

IRDAI PROPOSES TO RECALIBRATE THE ECONOMICS OF INSURANCE DISTRIBUTION

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Background

The Insurance Regulatory and Development Authority of India (“IRDAI”) released a public consultation paper last month titled, “Recalibrating Economics of Insurance Distribution” (the “PCP”), inviting stakeholder comments. Aligned with the Sabka Bima Sabki Raksha (Amendment of Insurance Laws) Act, 2025, the PCP addresses IRDAI’s concern that distribution costs have risen disproportionately to premium growth without corresponding improvements in policyholder outcomes or insurance penetration, and seeks to improve transparency, product comparability and direct (including digital) purchases. In this article, we analyse the key proposals and their impact.

Key Proposals

(i) Simpler Distribution Framework

Guided by the principle of “same structure, same functions, same norms,” the PCP proposes to replace today’s fragmented system of corporate agents, brokers, insurance marketing firms, web aggregators, and others with the following three (3) categories:

- (a) Insurance Distribution Entities (the “IDEs”), i.e., companies, limited liability partnerships, cooperative societies, registered partnerships, trusts, and other registered entities;
- (b) Insurance Distribution Persons (the “IDPs”), i.e., individuals and small unregistered businesses that distribute insurance; and
- (c) Market Infrastructure Institutions, i.e., not-for-profit companies promoted by a group of insurers that are intended to serve as cost-effective and neutral platforms for digital purchase of insurance products.

IDPs will be grouped under only four (4) categories: (a) insurance agents (individuals engaged by insurers); (b) insurance associates (proprietorships, unregistered partnerships, self-help groups, and Hindu undivided families engaged by insurers); (c) specified persons (employees of IDEs); and (d) point of sale persons (individuals engaged by IDEs).

(ii) Lower Entry Barriers and Expanded Scope of Distribution

Under the proposed changes, IDEs may adopt either an “open” architecture (distributing products of multiple insurers with lower commission caps) or a “closed” architecture tied to a single insurer. The existing limits for corporate agents of nine (9) insurers per category and INR 50,000,000 (Indian Rupees Fifty Million) sum insured per risk will be removed, thereby allowing IDEs greater flexibility in distributing insurance products. IDEs will be subject to a uniform initial capital requirement of INR 1,000,000 (Indian Rupees One Million), which is

substantially below the current broker requirements, together with a bank deposit under lien to IRDAI linked to 0.1% of the preceding financial year's insurance-related income (subject to prescribed minimum and maximum limits), and a positive net worth. Further, registration will be permanent, replacing the current three (3) year renewal cycle.

To reduce reliance on commissions alone, IDEs and IDPs will be permitted to distribute non-insurance financial products (subject to the relevant regulator's approval) and non-financial products and services. The proposed framework will also expand the range of eligible distributors by permitting hospitals to distribute health insurance and non-dealer garages providing repair services to distribute motor insurance.

(iii) Phased Reduction in Expense Limits

The PCP proposes to tighten the Expenses of Management framework under the Insurance Regulatory and Development Authority of India (Expenses of Management, including Commission, of Insurers) Regulations, 2024, in phases starting from the financial year 2027-28. For general insurers, the calculation base will shift from Gross Written Premium, which includes direct and inward reinsurance premiums, to Gross Direct Premium Income, which reflects premiums only from direct insurance business and excludes inward reinsurance. The proposed limits, as a percentage of the applicable premium base are set out below:

Insurer category	Current limit	Within two (2) years	Within five (5) years
General insurers	30%	25%	20%
Standalone health insurers	35%	25%	20%
Life insurers	Segment-wise limits	15%	12.5%

For life insurers, segment-wise limits will be replaced by a single limit on total expenses as a percentage of total premium. Insurers already below the proposed limits in the financial year 2024-25 must reach 10% (life) and 20% (general) within five (5) years. Additional allowances, including for technology and rural business, will be absorbed into the overall limits. The regulatory fee will fall from 0.05% to 0.04% of premium, capped at INR 200,000,000 (Indian Rupees Two Hundred Million). Breaches can lead to restrictions on issuing new products, dividends and, in serious cases, conducting new business through the relevant channel.

