

Insurance 2.0 | Distribution Architecture Overhaul

IRDAI Proposes to Recalibrate the Economics of Insurance Distribution

29 September 2026

The Insurance Regulatory and Development Authority of India (IRDAI) has released a two-part public consultation paper titled '**Recalibrating Economics of Insurance Distribution**' (Consultation Paper). Part 1 sets out the proposed reforms. Part 2 presents IRDAI's analysis of distribution costs and commission structures across the industry. Together, they propose the most significant overhaul of the Indian insurance regime. Comments are due by **25 October 2026**.

Key Takeaways

WHAT IRDAI PROPOSES

- **One licence for entities; one framework for individuals.** 8 forms of distribution licence would be subsumed within a single Insurance Distribution Entity (IDE) licence, and nine forms of authorised persons into four categories of Insurance Distribution Persons (IDPs). Every IDE would have the option of open architecture (i.e. distribute products of multiple insurers).
- **Lower Expenses of Management (EoM) limits.** A glide path from FY 2027-28: life insurers to 15% of premium within 2 years and 12.5% within 5 years; general insurers to 25% and 20%. The EoM base changes and the 2023 carve-outs are absorbed within the overall limit.
- **Return of commission caps.** Product-level caps, which sit well below current market levels, with lower caps for IDEs (eligible for open architecture) than for agents and associates engaged directly by insurers.
- **Conduct measures.** Clawback, a persistency-linked renewal commission escalator, enforceable suitability and seller-level accountability, with incidences of mis-selling placed in the public domain.
- **New market infrastructure.** Insurer-promoted market infrastructure institutions (MIIs), with Bima Sugam as the first, and an IRDAI-promoted Public Insurance Registry (PIR).

OUR VIEW

- IRDAI's diagnosis is well evidenced; however, the remedy is more contestable. The suggested distribution caps are a blunt instrument as they regulate the quantum paid, and not the conduct it rewards. The conduct-focused measures are the most consequential proposals and, if strengthened, could deliver durable change without the distortions that caps invite.
- The reforms ask distributors to sell better, through documented needs analysis, suitability, verified customer contact and sustained servicing, and each of these adds cost. The caps compress the very remuneration that pays for that effort. Unless the framework leaves room to reward quality, for example through persistency- and suitability-linked pay above the base cap, distributors may cut the advisory effort the reforms rely on rather than the cost the caps target.
- The burden will not be borne evenly. It falls hardest on NBFC-led credit life, Point of Sale Person (PoSP) led retail broking, OEM-linked motor distribution and employee benefits broking. Sub-scale insurers face the steepest adjustment, and consolidation is a likely consequence if the reforms are carried forward.

- The caps and the EoM glide path may take effect before the PIR and MII infrastructure on which much of the framework depends is operational.

KEY DATES

30 Sep 2026	25 Oct 2026	FY 2027-28	Within 2 years	Within 5 years
Separate PIR consultation paper: comments understood to be due	Consultation Paper: comments due	Year 1 of the EoM glide path; product reforms expected	EoM limits: life 15%, general 25%	EoM limits: life 12.5%, general 20%

1. Background

Until March 2023, insurers were subject to product-specific caps on commission. From April 2023, IRDAI omitted these caps in favour of an overall EoM limit. Insurers could pay commission, now defined to include rewards and other remuneration, in accordance with a Board-approved policy. This framework was consolidated in the IRDAI (Expenses of Management, including Commission, of Insurers) Regulations, 2024 (EoM Regulations). The Sabka Bima Sabki Raksha (Amendment of Insurance Laws) Act, 2025 (SBSR Act), passed by Parliament in December 2025, expressly authorises IRDAI to prescribe caps on commission ([coverage available here](#)). At the time, we noted that this power should not automatically be read as a return to the earlier commission-caps regime. The Consultation Paper now proposes precisely that. IRDAI's case for these reforms rests on its own data, which we have summarised in [Annexure A](#). Some interesting observations include: distributor remuneration growing 4 to 5 times faster than the business it is paid on; group health commission going as high as 93%; life insurers are paying out more on surrendered policies than on maturing ones.

2. Simplification of Distribution Architecture

THE PROPOSED ARCHITECTURE

2.1 Insurance Distribution Entities (IDEs)

8 forms of distribution licence (corporate agents, brokers (including composite brokers and OEM brokers), Insurance Marketing Firms (IMFs), web aggregators, common service centres and Motor Insurance Service Providers (MISPs) would be subsumed within a unified IDE licence. Legal entities (i.e., registered or incorporated entities such as companies, limited liability partnerships, cooperative societies, registered partnerships and trusts) engaged in insurance distribution would need to obtain an IDE licence.

