Transparency the new buzzword for Irda

In the past 18 months, the insurance sector has seen several regulatory changes. For instance, after new guidelines were introduced by the regulator, existing life insurance products were overhauled; new bancassurance, e-insurance and health insurance norms helped standardise insurance schemes. Although insurance companies had to make several changes in their product portfolios, the real beneficiary has been the customer.

New product guidelines

Insurance Regulatory and Development Authority (Irda) Chairman T S Vijayan had made it clear that the regulatory body had its first responsibility towards customers. While former Irda chief J Hari Narayan had paved the way for several of the regulatory changes implemented in 2013 and early 2014, Vijayan followed his predecessor's footsteps.

The big reform anticipated by the life insurance sector was the traditional product guidelines which, after several delays, was finally implemented from January 1. These guidelines enabled new insurance policies to disclose all benefits and fund value calculations upfront. This was to ensure customers were buying products they needed.

Anup Rau, CEO, Reliance Life Insurance, said the new guidelines had categorised life insurance products into three broad types - traditional insurance plans, variable insurance plans and unit-linked insurance plans (Ulips). "New traditional products will have a higher death cover. For regular premium policies, the cover will be 10 times the annualised premium paid for those aged below 45 and seven times for others. The death benefit in case of a traditional plan is at least the sum assured and the additional benefits, if any," he said.

Irda had brought out a new set of guidelines for life insurance products in February 2013. While the minimum death benefit and surrender value have been altered for traditional product customers who stay invested in a policy for a longer period, in the case of a Ulip, insurers will have to intimate customers about changes in the yield of the plan every month. Also, according to the new norms, variable insurance plans will guarantee a certain minimum rate of return at the beginning of the policy, though these are linked to an index.

These variable insurance products will be treated on a par with Ulips and follow the same commission package as that for Ulips. Agents who tend to sell shorter tenure products, will now have to shift their sales strategy to longer tenure products, since commissions have now been linked to tenure of a policy. Higher the duration, higher is the commission.

Ulips were sold mandatorily with a personalised benefit illustration. Customers who had complained traditional product guidelines lacked transparency, don't have to worry, since this requirement has been extended to other product forms.

In the initial stages, there have been marginally less products to choose from. However, from April, the product portfolios of all life insurance companies will be complete with all their blockbuster products across different segments. Further, service tax, which has been made mandatory, will be slowly passed on to customers, resulting in higher prices for policies.

Electronic insurance

Irda licensed five insurance repositories to digitise insurance policies, enabling these to be stored in a paper-less format. Regulatory officials said this was perhaps the first country in the world to digitise insurance policies. While this was to provide insurance companies about Rs 80 crore annually since they were not required to maintain physical copies of digitised policies, it would also benefit the consumer.

Without the insurance document, the company might not be able to pay claims to the kin of the diseased if the latter had not disclosed policy details to them.

These repositories are required to maintain records of e-insurance accounts with a unique number, records of e-insurance policies issued and records of e-insurance policies converted back into physical form, an index of policyholders and their nominees/assignees/beneficiaries in the respective life insurance policies, etc. Hence, even after a person is dead, his kin can access policy details using the unique number.

Further, if a policy is digitised, all KYC (know your customer)-related information is fed into the account. Hence, when a customer buys a new policy, only the e-insurance account number is to be quoted; no separate KYC document is required. All future policy details are immediately sent from an insurer to the insurance repository in a digital format. All payments and policy-details can be viewed on this common platform by users. While digitisation is being offered only by life insurers, industry players said it would be extended to general insurance products in the next few months.

Health insurance and standardisation norms

Irda also brought out final guidelines for standardisation of health insurance, implemented from October, 2013. The authority has defined 46 core terms in health insurance policies and standardised 11 critical illness terminology.

The regulator said standard terms would reduce ambiguity, enable all stakeholders to provide better services and enable customers to interact more effectively with insurers, TPAs (third-party administrators) and providers.

It has also said in view of resolving the differences in the definitions of critical illnesses adopted by different insurers, all products offering 11 critical illness coverage shall ensure the definitions of the stated 11 terms are in line with the stipulated definitions.

Apart from this, Irda has called for standard pre-authorisation and claim form to streamline processes at all stages. This will enhance the ability of providers to obtain timely prior authorisation. Further, it has brought out a standard list of 199 excluded items for hospitalisation indemnity policy, an area, which has, otherwise, been fairly variable in its interpretation. However, insurers might include these, if the product design allows this, or if the insurer wants to include these as part of hospitalisation expenses.

Insurance companies said while their products had to be revamped to comply with the new norms, customers had the advantage of having products that did not have any hidden riders. The chief executive of a standalone health insurance company said earlier, customers, without realising that certain services in a hospital were not covered under the policy, used to avail them.

Micro-insurance norms

Micro-insurance policies have had very low interest from insurance companies. Besides, there were not many distributors for such policies.

Irda, in its final draft micro-insurance regulations, has enabled kirana stores, PCO booths and petrol pumps to sell insurance policies in these areas. Regulatory officials said other points of sale would be able to distribute these products, since these were simple in nature.

