

Exposure Draft on Guidelines on Replacement of Life Insurance Policies

- I. **Purpose:** To protect the long term interests of life insurance policy holders and to discourage intermediaries persuading lapsing, surrendering or making paid-up of an existing life insurance policy with the intent of canvassing/soliciting a new life insurance policy on the same life. The guidelines envisage the full disclosure and transparent information to the policy holder to avoid a possible misrepresentation as to the factual position of financial consequences of replacing an existing life insurance policy. It is also envisaged that these guidelines encourage fair market conduct and fair business practices amongst life insurers and insurance intermediaries.

- II. **Definition:** 'Replacement of a life insurance/annuity policy' means selling a new 'life insurance policy' by an insurance intermediary, an individual agent or by an insurer within 6 months from the date of;
 - a. lapse or surrender
 - b. conversion into a paid up insurance
 - c. modification of the terms resulting in either reduction of benefit amount or premium costsof the existing policy.

Notwithstanding anything contrary, an alteration to the terms and conditions of a policy that do not result in payment of a part surrender value does not constitute replacement of a life insurance policy/annuity contract.

- III. **Prohibition on Replacement of Life Insurance Policy:** No life insurance agent, insurance intermediary or an insurer is permitted to replace a life insurance policy, except, if it is in the interest of the policyholder and in accordance to these guidelines outlined herein.

- IV. **Duties of Intermediaries:** Every insurance intermediary or an individual agent shall make every reasonable effort to keep in force the existing life insurance policy / annuity contract. Where a '*replacement of a life insurance/annuity policy*' has occurred or likely to occur, every insurance agent or intermediary shall;
 - a. Obtain a written consent from the prospect for replacing existing policies.

- b. Obtain the particulars of all existing life insurance/annuity contracts of the prospect and details of those policies that are proposed to be replaced
 - c. Notify the existing insurer (Old Insurer) whose policies are proposed to be replaced along with the particulars of policies and also by enclosing a copy of the consent of the prospect as obtained in '**Annexure – A**' 15 days prior to submitting new proposal forms.
 - d. Present to the prospect, with due acknowledgement, the important information prescribed in '**Annexure-B**' regarding consequences of replacement of an existing life policy/annuity contract.
 - e. Submit the proposal form to the insurer (New Insurer) replacing the existing life policies/annuity contracts after the expiry of 15 days from the date of notifying the insurer (Old Insurer) whose policies are proposed to be replaced along with;
 - i. The consent (*Annexure – A*) of the prospect for replacing the existing life policies/annuity contracts
 - ii. The '*Annexure-B*' obtained from the prospect
 - iii. The reasons, stated to have been explained to the prospect, for replacing the existing life policies/annuity contracts in the prescribed form '*Annexure – C*'.
- V. **Duties of Insurers**: (i) Every life insurer shall train their individual agents/specified persons regarding the need to adhere to the requirements of these guidelines.
- a. There shall place a covenant in the proposal form specifically advising the prospect not to surrender, lapse or make paid up of an existing life insurance contract for taking a new life insurance policy.
 - b. Every proposal form shall prominently have in place the contents of important information as mentioned in '**Annexure – B**'.
 - c. Shall obtain declaration from the insurance agent or intermediary along with the proposal form confirming that the requirements of these guidelines are adhered to where replacement of existing policies is involved.

- d. Not to withhold a part or full amount from the full or partial surrender value payable to the policyholder for converting the proceeds towards a new life insurance policy.

(ii) A life insurer whose policies are proposed to be replaced;

- e. Shall send a communication to the policy holder within seven days from the date of receipt of notice referred at IV (c) above from the insurance agent / intermediary / new insurer regarding the proposed replacement. The communication shall, inter alia, contain the advantages, if any, of continuing the existing life policies/annuity contracts and the adverse consequences of their replacing, if any.
- f. Shall notify the life insurer who is replacing the existing policies any deviations disclosed in the 'Annexure – A' and shall immediately submit the actual position to the prospect.

(iii) If the policy proposed to be replaced with another new policy pertains to the same life insurer.

- g. The communication referred at (V) (ii) (e) shall be forwarded to the policy holder / life assured by the concerned life insurer.

VI. **Applicability of Guidelines in case of Simultaneous Action:** Where the life assured / policyholder surrenders, lapses the existing policy and simultaneously applies for a new policy, the provisions of these guidelines shall be followed. For this purpose, the proposal form shall capture specific responses from the policyholders if he / she are proposing to surrender / lapse any of the existing policy as a result of / as a consequence of taking that policy.

