

Now, demat insurance covers under one folio

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MUMBAI: In a few weeks, insurance buyers will be able to convert all their policies into electronic records under one common folio, irrespective of the company or even the nature of policy. Be it life, health or motor - all policies can be dematerialized and maintained under one account.

The electronic insurance account will do away with the need for providing address and identity proof for every purchase and will bring in all the benefits of demat to the insurance business, including automatic reminders for premium.

Insurance regulator IRDA has issued licences to five promoters to set up insurance repositories - National Securities Depository (NSDL), Central Securities Depository (CDSL), Stock Holding Corporation's SHCIL, Karvy Group and Cams. These five firms have their systems in place, which are being beta-tested with a small number of policies. The official launch is expected to take place in September.

According to IRDA chief T S Vijayan, insurance companies will have a huge cost incentive in encouraging customers to hold their policies in electronic form as costs will come down substantially from around Rs 600 per policy.

This is similar to the development that has taken place in the mutual fund business where asset management companies do not even have to maintain a physical presence for servicing. Most of the mutual funds today are serviced by Cams and Karvy who have centralized the functions of sending consolidated statements to customers. The fund houses now restrict their activities largely to sales and fund management.

A POLICY OF PLUSES

- Insurance co will not matter when policyholders dematerialize any life, health or motor policy under a common folio
- Once this is done, KYC documents like address and ID proofs will not have to be furnished every time a policy is bought
- For insurers, electronic records will slash costs substantially from current Rs 600 per policy & renewal notices will become easier



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"This is a path-breaking initiative akin to demat of shares. By bringing down cost of delivery, it will enable the industry to come up with low-cost policies which are not viable today because of the cost of delivery," said M Ravichandran, president, Tata AIG General Insurance. He added that besides lowering costs it will improve 'contactability' of the policyholder and address the issue of policy documents being misplaced. According to him, Tata AIG welcomes this initiative and the industry would do well to embrace this and make the necessary changes to IT systems and processes to make this work.

In terms of the IRDA's proposal, a policyholder can choose any of the repositories where he has to maintain the account. While opening an account for the first time, the customer will be required to provide 'know your customer' (KYC) documents, which include address and identity proof.

Non-life companies say that one of the benefits will be better contact with customers. At present, most motor policies are sold through dealers and insurers do not have complete contact details of the customer. Since the repository will have up-to-date data, the company can ensure that renewal notices are delivered.

Similarly, in the case of life insurance companies, policyholders often move house without informing the company of the change in address. But because motor and health insurance are annual contracts, the addresses are updated regularly.

IRDA had earlier indicated that dematerialization of insurance policies will facilitate portability. Customers who are not satisfied with the services of one insurer will be able to shift to another with minimum effort since all information will be maintained centrally. But this is a futuristic plan and not a mandate for the repository participants.