



The Mzansi and Zimele product standards: Impact to date and options going forward

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Introduction



About FinMark Trust and Cenfri



- Independent trust established in 2002
- Initial funding from the UK's Department for International Development (DFID)
- Mission: "Making Financial Markets Work for the Poor" in Southern Africa
- Facilitating and catalysing the next generation of development around access to financial services.
- Financial inclusion
- Regional financial integration
- Theme areas:
 - FinScope
 - Housing finance
 - Credit
 - Consumer financial empowerment
 - Rural and agricultural finance
 - Retail payment systems
 - Insurance
- Further information available at: www.FinMarkTrust.org.za



Take-up vs. Timeline



Retail savings bonds

2004



2010

Take-up:
36,000 policies

Mzansi insurance products

2006



2010

Take-up:
30,000 policies

Zimele insurance products

2007



2010

Take-up:
2,000,000 policies

Fundisa savings product

2007



2010

Take-up:
16,000 policies







Objectives of the standards

- Focus of study: What has been the impact of that standards, have they been successful and what should be done going forward?
- Objectives of standards not articulated but could include a combination of:
 - Compliance tool to assist companies in obtaining Charter points
 - Assisting companies in reaching Charter targets
 - Catalyse better value, commercially viable products
 - Facilitate collective effort to develop the market
 - Establish trust in common brand

Mzansi



Standard features and access principles

	<u>Charter Access principle</u>	<u>Mzansi industry standard</u>
<div data-bbox="28 379 330 515">Appropriateness</div> 	<ul style="list-style-type: none"> • Products targeting Black people, low-income and falling within LSM 1-5 • Products meeting first-order needs of this market • Products to meet identified needs of LSM 1 - 5 • Products must be flexible in terms of regularity and size of payments 	<ul style="list-style-type: none"> • Small contributions need to be accepted but should have a choice of lump sum if this reduces costs • Ability to make up missed premiums should be allowed • Ability to pay premiums any day of the month • Irregular payments should be allowed
<div data-bbox="28 679 330 815">Affordability and fair value</div> 	<ul style="list-style-type: none"> • Cheaper products offering better value • Pricing must ensure sustainability • If applicable, a return of contributions to be guaranteed • If appropriate, impose price guidelines or maximum prices • Consumer education to be offered free of charge 	<ul style="list-style-type: none"> • Household contents and Homeowners insurance should aim to replace that which was lost rather than provide cash. • Replacement should be at the value selected; That is averaging should not apply • The policy cannot be cancelled after the first non – payment. The policy holder must be given the opportunity to make up premiums.
<div data-bbox="28 936 330 1072">Physical Accessibility</div> 	<ul style="list-style-type: none"> • Products to be available in areas previously unserved or underserved • Sufficient service points to meet needs of population previously unserved or underserved 	<ul style="list-style-type: none"> • No physical accessibility standards as products marketed mainly through brokers, call centres or other financial institutions’ infrastructure • ShareCall line available 07h00-19h00 and on Saturdays 08h00-14h00.
<div data-bbox="28 1222 330 1358">Simplicity and understanding</div> 	<ul style="list-style-type: none"> • Products must be simple and understandable in terms of design, pricing, terms and conditions • Disclosure of product features, terms and conditions to be standardised to enable comparisons across products • Standardised disclosure must apply to fees, commissions, and other charges. 	<ul style="list-style-type: none"> • The documentation must be simple and understandable and comply with the proposals in the sample policy wording. • Standardised disclosure : commission, conditions for exit, exclusions and lapse periods and their implications • A simplified version of the SASRIA wording has been designed for products meeting these standards. This must be included in the policy wording



Compliant products

MZANSI PRODUCT STANDARDS

MZANSI

Fully compliant with all of the standards

- Have received accreditation from the FSCC
- Comply with all of the requirements of the standard
- By virtue of this have also qualified for SASRIA discounted rate