2.2 Insurance Distribution Persons (IDPs)

9 forms of authorised persons selling insurance (agents, point of salespersons, specified persons, designated persons, insurance salespersons, broker qualified persons, rural authorised persons, village level entrepreneurs and authorised verifiers) would be subsumed into one of the following 4 categories of IDP:

IDP Category	Who	Engaged By
Insurance Agents	Individuals engaged by insurers, including individual business correspondents	Insurers
Insurance Associates	Proprietorships, unregistered partnership firms, self-help groups and Hindu Undivided Families engaged by insurers	Insurers
Specified Persons	Employees of IDEs selling or advising on insurance products	IDEs (as employees)
PoSPs	Individuals engaged by any IDE. Current PoSPs having the legal structure of a distribution entity will have to register as IDEs under the insurance regulations.	IDEs

2.3 Market infrastructure institutions (MIIs)

Not-for-profit companies promoted by a group of insurers, proposed with the objectives of providing a level playing field for insurers and the public, and facilitating cost efficiency and transparency. Bima Sugam is one such MII, and others may follow. MIIs are discussed in greater detail in Section 9 below.

2.4 Capital and registration

Requirement	Proposal
Initial capital	IDEs: INR 1 million (~USD 11,000). MIIs: INR 250 million (~USD 2.8 million).
Bank deposit (IDEs)	Lien-marked in favour of IRDAI; 0.1% of the previous year's commission and other insurance-related income, subject to a floor of INR 1 million (~USD 11,000) and a cap of INR 100 million (~USD 1.1 million); reset every 3 years; funded from capital or internal accruals.
Net worth (IDEs)	Positive net worth must be maintained in all years.
Registration (IDEs and MIIs)	Permanent, subject to an annual fee, and made available on an IT platform.
Fees	Application-cum-registration fee: INR 10,000 (~USD 110). Annual fee: the higher of INR 10,000 (~USD 110) or 0.04% of receipts from insurers and clients.

The requirement to obtain approval for specified persons of corporate agents would be dispensed with, and no IDP would require registration with IRDAI. Instead, functional identities for IDPs would be generated sector-wide through an MII, with backend support from a proposed PIR, conceptualised as a Digital Public Infrastructure for Insurance.

2.5 Scope of business

Who	What They May Distribute
IDEs	Every IDE would have the option (but not the obligation) to adopt open architecture, allowing it to distribute products of any number of insurers and all products without limit on insurance risk cover, subject to having an adequate number of IDPs.
IDPs engaged by insurers	Would remain under closed architecture (i.e. distribute products of only one insurer), but may represent one insurer in each non-competing segment. An IDP could therefore represent one life, one general, one health and one of each mono-line insurer, but could not sell competing products of 2 insurers.
Specified persons and PoSPs	May sell only the products offered by their own IDE. A PoSP may not work with more than one IDE.
All IDEs and IDPs	May also distribute non-insurance financial products and non-financial products and services, subject to compliance with relevant sectoral norms.

2.6 Expanded distribution opportunities

- **Sale of policies of group companies:** in a significant shift, insurers may be permitted to distribute insurance products of their group companies in a non-competing segment, through their own branches, using their own employees and at lower commission.
- **Hospitals and garages:** hospitals would be permitted to distribute health insurance by registering as IDEs, subject to safeguards and lower commission limits. Non-dealer automobile garages could sell motor insurance as associates of an insurer.
- **Exclusion of claims support functions from distribution:** third-party administrators, surveyors and other intermediaries providing exclusive claim-support functions would not be permitted to distribute insurance.

2.7 Other aspects

- IDEs are prohibited from insisting on the same pricing across all channels, handling customers' money, and collecting commission or any service fee directly from customers unless permitted by regulations.
- IDPs are required to carry out a suitability analysis before offering any product. Agents and associates of insurers must offer the products most suitable for the customer rather than the one carrying higher commission.
- IDPs would be required to give the PIR a standing consent to obtain their GST details from the GST network.¹ Read with the tagging of every policy to the selling individual and the proposal to place mis-

¹ This will apply only to (a) Specified Persons and PoSPs of IDEs and (b) agents and associates of insurers with commission income of INR 2 million (~USD 22,000) and more in a year.

selling records in the public domain, this gives IRDAI a granular, continuously updated view of individual distributors' remuneration across insurers.

