Get ready for digital insurance policies

Irda's pilot insurance repository project makes it mandatory for life insurers to digitize some policies sold

Chennai: As the next step towards digitizing insurance policies, the Insurance Regulatory and Development Authority (Irda) has flagged off a pilot insurance repository system for two months starting July.

An insurance repository can store all your policies electronically under a single electronic insurance account or e-insurance account. Irda has registered five insurance repositories—NSDL Database Management Ltd,Central Insurance Repository Ltd, SHCIL Projects Ltd, Karvy Insurance Repository Ltd and Cams Repository Services Ltd.

As part of the pilot project, all life insurers will have to tie up with all five repositories and change at least 1,000, or 5% of existing individual policies, whichever is less, into the demat format. They will also have to issue at least 1,000, or 5% of the total individual policies, whichever is less, in electronic form for each insurance repository subject to a minimum of 500 policies (250 new and 250 existing) per repository.

The pilot launch has been initiated due to the weak response to the insurance repository system. Since the system was started in September last year, only seven out of 24 life insurers have tied up with all the five repositories so far. Insurers' reluctance to the system can be largely attributed to the associated costs.

"One of the critical factors affecting a smooth take-off of the system is the failure on the part of insurers and repositories in arriving at a price structure commensurate with the scope of services being offered and volumes involved," Irda said in a statement on the pilot launch.

For customers, opening an e-insurance account and subsequently holding insurance in demat form is free of cost, but not for insurers. Further, insurers also have to bear the additional expense of digitizing existing policies, for which they would have paid the policy issuance costs already.

Irda is reviewing the bottlenecks and will come out with guidelines on insurance repository soon. In the meantime, the pilot launch has been initiated so that insurers are able to integrate their systems with those of the repositories to ensure a smooth transition.

In terms of remuneration, unless already decided between the insurer and the insurance repository through existing agreements, the fee that the insurer will need to pay to the repository will be capped at Rs.60 for new policies and

Rs.40 for existing policies. Irda is expected to come out with the final guidelines along with the timeline soon after the pilot is implemented.

"This is a huge development and a positive step for two reasons. One, digitization helps customers hold their financial assets in one place. And second, it allows for a lot of cost saving. Even as the costs (of e-insurance document) have been capped at Rs.60, I believe it can come down to less than Rs.10 after it becomes mandatory because the repository will save on its intermediary cost," said P. Nandagopal, managing director and chief executive officer, IndiaFirst Life Insurance Co. Ltd.

An e-insurance account can be opened either directly with any of the insurance repositories or through an insurer. At the time of selling a policy, the insurer will have to hand out the e-insurance account form and provide the option of choosing any of the repositories. After the account is opened, the insurer will collect the account details from the repository and feed them into the policy document. Existing customers can approach the insurer or and fill up the account opening form themselves. The insurance repository will hold the policy in electronic form in one place.

"Apart from being able to access all your policies under a single account, the potential of the e-insurance account is huge. Say, a policyholder has three policies, but the nominee is aware of only one. While making a death claim, the insurer would log the claim and this will get updated in the policyholder e-insurance account as well," said S.V. Ramanan, chief executive officer, Cams Repository. "This will help us in reaching out to the authorized representative of the policyholder and inform them of other policies lying in the account," he added.

Insurance repositories will also be responsible for servicing policies held in demat form with them by providing mandatory information such as status of policy, net asset value and bonus, nominee, premium due date, the grievance tracking system, transaction history and claims status history, among other things, in a format that can be downloaded and printed. Insurance repositories will also need to send SMS and email alerts on premium and maturity claim updates.

AUM) at the end of the financial year 2013-2014.