EXPOSURE DRAFT

21st September, 2012

To

All Life and Non-Life Insurers and all other Stakeholders

Re: Standard product for Rural and Social Sector

An exposure draft on a standard product for rural and social sector is released for comments of the public and all the stakeholders. The views, if any, may be sent to meena@irda.gov.in within 30 days from the date of this notification.

Chairman
IRDA

INSURANCE REGULATORY & DEVELOPMENT AUTHORITY

September 21, 2012

EXPOSURE DRAFT

To

ALL LIFE INSURERS and NON-LIFE INSURERS

COMPOSITE PACKAGE OF STANDARD INSURANCE PRODUCT – RURAL & SOCIAL SECTOR

1) **Objectives and target group:**

(a) Having regard to the vulnerability of weaker sections of society and the lack of opportunities in rural India, the Parliament had mandated that every insurer undertake such percentage of life insurance and general insurance business in these sectors as may be specified by the Authority. The objective of mandating a minimum percentage cover to these sections was to extend insurance cover to meet exigencies cast by natural catastrophes, accidental death in particular as also as a means of protection for the family and some savings to bolster their financial security.

However, the experience shows that most of the products on offer are merely scaled down versions of products which were designed to cater to a different income segment. For instance, a product which was designed to provide life cover, typically of a few lakhs of Rupees, was down scaled by reducing cover offered to Rs.50,000 with a corresponding reduction in premium in order to make it more affordable. A similar approach is noticed even in products which offer covers for various named perils like fire, natural catastrophe, personal accident etc.

(b) With this motive, in accordance with the philosophy underlying section 32(b) and section 32(c), the Authority imposed rural and social sector obligations to be undertaken by each insurer. Further, the IRDA came out with a set of Micro Insurance Regulation in 2005, which allowed tie-up between life and general insurance companies. In order to encourage deeper penetration and reach in these sectors, the Authority allowed differential treatment in terms of commissions and intermediaries in distributing the product under micro insurance.

(c) Some of the views expressed by stakeholders are enumerated below:

Only limited success has been perceived in this direction and it is necessary to re-examine whether the current types of policies being offered meet fully the underlying objectives with which the Parliament had provided for Sections 32(b) and 32(c). The figures of performance indicate that the product sold to meet the targets prescribed by Regulations in this regard exhibit very low persistency, low claim frequency and low claim ratio. After due examination of the situation and discussion with persons involved in such an activity, the Authority believes that the low persistency, claims frequency and claims ratio was partly because the communication mechanism of the protection offered by an insurance product to a prospect or a policyholder has not been adequate. It is a widely acknowledged social truth that particularly when dealing with weaker sections and an unlettered group of people 'word to mouth' communication carries far greater conviction than advertisements. For this type of communication to spread effectively there should be a large number of persons who have received the benefits assured in any insurance policy. This again would imply that a system must be developed to encourage greater relationship between a given insurance company and the people who reside in a given geographical space. There is tremendous inertia and slowness in communication which can only be overcome by time and continued effort. The other point which is perceived is that currently the typical general insurance product covers only certain named perils, for instance, personal accident, loss of belongings, natural catastrophes etc. Each of these in particular is a separate policy. Similarly death is a separate policy. In other words, considering the range of perils and the nature of life covered in contingency, the prospect will be required to acquire many policies. Given the clientele which is being addressed, it would be more effective to have a single policy which covers all the above types of perils. Further, such a policy should also enable savings and offer a choice to a prospect to purchase a policy according to his cash flows and his perception of needs and capacity to pay.

However, despite all these efforts placed by Authority, the performance in this sector is unsatisfactory. The tie-up allowed between life and non-life insurers to provide effective means of cover was not used largely by the insurers. The experience in the sector also reveals that insurance awareness is very low. This is evident from the low persistency figures, low claims frequency and low claims ratio.

(d) In this background, to promote and develop insurance awareness, to provide a means which would have an impact on improving the standards, provide protection to various risks and to enable them to build a corpus for their future needs, the Authority has explored the possibility of introducing a comprehensive standard product combining both life and non-life covers. An exposure draft, to this extent, was released requesting feedback from all the stakeholders. The various views expressed by the stakeholders were considered. Many of them felt that:

(i) Linking with Government schemes is a good idea by way of supplementing or topping up of any social security benefit and not to overlap such benefit, this will increase penetration of insurance.

