



9th May 2012

**The Chairman,
Insurance Regulatory and Development Authority
3rd Floor, Parishram Bhavan
Basheer Bagh
Hyderabad 500004**

Sub: Life Insurance issues that need to be addressed

Dear Sir,

Greetings. I am writing on behalf of Moneylife Foundation (a not-for-profit organisation engaged in spreading financial literacy and advocacy on behalf of savers). Life Insurance policyholders are facing several issues that need your immediate attention. We will appreciate if you can take up each of the following issues that we have identified after thorough research and deep discussions with policyholders.

Issue# 1 – Deliberate fraud and mis-selling by officers of insurance companies, including forgery and falsification of documents goes unpunished.

Moneylife's cover story in the issue 19 April 2012 highlights this issue <http://www.moneylife.in/article/how-you-can-get-ripped-off-by-the-staff-of-insurance-company-themselves/25064.html>. The main victim, Arvind Injamuri, who is pictured on our cover, has filed a complaint with IRDA (complaint number# 03-12-026178). The case involves fake and forged signatures, fake witness signatures and a fictitious person who signed as vernacular language translator.

Reliance Life Insurance company has so far gone unpunished, since the barely literate Injamuri has no resources to file a criminal complaint. But IRDA needs to act, especially since the company continues to cheat the victim. After Moneylife highlighted the case, Reliance Life Insurance agreed to a free-look cancellation of the policies, but with a catch. It said that this would be done at the current NAV, which will lead to a loss of over Rs 1.5 lakhs to the customer. This means that the insurance company will get away with the most brazen mis-selling, and will continue to cheat the victim, who in fact ought to be compensated for the enormous hardship he has suffered and for being made to run from pillar to post. The current value of the insurance policy is lower than the investment value, thanks to eating up of funds by premium allocation and policy administration charges.

Action required - IRDA needs to compel Reliance Life to refund the full investment of Rs12 lakhs. IRDA should penalize Reliance Life for forgery and deception. This is a prime case where exemplary damages to the offender and compensation to a barely illiterate victim can lead to a signal of significant deterrant to the industry, and also would build confidence among savers with regard to IRDA's regulation and supervision.

Issue # 2: Bancassurance, or sale of insurance through relationship managers of banks needs to be banned:

One of the biggest sources of mis-selling of insurance is by relationship managers of banks. These are people whom we trust, who have access to what should be fiduciary information about money in our bank accounts, and they misuse it to sell toxic products or bad products purely to earn high commissions for the bank. As part of IRDA's development role, there is a need to closely examine the long term damage caused to the system because of the constant abuse of fiduciary relationships. The Suchitra Krishnamoorthy case is a prime example. HSBC Bank, which was involved in that case, has not bothered to react because it does not fear any regulatory or punitive action by IRDA or RBI.

Moneylife's various issues have cited many examples of how banks depositors, especially senior citizens, have been sold products that are harmful to their savings. In some cases we have managed to shame them into correcting the situation. ULIPs sold to retirees and even 80-year olds(!), which require high premium payments for a decade, are rampant.

Savers also have no clue about the relationships, commission arrangements and the special tie-ups between banks and insurance companies, and fail to realise that policies being pushed at them are not at all in their best interest.

The new draft guidelines on bancassurance allow one bank to work with different insurers in different zones of the country. One bank branch may sell LIC, while other branch may sell SUD Life. This is wrong and needs to be disallowed. Also, banks are getting away by dumping the saver, even while he/she continues to be their customer and enjoy the services of a relationship manager. In the Suchitra Krishnamoorthy case, HSBC bank refused to even help surrender the policy citing that its relationship with Tata AIG was over. It is unfair to expect this issue to be taken up in a consumer court.

Action required - We as consumer activists strongly demand that Bancassurance must be stopped forthwith, pending detailed discussions with all stakeholders. While we know that this will provoke strong reactions from banks, since mis-selling of high commission products earns them significant revenues. We request IRDA to ban the sale of insurance by banks, at least until a set of stringent guidelines governing the sale of insurance are evolved and notified.

