Premium Payment Framework (PPF) FAQ

1. Plain English Warranty Wordings

Question:

Can we adopt our own plain English Premium Payment Warranty wordings?

Answer:

Insurers can adopt their own plain English Premium Payment Warranty wordings, as long as the intentions of PPF are reflected in the wordings.

2. Collection of Premium

Question:

Where insurer does not issue tax invoice and policy documents within 30 days after the inception date, will intermediaries still be held responsible for the premium if they are unable to collect from clients within 60 days from inception?

Answer:

The intermediaries will not be responsible for the premium in the above scenario. If insurers do not issue the tax invoice and policy documents within 30 days after the inception date, the insurers will waive their right to receive payment within the 60 days Premium Payment Warranty period.

3. Premium Prepayment

Question:

Is it against industry policy for premium prepayment by intermediaries who then collect the premium from the client?

Answer:

Any prepayment or funding by cash agents is strongly discouraged by insurers as this will potentially cause problems in reconciliation of accounts. Besides, it sends a wrong message to customers not to take ownership to effect payment of premium promptly. In addition, the intermediaries should be aware that any premium refund would go directly to the insured.

4. Payment Before Cover Warranty

a. Question:

Some insurers had interpreted that the “Payment Before Cover Warranty” does not mean “Payment Before Policy”. An example was cited whereby a motor policy that was due for renewal on 1 May 2015 and that instructions were received by the intermediary from the policyholder to renew the policy on 1 April 2015. Some insurers would accept the renewal instructions from the intermediary and process the documentation without payment, on the basis that there was no breach of the Premium Payment Framework because inception of cover only commenced on 1 May 2015, and instructions were given prior to 1 May 2015.

Answer:

Part of the objective of the Premium Payment Framework is to remove inefficiencies of having to implement measures to follow up on premium collection. It should be noted that Payment Before Cover Warranty would mean payment for the insurance policy to be issued and is to be made at the time when Cover Note, Certificate or other policy documentation was first released by the intermediary or insurer to the policyholder.

b. Question:

Two scenarios as cited below whereby the customer had purchased a travel insurance cover at the airport via:

1) The AXS machine or
2) Online

If the payment fails. How would the customer's cover be effective?

Answer:

When the customer purchase the insurance via:

1) AXS Machine - cover is effective upon successful payment through the payment gateway. If there is a payment failure due to insufficient funds, no coverage will be effective.
2) Online - cover is effective upon successful payment through the payment gateway. If there is a payment failure, insurers should honour the non-payment issue.

If there is an operating system failure be it via the AXS Machine or online payment gateway, the insurer will honour the payment and insurance cover will be effective.

c. Question:

The following scenario was cited:-

- payment before cover
- intermediary did not inform the insurer of the non-payment of premium by the insured
- time-on-risk premium was not paid

- intermediaries were not liable for the time-on-risk premium.

Answer:

The above would not apply for Payment Before Cover Warranty. No cover will attach at all if there is no payment. As far as intermediaries are concerned, they have to undertake to ensure that payment is collected before inception of the cover.

5. Payment Before Cover Warranty - Warranty Applicable To Cover Notes Issued

Question:

How would the Payment Before Cover Warranty apply for individuals in a situation where the intermediary has a motor cover note issuing facility?

Answer:

With the framework, the intermediary would have to ask for payment first before release of Cover Note to individuals. The insurer may issue documents in advance but the intermediary should only release documents in exchange for premium. This would be no different from a situation where the insurer would issue the cover note, as the insurer would have to ensure that payment was received before release.

The four scenarios listed below would cover the majority of such situations:

No	Cover Note Issuance	Action Required
1	Intermediary issues cover note.	Payment must be received by intermediary before release of cover note.
2	Intermediary instructs insurer to issue cover note (or CI). Insurer sends the cover note to intermediary for despatch.	Payment must be received by intermediary before release of cover note.
3	Intermediary instructs insurer to issue cover note (or CI), and client to collect directly from insurer.	Intermediary must: (a) First confirm to insurer in writing that premium has been received by the intermediary; or (b) instruct insurer to collect premium before release of cover note to client.
4	Intermediary issues cover note for new vehicle purchased at motor	Payment must be received by intermediary or insurer before release of

	showroom	cover note.

6. CAR/EAR Policies

Question:

CAR/EAR is a non-cancellable policy, should it be subject to the Payment Before Cover Warranty instead of the Premium Payment Warranty?

