

## **EXPOSURE DRAFT ON**

### **Insurance Regulatory and Development Authority of India (Fee for Registering Cancellation or Change of Nomination by the Holder of a Policy of Life Insurance) Regulations, 2015**

**INTRODUCTION:** Section 39(1) of The Insurance Laws (Amendment) Ordinance, 2014 allows that the holder of a policy of life insurance on his own life may, when effecting the policy or at any time before the policy matures for payment, nominate the person or persons to whom the money secured by the policy shall be paid in the event of his death. Section 39(2) allows such nomination may at any time before the policy matures for payment be cancelled or changed by an endorsement as prescribed therein. Section 39(3) mandates that every life insurer shall furnish a written acknowledgement of having registered a nomination or a cancellation or change thereof and may charge such fee as may be specified by Regulations for registering such cancellation or change. Therefore, in accordance to these provisions the Authority proposes to adopt the following principles while drafting the Regulations.

- (1) The provisions of Section 39(3) referred herein envisage that every life insurer shall furnish a written acknowledgement of having registered a nomination or a cancellation or change thereof and may charge such fee as may be specified by Regulations for registering such cancellation or change. Therefore, there shall be no fee for registering a nomination and for furnishing a written acknowledgment thereon. However, for registering a cancellation or change of nomination as envisaged in these provisions, the fee that may be collected shall be subject to these regulatory provisions.
- (2) On a comprehensive review of the provisions of Section 39 (1) and Section 39(3) of The Insurance Laws (Amendment) Ordinance, 2014 it may be observed that the holder of a policy of life insurance has a right for effecting a nomination as per the provisions of this section and that for registering such nomination for the first time be it at the time of effecting the policy of life insurance or at a later time, no fee shall be charged by the life insurers. The Life Insurers shall also furnish a written acknowledgment of having registered a nomination in accordance to the provisions of Section 39 (3) without collecting any fee. The Life Insurers shall endeavour to see that the holder of a policy of life insurance on his own life shall effect a nomination in accordance to the provisions of Section (39) either at the time of effecting a policy of life insurance or at any time there after if such nomination was not effected at inception. Further in accordance to the provisions of Section 39 (4) the nomination that is automatically cancelled consequent upon the assignment shall stand automatically revived on the reassignment; hence no separate nomination need be recorded under such scenarios.
- (3) It is envisaged that the manner of registering the cancellation or a change of nomination may vary where the policies are maintained in the electronic form in accordance to the provisions of Section 14 (2) of The Insurance Laws (Amendment) Ordinance, 2014. In the instances where the policies are in the electronic form, there may be a number of services that may be rendered in the electronic form such as

registering / recording the nomination change / cancellation in the e-records and furnishing the acknowledgment through an e-mail. Therefore, there is a need to treat differently the fee that can be charged for these two sets of policies as is proposed in this exposure draft.

(4) The services such as furnishing the acknowledgement of having registered a nomination as envisaged in Section 39 (3) are to be considered as the statutory services to be rendered, hence, it is expected that the insurers shall not levy the fee for such services. The details of the nomination recorded on the face of a policy document could be considered as an acknowledgement issued, when the nomination is effected by a policyholder at the inception of the policy through proposal form. Further registering the nomination or cancellation or change of nomination shall be regarded as important policy holder services. As such nomination helps even the life insurers to seamlessly discharge their liability in the event of happening of the contingent event covered under a policy of life insurance.

(5) In the exposure draft it is also proposed to fix the upper limit of fee allowed to be collected by the life insurers subject to which the life insurers will have the flexibility to decide in levying any lower amount.

