REPORT OF THE COMMITTEE ON DISTRIBUTION CHANNELS

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REPORT OF THE COMMITTEE CONSTITUTED BY IRDA ON DISTRIBUTION CHANNELS

1. Introduction

1.1 It is an acknowledged fact that Insurance, especially in India, is more sold than bought. Since life insurance is meant to cover potential losses in future and not to cater to immediate consumption needs, there is always a tendency to postpone or avoid the purchase of life insurance. The low awareness levels in the society further add to the difficulty in selling life insurance. Distribution, therefore, becomes the key link in the chain of activities in the business of Insurance. In a country like India distribution, which essentially means carrying the message of insurance through the last but toughest mile, acquires even greater pre-eminence.

1.2 In view of the sensitive nature of the business by virtue of its being in the financial domain and the key role played by distribution, insurance selling, worldwide, is a tightly regulated activity. Coming to India, the Insurance Act, 1938 has laid out clear cut provisions on the following issues pertaining to distribution of insurance:

- Licensing of Insurance Agents
- Conditions/ceilings on payment of commission
- Privileges of Agents
- Code of conduct for agents

1.3 There was no change in the above provisions so long as the insurance industry was a monopoly during which distribution of insurance was largely confined to the tied agency channel.

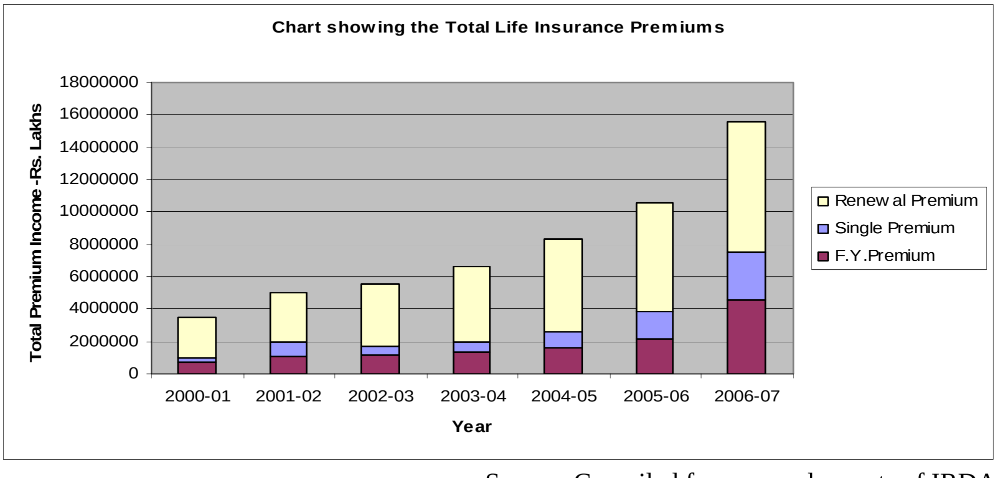
1.4 With the notification of the IRDA Act, 1999 and the pursuant opening up of the sector to private players, distribution of insurance has witnessed a flurry of activities shown below:

- Specification of minimum educational qualification for agents and intermediaries
- Mandatory pre-license training and examination
- Issue of License by IRDA
- Elaborate regulation prescribing the code of conduct for all intermediaries
- Issue of regulations allowing/regulating corporate agencies, brokers and referrals

1.5 The above initiatives have completely changed the complexion of insurance distribution in the country. The raised level of qualifications at entry, pre-license training, qualifying examination and tightening of the code of conduct for the intermediaries over the last few years have all contributed to improvement in the quality of distribution in the insurance sector.

1.6 The advent of new channels such as Corporate Agents including, Bancassurances, Brokers and Referrals has helped in the massive expansion that the insurance sector witnessed in India in the recent past. These channels have not only helped the sector to leverage on the clientele/network of the corporates who enrolled as insurance intermediaries but also facilitated institutionalization of the distribution of insurance.

1.7 The entry of the new players, the consequent expansion of offices, new channels of distribution, increase in number of tied agents along with the increasing awareness and acceptance of insurance have all contributed to the massive expansion of the insurance sector in the last seven years. The unprecedented buoyancy in the economy during this period has no doubt supported this splendid performance. The magnitude of the business expansion of the life insurance sector can be gauged from the fact that the CAGR stood at over 37% over the last seven years. The penetration and density of the life sector had also gone up from 1.2% to 4.1% and Rs.280 to Rs.1510 respectively between the years 2000 & 2006.



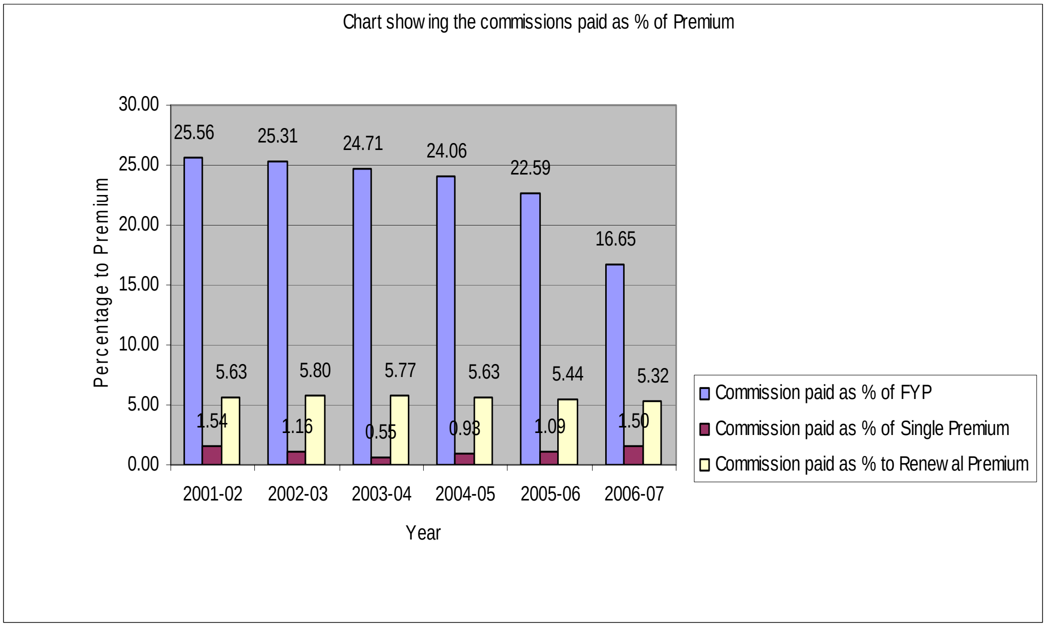
Source: Compiled from annual reports of IRDA.

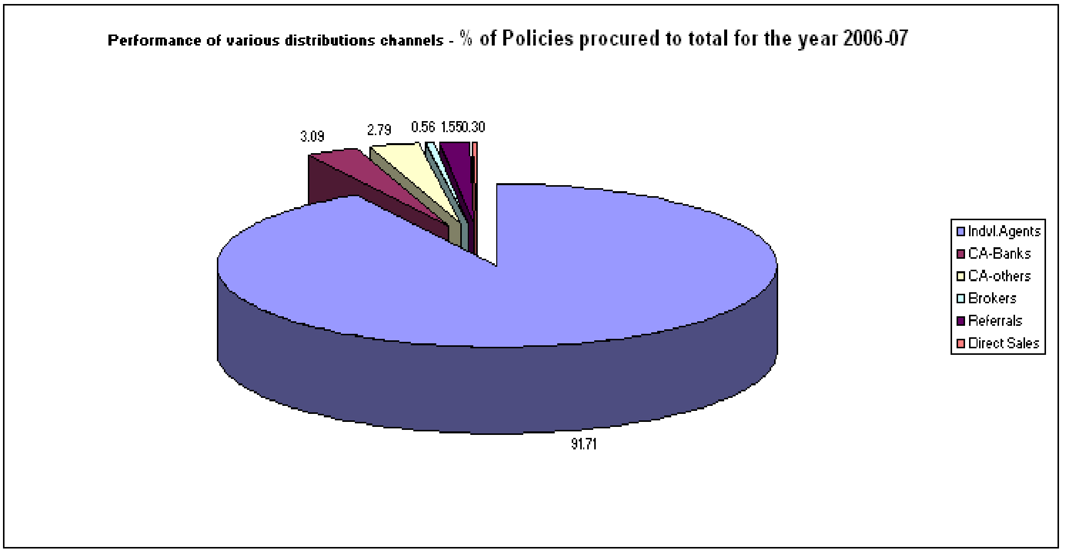
1.8 Despite the emergence of new channels of distribution, tied (individual) agency channel remains the mainstay of the sector, still contributing a lion's share of the business being generated by the insurers.

1.9 On the life insurance side, the new business premium procured by the tied agency channel amounts to 89% of the total in the year 2006-07. The number of life insurance agents has increased from around 8 lakhs in the year 2000-01 when the sector was opened up to private insurers, to roughly 20 lakhs by the end of the year 2006-07. Out of this the number recruited by the new private insurers is around 9 lakhs, the remaining 11 lakhs being with the public insurer LIC

1.10 Among the new channels the corporate agencies had performed particularly well with a prominent share coming from the bancassurances. In the year 2006-07, corporate agents had procured 7.3% of the total new business premium mobilized, two-thirds of which had come from the bancassurances.

1.11 It has however been the experience in the sector that while the new channels have contributed to the business expansion, the expected decline in the distribution costs which was one of the objectives of allowing them to operate did not materialize to the desired extent. On the contrary, the widespread perception in the sector points to an increase in overall distribution costs, though the first year commissions have seen a steady decline as seen in the graph below.





Compiled from IRDA Annual Reports

1.12 It is observed that huge distribution expenses are incurred under heads other than commission towards items such as reimbursement of agents' expenses, lead generation, infrastructure, performance based incentives, competition prizes etc. It is also learnt that inordinate amounts are being paid towards references/leads obtained from referral entities as well as third parties.

1.13 In addition to commissions and other pay outs, many other issues such as barriers at entry level for corporate agents, tie-ups with multiple insurers for corporate agents and referrals, streamlining of procedures in direct marketing have been coming up from time to time in the sector. While the sector has witnessed a massive expansion of the number of agents, it is a fact that the turnover of agents has also been proportionately high resulting in a large number of orphan policies which did not enjoy the servicing support of the intermediaries.

1.14 Micro insurance, the fledgling portfolio created through the intervention of IRDA with the aim of covering the low income groups was envisaged to be distributed predominantly through the channels operating among these segments - the Non-Government Organizations (NGOs), Micro Finance Institutions (MFIs) & Self Help Groups (SHGs). It was felt in many quarters that there is scope to expand the channels through the inclusion of other institutions which have an equal standing and presence in these markets.

1.15 The committee had been advised by the IRDA to examine the above and other issues concerning the insurance sector. The committee began by identifying the issues and concerns related to each of the items of reference after which it was decided that three sub-groups be formed for a separate in depth study of life and non life sectors. The views of the sub groups were then thrown up before the committee which again debated on each of the items presented by them. The committee had also invited the comments of all the insurers on the terms of reference which were taken into consideration before making the recommendations. Comments were also received from other stakeholders which were also taken on board by the committee.

