Legal expenses insurance

July 2013

This presentation is incomplete without the accompanying oral commentary
Agenda

- Project overview
  - Product overview
  - Client value
  - The future
The key objective of the projects is to understand the legal insurance environment in South Africa, its position under current and pending regulatory regimes and the value of the product to consumers.

<table>
<thead>
<tr>
<th>PRODUCT OVERVIEW AND KEY PROVIDERS</th>
<th>REGULATORY OVERVIEW</th>
<th>CLIENT VALUE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Identify available products and key components of the value proposition</td>
<td>Identify regulations that impact on the product</td>
<td>Assess client value based on supply-side data</td>
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<tr>
<td>Identify key providers and explore various delivery models</td>
<td>Focus on market conduct as opposed to prudential regulation</td>
<td>Assess client value based on demand-side data</td>
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<tr>
<td>Explore underwriting models</td>
<td>Explore impact of planned regulations</td>
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<thead>
<tr>
<th>OBJECTIVES</th>
</tr>
</thead>
<tbody>
<tr>
<td>Market scan of products</td>
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<tr>
<td>Mystery purchase of five products</td>
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<tr>
<td>Review of policy documents</td>
</tr>
<tr>
<td>Interviews with providers</td>
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<tr>
<td>Discussions with panel attorneys</td>
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<td>Review of regulations including ST Insurance Act, FAIS Act, Micro insurance proposals and TCF</td>
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<td>Interview regulators</td>
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<tr>
<td>Develop data request for key providers. Request data and analyse data</td>
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<td>Four focus groups conducted</td>
</tr>
<tr>
<td>Three groups of current/past legal insurance policyholders (Jhb, Pretoria, CT), one group without legal insurance (Jhb)</td>
</tr>
<tr>
<td>Respondents profiles varied in terms of race, gender and age</td>
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<tr>
<td>Household income slightly higher than the initial recruitment specification: 25% with household income &gt; R15 000 per month</td>
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</tbody>
</table>

Develop recommendations for FinMark with regard to its engagement with the product in the future.
Agenda

- Project overview
- **Product overview**
- Client value
- The future
legal expenses insurance covers policyholders for potential costs associated with legal action. The offering typically comprises access to legal services, including advice and mediation as well as an insurance component covering large lump sum costs arising from litigation.

**LEGAL SERVICES**

- Provision of legal advice, mediation and basic legal services
- Typically provided by legally qualified individuals employed by the provider
- Services provided telephonically or by walk-in service centres
- Clients have 24 hour access to services

**LITIGATION BENEFIT**

- Access to legal expertise provided by firms of attorneys
- Firms are typically selected and contracted by the legal expenses insurance provider
- Contract stipulates fees payable by the legal expenses insurance provider which are significantly discounted
- The attorney provides regular updates to the legal expense insurer and the client, and is usually paid directly by the legal expense insurer. Where the client uses his or her own attorneys the legal expense insurer reimburses the client in line with negotiated tariffs
There are a number of offerings with fairly affordable monthly premiums. Most products offer cover for civil, criminal and labour matters. Cover is provided for the main member, spouse and children under 18.

**LEGAL INSURANCE PRODUCT OVERVIEW:**
ENTRY LEVEL PRODUCT OFFERED BY PROVIDER

- **RED**
  - Covers family matters
- **GREY**
  - Covers family and other matters
- **BLACK**
  - Covers other matters
- **BLUE**
  - Only civil, criminal and labour matters

**Legend:**
- □ Membership based
- ▲ Cover per matter
- ○ Cover per annum
- RED Covers family matters
- GREY Covers family and other matters
- BLACK Covers other matters
- BLUE Only civil, criminal and labour matters

Source: Provider marketing material and websites
Most providers also have a premium product offering a higher level of cover and in some cases additional benefits.
Lexcorp has the most affordable offering at R35 for R55 000 cover per annum. The most comprehensive product in terms of cover is offered by Clientele, R230 for R320 000 cover per annum.

