INSURANCE AND YOU (No.7)

COMPULSORY GROUP LIFE ASSURANCE POLICY

PREAMBLE
Since the passage of the Pensions Act 2004, the world of Life Assurance business has assumed a different but interesting meaning. Indeed, the Act marked a new phase in the Life Assurance business. Hitherto, Life Assurance was voluntary and indeed, procured by very few persons necessitating the government to make the policy tax exempt. From the level of its patronage in the past, it may be fair to say that the fiscal incentive did not make the policy attractive enough. The desire to make pension funds a major source of financing economic development process and the need to cater for many deserving retirees who could not receive their pensions on time and in certain cases, years after disengaging from the Public Service due to dearth of funds, led to the enactment of the Pensions Act by the erstwhile government of President Olusegun Obasanjo, GCFR. To say the least, the collapse and sometimes death of many senior citizens on queues in an effort to establish that they were not “ghost” pensioners became unsightly and embarrassing to everyone. Without any equivocation, it can be said that the Act has made significant impact on pensions management in Nigeria by encouraging contributory pension policies and the setting aside of funds on monthly basis which are subsequently passed through the Pension Funds Administrators (PFAs) to the Pension Accounts Custodians (PACs) for management. Persons who retire from the Public Service now enjoy their pensions, like their counterparts in the Private Sector, as yearly provisions are now included in the Federal and State budgets to take care of pension liabilities that will materialise in the near and distant future. Since there were no crises in the private sector over pension payments, the new law just enhanced the sector’s practices.

Keys Objectives And Coverage of The Pension Act
The objectives of the Act as specified in Section 2 are as follows: to

- ensure that every person who worked in either the Public Service of the Federation, Federal Capital Territory or Private Sector receives his retirement benefits as and when due;
- assist improvident individuals by ensuring that they save in order to cater for their livelihood during old age; and
- establish a uniform set of rules, regulations and standards for the administration and payments of retirement benefits for the Public Service of the Federation, Federal Capital Territory and the Private Sector
In essence, the Act was conceptualised to enable employees have permanent incomes all through their life such that their standard of living will not decline even after retirement. The following categories are covered by the Act: all employees of the Public Service of the Federation and all employees of companies in the private sector with a minimum of five employees. Thus, with the new Pensions Act 2004, employers who have at least five employees, are required to procure Group Life Assurance policy for them in addition to having a pension scheme for the workers. Indeed, Section 9(3) of the Act mandates every employer of labour with work force of not less than five to maintain a Group Life Assurance policy for their employees with minimum benefit of three times total emolument. Employers are encouraged to do more than the prescribed minimum benefit as a way of further motivating their employees. In fact, driven by the need to protect the Nigerian worker, whether in public or private sector, the Pension Act encourages organisations with superior pension schemes, prior to the commencement of the Act, not to discontinue them provided they comply with certain conditions highlighted in another section of the Act. By implication, where the contribution, prior to the commencement of the Act, by an employer exceeds the minimum stipulated by the Act, such employer will not reduce the level of that contribution. This discourse will therefore focus on Group Life Assurance policy as a by-product of the Pensions Act.

Thrust of Life Assurance Policy
Life Assurance is a peculiar insurance product that has an inherent element of investment in addition to providing cover to the insured for accidental or natural death. Unlike the other types of policies that benefit the policyholder only when there is a disaster, life assurance is a product that encourages policyholders to save over an agreed period of time such that certain benefits can be earned. Prior to now, Life Assurance only entailed the paying of premium throughout the life of the policyholder. Then, the realisation of the sum assured was only contingent on the demise or death of the assured. This aspect of life assurance has been revisited by the industry. Agreed benefits can now be enjoyed on the maturity of the policy or on the death of the assured, whichever comes first. Inevitably, it has become an investment instrument which is still tax exempt. Unlike a share certificate whose
value is unpredictable and therefore no more readily acceptable as a collateral, life assurance policy is a reliable financial instrument and collateral and its holders are credit worthy to the value of the sum assured. Thus, those who are familiar with the benefits, take advantage of it.

Group Life Assurance Scheme
This is a policy that can be likened to a death-in-service product. It is a scheme that is arranged to pay a benefit called the sum assured to the next of kin or dependants of an employee who dies in active service. This is usually a lump sum payment. It is a policy that is renewable annually. Under the policy, total annual emolument is defined as the basic salary, transport and housing allowances and shall not include bonuses, overtime, directors’ fees or other fluctuating emoluments. As provided in the Pensions Act, an employer must procure this policy and continue to renew it on behalf of his/her employees. It is instructive to mention that the policy is usually designed by insurers in such a manner that it can be adjusted to accommodate new employees as they are engaged.

