

# Commission Deferment Policy

## 1. Introduction

Low Persistency of life insurance policies is a cause of concern for the Insurance Regulators worldwide, the Industry, Intermediaries and the Policyholders. Early lapses and surrenders are not desirable for any of the stakeholders in the sector.

IRDA felt that agents can play a vital role to ensure high persistency

- (i) by avoiding soliciting unsuitable products
- (ii) by bringing in transparency in providing correct and complete details of suitable products to the prospective policyholders and
- (iii) by considering the needs of prospective policyholders.

In its endeavour to increase the persistency of the life insurance business thereby giving a fillip to protection of policyholders' interests, IRDA has released the circular IRDA/CAD/GDL/AGN/016/02/2011 dated 11-Feb-2011 putting in place minimum standards of performance for agents.

## 2. Definitions

(A). **Persistency Rate:** Persistency Rate refers to the percentage of policy contracts still in force at the specified time interval after they have been issued and shall be calculated on premium basis as well as policy basis.

(B). **Deferred Commission:** The component of initial commission, in case of regular premium and limited premium payment policies, paid in subsequent years subject to fulfillment of conditions specified by the insurer.

## 3. Guideline

The circular on persistency guidelines states that no commission needs to be deferred for single premium policies.

While deciding on the deferment of commission, we would be looking into

- i. Remuneration earned by the average life advisor
- ii. Behavior of the persistency maintained
- iii. The relationship between persistency and deferment

Efforts will be made to ensure that remuneration and deferment policy leads to better persistency and at the same time provides remuneration for sustaining in the profession for the life advisor.

Keeping in view the above factors, Kotak Life Insurance would not be deferring the commission on the sourcing of the Regular and Limited Premium paying policies for the time being.

We would be reviewing this “Commission Deferment Policy” annually in order to decide on whether the commission payable to the agents needs to be deferred. The review would be undertaken with the concerned Business Heads. If there is a change required to be made to this policy after due discussions with the Business Head, then the same would be taken up with the Board for review and approval.