Dvara Research

Response to IRDAI's Exposure Draft on Insurance Product Regulations, 2023

The **Insurance Regulatory and Development Authority of India (Insurance Products) Regulations, 2023**, hereafter "Draft Regulations", was released by the Insurance Regulatory and Development Authority of India (IRDAI) in December 2023[1]. These draft regulations seek to repeal existing product regulations, including IRDAI (Micro Insurance) Regulations, 2015; IRDAI (Unit Linked Insurance Products) Regulations, 2019; and IRDAI (Non-Linked Insurance Products) Regulations, 2019.

The draft regulations have been published in the backdrop of IRDAI's larger effort towards enhancing the '*ease of doing business and simplifying regulations by moving towards a principles-based regime*'. Specifically, IRDAI outlines the following as the key objectives of the regulations –

i. To facilitate insurers to respond faster to emerging market needs, to promote ease of doing business and to improve insurance penetration.
ii. To protect the policyholders' interest by enabling insurers to adopt good governance while designing and pricing the products.
iii. To ensure sound and responsive management practices for effective oversight and adequate due diligence with regard to insurance products, including innovative products considering the interests of policyholders.

In this document, we provide our response to the draft regulations and a set of recommendations for IRDAI's consideration. In addition to commenting on specific regulations proposed in the draft, we also comment on some emergent and continuing gaps, especially in the life insurance sector. The rest of the document is arranged as follows – Section I captures our responses to specific regulatory provisions contained in the draft along with a set of recommendations; Section II captures our comments on gaps and issues that need attention in the life insurance sector; and Section III provides a summary of all our recommendations.

I. Response to specific regulatory provisions in the draft

A. Principles of design and pricing of insurance products

IRDAI's proposal to include a set of principles at the design and pricing stage of insurance products is commendable. While allowing insurers to respond to the needs of the market, the principles make "protection of policyholders' interests" an integral part of product design and pricing. This can go a long way towards ensuring fair outcomes for customers. Although the principles cover several aspects that are key to protecting and promoting the interests of the policyholders, they are non-exhaustive. Ensuring fair outcomes for policyholders and protecting their interests requires focus on multiple aspects related to the conduct of business of both insurers and their intermediaries. The Insurance Core Principles (ICP) published by the International Association for Insurance Supervisors (IAIS), of which IRDAI is a signatory and an active member, identifies the following outcomes as indicators of fair treatment of customers[2].

- Developing, marketing, and selling products in a way that pays due regard to the interests and needs of customers.

[1] IRDAI (2023): "Exposure Draft - The Insurance Regulatory and Development Authority of India (Insurance Products) Regulations, 2023," 12 December, https://irdai.gov.in/web/guest/document-detail?documentId=4243364

[2] International Association for Insurance Supervisors (2019): *ICP 19.0.2, Conduct of Business* in "Insurance Core Principles and Common Framework for the Supervision of Internationally Active Insurance Groups," November, https://www.iaisweb.org/uploads/2022/01/191115-IAIS-ICPs-and-ComFrame-adopted-in-November-2019.pdf

- Providing customers with information before, during and after the point of sale that is accurate, clear, and not misleading.
- Minimizing the risk of sales that are not appropriate to customers' interests and needs.
- Ensuring that any advice given is of a high quality.
- Dealing with customer claims, complaints, and disputes in a fair and timely manner.
- Protecting the privacy of information obtained from customers.

While IRDAI has referred to ICP on other regulatory matters in the past[3], *ICP 19 on Conduct of Business* does not seem to have been referred to in the draft regulations. Given that IRDAI is moving towards a principles-based approach to regulating the insurance market, it becomes critical that principles articulated under various regulations are able to achieve the abovementioned outcomes. These principles would assume relevance at both pre-and post-contractual stages–

- Product development covering product design and pricing.
- Product promotion covering marketing and advertising.
- Product sale covering information disclosure and product suitability assessments.
- Policy servicing covering claims handling.
- Complaints handling.