Distribution push

The primary focus of Irda has been facilitate easy access to insurance through newer channels of distribution and opening the distribution architecture. The regulator enabled insurers to tie up with common services centres (CSC) in smaller regions. These centres can tie up with several insurance companies to sell their policies.

Since CSCs deal with customers and help them pay utility bills and issue birth/death certificates, these would be in a better position to understand customer needs and serve them better.

A sub-broker model has also been proposed to sell insurance in smaller towns. A sub-broker is a person who is not a licensed broker, but acts on behalf of one. Last year, in February, Irda had brought out its final report on insurance sub-broking to increase penetration in small towns and rural areas.

While current Irda norms say banks can only tie up with one life, one non-life and one standalone health insurer to sell their products, the new norms will enable banks to become insurance brokers. This will offer varied product choices to insurance customers.

Further, customers had raised concerns about some bank-promoted insurers trying to push their products with other services in bank branches. When banks become brokers, they will no longer be able to do so, because they would sell all insurers' products.

Though insurance companies are clearly divided over whether this model should be made mandatory, customers stand to gain, purely from the choice of products offered.

Orphaned policies

To reduce the inconvenience caused to customers due to policies being orphaned, persistency norms for agents has been relaxed. While the pass percentage in the qualification exam to become an agent has been reduced to 35 per cent from 50 per cent; insurers have been given the freedom to decide on persistency requirements for agents during renewals.

Now, customers won't have to deal with multiple agents for policy-related queries.

Is it the end of the road?

While regulations passed in the recent past by the insurance regulator have proved to be beneficial to customers, industry experts said there was more room for improvement.

Mis-selling is an area of concern; consumer activists said some regulations should be passed with higher penalties for insurance companies involved in such activities. Life insurance complaints for previous financial year crossed 3,00,000, indicating some malpractices existed in the industry.

According to insurance companies, end-to-end digitisation, with digital signatures being enabled for all insurance policies, is an area where the regulator has to take some decisions.

DECODING THE NEW REGULATIONS

New traditional products will have a higher death cover: For regular premium policies, the cover will be 10 times the annualised premium paid for those below 45 years and seven times for others. The minimum death benefit in case of a traditional plan is at least the amount of the sum assured and the additional benefits

Clearer disclosures in insurance policies: All asset-value related calculations and details of returns, in case of linked products, will now be clearly put on the policy form. While some of it could be illustrative, the product will be more transparent, as the customer will have a clear idea of the product and its returns

Electronic issuance of insurance policy: One need not store a physical copy of the insurance policy. All policy details are immediately sent from an insurer to the insurance repository in a digital format. All payments and policy details can be viewed on this platform by users

Standardised list of critical illnesses: This will resolve differences in definitions of critical illnesses adopted by different insurance firms. The terms have been standardised to be adopted uniformly across the industry, if offered under the product

Service exclusion in health policies: Non-medical and tertiary expenses have been excluded from health insurance policies. But the customer can avail of those facilities by paying an additional cost

Banks as brokers: Customers can choose products from the 50-plus insurance companies from bank branches. Banks will be liable to a customer, unlike a corporate agency structure, in which the insurer is liable for every policy sold

Common services centres (CSCs): A village-level entrepreneur in charge of CSCs will sell policies through these centres. It will be easier for customers to purchase products via CSCs, as other services like bill payments will also to be through the same facility

Kirana stores can sell insurance: Customers do not have to rely on insurance agents in rural areas to buy a policy. Kirana stores, petrol pumps and PCO booths can be points of sale for insurance

Highest NAV products disallowed: Several complaints had come from policyholders saying high returns were promised through these products to lure them into buying these. With these products being banned, customers cannot be misled into buying products with unviable returns

Persistency norms relaxed: Since insurers can decide on the agent persistency requirement, there will be more agents in the industry. This will enable customers to have more agents at their disposal for policy-servicing requirements

PRIMER

You would have heard these terms from an insurance agent but might not know what they mean. A look at the common terms

1 Zero-depreciation cover: A zero-depreciation cover in motor insurance ensures in case of any accident, one will receive the full claim without any deduction for depreciation on the value of the parts replaced. The premiums are higher than other standard motor insurance policies

2 No-claim bonus: No-claim bonus is the benefit given for not making any claims during the previous policy period. There's a cap on the maximum such benefit

3 Limited premium policies: Premiums need to be paid only for a certain number of years or until death if it occurs within this period. Proceeds of the policy are granted to the beneficiaries whenever the policy-holder dies

4 Orphaned policies: These are insurance policies which do not have anyone to service it. Such policies are those left behind due to the agent either discontinuing the agency or being terminated by the insurance firm

5 Add-on covers: These enhance the scope of a life or general insurance policy. Such covers available in motor, health and life insurance policies provide added benefits at some extra cost

6 Backdated policies: Backdating refers to the practice of predating the time at which a policy is bought, but it can be availed of only once. Backdating comes at a cost of 10 per cent interest charged on the first premium

7 Deductibles: The amount one has to pay out of one's pockets for expenses before the insurance company covers the remaining costs

(Business Standard)