (e.g. via cash back benefits or products with long term guaranteed benefits), which is contrary to one of the objectives underlying the product standards, linking to the proposed reduced prudential regulation. On the other extreme all existing policies could be forced to comply with the proposed product standards, with potentially significant impacts on existing policies. For example, if a funeral product provides regular cash back benefits, there should be substantial reserves to meet future benefit payments. The cash back benefit will be removed to comply with the proposed product standards and, to be fair, the reserves should be distributed to those who would have been entitled to the benefit. Such a process would have substantial practical implications. A landscape survey will be required to assess the prevalence of non-compliant products and the reasons for non-compliance before a solution can be recommended.

Appendix 1: Impact assessment

The impact assessment matrix below is structured according to each of the main aspects covered in the microinsurance Policy Document. The policy framework provisions, the administrator's current status in that regard, as well as the implications of applying for a microinsurance license are discussed for each of the main aspects of the Policy Document.

	Microinsurance policy framework compliance requirements	Current status/position of the administrator	Alternative 1: obtain microinsurance license
1. Institutional regulation			
a. Institutional forms	Organisations that provide guaranteed benefits to members or have membership in excess of 2,500 lives will be required to register as a microinsurer or be underwritten. The institutional forms permitted to register as a microinsurer are public and private companies and co-operatives. The Policy Document proposes that Friendly Societies will be phased out as an institutional form.	The administrator consists of two institutions: 1. A group funeral administrator that provides funeral broking and administration services underwritten by a registered insurance company. 2. An independent organisation that sells individual funeral policies administered by the administrator and underwritten by a registered insurance company. Both institutions are registered close corporations.	The administrator will need to transform from a close corporation to one of the institutional forms that are permitted to hold a microinsurance license. A private company is the obvious choice of institutional form. The organisation selling individual funeral policies is expected to continue operating as a close corporation that distributes the new company's microinsurance products. As such, it has been disregarded in the remainder of this assessment.
b. Corporate governance			
• Board of directors	Corporate microinsurers must have a board consisting of at least 4 directors, of which at	Both the administrator and the independent organisation selling	The board of the new company will have to be expanded to

	Microinsurance policy framework compliance requirements	Current status/position of the administrator	Alternative 1: obtain microinsurance license
	least 2 should be non-executive. At least 1 of the non-executive directors must be independent[7]. In the case of a profit company, shareholders must elect at least 50% of the directors (S.66(4) of the Companies Act). Meetings of companies are regulated in terms of S.61 to S.65 of the Companies Act and require amongst other things the following: • Minimum notice period for shareholder meetings is 10 days for private companies. • Majority for a special resolution is 75% of voting shares and for an ordinary resolution 51%, but the Memorandum of Incorporation may change these percentages within limits. • A quorum for all resolutions is 25% of voting shares or as stipulated in the Memorandum of Incorporation. • Public companies must convene an AGM once every calendar year and not more	individual policies are sole member close corporations.	comply with the requirements for a microinsurer: at least four directors, two being non-executive of which at least one must be independent. A concern has been raised about the ability to find appropriate candidates for the directorships. Directors are typically remunerated per meeting attended. This assessment assumes each director will receive R5,000 per meeting and that two board meetings will be held each year. The sole member of the close corporation will most likely be the only shareholder of the new microinsurance company. Thus shareholder meetings will not be an issue.

[7] Section 14(1)(dd) of the Co-operatives Act 14 of 2005 requires all directors to themselves be members of the co-operative. This contradiction between the Co-operatives Act and the Policy Document must be resolved during the legislation drafting process.

	Microinsurance policy framework compliance requirements	Current status/position of the administrator	Alternative 1: obtain microinsurance license
	than 15 months after the previous AGM. In the case of co-operative microinsurers, the board must be elected in accordance with the constitution of the co-operative and in compliance with the Co-operatives Act (i.e. by the members at an Annual General Meeting[8]). Annual General Meetings of co-operatives must be held within 6 months of the end of the preceding financial year[9].		
• Record keeping	The Companies Act (S.23(3)) requires a company to continuously maintain at least one office and register the address by providing the required information in the Notice of Incorporation. Furthermore, under S.24, companies must keep their records for a period of seven years. These records include: • the Memorandum of Incorporation and any amendments, • a record of directors, including as per S.24(5) full name, identity number, occupation, date of most recent election as director and name and registration number of every other company of which	The administrator has a registered office. There is no formal record keeping policy, although all records are currently kept indefinitely. Financial statements are prepared annually by the appointed accounting officer.	The existing registered office can be used for the new company. The record keeping requirements for a company should not pose a problem. There should also be no problem in meeting the requirement to have financial statements prepared within 6 months of the financial year end.

[8] Section 29(2)(d) of the Co-operatives Act 14 of 2005.
[9] Section 29(1)(b) of the Co-operatives Act 14 of 2005.

	Microinsurance policy framework compliance requirements	Current status/position of the administrator	Alternative 1: obtain microinsurance license
	the person is a director, • all reports presented at an AGM, annual financial statements and accounting records, • notice and minutes of all shareholder meetings, • copies of written communications sent to shareholders, • minutes of all meetings and resolutions by directors and their sub-committees, and • a securities register (as per S.50). The above records must be accessible to all shareholders at the registered office (S.25 and S.26). There are minimum accounting standards that have been set for the annual reports of companies. All companies are to prepare annual financial statements within 6 months of the end of the financial year (S.30(1)). The Co-operatives Act (S.20) requires each co-operative to have a registered office stipulated in its constitution. Furthermore, under S.21 each co-operative must keep records at its offices for at least 5 years after the end of the		

	Microinsurance policy framework compliance requirements	Current status/position of the administrator	Alternative 1: obtain microinsurance license
	financial year to which such records relate, of: • its constitution • minutes of AGMs and board meetings • a list of members and a register of directors and their interests where relevant to the business of the co-operative • adequate accounting records including those reflecting transactions between the co-operative and its members.		
• Public officer	All microinsurers must appoint a public officer to ensure compliance with the microinsurance regulatory framework. The public officer must meet the fit and proper requirements set out below.	The administrator has a FAIS compliance officer, but no public officer as such.	It is expected that the sole member will be the public officer of the new microinsurance company and there will be no problems in meeting the fit and proper requirements.
• Fit and proper	The Policy Document proposes that all directors, executive managers and public officers should be fit and proper and should fill in a standard personal questionnaire that will be the same as that for long-term and short-term insurers[10].		The fit and proper requirements for directors, executive managers and public officers are unlikely to pose any compliance problems.

[10] The standard personal questionnaire can be found on the Financial Services Board's website (www.fsb.co.za) and requires names, contact details, date of birth, ID number, nationality, contact details of bankers, professional qualifications, job title, duties and responsibilities, questions relating to independence (where relevant), employment history, current and previous directorships and managing executive positions, substantial shareholdings, particulars of business relationships, details of disciplinary matters and details of shares and voting rights held in the insurer.

	Microinsurance policy framework compliance requirements	Current status/position of the administrator	Alternative 1: obtain microinsurance license
	The institutional form adopted by a microinsurer (i.e. co-operative or public or private company) may have different fit and proper requirements. The more onerous set of requirements must be complied with. S.69 of the Companies Act covers the ineligibility and disqualification of directors: • A person placed under probation by a court may not serve as a director. • A person is ineligible to be a director if they are a juristic person or an unemancipated minor. • A person is disqualified from being a director if he/she is prohibited by court, is an unrehabilitated insolvent, is prohibited in terms of any public regulation, has been removed from an office of trust on the grounds of misconduct involving dishonesty or has been convicted of theft, fraud, etc. Additional grounds of ineligibility and disqualification may be imposed by the Memorandum of Incorporation. The following information relating to directors		

	Microinsurance policy framework compliance requirements	Current status/position of the administrator	Alternative 1: obtain microinsurance license
	is required on registration of a company: names, ID numbers, nationality, date of appointment, designation in the company, address, occupation and whether he / she is a South African resident[11]. The Co-operatives Act (S.33) does not place specific fit and proper requirements on directors, but states that nobody of unsound mind, no unrehabilitated insolvent and no person convicted of any offence involving dishonesty in connection with the formation or management of a co-operative or other corporate entity may be elected a director. All that is required for co-operative registration is for the names and certified copies of IDs of directors to be submitted.		
• Annual audit	All microinsurers will be required to undergo an annual audit. The Co-operatives Act also requires an audit of a co-operative's annual financial statements, which must be considered for approval at an annual general meeting of the co-operative[12]. Public companies' annual financial statements	Financial statements are audited annually prior to submission to the FSB.	Current practices meet the requirement for an annual audit. No changes are required and there will be no additional costs.

