Dvara Research's Response to IRDAI's Consultation Paper on Insurance Distribution Reforms

Problems of the Insurance Sector

Q. No.	Question	Response
1	Are the identification and analysis of problems impacting the sector appropriate? Which are the most pressing problems of the sector requiring reforms and regulatory interventions?	The analysis is sound on cost and conduct but would benefit from integrating demand-side causes and reconsidering the impact metrics used to assess sectoral performance. Four problems stand out: (i) **On distribution costs growing faster than coverage**: Measuring insurance penetration as premiums collected relative to GDP incentivises premium growth rather than wider population coverage. Despite rising premiums and distribution expenditure, this has not necessarily translated into commensurate gains in coverage. Reform should align sectoral performance metrics with coverage and protection outcomes. (ii) **On weak persistency**: Low persistency may reflect unsuitable product selection, inadequate agent engagement after sale, or poor customer understanding of policy terms. Five-year persistency of approximately 71% for online sales versus 43% for agent-led sales suggests that agent engagement alone cannot explain the gap. Commission caps or deferred commissions may be insufficient unless reforms also address product suitability and informed customer choice. (iii) **On captive and coerced sales**: Credit-linked and motor insurance benefit from demand driven by credit requirements and legal mandates. High intermediation costs in these segments warrant scrutiny, particularly where lenders and vehicle dealers control distribution. However, commission levels must be assessed against service delivery costs, especially claims-related costs in motor insurance, before determining whether they are excessive. (iv) **On opaque remuneration and value proposition**: Customers cannot adequately assess the value of intermediation when its cost is not transparently disclosed and also when the terms under which intermediaries sell products remain unknown. Alongside mandatory disclosure of commissions, standardised terms and conditions of customer responsibility for each intermediary category, would enable customers to evaluate costs and strengthen accountability for the services delivered. Reforms should therefore address not only distribution costs and conduct, but also the incentives, customer outcomes and information asymmetries underlying these problems.

Analysis of Distribution Costs

Q. No.	Question	Response
2	Do you agree with the analysis of the current distribution cost in Part 2 of the consultation paper? Please suggest specific measures to make the distribution cost effective.	Remuneration has grown several times faster than premiums in corporate-agent and broker channels. The highest payouts occur where customer choice is constrained, including credit-linked insurance distributed by NBFC corporate agents (averaging about 42%) and dealer-controlled motor insurance (up to 75%). These patterns warrant regulatory scrutiny. However, four gaps weaken the analysis: (i) **Averages obscure differences in distribution functions and costs**: Aggregating captive channels with advisory channels, such as brokers serving corporate buyers who earn considerably less, masks differences in cost structures. Distribution costs should be assessed by function and against the cost of serving customers, including claims-related and post-sale services. (ii) **Reclassification may inflate reported growth**: Some increases reflect payments previously booked under other heads. Growth estimates should be adjusted for these accounting changes to establish underlying trends. (iii) **Cost per policy sold is an incomplete efficiency metric**: Cost per policy that persists better captures acquisition efficiency, as early lapses render some acquisition expenditure ineffective. Further, causal evidence linking higher commissions to higher premiums remains insufficient, and international evidence on pass-through is mixed. Germany's 2012 cap on private health insurance commissions reduced the acquisition-cost ratio but not total acquisition cost per contract. (iv) **Credit life and motor insurance are not directly comparable:** Despite high commissions, these products differ substantially in their characteristics, distribution models and customer choice constraints. **Recommended measures:** (i) Calibrate remuneration caps, particularly where customer choice is constrained, based on cost-to-serve across products and distribution channels. (ii) Strengthen links between remuneration and persistency through clawbacks, and mandate standardised disclosures of policy terms, remuneration and service obligations. (iii) Require disclosure and cost audits of related-party payments and overrides, alongside clear definitions of non-commission remuneration to improve reporting and monitoring. These measures would address excessive costs and weak incentives while preserving legitimate remuneration for distribution and service delivery.

