

Make correct disclosures to avoid claim rejection

Even if the agent fills up the form, it is your responsibility to ensure that there is no suppression of key facts

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A 70-year-old Mumbai-based gynaecologist (name not revealed on request) was sold a life insurance policy. The agent told her that she would become entitled to pension for life by paying just one premium. When the policy document arrived, she put it away without examining it. Later, she found that she had to pay the premium of ₹300,000 for 20 years before she would start receiving the pension. In this case, the insurer relented after a while and refunded her money. But a large number of customers who are mis-sold life insurance policies fight an uphill battle to get their complaints redressed.

Shenanigans of agents: In its annual report for 2017-18, the Executive Council of Insurers (ECOI), which facilitates the office of the insurance ombudsman, has observed that the maximum complaints registered against life insurers in that financial year pertained to mis-selling. The report highlights a few major types of mis-selling observed by ombudsmen.

In many cases, the report says, agents forge the policyholder's signature on the proposal form and the benefit illustration. Agents are keen to make a sale and pocket their commission. "An agent may not want that the client to disclose his health-related issues, for fear that the policy proposal may be turned down. So, he fills the proposal form himself and signs it," says Melvin Joseph, founder and chief financial planner, Finvin Financial Planners, a Sebi-registered investment advisor.

Customers ultimately have to bear the brunt of such actions. The claim, when it arises, could get rejected on the ground of suppression of material facts. Even if the

SURRENDER RULES FOR ULIPs ARE MORE CUSTOMER FRIENDLY

- In traditional plans, if the customer has paid only one or two annual premiums, he gets nothing back if he stops further payments
- If he has paid three annual premiums, he will get about 30 per cent of the total premium amount paid till then back
- In either case, if he realises the policy is not suitable for him, he should drop it and accept his loss
- Returns from traditional plans rarely exceed 4-6 per cent. He can earn better returns over long term by investing in other products.
- In Ulips, if policy is surrendered after paying the first-year premium, the fund value (after deduction of charges) is moved to a discontinuance fund, where it earns 4 per cent annual return. Customer gets the fund value after five years

agent fills up the form, check the facts and then sign it. Getting redress from a court also becomes difficult if the proposal form signed by you contains incorrect information.

When the policy document is received by the customer, a copy of the proposal form filled by him also comes with it. "If the customer's signature has been forged, he should spot it then and raise questions about its authenticity right away," says Anand Pejaware, president-operation, IT & international business, SBI Life Insurance.

ECOI's annual report also says that agents tutor customers to accept all terms and conditions when pre-verification calls are made. Through these calls, insurers try to ensure that



the customer requires the product, and that the right information has been conveyed to him. "We constantly change the questions asked during this call," says Kayzad Hiranamek, executive vice president-operations, Bajaj Allianz Life Insurance. Pejaware says that the very fact that the agent is trying to tutor you should raise a red flag.

Even if the agent offers inducements, such as returning a part of your first-year premium, do not be party to such actions.

Insurers' lax underwriting standards: The ECOI annual report says that many cases of mis-selling occur because the rules for financial underwriting are disregarded. "Mis-

selling, which could have been arrested at the underwriting stage, instead gets an impetus when the underwriter clears long premium paying term plans even though the proposer does not have the paying capacity to maintain the policy beyond the initial first payment," says the report. Hiranamek says that insurers do look at the income sources of the insured to ensure that premium payment can be sustained. Adds Pejaware: "We also ensure that the total premium of all the policies the customer owns, including the one applied for, does not exceed a certain percentage of his declared income. But in the absence of a central repository of insurance policies, insurers have to

depend on the information provided in the proposal form. Also, in case of policies where the premium or sum assured is large, insurers usually do strict financial underwriting," he says. Surrender norms also leave scope for mis-selling (see box).

Onus lies on customer as well: Mostly insurance-cum-investment products are mis-sold to customers as they offer higher commissions. Among them, traditional plans offer higher commissions than Ulips and hence are mis-sold more often.

"Buy a pure term plan for risk cover and use products like equity mutual funds and Public Provident Fund (PPF) for investment," says Joseph.

At the time of purchase, be clear about your goal for buying the policy and pick the appropriate product. "Get clarity on charges, premium-payment term, lock-in, and the period after which you will get the payout," says Hiranamek. The benefit illustration will tell you how much return you should expect.

When the policy document is delivered, ensure it is what you were promised by the distributor. Read at least the key features document. "If the policy does not have the features you were promised, check with the insurer. If you are not satisfied, return it within the 15-day free-look period (from date of receipt of policy document) and get your money refunded," says Pejaware.

Avenues for redress: IRDAI's web site has an integrated grievance management system where customers can lodge their complaints. Customers can also write to the insurer's grievance redress officer.

The next option is to file a complaint with the ombudsman. "This is a zero-cost mechanism. You don't need a lawyer. We try to dispose of cases within three months of receiving documents," says Milind Kharat, insurance ombudsman for Mumbai and Goa.

The final recourse is to move a consumer court. "You can go to a consumer court for all cases involving deficiency of service or unfair business practices," says consumer activist A M Mascarenhas.