

33rd India Fellowship Webinar

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Case Study 8 - Professionalism

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AGENDA



- Case Study Overview
- Observations
- Regulations & Professionalism
- Why Such Sales Practices
- Impact of Such Sales Practices
- Ideal Insurance Sales Process
- IRDAI Circular on Market Conduct
- Steps to Curb Mis-selling Practices
- Q & A

Case Study Overview



- Sales Process of A2Z company experienced by a new employee (KR - Actuarial student) before joining the company:
 - Agent (of A2Z) prompted “KR” to discontinue his existing ULIP policy which has been in force for 5 years and buy new product launched by A2Z company
 - The agent marketed the product by showing attractive assured returns based on bonuses projected in sales material (of with profit product).
 - Observing reluctance of KR to buy policy - agent offered cashback on First Premium

Case Study Overview



- Discussion of KR with Sales & Marketing Team:
 - Enquired - Whether such practices are correct and have company approval
 - Acknowledgment by team of such practices prevailing in the industry
 - Response of AVP (Actuarial) Sales & Marketing Team

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Observation 1



- Did the agent enquire about customer need?
 - Did agent try to analyze, what are the needs of customer?
 - Whether KR wanted to discontinue the policy?
 - Whether ULIP policy served any customer need, like need to invest in life stage funds?
 - Is agent himself trained enough to do a need-based selling?

Observation 2



➤ Agent's misrepresentation

- Agent emphasizing on assured returns under with profit - whereas a part of the benefit (in form of bonuses) is variable in nature
- Whether Customer is made aware of the inherent risks under ULIP product v/s with profit product
- Was there a clear communication on purpose of illustration material?
 - Customer encouraged to read the full illustration?
 - Was it clearly stated by agent that actual benefits can be different?
 - Whether he encouraged customer to compare illustrated benefits between products

Observation 3



➤ Direct Breach of Regulations & Law

- IRDAI (Appointment of Insurance Agents) Regulations, 2016 - requires
“No agent shall offer different rates, advantages, terms & conditions other than those offered by the insurer”
- Section 41 of Insurance Act also prohibits agents from such practices.
- In this case the insurance agent is offering an additional cashback which does not seem to be part of authorized sales literature.

Observation 4



➤ Other Relevant Discussions Done?

- Discussions on exclusions under the product
- Terms of Discontinuance - options and benefits available on same
- Revival option available on policies
- Options of Free-look and Cancellation

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Regulations and Professionalism



IRDAI (Appointment of Insurance Agents) Regulations, 2016	IRDAI (Protection of Policyholders' Interests) Regulations, 2017	APS 5 - Appointed Actuary And Principles Of Life Insurance Policy Illustrations
Provide required information of product	Actions to increase public awareness	Prepared in consultation with Appointed Actuaries
Account for need of customer	Steps to ensure prospects are aware of products at sales stage	Authorized by the company
Advice given should be dispassionate	Provide all material information regarding coverage being provided	Help Customers to make informed decisions
Proactive in preserving business procured by him	Agent should provide his advice on products dispassionately	Should project benefits under two rate of returns (provided by Life Council from time to time)
Should not offer benefits other than that promised under product		Statutory warnings w.r.t Guaranteed and Non-guaranteed benefits shall be clearly spelt out
		Should be simple enough to understand
		Bonuses & other assumptions used for benefit projection should be appropriate for the product and scenario concerned
		Appropriate use of sales material by sales staff should be part of their training and supervision
		Options available on discontinuity should be clearly spelled out

Regulations and Professionalism



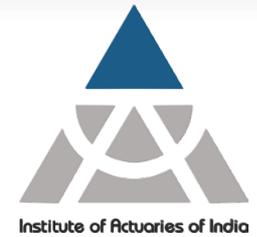
- Professional Code of Conduct Standards by IAI requires:
 - Obligation to serve public interest
 - Debate on matters of public interest
 - Influencing those in power to protect public interest
 - Should not act in a manner that denigrates reputation of profession

Regulations and Professionalism



- Code of conduct breach by Actuary AVP (Sales & Marketing)?
 - This depends on how the situation is being dealt with -
 - Such sales practices are being promoted?
 - There is inaction related to such practices?
 - Such practices are being highlighted to the senior management team actively & actions taken to curb the same?
 - Whether required escalations were made to concerned persons including AA & Risk team?
 - KR (New Joiner) is doing the right thing by taking up the matter with Sales & Marketing team.