NEAR MZANSI

Accredited but not fully compliant

- Have received accreditation from the FSCC
- DO NOT comply with all of the requirements of the standard
- By virtue of this have NOT qualified for SASRIA discounted rate

ACCESS

Not accredited and not fully compliant

- Have NOT received accreditation from the FSCC
- DO NOT comply with all of the requirements of the standard
- By virtue of this have NOT qualified for SASRIA discounted rate



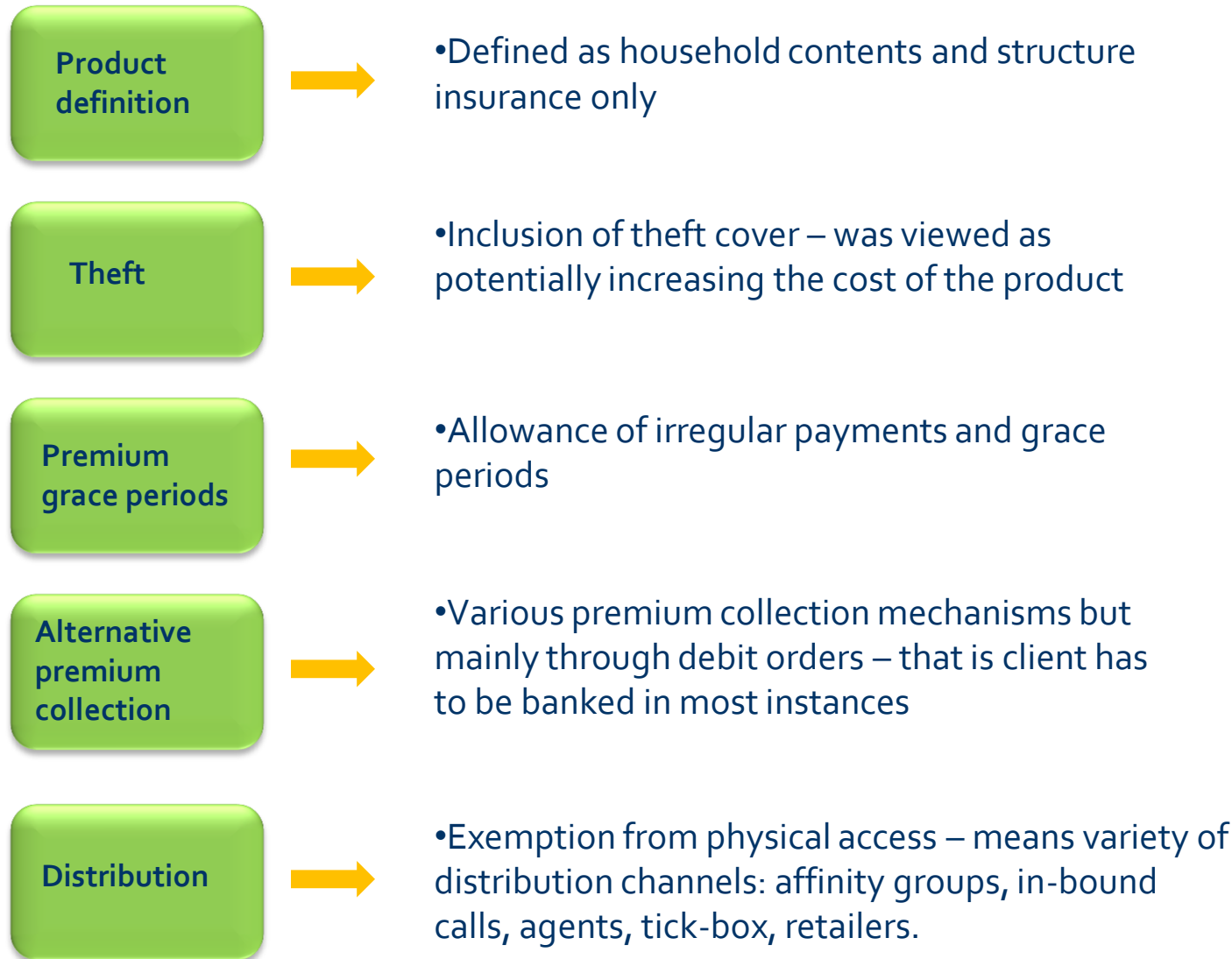
5 products as a result of Mzansi



MZANSI					
Insurance company	Product	Premium	Cover/sum assured	Distribution	Policies in force
Santam	MultiHome	R21 (minimum) - R100 (Maximum) Average premium R80	Building and/or household contents: Cover ranges from R40,000 - R370,000	Affinity groups	Greater than 5,000 ● ● ●
Mutual and Federal	Insurance 4 All	R21 (minimum)	Building: R18,000 - R108,000 Household contents: R10,000 - R40,000 Additional bereavement cover: R2,150 per family member	Through Nedbank and Mutual and Federal agents who advertise within local communities and other target areas	Less than 5,000 ●
NEAR MZANSI					
Hollard	Jet Protect	R99.00 (fixed)	Household contents: R50,000 Building: R50,000 Theft/robbery: R15,000	Through Jet stores retail outlets	Greater than 5,000 ● ● ●
ACCESS					
ABSA	Flexisure Plan A to Plan D	R22.25 to R82.75 for (household contents, public/personal liability, personal accident and theft) and R8.75 - R52.50 for building	Household contents and others: R15,000 - R70,000 Personal Accident: R5,000 Theft/robbery: R1,500 - R7,500 Public/personal liability: R50,000 Building: R25,000 - R150,000	Tick-box method – to ABSA bank account holders through bank tellers	Less than 5,000 ●
OUTSurance	Essential	R50 (average) for building R74 (average) for household contents R185 (average) for motor vehicle	Household contents: R40,000 (average) Building: R50,000 Motor-vehicle: R27,000 (average)-risk based on an individual basis	In-bound call sales	Less than 5,000 ●



'Problematic' product features



