TREATING CUSTOMERS FAIRLY FRAMEWORK

FEBRUARY 2021

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Authorisations

This Framework is issued in terms of section 3 of the Insurance and Pensions Commission (Issuance of General Guidelines and Standards) Regulations, 2020], published in Statutory Instrument 69 of 2020. The said Statutory Instrument empowers the Commission, whenever it considers it necessary, convenient and in the best interest of policy owners and pension and provident fund members, to issue general guidelines and standards, which may provide for the market conduct practices to be observed by the insurance and pensions industry.

1. Definitions/Interpretations

1.1 In this Framework—

1.1.1 **Board** refers to the Board of Directors or trustees of insurance and pension service providers.

1.1.2 **Consumers** or **customer** means policyholders, pension and provident fund members, third party claimants and beneficiaries.

1.1.3 **Insurance and pension service providers** means insurers and pension and provident funds or fund administrators, under the regulation of IPEC.

1.1.4 **IPEC or Commission** means the Insurance and Pensions Commission, and the terms shall be used interchangeably.

1.1.5 **Retail consumers** means individual policyholders and pension scheme members.

1.1.6 **Treating Customers Fairly (TCF)** means treating consumers in a way that is not detrimental to them.

1.1.7 **TCF Framework** means the Treating Customers Fairly Framework.

1.1.8 **Regulated entities** means insurers and pension and provident funds or fund administrators, under the regulation of IPEC.

2. Introduction

2.1 The Insurance and Pensions Commission's (hereunder referred to as IPEC or "Commission") statutory mandate is to regulate, supervise and strengthen the insurance and pension industry in Zimbabwe for the protection of policyholders and pension and provident fund members.

2.2 In exercising its market conduct supervisory role, the Commission is charged with ensuring that consumers of insurance and pension and provident fund products and services, particularly policyholders and pension and provident fund members are treated fairly when dealing with insurance and pension service providers.

2.3 Given the information asymmetry that may exist between insurance and pension service providers on one hand and consumers of their products and services on the other, the consumers may possess limited knowledge about insurance and pension products and services and are therefore, likely to be treated in an unfair and prejudicial manner.

2.4 Given the complexity of insurance and pension products, there is therefore greater possibility that most consumers sign up into these contracts with very limited understanding of their rights and obligations.

2.5 This may lead to consumers, particularly those with low levels of financial literacy being treated unfairly and possibly suffer considerable financial losses in the process.[1] Insurance and pension service providers shall, therefore, provide consumers with all the essential information to ensure that consumers are treated fairly right from contract negotiation through to contract termination.

2.6 It is critical to note that failure to treat insurance and pension and provident funds customers fairly, may undermine confidence in the sector, resulting in a decline in the uptake of insurance and pension products and services. Therefore, the Commission has developed this Treating Customers

[1] Treating Customers Fairly discussion paper prepared for the Financial Services Board of South Africa by Feasibility (Pvt) Ltd in 2010

Fairly Framework, which sets principles and rules on how insurance and pension service providers can achieve fair outcomes for their customers throughout the product life cycles. IPEC believes that genuine implementation of TCF, may contribute significantly to the restoration of confidence in the insurance and pension sector.

2.7 However, it is important to note that TCF shall not be measured by the level of satisfaction or dissatisfaction of insurance and pension consumers. For instance, some consumers may be satisfied with their treatment because they have limited understanding of their rights and responsibilities even if they have been unfairly treated. Others may be dissatisfied with their treatment even if they have been fairly treated.

3. Objectives of the TCF Framework

3.1 The objectives of this framework are to:

i. ensure fair treatment of policyholders, pension and provident fund members and beneficiaries;
ii. provide TCF principles and rules, which insurance and pension service providers, are required to comply with throughout the product life-cycle;
iii. promote consumer protection and education; and
iv. restore confidence in the insurance and pensions industry.

