Recalibrating Economics of Insurance Distribution

Part 1

Distribution Reforms

Public Consultation Paper

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Recalibrating Economics of Insurance Distribution

Section 1 - Overview

1. **The purpose of these reforms is "recalibrating economics of insurance distribution" to facilitate better and sustainable outcomes for all stakeholders, specifically policyholders, insurers and distributors.** This public consultation paper seeks to generate discussion and obtain views and feedback from public, policyholders, insurers, distributors, agents and other stakeholders on the distribution reforms being planned by the Authority.

2. **Our collective goal of "Viksit Bharat" requires the insurance sector to play a role far bigger than its current state in improving financial resilience of households and entities.** The sector has done well in terms of absolute business growth but is yet to raise its level to meet the country's large and evolving insurance needs, particularly amid a fast-growing economy and rising income levels, resulting in a significant missed opportunity.

3. **Distribution plays and will continue to play an important role as a bridge between insurers and public.** Traditionally, the sector has believed in and followed the adage of "insurance is sold". At the same time, there are significant opportunities in the Digital India era to nudge the sector to adopt a complementary business strategy of "insurance is also purchased".

4. The consultation paper is organised in two parts.

Part 1

5. **Part 1 focuses on the proposed reforms.** Some of the reforms are prescriptive in nature. Their rationale is in the observed market failures in the sector, especially in outcomes impacting policyholders' interests adversely. Others are guiding in nature.

6. **The 'Introduction Section' sets the context** with a brief mention of the current state, expectations of the Sabka Bima Sabki Raksha Act, 2025, and economic challenges of the sector brought out in recent Financial Stability Report (FSR) of the Reserve Bank of India (RBI) (December 2025) and Economic Survey 2025-26 of the Government of India (GoI) (January 2026).

7. **Section 3 on 'Challenges of the Insurance Sector' brings out ten pressing challenges.** Some of them are direct outcomes of the dynamics of the current distribution architecture and remuneration arrangements. Those can be addressed by the proposed reforms. Some challenges will also require reforms in other facets of the sector.

8. **Section 4 on 'Distribution Reforms - A Compelling Priority' brings out the purpose.** That purpose is improving consumer outcomes, strengthening competition, enhancing operational efficiency and enabling sustainable growth of the sector.

9. **Section 5 on 'Strategic Framework for Reforms' proposes ten objectives.** The subsequent sections detail specific reforms and operational measures for achieving those objectives.

10. **Section 6 on 'Simplification of Architecture and Scope of Distribution' is the foundational reform.** That is about opening up the distribution segment to more competition through simplification of the architecture, easing up the entry, creating more business and income opportunities, allowing non-insurance financial and non-financial services, facilitating more employment, removing ad-hoc operational constraints, improving knowledge and skill sets through cost-efficient trainings, and setting regulatory expectations in unambiguous terms. This being foundational for the proposed reforms, the section also proposes seven principles to anchor the structural reforms.

11. **Section 7 on 'Expense of Management Framework' revisits the reforms of year 2023 in the context of the EoM outcome during the past decade.** The section reviews the developments in the past 3 years and brings out the divergence of the outcomes from the objectives of those reforms. The section proposes refinement of the EoM framework and limits with a glide path with the objective of reducing cost of doing business and thereby improving value for the policyholders. For giving a helping hand to insurers, the Section also proposes a reduction in the regulatory fee.

12. **Section 8 on 'Distribution Commission Framework' proposes fourteen principles to guide the commission reforms.** The section also suggests prescriptive limits on commissions for different insurance segments, lines of business, and distribution channels. Those limits factor in product complexity and ease or otherwise of selling. Once again, the need for the prescriptive limits has arisen, as there are wide divergences in the commission outcomes, as analyzed in the Part 2, from the industry averages and also from that of cost-efficient insurers and distributors. The section also proposes measures for assurance for good market conduct including cost audit of insurers and large distributors and appropriate disclosure of commission policies and structure.

13. **Section 9 on 'Transparency in pricing and quality led purchases' proposes reforms for better and standard disclosures in easy to access and easy to understand manner** so that the policyholders' response to poor market conduct can act as disincentive for other stakeholders. The Section also proposes that the money should flow where it belongs instead of getting routed through intermediary channels.

14. **Section 10 on 'Safeguards against compulsory bundling of insurance products with other financial products and services' and Section 11 on 'Creating awareness against mis-selling' complements regulatory directions by the Reserve Bank of India to banks, non-banking financial companies (NBFCs), and other entities regulated by the RBI in June 2026 in respect of their conduct in selling third-party products.** Those entities are also insurance distribution entities regulated by the Insurance Regulatory and Development Authority of India (IRDAI). The proposed measures include prohibiting compulsory bundling of insurance products with credit or loan, allowing acceptable combination of insurance and credit or loans, and creating awareness about illustrations of mis-selling.

15. **Section 12 on 'Streamlining Motor Insurance' seeks to nudge the segment away from multilayer distribution structure, promote digital purchases, and lower commission limits on mandatory third-party insurance.**

16. **Section 13 on 'Market Infrastructure Institution for Insurance' proposes a systemic reform to build on the concept of Bima Sugam.** An MII for Insurance can also be set up by a group of insurers to promote cost-efficient and neutral marketplace for purchase of insurance products.

17. **Section 14 on 'Public Insurance Registry' reiterates the proposal to build a Digital Public Infrastructure (DPI) for Insurance as the business-facing digital infrastructure for facilitating transparency and operational and cost efficiencies.** A separate consultation paper for this DPI is already in the public domain.

18. **Section 15 on 'Insurance Education and Awareness' links the role of policyholders' rights and obligations in facilitating effective outcomes of the proposed reforms.** The Section proposes utilization of activities of the recently established Policyholder Education and Protection Fund (PEPF).

19. **Section 16 on 'Reforms Objectives, Measures, and their Assessment' maps all proposed reforms and measures** (Section 6 to 15) **with the objectives set out in the strategic framework** (Section 5).

20. **Finally, Section 17 sets out relevant consultation questions to obtain views and feedback from all stakeholders in a structured manner detailed in Section 18.**

Part 2

21. **Part 2 focuses on the background analytical work** on cost elements of the sector including total expenses and distribution commissions. The purpose of Part 2 is to place relevant information in public domain in near-anonymized manner to inform the discussion on the proposed reforms. The inferences drawn from the analytical work have informed the Authority's (IRDAI) formulation of the sector's challenges, strategic framework, and reform measures.

Reforms Objectives, Measures, and their Assessment

22. The table below maps the strategic objectives (*refer Section 5*) with the proposed reforms and measures (*refer Section 6 to 14*), and the parameters for assessing their outcomes.

Strategic Objective	Reform / Measure
1) Eliminate scope for regulatory arbitrage **Outcome Assessment parameters:** a) Market conduct parameters to assess adherence to regulatory norms on annual basis; and	Following **reforms & measures at sl.no. 1, 5 and 6 in Section 6** on "simplification of architecture and scope of distribution" aim at furthering of this objective. 1. Adopting only three types of distributors (IDE, IDP and MII) based on their legal structure instead of current multiple types;

Strategic Objective	Reform / Measure
b) Policyholder's feedback through consumer surveys on annual basis.	2. Providing for same scope for business, same obligations, and same regulations for same structure type; and 3. Making a sharper distinction between open architecture and closed architecture.
2) Remove restrictions on non-insurance business opportunities for intermediaries **Outcome Assessment parameters:** a) Number of IDEs and IDPs opting for non-insurance distribution; b) Number of non-insurance distributors opting for insurance distribution; c) Number of new IDEs and IDPs; d) Number of active IDEs and IDPs in cities with population below 10 lakhs; and e) Number of active IDEs and IDPs in towns with population below 50 thousand and all rural areas.	**Measures at sl.no. 7 and 8 in Section 6** on "simplification of architecture and scope of distribution" aim at the following besides achieving this objective: 1. Enhancing competition; 2. Generating employment; and 3. Improving income of IDPs.
3) Ease-up entry and capital requirements **Outcome Assessment parameters:** a) Time taken for registration; and b) Number of new IDEs	**Reforms & measures at sl.no. 2, 3 and 4 in Section 6** on "simplification of architecture and scope of distribution" aim at enhancing competition and generating employment besides achieving this objective. These include the following: 1. Reducing capital requirement significantly; 2. Simplifying registration; and 3. Lowering fee.
4) Reduce total expenses with a glide path **Outcome Assessment parameters:**	**Reforms & measures in Section 7** on "Expense of Management Framework" **and** reforms **at sl.no. 11 in Section 6** on "simplification of architecture and scope of distribution" seek to find a balance between

Strategic Objective	Reform / Measure
a) EoM ratio on quarterly and annual basis; b) Related party payments on annual basis; and c) Results of cost audit on annual basis.	interests of policyholders and financial sustainability of business for insurers. These include the following: 1. Lowering EoM limits with a medium-term glide path (from product level caps to 12.5% of GDPI at company level EoM cap for life insurers, and from 30% of GWP to 20% of GDPI for general insurers in 5 years (*refer Box 2 for details*); 2. Refining EoM computation (using GDPI instead of GWP; making a distinction between commission and reinsurance commission without any netting off; placing qualifications on proportion of premium for government promoted schemes) to preclude work-around the limits; 3. Mandating cost audit and disclosure of results; 4. Nudging insurers to focus on improving operational efficiency and thereby reducing operating expenses; and 5. Allowing insurers to distribute products of their group non-competing insurer through their branch offices to reduce expenses.
5) Place caps on commission and rewards with a framework of effort & complexity, and aligned to removal of regulatory arbitrage **Outcome Assessment parameters:** a) Overall commission payouts by each insurer and receipts by large distributors; and b) Commission pay-outs and receipts for each category of products, lines of business,	**Reforms & measures in Section 8** on "Distribution Commission Framework" seek to promote policyholder-value driven business. These include the following: 1. Making a distinction between open architecture and closed architecture for distribution; 2. Prescribing higher commission for those with restrictions on scope of distribution (closed architecture); 3. Prescribing opportunity-based commission level for those with wider full scope of distribution (open architecture);

Strategic Objective	Reform / Measure
nature of premium, and distribution channels.	4. Linking commission levels to complexity of products and effort required to sell; 5. Reducing layers in distribution, as far as possible without compromising reach, with the reformed architecture; and 6. Considering all payments to distributors to preclude work-around the commission levels. (*refer Box 4A for general insurance and Box 4B for life insurance for details*) These measures are complemented by enhancement of business & income opportunities from non-insurance business proposed to be allowed.
6) Set-up market infrastructure institutions to facilitate level-playing field for all stakeholders **Outcome Assessment parameters:** a) Number of products and business volumes on Bima Sugam; b) Number of MIIs promoted by insurers; and c) Number of operational user stories on PIR.	**Systemic interventions proposed in Section 13** and **Section 14** are positioned as key enablers for achieving objectives of these reforms. These include the following: 1. Establishing fully digital pull-based alternatives for insurance distribution through customer-facing MIIs such as Bima Sugam; 2. Envisaging more MIIs promoted by insurers, while Bima Sugam becomes operational in the next 4 to 6 months; and 3. Setting up Public Insurance Registry (PIR) owned by the regulator as a population-scale, interoperable and non-exclusionary DPI for Insurance and as a business-facing digital infrastructure through transformation of Insurance Information Bureau.
7) Create incentives for good market conduct **Outcome Assessment parameters:** a) Volume of business, number of lives covered; amount of sum	**Measures at sl.no. 7 and 10 in Section 6** on "simplification of architecture and scope of distribution", **Commission Grid in Section 8** on "Distribution Commission Framework", "Safeguards for bundling of insurance products"

Strategic Objective	Reform / Measure
assured or insured through closed and open architecture; b) Volume of business in under-served areas; c) Number of complaints received by insurers and grievances received by Bima Bharosa portal; and d) Nature of complaints and grievances.	**in Section 10, PIR in Section 14** seek to serve this objective. These include the following: 1. Enhancing competition in distribution with mandatory disclosure; 2. Linking commissions to complexity and effort; 3. Providing larger renewal commission for life insurance products with longer payment terms and persistency; 4. Allowing higher limits for those in closed architecture; 5. Rewards for sale in under-served areas; 6. Permitting packaging of insurance products with loans or credit where they serve policyholders' interest explicitly, whereas otherwise prohibiting compulsory bundling; and 7. Operationalizing PIR user story of customers being able to know the performance of distributors and insurers on various customer outcome parameters drives behaviour for better market conduct.
8) Build-in disincentives for bad conduct **Outcome Assessment parameters:** a) Number of complaints or grievances related to compulsory bundling or mis-selling; b) Insurers and large distributors continuing with dark patterns; and c) Commission behaviour of IDEs in open architecture.	**Safeguards against compulsory bundling in Section 10, guidance against mis-selling in Section 11,** and **EoM and Commission frameworks in Section 7 and Section 8,** and **PIR in Section 14** seek to serve this objective. These include the following: 1. Disclosing EoM and commission information in public domain; 2. Placing performance of IDPs and IDEs in public domain including that related to mis-selling, surrender of policies, and lower persistency; 3. Providing for commission claw-back in case of mis-selling;

Strategic Objective	Reform / Measure
	4. Placing performance of insurers and distributors in public domain to discourage bad conduct; 5. Tracking dark patterns actively and placing the information in public domain; and 6. Identifying individuals involved in unfair practices to discourage bad conduct.
9) Ensure transparency by market design, and not as an option or through enforcement **Outcome Assessment parameters:** a) Number of insurers providing details of product parameters & performance, claim management performance, grievance redressal performance on their websites in easy to access and easy to understand form; b) Number of large distributors providing information on their customer-facing performance on their websites; and c) Number of large sum-insured policies and related commissions.	**Measures in Section 9** to promote "Transparency for pricing and quality led purchases", **regulatory expectations at sl.no. 9 in Section 6** on "simplification of architecture and scope of distribution", **principles at sl.no. 3, 4 and 8 in Section 8** on "Distribution Commission Framework", and **user stories for PIR in Section 14** seek to serve this objective. These include the following: 1. Disclosing product features, pricing and quality of all products without dark patterns; 2. Setting regulatory expectations in unambiguous terms and establishing systems for oversight; 3. Placing performance and conduct of insurers and distributors in the public domain through "Know your Insurer" and "Know your Distributor" related user stories of PIR; 4. Mandating mention of commission on policies with large sum-insured (above ₹50 crores); 5. Disclosing EoM and commission performance of insurers and large distributors in public domain on periodic basis; and 6. Mandating cost audit and placing results in public domain.
10. Mitigate structural constraints and operational friction to customer power	**Measures in Section 6** on "Simplification of architecture and scope of distribution", **in Section 12** on "Streamlining Motor Insurance",

Strategic Objective	Reform / Measure
Outcome Assessment parameters: a) Amount of business coming from multi-layer distribution arrangements and commission thereon; b) Relative volume of business coming from direct purchases; and c) Customer satisfaction feedback through surveys and direct connect.	**and facilitation of direct purchase options and user stories of PIR in Section 14** seek to serve this objective. These include the following: 1. Reducing layers in distribution as far as practical; 2. Mandating direct connect between purchaser and insurer before issuance of the policy; 3. Requiring direct payment to insurers; 4. Improving transparency about performance of products, insurers and distributors; 5. Enabling customers to compare products and services in an easy-to-understand manner; 6. Expanding scope for direct purchase; 7. Making the portability journey seamless through the PIR; and 8. Enhanced oversight on grievance redressal. Overall, the customer journey should improve as customers are empowered with information, clear product and price discovery, grievance management, and take comfort in proper regulatory oversight.

Section 2 - Introduction

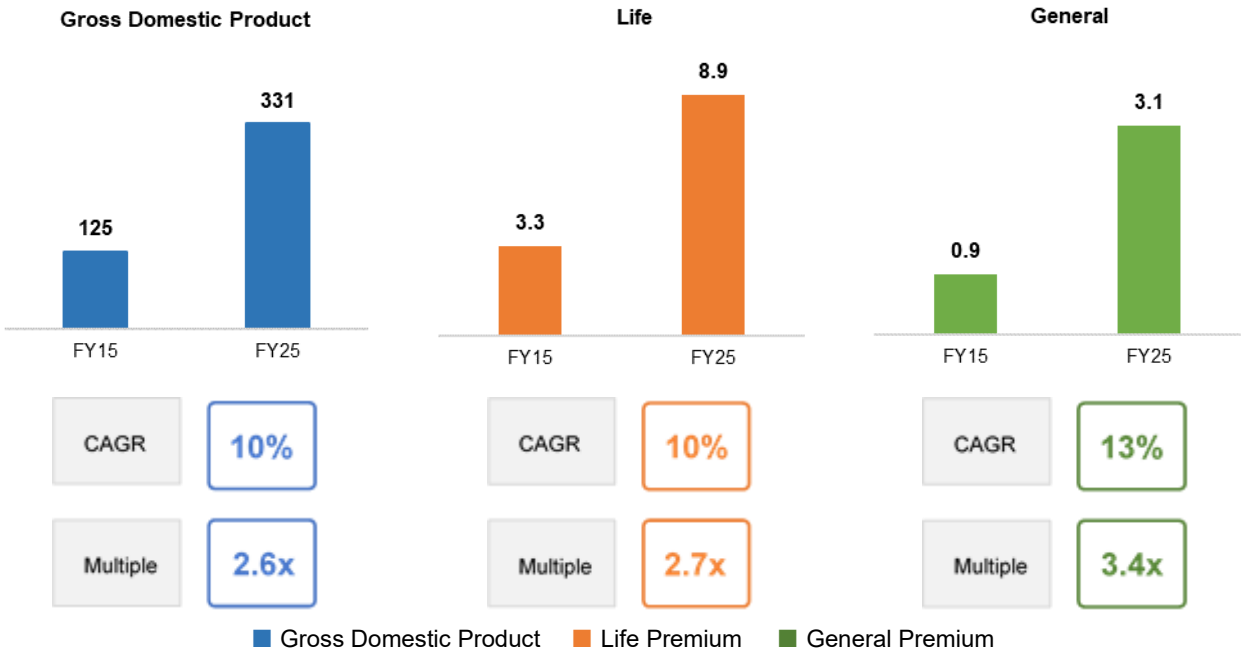
Sabka Bima Sabki Raksha Act, 2025

23. **The Sabka Bima Sabki Raksha Act, 2025 (SBSR Act) carries expectations of the Parliament to introduce forward-looking reforms for enabling the sector to cater to the growing needs of the economy.** Specifically, the Act anchors four objectives, namely (1) to further accelerate the growth and development of the insurance sector, (2) to ensure better protection of policyholders, (3) to improve ease of doing business for insurance companies, intermediaries and other stakeholders, and (4) to bring transparency in regulation making and to improve regulatory oversight over the sector.

Current Status

24. **The insurance industry continues to grow, but at a pace that remains inadequate relative to the size and needs of the country's fast-growing economy** with large unmet financial protection needs, in spite of rising income levels. The industry's growth has been broadly in line with that of Gross Domestic Product, rather than outpacing it. To bridge the existing protection gap and meet the evolving insurance needs of the population, the industry needs to grow at a rate significantly higher than that of Gross Domestic Product.