OBSERVATIONS

Lower entry barriers, permanent registration and universal open architecture should increase competition in distribution. However, the proposals raise several questions:

- **Categories not addressed:** the position of reinsurance brokers is unclear. The Consultation Paper is also silent on managing general agents, which the SBSR Act recognised as a class of intermediary.
- **Hospitals:** the proposed safeguards for hospitals acting as distributors, given their role in claims, are yet to be specified.
- **Consumer protection:** low entry capital combined with the absence of any professional indemnity requirement may weaken consumer protection.

3. Changes to the EoM Framework

- 3.1 Change of base:** For general insurers, EoM would be computed as gross expenses, comprising gross commission and all other operational expenses, as a percentage of gross direct premium income in India rather than gross written premium. This removes inward reinsurance from the computation and the resulting double counting of premium, and is expected to restore sound practices in accepting inward reinsurance. For life insurers, EoM would be computed as total expenses as a percentage of total premium.
- 3.2 Reinsurance commission:** Any payment received by a cedant from a reinsurer, other than in settlement of claims, would be treated as reinsurance commission and could not be netted off against the insurer's commission or expenses for EoM purposes.
- 3.3 Removal of carve-outs:** The additional allowances introduced in 2023 for technology and insurance awareness spend, and for rural and government scheme expenses, would be absorbed within the overall EoM limit.
- 3.4 Lower limits with a glide path:** FY 2027-28 would be Year 1 of the glide path, with a reduction required each year:

Proposed EoM Limits (% Of Premium)

	Within 2 Years	Within 5 Years	Insurers whose EoM was Already Below the Benchmark in FY25
Life	15%	12.5%	Must reach 10% within 5 years, which IRDAI describes as the sector's long-term goal
General	25%	20%	Must reach 20% within 5 years

IRDAI notes that EoM ratios were of a similar order 6 to 8 years ago.

- 3.5 PMFBY:** Only one-third of gross premium under the PMFBY Scheme (a government-backed crop insurance scheme) would qualify as gross direct premium income for EoM purposes. IRDAI observes that competition in this line has been driven by EoM compliance rather than underwriting strategy. The cup-and-cap model in PMFBY permits aggressive pricing because an insurer's maximum liability is capped at 130% of premium, which is developing into systemic risk for state governments and farmers in extreme weather events.

3.6 Cost audit and disclosure

Entity	Threshold Revenue)	(Insurance-Related	Proposed Requirement
Insurers	—		Mandatory cost audit covering all expenses, including all pay-outs and non-monetary incentives to intermediaries
IDEs	Above INR 1 billion (~USD 11 million)		Cost audit covering all receipts and expenses

Entity	Threshold Revenue)	(Insurance-Related	Proposed Requirement
IDEs	Above INR 500 million (~USD 5.6 million)	5.6	Publication on their websites of key accounting parameters, including revenue, expenses, related-party payments and profit after tax

3.7 Regulatory fee

The fee payable by insurers would be reduced from 0.05% to 0.04% of premium, subject to a maximum of INR 200 million (~USD 2.2 million). This would reduce the fee for all but 5 insurers.

3.8 Other operating expenses and consequences of non-convergence

IRDAI also notes the wide variation in operating expenses other than commission, which in FY26 ranged from 6.1% to 27.7% of premium for life insurers and from 6.8% to 28.8% of gross direct premium for general insurers, and observes that insurers will need to rationalise these costs as well. The EoM norms are to be reviewed alongside the product reforms expected during FY 2027-28.

Insurers that fail to converge on the EoM ceiling by the scheduled dates would face graduated supervisory consequences, ranging from restrictions on new product launches and dividend distribution to, in extreme cases, restrictions on new business through the channel responsible for the overrun.

OBSERVATIONS

EoM across the industry stood at **16%** for life insurers and **31%** for general insurers in FY26, with several insurers well above these levels. Many mid-sized and smaller insurers therefore face reductions of **10 to 20 percentage points** over 5 years. The proposals raise the following issues:

- **Product-mix effects:** EoM is measured at the company level, but expense ratios vary by product for reasons unrelated to efficiency. Single-premium and group business brings in large premium against low acquisition cost per unit, and therefore dilutes the ratio; small-ticket retail protection carries high underwriting, documentation and distribution costs against modest annualised premium, and therefore inflates it. An insurer can thus improve its EoM ratio by writing more single-premium and group business rather than by becoming more efficient, while an insurer pursuing small-ticket retail protection in under-served geographies, precisely the business the reforms seek to encourage, reports a structurally worse ratio and faces supervisory consequences for it. IRDAI has accepted this logic in respect of PMFBY, where only one-third of gross premium is to count as gross direct premium income because acquisition cost is not proportional to premium. The same reasoning supports a weighted denominator or a targeted allowance for retail protection and under-served segments.
- **Efficient insurers penalised:** the proposal requiring life insurers already below the benchmark to reach 10% imposes the most demanding target on the most efficient insurers.
- **Unclear general insurance provisions:** the equivalent provision for general insurers (general insurers already below the benchmark of 20% to reach a 20% target) is unclear and will need clarification.
- **Technology investment:** removing the technology allowance may discourage the digital investment on which integration with market infrastructure institutions and the Public Insurance Registry will depend.
- **Gaps:** the Consultation Paper is silent on standalone health insurers and new entrants, both of which currently receive differentiated treatment.

4. Changes to the Distribution Commission Framework

4.1 Background

IRDAI also acknowledges that operating expenses fell relatively after 2023 because insurers reclassified distribution-related pay-outs as commission, in place of what it describes as their incorrect earlier practice of treating them as operating expenses. Overall expenses nonetheless continued to rise. The Consultation Paper notes that the need for specific intervention on commission would be far lower if market participants adopted full transparency on expenses, and identifies as a moot point the sector's readiness either to disclose commission rates on policy documents or to move to a model in which customers pay a fee instead

of insurers paying commission.

4.2 Principles

The proposed caps are built on fourteen principles. Key aspects are summarised below.

Theme	Principle
Architecture	Open architecture attracts lower caps than closed architecture, so that IDEs, which may elect open architecture, face lower caps than agents and associates engaged directly by insurers.
Product type	Mandatory and near-mandatory products, such as third-party motor cover and insurance packaged with credit, attract nil or very low caps sufficient only to recover documentation and processing costs. Complex products attract higher caps than simple ones; group products lower caps than individual products; single-premium and tax-advantaged products lower caps than others; and renewals of high-awareness products, such as health insurance, much lower caps than first-time sales.
Commercial lines and under-served areas	Commercial lines attract lower and more transparent caps, given their cascading effect on the cost of doing business. Sales in under-served areas attract rewards above the applicable caps.
Persistency and portability	Life commission is to be structured to encourage persistency with multi-year payment plans rather than to reward first-year premium, and commission-led portability in health and motor is to be discouraged.
What counts as commission	Commission is to be all-inclusive, covering direct commission, incentives, awards, reimbursement of selling expenses, brand-value payments to related parties and non-cash benefits such as gifts and trips; any payment to a distributor, by whatever name, falls within it. Pay-outs to PoSPs must come out of the engaging IDE's own commission, and the structure is to move progressively from layered distribution to a single level.

4.3 Proposed commission caps: general insurance

General Insurance Commission Caps (% Of Premium)

Product	IDEs	Agents and Associates	Other
MOTOR			
Motor TP: new vehicle	Nil	2.5%	Garages: not applicable
Motor OD / PA / LL: new vehicle	5%	10%	Garages: not applicable
Motor TP: old vehicle	2.5%	5%	Garages: 2.5%
Motor OD / PA / LL: old vehicle	10%	15%	Garages: 10%
HEALTH			
Individual health: first time	15%	20%	Hospitals: 5%
Individual health: renewal or porting	5%	10%	Hospitals: not applicable
Group health (employer and non-employer): first time, renewal or porting	2.5%, capped at INR 10 million (~USD 110,000)	5%, capped at INR 10 million (~USD 110,000)	Hospitals: 1%, capped at INR 2.5 million (~USD 27,500)
PROPERTY AND ENGINEERING			
Retail property: first time	15%	20%	—
Retail property: renewal	10%	15%	—
Property and engineering risks: SI below INR 5 billion (~USD 55 million) ²	7.5%	10%	—
Property and engineering risks: SI of INR 5 to 25 billion (~USD 55 to 275 million) ³	6.25%	7%	—
Property and engineering risks: SI above INR 25 billion (~USD 275 million) ⁴	5%	5.5%	—
MARINE, MISCELLANEOUS AND GOVERNMENT SCHEMES			

² The commission will be calculated on a slab-wise basis i.e. for a single risk exceeding INR 25 billion (~USD 275 million) SI: the first INR 5 billion (~USD 55 million), next INR 5 to 25 billion (~USD 55 to 275 million) and thereafter the amount of SI above INR 25 billion (~USD 275 million) will be paid commission at the respective levels.

