client alert

October 27, 2026

cyril amarchand mangaldas
ahead of the curve

IRDAI's Proposed Distribution Reforms: Restrictions and Reset

Background

The Insurance Regulatory and Development Authority of India (**IRDAI**) has released a public consultation paper, "*Recalibrating Economics of Insurance Distribution*" (**Consultation Paper**), proposing wide-ranging reforms to how insurance is distributed in India. The proposals rest on IRDAI's findings that distributor remuneration has grown four to five times faster than premium, and that the Expenses of Management (**EoM**) framework introduced in 2023 has not delivered its intended benefits.

To address this, the Consultation Paper works on two fronts: firstly, cost, through tighter EoM limits and the return of hard commission caps, and secondly, conduct, through greater transparency, suitability and accountability in how insurance is sold. Both are supported by a new distribution architecture and new market infrastructure.

The Consultation Paper is not, however, the final framework. IRDAI has clarified that stakeholder comments, due by October 31, 2026, will be taken into account in framing draft regulations under the IRDAI (Procedure for making Regulations and Subsidiary Instructions) Regulations, 2026. These draft regulations will themselves be placed for public consultation, with implementation from January 1, 2027 or April 1, 2027. The proposed reforms are significant for insurers, intermediaries and policyholders alike. Our analysis of the key proposals is set out below.

1. Changes to the Distribution Architecture

At the heart of the Consultation Paper is a simplification of who may sell insurance. The current eight types of distribution entities and nine types of individual distributors, each with separate entry, capital and scope rules, will be consolidated into three broad classes, as set out below:

A. The New Classes

Old class	New Class
Corporate agents, brokers (composite and Original Equipment Manufacturer (**OEM**) brokers), Insurance Marketing Firms (**IMFs**), web aggregators and common service centre-SPVs	**Insurance Distribution Entities (IDEs)**: business correspondents may register, and motor dealers with an entity structure must register
Point of Sales Persons (**PoSPs**), specified persons, designated persons, broker qualified persons, rural authorised persons, village level entrepreneurs and authorised verifiers	**Insurance Distribution Persons (IDPs)**: regrouped as: insurance agents and insurance associates (engaged by insurers), and specified persons (employed by IDEs) and PoSPs (engaged by IDEs)
-	**Market Infrastructure Institutions (MIIs)**: not-for-profit companies promoted by a group of insurers

B. Entry and Qualification Requirements

Each class will be subject to its own entry requirements, as set out below:

Requirement	IDEs	MIIs
Entry Capital	INR 10 lakhs	INR 25 crores
Additional Deposit	0.1% of prior year's commission and other insurance income (min INR 10 lakhs, max INR 10 crores)	-
Net Worth	Positive every year	-
Registration	Permanent, online	Permanent, online
Registration fee	INR 10 thousand, plus an annual fee of the higher of INR 10 thousand or 0.04% of the prior FY's commission and other receipts	Annual fee

IDPs, being individuals rather than corporate entities, are exempt from all of the above requirements. For IDPs, the focus accordingly shifts from capital to competence: IDPs will need to have passed class twelve and completed at least 100 hours of training per segment (life or general), though those with five or more years' experience could take a shorter refresher course instead. The Life Insurance Council and General Insurance Council will develop model training content to support this, and online testing will be available in every sub-district unit, district headquarters and city with a population above 1 lakh.

Brokers have raised concerns over these proposals, warning that the reforms could cost up to 10 lakh jobs across insurance distribution. IRDAI has rejected this, arguing instead that lower entry barriers and a wider distribution network will create jobs rather than cut them. Whether that proves true will largely depend on whether distribution remains viable for new entrants once the proposed commission caps (discussed below) take effect.



C. Scope of Business

The new classes also change what distributors may sell. IDEs may opt for open architecture and sell for any insurer, with no limit on risk cover. IDPs, by contrast, must follow closed architecture and represent one insurer per non-competing segment, and a PoSP may work with only one IDE. Both IDEs and IDPs may also sell non-insurance financial products with the relevant regulator's approval.

Alongside this, the Consultation Paper states that hospitals may register as IDEs, and non-dealer garages may sell motor insurance as associates. Insurers may also distribute a group insurer's products through their own branches (but not online) at a lower commission. Third-party administrators and surveyors remain barred from selling insurance.

Notably, the rationalization exercise places brokers, who act for the policyholder, in the same class as corporate agents and OEM brokers, who act for the insurer or OEM. Brokers' representatives have already objected that the framework fails to distinguish insurance sold to a customer from insurance chosen by a customer through an appointed advisor.

2026 © Cyril Amarchand Mangaldas

2. A Reset of Distribution Costs: EoM Limits and Commission Caps

Distribution costs are tackled at two levels under the Consultation Paper: a tighter overall ceiling on what insurers may spend as expenses of management and, within it, hard caps on what they may pay distributors.