Other issues to consider

- Branding – none of the companies adopted the Mzansi brand
 - 'Flexibility'
- Adoption – 3 products: Mzansi, Near-Mzansi and Access
 - 'For the man on the street' – looking at the product features and the market
- Take up
- FAIS



Zimele



Features of the standards

Charter Access principle

Specific Access principles

Zimele standard

Appropriateness

- Products to meet identified needs of LSM 1 - 5
- Products must be flexible in terms of regularity and size of payments



- Products covered include funeral, life, disability and credit life
- Monthly payment of premiums
- Grace period of up to 6 months
- No exclusions for pre-existing conditions

Affordability and fair value

- Cheaper products offering better value
- Pricing must ensure sustainability
- If applicable, a return of contributions to be guaranteed
- If appropriate, impose price guidelines or maximum prices
- Consumer education to be offered free of charge



- Maximum prices set for funeral, life, disability and credit life (initially more expensive but currently cheaper)
- One same terms reinstatement available for 3 months from last date of premium payment
- Minimum cover of R30k for life and disability
- Maximum cover of R20k for funeral

Physical access

- Products to be available in areas previously unserved or underserved
- Sufficient service points to meet needs of population previously unserved or underserved



- 80% of LSM 1 – 5 should, at least once per month, purchase products, pay premiums & amend policy within 40kms of usual place of residence or work
- 80% of LSM 1 – 5 should, at least once every 12 days, lodge a claim and receive payment of claim within 80kms of residence or place of work

Simple and understandable

- Products must be simple and understandable in terms of design, pricing, terms and conditions
- Disclosure of product features, terms and conditions to be standardised to enable comparisons across products
- Standardised disclosure must apply to fees, commissions, and other charges.