Answer:

No, this is because CAR/EAR is a commercial insurance policy and is subject to PPW.

7. Premium Payment Warranty – For Policy Period < 60 Days

a. Question:

For policies with period of insurance less than 60 days, full premium has to be paid within the period of insurance. What would happen if the insured does not pay up by the end of the policy period?

Answer:

The intermediary or insurer concerned should apply suitable prudential management and best practices depending on the circumstance.

b. Question:

As regards the 60 day premium warranty (commercial lines), can the policyholder be given a grace period to make payment?

Answer:

No, this is not allowed.

8. GIRO Payments

a. Question:

Currently GIRO premium deductions were allowed to be in arrears instead of in advance of the following month's premium. Can the above practice be continued?

Answer:

All policies that allow for payments by GIRO must be arranged such that the deductions could be in advance of cover and not in arrears. The intention for GIRO payments is to apply to direct marketing programmes where the period of insurance is on a monthly basis. Such arrangements for payment can be satisfied through GIRO or credit card monthly payments in advance.
In addition, insurers can also arrange annual premium payable in full through a single deduction (not by instalment) by GIRO or credit card transaction for annual renewals.

Insurers are to take note of the above.

b. Question:

What is the treatment for GIRO payment where bank approval takes at least 2 months?

Answer:

There should be no difference in the treatment for GIRO payments. When a consumer buys a policy, the payment via credit card or GIRO is recognized for the policy to effect. This is notwithstanding the banks taking more than 2 months to process the GIRO application. The policy is not effective only when there are insufficient funds to effect the GIRO or credit card payment.

c. Question:
Is GIRO payment applicable for the 3 types of premium payment warranties?

Answer:
Yes, it is. GIRO payment is applicable for all lines of business.

9. Instalment Payment via Credit Cards or GIRO

a. Question:

Can premium payment be made through GIRO in 6 instalments.

Answer:

Refer to the answer in item 8 above.

b. Question:

Would the implementation of the PPF change the practice on instalment payment via credit card or GIRO payment?

Answer:

Refer to the answer in item 8 above.

Need to segregate GIRO & instalment payment – large accounts, clients opt to pay in tranches; both should be acceptable

10. Cheque Payment

Question:

Would cheque payment be deemed as paid only after the cheque is cleared?

Answer:

Once the cheque is received, it will be deemed as paid. If the cheque is dishonoured, the cover will automatically be void.

11. Direct Marketing

Question:

For ongoing billing, it is a norm to experience unsuccessful deductions for various reasons. The standard practice currently would be to make two subsequent attempts to collect the premium and coverage would still be considered effective during this period. After these two attempts, the policy would automatically be cancelled. It would be in the interest of the customer for coverage to be effective during the two months and that a separate process for cash or cheque for the two months would not be practical.

Answer:

Insurers should carry out prudential practice consistent with the guidelines and as long as they can demonstrate that they are able to collect the premium. Insurers should send notifications to clients to alert them before the policies are terminated should the subsequent attempts to collect the premium fail.

12. Payment after Premium Payment Warranty Period

a. Question:

A scenario was cited whereby the intermediaries would give their clients 90 days to pay the premium even though premium should be made before cover and the insurer was not aware of such a practice.

Answer:

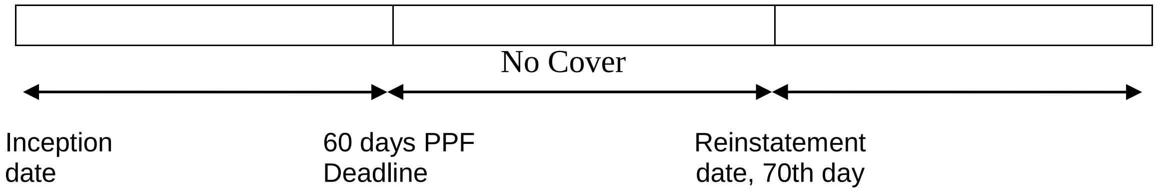
MAS could perhaps be notified of such breach of good faith.

b. <u>Question:</u>

How can the cover be reinstated if the client sends a cheque after the premium payment period expires? (For example, if client pays the premium on the 70th day)