A. Tighter EoM Limits

The Consultation Paper proposes a mandatory glide path. Insurers will have to reduce their EoM ratios annually over five years from FY 2027-28, measured against total premium for life insurers and gross direct premium income (**GDPI**) for general insurers, as set out below:

Insurers	Within 2 years	Within 5 years	Insurers already below this benchmark in FY 2025
Life insurers (% of total premium)	15%	12.5%	10% (within 5 years)
General insurers (% of GDPI)	25%	20%	20% (within 5 years)

IRDAI has pointed to the trend behind these targets: the expense ratio of private life insurers has risen from 16% in FY 2020-21 to 22%, and that of private general insurers from 25–26% in FY 2018-19 to about 32% in FY 2025-26.

The basis of calculation will also change. For general insurers, GDPI will replace gross written premium, which currently includes premium for risks underwritten by other insurers, so inward reinsurance will drop out of the denominator. For life insurers, segment-wise limits will give way to a single ratio of total expenses to total premium. The current additional allowances for technology, insurance awareness, rural and government scheme expenses will be folded into the overall EoM. Only one-third of crop insurance premium under the Pradhan Mantri Fasal Bima Yojana will count towards GDPI. The regulatory fee will also fall from 0.05% to 0.04% of premium, capped at INR 20 crores.

These limits will be backed by closer scrutiny. A mandatory cost audit of all insurer expenses, including pay-outs and non-monetary incentives to intermediaries, is proposed. IDEs with insurance-related revenue above INR 100 crores will also need a cost audit, and those above INR 50 crores will have to publicly declare key accounting parameters. Insurers that miss the EoM deadlines will face graduated restrictions on new product launches and dividend distribution. In extreme cases, they will also face restrictions on new business through the offending channel. IRDAI has already shown it will act on this. In August 2026, it barred four insurers from opening new places of business for six months for exceeding EoM limits, which signals strict enforcement even before the revised limits take effect.

B. Return of Hard Commission Caps

Within the revised EoM limits, the Consultation Paper proposes reintroducing prescriptive commission caps, set by product, distribution channel and, for life insurance, premium-payment term. The caps themselves are set out in the Consultation Paper and follow 14 principles grouped under four themes:

(a) **Architecture**: lower caps for open-architecture distributors, and higher caps for closed-architecture distributors to offset a narrower product range.

(b) **Product type**: nil or nominal commission on compulsory products, lower caps on single-premium, tax-advantaged and group products, and higher caps on complex products.

(c) **Commercial and rural**: lower, more transparent commission on commercial lines, with an additional 10–20% on the first-year cap in smaller towns and rural areas.

(d) **Persistency**: lower commission on renewals than on first sales, discouraging commission-led porting of health and motor policies, and life commission structured to reward multi-year payment.



The persistency theme targets front-loaded pay-outs in particular. IRDAI has noted that first-year commission on new business can be as high as 40–50%, and that commission should instead be lower in the first year, with more paid as the policy persists.

Equally significant is how widely "commission" is defined. It will capture every insurer pay-out, including incentives, awards, reimbursed selling expenses, brand value payments to related parties, and non-cash incentives such as gifts and trips. In effect, any payment to distributors, by whatever name called, will count, with distribution moving towards a single level.

Insurers and large distributors will have to publish their commission structures and show commission on the policy for commercial risks above INR 50 crores. The insurer's board risk and audit committee, and the IDE's CEO and board, will have to certify that commission stays within the caps. To prevent indirect payments, insurers could outsource to a distributor's related parties only if their board approves the service and pricing, confirms that it is unconnected to business the distributor places, and reports it to IRDAI.

On timing, IRDAI has suggested that the caps could take effect ahead of the EoM glide path, as a phased reduction could push distributors to rush sales. The industry has sought a transition period, and IRDAI has signalled that any flexibility will be limited to genuine operational needs and will be time-bound. If so, distributors may feel the effect of the reforms well before insurers' own expense limits tighten.

3. Transparency in Pricing, Quality and Market Conduct

Cost controls are only half the picture. The Consultation Paper starts from the premise that caps and EoM limits alone will not build policyholder trust, and it aims for purchases led by price and quality rather than commission. IRDAI has stated that the exercise is meant to benefit policyholders, with cost savings passed on through lower or more moderate premiums, better returns on savings products and, in general insurance, better claim ratios.