(ii) To keep a basic product and price. Rest of the features can be offered by way of riders.

(iii) To focus on customers who are in low income. The middle income and above customers in rural segment can decide what they want to buy, why define choice for them.

(iv) Implications of such long cover for general insurance products to be examined as the general insurance companies may have to operate as life insurers and recommended a maximum of 3 year cover.

(e) Some also perceived that the product is too restrictive and does not offer sufficient options/ choices and flexibility and that the insurers should be allowed to adopt their own underwriting norms based on the risk assessment. Imposing specific underwriting requirements in Rural & Social sector may restrict penetration and coverage.

(f) Considering the responses received, the Authority has made the standard product more flexible and simple and is also aimed to provide a comprehensive package of insurance covers relevant to persons belonging to economically weaker sections in rural and urban areas. The standard product, apart from the Government sponsored insurance schemes, is aimed to be the primary instrument for fulfillment of the rural and social obligations of insurers under the Insurance Act. The product will have defined options and levels to provide choice and flexibility to customers in order to cater to individual circumstances. The target group shall be the BPL population as per planning commission definition. Each insurer shall cover the target in proportion to their Market share. IRDA shall prescribe annual target so as to cover entire BPL population in the next 5 years.

2. Micro-Insurance and Rural & Social Sector Obligations:

(a) The standard product shall be offered by the insurers to meet the rural and social sector obligations. The insurers shall not be allowed to market any other product to meet the social and rural sector obligations, which offers either lower benefits for the premiums charged in the standard product or higher premium which offers lower benefits than the standard product for the premium charged.

(b) The above condition shall not be applicable to Government sponsored insurance schemes.

3. Linking with the Government Sponsored Insurance Schemes:

(a) This product would facilitate supplementing or topping up of any existing social security benefit and would not overlap with such benefits. Insurance products offered to rural and social sector shall be structured as below:

   (i) Where Government sponsored insurance schemes are being offered in the specific geographical area allotted to the insurer, the government sponsored cover shall be considered as the basic layer.

   (ii) Such Government sponsored insurance schemes shall be considered as basic layer irrespective of the insurer who is offering such Government Sponsored Insurance schemes.

   (iii) In such cases, the next layer shall be the standard product to be offered to the rural and social sector in that area and may be offered to those who are willing to have insurance cover over and above the first layer.

   (iv) In these cases, a deductible equivalent to the sum insured of the basic layer shall be applied to all identical risk covers being offered in both layers.

   (v) Where identical Government sponsored cover is not being offered in the specific geographical area allotted to the insurer, only the standard product shall be offered towards rural or social sector obligation and shall be considered as the first layer. In all such cases, there shall not be any deductible applied.

   (vi) If subsequently, Government sponsored insurance schemes become operational in these areas, point no. i & ii shall become operational from the subsequent renewal date/ next policy anniversary. The insurer shall clearly indicate, at the outset of the contract, the premium with deductible and premium without deductible and these rates shall be applicable suitably.

4. Distribution Mechanism:

(a) Each State shall be allotted to, two general insurers and two life insurers for offering the standard product. Insurers shall be required to meet at least 75% of their rural and social sector obligations from such allotted State(s) and the remaining 25% of their rural and social obligations from the remaining States.

(b) The criteria adopted to allot the States to the insurers may be based on the market share of the insurer in that State.

(c) The insurers who have been allotted the State shall be referred as “Lead Insurers” in that State.

(d) The Life Insurance Council and the General Insurance Council shall allot the States by consensus to the insurers.

5. Tie up between life and non-life insurers:

(a) A Lead life insurer shall issue policies under this standard product and have a tie up with a Lead non-life insurer for the benefit structure relating to “General” described below or a Lead non-life insurer shall issue policies under this standard product and have a tie up with a Lead life insurer for the benefit structure relating to “Life” described below.

(b) The details of the tie up arrangements between a life insurer and a non-life insurer shall conform to provisions contained in regulation 3 of the IRDA (Micro Insurance) Regulations, 2005.

