

30 January 2015

Principal Officers - All registered Insurers and reinsurers

All insurance and reinsurance brokers and agents

Chairperson - LAAN

Chairperson - NIBA

Chairperson - AIM

Chairperson - NIA

Directive: I/STI/01/2015 & I/LTI/01/2015

EFFECTIVE DATE:

This directive will come into effect immediately in respect of new policies

All registered insurers and reinsurers will have to ensure that affected short-term insurance contracts are converted into long-term insurance contracts that are underwritten by long-term insurers and reinsurers by the date of renewal of such policy.

**SUBJECT: CREDIT LIFE INSURANCE POLICY AND CREDIT INSURANCE POLICY
IN NAMIBIA**



1. Introduction

- 1.1 This directive is issued by virtue of NAMFISA's functions and powers, and those of its CEO in his capacity as the Registrar of Long-term and Short-Term Insurance, in terms of the Namibia Financial Institutions Supervisory Authority Act No. 3 of 2001 and applicable to all registered insurers, insurance and reinsurance brokers and insurance agents under the Long-term Insurance Act No. 5 of 1998 (LTI Act) and the Short-term Insurance Act No. 4 of 1998 (STI Act).
- 1.2 The purpose is to ensure that there is a clear understanding and a distinction is drawn between credit life insurance in terms of Section 13 of the LTI Act and credit insurance in terms of Schedule 1 of the STI Act.

2. The current insurance practice

- 2.1 The insurance industry currently interprets credit insurance as falling under the classes of insurance provided for in both the LTI and STI Acts, Consequently, both short- and long- term insurers are currently providing credit insurance policies under their respective licenses.
- 2.2 The insurance industry has been utilizing credit insurance to cover the risk of loss to the person insured should a debtor be unable to repay his or her debts due to insolvency, job loss, disability or death.
- 2.3 Furthermore, some insurers have also been erroneously referring to 'credit insurance' as 'credit guarantee' insurance.

3. The law

- 3.1 Item 6(f) of Schedule 1 of the STI Act defines credit insurance as:
"Effecting and carrying out of short-term insurance contracts against risks of loss to the person insured attributable to the insolvency of any debtor of



such person or from failure (otherwise than through insolvency) of any such debtor to pay his or her debt when due and payable”..

3.2 Item 5 of Schedule 1 of the STI Act defines guarantee insurance: *“effecting and carrying out guarantee insurance business, including –*

(a) Contracts of short-term insurance against risks of loss to the person insured attributable to such person having to perform contracts of guarantee entered into by him or her; and

(b) Contracts of fidelity bonds, performance bonds, administration bonds, bail bonds or custom bonds or similar contracts of guarantee.”

3.3 Section 1 of the LTI Act defines a life policy as: *“a contract in terms of which a person, in return for a premiums undertakes to*

(a) Provide policy benefits upon, and solely for the reason of, a life event; or

(b) Pay an annuity for a period,

and includes a reinsurance policy in respect of such a contract”.

3.4 Section 1 of the LTI Act defines a “life event” as *“the event of the life of a person or an unborn-*

(a) having begun; or

(b) continuing; or

(c) having continued for a period; or

(d) having ended.”

4. Conclusion

4.1 Credit insurance is a sub-class of the miscellaneous class of short-term insurance business. Thus, credit insurance policies can only cover loss in terms of insolvency or inability of the debtor to make a payment. Credit



insurance policies, which are short-term insurance, cannot cover for a loss as a result of a life event, which is long-term insurance

- 4.2 Insurance coverage for loss as a result of a life event i.e death, disability and/or retrenchment (credit life insurance) falls under the long-term insurance classes of insurance.
- 4.3 Guarantee insurance is meant to cover the risk of loss in the event of non-performance of commercial agreements such as guarantees, fidelity bonds, performance and administration bonds, custom bonds or similar contracts of guarantee. Guarantee insurance is also short-term insurance business.
- 4.4 Therefore, credit insurance cannot be referred to as credit guarantee insurance. The two are completely different classes of (short-term) insurance business.

5. The directive

- 5.1 All registered insurers and reinsurers are directed to cease selling credit insurance and credit life insurance under one policy.

Credit insurance is a short-term insurance product and only covers loss in the event of insolvency/inability by the debtor to pay. Hence this product shall only be offered by registered short-term insurers/reinsurers.

- 5.2 Credit life insurance is a long-term insurance product and only covers loss in the event of death, disability or retrenchment. Hence this product shall only be offered by registered long-term insurers/reinsurers.
- 5.3 Insurers/reinsurers shall not refer to credit insurance as credit guarantee insurance and shall not offer credit insurance products under credit guarantee insurance.



Should you still need more clarity, please do not hesitate to contact either the Long-term Insurance manager or the Short-term Insurance manager.

A handwritten signature in black ink, appearing to read 'Shiimi', is positioned above a horizontal line.

Phillip N. Shiimi

CEO of NAMFISA and Registrar of Long and Short-term Insurance