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better

SECTION 4

FURTHER WAYS TO OPTIMISE YOUR CLAIMS EXPERIENCE

2019 Claims Report

FURTHER WAYS TO OPTIMISE YOUR CLAIMS EXPERIENCE

Below is a list of the main observations FMI has experienced with claims over the years and some suggestions as to how these situations can be avoided.

1 ENSURE CLIENTS ARE NOT UNDERINSURED

We believe that you should be able to cover 100% of your after-tax income until the day you would have retired. In 2019, the average replacement ratio (i.e. the monthly cover amount divided by the life insured's net income) on the Temporary Income Protector was 78%. While affordability often plays a role in client's being underinsured at claim stage, they need to

understand that this will result in a shortfall between their payout and their monthly income commitments. Fortunately, our built-in future insurability options can assist clients with increasing their cover as their income changes or when they're able to afford more cover.

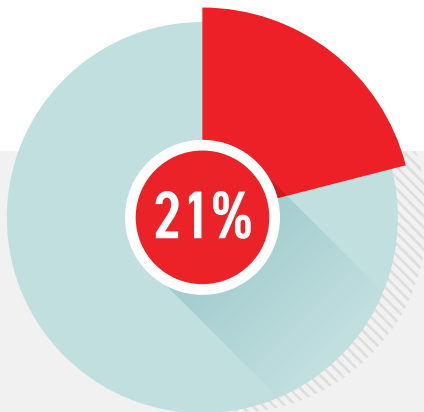


2 ENSURE CLIENTS HAVE SUFFICIENT LONG-TERM INJURY OR ILLNESS COVER

We do see claims where the cover on the Temporary Income Protector has been set up optimally, but once the claim reaches the end of the Temporary Income Protector benefit term, the client may be left exposed where:



2.1 THERE IS NO EXTENDED INCOME PROTECTOR COVER



21% of policies sold with a Temporary Income Protector benefit had no Extended Income Protector cover.

This means that once the benefit term (typically 24-months) on the Temporary Income Protector has ended, payments will cease. While some clients have cover with another insurer or employee benefits to protect themselves once the end of the Temporary Income Protector benefit term is reached, many do not. Whilst only 1% of our claims last for more than a year, the financial consequences are devastating if you don't have this type of cover in place.

REAL CLAIMS IN ACTION

The following claim example illustrates the importance of selecting a combination of temporary and long-term income and lump sum benefits to provide for your needs should you be diagnosed with a critical illness.

CASE STUDY



ANITA
(56, TOUR GUIDE)

CLAIM EVENT:

Stage 1 throat cancer (removal of larynx)

INCOME BENEFIT CLAIMED ON:

Temporary Income Protector (30-day waiting period)

CLAIM:

Anita is unable to ever work again and received a TIP payout for 2 years.

With CI Income, she would've received a payout of 130% of her TIP cover for the first 11 months of her claim. Had she taken CILS and DLS cover, this could've provided for the once-off costs that she had to pay following her surgery. And, if she had EIP cover, we would've paid 100% of her income until retirement.

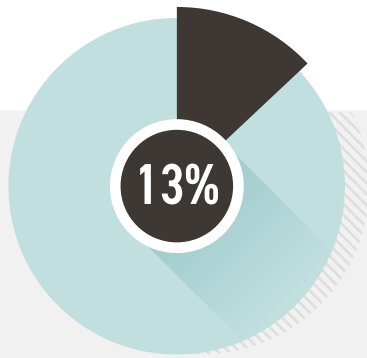
WHICH BENEFITS WOULD RESULT IN A CLAIM?

	INJURY & ILLNESS COVER		LIFE COVER
INCOME BENEFITS	✓	✓	✗
LUMP SUM BENEFITS	✓	✓	✗

2.2 THERE IS INSUFFICIENT EXTENDED INCOME PROTECTOR COVER

As we noted above, it is important to be able to cover 100% of your income. We do see cases where the client elects to cover less of their income on the Extended Income Protector benefit compared to the Temporary Income Protector benefit.