**Cost Benefit Analysis of the proposed Regulations:** The effecting of a nomination on a policy of life insurance is one of the important requirements. When a nomination is in force on a policy of life insurance the benefits derived are immense to both the contracting parties, the life insurer and the claimant. The Life Insurer will be in a position to settle the benefits with much ease and nominee, being the claimant will have a valid title to claim the benefits in accordance to the applicable provisions of the Insurance Act. Where a nomination is effected at the inception of the policy though the proposal form, the registration of the same would normally be recorded in the books of the life insurer and the fact of effecting the nomination being recorded on the face of the policy contract (Policy Schedule) serves the purpose. Where a nomination is cancelled or changed, the life insurer is permitted to collect such fee as determined by these Regulations for covering the administrative costs, hence there are no significant financial implications of these Regulations on the life insurers. As the life insurers would endeavor to effect the nomination at the inception of a policy, it is expected that the number of policies where a cancellation or the change of nomination is effected would be significantly less, therefore the financial implications of charging the fee for change or cancellation of Nomination to the policyholder are also not significant. Since, having a valid nomination enables the life insurers to seamlessly settle the claims on the happening of the contingent event covered under the life policy, the benefits derived out of it outweigh the insignificant financial implications referred herein.

With regards to the financial implications on the policyholders, it is clarified that the life insurers will not levy any separate fee for recording the nomination and the fee that is collected by the life insurers for effecting the cancellation or change of nomination shall be considered as a fee for the services obtained, hence, is not to be considered as an additional financial burden.

Keeping in view the above issues the Authority proposes to issue the following Regulations.

F. No, IRDA/Reg/xx/2015 —. In exercise of the powers conferred by section 114A(2)(j) and read with Section 39(3) of The Insurance Laws (Amendment) Ordinance, 2014 as modified from time to time, the Authority in consultation with the Insurance Advisory Committee, hereby makes the following regulations namely:-

1. Short title and commencement — (1) These regulations may be called the Insurance Regulatory and Development Authority of India (Fee for Registering Cancellation or Change of Nomination by the Holder of a Policy of Life Insurance) Regulations, 2015.
2. They shall come into force on the date of their publication in the Official Gazette.

### **Definitions**

3. In these regulations, unless the context requires otherwise—

(a) “Act” means the Insurance Act, 1938 (4 of 1938) as amended from time to time;

(b) “Authority” means the Insurance Regulatory and Development Authority of India established under sub-section (1) of section 3 of the Insurance Regulatory and Development Authority Act, 1999;

(c) all words and expressions used herein and not defined but defined in the Insurance Act, 1938 (4 of 1938), or in the Insurance Regulatory and Development Authority Act, 1999 or in any Rules or Regulations made there under shall have the meanings respectively assigned to them in those Acts or Rules or Regulations.

### **Fee for registering a cancellation or change of nomination by the holder of a policy of life insurance:**

4. A Life Insurer is permitted to collect the following fee for registering the cancellation or change of the nomination by the holder of a policy of Life Insurance on his own life.

(a) In respect of those policies that are issued in electronic form as specified by the regulations under the provisions of Section 14 (2) of The Insurance Laws (Amendment) Ordinance, 2014 as modified from time to time the fee collected shall not exceed Rs 50 (Rupees fifty only)

(b) In respect of policies issued other than those referred under Regulation (3) (a) above the fee collected shall not exceed Rs 100 (Rupees Hundred Only)

5. No fee, other than what is stated in Regulation 4 above, shall be collected for registering a nomination either at the time of effecting a policy of life insurance or at any time thereafter or towards any other services connected to the nomination enshrined in Section 39 of The Insurance Laws (Amendment) Ordinance, 2014 as modified from time to time.

6. The Life Insurers shall endeavour to see that the holder of a policy of life insurance on his own life effects a nomination in accordance to the provisions of Section (39) either at the time of effecting a policy of life insurance or at any time thereafter, if such nomination was not effected at inception.
7. Every Life Insurer shall furnish to the policyholder a written acknowledgement of having registered a nomination or a cancellation or change thereof;

*PROVIDED that the nomination effected by a policyholder at the inception of the policy through the proposal form and recorded by the Insurer on the face of a policy document shall be considered as a valid acknowledgement by the Insurer for the purposes of this regulations.*

#### POWER TO REMOVE DIFFICULTIES AND ISSUE CLARIFICATIONS

8. In order to remove any doubts or the difficulties that may arise in the application or interpretation of any of the provisions of these regulations, the Chairperson of the Authority may issue appropriate clarifications or guidelines as deemed necessary.