Strategic Framework for Distribution Reforms

Q. No.	Question	Response
3	Does the proposed strategic framework adequately address the sector's problems and needs? Or are there other areas that should be looked into?	The framework is strong on cost discipline and conduct, through seller-identity tagging, clawbacks, disclosures and curbs on bundling, as well as simplifying intermediary categories. However, it is weaker on persistency, coverage and competition. **Three gaps merit attention:** (i) **Layered limits may constrain flexibility**: An overall Expenses of Management (EoM) limit alongside over 30 product- and channel-specific caps may constrain insurers' ability to allocate resources to servicing, claims management, technology and rural expansion. An overall EoM limit, supplemented by targeted caps where customer choice is absent, would be a simpler and more proportionate approach. (ii) **Incentives remain insufficiently linked to customer outcomes**: Remuneration is anchored primarily to acquisition and, secondarily, to persistency. Insurer-level customer-outcome ratings could strengthen competition on outcomes, and adding an outcome bonus based on coverage of first-time insurance buyers and underserved areas, complaint incidence and resolution, and claim settlement timeliness and repudiation rates can better direct industry attention. (iii) **Regulation insufficiently differentiates distribution functions**: Distributors perform different roles and incur different costs, yet face similar regulatory treatment. A function-based approach, that recognises fiduciary vs non-fiduciary or service-heavy vs service-light distribution, can target interventions at the areas of greatest dysfunction, and could address excessive costs and conduct risks while minimising unnecessary regulatory burdens.
4	Is the proposed framework appropriate to meet objectives of the SBSR Act?	We interpret the Act's objectives as extending insurance coverage, protecting policyholders, and enabling orderly and efficient sectoral growth. The framework advances policyholder protection and efficiency by addressing coercion, mis-selling and opacity, and by strengthening accountability for remuneration. However, its contribution to wider coverage is less certain. Lower commissions, without offsetting incentives, could make low-premium, high-effort segments (microinsurance products, rural and first-time customers, and small-ticket health and accident insurance) uneconomical to serve, undermining the Act's coverage objectives. The UK's Retail Distribution Review illustrates this risk as the withdrawal of bank branch-based advice contributed to an advice gap for mass-market consumers. The consumers there did not switch to direct purchase but remained uninsured. **To better align the framework with the Act's objectives, we recommend:**

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		(i) **Preserve targeted coverage incentives**: Retain enhanced remuneration for new-to-insurance customers and underserved segments, extending rural and small-town incentives to group and collective products, including SHG-linked insurance. (ii) **Reward sustained and suitable coverage**: Supplement acquisition-linked remuneration with persistency- as well as customer-outcome-linked components to encourage appropriate sales and continued coverage. (iii) **Measure premium pass-through**: Require reporting on whether changes in distribution remuneration translate into changes in premiums, to assess their actual impact on customers. (iv) **Assess outcomes explicitly**: Incorporate coverage expansion, persistency and claims outcomes into the framework for evaluating regulatory effectiveness. (v) **Build in periodic review**: Review caps after a fixed period using published data on costs, coverage and customer outcomes. Depending on the evidence, recalibrate caps or extend the glide path to avoid undermining coverage expansion.
5	What further refinement in the proposed reforms could encourage greater competition and strengthen consumer protection?	**Competition** (i) **Differentiate distributors by function and fiduciary responsibility**: Agents represent insurers, while brokers and aggregators facilitate customer choice through product comparison and, in some cases, independent advice. Uniform caps risk equating customer acquisition costs with the cost of independent advice. Lower caps for multi-insurer channels than for agents could disadvantage these channels and entrench insurers with large agency networks. Given the RBI Financial Stability Report's observations on growth concentration among a few large insurers, reforms should avoid exacerbating this trend. (ii) **Scale compliance costs to size:** Calibrate capital deposits and compliance requirements to intermediary size to prevent disproportionate fixed costs from favouring larger players. (iii) **Ensure neutral market infrastructure:** Make the Market Infrastructure Institution (MII) neutral, interoperable and supportive of policy portability. (iv) **Review closed-architecture limits:** Reassess the limits of nine and six insurers against evidence on competition, consumer choice and market outcomes. **Consumer protection** (i) **Mandate stronger best-interest and suitability duties:** Require all distributors to act in customers' interests, documenting suitability assessments and reasons for recommending complex, long-term products. (ii) **Strengthen clawbacks:** Cover first-year and, where relevant, renewal remuneration, and extend accountability to

Q. No.	Question	Response
		managers' sales-linked incentives. New Zealand's FMA (2016) found that policies not subject to clawback were 1.6–2.2 times more likely to lapse. (iii) **Improve accountability through disclosure**: Track and publish persistency, complaint and mis-selling data by insurer and distributor to enable meaningful comparisons. (iv) **Prohibit sales-linked non-cash incentives explicitly:** Define different kinds of non-cash incentives and explicitly prohibit them. This would prevent circumvention of remuneration limits through gifts, benefits and other indirect rewards while defining each clearly (v) **Strengthen grievance redressal**: Provide independent grievance channels and make insurers jointly accountable for the conduct of their distributors, ensuring customers have effective recourse regardless of the point of sale.
6	The overall aim of improving insurance coverage needs to be addressed. Are there further areas that regulations can cover to achieve this objective?	Regulation can do more to advance insurance coverage through the following measures: (i) **Targeted incentives:** Provide higher, outcome-linked remuneration for enrolling first-time insurance customers in underserved geographies and segments. The proposed rural and small-town uplift is welcome but, as we understand it, does not extend to group insurance. Extend it to SHG-, FPO-, cooperative- and other collective-based cover, where per-member premiums are low and assistance needs are high. (ii) **Diversified distribution**: Recognise community and collective institutions, Common Service Centres (CSCs), microfinance institutions (MFIs) and post offices as insurance distribution channels, subject to proportionate regulatory requirements. (iii) **Simplified products**: Encourage standardised, simple, health, accident, term-life and parametric/climate insurance products with clear, transparent claims rules. Trust in claims settlement is critical to both initial uptake and renewal. (iv) **Digital public infrastructure**: Leverage the Account Aggregator framework, AgriStack and Bima Sugam to reduce rural underwriting and servicing costs, while retaining assisted access for digitally excluded customers. (v) **Persistency support**: Encourage innovations in renewal nudges, auto-debit options, adequate grace periods and accessible policy revival mechanisms. Coverage is meaningful only when it is maintained over time. (vi) **Coverage-based supervision**: Track policy counts and lives covered, alongside premium-based measures, to assess whether regulatory reforms are expanding access rather than merely increasing premium volumes.