Graph 1: Gross Domestic Product vis-à-vis Premium Growth *(₹ Lakh crores)*

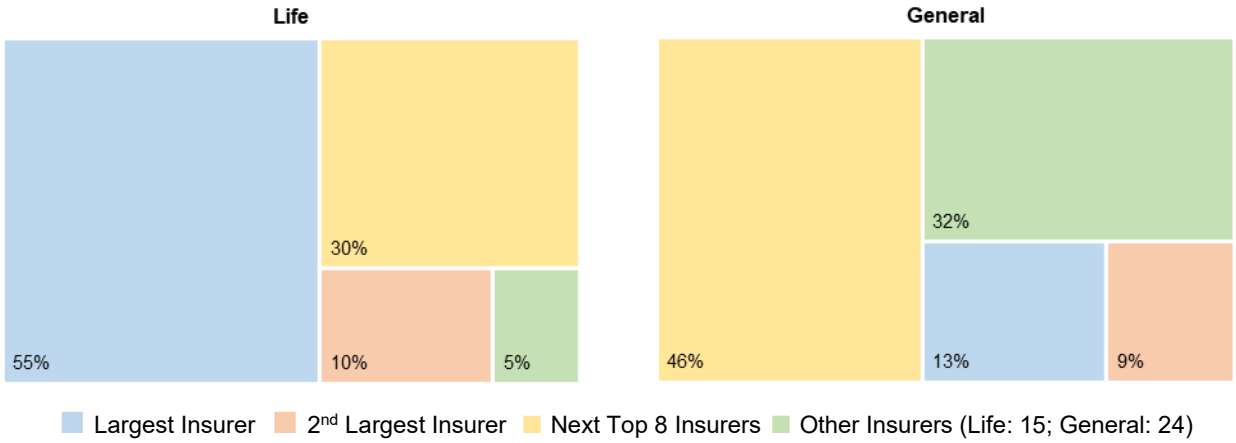


25. This modest growth of insurance industry has translated into two outcomes

1) **Very few companies have attained economies of scale.** In life insurance, the two largest insurers account for 65% of the market, while the bottom 15 insurers have significantly smaller share of total 5%, limiting their ability to realise economies of scale. In general insurance, the top ten largest insurers account for 68% of the

market, while the remaining 24 insurers have only 32%, indicating limited scale benefits for most players.

Graph 2: Composition of Market Share *(based on premium)*



2) **Coverage in terms of number of policies has not grown enough.** The number of individual life insurance policies has remained broadly stagnant over the last decade, indicating limited expansion in coverage despite rising incomes and economic growth. General insurance has witnessed growth in policy numbers, but the overall expansion in coverage remains insufficient to bridge the large protection gap.

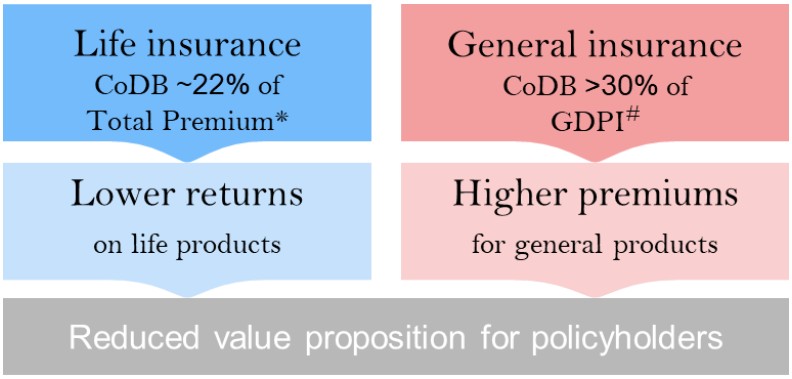
Graph 3: Life Insurance – Number of policies (Individual) *(in lakhs)*

26. **The Cost of Doing Business[1] (CoDB) remains high[2].** CoDB for life insurers, excluding the two largest insurers, stands at 22%, with individual insurers ranging from 18% to 39%. The two largest insurers, which collectively account for 65% of the market share, have significantly lower CoDBs, ranging between 10% and 12%. CoDB for general insurers, excluding the largest insurer, stands at 29%, with individual insurers ranging from 20% to 48%. The largest insurer, with a market share of 13%, has a significantly lower CoDB of 18%. The

[1] *Cost of Doing Business is calculated as a ratio of total expenses to total premium (Life) or GDPI (General)*

[2] *GDPI refers to Gross Direct Premium Income*

high CoDB has adverse implications on the value delivered to the policyholders of both life and general insurance.



(*) excluding the two largest insurers, whose CoDB is 10 - 12%
(#) excluding public sector insurers

Figure 1: Implications of high CoDB

Financial Stability Report (December 2025)

27. **Financial Stability Report[3] of the Reserve Bank of India in December 2025 advised a reorientation towards cost rationalisation, aligning intermediary incentives with persistency and value to policyholders, and wider adoption of technology-enabled low-cost distribution models.** The report observed that surface-level stability in the insurance sector masks emerging structural pressures that could weigh on medium-term sustainability and coverage expansion.

28. These structural pressures identified in the report are (1) persistence of a high expense structure, (2) premium growth increasingly being driven by high-cost distribution-led strategies rather than operating efficiency and digital purchases, (3) frontloaded acquisition costs in life sector limiting the value for policyholders, (4) high acquisition costs and claims inflation in general insurance sector contributing to persistent underwriting losses, increasing reliance on investment income and diluting technical pricing discipline, and (5) constraints on meaningful expansion of coverage.

29. **The report advocated** that a sustained moderation in expense intensity, supported by regulatory initiatives like risk-based capital framework, enhanced disclosures, and strengthened market conduct standards, would improve consumer value, reinforce the sector's long-term resilience, and facilitate **transition from the current "high-cost, low-inclusion" to "affordable-cost, broad inclusion and high quality" equilibrium**.

[3] https://www.rbi.org.in/Scripts/PublicationReportDetails.aspx?UrlPage=&ID=1308

Economic Survey 2025-26

30. **The Economic Survey 2026[4] took the diagnosis further by identifying** (1) escalating cost of acquisition, (2) high operating costs, and (3) heavy dependence on expensive intermediary networks instead of wider utilization of digital channels **as structural constraints on the sector's evolution. These are limiting inclusion, eroding consumer value, and weakening long-term stability of the sector.**

31. **The Survey also observed a widening divergence between insurance coverage depth and breadth** as the most visible implication of the high-cost regime. While the sector is successful in 'deepening' revenue from existing customers, high distribution costs are preventing a 'widening' of the risk pool.

32. The Survey postulated that lowering of overall costs and distribution outgoes is essential to improve affordability, enabling the industry to tap into the 'missing middle' and reversing the decline in penetration. Such measures would allow insurers to price risk more accurately and increase value to customers, making products and prices more affordable.

33. **The Survey observed that the path forward necessitates decisive shifts.** Insurers must prioritise the digitisation of distribution to rationalise acquisition costs and restore 'value for money' to the policyholder. Successfully dismantling the cost inefficiencies would resolve the penetration-density paradox besides transforming the sector from a constrained aggregator of savings into a truly inclusive and resilient pillar of the economy.

[4] https://www.indiabudget.gov.in/economicsurvey/doc/echapter.pdf

Section 3 - Challenges of the Insurance Sector

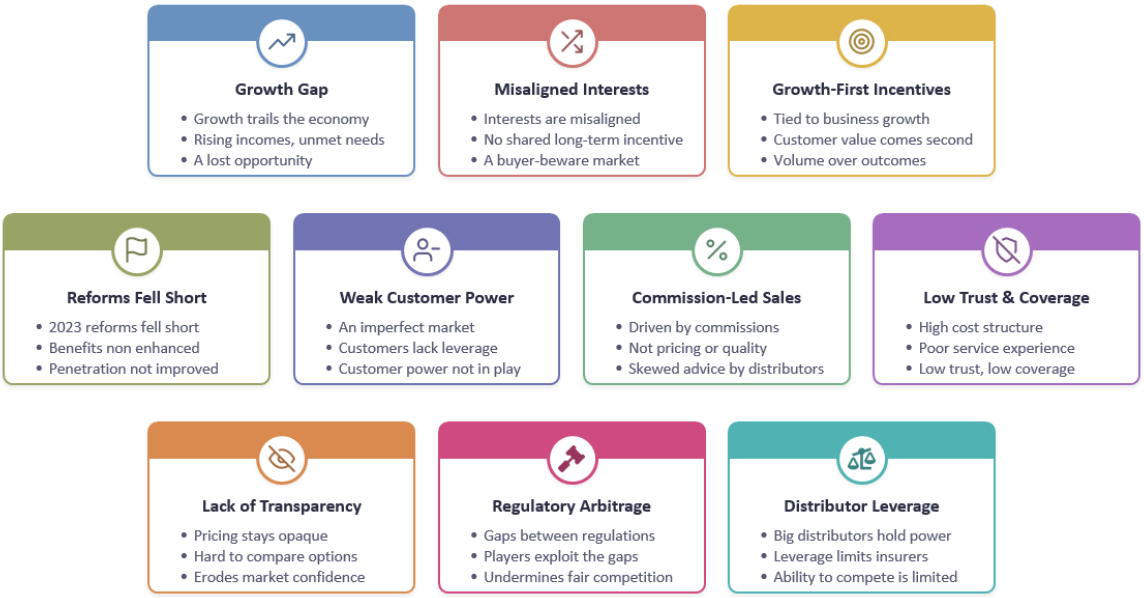


Figure 2: Challenges of the Insurance Sector

1) Sector's growth has not kept pace with the country's large and evolving insurance needs, particularly amid a fast-growing economy and rising income levels, resulting in a significant missed opportunity.

34. **India's insurance sector appears to have expanded in absolute premium terms, yet insurance coverage and penetration have remained broadly stagnant** despite sustained economic growth and rising household incomes. This divergence indicates that premium growth is being driven more by higher value sales to existing customers rather than by the expansion of the insured population. Large segments of the 'missing middle', informal workers and Micro, Small and Medium Enterprises (MSMEs) remain inadequately protected against mortality, health, property and business risks.

35. **The present distribution architecture tends to favour readily accessible urban and salaried customers over the development of underserved markets.** Distribution efforts remain largely focused on segments where business can be acquired more easily, whereas expansion into new customer segments and geographies has received relatively less attention. The incentive structure continues to reward premium growth more than expansion of insurance coverage. As a result, significant sections of the population and businesses remain inadequately insured.

36. **The health and property insurance segments illustrate this pattern clearly.** In retail health insurance, the top six insurers account for nearly 65% to 68% of the market and have recorded premium growth (Compounded annual growth rate (CAGR)) upto FY26 of approximately 6% to 15% in their flagship products. At the same time, portability data indicates that around 55% to 60% of all port-in and port-out requests are concentrated among just four to five insurers, while the number of newly insured lives has grown only modestly year-on-year. This suggests that a substantial share of distribution effort is directed towards

transferring existing policyholders between insurers rather than expanding insurance coverage to previously uninsured individuals. 10 states consistently account for 80% to 82% of retail health policies. Maharashtra alone accounts for 20% of all retail health policies indicating a strong concentration of business in the state. Further concentration is evidenced by the fact that in most states approximately 80% of the polices come from the top 10 districts. This skew demonstrates inadequacy of coverage in most states.

37. In the Life insurance segment, a similar bias is observed. 66% to 70% of retail new business is concentrated in 10 states. Within the states also the top 10 districts contribute a substantial number of new policies. The lack of sufficient diversification strengthens the case for need to expand distribution beyond the current geographies.

38. **A similar trend is evident in property insurance**. Insurance penetration among homeowners and MSMEs remains relatively low, with many customers viewing insurance primarily as a requirement rather than a risk-management tool**.** In many cases, coverage is purchased only when mandated by banks or other lenders as a condition for obtaining a home or business loan.

39. This creates a significant protection gap. Once the lending requirement ends, or if no financing is involved, many homeowners and MSMEs have limited desire to independently purchase or renew adequate insurance coverage. As a result, properties, assets, inventory, equipment, and business operations remain uninsured or under-insured, and exposed to risks such as fire, natural catastrophes, theft, and other unforeseen events.

40. **This represents a significant lost opportunity**. Insurance is an essential component of economic resilience. A distribution system that rewards market expansion, innovation and affordability is therefore necessary for insurance to support the country's long-term growth aspirations.

2) Interests of insurers, distributors and public are misaligned.

41. **Insurance market is characterised by significant information asymmetry**, with insurers and distributors possessing considerably greater information about product features, costs and suitability than consumers. This places a greater responsibility on the regulatory framework to ensure that distribution incentives are aligned with policyholder interests. However, prevailing remuneration structures place greater emphasis on premium procurement rather than suitability or persistency or long-term customer outcomes.

42. **This asymmetry becomes particularly consequential where distributor remuneration varies materially across products.** Higher remuneration for particular products can create incentives to favour those products irrespective of whether they offer the best fit for the customer. Since consumers may have limited ability to independently evaluate complex insurance products, such incentive structures increase the risk of unsuitable sales, subsequent policy lapses or surrenders, and erosion of trust in the insurance system.

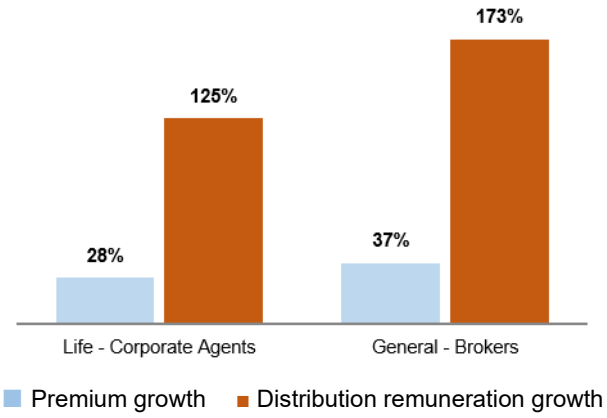
43. **Recent data from the life insurance corporate agency channel highlights the scale of this misalignment.** Across a representative sample covering approximately 92% of premium procured through corporate agents, new business premium grew by 28% from FY23 to FY25, while during the same period, total distributor remuneration increased by 125%.

Distributor remuneration now accounts for nearly 27% of first-year premium, with rewards and incentives adding 30% to 60% over base commission, making base commission an incomplete measure of distribution cost.

44. **Remuneration is growing four to five times faster than the business it is paid on.** This has created a **'buyer beware'** market in which consumers themselves are expected to decipher complex financial products. Such an outcome is inconsistent with the objective of expanding insurance coverage and requires reforms that realign incentives towards customer value.

45. **Distribution costs also vary sharply for similar products.** Effective pay-outs on Unit linked insurance plans (ULIPs) range from around 5% to nearly 40%, while other savings products attract effective commissions of 29% to 60% of first-year premium, exceeding 65% in some cases. The NBFC corporate agency channel has nearly tripled since FY23, with effective pay-outs averaging around 42% of new business premium. Around 93% of this business comprises single-premium Group Credit Life products sold at the point of loan origination, where customers have limited opportunity to compare products, while effective pay-outs on Group Credit Life have risen to around 45%.

Graph 4: **Distributor remuneration is growing 4-5x faster than premium (FY23-FY25)**



3) Sector incentives are aligned to business growth instead of value for the public.

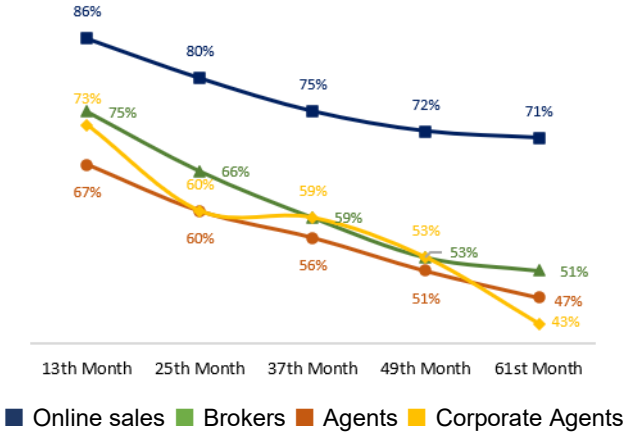
46. **Current incentive structures predominantly reward new business acquisition**, while there are **nil to low rewards for good market conduct**. Value creation parameters such as persistency, quality of advice, servicing standards and claims experience receive insufficient recognition. This encourages a short-term focus on premium growth rather than sustainable customer relationships.

47. Good market conduct would benefit the entire sector through higher renewal rates and customer confidence. These intrinsic benefits do not form part of distributor compensation. In fact, poor conduct appears to carry no adverse consequences.

48. **The outcomes data reinforces this concern**. In life insurance, the 61st month persistency rate is only 48%, indicating that more than half of policyholders discontinue their policies before completing five years despite heavily front-loaded remuneration. However, in

the case of online channel, 61st month persistency is at 71%, indicating that where a conscious and informed purchase is made by a policyholder there is a tendency to continue with the policy. In general insurance, grievances increased from 78,347 in FY23 to 1,37,361 in FY25, with nearly 69% of general insurance complaints on the Bima Bharosa portal relating to claims. The coexistence of high distribution costs, rising premiums and persistent claims-related grievances raises concerns about policyholder outcomes.

Graph 5: Channel-wise persistency based on No. of policies



49. Distribution reforms should therefore align incentives with customer retention, persistency, claims efficiency & accuracy, grievance management and service quality, strengthening consumer confidence while reducing long-term acquisition costs.

4) Sales are commission-led instead of pricing and quality led.

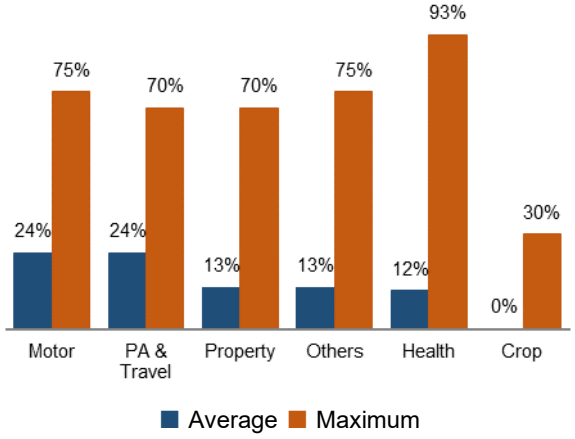
50. **Pricing and quality signals are clogged**: In efficient markets, consumers compare products on suitability, price and quality. In the country's insurance sector, heavy dependence on commission-led distribution and lack of transparency on pricing and quality has clogged these competition signals. High distribution payouts have weakened the competition outcomes away from better value to customers.

51. **The general insurance broker channel provides the clearest evidence of this**. Premium sourced through brokers increased by 37% from FY23 to FY25, while commissions went up by 173% *(refer Graph No. 4)*, with average commission rates increasing from 8.5% to 17%. Motor insurance commissions nearly tripled from around 9% to 25%, while retail health commissions increased from around 10% to 30%. Although retail lines accounted for around 54% of broker-placed premium in FY25, they generated nearly 78% of total commissions.

52. **The trend extends across regulated tariff products and de-tariffed products**. Average commissions on mandatory Motor Third Party insurance, where premiums are regulated, increased from 4.3% in FY23 to 22% in FY25. In the case of some long-term fire and health policies, which are de-tariffed and freely priced, commission rates were close to 100% because insurers paid the entire multi-year commission upfront while premium was recognised over the policy term. This causes considerable strain on EoM and capital requirements. It also becomes a source of unfair business advantage for larger players. There

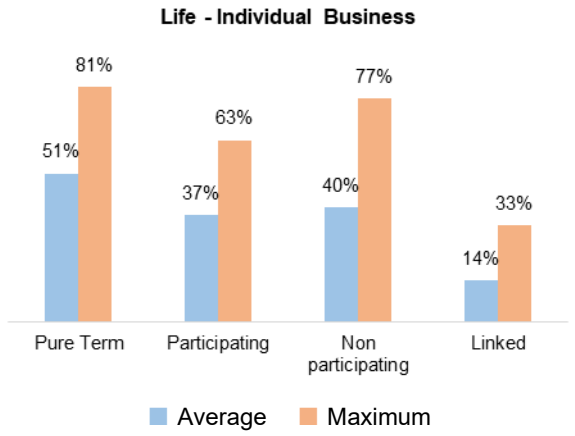
is need for better alignment of remuneration with the period over which insurance protection and customer services are delivered.

Graph 6: LoB-wise commission as % of GDPI, FY25 (General insurance)



53. Commissions in life insurance record the highest pay-outs on first-year premium under individual business. Commissions on first-year premiums have seen highs close to 80% while the average (not including direct and online channel) goes up to 50%.

