

NATIONAL INSURANCE COMMISSION GUIDELINES ON APPLICATIONS FOR APPROVAL OF NEW AND REPACKAGED LIFE INSURANCE PRODUCTS

1.0 INTRODUCTION

In a bid to protect policyholders, section 45 of Insurance Act, 2006 (Act 724) requires all new insurance products to be approved by the NIC.

2.0 OBJECTIVES

The main objectives of the approval is to vet and ensure the following

1. The financial viability of the product
2. The quality/suitability of the product to the policyholder
3. The manner in which the product is sold.
4. The ability of the insurance company to meet its obligations under the contract.

This document offers guidance on how applications can be made to the NIC for the approval of new and repackaged products. Specifically, it prescribes what documents to be submitted and the information to be contained in each document.

3.0 CONTENTS OF THE APPLICATION

An application for product approval must contain the following documents;

1. Transmittal letter
2. Application/proposal form
3. The policy wording/documentation together with any riders and endorsements
4. An actuarial memorandum
5. Marketing Brochure
6. Certification(s)
7. Filing fees.

4.0 TRANSMITTAL LETTER

This serves as the covering letter for the application and must contain general specified information about the product being filed. The information that typically must appear in the transmittal letter include the following;

- a. Information identifying the insurer
- b. A brief description of the product being filed.
- c. The **policy form number** which is usually assigned by the insurer to identify the particular policy form and to distinguish it from all other policy forms that the insurer has issued.

- d. A statement about how the insurer intends to market the product and a description of the products target market.
- e. The name of an official within the insurance company that the NIC can contact regarding the filing.

5.0 APPLICATION/PROPOSAL FORM

Certain pieces of information must be contained in the application form to make it an integral part of the contract. These are as follows;

- a. The name of the insurance company must be prominently displayed on the application form.
- b. The name of the product.
- c. Because of the increasing number of fraudulent practices in the insurance industry, there should be a prominently displayed “fraud warning” which informs the applicant that knowingly presenting false information is a crime.
- d. If an agent assists the applicant in filing out the application form, the name and licence number of the agent should appear on the application form.

6.0 THE POLCY DOCUMENT

The policy document should be in simple and easily readable and understandable English so as to allow consumers to better understand and appreciate their rights and obligations under the contract. The font size of the text of the policy document must not be less than twelve (12). Again, the policy document’s overall appearance must not unduly emphasize any portion of the policy.

There are specific provisions which must be included in the policy document, some provisions which “may” be optionally included in the policy document and provisions which are prohibited from inclusion in all policies.

6.1 Required Provisions

As a standard, all life insurance policy forms must contain a description of the type of product the policy represents. This description, which is usually on the first page should also include a statement as to whether the policy is a participating or non-participation policy. The policy forms must also include the following informations:

- The name and address of the insurance company issuing the policy.
- The “Insuring Clause” – This Clause should contain the insurance company’s contractual promise to pay the policy benefits in accordance with the policy provisions.
- The signature of the authorizing officers of the Insurance Company – this is usually the signature of the Chief Executive Officer and the Chief Operations Officer. This is taken as evidence of the commitment of the Company to be bound by the insurance contract.
- The name of the person(s) insured by the policy and the name of the policyowner (for third-party policies).
- The amount of insurance coverage (face amount/sum assured) provided by the policy.
- The effective date of the policy.

In addition to the above, all life insurance policy forms submitted for approval should include the following provisions:

- Free-look
- Entire Contract
- Grace Period
- Incontestability
- Misstatement of Age
- Beneficiary
- Reinstatement

6.1.1 Free Look Provision

This provision should allow the policyholder at least 15 days free-look period (following delivery of the policy) to review and evaluate the policy to ensure that this is the policy he/she applied for. During the free-look period the policyholder can cancel the policy and receive a refund of all premiums paid.

6.1.2 Entire Contract Provision

This provision defines which documents constitute the contract between the insurance company and the policyowner. In the Ghanaian context, this provision should state that “the contract consists of the policy document, attached riders (if any) and the attached copy of the proposal/application form”. If the insurance company does not attach the application /proposal to the policy form, then the company cannot contest the validity of the policy based on any false information contained in the application/proposal for insurance.

6.1.3 Grace Period

This provision should allow a policyholder to pay a renewal premium within at least 31 days, following a premium due date. During the grace period, life insurance coverage should continue in force. If the insured dies during the grace period, the insurance company is allowed to deduct the amount of any unpaid premium from the death benefit payable.

