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Line up investments to keep a lid on surrenders.

Wondering why insurers are out trying to make sure you stick to your policy without any lapsation? The answer is simple: The players are keen to improve persistency rates of policy holders this fiscal year, come what may.

The rate refers to the percentage of an insurance company's already written policies remaining in force, without lapsing or being replaced by policies of other insurers.

In their bid to push policyholders to keep policies in-force and stay on till maturity, life insurers are setting up an internal mechanism to keep a tab on lapsation and surrender of these instruments. "Maintaining persistency is very much important for insurers... For meeting this objective, we are planning to implement some strategies and strengthen the agency channel further," said Amitabh Chaudhry, MD and CEO, HDFC Life Insurance. Policies lapse when holders fail to pay the premium for two consecutive financial years or when they are deliberately discontinued or surrendered.

Analysts feel that a low persistency level has caused a drop in valuation of life insurers.

"Low level of persistency has pulled down valuations of many insurance companies. These have dropped in the range of 20-25% compared with the earlier fiscal," said a chief financial officer with a private insurer.

Private life insurers are going a step further and lining up big investments this year to keep a lid on policy lapsation and surrenders. Some of the players are even in the process of building a technological base that can alert them automatically on policyholders who do not pay the premium for long. The players are also leaving nothing to chance, assigning a special agency force to track truant policyholders.

"First, at the point of sale, we need to clearly tell customers that they have to pay premiums regularly. While collecting their documents, we try to get the customer on direct debit facility. We need to have a regular consistent reminder service, preferably through an electronic channel," said P Nandagopal, CEO of India First Life Insurance. According to him, the company is even willing to pick up premium cheques right from the policyholder's doorstep.

What is also adding to the pressure is amended guidelines with regard to surrender penalties. With the revised guaranteed surrender value (GSV), insurers need to keep the surrender penalty lower by paying higher surrender value for those who go for policy termination before maturity. Should surrenders go up, it may pinch insurers financially. The surrender value becomes 50% between the fourth and the seventh year, which was earlier 30%. After that, insurers would have to file a surrender charge that needs to be cleared by the regulator.

On top of all this, there is a sense of heightened scrutiny at work. The sector regulator has made it mandatory to disclose policies lapsed and surrendered and make them public.