Simplification of Distribution Structure & Scope

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7	Are the principles proposed for the simplification appropriate?	The proposed framework is directionally sound: consolidating a fragmented set of intermediary categories into three, i.e., IDEs, IDPs and MIIs. This could lower entry barriers and reduce compliance burdens. Two refinements would strengthen it. (i) **Differentiate economic regulation while harmonising conduct norms**: The principle of "same structure, same functions, same norms" is appropriate for core conduct requirements, including disclosure, suitability, grievance redressal and identity tagging, but not necessarily for remuneration and capital requirements, which should reflect function, liability and cost-to-serve. Agents solicit business for insurers; brokers compare products, advise, negotiate and assist customers with claims; aggregators primarily provide technology-enabled distribution. Classifying corporate agents, brokers, composite brokers, IMFs, aggregators, CSC-SPVs and certain motor dealers under a single IDE category, with uniform capital requirements and remuneration caps, risks obscuring these differences. Common conduct principles should therefore be accompanied by differentiated remuneration rules and proportionate capital requirements. (ii) **Preserve professional identity and ensure an orderly transition**: Retain clear professional identities for intermediaries with customer-facing duties, so policyholders understand whom they represent and to whom they owe obligations. The transition should also include a clear plan for grandfathering existing licences and in-force business, alongside plain-language definitions of each category and its permitted activities. This would reduce uncertainty and limit regulatory arbitrage between the IDE and IDP routes.
8	As the capital requirements are eased, more players are expected to enter the space. How can it be ensured that new players focus more on uncovered segments and geographies?	Easier capital requirements may encourage entry, but new entrants are likely to concentrate in profitable urban and high-ticket segments unless the framework creates incentives to serve underserved markets. We recommend the following measures: (i) **Tiered capital requirements**: Offer lower capital and deposit requirements to entities committed to serving specified underserved districts or segments. Scale the 0.1% deposit requirement to the entity's size and risk profile rather than imposing a ₹10 lakh minimum irrespective of scale. (ii) **Targeted remuneration incentives**: Retain the rural and small-town uplift and extend it to group and collective insurance products and first-time buyers, with incentives linked to persistency. (iii) **Coverage-linked reporting**: Require entrants to report the share of new-to-insurance customers served, geographic distribution and average ticket size. Use these indicators in

Q. No.	Question	Response
		supervisory reviews and decisions on relaxing remuneration caps. (iv) **Shared infrastructure**: Waive or cap Market Infrastructure Institution (MII) fees for rural and assisted transactions, and provide access to common KYC, data and payment infrastructure. This would reduce fixed technology costs for smaller, locally rooted entities. (v) **Local partnerships**: Enable Common Service Centres (CSCs), Farmer Producer Organisations (FPOs), cooperatives, microfinance institutions (MFIs) and self-help groups (SHGs) to serve as distribution points under proportionate regulatory requirements. (vi) **Evidence-based review**: Review the framework after two years. If coverage has not expanded in previously underserved geographies, recalibrate incentives and obligations rather than relying on increased entry alone.
9	The proposed structure allows insurance distributors and persons to supply non insurance products and non-financial services also. Is there a need for safeguards against poor market conduct?	Selling non-insurance products and providing non-financial services can lower cost-to-serve and diversify distributor revenues, but also creates conflicts of interest. Distributors may favour products offering higher remuneration or misrepresent insurance as a deposit substitute. We recommend the following safeguards: (i) **Transparent disclosure**: Require written disclosure distinguishing insurance from non-insurance products and specifying the remuneration associated with each. (ii) **Prevent conflicted sales incentives**: Prohibit coercive tying and inappropriate bundling, cross-subsidisation and pooled targets or rewards that encourage distributors to prioritise non-insurance products over insurance suitability. (iii) **Extend conduct obligations**: Apply best-interest and suitability requirements to the entire customer interaction, including where multiple product categories are sold together. (iv) **Ensure accountability**: Mandate seller-identity tagging and separate transaction records, supported by coordination among IRDAI, RBI, SEBI and PFRDA and a single point of grievance access for customers. (v) **Require product-specific competence**: Prescribe appropriate training and certification for each product family distributed. (vi) **Monitor coverage outcomes**: Track changes in product mix, particularly whether protection-oriented and small-ticket insurance sales decline as distributors shift towards higher-margin products. Such trends should trigger supervisory scrutiny. (vii) **Apply meaningful deterrence**: Extend clawbacks and proportionate penalties across relevant product lines where cross-selling arrangements facilitate proven mis-selling.