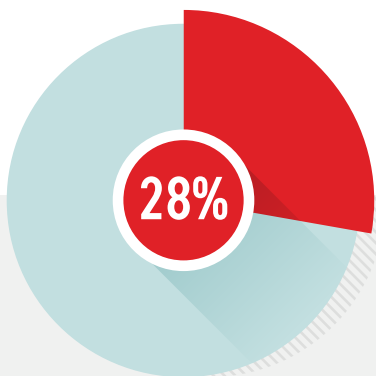
This means that a claim can be paid until retirement, but there will be a reduction in the monthly claim amount once the end of the Temporary Income Protector benefit term is reached.



13% of our Extended Income Protector policies are sold with less cover than the Temporary Income Protector benefit.

This might be because traditionally most insurers only allow you to cover 75% of your income against disabilities that last longer than 24 months. At FMI, we don't have the same restriction – we believe that you should be able to cover 100% of your income until retirement.

2.3 BOOSTERS IF PERMANENTLY DISABLED



Only **28%** of all claims we have paid on the Extended Income Protector benefit would have qualified for booster payments.

It has become quite common for insurers who don't cover 100% of income for long-term income protection benefits to offer boosters that may upgrade your payout to 100%. It's important to understand the terms and conditions of these boosters, as clients need to be permanently disabled, often only at the highest severity level in order to qualify.

This illustrates that the booster will not apply to most long-term income protection claims. At FMI, you can cover 100% of your income and have the peace of mind that permanence is not required on the Occupational Disability criterion.

2.4 NO CLAIMS ESCALATION ON EXTENDED INCOME PROTECTOR COVER

Claims escalation ensures that the payout you receive on an income protection policy keeps pace with inflation. While most individuals select claims escalation on the Extended Income Protector benefit, 2% of

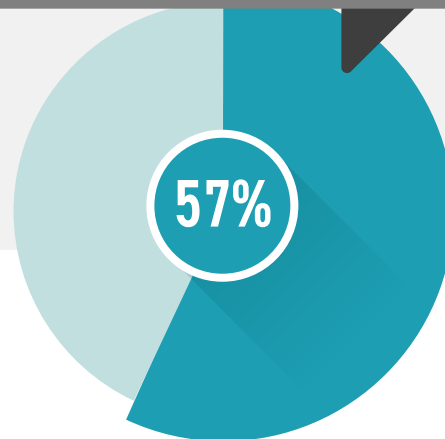
new Extended Income Protector benefits sold in 2019 were sold without claims escalation. This leaves clients in a vulnerable position where their income may not be sufficient to cover their monthly expenses.

2.5 CEASE AGE CHOSEN IS INAPPROPRIATE

If you are in claim on the Extended Income Protector benefit, payments cease once you reach the cease age. We offer a number of different cease ages on the Extended Income Protector benefit, including a Whole-of-Life option.

Most Extended Income Protector benefits are sold with a cease age of 65. This assumes that the payouts from the Extended Income Protector to age 65 are sufficient for the client to complete their retirement plan. Given that many people who never suffer a disability are unable to retire by 65, this assumption should be checked.

57% of clients who took out a policy with the **Extended Income Protector** benefit selected a cease age of 65 or younger.



Fortunately, our Continuation Option may allow a client to extend their selected cease age by 5 years, however, this option is not available once the client is in claim.

2.6 INAPPROPRIATE BENEFITS ARE SELECTED

Benefits that pay a lump sum on permanent disability are used to fund lifestyle changes and to facilitate buy and sell agreements. However, they are a poor alternative to income protection cover because they only cover permanent disabilities, and the majority of claims on income protection benefits are for a temporary injury or illness.

We occasionally see cases where a client has a long-lasting temporary injury or illness and they only have Disability Lump Sum cover with no Extended Income Protector cover. These clients have a significant gap in their overall cover.