Regulation 4, 'Principles of design and pricing of insurance products' under the draft regulation, is relevant to the first stage, i.e., product development. While some of the principles have clear links to product design and pricing and protection of policyholders' interest, with the following principles, the links are unclear –

a. **Policyholders' interests are protected –** Among other principles, Principle i(e) under Regulation 4 requires every insurer to ensure "policyholders' interests are protected" as part of the product design and development cycle. However, the regulations do not elaborate on what adhering to such a principle entails. Thus, the current framing of principles leaves a broad room for interpretation. Such scope of interpretation can cause two problems. Firstly, providers may interpret the principle in a manner that does not align with IRDAI's vision. The second problem is of consistency, i.e., in some cases, the interpretation of two principles can be at loggerheads with one another. To avoid these drawbacks, it is critical to a) ensure that the principles are exhaustive, and b) enshrine hierarchies between the principles, i.e., specify which principle will supersede in case of a conflict.

   The draft regulations indicate that protecting policyholders' interests is one of the key objectives. While making it an integral part of product design and pricing is commendable, achieving such an objective requires the principle to be clearly defined.

   Recommendation – We recommend IRDAI to elaborate on the principle of protecting policyholders' interests clearly and separately. In doing so, it should outline the design and pricing characteristics of insurance products that insurers should note at the product development stage to adhere to this principle.

[3] For instance, see IRDAI (2023): "Technical Guidance in respect of Indian Risk Based Capital Framework – Quantitative Impact Study-1," 10 August, https://irdai.gov.in/document-detail?documentId=3733718
IRDAI (2021): *Table Item No.1 on Compliance with KYC norms at the time of inception of Non-life policies* in "Minutes of the 90th Meeting of the Authority," 13 September, https://irdai.gov.in/document-detail?documentId=380554

b. **Suitability as a product design principle –** In the Circular dated 26th September 2019, IRDAI refers to suitability in the context of life insurance as determining whether a product is suitable for a customer based on her risk profile, financial situation and insurance and investment objectives. It further specifies that such an assessment should cover the nature of the product, mode of premium payment, tenure of policy, and premium amount[4]. Introducing suitability assessments in 2019 was a welcome development towards curbing mis-selling of insurance. However, given the proposed principles-based regime, it appears that the idea of (and the responsibility to ensure) suitability is now inadvertently restricted to the point-of-sale only and not to product design and development. Considering the lack of insurance penetration in India and its diverse population, meeting the insurance needs of all, specifically low-income households, requires products that can consider their specific needs, moving away from a one-size-fits-all approach.

   While under Regulation 6 of the draft regulations, the board-constituted Product Management Committee is responsible for ensuring the "appropriateness of the product design for the target market", *suitability* by itself as a principle is absent from the proposed list of the product design and pricing principles. Here, ICP 19 issued by the IAIS can offer some guidance. It states that the "development of products and distribution strategies should include the use of adequate information to assess the needs of different customer groups"[5]. In the context of the Indian life insurance market, it is important to interpret the term "needs" broadly. It should not just include the risk coverage needs of different customer segments but also account for the financial lives of different customer segments and, consequently, their unique financial needs.

   Recommendation – We recommend that suitability or, more broadly, appropriateness of product design be included under the list of principles under Regulation 4. Alternatively, this can be folded under Principle i(e) on the protection of policyholders' interests as one of the product design and pricing characteristics as discussed in the previous point (a.).

c. **Products offered are simple to understand and not complex –** Principle i(c) under Regulation 4 requires every insurer to ensure that "the products offered are simple to understand and not complex" as part of the product design and development cycle. While the intention behind adding this as one of the principles is understandable, an undue focus on product simplification runs the risk of sacrificing product functionality and the space for insurers to innovate. Such product designs may require underlying structures to be complex in order to meet the insurance needs of different customer segments and balance the business interests of insurers.

