

“Irda is doing nothing to cut high charges of traditional policies”

Why are insurance agents now selling traditional plans instead of Ulips?
This shift proves that if the distribution channel is incentivised enough, they can sell any product. After the September 2010 changes, Ulips are a good product. They have lower charges, greater flexibility, more transparency and lower costs of exit. Still, traditional products are being sold more because they offer higher incentives to distributors. A distributor earns 30-35%, even 40% commission from selling a traditional policy compared to 8-12% from a Ulip. The insurance company also benefits because all the expenses incurred to sell the policy, including the commission, can be passed on to the policy. So, traditional products are good for the distributor because of the higher commission and benefit the company because of the lower costs. The only person who loses out here is the buyer. This is because if you pass on so much of the expenses to the policy, the returns for the investor will reduce. So, ultimately the customer suffers. He doesn't know what he's getting into when he buys a traditional policy.

The buyer may be lining his portfolio with low-yield debt. Can this shift be reversed?
The shift to traditional plans is certainly a worrisome trend. Every insurer is suddenly focusing on these policies. I can't stop my distributors from selling traditional products, but I would take steps to ensure that these policies don't account for more than 35% of our total portfolio. We have already started de-emphasising some traditional plans. For instance, while the distributors earn a 30-35% commission, the incentives are pruned. I tell my sales team, if you sell Ulip, you will get 100% incentive. But if you sell traditional products, you will get only 70-75% incentive.

Do you feel the charges on traditional products should be brought down?
The Insurance Regulatory and Development

Authority (Irda) has changed Ulips by bringing down the charges. But it has done nothing about traditional plans. Why is it not bringing the commission down on these products? The fact of the matter is, LIC which has 60-65% of the marketshare still sells 70% traditional products. Of this, almost 50% goes into government securities and, therefore, Irda is not doing anything about it.

Irda has now turned its attention to NAV-guaranteed plans. Are the concerns valid?
They have received complaints that people don't understand what they are buying. Buyers think that they will get the highest NAV for every day of the year, so they believe that they have maximised their returns. However, this isn't the true picture. You get the highest NAV of the product, not of the market. So when Irda expressed concerns, the industry said that it was willing to address such issues. For instance, we have introduced something called the Most Important Document (MID) that clearly explains the various charges on a policy. We would be happy to include a chart

showing how the highest NAV works.

The industry can also come out with joint ads in the media. Our submission to Irda was, let's try and educate the customer. Don't ban a class of products because you believe it is being mis-sold. Just because someone is speeding, you don't bring down the speed limit.

Despite efforts by Irda and insurers, the problem of mis-selling continues. What has been your experience?

A lot of the mis-selling happens because the customer is in a hurry. He just asks, "Where do I sign?". Somewhere during the conversation with the agent he has heard what he wanted to hear and is ready to buy. Later, when they don't get the kind of return they expected, they complain against mis-selling. We get about 12,000 complaints every year but only a third of these are genuine mis-selling complaints. Sometimes, distributors egg the customer to file a complaint. We have



ASHWANI NAGPAL

Amitabh Chaudhry
MD and CEO,
HDFC Life

Traditional plans are back in favour and Ulips have been sidelined. HDFC Life MD and CEO Amitabh Chaudhry tells Babar Zaidi why agents prefer to sell traditional plans, why Irda isn't doing anything about the high charges on these plans and how his company tackles mis-selling.

had cases where the policyholder does not even speak the language but has filed a detailed complaint in flawless English.

What do you do in such cases?

We have a full malpractice matrix that defines the action to be taken. After we return the money to the customer, we take action against the agent. This can range from issuing a warning letter to termination of services. A warning letter means he won't get a promotion.

What steps would you suggest to stamp out this menace?

Some companies have a pre-login call where they phone a customer even before the policy is issued. He is explained the policy features in detail. Currently, we have a welcome call but will soon be starting the pre-login calls. More importantly, we are the only company to have a 30-day free look period. Irda has mandated 15 days but we have extended this window to a month. The welcome call is made within 2-3 days of issuing the policy so the customer has four weeks to study the policy and return it.



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