A. Disclosure and Verification

To make comparison possible, insurers must present product features, premium rates and performance in a standard format. Neither insurers nor distributors may demand personal details before showing this information, or use those details to generate leads. The Consultation Paper treats this as a "dark pattern" under the Consumer Protection Act, 2019. The Life and General Insurance Councils will prepare one-page information sheets, frequently asked questions and quality definitions for each product class. "Know Your Insurer" and "Know Your Distributor" features on the Public Insurance Registry (**PIR**) will let customers check track records. Before issuing a policy, insurers must also verify the customer directly through one-time passwords, Aadhaar-based face authentication of the proposer and insured, and telecom and deduplication checks.

B. Movement of Money and Commission

The Consultation Paper also requires money to move directly between the parties to whom it belongs:

(a) Premium must be paid from the customer's own bank account, card or UPI straight to the insurer, with no intermediate account other than Bima Applications Supported by Blocked Amount.

(b) Third-party payments will not be accepted.

(c) Claims will be paid only into the verified account of the policyholder or nominee.

(d) Reinsurance premium will move directly between insurers and reinsurers rather than through a broker's account, with brokerage paid separately.

However, the bar on third-party payments may make it harder to pay premiums on behalf of dependants, and the Consultation Paper does not address premium financing. Clarification on both will be welcome.

Commission, in turn, will be paid no later than the day after the free-look period ends, with an aspirational seven-day target. If commission is paid earlier, insurers could claw it back on cancelled policies, which makes early commission effectively provisional. Interest on delayed payment will be charged to the insurer's operating expenses.

4. Mis-Selling and Compulsory Bundling

The Consultation Paper treats compulsory bundling and mis-selling as two sides of the same problem: insurance bought because of the seller's position rather than the customer's need, most often at a bank branch or loan desk. IRDAI has linked mis-selling directly to high upfront commissions, which explains why the conduct proposals sit alongside the commission caps discussed above.

A. Suitability, Promotion and Bundling

The Consultation Paper builds on the Reserve Bank of India (**RBI**) (Commercial Banks – Responsible Business Conduct) Second Amendment Directions, 2026, published on June 15, 2026 which already treat compulsory bundling as mis-selling. It proposes the following:

(a) **Suitability and appropriateness**: term cover should be offered only to working-age customers or those with dependants, and annuities only to those nearing retirement. Regular-premium products should not be sold to customers without a steady income, and premiums should remain within the customer's capacity to pay.

(b) **Promotional material and communications**: promotional material must state in plain language whether the premium is single or regular, whether returns are assured, and the risks of unit-linked products. Insurers and distributors must also publish their commission policies on their websites and flag them to customers being solicited.

(c) **Compulsory bundling**: making a loan conditional on buying insurance would be prohibited. Packages that offer a demonstrable gain to the customer would still be permitted, although bundling critical illness cover with home or motor loans would be discouraged.

The Consultation Paper gives several examples of mis-selling, including selling insurance as a deposit or with promised returns, selling unsuitable or unaffordable policies, failing to explain unit-linked, lapse or surrender risks, switching policies on misleading promises, and selling life insurance for inheritance planning.

B. Lender-led Sales and Accountability

The proposals also change how lenders sell insurance. The current INR 5 crores risk cover limit for Micro Small and Medium Enterprises (**MSMEs**) will be removed. Banks and Non-Banking Financial Companies (**NBFCs**) financing MSMEs could offer property insurance up to the property's value, even above the loan amount. Pure protection life cover, however, could not exceed the loan amount and will carry a lower commission limit. Volume or reward-linked incentives for bank and NBFC staff will be prohibited. The RBI has described the proposals as primarily in the consumer's interest, to reduce costs and prevent mis-selling, and has said it will share its comments with IRDAI.

Accountability will also follow the individual seller. Each policy will be tagged with the seller's registry-backed identifier, and mis-selling incidents will be recorded on the PIR. This will allow commission deductions, alert future recruiters and let customers see a seller's history. Mis-selling will also trigger commission clawback by insurers. As these records are public, the absence of an appeal route for distributors is likely to be raised during the consultation.

5. Streamlining Motor Insurance

Motor insurance, being simple and, for third-party risk, mandatory, receives separate treatment. OEM brokers and Motor Insurance Service Providers (**MISPs**), typically motor dealers, hold around 30% of the market. Between FY 2022-23 and FY 2024-25, motor commission grew by around 259%, against premium growth of around 34%. The proposals therefore target dealers directly.

A. Restructuring of Motor Dealers

Dealers will be brought within the new architecture. MISP dealers that meet the IDE structural criteria must register as IDEs to continue selling insurance. Other dealers must either tie up as PoSPs of an IDE or become an associate of a single insurer. For new-vehicle cover sold through IDEs, the proposed caps are nil for third-party cover and 5% for own damage, personal accident and legal liability. Agents and associates, by comparison, could earn 10% on own damage.