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		The proposal assumes distributors can offset lower insurance commissions through other products. However, developing the necessary licences, capabilities and customer-service systems takes time. The transition therefore requires active supervision to ensure revenue diversification does not come at the expense of insurance access or policyholder protection.
10	The proposed structure provides an opening for innovative distribution business models to come in without the need to developing special categories through regulatory revisions. However, does the proposed structure adequately accommodate all existing and emerging distribution models, or are there categories of distributors whose business models may fall outside the framework?	The proposed structure is flexible, but some existing and emerging models may fall outside it or be forced into categories with unsuitable regulatory requirements and economics. These include: (i) **Community and collective distribution**: SHGs, FPOs, cooperatives, women's collectives and MFIs distributing group or micro-insurance, often through models not primarily driven by commissions. (ii) **Insurance Marketing Firms (IMFs)**: Their three-district operating limit and relatively small premium bases make uniform requirements alongside larger entities potentially disproportionate. (iii) **Embedded and platform-based insurance**: Products distributed through e-commerce, mobility, telecom and fintech platforms, where the customer interface may not fit traditional distributor categories. (iv) **Hybrid advisory models**: Entities combining fee-based advice with commission-based distribution, which require clear rules on conflicts of interest and remuneration. (v) **TPA-linked and employer-benefit channels**: Models involving third-party administrators and employer-facilitated insurance may require distinct treatment based on their functions and responsibilities. We recommend defining categories by function and risk rather than legacy licence names; establishing a regulatory sandbox with time-bound reviews for emerging models; creating a proportionate tier for small and local distributors; and reviewing every two years whether new models are being forced into categories with unsuitable economics. Seller-identity tagging and core conduct requirements need to apply across all models, irrespective of their classification.
11	Is the approach for training of distribution persons appropriate in view of the removal of product restrictions?	Moving from product-specific restrictions to function-based competence is reasonable, but removing product restrictions increases the risk of distributors selling complex products without adequate expertise. A tiered approach might work for the Indian scenario: (i) **Tiered certification**: Introduce certification by product family and risk, covering simple protection and small-ticket health, long-term savings and investment-linked products, annuities and pensions, and commercial and group insurance. Certification should require demonstrated competence through assessment, not merely attendance.

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		(ii) **Higher standards for complex products**: Require enhanced certification for products involving surrender charges, long lock-in periods or market risk. (iii) **Continuous learning**: Mandate annual refreshers and periodic recertification covering suitability, mis-selling and customer vulnerability. (iv) **Accessible training**: Provide vernacular content and assisted-learning options for rural and first-generation distributors. (v) **Cross-selling competence**: Require specific training on non-insurance products sold alongside insurance, including conflicts of interest and disclosure obligations. (vi) **Institutional accountability**: Make the sponsoring insurer or IDE responsible for supervising distributors and addressing misconduct, supported by periodic sampling and mystery shopping. (vii) **Affordable training infrastructure**: Develop shared industry-funded training modules, including through PEPF where permissible, to reduce costs for smaller entities. (viii) **Outcome-linked authorisation**: Use conduct indicators, including early lapse rates and complaints, to inform supervision and continued authorisation. Finally, assessments must ensure competence without creating disproportionate entry barriers for women, rural and first-generation distributors. Mentoring, bridge courses and opportunities to retake assessments should support inclusion while maintaining standards.
12	To expand insurance, it is necessary to expand the agency force. Allowing all insurance distributors to expand into non-insurance products widens the scope for their operations and revenue streams. What additional non-monetary incentives can be contemplated to achieve this goal?	Non-monetary incentives should recognise the effort involved in reaching new-to-insurance and underserved customers while making distribution a sustainable career. Following are some ideas: (i) **Professional recognition**: Introduce graded professional designations, identity cards and ratings linked to persistency and customer outcomes rather than sales volumes alone. (ii) **Training and mentoring**: Provide free or subsidised certification, vernacular training and mentoring for first-generation agents, women and rural entrants. (iii) **Shared digital tools**: Provide a common digital toolkit through the MII, covering KYC, e-signatures, premium collection, renewal reminders and claims tracking, to reduce setup costs. (iv) **Claims and service support**: Establish claims-assistance desks and escalation mechanisms so agents can help customers resolve service issues without bearing the burden alone. (v) **Social protection**: Facilitate access to group health, accident and pension cover, or portable benefits, for agents and PoSPs, many of whom are self-employed.

