

Key Proposals under The IRDAI's Consultation Paper on the Proposed Insurance Distribution Reforms

SEPTEMBER 2026



On September 23, 2026, the Insurance Regulatory and Development Authority of India (“IRDAI”) released a public consultation paper titled ‘Recalibrating Economics of Insurance Distribution’ (“**Consultation Paper**”), inviting comments and suggestions from the public and stakeholders by October 25, 2026. The Consultation Paper is organised in two parts: Part 1 sets out wide-ranging proposed reforms to the insurance distribution framework, whilst Part 2 presents the underlying data and analytical work on distribution costs, commissions, and expense trends across the sector.

Significantly, the Consultation Paper proposes to revisit the Expenses of Management (“**EoM**”) framework and commission structure introduced in 2023, noting that the flexibility afforded to insurers under those reforms did not improve policyholder outcomes, expend insurance penetration, or reduce distribution costs. The IRDAI now proposes a comprehensive recalibration by adopting measures such as bringing back prescriptive commission caps, a glide path for reducing total expenses, simplification of the distribution architecture, and introducing systemic digital interventions through Market Infrastructure Institutions and a Public Insurance Registry. This alert discusses the key proposals under the Consultation Paper:

Simplification of the Distribution Architecture

- The foundational principle underlying the proposed reforms is “same structure, same function, same norms”. Applying this principle, the Consultation Paper proposes a clear distinction between **open architecture** (i.e. *where a distributor can sell products of multiple insurers across product categories*) and **closed architecture** (where a distributor is restricted to selling products of one insurer). The Consultation Paper makes this distinction central to the commission framework: distributors in open architecture would face lower commission caps, whilst those in closed architecture would receive relatively higher caps. In short, the new distribution structure and the commission regime are designed to operate as an integrated system. The differential is justified on the basis that closed architecture distributors sacrifice product diversification and assume greater commercial concentration risk,

warranting a higher ceiling, while open architecture distributors benefit from multi-insurer placement and the competitive efficiencies it generates, supporting a lower cap.

- The insurance distribution landscape in India currently comprises several categories of insurance intermediaries, including corporate agents, insurance brokers, insurance marketing firms (“**IMFs**”), web aggregators, Common Service Centre Special Purpose Vehicles (“**CSC-SPVs**”), and Motor Insurance Service Provider (“**MISP**”) dealers. At the individual level, insurance can be sold by insurance agents, Point of Sale Persons (“**POS**Ps”), specified persons, designated persons, and broker qualified persons, each with different qualifications and training requirements. The Consultation Paper proposes collapsing this into 3 categories:
- **Category 1 - Insurance Distribution Entities (“IDEs”)**: These are entities including companies, LLPs, cooperative societies, registered partnerships, and trusts. The ‘IDE’ is a single entity category subsuming corporate agents, insurance brokers, IMFs, insurance web aggregators and CSC-SPVs, as well as MISPs/ auto dealers selling motor insurance. Business correspondent companies engaged by banks may also register as IDEs. It is envisaged that all IDEs will directly enter into arrangements with insurers and will not be engaged or overseen by other IDEs.

A significant structural change under the proposed reforms is the complete discontinuation of the existing MISP model. The Consultation Paper proposes that MISP motor dealers that meet the IDE structure (i.e., *entities incorporated under the Companies Act or registered under any other law, such as LLPs, cooperative societies and registered partnerships*) should mandatorily register as IDEs, if they wish to continue insurance distribution. Other MISP motor dealers that do not meet the IDE structure (i.e., *proprietorships or unregistered partnerships*) would be required to either tie up as POSPs of an IDE or become associates of a single insurer.

Given that OEM brokers and MISPs collectively account for approximately 30% of motor insurance premium, the reclassification



of this channel (coupled with the proposed reduction in motor commission limits) represents one of the most commercially significant changes in the Consultation Paper. The proposed commission caps for new-vehicle motor insurance are proposed as: nil commission on third-party premium and 5% on own-damage and related covers for IDEs. Dealers would further be required to prominently display the option of purchasing motor insurance through MII platforms such as Bima Sugam, including through QR codes, and to inform customers of new vehicles about this alternative. The impact of these changes on improving motor insurance penetration, availability of choice of products and seamless customer service at the point of vehicle sale would need to be examined carefully.

Another point to note is that managing general agents, a new category of intermediaries proposed to be introduced under the Sabka Bima Sabki Raksha (Amendment of Insurance Laws) Act, 2025 (“SBSR Act”), do not find a mention in the entities classified as IDEs. There is also no mention of insurance consultants or insurance repositories as IDEs, both of which continue to be recognised as “insurance intermediaries” under the Insurance Act (as amended by the SBSR Act).

Importantly, ‘IDEs’ may opt for either open architecture or closed architecture. Further, all IDEs and IDPs (as discussed below) would be allowed to sell non-insurance financial and non-financial products, subject to relevant regulatory approvals. This is a broad formulation and could extend to IDEs offering wellness and preventive health offerings or other services connected with the subject matter of insurance. Essentially, the Consultation Paper proposes to phase out insurance intermediaries which exclusively engage in insurance distribution (such as insurance brokers and insurance web aggregators).

