

You Don't Have to Wait till October to Buy Insurance

Preeti Kulkarni says product costs may rise for customers after new Irda guidelines for life products come into force

Here is some good news for fans of traditional insurance products. The improved versions of these products are likely to hit the market in October. The Insurance Regulatory and Development Authority (Irda) has recently announced new guidelines for all life products, which, among other things, will offer higher life insurance cover plus other benefits. Even though the guidelines concern both Ulips and traditional products, it's the latter category that will see major changes. "The regulator's key objective is to bring traditional products on par with Ulips in terms of charges," says Arvind Laddha, CEO, Vantage Insurance Brokers.

Traditional savings-cum-insurance products (including endowment plans, money-back plan, whole life plan, among others) offer insurance cover along with saving or investment facility. "The new guidelines introduced are client-focused and aim to explain products in a clear and transparent manner — they ensure improved disclosures, better surrender values and also lower agent commissions," adds Kapil Narang, chief operating officer with financial planning firm Ameriprise India.

However, don't think that we are advocating you wait until October to buy a life insurance cover. If you are planning to buy a term plan solely from the point of view of offering protection to your dependents, you should go ahead now. Similarly, look at buying an endowment plan before October if you do not want a higher portion of your premium to go towards the life cover. "There is no reason to defer buying life insurance till October. The product structure, in fact, will become more complicated and the costs, too, will rise for the customers," says Chandan Khasnobis, appointed actuary, IndiaFirst Life.

LOWER COMMISSIONS

Agents and banks have started focussing more on traditional endowment products after Irda imposed caps on charges on Ulips in 2010. Unlike Ulips, there is no transparency regarding the amount deducted from the premium on traditional insurance products as charges or commission. This will change after October 1. "The maximum commissions payable has been defined clearly — single pay commissions is at 2% of premium paid; for pension products it's capped at 7.5%; for regular premiums it varies between 15% and 35% of first year premium — it is lower for shorter terms," explains Narang. This will improve the returns from these products. However, beware of the agents who promise eye-catching returns. The regulator has directed insurers to project maturity corpus assuming returns of 4% and 8% only.

GREATER TRANSPARENCY

Irda has directed all insurers to clearly indicate whether the product is protection-oriented, savings-focussed or a combination of the two. The minimum cover, too, has been specified, depending on the age of the customer. If the customer is under 45 years of age, the cover will be 10 times the annual premium or 105% of all premiums paid as on the date of death, whichever is higher.

"The insurance regulator's aim is to increase the focus on the risk - or protection - element, rather than savings," says Laddha. This will ensure that you get a higher life cover, which should be the primary objective for buying life insurance products. "Policyholders will get a minimum life cover to take care of their dependents in their absence. It will also force agents to focus on the life cover aspect, too, while selling the product, instead of merely dwelling on the savings part," he says.

However, there is a flipside, too. "Many individuals, particularly those without dependents, do not need a life insurance cover. For them, a larger cover would mean higher cost (in terms of mortality charges), which will eat into their premium paid," explains Khasnobis. Since the mortality charges increase as per age, those in their fifties are likely to see a spike in premium. Of course, financial planners argue that such individuals need not buy a life product at all — they can invest in other savings instruments like mutual funds, senior citizen savings scheme and fixed deposits.

The insurance regulator has also outlined the structure of variable insurance products in the linked as well as traditional categories. This will offer policyholders clarity on features and commissions on variable plans. "Irda has limited the maximum reduction in yield on variable insurance plans, too. The idea is to bring parity in the charge structures of all these product categories," explains G Nageshwara Rao, MD & CEO, IDBI Federal Life. However, Rao says more clarity is needed on these guidelines.

CLARITY ON SURRENDER VALUE

The surrender value — the money a policyholder will receive when s/he decides to terminate the policy before maturity — will see a rise post October. "It's the guaranteed surrender value that will go up. What companies actually pay to the customer is special surrender value, which is higher. The new guidelines say that the surrender value should be equal to the asset share. Many companies already follow this principle. Those wanting to buy the products now should check the features and benefits to identify products that will not pay lesser benefits than required by new regulations," explains Rao. Currently, the guaranteed surrender value works out to nearly 30% of the premiums paid till the date of surrender, minus the first year premium." For traditional products, all policies surrendered between the

4th and 7th year will acquire a surrender value of at least 50% of the total premiums paid minus less survival benefits already paid. In case the policy is surrendered in the last two policy years, then the surrender value will be 90% of the total premiums paid less any survival benefits, if the term of the policy is less than seven years," says Narang.

OPTION TO SWITCH-OVER

If you have just bought an insurance policy and are ruing your decision of buying it before the regulations take effect, don't fret. Irda has asked life insurers to allow existing policyholders to switch over to the modified version of the products when they are introduced. Also, during the transition period, life insurers have to inform prospective insurance buyers about the changes the products are likely to see post October 1.