2. General insurance Coverage

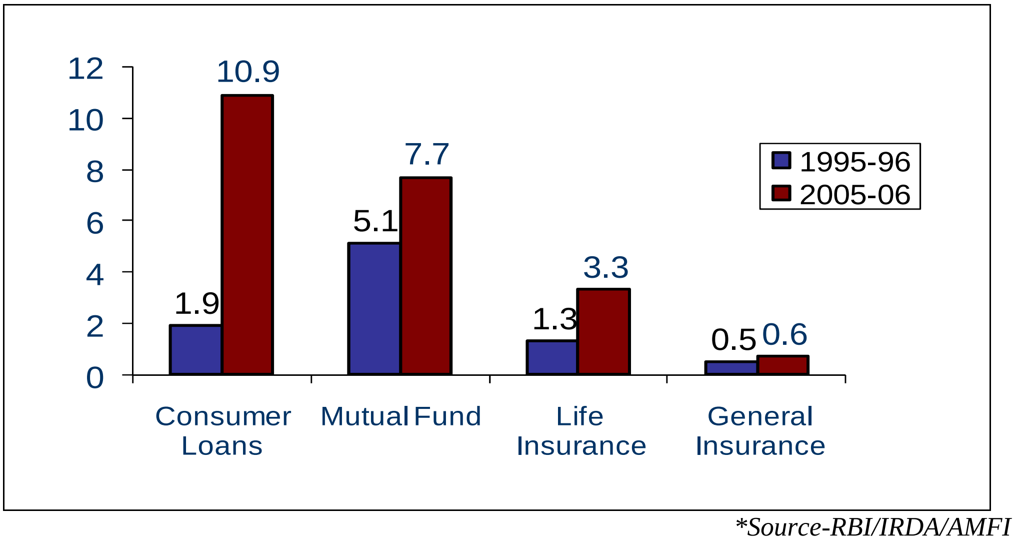
2.1 The general insurance penetration in India is among the lowest in the world. Table 1 shows the general insurance penetration in India in comparison to other countries and to the life insurance penetration. The general insurance penetration (measured as a % of GDP) is also the lowest amongst the various financial services product categories in India and has remained largely stagnant over the last ten years (see Table 2).

Table 1- Insurance penetration*

Countries*	% GI Premium/ GDP	% LI Premium/ GDP
UK	3.40%	13.10%
US	4.80%	4.00%
Japan	2.20%	8.30%
India	0.60%	4.10%
Malaysia	1.70%	3.20%
China	1.00%	1.70%
Continents		
North America	4.70%	3.90%
Europe	3.00%	5.30%
Asia	1.60%	5.00%

**Source- Swiss Re*

Table 2- Penetration of financial services as a % of GDP*



**Source-RBI/IRDA/AMFI*

2.2 The low penetration in general insurance is primarily on account of low penetration in retail insurance products. It is estimated that about 80% of the two wheelers plying on the road are not insured, over 90% of the population is not covered under health insurance and almost 99% homes are uninsured.

2.3 Potential for growth

2.31 The Indian economy has witnessed healthy growth in overall GDP in the recent years. The growth has been spurred by favorable demographic profile, growing literacy levels, robust investment climate and all-around infrastructure development in the country. With rising income levels, the country today boasts of a rapidly growing middle income group (upwards of 60 million households and growing). The higher disposable income and availability of organized credit has resulted in auto sector and white good sector growing rapidly. The financial services sector has seen significant growth backed on these favorable conditions. The future outlook for the economy continues to be very positive.

2.32 While the general insurance industry has seen annual growth of about 15% over the last 10 years, the industry is today at an inflection point and poised to grow at a much faster pace. The positive outlook is based on the following:

- Young population engaged in wealth creation - 60% of the population is aged below 30 years
- Rapidly growing middle class/high income segments
- Availability of organized credit in urban India
- Robust demand for motor cars and 2-wheelers
- Huge potential in health sector
- Untapped home insurance market

2.33 With the on-going efforts to get the rural India financially included, there is a large opportunity to tap the semi urban and rural markets which would open up for general insurance. In order to capitalize on the growth in the economy and to increase penetration, the general insurance industry would need to ensure that they are able to reach out to the various customer segments. In this context, there is a need to review the current distribution structure for retail insurance products.

2.4 Retail general insurance characteristics

2.41 The growth in sale of retail products will be pivotal to help realize the potential of general insurance market as these products have currently a low penetration.

2.42 Retail products can be defined as risk categories such as health, travel, motor, home personal accident or any combination or any allied product. These products are rated on a class basis and can be pre-underwritten. It is proposed that a detailed definition of retail products be formulated under the aegis of the General Insurance Council after taking necessary inputs from all the general insurance companies.

2.5 The characteristics of the retail General insurance market are:

- General insurance products are tertiary products in the customer purchase consideration set. Taking the examples of motor insurance the primary product is the motor car. The loan for the purchase is the secondary product. Motor insurance is the tertiary product.

- Relatively low involvement of the customer in decision making since products are standardized.

- Low ticket size, yearly contracts result in lower yield/policy for intermediaries resulting in General insurance being an unattractive career option.

- There are hence few dedicated intermediary channels for general insurance products. This can be highlighted from the agency enrollment data i.e. 40,551 agents were licensed by the general insurance companies in the year 2005-06. In comparison during the same period, 7,21,696 intermediaries were licensed by the life insurance companies.

2.6 Guiding principles for review

The recommendations made in this report have been made with intent of increasing the penetration of general insurance in the country. These recommendations have been based on the following guiding principles.

- Bring general insurance to the doorstep of the customer
- Expand distribution – In addition to developing existing insurance channels, get other existing retail distribution infrastructure to sell general insurance.
- Make general insurance an attractive career option for individuals to pursue.

- Encourage virtual channels and direct customer interaction
- Insurance companies to have independence in deciding business model i.e. balance acquisition cost and management expenses - Solvency to be the overall measure for performance.

2.7 Agency model

2.71 As has been discussed above, there is a paucity of agency channels selling only general insurance. This is due to general insurance not being considered an attractive career option as it is difficult for the agent to make a livelihood from sales of only general insurance products.

2.72 Some of the limitations faced by the agents are

- Low ticket size, yearly contracts with fixed commission rates result in lower margins for intermediaries
- Significant alternative lucrative distribution opportunities
- Restriction on selling products of more than one insurance company

2.73 To give an impetus to the agency model and to make general insurance remunerative which ultimately will result in increased penetration, the following agency structure was considered by the committee.

- Retail insurance agent- Persons selling only retail general insurance products
- Insurance agent- Persons selling all general insurance products

2.8 Person is defined as an individual, a firm or a company formed under the Companies Act 1956.

2.9 It is also considered that a common set of guidelines should cover both individual and corporate agents.

2.10 For both categories of agents, the person would be required to enter into an agency contract with a general insurance company and to be registered with the Authority. It would be pre-requisite for a person to undertake training provided by the insurance company to qualify as an agent.

2.11 Agency training would be the responsibility of the individual insurance company. It is proposed that curriculum for a standard training program is defined by the authority. This program should stress on matters related to legal compliance, laws and regulations, taxation and general code of conduct.

2.12 Both categories of agents would be required to undertake mandatory training. However, for a person to qualify as insurance agent, the authority will also need to certify the agent through an examination. This examination will be conducted by an independent institute accredited by the authority.

2.13 In addition to the mandatory training, each company would be required to develop its own agency education program imparting knowledge of products, procedure for soliciting business, nature of contracts and claims handling. The insurance company will be required to maintain records of such training conducted. The authority may conduct audits so as to check on the quality and to verify the methods.

2.14 The exclusivity clause in the regulation currently restricts the agent from working with more than one insurance company. In order to provide a comprehensive product range to the consumer with comparison across products, it is proposed that the retail insurance agent be allowed to contract with multiple insurance companies.

2.15 Further, it shall be the responsibility of the insurer to handle complaints against their agents and maintain records on the same. The authority may conduct audits so as to check on the procedure for complaint handling and verify the records.

2.16 There is a need to encourage qualified professionals (trainee) to take up a career in general insurance. The committee suggests a system may be considered wherein the insurance companies would extend training and financial support for a defined period to the trainee. Through this period, the trainee will be attached with an existing agent/officer of the company. This stint will enable the trainee to acquire knowledge of and practice in general insurance soliciting. It is proposed that through this period, the trainee be paid a monthly sustenance allowance. On completion of this period, the trainee would qualify to be a retail insurance agent and be eligible for an agency commission as per the prevailing guidelines.

2.17 The General Insurance Council has given very revealing statistics on the commission paid vis-à-vis the different distribution channels and also critical ratios of the general insurance companies. More than 60% of the business is coming from the Agency channel, around 17% through brokers, about 15% from the corporate agencies. Referrals constitute only 6.4% of the total business. The combined ratios of the companies show that many of them are in transgression of Rule 17E which requires revisiting as the slabs indicated therein appear to be not in tune with the current volumes of business.

(Compiled on the basis of data / figures available in Annual Reports of Companies / IRDA)

	Commission Paid - 2004-05 (Rs. in Crs)						Commission Paid - 2005-06 (Rs. in Crs)						Commission Paid - 2006-07 (Rs. in Crs)					
	Fire 2004-05 (Rs. in Crs)						Fire 2005-06 (Rs. in Crs)						Fire 2006-07 (Rs. in Crs)					
	Agents	Brokers	Corporate Agency	Referral	Others	Total	Agents	Brokers	Corporate Agency	Referral	Others	Total	Agents	Brokers	Corporate Agency	Referral	Others	Total
New India	87.06	4.08	8.38	-	-	99.52	92.31	10.34	1.00	-	-	103.66	92.55	13.19	10.02	-	-	115.76
United	21.55	2.57	3.80	0.01	-	27.94	38.78	(0.49)	-	-	-	38.29	25.38	8.27	9.14	0.21	-	43.00
National	16.81	3.11	3.11	0.16	0.017	23.21	17.78	6.77	0.67	0.02	0.006	25.25	15.04	7.40	7.12	0.07	-	29.63
Oriental	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
ICICI						-						-	-	-	-	-	-	-
Bajaj Allianz						-	5.03	6.06	0.67			11.76	4.33	7.77	5.61	-	-	17.72
RGICL	0.96	0.72	-	-	-	1.68	0.77	0.84	-	-	-	1.61	0.98	3.60	-	-	-	4.58
TATA AIG	1.71	1.00	0.41	-	-	3.12	2.60	3.08	0.06	-	-	5.74	2.77	3.76	1.16	-	-	7.69
HDFC	0.03	0.04	0.00	0.00	-	0.07	0.13	0.15	-	0.00	0.000	0.28	0.15	0.33	0.03	-	-	0.51
IFFCO TOKIO	1.20	1.91	0.56	-	-	3.68	2.97	4.10	0.24	-	-	7.31	3.45	7.52	1.80	0.27	-	13.04
Royal Sundaram	1.68	1.87	0.09	0.02	-	3.66	1.36	2.09	0.12	0.01	-	3.58	1.64	3.67	0.65	-	-	5.96
Cholamandalam	0.28	2.42	0.02	-	-	2.72	0.86	1.10	0.01	-	-	1.98	0.97	1.58	0.55	-	-	3.10
Grand Total	131.28	17.72	16.38	0.20	0.02	165.59	162.60	34.03	2.78	0.03	0.01	199.44	147.25	57.10	36.08	0.55	-	240.98