Source: Provider marketing material and websites
According to FinScope 2012 there are 571 000 adults who have legal expenses insurance in SA. A sizeable proportion are in LSMs one through seven.

There is a clear lack of understanding of the term "Legal Insurance". A number of the companies named do not offer a legal insurance product.

Source: FinScope 2012: Adults 16+ who responded “Have it in my name” or “covered by somebody else”.
There is no comprehensive data on the true size of the industry. Based on regulatory returns and discussions with providers we estimate a total of around 1.5 million policyholders.

### ESTIMATED POLICYHOLDERS / DEPENDENTS

<table>
<thead>
<tr>
<th>Provider</th>
<th>Main members</th>
<th>Dependents</th>
<th>Total individuals covered</th>
</tr>
</thead>
<tbody>
<tr>
<td>Legal Wise (including Scorpion)*</td>
<td>700 000</td>
<td>800 000</td>
<td>1 500 000</td>
</tr>
<tr>
<td>Clientele</td>
<td>120 000</td>
<td>137 143</td>
<td>257 143</td>
</tr>
<tr>
<td>Lipco (including Foschini book)</td>
<td>80 000</td>
<td>91 429</td>
<td>171 429</td>
</tr>
<tr>
<td>Legal &amp; Tax</td>
<td>80 000</td>
<td>91 429</td>
<td>171 429</td>
</tr>
<tr>
<td>Lexcorp</td>
<td>80 000</td>
<td>91 429</td>
<td>171 429</td>
</tr>
<tr>
<td>Other providers</td>
<td>300 000</td>
<td>342 859</td>
<td>642 859</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>~1 360 000</strong></td>
<td><strong>~1 554 289</strong></td>
<td><strong>~2 914 289</strong></td>
</tr>
</tbody>
</table>

Source: Legal insurance providers & FSB Statutory returns (for those marked with *). Assumed 1.14 dependents per main member.
Policy documents typically list a series of exclusions. Common exclusions are listed below but these vary depending on the provider and the product.

### COMMON POLICY EXCLUSIONS

<table>
<thead>
<tr>
<th>Exclusion</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pre-existing matters</td>
<td>Cases that are not deemed to have a reasonable prospect of success</td>
</tr>
<tr>
<td>Cases where the costs are high relative to the value of the settlement</td>
<td>Business matters</td>
</tr>
<tr>
<td>Cases where the costs are high relative to the value of the settlement</td>
<td>Collective or group action</td>
</tr>
<tr>
<td>Business matters</td>
<td>Any matter that could be resolved by paying an admission of guilt fine</td>
</tr>
<tr>
<td>Tenant and landlord related matters (where the client is the landlord)</td>
<td>A dispute between the member and the legal insurance provider</td>
</tr>
</tbody>
</table>

Source: Provider marketing material and websites
Aside from regulations relating to financial services, the provision of legal expenses insurance must comply with the requirements of the legal profession.

OFFICERS OF THE COURT

- Governed by a code of conduct
- Self regulated but accountable to the high court

Attorneys
- Fall under the Law Society of South Africa (LSSA)
- Attorneys typically form professional companies and firms and practice in partnership with each other
- Insurers cannot own legal firms
- Legal insurance employees cannot be articled

Advocates
- Fall under the General Council of The Bar
- Advocates have no direct contact with clients but are specialists who are briefed as needed by attorneys (referral profession)
- Advocates are individuals practitioners and never form partnerships

Legal practices bill seeks to consolidate attorneys and advocates under one piece of legislation
Legal Aid South Africa provides professional legal advice to individuals who cannot afford it. It derives its mandate in terms of Section 35 of the constitution.

**KEY FACTS**
- Legal Aid SA has 32 Justice Centres across the country that assist approximately 250,000 individuals each year.
- In the 2011-12 financial year the centres finalised 402,459 matters.
- The Justice Centres are usually near courts and each centre serves between 10 and 20 courts.
- The organisation is the largest single employer of candidate attorneys in the country (over 600 recruited each year).
- In total the organisation employs 1700 attorneys.