[11] As per Annexure A to Form CoR 14.1 available on the CIPC website (www.cipc.co.za).
[12] Sections 47 and 48(2) of the Co-operatives Act 14 of 2005 respectively.

	Microinsurance policy framework compliance requirements	Current status/position of the administrator	Alternative 1: obtain microinsurance license
	must be audited, while private companies' annual financial statements must undergo an audit if they have significant social or economic impact (defined in terms of turnover, size of workforce or nature and extent of its activities). Otherwise the annual financial statements of private companies must be either voluntarily audited or independently reviewed, unless the company has been exempted and • one person holds all the shares, or • all shareholders are directors. Thus, the stronger requirement contained in the Policy Document that all microinsurers will be required to undergo an annual audit will apply irrespective of institutional form.		
• Submissions to FSB	Audited annual and unaudited quarterly returns are to be submitted to the FSB.	Audited financial statements are submitted to the FSB annually.	There will be an additional requirement to submit unaudited quarterly returns to the FSB. This will involve additional cost as the quarterly returns will probably be prepared by the auditors. The quarterly returns are expected to increase the current audit costs by 50%.
• Annual levy	It is assumed that the annual FSB levy for MI is likely to be set close to that of the current levy for assistance business providers, namely	The administrator does not currently perform any insurance underwriting activities and	The annual FSB licensing fees will be an additional cost incurred annually. The projected

	Microinsurance policy framework compliance requirements	Current status/position of the administrator	Alternative 1: obtain microinsurance license
	R10,000 per annum plus 0.00792% of liabilities under unmatured policies[13]. S.33 of the Companies Act requires all companies to file an annual return with the CIPC together with the following prescribed fee, which depends upon the annual turnover[14] (if filing happens within 30 business days from the anniversary date of incorporation, otherwise increased fees apply): • Less than R1 million: R100 • R1m but less than R10m: R450 • R10m but less than R25m: R2,000 • R25m or more: R3,000 According to the CIPC, registered co-operatives will be required to pay an annual levy together with the submission of annual returns. The proposed annual levy is R495 if turnover is less than R1m, otherwise it is R2,750.	therefore does not pay any licensing levies. The administrator currently pays the annual registration fee for close corporations based on turnover.	liabilities are low, resulting in an additional annual cost of slightly more than R10,000. There will be no additional cost or effort required by the annual company registration since it is a current business requirement.
3. Prudential regulation			
a. Licensing requirements for microinsurers	Organisations that provide guaranteed benefits to members or have membership in	The administrator is not currently licensed to underwrite	The registered name of the new company must include the

[13] As per section 10 of the Board Notice 121 of 2013 published in the Government Gazette number 36531 on 5 June 2013.
[14] The annual return filing fees are available on the CPIC website (http://www.cipc.co.za/Companies_AR.aspx).

	Microinsurance policy framework compliance requirements	Current status/position of the administrator	Alternative 1: obtain microinsurance license
	excess of 2,500 lives must be licensed to perform microinsurance business. The licensing options are: 1. Fully underwritten by an existing insurer or microinsurer. 2. Purchase a cell captive insurance license. 3. Register own microinsurance license under the proposed microinsurance regulation. 4. Register own full insurance license under either the Long-term Insurance Act or the Short-term Insurance Act. The licensing requirements for a microinsurer will include: • The registered name must include the word "microinsurance" or a derivate thereof. • Submission of the standard application form for a microinsurance license. • Memorandum of Incorporation for a company or constitution for a co-operative and the official registration documents. • A business plan with 5-year financial projections.	insurance business, but acts as a broker and funeral administrator.	word "microinsurance" or a derivative thereof. Other registration requirements will include: • Completion of the application form for a microinsurance license. • Drafting a Memorandum of Incorporation, which will entail some legal fees, estimated to be R15,000. • A business plan, including 5 year financial projections. There will be a once off cost associated with drawing up the business plan, estimated to be R15,000. • The personal questionnaire for board members, executive managers and the public officer, which should not pose any problems. • Application for approval of auditors, which will also not

	Microinsurance policy framework compliance requirements	Current status/position of the administrator	Alternative 1: obtain microinsurance license
	• A personal questionnaire to be completed by members of the board, executive management and the public officer to ensure they are fit and proper. • An application for approval of the appointed auditors.		pose any problems.
b. Registration requirements for co-operatives under the Co-operatives Act and according to the templates provided by the Companies and Intellectual Property Commission (CIPC)	The registration requirements for co-operatives are contained in Chapter 2 of the Co-operatives Act. In addition, the CIPC website contains detailed requirements, explanation of steps and template forms for co-operative registration: **Fees**: • A registration fee of R215 applies per co-operative. • It costs R17.50 per section up to a maximum of R245 to amend the constitution as filed with the CIPC. "**Founder members**" must submit the application and form the co-operative.	Not applicable.	Not applicable.

	Microinsurance policy framework compliance requirements	Current status/position of the administrator	Alternative 1: obtain microinsurance license
	Registration process: Fill out and submit the standard registration form[15]. The CIPC website sets out detailed registration procedures[16]. It explains, amongst other things, the format and contents of the formation meeting that should be held to elect board members, how to decide on a name and draw up an initial business plan before the co-operative is formed. The following must be submitted with the application form: 1. Two copies of the signed **constitution**[17]. 2. Application for approval of **auditor**[18]. 3. **Proof of payment** of the prescribed fee. 4. Certified copies of **ID documents** of founder members. 5. **Business plan.** It is preferable to reserve a name for the co-		

[15] The standard registration form can be found at http://www.cipc.co.za/Coops_files/CR1.pdf.
[16] http://www.cipc.co.za/Coops_RegProcedure.aspx
[17] The CIPC has proposed using the model constitution for primary non-specific co-operatives, which can be found at http://www.cipc.co.za/Coops_files/2_PRIMARY_NON_SPECIFIC_COOPERATIVE.pdf. Since co-operatives are likely to be the institutional form of choice for microinsurance license holders, the CIPC should develop a model constitution for microinsurers as they have for other specific co-operatives such as agricultural, housing and financial services (deposits and loans) co-operatives.
[18] The application form can be found at http://www.cipc.co.za/Coops_files/CR4.pdf.

