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Learn more about Life Insurance

FSCA

Financial Sector
Conduct Authority

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Life insurance compensates you for life-changing events like retirement, disability, loss of life, injury and loss of income. It was previously referred to as long-term insurance. Examples of life insurance policies include health policies, life and disability cover.

Definitions

It is important that your insurance company clarifies how it defines common words and phrases.

Beficiary

The person in the policy nominated by the policyholder, who benefits in the event of a claim.

Cooling-off period

You may cancel a life policy within a period of 31 days after receiving the policy documents, provided that you have not claimed any benefit.

Cover

Cover is the protection offered by an insurance company in the event of, for example, an injury, or loss, damage to or theft of property. The insurance company pays out money if the insured's policy document stipulates that such risk events are covered.

Disability policy

An insurance policy where, in return for paid premiums, an insurance company agrees to pay out benefits to a policyholder if the policyholder becomes disabled.

Endorsement

An insurance endorsement is a change to your insurance policy that alters or adjusts your cover, usually by adding or deleting something. The endorsement must be added to your policy in written form.

Exclusions and limitations

Exclusions are specific items, losses or events that are not covered in terms of your policy. Limitations are hazards, perils, circumstances, or property that is not covered by your policy.

Financial Services Provider (FSP)

A person or company that is authorised to furnish advice and/or render any intermediary service in relation to a variety of financial products, including investment products and insurance policies. The FSP licence of the person or company specifies exactly which products or services they are authorised to advise on or sell.

Grace period

If premiums are not paid on the due date, there should be a grace period of at least 15 days before a policy lapses. Insurance companies may grant a longer period, often 30 days. It is important for policyholders to read and understand the terms and conditions of the contract.

Obligations

In insurance, all parties – company, intermediary and the insured must meet certain obligations for the contract to remain valid. Insurance companies need to ensure that brokers and customers understand the products on offer, the cost, and what is or is not covered in a policy. Intermediaries are required to understand the needs of their clients and offer products that meet those needs. They can provide customers with important information about the insurance sector and are required to remain up to date on industry trends, so they can educate clients as the need arises. Customers are obligated to fully disclose all relevant information and pay all premiums.

Policy benefits
The benefits to which a person is contractually entitled to under a life insurance policy.

Policy holder
The person entitled to receive policy benefits under a specific insurance policy.

Premium
The amount of money you will pay an insurance company in return for the benefit set out in the policy. Premiums are paid at regular agreed-upon intervals, usually monthly or annually.

Representative
Any person who renders a financial service to a client, for or on behalf of an authorised financial services provider (FSP).

Risk
The possibility that a particular event may occur during the lifetime of your policy.

Total disablement
Some insurance companies classify total disablement as an illness or injury that leaves a person unfit to work in their current profession. Other policies state that you must be unfit for any type of work. Confirm with your insurance company what they mean by 'total disablement'.

Risk cover
A life insurance product that provides financial protection in the event of major unplanned events like critical illness, disability, retrenchment or death.

Loyalty bonus
An amount added to the policy account of a policyholder after a specified period as defined in the policy contract. The purpose is to encourage/incentivise policyholders to keep their policies, and to enhance retention rates by the life insurer. It is often calculated as a portion of administration fees or a percentage of policy value.

Endowment policy
A savings plan with a built-in death benefit that is designed to pay out during your lifetime, rather than to your beneficiaries after your death.

Lump-sum payment
Often a large sum that is paid to a policyholder or their beneficiaries in one single payment.

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1. Introduction

Life-changing events like death, disability and even retirement are covered by life insurance (formerly known as long-term insurance). Life insurance offers financial protection to your dependants and can help your family pay a bond or rental costs, cover educational expenses, pay for funeral costs, or repay outstanding debt when you are no longer around or have become disabled and cannot earn an income.

South Africa has the largest and most sophisticated insurance industry on the continent and can offer a range of insurance products to meet your needs and your pocket. However, due to the mistaken belief that life insurance is expensive, a large portion of the population is not insured.

Life insurance can offer you and your family tremendous peace of mind. Without it, the burden to make ends-meet is placed upon a widowed spouse or on extended family and community, who may have to take care of orphaned children.