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Why Such Sales Practices



➤ Customers

- May not be fully aware of their needs, and how they may change over their life cycle
- May not fully understand financial products in general and insurance products in particular
- Lack of understanding of how a product is helping in mitigating their risks, and at the same time of the risks inherent in the product
- May not know their rights associated with a product purchased; such as different options available in the product, exclusions, free-look cancellation, grievance redressal mechanism, etc.

Why Such Sales Practices



➤ Sales Force

- May not appreciate the opportunity arising out of selling appropriate products to the customers:
 - Potential of accumulated renewal commissions
 - Opportunity to cross-sell other products
 - Goodwill - for the agent as well as for the company
- May indulge in churning of policies for higher initial commission
- May not have adequate training to do need-based selling
- Lack of understanding of complex insurance products

Why Such Sales Practices



➤ Company

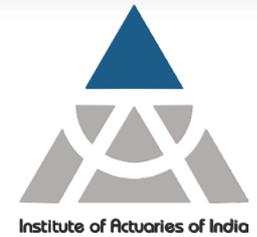
- May have aggressive targets for new business, and there may be resulting pressure on sales force to meet them
- Large differential between initial and renewal commission rates, may cause the focus of sales force to be on “selling” rather than to be on “selling and servicing”
- Movement of Agents Between Companies
 - Companies may target experienced sales force of other companies
 - On changing companies, agents may encourage the customers aligned with them to lapse existing policies of their old company and buy new policies from their new company

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Impact of Such Sales Practices



➤ Impact on Company

- Persistency issues
 - Early surrenders may lead to losses
 - Adverse impact on Embedded Value
 - For participating products: losses on early surrender may impact future bonus distributions, hence may cause PRE issues as well
- May lead to regulatory breaches
- May give rise to litigations and other legal complications
- Reputation risk for the company as well as the industry

Impact of Such Sales Practices



➤ Impact on Customers

- If the products sold do not meet customer needs properly, it may have multi-faceted implications:
 - Customer dissatisfaction
 - Policies may be lapsed or surrendered
 - Early surrenders' benefit may be low compared to premiums paid, causing even further dissatisfaction
 - Trust deficit - towards agent, company and the industry

- Agent may lead customers to participate in actions that are not legal (such as cashback on first year premium), while customer may not have sufficient understanding and implications of those actions

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Ideal Insurance Sales Process



An ideal insurance sales process needs to include a consideration of the following aspects for customer:

- **Needs of the customer**
 - Goals (current/future)
 - Life Stage
 - Dependents, and their needs
- **Financial Sophistication of the customer**
 - Education
 - Income
 - Net worth
 - Financial Literacy / Awareness
- **Risk Appetite of the customer**
 - Conservative / Aggressive / Moderate
 - Particularly for choice of funds in ULIPs

Ideal Insurance Sales Process



- **Suitability of product for the customer**
 - Help the customer meet current and future needs
 - Enable the customer to manage risks better
 - Complexity of product vis-à-vis financial sophistication
 - Appropriate level of benefit
 - Premium payment capacity

- **Current portfolio of the customer, and how the new product fits in**
 - Protection
 - Savings
 - Tax Benefits

Ideal Insurance Sales Process



Switching of products

- Suitability of new product considering customer's existing insurance portfolio
 - Is new product more suitable to meet customer's current and future needs
 - Does new product help customer manage risks better

