

IRDA's new guidelines on life insurance: Moving towards transparency and efficiency

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Over the past couple of years Insurance Regulatory and Authority had been driving the agenda of customer centricity in Indian life insurance industry. While the regulator has brought about several regulatory changes, life insurers have taken several steps to enhance customer focus. Regulations related to products have been undertaken not only to change product design but to also bring a positive change in sales practices.

The new guidelines issued by The Insurance Regulatory and Development Authority (IRDA) for life insurance products specially traditional products, is an attempt at making life insurance true to its core value, more transparent and customer friendly. Most of the new guidelines require noteworthy changes in processes, systems, as well as fundamental changes to product design and offerings.

Keeping in view the quantum of work on designing a new product portfolio and training of distribution intermediaries, the regulator has also decided to postpone the implementation date of the guidelines by 3 months to January 2014.

Steps in the right direction

The guidelines follow overarching themes of providing 1. Transparency 2. Protection 3. Customer centricity 4. Long term focus

1. Transparency

In order to bring transparency, the regulator has ensured that all insurance products provide the prospective policyholder a customised benefit illustration on guaranteed and non-guaranteed benefits at gross investment returns of 4% and 8% respectively for all products. Currently, this is mandatory only for ULIPs. This benefit illustration should be signed by the customer and the agent as a part of the policy contract. This will give policyholders an indicative idea of the benefits they can expect not only at maturity, but also every year of the policy term as well.

Another step to ensure transparency in the requirement to set up a "With Profit Committee", at the board level of every insurance company. This committee will approve asset mix and expense allocated for and investment income earned on the fund. This in turn will lead to improved and more transparent corporate governance in the administration of participating or 'with profit' policies.

2. Protection Orientation

The regulator has directed that the minimum sum for all policies will now be 10 times of the annual premium for people below 45 years and above 7 times for 45 years and above. At any point the death benefit will have to be at least 105% of all premiums paid till date. Through this the regulator aims to promote life insurance for its core value of protection.

3. Customer Centricity

As per the new norms, traditional policies will now have better surrender value after the completion of 5 years. If the policyholder has to exit their policy before completion of policy tenure, he/she will be entitled to a higher surrender value especially in early part of the policy tenure. Currently, there are no preset rules. In the new regime the minimum guaranteed surrender value will be 30% of all premiums paid going up to 90% of the premiums paid in the last two policy years. Through this step the regulator has acted in the larger interests of the consumer by providing liquidity for sudden emergencies that may occur. Thus with these new regulations customer retention and need based selling becomes even more important by the day.

4. Long term focus

In order to re-emphasize the long term nature of the life insurance business the guidelines have also correlated agents' Compensation to the policy terms. Short-term policies will now have a lower commission than traditional products with a policy term of 12 years or more. In case of regular premium insurance policies, a policy with a premium paying term (PPT) of five years will limit commissions to 15% in the first year, 7.5% in the second and third year and 5% subsequently. Products with PPT of 12 years or more will have first year commissions up to 35% in case the company has completed 10 years of existence and 40% for the company in business for less than 10 years. This will incentivize intermediaries in selling long-term life insurance products espousing benefits for disciplined savers.

Conclusion

The Indian market offers significant top-line growth opportunities due to younger country demographics and working population, an increasing customer base, and regulations that maintain the development of a financially sound industry. As regulations extend further, insurers need to acclimatize their products and business models accordingly. Since time is running out, managing this large scale product portfolio transition while minimizing disruption to business continuity requires the regulator and industry players to work in tandem.

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