What private insurers sell are not pensions at all IRDA chief
(Category: 6Category LIC) (Source: Business Line - Delhi, 09 February)

What private insurers sell are not pensions at all: IRDA chief

'Today, almost 99% of all pensions are with LIC'

N. S.Vageesh
G. Naga Sridhar

The IRDA has faced a lot of criticism from insurance companies on the changes in regulations governing unit-linked pension products. Mr J. Hari Narayan, Chairman, Insurance Regulatory and Development Authority, offers a ringing defence of why there were changes.

While conceding that the circular on those provisions concerning guarantees could have been more 'happily worded', he was scathing in his comments on the 'market' practices of insurance companies.

He says what the insurance companies claim to sell as pension products are not pensions at all. He says, these

INTERVIEW

companies shift the responsibility to LIC when it comes to commencing the payment part, slyly directing the consumer to LIC for annuities.

Look at that closely — it is a damning indictment of the private life insurance industry and its practices.

Clearly, there is a lot that the insurance industry needs to do to regain trust. Mr Hari Narayan expressed confidence that the industry would fall in line. Somehow, the tone with which he said that gave one the impression that the industry will do just that.

Excerpts:

There is criticism about your guidelines on pension products. There have been frequent revisions. Also, the requirement that there should be a guarantee even for surrendered products, experts say, will throw pricing out of the window. What is your response?

They may have a point there. What we were trying to say is this: If you are selling any product, we want you to say upfront that this is what you will get if you surrender the product, say, in the first year, the second year, or the third year, and so on. You can't say, I'll figure it out at that time, or leave it vague. You better specify what you are going to do when the guy signs up the contract.

The circular was not happily worded. The intention was that whatever was the surrender value that you may impose, that should be clear.

The function of surrender involves two things. One, there should be a disincentive to surrender. At the same time, it cannot be a situation where the insurance company makes a hell of a lot of money through surrender income. Then they will encourage products which they know will be surrendered. It can't be a 'surrender income' based industry. Then you are cheating the consumer.

There is a fine line. At the same time, you can't be incentivising the customer to surrender. So, how exactly I am going to word that balance is the issue. Yes, there was a problem with the wording.

Some companies have stopped selling pension products because of the change in regulations...

That was not the main issue. That's only an excuse. They stopped because I made one change in the regulation.

What was that?

Wait. Tell me what do you understand by a pension?

Something that is going to provide me an income at a later stage in life. Why do you ask?

That's what you think. These guys are selling something which they call a pension product — but which doesn't promise anything like that.

In a pension product, in the first phase, you pay me money. Then you stop, I start paying you money. There is the inflow and, after sometime, there is the outflow. The point when it switches is called the vesting date.

Now, what these insurance companies do is this — when the vesting date comes, they turnaround and say, "we'll give you only 3 per cent return. You go to LIC because they are giving you a 6-7 per cent return!"

So, as long as the money was coming in, you are happy to call it a pension product. The minute the money starts going out, you create a system whereby the money goes to LIC. So today, almost 99 per cent of all pensions are with LIC. Look at it from the country's perspective. Can we afford such a high concentration of risk on LIC? Is it wise? Therefore, I said you cannot do this.

If you are selling a product that you call pension, then you jolly well provide the pension at the appropriate time. You can't hive off your responsibility. You can't say, "Sorry. Go to LIC."

I am not saying how much you should pay — because that depends on interest rates and other factors. But you have the responsibility to do it. Otherwise don't sell such products. Or don't call it a pension product. Call it by some other name and file your product. I'll have a look at it.

The only player who is now selling pension products with a conscious knowledge that it is going to pay pensions is LIC. That is one thing in its favour.

There is another important reason we need to look at this carefully. The country has moved away from 'pay-as-you-go' to a defined contribution scheme. We have come up with a new pension scheme. Sooner or later, the NPS will come to fruition. At that point of time, what is the competition in the market? There is only one player offering you an annuity. That is Mr LIC. Where is the choice for the customer? So we have to enable other companies also to get into this, so that the customer has a proper choice.

For that to happen, we need a robust derivatives market in India. The two are linked. When the insurance companies tell you that they are not selling pension products, they are telling you only part of the story. They are really not giving any pension. Nor do they have any intention to.

We should develop healthy practices — not only apparently, but really. Those things will separate the serious players from the not-so-serious players. As long as they understand that this is indeed the intention of the regulator, they will fall in line. They will figure it out.

We need to do our stuff. We have taken some steps in that direction — not fully, or adequately, but we are moving in that direction.

vageesh@thehindu.co.in
nagsridhu@thehindu.co.in

▶If you are selling a product that you call pension, then you jolly well provide the pension at the appropriate time. You can't hive off your responsibility. You can't say, 'Sorry. Go to LIC'.

MR J. HARI NARAYAN, CHAIRMAN, IRDA.