	Microinsurance policy framework compliance requirements	Current status/position of the administrator	Alternative 1: obtain microinsurance license
	operative prior to application for registration[19]. It costs R50 to register a name. The name of a co-operative must include the words "co-operative" or "co-op" and the word "limited" or the abbreviation "Ltd" must be included as the last word of its name unless its constitution does not limit the liability of its members[20]. At least one general meeting must be held prior to the application for registration at which the constitution is adopted and the first directors elected[21]. The dti aims to process applications within one week, but if there are backlogs it can take up to 6 weeks. After registration, a co-operative must submit: • Names of board members or changes in board members to be registered through form CR2[22]. It only requires names, ID numbers (and copy of ID)		

[19] The form can be found at http://www.cipc.co.za/Coops_files/CR5.pdf.
[20] Sections 10(2) and (3) of the Co-operatives Act 14 of 2005.
[21] Sections 6(3) of the Co-operatives Act 14 of 2005.
[22] The form can be found at http://www.cipc.co.za/Coops_files/CR2.pdf

	Microinsurance policy framework compliance requirements	Current status/position of the administrator	Alternative 1: obtain microinsurance license
	and address, no fit and proper declaration. • Annual financial statements and auditor's report, along with form CR7 on lodgement of financial statements[23]. *A full list of all relevant documents is available at*: http://www.cipc.co.za/Coops_Forms.aspx		
c. Registration requirements for companies	One or more person can incorporate a profit company by • Completing and signing a Memorandum of Incorporation, and • Filing a Notice of Incorporation with the prescribed fee and a copy of the Memorandum of Incorporation. The registration requirements for companies are contained in S.13 of the Companies Act. In addition, the CIPC website contains detailed requirements, explanation of steps and template forms for company registration.	The administrator is currently registered as a close corporation.	The administrator will have to transform from a close corporation to a private company. This process is similar to registering a new company and involves: • Drawing up a Memorandum of Incorporation for which the short standard form could be used. • Filing the Notice of Incorporation together with the standard fee of R175 (if

[23] The form can be found at http://www.cipc.co.za/Coops_files/CR7.pdf.

	Microinsurance policy framework compliance requirements	Current status/position of the administrator	Alternative 1: obtain microinsurance license
	Fees: A registration fee of R175 applies per company, if the short standard form Memorandum of Incorporation for a private company is used, otherwise it is R475. **Registration process:** Each incorporator must fill out and submit the standard Notice of Incorporation. The following must be submitted with the Notice of Incorporation: 1. Annexure A containing details of the **initial directors** of the company. 2. Annexure B containing **preferred names** if a company name has not been reserved. 3. Annexure C containing the particulars of any provisions in the Memorandum of Incorporation that prohibit, restrict or impose any special procedural requirements upon the amendment of any part of the Memorandum of Incorporation. 4. **Proof of payment** of the prescribed fee. 5. The **Memorandum of Incorporation**. It is preferable to reserve a name for the		the short standard Memorandum of Incorporation is used) and the Memorandum of Incorporation. Other information that must be filed includes i. Details of the initial directors ii. Preferred names if not already reserved iii. Particulars of any provisions in the Memorandum of Incorporation that prohibit, restrict or impose any special procedural requirements upon the amendment of any part of the Memorandum of Incorporation iv. Proof of payment of

	Microinsurance policy framework compliance requirements	Current status/position of the administrator	Alternative 1: obtain microinsurance license
	company prior to application for registration[24]. It costs R50 to register a name which will be deducted from the registration fee upon registration of the company. The name of a private company must end with the expression "*Proprietary Limited*" or "*(Pty) Ltd*" and the name of a public company must end with the expression "*Limited*" or "*Ltd*"[25]. *A full list of all relevant documents is available at*: http://www.cipc.co.za/Companies_Forms.aspx		the prescribed fee. • It is preferable to reserve a name prior to filing for incorporation. An external service provider is likely to register the new company at and expected once-off cost of R2,500. The impact of becoming a private company is expected to be minimal as company registrations are fairly straight forward and the cost will not be significant.
d. Capital and reserving			
• Reserving requirements for microinsurers	The reserves that a microinsurer must hold will be calculated according to prescribed formulae and consist of: • Unearned premium reserve • Outstanding claims reserve • Incurred but not reported reserve	Currently not applicable.	Reserves must be held as per the prescribed formulae for microinsurers[26].

[24] The form can be found at http://www.cipc.co.za/Companies_Forms.aspx.
[25] Section 11(3) of the Companies Act 71 of 2008.
[26] The outstanding claims reserve estimate for the financial projections in this assessment assumes a 1-week delay between reporting and settling claims.

	Microinsurance policy framework compliance requirements	Current status/position of the administrator	Alternative 1: obtain microinsurance license
	• Unexpired risk provision		
• Reserving requirements under the Co-operatives Act	Section 3(1)(e) of the Co-operatives Act requires 5% of surplus to be set aside as a reserve fund, which is not divisible amongst the members. Section 63 of the model constitution for a primary non-specific co-operative requires a further amount to be set aside as a General Reserve Fund, which shall not be less than the amount determined by the Board.	Not applicable.	Not applicable.
• Solvency and liquidity tests for companies	The solvency and liquidity test must be satisfied if, amongst other things: • The company makes a distribution (including the payment of dividends). • The company provides a director with financial assistance. The solvency and liquidity test consists of two parts: 1. The assets of the company, fairly valued, must equal or exceed its liabilities, fairly valued; 2. The company must be able to pay its debts as they become due in the ordinary course of business for 12 months after the date of the test, or 12 months after a	The solvency and liquidity test is equally applicable to close corporations and companies and will therefore currently be performed in the normal course of business.	The solvency and liquidity tests will continue having to be applied before a dividend payment is declared or financial assistance is provided to a director. There should be no costs in addition to the usual book keeping and audit costs arising from these two tests.

	Microinsurance policy framework compliance requirements	Current status/position of the administrator	Alternative 1: obtain microinsurance license
	distribution to shareholders.		
• Capital adequacy	The capital required of a microinsurer is calculated as 15% of the net written premium over the previous 12 months (or the prior 12-month period if higher), subject to a minimum absolute amount of R3 million. However, microinsurers will be permitted to build capital up to the minimum required level over a 3-year period starting from the enactment date of the proposed microinsurance regulation, subject to a minimum amount of R1.5 million at start-up.	Not currently applicable.	The new microinsurer will have to comply with the minimum capital requirements.
• Investments	All reserves and capital adequacy requirements must be invested in cash-like liquid assets. Free assets (in excess of reserves and capital adequacy requirements) may be invested in other asset classes following approval by the regulator.	The administrator currently invests in both moveable and immovable property as well as fixed interest assets with terms of up to 5 years. No information was provided on the current value of assets or the split between different asset classes. Following discussions with the administrator, this assessment has assumed a zero accumulated surplus as at the start of 2014 (i.e. the assumed registration date of the new microinsurance company for the purposes of the financial projections in this	The type of assets in which the accumulated surplus is currently invested (moveable and immovable property and fixed interest assets up to terms of 5 years) do not comply with the requirement to be invested in cash-like assets. However, it is expected that any existing surplus will not be transferred to the new microinsurance company. Thus, it is assumed there will be no existing assets available to cover reserves and capital adequacy requirements.

	Microinsurance policy framework compliance requirements	Current status/position of the administrator	Alternative 1: obtain microinsurance license
		assessment) on the assumption that any existing accumulated surplus will not be transferred to the new microinsurance company. This is the worst case scenario from a capital requirement and reserving perspective (no accumulated surplus that can be used to cover the initial capital and reserving requirements).	
a. Actuarial assessment	Actuarial sign-off of the total premium is required for new products and for any premium changes.	Not currently required.	The initial funeral product will require premiums to be signed off by an actuarial technician. The cost of the actuarial sign-off is estimated as R25,000. Premiums are likely to be changed roughly every three years at which time actuarial sign off will be required, again estimated as R25,000 (increased by inflation). Any new products introduced will also require actuarial sign off. However, it is expected that no new products will be introduced over the duration of

	Microinsurance policy framework compliance requirements	Current status/position of the administrator	Alternative 1: obtain microinsurance license
			the financial projections for this assessment.
b. Distribution of profit: microinsurance provisions	The board of a microinsurer must sign off on the distribution of dividends.	Not currently applicable.	The new company will not have a problem meeting this requirement.
c. Distribution of surplus: co-operatives and companies provisions	S.46 of the Companies Act states that a company may not make a distribution unless (1) it has been authorised by the board, (2) it reasonably appears the company will satisfy the solvency and liquidity test immediately after the distribution, and (3) the board has acknowledged that the company will satisfy the solvency and liquidity test immediately after the distribution. Section 63 (Surplus) of the model constitution for primary non-specific co-operatives states that the amount of surplus available for distribution to members shall be used to pay interest, not exceeding 15%, to members on their shares or to pay bonuses to members.	Any distribution of surplus is decided by the administrator's sole member in consultation with the accountant. The considerations cover the administrator's on-going ability to remain solvent after the surplus distribution.	This requirement will have little practical implications other than the board now having to approve dividends rather than an individual.
d. Share capital: Co-operatives Act provisions	Section 40 of the Co-operatives Act provides for all members to contribute capital (entrance and / or membership fees are sufficient) and section 41 states that the constitution *may* provide that membership shares be issued to members.	Not applicable.	Not applicable.
3. Product regulation			