- Switching cost for the customer
 - Friction cost
 - Surrender penalty/charge for existing product
 - Commission for new product
 - Impact on volatility of returns
 - Guaranteed + discretionary benefit vs. market-linked benefit
 - Smoothed returns vs. market-linked returns
 - Impact on customer IRR

Ideal Insurance Sales Process



- Sample Benefit Illustration of a Unit Linked Policy

Policy Year	Annualized Premium	At 4% p.a. Gross Investment Return						At 8% p.a. Gross Investment Return						Commission payable to intermediary ¹⁰
		Mortality Charge	Other Charges*	Applicable taxes	Fund at End of Year	Surrender Value	Death Benefit	Mortality Charge	Other Charges*	Applicable taxes	Fund at End of Year	Surrender Value	Death Benefit	
1	50,000	469	1,870	421	49,184	0	500,000	468	1,884	423	51,112	0	500,000	0
2	50,000	425	2,543	534	99,580	0	500,000	421	2,598	543	105,498	0	500,000	0
3	50,000	381	3,233	651	151,214	0	500,000	372	3,358	671	163,366	0	500,000	0
4	50,000	333	3,940	769	204,123	0	500,000	315	4,167	807	224,945	0	500,000	0
5	50,000	286	4,664	891	258,335	258,335	500,000	255	5,027	951	290,472	290,472	500,000	0
6	50,000	231	5,406	1,015	313,891	313,891	500,000	184	5,943	1,103	360,209	360,209	500,000	0
7	50,000	172	6,167	1,141	370,825	370,825	500,000	102	6,918	1,264	434,436	434,436	500,000	0
8	50,000	103	6,947	1,269	429,184	429,184	500,000	7	7,955	1,433	513,449	513,449	513,449	0
9	50,000	24	7,746	1,399	489,012	489,012	500,000	0	9,059	1,631	597,443	597,443	597,443	0
10	50,000	0	8,565	1,542	567,038	567,038	567,038	0	10,232	1,842	707,138	707,138	707,138	0
11	0	0	8,948	1,611	578,964	578,964	578,964	0	11,066	1,992	750,174	750,174	750,174	0
12	0	0	9,111	1,640	591,172	591,172	591,172	0	11,667	2,100	795,919	795,919	795,919	0
13	0	0	9,278	1,670	603,667	603,667	603,667	0	12,306	2,215	844,542	844,542	844,542	0
14	0	0	9,449	1,701	616,457	616,457	616,457	0	12,985	2,337	896,225	896,225	896,225	0
15	0	0	9,624	1,732	649,637	649,637	649,637	0	13,707	2,467	980,523	980,523	980,523	0