   The objective of comprehensibility of products can alternatively be achieved by enhancing the quality of product disclosures by ensuring they are accurate and complete, delivered in a

[4] IRDAI (2019): "Circular on Benefit Illustration and Other Market Conduct Aspects," 26 September, https://irdai.gov.in/document-detail?documentId=392421

[5] International Association for Insurance Supervisors (2019): *ICP 19.5.5, Principles-based Approach, Conduct of Business* in "Insurance Core Principles and Common Framework for the Supervision of Internationally Active Insurance Groups," November, https://www.iaisweb.org/uploads/2022/01/191115-IAIS-ICPs-and-ComFrame-adopted-in-November-2019.pdf

comprehensible manner[6]. Here, it is important to note that the word 'complete' refers to ensuring that all information about a product necessary for a customer to make an informed decision about its functionality and appropriateness is presented.

Recommendation – We recommend removing product simplicity as a design principle from the list of product design and pricing principles. IRDAI should instead ensure that regardless of the complexity of products, the objective of comprehensibility of products by customers is achieved through carefully crafted product disclosures that are accurate, complete, and delivered in a comprehensible manner. This can be met by having a customer disclosure comprehensibility test in place. Such a test can be in the form of a minimum set of principles that insurers have to demonstrate adherence to in their product disclosures[7].

d. **Market conduct practices are appropriate and fair -** Principle i(k) under Regulation 4 requires every insurer to ensure "market conduct practices are appropriate and fair" as part of the product design and development cycle. However, the regulations do not elaborate on what adhering to such a principle entails. Further, the links between product design and pricing and market conduct practices are not apparent unless we assume that as part of the product design, incentive structures will be determined, which in turn will impact market conduct practices. Similarly, the link to market conduct is discernable if IRDAI considers "product design" to include disclosures used in advertisements, choice of distribution channels, etc. However, unless clarified and explicitly stated, the current phrasing of the principle can potentially lead to unintended interpretations that may not align with IRDAI's vision.

Recommendation – While ensuring appropriate and fair market conduct practices can help protect policyholders' interests, we recommend that the regulations clarify how market conduct constitutes a product design and pricing principle. Further, we also recommend that the regulations elaborate on the design and pricing characteristics of insurance products that insurers should note at the product development stage to adhere to this principle.

II. Comments specific to the life insurance sector

A. Globally unsuitable products in life insurance – critically evaluate traditional life insurance plans

IRDAI should critically evaluate whether traditional life insurance plans (commonly called endowment plans), the dominant products in the sector, deliver any value for the insured and her household. Multiple studies over the years have indicated that traditional life insurance plans are not appropriate products to either achieve adequate life cover or meet the savings (or investment[8]) needs of households, and this holds especially for low-income households[9].

[6] Mor, Nachiket, and Amulya Neelam (2021): "Complex vs simple financial instruments: What is in best interest of customer?," CNBCTV18, 14 December, https://www.cnbctv18.com/market/complex-vs-simple-financial-instruments-what-is-in-best-interest-of-customer-11802662.htm

[7] Willis, Lauren (2019): "Is time up for mandated disclosure?," Insight, Financial Conduct Authority, 14 March, https://www.fca.org.uk/insight/can-performance-based-regulation-succeed-where-mandated-disclosure-has-failed

[8] Savings and investments are used interchangeably in the context of endowment plans.

[9] Value Research Online (2022): "Say No to Endowment Policies and ULIPs," 29 September, https://www.valueresearchonline.com/stories/32988/say-no-to-endowment-policies-and-ulips/

Prasad, Sowmini, and Priyadarshini Ganesan (2023): "Why endowment plan, a traditional life insurance scheme, is part of most household finances," The Print, 27 February, https://theprint.in/economy/why-endowment-plan-a-traditional-life-insurance-scheme-is-part-of-most-household-finances/1396205/

Traditional life insurance plans, being composite plans, are primarily investment products by function and significantly fall short of the life cover needs of households. Further, the returns on the savings component in these plans are poor, and generally range between 2% p.a. and 4% p.a. There are two key issues to take note of here - a) The returns offered do not adequately protect households from inflation, and b) The returns are less than the returns that a policyholder can receive from other alternative products in the market[10]. Therefore, the low returns that policyholders have been offered on these products despite the availability of similar but better-yielding savings and investment products in the market point to unfair customer outcomes.

