



बीमा विनियामक और विकास प्राधिकरण  
INSURANCE REGULATORY AND  
DEVELOPMENT AUTHORITY

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16<sup>th</sup> March, 2012

To  
Mr. P.G. Dileep,  
General Secretary,  
LIC Agents' Organisation of India,  
Flat No.506, Woodlands Apartments,  
Jagathy, Thycaud P.O.,  
Thiruvananthapuram – 14.

Dear Sir,

**Re.: Memorandum submitted to IRDA.**

This has reference to the memorandum submitted by you on 22.02.2012. Our clarifications to the issues raised by you are as follows:

**1. Persistency Rule:** Lapsation of policies is due to the sudden economic crisis because of various reasons. An agent cannot be penalized for this. No agent will encourage a policy to be lapsed. Consequent to this rule an agency gets terminated for no fault of the agent. This is very unjust and we request that this rule may be withdrawn. Even for insurance companies only a fine is imposed for a reduction in rural business, and they are allowed to continue.

**Reply:** The role of an agent in solicitation of an insurance policy as well as in providing after sales services is quite critical. Conservation of insurance business is in the best interest of all stakeholders – policyholders, agents and insurance companies. For the agent, it is an effective way of ensuring perennial income to sustain his/her interest in the profession as well as enabling him to get the best out of his existing clients. As persistency norms are capped at only 50% enough allowance is considered for external factors like economic crisis referred above. Further, the persistency norms are effective from June 2014, hence, agency force has enough time to look at their business and take appropriate measures to keep them in force.

**2. Direct marketing** of life insurance policies will naturally affect the existing agents. It is their livelihood and government will not be able to offer jobs to the agents who will become jobless on account of direct marketing by LIC. The principle of LIC is to sell a suitable policy to an individual after considering his background. This will be defeated by direct marketing. Moreover, even after five years of direct marketing LIC could achieve maximum business through agents only, i.e. 99.89 %. This clearly shows that people are not attracted by direct marketing. Our request is that IRDA should not encourage direct marketing, but should

maintain the agents and protect them, a community which has put in their sweat and blood for the growth of insurance industry till now.

**Reply:** There is no doubt that the Agents have performed yeoman service in the expansion of insurance in India as indeed they have done in all countries around the world. However, you will appreciate that the interests of the Agents and the public at large are best served if the insurance industry continues to grow. The growth of the industry is highly dependent on the growth of the distribution channels and, over time the IRDA has endeavoured to expand various distribution mechanisms in the country. These include brokers, corporate agents and lately, the direct marketing channel also. The role of direct marketing channel should not be viewed as being an impediment to the growth of sales by the agency channel. They should be viewed as complementary and necessary systems in the healthy growth of the insurance industry.

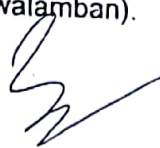
**3. Section 17 of Agents' Regulations 1972:** This section stipulates that an agent can be terminated by giving one month's notice. This is very unreasonable and should be withdrawn.

**Reply:** The matter referred to pertains to the LIC of India.

**4. Conditions for new policies:** IRDA has stipulated that new policies should be sold only to people with NEFT bank a/c with cheque book, nativity proof and photo etc. ECS facility is not available in co-operative banks where most of the rural population hold accounts. Until this facility is introduced in these banks the above conditions should not be implemented. Government should also encourage public to open bank accounts through awareness programmes. When the objective of IRDA is to reach life insurance policies to maximum people, it can be achieved only if the policy requirements are simplified and liberalized as much as possible.

