Tuli & Co
Solicitors and Advocates

Regulatory Update

## Exposure Draft on Persistency of Life Insurance Policies

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Persistency is defined as, '*the proportion of policies remaining in force at the end of the period out of the total policies in force at the beginning of the period. In other words, persistency is the percentage of business retained without lapsing or being surrendered. Low lapsation means high persistency and vice versa.*'

The proposed requirements for Insurers and intermediaries aimed at increasing persistency are:

- Insurers must design products that meet the long term needs of the customer.
- Insurers must improve servicing.
- Insurers should choose an 'appropriate mix' of distribution channels to reach customers.
- An intermediary has to build a 'good rapport and credibility' with policyholders and also 'build faith in the company'.
- An intermediary is required to advise clients keeping in view the clients' needs of insurance rather than the 'level of remuneration or other incentives'.

The suggested criteria by industry stakeholders for increasing the persistency of agents are:

- Where the average annual persistency ratio is less than 50%, the agency license will not be renewed.
- The minimum number of policies per agent shall be 20 per annum.
- The minimum First Year Premium Income to be procured by an agent will be Rs.150,000 per annum.
- There will be a disincentive for lapses in the form of a commission claw back by the Insurer, on a proportionate basis. Alternatively, a part of the first year commission will be withheld to be paid based on persistency in later years.

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

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