Graph 7: Commission as % of life insurance FYP



54. Wide variation is also visible in commission paid on first-year premium across distribution channel. Commissions on first-year premium paid to insurance intermediaries increased around 2 to 3 times over FY23 to FY25 reflecting intense competition to procure business. The increase from FY23 to FY25 reflects the flexibility in EoM that insurers have leveraged to acquire new business at high costs.

55. A transition towards transparent, pricing-led competition would strengthen market discipline, improve affordability and encourage insurers to compete through innovation, operational efficiency and customer outcomes instead of commission structures.

5) High-cost and uncertain service quality is weakening trust and limiting coverage.

56. **Affordability comes under severe challenge as significant proportion of insurance premiums go towards acquisition costs thus reducing the risk and savings pools**. High commissions and multiple layers of intermediation increase the cost of delivering insurance without any improvement in customer experience. Consumers ultimately bear these costs through higher premiums and low delivered value. Affordability is compromised in the process.

57. **Premium acquisition gets the focus whereas post-sales assistance often gets neglected**. The quality and depth of post-sale servicing vary materially across intermediaries. The present remuneration framework does not differentiate between distributors providing sustained customer service and those who only concentrate on acquisition. This weakens policyholder confidence and contributes to poor persistency, increasing grievances and negative perception of insurance.

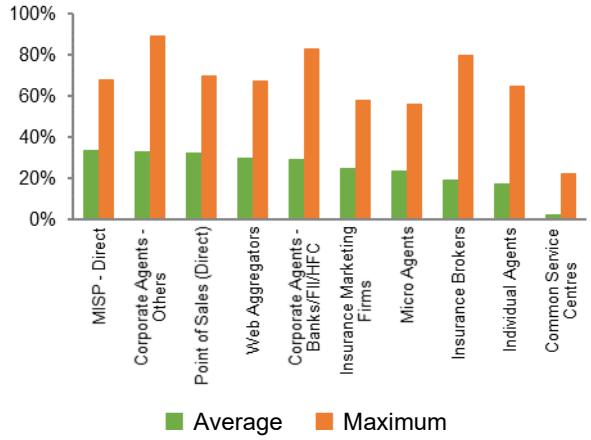
58. **High number of complaints settled in favour of policyholders is an indicator of poor service quality.** In FY26, 63% of complaints disposed of in Bima Bharosa were settled in favour of policyholders. Policyholders not satisfied with the decision at this level have the option to approach the Ombudsman. Out of the claims disposed at the Ombudsman's level a further 75% were settled in favour of the customer. In the same year 54% of the cases decided in various consumer forums and courts went in favour of the customers.

59. **When customers perceive insurance as expensive, complex and unreliable, voluntary demand remains subdued**. Distribution reforms must therefore seek to lower structural costs while improving service quality so that insurance becomes both affordable and dependable for a much larger section of society. Every rupee spent on distribution should contribute demonstrably to one or more legitimate outcomes, namely expanding coverage, improving advice, strengthening servicing, facilitating claims, or improving policyholder retention.

6) Leverage of large and more organised distributors is constraining insurers' options to compete.

60. **Higher commission pay-outs are given to some distributors while maintaining the same price on all channels.** The growing concentration of business amongst a relatively small number of large distribution entities has altered the balance of bargaining power. Insurers increasingly depend on these distributors for business volumes, limiting their ability to negotiate commercial terms or experiment with lower-cost distribution models.

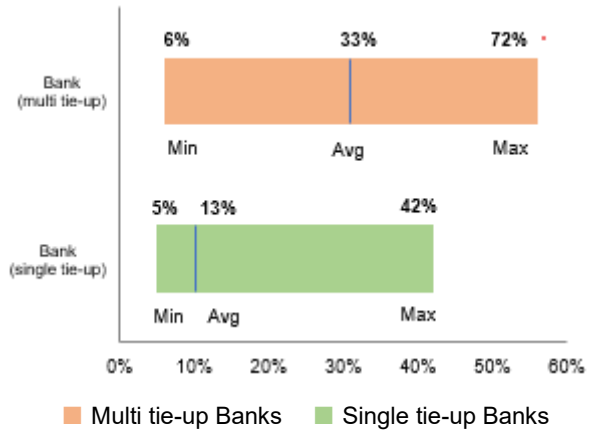
Graph 8: **Channel-wise commission as % of GDPI, FY25 (General Insurance)**



61. This concentration often results in higher commission pay-outs that are eventually embedded within product pricing. The outcome is weaker competition, reduced incentives for operational efficiency and higher barriers for smaller insurers and distributors. A more balanced distribution framework would promote healthier competition while ensuring that distribution costs remain within reasonable limits.

62. **The evidence is consistent across both life and general insurance**. In life insurance, banks account for nearly ₹68,000 crores of sampled corporate agency premium, with pay-outs significantly higher in multiple tie-up arrangements than in single tie-ups, suggesting that remuneration is driven more by competition for distribution relationships than by distribution effort. In health insurance, open architecture has strengthened the bargaining power of corporate intermediaries, with pay-outs in certain corporate and group arrangements reaching as high as 93%, despite limited evidence of greater customer choice or advice.

Graph 9: **Major Single and Multi-Bank Tie-ups, Range of Life New Business Average Commission % by Bank - FY25**



63. A similar pattern is evident in motor insurance, where nearly 49% of business is sourced through brokers. Original Equipment Manufacturer (OEM)/dealer-controlled channels demand commissions up to 40% on new vehicles due to their dominance at the point of sale. This trend is also seen in other distribution channels although the business line may vary.

These trends raise a fundamental policy question: should distributor remuneration reflect the effort involved in advising and servicing customers, or the intermediary's ability to negotiate higher pay-outs from insurers arising from control over customer access? *(refer Graph 8 of Part 2)*

7) Regulatory arbitrage has led to non-level playing field for insurers and distributors.

64. **The evolution of multiple categories of insurance intermediaries has led to unfair advantage for some**. It has created differences in entry requirements, compliance obligations and permissible activities. While different entities perform substantially similar functions under different regulatory frameworks, opportunities emerge for regulatory arbitrage rather than genuine innovation.

65. This skews competition by allowing some market participants to operate with comparatively lower compliance costs while competing directly with entities subject to more demanding standards. This creates regulatory arbitrage and encourages business structures driven by regulatory advantage instead of customer benefit. The details may be seen at Annexure.

66. A regulatory framework based on the principle of 'same activity, same regulation' would promote a level playing field across market participants, enable more consistent and effective supervision, and improve ease of doing business by reducing regulatory complexity.

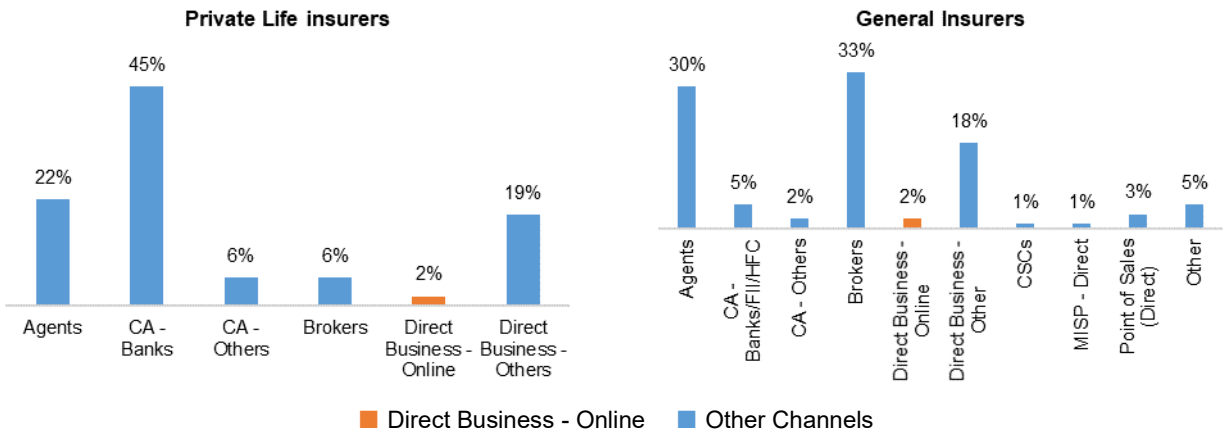
8) Lack of transparency about performance of products, insurers and distributors is constraining public's ability to make informed purchases.

67. **Digital adoption in insurance remains limited partly due to the absence of simple and easily comparable information.** Consumers should be able to compare products on price, benefits, exclusions, service quality and suitability before making a purchase. However, such information is often not available in a simple and standardised form. Limited visibility of distribution remuneration and the basis on which a product is recommended further reduces transparency and makes informed comparison difficult.

68. **The general insurance industry's channel mix reflects this imbalance.** Insurance brokers (33%) and individual agents (30%) account for the largest share of premium, while direct online channels contribute only around 2% and web aggregators a negligible share, despite offering the greatest scope for transparent comparison. At key points of sale like vehicle dealerships, bank branches and loan desks, customers typically have little visibility of the commission embedded in the premium and limited ability to influence the cost of distribution. Consumers continue to depend heavily on intermediaries because they cannot confidently compare products independently. This reduces competitive pressure on pricing and limits the development of efficient digital marketplaces.

69. Embedding transparency into market infrastructure, would strengthen consumer confidence and lead to informed, technology enabled purchasing by consumers.

Graph 10: Premium share of distribution channels, FY25



9) Customer power, in the imperfect market, is not at play.

70. **Individual customers generally lack both the information and negotiating power to make informed choices and impact market conduct**. In a perfect market, firms compete primarily on price and quality. Customers are able to assess and compare both these parameters before making a purchase. However, insurance is different; pricing information of similar products from different insurers are not readily available; past track-record of insurers on claim settlement remains fuzzy; returns on life cum savings products remain incomparable.

71. This creates fundamental information asymmetry. Customers cannot easily distinguish a good policy from a poor one at the point of sale. As a result, purchase decisions can be influenced more by brand, distribution and perceived coverage rather than by the underlying quality of protection, weakening the natural forces of price–quality competition. Poor-quality products or unfair business practices persist even when customers are dissatisfied. This generates **scope for market failure** in the long run, particularly in retail insurance.

72. Distribution reforms should aim to strengthen customer power by improving transparency, simplifying comparisons, facilitating digital access and ensuring that customers can exercise meaningful choice throughout the policy lifecycle.

10) Reforms of 2023 have not achieved their dual objectives of enhancing benefits for policyholders and improving insurance penetration. *[refer Box 1]*

73. **After a downward trend for some years, costs have gone back to pre-2016 high levels**. The 2023 reforms relating to the Expenses of Management framework were intended to provide insurers with greater flexibility while enhancing policyholder benefits and expanding insurance penetration. However, distribution costs have gone higher, reaching historically high levels. Although insurers gained operational flexibility, the expected gains in affordability, market expansion and consumer value have not materialised. Premium growth has continued without a commensurate increase in the number of insured individuals, indicating that structural issues within distribution remain unresolved.

74. **The post-2023 data is unambiguous**. In general insurance, commission costs have risen sharply in recent years, with the increase particularly pronounced in intermediated

business. Among smaller private insurers, gross commissions have also increased significantly, even as EoMs have remained broadly unchanged. This points to a growing share of premium being absorbed by distribution costs, suggesting that the flexibility under the entity-level EoM framework was largely channelled into higher distributor pay-outs. In life insurance, the new framework induced a sharp increase in NBFC registrations along with significant increase in commissions across all channels. The trend highlights the need for more efficient and sustainable distribution models, particularly as insurers seek to expand reach while maintaining profitability.

75. **Three design features reinforce this trend**. First, EoM limits are calculated on total gross written premium, including direct, reinsurance and government business. This creates headroom for significantly higher pay-outs on specific intermediated business, while still remaining within the overall EoM limit. Second, Board-approved commission policies do not always clearly establish the basis for significant differences in remuneration across intermediaries/channels. Third, in health insurance, standalone insurers have largely channelled underwriting margins into commissions and operating expenses rather than lower premiums, reinforcing a distribution-intensive market.

76. As a result, while the EoM framework provides flexibility at the entity level, this flexibility may also permit concentration of distribution expenditure in particular channels without sufficient linkage to the value or customer outcomes delivered. Similarly, in life insurance the flexibility is used to make higher payouts compromising returns to policyholders.

Section 4 - Distribution Reforms - A Compelling Priority

77. **The ten structural challenges discussed in Section 3 are not isolated weaknesses but manifestations of a common underlying problem**. The present distribution architecture has evolved in a manner that rewards premium collection more than consumer value, market expansion or operating efficiency. While the country's insurance sector has achieved growth in absolute premium income, this growth has not translated into an increase in insurance penetration or a reduction in the protection gap.

78. The current system is characterised by high acquisition costs, fragmented intermediary structures, unequal regulatory treatment, opaque remuneration practices and incentive mechanisms that promote business volumes rather than customer outcomes. This is creating a market in which affordability is impaired, service quality is uncertain, customer trust is weakened and insurers increasingly compete through commissions rather than innovation, pricing efficiency and customer outcomes.

79. **The cumulative effect of these structural deficiencies is that the current distribution architecture is not adequately delivering on the twin public policy objectives of enhancing policyholder welfare and expanding insurance coverage**. Ultimately, the success of the insurance sector depends on increasing the accessibility of insurance products in all parts of the country and creating a distribution structure that makes insurance affordable, trusted, transparent and easily accessible.

80. **Distribution reforms have therefore become a compelling economic priority rather than merely a regulatory exercise.** These second generation reforms should focus specifically on distribution efficiency, market conduct and customer outcomes.

81. **Digital platforms, interoperable public infrastructure and data-driven underwriting provide an opportunity to reduce transaction costs, improve transparency and enable customers to make informed choices.** However, for these benefits to manifest, the regulatory norms and distribution architecture must evolve along with technological progress.

82. **Distribution reforms are broader and structural in nature aimed at improving customer outcomes, strengthening competition, enhancing operational efficiency and enabling sustainable growth of the insurance sector.** These should therefore not be viewed as a narrow exercise in revising commissions or intermediary regulations. A modern distribution framework must align incentives across insurers, distributors and policyholders and ensure that similar activities are governed by the same regulatory standards.

83. The reforms proposed in the following sections seek to address these structural constraints through coherent and technology-enabled measures and establishing a distribution framework capable of supporting the next phase of growth for the insurance sector.

Section 5 - Strategic Framework for Reforms

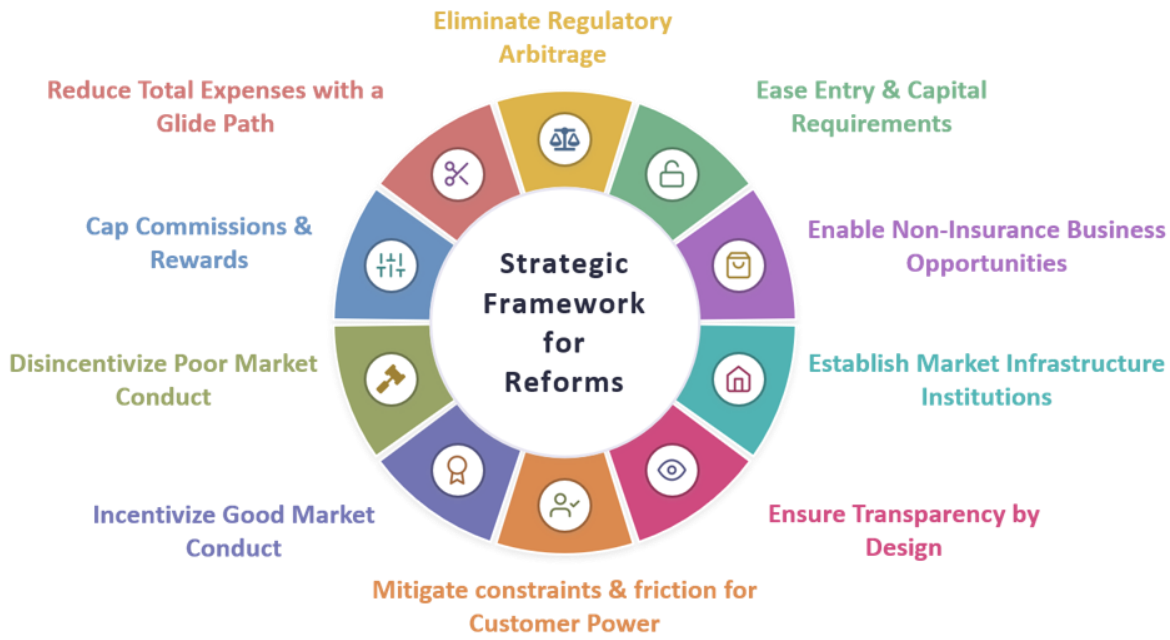


Figure 3: Strategic Framework for reforms

84. The reform agenda, while continuing the EoM architecture with necessary refinements, must focus on achieving the following 10 objectives.

1) **Eliminate scope for regulatory arbitrage**

   a. **Same structure should lead to same entry & capital requirements, same scope for business, same obligations, same regulations.** Unequal regulatory requirements for entities performing substantially similar functions creates unfair advantage and distorts competition. Hence the question to be addressed is, whether distributors are to be regulated based on the functions they perform vis-à-vis the customer, the products they can offer, or the regulatory category into which their model fits?

   b. **Money should move where it belongs.** Under Section 64VB of the Insurance Act a risk is assumed only when insurer receives the premium. For the consumer the risk must start immediately once he pays. Convergence can only be achieved if premium moves directly from customer to insurer.

   c. **Direct & verified connect should be established between customer and insurer before issuance of policy** (risk underwriting). Lack of product understanding, mis-selling and non-disclosure of material facts are the root cause of most grievances. With proper verified contact between prospective policyholder and insurer at the time of purchase these issues can be overcome.

2) **Remove restrictions on non-insurance business opportunities for intermediaries**. Most customers look for a one stop shop for their financial needs.

By limiting insurance intermediaries to only insurance business, they are unable to meet all requirements of the customer. Additionally, they are more interested in selling insurance and positioning it against all other financial products which many a times leads to mis-selling. Allowing them to distribute non-insurance products will enhance business opportunities and income, resulting in reduced dependence on insurance distribution and the need to push for higher commissions.

3) **Ease-up entry and capital requirements**. Whereas insurers carry the risk on their books, distributors do not participate in the risk itself. Hence, for distributors there is no need for solvency margin or any similar requirement. This effectively implies that capital is required more for day-to-day functioning and to ensure a going concern even in stressful business times. Consequently, there is a case to relook at the capital requirements for distributors. This will also allow more players to come in the distribution space.

4) **Reduce total expenses with a glide path.** Expenses of insurers drive the entire cost structure of all participants in the value chain. In order to expand the risk pool and make insurance affordable, it is imperative that these costs, i.e., operational and distribution, are reduced within a pre-defined time frame. A suitable framework needs to be developed for achieving this.

5) **Place caps on commission and rewards with a framework of effort & complexity, and aligned to removal of regulatory arbitrage**. Given that acquisition cost forms the major expense of insurers, there is no way to reduce expenses without bringing distribution costs under control. As the current EoM norms with flexibility on commissions have not succeeded to control these costs, hard commission caps, strict implementation, and sharp regulatory oversight is now the way forward. *(refer Box 2)*

6) **Set-up Market Infrastructure Institutions to facilitate level-playing field for all stakeholders.** Market Infrastructure Institutions constitute the backbone of any financial ecosystem. They enable markets to function in a fair, orderly, transparent, and efficient manner, fostering trust among market participants while supporting economic growth, and financial stability. Their role extends beyond providing operational infrastructure; they are indispensable institutions that uphold the credibility, reliability, and resilience of modern financial markets.