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		(vi) **Career progression**: Create clear pathways from agent to IDP to IDE, recognising service records, professional competence and customer outcomes. (vii) **Institutional partnerships**: Support women-led collectives, CSCs and local institutions as distribution points to expand outreach in underserved areas. (viii) **Hyper-local lead sharing**: Enable access to leads from the MII and relevant government schemes to help distributors reach underserved households. (ix) **Fair treatment and dispute resolution**: Provide accessible dispute-resolution mechanisms and safeguards against arbitrary termination. These incentives should reward quality of service, persistency and satisfactory customer outcomes, ensuring that professional recognition and career advancement encourage lasting insurance coverage rather than sales volume alone.

Expense of Management Framework

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13	EoM has a direct relationship with affordability. A robust EoM framework is necessary for policyholder protection and orderly growth of the sector. What additional safeguards are necessary to address affordability?	Affordability depends not only on EoM but also on whether cost savings reach customers, claims costs and product design. Additional safeguards should include: (i) **Pass-through monitoring:** Require insurers to report annually, by line of business, how savings from lower EoM and commissions translate into customer benefits, including lower premiums, moderated premium increases, improved claims experience or higher savings returns. (ii) **Premium monitoring**: Track premium trends against claims costs and medical inflation, particularly in retail health insurance, and require explanations where increases materially exceed these benchmarks. (iii) **Value-for-money safeguards**: Consider minimum claims-ratio requirements or premium refunds for credit-linked and other products sold in captive markets, subject to product-specific risk and claims-cost assessments. (iv) **Product and price transparency**: Promote standardised, comparable products and clear price displays to help customers assess affordability and value. (v) **Cost audits**: Audit distribution-related and related-party payments to identify excessive costs and prevent remuneration from being shifted across accounting heads. (vi) **Protect coverage-enabling expenditure**: Ensure that legitimate investments in rural expansion, technology and insurance awareness are not inadvertently discouraged by EoM limits.

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		(vii) **Transparency in savings products**: Require clear disclosure of costs, surrender values and effective yields after charges for life insurance savings products. (viii) **Public reporting**: Publish comparable insurer-level expense ratios and relevant customer-outcome indicators. Where the relationship between commissions and premiums is uncertain, particularly in life and health insurance, regulatory oversight should focus on demonstrable customer value through returns, claims outcomes and coverage, rather than assuming that lower commissions automatically translate into lower premiums.
14	Are the proposed EoM limits appropriate to nudge the sector to become cost effective and affordable?	The direction is appropriate. The RBI's Financial Stability Report highlights concerns about rising distribution costs and policyholder value. Current average EoM levels at approximately 20% for life and 32% for general insurance suggest scope for improvement. However, the proposed design raises five concerns: (i) **Cumulative constraints**: The glide path to 15% EoM for life and 25% for general insurance within two years, and 12.5% and 20%, respectively, within five years, operates alongside product- and channel-specific remuneration caps. Together, these may constrain insurers' flexibility disproportionately. (ii) **Divergent cost structures**: Non-commission operating expenses alone range from 6.1% to 27.7% for life insurers and 6.8% to 28.8% for general insurers, leaving some with limited room for acquisition and distribution. (iii) **Denominator effects**: Excluding inward reinsurance, PMFBY and certain expenses from the EoM calculation may make the effective reduction more stringent than the headline limits suggest. (iv) **Reduced investment incentives**: Removing allowances for technology investment, rural expansion and regulatory awareness could discourage expenditure that supports wider coverage and better service. (v) **Disproportionate impact on smaller insurers**: New entrants and standalone health insurers must spread fixed costs across smaller premium bases, making uniform limits harder to achieve. **We recommend:** (i) Retaining appropriate carve-outs for rural expansion, technology and awareness; providing proportionate allowances for smaller insurers and new entrants. (ii) Differentiating limits by segment or maturity where justified. (iii) Incorporating periodic reviews into the glide path. An overall EoM limit can be the primary cost-control instrument, with additional product-specific caps reserved for

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		markets where customer choice is constrained, such as credit-linked insurance, motor third-party insurance and dealer-controlled sales.
15	Does the sector need a longer timeframe to achieve the proposed norms?	The suggested timeframe for insurers to achieve the glide path is reasonable. The regulator can keep a close watch on whether insurers are able to do so within the stipulated time period without compromising service, claims management, technology investment and distribution capacity. For other proposals with regard to product information and commission disclosures, commission caps, and compliance-related supervisory requirements, a shorter time frame would engender a more coordinated industry shift towards customer welfare.