6.1.4 Incontestability Provision

The provision should limit the time during which the insurance company may contest the validity of the insurance contract on the grounds of a material misrepresentation in the application/proposal for insurance to **two years**. A material misrepresentation in an application for life insurance is a misrepresentation that is relevant to the insurer's evaluation of the proposed insured. The misrepresentation is material when, if the truth had been known, the insurer would not have issued the policy or would have issued the policy on a different basis, such as a higher premium or a lower face amount.

6.1.5 Misstatement of Age

The provision should state how the death benefit will be adjusted if the age of the insured has been misstated. The misstatement of age provision would normally state that the amount of benefit payable will be adjusted to the amount of insurance that the premiums paid would have provided had the insured's age been stated correctly.

6.1.6 Beneficiary Provision

The benefits from individual life insurance policies are normally payable on the death of the insured. To avoid confusion as to who is entitled to the policy proceeds, the policyowner is required to nominate one or more persons (entities) who are to receive the insurance benefit when the insured dies. The policyowner should be able to change the beneficiary at any time by a written request to the insurance company.

6.1.7 Reinstatement Provision

This provision gives a policyholder who has had his policy lapsed for non-payment of premium or has been continued under a non-forfeiture option, the right to reinstate his policy by meeting specified requirements. **The reinstatement period should be at least three years.**

6.1.8 Participating Policy

Participating policies must include a dividend provision that should describe the policyholder's right to share in the insurance company's divisible surplus. The provision should also describe the dividend payment options available to the policyholder. Normally there are five(5) dividend payment options available to policy holders. They are:

1. Cash dividend option
2. Premium reduction option
3. Accumulation of interest option
4. Paid-up additional insurance option
5. additional term insurance option

6.2 Additional Provisions Required in Permanent Life Insurance Policies

In addition to the provisions discussed above which are applicable to all individual life insurance policies (both term and permanent) there are certain provisions which are applicable to only permanent life insurance policies. These provisions are as follows:

- a. Non-forfeiture Provision
- b. Policy Loan Provision.
- c. Settlement option

6.2.1 Non-forfeiture Provision

Due to the nature of permanent life insurance policies, they normally acquire cash surrender values after some period of continued premium payments (normally two to three years). This provision should spell out the non-forfeiture benefit options available to a policyholder who decides to stop paying renewal premiums. Such options normally include payment of the surrender value in cash, extended term insurance or reduced paid up insurance. **All permanent life insurance policies should contain a Table of surrender Values per 1,000 of coverage for all issue ages and duration combinations.**

6.2.2 Policy Loan Provision

This provision specifies the terms on which a policyowner may obtain a policy loan based on the cash surrender value of his/her policy. The provision should state the maximum limit on the interest rate charged on policy loans.

6.2.3 Settlement Option Provision

All life insurance contracts should provide for Settlement Options for the benefit proceeds payable at maturity or at death. This provision will describe the policy owner's right to select the terms on which the insurer will pay a lump sum and/or periodic annuity benefit.

6.3 Optional Policy Provisions

In addition to the "required" policy provisions, certain policy provisions may be included in a life insurance policy form at the discretion of the insurance

company. The following are the most common optional provisions normally found in a life insurance contract:

- a. Assignment provision.
- b. Riders.

6.3.1 Assignment Provision

An assignment is an agreement where one party in a contractual relationship transfers some or all of their rights under the agreement to a third party. A policyowner may decide to assign his cash surrender value on a policy to a lender as collateral for a loan. A life insurance company may restrict or prohibit a policyowner from exercising this right of assignment by including an assignment provision which will then state the conditions under which an assignment can be made.

6.3.2 Rider

A policy rider is an amendment to a life insurance contract that increases or limits the benefits payable under the contract. Example of riders are the accidental death benefit rider and the waiver of premium rider. Riders are optional and not all policyowners who buy the life insurance policy take these riders. However, all riders must be submitted to the National Insurance Commission for approval before being marketed and sold to the public.

6.4 **Policy Exclusions**

Individual life insurance policies “may” include provisions which state certain conditions under which the life insurance company will not pay the death benefit on the death of the insured. These provisions are known as “exclusions”. The following are the typical exclusions that may be included in life insurance policy contracts:

- a. Suicide Exclusion
- b. War Exclusion
- c. Aviation Exclusion
- d. Hazardous Occupation Exclusion

6.4.1 Suicide Exclusion

This provision should state that the policy does not cover death by suicide within a specified period of time following the issue date. **This time period should be at most two years.**

6.4.2 War Exclusion

An insurance company “may” exclude from coverage death resulting from war and acts of war.

6.4.3 Aviation Exclusion

An insurance company “may” exclude from coverage death occasioned by special aviation activities. This is done when the insurance company feels that such activities are too hazardous or the risks involved in such activities cannot be properly measured.