**Reply:** No such prescriptions on Bank account for selling new policies are issued by IRDA. Obtaining photo, proof of residence and identity are part of the Know Your Customer (KYC) norms and in alignment with the requirements of Anti Money Laundering laws of India. IRDA only issues guidelines for executing the Act framed by Parliament. However insurance companies have been advised to make payments through approved banking systems like cheque, ECS, NEFT etc for amounts exceeding Rs.10000/-

**5. Pension, welfare fund and PF:** Permit LIC to introduce pension, welfare fund and PF to all Agents, with contribution from Agents, LIC and central government. LIC had given PF to Agents from 1956 to 1958. Now LIC Agents have been included as Workers in the unorganized sector and are given pension (Swalamban). So, we request you to continue



PF for all Agents. A welfare fund is required to be given to the Agents to cover the expense in connection with death, disability, sickness and marriage of children of the Agents.

Reply: An internal matter of LIC

6. Over-supporting of corporate agents: During last year the business brought by banks is 1.81%, and by alternate channels is 0.59%, and brokers .04% only. 97.56% of the insurance business was canvassed by the LIC agents. This means that the public prefer to do business through Agents. Even for doing this meager business the corporate agents are given facilities such as Finance Service Executives, Managers and other office facilities. Instead, if additional facilities are given to Agents they will be boosted for doing more business. So, we request that IRDA should withdraw IRDA Regulations 2000 which introduces insurance broker system bancassurance and corporate agency system.

Reply: The Insurance Brokers and Corporate Agents only supplement the existing distribution channels including individual agents. All payments to Agents, corporate agents, brokers are as per the provisions of the Insurance Act and respective regulations. All insurance companies and intermediaries are required to comply with these provisions.

7. Introduce Free Health Insurance and Term Assurance for Agents. All the Agents may be covered by a group health insurance for an amount of Rs.5 lakhs per year. A group term policy for Rs.5 lakhs may be given to each Agent. Both these may be at the cost of insurance companies as an incentive to Agents. This is required as the Agents, who are fully engaged in canvassing business day and night have no other benefits other than commission.

Reply: This is the internal matter of LIC of India and other insurance companies.

8. IRDA should recommend to Central Government to enhance the exemption limit of commission for income tax from Rs.20,000 to Rs.1.6 lakhs

Reply: The issue has already been taken up with the concerned Ministry and also a representation on the same has already been sent to the Standing Committee of Parliament.

9. Restrict entry of agents to 45 years of age. Employed people after voluntary retirement or superannuation take up insurance agency and canvass business in tight competition with the existing agents. They are in a position to offer premium incentives to the policyholders and thus are being attracted. This affects the agents who do business after taking up full time agency as an occupation. Therefore, this entry restriction is a must.



Reply: Such a move will be against the spirit of competition and will infringe on the basic rights of citizens to choose a profession/career.

10. Designate Agents as Sales Executives. The term LIC Agent has been a very old concept. There is a need to change the designation in the changed global scenario. LIC is already recruiting Sales Executives who are also doing the job of an agent. A glaring discrimination also exists within this group. Moreover, an Agent is an Executive who is selling policies for LIC.

Reply: This is the internal matter of LIC. IRDA do not have any objections to the nomenclatures given by insurers. However, the identity card carries the generic name of 'insurance agent' for easier identification and mapping with the industry with whom the sales person is exclusively engaged with.

11. IRDA should recommend to the Central Government the withdrawal of service tax on policies. Taking an LIC policy for covering life risk cover is not a service. It is not justifiable to impose service tax on the policy as is done in entertainment and other services. Moreover, if the brochure of LIC shows service tax as directed, it will definitely affect the new business. Hence, this should be withdrawn.

Reply: The matter relates to taxation issues of Central Government.

12. LIC Agents may be permitted to sell micro insurance products.

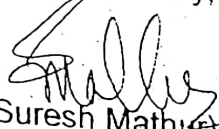
Reply: There is no restriction for licensed individual agents to sell micro insurance agents.

13. There was a press statement that IRDA plans to introduce senior agency system. This will affect the entire agency system and encourage legalized corruption among agents. LIC global model agency system will thus be destroyed. Hence the new system should not be introduced.

Reply: Views of all stakeholders will be taken into account before taking a final decision on the concept.

Thanking you.

Yours truly,

  
(Suresh Mathur)  
Sr. Joint Director