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Life Insurance Companies Must Pay Claims on 3 Year Old Policies - IRDAI New Order..! Life Insurance:

Insurance Regulatory and Development Authority of India (IRDAI) has now made it compulsory for

all life insurance companies to pay claims made three years after the date of the policy

* Life insurance companies must compulsorily pay all claims made three (3)years after the date of commencement of a policy, according to a recent clarification issued by the Insurance sector regulator IRDAI.

* No exceptions allowed.

* If there is fraud, mis-statement or / non-disclosure by the policyholder, the insurance company may discover & act on it within the 3 year deadline. After that, the policy can not be called into question.

* The development is good news for life insurance policyholders, but insurers are not a happy lot because they would not be able to reject a claim if fraud is discovered after the 3 year period.

* IRDAI, on 28 October, 2015 made this clarification after insurers approached it over the change introduced in the Insurance Laws (Amendment) Act, 2015.

* IRDAI said regardless of whether the claim has arisen or when it is intimated, once the 3 year window closes, the policy must be honoured.

* This means that even if the policyholder dies within the first 3 years and the claim is made after 3 years of the policy being operational, the insurer has no recourse.

Mr. K.S. Gopalakrishnan, MD and CEO, Aegon Religare Life Insurance Co. Ltd said, “If the policyholder dies in the first year itself, but the claim is made after 3 years, we will have to settle the claims.

One could argue that if a policyholder dies, the premiums will stop & the policy might lapse giving us time to question the policy within the 3 years, but the lapsation rate in India due to death or / policy surrender is nearly 30%, which makes it very difficult for us to investigate each instance of lapse. This may actually encourage fraud”

* The insurance firms, however, have the right to inspect policies regardless of a death claim within these 3 years.

Mr. C.L. Baradhwaj, Chief compliance officer and Chief risk officer, Bharti AXA Life Insurance Co. Ltd said, “Within 3 years, if the insurancefirms are able to establish fraud, then they can deny the death claim and also deny refunding the premiums paid so far. However, if a fraud is not proven, then the insurers can deny the claim on account of non-disclosure or mis-statements, but need to refund the entire premium to the claimant”

The rules force The insurance firms to exercise greater due diligence, but companies are still worried that cases of fraud may go up.

Mr. R.M. Vishakha, Managing director and chief executive officer, IndiaFirst Life Insurance Co. Ltd said, “The trends have changed and now, insurers underwrite a significant number of term policies as well,”

“The current rule that makes it mandatory to pay claims that are reported after 3 years even as the death may have occurred before 3 years will make it difficult for us to underwrite non-medical policies on the basis of declaration of good health alone. This will make it difficult to offer low-ticket size policies or / policies with simpler processes. It could also lead to an increase in systemic fraud,” she said.

Mr. Baradhwaj said the legislation should have been phrased differently. “Section 45 of the Act should have instead read to mean that a claim will not be denied if the policyholder survived for at least 3 policy years & has paid premiums for at least 3 years. The intention was to protect the interests of policyholders who have outlived their ailments by surviving for a reasonable period even if there was a non-disclosure. This also mitigates fraud,” he said.

IRDAI said that even in cases when a policy is revived, the insurance firms will have 3 years from the date of revival to question a policy, failing which it will have to honour the claim. And in case the policy is questioned within 3 years and claims rejected or / policy contract terminated due to suppression of material fact not amounting to fraud, the insurer will have to refund the premium.

The IRDAI statement said: “The revival of a policy is treated as a fresh contract & if the policy (revival) is called in question within 3 years of such revival, the premium collected from date of revival of the policy to the date of repudiation is to be refunded along with all the admissible benefits accrued as on the preceding day to the date of such revival.”

Insurance firms will have to exercise due diligence not only at the time of underwriting fresh policies but also at the time of reviving lapsed policies.

IRDAI has clarified that if insurers do not obtain a declaration of good health, then a claim arising even within 3 years can not be repudiated.

“Since the policy is revived without taking any document or / statement from the policyholder, there is no scope for repudiation within 3 years of such revival,” said the circular.

This is good news for life insurance policyholders as IRDAI has provided a window of only 3 years for the insurers to inspect insurance policies.

After this, all claims must be paid.

In other words, policyholders do not have to worry about their claims getting rejected.

This will also force insurers to exercise due diligence & strengthen the underwriting processes.

“There are pockets where insurance policies are taken in the name of deceased persons & a claim is made. In such cases of fraud, insurers should ideally be able to reject a claim even after three years because the subject matter of insurance did not exist. A clarification on this would be helpful,” said Mr. Baradhwaj.

“Also, ambiguity still persists on the applicability of the revised section 45 of the Insurance Act to the policies issued before the passage of the Act,” Mr. Baradhwaj added. Rules might have tilted in consumers’ favour, but that does not mean they can be careless.

They must provide correct information in proposal forms. Insurance is a contract of good faith, so consumers need to keep their end of the bargain.

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