

## **Highlights of IRDA's Exposure Draft on Servicing of Orphan policies dated 9<sup>th</sup> March 2012**

Insurance Act has two specific provisions, namely Section 40(2A) and Section 44 which protect the long term interests of agents. In brief, under provisions of Section 40(2A), lapsed policies which require medical examination prior to revival can be assigned to another agent after giving due notice to the existing agent to revive such policies. In such cases, new agent is entitled to commission of only 50% of what the procuring agent would have been entitled had the policy continued to be in force. Under Section 44, except on grounds of fraud, an agent who has served an insurance company for a period of 5 years shall be entitled, subject to certain conditions, to renewal commission on such policies if he discontinues his agency. However, agents who have completed 10 years of service with a given insurance company and stops for any reason his/her agency business but does not join another company are entitled to renewal commission on all such policies which they had placed. The commission on policies covered under Section 44 is inheritable & entitled to be passed on to the legal heirs of that agent.

In the evolving Indian insurance context, it is noticed that a large number of agents discontinue services with a given insurance company before completing the minimum service prescribed. During the period of their service with a company they would have placed some policies and on the discontinuance of an agent such policies are left "orphan" and the policyholder suffers from lack of proper assistance in the servicing of the policy. The insurance company also suffers because of the drop of persistency which might occur in such cases. Given this pattern, IRDA believes it is important and in the interest of such policy holders to provide for a system where they are not denied the benefit of having an agent to look after their policy service issues in the best interest of policyholders.

In order to address this gap created by exit of insurance agents well before attaining qualifying criterion as stipulated in Section 44, the Authority proposes to issue the following guidelines:

### **Guidelines on Servicing of Orphan Policies**

1. *Orphan life insurance* policies means the policies initially effected by an insurance agent whose services were subsequently terminated or removed from the rolls of the insurer excluding those policies to which the effecting agent is entitled to renewal commission under provisions of Section 44 of the Insurance Act. The policies that are considered eligible under proviso to section 40(2A) of Insurance Act also do not fall under the purview of this definition.
2. "Allottee Agent" for the purpose of these guidelines is an individual insurance agent who is on the rolls of the life insurance company to whom the orphan, lapsed life insurance policies are allotted for the purpose of conservation and rendering the policy services.
3. 'A lapsed life insurance policy' for the purpose of these guidelines is a policy on which premium that is due and remained unpaid even after six months from the date of first unpaid premium.

4. Insurance companies are allowed to allot any of the lapsed and orphan life insurance policies to individual insurance agents whose license is in force for the purpose of conservation and rendering effective policy service to the policyholders. Only a life insurance policy that is in lapsed condition on the date of allotment is eligible for allotment.
5. Single Premium Life Insurance policies or life insurance policies on which no further premiums are due for payment (Limited Premium Payment Policies after the expiry of Premium Paying Term) are not eligible for allotment under these guidelines. Life Insurance Products designed with specific marketing features, inter alia, say direct / online marketing where no commission outgo is projected under respective File and Use are also not eligible for allotment.
6. The Life Insurers shall notify the particulars of 'Allottee agent' to the concerned policy holders.
7. The 'Allottee agents' shall be provided a list of such allotted life insurance policies along with the addresses for policy servicing. While submitting the list, it shall be stipulated that the purpose of submitting the said list is for rendering required policy services and any details thereof shall neither be parted with to any third party / entity nor be used for any other business purposes. However there is no bar in an 'Allottee agent' canvassing new policies to the policyholder after reviving the lapsed allotted policies.
8. It shall be specified to the 'Allottee agent' that the objective of the allotment is the conservation/revival and further servicing of the policies.
9. Regulation 8 of IRDA (Licensing of Individual Agents) Regulations, 2000 (Code of Conduct) applies to the 'Allottee agent' in respect of all the allotted policies. It shall be disclosed upfront to the Allottee agent.
10. While allotting the policies for servicing, the life insurers shall direct the Allottee agents that all policy services shall be rendered similar to how an insurance agent would render to those policies that were otherwise effected by him / her.
11. The insurers are allowed to pay the following remuneration to the Allottee agent towards policy service in respect of the policies allotted to him/her
  - a. Equivalent to the commission rates mentioned in the respective File & Use.
  - b. The remuneration referred in 11 (a) above is payable only on revival of a lapsed orphan policy on

account of arrears premiums received on or after the date of allotment and also on subsequent renewal premiums paid under the policy.

c. No upfront / advance payments are allowed on account of the policy allotments referred herein.

d. The payment of remuneration shall cease with the exit of an Allottee agent by any means and such Allottee agent will not be eligible for the benefits accorded by 44 of the Insurance Act.

12. The policies that are allotted for servicing shall not be counted for persistency of the Policy allotted agent.

13. The allotment of lapsed policies shall be done judiciously by the life insurers keeping in view the ability / feasibility of the insurance agents to service the policies allotted.

14. Insurers shall also take in to account the track record of the agent and complaints registered against an agent etc. while allotting the orphan policies.

15. The Life Insurers shall take an undertaking from the agents regarding their willingness for the proposed allotment and their consent for rendering the required policy services.

16. Where a lapsed policy allotted is not revived / reinstated within 3 months from the date of such allotment, life insurers shall have the discretion to undo the allotment by issuing a formal notice to the Allottee agent and re-allot to any other agent as per the norms prescribed herein.

17. An allotted policy which was revived or reinstated but lapsed subsequently may also be allotted in accordance to the provisions of the within referred stipulations.

18. Allotting the lapsed policies by a life insurance company is only an option.

19. The Insurers shall put in place procedures for capturing the details of the Policy allotted agents who are servicing the allotted policies, in order to ensure that the objectives of allotment are met.