The proposal to allow hospitals to distribute health insurance products by registering as IDEs are aimed at expanding the reach of insurance intermediation. Given that hospitals are simultaneously service providers and, under this proposal, would become distributors, it may be worth examining whether additional safeguards are needed to address potential conflicts of interest and to ensure that distribution practices remain aligned with policyholder interests. The regulations framed pursuant to this proposal may need to strike a careful balance between widening access and maintaining the integrity of the distribution process.

Certain other important regulatory requirements indicated for IDEs are as follows:

- Uniform initial capital of INR 10 lakh for all IDEs, with a subsequent deposit required which is linked to 0.1% of prior-year insurance-related income (minimum INR 10 lakh, maximum INR 10 crore). Insurance brokers are currently subject to minimum capitalisation norms ranging from INR 75 lakhs to INR 5 crores.
- Application-cum-registration fees for IDEs would be INR 10,000, and the annual fee would be INR 10,000 or 0.04% of prior-year

commission and other receipts, whichever is higher.

- Minimum of 100 hours of self and assisted learning for IDPs including complex products (for each insurance segment: life and general), with a minimum educational qualification of Class 12 for new IDPs.

The proposal to bring all existing intermediary categories (corporate agents, brokers, IMFs, web aggregators, and others) under a single IDE framework is a notable departure from the current regime, which recognises distinct intermediary types with differentiated mandates. Under the existing framework, an insurance broker owes a fiduciary duty to the customer, whilst a corporate agent owes a duty to the principal insurer. Stakeholders may wish to consider how the customer-advisory function currently performed by brokers can be preserved or appropriately addressed within the unified IDE structure.

- **Category 2 - Insurance Distribution Persons (“IDPs”):** IDPs, i.e. individuals distributing insurance, will be in 4 sub-categories:

- Insurance Agents (individuals engaged by insurers);
- Insurance Associates (proprietorship firms, unregistered partnership firms, Self Help Groups, and Hindu Undivided Families engaged by insurers). This appears to be a new category of individuals permitted to sell insurance products, who are tied to the insurer directly;
- Specified Persons (employees of IDEs selling or advising on insurance products); and
- POSPs (individuals engaged by any of the IDEs). All MISPs (auto dealers) who do not meet the IDE structure, i.e. they are either proprietorship or unregistered partnerships, would be required to tie up as POSPs of an IDE or become an associate of a single insurer. Notably, it appears that POSPs can now only be engaged by IDEs and not by insurers. POSPs can only sell insurance products of those insurers with whom the IDE has a tie-up.

- **Category 3 - Market Infrastructure Institutions (“MIIs”):** These would be not-for-profit companies promoted by a group of insurers, intended to serve as cost-effective and neutral platforms for digital purchase of insurance products, such as Bima Sugam (indicated to be operational within 4-6 months under the Consultation Paper). In addition to Bima Sugam, another proposed MII is the Public Insurance Registry (“PIR”), envisaged as a regulator-promoted digital /public infrastructure for insurance. The PIR is intended to serve as a national business-facing registry providing verified information on the performance of products, insurers and intermediaries, and function as a backend enabler for customer-facing MII platforms.

In an interesting move, it appears that the IRDAI intends to permit insurers to distribute products of other insurers within their group in non-competing segments through their branch office employees

subject to lower commission levels. This does not seem to be aligned with the principle that an insurer is only permitted to sell insurance products of the class of business for which it is registered. It is also not clear how this proposal sits with the composite licensing regime which was expected pursuant to amendments under the SBSR Act.

Expenses of Management (Lower Limits with a Phased Glide Path)

The Consultation Paper notes that the current EoM framework is conceptually sound but has under-delivered on its objectives and has seen many workarounds. In this context, tighter EoM limits are proposed with a phased reduction:

- **Life insurers:** The EoM of life insurers would be required to be reduced to 15% of total premium within 2 years and 12.5% within 5 years, with FY 2027–28 as Year 1. Insurers already below 15% in FY25 would be required to reach 10% within 5 years.
- **General insurers:** The calculation base for EoM would shift from GWP to Gross Direct Premium Income (“GDPI”), which includes only premium collected directly from customers in India and excludes inward reinsurance, thereby eliminating double-counting of reinsurance premium in the sector. General insurers would be required to limit their EoM to 25% of GDPI within 2 years and 20% within 5 years. Insurers already below 25% in FY25 would be required to bring EoM down to 20% within 5 years.
- The existing additional allowances (technology, insurance awareness, rural and government schemes) would be included in the overall EoM, to simplify the EoM structure. The IRDAI’s own regulatory fee on insurers would reduce from 0.05% to 0.04% of premium, subject to a maximum of INR 20 crore.
- The table below depicts the proposed requirements for reduction in EoM for insurers:

Class of Business	Current Requirements	Within Year 2 (i.e. by FY28-29)	Within 5 Years (FY31-32)
General Insurance (including Standalone Health Insurance)	30% of GWP (35% for Standalone Health Insurance)	25% of GDPI	20% of GDPI
Life Insurance	Segment-wise limits under Regulation 8 (no single overall %)	15% of Total Premium	12.5% of Total Premium (Those already below 15% in FY25 must reach 10%, the long-term sector goal)

