



DAILY EDITORIAL ANALYSIS

TOPIC

**REFORMING INSURANCE
DISTRIBUTION IN INDIA**

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Context

- The **Insurance Regulatory and Development Authority of India (IRDAI)** is undertaking a comprehensive review of the insurance regulatory framework, with reforms in distribution, intermediary remuneration, pricing and governance emerging as key concerns.

About Insurance Sector & Its Distribution in India

- Insurance is an important aspect of the financial system in India, offering **risk protection and long-term savings and investment resources**.
- In FY26, the industry's yearly income was **roughly ₹13.4 lakh crore**, of which **₹10 lakh crore was from life insurance** and **₹3.4 lakh crore from non-life insurance**.
- The **distribution of insurance** is mostly through regulated intermediaries such individual agents, corporate agents, insurance brokers, web aggregators and digital channels.
- Earlier the **Insurance Act, 1938** had put statutory restrictions on expenses and commissions.
- The **IRDAI's Expenses of Management (EOM) Regulations, 2024**, reduced a number of sub-limits for insurers to have more operational freedom, however the **overall EOM ceiling was at 30%**.

Significance of Insurance

- Financial Stability:** Insurers are connected with banks, capital markets, taxation and government securities.
- Mobilisation of Savings:** Life insurers are major institutional investors and providers of long-term funds.
- Risk Management:** Insurance supports households, businesses and infrastructure against financial shocks.
- Capital Formation:** Insurance funds contribute to government securities and other approved investments.
- Financial Inclusion:** Wider insurance coverage can reduce vulnerability to health, agricultural and livelihood risks.
- Economic Growth:** A financially sound insurance sector can support entrepreneurship and productive investment.

Key Legislations & Statutory Provisions

- Insurance Act, 1938:** The main law governing the business of insurance, including registration, conduct of business and protection of policyholders.
- IRDAI Act, 1999:** After liberalisation of the sector for private involvement, to establish IRDAI as sector regulator.
- Insurance Laws (Amendment) Act, 2015:** Strengthened the regulatory framework and increased the maximum of authorised foreign investment.
- IRDAI EOM Regulations, 2024:** Expense controls rationalised and many sub-limits replaced with an overall framework.
- Ind AS & Risk-based Solvency Norms:** Designed to enhance financial reporting, risk assessment and comparability.

Why Does Insurance Distribution Need Reform?

- The **liberalisation of the sector in 2000** enhanced competition and led insurers to win business through bigger payments to intermediaries and aggressive pricing.
- In certain cases, expenses were recorded as **marketing, publicity, travel, printing or IT costs**, which diminishes the effectiveness of the regulatory constraints.
- The issue is therefore not merely the size of commission but **how remuneration influences underwriting decisions, product pricing and risk-taking**.

Related Key Concerns & Issues

- Aggressive Pricing:** High acquisition costs and low premiums can result in a race to the bottom.
 - The **IRDAI** has warned insurers against giving steep discounts in the **fire portfolio** including alleged discounts to the extent of **99 per cent of standard rates**.

- ♦ The **Reserve Bank of India (RBI)** in its June 2026 **Financial Stability Report** flagged three public sector insurers for continued non-compliance on solvency.
- ♦ The financial pressure has been exacerbated by persistent underpricing, especially in group health insurance, and high costs.
- **Governance Gap:** There is a disconnect between **formal governance policies and actual company practices**.
 - ♦ Insurers submit board-approved plans to IRDAI, although doubts are raised over internal controls, responsibility and compliance in case of extremely high acquisition expenses or deep premium cuts.
- **Concentration Risk:** IBAI-McKinsey analysis shows that 10 of 462 brokers **account for 70% of the market**, raising worries about concentration and bargaining strength.
- **Claims and Transparency:** Rejection of public disclosure of **portfolio-wise claims, outstanding disputes and legal proceedings** can show repeating patterns and assist solve the trust deficit in the sector.
- **Solvency and Investment Risks:** Ongoing losses highlight the need for **risk-sensitive solvency regulation**, but public sector insurers benefit from substantial capital assistance.
 - ♦ Monitoring incremental investments, rather than only gross investment stocks, would provide better insight into insurers' cash flows and investible surpluses.

Way Forward: Data-Driven Regulation

- **Transparency on Intermediaries:** Insurers have to report the payments to intermediaries and their partners including indirect payments. This would help to identify **concentration risk**.
- **Claims Transparency:** Disclosing repudiated and outstanding claims at the portfolio level, along with their value and legal status, can draw attention to ongoing issues and boost consumer confidence.
- **Improved Pricing Information:** Long-term data on premiums, claims and intermediary expenses in areas like corporate property and group health insurance can assist regulators in identifying recurrent underpricing.
- **Monitoring Investment Flows:** regulators need to monitor gross investments, **incremental investments and annual investible surpluses**.
- **Integrated Regulatory Coordination:** Financial Stability and Development Council (**FSDC**) can facilitate sharing of information between IRDAI, RBI and SEBI.
 - ♦ Regulatory arbitrage can be traced through the payments between insurers and banks/NBFCs, public-issue disclosures and interconnected financial exposures.

Conclusion

- India's insurance sector is entering a phase where **quality of growth matters as much as growth itself**.
- The next generation of reforms should combine transparent intermediary remuneration, stronger claims disclosure, risk-sensitive solvency standards, robust corporate governance and data-driven supervision.
- The objective should not be merely to expand insurance penetration, but to build an insurance market characterised by **fair pricing, sustainable underwriting, consumer trust and financial resilience**.
- Such reforms can enable insurance to make a larger contribution to India's long-term investment, social security and economic-growth objectives.

Daily Mains Practice Question

[Q] Discuss the major challenges in India's insurance distribution system and suggest measures to strengthen its regulatory framework.

Source: BL