7) **Create incentives for good market conduct**. Fair treatment to customers should be the key pillar in creating differentiation in the market. All market participants need to be encouraged to go beyond complying with regulations. They should consistently treat customers fairly, and such fair treatment should go beyond minimum compliance. This is critical to build trust with customers.

8) **Build-in disincentives for bad conduct**. While good market conduct should be incentivised, bad conduct must draw penal action. Policyholder protection is the prime purpose of the regulatory authority. Any conduct that denies a policyholder fair treatment is outrightly unacceptable and cannot go without proportionate action being taken.

9) **Ensure transparency by market design, and not as an option or through enforcement.** Transparency should be an in-built market conduct standard.

Disclosures on processes, products, insurers and distributors performance and track record should be such that customers can easily understand their rights, costs, risks and available options.

10) **Mitigate structural constraints and operational friction to customer power.** Insurers and intermediaries should design customer journeys and processes with no barriers and unnecessary complexity. They must ensure that customers can easily exercise their rights, compare options, switch providers, and raise concerns without undue friction. This will strengthen genuine customer choice and prevent structural or operational constraints from undermining customer power.

Section 6 - Simplification of Architecture and Scope of Distribution

Complex and Fragmented Distribution Architecture

85. The current distribution architecture is highly complex and fragmented with several distributor types, varied entry and capital requirements, and ad-hoc preference for or restrictions on scope of business. They were introduced over the years for developing the market with type specific mandates and obligations. While the market dynamics have changed, the structure has remained the same.

Distribution Entities

86. There are 8 types of distributors at entity level[5]. Their scope of business, capital requirements, product range, fee structure, and regulatory obligations differ significantly. The key differences relate to:

a) **Open architecture:** Some can be in full open architecture, e.g., brokers, i.e., they can sell products of all insurers. Some have very light restrictions, e.g., banks as corporate agents can sell products of 9 life, 9 general and 9 health insurance companies. IMFs can sell products of 6 insurers each in the three classes of business.

b) **Capital requirements:** Capital and net-worth requirements vary substantially across channels and are generally unrelated to business volume. Brokers are subject to capital requirements ranging from ₹75 lakhs to ₹5 crores, while IMFs and web aggregators have significantly lower requirements. Corporate agents such as banks, as well as MISPs operate without a separate capital requirement under the insurance regulatory framework.

c) **Accountability:** A broker owes a fiduciary duty to the customer while a corporate agent owes a duty to the principal insurer. However, their accountability is diffused as both get paid by insurers with policyholders having no knowledge about the amount.

d) **Scope of operations:** The permissible scope of business varies materially across distribution channels. Brokers are not subject to product or geographical restrictions. Reinsurance and composite brokers may also solicit reinsurance business, while other distribution channels are confined to direct insurance. Corporate agents are subject to a sum assured limit for commercial business, while IMFs are subject to product and geographical restrictions.

e) **Non-insurance activities:** IMFs may distribute specified financial products in addition to insurance, and banks may undertake insurance distribution alongside their principal business, whereas brokers are restricted from undertaking non-insurance activities.

f) **Digital functions:** Web aggregators primarily undertake online comparison of insurance products, while brokers, corporate agents and IMFs operating through Insurance Self-Network Platforms increasingly perform similar digital functions, including solicitation, sale and servicing of insurance products.

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[5] *Corporate agents, brokers, composite brokers, OEM brokers, insurance Marketing Firms, web aggregators, common service centres, and MISP dealers.*

g) **Other regulatory requirements:** Eligibility, training, examination and certification requirements also differ across channels despite similarities in the underlying distribution activity.

87. These differences have resulted in a fragmented regulatory architecture, creating scope for regulatory overlap and arbitrage across entities performing similar distribution functions. The existing categories may therefore be rationalized and, where feasible, brought under a common, activity-based framework. The guiding principle for reform should be: same structure, same function, same norms.

Distribution Persons

88. There are also 9 types of individuals[6] selling insurance products, either as employees of distributors or as contractual representatives of distributors or insurers. Their scope of business, qualifications, training requirements also varies significantly.

a) Some are in closed architecture, e.g., agents. They cannot sell products of competing insurers, i.e., they can be agent of one life, one general and one health insurer only.

b) PoSPs engaged by brokers are in open architecture, i.e., they can sell products of competing insurers, i.e., all those with whom the concerned broker has got tie-ups. PoSPs can also be engaged by insurers; however, those are in closed architecture.

c) Employees of distributors such as corporate agents and brokers can sell insurance products of competing insurers. Still, there was no requirement till recently that their names and functional identities have to be known to customers.

d) Agents do not have product level restrictions. PoSPs, village level entrepreneurs, and rural authorized persons have.

e) Their qualifications range from class 10 to graduate level.

f) Their training requirements range from 15 hours to 75 hours. Even with such small duration of training, the knowledge and skill threshold has been kept even lower at mere 35% to pass the test.

g) Both distributors and insurers can engage PoSPs with similar qualification and training, but their scope of business differs.

89. Such ad-hoc variations make all of them look same to customers with no information about their roles, business mandates, and performance. On top of that, the distribution architecture today is heavily weighted towards push-based, intermediary-led acquisition, with banks and tied agents dominating new business in life, and tied agents and brokers in general.

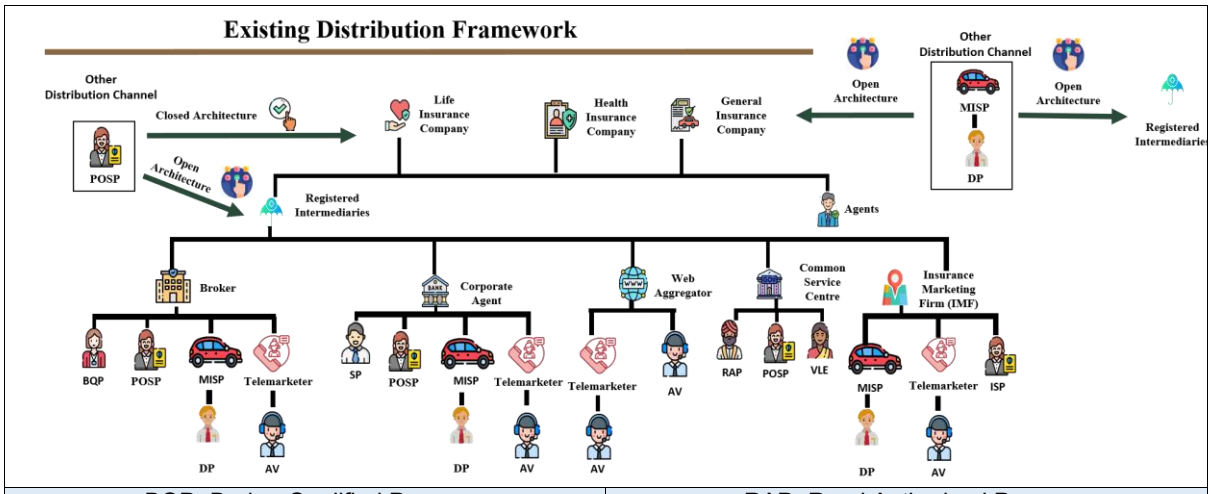
90. A statement detailing the above variations is placed as **Annexure.**

[6] *Agents, point of sales persons, specified persons, designated persons, insurance sales persons, broker qualified person, rural authorized person, village level entrepreneurs, and authorized verifier.*

Principles for Simplification of Distribution Architecture

91. Following seven principles are proposed to guide the simplification:

1) Provide same regulations for those having same legal structure and same scope of business;
2) Make clear distinction between those having open architecture[7] and those having closed architecture[8];
3) Expand opportunities for non-competing businesses but reorient commission structure in favour of public;
4) Enhance knowledge and skill set requirements for those interacting with public in selling products; facilitate their easier and consistent training and testing;
5) Make entry easier by reducing capital requirements for all, but link that to business in subsequent years;
6) Set out regulatory expectations cogently; and
7) Promote accountability and transparency by design and systemic arrangements.



BQP- Broker Qualified Person SP- Specified Person AV- Authorised Verifier MISP- Motor Insurance Service Provider DP- Designated Person	RAP- Rural Authorised Person VLE- Village Level Entrepreneur ISP- Insurance Sales Person POSP- Point of Sales Person IMF- Insurance Marketing Firm

Figure 4: Existing distribution framework

Reforms in Distribution Architecture

92. Adopting the above-mentioned principles, the following set of reforms and measures are proposed for simplifying the distribution architecture.

[7] *They can sell products of multiple insurers*

[8] *They can sell products of only one insurer*

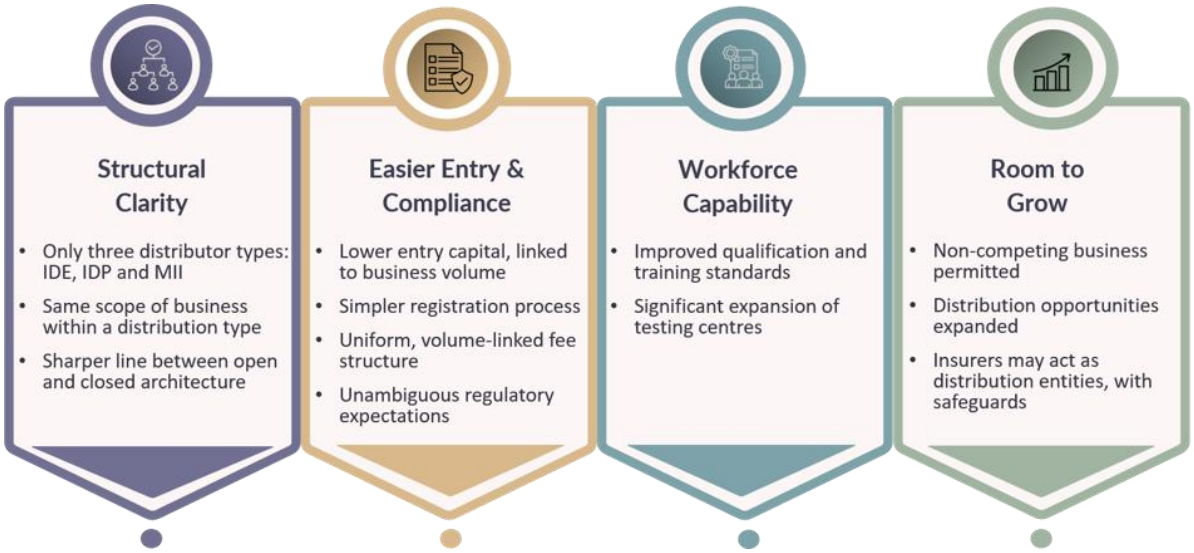
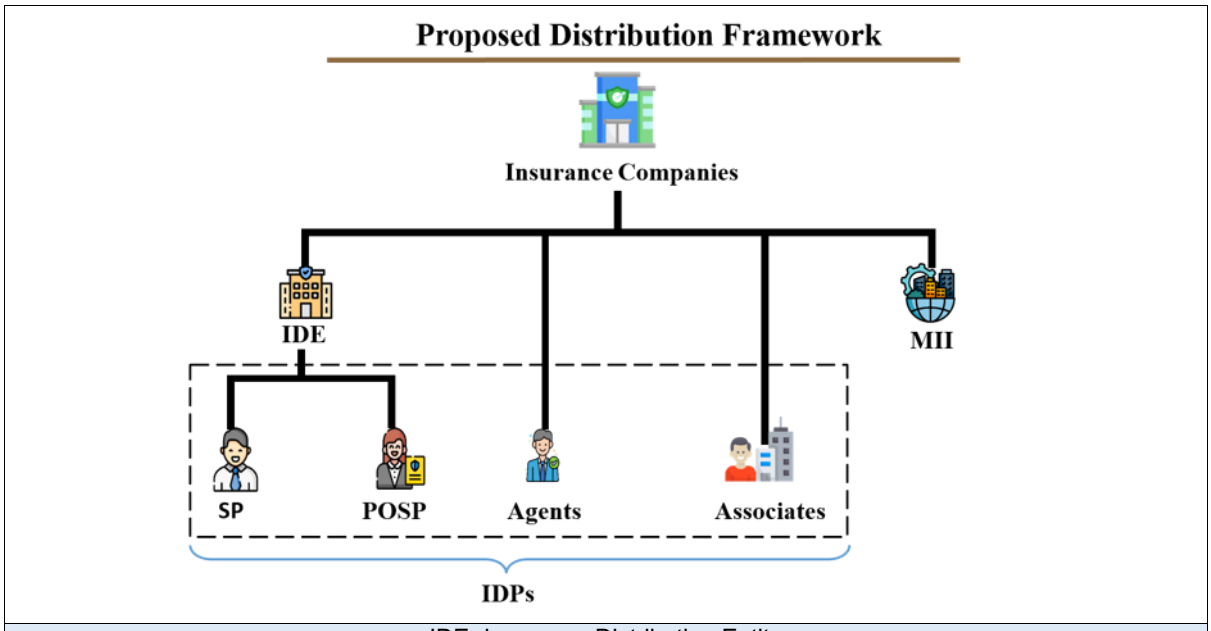


Figure 5: Reforms for Distribution Architecture



IDE- insurance Distribution Entity
IDP- Insurance Distribution Person
SP- Specified Person
POSP- Point of Sales Person
MII- Market Infrastructure Institution for Insurance

Figure 6: Proposed distribution framework

1) Distribution structure should have only three types of distributors, namely:

A. Insurance Distribution Entities (IDE):

These are entities incorporated under the Companies Act or registered under any other laws, e.g., companies, limited liability partnerships, cooperative societies, registered partnerships, and trusts.

Entities currently known as corporate agents, brokers, composite brokers, OEM brokers, IMFs, web aggregators and Common Service Centre - Special Purpose Vehicle (CSC-SPV) will come under this type.

It is also proposed to allow business correspondent companies to get registered as an IDE.

B. **Insurance Distribution Persons (IDP):** These are individuals or employees of distribution entities or proprietorships or unregistered partnerships.

Persons currently known as agents, PoSPs, specified persons, designated persons, broker qualified person, rural authorized person, village level entrepreneurs, and authorized verifier will come under this type.

It is proposed to have only four names for IDPs moving forward, namely:

(i) Insurance Agents, i.e., individuals engaged by insurers. This can also include individual business correspondents;

(ii) Insurance Associates, i.e., proprietorship firms, unregistered partnership firms, Self Help Groups, and Hindu Undivided Families (HUF) engaged by insurers;

(iii) Specified Persons, i.e., employees of IDEs selling or advising on insurance products; and

(iv) Point of Sale Persons (PoSPs), i.e., individuals engaged by any of IDEs.

Current PoSPs including MISPs having legal structure of a distribution entity will have to get registered as IDE under the insurance regulations. They will no longer remain PoSPs.

C. **Market Infrastructure Institutions for Insurance (MII):** These are not-for-profit companies promoted by a group of insurers.

This new structure is proposed with the objectives of providing level-playing field for suppliers (insurers) as well as consumers (public & policyholders), and facilitating cost efficiency and transparency. Bima Sugam India Federation is one such MII. There can be more in future.

2) **Capital requirement should be reduced at the entry level, and linked to business volume for subsequent years.**

For all IDEs:

- Initial Capital of ₹10 lakh at the entry level;
- 0.1% of the commission and other insurance related income earned in the previous financial year subject to a minimum of ₹10 lakhs and max of ₹10 crores to be maintained in the form of a bank deposit with a lien in favour of

IRDAI. This may be reset once every three years. This additional deposit should be funded from the capital or internal accruals;

- Positive net worth in all years.

For MII:

- Capital requirement of ₹25 crore.

3) Registration should be made easier.

Registration for IDEs and MIIs should be made permanent subject to payment of annual fee, instead of a fixed 3-year period[9] requiring periodic renewals. The process should be simpler and standardized, and made available on an IT platform.

The current requirement of approval of specified persons of corporate agents should be dispensed with. As a result, there would not be a requirement for registration or approval for all insurance distribution persons by the Authority.

A centralized mechanism of generating sector-wide functional identity for all IDPs may be set-up on one of the MIIs with backend support from the PIR, as a self-service by IDEs and insurers.

4) Fee structure should be uniform and linked to business volume[10].

Fee structure for application cum permanent registration fee and annual fee should be uniform for all IDEs. Following fee structure is proposed.

- Application cum registration fee: ₹10,000
- Annual fee: Higher of ₹10,000 or 0.04% of commission and other receipts from insurers and clients in previous financial year.

5) Scope of Business should be same for distributors of similar distribution type.

All IDEs will have option but not an obligation to adopt open architecture. That means that, if they want to, they can sell products of multiple insurers without any limit.

All IDEs can also sell all products without any limit on insurance risk cover.

The above-mentioned flexibilities are subject to concerned IDE having adequate number of (IDPs) with requisite knowledge and skills.

6) There should be a sharper distinction between open and closed architecture.

Insurance Distribution Persons (IDPs) engaged by insurers:

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[9] *This change has been notified already and will come into effect fully from FY27-28.*

[10] *ibid*

- IDPs of insurers will be under closed architecture only.
- They can sell products of another insurer in a non-competing segment. That means that an IDP can represent one life insurer, one general insurer, one health insurer and one of each of other mono-line insurers. However, an IDP cannot sell competing products of two insurers, e.g., health product of a general insurer and a product of health insurer.
- This flexibility is subject to concerned IDP having requisite knowledge and skills for selling relevant products.

Insurance Distribution Persons (IDPs) engaged by IDEs:

- Specified Persons employed by IDEs and PoSPs engaged by IDEs can sell products offered by their respective IDE.
- PoSPs cannot work with multiple IDEs.

7) Scope of business should be expanded by allowing non-competing business.

All IDEs and IDPs can also sell non-insurance financial products subject to approval under the regulations of the concerned financial sector.

In case of an IDE being licensed for such non-insurance financial products by the concerned financial regulator, the ability of IDPs engaged by that IDE to sell such products will depend on the terms of the license granted by the concerned regulator.

All IDEs and IDPs can also sell non-financial products and supply non-financial services as long as they have the mandate from regulators of those sectors, if required.

8) Qualification and training requirement for distribution persons should be improved with significant expansion of number of testing centres.

Minimum academic qualification for new IDPs is proposed as class twelve. Those who joined the profession in the past 5 years and do not have this qualification are encouraged to acquire the same through correspondence course from distance education institutions such as National Institute of Open Schooling (NIOS).

Considering the much larger scope of business for IDPs including complex products, training requirements should be enhanced to minimum of 100 hours of self and assisted learning, preferably through online mode, for each insurance segment: life and general. Those who are in the profession for 5 years or more can take-up shorter duration refresher module and appear for the online test.

Life Insurance Council and General Insurance Council should be mandated to develop model training content including online modules. The content should be available free of cost as public good. IDEs may add modules specific to their products and services.

Insurers and IDEs can use such content and online modules to train their IDPs. They are encouraged to use their experienced staff to act as mentors in facilitating assisted training.

Testing of knowledge and skills should be through online tests conducted in a secure manner by insurance institutes. However, the facility should be available in each taluka or block. Services of CSCs can be utilized for such testing.

9) Regulatory expectations should be set-out in unambiguous terms.