	Marine 2004-05 (Rs. in Crs)						Marine 2005-06 (Rs. in Crs)						Marine 2006-07 (Rs. in Crs)					
	Agents	Brokers	Corporate Agency	Referral	Others	Total	Agents	Brokers	Corporate Agency	Referral	Others	Total	Agents	Brokers	Corporate Agency	Referral	Others	Total
New India	25.01	2.92	0.14	-	-	28.07	24.94	3.91	0.25	-	-	29.10	26.34	4.52	0.32	-	-	31.17
United	10.14	1.79	(0.02)	0.00	-	11.92	14.45	(0.14)	-	-	-	14.31	11.97	3.93	0.14	-	-	16.04
National	10.17	3.49	0.34	0.04	-	14.04	9.96	3.74	0.27	0.16	0.000	14.13	9.99	3.71	0.42	0.10	-	14.23
Oriental						-						-	-	-	-	-	-	-
ICICI						-						-	-	-	-	-	-	-
Bajaj Allianz						-	1.47	2.22	0.81	-	-	4.51	1.79	2.03	1.02	-	-	4.84
RGICL	0.46	0.40	-	-	-	0.86	0.43	0.48	-	-	-	0.91	0.49	0.97	-	-	-	1.46
TATA AIG	2.24	1.31	0.88	-	-	4.43	1.80	2.95	1.08	-	-	5.83	2.21	4.28	1.03	-	-	7.53
HDFC	0.00	0.04	0.00	0.00	-	0.04	0.08	0.07	-	-	-	0.15	0.07	0.12	0.01	-	-	0.20
IFFCO TOKIO	1.12	1.50	0.11	-	-	2.74	1.89	2.18	0.23	-	-	4.30	2.47	2.79	0.25	0.00	-	5.51
Royal Sundaram	0.65	0.73	0.18	0.01	-	1.58	0.51	0.60	0.30	0.00	-	1.42	0.59	0.77	0.19	-	-	1.54
Cholamandalam	0.16	0.06	0.01	-	-	0.22	0.29	0.73	0.02	-	-	1.04	0.43	0.76	0.13	-	-	1.32
Grand Total	49.96	12.25	1.64	0.05	-	63.89	55.81	16.76	2.96	0.17	0.00	75.70	56.36	23.88	3.51	0.11	-	83.84

	Miscellaneous 2004-05 (Rs. in Crs)						Miscellaneous 2005-06 (Rs. in Crs)						Miscellaneous 2006-07 (Rs. in Crs)					
	Agents	Brokers	Corporate Agency	Referral	Others	Total	Agents	Brokers	Corporate Agency	Referral	Others	Total	Agents	Brokers	Corporate Agency	Referral	Others	Total
New India	364.05	12.83	25.17	-	-	402.05	398.15	43.70	27.01	-	-	468.87	377.84	49.39	32.47	-	-	459.69
United	147.14	8.89	6.86	0.05	-	162.95	192.33	(0.52)	-	-	-	191.80	167.03	20.39	18.95	1.03	-	207.39
National	177.99	20.01	35.49	1.24	0.020	234.75	182.26	18.28	44.54	5.05	0.031	250.17	171.23	30.87	48.42	4.34	15.960	270.83
Oriental						-						-	-	-	-	-	-	-
ICICI						-						-	-	-	-	-	-	-
Bajaj Allianz						-	38.50	10.26	19.75			68.52	43.91	17.82	27.41	-	-	89.14
RGICL	2.18	1.41	-	-	-	3.59	3.07	3.32	-	-	-	6.39	4.89	18.28	-	-	-	23.16
TATA AIG	16.30	6.03	6.58	-	-	28.91	18.52	8.49	9.71	-	-	36.72	17.73	11.28	12.40	-	-	41.40
HDFC	4.94	1.30	3.83	9.25	0.040	19.36	4.75	2.79	3.30	9.83	0.071	20.74	2.32	4.67	1.96	9.75	-	18.70
IFFCO TOKIO	14.47	3.40	6.38	-	-	24.25	35.50	10.28	9.16	-	-	54.95	38.43	18.13	7.83	0.66	-	65.05
Royal Sundaram	10.34	0.81	8.76	1.20	-	21.11	5.98	2.00	21.01	1.91	-	30.90	14.89	6.88	24.17	-	-	45.94
Cholamandalam	4.82	1.06	0.61	-	-	6.49	3.82	2.42	2.10	-	-	8.34	3.60	3.95	7.78	-	-	15.33
Grand Total	742.23	55.75	93.68	11.73	0.06	903.45	882.87	101.02	136.59	16.80	0.10	1,137.38	841.87	181.66	181.39	15.78	15.96	1,236.66

	Total Commission 2004-05 (Rs. in Crs)						Total Commission 2005-06 (Rs. in Crs)						Total Commission 2006-07 (Rs. in Crs)					
	Agents	Brokers	Corporate Agency	Referral	Others	Total	Agents	Brokers	Corporate Agency	Referral	Others	Total	Agents	Brokers	Corporate Agency	Referral	Others	Total
New India	476.12	19.82	33.69	-	-	529.64	515.40	57.96	28.26	-	-	601.62	496.73	67.10	42.80	-	-	606.63
United	178.83	13.25	10.65	0.07	-	202.80	245.55	(1.16)	-	-	-	244.39	204.38	32.59	28.23	1.23	-	266.44
National	204.97	26.62	38.94	1.44	0.037	272.00	210.00	28.79	51.54	5.45	0.096	295.88	196.26	41.99	55.96	4.52	15.960	314.69
Oriental	178.75	13.91	13.95	2.12	-	208.74	203.16	43.05	10.51	1.95	-	258.67	220.06	42.27	12.74	2.69	-	277.76
ICICI	8.35	15.78	5.83	16.60	-	46.57	21.21	29.07	5.81	59.81	-	115.90	26.32	39.00	61.30	108.97	-	235.59
Bajaj Allianz	28.42	10.04	17.18	-	-	55.64	45.00	18.54	23.46	-	-	87.00	50.03	27.62	34.04	-	-	111.70
RGICL	3.59	2.53	-	-	-	6.12	4.27	4.64	-	-	-	8.91	6.37	22.84	-	-	-	29.21
TATA AIG	20.25	8.35	7.86	-	-	36.46	22.92	14.52	11.39	-	-	48.83	22.71	19.32	14.59	-	-	56.62
HDFC	4.97	1.38	3.84	9.25	0.040	19.47	4.96	3.02	3.30	9.83	0.071	21.18	2.54	5.12	2.00	9.75	-	19.41
IFFCO TOKIO	16.80	6.81	7.05	-	-	30.66	40.36	16.56	11.78	-	-	68.70	44.35	28.45	9.88	0.93	-	83.60
Royal Sundaram	12.67	3.41	9.04	1.23	-	26.35	7.85	4.69	22.51	1.99	-	37.04	17.12	11.32	25.00	-	-	53.44
Cholamandalam	5.26	3.53	0.64	-	-	9.43	4.97	4.25	2.24	-	-	11.46	4.99	6.29	8.47	-	-	19.75
Grand Total	1,138.99	125.44	148.67	30.71	0.08	1,443.89	1,325.66	223.93	170.80	79.03	0.17	1,799.59	1,291.86	343.90	295.02	128.10	15.96	2,074.83

	Ratios 2004-05					Ratios 2005-06					Ratios 2006-07				
	Premium	Management Expenses	Commission Ratio	Mgmt Exp Ratio	Combined Ratio	Premium	Management Expenses	Commission Ratio	Mgmt Exp Ratio	Combined Ratio	Premium	Management Expenses	Commission Ratio	Mgmt Exp Ratio	Combined Ratio
New India	**4,210.81**	**1,188.19**	**12.58%**	**28.22%**	**40.80%**	**4,791.50**	**1306.89**	**12.56%**	**27.28%**	**39.83%**	**5,014.71**	**1,153.89**	**12.10%**	**23.01%**	**35.11%**
United	**2,944.46**	**862.84**	**6.89%**	**29.30%**	**36.19%**	**3,154.78**	**976.66**	**7.75%**	**30.96%**	**38.70%**	**3,509.95**	**894.62**	**7.59%**	**25.49%**	**33.08%**
National	**3,799.91**	**859.39**	**7.16%**	**22.62%**	**29.77%**	**3,523.67**	**882.61**	**8.40%**	**25.05%**	**33.44%**	**3,810.88**	**866.21**	**8.26%**	**22.73%**	**30.99%**
Oriental	**3,017.78**	**729.89**	**6.92%**	**24.19%**	**31.10%**	**3,527.13**	**850.76**	**7.33%**	**24.12%**	**31.45%**	**3,940.53**	**754.23**	**7.05%**	**19.14%**	**26.19%**
ICICI	**873.87**	**150.94**	**5.33%**	**17.27%**	**22.60%**	**1,592.00**	**298.27**	**7.28%**	**18.74%**	**26.02%**	**3,003.45**	**498.73**	**7.84%**	**16.61%**	**24.45%**
Bajaj Allianz	**851.62**	**149.05**	**6.53%**	**17.50%**	**24.04%**	**1,284.57**	**208.64**	**6.77%**	**16.24%**	**23.01%**	**1,804.60**	**345.40**	**6.19%**	**19.14%**	**25.33%**
RGICL	**161.69**	**34.31**	**3.79%**	**21.22%**	**25.01%**	**162.33**	**27.24**	**5.49%**	**16.78%**	**22.27%**	**912.23**	**181.12**	**3.20%**	**19.85%**	**23.06%**
TATA AIG	**448.24**	**106.55**	**8.13%**	**23.77%**	**31.90%**	**612.39**	**151.13**	**7.97%**	**24.68%**	**32.65%**	**741.56**	**190.67**	**7.64%**	**25.71%**	**33.35%**
HDFC	**175.63**	**46.08**	**11.09%**	**26.24%**	**37.33%**	**205.77**	**57.67**	**10.29%**	**28.03%**	**38.32%**	**190.16**	**63.95**	**10.21%**	**33.63%**	**43.84%**
IFFCO TOKIO	**496.64**	**97.18**	**6.17%**	**19.57%**	**25.74%**	**896.11**	**152.6018**	**7.67%**	**17.03%**	**24.70%**	**1,150.32**	**204.40**	**7.27%**	**17.77%**	**25.04%**
Royal Sundaram	**330.70**	**72.82**	**7.97%**	**22.02%**	**29.99%**	**459.35**	**104.81**	**8.06%**	**22.82%**	**30.88%**	**600.03**	**136.37**	**8.91%**	**22.73%**	**31.63%**
Cholamandalam	**169.25**	**42.93**	**5.57%**	**25.36%**	**30.94%**	**222.21**	**57.19**	**5.16%**	**25.74%**	**30.89%**	**314.59**	**79.49**	**6.28%**	**25.27%**	**31.54%**
Grand Total	**17,480.60**	**4,340.17**	**8.26%**	**24.83%**	**33.09%**	**20,431.81**	**5074.4718**	**8.81%**	**24.84%**	**33.64%**	**24,993.01**	**5,369.07**	**8.30%**	**21.48%**	**29.78%**

3. Terms of Reference

Chairman, IRDA has constituted a committee to look into distribution channels – Agency, Corporate Agency, Bancassurance, Referrals, Direct Sales etc. The background for this has been elaborated in the circular dated 21September, 2007 which is reproduced below:

बीमा विनियामक और विकास प्राधिकरण
INSURANCE REGULATORY AND DEVELOPMENT AUTHORITY

21st September, 2007

IRDA/Life/Dist.Channel/ 037 /2007-08

CIRCULAR

The rapid growth of insurance industry, specially in the life segment has brought to the fore a number of issues concerning the agency structure which is a vital link between the insured and the insurer. In order to spread the message of insurance to the far corners of the country, the Authority had enlarged the scope of the intermediaries structure from the traditional tied individual agents to the corporate agent, micro-insurance agent, the Bancassurance mode and the referral system. Insurers have also adopted other channels of sales to suit e-selling such as computer points at convenient locations, on-line insurance purchase etc. These systems have been in place for some time now, some of them for the last eight years. Some of the practices that have crept into the system in terms of remuneration or reimbursement of expenses or incentive schemes and so on require a detailed examination to ascertain whether they are in conformity with the provisions of the Insurance Act and their impact on the acquisition cost.