6.4.4 Hazardous Occupation Exclusion

When a prospective insured is engaged in a hazardous occupation like auto racing the insurance company “may” exclude such specific activities from coverage.

6.5 Prohibited Policy Provisions

Some policy provisions are deemed to be against public interest and are normally not permitted to be included in life insurance policy forms. The most common of such policy provisions is “backdating”. Backdating occurs when an insurance company makes the effective date of the policy earlier than the date that the application for insurance is (because of a lower age). When backdating occurs some premium is payable for a period of time during which there was no insurance coverage.

Any other provisions which unfairly limit the rights of policyowners and beneficiaries are also prohibited from inclusion in life insurance policies.

6.6 Special Policy Provisions for Universal Life Insurance

In addition to the policy provisions outlined above, Universal Life Insurance policies require further provisions because of the peculiar nature of the product. A Universal Life Insurance product is defined as any policy in which a life insurance company deducts separate and explicit charges for mortality and expenses and in addition credits the policy with extra interest credits (except dividends). The provisions described here exclude Variable Universal Life Insurance where the interest credits vary depending on the performance of assets in separate accounts backing the policies.

The main thrust underlying these special provision is the **principle of disclosure**.

All universal life insurance policies shall therefore state the following:

1. **The minimum annual interest rate guaranteed under the policy**
2. **A table showing maximum guaranteed mortality charges by age.**
3. **Maximum guaranteed expense charges.**
4. **A description of how the interest credits are determined.**
5. **If the policy allows the owner to change the basic coverage, then any limitation on the amount or timing of the change must be explicitly stated in the policy.**
6. **If the policy allows the owner to increase the sum assured, then the policy must state whether a new contestable and/or suicide exclusion period will apply to the additional coverage.**
7. **Any surrender or partial withdrawal charges must be stated.**
8. **A description of the insurer's investment policy for the assets supporting the products.**

6.7 Lapse Notice

Universal Life policies lapse on the date the net cash surrender value equals zero. The wording of Universal Life products must therefore require the insurance company to send written notice to the owner of the policy (during the grace period) or at least 30 days prior to the date of lapse.

6.8 Periodic reports/statements

At least on an annual basis, an insurer selling Universal Life policies must provide, without charge, a report/statement representing the status of the policy. The report/statement must include the following information;

1. The opening and closing dates of the period being reported.
2. The opening and closing policy values for the period being reported
3. Details of each amount identified by type, (for example monthly premiums paid, charges and interests) debited and credited to the policy value during the period of the report/statement.
4. The current death benefit on each life covered by the policy.
5. The policy's net cash surrender value, if any.

6.9 Special Provisions for Interest Indexed Universal Life

Interest-indexed universal life insurance policies provide for interest credits that are linked to an external standard. For such policies, the following provisions must be stated in the policy.

- 1. A description as to how interest credits are determined.**
- 2. A description of the investment policy for the assets supporting the life insurance product.**
- 3. A description of any interest guarantee provided in addition to or in place of the index.**
- 4. A description of any maximum premium limitations and the conditions under which they apply.**
- 5. If interest crediting based on the index is for a specified period expiring before the maturity date of the policy, a description of the method used to determine interest credits after the end of the specified period.**

7.0 THE ACTUARIAL MEMORANDUM

The actuarial memorandum should among other things contain the following;

1. General description of the nature of the product and its salient features
2. Disclosure of all assumptions used in the calculation of premiums rates for the product. These include assumptions with respect to mortality, interest rates, lapse rates, expense charges and all relevant assumptions.
3. A thorough description of the formulae used in calculating all relevant values associated with the product. These may include the premium, non-forfeiture values, accumulation values and actuarial reserves.
4. For Universal Life products, a sales illustration showing the guaranteed and current accumulation values for various contribution levels and different issue ages including the assumptions used for interest rates, expense and mortality charges.
5. For interest-indexed Universal Life Products, a Statement of Actuarial Opinion from a qualified actuary which will state that the actuary has satisfied himself/herself that the assets supporting the liabilities will provide sufficient funds in the future to meet the emerging obligations of the product.
6. An asset-share illustration showing for a representative age, the period by period profitability of the product showing summary profitability measures like return on equity, present value of profits etc.

8.0 MARKETING BROCHURE

The application must be accompanied by a prototype (not a rough draft) of the marketing brochure for the product. The brochure must among other things, prominently display the name of the insurer and the name of the product.

9.0 CERTIFICATE

The application must be accompanied by a Certification by either the company's Compliance Officer or Appointed Actuary that the product complies with all relevant laws, regulations, guidelines and actuarial standards.

10. FILING FEE

The application must also be accompanied by the appropriate filing fee. Kindly refer to the schedule of fees and charges payable to the NIC.