



# NEWSLETTER

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## FROM THE EDITORS DESK:

As we approach the end of our financial year, we are excited to present the latest edition of our quarterly newsletter.

In this issue, we cover a wide range of topics aimed at empowering and informing our readers.

From sharing our recent settlements to discussing navigating healthcare choices, providing tips for Consumer Rights Month, and highlighting our consumer outreach efforts, there's something for everyone.

We would also like to extend our heartfelt gratitude to each and every one of our readers for your unwavering support and engagement. Your feedback and contributions mean the world to us, and we deeply appreciate the opportunity to serve you.

## NEW APPOINTMENTS

### Mr Kukhanya Dlamini - *Supply Chain Management Admin*



Kukhanya Dlamini holds a Bachelor of Commerce degree in Economics & Supply Chain Management from the University of KwaZulu-Natal. He also completed the CIPS Level (04) Diploma in Procurement & Supply and is currently pursuing a CIPS Level (05) Advanced Diploma in Procurement & Supply. His experience spans both the public sector and private sector. He was part of the FAIS Ombud Supply Chain Graduate Program, where he was mainly responsible for procuring goods and services for the organization while ensuring compliance with applicable regulations. Later, he joined a private firm as a Junior Supply Chain Management Administrator, where he was part of the logistics outbound team and responsible for order management, processing, and delivery. Kukhanya is excited to be part of the FAIS Ombud and looks forward to adding value to the organisation while advancing his knowledge in public sector Supply Chain Management.

# SETTLEMENTS



## IMPORTANCE OF PAYING YOUR SHORT-TERM INSURANCE POLICY

Short-term insurance is a policy that gives you protection for a period of time. This insurance is designed to temporarily protect your private property against loss or damage when certain insured events occur, such as vehicle accidents and/or car theft/hi-jacking or damage to household items and property.

As the name implies, this insurance is for a short-term or limited time, unlike long-term insurance, which provides insurance policies for funeral cover, life insurance, or retirement investments. One pays an amount every month in exchange for protection against the financial expenses associated with loss, damage, or a claim against you. This gives you greater peace of mind.

This is important, as a short-term insurance policy is not a savings plan, and neither does it accumulate any savings, so you will not get any monetary compensation in return other than the settlement of a valid claim. Should you not have the misfortune to submit a claim, you will not get anything in return. However, it is equally important that if you do not pay your premium even for one month, and you need to submit a claim, it will not be accepted as you have failed to honor your responsibility to maintain the premium payments. It is, therefore, vital that you ensure that your premiums are kept up to date so that you can have that peace of mind that when you need the cover provided by the policy, it will react as required.

### Case Study: N v O

The complainant had submitted that on 23 June 2022, his vehicle was in an accident. He stated that he submitted a claim to the insurer. However, the claim was rejected because the Bank reversed the last premium. He stated that the premium was meant to go off on 22 June 2022. He stated that this was because he had changed his bank account details to FNB. He stated that on 19 May 2022, he requested the respondent to update his banking details via WhatsApp. However, the respondent had failed to act on this request, and as a result, the banking details were not changed, which led to this ordeal.

In response to the complaint, the respondent submitted that the policy commenced on 25 May 2021. It also confirmed that the complainant had sent its representative a WhatsApp message asking to make changes to the policy on 19 May 2022, one of which was a change of banking details. The representative stated that they did not see the message about the change of banking details; the other changes were, however, made as requested. Subsequently, two consecutive non-payments of premiums occurred, one on 1 June 2022 and the second on 1 July 2022.

The complainant's motor vehicle was involved in an accident on 23 June 2022. The claim was registered on 27 June 2022, when the respondent claimed that the insurer had notified them for the first time of both non-payments when the claim was repudiated. This was one month after the accident and two and a half months after the initial missed debit order. According to the respondent, due to the non-notification by the insurer, the grace period for payment of the premiums by the client was missed. Subsequently, the claim was repudiated due to non-payment of the premium.

The respondent argued that had it received notification from the insurer of the first or second returned premium, it would have contacted the client to arrange for payment. The complainant confirmed that the insurer had not approached her regarding the first or second non-payment of the premium.