³ Id.

⁴ Id.

Product	IDEs	Agents and Associates	Other
Marine cargo	10%	15%	—
Marine hull	10%	10%	—
Miscellaneous: retail ⁵	15%	17.5%	—
Miscellaneous: corporate and group ⁶	10%	15%	—
Government schemes	As notified in the scheme		—

TP: Third Party. OD: Own Damage. PA: Personal Accident. LL: Legal Liability. SI: Sum Insured, applied slab-wise on a probable maximum loss basis.

4.4 Proposed commission caps: life insurance

Life Insurance Commission Caps (% Of Premium)

Product	IDEs: Year	First	IDEs: Renewal	Agents: Year	First	Agents: Renewal
INDIVIDUAL NON-LINKED AND LINKED, BY PREMIUM PAYMENT TERM (PPT)						
PPT below 5 years	5%		2%	6.25%		5%
PPT of 5 years	10%		2%	12.5%		5%
PPT of 6 to 8 years	14%		3%	17.5%		5%
PPT of 9 years	18%		3%	22.5%		5%
PPT of 10 years and above	20%		3%	25%		5%
INDIVIDUAL						
Savings: single premium	1%		NA	2%		NA
Pure term: single premium	7.5%		NA	10%		NA
Pure term: multi-year premium	25%		7.5%	30%		10%
GROUP						
Pure term: single premium	1.5%, capped at INR 2 million (~USD 22,000)			2%, capped at INR 3 million (~USD 35,000)		
Pure term: multi-year premium	5%		5%	7.5%		7.5%
PENSION⁷, ANNUITY AND GROUP FUND-BASED						
Pension, deferred annuity and immediate annuity: single premium	0.5%		NA	0.75%		NA
Pension and deferred annuity: multi-year premium	5%		5%	6.5%		5%
Group fund-based (voluntary and employer-sponsored)	0.5% of the year's contribution, capped at INR 1 million (~USD 11,000)			0.5% of the year's contribution, capped at INR 1.5 million (~USD 16,500)		

For life non-linked and linked products:

- (a) The policy term cannot be less than 10 years or the PPT, whichever is higher.
- (b) A PPT of less than 5 years is permitted only for non-participating, non-linked products.

⁵ Includes PA, travel, homeowners, shopkeepers insurance, liability, cyber etc.

⁶ Includes group PA, liability, cyber etc. other than engineering risks.

⁷ No commission is payable on annuities purchased from the NPS.

- (c) For linked products, commission and expenses together must comply with the reduction-in-yield requirement from the fifth year.
- (d) Renewal commission increases by 0.5% of premium every 3 years from the sixth policy year (so that a policy attracting 5% renewal commission earns 5.5% on the sixth to eighth renewals and 6% on the ninth to eleventh), subject to a maximum of 7%.

4.5 Insurance packaged with credit

The following caps would apply to insurance packaged with credit and distributed by lenders:

Product	Cap
General insurance (where the lender distributes insurance)	
Motor TP	Nil
Motor OD, PA and LL	5%
Health	5% on first sale; 2.5% on renewal
Property	2.5% on single premium; 5% on multi-year premium
Life insurance (packaged with credit by lending institutions)	
Individual and group pure term: single premium	2%
Individual and group pure term: multi-year premium	2.5% in the first year; 1% on renewal

4.6 Adjustments to general and life insurance commission caps

For individual policies, business procured from towns and cities with a population below 10 lakh attracts an additional 10% of the applicable first-year cap, and business from towns with a population below 50,000 and all rural areas an additional 20%.

OBSERVATIONS

- **Scale of adjustment.** These caps sit well below current market levels. The Consultation Paper reports average first-year life commission of 27% for bank corporate agents and 61% for other corporate agents. It also reports new-vehicle own damage commission of 27% to 38% through OEM brokers and MISPs. The steepest adjustment will fall on models built on these economics, namely NBFC-led credit life, PoSP-led retail broking, OEM-linked motor distribution and employee benefits broking.
- **Rationale for caps.**
 - The case for caps also merits scrutiny. IRDAI itself acknowledges that, after 2023, insurers reclassified distribution-related pay-outs from operating expenses to commission. It describes the earlier treatment as incorrect. A significant part of the reported rise in commission is therefore not new cost; it is disguised payments stepping out of costume. That was the welcome and intended consequence of folding all distribution pay-outs into a single, Board-governed commission line. The pre-2023 caps regime did not eliminate excess commission. It drove it into other expense heads, as enforcement actions and tax investigations into disguised “marketing” pay-outs illustrated.
 - IRDAI’s response is that overall expenses have continued to rise even after the reclassification. That is a fair point. But it argues for disciplining total distribution cost and the behaviour it rewards, rather than for product-level caps, which were tried previously with limited success. In our view, caps regulate the quantum paid, not the conduct it rewards. IRDAI is alive to the leakage risk, which is why the caps are paired with behavioural remedies (discussed below). Durable change in distributor behaviour, however, is more likely to come from the conduct-focused measures discussed below.
- **Caps can adversely affect advisory effort.** The reforms ask distributors to sell better, through documented needs analysis, suitability, verified customer contact and sustained servicing, and each of these adds cost. The caps compress the very remuneration that pays for that effort. Unless the framework leaves room to reward