- Documentation to include product description, sales process and servicing process
- Summary of policy terms must be available in any of the eleven languages on request
- Standard industry template developed



Zimele products

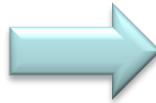


Insurer	Product type	Name	Sales channel	Premiums/cover	Policies
ABSA Life	Funeral	Flexi Funeral	O/bound call cntres Bank branches	Member: R28-R70/R6k to R20k Member& spouse: R48-R130/R6k-R20k Member, spouse + children:R53-R160/R6k-R20k	● ● ● (> 300,000)
Metropolitan	Funeral	Future Provider	face-to-face sales force	Member: R25-R85/R5k-R20k Member, spouse + children:R25-R85 Parents:R13-R165	● (< 50,000)
Assupol	Funeral	Cornerstone	Tied Agents Brokers	Member: R35 to R65/R5k-R10k	●
Avbob	Funeral	Zonke Bonke	Funeral parlours	Member: R24-R81/R5k-R20k Member, spouse + children:R44-R161/R5k-R20k	●
Old Mutual	Funeral	Funeral Plan	Salaried agents	Member: R42-R84/R10k-R20k Member+spouse: R29-R119/R5k-R20k Parents: R41-R165	●
Liberty Active	Funeral	Funeral Plan	O/bound call cntres Bank branches	Member:R69/R20k	● ● ●
Old Mutual	Life & disability	Life & disability	Salaried agents	Member:R81/R30k-R150k	●
ABSA Life	Life	Phase-in	O/bound call cntres Bank branches	Cover:R30k-R50k	●
Hollard	Funeral	Pep Funeral	Pep stores	immediate family: R39/R15k	● ● ●
Momentum	Funeral	Funeral Plan	O/bound call cntres	Cover:R50k	●
Sanlam Sky	Funeral	Group scheme – Kganya Burial Benefit Scheme	Group scheme – available via church committees	Member (M)/Member and children cover (F) – R 15 000	● ● ●



Near Equivalent Products (NEPs)

NEP Features	
Target market	LSM 1 - 7
Sales channel	Brokers Agents Call centres
Premium range	R90 to R110
Cover	R20,000 to R30,000
Waiting period	6 months
Other benefits	pre-existing conditions 1-3 months grace prd Double accident cover Cash back Optional savings
Policies	● ● ● ●



Companies with NEPs
Metropolitan Life
Avbob
Assupol
Hollard
Momentum
Old Mutual
African Life/Sanlam Sky
Lion of Africa



NEP facts

- Banks without NEPs
- NEP extends marketing to LSM 7
- NEP sells more policies
- Compliance with some Zimele features
- NEPs extend cover beyond immediate family
- NEP more expensive
- Sold through incentivised brokers and agents



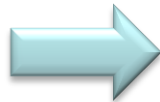
Perceived issues with Zimele standards

Grace period +
Same terms



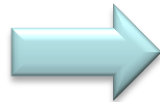
- Companies reluctant to offer more than 3 months on alternative products
- Similarly with same terms reinstatement

Pre-existing
conditions



- Experience with anti-selection

Benefit cap



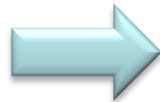
- Maximum cover for funeral not adjusted for inflation

Immediate
family cover



- Most Zimele products do not extend cover beyond immediate family

Premium
caps



- Implies caps on admin costs, distribution, etc...



Price cap & Distribution



Zimele price ceiling of R85

R90 – R110

R68 to R72

Bancassurance
Zimele

- Makes up 60% of all Zimele policies in-force
- Policies cost 20% less than agent distr. Zimele
- Sold through bank branches

Other Zimele

- Makes up at most 20% of all LSM 1 – 5 policies in-force
- Policies cost 20% more than Bancassurance Zimele
- Sold through outbound call centres
- Salaried staff

Near Equivalent Product

- Makes up bulk of all LSM 1 – 5 policies in-force
- Costs about 10% more than other Zimele
- Sold through independent brokers and agents

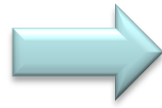
Bottom Line:

- Distribution drives price differential
 - Banks able to sell more and price cheaper
 - NEPs: companies able to add more distribution costs to risk premium than for Zimele



The Zimele experience in summary

- Branding:



- Companies adopted brand
- All Zimele compliant products carry the logo

- Marketing

- Limited collective industry marketing
- Low brand awareness in LSM 1 – 5

- Adoption:

- About 10 life companies have Zimele products

- Take-up:

- 3.5 million Zimele policies in-force. BUT...

