Covid-19 crisis: Life insurers look to hedge against policy surrenders

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While life insurers are bracing for the worst, they are also hopeful that policyholders will not surrender long-term assets for short-term monetary liabilities and, given the uncertainty, would want to continue with their protection cover.

The halt in economic activity, resulting in job losses and salary cuts across sectors, is keeping life insurers on tenterhooks. Given a fall in income levels, life insurers are keeping a close watch on surrenders and persistency numbers, as individuals may not be in a situation to pay premiums or continue their policies because of financial uncertainties.

As a remedy, life insurers are looking to provide short-term credit — known as bridge loans — to policyholders. Such loans come at a cheaper rate than personal loans, and can be repaid whenever the policyholder wants. Typically, these loans are available against traditional policies, which generally attract high surrender charges.

There is a likelihood of customers wanting to dip into some of their past investments and encash them, given the current liquidity crunch and overall economic scenario, with the possibility of job losses, said Manu Lavanya, director and chief operations officer of Max Life Insurance.

“We are closely monitoring our persistency and surrenders at the company and product levels — especially for unit-linked products. The facility of loans against policy may enable customers to manage the situation better. We have reached out to the regulator and are in discussions over allowing loans against ULIPs,” said Vibha Padalkar, MD and CEO of HDFC Life, in an interview to *Business Standard*.

“The loan facility is already available with traditional policies. This, we believe, will enable customers to make payments and continue with their policies, instead of having to surrender them,” she added.

“When our branches open up for business, we are likely to receive higher (though not exponential) volumes (loan requests) but are equipped to both engage and retain while refunding, where the customer isn’t keen to continue,” said Lavanya.

Higher surrenders hurts the persistency ratio of insurers, a metric that gauges the policy continuity ratio of that entity. India has a low persistency ratio, and is highly under-penetrated.

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Traditional products provide guarantees and carry disincentives for surrender. As far as ULIPs are concerned, the markets are not conducive for surrendering policies. Further, one should not surrender long-term assets for short-term liabilities, said R M Vishakha, MD and CEO of Indiafirst Life.

“The message we convey to customers is that in life insurance, you build long-term assets. And, in the current crisis, if one has short-term liabilities, taking short-term funds would be the wiser option than breaking long-term funds,” she added.

In fact, Bajaj Allianz Life Insurance has received a large number of inquiries for such short-term loans against traditional policies. “Since simplifying the process for applying for loans against policy this year, we have received 3,500 requests,”, said Kayzad Hiramanek, chief (operations and customer experience), Bajaj Allianz Life Insurance.

In FY20, the firm said, approximately 12,500 customers opted for this feature and we disbursed Rs 150 crore.

However, Kayzad feels they will not see a huge surge in surrenders because people are interested in keeping their protection alive. Second, since the market is volatile, people approaching the end of the 5-year lock-in for ULIPs will wait till they recover their net asset values.

Moreover, for policies with tenure ending soon, the regulator has given an option to the policyholder to delay maturity and opt for a settlement.