Good reasons to purchase life insurance

- **Financial assistance:** If your family relies on your income to make ends-meet, or if your income helps your family to maintain its standard of living.
- **Leave an inheritance:** Ensure that your loved ones are taken care of financially by naming your children or spouse as beneficiaries on your life insurance policy.
- **Pay for the funeral:** Funerals can be expensive. If your life policy has an immediate death cover benefit your family can pay for your funeral using this money.
- **Pay off debts:** Your life insurance can be used to pay off outstanding debts like car loans, home loans and personal loans. This means that your family won't have to be burdened with additional costs and debt.

Things to keep in mind:

- **Start young:** The younger and healthier you are, the cheaper your life insurance premium will be.
- **Your health:** If you have a poor risk profile – that is, if you have a pre-existing medical condition, you may pay a higher premium than a person without these conditions. Some insurance companies will request you to undergo a health assessment before offering you life insurance. If you refuse to go for a medical exam, this is grounds for denying cover.
- **Smoking:** Smokers are likely to incur higher premiums than people who do not smoke. Most insurance companies will reduce your premium if you stop smoking.
- **Your profession:** If you are a firefighter or work in the mining industry, you may pay a higher premium as some insurance companies charge more if you have a high-risk job.
- **Lifestyle:** Premiums are usually higher if you engage in high-risk activities like skydiving or extreme sports. If you do not fully disclose all relevant information, your insurance company may refuse to pay-out when you make a claim.

If you get married, start a family, or build a business, life insurance becomes an important part of a sound financial plan. It provides the comfort of knowing that there will be money to protect you and/or your loved ones if anything happens to you.

2. Types of life (long-term) insurance products

Because each individual and family is unique, they will have a different approach to life insurance. Therefore, there are different types of life insurance products. Life insurance is not just about death, but about other factors that can prevent you from taking care of yourself or your dependants, like disability or retrenchment.

Life cover

As the owner of a life insurance policy, you will pay a monthly premium to a life insurance company over a certain period. In return, the company promises to provide policy benefits (for example a lump sum of money) to you, the policyholder or your nominated beneficiaries, if or when certain stipulated events occur, like death or disablement.

The person or life covered under the policy is called the **life insured** and, if the insurance company agrees to it, a single policy can cover more than one life insured. There are different types of life policies, as you will see in the table below:

Death cover	Death cover is a form of *risk cover* that has the sole intention of providing the policyholder or his/her beneficiary with policy benefits should the life insured die. Pure death cover does not have an investment component or cash value. This means that if the policy is terminated for whatever reason, and no benefit was claimed, the policyholder is not entitled to receive any of his/her premiums or other money back from the insurance company.

Permanent life insurance: whole life	Whole life cover is ordinary life insurance, which covers you against the risk of death and is guaranteed to remain in force for as long as you continue to pay your premiums. A portion of the premium is usually directed to a savings or investment account, which enables you to build up a cash value over time. You can access the savings/investment portion of your policy through a *policy loan* or by *surrendering your policy*. Surrendering a policy means cancelling it and taking the cash value that has accrued less any fees and other costs. As changes occur in people's lives, they may decide that they no longer need a policy or cannot afford it. It is important to note that there are disadvantages to accessing the accrued savings/ investment benefits under these circumstances: • Repayment of the policy loan will be subject to interest, which means that if you borrow the money you will pay this back with interest. • The surrender value of the policy might mean that you have to pay surrender charges and you will also forfeit any right to claim further benefits under the policy. Whole life insurance is ideal for a person who wants to leave a fixed amount of money behind after death, for a specific purpose.
Permanent life insurance: universal life	Universal life cover is often more flexible than whole life cover and offers various options. Note that: • You can reduce your death benefit to receive a bigger cash pay-out. • You can pay premiums at any time and in any amount. • Typically, when you take a policy loan under a universal life policy, the amount loaned will not attract interest, while you pay interest on a policy loan under a whole life policy. • Whole life insurance usually guarantees the interest rate at which your investment portion will grow, while this is not always an option with universal life insurance. • Charges or fees may differ.