Ideal Insurance Sales Process



Institute of Actuaries of India

- Sample Benefit Illustration of a Participating Policy

Policy Year	Single / Annualized Premium	Guaranteed Benefits					Non Guaranteed Benefits @ 4% p.a.			Non-Guaranteed Benefits @ 8% p.a.			Total Benefits including Guaranteed and Non-Guaranteed Benefits					
		GA	Survival Benefit	Surrender Benefit#	Death Benefit	Maturity Benefit	RB	Cash Bonus	Surrender Benefit#	RB	Cash Bonus	Surrender Benefit#	Maturity Benefit		Death Benefit		Surrender Benefit	
													Total Maturity Benefit, incl TB, if any, @ 4%	Total Maturity Benefit, incl TB, if any, @ 8%	Total Death Benefit incl of TB, if any, @ 4%	Total Death Benefit incl of TB, if any, @ 8%	Total Surrender Benefit incl of TB, if any, @ 4%	Total Surrender Benefit incl of TB, if any, @ 8%
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19
1	50,000	12,237	0	0	5,12,237	0	4,079	0	0	14,277	0	0	0	0	5,16,316	5,26,514	0	0
2	50,000	24,474	0	31,199	5,24,474	0	8,158	0	5,175	28,553	0	12,450	0	0	5,32,632	5,53,027	36,375	43,649
3	50,000	36,711	0	54,556	5,36,711	0	12,237	0	10,928	42,830	0	24,024	0	0	5,48,948	5,79,541	65,483	78,580
4	50,000	48,948	0	1,03,133	5,48,948	0	16,316	0	1,637	57,106	0	22,591	0	0	5,65,264	6,06,054	1,04,769	1,25,723
5	50,000	61,185	0	1,29,528	5,61,185	0	20,395	0	27,616	71,383	0	59,045	0	0	5,81,580	6,32,568	1,57,144	1,88,573
6	50,000	61,185	0	1,55,201	5,61,185	0	24,474	0	48,454	85,659	0	89,185	0	0	5,85,659	6,46,844	2,03,655	2,44,386
7	50,000	61,185	0	1,80,996	5,61,185	0	28,553	0	75,625	99,936	0	1,26,949	0	0	5,89,738	6,61,121	2,56,621	3,07,945
8	50,000	61,185	0	2,30,914	5,61,185	0	32,632	0	85,821	1,14,212	0	1,49,168	0	0	5,93,817	6,75,397	3,16,735	3,80,082
9	50,000	61,185	0	2,82,454	5,61,185	0	36,711	0	1,02,370	1,28,489	0	1,79,335	0	0	5,97,896	6,89,674	3,84,824	4,61,789
10	50,000	61,185	0	3,44,117	5,61,185	0	40,790	0	1,17,678	1,42,765	0	2,10,037	0	0	6,01,975	7,03,950	4,61,795	5,54,154
11	0	61,185	0	3,75,524	5,61,185	0	44,869	0	99,268	1,57,042	0	2,02,893	0	0	6,06,054	7,18,227	4,74,792	5,78,417
12	0	61,185	0	4,07,053	5,61,185	0	48,948	0	81,090	1,71,318	0	1,96,400	0	0	6,10,133	7,32,504	4,88,144	6,03,453
13	0	61,185	0	4,33,889	5,61,185	0	53,027	0	67,966	1,85,595	0	1,95,390	0	0	6,14,212	7,46,780	5,01,855	6,29,279
14	0	61,185	0	4,65,969	5,61,185	0	57,106	0	49,910	1,99,871	0	1,89,877	0	0	6,18,291	7,61,057	5,15,879	6,55,846
15	0	61,185	0	0	5,61,185	4,69,086	61,185	0	0	2,14,148	0	0	6,36,325	8,99,422	6,22,370	7,75,333	0	0

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IRDAI Circular on Market Conduct



The IRDAI Circular on Circular on Benefit Illustration and other market conduct in September 2019 covers many aspects to make the sales process fair and transparent for the customer:

➤ Benefit Illustrations (BI)

- Insurer shall provide customised BI at the point of sale
- BI should be Signed by prospective policyholder as well as the insurance agent / salesperson
- Format approved by the Appointed Actuary and the Chief Executive Officer / Principal Officer, and placed before the Board of Directors
- BI should be clear and fair to enable a customer to make an informed decision
 - Clearly distinguish between guaranteed and non-guaranteed benefits
 - State that the quantum of non-guaranteed benefits may vary
- Insurers to review the assumptions used during the annual actuarial valuation

IRDAI Circular on Market Conduct



➤ Market Conduct Aspects

▪ Policyholder Education

- Insurers should place standardized presentation of each product on offer for sale on their website
- Agents and intermediaries should not use unauthorized presentations and projections
- Insurers and Life Insurance Council shall actively promote education of policyholders on an ongoing basis (in particular for ULIPs)

▪ Suitability of products sold for the customer

- Insurers/agents should collect suitability information of every prospect and make recommendations on purchase of a product only basis such information
- Insurers should have a Board approved policy and the process to ensure suitability of products sold taking into account the customer profile