	Microinsurance policy framework compliance requirements	Current status/position of the administrator	Alternative 1: obtain microinsurance license
a. Product categories			
• Medical schemes business	Microinsurers will not be permitted to conduct the business of a medical scheme as defined in the Medical Schemes Act, 131 of 1998.	The administrator administers only funeral insurance business.	No impact.
• Risk only	Microinsurers may only provide risk benefits with no surrender values, cash back benefits or savings elements.	The administrator administers only pure risk funeral products that provide whole of life cover. Policies do not become paid up at a specified age or duration, nor do they offer any of the prohibited non-risk benefits.	No impact.
• Sum assured basis	All microinsurance policy benefits should be defined on a first loss or sum assured basis rather than on an indemnity basis.	All funeral policies provide a lump sum cash payment on death equal to the sum assured.	No impact.
b. Product features			
• Benefit caps	The following benefit caps will be applied to each product category: • R50,000 per life per insurer for death events. • R100,000 per person per insurer for asset insurance. • R50,000 per person per insurer for all other events. Benefit payments may be made in instalments provided the present value of the instalments does not exceed the above caps.	The maximum sum assured on a single life is R18,000.	The administrator is already compliant, but the new microinsurance company will have the opportunity to underwrite higher levels of life cover and sell other insurance benefits if it so desires.

	Microinsurance policy framework compliance requirements	Current status/position of the administrator	Alternative 1: obtain microinsurance license
• Contract term	Microinsurance policies should have a contract term of up to but not exceeding 12 months. To facilitate uninterrupted cover, microinsurance policies should be automatically renewable at the end of the contract term without the need for a new policy document or a new waiting period, provided the policyholder continues to pay the premium.	The policies administered are group funeral policies that insure funeral service providers. The contracts are open ended, with cover remaining in place until voluntarily terminated by either party or termination because of a breach in the contractual agreement. The funeral service providers typically provide policy booklets to their members. These booklets are usually silent on the contract term, implying that contracts are open ended. However, the premiums payable are usually reviewable on an annual basis.	Existing and new insurance contracts must be revised to not exceed the maximum 12 month term, with the provision for automatic renewability. The policy booklets provided by the funeral service providers broadly comply with the contract term requirements, which will require minor amendments. The impact is insignificant.
• Waiting period	Waiting periods are restricted to a maximum period of 6 months for death or disability due to *natural* causes for lives younger than 65 at entry. Waiting periods may be longer than 6 months for lives older than 65 at entry. No waiting period should apply to *accidental* deaths and disabilities. Should a policyholder cancel a policy with one insurer in favour of a policy providing similar cover with another insurer and there is	Lives younger than 65 have a waiting period of 3 months from their date of entry. Lives younger than 75 have a waiting period of 6 months, while lives 75 and older have a 12-month waiting period. Deaths from accidental causes are covered during the waiting period. Waiting periods are longer than	No impact since the current waiting period rules comply with those proposed.

	Microinsurance policy framework compliance requirements	Current status/position of the administrator	Alternative 1: obtain microinsurance license
	uninterrupted cover, the new insurer must request the previous insurer to issue a certificate to it, upon which the new insurer may not impose a waiting period.	those indicated above where the membership of a scheme is less than 100. The maximum waiting period applied in these cases is limited to 6 months. No waiting period is applied to business that is currently underwritten when it moves to the administrator.	
• Pre-existing conditions exclusion	No exclusions for pre-existing conditions are allowed, but standard suicide exclusions are.	The only exclusion that is applied is a 24-month suicide exclusion.	No impact.
• Grace periods	The following grace periods are proposed: • At a minimum, cover is to continue for 1 month from the premium due date. The outstanding premium may be paid anytime during that month without compromising cover. If the premium is not paid within the month of grace, cover will cease after that month. • For policies that have been in force (including all renewal periods) for one year or more, the grace period will be extended by one month for each completed twelve month period that the policy has been in force with no reduction in cover. The	Premiums from the insured (i.e. the funeral service provider) are payable monthly in advance and due by the 15th of the month. Cover for the funeral service provider lapses if the premium is not received by the 15th. Premiums are currently allocated at an individual member level, which will enable accurate calculation of the required grace periods.	Current practice does not meet the proposed grace period rules. The new microinsurance company will be required to change its grace period rules so as to comply with the proposed regulations which will give rise to an additional cost. An increased number of claims will be paid from those lives that die during the extended grace period. The member is currently not covered if a premium is not received for him/her for that month. The cost of additional claims is estimated to lie between R367,500 and

	Microinsurance policy framework compliance requirements	Current status/position of the administrator	Alternative 1: obtain microinsurance license
	maximum grace period for a policy will be six months. Claims submitted during the grace period may be reduced by outstanding premiums including interest.		R500,000 in 2014, increasing to between R430,000 and R680,000 in 2018[27]. These low and high estimates have been taken as the estimated costs for the low and high financial projection scenarios respectively. No impact is expected in terms of existing administrative processes and systems since member-level premium payment data is recorded.
c. Group policies			
• Selective non-renewal	Where policies are underwritten on a group basis, insurers should not be permitted to selectively cancel (i.e. refuse to renew) individual policies within the group.	Most of the administrator's business is underwritten on a group basis, but they do not cancel individual members / policies.	No impact.
• Rating factors	Where group underwriting is applied, no price discrimination will be allowed between individuals within a group other than on the basis of age at entry or level of cover.	There is no price differentiation within groups. Different premiums may apply to different groups based on the size of the group.	No impact.

[27] A number of assumptions were made in order to estimate the additional cost relating to the grace period proposal. The following key assumptions were made: the average sum assured is R5,000, the claim rate per policy is 0.028 per annum and the new microinsurance company will commence trading with 30,000 existing policies. Further assumptions relating to the in-force durations of policies and the proportion of policies that have arrear premiums have been based on detailed policy data for a large friendly society as the administrator did not provide the level of data required to make accurate assumptions.

	Microinsurance policy framework compliance requirements	Current status/position of the administrator	Alternative 1: obtain microinsurance license
d. Other provisions			
• Notification of premium changes	Microinsurers will be required to give policyholders three months' notice of proposed price changes.	Any premium changes are notified to the funeral service provider in writing three months before the change takes effect. The onus currently lies with the funeral service provider to notify its members of any premium changes.	The new microinsurance company will be required to ensure that the funeral service provider communicates the price change to its members at least three months prior to the change taking effect, or it will need to communicate the change directly to members. It is standard practice for funeral service providers to inform their members of premium changes in those cases where they pass the premium increase on to their members (they sometimes absorb the increase themselves). Individual members typically visit funeral service providers every month to pay their premiums in cash and can be notified at this point. The agreement between the new microinsurance company and the funeral service providers must be updated to include this added responsibility that is placed on the funeral service providers. There will be

	Microinsurance policy framework compliance requirements	Current status/position of the administrator	Alternative 1: obtain microinsurance license
			no other implications of this assumed approach.
• Binder agreements	The binder agreement provisions in the LT and ST Acts (section 49A of the LT Act and section 48A of the ST Act), as well as the provisions in the binder regulations of 2011, will apply to microinsurers.	The administrator has an existing binder agreement with the registered insurance company.	The binder agreement with the insurance company will be terminated if the administrator obtains its own microinsurance license. Binder agreements with the funeral service providers will not be required.
• Right to monetary benefit	Where microinsurance benefits are offered in-kind, the policyholder must be given the option, when claiming, of receiving a monetary benefit equal to the stated value of the in-kind benefit had it been provided. The amounts of the monetary benefit option and the in-kind benefit must be clearly disclosed when the policy is entered into, although the policyholder may exercise the right to make the choice at the claims stage. The insurer must revise the value of the monetary benefit over time to ensure that it keeps track with changes in the value of the benefit-in-kind.	All policies provide a lump sum cash benefit equal to the sum assured that is paid to the funeral service provider. No benefits-in-kind are offered by the administrator. The funeral service provider either pays out the cash benefit or provides the agreed funeral services.	No impact.
• Claim payments within 48 hours	All valid microinsurance claims should be paid within a period of 48 hours after the insurer received all the requisite documentation, with the qualification that claims may be paid in	The claims process is currently as follows: • The funeral service provider will be notified of the death of	No impact.

