GOVERNMENT OF INDIA
FINANCE
LOK SABHA

UNSTARRED QUESTION NO:4503
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PENALTY ON NON-PAYMENT OF INSURANCE PREMIUM
Sivakumar Alias J.K. Ritheesh Shri K.

Will the Minister of FINANCE be pleased to state:

(a) whether the Insurance Companies are deducting a heavy sum from premium in case a customer fails to pay the subsequent instalments;

(b) if so, the details thereof alongwith the reasons therefor?

(c) whether insurance companies are authorised to make such deduction;

(d) if so, the details thereof alongwith the reasons therefor; and

(e) the corrective steps taken/being taken by the Government to protect the policy holders from such losses?

Answer

Minister of State in the Ministry of Finance (Shri Namo Narain Meena)

(a) to (d): The Insurance Regulatory & Development Authority (IRDA) has informed that the Insurance Companies incur a lot of expenses in issuing a new policy in the form of commissions, employee costs, medical examinations, underwriting, printing/dispatch of the policy etc. However insurers, instead of recovering all the expenses from the policyholders upfront, recover them in a phased manner over a longer period of time. This is done with the confidence that the policy would run for a reasonable number of years, and thereby a gradual recovery of such costs over a longer term would be less burdensome on the policyholders. However, when a policyholder discontinues premium payments midway through the term of policy, the insurer would be left with unrecovered expenses. It is to recover such unrecovered expenses that insurers levy what are called "surrender charges" in case of premature discontinuance of premiums leading to surrender of premature policies. The amount/ percentage of charges recovered in case of surrenders varies on the basis of the period elapsed out of the total term of the policy, the initial charges levied on the policy, expenses incurred by the insurer, category of the product etc. The surrender charges vary from product to product and insurer to insurer.

(e): To protect the interests of the policyholders and to rationalise the surrender charge structure, Insurance Regulatory and Development Authority (IRDA) have issued Insurance Regulatory and Development Authority (Treatment of Discontinued Linked Insurance Policies) Regulations, 2010 on 1st July, 2010 which, inter-alia, prescribe that no surrender charge will be levied on linked insurance policies from 5th year onwards. However, discontinuance of a policy for non- payment of premium may attract a charge as follows:

Discontinued during the policy year	Maximum charge for Annualized premium upto Rs. 25,000/-	Maximum charge for Annualized premium above Rs. 25,000/-
1st Year	Lower of 20% (AP or FV) subject to a maximum of Rs. 3000/-	Lower of 6% (AP or FV) subject to a maximum of Rs. 6000/-
2nd Year	Lower of 15% (AP or FV) subject to a maximum of Rs. 2000/-	Lower of 4% (AP or FV) subject to a maximum of Rs. 5000/-
3rd Year	Lower of 10% (AP or FV) subject to a maximum of Rs. 1500/-	Lower of 3% (AP or FV) subject to a maximum of Rs. 4000/-
4th Year	Lower of 5% (AP or FV) subject to a maximum of Rs. 1000/-	Lower of 2% (AP or FV) subject to a maximum of Rs. 2000/-
5 Year and onwards	Nil	Nil

(a) AP-Annualised Premium,
(b) FV-Fund Value on the date of discontinuance