VII. **Restitution Rights:** (1) A policyholder who is not appropriately guided by the existing Life Insurance Company in accordance to V (f) of these guidelines has the right to exercise the restitution of the existing policy within 7 days from the date of receipt of new life insurance policy. (2) The policy that was replaced and restituted is entitled to all such benefits that is otherwise eligible had the policy been not replaced for taking a new policy. (3) A policyholder who has exercised the restitution of the replaced policy is entitled to total refund of premiums, without any recoveries, on returning the new policy at his option. (4) The request for refund of premiums shall be preferred by the policyholder within 7 days from the date of receipt of the new policy (5) The New Life Insurer shall refund the total premiums to the policyholder within 7 days from the date of receipt of such request. (6) The Cost of refund of the new policy shall be made good

from the Insurance Intermediary or Insurance Agent that produced the business or from the shareholder's account of the Life Insurer.

- VIII. **Applicability in case of Direct Business**: The Guidelines are mutatis mutandis applicable to any other mode of channel in which the insurance company solicits the insurance business without the intermediation of licensed insurance intermediaries / insurance agents. Wherever applicable, the procedures outlined in these guidelines shall be executed / implemented by the respective officials of the life insurance companies. For the purpose of execution / administration of these guidelines all life insurers are requested to invariably designate officials involved in the solicitation of insurance business and make them accountable for proper discharge of insurers' obligations laid down in these guidelines.

MEMBER (LIFE)

Annexure – A

Consent of the prospect for replacement of life insurance policies:

[To be filled in by a person who is replacing the existing policy for the purpose of taking a new Life Insurance Policy]

1. Name and Address of Prospect:
2. Other Contact Details:
3. Particulars of life insurance policies proposed to be replaced:

<i>Sl No</i>	<i>Policy Number</i>	<i>Name of Life Insurance Company</i>
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Declaration: I acknowledge being advised that there may be certain disadvantages in replacing the above mentioned life insurance policies. I have taken a decision to replace the above policies after understanding and realising fully the financial consequences of their replacing.

Signature of Prospect:

Name and Address of Prospect:

4. Particulars of Life Insurance Policies proposed:

<i>Sl No</i>	<i>Name of Product</i>	<i>UIN of Product</i>	<i>Name of Life Insurance Company</i>
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Declaration: I affirm having explained to the proposer / Life Assured the particulars of the above policy and also explained not only the advantages but also disadvantages of replacing the existing policy / policies with New policy.

Signature of Insurance Intermediary / Agent /Official:

Name of Insurance Intermediary / Agent /Official:

Code / License No.

Name and seal of Life Insurance Company

Annexure – B

Important Information on replacement

[To be submitted by the Insurance Intermediary or Insurance Agent or the designated official of the life insurance company]

Important: It is not in the interest of the policy holder to surrender, lapse or modify an existing life insurance policy or annuity contract to purchase a new life policy or annuity contract whether issued by the same life insurer or not. You are advised to contact your existing agent or life insurer for further information on this.

Life Insurance policies/annuity contracts are typically beneficial in the long term. Taking a new policy replacing the existing one may result in;

- a) Paying higher amount of premium for the same sum assured due to advancement of age
- b) Possibility of paying extra amounts due to changed life styles and conditions
- c) Possible rejection of the proposal due to changed life styles and conditions
- d) A possible monetary loss due to withdrawal from existing schemes and
- e) Possible denial of the full accumulated benefits of the existing policy/scheme
- f) Fresh commencement of exclusions (incontestable and suicide clauses) if any, that may deny the settlement of claim which otherwise would have been settled in the existing policy

The Prospect is advised to take an informed choice before replacing the life insurance policy.

Signature of Insurance Intermediary / Agent /Official:

Name of Insurance Intermediary / Agent /Official:

Code / License No.

Name of Life Insurance Company

I acknowledge having received the above information

Signature of Prospect:

Name and Address of Prospect:

Annexure – C

Point of Sale Compliance Report

The reasons for recommending the following new life insurance policy or annuity contract are;

<i>Sl No</i>	<i>Name of Product</i>	<i>UIN of Product</i>	<i>Name of Life Insurance Company</i>
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(i) The following are the reasons that serve the prospect's objectives and existing life styles with the proposed Life Insurance product;

(ii) The disadvantages of continuing the existing life policy or annuity contract are;

(iii) The advantages of continuing the existing life policies or annuity contracts are;

(iv) The following sales material is used for promoting the proposed new life policy or annuity contract. (Attach a copy of the same)

Signature of Insurance Intermediary / Agent /Official:

Name of Insurance Intermediary / Agent /Official:

Code / License No.

Name of Life Insurance Company