Distribution Commission Framework

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16	Has open architecture served its purpose or is it simply increasing costs without adding any significant value for the end customer? Is there more that can be done in this area than proposed in the consultation paper.	Open architecture adds value when it enables meaningful product comparison, independent advice, expands penetration and eases claims support. Conversely, it adds cost when commissions, rather than customer suitability, drive recommendations. We do not have conclusive evidence on which effect persists currently. Further restrictions should therefore be informed by evidence. Persistency data suggest that closed architecture does not guarantee suitable sales either. Over half of agent-sold life policies are discontinued within five years. With the new remuneration caps and disclosure requirements, the rationale for numerical limits on the number of insurers a distributor can represent (nine for banks and six for IMFs) warrants reconsideration. These limits may restrict competition and customer choice. Furthermore, closed architecture's advantages in acquisition-cost control and product knowledge do not, by themselves, prevent mis-selling. **We recommend the following measures:** (i) **Publish comparative outcomes**: Report persistency, complaints, claims outcomes and distribution costs by architecture (open versus closed) and intermediary type to establish their relative value to customers. (ii) **Mandate best-interest obligations**: Require open-architecture distributors to document product comparisons and provide written reasons for recommendations, particularly where products differ materially in costs, coverage or exclusions. (iii) **Strengthen remuneration transparency**: Disclose the number of insurers compared and material differences in commissions across the options considered.

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		(iv) **Prevent conflicted incentives**: Prohibit overrides, contests and rewards that disproportionately incentivise the sale of products from particular insurers. (v) **Review numerical limits**: Reassess the limits on insurers represented after two years, using published evidence on competition, costs and customer outcomes. The objective should be to ensure that open architecture delivers demonstrable customer value, rather than assuming that either open or closed architecture is inherently superior.
17	Are the principles proposed for the distribution commission reforms appropriate?	We support the principles of transparency, aligning remuneration with function, and discouraging coercive sales. Some refinements to strengthen the framework are: (i) **Differentiate remuneration by function**: "Same structure, same functions, same norms" is appropriate for common conduct requirements, but not necessarily for remuneration. Agents acquire business for insurers, while brokers advise customers, negotiate and support claims. Treating both simply as distributors conflates acquisition costs with the cost of independent advice. A better principle is common conduct standards for common functions, with differentiated remuneration reflecting function, liability, customer relationship and cost-to-serve. (ii) **Beyond product life-cycle to impact life-cycle**: Combining acquisition-linked payments with deferred renewal and persistency-linked remuneration is a start. A customer-outcome bonus component reflecting coverage of first-time buyers and underserved areas, grievance incidence and resolution, and claims timeliness and repudiation can direct efforts better. (iii) **Target caps proportionately**: Apply tighter caps where customer choice is constrained, such as credit-linked insurance, motor third-party insurance and dealer-controlled sales, while allowing greater flexibility where remuneration compensates for genuine advisory services. (iv) **Recognise the cost of inclusion for the outcome bonus explicitly**: Account for the higher cost of serving rural customers and distributing small-ticket products, so remuneration reforms do not undermine coverage expansion. (v) **Recalibrate using evidence**: Review remuneration limits periodically using published data on distribution costs, persistency, coverage, competition and customer outcomes. These refinements would preserve cost discipline while ensuring that remuneration rules address conflicts of interest without discouraging valuable advisory services or expanding access to insurance.
18	Is the sector ready to move from the current arrangement of opaque commissions paid	A wholesale shift to policyholder-paid fees is unlikely to be suitable for India's mass market at present, although a hybrid model could work for specific segments. The UK's Retail

Q. No.	Question	Response
	by insurers and unknown to policyholders to a new arrangement of distribution based on fee paid by policyholders directly?	Distribution Review, which abolished product commissions for advised retail investment products in 2012, illustrates the risk. Consumers unwilling to pay explicit fees contributed to an advice gap, including the withdrawal of some bank-based advisory services. India's low financial literacy and small-ticket insurance needs make affordability and access important considerations, though outcomes will depend on the segment and product. Readiness varies across segments. Large commercial and corporate group buyers are better positioned to negotiate explicit fees, as are some buyers of complex, high-value products. Mass-market retail, rural and first-time customers may be less willing or able to pay fees directly, potentially reducing access to advice and coverage. **We recommend a phased approach:** (i) **Mandate commission disclosure**: Disclose distribution remuneration to policyholders in rupee terms, improving transparency without immediately changing the payment model. (ii) **Enable optional fee-based distribution**: Permit customers who prefer explicit fees to use this channel, supported by clear invoicing and appropriate safeguards against excessive charges. (iii) **Pilot by segment**: Test fee-based models for corporate buyers and complex-product segments before considering wider adoption. (iv) **Evaluate outcomes**: Assess coverage, persistency, affordability and customer satisfaction before expanding fee-based distribution. (v) **Preserve assisted access**: Retain commission-funded distribution for underserved customers, with persistency-linked deferred remuneration to strengthen accountability and reduce incentives for unsuitable sales. The objective should be to improve transparency and customer choice without making access to insurance advice contingent on customers' ability or willingness to pay an upfront fee.
19	Do the proposed commission limits arrive at a fair balance between policyholders' expectations of affordability and distributors expectations of adequate remuneration?	The proposed limits appear justified where customer choice is constrained, including credit-linked insurance, dealer-controlled motor insurance, motor third-party insurance and short-premium savings products. For instance, average remuneration of about 42% for NBFC corporate agents distributing credit-linked cover contrasts with a proposed 2% cap for single-premium policies. Where advisory effort and customer choice are limited, high remuneration warrants tighter controls. However, the balance is less clear in other segments: (i) **Abrupt reductions**: Cuts of 80% or more in some lines may be difficult to absorb. For small distributors, IMFs, CSCs and

