

## *Cessions*



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## What is a Cession?

A cession is a contract in terms of which one party, **the cedant**, agrees to transfer his/her rights and obligations in a concern e.g. life cover benefit, to another person or institution, **the cessionary**.

## Types of Cessions

Two types of cessions are applicable to the PPS Provider™ products:

- Partial Security Cessions.
- Complete Security Cessions.

## Partial Security Cession

With a Partial Security cession, the rights ceded to the cessionary may be reverted back to the cedant at some future date, e.g. when the cedant's obligations have been met. The actual date of the reversion may or may not be known at the time of the cession.

Under a Partial Security cession the cedant may cede **part** of his/her right under a product, to one or more cessionaries. Each individual cession will be referred to as a partial cession. The total value of these partial cessions may not be more than the value of the cedant's right under the product e.g. the value ceded cannot exceed the value of the life cover sum assured.

If a product has been ceded as a Partial Security cession:

- The policyholder (i.e. the cedant) as well as the life insured under the contract, (even though they might not be same person) do not change i.e. they remain as they were before the cession.
- The right to benefit payments corresponding to the amount of the partial cession made is transferred to the cessionary. However all other rights and obligations, e.g. payment of premiums, remain with the cedant.
- The policyholder does not relinquish his right to make changes to the policy. The cedant will be able to change beneficiaries, increase or decrease cover. PPS will notify the cessionary within 30 days of a change.
- Declared annual increases continue but the ceded amount remains fixed, although the sum assured increases.
- At claim stage the ceded amount will be paid to the cessionary, the balance to the policyholder or beneficiaries.

*For Example:*

Mr Policyholder has a PPS Professional Life Provider™ with a sum assured of R 1 000 000. He purchases property for R 500 000. Bank A requires surety for the loan granted. Mr Policyholder cedes part of his life cover worth R 500 000 to Bank A as collateral.

Two years later, Mr Policyholder purchases a second property for R 250 000 and applies for a loan at Bank B. Bank B agrees to the loan, but require surety for the loan granted. Mr Policyholder cedes part of his life cover sum assured, worth R 250 000, to Bank B as collateral.

- Mr Policyholder continues to pay the premiums on the policy and he is able to make changes on the policy e.g. nominate new beneficiaries, increase or decrease cover etc.
- Should Mr Policyholder die, the policy proceeds would be paid to Bank A first (R 500 000), then Bank B (R 250 000) and his beneficiaries will receive the remainder (R 250 000).
- In the event that Mr Policyholder pays back the loan, the cession may be cancelled and the rights of the cessionary may be terminated.

**Maximum Number of Partial Security Cessions:**

- The maximum number of partial cessions allowed per product is four, subject to a minimum amount of R 250 000 per partial cession.

*For example:*

If the sum assured is R 750 000 the policyholder will only be allowed to make a maximum of 3 partial cessions, each equal to the minimum partial cession amount of R 250 000.

**Complete Security Cessions**

An Complete Security cession is where the cedant cedes his/her right under a product to a cessionary, but this right does not automatically revert back to the cedant.

If a product has been ceded as an Complete Security cession:

- The policyholder (i.e. the cedant) as well as the life insured under the contract, (even though they might not be same person) do not change i.e. they remain as they were before the cession.
- The right to all benefit payments made is transferred to the cessionary. However all other rights and obligations, e.g. payment of premiums remain with the cedant.
- The product remains “static” from the date of the Complete Security cession, which means that the cedant will **not** be able to make **any changes** to the product.
- These rights, to make changes to the product, only revert back to the policyholder if the cessionary revokes the cession in writing.



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- Declared annual increases will continue, unless the policyholder indicates on the Complete Security Cession Notification form that the declared annual increases should not continue.
- At claim stage all benefits under the ceded product will be paid to the cessionary. The SRA may not be ceded or paid to a cessionary.

*For Example:*

Ms Policyholder has a PPS Professional Life Provider™ valued at R 1 000 000, her husband is the beneficiary on the product. She cedes her product to a Trust as an Complete Security cession. She remains the policyholder and the life insured and she continues to pay the premiums on the product. She is not able to make any further changes to the product e.g. increase her cover or change her beneficiary. If Ms Policyholder dies, the benefit of R 1 000 000, will be paid to the cessionary (the trust) and not to her husband.

