Regulatory Update

## IRDA Update: Norms for Individual Agents

16 February 2011

By way of an update, the IRDA issued a circular dated 15th February 2011 for General Insurers in furtherance of the IRDA's earlier Circular of 11th February 2011 which applied only to Life Insurers. Through this Circular, the following provisions from the 11th February Circular have been expressly extended to apply to General Insurers as well.

***(1) RELATIVES OF EMPLOYEES OF INSURANCE COMPANIES NOT TO BE ENGAGED AS AGENTS***

*Relatives of employees of insurance companies shall not be engaged as agents by the insurers. For this purpose, the definition of "relative" shall include spouse, sisters, brothers, parents, sons, daughters -in-law, daughters and sons-in-law.*

***(2) INSURERS TO LAY DOWN MINIMUM BUSINESS REQUIREMENTS FOR AGENTS***

*All insurers are required to lay down Minimum Business Requirements for agents and monitor the performance of agents in this regard as often as it is required.*

***(3) INSURERS TO COMMUNICATE AND MONITOR***

*Insurers are required to communicate the above guidelines to their agents and take a confirmation from the agents regarding their having received and understood them. Insurers shall monitor the compliance of these guidelines by agents through appropriate software.*

These guidelines come into effect from 1st July, 2011. General Insurers are required to acknowledge this Circular and confirm the action taken.

A copy of the 11th February Circular is attached for your reference.

**For further information on this topic please contact Tuli & Co**

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**CEOs of Life Insurance Companies**
Ref:IRDA/CAD/GDL/AGN/016/02/2011 Date:11-02-2011

Guidelines for Individual Agents for Persistency of Life Insurance Policies
To

All the CEOs of Life Insurance Companies

Re: Guidelines for Individual Agents for Persistency of Life Insurance Policies

I. OBJECTIVE:

Low Persistency of life insurance policies is a cause of concern for the Insurance Regulators worldwide , the Industry, Intermediaries and the Policyholders. Early lapses and surrenders are not desirable for any of the stakeholders in the sector. The Authority recognizes that agents can play a vital role to ensure high persistency (i) by avoiding soliciting unsuitable products (ii). by bringing in transparency in providing correct and complete details of suitable products to the prospective policyholders and (iii) by considering the needs of prospective policyholders. In its endeavour to increase the persistency of the life insurance business thereby giving a fillip to protection of policyholders' interests, the Authority seeks to put in place minimum standards of performance for agents. The Authority therefore issues these guidelines, under Section 14(2) of the IRDA Act, 1999 requiring agents and insurers to enhance persistency of life insurance policies.

II. DEFINITIONS:

(A). Persistency Rate: Persistency Rate refers to the percentage of policy contracts still in force at the specified time interval after they have been issued and shall be calculated on premium basis as well as policy basis. The procedure for calculation of Persistency Rate shall be in accordance with Annexure A attached.

(B). Performance Year: A “ Performance Year” for an agent for purposes of reckoning persistency as prescribed herein would be the Financial Year.

(C). New Agents: New Agents are those who have been issued fresh licenses on or after 1st July, 2011

(D). Existing Agents: Existing Agents are those who hold valid licenses issued before 1st July, 2011.

(E). Orphan policy: A policy is treated as an orphan policy if the agent who procured that policy, is no longer working for the insurer who issued it or if his licence is no longer valid.

(F). Deferred Commission: The component of initial commission, in case of regular premium and limited premium payment policies, paid in subsequent years subject to fulfillment of conditions specified by the insurer.

III. REQUIREMENTS ON PERSISTENCY

(a). For all renewals prior to the Financial Year 2014-15, the average Persistency Rate for each agent for the years 2011-12, 2012-13 and 2013-14 shall be at least 50% in terms of both policies and premium procured by such agent.

(b). From the Financial Year 2014-15, the Persistency Rate for each agent shall be at least 75% in terms of both policies and premium procured by such agent.

(c). The Persistency Rate shall be on a pro-rata basis and rounded off to the nearest decimal where the financial year is not covered in full.

(d) Renewal of agent license is subject to meeting the persistency rates as stated in (a) and (b).

(e). All agents shall maintain a correct and complete record of the various policies sold and their persistency on a year on year basis and get the record endorsed by the insurer at the end of each year.

## IV. RELATIVES OF EMPLOYEES OF INSURANCE COMPANIES NOT TO BE ENGAGED AS AGENTS

Relatives of employees of insurance companies shall not be engaged as agents by the same insurer. For this purpose, the definition of “relative” shall include spouse, sisters, brothers, parents, sons, daughters –in-law, daughters and sons-in-law.

## V. DEFERMENT OF COMMISSION

Every life insurer shall frame suitable guidelines on deferment of commission payments to agents. Commission payment on Single Premium policies shall not be deferred. Commission on sale of Regular Premium and Limited Premium policies may be deferred only after Board approval, which is clearly spelt out and disclosed to the agents as well as displayed on the website.