4. Application of the TCF Framework

4.1 This Framework shall be applicable to all insurance and pension service providers, under the regulation of IPEC. This Framework shall be read together with all relevant legislation pertaining to insurance and pension business in Zimbabwe.

5. Effective Date

5.1 The Framework shall become operational from 01 June 2021. All regulated entities are expected to demonstrate effort to comply before the due date.

6. Treating Customers Fairly Principles

6.1 The notion of TCF is premised on six regulatory and supervisory outcomes[2], which financial service providers, in this case, insurance and pension service providers are required to deliver to policyholders and pension and provident fund members, respectively.

6.2 Below are the six Treating Customers Fairly outcomes and how they shall be implemented: –

6.2.1 Outcome 1: Consumers can be confident that they are dealing with firms where the fair treatment of customers is central to the corporate culture: –

i. Treating Customers Fairly shall be an organisation's way of life, where everyone within the organisation understands that in everything they do, treating customers fairly is central to their operations. To this end, the Commission requires that TCF be driven from the Board and Management and cascaded down to shop floor workers whose duties involve interfacing with policyholders and pension and provident fund members;

ii. Insurance and pension service providers shall deal with TCF issues using the product life-cycle approach, where they prioritise fair treatment of customers, from product design to post-sale experience;

iii. The strategic plan of each registered entity or person shall be embedded with TCF principles and such entities or persons shall be required to demonstrate how they have implemented this Framework;

iv. Boards and Senior Management of insurance and pension service providers shall regularly receive information from middle management, which will enable them to assess whether customers are being treated fairly. Where there is evidence or suspicion that customers are not being treated fairly, the Board and Senior Management, shall institute investigations and intervene, where necessary;

[2] Financial Services Authority-UK Treating customers fairly – towards fair outcomes for consumers 2006

v. To demonstrate that TCF is part of an organisation's culture, the Commission or any person, should be able to look at any area of the business, from employee knowledge and actions, through to business processes; and see how the entity has considered, shared, discussed, trained on, implemented, reviewed, assessed and recorded the Treating Customers Fairly principles, ethos and outcomes[3]. For entities or persons that put consumers at the centre of their corporate culture, TCF will manifest itself through fair outcomes for consumers. Further, successful implementation of this outcome will result in flawless implementation of the rest of the outcomes.

6.2.2 Outcome 2: Products and services marketed and sold in the retail market are designed to meet the needs of identified consumer groups and are targeted accordingly.

To achieve this outcome, insurance and pension service providers shall: –

i. carry out appropriate research to understand their target customer and their needs;

ii. design products and services that are appropriate for the target market;

iii. ensure that the marketing literature is very clear and not misleading to the target market;

iv. ensure that an appropriate distribution channel is used and that its sales agents are appropriately and regularly trained;

v. avoid mis-selling products, for the sake of getting a premium or contributions;

vi. not influence or induce trustees to move their funds or to invest in inappropriate assets that do not give them value for money or by telling them that they would have a stake in the assets that the fund holds, when it is not a fact;

[3] Know your compliance 2014

vii. ensure that marketing of other complementary products such as Group Life Assurance is clear and that members are given an option to enter into these additional contracts; and

viii. assess whether their product promotional material promotes what exactly the product or service does and that the promotion is targeted at the appropriate market.

6.2.3 Outcome 3: Consumers are provided with clear information and are kept appropriately informed before, during and after the point of sale: –

i. Providing clear information to customers is a key component of insurance and pension service providers' approach to TCF. Insurance and pension service providers must be clear about the information needs of their customers and communicate the same in a way that is clear, fair and not misleading.

ii. Clarifying information before signing up for a product or service, helps consumers to make informed decisions about the product. It is therefore, important that insurance and pension service providers provide full information about an insurance or pension product or service including the positives and negatives of the same. For instance, for insurance products that have no savings component or without profit, prospective customers shall be informed about it upfront so that they can sign up from an informed position.