A. Insurance Distribution Entities (IDEs): Their obligations will include the following.

Do's:

a) Undertake accountability for actions of their IDPs including specified persons and PoSPs

b) Organize training[11] of IDPs

c) On-board IDPs on an industry-wide platform

d) Obtain unique functional identities of IDPs from the platform

e) Assign an IDP to each physical selling outlet

f) Tag each policy solicited by an IDE with the unique functional identity of the IDP who sold the product

g) Facilitate authentication of customers by insurer's service engine

h) Ensure adequate disclosure of risks by individuals and entities seeking insurance

i) Provide full information on risk parameters to insurers for commercial insurance

Don'ts:

a) Do not insist on same pricing on all channels

b) Do not handle customers' money

c) Do not collect any commission directly from customers, or any service fee unless specified under regulations

d) Do not assign a IDP to more than one physical selling outlet

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[11] *Insurance Councils in consultation with IRDAI shall be responsible for preparation of training content and facilitating online trainings, as far possible through MOOC mode, by insurance institutes and academies. They will also be responsible for evaluating and authorizing a large number of centers for secure online testing. Such centers should preferably be available in all talukas or tehsils or blocks, but certainly in all district headquarters and in cities with population of more than 1 lakh. The training institutes shall be responsible for providing the certification and make the same available for online verification by the onboarding platform.*

B. **Specified Persons and PoSPs of IDEs**: Their obligations will include the following.

a) Undergo online training, testing and certification as prescribed

b) Provide consent to get their educational qualifications and training certification status verified from source

c) Provide their foundational identities (Aadhaar and PAN) at the time of their onboarding by the IDE

d) Inform their functional identity and contact details to all customers

e) Assess insurance needs of customers and carry out suitability analysis before offering any product

f) Provide[12] a standing consent to PIR to obtain their Goods and Services Tax (GST) details from Goods and Services Tax Network (GSTN)

Don'ts:

a) Do not handle customers' money

C. **Agents and Associates of Insurers**: Their obligations will include the following.

Do's:

a) Undergo online training, testing and certification as prescribed

b) Provide consent to get their educational qualifications and training certification status verified from source

c) Provide their foundational identities (Aadhaar and PAN) at the time of their on-boarding by Insurer

d) Inform their functional identity and contact details to all customers

e) Assess insurance needs of customers and carry out suitability analysis before offering any product

f) Offer the product which is most suitable for the customer and not the product entailing higher commission

g) Provide[13] a standing consent to PIR to obtain their GST details from GSTN

Don'ts:

a) Do not handle customers' money

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[12] *This will apply only to PoSPs with commission income of ₹20 lakh and more in a year.*

[13] *This will apply only to Agents with commission income of ₹20 lakh and more in a year.*

10) Opportunities for distribution of insurance products should be expanded.

Hospitals can distribute health insurance products by registering as IDEs subject to a few safeguards and lower commission limits.

Automobile Garages (non-dealer) providing repair services can sell motor insurance product by becoming associate of an insurer.

Non-distribution intermediaries providing exclusive claim support functions, for example TPAs and Surveyors cannot sell insurance products.

11) Insurers may also act as insurance distribution entities with safeguards

An insurer can also distribute products of its group insurance company in a non-competing insurance segment (life or general or health) through its branch offices. This additional activity should be only through the insurer's employees at the branch office and not through any IDE or any IDP of the insurer. This should also entail lower commissions.

Section 7 - Expenses of Management Framework

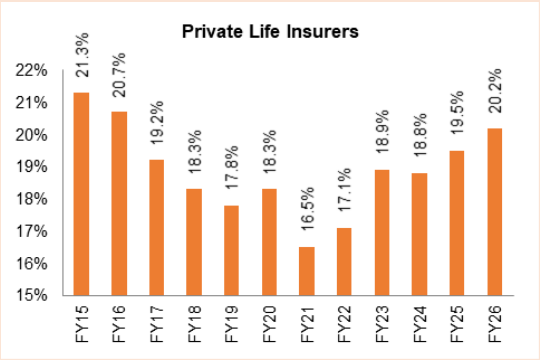
93. **The current EoM framework, is conceptually sound, but has under-delivered on its objectives and has seen many work arounds**. The intent was to shift from commission caps to entity level expense discipline, make Boards more accountable, and letting insurers operate within an overall limit. However, the actual expenses of management has continued to rise (*refer Box 1*). The removal of commission caps has resulted in increase in commissions, which is far more prominent amongst the private life and general insurers as compared to the public sector insurers.

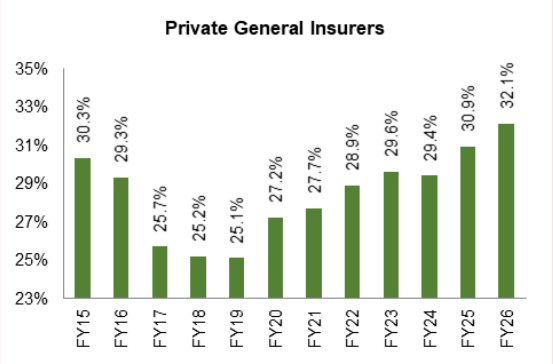
94. **The 2023 EoM framework carved out additional allowances over and above the Expenses of Management limit**, including technology and insurance awareness spend, and rural and government scheme expenses. These were intended to encourage genuine technology investment and inclusion. In practice the boundary between technology spends and routine licenses and AMC spend has blurred. To simplify the EoM structure, these would have to be included in the overall EoM.

Box 1: Total Expense Ratio

The total expense ratio of private insurers traces the full arc of a decade of expense regulation. In life insurance, expenses fell steadily from 21.3% of gross premium in FY15 to a low of 16.5% in FY21, before reversing course to reach 20.2% in FY26, nearly back to where the decade began.

The pattern in general insurance is sharper: from 30.3% in FY15, the ratio declined to around 25% by FY19, but has since climbed to 32.1% in FY26, exceeding even its pre 2016 level.





Graph 11: Total Expense Ratio as % of Gross Direct Premium

In both segments, the inflection coincides with the progressive relaxation of expense controls, culminating in the entity-level EoM framework of 2023. The discipline achieved over a decade has been unwound in the space of a few years and it is policyholders who have funded the reversal.

Reform Measures

95. The current EoM computation is a single composite ceiling which in itself is sound and simple. Within this framework the following reforms are proposed:

1) **EoM calculations will be Gross Expenses as a percentage of Gross Direct Premium Income (GDPI) in the country and not Gross Written Premium (GWP). Gross commissions (GC) will continue to be used.** EoM is therefore a sum of GC and all other operational expenses as a percentage of Gross Direct Premium in India and no longer a percentage of GWP. This would effectively eliminate inward reinsurance from the calculation, thus removing the anomaly of double counting of premium in the sector. It is also expected that sound practices in accepting inward reinsurance will return, thereby eliminating systemic risk. In the case of Life insurance, the EoM will be Total Expenses as a percentage of Total Premium.

2) **In the case of reinsurance cessions any payments other than claims settlement, received from a reinsurer by a cedant shall fall in the category of reinsurance commission**. This cannot be netted off against commissions or expenses of an insurer for the purpose of computation of EoM.

3) **The EoM framework is aimed at gradually reducing the overall expenses of insurers**, thus expanding the available risk pool in general insurance and enhancing the returns to policy holders in the life savings products. EoM control has a direct correlation with value to customer. Lower limits and a suitable glide path to achieve desired EoM levels needs to be ushered in, as detailed in the box below, to reach a balance between interest of policyholders and financial sustainability of business for insurers.

Box 2: EoM Limits and Glide Path

A. Life Insurance

(i) To achieve an EoM of 15% of the premium in 2 years and 12.5% in 5 years (FY2027-28 being Year 1) with a glide path requiring reduction every year.

(ii) Those with EoM already lower than this benchmark in FY25 will have to bring it down to 10% in 5 years, which should be the goal of the sector in the long-term.

B. General Insurance

(i) 25% of the premium in 2 years and 20% in 5 years (FY2027-28 being Year 1) with a glide path requiring reduction every year.

(ii) Those with EoM already lower than this benchmark in FY25 will have to bring it down to 20% in 5 years.

It may be noted that the EoM ratios were of the same lower order 6 to 8 years back as brought out in the Box 1.

4) **In line with the above-proposed reduction in the EoM of insurers, the regulatory fee on insurers by the Authority should also be reduced from 0.05% to 0.04% of the premium subject to a maximum of ₹20 crore.** This will reduce the fee for all except 5 insurers with total premium up to ₹37,500 crore.

5) **The extreme variation in operating expenses other than commission points towards the need for participants to rationalize these costs**. For FY26 operational expenses other than commissions varied from 6.1% to 27.7% of the premium in case of Life insurers and 6.8% to 28.8% of GDPI for General insurers. It is evident that insurers will also have to focus on controlling operational expenses other than commissions if they are to deliver the expected value to customers.

6) **PMFBY has seen severe competition, more for the reasons of achieving compliance to EoM rather than any clear strategy to underwrite this key priority line of business**. With state governments opting for the cup and cap model, insurers are able to show extreme aggression in pricing only because their maximum liability is limited to 130% of the premium. This is developing into a systemic risk. In the case of extreme weather events, the likes of which are now prevalent, State governments may find themselves having very high risk exposure. This may also impact farmers adversely. Recognizing these critical aspects and that the acquisition cost is not proportional to the premium in the case of PMFBY, only one third of the Gross Premium should qualify as GDPI for the purpose of EoM computation. While sufficiently incentivizing insurers, it will ensure participation of serious players and a return to actuarial pricing.

7) **Cost audit of all expenses of insurers including all pay-outs and non-monetary incentives to intermediaries should be made mandatory**. IDEs with insurance related revenue above ₹100 crore will also be required to have a cost audit including all receipts and expenses.

8) **Ample disclosures will bring transparency and enhance customer trust**. Incorporated entities are required to maintain accounts and depending upon their registration, to declare their accounts in annual reports. However, given the wider range of entities that qualify to be IDEs, it shall be mandatory for IDEs having insurance related revenue above ₹50 crores to publicly declare key accounting parameters such as revenue, expenses, related party payments, PAT etc. on their website.

96. **While bringing in these reforms in the EoM structure there has to be a natural review point**. The EoM norms will be reviewed along with products reforms which are likely to follow during FY28. This will allow sufficient time for insurers and distributors to settle in to the reformed structure.

97. **Insurers that have not converged on the EoM** ceiling by the scheduled dates should face graduated supervisory consequences such as restrictions on new product launches, restrictions on dividend distribution, and in extreme cases restrictions on new business through the channel responsible for the over run.

Section 8 - Distribution Commission Framework

98. **Insurance market in the country is an imperfect market even though there are large number of insurers and distributors.** There are significant market failures leading to negative outcomes as detailed in Section 3. The lack of transparency and structural constraints in respect of (1) product details, pricing, performance and claims settlement, (2) risk disclosure and assessment, and (3) distribution and operating costs are all contributing to those market failures. All three causal factors need forward-looking and wide-ranging reforms in line with the objectives of the SBSR Act. The Authority intends to take up those reforms in a sequential manner.

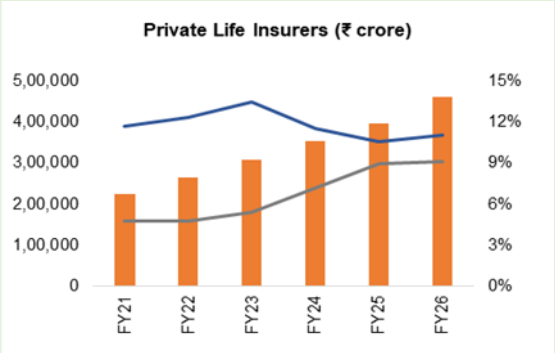
99. **This consultation paper seeks to generate discussion and invite views and feedback on the reforms related to the third causal factor, namely distribution and operating costs.** The previous Section 7 proposed revised norms for the overall expenses at the insurer level. This section proposes changes to the distribution commissions. The need for such specific intervention will be far less, if the market participants adopt transparency in disclosure of all expenses including commissions. The moot point is readiness or otherwise of the sector to disclose commission rates on policy documents or alternatively shifting to a system of fee paid by customers instead of commission by insurers.

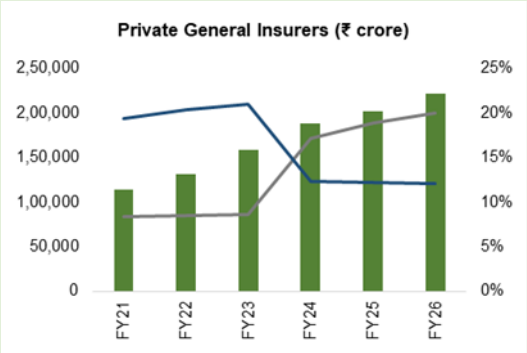
100. **A recalibration of commissions is essential to achieve lower levels of EoM proposed in Section 7.** However, that goal requires cost economization both at operating and distribution levels.

101. **With the removal of caps in 2023, commissions have gone up significantly in both Life and General insurance business as analysed in Part 2 of this paper.** The 2023 and 2024 framework relies heavily on Board approved commission policy. In practice, Board approval has often been a formality rather than being substantive. The inability to exercise adequate cost discipline under the flexible EoM regime makes a compelling case for hard caps on commissions within revised EoM limits, stringent implementation, and enhanced regulatory oversight.

Box 3: Operating Expenses & Commissions

Across life and general insurance, commission growth has significantly outpaced other operating expenses and even premium growth. After the regulatory change in year 2023 removing commission limits and providing flexibility on EoM, the commission payouts increased very significantly.





■ Premium (Private Life) ■ Premium (Private General) ■ Commission Ratio ■ Operating Expense Ratio

Graph 12: Trends in Commission ratio and Operating Expense ratio

The operating expenses did come down relatively, as insurers reclassified distribution related payouts under the commission classification instead of their incorrect practice of treating them as operating expenses. However, the overall expenses continued an upward trend despite the flexibility provided.

Private life insurers paid average 9% commission on the total premium mobilized during FY26. However, the largest private insurer having almost 10% market-share paid only 4%. The second largest private insurer paid 11%. The range of commission payments by all private life insurers was 3% to 39%. The sole public sector life insurer with 55% market share and relying mostly on individual agents paid only 5% average commission. The expenses and commission spent by each insurer at an overall level widely varies within the top four insurers ranging between 11% and 21%, and for the remaining insurers it is 25%, again reinforcing the limitations in creating policyholder value through these high costs of intermediation and lack of prudential expense management.

Private general insurers paid average commission of over 20% during FY26. The range of commission payments by all private general insurers was 15% to 31%, however in certain lines of business and products commissions paid were much higher. The public sector general insurers paid far lower average commission of 11%.

Such wide variations are reflection of the commission-led approach adopted by several insurers.

Principles for Distribution Commission Reforms

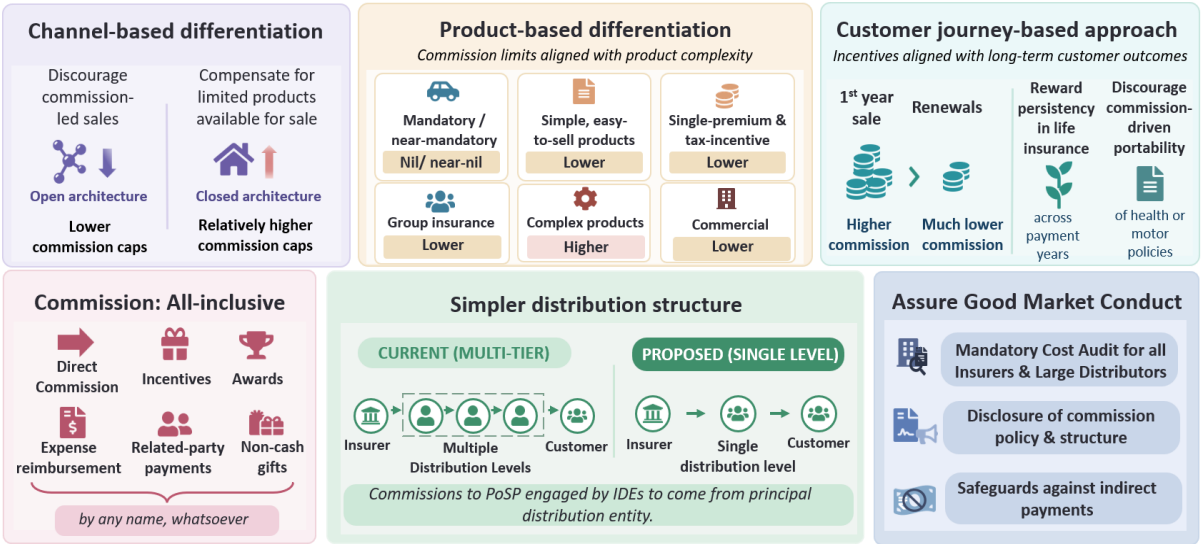


Figure 7: Distribution Commission framework

102. To bring orderly structure and transparency in commissions, within the EoM regime, the following principles are proposed.

1) Open distribution architecture should have lower commission limits to create disincentive against commission-led sales.

2) Closed distribution architecture should have relatively higher commission limits to compensate for constraints on bouquet of products available for sale.

   Note: Distributors eligible for choosing open architecture should have lower caps than those who are limited to closed architecture by virtue of law or regulations, i.e., IDEs will have lower commission caps compared to individual category (agents and associates) engaged directly by insurers.

3) Mandatory and near-mandatory products should have nil or very low commission limits so as to just recover the cost of documentation and information processing as they do not require sale efforts, e.g., third-party motor insurance (mandatory as per Law and nil effort for a new vehicle) and life or health or property insurance packaged with credit[14] (near mandatory in practice).

4) Complex and difficult to sell products may have higher commission limits as compared to lower limits for simple and easy to sell products.

5) Sale of products in under-served areas (small towns with population of upto 50 thousand and rural areas, and smaller cities with population upto 10 lakhs) may have rewards over and above the normal commission limits.

6) Commission on group insurance products should be lower than that on products for individuals.

[14] *Refer Section 10 for a distinction between an acceptable package and an unacceptable compulsory bundling*

7) Renewal of policies of products with high demand and awareness of policyholders should have much lower commissions than that on first time sales, e.g., health insurance.

8) Commission-led portability of health or motor policies should be discouraged.

9) Commission structure for life insurance policies should incentivize distribution persons and entities to nudge policyholders to persist with the multi-year payment plans instead of incentivizing first year payment.

10) Single premium products and products with tax incentives should have lower commissions.

11) Commercial insurance products should have lower and transparent commission structure as they have cascading effect on cost of doing business in the economy.

12) Commissions should be all-inclusive covering direct commission, incentives, awards, reimbursement of selling expenses, brand value payments to related parties, non-cash incentives like gifts and visits. Any payment made to distributors, by any name whatsoever, should come under the category of commissions.

13) Commissions to PoSPs engaged by IDEs should come out of the commission of their principal distribution entity.

14) Commission structure should increasingly move away from the current layered arrangements of distribution to single level of distribution.

Distribution Commission Reforms

103. The proposed commission structure based on the above-mentioned principles is detailed below.

Box 4A: General Insurance - Maximum Commission Limits#

(as percentage of premium)

A. Motor Insurance (other than E below)

Insurance Type	Vehicle Type	Distribution Entities	Agents and Associates	Garages
Third Party (TP)	New	Nil	2.5%	NA
Own Damage / Personal Accident / Legal Liability		5%	10%	
TP	Old	2.5%	5%	2.5%
OD / PA / LL		10%	15%	10%

B. Health Insurance

Insurance Type	Nature	Distribution Entities	Agents and Associates	Hospitals
Individual	First time	15%	20%	5%
	Renewal	5%	10%	NA
	Porting	5%	10%	
Group: Employer / Employee	First time	2.5% subject to a maximum limit of ₹100 lakhs	5% subject to a maximum limit of ₹100 lakhs	1% subject to maximum of ₹25 lakhs
	Renewal			
	Porting			
Group: Non-Employer / Employer	First time	2.5% subject to a maximum limit of ₹100 lakhs	5% subject to a maximum limit of ₹100 lakhs	1% subject to maximum of ₹25 lakhs
	Renewal			
	Porting			

C. Other LoB General Insurance

Product	Proposed	
	IDE	**Agents & Associates**
Marine-Cargo	10%	15%
Marine-Hull	10%	10%
Miscellaneous – Retail*	15%	17.5%
Miscellaneous - Corporate/Group**	10%	15%
Government Schemes	As notified in the scheme	

**This includes PA, Travel, Homeowners, Shopkeepers insurance, Liability, Cyber etc.*

*** Includes Group PA, Liability, Cyber etc. other than Engineering risks*

D. Property and Engineering insurance:

Insurance Type	Nature	Distribution Entities	Agents and Associates
Property Insurance: Retail	First time	15%	20%
	Renewal	10%	15%
Property Insurance^ (SI on PML basis)	SI Below 500cr	7.5%	10%
	SI Between 500 – 2,500 cr	6.25%	7%
	SI Above 2,500 cr	5.0%	5.5%
Engineering Risks including Projects^ – EAR, CAR etc.	SI Below 500cr	7.5%	10%
	SI Between 500 – 2,500 cr	6.25%	7%
	SI Above 2,500 cr	5.0%	5.5%

^The commission will be calculated on a slab-wise basis i.e. for a single risk exceeding 2,500 cr SI - the first 500 cr. next 500-2,500cr and thereafter the amount of SI above 2,500 cr will be paid commission at the respective levels.