The respondent, therefore, holds the insurer liable.

In responding to the respondent's submission, this Office noted that the very nature of the respondent's work requires that it be entrusted with the financial well-being of those with whom it consults. Therefore, in terms of Section 3(1) (d) of the General Code of Conduct, the financial service provided to a client must be rendered in accordance with the contractual relationship and reasonable requests or instructions of the client, which must be executed as soon as reasonably possible and with due regard to the interests of the client which must be accorded appropriate priority over any interests of the provider. It has already been confirmed that all the other changes communicated to the respondent via WhatsApp had been actioned, which confirms that the instruction had been received but not actioned by the respondent.

In addition, the insured mandates a financial services provider and/or its representatives to carry out specific instructions. In this agreement, it is required of the FSP to exercise reasonably the required due care and skill in executing the mandate of the insured, as provided for in Section 2 of the General Code of Conduct, in that the provider must always 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. This Office, therefore, recommended that regardless of the actions of the insurer, this situation had been caused by the respondent and that because of its shortcomings in the financial service rendered, it must look to resolve the complaint with the complainant.

The respondent ultimately agreed to settle with the complainant in full and requested invoices and bank statements regarding the vehicle's repair. A final agreement of loss was sent to the complainant in the amount of R 256 800.00 which was accepted.

#### **Lessons Learned:**

1. Whilst the above case study resulted in a positive outcome for the complainant, there are many complaints received by this Office where we are unable to assist due to the complainant having failed to make payment as required. It is vital that even though the Policyholder Protection Rule provides that a client must be notified of the missed premiums, you as the client must make a habit of ensuring that your premium payments are maintained and up to date to enjoy the benefits provided by the policy.

2. Rule 15.1 of the Policyholder Protection Rules states that policies must contain a provision for a period of grace within which to make payment of a premium after the premium due date. This period of grace must not be less than 15 days and only applies from the second month of the policy. How one pays for the outstanding premium differs between insurers, so always contact the specific insurer to confirm how payment is to be made.

3. A valid claim can be submitted during the grace period; however, some policies may still require that the premium be received within the grace period for the claim to be valid. In addition, a valid claim submitted during the grace period may also see the value of the claim reduced by the sum of the unpaid premium.



## INVESTMENT PLANS WITH INCOME VS GUARANTEED INVESTMENT PLANS WITH INCOME

These two options are available to supplement your income or as an alternative to your more traditional annuities. These investment options consist of two portions, which means that at the inception of the plan, your funds are split in two, with one portion providing a return on Investment and the other providing you with a guaranteed annuity income.

The Investment Plan with Income splits your funds into two, with a portion funding a 5-year endowment policy and the other portion providing a guaranteed annuity income for the 5-year period. The funds used to purchase the annuity will deplete at maturity, and the funds in the endowment that are invested in the collective investments of your choice will generate a return over the 5-year period that will hopefully match or exceed your original capital amount. In other words, the funds invested for growth are not guaranteed. While there is greater upside potential, you run the risk of getting out a larger lump sum at maturity. Depending on market fluctuations, there is a chance of you getting out less than you originally invested.

This is not the case for the Guaranteed Investment Plan with Income, as the name suggests, and while it also splits your funds into two, with a portion funding a 5-year endowment policy and the other portion providing a guaranteed annuity income for the 5-year period. The difference is that the funds in the endowment will provide you with guaranteed growth over the 5-year period that equals the original capital invested.

You therefore get your money back after five years. The alternative, however, is that your annuity income, which is also guaranteed, will be lower than that provided by the Investment Plan with Income. This is a very important decision for a prospective client to make. You must carefully consider your specific circumstances and determine whether a higher income with an uncertain investment outcome or a lower income with a guaranteed investment outcome is better suited to your needs. It is also vital that the Financial Services Provider that renders the financial service consider the client's circumstances and make an appropriate recommendation.



### Case Study: M v S

The complainant advises that on 04 October 2017, he invested R700 000.00 with the respondent in an Investment Plan. The complainant submits that it was agreed that he would receive monthly income from the interest earned on the R700 000.00. However, when the Investment matured in 2022, the complainant only received R470 000.00. He is unhappy with this and claims the balance of R230 000.00 of his capital investment.