- Funeral only

- Catalysis of NEPs



RSA Retail Savings Bonds



Retail Savings Bond



South African Retail Savings Bond, launched in 2004

2 products

- a. RSA Fixed Rate Retail Savings Bond – 2, 3 or 5 year
- b. RSA Inflation Linked Retail Savings Bond – 3, 5 and 10 year maturity

3 steps

- a. Register
- b. Apply (select a bond or maturity)
- c. Pay

Marketing

- Road shows across
- TV and radio shows

Performance

- R10 billion raised
- Approximately 70,000 active accounts with 36,000 users
- Apparently 40% are from LSM 1-5



Fundisa



Pricing	Minimum of R40 per month
	Or minimum of R480 per annum
Annual return on savings	Market return + 25% bonus
Fees	up to 3% (excl. of VAT) fee
	1.25% (excl. VAT) charged and deducted from investment income
	Monthly bank debit order charge
Who can invest?	Anyone but beneficiary has to be South African national in LSM 1 – 5.
Beneficiary age cut-off	Beneficiaries can only be younger than 35 in order to earn bonus
How are savings utilised?	Money saved can only be utilised to study at a public college or university that is recognised by the National Student Financial Aid Scheme



Current distributors/sellers of Fundisa	
Stanlib	● ● ● (> 5,000 policies)
Nedbank	● ● ●
ABSA	● (< 1,000 policies)

Key outcomes

- 16,000 Fundisa policies sold to date
 - 60% sold to LSM 1 – 5
- Adoption of products limited to banks

Key lessons

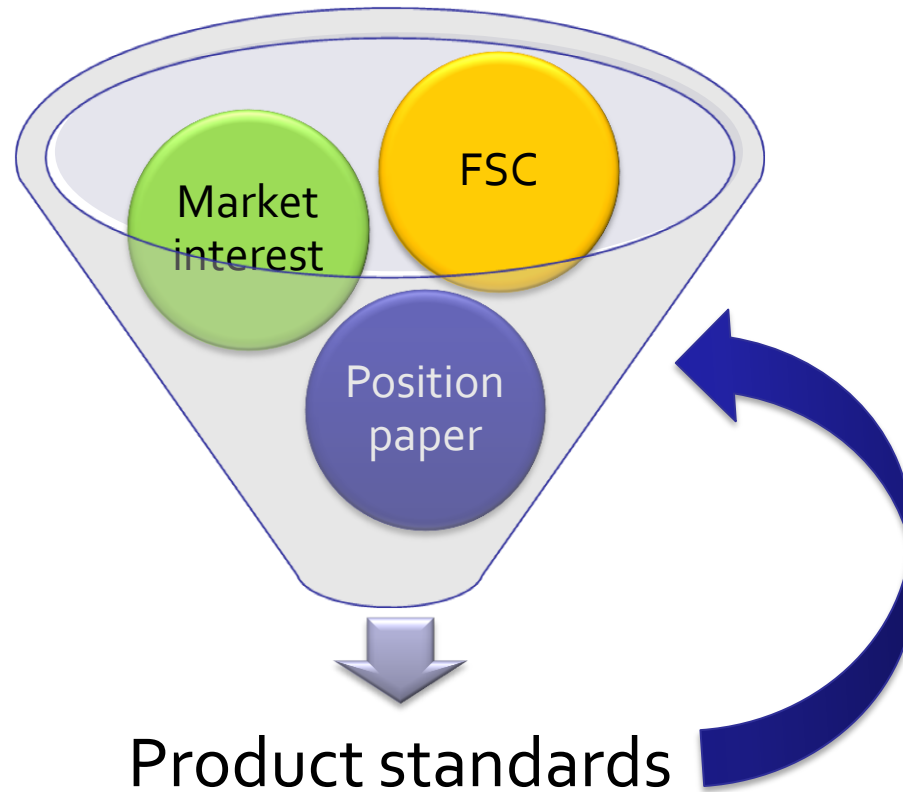
- Limited marketing/limited brand awareness
- Limited sales incentive
- Fees may exceed 3% commission
 - Bank account, debit order, other bank related costs
 - Total fees in the order of 28% of minimum monthly premium
- FAIS
- Charter Exemption
- No scoring proposal
- Piloting might have deterred take-up



