



भारतीय बीमा विनियामक और विकास प्राधिकरण
INSURANCE REGULATORY AND DEVELOPMENT AUTHORITY OF INDIA

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Chairman~s Interview to Times of India

~Curbing insurance mis-selling a priority~

Mayur Shetty, TNN | Apr 23, 2013, 05.06AM IST

MUMBAI: The new chief of the Insurance Regulatory and Development Authority (IRDA), T S Vijayan, has to deal with the burden of expectation that he would be more development-oriented as he is familiar with industry issues being the former chairman of Life Insurance Corporation. At the same time, he has to restore the industry~s credibility, which has taken a beating following large-scale mis-selling of Ulips in the pre-crisis era. In an interview with TOI, Vijayan speaks of his priorities and how regulations are expected to stabilize.

What are your priorities in your new role as IRDA chief?

The insurance regulatory framework has evolved over the last decade to match the needs of the sector, whose landscape has changed post 2000 when the first set of companies were registered by IRDA. I expect the regulatory framework to stabilize to enable various stakeholders to work at further reaching out to meet the needs of the customer. I do believe that we have developed a strong foundation by aligning our regulatory structure to international best practices while, at the same time, keeping in mind the needs of our people. The industry and the regulator both need to lay down the roadmap for the medium term. Certainly, addressing mis-selling and protection of policyholders~ interests is a priority.

The Insurance Act Amendment Bill is set to be tabled in Parliament. How long will it take for IRDA to come out with regulations to implement these changes?

The major changes that will require new regulation will be allowing reinsurance branches, regulating reinsurers who offer reinsurance to Indian market and recognizing health insurance as a separate category with different capital requirement. For life and non-life companies, there will not be any major changes in regulations. We have committees in place and once their reports are out, we will finalize the regulations.

The share of insurance in savings has dropped. Some say this is because life insurance is now more for protection than for retirement savings because of changes to the Income Tax Act? Do you see this as a fundamental shift or a cyclical phenomenon?

The drop is not particular to insurance since the macroeconomic factors are also at play. The positive factor, however, is that statistics show that the share of insurance funds in financial savings of households has grown, albeit marginally. This reflects the customer~s faith in insurance companies and products. Certainly, there has been a shift towards traditional products which I consider to be a huge positive. Insofar as the tax laws are concerned, these would evolve to meet the needs of the growing economy and the dynamic environment in which we operate. The insurance industry will just have to keep pace with them and structure their products around meeting the needs of the policyholders and facilitating in taking the best tax advantage.

Unscrupulous intermediaries have been encouraging policy holders to churn. How do you think mis-selling can be tackled?

Yes, the authority and for that matter the insurance companies and the councils have all taken a host of measures to create awareness about insurance. I do believe that lack of awareness is the root cause of mis-selling and the best way of tackling it is to create awareness about the need for insurance and the various products.

Against around 14 crore policies sold in a year by the insurance industry, there could be some instances where unscrupulous persons adopt malpractices for personal gains. However, wherever such instances come to the regulator's notice, they are dealt with suitably and with a firm hand. Recently, the format of the standard proposal form has been notified to draw attention to basic information as premium amount, mode of payment, policy term, premium paying term, among others. It also provides for need analysis to ensure that the product is sold based on customer need and affordability; and aims at curbing wrong advice and mis-selling.

The finance minister has proposed that banks be allowed to sell policies of multiple companies. How will you ensure that banks don't push policies with highest commission?

The announcement by the FM has given a greater thrust to the Bancassurance channel. Currently, the reach and potential of this channel has been minimal. The restriction on a bank to partner with only one life and one general insurer along with one specialized insurer has restricted manoeuvrability of the insurance companies to fully reach out in terms of insurance penetration. In terms of challenges, I would say that the bankers have a high regard for their customers and their needs. Customer servicing is a priority for the banker, and thus the products offered would necessarily be based on ~need-analysis~. The banking industry itself is highly competitive and the customer today is very discerning. Insofar as the commission structure is concerned, I would say it is standardized.

IRDA has notified new norms for traditional products. Will this mean a complete overhaul of established products we have seen in life insurance?

The new norms for traditional products do not completely overhaul the established products but are aimed at prescribing the minimum limits for certain designed parameters such as death benefit, surrender benefit, etc. The regulations aim at ensuring that the interests of stakeholders are protected while at the same time achieving consistency in terms of products offered by the insurers. As per the regulation, by October 1 all companies may have to replace some of the existing products if they are not compliant with the new norms. But in majority of the products, only minor tweaking is required. It is not like Ulips where all the products needed to be overhauled because of the regulatory limits on how much yields could be reduced.

Are there any new tech initiatives IRDA is planning?

IRDA, being a young regulator, has the advantage of planning and executing projects without the baggage of past legacy. The Insurance Repository and Reinsurance Exchange projects are technology-based and will harness the potential in making insurance transactions seamless and efficient. These tech-driven initiatives are one of their kind globally and are nearing fruition. The initiative to set up insurance repository is in the final stages where a central index server will be hosted to ensure coordination between the repositories. I am confident that the dream of seeing an insurance policy in electronic form will be fulfilled soon. In addition to the two on-going projects, IRDA is working on a Request for Proposal for an industry-wide fraud analytics system. The project envisages addressing issues of health insurance fraud and will also extend to all other personal lines of insurance business, including motor, life, among others.