Distribution channels and intermediation arrangements

FSCA

Topics covered

1. Intermediary agreements
2. Binder agreements
3. Binder fees
4. Reporting requirements

Types of agreements

Definition: *agreement entered into between a microinsurer and an intermediary outlining the terms under which the intermediary will render services as intermediary in respect of the microinsurer’s policies.*

Intermediary agreements may be concluded with the following types of intermediaries:

- Representatives
- Independent intermediaries

Criteria for appointment

Criteria for appointment of representatives:

The representative must be duly appointed by the microinsurer and meet the FAIS Fit and Proper requirements, including product knowledge competency requirements

Criteria for appointment of independent intermediaries:

The independent intermediary must be a licensed FSP and meet the FAIS product knowledge competency requirements in respect of the policies offered by the microinsurer

Parties to intermediary agreements

Parties to the intermediary agreement

- Microinsurer and intermediary concerned (representative/independent intermediary)
- Agreement may not be entered into by a third party acting on behalf of the microinsurer or the intermediary

Obligations of the microinsurer

- The microinsurer must furnish the intermediary with a written copy of the intermediary agreement setting out the terms and conditions

Termination of intermediary agreement

- Representatives: upon termination of appointment
- Independent intermediaries: upon withdrawal or suspension of FSP licence

Remuneration

<u>Remuneration of intermediaries</u>

- Uncapped commission on "risk” and “funeral” classes of business
- Commission caps only apply to “credit life” class of business
- Uncapped commission is also applicable to *non-life* microinsurance classes of business, except for *motor class* where aggregate value of benefits exceeds R120 000

Binder agreements

Definition: written agreement between a microinsurer and a person (binder holder) to do any one or more of the following functions on behalf of the microinsurer:

- Enter into, vary or renew a policy
- Determine the wording of a policy
- Determine premiums under a policy
- Determine the value of policy benefits
- Settle claims

Types of binder holders

1. Non-mandated intermediaries

- ➢ Act as agents of the microinsurers and policyholders
- ➢ May perform both binder functions and intermediary services
- ➢ Perform binder functions on behalf of the microinsurers and intermediary services on behalf of the policyholder
- ➢ Remunerated in the form of binder fees and commission, provided there is no duplication of charges
- ➢ May not share in profits with the microinsurer

Types of binder holders (*cont.*)

2. Underwriting managers (UMAs)

- Act as agents of the insurer
- May not sell policies directly to policyholders
- May render any other intermediary services (apart from selling), to policyholders
- Earn binder fees and commission, provided there is no duplication of charges
- May share in profits with the microinsurer

Binder fees

BINDER FUNCTION		MAXIMUM FEE PAYABLE
Enter int, vary or renew a policy- Function (a)	Function (a) only	**3.5%**
Determine the wording of a policy - Function (b)	Function (a) and one or more of functions (b)- (d)	**5%**
Determine premiums under a policy- Function (c)		
Determine the value of policy benefits under a policy- Function (d)	One or more of functions (b)- (d) only	**0%**
Settle claims under a policy		**4%**

Reporting requirements

- A microinsurer must notify the FSCA, at least **30 days** before **entering** into a binder agreement.

- A microinsurer must, at **least 60 days** before the **termination** period, inform the FSCA in writing:

  - Of the date on which the binder agreement will terminate;
  - Of the reasons for the termination of the binder agreement;
  - How the policies to which the binder agreement relates will be dealt with;
  - How any legislative requirements relating to the termination of the binder agreement or policies, will be complied with.

THANK YOU