The Authority feels that there is need for a study to be undertaken to ascertain the manner in which these channels have been functioning, their efficacy, their cost effectiveness, their weaknesses and make recommendations on the changes to be made to make them effective, professional and accountable and serve the interests of the insured and facilitate provision of services all over the country in a cost effective manner even for the low priced insurances.

2. In order to undertake the study, the following committee is constituted:

1. Shri N.M. Govardhan, former Chairman, LIC of India - **Chairman**
2. Chairman, LIC of India
3. MD & CEO, Max New York Life Insurance Co
4. MD & CEO, HDFC Standard Life Insurance Co
5. MD & CEO, Met Life Insurance Co.
6. MD & CEO, Tata-AIG Life Insurance Co. Ltd
7. Chairman-cum-Managing Director, National Insurance Co. Ltd
8. MD & CEO, IFFCO Tokio General Insurance Co.
9. MD & CEO, ICICI Lombard General Insurance
10. Shri Kunnel Prem – CSO(Life), IRDA - **Convener**

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✆ : 91-040-66820964, 66789768, फैक्स : 91-040-66823334
ई-मेल : irauth@vsnl.com वेब : www.irdaindia.org

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Ph. : 91-040-66820964, 66789768, Fax : 91-040-66823334
E-mail : irauth@vsnl.com Web. : www.irdaindia.org

3. The Terms of Reference of the Committee are indicated below:

(i) To review the system of licensing of corporate agents and suggest the criteria for the selection of the corporate agents and the qualifications for the functionaries of the corporate agents; in particular, consider the advisability of permitting several corporate agencies within the same group, the promoter of an insurance company also acting as its corporate agent;

(ii) Examine in detail the commission structure obtaining now and recommend changes, if any; in particular examine the additional payments made to intermediaries and their justification and fairness;

(iii) To examine the need for a system of referral providers, the guidelines in force in respect of referral system, the recommendations on the whole structure including the remuneration paid to the referral providers;

(iv) To examine the scope for direct marketing, e-marketing, web-enabled sales points and other innovations and recommend the terms and conditions to be prescribed for each mode of direct marketing including the remuneration structure;

(v) To examine the scope of Regulation 10(ii) of Advertising & Disclosures Regulation, 2000 and suggest modifications required, if any;

(vi) To examine the scope of the existing micro-insurance agency system and its remuneration and suggest modifications and enlargement, if considered necessary;

(vii) To review the Payouts made to distribution channels and administrators of group business and suggest modifications;

(viii) To consider any other aspect relevant to rationalize the payments made to agents, corporate agents, micro-insurance agents and referral providers;

4. The Committee will submit its report by 31st December, 2007.

C S Rao

(C.S. Rao)
Chairman

Chairman, IRDA has also conveyed to Sri N.M.Govardhan on 6th February 2008 that the committee may also look into issues connected with pre-recruitment training of agents and come out with necessary recommendations.

In the first meeting held on 9th October 2007, it was decided that three sub-groups would be formed from among the members to work on the following issues:

1. Sri T.S. Vijayan, LIC, Mr. Rajesh Relan, MetLife, Mr. Trevor Bull, Tata-AIG, Mr. Deepak Satwalekar, HDFC and Mr. Gary Bennett, Max New York Life would deliberate on issues relating to Bancassurance, Corporate Agency, Referrals, Micro Insurance and their remuneration structure.

2. Mr. Gary Bennett, Max New York Life & Mr. Trevor Bull, Tata AIG would look into the areas related to Direct marketing, e-marketing, web enabled sales and other innovative distribution channels.

3. Mr. Sandeep Bakshi, ICICI Lombard, Mr. Ramasaamy, National Insurance and Mr. Ajit Narain, Iffco Tokio would prepare a paper on issues pertaining to Non-Life Insurance. Mr. Narayanan replaced Mr. Ajit Narain subsequently.

Comments of the CEO's of all Life and Non-Life Companies were also sought through respective councils – Life and General. Views were received from some of the companies which are annexed. The sub committees gave interim reports which were discussed in the meeting. Gist of the recommendations was sent to Secretary Generals of Life and General Insurance Councils for circulation among Members and for comments. Feed back was received from General Insurance Council. A few of the Life Insurers sent their comments directly. A Presentation was made by SBI Life to the Committee. CIGNA, Bharati AXA & Agents Federation of LIC of India met Chairman of the Committee and submitted their views. Future Generali had also mailed their views to Chairman. Presentation was made by Mr. Trevor Bull on direct marketing practices while Mr. Kunnel Prem gave a presentation on Global Distribution Practices. The final reports submitted by the three groups are annexed.

4. Distribution Channels and the Intermediary Systems:

4.1 Marketing is a predominant activity in Life and General Insurance. The Insurance product is intangible and requires a considerable amount of explanation of the intricacies of various products. This has necessitated a vigorous intermediary system to reach out to customers/policyholders across the expanse of a vast country especially in India.

4.2 The agency system is predominant in India as historically face to face contact was considered essential in selling an insurance product. In particular, the tied agency system for the industry constitutes almost 89% of the business in life insurance. In general insurance, by commission paid, more than 60% of the business is coming from the Agency channel, around 17% through brokers, about 15% from the corporate agencies. Referrals constitute only 6.4% of the total business.

4.3 In order to spread the awareness of insurance and increase coverage to the far corners of the country, the opening up of the insurance sector has enlarged distribution from the earlier single channel system of tied agencies to a multiple channel set-up comprising corporate agents including bancassurance, brokers and referral/introducers. Corporate agent is a concept introduced with a view to taking advantage of the presence of a large number of entities with a sizeable client base, contacts and goodwill already operating in the market with other activities. With multi locations and a network of people assisting them, these entities have a different structure and purpose. The corporate agent could thus be defined as a person - meaning a firm or company formed under the Companies Act, 1956 or a banking company or a Bank/RRB or a co-operative society registered under the Co-operative societies act, 1912 or a panchayat or a NGO/MFI covered under the Co-op Societies Act or a NBFC registered with RBI or any other institution. IRDA may also issue broad guidelines on other entities that can qualify as a corporate agent to obviate the need for taking specific approval for appointing these entities as corporate agents.

4.4 Bancassurance and Referrals/Introducer

4.5 General Insurance Council has commented that there is no merit in having a separate channel of Corporate Agents since the legal relationship of an Agent or a Corporate Agent vis-à-vis consumer and the insurance company is the same, as both represent the Insurer.

4.6 Bancassurance in India is developing as an important channel for distribution to a growing class of customers. The persistency rate in Bancassurance due to the continuing contact of the Bank with its customers, the ease of payment of premia and the facility of maturity/claim payments to the Bank account make it a very customer friendly channel. Bancassurance in India has been a relatively recent phenomenon. In the past 6 years it has emerged as a rapidly growing distribution channel. As per the current regulations in vogue, Banks can either opt to become a corporate agent or act as a referral provider to an insurance company. However they are permitted to act for only one life and one non life company in India. The practices vary globally in different parts of the world as can be seen from the template below:

Attributes	Variations
Ownership	- Independent operation (distribution agreements) - Joint venture - Subsidiary (captive)
Point of sales	- Insurance agents located in the bank's branches - The bank acts as a licensed broker - Bank staff are qualified insurance agents

Attributes	Variations
	- Sales through mixed channels (i.e. branches, direct mailing, internet)
Products -	- Simple products sold on an opportunistic basis - Simple products that are bundled with existing bank offers (for example credit life) - Advice-intensive product tailored to customer needs - Integrated financial products geared towards life cycles/key events of customers
Client database	- Limited sharing of the bank's customer database - Bank actively shares database with insurance partner(s)
Product supplier	- Products manufactured by the bancassurer - The bank is responsible for distribution only, products supplied by one (exclusive agreement) or multi-supplier
Policy administration	- Done by the insurance partner - Done by the bank's insurance subsidiaries - Outsourced to third parties

Source: Swiss Re Economic Research & Consulting

4.7 The various models require different levels of assistance and service from the referral/introducer provider. Hence different compensation levels may be necessary for the different models. It is recommended that the IRDA does not inhibit adoption of innovative models as outlined in the template above. It is suggested that the agreement between the Insurer and the referral provider be filed with IRDA which would include the compensation levels subject to a cap in line with that of Agents commission.

4.4 It is noticed that in addition to Banks, there could be various other entities which could act as a referral provider due to the large data base of members – like credit card holders/associations/societies etc. It is suggested that such entities can be also brought under the Referral/Introducer system subject to these entities being registered and regulated under the prevailing laws of India. The Referral/Introducer model of UK could be a guide in this regard. It is noted that the referral provider is not a licensed intermediary but is regulated by the Insurance Regulator. This is done through approval of the agreement between the Insurer and the Bank provider/entity.

4.5 **Referral -**In the present market scenario, there are large numbers of entities with a significant and segmented client base who are operating in varied customer contact activities. Many of them, for their own reasons do not wish to become agents and are keener to share data base and give marketing and administrative support in closing the sale. In the current regulatory provisions, the basic difference between a corporate agent and a referral provider is that of licensing – Corporate agent is a licensed intermediary while referrals need not be licensed. However it is proposed that these referral providers could be regulated. It is also proposed that referral providers could be called as Introducers as in the UK Model.

The UK model of Introducer envisages introduction of customers to insurance products or insurers. However the sale has to be concluded by an authorized person from the insurer. Drawing from the provisions of this model, the following recommendations are made:

1. Referral arrangements cannot be made with an entity which is licensed to act as an intermediary.

2. Referral arrangements can be made with a Bank or any entity which is registered under the prevailing laws of the country.

3. Arrangements can be entered, inter alia, for access to data base, physical infrastructure and display of the insurer's publicity material.

4. It should be prominently disclosed that
    a) Participation of the customers is purely on voluntary basis;
    b) Contract is between insurer and insured;
    c) There is no principal-agent relationship between referral/Introducer & insurer;

5. There shall be no linkage between provision of banking/other services of the bank/entity vis-à-vis customers and insurance products.

6. Referral entities cannot have arrangements with more than one life and one non life insurer.

7. Total referral payout shall include management expenses including fee paid as acquisition costs as well as payment in any form. The total payments may vary according to the model and services given by the referral provider. However the total compensation should not exceed the ceiling stipulated for commission.
8. Referral agreement shall be for a fixed period not exceeding 3 years to be renewed from time to time.

9. All Referral agreements are to be approved by IRDA under a File and Use regime with an approval time of 30 days.

10. Table on referral fee in the referral circular of IRDA can be deleted.

The recommendations of the committee on Referrals are given under the heading – Recommendations, Rationale and Change Required.

4.10 With the advent of the information age, new innovative systems of marketing have evolved. The use of internet, web based selling, e-marketing, telecalling, Mobile SMS etc have brought in revolutionary changes and made insurance easy to reach out to customers . This is an emerging channel which in the years ahead may constitute a growing proportion of sales. There is a need for regulation in this area. The regulation will focus on issues of contract, selling over the web, e-marketing, privacy issues, TRAI guidelines etc. It would be necessary to give full complete information to the customer through soft copies of proposal form, schedules, policies etc.