Further, it is important to note that mis-selling on the back of front-loaded commissions has been a key issue in the traditional life insurance market. Therefore, in addition to customers losing out on returns on their savings, the unsuitability of products and the resultant lapsation of policies have also meant a loss of capital on account of high surrender charges[11]. This issue is further aggravated by the lack of awareness among low-income households about various types of life insurance products available in the market, specifically pure-risk products[12]. While the Draft Regulations' proposal to increase the surrender values on life insurance products, including traditional life insurance plans, is a bold step towards protecting policyholders' interests, such an action may only minimize the harm and not eradicate it.

Recommendation - IRDAI should critically evaluate the product structure of traditional life insurance plans currently being sold in the market against the value they deliver for households on both life risk cover and investments. Where found necessary, it should either withdraw such products or propose significant modifications to the product structure and features to ensure they are better aligned to meeting the insurance and savings needs of households.

B. Protecting policyholder interests in life insurance – beyond product design

The design and pricing of insurance products and the appropriateness of product design to a particular customer segment are crucial considerations for protecting the interests of policyholders. However, beyond product design, several processes determine how these products are targeted and sold to different customer segments. As outlined in Section II, there are two key areas at the product sale stage where the interests of policyholders may be compromised – a) determining product suitability at the point of sale and b) disclosing appropriate product information to customers.

The draft regulations seek to repeal existing product regulations under the provisions of which IRDAI had issued an important circular, 'Circular on (a) Benefit Illustration; and (b) other market conduct aspects' dated 26th September 2019[13]. This circular covers the abovementioned two

[10] Halan, Monika (2020): "Why Smart Customers Dodge the Investment-cum-insurance Policy Trap," Livemint, 2 September, https://www.livemint.com/money/personal-finance/why-smart-customers-dodge-the-investment-cum-insurance-policy-trap-11598979971575.html
Indian government bonds provided an average yield of 7.1% on 5-year bonds and 7.2% on 10-year bonds. See https://www.worldgovernmentbonds.com/bond-historical-data/

[11] Halan, Monika, Renuka Sane and Susan Thomas (2013): "Estimating Losses to Customers on Account of Mis-selling Life Insurance Policies in India," Indira Gandhi Institute of Development Research, Working Paper WP-2013–007, April.

[12] Ganesan, Priyadarshini., Prasad, Sowmini, & Misha Sharma (2022): "Can information disclosures influence life insurance purchase decisions for low-income households?," Dvara Research, https://www.dvara.com/research/wp-content/uploads/2022/11/Can-disclosures-influence-life-insurance-purchase-decisions.pdf

[13] IRDAI (2019): "Circular on Benefit Illustration and Other Market Conduct Aspects," 26 September, https://irdai.gov.in/document-detail?documentId=392421

aspects of market conduct as they specifically relate to life insurance. While the circular was significant in making product suitability an integral part of the insurance sales process and bringing in improvements to product benefit illustrations, critical gaps remain unaddressed. The draft regulations, however, are silent on the same and do not address conduct issues that may emerge at the stage of product sale.