**QUALIFICATION CRITERIA**
- Means test to determine what individuals and households earn.
- Household assets are also taken into consideration.

The means test:
- **Individuals:** Must earn less than R5,500 per month after tax.
- **Households:** Must earn less than R6,000 per month after tax.
  - If a household owns their dwelling, its total value must not be more than R300,000. The household must also live in this dwelling and no one in the household may own other dwellings.
  - If the household does not own the dwelling then the total value of their belongings must be below R75,000.
- Automatically qualify:
  - Individuals receiving grants
  - Children and the elderly
- Legal Aid is also available to non-citizens if it is a criminal case or the case involves a child.

**FINANCIALS**

<table>
<thead>
<tr>
<th>Income statement</th>
<th>Year ending 31 March 2012 (Rm)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>R1,159</td>
</tr>
<tr>
<td>Grants</td>
<td>R1,137</td>
</tr>
<tr>
<td>Other income</td>
<td>R22</td>
</tr>
<tr>
<td>Expenses</td>
<td>R1,130</td>
</tr>
<tr>
<td>Personnel</td>
<td>R844</td>
</tr>
<tr>
<td>Administrative</td>
<td>R78</td>
</tr>
<tr>
<td>Other expenses*</td>
<td>R206</td>
</tr>
<tr>
<td>Surplus from operations</td>
<td>R29</td>
</tr>
</tbody>
</table>

Source: Legal Aid SA website and 2012 Annual Report. *Other expenses includes depreciation and amortisation, finance costs, maintenance, travel etc..
Because the product is an insurance product providers are regulated under the Short Term Insurance Act as well as the FAIS Act

**SHORT-TERM INSURANCE ACT**
*(Short-Term Insurance Act No. 53 of 1998)*

**OVERVIEW**

Provides for the registration of short-term insurers and prohibits any person from carrying on any kind of short-term insurance business unless such person is registered.

Section 8 of the Short-Term Insurance Act prohibits an entity, without the approval of the Registrar, from including in its business or undertaking a name or description which includes words “insure”, “assure” or “underwrite”, or any derivative thereof, unless such entity is a registered insurer.

Extensive regulations have been promulgated by the FSB in terms of Section 70 of the Act which are increasingly focused on regulating the relationship between insurers and intermediaries as well as outsource service providers rendering services to the insurance industry.

The Act also defines certain types of policies but does not define legal expenses insurance. The product is regarded as a miscellaneous product.

**OUTSOURCING DIRECTIVE**

Acts as a complementary measure to the Binder Regulations to deal with matters other than the performance of binder functions. The Directive applies to all aspects of the insurance business of insurers which may be outsourced to another person, but specifically does not apply to intermediary services. The Directive sets out the general “over-arching requirements” that an insurer must comply with when outsourcing any aspect of its insurance business.

As a key principle the Directive requires that the Board of Directors and managing executives of an insurer remain responsible for the insurance business of the insurer, regardless of any outsourcing.

An insurer may not outsource any function or activity if the outsourcing may materially cause risk to the insurer, materially impair the quality of the governance framework of the insurer, impair the ability of the Registrar to monitor the insurer’s compliance with its regulatory obligations or comprise the fair treatment of and satisfactory service to policyholders.

The insurer has an obligation to ensure that the level and standard of service rendered to the insurer and its policyholders in terms of any outsourcing arrangement with a third party are appropriately monitored, managed and reviewed regularly.

*DOES THIS APPLY TO LEGAL EXPENSES INSURANCE AND THE USE OF PANEL ATTORNEYS? WHAT ABOUT OTHER LEGAL SERVICES?*
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POLICY HOLDER PROTECTION RULES

Aimed at the protection of the interests of the policyholders

Introduced to provide similar protection to consumers as are provided by the FAIS Code of Conduct, where policyholders interact with direct marketers rather than through intermediaries or brokers.