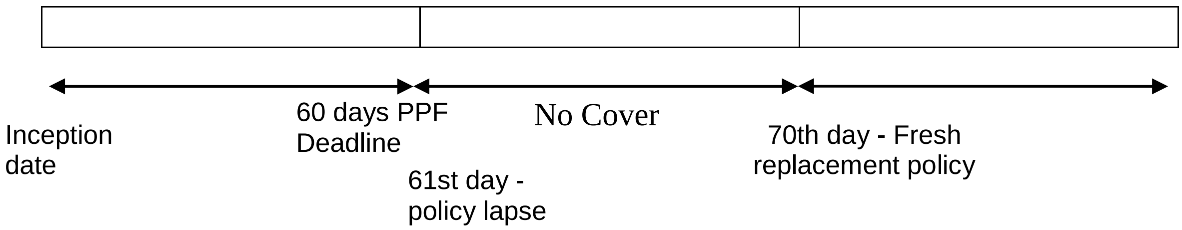
Answer:

The framework includes a Condition Precedent to policy liability. The cover is automatically terminated on the 61st day. Even though the client pays the premium on the 70th day, the time on risk premium (calculated on a pro-rata basis) would have to be paid. The cover would then be reinstated on the 70th day.



Alternatively, the insurer may allow policy to lapse and issue a fresh replacement policy on the 70th day with a new inception date and expiry date. The client will have to pay the time on risk premium for the cover from the original inception date to the 60th day.

The above practices are up to the discretion of the insurer.



13. Timing of Reconciliation

Question:

How often do insurers and intermediaries reconcile their accounts?

Answer:

For best practice, insurers and intermediaries should reconcile their accounts on a monthly basis.

14. Backdating of Cover

Question:

Is backdating permissible?

Answer:

Backdating is strictly not allowed. However, under extenuating circumstances, insurer may allow the cover to be backdated with an undertaking done by the insured that there is no claim to be admitted during the period when it is backdated.

15. Remarketing after Cancellation

Question:

Is there a system in place to check that the insured who had breached the Premium Payment Warranty be known to the other insurer before the other insurer takes up the business?

Answer:

The information could be verified with the previous insurer. The intermediary's or insurer's quotation should include the agreed Condition Precedent and the intermediary or insurer should ensure that the customer understands and is aware of the consequences before taking up cover.

16. Endorsement

Question:

For non-payment of premiums under an endorsement issued and effected after the inception / renewal date of the policy, will the cover under the endorsement be automatically terminated upon expiry of the PPW period?

Answer:

The cover under the endorsement would automatically be terminated upon the expiry of the PPW period, but the cover in respect of the original policy to which the endorsement was issued under, would still be in force.

17. Overdue Premiums

Question:

With reference to section 6.2 relating to Overdue Premiums. As stated in the framework, all intermediaries are required to notify the insurers on the names of insured who had breached the Premium Payment Warranty within 5 working days of the breach (i.e. 60 days from the inception of the policy). It was felt that in practice, insurers seldom receive such information from intermediaries. Moreover, it would be difficult in doing business if strict control was exercised.

Answer:

Close collaboration between insurers and brokers would be necessary. Insurers would have to rely on intermediaries to provide the information. The issues had been addressed before with the SIBA. It was agreed that good practice standards must be instituted. The premium payment warranty would not be effective if there was no common stance taken on the subject. The framework would ensure good governance and meet the companies' and stakeholders' objectives.

It should be highlighted that a more serious repercussion would be that of termination of cover on the 61st day. This could result in the repudiation of the claim by the insurer. Whether the premium has indeed been paid would be a matter of fact.

18. Premium Instalment Payment Warranty – Time On Risk Premium

Question:

Would there be a refund of premium beyond the time on risk premium if a policy, which was subject to a Premium Instalment Payment Warranty, were to be terminated due to non-payment of a subsequent instalment premium?

Scenario:
Policy > 60 days
Total premium S$120,000
Instalment: 6 months

Instalment	Due Date	Premium
1st	1 May 2015	S$ 60,000
2nd	1 August 2015	S$ 20,000
3rd	1 September 2015	S$ 20,000
4th	1 October 2015	S$ 20,000

Client defaults on the 3rd instalment and thus policy is lapsed from the 1 September 2015 (the date that the 3rd instalment is due).

Total premiums paid as at 1 September 2015 is S$80,000.

Time on risks: 4 months

Time on risks premium: 4/12 months x S$120,000 = S$40,000

Answer:

This is dependent on the insurer's policy, insurers can opt for pro rata or short term rate. No refund if there is a claim.