Conclusions



Processes impact on standards



Financial Sector Charter

- Objective: Transformation, not just low income
- Stalled: no actual points awarded since 2008
- Delivery on access objectives despite this
- Distance between FSCC and industry associations (and therefore standards)
- Standards not required by FSC so not a deliverable in itself but means to an end
- Rely on the FSCC to enforce the standards
- Resulted in watering down of compliance with standards (NEPs counted, reporting not strictly kept to standards)
- Structure of points not in line with objectives of standards (no incentive beyond funeral, group compliance, take-overs, exemptions, etc)
- Targets and allocation need to be updated



Market interest

- Consider both consumers (access, value) and insurers (viability)
- Generalized vs specific
- Stricter enforcement vs NEP
- Viability: Were any of the standard requirements ultimately too strict? Evidence suggests not (with few exceptions)
- Product definition
- Price caps in some cases
- Distribution driver of success or failure rather than standards
- Brand development and pooled marketing effort



Overview of selected requirements

Product requirements

- All products under ST and LT Acts
- Risk only (excludes savings, cash back)
- Benefits on sum assured basis (option to review)
- Benefits caps
 - Life: R50k
 - In-life: R50k
 - Asset: R100k
- Max contract period: 12 months (renewable)
- Max waiting period: 6 months
- Grace period: 1m for each year of membership (max of 6)
- Pre-existing conditions must be covered
- Simplified policy documentation
- Right to monetary benefit
- File-and-use product approval process

Market conduct

- FAIS category for MI
 - Replace category A
 - Reduced entry requirements (read, write, calculate)
 - Internal exam after 2 years
 - Basic advice on scripted basis
- Uncapped commission
 - Upfront component + as-and-when
 - Embedded products to be capped (e.g. credit life)
 - Actuarial technician to certify total premium
- No selective renewals
- Claims payment within 48 hours



Position
paper



Overview of selected requirements

Product requirements

- All products under ST and LT Acts
- Risk only (excludes savings, cash back)

Market conduct

- FAIS category for MI
- Replace category A



In relation to the Charter product standards:

- Standards more generic and accommodate a wider range of products than Charter standards
- No income restrictions
- No commission caps
- Some aspects more restrictive: risk only, benefit caps, 12m max term, credit life
- A number of aspects mirrored: sum assured, max waiting periods, grace periods, pre-existing conditions, simplification
- Charter product standards referenced as reason for limited product regulation: further regulation may follow
- Addresses distribution

write,

e.g.

- Right to monetary benefit
- File-and-use product approval process



Where the standards successful?



- Compliance tool to assist companies in obtaining Charter points
- Assisting companies in reaching Charter targets
- Catalyse better value, commercially viable products
- Facilitate collective effort to develop the market
- Establish trust in a common brand



Where the standards successful?



- **Compliance tool to assist companies in obtaining Charter points**
 - Stalled: no points awarded since 2008
 - Limited scrutiny of reporting process by all parties (near-compliant and LSM 1-5)
 - Yet Charter objectives have been achieved
 - Narrow Mzansi definition did not assist companies in getting points



Where the standards successful?