Q. No.	Question	Response
		brokers, commissions fund service delivery and operating costs, not merely profits. (ii) **Risk to coverage**: Low-premium, high-effort products, including small-ticket health, accident and rural insurance, may become uneconomical to distribute, potentially reducing coverage and weakening risk pooling. (iii) **Collective insurance**: The proposed rural uplift does not appear to extend to group business. Group health caps of 2.5% for IDEs and 5% for agents could weaken SHG-linked and other collective coverage models. (iv) **Different distribution functions**: A uniform framework across advisory and captive channels fails to account for differences in customer choice, service obligations and cost-to-serve. (v) **Uncertain pass-through**: Evidence that lower commissions translate into lower premiums is mixed; reductions in remuneration do not automatically guarantee greater affordability. We recommend phasing in the caps, deferring a portion of permitted remuneration subject to persistency, and allowing targeted higher limits for first-time buyers, underserved geographies and small-ticket policies. A review after two years, based on published data on affordability, coverage, persistency and distributor exits, would help determine whether the framework is achieving a fair balance between policyholder protection and sustainable distribution.

Transparency for pricing and quality led purchases

Q. No.	Question	Response
20	Are the measures proposed for improving transparency adequate? Please suggest additional measures, if required.	The proposed measures around disclosure of commission policies and structures, commission disclosure for specified commercial policies, seller-identity tagging and public reporting of mis-selling incidents are a good start. Further measures could make transparency more actionable and improve accountability. (i) **Publish comparable outcome data**: Disclose persistency at the 13th, 25th and 61st months, surrender and lapse rates, claims settlement and repudiation rates, grievance incidence and resolution times by insurer, distributor type and channel. (ii) **Enable price comparison**: Through the MII, facilitate comparable price displays across insurers using standardised product definitions and coverage parameters. (iii) **Strengthen open-architecture transparency**: Require distributors to disclose how many insurers and products were considered when making a recommendation.

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		(iv) **Publish distributor terms and conditions**: Make standardised terms of service available to customers, covering roles and fiduciary responsibility. (v) **Evaluate disclosure effectiveness**: Assess whether mandated disclosures improve customer understanding and purchasing decisions, and refine formats based on evidence. Transparency should enable customers to compare costs, understand trade-offs and hold insurers and distributors accountable.

Creating awareness against Mis-selling

Q. No.	Question	Response
21	Are the illustrations of mis-selling appropriate? Please suggest specific measure to disincentivize this.	The illustrations are useful but could be extended to cover mis-selling patterns affecting low-income and first-time buyers, including: (i) Unsuitable long-term, high-premium products sold to older or low-income customers. (ii) Churning and replacement of policies, including health insurance portability motivated primarily by commission. (iii) Savings and single-premium policies misrepresented as deposits or guaranteed-return products. (iv) Loan-linked insurance sold without clear disclosure of its cost, voluntary nature and terms. (v) Misleading projections of returns or benefits, and inadequate disclosure of surrender conditions and charges. (vi) Coercive multi-product sales involving insurance and non-insurance products. Measures to disincentivise mis-selling: (i) **Clawbacks**: Recover first-year and, where appropriate, renewal remuneration for mis-sold policies, including linked managerial incentives. (ii) **Seller accountability**: Tag each policy to the responsible seller and publish mis-selling incidents by insurer and distributor. (iii) **Customer verification**: Conduct post-sale verification calls in the customer's preferred language, particularly for first-time and older buyers, and consider extending the free-look period for vulnerable customers. (iv) **Early-warning systems**: Monitor early lapses, surrenders and replacements by seller and branch, triggering targeted audits and mystery shopping where anomalies emerge. (v) **Proportionate penalties**: Scale penalties to revenue, severity and repeat violations, including suspension for persistent misconduct.

Q. No.	Question	Response
		(vi) **Institutional accountability**: Hold insurers and relevant distribution managers accountable for inadequate supervision and recurring mis-selling. (vii) **Prohibit conflicted rewards**: Explicitly prohibit sales-linked foreign trips, luxury gifts and contest rewards that encourage unsuitable sales. (viii) **Strengthen redressal**: Provide accessible grievance channels and publish complaint data by distributor, alongside resolution rates and timelines. These measures should make mis-selling costly for both the individual seller and the institution benefiting from the sale, while enabling early detection and effective customer redress.