IRDAI Circular on Market Conduct



- **Training of Agents and Intermediaries in respect of ULIPs**
 - Insurers should impart periodical training to their agents and intermediaries to ensure required expertise before they are authorized to sell ULIPs

- **Advertisements of ULIPs**
 - Should contain adequate, accurate, explicit and updated information fairly; in a simple language
 - Should disclose risk factors as stated in policy document along with the relevant warning statements

- **Financial Planning for Pension Products**
 - Insurers should disclose illustrative target purchase price and target annuity rates - considering premium payment capacity, current/vesting age, future expected conditions
 - Insurers should disclose potential risks involved

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Steps to Curb Mis-selling Practices



Along with the quantum of New Business written, company should have the following key metrics in incentivizing the agents:

- Customer Satisfaction Scorecard: Company should use a Customer Satisfaction Scorecard as one of the key metrics in incentivizing the agents. Customer Feedback can be taken after sales through:
 - A simple question “Are you fully aware of the risk and benefits of your policy: Yes/No”
 - A phone call to know the experience
 - An online feedback form
- Better Persistency: Agents should be rewarded for better persistency of their business.
- Effective New Business Written: Company should have an analytical tool in place to identify between the actual new business to the company and business through lapse and re-entry to the other product. Also, more weightage should be assigned to actual new business.

Steps to Curb Mis-selling Practices



Educating the Insurance Agent

- Educating the agents regarding the professional standards to act in the best interest of the policyholder.
- Educating the agents about the importance of having a good relationship with clients as there is always an opportunity to cross sell other products.
- Proper Training of agents so that they fully understand the product and can explain the same to policyholder.
- Companies can issue a checklist for the ease of agents to know the key points that should be explained to the policyholders. Some of the examples of the items of the checklist can be: Risk inherent in the product, risk inherent in each fund (in case of ULIP), discontinuance terms, exclusions, Free look cancellation right, guaranteed and non-guaranteed benefits etc.
- A model that can show the build up of renewal commission. Though the renewal commission scale is lower than initial commission, but the build up of the renewal business can accumulate a large proportion of renewal commission.

Steps to Curb Mis-selling Practices



Educating the Customers

- Educating the policyholder and making them aware of their right and responsibilities such as free Look cancellation right in case they are not happy with the product.
- Educating the customers about the Grievance Redressal Forum where they can lodge the complaints.
- Spreading the awareness about the different types of products that are available in the market, suitability of different products.
- These can be done in many ways such as :
 - Quarterly Publication that may contain information like market insights, product knowledge, investment advice etc.
 - Press Release and Articles
 - Social Media Campaigns
 - Verification Call
 - Policy Retention Team

Steps to Curb Mis-selling Practices



Other Steps that Company can take

- Simplified and Clear Sales Literature: The APS 5 requires that the Benefit Illustration should be clear and should not hide any material facts. However, it is the professional duty of an Actuary to make sure that Sales related documents serve the purpose of making the policyholder fully aware of the product and policy details.
- Taking regular feedback from the Insurance Agents and understand the challenges they face at the field. And incorporating the feedback in designing the trainings and sales related documents.
- Companies can put a criteria of minimum proportion of the agents to have some set minimum qualification (for instance: graduate) in addition to passing Insurance Agency Examination required by IRDAI (Appointment of Insurance Agents) Regulations 2016.
- Company may take initiatives to encourage agents to take certification courses such as courses offered by Insurance Institute of India, courses on wealth management. The encouragement can come in any form such a bearing half of the cost of the course by the company, recognising such agents as Certified Agents and remunerating them better.

Steps to Curb Mis-selling Practices



Other Steps that Company can take

- Cancellation of Agents license in cases where there are frequent complaints.
- Company should focus on retaining the insurance agents.
- Company should share the information of defaulter agents amongst the other companies.

Q & A

Thank You!