The rules govern, inter alia, claims processes. Insurers must adjudicate a claim within a reasonable time period. Where claims are rejected policyholders are entitled to reasons and can appeal within 90 days. The insurer must notify policyholders of the right to lodge a complaint under the FSOS Act (which provides for access to a voluntary Ombud) in plain in understandable language.

Policyholders can institute legal proceedings within 6 (six) months after the insurer finally informs the policyholder of its decision in relation to the matter

Provides for a 15 day grace period to protect the policyholder
Because the product is an insurance product providers are regulated under the Short Term Insurance Act as well as the FAIS Act

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**BINDER REGULATIONS**

Introduces the concept of a mandated intermediary, a non-mandated intermediary and an underwriting management agent (“UMA”). Intermediaries previously functioning as “administrators” for insurers have now had to choose whether they wish to function as a non-mandated intermediary or a UMA.

An “underwriting manager” is a person that performs one or more of the binder functions. These functions are:

- the entering into, variation or renewal of a short-term policy, other than a short-term re-insurance policy, on behalf of an insurer or Lloyds Underwriters;
- the determination of the wording of a short-term policy;
- the determination of premiums under a short-term policy;
- the determination of the value of policy benefits under a short-term policy;
- the settlement of claims under a short-term policy.

The non-mandated intermediary can perform binder functions on behalf of an insurer in terms of a binder agreement whilst at the same time rendering intermediary services to clients. The underwriting manager (“UMA”) however can only perform binder functions on behalf of an insurer as if they were the insurer, but may not deal directly with policyholders.

An insurer is entitled to pay to a binder holder a reasonable fee for services rendered under the binder agreement.

An underwriting manager is entitled to share in the profits of the insurer attributable to the type and kind of policies covered by the binder agreement but an intermediary is not.
Because the product is an insurance product providers are regulated under the Short Term Insurance Act as well as the FAIS Act.

**OVERVIEW**

The Financial Advisory and Intermediary Services Act (FAIS Act No. 37 of 2002) governs the activities of financial services intermediaries and brokers. It introduces statutory obligations on the part of the financial services intermediaries which are to be regarded as minimum standards aimed at the protection of consumers.

Intermediaries and advisors in the financial sector are legally obliged to act with reasonable care, skill and diligence as well as good faith in their dealings with clients. “Good faith” entails the obligation to act in the best interests of the client, to be open and honest in dealing with a client and not to make a secret profit out of the mandate entrusted by the client.

**FINANCIAL ADVISORY AND INTERMEDIARY SERVICES ACT**

(FAIS Act No. 37 of 2002)

**Licensing of Financial Services Providers:** An applicant for authorisation must satisfy the Registrar that he/she complies with the requirements for fit and proper status for financial services providers in respect of personal character qualities of honesty and integrity, financial soundness and the competence and operational ability to fulfil the responsibilities imposed by the FAIS Act.

**No Advice Sales:** Where factual information is given relating to for e.g. in relation to the description of any financial product or when answering to routine administrative queries, or information disseminated through the display or distribution of promotional material, this does not constitute advice (as defined) and such activities fall outside of the scope of the FAIS Act.

**Exemption:** The Registrar is empowered to exempt certain activities from the provisions of the FAIS Act. This provision allows some flexibility in relation to the implementation of the provisions of the FAIS Act in certain areas.

**General Code of Conduct:** Lays down minimum standards for the rendering of advice and associated services between financial services providers and their clients. The general duty of the provider in terms of the Code is at all times to render financial services honestly, fairly with due skill, care and diligence and in the interests of clients and the integrity of the financial services industry.