There is an assumption that the longer an income protection claim continues, the more likely that claim is to be permanent. This assumption sometimes leads to people expecting that the Disability Lump Sum benefit would pay out when the Extended Income Protector benefit would as well. It is important to note that the requirement to be permanently disabled is an onerous one and EIP claims paid on the Occupational Disability criterion don't require permanence.



Of all the EIP claims that we have ever paid, **4 out of 10** clients were not permanently disabled, which means nothing would have been paid on the Disability Lump Sum benefit.

REAL CLAIMS IN ACTION

The following claim example illustrates the importance of being able to cover 100% of your income for non-permanent disabilities.

CASE STUDY



ANELE
(51, VETERINARY
SURGEON)

CLAIM EVENT:

Psychological condition

INCOME BENEFITS CLAIMED ON:

Temporary Income Protector (7-day waiting period)
and Business Overhead Protector (14-day waiting period)

CLAIM:

Anele first submitted a claim on her TIP and BOP benefits 5 years ago. Over this period, her claim has been reopened 3 times and she is currently receiving an EIP payment. To date, we have paid her for over 1500 days, despite the fact that she is not permanently disabled.

WHICH BENEFITS WOULD RESULT IN A CLAIM?

	INJURY & ILLNESS COVER		LIFE COVER
INCOME BENEFITS			
LUMP SUM BENEFITS			

2.7 THE OPTION TO COMMUTE TO A LUMP SUM

It is quite common to see policies where a client has covered less than 100% of their income, and lump sum cover is taken to provide for debt repayments in the case of a permanent disability. However, if you aren't permanently disabled, the lump sum benefit won't pay, and your insured income may not be sufficient to pay for the monthly debt repayment.

We developed the **Commutation Option** to give clients the best of both worlds. For a small additional premium, the Commutation Option allows you to commute up to one

third of your future Extended Income Protector claim payments for a once-off lump sum payment, if you are permanently disabled. With this feature you have the certainty that you can receive 100% of your income for non-permanent claims, which still allow you to service your monthly debt responsibilities. However, if you're permanently disabled you can commute a portion of your income payments into a lump sum to pay off your debt. Structuring your cover in this way is also often more cost-effective, compared to using lump sum cover to pay for debt.

REAL CLAIMS IN ACTION

The following claim example illustrates how the Commutation Option can be used to commute a portion of your income payout to a lump sum if you are permanently disabled.

CASE STUDY



DEON
(30, MECHANIC)

CLAIM EVENT:

Permanent sciatic nerve injury

INCOME BENEFITS CLAIMED ON:

Temporary Income Protector (14-day waiting period)
and Extended Income Protector

CLAIM:

Deon suffered a devastating injury at work, which resulted in him being permanently unable to work in his own occupation again. He received a TIP payout for 2 years and after his claim, moved into an EIP payment. He decided to commute a portion of his income to a lump sum payout.

If Deon had DLS cover, this would've provided him with a lump sum payout to provide for once-off and additional costs that he incurred as a result of living with his disability.

WHICH BENEFITS WOULD RESULT IN A CLAIM?

	INJURY & ILLNESS COVER		LIFE COVER
INCOME BENEFITS	✓	✓	✗
LUMP SUM BENEFITS	✗	✓	✗



Home loan of
R1.2 million

Earns R30 000 pm
after tax

The flexibility of the Commutation Option

OPTION 1

Cover 100% of monthly income with
the Commutation Option

- R30 000 pm EIP cover (100%)
- No Disability Lump Sum cover

+ Includes Commutation Option

Allows you to commute up to 1/3 of
your income to a lump sum if you're
permanently disabled

VS

OPTION 2

Cover less income and use lump
sum cover to provide for debt

- R20 000 pm EIP cover
- R1.2m Disability Lump Sum cover

What if Deon was permanently disabled?

