

Don't rush to demat your policy

It might be a cheaper option, but a lack of clarity is choking its growth

S V Ramanan, chief executive of CAMS Repository Services, says across all insurance repositories, only 89,000 e-insurance accounts have been opened. The number of life insurance policy holders is a little more than 3.3 million.

Of this number, accounts from metropolitan cities are about 45,000, when these are usually the higher contributor to the financial services sector, say experts. Ramanan says the main reason is lack of awareness. Policy holders from tier-I and tier-II cities have adopted e-insurance better than those in metros. Also, e-insurance is still optional, says P Nandgopal, managing director of IndiaFirst Life Insurance. Hence, not all offer it upfront. A policyholder has to ask if the facility is available; only then would he or she get it.

"Opening a demat account is also cumbersome and you can't do it online," notes Nandgopal. To demat a physical policy, a policy holder needs to fill a form, one per insurer. For instance, if someone owns policies of Life Insurance Corp, Reliance Life and Bajaj Allianz Life, he would need to fill one form for each conversion. Existing holders also need to undergo a Know-Your-Customer (KYC) formality once. For a KYC, you need a photograph, Permanent Account Number (PAN) or aadhaar card and a cancelled cheque leaf for bank details. If you use a PAN, you need an additional proof of address. A new customer will need to approach a repository and open the demat account in a similar fashion.

KYC is a big stopper for policy holders, feels the chief executive of a life insurance company. Plus, there is a small cost. Currently, policy holders can open e-insurance accounts free of charge. Also, insurers do not charge a fee for converting existing policies to demat form. For this, however, repositories charge around ₹100. These also charge ₹100 for account maintenance and up to ₹50 for servicing requests.

This apart, though a policy holder can own only one demat account, insurance companies might not tie-up with all repositories. This means despite opening an account, you could still have to hold some physical policies if the insurance company and you don't tie-up with a common repository. "The original e-insurance guidelines in 2011 envisaged all insurers would tie-up with all repositories. The 2013 guidelines gave insurers given the freedom to tie-up with one or more repositories. But in or after April 2014, we might see Irda asking insurers to tie-up with all repositories," explains Ramanan.

"The initiative has not been promoted. Many are either unaware or unclear about it. Add the perception that life insurance companies only cheat. People are not ready to trust us," says the chief executive. Nandgopal feels maintaining a separate demat account for insurance and stocks is also an issue. Additionally, till one system does not stand on its own, it might not make sense to erect another beside it. With the finance ministry proposing a single demat account for all financial assets, regulators need to come together and clear the hitches.

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