	Microinsurance policy framework compliance requirements	Current status/position of the administrator	Alternative 1: obtain microinsurance license
	instalments if this was provided for in the contract.	an insured life. • The funeral service provider will obtain all required claim documents and submit the claim to the administrator. • The administrator assesses the claim and pays valid claims within 48 hours of receiving the documentation to the funeral service provider.	
• Submission to FSB	Microinsurers will be required to submit all new microinsurance products to the Registrar for review at least 60 calendar days before launching the products. This will entail submitting an example of the proposed policy document as well as a summary of policy features including the risk events covered, benefit level, risk rate, premium (with the required actuarial sign-off on pricing) and commission structure and level. The product review will take place on a file and use basis.	Not currently applicable.	All products that the new microinsurance company will make available when it starts trading under the microinsurance license must be submitted to the FSB. There will be a cost associated with the required actuarial sign-off of the products' pricing, which was estimated as R25,000 above (assuming that only the existing funeral product will be sold).
4. Market conduct	The Financial Advisory and Intermediary Services Act, 37 of 2002 (the FAIS Act) and the subordinate legislation issued in terms of it,		

	Microinsurance policy framework compliance requirements	Current status/position of the administrator	Alternative 1: obtain microinsurance license
	shall apply to the provision of microinsurance whenever intermediary services or advice is provided. However, a special dispensation will be created for microinsurance within the FAIS framework with regards to: • Registration of the financial service provider (FSP), its key individuals (KIs) and representatives (where not a sole proprietor[28]). The FAIS framework does not prescribe a ratio for number of representatives to key individuals. The FSP can motivate the ratio that they choose: they must be able to demonstrate that they have the structures to manage and oversee the provision of advice and/or intermediary services. • the Fit and Proper Determination for FSPs, key individuals and representatives; • the FAIS Code of Conduct applicable to microinsurance providers; and • the financial soundness of the intermediaries dealing with microinsurance.		

[28] Note: as the new microinsurance company will not be a sole proprietor FSP, no description is provided of the requirements applicable to sole proprietor FSPs below.

	Microinsurance policy framework compliance requirements	Current status/position of the administrator	Alternative 1: obtain microinsurance license

a. Registration and annual requirements	**Registration fees and steps**:
	• The application steps and procedures are explained on the FSB website[29].
	• Application entails submission of up to 15 application forms (including on KIs, reps, approval of compliance officer, financial soundness, operational capability, etc.). *Appendix 2 contains an overview of each form*.
	• Application should be submitted with proof of payment of registration fees, namely:
	  ○ R1,690 per FSP
	  ○ R250 for approval of auditor
	  ○ R1,060 for approval of the compliance officer
	  ○ R935 per KI
	  ○ No registration fee for representatives
	• The FSB provides an excel spreadsheet template for submitting representatives on their website.
		The administrator is a registered FSP under FAIS with approval to provide advice and intermediary services in the following categories:
		• Long-term insurance category A
		• Long-term insurance category B2
		• Friendly society benefits
		The administrator is also approved to provide intermediary services in category 4 (assistance business).
		
		The administrator has one registered key individual who is authorised to provide advice and intermediary services under the following categories:
		• Long-term insurance category A
		• Long-term insurance category B2
			There will be no new implications or additional requirements for the new microinsurance company provided the assumption holds that levies will be the same as the current assistance business levies. The administrator is currently FAIS compliant and obtaining a microinsurance license will not change the situation.

[29] FAIS application steps and procedures can be found at http://www.fsb.co.za/.

	Microinsurance policy framework compliance requirements	Current status/position of the administrator	Alternative 1: obtain microinsurance license
	Ongoing requirements: • Appoint a **compliance officer** and submit annual **compliance report** • Submit **annual financial statements** • Annual **levy based on number of KIs and reps** (*Note*: we have assumed the assistance business levies will apply for the purposes of impact assessment)[30]: ○ **Annual levy for FSPs** providing only assistance benefits is calculated as a base amount of R3,197 plus A x R250, where A = number of KIs plus number of reps minus KIs who are also reps. The annual levy is subject to a maximum of R1,385,363. ○ **Annual ombud fee**: R729 + A x R278, where A is the same as above, subject to a maximum levy of R197,530. • Any **change in profile**, including changes	• Friendly society benefits The KI is also approved to provide category 4 (assistance business) intermediary services. The administrator has a further four representatives, two of whom are under supervision. These representatives are responsible for marketing the administrator's services to funeral service providers and other potential clients and are fully FAIS compliant. The administrator also has a compliance officer who is approved by the FSB. The FSB website lists 23 funeral service providers as approved representatives of the administrator who are registered to provide intermediary services for long-term insurance category A and friendly society benefits.	

[30] The levies can be found in Board Notice 121 of 2013, published in the Government Gazette No. 36531 on 5 June 2013 (https://www.fsb.co.za/Departments/fais/registration/Documents/GovernmentGazette2013.pdf)

	Microinsurance policy framework compliance requirements	Current status/position of the administrator	Alternative 1: obtain microinsurance license
	in KIs and reps, must be submitted to the FSB within 15 days of such change.		
b. Fit and proper	Fit and proper requirements comprise: 1. Experience requirements 2. Qualification requirements 3. Regulatory exams 4. Continuous professional development requirements A distinction is made between the requirements for advice and/or intermediary services provided by KIs and representatives, respectively. Each type of fit and proper requirement is unpacked below.		
• Experience	**KIs and reps:** • 6 months experience when providing advice and intermediary services • 2 months if only intermediary services • Representatives who are providing intermediary services under supervision are exempt from the experience requirement as experience is built up under supervision	The administrator's KI and reps do not provide advice, but only perform intermediary services. All KIs and reps meet the experience requirements except the two reps under supervision, who are exempt.	No impact because the administrator is already compliant.
• Qualifications	**KIs** for Cat 1.1 A: • Must be in possession of a recognised	The administrator's KI and reps currently meet the qualification requirements.	No impact.

	Microinsurance policy framework compliance requirements	Current status/position of the administrator	Alternative 1: obtain microinsurance license
	qualification when evaluated against the prescribed qualifying criteria. Recognised qualifications must be at NQF2 level (Grade 8 equivalent) or a recognised skills programme of 30 credits at NQF2 level. • List of accepted qualifications is published in Annex 2 of BN105 of 2008. • For qualification or credits to be recognised, they must be verified by INSETA. **Representatives** for Cat 1.1 A: • Must have proven ability to read and write in English and perform basic calculations, or must have an ABET level 1 or Grade 3 equivalent education. It is up to the KI managing a representative to satisfy him/herself of the representative's ability (e.g. by completing an English application form and calculating a simple premium).		
• Regulatory exam	**KIs:** • If MI requirements are designed to be similar to that for Cat. 1.1 A, would need to pass level 1&2. • Current requirements for tasks,	The KI has passed the required regulatory exams.	No impact.