In response to the complaint, the respondent submitted that in October 2017, a Financial Needs Analysis (“FNA”) was conducted by its representative. The FNA records that the complainant’s focus was investment planning, as he had R700 000.00 that he wanted to invest. The investment term was five years. The Risk Profile Analysis conducted for the complainant placed him as a “Conservative” investor. In addition, the Record of Advice (RoA) recorded that the complainant wanted to invest R700 000.00 for a period of 5 years and earn a monthly income from this capital investment. It was further recorded that the market risk of the Investment was explained to the complainant and that he fully understood his decision. The respondent claims that various products had been recommended and that the complainant had elected to invest R700 000.00 in the Income Investment Series. The Investment Proposal further advised that from R700 000.00, R428 175.67 would be invested, while the balance of R265 355.07 would be used to pay a regular monthly income of R4 544.64.

The respondent also confirmed that no guarantee was recorded in any documentation signed by the complainant. The investment matured in October 2022, and the complainant received a surrender value of R470 661.67 and the respondent contended that when one considered the monthly payments the complainant received to his benefit alongside the surrender value, he had received a total of R793 673.91 from his capital investment of R700 000.00. The respondent was, therefore, of the view that the complainant had not suffered a loss. After careful consideration, this Office recommended that the respondent resolve the matter with the complainant. In making its decision, this Office noted that the complainant was 51 years old at the policy's inception and that the source of funds had been his retrenchment benefit.

The complainant was, therefore, unemployed at the time, and these were the only funds available for him to generate an income. Considering all these aspects, there was a real need to first secure the complainant's capital going forward, as his employment prospects were uncertain at that time, and he only had limited funds available.

This Office would have expected that a Financial Services Provider would have recommended a product, such as a Guaranteed Investment Plan with Income, that may have provided the complainant with a lower annuity income. Still, he would have retained his capital investment after five years. There is a duty on the Financial Services Provider to make a recommendation appropriate to the complainant's needs. In this instance, no recommendation had been made, as the respondent's representative had merely provided the complainant with the highest income possible, and there is no indication that there was any discussion as to the pros and cons of the product selected and how this may affect the complainant in the future.



There was, therefore, no indication that the respondent had complied with Section 8(1) of the General Code of Conduct or that the complainant had been placed in a position to make an informed decision as per Section 7(1)(a) of the General Code of Conduct.

This Office also rejects the claim made by the respondent that when you consider the income received over the 5-year period and the maturity value paid to the complainant, he had, in fact, suffered no loss but profited from the Investment.

In the complaint submitted, the complainant had been under the impression that the income he was receiving was interest/return on his Investment. He was unaware he was paying himself the income from his capital invested. Considering that he now has a lower capital amount with which to generate an income, which, in addition to the effects of inflation, has left him in a precarious situation, that argument cannot be accepted.

In response, the respondent contacted the complainant, and they entered into a settlement agreement where the complainant agreed to accept R103 301.89 in full and final settlement of the complaint.

#### **Lessons Learned:**

1. When investing in such a product, you must decide whether a higher income or a guaranteed maturity value is appropriate for your needs and circumstances. Whilst a higher income will be beneficial over the short term, the effects of losing capital, especially when that capital cannot be replenished, have far-reaching consequences, especially when you factor in the effects of inflation.
2. The role of the Financial Services Provider in recommending such a product is vital. One cannot simply treat the transaction as a single need. The prospective client's overall situation and financial circumstances must be considered as the decision ultimately made can have significant implications for the client's future financial wellbeing.



## NAVIGATING HEALTHCARE CHOICES

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As healthcare costs continue to climb and life situations evolve, the importance of having a medical aid plan that fits your needs cannot be overstated. Your medical aid plan serves as a safety net, providing financial support during times of illness or medical emergencies. However, with the complexity of medical aid schemes and the array of options available, navigating the landscape can be overwhelming.

This is where the guidance and expertise of a trusted broker come into play. A knowledgeable broker can assess your unique circumstances, understand your healthcare needs, and recommend a plan that offers the right balance of coverage and affordability. They can help you navigate through the various plan options, explain the terms and conditions, and ensure that you fully understand what is included in your coverage.