## VI. SERVICING OF ORPHAN POLICIES

In respect of life insurance, for all orphan policies, insurers are advised to allow transfer of policies to another agent and pay 50% of the deferred commission the original agent was eligible for. The total commission paid for each policy shall remain within the statutory limits and as per File & Use approvals.

## VII. INSURERS TO LAY DOWN MINIMUM BUSINESS REQUIREMENTS FOR AGENTS

All insurers are required to lay down Minimum Business Requirements for agents and monitor the performance of agents in this regard as often as it is required.

VIII. INSURERS TO MONITOR:

Insurers are required to incorporate these stipulations in the agency agreements with their agents and shall monitor the compliance of these guidelines by agents through appropriate software.

These guidelines shall come into effect from 1st July, 2011. Please acknowledge this circular and confirm action taken.

( A.Giridhar)

Executive Director

Encl: Annexure A (attached)

## Annexure: A

## An example of 13 month persistency calculation

**13th month persistency**

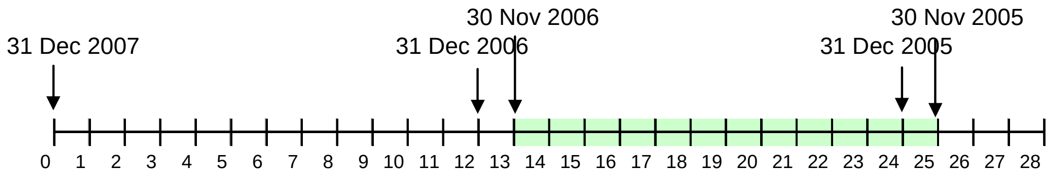
**Objective:** To measure the company's first year persistency.

**Definition:** Percentage of contracts, measured by premium, still in force 13 months after they have been issued.

**Formula:** inforce/exposure

where
exposure = total annualised premium* of policies issued from 13+x to 24+x months ago, inclusive, taking into account grace period (x)

example:
grace period is 1 month
valuation date is 31 December 2007
exposure shall be total annualised premium of policies sold from November 30, 2005 to November 30, 2006 (as shaded)




inforce = total annualised premium* of policies in the exposure block that has paid the first modal premium of the 2nd policy year
in particular, given the following premium mode, satisfying the following conditions:

| | |
|---|---|
| annual mode | paid at least 2 premiums |
| semi-annual mode | paid at least 3 premiums |
| quarterly mode | paid at least 5 premiums |
| monthly mode | paid at least 13 premiums |

Note:
*annualised premium is calculated using the sum assured as at valuation date (reflecting any increases or decreases in coverage)

For example:

| Month | Month of Commencement | Annualized Premium written ( Rs in lacs) | Month of Commencement + 13 months | Annualized premium in force with duration '13 Months' falling during the period of investigation | Month of Commencement + 25 months | Annualized Premium in force at duration '25 Months' falling during the period of investigation |
|---|---|---|---|---|---|---|
| 1 | Dec-05 | 50.00 | Jan-07 | 47.50 | Jan-08 | 38.00 |
| 2 | Jan-06 | 75.00 | Feb-07 | 60.00 | Feb-08 | 45.00 |
| 3 | Feb-06 | 100.00 | Mar-07 | 85.00 | Mar-08 | 61.20 |
| 4 | Mar-06 | 125.00 | Apr-07 | 102.50 | Apr-08 | 71.75 |
| 5 | Apr-06 | 150.00 | May-07 | 118.50 | May-08 | 77.03 |
| 6 | May-06 | 175.00 | Jun-07 | 154.00 | Jun-08 | 110.88 |
| 7 | Jun-06 | 200.00 | Jul-07 | 172.00 | Jul-08 | 129.00 |
| 8 | Jul-06 | 225.00 | Aug-07 | 184.50 | Aug-08 | 129.15 |
| 9 | Aug-06 | 250.00 | Sep-07 | 195.00 | Sep-08 | 126.75 |
| 10 | Sep-06 | 275.00 | Oct-07 | 206.25 | Oct-08 | 136.13 |
| 11 | Oct-06 | 300.00 | Nov-07 | 210.00 | Nov-08 | 134.40 |
| 12 | Nov-06 | 325.00 | Dec-07 | 227.50 | Dec-08 | 141.05 |
| | **Total** | **2250.00** | | **1762.75** | | **1200.33** |

**Persistency Calculation**

13th Month persistency is 1762.75 / 2250 = 77.80%

25th Month persistency is 1200.33 / 2250 = 53.35%

All policies assumed are annual mode policies. However, the calculations can be made in this manner for other modes as well. Single Premium policies should be excluded from this calculation.