(c) Lead Insurers in the general/life insurance business shall not deny tie-up with the Lead insurers in the life/general insurance business, if approached, to meet the 75% requirement. However, other insurers who wish to meet their 25% requirement in other States may have tie-ups with any other insurers and conform to provisions contained in regulation 3 of the IRDA (Micro Insurance) Regulations, 2005.

6. Benefit structure:

(a) **Benefit structure:** The benefit structure shall include both life insurance and general insurance covers, as listed below.

(i) **Life:**

(1) Term life cover on death during defined term (TL),
(2) Personal accident Partial and permanent disability (PAPPD),
(3) Health Insurance(HI),
(4) Health- Pre-hospitalisation (HPH),
(5) Health- Post-hospitalisation (HPPH),
(6) Critical illness (CI) covering cancer; stroke; kidney failure; first heart attack and major organ transplant,
(7) A lump sum amount payable on maturity.

(ii) **General:**

(1) Personal Accident- Partial and permanent disability (PAPPD),
(2) Health- Pre-hospitalisation (HPH),
(3) Health- Hospitalisation (HH),
(4) Health- Post-hospitalisation (HPPH),
(5) Critical illness (CI) covering cancer; stroke; kidney failure; first heart attack and major organ transplant,
(6) Fire- Dwelling (FD),
(7) Fire- Assets, such as pump set, agricultural tools, farm machinery (FA),
(8) Fire- Stock (including livestock) (FS).

(b) **Benefit options:** There shall be mandatory covers in the Standard product with attached riders/add-ons as listed below:

(i) Base Plan: This will include Term life, CI, & PAPPD as mandatory cover and the remaining covers referred in (a) may be offered as riders/add-ons. The minimum Sum assured for Term Life Cover shall be Rs.40000.

(ii) Additional Plans: The cover offered shall be the same as in the Base Plan, however, the sum assured options shall range from Rs.40000/- to Rs.200000/-for the term life cover

(c) **Benefit levels:**

(i) Sum assured/ insured will be available from Rs.40000/- to Rs.200000/- with multiples of Rs.10000/-;

(ii) Sum assured/insured to be offered shall be in line with limits in the KCC or other verifiable monetary values serving as proxies to income of insured;

(iii) Sum assured/insured will be linked between lines of business by the relationship of 100% for death cover in Term life, 200% to 300% for PAPPD, 25% to 50% for each of H and CI, 50% to 150% for FD, 10% to 30% for FA and FS.

(iv) Each section such as PA, H or other benefits will be subject to the combined limit of sum insured defined for the section as determined in (iii) above.

7. **Extension of cover to family members:**

(a) The standard product may be extended to the family members at the option of the insured.

8. **Period of cover and premium paying term:**

(a) The period of cover shall be offered between 5 to 25 years in all cases of individual assurances/ insurance policies and one year group renewability covers may be offered to groups.

(b) However, the general insures shall offer the term as three years with continuous guaranteed renewability condition for the subsequent three year periods. If the balance of period is less than three years, general insurers shall renew the policy only for such balance period and shall provide the premium rates at the outset for this balance period of less than three years.

(c) Continuous guaranteed renewability shall be subject the provisions of as stipulated in the IRDA (Protection of Policyholders' Interest) Regulation, 2002.

(d) Premium paying term shall be equal to the period of cover and shall allow weekly/monthly/quarterly/half-yearly/yearly modes.

9. **Underwriting aspects:**

(a) Age proof: Age proof shall be compulsory. Where a standard age proof is not available, a certified extract from records of KCC, associated bank loan or UID or other similar record may be accepted.

(b) Age limits for entry and cessation of cover: Minimum age at entry 18 and maximum age at entry 50; more liberal limits as per insurer's normal practice may be allowed.

(c) For life cover, maximum age for continuation of cover in all cases is 70 and there shall not be any exit age for health insurance cover.

(d) Health declaration: Simple health declaration by self/ insured head of family attested by an official nominated by the nodal agency shall be compulsory.

(e) In respect of insurance cover for H & C (critical illness) additional requirement of medical examination acceptable to insurer may be applicable.

(f) In respect of F (fire policies), declaration on continuous occupation and maintenance shall be required.

(g) In respect of all insurances, exclusion of cover for intentional/ malicious acts of self damage shall be applicable.