The committee recommendations are given under the heading Recommendations, Rationale and Change Required.

4.11 Micro Insurance is a new initiative to reach out to low income groups in the urban and rural areas and give necessary insurance protection in life, general and health areas.

Specific recommendations of the committee are given under the heading **-** *Recommendations, Rationale and Change Required*

5. Recommendations, Rationale and Change Required in Act/Regulations/IRDA Guidelines

The recommendations of the committee in seriatim are given below with a brief rationale and the changes that are required to be made in the Insurance Act/Insurance Rules/Insurance Regulations/ Insurance Circulars/ Guidelines.

Point (i) of the Terms of reference

To review the system of licensing of corporate agents and suggest the criteria for the selection of the corporate agents and qualifications for the functionaries of the corporate agents; in particular consider the advisability of permitting several corporate agencies within the same group, the promoter of an insurance company also acting as its corporate agent;

5.1 The definition of "Person" under the IRDA (Licensing of Corporate Agents) Regulations, 2002 should also mean and include any other institution/organization/ entity other than a natural person or a Section 25 Company. No specific approval need be obtained from IRDA by the Insurer in order to appoint an institution/organization/entity which falls within the ambit of the modified definition of "Person", as a corporate agent;

Rationale: Within the broad framework prescribed by IRDA the companies should be free to appoint without specific approval

Change required: Regulations governing corporate agents

5.2 The requirement that only a public limited company with a minimum share capital of Rs 15 lakhs, exclusively undertake insurance intermediation, needs to be done away with. Exclusive insurance intermediation can be carried out by any type of organization/firm/entity/NGO, which can be a stand alone entity, or a subsidiary or an affiliate, by having a capital of Rs 1 (one) lakh. Such capital needs to be in the form of equity/capital and necessary safeguards to protect such equity/capital can be prescribed;

Rationale: The present limit is very onerous and the limit of one lakh proposed is reasonable

Change: Corporate agent's regulations 2002

5.3 Licensing to be decentralized (Already done for individual agents- to be extended to corporate agents) instead of remaining exclusively with the corporate office of the insurer. Appropriate controls should be in place to facilitate this;

At present licensing is done in the name of the Chairman, IRDA. However decentralization has been done to the insurers subject to the list of authorized persons being approved by the IRDA. It is recommended that decentralization be done to the CEO for approving the list of authorized persons who are responsible officers of the insurance company (Managers, Branch Managers). Such lists would be available for inspection by the IRDA.

Rationale: India is a vast country and insurance companies are operating in multiple locations. It is needless to refer to corporate office especially as the number of agents being appointed is quite large.

Change Required: Corporate agents regulations 2002.

5.4 The requirement that every corporate agent should have at least a Specified Person/CIE, who is either FFII or AFII qualified should be relaxed and instead, alternative qualifications like ACA, FCA, MBA, MMS, CA, MPhil, PHD, CAIIB, CFA, Post Graduation etc. be considered; Insurance Professionals with 5 years of experience should also be eligible to act as a Specified Person with passing of pre-recruitment exam being mandatory.

Rationale: The qualifications suggested are quite reasonable and would allow many more persons to be eligible to act as specified persons.

Change Required: Corporate agents regulations 2002

5.5 Specified Persons of a bank, and a company promoted by a bank, who are corporate agents, should not have to go for mandatory insurance agent training. Since such persons are well trained, qualified/educated and are well versed with matters of personal finance they should be allowed to directly take the exam and post qualification be allowed to sell insurance. Specified persons of NBFCs to be also exempt from pre-recruitment training.

Rationale: It was felt that banks and NBFC personnel are quite conversant with matters of personal finance and hence can appear for the exam directly. This issue is further discussed under Agents training wherein recommendation is to allow insurers to manage training requirements depending on the qualification/background etc subject to mandatory examination.

Change Required: Corporate agents regulations 2002

5.6 In the case of financial service companies including banks, group companies with separate management and different business lines can have an alliance with an insurer, provided such companies have a different distribution channel for their target customer base than the bank. Banks are currently not permitted by RBI to set-up a broking company. Adequate safeguards need to be provided in the form of a minimum capital of Rs 1 crore to ensure that such group companies have not been floated for the purpose of a backdoor entry into broking. This guideline is to be permitted for financial service companies and not for other corporates or groups (non financial institutions). With regard to permitting several corporate agencies within a group, it was recommended that entities within a group which have an independent line of business and a networth/capital of Rs 10 crores be also allowed to take up corporate agency.

Rationale: In a big group, there could be many companies with large capital of 10 crores and more. They could be permitted separate corporate agencies

Change Required: Corporate agents regulations 2002

5.7 The current guideline which provides that members of a family and shareholders holding more than 10 percent share capital of a corporate agent shall be treated as being part of the same group needs to be revisited. It is recommended that the shareholding threshold should be aligned to with the relevant provisions of the Companies Act, 1956, applicable to the definition of a group, including the subsidiary companies.

Rationale: Present provision is restrictive – Recommended that Company act provision may prevail

Change Required: Corporate agency circular dated 14th July 2005

5.8 The committee recommends that the requirement of not allowing same directors between different corporate agencies should be done away with, as it restricts sharing of knowledge and experience, between companies.

Rationale: Present provision is restrictive

Change Required: Corporate agency circular dt 14th July 2005

5.9 Regarding multiple tie-ups of a corporate agent with an Insurer, it was decided that it was not appropriate at this point of time. A model akin to Independent Financial Advisors (IFA) may be considered in future.

It was recommended that onus of pre-recruitment training should be left to the insurance companies keeping in view the general guideline of 50 hours training – either through their in-house training centres or through outsourced training institutions subject to mandatory examination.

Rationale: The Insurance companies can undertake pre recruitment training, either in-house or through training institutes. This is also discussed later under Agents training.

Change Required: Licensing of Agents regulations

5.12 Specific for General Insurance Agents/Intermediaries:

5.12.1. Corporate agency guidelines may be synchronized in line with agency guidelines. Further it is proposed that there be a common set of guidelines that take care of individual and corporate agents (as is the case with other insurance intermediaries i.e. brokers and surveyors). The agency guidelines have been detailed under the Agency model on page 12 of the report. The same are being reproduced below:

a). Retail insurance agents/Corporate Agents/Insurance Agents selling only retail general insurance products.

b). Insurance agents/Corporate agents selling all general insurance products.

For both categories of agents the entity would be required to make an agency contract with a general insurance company and to be registered with the authority. Further it will be necessary for the specified person (involved in insurance sale activity) to take an educational training course provided by the insurance company to qualify as an agent.

5.12.2 The current regulation specifies whole time employee of a corporate agent to have an FFII or AFII qualification. It is recommended to waive this qualification since persons with this qualification are not readily available and there is a long gestation period to attain such a qualification.

5.12.3 Agency education would be the responsibility of the individual Insurance companies. It is proposed that curriculum for a standard training program is defined by the authority. This program should stress on matters related to legal compliance, laws and regulations, taxation and general code of conduct.

5.12.4 The specified person for both categories of agents would be required to undertake the mandatory training. However to qualify as an insurance agent, the General Insurance Council will certify the specified person by means of an examination. This examination will be conducted by an independent institute accredited by the authority.

In addition to the mandatory training, each company would be required to develop its own agency education program imparting knowledge of products, procedure for soliciting business, nature of contracts and claims handling.

The insurance company will need to maintain records of such training conducted. The Authority may conduct audits so as to check on the quality and to verify the methods.

5.12.5 The exclusivity clause in the regulation currently restricts the agent from working with more than one insurance company. In order to provide a comprehensive product range to the consumer with comparison across products, it is proposed that the Retail insurance agents be allowed to contract with multiple insurance companies.

5.12.6 Further, it shall be the responsibility of the insurer to handle complaints against their agents and maintain records on the same. The Authority may conduct audits so as to check on the procedure for complaint handling and verify the records.

5.12.7 It is suggested that since insurance penetration for GI products is low, entities should be encouraged to distribute general insurance products. Keeping this view in mind, there should be no restriction on any entity in the promoter group of the insurance company to register as an intermediary. This entity is expected to comply with all regulations laid down by the authority. It is proposed that there be a common set of guidelines for both life and general insurance companies in this regard.

Rationale: A corporate agent and an agent in life and general insurance are doing the same functions. So a common set of guidelines is quite rational.

5.12.8 Retail insurance agents are a new concept to sell personal lines. The committee feels that this would increase penetration of general insurance retail products.

The relaxation in qualifications is in line with recommendations in life area.

5.12.9 Agency training is recommended to be left to the insurance companies as indicated earlier and further discussed under Agents training subject to mandatory examination.

Exclusivity clause for retail agents may be waived to enhance penetration of insurance.

Change Required: New regulations required to be formulated for retail agents.

Point (ii) of the Terms of reference

Examine in detail, the Commission structure and recommend changes, if any; in particular examine the additional payments made to intermediaries and their justification and fairness;

5.13 The Insurers should have the discretion in determining the rates of commission payable within the ceiling of section 40A (1) of the Insurance Act, within the first five years. It was decided to recommend that Brokers should also be paid at the same rate as corporate agents.

Rationale: Flexibility to be given to CEOs to develop products and pricing in commission structure related to the different channels. The ceiling would be 60% (35%+7.5%+7.5%+5%+5% =60%). Hence the sub limits may be removed. Some products like deferred pension products with life cover during vesting period may require a different structure than what is now allowed. Innovation in products is stifled by the sub restrictions. The committee recommends differential commission/differential pricing/differential product structure be allowed for different channels, giving flexibility to the insurers.

Change Required: Insurance Act.

5.14 The commission payable can differ across the distribution channels and the categories of the insurance product, but within the overall ceiling under section 40A of the Insurance Act. Overall ceiling as per section 40A should include any payment made directly or indirectly to the agent/intermediary or its affiliates.

Rationale: As explained above

Changes Required: Insurance Act/IRDA regulations

5.15 Expenses budgeted under the marketing, advertising, promotion material, collateral's, reward and recognition programs such as events and contests, customer contact programs, seminars, off-site training and channel activation programs, expense associated with research, lead generation, referral programs, acquisition, retention and collection of first premiums should form part of the overall cost incurred for distribution. This has to be certified by the Auditors, Appointed Actuary and the CEO of the company. The expenses of management should be capped by section 40B of the Insurance Act, 1938.

Rationale: Different insurers have at present different practices. This would capture all expenses transparently.

Change Required: IRDA guidelines

5.16 All costs to Intermediary/Introducer should be capped to the overall ceiling prescribed under section 40A of the Insurance Act., 1938.

Rationale: Different insurers have at present different practices. This would capture all expenses transparently.

Change Required: IRDA guidelines.

5.17 Servicing of orphan policies needs to be facilitated by amending Sec. 40 (2A) of the Act, to allow renewal commission in case of non-medical/medical revivals, in the event of "termination" of an agent as defined by an insurer. In such event the insurer should be entitled to allot such policies to other agents who will be eligible for renewal commission on those policies, similar to those renewal commissions that would have been paid to the agent who had initially solicited the policy. It was decided that transfer of business should be permitted keeping the larger interest of policyholders in view, especially in case of terminated and deceased agents, subject to approval by the insurer. However clear guidelines, without restricting or defining financial terms of sale, on such take over of business should be drawn to avoid regulatory concerns.