	Microinsurance policy framework compliance requirements	Current status/position of the administrator	Alternative 1: obtain microinsurance license
	knowledge and skills criteria to be tested in regulatory exams are set out in BN105 of 2008: ○ The purpose[31] of the regulatory exam **level 1** is to ensure that all key individuals and representatives fully understand their regulatory role, and the accountability and responsibility they have in terms of this role. For example, it requires providers to know and understand the General Code of Conduct that, inter alia, requires providers to furnish clients with adequate and correct information. ○ The regulatory **level 2** exams are product specific. A person's experience in dealing with the relevant financial product may assist him/her in successfully completing these examinations. In addition, if a person has a "specifically" recognised		

[31] Quoted directly from FAIS note on background and information on the regulatory examinations available from www.fsb.co.za.

	Microinsurance policy framework compliance requirements	Current status/position of the administrator	Alternative 1: obtain microinsurance license
	qualification, then such qualification can exempt that person from having to write the level 2 regulatory examination. • The FSB realises the need to be pragmatic in determining the exact requirements for MI and that a written exam may not be the best indicator of whether the person is competent to fulfil the functions required. **Representatives**: • Cat 1.1 A: not required to write regulatory exams.[32] Regulatory exams can be taken from any of the four approved examination bodies whose details and exam registration steps are provided on the FSB website.		
• Continuous professional development (CPD)	**KIs:** • 15 hours of continuous professional development (CPD) over a three-year cycle. • The FSB FAIS department stressed in consultation that this can be quite flexibly designed to entail business and other training of relevance to the administrator	The KI meets the CPD requirements.	No impact.

[32] Under BN106 of 2008 Cat1.19 reps did not need to meet any exam requirements, but this was amended through BN 60 of 2010. However, the FSB has indicated that Category 1.1 representatives do not need to write any regulatory exams.

	Microinsurance policy framework compliance requirements	Current status/position of the administrator	Alternative 1: obtain microinsurance license
	and can be conducted in-house. A fee of R300 is applicable for recognition by the FSB of a CPD programme. **Representatives:** • No continuing professional development requirement applies.		
c. Code of conduct	A dedicated FAIS Code of Conduct will be developed for microinsurance FSPs, key individuals and representatives that will cover all aspects in the General Code of Conduct[33], but will be tailored to the specific characteristics of microinsurance where Part VII, Furnishing of Advice, is concerned. The National Treasury and FSB are currently engaging with the issue of what basic advice scripted questions and record of advice could entail for microinsurance. The main aspects of the Code of Conduct that will be tailored to microinsurance are: • Suitability analysis • Record of advice	The administrator's KI and reps, including the funeral service providers, do not provide advice as defined by the FAIS Act.	No impact.
• Suitability analysis	An authorised financial services provider (key individual or representative) who provides	The administrator's KI and reps do not provide advice as defined	No impact.

[33] See Board Notice 80 of 2003 (General Code of Conduct for Authorised Financial Services Providers and Representatives) issued by the Financial Services Board.

	Microinsurance policy framework compliance requirements	Current status/position of the administrator	Alternative 1: obtain microinsurance license
	advice must perform a streamlined suitability analysis before providing the advice. The format of the streamlined suitability analysis is yet to be finalised.	by the FAIS Act and therefore do not need to complete a suitability analysis.	
• Record of advice	An authorised financial services provider (key individual or representative) who provides advice must maintain a record of the advice furnished. The microinsurance policy document proposes reduced requirements for the record of advice, with the exact requirements yet to be finalised.	The administrator's KI and reps do not provide advice as defined by the FAIS Act and therefore do not need to maintain a record of advice.	No impact.
d. Financial soundness of intermediary			
• Separate bank account	Microinsurance intermediaries must hold a separate bank account for insurance monies. For example, if the intermediary is a funeral parlour, funeral and insurance business monies should not be mixed.	The administrator has indicated it is standard for its intermediaries (mainly funeral service providers) to maintain separate bank accounts for insurance monies.	Funeral service providers will continue acting as intermediaries for the new microinsurance company. The onus is therefore on the funeral service providers to maintain separate bank accounts for insurance business money, which they typically already do. Therefore no impact is expected.
• Issue receipts	The microinsurance intermediary must issue the policyholder with some kind of storable receipt, be it in printed or electronic format, as soon as a premium payment has been made.	It is standard practice for funeral service providers to issue receipts for premium payments.	No impact.
• Submit financial	A microinsurance intermediary with an annual	A limited number of	No impact is expected. Those

	Microinsurance policy framework compliance requirements	Current status/position of the administrator	Alternative 1: obtain microinsurance license
statements	premium income in excess of R1 million, will be required to submit audited annual financial statements to the Registrar.	intermediaries have an annual premium income in excess of R1m.	intermediaries impacted are expected to already produce audited financial statements.
e. Commission			
• Commission levels	Commission on microinsurance products will not be capped, although the proposed commission levels must be disclosed as part of the file and use process.	Funeral service providers will typically add a mark-up to the premium charged by the administrator. The extent of the mark-up is unknown.	No impact, since commission will not be capped. Commission levels must be disclosed when the product is filed with the FSB.
• Structure	The regulatory framework proposes that commission be paid as a level percentage of each premium paid, with a once-off policy initiation fee up to a proposed maximum amount of R200.	Funeral service providers will typically add a mark-up to the premium charged by the administrator. The extent of the mark-up is unknown, but initiation fees are not paid.	No impact.
• Embedded consumer credit insurance	Commission on all "embedded" insurance policies, where access to credit is made subject to the purchase of an insurance policy sold through the credit provider, will remain capped at the existing rates as contained in the Regulations passed under Section 72 of the Long-term Insurance Act, 52 of 1998 and as amended in Government Notice R952 in Government Gazette 31395 of 2008.	The administrator does not administer embedded insurance policies.	No impact.
f. Disclosure requirements			
• Plain language	Microinsurance policy documents should be in plain language, avoid uncertainty or confusion and not be misleading. The disclosure	The administrator does not provide its clients (neither funeral service providers nor	The new microinsurance company will be required to have policy documents. The simplest

	Microinsurance policy framework compliance requirements	Current status/position of the administrator	Alternative 1: obtain microinsurance license
	requirements in this regard as contained in Part VI of the FAIS Code of Conduct for all authorised FSPs other than direct marketers, and in Part III of respectively the Short-term and Long-term Policyholder Protection Rules for direct Marketers will apply. These rules require: PPR: factually correct, plain language information that will avoid uncertainty or confusion and not be misleading. Disclosure must be adequate and appropriate, taking into account the level of knowledge of the policyholder. Disclosure in writing must be in clear and readable print size, spacing and format. Any amounts, sums, values or fees referred to must be stated in specific monetary terms (or its basis of calculation must be clearly stated). FAIS Code of Conduct: "must provide a reasonable and appropriate general explanation of the nature and material terms of the relevant contract or transaction to a client, and generally make full and frank disclosure of any information that would reasonably be expected to enable the client to make an	their members) with any form of policy document. Funeral service providers typically provide members with a policy booklet that covers the policy terms and conditions.	approach would be a master contract with individual certificates of cover issued to members of the funeral service provider. The policy documents must comply with the microinsurance requirements. There are likely to be some costs involved in drawing up the policy documents, such as legal fees. These costs have been estimated at R20,000.

	Microinsurance policy framework compliance requirements	Current status/position of the administrator	Alternative 1: obtain microinsurance license
	informed decision". The Companies Act requires all notices and official publications to include the company name and registration number in legible characters (S.32(4)).		
• Summary	Each microinsurance policy document must contain a policy summary, in English, of no more than one page. This should form the first page of the policy document and be in a clear and readable print size, spacing and format. It must clearly state the name of the microinsurer and that it is registered with the FSB as a microinsurance provider. In addition, it should state the following six questions and the answers to each: • What am I covered for? • What are the exclusions (if any)? • How much are my premiums and where do I pay them? • What will happen if I do not pay my premium? • When, where and how can I claim and what documents will be required? • When and where can I complain? This	Disclosure provided by funeral service providers to their members typically does not include the required summary.	The required summary can be added to the above-mentioned certificates of cover and distributed by the funeral service providers when they sign up new members. There will be an on-going additional cost for the new microinsurance company to print the certificates of cover and the summary. This additional cost has been estimated as R5,000 per annum.

