MONEYLIFE FOUNDATION
THE RIGHT THING TO DO

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The Chairman,
Insurance Regulatory and Development Authority of India (IRDAI)
Sy No. 115/1, Financial District,
Nanakramguda, Gachibowli,
Hyderabad – 500032

Sub: Traditional policy Jeevan Saral (With Profit) caused 65%-70% loss of investment for senior citizens

Dear Sir,

Greetings! We are writing to you on behalf of Moneylife Foundation, a Mumbai-based NGO involved in advocacy for financial literacy, details of which can be found at end.

Moneylife Foundation has received several complaints by LIC Jeevan Saral policyholders. Life Insurance Corporation of India's (LIC) Jeevan Saral used to be a hot-selling insurance product for agents, until it was withdrawn. The higher insurance cover provided by this product essentially worked as a good sales pitch. The buyers were not informed that the product would give poor returns due to the same reason as the investment component was low. To make matters worse, the product gives negative returns for those in the higher age group, although said person would have purchased the product for investment purposes.

Ironically, even the agents, who sell such products, may not know that the customer may get lesser money than total premiums paid. It defeats the purpose of buying an insurance product with investment as a goal. It also shows that even traditional products, and not just unit-linked insurance plans (ULIPs), can give negative returns.

Even an LIC branch head was clueless about Jeevan Saral giving negative returns and sought clarity from his higher-ups. It happens during policy surrender or making it 'paid-up'; but, in the case of Jeevan Saral, it has happened even at policy maturity. A senior citizen couple has got just one-third of the premiums paid over the years.

For example, a 58-year-old person, paying half-yearly premium of Rs4,076 for 12 years, had paid a total of Rs97,824. The maturity sum assured, which was paid to him after 12 years, was a mere Rs24,575 plus bonus, amounting to Rs34,405. Even though the maturity amount was mentioned in the policy document, it was missing in the proposal, which only specified the death sum assured of Rs1.25 lakh. As the proposal did not mention the pathetic maturity sum assured, it tantamount to mis-selling by LIC itself. The policy was sold with inaccurate and misleading proposal form!

While the death cover of 15 times the premium is good, it leads to hefty negative returns due to higher mortality charges for senior citizens. Some policies even have 20 times the premium as cover for senior citizens, which would mean even lower returns. Even a younger person will barely get premiums back at maturity; hence, Jeevan Saral was a bad investment product.

Maturity Sum Assured versus Death Sum Assured: Jeevan Saral has two different sums assured: death sum assured and maturity sum assured. A common person would not know the difference and would assume that he/she will get the sum assured (death) plus bonus, on policy maturity. Even a financially literate person may miss it, as the LIC proposal form only has field for death benefit sum assured. So, paying close attention to the policy document specifying the maturity sum assured is important when it varies from the death sum assured.

Proposal Form: Jeevan Saral was sold to a senior citizen couple without informing them that the maturity amount will be far lower than the total of the premiums they paid. It is unfair disclosure, as the customer is usually unaware of the maturity sum assured being at variance from the death sum assured. The couple filled the proposal form, which only had death sum assured specified. The maturity sum assured was not mentioned in the LIC proposal. This is misleading. The maturity sum assured was in the policy document, but most policyholders do not look at the policy details.

Branch Office Surprised with Negative Returns: That Jeevan Saral can give negative returns for those in the older age group may not be known to agents or even at the branch office level. The head of an LIC branch wrote to the divisional office, seeking the reasons for a customer getting only one-third of the investment amount. He wrote, “People trust and have faith in LIC for investments. If their savings is not protected, then how can we market other products based on promises of loyalty expected for LIC schemes?” If the seller and their branch heads do not know about product returns, what can be expected from a lay customer? In brief, Jeevan Saral is a not so ‘saral’ a product.

National Federation of Insurance Field Workers of India letter to LIC: It states – “Please find enclosed herewith a maturity discharge voucher for policy no.892713507 wherein it is observed that the policyholder has paid Rs4,70,400 as premium during the 10 year policy term@ a yearly premium of Rs47,040, whereas the total maturity value offered to him is Rs1,65,186 only. The policyholder in this case is getting Rs3,15,214 less than what he has paid. Forget about any growth, he is in fact; getting nearly 75% less than the total premium paid by him.

RTI information not given: RTI seeking information on Jeevan Saral policies maturity claim payment and premium collected for these policies was not given.