quality, for example through persistency- and suitability-linked pay above the base cap, distributors may cut the advisory effort the reforms rely on rather than the cost the caps target.

- **Eligibility, not adoption.** The caps are pegged to an IDE's eligibility for open architecture, not to the architecture an IDE actually adopts. A bank that elects a single tie-up will therefore receive the same lower caps as one with multiple tie-ups. Yet Part 2 identifies single tie-up arrangements as the most restrained channel, with an average total pay-out of 13% of new business premium against 33% for multiple tie-ups.
- **Nil cap on mandatory cover.** A nil cap for IDEs against 2.5% for agents on the same mandatory product is a sharp application of the open versus closed architecture principle. IRDAI's stated rationale for a nil cap is that the product requires no selling effort. If that holds, it holds equally for IDEs and agents.
- It is unclear whether the renewal commission increase of 0.5% of premium every 3 years from the sixth policy year, for individual linked and non-linked life policies, applies to both IDEs and agents or only to agents.

5. Behaviour-Focused Measures: Clawbacks, Persistency and Seller-Level Accountability

Alongside the caps, IRDAI proposes a set of measures directed at distributor conduct:

- **Clawback:** insurers would claw back commission on mis-sold policies, and recover commission paid on policies that are cancelled.
- **PPT grading:** first-year life caps for IDEs rise with the PPT, from 5% (PPT below 5 years) to 20% (PPT of 10 years or more).
- **Persistency:** a renewal commission escalator rewards policies that remain in force beyond the fifth year.
- **Suitability:** suitability would become an enforceable obligation. Documented needs analysis would be required above a specified ticket size, with reasons recorded where the customer departs from the recommendation.
- **Seller-level accountability:** each policy would be tagged to the functional identity of the individual who sold it, and incidences of mis-selling would be placed in the public domain through the PIR.
- **Staff incentives and guidance:** volume- or reward-linked incentives for bank and NBFC staff selling insurance would be prohibited. IRDAI also sets out twelve illustrations of mis-selling.

OBSERVATIONS

In our view, these are the most consequential proposals in the Consultation Paper, because they target conduct rather than quantum. They could be strengthened in four respects:

- **Wider clawback:** clawback should extend to early lapse and surrender, not only to mis-selling and cancellation during free-look.
- **Commission spreading:** first-year commission should be spread over the policy term. The EoM Regulations already link the insurer's expense allowance to the PPT, but nothing requires the commission paid to the distributor to be spread. PPT grading helps, but first-year commission remains up-front and non-vesting.
- **Outcome-linked pay:** a portion of distributor remuneration should be linked to persistency and suitability outcomes.
- **Due process for public records:** public, seller-level records need a clear adjudication standard, an appeal route and expungement periods, and must comply with privacy and data protection standards.

6. Bundling and Mis-Selling

BUNDLING AT A GLANCE

PROHIBITED	ACCEPTABLE (IRDAI ILLUSTRATIONS)	DISCOURAGED
Compulsory bundling: bank and NBFC IDEs would be prohibited from compulsorily bundling insurance with loans, in line with the current regime.	IRDAI illustrates acceptable packages, including: - complimentary group term cover for depositors; - credit cards with embedded cover at no extra charge; - bank-negotiated group health with commission disclosed; and - an interest-rate reduction in exchange for additional insurance, provided the customer is free to choose the insurer. In such cases, premium must be paid separately rather than out of the loan amount.	Critical illness: critical illness cover packaged with home or motor loans is to be discouraged.