	Microinsurance policy framework compliance requirements	Current status/position of the administrator	Alternative 1: obtain microinsurance license
	should state both the microinsurer's and the Ombud's contact details.		
• Treating Customers Fairly requirements	Microinsurance will be subject to the Treating Customers Fairly (TCF) regime once finalised. The TCF regime is based on six fairness outcomes. The objective of any TCF regulation is for regulated institutions to demonstrably deliver these outcomes for financial services customers[34]. 1. Customers are confident that they are dealing with firms where the fair treatment of customers is central to the firm culture. 2. Products and services marketed and sold in the retail market are designed to meet the needs of identified customer groups and are targeted accordingly. 3. Customers are given clear information and are kept appropriately informed before, during and after the time of contracting. 4. Where customers receive advice, the advice is suitable and takes account of	TCF is not currently explicitly considered by the administrator.	The new microinsurance company will need to become familiar with the TCF requirements and implement them throughout the organisation. The impact will be no different from what it would be if the organisation remains an administrator.

[34] This information has been taken directly from the FSB's Treating Customers Fairly Roadmap published on 31 March 2011.

	Microinsurance policy framework compliance requirements	Current status/position of the administrator	Alternative 1: obtain microinsurance license
	their circumstances. 5. Customers are provided with products that perform as firms have led them to expect, and the associated service is both of an acceptable standard and what they have been led to expect. 6. Customers do not face unreasonable post-sale barriers to change product, switch provider, submit a claim or make a complaint.		
• Contact for complaints	All microinsurance policy documents should clearly state the contact details or client care number of the microinsurer for the purpose of lodging a complaint and shall also set out the procedure for lodging a complaint. In addition, the policy documents should also state the contact details of a dedicated ombuds office and the procedures for making a complaint, should the insurer be unable to resolve the matter.	The administrator does not provide individual members with policy documents. So the required contact information is not supplied.	The new microinsurance company must include the required contact details for lodging complaints and the ombud's contact details in its policy documents. There will be no additional implications since the policy documents need to be developed irrespective of this requirement.
• Duty of disclosure	The duty of disclosure on the policyholder will be limited to questions pertinently asked by the insurer. The insurer or intermediary must keep a record of the questions asked.	The administrator's products do not ask any health-related questions of the individual members.	No impact.

	Microinsurance policy framework compliance requirements	Current status/position of the administrator	Alternative 1: obtain microinsurance license
g. Group schemes administered by 3rd party			
• Acceptance confirmation	The individual persons paying premiums under the group scheme policy will be deemed by law to be the policyholders, rather than the administrator or any other entity on behalf of the individual policyholders. The individual policyholders should therefore receive confirmation from the insurer of the fact that they are a policyholder and of the policy requirements and benefits.	The administrator currently administers group funeral schemes that are intermediated by funeral service providers. There is no direct contact between the administrator and the individual members. There is an agreement between the administrator and the funeral service providers for the latter to supply intermediary services on behalf of the administrator, with the funeral service providers being registered as representatives of the administrator for FAIS purposes.	Not applicable, since the group schemes will be administered by the new microinsurance company with the funeral service providers continuing to provide intermediary services (i.e. there will be no third party administrator).
• Right to cancel	The individual policyholders will have the right to cancel their cover at any time.		
• Written agreement	The administrator must enter into a written agreement with the insurer setting out the terms of the agreement.		
• Licensing requirements	The administrator must be licensed as a FSP in terms of the FAIS Act or must be a representative of the insurer within the terms of that Act.		
h. Other provisions			
• Client care system	Every microinsurer shall maintain a client care system through which clients can lodge complaints and receive redress.	The administrator has an existing client care system.	No impact.
• Acceptance confirmation	New policyholders must receive confirmation from the insurer that he/she is a policyholder within thirty days of paying the first premium	The administrator does not provide individual members with acceptance confirmation.	The new microinsurance company will have to put a process in place whereby

	Microinsurance policy framework compliance requirements	Current status/position of the administrator	Alternative 1: obtain microinsurance license
	or signing up for the insurance policy.	However, funeral service providers provide confirmation in the form of policy booklets on receipt of the first premium.	individual members receive the required acceptance confirmation. The confirmation could take the form of the certificate of cover and policy summary mentioned above, to be provided to the member by the funeral service provider when the first premium is paid.
• Missed premium confirmation	If a premium is skipped, the fact that the premium is in arrears should be communicated to the client.	The administrator does not provide missed premium confirmations because it does not have direct contact with individual members. However, the funeral service providers will typically contact their members if a premium is missed.	The administrator currently tracks premiums on a member level. Therefore, no changes will be required to administrative processes and systems and no additional administration capacity will be required. An additional cost will arise from the need to communicate to clients when a premium is missed. It is also assumed that the ongoing missed premium communications will cost R30,000 per annum[35].
5. Taxation[36]			
a. Transition of institutional	Section 65 of the Co-operatives Act exempts	The administrator is registered	Existing assets of the close

[35] Assuming communication will be via SMS at a cost of R1.00 per SMS, with approximately 30,000 policies missing on average one premium every year.
[36] This discussion draws on an opinion sourced from a tax accountant.

	Microinsurance policy framework compliance requirements	Current status/position of the administrator	Alternative 1: obtain microinsurance license
form	transfers of property from transfer duty, stamp duty, or other fees in the event of an amalgamation, division, conversion or transfer of a co-operative, but is silent on transitions to a co-operative from other institutional forms. However, the Policy Document proposes transition arrangements "to ensure a required change in institutional form bears no tax consequence". In the case of a close corporation transitioning to a company, the process is similar to registering a new company.	as a close corporation.	corporation can be transferred to the new company without a deemed disposal of assets giving rise to a tax liability. Therefore there will be no tax impact arising from the change in institutional form.
b. On-going taxation			
• Corporations tax	Co-operatives, close corporations and public and private companies are taxed at normal income tax rates (currently 28% of taxable income) and the normal income tax inclusions and exemptions apply. The Income Tax Act provides for reduced income tax on small business corporations, where the gross annual income does not exceed R14m for the tax year. Investment returns on assets will be taxed either as income (e.g. interest) or capital gains (e.g. the gains on equities).	The close corporation is subject to the current corporations' tax rate of 28% on taxable income.	Assuming that microinsurers will be taxed as normal companies, there will be no impact. It is expected that gross annual income will exceed R14m and reduced income tax for small business corporations will not apply. It is assumed that all surplus generated will be invested in interest bearing instruments and all returns will therefore be taxed

	Microinsurance policy framework compliance requirements	Current status/position of the administrator	Alternative 1: obtain microinsurance license
			as income.
• Dividends tax	Surplus distributed in the form of dividends by companies and close corporations is subject to dividends tax, currently at a rate of 15% of the amount of dividend distributed. Any bonuses distributed to members of a co-operative are not regarded as dividends. Bonuses are deductible from taxable income, but will be taxed in the hands of the members.	The close corporation is subject to the normal dividend tax rate on surplus distributions (currently 15%).	No impact. The financial projections performed for this assessment assume that no dividends will be distributed so that the financial impact of obtaining a microinsurance license can be directly compared against the option to remain operating as an administrator.
• VAT	Co-operatives and close corporations are subject to the same requirements under the VAT Act as companies and will be required to register for VAT if their turnover exceeds the VAT threshold of R1m, unless they provide a service that falls under one of the VAT exempt sections. The Policy Document proposes that the current exemption for long-term microinsurance premiums is retained, while short-term microinsurance premiums continue to be subject to VAT.	The administrator is not registered for the purposes of VAT as it is supplying exempt services.	No impact provided the new microinsurance company does not begin writing short-term microinsurance products, which is unlikely to happen in the foreseeable future.
6. Existing members	The Policy Document does not explicitly address how existing members / policyholders should be treated in the transition to the new microinsurance regime. Potential impacts could arise from, amongst other things, a change in institutional form requiring the existing legal entity to be wound up and	The administrator current administers 32,000 lives (excluding children) on behalf of the underwriter.	It is expected that all existing members, currently being underwritten by the registered insurance company, will immediately be underwritten by the new microinsurance company once it obtains the

	Microinsurance policy framework compliance requirements	Current status/position of the administrator	Alternative 1: obtain microinsurance license
	replaced by another entity, or existing products not meeting the proposed microinsurance product requirements.		microinsurance license. The grace period requirements for microinsurers could have a major impact on existing members. In theory, the grace period for which a member qualifies should depend on the duration for which he/she has been a member of the insurance scheme and not the length of time for which the new microinsurer has covered the member. The administrator has the historic data required to correctly apply the grace period provisions.

