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# Life Insurance Agents' Federation of India (LIAFI)

President :  
S.B. Sreenivasa Chary

Secretary General :  
Shyamal Chakraborty

To

Date.29<sup>th</sup> July 2010

The Chairman

Insurance Regulatory Development Authority

HYDERABAD.

Respected Sir,

**Subject:- Proposal for framing and stipulating certain Minimum requirements for Agents, in terms of performance- Submission of Comments by Life Insurance Agents Federation of India (LIAFI) Reg.**

We have gone through the draft proposal on persistency of Life Insurance Policies and observed that the low persistency certainly will have an Impact and adversely affects the Policy holder, Insurer and Agent.

The draft paper has not mentioned the Statistics of lapsation and persistency of Life Insurance policies of LIC of India (PSU)

The Draft Paper on persistency of Life Insurance policies particularly suggestion made at No 2 imposing minimum 20 policies per agent and as per Suggestion No 3 Minimum First Year Premium Income 1.5 lac to be procured by an agent is not advisable and against the very spirit of protection of Policyholders

We are extremely happy that after a long time at least it has been rightly pointed out and found the poor performance of product and more flexibility in product designed also leads to lapsation of policies. We are also accepting the same and this is the major factor for poor persistency of Life Insurance Policies. Particularly, in designing Ulip policies, the Insurance companies are giving more flexibility to the policyholders with an intension to grab the market and to survive them selves in this competitive scenario.

We have observed the persistency ratio in the Annexure, majority of distribution channel shown very poor performance particularly after three years.

We being connoisseurs of Insurance history of this country, we have always been suggesting on progressive and constructive ideas to the various commissions that were instituted from time to time.

We are for steady development of insurance industries, qualitative productivity and professionalistic approach of all the stake holders particularly that of distributional channel.

At the outset, we highly appreciate the initiatives you are taking, and regulatory measures you are adopting and researching on crucial issues for the healthy growth of an insurance industry.



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The high lapsation is indeed an alarming feature bringing all-round ill affects. Now your endeavour to improve the persistency is laudable step in the right direction. In this connection as a responsible body of customer's representatives, we have experiences of building up huge clientele base in the country consisting of 26 crores and experiencing every twist and turn of the industry. We have got certain considerable view points to place before you.

The job of IRDA is not only to regulate and streamline but another important factor is to develop steadily the insurance business in India. Even to day the apportionment of insurance saving from among the domestic saving in compare to other savings is very much less in India. IRDA has rightly focused the major aspect truncated growth of insurance Industry, Particularly the huge turnout of life insurance policies which you are terming as persistency.

At the outset we appreciate the initiative you are taking in tackling this major alarming feature. We would like to bring to your kind notice that the economic scenario itself is not that conducive to sustain premium payments as individual budgetary provision has been totally disturbed on account of unexpected escalation in the essential expenses of the family.1. The cost of education 2 the cost of Medical Services and all kinds of services.

The main important aspect, we would like to inform with regard to lapsation is direct bearing of the persistency of agency force with persistency of policies in force. In majority of the cases, an agent who persistently pursued for purchase is no longer seen by the customer after the sale of the policy, thus making the customer frustrated and disappointed.

Nearly 4.5 lacs agents terminated during last two years bringing this to total 29 lacs agents have been terminated so far. Let us assume an agent has brought an average of 12 policies to make it simpler 4.5 lacs agents X 12 lives equalling to 54 lacs policies have become orphan and during the year 2006-07 nearly 86 lacs non linked policies have lapsed and have become orphan. The customer is totally disappointed; the person who promises to serve the entire period is no more in the picture. Due to this policy holders are not able to keep their policies in force.

Therefore the solution for the high persistency lies in retention of the agency force and also to make able and stable the agency force.

We do really appreciate your direction in this regard to stop giving license to the spouse of nearest relatives of employees of insurance companies. It would be much more effective if the steps extended to the spouses and relatives of such of those persons who are in a position to simply influence and force the sales by advantage of their position.

