Media Coverage

'Will portability in life insurance work?' - Read as Mr Kshitij Jain shares his opinion in the Mint column Expert Speaks

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EXPERT SPEAK

Will portability in life insurance work?

The insurance regulator's plan to permit portability in life insurance will allow customers to move to another insurer without letting their policies lapse. But will it work? **Deepti Bhaskaran** asks industry experts:

K.S. Gopalakrishnan, managing director and chief executive officer, Aegon Life Insurance

Portability is possible only when product features are standardized. A term insurance policy should be easy to port as the new insurer will be able to easily administer the policy. A simple pension plan and a Ulip too should be easy. Other products—such as endowment plans and money back plans—could be complicated as the new insurer may not have a product with same features.

Also, life insurance policies are of longer term and cover certain insurance risks. The new insurer would expect to receive an amount from the existing insurer to meet future liabilities. In a mutual fund type product, the amount is relatively straight forward as the fund value will be transferred, with some adjustments for certain costs. In life insurance, the transfer amount is an estimate arrived at on the basis of assumptions about the future. The receiving insurer and the current insurer may not come to same conclusion in estimating this amount. Also, the receiving insurer could have a different view of certain risks and hence could ask for a different premium to be paid.

In terms of reducing the lapse rate through portability, if a customer is not satisfied with the services, then portability will reduce lapses. But, most of the lapses happen at early durations and it is likely that these customers perhaps bought unsuitable products for them. Portability will not solve this problem.

Kshitij Jain, managing director and chief executive officer, Exide Life Insurance

Life insurance portability is a provision to protect customer interests and can promote a fair and competitive market. If implemented, insurers will redouble efforts to retain existing customers with improved service quality and claims settlement. It could even result in the launch of simple and competitive products.

Portability is however possible only in products with a match in timing between receipt of premium and payments of benefits. Due to the short-term nature of the contract, portability works well in general insurance, short-term health insurance and group life insurance (protection products) where the policy may be ported to another insurer every year. Individual members under the group insurance policy can port the coverage to an individual policy as well.

In the case of longer term individual protection policies such as term, there is a mismatch between expenses incurred and premiums earned by the insurer. If portability is allowed, due to unevenness of risk and expense, one insurer could make an undue profit. This could lead to a distortion in market dynamics with distributors encouraging churn of policies without necessarily adding value to the customers. Finally, in case of savings life insurance plans, the savings component and initial high acquisition expenses make the portability feature virtually impossible to implement.

Shashwat Sharma, partner and head of insurance, KPMG India

Irdai has initiated a discussion on portability in life insurance with the objective of improving customer choice. Portability encourages transparency and competition as customers can easily switch from one insurer to another with ease. This also provides an opportunity to customers to test products from a wider set of insurers as they can always port out to a different insurer if required. Further, from a supply side, insurers can also market their products directly to customers and enable them to make a choice to switch, if they wish to.

But given the long-term nature of life insurance, porting shall require more than just fresh underwriting. Since a life insurance policy has constant pricing throughout the policy term, portability would require some standardization of underwriting and policy pricing at an industry level. Also, since the profits generated are different each year, portability might require a compensatory mechanism between the port out and port in insurer.

Also, since portability will be limited to products having similar features and pricing, it may not necessarily have customers shift to different life insurance savings and investment product categories more suited to their needs. However, portability would definitely lead to an improvement in service levels from the insurers and make their focus sharper on servicing and customer retention.

Rajesh Sud, executive vice-chairman and managing director, Max Life Insurance

The objective of portability could be to ensure that life insurance—despite its many technical arguments and construct as a long-term product—does not hold a policyholder 'hostage' to a contract. Life Insurance product designs can be classified into four types: protection, Ulips, bundled savings and annuities. With pure protection products, it could be feasible to port from one company to another as these contracts are closer to annual contracts in design. Group term life and funds businesses, Pradhan Mantri Jeevan Jyoti Bima Yojana, and vanilla term plans could consider portability.

With Ulips and bundled saving plans, portability may not offer superior value to customers. When it comes to Ulips, regulations such as ceiling on the net reduction in yield, lock-in period of 5 years with reasonable returns even if discontinued, and minimal specified surrender charges offer flexibility to consumers to maximize returns even if they have to exit a Ulip before the full term. In bundled saving plans, both regulatory interventions and efforts by life insurers have ensured that surrender values have gone up.

The internationally accepted Treating Customer Fairly (TCF) framework has helped provide better surrender values to Indian customers. This has ensured that value is delivered to customers to stay beyond a reasonable period of time.

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Thank you