- **Assisting companies in reaching Charter targets**
- Dec 2010
 - 3.5m Charter-compliant life policies (Target 3.2m)
 - 30k Charter-compliant short-term policies (Target 146k)
- Yet, Mzansi process may, in fact, have been more successful in assisting companies
- Zimele standards not required to reach funeral targets and not implemented beyond
- Lack of branding and marketing: no assistance in achieving targets
- If standards strictly applied, neither would have reached targets



Where the standards successful?



- **Catalyse better value, commercially viable products**

Catalyse

- Appropriate, affordable and accessible products for LSM 1-5
- ST: 2 compliant, 1 near, 2 access
- LT: 10 compliant, 4 near
- NEPs reflect learning and innovation beyond the standards

Value

- Mzansi too narrow
- Take-up reflects perceived value but insufficient information to judge
- Zimele limited to funeral
- Missed opportunity to improve value on other products. Credit life not implemented at all
- Better claims ratios for Zimele clients
- Clients use features such as grace periods

Viability

- Mzansi: Profitable if sufficient scale
- Zimele: Driven by access to distribution channel rather than product features (price cap)
- Exceptions: specific risk experiences



Where the standards successful?



- **Facilitate collective effort to develop the market**
- Collective product development (Mzansi more than Zimele)
- Collective brand developed but very little marketing and branding
- Competition legislation allowed space



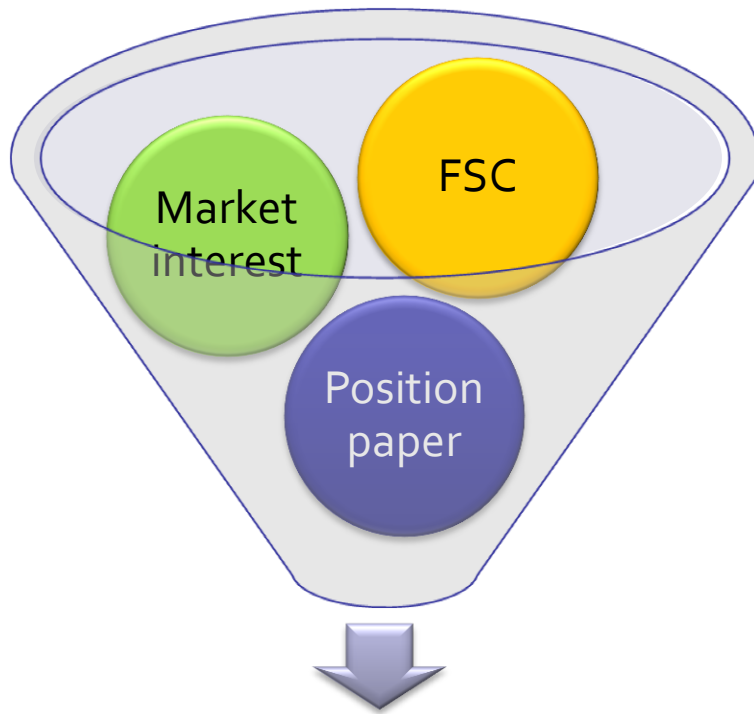
Where the standards successful?



- **Establish trust in common brand**
- Mzansi: branding not incorporated in products and no marketing
- Zimele: branding incorporated but limited marketing
- Without powerful brand, standards equate to voluntary product regulation



Going forward?



Product standards

Issues to consider

Objectives and approach

- Clarify and reconcile objectives
- Seek alignment with position paper
- Commercial value may require stricter enforcement
- Consider broader standards with stricter enforcement
- “Comply or explain” approach may offer flexibility without undermining standards

Targets, accreditation and scoring

- Scoring should be aligned with objectives agreed
- Update target allocation (e.g. take-overs)
- Review exemptions, free-rider points, group targets and compliance
- Accrediting and reporting of non-compliant products
- Better coordination between FSCC and industry associations

Branding and marketing:

- Collective and aggressive marketing
- Seek regulatory endorsement

Distribution

- Continue to lobby for FAIS space
- Leverage MI position paper



Thank you!

Questions or comments:

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