He could choose to receive

- A monthly payout of R30 000 **OR**
- A monthly payout of R20 000 and
commute R10 000 of his income
to a lump sum payout of R1.2m

He would receive

- A monthly payout of R20 000 **AND**
- R1.2m lump sum payout

Deon would be in the same position either way

But what if Deon was NOT permanently disabled?

- He'd receive a monthly income of
R30 000 pm
- Receiving 100% of his income still
allows him to pay for his monthly
debt obligations

- He'd only receive R20 000 pm
EIP cover
- Disability Lump Sum wouldn't
pay out (non-permanence) leaving
him with insufficient income

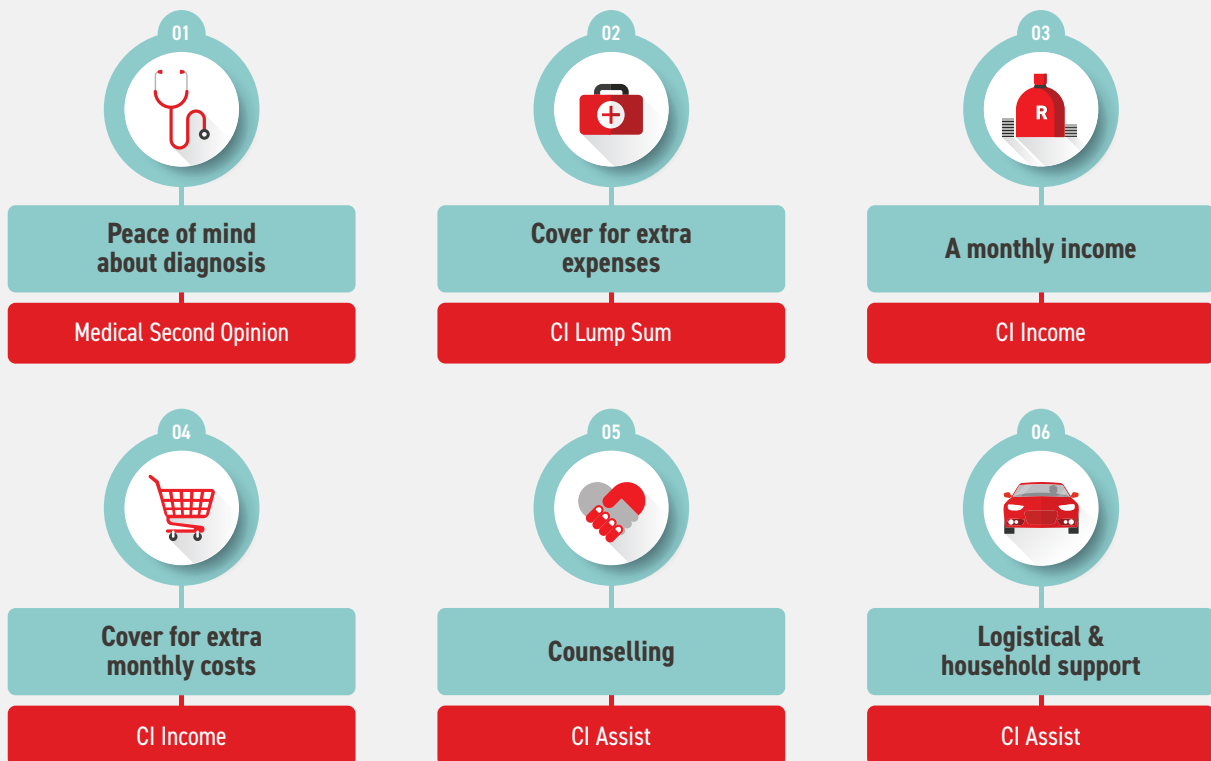
Option 1 provides greater claim certainty.

Plus it's 35% more affordable!

3 ENSURE CLIENTS HAVE CRITICAL ILLNESS INCOME COVER

According to the World Health Organisation, heart disease, stroke and cancer remain some of the leading causes of death globally.