E. Insurance packaged with Loan or Credit

Insurance Type		Lending cum Distribution Entities
Motor Third Party (TP)	**New or Old Vehicle**	Nil
Motor OD / PA / LL		5%
Health: first time		5%
Health: renewal		2.5%
Property: single premium		2.5%
Property: multi-year premium		5%

 # Additional Commission limits for individual policies:

1. **Category – I:** For business procured from towns and cities with population size below 10 lakhs (Other than category-II): 10% of the applicable commission limit on the first-year premium;
2. **Category – II**: For business procured from small towns up to population size below 50000 and all rural areas: 20% of the applicable commission limit on the first year premium.

Box 4B: Life Insurance - Maximum Commission Limits#

(as percentage of premium)

A. Standalone

Insurance Type	Premium Payment Term (PPT)^	Distribution Entities		Agents	
		First Year	Renewal*	First Year	Renewal*
Individual Non-Linked (Par or Non-Par) and Linked$	Below 5 years@	5%	2%	6.25%	5%
	5 years	10%	2%	12.5%	5%
	6 to 8 years	14%	3%	17.5%	5%
	9 years	18%	3%	22.5%	5%
	10 years & above	20%	3%	25%	5%

** From the beginning of the 6th policy year, once every three years the renewal commission shall be increased by 0.5% of the premium for policies which are renewed after 6th year and shall be paid at each renewal beginning from 6th policy year i.e., 5.5% of renewal commission for 6th, 7th and 8th policy renewals and 6% for 9th, 10th and 11th policy renewals and so on subject to maximum renewal commission of 7%.*

^Policy term cannot be less than 10 years or the PPT, whichever is higher.

$ For linked products, the overall commissions and expenses together shall ensure that the reduction in yield from 5th year is complied with. The reduction in yield may be taken up at the time of reduction in yield.

@ For PPT less than 5 years only non-par non-linked products are permitted.

Insurance Type	Distribution Entities		Agents	
	First Year	Renewal	First Year	Renewal
Individual Savings: single premium	1%	NA	2%	NA
Individual Pure Term: single premium	7.5%	NA	10%	NA
Individual Pure Term: multi-year premium	25%	7.5%	30%	10%

Group Pure Term: single premium	1.5% subject to a maximum of ₹20 lakhs		2% subject to a maximum of ₹30 lakhs	
Group Pure Term: multi-year premium	5%	5%	7.5%	7.5%
Pension/deferred annuity/ Immediate Annuity*: single premium	0.5%	NA	0.75%	NA
Pension/deferred annuity: multi- year premium	5%	5%	6.5%	5%
Group Fund Based (both voluntary and employer sponsored)	0.5% of the contribution made during the year, subject to a maximum of ₹10 lakhs		0.5% of the contribution made during the year, subject to a maximum of ₹15 lakhs	

**No commission for Annuity purchase from NPS.*

B. Life Insurance packaged with Loan or Credit (by lending institution)

Insurance Type	Distribution cum Lending Entities	
	First Year	**Renewal**
Individual Pure Term: single premium	2%	NA
Individual Pure Term: multi-year premium	2.5%	1%
Group Pure Term: single premium	2%	NA
Group Pure Term: multi-year premium	2.5%	1%

 # Additional Commission limits for individual policies:

1. **Category – I:** For business procured from towns and cities with population size below 10 lakhs (Other than category-II): 10% of the applicable commission limit on the first-year premium;
2. **Category – II**: For business procured from small towns up to population size below 50,000 and all rural areas: 20% of the applicable commission limit on the first-year premium.

Assurance of Good Market Conduct

1) Mandatory Cost Audit for all Insurers and Large Distributors

104. **While commission caps prescribe a ceiling, cost audits verify what is actually being counted towards the ceiling.** A cost audit essentially independently examines that an organizations costs are being properly recorded, classified, controlled and justified. Its real value is that it acts as a verification mechanism, especially in a scenario where insurers and distributors have discretion over expenditure but are subject to regulatory limits. While distributors may not be subject to regulatory expense limits, they must remain within the commission caps whether or not they sponsor PoSPs. For the orderly growth of the insurance market, it is important to know and disclose the actual cost of distribution, who ultimately receives it, and is it reasonable relative to the size and scale of the business.

105. All insurers irrespective of their business size, and IDEs with insurance commission income above ₹100 crores would be mandated to have an annual cost audit and submit the report to their respective Board and to the regulator.

2) Disclosure of commission policy and structure

106. Insurers should disclose their commission policies and structure in a simple to understand and easy to access form on their websites.

107. Large distribution entities should also disclose their regulated or agreed commission structure with various insurers in a simple to understand and easy to access form on their websites.

108. In the event of any complex and large commercial risk requiring highly specialized expertise and where commission caps are required to be exceeded on account of risk assessment costs and other special support, such commission details should be mentioned on the face of the insurance policy.

109. All commercial risk policies with insurance cover above ₹50 crore should also carry a disclosure of the commission on the policy document.

110. Insurers and distributor entities should maintain records of commission paid or received on all policies. These records should be accessible to Insurance Information Bureau or PIR as may be prescribed in regulations or by Authority from time to time.

111. The insurer's Board Level Risk and Audit committee should be required to certify that the insurer's distribution costs are in line with the mandated commission levels.

112. The responsibility of distribution entities to comply with the commission caps cannot be ignored. Their CEO and Board/Partners/Apex body (depending on type of entity) should also certify that the commissions received are as per regulatory mandate and no breaches have occurred.

3) Safeguards against indirect payments

113. Outsourcing of any activity by insurers to related parties of Distributors should not happen. Where there is a strong imperative to do so, the Board of the insurer must approve

the services received from such outsourced entity, the pricing and also confirm that there is no linkage whatsoever with the business placed by the IDE. The concerned IDE on their side should confirm the same at the apex level – Principal Officer and Board/ Partner/Apex body (depending on type of entity). Upon Board approval an immediate submission must be made to the regulator conveying the arrangement and basis of payments to be made.

114. In cases where distributors and insurer are related parties, a disclosure must be made on the respective website of both parties. Regulator has to be informed in advance of such arrangement and the financial consideration involved.

115. In case of related parties, as in para 111 above, the Boards of both parties must certify that commissions paid and received respectively are within the regulatory caps.

Section 9 - Transparency in pricing and quality led purchases

116. **Transparency of very high order in product features, quality of services including claim settlement and above all in pricing is absolutely essential. Merely having commission caps and EoM limits are not enough to build trust amongst the policyholders**. Insurers and distributors must make significant efforts to strengthen customer confidence. Only through sustained measures the customer experience can improve to the levels where insurance becomes a pricing and quality led purchase transaction rather than a commission led sale.

Reform Measures

117. Following reform measures are proposed to meet the transparency objective.

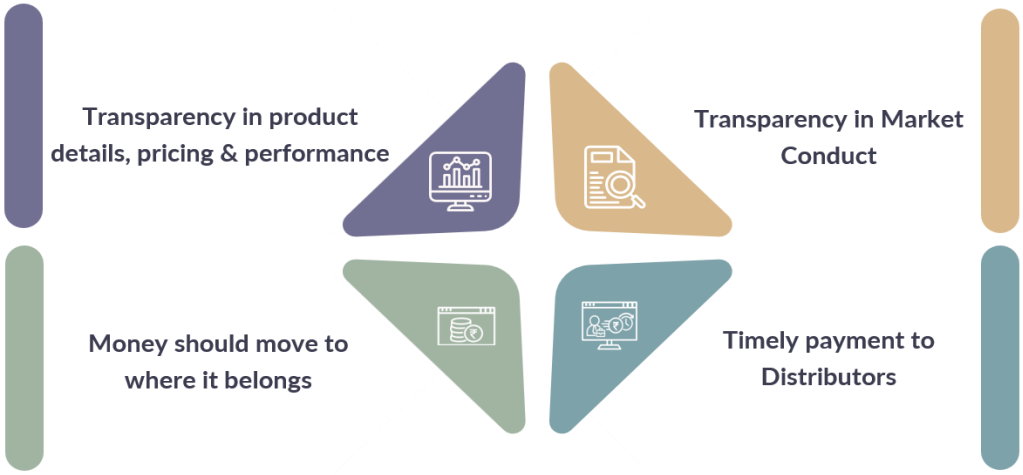


Figure 8: Reforms measures

1) Transparency in product details, pricing and performance

118. **Product, pricing and quality disclosure[15] should be made by all insurers in standard and easy-to-understand form without seeking personal details**. Currently product features and pricing details can be accessed by public only after providing personal details. That is one of the 'dark patterns' often seen in the websites of most insurers and distributors. That is also against the guidelines issued by the Central Consumer Protection Authority under the Consumer Protection Act, 2019. **It is proposed to prohibit 'dark patterns' under the insurance regulations also.**

119. **The Life Insurance Council and the General Insurance Council are proposed to be tasked to develop standard formats for one-page information sheets and Frequently asked questions (FAQ) note for each class of insurance products.** The product features are not often disclosed in a cogent form. Insurers should provide a one-page information sheet giving the key details of the product in simple language and a FAQ note. This information

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[15] *Aligned with KMP remuneration guidelines. The distribution regulations will be more detailed, prescribing the parameters to be disclosed and the manner of disclosure.*

sheet may carry a disclaimer to the effect that for any legal purposes the policy wording supersedes the information sheet.

120. **Guidelines for standard definitions of product performance and quality parameters[16], their measurement and disclosure obligations are proposed to be issued as subsidiary instructions.** The information about product performance and quality of services by insurers and distributors, claim settlement performance and track-record of grievance redressal is also not generally available in comparable form and in easily accessible manner.

121. There are wide variations in definition and computation of the performance and quality terms. For example, insurers offering health insurance publish claim settlement ratio by count, i.e., number of claims decided as a proportion of number of claims received. The number of claims decided include claims paid in full, claims paid partly, claims repudiated and claims rejected. From policy holders' perspective, the claim settlement ratio based on amount is relevant, i.e., the total amount of claim payments as a proportion of total amount of claims received. Further, there is a lack of consistency in making a distinction between a grievance and a service request. Grievances often get recorded as service requests and do not get included in performance or quality disclosure.

122. **Dissemination of product, pricing and quality information is proposed to be made a regulatory requirement.** Access to product information sheet, FAQ note, detailed product brochure, premium rates, product performance and quality performance must be provided without the need for the seeker to provide or leave any personal details such a name, phone number, email or any identification (in line with avoidance of Dark Patterns). Access to information should not be used as a lead generation opportunity.

123. **Board approved policy for payment of commissions including rewards and related payments should be placed in public domain**. Even though specific commission caps are proposed, it is necessary for the Board of insurers and IDEs to take cognisance, and formulate an approved policy to guide the management, including for performance related incentives for distributors within the caps. The policy should be objective, spelling out directions to the management, and not merely a statement of intent. The policy should be prominently placed in the public domain through the website of the insurer. Access to the policy should be easy and not be more than one click away from the landing page.

2) Transparency in Market Conduct

124. **A direct and verified connect between customer and insurer should be established before issuance of insurance policy irrespective of the channel of purchase chosen by the customer.** This measure is aimed at **building confidence**, and ensuring proper disclosures and risk underwriting. Incidence of non-disclosure and frauds can be largely mitigated by introducing various measures such as:

a) OTP based verification from insurer's service or an MII service;

[16] *Quality parameters would include performance related to services, claim payments, and grievance redressal.*

b) Aadhaar based face authentication as any-time any-where self-service for proposer and insured;

c) Facility to confirm customer's name and number from DoT service;

d) Deduplication facility to prevent third-party numbers being given.

125. **Mechanism for "Know Your Insurer" and "Know Your Distributor" should be established** to facilitate customer-induced accountability**.** The proposed PIR (*refer Section 14*) proposes relevant user stories to enable this mechanism.

3) Money should move to where it belongs.

126. **Money should move from customer account to insurer's account directly**. Compliance to Section 64VB of the Insurance Act requires the insurer to collect the premium prior to acceptance of risk. It is therefore, in the best interest of the customer that the money reaches the insurer's account directly. There is also no additional value by virtue of the premium moving to any intermediate account (other than Bima – Applications Supported by Blocked Amount (BASBA) arrangement). Direct movement from customer to insurer's account will also support free choice and eliminate forced bundling of insurance products with non-insurance products.

127. **Funds flow between insurer and reinsurer should also happen directly**, and not through broker's account. This will include commission, ceding commission and claim payments. Brokerage fee may be paid by the insurer or the reinsurer separately as per their engagement terms.

128. **UPI or Credit or Debit Card or bank account of the customer only should be used to pay the premium.** Third-party payments should not be accepted. Payment only from the customer/proposer's account has been an established practice in insurance. This not being a mandate leaves scope for fraud and mis-selling. The proposed direct payment as a norm is also essential to prevent possible money laundering scenarios and frauds of serious nature.

129. **Payment of claim amount should also be directly to verified bank account of the policyholder or the nominee.** Payment instructions from insurers should not be merely to any bank account but to the account on record with matching of the name in insurer's records and bank's record.

4) Timely payment to Distributors

130. **With commission structures in place, it is also necessary that distributors are paid on time**. Distributors need flow of funds to ensure timely payments to employees and PoSPs engaged by them. Distributors must receive their commissions not later than the day after the end of the free look period, if applicable, calculated from the date of receipt of premium by the insurer. However, insurers must strive to determine ways to pay within 7 days of receipt of premium. Proper claw back arrangements can be put in place for recovering excess payments for cases where policies are cancelled. Any delay should attract payment of interest which should be charged to operating expenses.

Section 10 - Safeguards against compulsory bundling of insurance products with other financial products and services

Prohibition on Compulsory Bundling of Insurance Products

131. **It is proposed to prohibit compulsory bundling of insurance products by banks and NBFCs, registered with the authority as IDEs, along with their products and services.** If such lending institutions want to insure their loan portfolio against the risk of adverse events to their borrowers, the institutions may take group policy and pay premium as expense of the institution.

132. **However, package offers with specific and demonstrable gains to the customer[17] are proposed to be allowed.** Following is an illustrative list of acceptable package offers.

Acceptable Package Offer illustrations

133. Following is a list of acceptable package offers where insurance and other financial products can be sold together.

1) Group term insurance on a complementary basis for depositors who maintain deposits above a threshold with a bank;
2) Group term insurance for borrowers on a complementary basis like (1) above;
3) Credit Card with term or travel or accident insurance with no charges to the customer except the normal card fee;
4) Offer to include a bank's customer in a group health insurance scheme negotiated by the bank with an insurer at specified premium. Such offer should be accompanied with disclosure of the commission that the bank will get out of the premium;
5) Loan with an offer to lower the interest rate if an additional security of term life insurance of the borrower equal to the loan amount or property insurance equal to loan amount for that property is provided. Such conditional package should have following safeguards to enable the borrower to take an informed decision and provide consent.
    a) The borrower should be informed about the interest rate with and without such additional security;
    b) There should be no binding that the additional insurance security should be purchased from that bank or NBFC only;
    c) Premium for the insurance product is paid separately and directly by the customer from his account/debit card/credit card and not out of the loan amount.

[17] *Agreeing to provide a loan (such as home loan, motor loan, working capital, loan for plant & machinery, export credit, etc.) conditional upon the borrower necessarily buying an insurance product (that may or may not be related to the asset being financed by the loan) is compulsory bundling. For example, loan with life insurance, loan with property insurance, loan with motor insurance, loan with health insurance.*

d) Packaging health benefit cover with home or motor loans against risk of critical illness is to be discouraged as that is likely to be cost inefficient for borrowers.

134. **To encourage insurance coverage of micro, small and medium enterprises (MSMEs), a segment having substantial protection gap, it is proposed to remove the current limit of ₹5 crore for the risk cover.** Banks and NBFCs financing MSMEs are proposed to be allowed to make package offer for property insurance up to the value of the property, which may be more than financing provided by them, subject to the commission limits referred in the para above. A pure protection life insurance, if offered, should not be more than the loan amount and also be subject to lower commission limit.

Section 11 - Creating awareness against mis-selling

135. **Unfair business practices have been a leading category of customer complaints**. Amongst the various forms of such unfair practices, mis-selling is not uncommon and has significantly impacted public's trust in the insurance sector. This has also been a major cause of pre-mature surrender of life policies. Most social media posts are also about mis-selling.

136. While most measures proposed in these reforms will combine to reduce mis-selling, it is also imperative that specific regulatory guardrails are established and awareness is built around this issue.

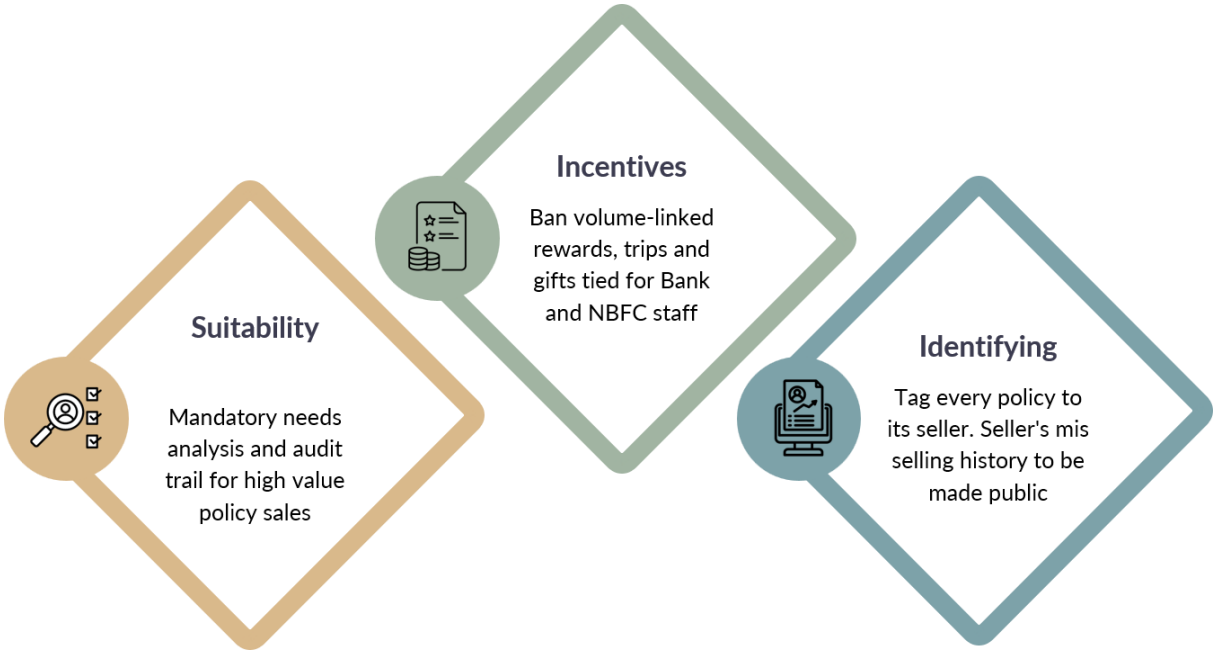

Figure 9: Guardrails to prevent mis-selling in Insurance

(1) Suitability as an enforceable obligation

137. **A detailed suitability framework should be in place for each insurer and IDE**. For life insurance sales above a defined ticket size, a documented needs and suitability analysis should be mandatory and supported by an appropriate audit trail. Where a customer chooses a product other than the one recommended based on such analysis, the reasons should be documented. Mere customer consent or signature should not absolve the insurer or intermediary responsibility of selling an unsuitable product. Such a framework would act as a deterrent against mis-selling practices, including presentation of insurance products, particularly endowment or other savings insurance plans, as fixed deposits or equivalent deposit products, often seen in bank-led distribution.

