

MAKING INSURANCE AFFORDABLE IS THE FIRST STEP TOWARDS SABKA BIMA, SABKI RAKSHA

IRDAI returns to its first duty

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while their commission grew 173%. Commission on motor third-party insurance, a mandatory product, rose from 4.3% to 22%. Meanwhile, general insurance grievances rose 75% over the same period. Further, across general and life insurance, 63% of complaints disposed of through Bima Bharosa in 2025-26 were resolved in favour of policyholders, and of those who remained dissatisfied and approached the Ombudsman, 75% received relief.

Excess distribution cost is borne through higher premiums in general insurance and lower returns in life insurance. As the cost of insurance rises, demand falls; when distribution commissions grow faster than premiums, policyholders may reduce their cover or opt out altogether. This explains, in part, the fall in life insurance penetration from 3.2% in FY22 to 2.7% in FY25, even as commissions continued to grow. A distribution model that makes insurance increasingly expensive risks defeating the very objective it is meant to serve: “Sabka Bima, Sabki Raksha”.

The proposals follow from this diagnosis. Commission is redefined to cover every payment to a distributor, by whatever name, preventing rewards and foreign trips from escaping the cap. Mandatory and near-mandatory products, such as third-party motor cover and insurance bundled with loans, carry nil or nominal commission. Open-architecture distributors face lower caps than tied agents, so

that customer choice is not converted into an auction for shelf space. Compulsory bundling with loans is prohibited, and volume-linked incentives for bank and non-banking financial company staff are banned. Every policy is tagged to the person who sold it, mis-selling incidents placed on public record, and commissions clawed back. Expense ceilings fall over five years to 12.5% of premium for life insurers and 20% for general insurers, with cost audits to verify the numbers.

Critics argue that caps regulate the quantum paid, not the conduct they reward, and that the pre-2023 regime merely drove payments into disguised expense heads. The objection is fair as history but misses what is different this time. An all-inclusive definition of commission, mandatory cost audits, board certification on both sides, and restrictions on outsourcing to related parties close many of the earlier escape routes. The test now is enforcement, not design.

The direction is right. Four refinements would make it stick. First, the savings must reach the policyholder. The paper caps what insurers pay, but does not require that savings be passed on. A nil commission on third-party motor cover lowers no premium unless the tariff is revised; otherwise, it widens insurers’ margins. Lower acquisition costs in life insurance should show up in surrender values and returns. Insurers should

disclose how reduced distribution costs have benefitted policyholders. Premium for direct buyers should be correspondingly lower, similar to the direct plan for mutual funds.

Second, reward persistence, not merely the sale. The proposed increase in renewal commission begins only from the sixth policy year, by which time more than half of policies have been discontinued. A part of first-year commission could instead be deferred and vested against persistency over a meaningful period, with claw-back on early lapse. This would align the distributor’s interest with the policyholders’.

Third, move towards transparency. The paper acknowledges that specific caps would be less necessary if commission were disclosed in the policy document or paid by the customer as a fee. The National Pension System already works this way, with capped and disclosed charges, including a separate persistency charge. Caps should be a bridge to disclosure, not a destination.

Fourth, sequence and stabilise. The expense glide path begins in 2027-28, while the caps may arrive before Bima Sugam and the Public Insurance Registry are fully operational. The commission regime has moved from caps to discretion in 2023 and is now moving back. IRDAI should commit to a stable framework, reviewed against the outcome parameters it has set.

Comments close on October 25. Beneficiaries of the old order will press for softer caps and a longer glide path, and some calibration may be warranted. The IRDA Act now requires the regulator to publish its response to public comments; that discipline should explain what is accepted and why.

A policy surrendered early, a product sold because it pays more to the seller, or a mandatory cover carrying a distribution cost does little to advance the policyholder’s interest. IRDAI’s proposed recalibration puts the policyholder back at the centre. It is the condition for the next phase of growth: a market where insurance is bought, not merely sold.

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LIFE INSURERS PAID more to policyholders who surrendered than to those who held policies to maturity: ₹2.33 trillion in surrender payouts, against ₹2.23 trillion in maturity benefits. Only 48% of life policies survived five years, compared with 71% of policies bought online, without an intermediary. This suggests many policyholders are walking away from cover they no longer find worthwhile, forgoing often accrued benefits to cut future losses.

The long title of the Insurance Regulatory and Development Authority Act (IRDA), 1999, states its objectives: “to protect the interests of holders of insurance policies, to regulate, promote and ensure orderly growth of the insurance industry”. The sequence is not accidental. The Sabka Bima Sabki Raksha Act, 2025, has reinforced this mandate. Section 40(2A) of the Insurance Act, 1938, empowers the regulator to specify limits on commission, remuneration, or reward in any form, and their disclosure, “in the interest of the policyholders”. IRDAI’s September 23 consultation paper, “Recalibrating Economics of Insurance Distribution”, is the first major exercise of that responsibility.

What sets it apart is candour. In 2023, IRDAI removed the commission limits and allowed insurers flexibility within board-approved policies and overall expense ceilings. The paper concludes that the experiment has not delivered. The expense ratio of private general insurers increased from 29.6% in FY23 to 32.1% in FY26. For private life insurers, it has risen from 18.9% in FY23 to 20.2% in FY26. The paper notes that board approval of commission policies was often a formality. IRDAI has acknowledged the shortcomings, made the analysis public, and attached outcome parameters to its objectives. That is accountable regulation.

The numbers are stark. From FY23 to FY25, new business premium sourced through life insurance corporate agents grew 28%, while distributor remuneration grew 125%, absorbing 27% of first-year premium. Premium routed through general insurance brokers grew 37%,