

# Life insurers to have varied rewards mechanism to boost agent persistency

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Mumbai, 15 February

Life insurance companies will now have varied rewards-and-recognition mechanisms for distributors, with the Insurance Regulatory and Development Authority (Irdia) allowing them to decide on persistency norms. The insurance regulator has said that all life insurers should have their own company-specific persistency criterion for renewal of individual agency licence and corporate agency licences from July 1 this year. At present, agents are required to have 50 per cent average persistency rate in the number of policies.

Persistency refers to the ability to keep renewing customers' insurance policy till it reaches maturity. The higher the persistency rate, the higher the renewal premiums for the company. The regulator said renewal of individual and corporate agency licences will not be subject to meeting the persistency

rates earlier stated by Irdia.

Anup Rau, CEO of Reliance Life Insurance, said it is a welcome move, since each insurer will now be able to take their own decisions on persistency. "We are already focusing on quality advisors and agent productivity. Our agent productivity also improved over 50 per cent in the past couple of quarters," he said.

In 2011, private life insurers had started the practice of taking back commission paid to agents to improve their persistency ratio as well as avoid lapses in insurance policies. The clawback clause helped insurers recover a part or all of the commission paid to agents if the policy was cancelled within a given period.

Rau said Reliance Life also has put in place measures to withdraw commissions of distributors if their persistency drops below the stipulated percentage fixed by them.

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In its earlier persistency guidelines issued (and subsequently revised) in 2011, Irdia had said that for all renewals prior to FY15, the average persistency rate for each agent for 2011-12, 2012-13 and 2013-14 should be at least 50 per cent in terms of the number of policies procured by such agent.

It had said that from FY15, the persistency rate for each agent shall be at least 75 per cent in terms of both policies and premium procured by such agent. Further, this stipulated persistency rate requirements was to be effective for all corporate agency renewals due from July 1, 2014.

Subrat Mohanty, executive vice-president (strategy and customer relations) at HDFC Life Insurance, said that instead of revoking the licence of agents for poor persistency, now companies will be able to motivate them in the right manner. He

also explained that Irdia's relaxation for each life insurer to decide their own persistency norms will be beneficial since each insurer has a different model.

"There could be some reduction in commissions for agents with lower persistency. Also, the right rewards would be given to those who have performed better than others," added Mohanty.

According to the new traditional product guidelines of Irdia, the commission rates for policies with longer tenure would be higher than those for short-term policies.

For policies with tenures of at least 12 years, the commission would be 35 per cent of the premium.

In order to earn good commissions, agents will have to sell long-term policies and keep them active, said a senior life insurance executive. "With Irdia's latest go-ahead to insurers to fix own persistency formulas, it will be easier to retain agents and improve renewals through better training and development."