Term insurance	Term insurance provides life cover for a fixed period of time, for instance while paying off a home loan. It is also known as fixed insurance. The cover simply expires after the agreed-upon period of time and, regardless of whether or not a claim was made, you will not receive any premiums back when the cover expires. Generally, term insurance is the cheapest form of life insurance.Term insurance does not have a cash value or cash component and therefore has no maturity value.
Endowment policies	An endowment policy is a savings plan with a built-in death benefit. You pay a monthly premium for a specified period of time, at the end of which a lump sum is paid out. It is designed to pay out during your lifetime rather than go to your beneficiaries after your death. You can also invest a lump sum in a single premium endowment policy. The death benefit comes into effect if you die before the policy becomes due for pay out. The surrender value of an endowment policy should increase substantially as the policy gets closer to the maturity (end of term) date.

Funeral cover

Funeral cover provides benefits to offset the cost of a funeral. Depending on the cover you choose, benefits are in the form of cash to cover the cost of a funeral or to a service provider. As the policyholder, you have the option to stipulate how the benefits are disbursed.

Disability cover

Losing the use of your hands or legs or suffering from a chronic illness may force you to stop working. The purpose of disability cover is to provide you with policy benefits (usually money) to help you to cover your costs or replace lost income should you become disabled. Disability cover is usually added to life cover but can also be bought separately. There are two kinds of disability cover:

Capital disability cover	Capital or lump-sum disability cover pays out a specific lump-sum if an insured event occurs that results in your disablement. You will only be paid out once you provide proof that the disability is permanent.
Income protector or recurring disability cover	With this cover, income is provided on a monthly or other agreed-upon basis if you become disabled. The amount can increase annually, depending on the policy. If you are permanently or temporarily disabled, the pay-outs can replace a portion of your salary until you recover from the disability, die, or the policy matures – whichever comes first.

Retirement annuities

Retirement annuities are long-term savings plans that pay out during your lifetime. Depending on the annuity you choose, you can access your savings either from the age of 55 or after your retirement. You can withdraw up to one-third of the value of your savings in cash. The remaining savings must be reinvested to provide you with a monthly income for your retirement.

Living annuities

A living annuity is an investment product that pays you a regular monthly income after you retire. As a member of a pension, provident, preservation or retirement annuity fund, you must use at least two-thirds of your fund proceeds to purchase an annuity at retirement. Your money will be invested and the extent to which the investment increases in value will determine the amount of money paid out to you every month. When you die, your beneficiaries can:

- withdraw the remaining amount as a lump sum on your death.
- maintain the annuity in their name/s, changing the way the income is paid to suit their investment needs.
- make a partial withdrawal and transfer the balance as a living annuity in their name/s.

Guaranteed annuities

A guaranteed annuity is an insurance product that you buy from a life insurance company. The insurance company guarantees to pay you a specified pension monthly for the rest of your life. This effectively insures you against living longer than expected or longer than your money may last. Your income from a guaranteed annuity is therefore not dependent on the value of your investment.

You receive this pension as long as you are alive, but your capital dies with you and no money passes on to your heirs, even if you die sooner than expected. Some contracts do incorporate a guarantee period, so your spouse can receive a benefit.

Note: Life insurance products must be bought from licensed life insurance companies. Life insurance companies are licensed by the Prudential Authority (PA) in terms of Insurance Act 18 of 2017. This Act, and the Long-term Insurance Act (No. 52 of 1998) which the FSCA administers, stipulates how life insurance companies must conduct their business. Financial Services Providers (FSPs) who provide financial advice and/or intermediary services when selling a policy must be authorised by the FSCA to do so.

3. Consumer rights and responsibilities

You have rights when you purchase financial products, but you also have responsibilities – you cannot hold your service providers liable for all outcomes.

