



Date of Issue: 29 June 2023

Effective Date: 01 July 2023

Circular No. 17 of 2023

To: **All Funeral Assurers**

All Life Assurers

All Short-term Insurers

Cc: **Zimbabwe Association of Funeral Assurers (ZAFA)**

Life Offices Association of Zimbabwe (LOA)

Insurance Council of Zimbabwe (ICZ)

**REPLACEMENT OF CIRCULAR 6 OF 2016 ON THE PRODUCT APPROVAL
FRAMEWORK AND PREMIUM REVIEW PROCESS**

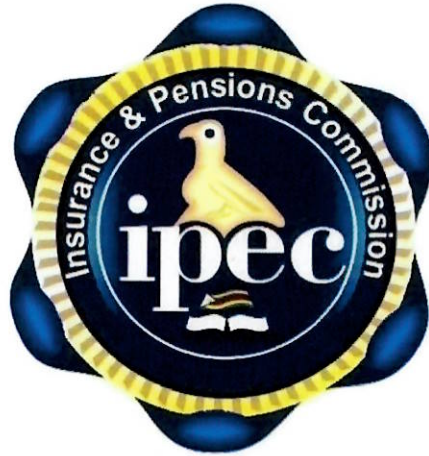
1. Pursuant to the issuance of Circular 6 of 2017 on the Product Approval and Premium Review Framework, the Commission has reviewed the framework to align with best practice and ensure consumer protection.
2. In this regard, the Commission is issuing Circular 17 of 2023 which replaces Circular 6 of 2016.
3. The Framework is effective from 1 July 2023, and all underwriters are expected to comply with the same.



Grace Muradzikwa

COMMISSIONER OF INSURANCE, PENSION AND PROVIDENT FUNDS

Insurance and Pensions Commission



INSURANCE PRODUCTS APPROVAL FRAMEWORK

JUNE 2023

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List of Key Terms

Insurer – means a registered entity in terms of the Insurance Act [Chapter 24:07] which undertakes insurance or reinsurance business.

Assurer – means a registered entity which offers life and/or funeral assurance or reinsurance policies in terms of this framework.

Licence – means a registration certificate issued in terms of the Insurance Act [Chapter 24:07].

Commission – means the Insurance and Pensions Commission established in terms of the Insurance and Pensions Commission Act [Chapter 24:21].

Conventional insurance products – insurance products offered by Conventional (Traditional) Assurers/Insurers excluding microinsurance products.

Unfair Contract - A contract that puts the consumer at a disadvantage or does not protect the policyholder's interests in terms of the Treating Customers Fairly Framework.

Abbreviations and Acronyms

IPEC – Insurance and Pensions Commission

TCF – Treating Customers Fairly

AML/CFT – Anti-Money laundering and Combatting Financing of Terrorism

1. Background

- 1.1. Following the issuance of Circular 6 of 2016, the Commission has noted that the circular does not cover the detailed product application requirements by class of business and Premium Review application and the review process.
- 1.2. The Insurance Products and Premium Review Approval Framework seeks to: -
 - 1.2.1 Outline the parameters for the regulation and supervision of Short-term, Life and Funeral Assurance products in Zimbabwe,
 - 1.2.2 Clarify procedures and requirements for the assessment product applications for non-life, life and funeral assurance and premium reviews, and
 - 1.2.3 Outline the basic disclosure requirements expected of insurance products which include waiting periods, policy exclusions, grace periods, premium charges, claim settlement processes and market conduct requirements to be followed by Non-Life, Life and Funeral companies in Zimbabwe.

2. Objectives of the Framework

2.1. The objectives of the Framework are to: -

2.1.1 Provide minimum guidelines for the approval of non-life insurance, life and funeral assurance products and premium reviews in Zimbabwe,

2.1.2 Promote the development of the insurance industry in Zimbabwe by establishing a basis for the approval of Life, Funeral and Non-Life insurance products. In doing so, the Commission intends to create an environment in which an optimum balance is created between minimizing regulatory barriers to financial inclusion on one hand and putting in place effective measures to promote and protect the interests of policyholders and good market conduct on the other hand. To the extent that these objectives can be achieved, the insurance industry can contribute towards a stable financial sector for the benefit of all, and

2.1.3 To align with the Insurance Act [Chapter 24:07] and International Best practice and the Funeral Model Directive issued in terms of Circular 12 of 2023.

