

# Commission cap for insurance agents lifted: How will you gain?



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INDIA'S INSURANCE regulator, the Insurance Regulatory and Development Authority of India (IRDAI), has lifted limits on the payment of commissions to insurance intermediaries.

Both life- and non-life insurance players will now have greater freedom to offer commissions - which is the compensation that is paid to an agent secured by an insurance agent from an insurer for soliciting and procuring

an insurance policy.

However, the commission will have to be within the overall Expenses of Management (EOM). Insurers can have board-approved limits for paying commissions to their agents.

Expenses of Management (EOM) include all expenses in the nature of operating expenses of general or health insurance businesses and commission to insurance agents or insurance intermediaries. Insurance intermediaries include corporate agents, insurance brokers, web aggregators, insurance marketing firms, etc.

The commission and expenses on insurance intermediaries, which are charged to the revenue account, are also part of the EOM.

### The new rule

Under the IRDAI (Payment of Commission) Regulations, 2002, commission

March 28, the regulator has asked all insurance companies to fix an overall cap on the commission paid to agents, brokers, and other intermediaries, giving insurers more flexibility in managing their expenses.

This means the regulator has replaced the individual caps on the different commission payments made to the various types of intermediaries with an overall board-approved cap which should be within the allowed expenses.

IRDAI has said the revised regulation will come into effect on April 1, 2023, and will remain in force for a period of three years thereafter.

### The objective

The rationale behind the changed regulation is to enable and provide flexibility to

life- and general insurers to manage their expenses within the overall limits based on their goals within premium, in order to optimally utilize their resources for enhancing benefits to policyholders.

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### Benefits to insurers

Participants in the insurance sector have welcomed the change in the regulation, and stressed it is a major reform. They have said that the removal of the cap on commission payments will positively impact the sector.

According to V Jagannathan, chairman and CEO of Sun Health Insurance, the limit of the EOM in the general insurance business currently is 36 per cent, and that in health insurance is 35 per cent.

The insurance companies are paying insurance intermediaries a commission of 15

per cent of the total premium business they are bringing in. The new regulation has removed the cap. However, the overall limit of the EOM continues to remain.

With the new regulations, an insurance company can pay a higher commission to an agent if the business brought in is good and claim-free, Jagannathan said. "The liberty to give commissions to an agent is left to the company," he said.

Shreeji General Insurance MD and CEO Anil Kumar Aggarwal said the new norms will facilitate greater product innovation and the development of new product distribution models, and lead to more customer-centric operations.

"It will also increase insurance penetration and provide flexibility to insurers in managing their expenses. Overall, it will ensure an adherence to compliance norms," he said.

Rajy Allan, General Insurance MD and CEO Upari Singhji said the proposed regulations will ensure parity across varying business models while ensuring greater flexibility in managing expenses for insurers.

### Benefit to consumers

Post the changes in regulations, insurance agents are likely to be more motivated in selling insurance products and to explain details of the policy to consumers better. The claim ratio of these agents will also likely be better.

When claim intakes are within the overall manageable limit, an insurance company may not increase the premium, which will be beneficial for consumers, Star Health Insurance's Jagannathan explained.

The move is also expected to help increase insurance penetration in the country as agents get higher commissions.