Box 5: Mis-selling

Mis-selling of insurance products is a concern across financial services. It is more prevalent in banks and other banking entities, but is not uncommon in other distribution channels. In recent times, RBI expressed deep concern and has issued directions to curb the malpractice. Those Directions on Responsible Business Conduct are aimed at all financial products. **It is proposed to complement RBI's directions by regulatory as well as awareness measures as a part of insurance distribution reforms.**

*"**RBI's definition of Mis-selling**[18] refers to sale of a financial product / service, whether own or third party, in the following cases:*

(i) Sale of a product / service, which is neither suitable nor appropriate in view of the customer's profile evaluated at the time of sale, notwithstanding her / his explicit consent; or

(ii) Sale of a product / service without providing correct or complete information or by giving misleading information; or

(iii) Sale of a product / service without customer's explicit consent; or

(iv) Compulsory bundling of another product / service with sale of the requested product / service; or

(v) Sale of a product / service involving any other element defined by the financial sector regulator concerned as mis-selling."

Proposed guidance by the Authority: The following are illustrations of mis-selling of insurance products and would attract disincentive or regulatory action.

1. Selling a regular premium product as a single premium product;
2. Selling regular premium life insurance products without explaining the consequences of discontinuation of paying premium and the low surrender values;
3. Selling life insurance products including term insurance to customers who are not in their working age or do not have dependents;
4. Selling regular premium life insurance products to customers who do not have steady income to be able to pay premium year after year;
5. Selling ULIP products to customers who are risk-averse or beyond their working age without explaining mortality charges and risks to their capital and uncertainty of returns;
6. Selling Par or ULIP life insurance products with a false promise of assured returns;

[18] https://rbi.org.in/scripts/NotificationUser.aspx?Mode=0&Id=13485

7. Selling Non-Par life insurance products in lieu of bank deposit even when they have returns lower or at best comparable to that on bank deposits;
8. Selling insurance products as fixed-income deposits or high return investment products;
9. Selling term insurance product to a customer for insuring life of a dependent or a non-earning relative;
10. Inducing customers to withdraw from an existing insurance policy or cancel the same with an offer for a new product on a misleading promise of better returns;
11. Selling high value single premium products that offer low liquidity and poor insurance coverage, making it hard for customers to withdraw money when needed;
12. Selling life insurance products for inheritance planning.

*"**RBI's direction on Suitability and Appropriateness:** Before a financial product / service, other than those determined as suitable for all customers as per the bank's policy, is sold to an individual customer, its suitability and appropriateness for the customer shall be determined by the bank based on an analysis of the features, risk-return attributes, time horizon, complexity, fee structure, etc. vis-à-vis the customer's age, income, level of financial literacy, risk tolerance, etc. Wherever the financial sector regulator has prescribed any specific suitability assessment analysis for determining the suitability and appropriateness of the product / service regulated by it, a bank shall ensure adherence to the same."*

Proposed guidance by the Authority for suitability and appropriateness verification:

1. A term insurance product should be offered only to customers in their working age and/or having dependents.
2. A customer not having steady income should not normally be offered a regular premium life insurance product.
3. A customer beyond or nearing the completion of working age would be better off with an annuity product with easy-to-understand explanation of effective returns as compared to those from bank deposits.
4. A customer should not be sold insurance products with premiums beyond her / his paying capacity.

*"**RBI's direction on Promotional Materials / Communications:** A bank shall not advertise / market any TPPS as its own. While giving the details of any TPPS Provider to a customer, the bank shall clarify its role in providing such financial product / service. A bank shall ensure that all its advertising / promotional materials such as pamphlets, brochures, etc., whether in physical or digital form, are clear and factual. Such materials shall disclose the interest rate and other fees / charges associated with the financial product / service being promoted. The terms and conditions*

pertaining to the product / service shall be prominently disclosed at all points of sale / digital channels such as website, mobile app, etc. A bank shall send promotional communication / alerts about promotional offers in respect of its own or third-party financial products / services to a customer only if he / she has given explicit consent to receive such communication / alerts. A bank shall ensure that the process for unsubscribing from any kind of services or promotional communication is easy and simple."

Proposed guidance by the Authority:

1. Factual easy to understand language in all promotional material with clear and bold mention of single or regular premium; Assured or not Assured returns; risks in ULIPs.
2. Policy on charging (or receiving) commission on insurance products should be readily available on its website and brought to notice of customers solicited for those products.

*"**RBI's directions on Measures for Prevention of Mis-selling:** A bank shall ensure that its policies and practices do not create incentives for mis-selling of products / services, whether its own or offered on behalf of a third-party. Further, it shall be ensured that no incentive is directly or indirectly received by the bank's employees from the TPPS Provider for sale / marketing of TPPS. A bank shall not resort to compulsory bundling of any TPPS with any of its own product / service. However, if the sale of the bank's own product / service is contingent on purchase of a TPPS as a risk mitigant, the customer shall be provided the option to purchase the same from any TPPS Provider. Further, offering of multiple products / services as a package based on voluntary consent from the customer and / or on complimentary basis (i.e., without any additional direct or indirect cost to the customer) shall not be construed as compulsory bundling. A bank shall not fund the purchase of a product / service by a customer, whether of its own or of a third-party, out of any loan facility sanctioned to the customer without her / his explicit consent."*

Proposed guidance by the Authority:

1. Prohibition on compulsory bundling and allowing acceptable package offers as discussed in Section 10.

2) Banning incentive structures that promote mis selling

138. **It is proposed to explicitly include all forms of remuneration, direct or indirect, monetary or non-monetary, within the definition of commission for regulatory purposes, and prohibit any volume linked or reward linked incentive for bank or NBFC staff selling insurance.** That should directly reduce the incentive to mis-sell. Sales incentives in the form of foreign or domestic trips, luxury gifts, milestone bonuses and contest rewards are currently common across the channel and create a direct conflict of interest with customer suitability.

3) Identifying individuals behind mis-sold policies

139. **It is proposed to tag functional identity of specified persons or sales person or PoSP of IDE, or of an agent or associate of an insurer with the policy sold by the concerned person, and placing the information on incidences of mis-selling in public domain as a part of performance of the concerned person.** The availability of such information in public domain is expected to serve four purposes, namely (1) enable objective disincentives out of the commission, (2) fix accountability, (3) provide alerts to future recruiters, and above all (4) prospective customers taking informed decision knowing the mis-selling history of the sales persons. These should serve as a major deterrent against mis-selling. This functionality is proposed to be enabled through the Public Insurance Registry.

140. **Mis-selling incidences should also lead to commission claw-back by insurers.**

Section 12 - Streamlining Motor Insurance

141. Motor insurance is a prime example of lack of transparency driving high commissions in spite of products being simple and a part of the insurance being mandatory (third-party insurance). The average commission rates are very high at 24% with a range of 13% to 50%. The following two most organized distribution channels command the highest commission.

1) OEM brokers[19] and MISPs[20] have a market share of 30% for new and old vehicles combined and get average commission of 24% with maximum going upto 31%. During FY25, OEM brokers and MISPs generated total premium of ₹29,000 crore and were paid almost ₹7,050 crore as commissions.

   a) For new vehicles, third-party insurance is a nil-effort product as registration of a new vehicle by transport authorities is done only after evidence of the insurance is produced. Selling own-damage insurance or comprehensive insurance for a new vehicle are also low-effort products. Still OEM brokers and MISPs are in a position to command average commission rate of 27% and 38% respectively on new vehicles.

   b) A large number of motor dealers also have attached garages for servicing and repairs. Selling motor insurance products to those customers for old vehicles is unlikely to require high level of efforts. Still MISPs command average 12% commission on that insurance also.

   c) In both cases, the customers remain oblivious of the high commission rates.

2) NBFCs and banks financing motor vehicle purchase and insisting on compulsory bundling of loan and insurance still get 16% commission while the borrowers remaining unaware.

Box 6: Motor Insurance

A Motor dealer acting as a MISP has its primary business of selling motor vehicles. Providing insurance is only incidental. Yet by virtue of its position of selling motor vehicles, the motor dealer (MISP) has tremendous influence over the customer. Mostly, the choice of motor insurance policy is guided by the motor vehicle dealer than by the choice of the customer. This position of strength is leveraged to push insurance policies of insurance companies who pay higher commissions.

Between FY23 and FY25, motor premium grew by around 34% while motor commission grew by around 259%. As the point of sale in motor insurance is typically controlled by the dealer or OEM-linked broker at the moment of vehicle purchase, customers are generally not in a position to compare or negotiate, and the resulting pricing power appears to reflect control over distribution access rather than advisory effort or product competition.

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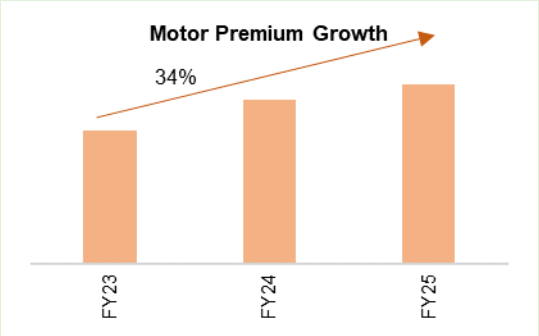
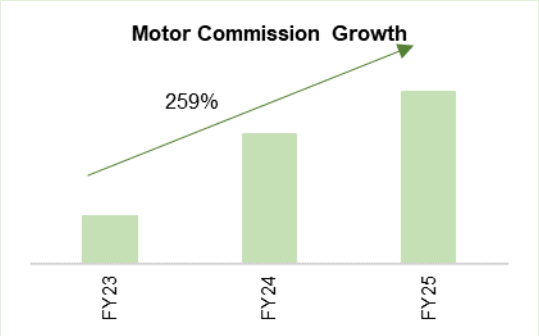
[19] *Brokers promoted by motor vehicle manufactures (Original Equipment Manufacturers)*

[20] *Motor Insurance Service Provider. They are motor vehicle dealers.*





Graph 13: Premium Vs Commission growth of sampled brokers over 3 years

There are concerns that certain OEM-linked brokers sponsoring MISPs influence insurers not to offer lower pricing through other distribution channels. Such practices, where they occur, can restrict price competition across channels and result in higher premiums for policyholders, and are therefore contrary to policyholder interests.

Further, the distribution remuneration associated with long-term motor insurance policies is not always commensurate with the nature and extent of services provided by the MISP. Sponsoring brokers who have responsibility to exercise appropriate oversight over their MISPs, have been found many times wanting in ensuring that distribution arrangements and practices promote competition and protect policyholder interests.

142. Following reform measures are proposed to streamline motor insurance.

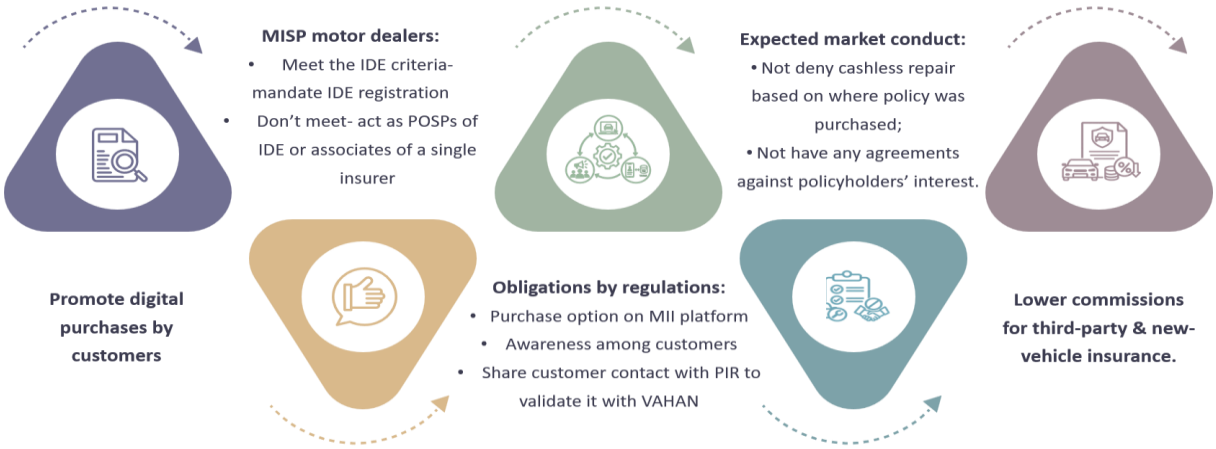


Figure 10: Streamlining motor insurance

1) **Promote digital purchases by customers:** This will require availability of motor insurance products both for new and old vehicles on MII platforms such as Bima Sugam. Those not-for-profit platforms set up by all or a group of insurers (*refer Section 13*) should not charge a fee more than 5% of the premium to recover the platform cost.

2) **Require all MISP motor dealers who meet the structure of Insurance Distribution Entity (IDE),** i.e., they are entities incorporated under the Companies Act or entities registered under any other law (LLPs, cooperative societies, registered partnerships), **to register as IDE mandatorily** if they want to sell insurance products. This IDE broker can sell products of multiple insurers.

3) **Require all other MISP motor dealers who do not meet the IDE structure**, i.e., they are either proprietorship or unregistered partnerships, **to tie up as PoSPs of an IDE or become an associate of a single insurer**. Any such PoSP can sell products of all insurers with whom the IDE has tie-up. Such associate can sell the product of only the insurer with whom tie-up has been done.

4) **Cast specific obligations on motor dealer IDEs and PoSPs through regulations**, unlike the present arrangement of MISP guidelines, **to provide choice to customers of new vehicles in taking informed decision** when buying motor insurance product. Any violation of the obligations should attract regulatory consequences.

5) **These obligations should include the following:**

   a) Prominently display the option of motor insurance purchase on the MII platform including the QR code to access the platform;

   b) Make the customers of new vehicles aware of the MII option;

   c) Share mobile number of the customer with the PIR. This number should be the same as the number to be given to the transport authorities for registration of the vehicle.

      PIR will validate with the vehicle registration system (VAHAN) the correctness of the number, and fulfilment of the obligations at (a) and (b) above through a post-event direct message to the customer.

6) The expected market conduct of the motor dealer IDE and PoSPs should include the following.

   a) Not to deny cashless repair service to a customer on the grounds that the insurance policy was not purchased from the dealer;

   b) Not to have any agreement with the OEM or IDE which is against the interest of policyholders. These include service level agreements and performance linked incentive plans of the OEMs that reward the motor dealers for sales of insurance policies.

7) **Mandatory third-party insurance and easy to sell motor insurance for new vehicles should have much lower commissions.**

Section 13 - Market Infrastructure Institutions for Insurance: A fully digital pull-based alternative for insurance distribution

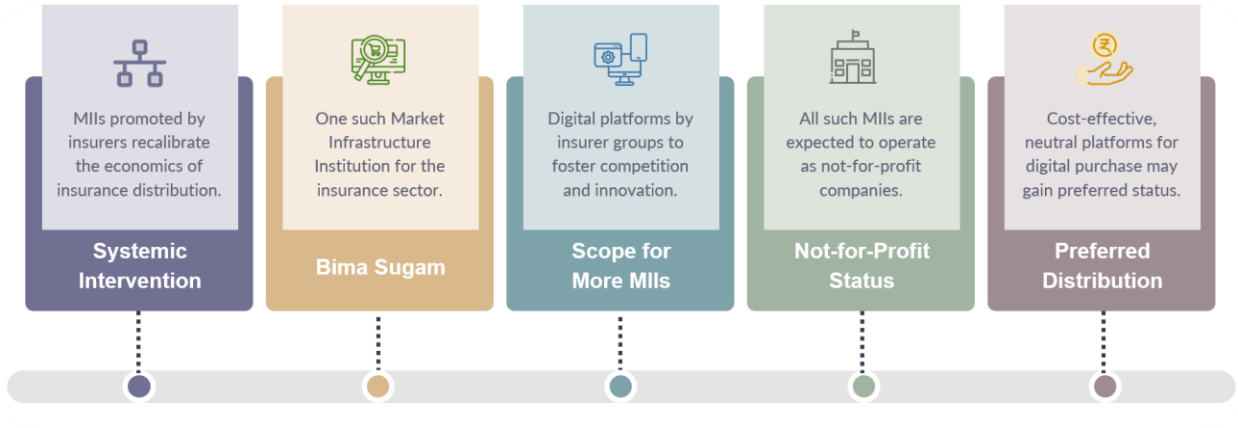


Figure 11: Market Infrastructure Institutions in Insurance

143. **Market Infrastructure Institutions for Insurance (MII) promoted by insurers are proposed as systemic interventions to recalibrate economics of insurance distribution.** Other financial sectors already have MIIs or FMIs (Financial Market Infrastructure), e.g., stock exchanges, depositories, clearing corporations, central counter parties, UPI, credit bureaus, etc. Those MII or FMIs have made transformative impact in securities markets and banking sector.

144. **Bima Sugam is one such MII for insurance sector.** All insurers with the exception of three, are shareholders in the Bima Sugam India Federation, the company establishing the Bima Sugam digital platform. It is the expectation of the Authority that Bima Sugam will become fully operational with wide bouquet of products, both for life and general insurance, at the earliest.

145. **The Authority sees scope for more similar MIIs as digital platforms promoted by different groups of insurers** for facilitating competitive insurance market with innovation. The overarching objective of these MIIs should be to maximize customer value subject to profitability for insurers.

146. **All such MIIs are expected to be not-for-profit companies.** There should be wider participation of insurers in establishing any such MII. At least 11 insurers should come together for establishing an MII with no insurer having significant beneficial ownership. When the company is fully operational, each shareholder insurer should hold less than 10% share or voting right. In the formative years, there can be a lead promoter with shareholding upto 20% to facilitate timely establishment and operationalization. Such lead promoter should bring down its shareholding to 15% in 5 years and to less than 10% in 7 years.

147. **These MIIs having the mandate of cost-effective and neutral platform for digital purchase of insurance products may have preferred distribution status.** However, they should operate with transparent fee structure much lower than the current distribution commission rates. These digital platforms should provide level-playing field for all insurers to compete on product features and performance, pricing, and quality of services related to claim settlement and grievance redressal in a transparent manner.

Section 14 - Public Insurance Registry[21] as the business-facing digital infrastructure

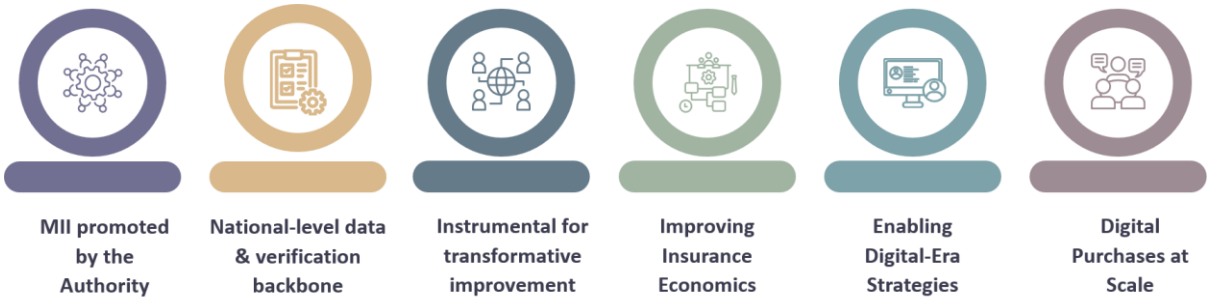


Figure 12: PIR – The business-facing digital infrastructure

148. **PIR is proposed as a MII promoted by the Authority.** This **"Digital Public Infrastructure for Insurance"** is designed to further the objectives of the SBSR Act and the distribution reforms with the goals of (1) facilitating growth & inclusion, (2) building trust & transparency, and (3) promoting affordability & financial sustainability.