iii. Adequate information to the customer is important, during the contract life, particularly at the point of sale, including full disclosure on charges, interest or penalties, as this will enable the customer to understand the characteristics of the product or service he/she is buying and to assess whether the product meets his/her needs. While customers are expected to be informed about the products or services they are signing up for, insurance and pension service providers, shall explain to customers, the characteristics of the product or service.

iv. Providing clear information after the point of sale is important as it keeps the customer informed of all the developments with his/her insurance policy or pension fund. Policyholders and fund members shall be timeously informed of the said developments and furnished with reasons for the change as well as available options with regards to the product.

v. Overall, insurance and pensions service providers shall regularly communicate with their customers in a manner that does not confuse consumers. To this end, all information-both verbal and written should be simple, clear and not technical as well as relevant to the person receiving it. All forms of communication prior to, during and after the point of sale, should seek to ensure that the customer knows what he/she is signing up for, how it benefits him/her or why they need it and that they have enough information to understand this.[4] Insurance and pension services providers are also expected to keep complete records regarding all communication with their customers.

6.2.4 Outcome 4: Where consumers receive advice, the advice is suitable and takes account of their circumstances: –

i. By virtue of being experts in insurance or pension matters, insurance and pension service providers inherently provide advice to customers.

ii. Insurers are therefore, to ensure and demonstrate that all their registered agents/financial advisors who solicit business on their behalf are well trained and go for refresher courses to keep up to date with changes in legislation and regulations.

iii. Therefore, it is important that any advice that is given, is in the best interest of the customer, taking into account his/her circumstances. While some organisations may be profit-oriented, which may affect their advice, this outcome demands that entities give appropriate advice to customers. For instance, insurance and pension service providers' staff shall not advise a prospective customer to sign up for a product whose chances of lapse are very high or a product or service, which does not give him/her value for money. An insurance or pension

[4] Know your compliance 2014

service provider that has TCF as part of its culture, will consider a customer's circumstances.

6.2.5 Outcome 5: Consumers are provided with products that perform as insurance and pension service providers have led them to expect, and the associated service is of an acceptable standard and as the consumer has been led to expect: –

i. The thrust of this outcome is that regulated entities are expected to deliver on their promises to customers, which promises are made when marketing or selling their products.

ii. This outcome requires constant quality management and auditing of the products and/or services that insurance or pension service providers offer and measuring them against the business objectives. Surveys, questionnaires, feedback forms and customer care calls may be employed by insurance and pension service providers to assess performance on whether customer needs have been and/or are being continuously met and if the product/service performed as expected. In the case of pension and provident funds, the products and benefits offered to members and beneficiaries must meet the objectives of the fund.

6.2.6 Outcome 6: Consumers do not face unreasonable post-sale barriers imposed by insurance and pension service providers to change product, switch provider, submit a claim or make a complaint: –

i. Post-sale barriers to fair treatment can be cultural, contractual or competitive. The consumer ought to be able to change products or switch providers without incurring excessive penalties. Similarly, insurance and pension service providers shall not make it unnecessarily difficult for consumers to make claims or to lodge complaints.

ii. All insurance and pension service providers shall have a complaints handling function, occupied by senior officials who adjudicate over complaints or appeals without prejudice.

iii. All insurance and pension service providers shall also advise a consumer who is aggrieved by their decisions that he/she has a right to complain or appeal against their decision to the regulator.

7. Who is responsible for TCF implementation?

7.1 The Board

7.1.1 The Board of every insurance and pension service provider shall**:**

i. Provide direction and monitor the delivery of TCF by the organisation to its customers;
ii. Develop a TCF policy in line with this Framework and ensure that its documented and adopted by the Board;
iii. Ensure that the TCF policy is reviewed regularly;
iv. Ensure TCF performance form part of management information to the Board; and
v. Ensure all complaints and queries from customers are appropriately and timeously resolved.