When a provider renders a financial service any representations made or information provided to a client must be factually correct, must be provided in plain language to avoid uncertainty or confusion and not be misleading, must be adequate and appropriate in the circumstances of the particular financial service taking into account the factually established or reasonably assumed level of knowledge of the client and must be provided timeously so as to afford the client reasonably sufficient time to make an informed decision about the proposed transaction.
There are several activities or processes that underpin the delivery of the product

<table>
<thead>
<tr>
<th>Back end processes</th>
<th>Client facing processes</th>
<th>Brand / offering</th>
</tr>
</thead>
<tbody>
<tr>
<td>Product development, pricing &amp; packaging</td>
<td>Financial &amp; risk management</td>
<td>Marketing, sales &amp; distribution</td>
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<tr>
<td>Policy administration</td>
<td>Claims management</td>
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<tr>
<td>Claims underwriting</td>
<td>Claims administration</td>
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<tr>
<td>Policies</td>
<td>Claims monitoring</td>
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<tr>
<td>Stop order / debit order / third party collections (e.g. retailers)</td>
<td>Dispute resolution and interaction with Ombudsman</td>
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<td>Premium collection</td>
<td>Services provided by employees via call centre or walk-in servicing centre, or by panel attorneys (3rd party, external from insurer)</td>
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<tr>
<td>Target market and needs</td>
<td>Provided by panel attorneys (3rd party, external from insurer)</td>
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<tr>
<td>Core product features</td>
<td>Panel attorneys charge fees based on government gazetted rates. These are significantly lower than would be charged to a private client</td>
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<tr>
<td>Levels of insurance cover</td>
<td>Attorneys take on legal insurance work because of the high volumes and the relatively simple nature of the matters (need prospects for success)</td>
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<tr>
<td>Types of matters covered and exclusions</td>
<td>Compliance management and reporting</td>
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<tr>
<td>Waiting periods and co-payments</td>
<td>Target market and needs</td>
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<tr>
<td>Pricing</td>
<td>Core product features</td>
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<tr>
<td>Policy documentation and wording</td>
<td>Levels of insurance cover</td>
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<tr>
<td>Service elements</td>
<td>Types of matters covered and exclusions</td>
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<tr>
<td>Reserving</td>
<td>Waiting periods and co-payments</td>
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<td>Valuation</td>
<td>Pricing</td>
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<tr>
<td>Risk funding</td>
<td>Policy documentation and wording</td>
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<tr>
<td>Policy detail changes</td>
<td>Provided by panel attorneys (3rd party, external from insurer)</td>
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<tr>
<td>Fulfilment documentation after sale</td>
<td>Panel attorneys charge fees based on government gazetted rates. These are significantly lower than would be charged to a private client</td>
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<tr>
<td>Statutory record keeping</td>
<td>Attorneys take on legal insurance work because of the high volumes and the relatively simple nature of the matters (need prospects for success)</td>
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<td>Member contact details and history</td>
<td>Compliance management and reporting</td>
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<td>Fulfilment: Services and mediation</td>
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<td>Fulfilment: Litigation</td>
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<td>Policy administration</td>
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<td>Claims underwriting</td>
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<td>Repudiation procedures</td>
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<td>Claims administration</td>
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<tr>
<td>Compliance management (FAIS)</td>
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</tbody>
</table>
Various providers offer the product under different underwriting arrangements

### Back end processes
- Product development
- Financial management
- Claims management

### Client facing processes
- Fulfilment: Legal services and mediation
- Fulfilment: Litigation
- Marketing, sales & distribution

### Brand / offering
- Clientele call centre
- Hollard call centre
- Edgars/ Jet
- LegalWise Scorpion
- FNB Life
- FNB Life
- FNB Justice 1st
- Brokers
- Lexcorp
- Lipco Business Agents
- Absa
- L&T call centre, worksite agents
- Legal & Tax

<table>
<thead>
<tr>
<th>Short term insurance licence</th>
<th>FNB Life</th>
<th>RMB Structured Insurance</th>
<th>FNB Life</th>
</tr>
</thead>
<tbody>
<tr>
<td>LegalWise</td>
<td>Hollard</td>
<td>LegalWise</td>
<td></td>
</tr>
</tbody>
</table>