Furthermore, a broker can provide valuable insights into the details of different medical aid schemes, including their benefits, limitations, and exclusions. They can help you anticipate potential future healthcare needs and recommend adjustments to your plan accordingly.

While the Council for Medical Schemes oversees the broader landscape of medical schemes industry, ensuring compliance and addressing grievances pertaining to their conduct, the role of the Office of the FAIS Ombud is more focused on the advice aspect addressing concerns related to both the structure of medical schemes and the quality of advice provided by brokers.





## THE POWER OF SPEAKING UP: KNOWING YOUR RIGHTS AS A CONSUMER

Often, consumers are hesitant to speak up when something is not right, and many feel that addressing their concerns might paint them as problematic. However, as consumers, you have rights and need to exercise them to protect yourself when dealing with Financial Services Providers.

Here is a list of some of the rights you should be aware of as a consumer, as outlined in the Financial Advisory and Intermediary Services Act 37 of 2002.

As a consumer, you have the right to:

- Request a copy of the “Disclosure and Appointment Letter,” which outlines the advisor’s identity, business details, authorized products and suppliers, commission rates, and grievance procedures.
- Receive trustworthy and appropriate advice and solutions, subject to affordability and suitability tests.
- Right to the privacy of their personal and financial information, which should only be used for the purpose for which it was provided.
- Be treated with honesty, transparency, and integrity when dealing with financial service providers.
- Understand the commission charges associated with the financial products and the terms and conditions of the financial product or service they have purchased.
- Cancel a financial product or service within a certain period of time, known as the cooling-off period.
- Know the details of costs and payment methods.
- Receive an annual report on the status of their financial product.
- Receive a copy of the agreement within 30 days of signing it.
- Have access to recourse in case of disputes, meaning that the consumer has the right to have their complaint investigated fairly and impartially and if they are not satisfied with the outcome of the investigations, they have the right to appeal.



## CONSUMER OUTREACH INITIATIVES:



### Consumer Rights Month launch

Our team had the honour of participating in the Consumer Rights Month launch organised by the Gauteng MEC for Economic Development at Tshwane University of Technology in Pretoria West. We were thrilled to actively contribute to raising consumer awareness and promoting financial literacy. The majority of the learners who visited our stall showed interest in forex trading and Bitcoin, and we were pleased to provide them with information, particularly about what to look out for and also stressing the importance of having their agreements with FSPs in writing.

### Consumer Studies Grade 10 Provincial Finals

The FAIS Ombud participated as a panel judge for the Gauteng Office of Consumer Affairs (GOCA) in collaboration with the Department of Education at the Consumer Studies Grade 10 Provincial Finals/Award Ceremony. This involvement provided an opportunity for the Office to interact with the learners participating in the competition. It was inspiring to witness the students discuss various financial products as part of their speeches, demonstrating their understanding of the financial industry.

### FSCA Tertiary Financial Literacy Seminar

In the month of March, we supported the Financial Sector Conduct Authority for their Tertiary Financial Literacy Seminar held at various universities in South Africa. Witnessing students from different universities filling up the venue highlighted their eagerness to access information and learn from the participating institutions.



## THE ADVICE CORNER

Welcome to our advice corner! In this issue, where we shed light on what the FAIS Ombud investigates and what falls beyond our jurisdiction. Our goal is to help you understand when and how you can approach us for assistance in resolving grievances.

### Navigating Medical Aid Complaints with the FAIS Ombud

#### What the FAIS Ombud Investigates:

- If your medical aid claims were unjustifiably rejected (Advice related).
- If your medical aid plan's coverage or benefits were misrepresented during enrolment
- Disputes about covered treatments, services, or limits. (because of the advice provided).
- Concerns related to sudden or unexplained premium hikes.

#### What the FAIS Ombud Doesn't Investigate:

- Issues related to the quality of medical care or medical advice provided.
- Disputes that don't directly pertain to the terms, benefits, or claims of the medical aid plan.

If your concerns match what we investigate, feel free to contact us to lodge a complaint. Our services are **FREE OF CHARGE**.



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