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Replacing your life insurance policy might get tougher

If Irda's guidelines are implemented, cases of surrendering policies and making these paid-up might decline



Often, insurance policyholders are misled into replacing their policies with new ones, with promises of lower premia or better returns. Though the process wasn't difficult so far, this might change soon.

The Insurance Regulatory and Development Authority (Irda) has issued draft guidelines on replacement of life insurance policies. Now, an agent should secure the written consent of the policyholder, inform the existing insurer 15 days before submitting new proposal forms, and send the forms to the new company only after this 15-day period. In their policy documents, insurance companies must advise customers not to surrender, lapse or make **paid-up** existing policies before taking on a new one. They should also advise customers not to withhold full or part amount of the surrender value payable, and inform the new company of a customer's existing policies.

P Nandagopal, managing director and chief executive, India First Life Insurance, says there could be various reasons to replace a **life insurance policy**. For instance, in case of a term policy, as the premium rates for new policies are lower, there might be a case to replace the existing policy with a new one. Or, for a savings-linked policy such as an endowment plan, if the need for which the policy was purchased has changed, some might want a new policy. While Irda's move is a step in the right direction, it could put additional burden of documentation on insurers and raise administrative costs, Nandagopal says.

However, S Sridharan, head of financial planning and advisory, FundsIndia.com, says it will mean only an additional column in the policy document. "Now, Irda is putting more responsibility on companies and agents to ensure there is no **mis-selling**. According to the guidelines, before selling a policy, an agent has to mention whether it is a replacement or a new one. And, the insurance company has to personally verify this with the customer," he says. Even if the customer is convinced a policy has to be replaced, he has to now undergo a through process and it is expected this will reduce cases of surrendering policies and converting these into paid-up ones, he adds.

Deepak Mittal, managing director and chief executive, Edelweiss Tokio Life Insurance, says currently, an insurance company knows if an existing policy is being replaced only if the policies are from the same company. But once the new guidelines come into force, "it will be tougher for agents to pitch a new policy to replace a lapsed one because of disclosures. But the flow of information has to be smooth".

Subrat Mohanty, head (strategy and products), HDFC Life, says, "Now, the customer will be advised that continuing with the old policy is better for him and if he decides to go ahead, he will be given time to reconsider his decision."