**Outsourced to a firm of attorneys**

- LegalWise
- Outsources attorneys
Agenda

- Project overview
- Product overview
- Client value
- The future
There are a number of elements that can be used to assess value

<table>
<thead>
<tr>
<th>KEY RATIOS</th>
<th>OTHER USAGE INDICATORS</th>
<th>PERCEIVED VALUE</th>
</tr>
</thead>
<tbody>
<tr>
<td>▪ The claims ratio is the cost of members benefits and claims as a percentage of the net written premium (net of reinsurance)</td>
<td></td>
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</tr>
<tr>
<td>▪ The management expense ratio includes expenses for the acquisition of insurance contracts as well as other expenses. These are as a proportion of the net written premium</td>
<td></td>
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<tr>
<td>▪ The claims ratio does not always reflect the true benefit of all services provided to the member i.e. it excludes free telephonic advice and in some cases the value of services rendered</td>
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</tbody>
</table>
| ▪ Other usage indicators include:  
  ▪ Percentage of members who have contacted the provider  
  ▪ Percentage of claims rejected  
  ▪ Reasons for claims rejection  
  ▪ Lapse rates |
| ▪ Perception of value based on feedback |
The legal insurance business model is very different to that of the typical short-term insurer. While the claims ratios are lower, expenses are much higher.

**INDUSTRY RATIOS**
(2012, Legal insurance providers and other mono line insurers, Rand value)

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**CLAIMS RATIOS**

*LegalWise consider a matter to be a claim when they grant confirmation of cover to external attorney.*

*In contrast, Clientele define a matter as a claim as soon as it moves beyond free advice.*

*Are expenses associated with monitoring claims included?*

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**MANAGEMENT EXPENSE RATIOS**

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*The short-term industry includes typical insurers who offer most types of policies to, mostly, the general public.

**Clientele's management expense ratio is for 2011.**
Aside from claims, members receive on-going legal services which are not classified as claims. Approximately 20% of members utilise these benefits in any year. Providers estimate that if these costs were included claims ratios would be between 45% and 55%.

### Percentage of members who claimed

(2009 member cohort)

<table>
<thead>
<tr>
<th>Year</th>
<th>Claims per policyholder who has claimed</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>1.2</td>
</tr>
<tr>
<td>2011</td>
<td>1.2</td>
</tr>
<tr>
<td>2012</td>
<td>1.3</td>
</tr>
</tbody>
</table>

#### Average litigation expense per claim*

- **Civil**: R14 000
- **Criminal**: R3 000
- **Labour**: R20 000 – R70 000 depending on complexity

### Distribution of claims by type of matter

(Number of claims, 2012)

- **Motor vehicle related claims**
- **Contractual disputes**
- **Debt related matters**
- **Assault**
- **Reckless and negligent driving**
- **Theft**
- **Unfair dismissals**
- **Unfair labour practices**
- **Accessing employment benefits**

**Common matters**

- Motor vehicle related claims
- Contractual disputes
- Debt related matters

**Ave. litigation expense per claim**

- Civil: R14 000
- Criminal: R3 000
- Labour: R20 000 – R70 000 depending on complexity

*Average litigation expenses are based on data from one provider and are calculated after a matter is finalised.

Source: Three providers supplied data. Where possible this data has been consolidated and aggregated percentages have been used.

Note: An active member is someone who claimed in a given year. For one provider disbursements to attorneys have been used as a proxy for claims.
On average, 12% of claims are rejected per year. In most cases this is due to non-payment of premiums. There is no data to assess whether this rejection rate is high or low relative to the industry as a whole.

