

### **IRDAI Abolishes Insurers' Commission Ceiling: What To Expect?**

Experts say abolishing individual commission limits could translate into better product pricing in the medium to long term and spur competition



Insurance regulator IRDAI's abolition of the commission ceiling paid by insurers for product sales has raised questions about how it might affect the industry. The move is expected to significantly change how insurers design their commission structures, which may encourage product innovation, better pricing, and improved customer services.

According to Tapan Singhel, MD and CEO of Bajaj Allianz General Insurance, the expense of management (EOM) limit will bring greater cost management discipline and ample flexibility for insurers to design and launch unique offerings, leading to a wider choice for customers.

Singhel adds, "Insurers too will move to more regions, more lines of business, and focus on innovation. We should also be able to see a strong influx of new distributors in every part of the country and facilitate insurance penetration to the last mile."

The rules provide extra leverage for "insurtech" expenses, spending on insurance awareness, and government schemes that will boost insurance penetration and ease of business.

Most insurers, however, struggle to maintain the EOM limit with the prescribed norms. But as the industry reels with a combined ratio of over 118 per cent, the EOM limit will help bring cost discipline and efficiency, which would take the industry towards profitability.

Experts say abolishing individual commission limits could translate into better product pricing in the medium to long term and spur competition.

Sunil Sharma, president, chief actuary & chief risk officer at Kotak Mahindra Life Insurance Company, explains this move will help insurance companies set commissions based on different factors and ensure quality business. Sharma believes the policy on commission payment would be in the best interest of policyholders, the ultimate beneficiary of these regulations.

Amit Goel, director & principal officer at Raghnaal Insurance Broking & Risk Management, agrees it is a positive move for life and health insurers. He says the removal of product-wise commission payouts

will enable insurers to operate within prescribed limits and price products accordingly. However, clarity around the total allowable management expenses, including commission and the insurer's operating costs, is awaited. Goel says the change would enable insurers to decide their commission allocation for product distribution and operating costs at the entity level.

N.S. Kannan, MD & CEO at ICICI Prudential Life Insurance Company, considers the updated rules on commission and management expenses a welcome change. He believes the increased flexibility in commission limits will allow insurers to react to market forces more quickly, supporting the IRDAI's vision of improving insurance penetration in the country.