- **Volume-linked incentives:** all forms of remuneration, direct or indirect, monetary or non-monetary, will be included within the definition of commission, and prohibitions on volume-linked or reward-linked incentives for bank or NBFC staff selling insurance will be introduced.
- **Micro, Small and Medium Enterprises (MSMEs):** the INR 50 million (~USD 550,000) limit on MSME risk cover would be removed, with property cover permitted up to property value.

OBSERVATIONS

Some of the mis-selling illustrations are also drawn too broadly. Term cover on a non-earning dependant and life insurance used for inheritance planning, for example, have legitimate uses. These are better treated as suitability flags requiring documented justification than as mis-selling per se.

7. Transparency and Cost Audit

- **Customer-facing information:** the current prohibition on dark patterns is proposed to be continued. Access to product, pricing and quality information after providing personal details has been specifically identified as a dark pattern. The life and general insurance councils will be tasked with developing a format of one-page product information sheets and FAQs for each class of product. Standard definitions for product performance and quality parameters, and their measurement, are proposed to be introduced.
- **Related parties:** insurers would be prohibited from outsourcing activities to distributors' related parties, except with Board approval and a certification of no linkage with the distribution business. Related-party distribution arrangements would require prior intimation to IRDAI and website disclosure.
- **Public disclosure of performance track record:** the functional identity of the specified person, salesperson or PoSP of an IDE, or of an agent or associate of an insurer, together with the policy sold by that person, and information on incidences of mis-selling will be placed in the public domain as part of that person's performance.
- **Disclosures:** dissemination of product, pricing and quality information is proposed to be made a regulatory requirement. The Board-approved policy for payment of commissions, including rewards and related payments, should be made public.

OBSERVATIONS

- **Retail commission disclosure:** point-of-sale disclosure of commission to retail customers is not proposed, beyond bank-negotiated group health and large commercial policies above INR 500 million (~USD 5.5 million). For parity and policyholder protection, such disclosures should be made across all intermediaries and at the point of sale.
- **Group shared services:** the related-party outsourcing prohibition may disrupt shared-service arrangements within bank and NBFC groups.

8. Motor Insurance

IRDAI proposes to restructure motor distribution around dealer registration and digital purchase.

Dealer status

Motor dealers currently operating as MISPs would be required, where they are incorporated companies, LLPs, co-operative societies or registered partnerships, to register as IDEs in their own right, enabling them to distribute the products of multiple insurers. Proprietorship and unregistered dealers would instead become PoSPs of an IDE or associates of a single insurer.

Dealer obligations

Dealers would be required to: display the option of purchasing motor insurance on an MII platform (including a QR code); make new-vehicle customers aware of that option; and share the customer's mobile number with the PIR for validation against the VAHAN portal (India's vehicle-related data portal), with compliance verified through a post-event message to the customer. Dealers would also be prohibited from denying cashless repair because the policy was bought elsewhere, and from entering into service level agreements or performance-linked incentive plans with OEMs that reward them for insurance sales.

Digital purchase and commission

Motor products for both new and old vehicles would be made available on MII platforms, which may charge no more than 5% of premium to recover platform costs. Commission on mandatory third-party cover and on easy-to-sell new-vehicle business would be set at much lower levels.

OBSERVATIONS

- **Dealer economics:** combined with nil commission on new-vehicle third-party cover and 5% on own damage, against current levels of 27% to 38% through OEM brokers and MISPs, dealer insurance income would fall sharply, and the servicing and documentation costs of the nil-commission product will have to be absorbed elsewhere.
- **Service levels:** it remains to be seen whether these changes would affect service levels and claims experience at garages.
- **Data protection:** the requirement to share customers' mobile numbers with the PIR will need to be structured to comply with the Digital Personal Data Protection Act, 2023.

9. Market Infrastructure Institutions & Public Insurance Registry

IRDAI proposes MIIs promoted by insurers as a systemic intervention, drawing on the transformative role of comparable institutions in other financial sectors, such as stock exchanges, depositories, clearing corporations, UPI and credit bureaus. Bima Sugam (a centralised, digital insurance marketplace), in which all but 3 insurers are shareholders, is identified as the first such MII, and IRDAI expects it to become fully operational with a wide bouquet of life and general insurance products at the earliest. MIIs may be given preferred distribution status but must operate with a transparent fee structure well below current commission rates, and afford all insurers a level playing field to compete on product features, pricing, claims settlement and grievance redressal.

IRDAI sees scope for further MIIs promoted by different groups of insurers, with the overarching objective of maximising customer value subject to insurer profitability. Each MII would be a not-for-profit company promoted by at least 11 insurers, with no insurer holding significant beneficial ownership and each shareholder holding less than 10% of shares or voting rights once the platform is fully operational. In the formative years, a lead promoter may hold up to 20%, reducing to 15% within 5 years and below 10% within 7 years.