Benefits Of The Policy
Unlike the contributory pension scheme, this is a policy that involves the payment of a premium to insure against the death of an employee either by natural or accidental causes. It is wholly paid for by the employer and enjoyed by the employee if the death occurs prior to terminal date. The policy also can provide for accident at work that results in permanent disability as well as cover for burial expenses by way of extension to the policy. It therefore demonstrates to employees that the employer places a great premium on their lives and contributions to the development of the organisation. The product will therefore raise the profile of the organization in the society as a socially responsible employer of labour. Besides, the scheme will serve as an additional incentive for employees to work harder. Since it is statutorily required, employers who procure the policy would also enjoy tax exemptions. Although some employers have raised the issue of cost of compliance, it is instructive to mention that the Group Life Assurance policy can be combined with Group Personal Accident in order to enjoy reduced premium.

Requirements Of The Policy
To procure this policy, the employer must provide full medical details of all its staff. A declaration of health form will need to be completed and
submitted at the inception of the policy. Furthermore, a free cover limit is often set at ₦5m by insurers and any staff with sum assured above this amount will need to undergo special medical examination. The organisation will also need to provide the following information about its personnel who are to be covered under the scheme: name, sex, date of birth, total annual emoluments, normal retirement age, the commencement date of the scheme and multiples of total annual emoluments required. These information will enable the organisation to appropriately cost the policy. In fact, the premium in respect of each member in service with employer shall be calculated on the commencing date and subsequently on each renewal date or any other renewal date agreed between the company and the grantees and shall be paid annually. The premium payment is in force only if the employee insured is still in the employment of the affected organisation. In other words, in respect of members who cease to be assured under the policy other than on renewal date, the appropriate premium for the period up to the next following renewal date shall be refunded.

When the Incident Occurs
When any incident occurs, it is imperative that the affected organisations contact the insurance company as fast as possible with the details of the accidental or natural death, disability, etc. Such reports must be in writing. The information must include the full details of how and where the accident took place. It would also be the responsibility of the organisation to inform the next of kin or family of the employee of the incident particularly in the case of death. Whatever information is available must be passed on to the Insurance company in writing. It is pertinent to mention that to ensure industrial peace and also reassure employees, the management must formally communicate the information about the incident to employees. Such communication must recap corporate policy on the type of incident and what is being urgently done to take care of the employee or his/her family depending on the circumstance. Corporate response must be prompt.
**Required Information at Inception of the policy**

- Number of Employees to be covered
- Designation of Employees to be covered
- Total Emolument of each employee

**Documents Required in the event of Claim**

- Completed claim form
- Original death certificate
- Original burial certificate
- Original certificate of cause of death
- Original proof of age

**Concluding Remarks**

Although group life assurance policy is mandatory for employers with at least five employees, the level of compliance is not encouraging if the statistics on this policy procured from insurance companies since January 2005 when the Act became effective is anything to go by although recently federal government through Ministry of Finance has ensure that Insurance is properly budgeted for and last year premium of about N4billion was paid to the Insurance companies for the Group Life Assurance of public servant. This is highly commendable on the part of government. It is important for the regulatory authorities to form a united front to monitor and enforce compliance to this legal requirement. Besides, the Labour Unions should also prevail on their employers to procure this policy as part of the remuneration package for employees. Let me also use the opportunity to encourage self-employed persons to procure this form of insurance product as a safety valve for them and their families. Indeed, self-employed persons can procure this policy through their cooperative societies. The life to be saved is their own. Finally, insurance companies must embark on aggressive marketing of this product as ignorance and inaccessibility might be the causes of poor patronage.

**FEEDBACK**

Compliance with legislation by companies is non-negotiable and a matter for financial reporting. Accordingly, external auditors and members of the audit committees of the various economic entities should ensure that their organisations complied with this legal requirements. We would be delighted to read from external auditors on their experiences in this area without necessarily disclosing the details of the client. This is an exercise designed to ascertain the level of compliance to this statutory requirement and penalties suffered for non-compliance. We also urge the labour unions to apprise us of the experiences of their members. We would also be delighted to hear from insurers and the insured

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in this respect. We must collectively take insurance to greater heights by breaking new grounds.

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