### Rejected claims
(Number of claims, 2012)

**Distribution by reason for rejection**

- Non-payment of premium: 51%
- Matter has no prospects for success: 21%
- Cause of action pre-dates commencement date: 5%
- Other: 24%

**Distribution by type of matter**

- Civil: 50%
- Criminal: 24%
- Labour: 18%
- Other: 8%

Source: Three providers supplied data. Where possible this data has been consolidated and aggregated percentages have been used. For one provider disbursements to attorneys have been used as a proxy for claims.
Agenda

- Project overview
- Product overview
- Client value
- The future
Two additional regulatory interventions could impact on the legal expenses insurance industry

MICROINSURANCE REGULATIONS

- Accessed by the low-income population
- Objectives are to extend access /enhance inclusion, to formalise informal provision, to encourage competition while protecting consumers through prudential and business conduct regulation, improved enforcement and consumer education
- Proposed benefit caps; R50 000 per insured life, per insurer for death, R100 000 per person, per insurer, per contract period for asset insurance, R50 000 per insured life, per insurer for all other risk events - “This can for example include a legal policy”
- Binder regulations apply. No exclusions for pre-existing conditions. Policies must be in plain language. Minimum capital adequacy requirement of R3 million with a build up over 3 years
- Separate micro insurance Fit and Proper requirement

TREATING CUSTOMERS FAIRLY

- TCF initiative is principles based rather than rules based. It has six customer outcomes that should apply throughout the process / all stages of interaction with the client:
  1. Customers are confident that they are dealing with firms where the fair treatment of customers is central to the firm culture
  2. Products and services marketed and sold in the retail market are designed to meet the needs of identified customer groups and are targeted accordingly
  3. Customers are given clear information and are kept appropriately informed before, during and after the time of contracting
  4. Where customers receive advice, the advice is suitable and takes account of their circumstances
  5. Customers are provided with products that perform as firms have led them to expect, and the associated service is both of an acceptable standard and what they have been led to expect
  6. Customers do not face unreasonable post-sale barriers to change a product, switch provider, submit a claim or make a complaint
  7. These outcomes will apply throughout the process at all stages of interaction with a client

Will these help?
A number of issues were highlighted during the course of the research:

**Regulation**
- Regulation: One size fits all
- Membership-based organisations that are technically not insurers
- Prudential requirements are onerous given risk profile
- FAIS: Accreditation not aligned with product and its specifics
- FAIS: Accreditation not transparent to end user – and can provide a veneer of authenticity
- Overlap between PPR and FAIS
- Binder regulations: confusing, unintended consequence is that intermediaries can earn more than before
- Binder regulations: UMA cannot be intermediary – this means that the product must be distributed by brokers who will not be interested in small premium products
- Outsourcing directive: does it apply to panel attorneys?
- Micro insurance regulation / TCF – might have an impact on LEI but will not solve key problems
- Definition of a claim. Also data gathered by regulator is not compiled into any useful industry measures

**Providers**
- Product standardisation – what is covered / excluded varies
- Terminology is complex – sometimes unnecessarily
- Insurers have clear vested interests when assessing reasonable prospects for success
- Some practises not aligned with TCF (e.g. bank details before submission of policy documents, disclosure of all exclusions during sales process, assessment of prospects of success)

**Clients**
- Low levels of financial literacy
- Low levels of legal literacy
- Inability to assess quality of legal services
- High fear factor which can easily be exploited
- Limited knowledge of rights and avenues for recourse

**Legal Profession**
- No integration with the legal profession, industry operates outside the profession
- No recognition of challenges of having two clients
- Legal profession concerned with protection of rights of existing clients rather than access to services
- Legal aid – and alignment with insurance
- Significant impact of legal expenses insurance on creating viable firms of attorneys
With regard to engagement going forward, this must be underpinned by a clear vision for the product

VISION FOR LEGAL EXPENSES INSURANCE

OPTIMISE EXISTING
NICHE ‘MISCELLANEOUS’ PRODUCT

OR

JUSTICE FOR ALL
CRITICAL MECHANISM TO ENABLE SOUTH AFRICANS TO ACCESS THEIR CONSTITUTIONAL RIGHTS
Way forward – areas of focus

- Raise product profile within the legal profession
- Align offering with legal aid
- Develop legal expenses insurance framework
- Encourage creation of a representative industry body
- Develop a consumer education strategy