Rationale: Servicing of orphan policies is a concern of the insurer and this change would address the issue.

Change Required: Act change

5.18 Legal heirs of an agent should be entitled to renewal commission in the event of the agent's death only if they continue to service the policies. It should be applicable for the new agents appointed from the date of these guidelines becoming effective. Legal heirs could also be allowed to sell the business, subject to approval of the transfer by the insurer.

Rationale: Servicing of such policies is a concern of the insurer and this change would address the issue.

Change Required: Act change

5.19 It was recommended that amendment to sec 44 of the Act should be made, to include forfeiture of renewal commission in all cases (irrespective of the tenure he had worked for the earlier insurer) where an agent resigns and joins another insurer.

Rationale: Limit should apply ipso facto for 5 years since it is applicable for 10 years.

Change Required: Act change

5.20 Any practice of upfront payment, advance, sign-on bonus, brand access fee, infrastructure usage payment etc by a group or an affiliate, directly or indirectly, cannot be offered to any intermediary, in any form either before or during the currency of the agreement.

Specific for General Insurance Agents/Intermediaries:

5.21 It is proposed that the current cap on commission rates by product and channel be removed. It is further suggested that the ceiling as per regulation should be common for all products.

It is proposed that commission limits as laid down u/s 40(2) be liberalized across all products. The ceiling on commission should be set at the limit permitted under the act. Further there should be parity across all distribution channels. This structure may also be applicable for premium under the motor third party policy.

5.22 In order to encourage agents to solicit business for low premium products, it is proposed that a commission of up to Rs.100 be payable to the intermediary irrespective of the size of the product.

5.23 There is a need to encourage qualified professionals (trainee) to take up a career in general insurance. We propose a system wherein the insurance companies would extend training and financial support for a defined period to the trainee. Through this period the trainee will be attached with an existing agent/officer of the company. This stint will enable the trainee to acquire knowledge of and practice in non-life insurance soliciting.

It is proposed that through this period, the trainee be paid a sustenance allowance by the Insurance Company. On completion of this period, the trainee would qualify to be a retail insurance agent and be eligible for an agency commission as per the prevailing guidelines.

5.24 Under the prevailing state of affairs in the General Insurance Industry and with the market treading towards a detarriffed regime, the statutory limitation on the commission rates and management expenses is gradually losing relevance as management expenses including commission over the time has become a function of the nature of the policy, the market dynamics and its claim ratio than a control mechanism to restrict expenses of an insurer.

The trend globally is towards good Corporate governance and flexibility of insurers to manage within overall caps on expenses.

Rationale: To give flexibility to insurers on commission subject to overall ceiling on commission as per the limit permitted under the Act. Minimum commission of up to Rs. 100/- is required to incentivise agents. Financing Agents in initial stages would assist in building agency force

<u>Point (iii) of the Terms of reference</u>

To examine the need of system of referral providers, the guidelines in force in respect of referral system, the recommendations on the whole structure including the remuneration paid to the referral providers;

5.25 Change the name of Referrals to "Introducer Model". Distinction to be made between an entity that is paid a one time fee for data sharing as against entities whose fee depends on success of data conversion into sales.

To continue with the referral arrangement with Banks as this facilitates insurance penetration. The referral guidelines need to be broadened to permit insurers to enter into referral arrangements with any entity/organization.

Referral models need to be seen differently than a mere data sale.

Data sales shall be under the purview of the section 10 (ii) of the advertising guidelines. Data can be procured at a fixed price under section 10 (ii) of advertising regulations from any entity, irrespective of any conversion to sales. The purchase of data has no linkage to an actual sale.

Corporate agent of one insurer should not be permitted to enter into a referral arrangement with another insurer and vice versa as this might lead to a price war between the insurers, which ultimately affects consumers;

Referral fee should be paid only on successful conversion with a linkage to sale by the company's sales person and such fees and other costs incurred on the entity, should not exceed the ceilings on commissions as provided under Sec 40A of the Insurance Act,

Referral fee shall be treated differently vis-à-vis buying/procuring data through mailing lists; which should be in accordance with the section 10 (ii) of the Advertising Regulations. Any insurer who apart from entering into a referral arrangement, also buys any data from the same entity/group/organization, then the overall fee, including other expenses payable should not exceed the ceilings as provided under Sec 40A of the Insurance Act.

Banks should not have referral arrangement with more than one life insurer and a non-life insurer;

Trail fee, including other expenses, subject to the overall cap of section 40A, can be paid for the referral arrangements.

Rationale: For all the above points, to ensure smooth working between an insurer and a referral/introducer entity/corporate agent.

Change Required: New regulations.

Specific for General Insurance Agents/Intermediaries:

5.26 General Insurance Councils comments are given below:

The referrals are not intermediaries, either in fact or law. The referrals do not solicit or service any policy and as such, the definition of intermediaries cannot and should not be extended to include referrals.

It would violate law and regulations if any additional payout, other than the commission or brokerage as the case may be, by whatever nomenclature called are allowed to be paid. Accordingly, an Agent or Broker cannot be allowed to receive additional payment for the same business in the name of referral. The referral, thus, can not simultaneously be agent for the same business.

It is felt that cost of referral services is to be treated as management expenses and total payout by way of such referral expenses and commission and/or brokerage should not be allowed to exceed the permissible limits under the commission regulation.

It is proposed that in the name of payouts to referrals, the cost of acquisition of business may not be allowed to exceed the limits prescribed as otherwise, the existing safeguard prescribed in the consumer's interest to limit the commission and/or brokerage will be rendered meaningless.

Comment: Referral/Introducer would be recognized in Act/Regulations

Referral costs are proposed to be capped by the commission limits. Hence should not be treated as other management expenses and is to be taken as referral fee only.
Change Required: New regulations

<u>Point (iv) of the Terms of reference</u>

To examine the scope of direct marketing, e marketing, web enabled sales points and other innovations and recommends the terms and conditions to be prescribed to each mode of direct marketing including the remuneration structure

5.27 Direct marketing and web based selling should be permitted for all products. These should be developed as channels to reach out to the mass market with simple products requiring limited or no advisory service.

Examples of a few countries where the direct marketing channel is large & plays a meaningful role in insurance distribution – Australia, Korea, Japan, China, Indonesia, Vietnam, Malaysia, Poland, England etc.

To facilitate functioning of the above-mentioned channels, following options can replace the current practice of obtaining customer signoff on the benefit illustration in physical hard copy format before issuance of the policy.

Phone Binding : In this case the benefit illustration along with mandatory disclaimers can be communicated over the phone by the tele-caller .The voice recording shall serve as a replacement for any documents that may be required to be signed off by the customer. Payment of premium can be through an online debit mechanism. This can work well for certain simple products as collection of money through the phone is already permitted by the RBI with voice recording and verification procedures in place. Telecalling agencies/ insurers should maintain a voice record of the sale for at least 2 years of making the sale. No physical signature should be required. Eg: Countries like Indonesia & Malaysia have adopted a similar practice.

In countries like Korea, Australia & China, post phone binding, a pre-completed application form along with benefit illustration is sent to the customer along with the policy document for his/her signature. The customer has to send in the signed documents to the insurance company within the free look period.

In countries like Singapore & Philippine phone binding is allowed subject to fulfillment of regulatory requirements post sales to comply with AML & KYC guidelines.

A soft format i.e. the illustration can be emailed to the customer and he/she in turn can mail his/her confirmation back to the insurer. Alternatively the customer may sign the illustration on the website as an “Accept” option.

In India, the Information Technology Act, 2000, in section 3(2) provides for a particular technology (viz., the asymmetric crypto system & hash function) as a means of authenticating electronic record for banks. From a legal perspective such technology enabled security procedures adopted by banks for authenticating users can be considered as a substitute for signature in direct marketing of insurance products for existing customers.

E-signatures: Digital signatures authenticate the identity of a sender, through the private, cryptographic key. In addition, every digital signature is different because it is derived from the content of the message itself. The combination of identity authentication and singularly unique signatures results in a transmission that can not be repudiated. Certificate Authorities and Digital Certificates are emerging to further address the issues of authentication, non-repudiation, data privacy and cryptographic key management. A Certificate Authority (CA) is a trusted third party that verifies the identity of a party to a transaction. To do this, the CA vouches for the identity of a party by attaching the CA's digital signature to any messages, public keys, etc., which are transmitted. The CA must be trusted by the parties involved, and identities must have been proven to the CA beforehand. Digital certificates are messages that are signed with the CA's private key. They identify the CA, the represented party, and even include the represented party's public key. Given that the processes around E signatures are at a fairly evolved state in the banking industry, the same can be used to replace physical signature in direct marketing of insurance products. In case of communications through e-mail, provision for encryption should be made available to protect the target person's privacy.

AML/KYC Norms: This should be different and tailored to the particular characteristics of the channel. In lieu of collection of documents, it should be based on customer declaration and voice recording or internet submission. There should be a clause which says that at any point of time the insurer/regulator may ask such a customer to furnish documentation illustrating the source of funds and proof of identity. The insurer will have to take the responsibility of ensuring that all such sales go through minimum accepted standards.

The existing legal position prevalent that there is an obligation on the part of banks not only to establish the identity but also to make enquiries about integrity & reputation of the prospective customers provides an unique opportunity for direct marketing of insurance wherein for customers who are debited online for purchase of insurance it can be assumed that KYC/AML guidelines have already been followed by the bank & therefore KYC/AML documents can be waived for these customers.

Promotional activities through cold-calls can be conducted by tele-callers who should not require IRDA licensing. Sales shall be closed by a licensed intermediary. Tele callers and call centers should be allowed to be remunerated on the basis of productivity. This will ensure viability of business and protect the insurer against fixed costs.

In Korea call centers involved in direct marketing of insurance (called Direct marketing agents) are paid on the basis of productivity.

The Insurance intermediary requirements should not be applicable to telemarketing companies or, in the alternative, that a special category of license or registration be developed which would permit a telemarketing agency to do business with more than one insurer and also take into account the unique circumstances surrounding direct marketing.

Expenses incurred on the promotional /cold calls cannot be clubbed within Section 40A as the initial cost of such distribution is high. Over a period of time with many campaigns these costs come down to lower levels, but still remain higher as provision has to be made at one go for the complete premium collection as there is no renewal commission for subsequent years.

The telecalling activities should be carried out in line with IRDA & TRAI guidelines.

Specific for General Insurance Agents/Intermediaries:

Alternate channels can potentially play an important role in enhancing insurance penetration. Selling through newspapers, magazines, TV, DM (Direct Mail), telemarketing, and internet-online-sales is emerging as a new direct distribution channel in the general insurance market.

This model is not only cost effective but also gives a platform for insurance companies to directly interact with customers. Direct selling will reduce the cost of acquisition for the Insurance Company and alternate channels will thus allow for a price advantage to be passed on to the customer.

It is proposed that:

5.28 The Insurance Company could offer a differential price for a customer purchasing directly from the company.

5.29 Any expense incurred by companies generating leads through various form of media like newspaper, TV, internet etc. be accounted as management expenses and be covered vide proposed referral guidelines.

5.30 Use of the tele-calling method not only reduces cost for the Insurance Company but also makes geographical distances non-existent. The management of telesales units is a specialized activity since it requires investments in infrastructure and manpower specifically related to soft skills, etiquette and compliance to strict adherence to the prescribed norms of the Telecom Regulatory Authority of India (TRAI).