149. **PIR, as the national level business-facing digital infrastructure for insurance, will be the enabler of customer-facing MIIs like Bima Sugam promoted by insurers** by facilitating public and market participants to discover, verify, and exchange insurance information in a consistent manner and mitigating information asymmetry in the sector.

150. **This population-scale, interoperable and non-exclusionary MII is expected to be instrumental for transformative improvement** in efficiency, effectiveness and coverage of the sector through productivity gains, business opportunities, and innovation by market entities.

151. **PIR's economic proposition as a systemic DPI is in its role in improving the economics of the insurance sector in the country with fifty-nine potential user stories.** PIR is envisaged as an enabler of a competitive insurance market with value for all stakeholders, reduction in cost of doing business, level playing field for insurers and intermediaries, fair play of incentives and disincentives to facilitate appropriate market conduct, and stable economic equilibrium.

152. **This MII will help the sector adopt business strategies appropriate for the era of Digital India** by moving from the adage of "insurance is sold" to a belief in "insurance is also bought".

153. **PIR will be an enabler of digital purchases at population scale** on market infrastructure institution platforms. PIR will provide the public good of verified information on performance of products, insurers and intermediaries to enable the country's young population, tech-savvy population, 'do-it-yourself' population to buy insurance products that they need and are within their budget. **Customers can increasingly expect seamless digital experiences with ease of purchasing insurance products and portability of policies.**

[21] *Details may be seen at PIR (Public Insurance Registry) - Public Consultation Paper - IIB*

Section 15 - Insurance Education and Awareness

154. **Policyholder education and public awareness are vital for the success of the reforms and improving trust in the sector.** Public and policyholders should be aware of their rights as well as obligations. Their rights include easy access to relevant information about (1) product details, pricing and performance, (2) insurers' performance on parameters relevant for policyholders such as claim settlement and grievance redressal, (3) distributors' performance in sales and service conduct. Their obligations include (1) proper and timely disclosure of their risks and (2) prudent conduct in risk mitigation and loss management.

155. It is proposed that the activities under the recently established Policyholder Education and Protection Fund should complement the distribution reforms to improve insurance awareness amongst the public.

Section 16 - Reforms Objectives, Measures, and their Assessment

	Objective	Key Reforms / Measures
1	Eliminate scope for regulatory arbitrage	• Adopt only three distributor types (IDE, IDP, MII) • Same scope, obligations and regulations for same structure • Sharper distinction between open and closed architecture
2	Remove restrictions on non-insurance business opportunities for intermediaries	• Enhance competition • Generate employment • Improve income of IDPs
3	Ease-up entry and capital requirements	• Reduce capital requirement significantly • Simplify registration • Lower fees
4	Reduce total expenses with a glide path	• Lower EoM limits with a medium-term glide path • Refine EoM computation to preclude work-around the limits • Mandate cost audit and disclosure of results • Nudge insurers to focus on improving operational efficiency • Allow insurers to distribute products of their group non-competing insurer
5	Caps on commission and rewards with a framework of effort & complexity, and aligned to removal of regulatory arbitrage	• Distinction between open architecture and closed architecture • Higher commission for those with restrictions on scope (closed architecture) • Opportunity-based commission level for open architecture • Link commission levels to complexity of products and efforts to sell • Reduce layers in distribution • Considering all payments to distributors to preclude work-around
6	Set-up market infrastructure institutions that work only for public and policyholders	• Fully digital pull-based customer- facing MIIs such as Bima Sugam • More MIIs promoted by insurers envisaged • PIR owned by the regulator- a population-scale, interoperable and non-exclusionary DPI for Insurance and a business-facing digital infrastructure
7	Create incentives for good market conduct	• Enhance competition in distribution with mandatory disclosure • Link commissions to complexity and efforts required to sell • Larger renewal commission for life products with long payment terms and persistency • Allow higher limits for those in closed architecture • Permit packaging of insurance products with other lending serving policyholders' interest explicitly, whereas prohibiting compulsory bundling • Know performance of distributors and insurers on various customer outcomes
8	Build-in disincentives for bad conduct	• Disclose EoM and commission information in public domain • Place performance of IDPs and IDEs in public domain • Place performance of insurers & distributors in public domain • Track dark patterns actively and placing the information in public domain • Identify individuals involved in unfair practices
9	Ensure transparency by design, and not as an option or enforcement	• Disclose product features, pricing and quality • Set regulatory expectations & establish oversight systems • Performance & conduct of insurers and distributors in public domain • Mention commission on policies with sum-insured > ₹ 50 crore • Disclose EoM & commission performance of insurers & large distributors • Mandate cost audit and placing results in public domain
10	Mitigate structural constraints and operational friction to customer power	• Reduce layers in distribution • Mandate direct connect between purchaser and insurer before policy issue • Require direct payment to insurers • Improve transparency • Enable customers to compare products and services • Expand scope for direct purchase • Make the portability journey seamless through the PIR • Enhanced oversight on grievance redressal

Figure 13: Reforms Objectives, Measures, and their Assessment

156. **The proposed reforms take forward the intent of reforms introduced in years 2016 and 2023. They represent continuity with course correction.**

157. The proposed reforms seek to directly address four out of the ten challenges identified in the Section 3, namely (1) regulatory arbitrage, (2) commission-led rather than pricing and quality led sales, (3) incentives aligned to business growth instead of value for the public, and (4) leverage of large and more organised distributors constraining insurers' options to compete. They address three challenges partially, namely (1) misalignment of interests of insurers, distributors and public, (2) high-cost and poor service quality weakening trust and limiting coverage, and (3) customer power, in the imperfect market, not at play. Further, the reforms seek to lay the ground work for addressing the challenge of lack of transparency. For the overall challenge of the sector's growth not keeping pace with the country's large and evolving insurance needs, reforms wider than the scope of this consultation paper are needed. They will be sequenced appropriately in the near future.

158. The table in **Section 1 on Overview** maps the strategic objectives (*refer Section 5*) with the proposed reforms and measures (*refer Section 6 to 14*), and the parameters for assessing their outcomes.

159. The pursuit of these forward-looking reform objectives will be a multi-year effort requiring perseverance to stay the course, full disclosure by all stakeholders, and assigning accountability to both regulated entities and the regulator, as expected by the SBSR Act.

Section 17 - Consultation Questions

160. Views and feedback are invited from public, policyholders, insurers, distributors, agents and other stakeholders on the consultation paper and in particular on the following aspects.

Problems of the Insurance Sector (*refer Section 3*)

1) Are the identification and analysis of problems impacting the sector appropriate? Which are the most pressing problems of the sector requiring reforms and regulatory interventions?

Analysis of Distribution Costs (*refer Part 2*)

2) Do you agree with the analysis of the current distribution cost in Part 2 of the consultation paper? Please suggest specific measures to make the distribution cost-effective.

Strategic Framework for Distribution Reforms (*refer Section 5*)

3) Does the proposed strategic framework adequately address the sector's problems and needs? Or are there other areas that should be looked into?

4) Is the proposed framework appropriate to meet objectives of the SBSR Act?

5) What further refinement in the proposed reforms could encourage greater competition and strengthen consumer protection?

6) The overall aim of improving insurance coverage needs to be addressed. Are there further areas that regulations can cover to achieve this objective?

Simplification of Distribution Structure & Scope (*refer Section 6*)

7) Are the principles proposed for the simplification appropriate?

8) As the capital requirements are eased, more players are expected to enter the space. How can it be ensured that new players focus more on uncovered segments and geographies?

9) The proposed structure allows insurance distributors and persons to supply non-insurance products and non-financial services also. Is there a need for safeguards against poor market conduct?

10) The proposed structure provides an opening for innovative distribution business models to come in without the need to developing special categories through regulatory revisions. However, does the proposed structure adequately accommodate all existing and emerging distribution models, or are there categories of distributors whose business models may fall outside the framework?

11) Is the approach for training of distribution persons appropriate in view of the removal of product restrictions?

12) To expand insurance, it is necessary to expand the agency force. Allowing all insurance distributors to expand into non-insurance products widens the scope for their operations and revenue streams. What additional non-monetary incentives can be contemplated to achieve this goal?

Expense of Management Framework (*refer Section 7*)

13) EoM has a direct relationship with affordability. A robust EoM framework is necessary for policyholder protection and orderly growth of the sector. What additional safeguards are necessary to address affordability?

14) Are the proposed EoM limits appropriate to nudge the sector to become cost-effective and affordable?

15) Does the sector need a longer timeframe to achieve the proposed norms?

Distribution Commission Framework (*refer Section 8*)

16) Has open architecture served its purpose or is it simply increasing costs without adding any significant value for the end customer? Is there more that can be done in this area than proposed in the consultation paper.

17) Are the principles proposed for the distribution commission reforms appropriate?

18) Is the sector ready to move from the current arrangement of opaque commissions paid by insurers and unknown to policyholders to a new arrangement of distribution based on fee paid by policyholders directly?

19) Do the proposed commission limits arrive at a fair balance between policyholders' expectations of affordability and distributors expectations of adequate remuneration?

20) Within the proposed commission limits, which are the possible measures to incentivize good market conduct? Vice-versa, what measures can be built in to disincentivize bad market conduct?

21) Compliance to commission structure has to be at the insurer and distributor level. Proper and timely reconciliation of commissions is necessary so that the "commission paid and commission received" are identical amounts. How can various regulated entities be made more responsible and compliant?

Transparency in pricing and quality led purchases (*refer Section 9*)

22) Are the measures proposed for improving transparency adequate? Please suggest additional measures, if required.

23) Which are the categories of expenditure or remuneration that should be subjected to cost audit?

Safeguards against compulsory bundling (*refer Section 10*)

24) Are the illustrations of acceptable packaging of insurance with credit or loan appropriate?

Creating awareness against Mis-selling (*refer Section 11*)

25) Are the illustrations of mis-selling appropriate? Please suggest specific measure to disincentivize this.

Streamlining Motor Insurance (*refer Section 12*)

26) Do you agree with the proposed reform?

27) It is expected that insurers will offer products at lower rates on MII platforms such as Bima Sugam in view of the lower distribution cost. In this context, is it desirable and practical to introduce a mandatory mechanism of offering the MII option to purchasers of new vehicles along with the option of opt-out?

Market Infrastructure Institutions for Insurance (*refer Section 13*)

28) Do you agree with the role of MII as a systemic intervention for recalibrating economics of insurance distribution? Please suggest the nature of services you would like to be available on this platform.

Insurance Education & Awareness (*refer Section 15*)

29) Please suggest nature of activities which can be taken by the PEPF in a cost-effective manner to complement the distribution reforms.

Reforms Objectives, Measures, and their Assessment (*refer Section 16*)

30) Are the proposed measures adequate for meeting the reforms objectives? Does the sector need more or different measures? Please suggest how can these be improved upon.

31) Are the proposed parameters for assessing outcomes and impact of the reform measures appropriate and adequate? Please suggest how can these be improved upon.

Any other suggestion that you may have for these reforms

32) Are there any other aspects that need to be considered for distribution reforms and their effective implementation?

Section 18 - How to send Comments and Feedback?

161. IRDAI invites comments and suggestions from public and all stakeholders on the proposed "**Reforms for Recalibrating Economics of Insurance Distribution**" as detailed in this Public Consultation Paper. Your comments will help in improving and refining the scope and measures of the proposed reforms.

162. The comments and feedback can be given in three modes:

A. Web Consultation Process

Comments/feedback on this Consultation Paper, particularly on the Consultation Questions in Section 17, may be submitted directly on the web portal at https://iib.gov.in/dr.

B. Web Consultation Process through Excel Template

Comments/feedback may also be submitted by filling the prescribed Excel template and uploading it on the web portal at https://iib.gov.in/dr. The Excel template may be downloaded from the portal under Section 17.

C. Email Consultation Process

Comments/feedback may also be submitted by filling the prescribed Excel template and sending it by email to drfeedback@iib.gov.in with the subject line **"Reforms for Recalibrating Economics of Insurance Distribution"**.

Note: Use only one mode - web form, Excel upload, or email for each submission to avoid duplication.

163. The last date for submission of comments and feedback is 25th October 2026.

Section 19 - Glossary

1. **Average commission** - Commission paid on average by any insurer for any segment/product category/distribution channel.
2. **BASBA** - Bima-ASBA (Applications Supported by Blocked Amount)
3. **Base Commission** - Pure Commission excluding Reward/Incentive/Any other Payment
4. **Bima Bharosa** – Grievance redressal system for policyholders managed by IRDAI.
5. **Bima Sugam** – MII to promote cost-efficient and neutral marketplace for purchase of insurance products.
6. **CAGR** - Compound Annual Growth Rate
7. **Closed Distribution Architecture** - Distribution model in which a distributor is restricted to a limited number of insurers and/or product categories.
8. **CoDB** - Cost of Doing Business
9. **CSC-SPV** - Common Service Centre - Special Purpose Vehicle
10. **Dark Patterns**[22] - mean any practices or deceptive design pattern using user interface or user experience interactions on any platform that is designed to mislead or trick users to do something they originally did not intend or want to do, by subverting or impairing the consumer autonomy, decision making or choice, amounting to misleading advertisement or unfair trade practice or violation of consumer rights
11. **DPI** - Digital Public Infrastructure
12. **EoM** - Expenses of Management
13. **FAQ** - Frequently Asked Questions
14. **FMI(s)** - Financial Market Infrastructure(s)
15. **FY** - Financial Year
16. **FYP** - First Year Premium
17. **GC** - Gross Commission(s)
18. **GDPI** - Gross Direct Premium Income
19. **GoI** - Government of India
20. **GST / GSTN** - Goods and Services Tax / GST Network
21. **GWP** - Gross Written Premium
22. **HUF** - Hindu Undivided Family
23. **IBAI** - Insurance Brokers Association of India
24. **IDE** - Insurance Distribution Entities
25. **IDP** - Insurance Distribution Persons
26. **III** - Insurance Institute of India
27. **IRDAI** - Insurance Regulatory and Development Authority of India
28. **KMP** - Key Managerial Personnel
29. **LLP** - Limited Liability Partnership
30. **Maximum commission** - Maximum commission refers to maximum commission paid by any insurer to any intermediary within the particular product category/segment/distribution channel.
31. **MII** - Market Infrastructure Institution(s) for Insurance
32. **MISP** - Motor Insurance Service Provider
33. **MOOC** - Massive Open Online Course
34. **Motor LL Insurance** - Motor Liability-Only Insurance

[22] डार्क_पैटर्न_के_निवारण_और_विनियमन_के_लिए_मार्गदर्शक_सिद्धांत_2023_whatsnews.pdf

35. **Motor OD Insurance** - Motor Own Damage Insurance

36. **Motor PA Insurance** - Motor Personal Accident Insurance

37. **Motor TP Insurance** - Motor Third-Party Insurance

38. **MSME** - Micro, Small and Medium Enterprises

39. **Multi tie-up banks** - Bancassurance corporate agents (Banks) that have distribution tie-ups with more than one insurer

40. **NBFC** - Non-Banking Financial Company

41. **NGO** - Non-Governmental Organisation

42. **NIA** - National Insurance Academy

43. **NIOS** - National Institute of Open Schooling

44. **Non-participating life Insurance Product** - A life insurance product under which the policyholder is not entitled to any share of the insurer's surplus/bonus; benefits payable are fixed/guaranteed as per the policy terms, unlike a participating product.

45. **OEM** - Original Equipment Manufacturer

46. **Open Distribution Architecture** - Distribution model in which a distributor can sell across multiple insurers and/or multiple product categories.

47. **OTC** - Over the Counter

48. **OTP** - One-Time Password

49. **PAN** - Permanent Account Number

50. **Participating Life Insurance Product** - A life insurance product under which the policyholder is entitled to share in the insurer's distributable surplus/profits through bonuses, in addition to any guaranteed benefits.

51. **PAT** - Profit After Tax

52. **PEPF** - Policyholder Education and Protection Fund

53. **Persistency** - The proportion of policies or premium that continue in force/are renewed over successive years (e.g., "61st month persistency")

54. **PIR** - Public Insurance Registry

55. **PMFBY** - Pradhan Mantri Fasal Bima Yojana

56. **PoSP** - Point of Sales Person

57. **PPT** - Premium Payment Term

58. **QR (code)** - Quick Response code

59. **RBI** - Reserve Bank of India

60. **RRB** - Regional Rural Bank

61. **SBSR Act** - Sabka Bima Sabki Raksha Act, 2025

62. **Single tie-up banks** - Bancassurance corporate agents (Banks) that have a distribution tie-up with only one insurer

63. **Total pay-outs** - include commission, rewards, incentives and any other pay-outs to the distributors

64. **TPA(s)** - Third Party Administrator(s)

65. **ULIP** - Unit Linked Insurance Plan

66. **UPI** - Unified Payments Interface

67. **VAHAN** - Vehicle registration database (Ministry of Road Transport & Highways)

Annexure - Comparative Analysis of Insurance Distribution Space

Channel	Structure	Business scope	Capital / net worth	Eligibility criteria of Sales persons	Training / exam
Individual Agent	Individual; age 18+; Class 10 pass	Solicits and procures retail and commercial insurance; no product restriction	None	Age 18+; Class 10 pass	Insurer-led training; III examination
Corporate Agent	Company, LLP, co-operative society, bank, NBFC, RRB or NGO	Direct insurance only; no reinsurance. Commercial risks capped at ₹5 crore sum assured per risk	Exclusive: ₹50 lakh paid-up capital and net worth Non-exclusive: None	Principal Officer: Graduate Specified Person: Class 12 +	III training and examination
Insurance Broker	Company, co-operative society or LLP	Solicits insurance without limit; reinsurance and composite brokers may solicit reinsurance	Capital / net worth: Direct ₹75/50 lakh; reinsurance ₹400/200 lakh; composite ₹500/250 lakh	Principal Officer and Broker Qualified Person: Graduate	Training: III/NIA Exam: NIA Renewal: III/NIA/IBAI
Insurance Marketing Firm (IMF)	Company, co-operative society or LLP	Distributes insurance and other financial products; retail and MSME business; offices limited to one state	Net worth: ₹5 lakh if offices are only in aspirational districts; ₹10 lakh elsewhere	Principal Officer: Graduate Insurance Sales Person: Class 12 + training	III training and examination
Web Aggregator	Company or LLP	Online lead generation and comparison; telemarketing sales only; annual or single premium capped at ₹1.5 lakh	₹25 lakh paid-up capital and net worth	Principal Officer: Graduate Authorised Verifier: Class 12	III training and examination
Common Service Centre (CSC)	Established under the Government of India's Digital India Programme	Provides e-governance services and distributes insurance; POSP products only	None	Principal Officer: Graduate RAP / Village Level Entrepreneur: Class 10	NIELIT training and examination
Point of Sales Person (POSP)	Individual; age 18+; Class 10 pass	Solicits and sells OTC / pre-underwritten products approved for POSPs	None	Age 18+; Class 10 pass	Sponsoring entity conducts in-house training and examination

Channel	Structure	Business scope	Capital / net worth	Eligibility criteria of Sales persons	Training / exam
Motor Insurance Service Provider (MISP)	Authorised automobile dealer or sub-dealer of an OEM	Distributes and services motor insurance only	None	Designated person: Class 10 pass	Sponsoring entity conducts in-house training and examination

Note: While the Regulations permit the examination to be conducted by any IRDAI-recognised institution, in practice, all candidates currently undergo the prescribed training and examination through the Insurance Institute of India (III).