Life insurance agents to get persistency-linked incentives

M SARASWATHY & NEHA PANDEY DEORAS
Mumbai, 26 September

Irda has said from October 1 commission rates for policies with longer tenure would be higher than those for short-term policies

Hit by a drop in customers' disposable incomes and a fall in new business premia, life insurers are pulling out all stops to ensure persistency rates remain high. Now, the commissions and incentives of agents are being linked to persistency rates, apart from the business generated.

Agents' commissions are calculated as percentage of the premium paid by a customer. While the first-year commission for a new policy currently stands at 14 per cent, the Insurance Regulatory and Development Authority (Irda)'s new traditional product norms set it at 15 per cent.

In its non-linked product guidelines to be implemented from October 1, Irda has said 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 commissions would be 35 per cent of the premium.

Harshal Shah, director (marketing), Aegon Religare Life Insurance, said, "To get the most out of agents, we are looking to incentivise them in a different way. They do not get incentivised if they get volumes; they are better incentivised for selling the correct policy to a customer. A correct policy would be one that would address the needs of the customer." He said this made agents responsible towards customers and the client was satisfied with the service. This way, the agent wasn't in a rush to sell a large number of policies to secure more commission, but was able to sell the best policies to different customers, he added.

In 2011, Irda had brought out persistency guidelines for individual life insurance agents. It had said the average persistency rate was uniformly set at 50 per cent, which was to be reckoned on the number of policies alone. The persistency rate requirements would be effective for all agency renewals due from July 1, 2014.

In 2011, private life insurers had started the practice of clawback of commission to improve the persistency ratio of agents and arrest 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.

Once the new product guidelines come into effect, the clawback of commission would be done away; however, added incentives and bonuses wouldn't be given to agents with poor persistency rates.

Rajesh Relan, managing director and country manager, PNB MetLife, said, "We encourage our sales team to do need-based selling, as this ensures all—the customer, the company and the agent — benefit.

As a process, we ensure if the 13th month persistency falls for any agent, it impacts commission, rewards and recognition." Irda had issued guidelines on non-renewal of licences if the 13th month persistency for any agent fell below the threshold, and PNB MetLife was complying with these, he added.

Life insurers said with the new norms set to be implemented from October 1, persistency would assume greater importance in the life insurance industry. Anup Rau, chief executive of Reliance Life Insurance, said apart from the emphasis on renewal commission, special benefits such as club memberships and promotions were offered to agents with higher persistency rates.

While earlier, the life insurance industry had base commission and added bonuses for agents performing well, increased competition had led to insurers paying all cash components to agents upfront.

With the new norms in place, productivity and persistency bonuses are expected to return to the industry. Kamlakar Sai, director (sales), IndiaFirst Life Insurance, said while no clawback clause would be attached, bonuses apart from the base commission would be based on whether agents were able to motivate customers to renew policies.