Market Infrastructure Institutions for Insurance

Q. No.	Question	Response
22	Do you agree with the role of MII as a systemic intervention for recalibrating economics of insurance distribution? Please suggest the nature of services you would like to be available on this platform.	We support the MII in principle as a systemic intervention to recalibrate insurance distribution economics. A neutral, digital, pull-based channel with transparent pricing can reduce distribution costs and provide customers with a benchmark for comparing products. Its effectiveness, however, depends on the following conditions: (i) **Neutral governance and open access**: Ensure the MII is not controlled by incumbent insurers or platforms and provides interoperable, non-discriminatory access. Clarify its funding model, including whether the proposed 5% platform fee is additional to commission caps and whether equivalent charges apply to private aggregators. (ii) **Assisted access**: Provide local-language interfaces, CSC-based access points and human assistance for rural and digitally excluded customers, ensuring the MII expands coverage rather than primarily serving existing policyholders. (iii) **Comprehensive services**: The platform should enable: Comparison of standardised products, with transparent premiums, coverage, exclusions and charges. KYC, e-signatures, premium payments and auto-debit. A consolidated policy repository, renewal reminders and policy revival. Claims intimation and tracking, grievance filing and seller-identity tagging. Portability support, commission-ledger and intermediary-registry functions. Dashboards tracking persistency, claims and customer outcomes. (iv) **Privacy-protective data sharing**: Enable consent-based integration with relevant digital public infrastructure, including

Q. No.	Question	Response
		Account Aggregator and AgriStack, subject to appropriate privacy and data-security safeguards. (v) **Small-distributor integration**: Provide affordable interfaces and common technology infrastructure so smaller and local distributors can participate rather than be bypassed by the platform. (vi) **Independent evaluation**: Periodically assess the MII's impact on distribution costs, customer uptake, coverage, competition and persistency. The MII should complement existing distribution channels, not simply replace them. Its success should be measured by lower customer costs, better-informed choices and expanded, sustained coverage—not transaction volumes alone.

Insurance Education & Awareness

Q. No.	Question	Response
23	Please suggest nature of activities which can be taken by the PEPF in a cost effective manner to complement the distribution reforms.	PEPF can complement the proposed reforms through low-cost, high-reach interventions: (i) **Vernacular insurance education**: Develop simple content explaining how insurance works, commissions and charges, free-look periods, surrender, lapse and revival, and claims and grievance mechanisms. Disseminate it through radio, mobile messaging, short videos and posters. (ii) **Strengthen post-sale engagement**: Support renewal and lapse reminders, alongside a "check before you buy" prompt at the point of sale, linked to the MII for product and cost comparison. (iii) **Fund independent research**: Commission field evaluations of persistency, customer behaviour and the effectiveness of different disclosure formats, with findings published for wider use. (iv) **Pilot behavioural interventions**: Test simplified policy summaries, timely reminders and other behavioural nudges, evaluating their effectiveness before scaling up. (v) **Provide local-language support**: Establish an accessible helpline to guide customers on policy terms, claims and grievance redressal. PEPF's cost-effectiveness should be assessed against measurable outcomes, including improved insurance awareness, reduced early lapses, better claims access and grievance resolution. An annual evaluation should publish results and inform subsequent allocation of funds.

Reforms Objectives, Measures, and their Assessment

Q. No.	Question	Response
24	Are the proposed parameters for assessing outcomes and impact of the reform measures appropriate and adequate? Please suggest how can these be improved upon.	The proposed measures are largely adequate on conduct and cost discipline, but require strengthening on persistency, coverage and competition. We recommend the following additions and refinements: (i) **Reward customer outcomes**: Link part of remuneration to expanding coverage among first-time insurance buyers and underserved geographies, alongside grievance resolution and claims outcomes. (ii) **Target restrictions proportionately**: Apply tighter caps to captive and coerced sales, while differentiating advisory channels. Simplify the proposed 30-plus product-and-channel cap structure to improve regulatory clarity and enforceability. (iii) **Monitor premium pass-through**: Require insurers to report how reductions in distribution costs translate into customer benefits, including premium reductions or improved value. (iv) **Protect inclusive distribution**: Provide proportionate requirements and targeted support for smaller distributors and rural intermediaries, including IMFs, CSCs and brokers, to prevent selective withdrawal from underserved markets. (v) **Safeguard competition**: Scale capital and compliance requirements to size and risk, and ensure smaller entities have affordable access to the MII and shared infrastructure. (vi) **Sequence reforms carefully**: Publish an impact assessment before finalising regulations and phase implementation according to channel-specific risks and adjustment capacity. (vii) **Strengthen supervision and data**: Develop a comprehensive intermediary registry, analytics and early-warning indicators to identify mis-selling, deteriorating persistency and market concentration. (viii) **Mandate periodic review**: Include a time-bound review clause, with authority to recalibrate or relax caps if evidence shows that coverage or persistency is deteriorating. These measures should be tested through pilots and evaluated using published data, allowing the framework to be adjusted during implementation rather than only after the transition period ends.