2.2. Given the foregoing over-arching objectives, this Regulatory Framework is, therefore, designed to achieve the following specific objectives:

2.2.1 Provide the insurance industry with guidance on the minimum standards and IPEC expectations on product approval and premium review requirements;

2.2.2 Ensure protection of policyholders; and

2.2.3 Establish the product application and approval Framework for both assurance and insurance products and premium reviews.

3. Product Application Requirements

3.1. The application for a new product proposal to the Commission should at a minimum include the following documents: -

3.1.1. The motivation letter;

3.1.2. The proposal form;

3.1.3. The sample policy wording and/or policy terms and conditions;

3.1.4. The actuarial report for the new product development and the actuarial certificate;

3.1.5. Compliance certificate;

3.1.6. Marketing brochure/ material to be used in marketing the product;

3.1.7. Service level agreements between the insurer and its service providers, where applicable;

3.1.8. Outline of the claim process;

3.1.9. Sample claim forms; and

3.1.10. Additional requirements for Life and Funeral Products as stated below under section 3.2.7.

3.2. Detailed explanations of the requirements are given below.

3.2.1. Motivation Letter

This should give a brief overview of the product, that is, how the product works and its key features, as well as its target market. It should also demonstrate the extent to which the proposed product meets the needs of the target market.

3.2.2. Actuarial Report

3.2.2.1 The actuarial report should comply with the Minimum standards developed by the Actuarial Society of Zimbabwe (ASZ) and the actuary's principal regulator. In addition, the report should be signed in a legible manner;

- 3.2.2.2 The Commission will not accept actuarial reports that do not satisfy the minimum criteria as detailed above. Should the Commission deem the report to be below standard, and the insurer fails to submit a revised actuarial report within thirty (30) days from the date of the written communication, the Commission will proceed to close its file of the insurer's application to launch the new product.
- 3.2.2.3 The Commission reserves the right to report the signing Actuary to his/her Principal Regulator should his/her report materially deviate from the minimum expected actuarial standards.
- 3.2.2.4 Whilst Actuarial reports are prepared in line with the Guidance Notes from the Actuary's Principal Regulator, the following key issues should be disclosed in the Actuarial report for a new product proposal:
- i. Scope of the report, list of acronyms and abbreviations;
 - ii. Description of the product and its salient features;
 - iii. Pricing assumptions and bases in relation to interest rates, mortality rates, expenses, etc if applicable;
 - iv. A detailed method on the calculation of surrender values and/or paid-up values, if applicable;
 - v. Justification on the absence of surrender values and/or paid-up values where this is applicable, if applicable;
 - vi. Breakdown of total premium, clearly showing the pure risk premium, commission, expenses, profit margin and any other loadings;
 - vii. The minimum capital required to underwrite the product;

- viii. A comment on the adequacy of the available economic capital vis-à-vis the minimum capital required for the new product(s);
- ix. Stress testing results;
- x. Actuarial recommendations and conclusions; and
- xi. Any other information as may be deemed necessary;

3.2.3. Proposal and Claim Forms

A Sample of the Proposal and Claim Forms should accompany the application for a new product proposal. The forms should clearly and legibly indicate the name of the insurer as well as the name of the product. The Proposal form should ask questions about the subject matter of cover as well as serve to:-

- 3.2.3.1. Elicit information - the form should provide the underwriter with information needed to decide whether to accept the risk, and if so at what price and on what terms;
- 3.2.3.2. Make a legal offer - the form should constitute a legal offer by the proposer;
- 3.2.3.3. Describe the cover available; and
- 3.2.3.4. Establish a warranty - that is, the wording and declaration in a proposal form often warrants the truth of the answers thereon.

3.2.4. Policy Terms and Conditions

- 3.2.4.1. The Terms and Conditions of the product should form part of the attachments to be submitted when an application for a new product proposal is made. At a minimum, the terms and conditions of a policy should include:-
 - i. The name of the insurer and the name of the product;
 - ii. The level of premiums to be paid as well as the frequency of payment e.g. monthly, quarterly, half yearly or annually;

- iii. Breakdown of total premium, clearly showing the pure risk premium, commission, expenses, profit margin and any other loadings;
- iv. Amount and/or method to determine benefits to be paid out upon the occurrence of the insured event. The event that triggers a claim should be clearly stated;
- v. A provision on grace periods, waiting periods and cooling off periods;
- vi. Conditions under which premiums can be refunded;
- vii. Non-forfeiture provisions;
- viii. Exclusions under the policy;
- ix. Non-Premium Reviewability clause;
- x. Profit/loss sharing arrangements;
- xi. Re-instatement provision;
- xii. Policy termination/cancellation/surrender/paid up clause;
- xiii. Dispute resolution clause/complaint handling procedure. In particular, the Insurance and Pensions Commission should be cited for appeal purposes, clearly indicating the regulator's contact details;
- xiv. Mode and language of communication to be used between the insurer and the insured; and
- xv. Any other information as may be considered necessary.

