

**Exposure Draft**

Ref: --

Date: 02-08-2017

**Second Amendment to IRDAI's (Payment of commission, remuneration or reward to insurance agent or insurance intermediaries) Regulations, 2016**

Attention is drawn to IRDAI's (Payment of commission, remuneration or reward to insurance agent or insurance intermediaries) Regulations, 2016 notified on 14<sup>th</sup> December, 2016 in the official gazette.

**I – Regulation 6 – Reward to Individual agent or insurance intermediaries by insurers**

Regulation 6(d) & 6(e) stipulates the reward to individual agent or insurance intermediaries by insurers which reads as under:

*(d) Reward – Life Insurance*

*(i) Reward in life insurance to be calculated on an overall basis for insurance agents and insurance intermediaries respectively and not linked to each and every policy solicited by an insurance agent or an insurance intermediary.*

*(ii) Reward being not more than 20% of first year commission or remuneration paid to insurance agents and insurance intermediaries*

*(e) Reward – General Insurance including health insurance*

*(i) Reward in the general insurance to be calculated separately for health insurance and other than health insurance for insurance agents and insurance intermediaries respectively and not linked to each and every policy solicited by an insurance agent or an insurance intermediary.*

*(ii) Reward being not more than 30% of commission or remuneration paid to insurance agents and insurance intermediaries*

The rules governing remuneration to the Insurance Marketing Firm under the IRDA's (Insurance Marketing Firm) Regulations, 2015 are as follows:

***Schedule IV***

***Rules Governing the Insurance Marketing Firm***

***Part – I. - Remuneration payable to the Insurance Marketing Firm***

*(1) The Insurer shall make all remuneration for soliciting and procuring insurance policies undertaken by an Insurance Marketing Firm, to the concerned Insurance Marketing Firm only,*

and **not** to any other person or entity.

(2) *The remuneration payable to Insurance Marketing Firm by the Insurer, for the solicitation of policies by the ISPs shall be as specified by the Authority, from time to time, under Secs. 40(1) and 40(2) of the Act, as amended from time to time.*

*In addition, the Insurance Marketing Firm may receive fees or charges from life insurance companies only in the form of service charges for recruitment, training and mentoring of their ISPs. These fees or charges shall not exceed 50% of first year commission and 10% of renewal commission received by IMF. No such payment shall be made in case of general/health insurance business. The life insurance companies shall have to disclose to the Authority upfront at the time of filing their products under file & use guidelines on payment of such fees or charges to the Insurance Marketing Firm.*

(3) *The Insurance Marketing Firm shall also be entitled to receive the fees for undertaking insurance service activities as mentioned in regulation 3(b) as may be mutually agreed between the Insurance Marketing Firm and the Insurance Company which shall be reasonable depending upon the time and effort and should be evidenced by an agreement entered at the outset with basis of fees being clearly addressed.*

(4) *The Insurance Marketing Firm will also be entitled to collect the 'Applicable Service Charges' from the financial entities for the services rendered by the FSE employed by the Insurance Marketing Firm.*

(5) *The settlement of accounts by insurers in respect of remuneration of Insurance Marketing Firm shall be done on a monthly basis.*

It is observed that the Insurance Marketing Firm may receive fees or charges from life insurance companies only in the form of service charges for recruitment, training and mentoring of their ISPs. These fees or charges shall not exceed 50% of first year commission and 10% of renewal commission received by IMF. No such payment shall be made in case of general/health insurance business.

In light of the above, it may be noted that the fees or charges received by the IMF from the life insurer under the IRDA's (Insurance Marketing Firm) Regulations, 2015 is at variance with the rewards under the IRDAI's (Payment of commission, remuneration or reward to insurance agent or insurance intermediaries) Regulations, 2016.

Given that the Authority has not included CSC-SPV and micro-insurance agents under the IRDAI's (Payment of commission, remuneration or reward to insurance agent or insurance intermediaries) Regulations, 2016 who are guided by the provisions of their respective regulations, we may considering the nature of entity and the business procured by it, we may exclude IMF from the operation of rewards for the life insurance business.

Therefore it is proposed that a carve-out may be granted to the IMF wherein rewards for life insurance business for IMF will be governed by IMF regulations.

**II - Health – Govt Scheme - Schedule – II - Health Insurance (General & Stand-Alone Health Insurers) – Reg 5(c)**

Clause 5(c) of the IRDAI's (Payment of commission, remuneration or reward to insurance agent or insurance intermediaries) Regulations, 2016 states as under:

*“The maximum commission or remuneration payable under health insurance products offered by general insurers or stand-alone health insurer is given in Schedule II*

***Schedule – II***

***Health Insurance (General & Stand-Alone Health Insurers) – Reg 5(c)***

*The maximum commission or remuneration as a percentage of premium that is allowed for health insurance by genera; insurers or stand-alone health insurers is as under:*

<i>S. No.</i>	<i>Line of business</i>	<i>Maximum Commission/ remuneration payable to in agents/ insurance intermediaries</i>
<i>5</i>	<i>Health – Govt Scheme</i>	<i>As specified in the Government Scheme/ Notificat as per Health – Group (Employer-Employee Annual segment</i>

The Authority has received representation that the clause “*as per Health – Group (Employer-Employee only) – Annual segment*” seems to give an impression that in case the Government Health Scheme do not indicate the commission / remuneration to be paid to the insurance agent or insurance intermediary, then the Government Health Scheme shall be eligible/ entitled to the maximum commission / remuneration of 7.5%.