Commission Framework

In line with the erstwhile IRDAI (Payment of Commission or Remuneration or Reward to Insurance Agents and Insurance Intermediaries) Regulations, 2016, the Consultation Paper proposes strict per policy commission limits, which would be differentiated by the following factors:

- Distributors operating in open architecture would be subject to lower commission limits than those in closed architecture, in order to create a disincentive against commission-led sales.
- Products requiring greater advisory effort may attract higher limits, while mandatory or near-mandatory products requiring minimal effort would attract nil or near-nil commission.
- Renewal commissions would be set materially lower than first-year commissions for products where customer awareness is already established, such as health insurance.
- Commission on group insurance would be lower than on individual policies.
- Sale of products in under-served areas (small towns with populations of up to 50 thousand and rural areas, and smaller cities with population up to 10 lakhs) may have rewards over and above the normal commission limits.
- The IRDAI has specified a detailed table of the proposed ‘per policy’ limits of commission payable to IDEs and IDPs, depending on several factors such as product category, nature of distributor (IDE vs. IDP), new or renewal business and the population of the area from where the business is sourced.

The far-reaching impact of the commission proposals on the ultimate customer would need to be deliberated before they are implemented. For instance, it would need to be considered whether the higher commission limits in a closed architecture model could incentivise IDEs to limit the options of insurers offered to customers, which may have a counter-productive effect.

Transparency, Disclosure, and Safeguards Against Mis-selling

In addition to the above reforms, the Consultation Paper addresses new requirements in the interest of improving transparency in insurance distribution and counter mis-selling practices and dark patterns. Key reforms proposed include:

- **Dark patterns:** The Consultation Paper envisages a separate set of regulations in relation to prohibition of dark patterns in insurance distribution, which complement the guidelines issued by the Central Consumer Protection Authority under the Consumer Protection Act, 2019. Requiring prospects to provide their personal details such as name, phone number, email or any identification before accessing the product information sheet, FAQ note, product brochure, premium rates, product performance and quality performance (especially on web portals) has been observed as a dark pattern under the Consultation Paper.

- Mis-selling safeguards: Volume-linked and reward-linked incentives for bank and NBFC staff selling insurance would be prohibited. Each policy would be tagged to the functional identity of the individual seller, and information on mis-selling incidents would be placed in the public domain. Insurers would be empowered to claw back commissions in cases of mis-selling.
- Commission disclosure: All insurers would be required to disclose their commission policies and structures on their websites in a simple, accessible format. Large distribution entities would similarly disclose their regulated or agreed commission structure with various insurers. All commercial risk policies with insurance cover above INR 50 crore would carry a disclosure of the commission on the policy document.
- Cost audits: Annual cost audits covering all expenses, payouts, and non-monetary incentives to intermediaries would be mandatory for all insurers and for IDEs with insurance-related revenue above INR 100 crore.
- Direct movement of funds from customer's account to insurer's account: The IRDAI notes that (i) it is in the best interest of the customer that the money reaches the insurer's account directly; and (ii) there is no additional value by virtue of the premium moving to any intermediate account (other than Bima – Applications Supported by Blocked Amount (BASBA) arrangement).
- Direct fund flows from insurer and reinsurer: It is further proposed that funds flow between insurers and reinsurers should also happen directly, and not through an insurance broker's account. This will include commission, ceding commission and claim payments. Brokerage fee may be paid by the insurer or the reinsurer separately, as per their engagement terms.

reducing the cost of selling insurance and making insurance accessible and preventing mis-selling. That said, the potential outcomes of some changes need to be considered further, in consultation with the relevant stakeholders.

While the Consultation Paper is directed at reducing distribution costs, an unintended consequence may be a reduction in the range of options available to policyholders. Where commission structures incentivize distributors to align with a single insurer, policyholders could find themselves with fewer competitive options. For instance, for motor insurance distributors, a NIL commission on third party motor insurance and 5% on own damage may make low premium policies less attractive to distribute, which could affect insurance availability in underserved markets.

The practical success of these proposals will depend considerably on the detail and clarity of the implementing regulations, the timelines provided for transition, and the capacity of industry participants to adapt. The Consultation Paper itself contemplates a review alongside product reforms expected during FY28, suggesting that this is envisaged as an evolving regulatory exercise rather than a single, definitive intervention. However, regulatory certainty remains a key consideration. Over the past decade, the commission and EoM for insurance distribution has undergone several rounds of revision. In the interest of fostering an attractive investment environment, supporting the sector's orderly development, and securing long-term benefits for policyholders, a degree of stability and predictability in the regulatory framework is also considered essential.

Given the breadth of the proposed changes, stakeholder engagement at this stage will be important in shaping regulations that balance the objectives of cost reduction and policyholder protection with the practical considerations of the sector's orderly development.

Conclusion

The proposals in the Consultation Paper represent one of the most significant structural shifts in India's insurance distribution framework. The overarching objective is to increase insurance penetration by

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