After speaking to people who had lived through a critical illness, we identified 6 key needs that all people suffering with a critical illness experience and created a 4-part cover solution to tackle these needs.



We view Critical Illness Income as an extension of our temporary income protection benefits (TIP or DEI), which strengthens this benefit – because it addresses the specific needs of those going through a critical illness, such as the intermittent nature of treatment. Being diagnosed with cancer is often a long road to recovery. In many cases, where someone is diagnosed with cancer, they have intermittent periods where they are unable to work in between periods where they can work, often due to how the cancer is treated.

Because the duration someone is unable to work in this case is not a single, uninterrupted period, it can lead to an onerous claims experience.

The life insured is constantly required to prove that they are unable to work and doesn't have a long-term guarantee that their claim will continue to be paid.

When you add CI Income to a temporary income protection benefit, at a small additional premium, it changes the way your claim is assessed. If you claim for any of our listed CI Income events, you will be paid 130% of your income benefit for 12 months*, whether you can work or not. This gives you peace of mind that you do not need to worry about being assessed for an initial period and you can concentrate on getting better.

*LESS WAITING PERIOD AND SUBJECT TO TIP/DEI BENEFIT TERM.

REAL CLAIMS IN ACTION

The following claim examples illustrate the power of CI Income and how you can focus on recovery whilst your income is taken care of. The additional lump sum payment provides for extra expenses related to your illness.



CLAIM EVENT:

Stage 1 Prostate cancer

INCOME BENEFITS CLAIMED ON:

Temporary Income Protector (7-day waiting period) and CI Income

LUMP SUM BENEFIT CLAIMED ON:

CI Lump Sum

CLAIM:

John received 130% of his TIP cover for 12 months, despite only being unable to work for one week. He also received a 100% payout on his CILS benefit, because he had selected the Top-Up Option.

WHICH BENEFITS WOULD RESULT IN A CLAIM?

	INJURY & ILLNESS COVER		LIFE COVER
INCOME BENEFITS	✓	✗	✗
LUMP SUM BENEFITS	✓	✗	✗

**CASE
STUDY**

Our critical illness benefits (CII and CILS) pay for early stage prostate cancers from level T1a, without the requirement for a Gleason score.

CASE STUDY



LYDIA
(48, BOOKKEEPER)

CLAIM EVENT:

Stage 1 Breast cancer

INCOME BENEFIT CLAIMED ON:

CI Lump Sum Benefit

CLAIM:

Lydia received 3 cancer payouts, totalling 115% of her CILS cover (R690 000) following her breast cancer diagnosis. At first, she was diagnosed with stage 0 breast cancer and she received an early stage cancer payout of 15% of her lump sum cover (R90 000), without having to undergo a specific treatment. When her diagnosis progressed to stage 1 cancer, she received the remaining 85% of her lump sum cover (R510 000). Finally, Lydia underwent reconstructive surgery following a mastectomy and this resulted in her receiving an additional 15% payment (R90 000).

If Lydia had taken TIP and CII, she would've received 130% of her monthly income for 12 months*, despite being unable to work for only 4 months.

*BASED ON A 7-DAY WAITING PERIOD AND 24-MONTH BENEFIT TERM

WHICH BENEFITS WOULD RESULT IN A CLAIM?

	INJURY & ILLNESS COVER		LIFE COVER
INCOME BENEFITS	✓	✗	✗
LUMP SUM BENEFITS	✓	✗	✗

REAL CLAIMS IN ACTION

The following claim example illustrates the importance of providing cover for your children should they be diagnosed with a serious illness.