We submit that the sale of toxic products, or those that are harmful to people's savings and wealth, are a part of the universal banking culture of the US, which is itself under

review after the on-going global financial crisis that started in 2008. Consumer groups around the world are gearing up to lobby against the mis-selling of financial products. We request IRDA, and you Sir, to take the lead in protecting the interests of ordinary investor, by initiating pathbreaking action in India, which could become a template for the world. We, at Moneylife, would be happy to mobilise support among our 11,000 plus members as well as consumer groups around the country for this important cause. We would strongly request that you to start the process by announcing an outright ban in the sale of insurance products by banks and to disallow any sales tie-ups between banks and insurance companies (barring group health insurance offered by banks, specifically for their customers).

Issue# 3 – Deep reluctance on the part of insurance companies to sell term plans.

Action required - IRDA needs to ensure that a person's life is adequately insured with term plan before they can buy endowment/ULIPs. Today, a person can still be sold endowment/ULIP even if he/she does not have proper / adequate life insurance. The case of well-known singer Suchitra Krishnamoorthy is a prime example <http://www.moneylife.in/article/hsbc-loots-suchitra-krishnamoorthi-after-big-promises-of-24-returns/24975.html> where bank relationship managers deliberately mis-sold a ULIP, taking advantage of her vulnerability. Suchitra Krishnamoorthy is stuck with ULIP products which has reduced fortune by half after five years, thanks to toxic ULIPs with charges. She needed term plans but agents are uninterested in selling them because it fetches low commissions.

Issue# 4 – Traditional products still carry high commission. Also, new product entrants offer higher commission than even allowed by regulations, which is a clear violation. The shift from ULIP to Traditional products is purely based on commissions. The customer is thrown from the frying pan to fire and ends up underinsured with low returns from investment.

Action required - Bring regulatory changes in Traditional products in the interest of policyholder, as the returns end up being pathetic due to high charges. If charges on ULIPs can be revised why can't endowment/money-back policies also be revised?

Issue# 5 – Insurers are making huge profits from lapsed policies.

Action required - The surrender value for endowment/money-back needs to be improved in line with changes made to surrender value of new ULIPs. While the new ULIPs protect policyholders from losses, why can't similar changes be done to endowment/money-back policies?

Issue# 6 – Ban Variable Insurance Policy (VIP).

This is a concept similar to the already banned Universal Life Policy (ULP). There is no value offered to the insured and the insurer ends up with huge profits.

Action required – VIP needs to be banned with immediate effect.

Issue# 7 – Highest NAV products mislead policyholders with regard to expected returns.

Most savers do not understand the difference between highest returns and highest NAV. They usually assume that the policy will capture the highest possible returns, but agents make no attempt to enlighten them.

Action required – Highest NAV products to be banned, or the nomenclature must be disallowed, because the temptation to mis-sell these products is too obvious, given the label they carry.

Issue# 8 – Handling of cases of mis-selling.

Action required – There is not much help, and there is no proper redressal mechanism, for the insured in cases of mis-selling. There has to be a strong debate on this issue - a white paper - which will invite suggestions from all stakeholders. This would involve drawing up clear definitions as to what constitutes mis-selling, frame appropriate guidelines and heavy penalties when cases of mis-selling are proven.

With Best Regards,

Trustees: Moneylife Foundation (Sucheta Dalal & Debashis Basu; Raj Pradhan, Director)

(This document has been prepared after detailed consultation with a number of activists, experts, eminent persons and citizen groups. They include – Mr B N Makhija (The Law Point), Mr Nagesh Kini (Social Activist), Mr Sailesh Mishra (President, Silver Inning Foundation and National coordinator of Joint Action Committee of Senior Citizen organisations), Mr Samar Mahapatra (Vice-President, General Insurance Pensioners Association), Mr Kaka Samant (General Secretary, General Insurance Pensioners Association of Western Zone), Ms Alpa Desai (Social worker with Family Welfare Association), Mr Gaurang Damani (founder – Karmayogi Prathistan NGO), Mr Hoshang Nekoo (Insurance Activist), Vijay Aundhe (Secretary, FESCOM Mumbai), Ms C.Saigita (Center for Life Long Learning , TISS), M.B.Kulkarni (Vice-President, AISCCON), J.K.Karulkar (All India Retired Insurance Employees Federation), Ankita Luharia (iVolunteer), Dhanalaxmi Rao ('1298' Senior Citizens Helpline), Chandrakant Dhole (Helpage India)