



BULLETIN ON

**NEW REQUIREMENTS RELATED TO PAYMENT OF
PROCEEDS FROM GROUP LIFE POLICIES**

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FINANCIAL SERVICES COMMISSION

Bulletin on New Requirements Related To Payment of Proceeds from Group Life Policies

Background

The Financial Services Commission (the FSC) through section 6 of the Financial Services Commission Act is mandated to protect customers of financial services. An important function of the FSC is also to promote public confidence in the Insurance Industry and to ensure that acceptable standards of market conduct are maintained by registered insurance companies.

The FSC is aware of concerns surrounding the payment of group life proceeds to designated beneficiaries of insured persons under group insurance contracts via the employers. The FSC has been receiving complaints that the employers are not paying over death proceeds to beneficiaries in a timely manner and have been making deductions for funeral expenses and otherwise.

Payment of Proceeds from Group Life Insurance Policy

Section 97 of the Act makes provision for the designation of beneficiaries, trustees or legal representatives by an insured person for the purpose of payment of insurance monies. Section 97(2) of the Act provides that: "An insured person may designate his legal representative, trustee or beneficiary as the person to receive the proceeds of the insurance policy

- a) at the time of making a contract of insurance; or
- b) by declaration at any time subsequent to the making of the contract."

Where this is done, the insurance company must pay the group life proceeds directly to the beneficiaries or other appointed persons rather than to the employer.

In a similar vein, the Group Insurance policy contract should be amended to allow payment of the proceeds to the named beneficiary or other appointed individual and should state that:

"On receipt of proof of the death of the Insured Person under the group insurance policy, the insurance company shall pay directly to the legal representative, trustee or beneficiary of the insured, as indicated in the Insurance policy, the amount of insurance in force under the Plan."

Accordingly, all other clauses which previously allowed for payment of death benefits to the employer should be removed from group life contracts.

If an employer wants to assist with funeral expenses or any other expense this must be done by the employer under a separate arrangement.

As contemplated under the Insurance Act, the insurance company should make cheques for the proceeds payable directly to beneficiaries, and not to the employer in trust for the beneficiary.

It is also suggested that the policy similarly makes it clear, in keeping with section 101 of the Act that:

"Where the proceeds of an insurance policy are payable to a beneficiary, such proceeds shall not form part of the insured person's estate"

Further, where the insured person under a group insurance policy makes a written declaration to appoint, alter or revoke a designated legal representative, trustee or beneficiary, the insurers must also ensure that those documents are properly signed and duly updated on the contract of insurance in a timely manner. Additionally, insurers should ensure that all employers deposit **with the insurer** the designation of all the persons to receive the proceeds of the group insurance policy, and any changes thereto.

Implementation

These requirements will come into effect December 1, 2015 and will apply to all new and renewable Group Life policies.