Appendix 2: FAIS registration requirements

The following application forms need to be filled out (all available on the FSB website). The administrator currently complies with all FAIS requirements and there will therefore be no further FAIS-related impacts from obtaining a microinsurance license.

Form	Requirements
FSP 1	*Business information* of FSP
FSP 2	*Licence categories* for which applying and indicating whether advice and/or intermediary services will be provided
FSP 3	*Directors, officers & applicable shareholders:* name, address, ID, etc for each
FSP 4	*Key individuals*. Complete separately for each KI: • Name, address, ID, role • honesty and integrity questions • list qualifications, body obtained from and date obtained • indicate regulatory examinations passed • employment history • evidence of experience in oversight/management and references for it • experience in the relevant categories applied for and references
FSP 5	*Representatives*. Name, ID, address, details of the responsible KI, category registered for, qualification and regulatory exam details (n/a for Cat 1.1 A reps)
FSP 6	*Compliance officer*. Name and details (separate form for approval – see FSP13)
FSP 7	*Operational ability*. List of operational questions to be completed, incl. on FICA compliance.
FSP 8	*Financial soundness*. Info on history of operations, list of assets and liabilities, whether internal control systems
FSP 9	*External auditor*. Name and contact details
FSP 10	*Nominee company* of discretionary or administrative FSP
FSP 11	*Forex service providers*
FSP 12	*Application for specific exemptions*. If any FSP wants to apply for exemptions from certain provisions in the Act or subordinate legislation, they can do so with proper motivation and completion of this form. Must also pay exemption application fee of R4,550.
FSP 13	*Compliance officer approval*. Compliance officer function may be in-house or outsourced. If in-house, need name, ID, address, honesty and integrity questions, qualifications, categories of financial services to be provided, employment history and references.
FSP 14	*Attachments, list of all completed forms and declarations*. Checklist plus template for calculation of application fees.
FSP 15	*Hedge fund application form*

Appendix 3: detailed financial projections

Base scenario: remain a funeral administrator

The following table shows the detailed calculation of the expected annual surplus and the accumulated surplus over the projection period for the *low growth scenario* in the case where the administrator continues operating with no change. This provides the base line against which the impact of obtaining a microinsurance license can be measured.

	2014	2015	2016	2017	2018
Sales	5 061 888	5 264 364	5 474 938	5 693 936	5 921 693
Premiums to underwriter	3 543 322	3 685 054	3 832 457	3 985 755	4 145 185
Gross surplus	1 518 566	1 579 309	1 642 481	1 708 181	1 776 508
Expenditure	1 507 647	1 545 338	1 583 971	1 623 571	1 664 160
Net cash surplus before interest and tax	10 920	33 971	58 510	84 610	112 348
Interest on accumulated surplus	0	472	1 960	4 572	8 425
Net cash surplus before tax	10 920	34 443	60 470	89 182	120 772
Corporations tax	3 057	9 644	16 931	24 971	33 816
Net surplus after tax	7 862	24 799	43 538	64 211	86 956
Accumulated surplus	7 862	32 661	76 199	140 410	227 366

The following table shows the detailed calculation of the expected annual surplus and the accumulated surplus over the projection period for the *high growth scenario*.

	2014	2015	2016	2017	2018
Sales	5 668 704	6 122 200	6 611 976	7 140 934	7 712 209
Premiums to underwriter	3 968 093	4 285 540	4 628 383	4 998 654	5 398 546
Gross surplus	1 700 611	1 836 660	1 983 593	2 142 280	2 313 663
Expenditure	1 620 675	1 701 709	1 786 794	1 876 134	1 969 941
Net cash surplus before interest and tax	79 936	134 951	196 799	266 146	343 722
Interest on accumulated surplus	0	3 453	9 432	18 342	30 631
Net cash surplus before tax	79 936	138 405	206 231	284 488	374 354
Corporations tax	22 382	38 753	57 745	79 657	104 819
Net surplus after tax	57 554	99 651	148 486	204 831	269 535
Accumulated surplus	57 554	157 205	305 692	510 523	780 058

Obtain a microinsurance license

The following table shows the detailed calculation of the expected annual surplus and the accumulated surplus over the projection period for the *low growth scenario* in the case where the administrator obtains a microinsurance license. The table also shows the projected reserving and capital requirements.

	2014 01	2014 12	2015	2016	2017	2018
Gross premiums		5 061 888	5 264 364	5 474 938	5 693 936	5 921 693
Claims paid		3 188 989	3 316 549	3 449 211	3 587 179	3 730 667
Gross surplus		1 872 899	1 947 815	2 025 727	2 106 756	2 191 026
Expenditure		1 507 647	1 545 338	1 583 971	1 623 571	1 664 160
Additional microinsurance expenditure		536 925	478 221	497 809	547 165	539 502
Net cash surplus before interest and tax		-171 673	-75 744	-56 054	-63 980	-12 635
Add: interest on reserves and capital		94 650	144 940	179 091	216 473	225 623
Less: transfers to reserves		415 659	16 626	17 291	17 983	18 702
Net cash surplus after transfers		-492 682	52 569	105 746	134 510	194 285
Corporations tax		0	0	0	0	0
Net surplus after tax		-492 682	52 569	105 746	134 510	194 285
Accumulated surplus		0	52 569	158 315	292 825	487 111
Microinsurance reserves		415 659	432 285	449 577	467 560	486 262
Capital injections required	1 577 500	915 182	500 000	500 000	0	0

The following table shows the detailed calculation of the expected annual surplus and the accumulated surplus over the projection period for the *high growth scenario*. It also shows the projected reserving and capital requirements.

	2014 01	2014 12	2015	2016	2017	2018
Gross premiums		5 668 704	6 122 200	6 611 976	7 140 934	7 712 209
Claims paid		3 571 284	3 856 986	4 165 545	4 498 789	4 858 692
Gross surplus		2 097 420	2 265 214	2 446 431	2 642 146	2 853 517
Expenditure		1 620 675	1 701 709	1 786 794	1 876 134	1 969 941
Additional microinsurance expenditure		671 267	638 012	685 673	765 959	792 336
Net cash surplus before interest and tax		-194 522	-74 506	-26 036	53	91 241
Add: interest on reserves and capital		94 650	147 929	182 335	221 713	235 019
Less: transfers to reserves		465 488	37 239	40 218	43 436	46 910
Net cash surplus after transfers		-565 359	36 184	116 081	178 330	279 349
Corporations tax		0	0	0	0	0
Net surplus after tax		-565 359	36 184	116 081	178 330	279 349
Accumulated surplus		0	36 184	152 265	330 595	609 944
Microinsurance reserves		465 488	502 727	542 945	586 381	633 291
Capital injections required	1 577 500	987 859	500 000	500 000	0	0