**What are the differences between Outright Cessions and Complete Security Cessions?**

An outright cession is where the cedant cedes all his/her rights to the cessionary. This includes all benefits and entitlements under a policy contract, as well as the obligations under the contract i.e. the cessionary becomes liable for the payment of premiums. When an outright cession occurs, there is complete change in ownership i.e. the cedant relinquishes ownership of the policy.

With an Complete Security cession there is not a complete change in ownership. The right to all benefit payments made is transferred to the cessionary. However, all other rights and obligations, e.g. payment of premiums and ownership remains with the cedant.

**Why are PPS Provider™ policies unable to be ceded as an outright cession?**

PPS Provider™ policies cannot be ceded as outright cessions because a Surplus Rebate Account (SRA) is opened for policyholders. If a policyholder cedes his/ her PPS Provider™ policy as an outright cession, he /she would relinquish ownership of the policy including the SRA. The new policyholder would not necessarily be a PPS member and therefore should not share in the operating profits of PPS.



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### What products may be ceded?

The following PPS Provider™ products may be ceded as Partial Security or Complete Security cessions:

- Professional Life Provider.
- Professional Health Provider.
- Business Life Provider.
- Business Health Provider.
- Conforming Business Life Provider.

The PPS Sickness and Permanent Incapacity Benefit (SPPI) may not be ceded.

### What amount can be ceded?

- A policyholder can only cede an amount of up to the product sum assured.

### Professional Life Provider

- The amount of the life cover sum assured may be ceded (without the addition of the Terminal Illness Benefits or rider benefits such as disability cover).

*For Example:*

Mr Policyholder has R 1 000 000 life cover and R500 000 disability cover. He may only cede R1 000 000 not R 1 500 000.

- If a policyholder has ceded his/her life cover, he/she or the beneficiary may claim against any of the ancillary benefits e.g. Terminal Illness Benefit or Disability Cover. The benefit will be paid to the cessionary first and the policyholder will be entitled to the balance. The life cover sum assured will also be reduced/accelerated accordingly.
- If a cession has been taken against the life cover, the Immediate Needs Benefit **will not** be payable for the period of the cession. If all the cessions are removed from the life cover, the Immediate Needs Benefit will once again become available on the death of the life insured.

### **Professional Health Provider**

- A policyholder can only cede an amount equal to the core Provider PHP cover sum assured (i.e. without the addition of any rider benefit sums assured).

#### *For Example:*

Ms Policyholder has Provider PHP cover with a sum assured of R 1 000 000 and R 500 000 Maternity Cover. She may only cede up to R1 000 000 not R 1 500 000.

- A policyholder may not cede their Provider PHP cover if they have temporarily stopped paying premiums.
- A policyholder may not temporarily stop paying premiums if the policy is ceded.
- If a policyholder has ceded his/her policy, he/she may claim against any of benefits including the rider benefits. The benefit will be paid to the cessionary first and the policyholder will be entitled to the balance.

#### *For Example:*

Mr Policyholder has whole of life Provider PHP cover of R 500 000 and the CatchAll Cover rider benefit added onto his policy. He partially cedes R 250 000 of the policy to the bank as collateral for a loan. Five years later he has a car accident and suffers severe burns. He claims the trauma benefit under his Provider PHP cover. The amount awarded for this claim is R 100 000 which is paid to the bank (the cessionary). Since his loan outstanding, at the time, was R 80 000, this means the balance of R 170 000 should be returned to him by the bank.

### **Conforming Business Life Provider**

- If a conforming Business Life Provider product is ceded, the premiums will not be tax deductible whilst the cession is registered.

### **Surplus Rebate Account and Cessions**

- The Surplus Rebate Account (SRA) on a PPS Provider™ policy cannot be ceded.
- In the event of the policyholder's death the SRA balance will be paid to the beneficiaries and not cessionaries.

### **Who can a policy be ceded to?**

Cover can be ceded to a person, company, organisation or trust.