Dealers' insurance income on new-vehicle business will therefore fall sharply. As the associate route pays more, dealers may prefer it, which will leave customers with only one insurer at the point of sale. The Consultation Paper also does not address whether dealers earning far less from insurance will keep up the same level of claims support. Dealers have, in response, argued that their role extends well beyond the initial sale.

B. Conduct Standards and Portability

Motor dealers, IDEs and PoSPs must prominently display the option to buy insurance through an MII platform and inform new-vehicle customers of it. They must also share customer mobile numbers with the PIR for validation against VAHAN, the national vehicle registration database. Expected conduct standards may bar dealers from denying cashless repair based on where the policy was bought. They may also bar OEM or IDE agreements that reward dealers for sales adverse to policyholders.

The persistency point discussed above will also discourage commission-led porting of motor policies. Own-damage motor cover is one of the few products that customers actively port at renewal, often because distributors chase porting commission. Whilst this could reduce distributor-driven churn, it may also weaken the competitive pressure that porting exerts on renewal pricing, cutting against the pro-competition intent of the other reforms.



6. Market Infrastructure and Public Insurance Registry

The reforms will be supported by two pieces of market infrastructure. The first is MIIs such as Bima Sugam. These will be not-for-profit online marketplaces, promoted by at least 11 insurers, where insurers compete on price, features and claims performance for a fee well below commission. Direct online channels currently account for only around 2% of general insurance premium, so MIIs are intended to bring the pricing advantage of a commission-free channel to customers at scale. IRDAI has indicated that Bima Sugam, envisaged as a commission-neutral MII, is expected to launch within four to six months.

The second is the PIR. Owned by IRDAI, it will verify how products, insurers and intermediaries perform. It will also support the "Know Your Insurer" and "Know Your Distributor" features, seller identifiers and mis-selling records discussed above. IRDAI separately consulted on the PIR in September 2026. It described the PIR as population-scale public digital infrastructure that will work alongside MIIs, insurers and distributors to support verification, transparency, accountability and informed customer choice.

7. ...AND THE WAY FORWARD

The proposals, taken together, mark a clear retreat from the principle-based regime IRDAI introduced in 2023. Three years ago, the regulator removed hard product-wise commission caps and trusted insurers' boards to allocate expenses within an overall limit. The consequences of these reforms behind this reversal in direction of travel by the IRDAI are outlined in the Consultation Paper: distribution costs have outpaced premium growth, and policyholders have borne the cost. IRDAI now proposes to return to prescriptive caps, set by product, channel and premium-payment term. Yet the 2023 framework arguably failed less for want of rules than for want of enforcement, which the IRDAI has stepped up only recently in the form of bar on new-branch openings. Reversals of this kind also make long-term planning harder for insurers, distributors and investors alike.

A more proportionate course would be to let the Consultation Paper's own conduct measures do the work: standardised disclosure, mandating stricter suitability requirements and clawback in cases of mis-selling, and leveraging the PIR to empower the policyholder by enhancing awareness. Hard commission caps could then be considered by the IRDAI for limited captive channels, especially where the customer has the least choice. Capping commission across the board and paying a customer's own broker less than an insurer's tied agent, risks thinning out independent advice and distribution reach at a time when insurance penetration remains low. Some aspects still need clarification, which should come with the draft regulations, themselves to be placed for public consultation. Stakeholders should use both rounds to press for a calibrated outcome. The final regulations will show whether the IRDAI is resetting the market or simply reining it in.

Key contact

Indranath Bishnu
Partner (Head - Insurance)
indranath.bishnu@cyrilshroff.com

Pranjita Barman
Partner
pranjita.barman@cyrilshroff.com

Anirud Sudarsan R
Partner
anirud.sudarsan@cyrilshroff.com

Disclaimer

All information given in this alert has been compiled from credible, reliable sources. Although reasonable care has been taken to ensure that the information contained in this alert is true and accurate, such information is provided 'as is', without any warranty, express or implied as to the accuracy or completeness of any such information.

Cyril Amarchand Mangaldas shall not be liable for any losses incurred by any person from any use of this publication or its contents. This alert does not constitute legal or any other form of advice from Cyril Amarchand Mangaldas.

Should you have any queries in relation to the alert or on other areas of law, please feel free to contact us on cam.publications@cyrilshroff.com

Cyril Amarchand Mangaldas
Advocates & Solicitors

100+ years of legacy **1450** Lawyers **230** Partners

Peninsula Chambers, Peninsula Corporate Park, GK Marg, Lower Parel, Mumbai 400 013, India
T +91 22 6660 4455 **E** cam.mumbai@cyrilshroff.com **W** www.cyrilshroff.com
Presence also in Delhi-NCR | Bengaluru | Ahmedabad | Hyderabad | Chennai | GIFT City | Singapore | Abu Dhabi