Your rights:

- A policy is a binding legal contract that gives you rights in the event of an accident, injury, death or whatever you are insured for.
- You have the right to be paid the amount you are insured for, provided you have met all the terms and conditions of the policy.
- You have the right to shop around for the insurance policy that best suits your needs and your budget.
- Before signing a policy document, you may take it home with you to make sure you understand the contents. You also have the right to have the contract explained to you in clear and easy-to-understand language.
- You may cancel your policy by giving the insurance company a period of notice in writing (usually a month), as provided for in the policy document.
- You have the right to a cooling-off period. This means that you can change your mind and cancel a life policy within 31 days after receiving the relevant policy documents. Before you cancel, you need to inform the insurance company in writing of your intention to do so. The insurance company must comply with your request to exercise your cooling-off right within 31 days after receipt of your request. You will be entitled to receive your initial premium back, subject to the insurance company deducting certain amounts to cover costs. If a policy cannot be cancelled for some reason, this must be disclosed to you before you sign the policy document.
- There is a 15-day grace period for the late payment of monthly premiums. If the premium has not been paid by the due date, the insurance company must notify you of the non-payment within 15 days after payment was due. If your premium is not paid on day 16, you are no longer covered.
- Ask the insurance company's representative to give you their contact details and find out who you should contact if you want to make a claim or if you have a complaint.

Your responsibilities:

- Be sure to pay the premiums and comply with the terms and conditions, as set out in the policy document.
- Make sure you understand everything in the policy document and everything about the insurance product.
- Identify yourself – the insurance company will need your ID number and address, as well as the details of other people you would like to insure.
- Provide accurate information. The insurance company cannot insure you properly unless you provide them with complete and accurate information.
- Confirm how much your monthly insurance payment will be and make sure you can afford it before signing any documents!

The insurance company's responsibilities

- The insurance company will be liable for the risk you face if an insured event occurs, provided that you have paid your premiums regularly.
- The insurance company will explain the policy in full and answer any questions that you may have.
- The insurance company will pay out in the event of death, disability and loss of income, depending on what you are covered for.
- The insurance company will have qualified agents who can help you to make the right decision about which insurance product to purchase.
- The insurance company must be properly authorised by the PA before they sell you any insurance products.

4. Frequently asked questions

Q: Do I need life insurance?

A: If you want to provide financial protection for your dependants (your child, spouse, parent, etc.), or pay off your debts in the event of your death or disability, than yes, you need life insurance.

Q: How do I know that I am dealing with an authorised life insurance company or an authorised financial services provider (FSP)?

A: Life insurance companies are licensed by the Prudential Authority (PA) in terms of the Insurance Act (No. 18 of 2017). This Act, and the Long-term Insurance Act (No. 52 of 1998) which the FSCA administers, stipulates how life insurance companies must conduct their business. Contact the PA or the FSCA for a list of licensed insurance companies or to confirm that your insurance company is licensed. All FSP's and representatives must be authorised by the FSCA in order to sell you financial products or give you financial advice. You have the right to see their licence before entering into an insurance contract.

Q: How much life insurance do I need?

A: The amount of life insurance you need will depend on your circumstances and the reasons for purchasing the policy. Contact any authorised FSP or financial advisor for more information and advice on this. If you obtain advice, insist that the financial advisor provides you with proof that they are qualified to advise you on this type of financial product, and get the full details of the fees, commission or incentives that they will receive if you buy a financial product. Shop around and compare this financial product with other products that could also meet your financial needs. Make sure to compare the price, as well as the cover that is offered.

Q: Do I have to take a medical examination?

A: It depends on the insurance company and insurance product. Different insurance companies have different requirements in this regard. In some instances, your medical history will determine the number of tests you will have to do.

Q: Can an insurance company refuse to offer me a policy?

A: Yes. An insurance company can choose not to offer you a policy. However, there are guidelines they must follow as there are legal grey areas. An insurance company can refuse you coverage, for example, if you do not undergo a mandated medical exam. Through a process called underwriting the insurance company will determine whether you are eligible for coverage as well as how much your premiums will be. If you discover that you are HIV positive, they cannot deny you coverage, but would set your premium to match the raised risk.

Q: What happens if I withhold information, for example that I am a smoker, to pay a lower premium?
A: It is not wise to give incorrect information about yourself as the insurance company would have the right to reject a claim. Further, it is dishonest and would constitute a misrepresentation of fact. The insurance company needs to have accurate information about you to decide if they are willing to insure you and to determine the cost of providing cover for you. The premium you will pay is based on your specific risk profile. The factors that affect your risk profile include your age, gender, health, occupation (whether it is hazardous) and lifestyle (whether it involves dangerous hobbies).

Q: What are policy exclusions?
A: Exclusions are benefits not covered by an insurance policy. The insurance company or your intermediary must provide you with the details of all the important terms and conditions before you sign the policy document.