#### **Note:**

It is not possible to cede a Business Provider product to the life insured under the contract.



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### **How is PPS involved with cessions?**

- PPS is not a party to the cession agreement between the policyholder and the cessionary.
- PPS does not ask for or keep copies of cession contracts between the cessionary and the policyholder.
- PPS will not interpret the agreement between the policyholder and the third party in respect of the Complete Security cession or a Partial Security cession.
- PPS bears no responsibility for the validity, enforceability or any other matter arising from the cession.

PPS will only act on a cession, either a Partial or Complete Security cession if:

- A completed Security Cession Notification Form, signed by the policyholder, is received by PPS before the insured event occurs.

### **How does PPS administer products that have been ceded as an Complete Security Cession?**

If a policyholder submits an **Complete Security Cession Notification Form** signed by the policyholder, before the insured event occurred, the following will occur:

- PPS will issue a new Policy Certificate reflecting the security cessionary.
- PPS will record the date of the Complete Security cession, since no changes to the policy will be possible from this date and the cessionary will be eligible to receive all benefit payments.
- The date of the Complete Security cession is the specified date of the cession on the Notification form and not the date of the notification of the Complete Security cession.
- PPS will record the account details of the cessionary as all benefit payments will be made to the cessionary.

### **Can changes be made to a product that has been ceded as an Complete Security Cession?**

- The right to benefits payments or the right to make changes to the product, e.g. to increase or decrease the sum assured, can revert back to the cedant if the cessionary relinquishes the Complete Security cession, i.e. his/ her right to product benefits.
- This must be done in writing.

### **What happens at claim stage if a policy has been ceded as an Complete Security Cession?**

- At claim stage (either death or incapacity) all benefits ceded will be paid to the cessionary (except the Surplus Rebate Account).



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### **How does PPS administer policies that have been ceded partially?**

If a policyholder submits a **Partial Security Cession Notification Form** signed by the policyholder, before the insured event occurred, the following will occur:

- PPS will issue a new Policy Certificate reflecting all the security cessionaries.
- PPS will ensure that the total value of partial cessions does not exceed the value of the policyholder's rights under the policy/ product at the time the cession is recorded.
- PPS keeps a record of the value of each of the partial cessions as well as the date of these partial cessions together with the amount remaining (i.e. amount that is still available to be partially ceded).
- PPS will inform the cessionaries of the amount and date of each of the cessions preceding the partial cession affecting that particular cessionary.
- The date of the partial cession (not the date of notice of the cession) determines the ranking of different partial cessions in respect of the same right.
- The amounts reflected on the **Partial Security Cession Notification Form** is the amount that PPS will pay to the security cessionaries in terms of the cession.

### **What happens at claim stage if a policy has been ceded as a Partial Security Cession?**

- At claim stage (either death or incapacity) the amount ceded to the cessionary will be paid to the cessionary first. Cessionaries will be paid in relation to the order of the ranking of the cessionary.
- The policyholder will be entitled to the balance, if any, after discharge of the cedant's obligation to the cessionaries.

### **When will a Partial Security Cession cease and what process is followed?**

Partial Security cessions will cease once the cedant's obligations have been met e.g. the debt has been paid and PPS has been notified of the cancellation of the cession. If the partial security cessionary informs PPS of the cancellation of a partial cession before the insured event occurred, then:

- PPS will issue a new Policy Certificate on which the security cessionary will no longer be reflected.
- The rights of the cessionary will terminate.



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## How do Declared Annual Increases affect products that have been ceded?

### Complete Security Cessions

- Declared annual increases will continue, unless the policyholder indicates on the Complete Security Cession Notification form that the declared annual increases should not continue.
- If the policyholder chooses not to continue the declared annual increases, then the sum assured remains unchanged for the period of the cession.
- If the declared annual increases continue, then the sum assured will increase by these declared percentages each year and this **increased sum assured will be paid to the cessionary on claim**. The premiums will increase accordingly each year.

### Partial Security Cessions

- The actual amount ceded to a cessionary will have to be specified as a fixed monetary amount and any subsequent declared annual increases will have no effect on the amount ceded.
- **The sum assured will increase each year but not the amount ceded.**