(iv) Recalibration of Commission Caps

As the current flexible regime has not adequately controlled acquisition costs, the PCP proposes to reintroduce product-specific commission caps, with limits varying by product type, distribution channel, and policy duration. Commissions will be nil or very low for certain mandatory products (such as nil commission for IDEs on third-party motor insurance for new vehicles), higher for complex products requiring greater selling effort, and lower for group policies and renewals. Individual policies sourced from smaller towns and rural areas will qualify for an additional 10%-20% reduction of the applicable first-year limit. For life

insurance, first-year caps will vary with the premium payment term, ranging from 5%-20% for IDEs and 6.25%-25% for agents for a term lesser than five (5) years, while for new retail health policies the caps will be 15% for IDEs and 20% for agents (reducing to 5% and 10%, respectively, on renewal). Sales contests and other target-driven incentives will be controlled, and the term “commission” will be defined broadly to cover all direct and indirect, monetary or non-monetary payments to distributors, including incentives, rewards, reimbursements, gifts, and trips, limiting the scope for circumventing the caps.

(v) Transparency and Protection Against Mis-selling

- (a) Cost audits and certification: All insurers, and IDEs with insurance-related revenue above INR 1,000,000,000 (Indian Rupees One Billion) will have to undergo cost audits and maintain policy-wise commission records. Insurers’ risk and audit committees and distributors’ boards must certify compliance with the commission limits.
- (b) Disclosure: Insurers and qualifying IDEs must publish their commission policies, and commission must be disclosed in the policy document for commercial policies with coverage exceeding INR 500,000,000 (Indian Rupees Five Hundred Million). Product, pricing, and quality information must also be accessible without requiring customers to share personal information upfront.
- (c) Direct fund flows: Premiums must be paid directly to insurers, reinsurance payments must flow directly between insurers and reinsurers without passing through brokers’ accounts, and claims must be paid directly into the verified bank account of the policyholder or nominee, so that intermediaries do not handle or retain these funds.
- (d) Bundling and incentives: Compulsory bundling of insurance with loans or other products will be prohibited, although genuine packages with clear customer benefits (such as credit cards offering cover at no additional cost) will be permitted. Volume or reward-linked incentives for bank and non-banking financial company employees selling insurance will also be prohibited.
- (e) Accountability: Each policy must be linked to the individual who sold it, and mis-selling incidents must be publicly disclosed. Commissions may be clawed back in cases of mis-selling.
- (f) Dark patterns: Online practices that manipulate customers into buying insurance, conceal material information, or make declining coverage difficult will be prohibited.

Our Comments

The PCP proposes a significant overhaul of insurance distribution in India. While lower entry barriers, a more uniform regulatory framework, and greater transparency are welcome, certain issues require clarification. First, safeguards may be needed where hospitals act as both healthcare providers and insurance distributors. Second, the omission of managing general agents, insurance consultants, and repositories from the proposed framework

requires clarification, and grouping brokers, who act on behalf of clients, and corporate agents, who distribute products under arrangements with insurers, under a common category may fail to adequately reflect their distinct roles and obligations. Third, higher commission caps for closed-architecture IDEs may encourage exclusivity and limit customer choice, while nil or low commissions on products such as third-party motor insurance may discourage distribution in underserved markets. Finally, given repeated changes to commission and expense regulations, clear transition timelines and regulatory stability will be important for investor confidence.

It is important to note that the PCP marks only the beginning of the rule-making process and does not constitute the final regulatory framework. The IRDAI is currently considering stakeholder comments and will issue draft regulations for a second round of public consultation before final notification. While not officially confirmed, the IRDAI is understood to be targeting April 1, 2027, for implementation of the PCP. Insurers, intermediaries, banks, non-banking financial companies (NBFCs), motor dealers, and investors should assess the impact on their distribution models and consider participating in the ongoing and subsequent consultations.