The PIR is proposed as an MII promoted by IRDAI itself, conceived as digital public infrastructure for the insurance sector with the goals of facilitating growth and inclusion, building trust and transparency, and promoting affordability and financial sustainability. PIR would enable the public and market participants to discover, verify and exchange insurance information in a consistent manner, thereby mitigating information

asymmetry, and would underpin customer-facing MIs such as Bima Sugam. IRDAI expects the PIR to provide verified information on the performance of products, insurers and intermediaries as a public good, enabling digital purchase and portability at scale and shifting the sector from the premise that “insurance is sold” to one in which insurance is also bought.

OBSERVATIONS

- **Preferred distribution status:** “preferred distribution status” is left undefined. Depending on its content, whether regulatory defaults, favourable treatment under the caps or fee regime, or privileged access to data, it could give insurer-owned platforms a structural advantage over IDEs and independent digital distributors, which are now to be subject to hard caps on their own remuneration.
- **Competition law:** the shareholding architecture also merits attention. A platform jointly owned by at least 11 competing insurers, through which they are expected to compete on price and product, raises information-exchange and governance questions under the Competition Act, 2002, and warrants safeguards on access, data segregation and independent management.
- **Sequencing:** The PIR is a load-bearing element of the reform package. Despite this dependence, the proposals are sequenced so that the caps and the EoM glide path may take effect before the PIR is operational. The utility of the PIR will turn on the completeness and integrity of the data contributed by market participants, as the Consultation Paper is silent on validation, correction and dispute mechanisms.
- **Privacy aspects:** As a regulator-promoted registry holding policy, distributor and remuneration data at population scale, the PIR will also need a clear governance and data-protection framework under the Digital Personal Data Protection Act, 2023, covering lawful basis, purpose limitation, retention and third-party access.
- **PIR Consultation Paper:** A separate consultation paper on the PIR is understood to be in circulation, on which comments are due by 30 September 2026. IRDAI offering additional time to consider the PIR consultation paper in light of the reforms proposed in this Consultation Paper would be welcome.

Comments

Our assessment

The Consultation Paper's diagnosis is well evidenced. Its remedy is more contestable. Much of the reported rise in commission since 2023 is not new cost but disguised payments coming into the open, which was the intended result of the all-inclusive definition of commission. Hard caps regulate the quantum paid, not the conduct it rewards. They also compress the very remuneration that pays for what the reforms demand, namely needs analysis, suitability and sustained servicing, and so risk cutting advisory effort rather than cost.

The better path lies in the conduct-focused measures: clawback, persistency-linked renewal commission, enforceable suitability and seller-level accountability. These should be strengthened by commission spread over the PPT, clawback for early lapse, point-of-sale disclosure and quality-linked pay above the base cap.

Sub-scale insurers face the steepest adjustment. Many must cut EoM by 10 to 20 percentage points over 5 years, and consolidation across life and general insurance is a potential consequence.

Who bears the burden

The burden will not fall evenly. Caps pegged to eligibility for open architecture rather than the architecture adopted, an EoM ratio sensitive to product mix, and very low caps in group health and group fund-based business fall hardest on four models: NBFC-led credit life, PoSP-led retail broking, OEM-linked motor distribution and employee benefits broking. In each case the reason is channel structure, not conduct. The market's immediate reaction, which fell most heavily on distribution platforms and bancassurance-reliant insurers, reflects the same reading. Whether this outcome is intended is a question the consultation should settle.

Sequencing is also a concern. The caps and the EoM glide path may take effect before the PIR and MI infrastructure is operational, and before the FY 2027-28 product reforms that determine value in life insurance.

Next steps

Market participants should:

- model the impact of the caps and the EoM glide path across products, channels and entities;
- review distribution arrangements, particularly exclusivity, volume commitments and change-in-law provisions;
- assess data protection exposure arising from PIR data flows, GST data consents and the publication of seller-level records; and
- engage with IRDAI before 25 October 2026.

Draft regulations are yet to be released. Under the SBSR Act, IRDAI must publish them for comment, so further rounds of engagement will follow.

These reforms mark a decisive shift in IRDAI's approach to distribution. Their calibration in the draft regulations will shape the economics of Indian insurance distribution for the next decade.

– *Aravind Venugopal (Partner) and Amrutha Alapati (Associate)*



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