1. **Ensuring product suitability**

   Our analysis of IRDAI's suitability regulations and their implementation by life insurers points to significant gaps that may prove detrimental to the protection of policyholder interests. The key gaps identified are as follows[14]:

   a. There is a wide variation in how life insurers have implemented IRDAI's suitability regulations as observed in their suitability assessment forms, making fair outcomes for customers dependent on the insurer they choose.
   b. Not all information required by IRDAI to conduct suitability assessments is captured in the suitability assessment forms of insurers. For example, financial and family goals were missing in the case of most insurers.
   c. Some insurers were found to leave it to the customers to determine their own risk profile, which the intermediaries of insurers, in turn, used as input to conduct suitability assessments.
   d. Some insurers require customers to make a final purchase decision in the absence of an explicit recommendation from their intermediaries supporting such a decision.
   e. Not all insurers place an obligation on the intermediaries to declare that a recommended product was found suitable for the customer after carrying out a suitability assessment.
   f. Some insurers place the onus on the customer to understand the product selected or the suitability of the product in the absence of an explicit recommendation or declaration by an intermediary that a product recommended was found suitable for the customer.
   g. The reasoning behind the current exemption of pure risk products from suitability assessments is unclear, as the objective of such assessments is to identify products that match the needs of customers. Whether a pure-risk product is suitable or unsuitable for a customer can only be determined after conducting a suitability assessment. Further, the financial situation and needs of customers may demand pure-risk products with specific cash inflows and outflows.

   Many of the above gaps are likely to continue to exist. Hence, we recommend the following:

   a. The responsibility for determining the risk profile of customers should be explicitly placed on the insurer.
   b. An explicit written product recommendation and declaration by the insurer/ intermediary of having completed the suitability assessment be made mandatory.

[14] Tiwari, Anukriti and Deepti George (2021): "Tracing the History of IRDAI's Regulations on Suitability and Its Interpretations by Market Participants: Part 2," Dvara Research, 18 October, http://blog.dvararesearch.com/2021/10/18/tracing-the-history-of-irdais-regulations-on-suitability-and-its-interpretations-by-market-participants-part-2/

c. The insurer be allowed to bypass suitability assessment in cases where the following conditions are satisfied[15] –
   - The retail customer must state in writing to the financial services provider that they wish to be treated as a professional customer either generally or in respect of a particular financial product, financial service or a type of financial product or financial service.
   - The financial services provider must give the retail customer a clear written warning of the protection that the retail customer may lose if they wish to be treated as a professional customer.
   - The retail customer must state in writing, in a separate document from the contract they are entering into with the financial services provider, that they are aware of the consequences of losing such protections.
   - The financial services provider undertakes an adequate assessment of the expertise, experience and knowledge of the retail customer that gives reasonable assurance, considering the nature of the financial product or financial service or type of financial product or financial service requested, that the client is capable of making their own financial decisions and understands the risks involved.

d. IRDAI undertake supervisory audits of the suitability assessment process and penalizes, through monetary and non-monetary ways, institutional and intermediary processes and behaviours that do not meet the regulatory requirements.

e. Further, we recommend extending the requirement to conduct suitability assessments to pure-risk products as well.

2. Product disclosures through benefit illustrations in traditional life insurance plans

Our examination of disclosures mandated by IRDAI across different types of life insurance products indicates differences in disclosure standards, with the benefit illustration for unit-linked products (ULIPs) being comparatively more transparent than traditional life insurance plans. Four key disclosure points are of concern here with regard to traditional life insurance plans – a) allocation of premium money between insurance and savings component, b) commissions payable to intermediaries, c) accurate disclosure of returns on savings component, and d) benchmarking of product benefits.

The key issues identified and our recommendations to address them are as follows. Many of these issues have been noted by the committee constituted by the Ministry of Finance, which submitted its report in 2015[16].

a. Allocation of premium money between insurance and savings components – In the case of non-participating and participating plans, the benefit illustrations do not disclose how the premium money is allocated towards the costs of providing a life cover and the savings component. Such disclosures can facilitate comparisons against similar products available in the market – both pure life covers and savings products.

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[15] George, Deepti, (2019): "Universal Conduct Obligations for Financial Services Providers Serving Retail Customers", Dvara Research, https://www.dvara.com/research/wp-content/uploads/2019/05/Universal-Conduct-Obligations-for-Financial-Services-Providers-Serving-Retail-Customers.pdf

[16] Ministry of Finance (2015): "Report of the Committee to Recommend Measures for Curbing Mis-selling and Rationalising Distribution Incentives in Financial Products," Government of India, New Delhi.