CASE STUDY



HENDRIK
(31, ADMINISTRATOR)

MARITA
(28, SCHOOL TEACHER)

LELANIE
(8 MONTHS)

CLAIM EVENT:

Cancer (Neuroblastoma)

INCOME BENEFIT CLAIMED ON:

Marita – Temporary Income Protector (14-day waiting period)

LUMP SUM BENEFIT CLAIMED ON:

Hendrik & Marita – CI Lump Sum

INCOME CLAIM:

Marita was able to claim for Acute Stress Reaction on her TIP benefit, which allowed her to take time off work to receive treatment and care for herself so that she could recover and take care of her sick child.

LUMP SUM CLAIM:

Both parents received a 10% CILS payout on their respective policies, which contributed to Lelanie receiving the right treatment and thankfully she is recovering.

If they'd had the Child Protector benefit, we would've paid up to R15 000 a month for the first 2 years to assist with the additional costs or either parent having to taking some time off work.

In addition to receiving the income and lump sum payouts, they also had access to the Medical Second Opinion and CI Assist services.



MEDICAL SECOND OPINION (MSO)

All our FMI Individual policyholders get access to MSO, which offers advice from one of over 100 leading expert medical centres from around the world, providing a level of comfort that comes with knowing that your diagnosis is correct and treatment plan optimal.



CI ASSIST

Automatically included with our Critical Illness cover, CI Assist steps in to ease some of the emotional toll of dealing with a critical illness by providing for au-pair and Uber services, family counselling, and more.

4 THE IMPORTANCE OF A COMBINATION OF INCOME AND LUMP SUM BENEFITS ON DEATH

While the traditional Life Lump Sum benefit is the perfect way to settle large debts, estate duty or pay for once-off expenses in the event of your death, there are many risks associated with only providing a lump sum to your beneficiaries. Our Life Income cover is designed to remove these risks.



- Provide your beneficiaries with the certainty of an income for as long as they need it, without the stress of worrying about inflation or how to invest the money.
- Income benefit premiums are typically more cost-effective than the lump sum equivalents, and if you invested those savings you could increase your retirement fund significantly.
- You don't need to figure out the lump sum amount that is required to provide a future income or worry about the money running out before your beneficiary passes away.
- Life Income benefits offer perfect bespoke short-term solutions to complement any lump sum cover you may already have in place e.g. to cover a child's education.

REAL CLAIMS IN ACTION

The following claim example illustrates the importance of providing cover across all risk events.

CASE STUDY



ANDREW
(46, PROJECT
MANAGER)

CLAIM EVENT:

Advanced liver disease resulting in death

INCOME BENEFITS CLAIMED ON:

CI Lump Sum, Disability Lump Sum, Life Lump Sum

CLAIM:

Andrew was able to claim on his CILS and DLS benefits while he was still fighting the disease. His beneficiaries received a LLS payout upon this death.

Whilst lump sum benefits are ideal to pay for once-off or additional expenses, Temporary Income Protector would have paid a monthly income to provide for his monthly expenses. If he had Life Income, this could've allowed Andrew to provide his loved ones with a guaranteed income stream for as long as required.

WHICH BENEFITS WOULD RESULT IN A CLAIM?

	INJURY & ILLNESS COVER		LIFE COVER
INCOME BENEFITS	✓	✗	✓
LUMP SUM BENEFITS	✓	✓	✓

REAL CLAIMS IN ACTION

The following claim example illustrates the importance of providing a combination of income and lump sum benefits in the case of death.

CASE STUDY



JASON
(39, BUSINESS
OWNER)

CLAIM EVENT:

Death

INCOME BENEFIT CLAIMED ON:

Life Income

CLAIM:

Jason was a divorced father to twins and he took out Life Income to ensure he could meet his maintenance requirements for his daughters up to age 24. He sadly passed away when his daughters were 10 years old. Fortunately, their education and living expenses will be taken care of.

An additional Life Lump Sum payment could've provided for any debt obligations or estate duty.

WHICH BENEFITS WOULD RESULT IN A CLAIM?

	INJURY & ILLNESS COVER		LIFE COVER
INCOME BENEFITS	✗	✗	✓
LUMP SUM BENEFITS	✗	✗	✓