5.31 There are various third party entities that have specialized in this activity. While working with these companies, the insurance company will be responsible for maintaining quality and compliance to all regulations.

5.32 The compensation to such third parties can be for the following expenses incurred and would be accounted under management expenses:

- Infrastructure
- Salary for officers and team leaders
- Variable compensation based on business performance

5.33 **Summary of Recommendations on Direct and Web based selling:**

- Direct marketing and web based selling should be permitted for all products. These should be developed as channels to reach out to mass market with simple products requiring limited or no advisory.

- To facilitate functioning of the above-mentioned channels, the benefit illustration which is currently being signed off by the customer in physical hard copy format, should also be permitted in soft format i.e. the illustration can be emailed to the customer and he/she in turn can mail his/her confirmation back to the insurer. A customer who buys through telecalling mode should get a print of what the caller has asked/stated to the potential customer and the responses given by the customer

- In case of communications through e-mail, provision for encryption should be made available to protect the target person's privacy.

- Promotional activities through cold-calls can be conducted by telecallers. Sales shall be closed by a licensed intermediary.

- All expenses incurred on the promotional /cold calls, including the commissions, shall be within the limits of section 40A.

- The telecalling activities should be carried out in line with IRDA & TRAI guidelines.

- Telecalling agencies/ insurers should maintain a voice record of the sales call.

Rationale: Companies would like to exploit these new channels to enhance penetration of business.

Change Required: New regulations

Point (v) of the Terms of reference

To examine the scope of regulation 10(ii) of advertising and disclosures regulation 2000 and suggest modification required if any

5.34 The scope of this regulation should be limited to data sharing arrangement and the payment made should be on per data acquired rather than success. Accordingly necessary amendments need to be made to Proviso (ii) to Reg. 10 (1) of the Insurance Advertisements & Disclosure Regulations, 2000.

Any person/ institution/organization/ entity in a corporate agency or referral arrangement should not be allowed to form a database sharing arrangement with any other insurance company.

The fees payable under such a database sharing arrangement should be much lower than a referral and corporate agency models, since the amount is payable purely for the data provided and is not dependant on any successful sale.

It was agreed that this provision would have no significance in view of the detailed recommendations being made on referrals. IRDA to examine whether this provision can be dropped when revised guidelines on referral system are contemplated based on the committees recommendations.

The regulation lays down the guidelines for third parties to share information about its members and be compensated for the same. It is proposed that the compensation to the third party be regulated by the referral guidelines.

Change Required: In view of the new regulations on Referral/Introducer, this provision may be dropped.

Point (vi) of the Terms of reference

To examine the scope of the existing micro insurance agency system and its remuneration and suggest modification and enlargement, if considered necessary;

5.35 Co-operative banks, RRB, Micro Finance institutions registered with the RBI, NGOs registered as trusts, should be permitted to distribute micro insurance policies. It was further recommended that definition of micro insurance agency should be widened to include any entity registered under the societies act.

Current regulations do not permit differential pricing of products; these need to be amended.

While there was a discussion on proposing increase of Sum Assured to Rs. 75,000/- it was finally agreed upon that recommendation for increase in sum assured need not be made at this stage. However this could be reviewed periodically.

For micro insurance policies, the claims administration should be jointly undertaken by the insurer and the distributor as the distributor can be accessed more easily by the rural customer.

The mode of payment for the claim settlement/bonus and maturity should be flexible (allow cash etc as the rural markets still don’t have access to bank accounts) and the distributor should be permitted to participate in claim disbursement.

Since the distribution costs is higher in rural markets, limited pay/single pay products should have higher commissions just like the interest rates for microfinance is higher than bank rates. Product design should be left to the insurer.

Specific to General Insurance Agents/Intermediaries

5.36 IRDA has envisaged the setting up of Micro Finance Institutions (MFI), NGOs and Self Help Groups (SHG) as Micro insurance agents (MIA) under the micro insurance regulations in Nov. 2005.

The limitation of this regulation is that a Micro Insurance Agent (MIA) can only sell a micro-insurance product (as envisaged under the regulation). All others agents on the other hand can sell both micro insurance products as well as other products to the customers. This obviously leads to a greater basket of products being available with other agents’ vis-à-vis the MIA.

We suggest that the micro-insurance agent be allowed to sell all retail products (to be defined) and micro-insurance products.

Further we suggest that the scope of micro insurance agent – both for life and non life insurance to be widened to include

- Rural kiosks
- Rural retail outlets/agri-providers
- Mandi associations/village administration system
- Other rural distribution networks

The above mentioned entities would be treated at par with retail insurance agents and same guidelines would apply.

In order to encourage agents to solicit business for low premium products, it is proposed that a commission of up to Rs.100 may be payable to the intermediary irrespective of the size of the product.

Further we propose that micro insurance agents may be allowed to work with multiple insurance companies.

Rationale: To enhance coverage of micro insurance

Change Required: Micro Insurance Regulations

Point (vii) of the Terms of reference

To review payouts made to distribution channels and administrators of group business and suggest modification

5.37 The current group insurance guidelines do not permit any payouts by the insurers to the group administrators. NGO's charging administration expenses on the group members are having audit issues on such expenses charged.

Reduction of premium rates (by way of discounts) should be permitted wherever intermediation is not involved.

Payment of administrative fee and reimbursement of administrative expenses to group policy holders/administrators, subject to certain ceilings, should be permitted.

Commissions payable on group policies have certain maximum limits. It is to be ensured that these maximum limits for all group products across insurers are strictly adhered to.

Insurers should be allowed to share the distribution cost of marketing group products.

Commission under group products is very low. Insurer should be able to pay commission to the extent of viable expense loading in the product which is anyhow, subject to FILE AND USE by the Authority

Apart from the above recommendations, it was agreed that profit sharing should be made applicable to the one who pays the premium only

Specific to General Insurance Agents/Intermediaries

5.38 The group insurance business works under two scenarios:

The group contributor arranges the beneficiaries where the premium payment is done by the end beneficiary. In this scenario, the group administrator acts as a referral/introducer by arranging the group for the insurance company. In this case the group administrator should be treated as a referral provider. The payment made to the group will be as per the remuneration defined under the referral guidelines.

For a non-contributory group, where the premium is being paid by the group arranger, no payout will be made to the group administrator.

Change Required: IRDA Circulars

<u>Point (viii) of the Terms of reference</u>

To consider any other aspect relevant to rationalize the payments made to agents, corporate agents, micro-insurance agents and referral providers.

5.39 The committee did not make any recommendations on point viii of the terms of reference.

OTHER SUGGESTIONS

- Any morbidity and health policy for more than 5 years – long term, should also be done by Life Insurers with parity in commission rates.

- Differential pricing/differential products should be allowed to be offered by insurers.

Rationale: Life insurers are concerned with the health of policyholders and do conduct medical examinations at inception of life policies. Long term health policies could be done by life insurers.

Specific to General Insurance Agents/Intermediaries

a) Section 40(2) of the Insurance Act, 1938 sets an outer limit of pay-out to the agents. Similarly Section 42E restricts the brokerage limit. Under the current scenario and as discussed before, it is recommended that the restrictions so prescribed on the provisions be recalled and regulatory authority may be empowered to prescribe extreme limitations of agency commission/brokerage keeping in view the contemporary market conditions. Similarly it is also proposed that the management expenses restriction for commissions as prescribed under Rule 17E of the Insurance Rules may also be revisited and as a control mechanism strict adherence to the solvency norms may be maintained.

Rationale/Change Required: The Insurance rules 17E require change

b) It is suggested that in accident and health policies, parity on product design, commission rates and other statutory requirements be maintained between life and general insurance companies.

It is suggested that companies be allowed to issue multi-year policies and collect payments on installments for retail general insurance product.

In order to enhance the reach of insurance companies and encourage distribution, it is proposed that insurance companies be permitted, subject to appropriate regulations in this regard with prior approval of the authority, to set up extension counters/representative offices across the country. Expenses incurred towards infrastructure, resourcing etc. of these offices to be accounted for as management expenses by the respective insurance companies.

Rationale: To increase coverage and maintain parity between life and general insurance

Change Required: New Regulations

5.40 Recommendations of the committee on Pre-recruitment training of Agents:

Through the Licensing of Agents Regulation and Licensing of Corporate Agency Regulations, IRDA has prescribed the mandatory hours of training that a prospective agent needs to put in before appearing in the pre-recruitment examination for being licensed as an Agent. The objective was to create a professional band of agents who are introduced to the key concepts of insurance and sales before embarking on solicitation of insurance business.

However, it is seen that this intent has not been served since most of the agents focus on training from the perspective of clearing the exam rather than equipping themselves with inputs on insurance essential for making a successful career. The practice of not undergoing the mandatory training employing unethical methods is also rampant in the industry. The committee therefore proposes that the responsibility of training an agent should vest with the insurer, who obviously would benefit by the induction of a professional sales person. It is also a fact that these agents come from different backgrounds and a “One Size Fit ALL” training mechanism may not suit different profiles. The quality of training therefore needs to be different in tune with the agent’s profile.

The committee recommends that the Insurer should be given the option to train the agent keeping in view the general guideline of 50 hours training- either in-house or through an outsourced training institute subject to the condition that all agents have to necessarily pass the examination. The examination would be conducted by Institutes authorized by IRDA and as per the system prescribed, from time to time. The committee proposes that due diligence should be exercised by all CEOs to ensure that the integrity and standards of the examination system are maintained.

Rationale: To usher professionalism in the agency career and provide quality training

Change Required: Licensing of Agents, Licensing of Corporate Agents Regulations

6. Executive Summary

6.1 Definition of “Person” should also mean and include any other instiitution/organization/entity other than a natural person or a section 25 company.

Change Required: Regulations on Licensing of corporate agents

6.2 Capital Required for Corporate Agent reduced to 1 lakh from 15 lakhs.

Change Required: Corporate agents Regulations, 2002

6.3 Licensing of Corporate Agents to be decentralized.

Change Required: Corporate agents Regulations, 2002

6.4 Specified Persons of a Bank and a company promoted by a Bank who are corporate agents need not go for mandatory pre-recruitment training.

Change Required: Corporate agents Regulations, 2002

6.5 Banks with group companies can have different corporate agencies provided networth/capital of 10 crores.

Change Required: Corporate agents Regulations, 2002

6.6 Shareholding threshold for members of family to be aligned with Company's Act.

Change Required: Corporate Agency Circular issued by IRDA dt 14.7.2005

6.7 Restriction on directors between different corporate agencies to be removed.

Change Required: Corporate Agency Circular issued by IRDA dt 14.7.2005

6.8 Pre recruitment training be left to insurance companies keeping view the general guideline of 50 hours training.

Change Required: Licensing of Agents Regulations

6.9 Flexibility in commission for first five years within ceiling of section 40A (60%).

Change Required: Insurance Act.

6.10. Commission can differ across distribution channels and products within overall ceiling of section 40A. Ceiling to include any payment to the intermediary or affiliate directly or indirectly.

Change Required: Insurance Act and IRDA Regulations.

6.11. Expenses under marketing to be certified by CEO/Auditor/Appointed Actuary of the company. All costs – commissions, management expenses and distribution costs should be capped to section 40B of the Act.

Change Required: IRDA guidelines.

6.12. Servicing of Orphan policies.

Change Required: Insurance Act.

6.13. Legal heirs of an agent entitled to Renewal commission if they continue to service the policies. Transfer through sale of percentage of discounted value of future commissions also recommended.