3.2.4.2 For insurance products to be sold through electronic means; a master policy document must be lodged with the Commission. Access to any documents in respect of a policy by the policyholder should be easy and convenient. Where any documents in respect of the policy in question have not been provided to the policyholder, either in physical or electronic

form, access to these documents should not entail an additional cost for the policyholder.

3.2.4.3 Any changes to the policy terms and conditions should be effected after the Commission's approval.

3.2.5. Marketing Collateral Material

At a minimum, the marketing material should include:

3.2.5.1. Details of the insurer;

3.2.5.2. Name of the product and its salient features including the premium and amount of cover;

3.2.5.3. Details regarding the claims process and all exclusions; and

3.2.5.4. Any other information as may be deemed necessary.

3.2.6. Certifications

The application should be accompanied by two certificates, namely: -

3.2.6.1 Actuarial certificate from the actuary; and

3.2.6.2 Certificate of compliance signed by the compliance officer. A sample compliance certificate is attached hereto (Annexure 1), and this should be put on the insurer's letterhead.

3.2.7. Additional Requirements for Life and Funeral Assurance Product Applications.

3.2.7.1 Life and Funeral contracts shall be subjected to unfair contract terms laws. A term of an 'assurance contract' is void if the term is unfair and the Commission shall not approve.

3.2.7.2 The Commission shall decline to approve any product from an insurer for including unfair contract terms in their contracts.

Unfair Contract Term

- 3.2.7.3 Funeral Assurance is generally written as term assurance and comes to an end at the expiry of the agreed term. Such policies normally provide for periodic renewal. This can lead to abuse.
- 3.2.7.4 As the policyholder grows older, he/she may face termination of his/her policy at the very time of need for funeral assurance such that no other assurer is likely to offer them a funeral policy. This also becomes problematic when premiums become unaffordable, particularly after the policyholder has retired.
- 3.2.7.5 The problem is compounded when the policy contains a provision, as some policies do, of escalating premiums whilst the policyholder was not specifically made aware of it at the commencement of the policy. Resultantly, the policy may lapse when it is most inopportune for the policyholder.
- 3.2.7.6 It is for this reason that such policies often contain limitations such as waiting periods and exclusion clauses. For long term policies, the premium paying term shall be finite i.e. with a paid-up clause. For annually renewable policies, the Funeral Model Directive shall apply. A continuously annually renewable policy with a duration exceeding 3 years, shall be considered as whole life policy or whole life funeral policy such that both the surrender value and the paid-up clause shall be applicable. The same provisions shall apply to annually renewable Life policies.
- 3.2.7.7 An entity that writes such types of policies shall be required to hold option-embedded contract liability reserves for claim settlement before and after conversion into a whole life policy.

4. Approval/Disapproval of the Product by the Commission

- 4.1. Provided all the information required for a new product proposal has been submitted by the applicant, the finalisation of the Commission's decision on whether to approve/ disapprove the product will be made within fourteen (14) days from the date when all the information that the Commission reasonably requires has been submitted.
- 4.2. The insurer can only commence marketing the product once approval has been granted by the Commission.
- 4.3. Should any insurer launch or communicate a new product to the market without a written approval from the Commission, the insurer in question shall be in default and liable to a fine not exceeding level 4 for each day that the contravention continues up to a maximum of sixty (60) days in line with section 5 (1) of S.I. 69 of 2020.

5. Withdrawal of the Insurance Products from the Market

- 5.1. An insurer should not unjustifiably remove a product from the market. An insurer who intends to withdraw a product from the market should notify the Commission ninety (90) days prior to withdrawing the product from the market. In the application for product withdrawal, the insurer should indicate: -
 - 5.1.1. The reasons for withdrawing the product from the market;
 - 5.1.2. The number of policyholders with the policy at the time of withdrawal and total liabilities;
 - 5.1.3. Measures the insurer has put in place to ensure that the existing policyholders are not prejudiced and that their rights are not compromised; and
 - 5.1.4. Whether the withdrawal is temporary or permanent.