Recommendation – We recommend that disclosures for traditional life insurance plans be made more transparent in terms of the allocation of premium money towards the cost of providing a life cover and the embedded savings component.

b. **Disclosure of commissions payable to intermediaries** – IRDAI's codes of conduct currently require intermediaries to disclose commissions they are likely to receive on making a sale. However, this is not mandatory and is required to be made upon a client's request. The benefit illustration format applicable to ULIPs is transparent on this front, as it requires insurers to disclose the amount of commission payable each year to the intermediary involved in the sale. However, a similar disclosure is not available in the case of traditional life insurance plans.

Post introduction of commission disclosures in ULIPs, agent recommendations were found to be skewed in favour of traditional life insurance plans, which have had less transparent disclosures on this front. Disclosure requirements need to be consistent across similar products for them to have any effect on the advice of agents[17].

Recommendation – We recommend that IRDAI examine the issue of the lack of harmonized disclosures of intermediary commissions across different life insurance products. This can help provide information on potential conflicts of interest and consequently facilitate informed purchase decisions by customers.

c. **Accurate disclosure of returns on savings component –** In the case of participating plans, the benefit illustrations disclose returns on the non-guaranteed portion of the savings at assumed investment returns of 4% pa and 8% pa. However, these disclosures are misleading for several reasons. At the outset, the return on premiums, net of morality charges, is lower than the stated 8% pa and 4% pa returns[18]. Additionally, past records on traditional endowment plans indicate that the returns are very poor and range between 2% and 4% even before adjusting for inflation[19]. Hence, the scenarios mandated in benefit illustrations are, at best, irrelevant and, at worst, misleading.

Recommendation – We recommend that the requirement to disclose the returns on participating life insurance plans at assumed returns of 4% and 8% be done away. Instead, IRDAI should consider disclosures that provide customers with a more realistic estimate of the returns they can expect.

d. **Benchmarking of product benefits -** In addition to ensuring that product disclosures are accurate, a recently concluded study by Dvara Research indicates that presenting product options helps customers benchmark benefits and features and make informed purchase decisions. In this study, providing accurate disclosures in a simplified manner along with presenting alternatives (for both life cover and savings) for a traditional life

[17] Anagol, Santosh, Shawn Cole and Shayak Sarkar (2017): "Understanding the Advice of Commissions-Motivated Agents: Evidence from the Indian Life Insurance Market," Review of Economics and Statistics, Vol 99, No 1.
[18] Ministry of Finance (2015): "Report of the Committee to Recommend Measures for Curbing Mis-selling and Rationalising Distribution Incentives in Financial Products," Government of India, New Delhi.
[19] Halan, Monika (2020): "Why Smart Customers Dodge the Investment-cum-insurance Policy Trap," Livemint, 2 September, https://www.livemint.com/money/personal-finance/why-smart-customers-dodge-the-investment-cum-insurance-policy-trap-11598979971575.html

insurance plan had the effect of study respondents choosing a combination of a pure-risk product and a recurring deposit account[20].

Recommendation – We recommend benefits under all savings-embedded insurance products be benchmarked against similar products available in the market to allow customers to make an informed purchase decision. While life cover can be benchmarked against a pure-risk product of similar cost, the savings component can be benchmarked against average historical returns of the same/ similar traditional life insurance plans, bank savings and deposit accounts, and public provident fund accounts, for instance.