However the Authority's intention was not that. The commission/ remuneration is “Nil” in case the same is not specified in the Government Scheme. Otherwise the commission/ remuneration will be as specified by the Government in its Health Scheme.

Further the above proposal would be in line with Schedule – I – Life Insurance – Reg 5(b) Table I – Regular premium which states that for Government Scheme – Life – Health the maximum commission/ remuneration shall be as per Government notification.

Therefore it is recommended that the clause “*as per Health – Group (Employer-Employee only) – Annual segment else*” may be deleted.

### **III – Motor (Comprehensive) - Schedule – IV – Motor Insurance – Reg 5(e)**

1. Schedule – IV – Motor Insurance – Reg 5(e) of the IRDAI’s (Payment of commission, remuneration or reward to insurance agent or insurance intermediaries) Regulations, 2016 states as under:

**“Schedule – IV  
Motor Insurance – Reg 5(e)**

*The maximum commission or remuneration as a percentage of premium that is allowed for general insurance (motor) is as under:*

<i>S. No.</i>	<i>Line of business</i>	<i>Maximum Commission/ remuneration payable to insurance agents/ insurance intermediaries</i>
<i>1</i>	<i>Motor (Comprehensive)*</i>	<i>15%</i>
<i>2</i>	<i>Motor (Stand-alone TP)</i>	<i>2.5%</i>

*\* - Commission/ remuneration shall be payable only to the OD portion of the Motor (Comprehensive) policy.”*

2. The Authority has been receiving representations from insurance agents that since 2.5% commission/ remuneration is allowed on Motor (Stand – Alone TP), the same should be extended to Motor (Comprehensive) where commission / remuneration payable is restricted to OD portion of the Motor (Comprehensive) policy.

3. The rationale is that the Motor comprehensive insurance policy covers Motor OD portion and Motor TP portion. Earlier commission/ remuneration was restricted to only motor OD portion of the Motor (Comprehensive) policy because no commission/ remuneration was allowed for Motor (Stand-Alone TP). Now with Motor (Stand - Alone TP) being entitled to 2.5% commission/ remuneration, there is inequality between commission / remuneration allowed on TP part of Motor (Comprehensive) policy and Motor (Stand – Alone TP) policy.

4. However since most of the motor comprehensive insurance policies are sold at the time of purchase of the automobile, there is not much effort involved in marketing them.

5. Therefore in order to bring consistency and to balance the efforts with the earnings, a commission/ remuneration of 2.5% on motor TP part of the Motor (Comprehensive) policy may be permitted from the 4<sup>th</sup> year of registration of the automobile vehicle.

#### **IV – Motor (Comprehensive) - Schedule – IV – Motor Insurance – Reg 5(e)**

1. Clause 5(e) of the IRDAI's (Payment of commission, remuneration or reward to insurance agent or insurance intermediaries) Regulations, 2016 states that the commission/ remuneration that can be paid for motor two-wheelers is maximum of 15%.

2. It is well known that the two wheeler segment in the country is largely under-insured.

3. Since the premium for the two wheelers is less, the commission/ remuneration payable is even lesser. So the insurance agents/ insurance intermediaries are not inclined to solicit them as the costs of solicitation are not remunerative. As a result most of the two-wheelers do not have insurance.

4. This impacts the claims experience as the claims get distributed over lesser number of two-wheeler vehicles.

5. In order to improve insurance coverage of these two wheelers, it may be desirable to pay slightly higher commissions remuneration to insurance agents or insurance intermediaries for this category of automotive vehicles.

6. It is therefore proposed that the motor category may be divided into two wheelers and other than two wheelers and a higher commission remuneration of 17.5% may be paid for two-wheeler segment.

#### **V – Date of implementation of the proposed changes**

Since time is required for the insurers and insurance intermediaries to be ready with their system it is proposed that the above changes will may be effective from 1<sup>st</sup> November, 2017.

All stakeholders are requested to offer their comments/ suggestions on the proposed regulations for consideration of the same by the department. The comments/ suggestions in MS-WORD format should reach us by 9<sup>th</sup> August, 2017 in the format attached to the undersigned by e-mail at [randip \[at\] irda \[dot\] gov \[dot\] in](mailto:randip@irda.gov.in) and [venkatesh \[at\] irda \[dot\] gov \[dot\] in](mailto:venkatesh@irda.gov.in)

(Randip Singh Jagpal)  
Chief General Manager  
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