The reply gave excuse as "not able to give such data." It states – Information sought is not maintained by this office of the Public Authority hence information sought is not available as provided u/s 2(f) of RTI Act, 2005. Further, this information is not required for the normal, routine and regular administrative work. The information will have to be collected only to meet the demand of the applicant. Therefore collecting and collating the information for providing the same to the applicant will amount to creation of a new record and will result in disproportionate diversion of the limited resources of this Public Authority, as mentioned in Section 7(9) of RTI Act, 2005. This would be definitely detrimental to public interest because it would put undue strain on the limited resources of this Public Authority.

Mumbai Ombudsman Rejection: The senior citizens did not get justice at the Mumbai Ombudsman, despite getting a paltry one-third of premium at maturity. The ombudsman's decision states: "If the insurance company has paid the amount as per policy conditions, it is not possible for us to entertain your complaint. However, you may approach any other Forum/Court for the redressal of your complaint."

Hyderabad Ombudsman's Favourable Decision: The Hyderabad Insurance Ombudsman's Office, on the other hand, has given justice to a policyholder in a similar case. The Deccan Herald newspaper, on 20 January 2016, had a news report regarding Jeevan Saral. It drew attention to the decision given by the ombudsman in the policyholder's favour. The policyholder did not receive the amount promised under Jeevan Saral. He stated that LIC had advertised Jeevan Saral in newspapers in 2002. It had claimed that the scheme offers higher returns to the insured. The complainant stated that he paid Rs48,040 as premium, while the maturity amount was Rs34,894. He was told that the sum assured was Rs1 lakh and, hence, was expecting that amount.

Hyderabad Ombudsman's order procured under RTI reveals that during the hearing, the representative of the insurer stated that non-specifying of the correct maturity benefit was a typographical mistake that occurred during the printing of the policy document. Does it also mean that not specifying the maturity amount in the proposal form is also a mistake from LIC, as the proposal form does not have separate fields for maturity and death sum assured? The ombudsman ordered LIC to pay Rs1 lakh to the insured. It is strange that the Mumbai ombudsman refused to reopen the case even when the policyholder provided details of the Hyderabad ombudsman's decision against LIC.

High Court (HC) Decision: After the Hyderabad ombudsman's decision asking LIC to pay Rs1 lakh to the insured, the LIC divisional manager filed a writ petition in the HC. The Dharwad bench of the Karnataka HC imposed a fine of Rs10,000 on LIC for filing a writ petition against an order of the ombudsman. The bench order procured under RTI states that the insured is at liberty to levy execution and attach the property of the petitioner LIC, if LIC failed to pay the sum.

So, there is hope for Jeevan Saral policyholders. But one successful case does not entail its applicability to all policyholders. The Insurance Regulatory and

Development Authority of India (IRDAI) should intervene and help policyholders. After all, IRDAI is also accountable for approving a toxic product, knowing that senior citizens will end up losing their hard-earned money.

Product Suitability: IRDAI Protection of Policyholders' Interests Draft Regulation (2017) dropped the 'suitability' regulation, which was present in the 2014 draft. It states: "The insurer, insurance agent and the insurance intermediary shall also ensure the suitability of the product with relevance to prospects' income, personal and family circumstances, life stage, financial goals and risk appetite." If such a regulation is enforced, products like Jeevan Saral will never be sold to senior citizens.

Protection of Policyholders' Interest Draft Regulation: IRDAI Protection of Policyholders' Interests Draft Regulation (2017) has dropped the key rights, which were present in the 2014 draft. Right to professional diligence, right of fair disclosure, right to receive suitable advice and right to protection against unfair contract terms are some of the rights that are missing. If pro-consumer clauses are altered, who can be blamed if the intermediaries mis-sell the product?

We appeal to you to take action and ensure LIC makes amends for Jeevan Saral policy maturity to repay all the premiums paid along with bank savings rate interest. Senior citizens invested in the product to get positive returns and did not buy policy to lose 65%-70% of premium paid. After realizing these facts, holders of Jeevan Saral policy have started surrendering their policies to avoid further loss. LIC should compensate not only these policyholders, but also those policyholders who have already surrendered their policies before maturity and have received the amount, by paying back the entire premium paid by them along with interest at 8% p.a. Jeevan Saral product should never have been approved by IRDAI to have eligibility to sell to senior citizens.

With Best Regards,

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