Q: What is meant by a 'waiver of premium'?
A: Some life insurance policies give the policyholder an option to add a waiver of premium to the policy. This means that if you become totally disabled and can no longer earn an income, the insurance company will allow your premium payments to lapse for a specific period of time.

Q: Can beneficiaries claim life insurance benefits if the insured person committed suicide?
A: This depends on the insurance company and the terms of the insurance contract. Insurance companies tend to state specifically in their policies that a policyholder cannot claim benefits where the insured person commits suicide within the first two years after

5. How to lodge a complaint against an insurance company.

Life insurance companies have developed an internal procedure for dispute resolution, so you have the following options if you are not satisfied with their financial products or services:

- Notify your insurance company or authorised FSP of your complaint in writing.
- If your problem is not resolved to your satisfaction and within a reasonable time, you can refer the matter for **free** to the Ombudsman for Long-term Insurance or the Ombudsman for Financial Services Providers (FAIS Ombud).
- If your complaint relates to a possible contravention of the Long-term Insurance Act, you should contact the FSCA. If the complaint relates to a possible contravention of the Insurance Act, you should contact the PA. If either of these Acts have been contravened, the Ombudsman may refer your complaint to the FSCA or PA.

Useful contacts

For more information, or if you have any queries relating to life insurance or you wish to report unlawful conduct or unfair treatment in relation to life insurance, contact one of the following:

Financial Sector Conduct Authority (FSCA)

To check if a financial services provider or financial advisor is authorised to sell your financial products and services, as well as which products they can sell you, contact the FSCA.

FSCA switchboard: 012 428 8000
Call Centre: 0800 20 3722 (FSCA)
Fax number: 012 346 6941
E-mail: info@fsca.co.za
enquiries@fsca.co.za
complaints@fsca.co.za
Physical address:
Riverwalk Office Park, Block B,
41 Matroosberg Road, Ashlea Gardens,
Pretoria, South Africa 0081
Postal address:
P.O. Box 35655, Menlo Park, Pretoria, 0102
Website: www.fsca.co.za

FSCA's Consumer Education Department (CED)

For more consumer financial education information contact CED.

E-mail: CED.Consumer@fsca.co.za
Website: www.fscamymoney.co.za

Prudential Authority (PA)

To find out if an insurance company is authorised to do business, contact the PA.

Telephone: 012 313 3911
0861 12 7272 (SARB)
E-mail: PA-Info@resbank.co.za
Physical address:
South African Reserve Bank, 370 Helen Joseph Street, Pretoria 0002
Postal address:
P.O. Box 8427, Pretoria 0001
Website: www.resbank.co.za

Ombudsman for Long-term Insurance (Ombud)

For life insurance-related complaints, contact the Ombudsman for Long-term Insurance. Please note that your insurance company should be given the opportunity to resolve the problem or complaint before it is referred to the Ombudsman.

Telephone: 021 657 5000
Sharecall: 0860 103 236
Fax: 021 674 0951
E-mail: info@ombud.co.za
Physical address:
Third Floor, Sunclare Building, 21 Dreyer Street, Claremont, Cape Town 7700
Postal address:
Private Bag X45, Claremont, Cape Town 7700
Website: www.ombud.co.za

You can also contact the **central contact point for insurance-related complaints** if you are unsure of which insurance ombudsman to contact.

Sharecall: 0860 103 236 and 0860 726 890
Telefax: 086 589 0696
E-mail: info@insuranceombudsman.co.za
Website: www.insuranceombudsman.co.za

Ombud for Financial Services Providers (FAIS Ombud)

For complaints related to financial advisors and financial product providers contact the FAIS Ombud.

Telephone: 012 762 5000
Sharecall: 086 066 3274
Fax: 011 348 3447
E-mail: info@faisombud.co.za
Complaints about our service:
hestie@faisombud.co.za
Enquiries on status of complaints:
enquiries@faisombud.co.za
Physical address:
Kasteel Park Office Park, Orange Building,
2nd Floor, 546 Jochemus Street, Erasmus Kloof,
Pretoria, 0048
Postal address:
P.O. Box 74571, Lynnwood Ridge 0040
Website: www.faisombud.co.za