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A year of tweaks for insurance, pension

From easing surrender penalties in traditional life insurance plans to standardising exclusions in health insurance, Irdai had many customer-friendly proposals up its sleeve this year. The pension sector looked up, with a much-needed tax break for NPS and EPFO's digital strides in 2018

Insurance sector turns focus on product structures

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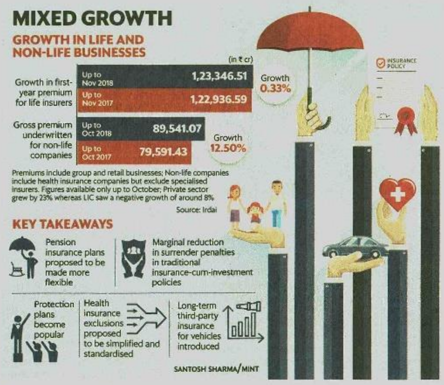
The year 2018 saw a change of guard at the Insurance Regulatory and Development Authority of India (Irdai). After industry insider T.S. Vijayan's five-year term came to an end, former bureaucrat Subhash C. Khuntia took office in May. Under Khuntia, Irdai's most prominent task has been to relook at insurance products—life, health and motor. In that sense, this year can be seen as the founding year of important reforms the industry is likely to witness.



LIFE INSURANCE

From a regulatory standpoint, the work on reviewing insurance products moved ahead a few inches. In 2017, Irdai set up a product committee to review product regulation and one of the main concerns of the committee was high surrender costs in traditional plans that also bundle up as investment products. Read more here: *bit.ly/2Ltlcfe*.

Taking the work forward, Irdai set up a working group in July this year and in October came out with draft guidelines that eased surrender penalties but only slightly. While this would be seen as a missed opportunity to tackle the problem of high surrender costs in traditional plans that dominate the market currently, the draft gave a new lease of life to unit-linked pension plans by making them more flexible in offering partial withdrawals and a higher take-home on maturity. It also increased the revival period of a lapsed traditional policy from two to five years.

2018 YEAR IN REVIEW

"This is a positive step and if implemented it will proactively encourage the industry to curb lapsation by convincing the policyholders to revive their policies. For an industry where lapsation is a real threat, this is a welcome move," said Pankaj Razdan, managing director and chief executive officer, Aditya Birla Sun Life Insurance Co. Ltd and deputy CEO at Aditya Birla Capital.

From an industry standpoint, two events that were prominent in 2018 were increasing focus on protection plans and the use of technology to smoothen sales and customer service. "The average sum assured in the industry increased by 25% and this is a huge plus given the lack of social security and the huge insurance gap India has. There is now a prominent mindset shift and protection solution has become dominant," said Razdan. "Every single insurer is focussing on it whether it's life insurance by customising and innovating term plans or health insurance by offering disease-specific insurance plans," he added.

Of course, the advent of technology has a role to play as well. According to Vineet Arora, managing director and chief executive officer, Aegon Life Insurance Co. Ltd, the advent of technology gave term insurance policies a huge push as a result of which now there is awareness and people have started appreciating the need. "Gradually we will see other types of life insurance policies available for sale online. However, this year the industry integrated technology in a big way to make the sale process smooth whether it's agent assisted sale or direct to customer. This trend is here to stay and will only become more prominent in the future," he said. In fact, even the regulator is closely watching how technology can help insurers—for instance, the role of telematics in profiling and rewarding customers. Action in this space is only going to get better next year.

HEALTH INSURANCE

Two very important events marked 2018 for health insurance. One was the launch of Pradhan Mantri Jan Arogya Yojana (PMJAY) that offers health insurance to the under-privileged and the constitution of a committee on health insurance that looks at standardising and rationalising clauses in a health insurance policy. "PMJAY comes with no exclusions and therefore is a policy that springs no surprise to the insured. This is not the case with retail health insurance. However, the launch of PMJAY, court orders in certain cases and a report of the Irdai working group on health insurance exclusions has initiated a healthy debate," said Kapil Mehta, co-founder, SecureNow.in.

> 2018 can be seen as the founding year of important reforms the insurance industry is likely to witness

In July this year, Irdai set up a committee to look at standardising exclusions in health insurance. The committee submitted its report which not only proposed a much sharper and unambiguous definition of pre-existing ailments, one of the main clauses that lead to claims rejection, but also recommended that insurers can't deny a claim on ground of non-disclosure after an eight-year window. Read more here: *bit.ly/2FEUgcY*.

Also, acting on the Mental Healthcare Act, 2017 that prohibits any discrimination between mental illness and physical illness, Irdai directed insurers to make provisions for medical insurance for treatment of mental illness on the same basis as is available for treatment of physical illness. This simply means that health insurance can't discriminate or exclude mental illness and will have to cover any related hospitalisation. This doesn't mean that insurers are mandated to insure people who are diagnosed with mental illness as that would depend on their underwriting criteria, but if an insured person is diagnosed with mental illness and is hospitalised, the insurers can't deny cover. To understand this better, read *bit.ly/2SgDVxg*.

"I would call the year 2018 as the year of consolidation as the focus was on tying up the loose ends. For instance, this year in the health insurance space the focus has been to simplify and standardise exclusions which will go a long way in customer understanding and will aid customer protection. This year also saw new insurers focused only on digital and has given a push to e-commerce. The regulator also took steps to create a conducive environment for technology," said Tapan Singhel, managing director and chief executive officer, Bajaj Allianz General Insurance Co. Ltd.

MOTOR INSURANCE

This year also saw the regulator focus on motor insurance as a working group was constituted to bring more customisation to the own-damage cover that pays for damage or theft of the vehicle. Despite the industry getting de-tarriffed, the product wordings of motor insurance has been the same. And whatever customisation has happened, has happened through add-on covers. The committee, therefore, is set up to revisit the framework of motor insurance in light of technological advancements and the need for customisation.

According to Mehta, 2018 will also be seen as the year where the judiciary looked at insurance deeply. "Various judicial courts passed orders specific to insurance, whether it was reviewing exclusions in mental health or offering long-term third-party motor insurance cover. So even the courts have been pro-active in plugging perceived shortfalls in insurance," added Mehta.

While there may not be big bang events to report in the insurance space, this year can be seen as a year of tweaks to make the markets more mature.

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Early insurance exit still costly, pension plans take after NPS
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