THE ECONOMIC TIMES
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Mon, 10 Dec-18; ET Wealth - Economic Times - Mumbai; Size : 953 sq.cm.; Circulation:227412; Page : 15

"Changes mooted in life covers will only benefit customers"

Irdai's proposals on linked and non-linked life insurance product structures will allow more flexibility, besides reviving the pension space, Ashish Vohra tells **Preeti Kulkarni**.

Ashish Vohra
ED and CEO, Reliance Nippon Life Insurance

How will the proposed changes in the structure of life insurance products affect policyholders?
The proposals, if implemented, could make the till-now rigid life insurance product design space a lot more flexible. For one, policyholders will not be tied to one insurer while buying annuities. This way we could see a revival in the pension space. Surrender rules in case of non-linked policies, too, would be eased—the policies could then acquire surrender value after two years instead of the current three years. The changes would be in favour of customers.

Won't reducing minimum death benefit from 10 times the annual premium to seven be a step backwards, given that protection is the core of the life insurance business?
The current rules for minimum cover are cumbersome and restrictive for product innovation. The proposed regulations have simplified the rules to provide more scope for offering flexible protection benefits to the customers such as 'whole life' flexible protection plans. They can start with low or medium protection covers when they are single and increase it when they start a family. They can also reduce it when they are closer to retirement to increase the savings component in the product. In addition, seven times is the minimum cover limit, companies are free to offer higher cover multiples.

Won't it put tax benefits out of the reach of policyholders?
The minimum cover required to avail of tax-free status for maturity proceeds under Section 10 (10D) will be brought down to seven times. Past experience shows that tax benefits usually get aligned to the minimum cover prescribed by the regulator.

What is your current product mix?
Ulip sales have gone up after the imposition of long-term capital gains (LTCG) tax on equity investments. Ulips now account for 30% of our portfolio, while traditional plans make up the balance.

Insurers often contend that Ulips allow individuals to switch in and out of debt and equity without attracting tax, but how often do policyholders use the switch funds option?
Consumers do find the switch option attractive when buying a Ulip policy, however the percentage of consumers who use the feature is limited. For instance, in our case, the percentage of Ulip customers who switch or opt for top-up is less than 1% of our in-force Ulip customer base.

> *"Statistically, if the 13th month persistency is not good, no matter what you do, the later years will not put up a good show either."*

Do you intend to focus more on the protection side, like your peers?
Given the shift in the industry towards a higher protection share, we are also shifting focus towards increased protection. We are in the process of launching a digital term insurance cover, which assures protection at economical cost to a large segment. Last year, we introduced several riders. Now, around two-third of our policies sold see at least one rider being attached to them. We are moving towards long-term products for increasing the protection coverage through longer tenure. We expect to have 75% of our business in policies with tenures longer than 10 years.

What are your plans for the critical illness product segment?
We have just launched a cancer protection plan—Cancer Protection Plus. Our product comes with a key differential—we pay out 100% of the sum insured, irrespective of whether it is early or late stage cancer. We intend to serve tier 2, tier 3 and tier 4 towns, areas that other insurers often do not target.

From a customers' perspective, what are the advantages of such plans over critical illness and disease-specific covers offered by health insurers?
Products offered by life companies are fixed benefit plans and have the advantage of longer coverage term—five to 25 years as against health insurance plans which are shorter term. In most cases it also brings the advantage of guaranteed premiums for a minimum of five years.

How do you plan to boost your persistency ratio?
In the past two years. our 13-month persistency ratio has moved from the late 50s to the mid 70s, with institutional changes in customer acquisition and engagement process. Our current 13th month persistency ratio is at 75.7% for the half-year ended September 2018, up from 69.3% last year. There has been a 6% jump across 13th, 25th and 37th month persistency ratios.

Why is the fifth-year persistency ratio still poor for the industry?
Our fifth year persistency is at 43.6% for the half-year ended September 2018, and we expect this to move closer to the Asian average of 55-60% in the coming quarters. The biggest lever for improving the fifth-year persistency is to control the quality of first-year sales. Statistically, if the 13th month persistency is not good, no matter what you do, the later years will not put up a good show either. We have taken several steps to improve our first-year persistency. In addition, we are also improving our collection efforts. We have ramped up efforts to get people to pay their renewal premiums. For our better-originated book to hit the desired persistency level, it will take two more years.

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