10. **Exclusions, deductibles and waiting periods:**

(a) All life insurance covers may be subject to one year Suicide clause.

(b) All health insurance, PA, critical illness covers and Fire & contents etc may be subject to exclusions as applicable to the other as the standard product, from time to time.

(c) All the exclusions, terms and conditions for the respective covers offered under the standard product shall be standardized cross the insurers and shall be the responsibility of both the Councils, as applicable. The insurers shall use such standards in the File and Use for approval of the Standard Product.

11. **Distribution channels:**

(a) All regulated intermediaries shall be allowed to offer the Standard Product. Regional rural banks, scheduled banks, self help groups and micro insurance agents may act as agents subject to IRDA (Micro Insurance) Regulations 2005.

12. **Premiums:**

(a) Premiums for the Standard Product shall be determined by the insurer in accordance with the actuarial principles. For each of the cover i.e. the base plan and all other listed riders/add-ons, the insurer shall file the entire bases, the methodology used to determine the premiums, the software used, the bases and the methodology used to determine the liabilities, the source of the data used, credibility and the reasonableness of the data used, the past performance of the product/similar product with the Authority for approval under File and Use Procedure.

(b) The insurers shall submit the expected profitability of the product with each rider/add-on being offered.

(c) The bases for mortality shall be based on the standard mortality table IALMT 94-96 or any other mortality table subsequently approved by the Authority.

(d) The bases for CI and PAPPD shall be based on the standard morbidity critical illness table CIBT 93 or any other morbidity table subsequently approved by the Authority.

(e) The bases for expenses, commission & profit margin shall not exceed 25% of the premium. Renewal expense bases shall not exceed 2% of the premium.

(f) The bases for other parameters like lapse, interest rate etc shall be justified giving the rationale for arriving at such parameters.

(g) The premium for the base plan with all the add-ons/riders shall not exceed Rs.1000/- per annum to Rs.7500/- per annum and the premium for the additional plans i.e. for higher sum assured may be suitably loaded.

(h) Life insurance covers and general insurance covers may provide option to continue cover even in the event of non-payment of premiums due continuously for a maximum period of 2 years in a 5 year cycle. The option shall be allowed subject to payment of additional premium of 30% of the annual premium.

(i) All premiums for general insurance covers and all premiums pertaining to PA, Health and CI offered by life insurers may be subject to a reviewability clause to review premium rates once in every three years.

13. **Policy conditions and prospectus:**

(a) Simple, clear and transparent language without vague and ambiguous statements shall be used in framing the policy document and the prospectus considering the target market.

14. **File and Use procedure:**

(a) All the insurers shall submit the product filings under the File and Use procedure along with the other requirements referred above for approval of the Authority.

(b) Insurers shall ensure the information furnished in all the documents is consistent and complete. Any product filing which is incomplete and inconsistent shall be rejected. Such insurer shall re-file the product under file and use procedure again for approval.

15. **Credit for business under the rural and social obligations:**

(a) Insurers shall be given one unit credit for each of life cover and each of the non life cover for the sale of one Standard product.

16. **Mandatory Requirements:**

(a) During the years 2012-18, all the insurers shall fulfill at least 50% of the target group as given in the Table below each year through the standard product sales and the remaining 50% may be fulfilled by any other approved rural and social sector products.

(b) The Authority shall review the design and target of the Standard product after 3 years or at any other frequency as felt appropriate.

Cumulative target premium for each year to be fulfilled by the insurers							
Insurers	Target for the next 10 years	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6
Life Insurers	2614.5	260.00	525.00	800.00	1000.00	1300.00	1600.00
General Insurers	1743	175.00	350.00	525.00	700.00	875.00	1000.00

17. **Furnishing Statements:**

(a) Life insurers and non-life insurers shall furnish half-yearly statements respectively to the Life Department and Non-life Department of the Authority the performance of the product each district-wise and distribution channel-wise in respect of each State.

(b) The performance of the product shall include, at the minimum, the number of policies sold, number of lives/houses covered, premium written, earned premium, commission paid, expenses incurred, claims settled, claims repudiated, claims outstanding, number of lapses/cancellations/surrenders, number of revivals, incurred claims ratio, combined ratio.

(c) For long term products, earned premium may not be required, but all other details shall be furnished.