- 5.2. The insurer should publish in the press its intention to withdraw the product from the market once the withdrawal application has been approved by the Commission and allow for twenty- one (21) days for policyholders to respond.
- 5.3. Whilst the insurer may initiate withdrawal/termination of a product from the market, within the prescribed timelines, the Commission reserves the right to withdraw/ terminate certain products from the market at any given time should it have good reasons to do so in view of protecting policyholders' and prospective policyholders' interests.

6. Premium Review Approval

- 6.1. The application for a life/funeral assurance policy premium review at a minimum, should include the following documents:
 - 6.1.1. The motivation letter;
 - 6.1.2. The latest financial statements; and
 - 6.1.3. The actuarial report for the premium review and the actuarial certificate.
- 6.2. The actuarial report must clearly show the following: -
 - 6.2.1. Experience investigations, clearly showing which of the components of the premiums have been heavily affected by the operating environment pressures to warrant a review of the premiums. **(Past years actuarial valuation reports already submitted for statutory purposes must be in harmony with these submissions).**
 - 6.2.2. That Shareholders' Capital has played its role of absorbing unexpected losses. The insurer is requested to provide documentary evidence to demonstrate this for a period of at least 5 years from the date of application where applicable.

- 6.2.3. Demonstration by the assurer that policyholders have adequately participated in the Revaluation Gains as enshrined in the Guidance Paper on 2019 Currency Reforms and that the proposed premium reviews are not adversely reducing the fair participation of policyholders in the Revaluation Gains.
- 6.2.4. For Funeral policies, demonstration by the assurer that all cash in lieu of service benefits are to be paid on the current cost of services and not the original sum assured as per the policy wordings.
- 6.2.5. Demonstration by the assurer that all policies which lapsed after five consecutive years have been appropriately treated in line with section 60 of the Insurance Act (Chapter 24:07). A schedule of such policies should be submitted, clearly showing how each of those policies was subsequently treated including the formal communication to the policyholders.
- 6.2.6. That there is an option given to existing policyholders rather than to impose the premium increases on them.
- 6.2.7. Premium adjustments for a product approved with premium escalation clause shall not be implemented before notifying the Commission about the proposed premiums. The Commission shall approve or disapprove the notification in writing.
- 6.2.8. The premium reviews and or premium escalations shall only be implemented upon written approval from the Commission.
- 6.2.9. The assurer shall only communicate to the policyholders any information pertaining to the proposed premium increases after receiving a written approval from the Commission, otherwise the insurer in question shall be in default and liable to a fine not exceeding level 4 for each day that the

contravention continues up to a maximum of sixty (60) days in line with section 5 (1) of S.I. 69 of 2020.

7. AML/CFT Requirements

- 7.1. AML/CFT measures apply special focus on combating money laundering and terrorist financing risks in life assurance policies and those insurance products with investment and /or cash features as these can be liquidated easily to provide funds for criminals.
- 7.2. Insurers are required to implement prescribed AML/CFT measures when offering the following types of insurance products: -
 - 7.2.1. A permanent life insurance policy, other than a group life assurance policy;
 - 7.2.2. Any annuity contract, other than a group annuity contract;
 - 7.2.3. Any insurance product with features of cash value or investment; and
 - 7.2.4. Any other insurance product that the insurer considers, based on the risk-based approach, as posing money laundering or terrorist financing risks.
- 7.3. The measures should be applied in terms of the Money Laundering and Proceeds of Crime Act [*Chapter 9:24*].

8. Effective date

These guidelines are effective from 1 July 2023 and replace Circular 6 of 2016 on Guidelines for Insurance Products for Life, Funeral Assurance and Non-Life Insurance Companies.

ANNEXURE 1: COMPLIANCE CERTIFICATE FOR NEW PRODUCT(S)

I....., being the compliance officer of.....insurance/assurance company, hereby certify the following: -

- a) insurance/assurance company is compliant with the minimum capitalisation threshold of..... as at (specify date) in line with IPEC's requirements.
- b) There is enough excess shareholders' funds above the minimum regulatory threshold to underwrite (name of the product)
- c) An actuarial assessment was done on the financial viability of the product and all reports relating to such an assessment are available for inspection.
- d) The product meets all the Treating Customers Fairly (TCF) outcomes.
- e) The product complies with the Insurance Act [Chapter 24:07] and Money Laundering and Proceeds of Crime Act [Chapter 9:24].
- f) All other relevant laws and statutes have been complied with in developing the product.

Signature.....Date.....