Plainspeak

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Insuring the Insurer

IRDA's move to protect insurers' interests gives policyholders no option to exit pension schemes or shop for higher annuities

OUR films reflect our lives and society and, in recent times, many films have been inspired by real-life incidents. In his time, Ajit was a dreaded villain on screen who also laced his dialogues with mannerisms that induced an element of comic relief. A famous Ajit joke comes to mind when he instructs his sidekick Robert about giving out a novel punishment to a fellow: "Robert, *isko* liquid oxygen *mein daal do!* Liquid *issay jeenay nahi dega*, oxygen *issay marnay nahi dega!*" (Put him in liquid oxygen. Liquid will not let him live and oxygen will not let him die).

VARUN VASHISHTHA

The Insurance Regulatory and Development Authority's (IRDA) recent move is something akin to that; policyholders will not be able to exit their pension plan and will also be made to live with the annuity offered by the same insurer.

The insurance regulator realised the folly of enforcing a minimum 4.5 per cent return on pension plans, which linked to the reverse repo rate and was 50 basis points higher. The insurers did not realise that the change in interest rates within a year would result in repo rate going up to 7 per cent and, hence, the guarantee going up to 7.5 per cent, and benefit policyholders. To mitigate what it had done, the regulator has done away with the guarantee and has asked insurers to guarantee capital. It is shocking to see the regulator take sides with the industry and not address policyholder concerns, especially when many would have bought the policies for the guaranteed returns they promised.

If this was not enough, the regulator, in the new unit-linked pension plans, has ensured that policyholders are trapped with the policy for eternity. First, there is no exit clause in the guideline and the only exit is either on death of the policyholder or vesting age, which restricts the scope of the product. Next, instead of allowing policyholders a choice of opting for annuity from any annuity provider on vesting, IRDA has forced them to take whatever their insurer offers.

This protects the interest of the insurers and not that of the policyholder and is against the spirit of competition. If one compares it with the New Pension System (NPS), which has stipulated an exit age which forces accountholders to stay invested in a pension plan with insurance plans, it is incorrect. Unlike the NPS, which offers hardly any incentive to those who sell it, the incentives for insurance agents to sell pension plans is sizeable. I am afraid that not only will people be mis-sold this plan, they will also have no exit recourse.

It has been almost 10 years since the insurance sector opened and, by now, the regulator should have been involved with the regulatory aspects and not development aspects of the industry. This guideline reflects a strong move to strengthen and ensure the insurance companies that have lost business owing to new Ulip charges and find a line of business to keep their operations going.

I agree that it is human to err, but I find no reason to punish policyholders, who do not have the expertise to spot traps when investing their life savings in a product that they think will help them during their retirement. Pension plans are long-term contracts and the impact of even a few basis points' swing can make or break someone's retirement corpus. I would rather the regulator take the cue from Hindi films, where despite all the turns and tribulations the hero always comes out a winner. The regulator should seriously reconsider these anomalies and come with a strong guideline in the interest of the policyholder. ❐

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