7.2 Management

7.2.1 The management of every insurance and pension service provider shall**:**

i. Include TCF in all strategic plans;
ii. Train staff on TCF and enshrine the doctrine of fair treatment of customers;
iii. Regularly monitor and evaluate staff in terms of performance in TCF expectations;
iv. Establish a Complaints Handling Unit within the organisation; and
v. Inform consumers of their right to appeal to the Insurance and Pensions Commission, if aggrieved by the organisation’s decision.

8. Enforcement and Compliance

i. As part of its offsite surveillance and onsite investigations, the Commission shall monitor and test all insurance and pension service providers' culture, strategies and behaviour in the treatment of their customers.

ii. The Commission shall invoke the provisions of section 5 of the Insurance and Pensions Commission (Issuance of General Guidelines and Standards) Regulations, 2020 published in Statutory Instrument 69 of 2020, where an insurance or pension service provider fails to comply with the provisions of this framework.

iii. The Commission shall publish in its quarterly and annual reports, the names of entities that have 20 or more valid complaints against them lodged with the Commission during each quarter/year.

iv. Insurance and pension service providers shall furnish the Commission with a typology report of the complaints received during each quarter, as part of their quarterly returns.

v. Where an insurance or pension service provider has more than 50 valid complaints against it, during the quarter, the Commission may revoke the insurance or pension service provider's registration, in terms of the Insurance Act [Chapter 24:07] or the Pension and Provident Funds Act [Chapter 24:09] as the case may be.

APPENDIX A

Typical Examples of Unfair Treatment of Consumers in the Insurance and Pensions Industry

6.1 The following are typical examples of unfair treatment of insurance and pension consumers by insurance and pension service providers, which are by no means exhaustive but for illustrative purposes that insurance and pension service providers shall guard against:

Class of Business	Typical Examples
Short-term policies	i. Unjustified delays in settling valid claims; ii. Failure to pay interest when such delays occur; iii. Financial institutions and hire purchase shops directing all business to an associated insurance company. The customer has little ability to assess value of the policy or to choose an insurer of his/her choice; iv. Misleading marketing material. For example, promising to settle claims within 24 hours where there are no structures to ensure such a turnaround time; v. Where telemarketing is used, insurers only focus on good reasons to buy products, but do not inform about the key risks of the product or the extent of exclusions or limitations; and vi. Use of unqualified and unlicensed personnel such as bank staff, churches or community groups to sell insurance products and services. They are unable to explain the full characteristics of products, which may result in customers making ill-informed decisions.
Life insurance policies	i. The design and sale of inappropriate products and services; ii. High penalties for policy terminations; iii. Delay in the settlement of claims; iv. Unjustified repudiation of claims; and v. Use of unqualified personnel such as bank staff to sell insurance and pension products and services.

Funeral policies	i. Refusal to pay or paying very little cash in lieu of service, contrary to what is provided for in the Insurance Act [Chapter 24:07]; ii. The design and sale of inappropriate products and services, for instance funeral policies that do not mature; iii. Unilateral increase of contract term especially for maturing policies without policyholders' consent; and iv. Using inducements to entice policyholders to buy products. As a result, consumers have not been paying attention to the fact that they are signing up for an insurance policy, as this would not have been emphasised.
Pensions	i. Late payment of pension benefits; ii. Forced commutations particularly during the hyperinflation era; iii. Paying benefits that do not meet members' reasonable expectations; iv. Writing off of contributions arrears by some sponsoring employers and or fund administrators without engaging scheme members; v. Accruing little to no interest on outstanding contributions; vi. Denying members access to information pertaining to their accumulated benefits by deliberately withholding members' benefit statements; vii. Exorbitant administration fees that end up eroding members accumulated retirement benefits; viii. Reluctance by administrators to trace members with unclaimed benefits; and ix. Denying members access to the rules of their Pensions Fund and any approved amendments thereto.