Change Required: Insurance Act.

6.14. Section 44 of the Act regarding forfeiture of renewal commission to be the same for 5 and 10 years.

Change Required: Insurance Act.

6.15 Name change from Referrals to Introducers.

Change Required: New Regulations

6.16 Referral/Introducer with Banks to expand to include other registered entities.

Change Required: New Regulations.

6.17. Referral models need to be seen as more than a mere data sale.

Change Required: New Regulations

6.18. Corporate agent of one insurer should not be allowed to enter into a referral agreement with another insurer and vice versa.

Change Required: New Regulations.

6.19. Referral fee to be paid only on successful conversion to sale. Such fees including other costs incurred on the entity to be within section 40A of the Insurance Act.

Change Required: New Regulations.

6.20. Banks should not have referral arrangement with more than one life insurer and one non life insurer.

Change Required: New Regulations

6.21. Trail fee including all other expenses can be paid subject to overall cap of section 40A.

Change Required: New Regulations

6.22. No upfront payment, advance sign on bonus, brand access fee, infrastructure usage payment be allowed.

Change Required: New Regulations

6.23. Direct marketing and web based selling should be permitted for all products. These should be developed as channels to reach out to mass market with simple products requiring limited or no advisory.

To facilitate functioning of the above-mentioned channels, the benefit illustration which is currently being signed off by the customer in physical hard copy format, should also be permitted in soft format i.e. the illustration can be emailed to the customer and he/she in turn can mail his/her confirmation back to the insurer. A customer who buys through telecalling mode should get a print of what the caller has asked/stated to the potential customer and the responses given by the customer.

In case of communications through e-mail, provision for encryption should be made available to protect the target person's privacy.

Promotional activities through cold-calls can be conducted by telecallers. Sales shall be closed by a licensed intermediary. All expenses incurred on the promotional /cold calls, including the commissions, shall be within the limits of section 40A.

The telecalling activities should be carried out in line with IRDA & TRAI guidelines.

Telecalling agencies/ insurers should maintain a voice record of the sale.

Change Required: New Regulations

6.24. Urban co-operative banks, RRBs, Micro Finance institutions registered with the RBI, NGOs registered as trusts, should be permitted to distribute micro insurance policies. It was further recommended that definition of micro insurance agency should be widened to include any entity registered under the Societies Act.

Current regulations do not permit differential pricing of products. These need to be amended.

While there was a discussion on proposing increase of Sum Assured to Rs. 75,000/- it was finally agreed upon that recommendation for increase in sum assured need not be made at this stage. However this could be reviewed periodically.

For micro insurance policies, the claims administration should be jointly undertaken by the insurer and the distributor as the distributor can be accessed more easily by the rural customer.

The mode of payment for the claim settlement/ bonus and maturity should be flexible (allow cash etc as the rural markets still don't have access to bank accounts) and the distributor should be permitted to participate in claim disbursement.

Since the distribution costs is higher in rural markets, limited pay/ single pay products should have higher commissions just like the interest rates for microfinance is higher than bank rates

Product design should be left to the insurer.

Change Required: Micro insurance Regulations, 2005

6.25. The current group insurance guidelines do not permit any payouts by the insurers to the group administrators. NGO's charging administration expenses on the group members are having audit issues on such expenses charged.

Reduction of premium rates (by way of discounts) should be permitted wherever intermediation is not involved.

Payment of administrative fee and reimbursement of administrative expenses to group policy holders/administrators, subject to certain ceilings, should be permitted.

Commissions payable on group policies have certain maximum limits. We need to ensure adherence to these maximum limits for all group products across insurers.

Insurers should be allowed to share the distribution cost of marketing group products

Commission under group products is very low. Insurer should be able to pay commission to the extent of viable expense loading in the product which is anyhow, subject to FILE AND USE by the Authority.

Apart from the above recommendations, it was agreed that profit sharing should be made applicable to the one who pays the premium only

Change Required: Group Insurance guidelines.

6.26. The responsibility of pre-recruitment training may be vested on the Insurance companies keeping in view the general guideline of 50 hours training subject to the condition that all agents have to pass the examination conducted by Institutes authorized by IRDA.

Change Required: Licensing of Agents & Licensing of Corporate Agents Regulations.

6.27. Any morbidity or health policy for more than 5 years can also be done by Life Insurers.

Change Required: Regulations.

6.28 Summary (Non-life)

6.28.1 The recommendations made in this report have been made with intent of increasing the penetration of general insurance in the country – the overall objective being to bring general insurance to the doorsteps of the customer.

6.28.2 Recommendations are restricted to retail products. Retail products can be defined as risk categories such as health, travel, motor, home personal accident or any combination or any allied product. These products are rated on a class basis and can be pre-underwritten. It is proposed that a detailed definition of retail products be formulated under the aegis of the General Insurance Council after taking necessary inputs from all the general insurance companies.

Agency & Corporate Agency Model

6.28.3 Agency model to be bifurcated in retail insurance agents- permitted to sell retail general insurance products and insurance agents- permitted to sell all general insurance products.

6.28.4 Agency guidelines as covered above may also be applicable for corporate agents. Further it is proposed that there be a common set of guidelines that take care of individual and corporate agents (as is the case with other insurance intermediaries i.e. brokers and surveyors).

6.28.5 Training will be mandatory for both categories of agents, while to qualify as insurance agent, the agent will be required to clear an examination conducted by an institution accredited by the authority.

6.28.6 In order to provide a wide choice and a comprehensive product range to the consumer, it is proposed that the retail insurance agent be allowed to represent multiple insurance companies.

6.28.7 There should be no restriction on any entity in the promoter group of the insurance company to register as an intermediary. This entity be expected to comply with all regulations laid down by the authority. We further propose that there be a common set of guidelines for both life and general insurance companies in this regard.

Agent remuneration

6.28.8 We suggest that commission limits as laid down u/s 40(2) be liberalized across all products. The current cap on commission rates by product and channel should be removed. The commission should be capped at the limit permitted under the Insurance Act, 1938. This structure may also be applicable for premium under the motor third party policy except for vehicles wherein the premium is ceded to the motor third party pool.

In order to encourage agents to solicit business for low premium products, it is proposed that a commission of up to Rs.100/- be payable to the intermediary, irrespective of the size of the product.

To encourage qualified professionals (trainees) to pursue a career in general insurance, it is proposed to pay a sustenance allowance per month for a defined period to these trainees.

The prescribed statutory ceiling on the commission rates and management expenses be revisited and as a control mechanism, the regulatory authority may require the insurer to maintain solvency as a norm.

Referrals

6.28.9 It is proposed that the Referral Provider/Introducer cannot simultaneously be an agent for the same business.

The cost of referral services may be treated as a management expense and total payout by way of such referral expense and commission and/or brokerage for the same business should not be allowed to exceed the limits under the commission regulation.

Direct Marketing

6.28.10 Insurance company may be permitted to give the direct customer a price differential. Any expense incurred by companies generating leads through various form of media like newspaper, TV, internet etc. be accounted as management expenses and be covered vide proposed referral guidelines.

6.28.11 Regulation 10 (ii) of Advertisement Regulations 2000 be covered under proposed referral guidelines.

6.28.12 We propose that the definition of micro-insurance agents be widened to include rural kiosks, agri retail outlets and other rural distribution networks. Further micro insurance agents be permitted to sell all retail and rural insurance products and be permitted to work with multiple insurance companies.

6.28.13 It is proposed that an insurance company may be permitted to pay administration expenses to group administrators where premium is being paid by beneficiary members and the same be treated as covered under referral guidelines.

Other Recommendations

- We suggest that restrictions on commissions and brokerages imposed by Sections 40(2) and 42E be reviewed and regulatory authority may be empowered to prescribe limitations of agency commission/brokerage keeping in view the market conditions. Similarly the management expenses on commissions prescribed by rule 17E may be reviewed as the slabs indicated are in line with present day volumes.

- It is proposed that for accident and health products parity on product design, commission rates and other statutory requirements be maintained between Life and General Insurance companies.

- It is suggested that companies be allowed to issue multi-year policies and collect payments on installments, for retail general insurance products.

- In order to enhance the reach of insurance companies and encourage distribution, it is proposed that insurance companies be permitted to set up extension counters/representative offices across the country. Expenses incurred towards infrastructure, resourcing etc. of these offices to be accounted for as management expenses by the respective insurance companies.

NOTE OF DISSENT:

The following views of Mr. Gary Bennett, CEO, Max New York Life Insurance Co. Ltd have been recorded as dissenting notes:

1. Referral agreements need not be approved by IRDA since the responsibility of compliance would be with the Insurer in view of the detailed guidelines prescribed by IRDA.
2. Requirement of networth/capital of 10 crore for entities within the group with independent line of business is onerous. If the independent line of business can be clearly defined and minimum track record of business specified, it would be possible to do away with requirement of 10 crore capital/networth.
3. Present definition of who constitutes a member of a Group should be retained and no change be made.
4. Banks should be permitted to sell products of more than one life insurer. This would be in the interest of the customer and has also been strongly recommended by Indian Banks Association.
5. Overall ceiling under section 40A of the Act should be applicable only to the agent and not to its affiliate as suggested by the committee.
6. Corporate agents and individual agents who sell micro insurance products should be given the benefit of relaxed 25 hours of training.

The following views of Sri S.Narayanan, CEO, IFFCO-Tokio General Insurance Co. Ltd have been recorded as dissenting notes:

1. Introduction of new definitions of "retail general insurance agents " and "other general insurance agents", with attendant definitions of "retail general Insurance products” will not be a step towards simplifications.
2. Allowing any agent to act for more than one insurer is inconsistent with long established practice. Also, practically there will be no difference with brokers. If allowed, substantially higher competencies will have to be prescribed so that mis-selling and mis accounting does not happen at the agent’s end, particularly in transmitting the proposals and more importantly the premiums.
3. Micro insurance agents selling all "retail" products will also have the same ramifications. In view of the relaxed norms of qualifications and examination requirements, micro insurance agents should confine solicitation only to Micro products.

7. Conclusion

Distribution is an integral and significant part of the Insurance Industry. More so, in a country like India, with its diversities and expanse, a challenge for all Insurance companies would be to set up a robust distribution structure. Creating an effective channel – both in terms of reach and cost, would have a major impact on the success of the insurance companies. With increasing awareness, a strong distribution system would come in handy not only to increase penetration in the Indian market, but to create insurance as a priority in the saving habit of an individual. The issues dealt with by the Committee and the recommendations made have a strong impact on the development of the insurance market and harnessing of the potential available in the country. The committee has examined global practices of distribution including alternative channels of distribution and based some of the recommendations on the best practices experienced in these regimes.

The committee would like to thank CEOs of all Insurance companies for their contribution, the Life and General Council for their inputs and all other stakeholders for sharing their views with the committee. The Committee thanks the CEO of SBI Life and his team for their presentation on Bancassurance .The Committee specially thanks the Convener Shri Kunnel Prem for his efforts in convening meetings, collating inputs, research to bring out international practices and for editing and formulating the Report. The Committee specially thanks Mr. Trevor Bull for his valuable presentation and inputs on Direct & web based marketing and for the grid prepared by him which is annexed.

The Committee places on record the support given by the Chairman IRDA, and specially thanks the Chairman LIC of India, CEO of HDFC Standard Life Insurance, CEO of ICICI Lombard and CEO of TATA AIG Life for hosting the meetings of the Committee in Mumbai.