It may not be out of place to bring to your notice that before advent of this opening of industry, the LIC of India had to accept the instructions of Ministry of Finance for not to allow the agencies to the category stated above. Un fortunately whatever the little professionalism was built in during the monolith period has been diluted by allowing agencies to such force of non professionals.



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We will not totally disagree with you that miss selling is not there in the field, let us analyzing why it is happening. Miss selling is happening by such forces who keep the Policy holder under obligation and forcible sell the policies even by resorting to coercive methods. We observed total adhocism, casualness and sense of not belongingness who are non professional in large numbers are responsible for this miss selling.

**“The occasional paper 1/2008 also stated in their findings that Unit Linked contacts had lapse rate as 18.09% by number and 10.01% by premium. These were higher than for traditional plans.”**

It is stated in the draft paper that distribution channel such as corporate agents, Brokers and Tied Agents has to play its role in maintaining good rate of persistency of Life Insurance Policies. Insurance industry has expected a lot particularly the Customer would get more chance that the best fitted product would be suggested to the client from the Broker and corporate agents.

As mentioned in the said draft, that this channel has disappointed and persistency rate is poorer than under the tied agents and Bank assurance.

We are very happy to note from the paper that Tied Agency system is the main channel and having greater ability to reach the customer. We are also accepting as it is said in the draft paper that there is a need to increase professionalism among the agents. Insurers would have to ensure that adequate training should be provided for better services to be rendered by the agents to the policyholders, which would also helpful for maintaining high persistency.

**According to observations made in the occasional paper, the lapse rate in Tied Agency with respect to Number of policies is 18.56% which is lower than the corporate agency 26.18% and Brokers 20.16%.**

**With regard to premium lapsed rate in Tied agency is 13.01% whereas the brokers registered 14.84% and Corporate agents 13.89%, which lesser than the average lapsation of Industry.**

**The lapsation ratio of LIC of India is 4% in the year 2008-09 and 6% during the year 2007-08 which has been stated in the IRDA Annual Report for the year 2008-09**

In order to reduce the lapse ratio the Life Insurance Corporation of India has already introduced the disincentive system on LIC Agents. If the Lapsation percentage is greater than 15% in First Year Premium, the agent is not eligible for entitlement of fringe Benefits. There is another type of lapsation known as pucca Lapsation which attracts an action against the agent.

There is an encouragement from the insurer that Incentives being paid to the agents for reduction of lapse rate. It seems already the measures have been initiated by the insurer for keeping high persistency of Life Insurance Policies.

But unfortunately, the draft paper ignoring the concerned and targeted the Individual Agents for miss selling and poor persistency.



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Further we would like to bring to your kind notice that an amendment made in the Agents Regulations 1972 in the year July 2009. According to this the minimum amount of business to be secured by the agent is 12 lives with First Year Premium Income of at least 1 lac. Earlier there is no such condition of FYP in the said regulations.

We suggest that the huge funds that are available at your disposal a substantial portion can be earmarked for the consumer education on insurance and to provide training infrastructure and training facilities to the distributory channel to make them more professionals.

The present policy adopted by LIC to give incentives to the loyal customers to improve their upon attractive monetary rewards and green channel treatment for those who have continually paid premiums and completion of half of the term of the policy and to increase loyalty additions as terminal benefits at the time of maturity of policy and simultaneously the concerned servicing agents also be rewarded accordingly.

To day majority of the insurance agents are belongs to Rural area, hence this new proposal of stipulating minimum requirements for agents in terms of performance is not advisable and it leads to not only huge terminations of insurance agents in the industry but also Lacs of policy holders are going to become orphan.

**Keeping in view of the above mentioned facts, The Life Insurance Agents' Federation of India, (LIAFI) appeals to rationalise and moderate all proposals against the constructive role being presently played by the Life Insurance Agents and save the Life Insurance Industry and the lives of Agents who are committed to their Profession.**

Yours Faithfully

**S.B.Sreenivasa Chary**

**President**

**Shyamal Chakra borty**

**Secretary General**

**B.N.Chary**

**Chairman Advisory Committee**

**In charge for liasoning with IRDA**