[20] Ganesan, Priyadarshini., Sowmini Prasad, and Misha Sharma (2022): "Can information disclosures influence life insurance purchase decisions for low-income households?", Dvara Research, https://www.dvara.com/research/wp-content/uploads/2022/11/Can-disclosures-influence-life-insurance-purchase-decisions.pdf

III. Summary of Recommendations

A. Principles of design and pricing of insurance products

- ✓ We recommend IRDAI to elaborate on the principle of protecting policyholders' interests clearly and separately. In doing so, it should outline the design and pricing characteristics of insurance products that insurers should take note of at the product development stage in order to adhere to this principle.
- ✓ We recommend that suitability or, more broadly, appropriateness of product design be included under the list of principles under Regulation 4. Alternatively, this can be folded under Principle i(e) on the protection of policyholders' interests as one of the product design and pricing characteristics.
- ✓ We recommend that product simplicity as a design principle be removed from the list of product design and pricing principles. IRDAI should instead ensure that regardless of the complexity of products, the objective of comprehensibility of products to customers is achieved through quality product disclosures that are accurate and complete, delivered in a comprehensible manner. This can be met by having a customer disclosure comprehensibility test in place. Such a test can be in the form of a minimum set of principles that insurers have to demonstrate adherence to in their product disclosures as part of IRDAI's product approval regulations.
- ✓ We recommend that the regulations provide clarity on how market conduct constitutes a product design and pricing principle. Further, we also recommend that the regulations elaborate on the design and pricing characteristics of insurance products that insurers should take note of at the product development stage in order to adhere to this principle.

B. Globally unsuitable products in life insurance – critically evaluate traditional life insurance plans

- ✓ IRDAI should critically evaluate traditional life insurance plans that are currently being sold in the market against the value they deliver for households on both life risk cover and savings. Where found necessary, it should either withdraw such products or propose significant modifications to the product features that align better with meeting the insurance and savings needs of households

C. Protecting policyholders' interests in life insurance – beyond product design

1. Ensuring product suitability

- ✓ The responsibility for determining the risk profile of customers should be explicitly placed on the insurer.
- ✓ An explicit written product recommendation and declaration by the insurer/ intermediary of having completed the suitability assessment be made mandatory.
- ✓ The insurer be allowed to bypass suitability assessment in cases where the following conditions are satisfied -
  - — The retail customer must state in writing to the financial services provider that they wish to be treated as a professional customer either generally or in respect of a particular financial product, financial service or a type of financial product or financial service.

- The financial services provider must give the retail customer a clear written warning of the protection that the retail customer may lose if they wish to be treated as a professional customer.
- The retail customer must state in writing, in a separate document from the contract they are entering into with the financial services provider, that they are aware of the consequences of losing such protections.
- The financial services provider undertakes an adequate assessment of the expertise, experience and knowledge of the retail customer that gives reasonable assurance, considering the nature of the financial product or financial service or type of financial product or financial service requested, that the client is capable of making their own financial decisions and understands the risks involved.

✓ IRDAI undertake supervisory audits of the suitability assessment process and penalizes, through monetary and non-monetary ways, institutional and intermediary processes and behaviours that do not meet the regulatory requirements.

✓ Further, we recommend that the requirement to conduct suitability assessments be extended to pure-risk products as well.

2. Product disclosures through benefit illustrations in traditional life insurance plans

✓ We recommend that disclosures for traditional life insurance plans be made more transparent in terms of the allocation of premium money towards the cost of providing a life cover and the embedded savings component.

✓ We recommend that IRDAI examine the issue of the lack of harmonized disclosures of intermediary commissions across different life insurance products. This can help provide information on potential conflicts of interest and consequently facilitate informed purchase decisions by customers.

✓ We recommend that the requirement to disclose the returns on participating life insurance plans at assumed returns of 4% and 8% be done away. Instead, IRDAI should consider disclosures that provide customers with a more realistic picture of the returns they can expect.

✓ We recommend benefits under all savings-embedded insurance products be benchmarked against similar products available in the market to allow customers to make an informed purchase decision. While life cover can be benchmarked against a pure-risk product of similar cost, the savings component can be benchmarked against average historical returns of the same/ similar traditional life insurance plans, bank savings and deposit accounts, public provident fund accounts, for instance.