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There are Goodies Still Left with Traditional Insurance Products

The improved versions of these products are likely to hit the market in October, writes Preeti Kulkarni.

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 re-cently 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 cate-gory that will see major changes. "The regulator's key objective is to bring tra-ditional products on par with Ulips in terms of charges," says Arvind Laddha, CEO, Vantage Insurance Brokers. Tra-ditional savings-cum-insurance prod-ucts (including endowment plans, mon-ey back plan, whole life plan, among others) offer insurance cover along with saving or investment facility. "The new guidelines introduced are client-fo-cused and aim to explain products in a clear and transparent manner - they en-sure improved disclosures, better sur-render values and also lower agent com-missions," adds Kapil Narang, chief operating officer with financial plan-ning firm Ameriprise India. However, don't think that we are advo-cating your 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 rea-son 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 focuss-ing more on traditional endowment products after IRDA imposed caps on charges on ULIPs in 2010. Unlike ULIPs, there is no transparency regarding 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 prod-ucts its capped at 7.5 %; for regular pre-miums 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 agents who promise eye-catching returns. The regulator has directed insurers to pro-ject maturity corpus assuming returns of 4% and 8% only.

GREATER TRANSPARENCY

IRDA has directed all insurers to clear-ly indicate whether the product is pro-tection-oriented, savings-focussed or a combination of the two. The minimum cover, too, has been specified, depend-ing on the age of the customer. If the customer is under 45 years of age, the cover will be ten times the annual pre-mium or 105% of all premiums paid as on the date of death, whichever is high-er. "The insurance regulator's aim is to increase the focus on the risk - or protec-tion - 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 in-surance 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 prod-uct, instead of merely dwelling on the savings part," he says. However, there is a flipside, too. "Many individuals, par-ticularly 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 sav-ings scheme and fixed deposits. The insurance regulator has also out-lined the structure of variable insur-ance products in the linked as well as traditional categories. This will offer policyholders clarity on features and commissions on variable plans. "The 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 prod-uct categories," explains G Nageshwara Rao, MD and CEO, IDBI Federal Life. However, Rao says more clarity is need-ed 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 me turity - will see a rise post October. "Its the guaranteed surrender value that will go up. What companies actually pay to the customer is special surren-der value, which is higher. The new gui-delines say that the surrender value should be equal to the asset share. Many companies already follow this princi-ple. Those wanting to buy the products now should check the features and ben-efits 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 premi-ums paid till the date of surrender, mi-nus the first year premium. "For tradi-tional 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 sur-render value will be 90% of the total premiums paid less any survival bene-fits, if term of the policy is less than sev-en 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 ef-fect, don't fret. The IRDA has asked life insurers to allow existing policyhol-ders to switch over to the modified ver-sion of the products when they are in-troduced. Also, during the transition period, life insurers have to inform pro-spective insurance buyers about the changes the products are likely to see post October 1.