08 April 2015

Draft regulations on Corporate Agents

The Insurance Laws (Amendment) Act 2015 introduced on 23 March 2015 has defined ‘Corporate Agents’ (i.e., the third-party distributors of insurance products) as ‘insurance intermediaries’. The earlier Insurance Act, 1938 did not contain any specific definition of ‘Corporate Agents’. This change has necessitated a fresh set of regulations covering the registration and other aspects for regulating such Corporate Agents.

Accordingly, the Insurance Regulatory and Development Authority of India (IRDA) has issued draft regulations covering various aspects regarding the regulation of Corporate Agents and has invited comments from interested parties. Corporate Agents for this purpose include banks who act as distributors of insurance products.

Some of the key provisions of the draft regulations are set out below.

Key provisions of the draft regulations

a. For a Corporate Agent carrying out insurance distribution only (i.e., it does not have any other business), the minimum capital requirement is set to be INR 50 lakhs (INR 5 million). A foreign investor’s holding in the capital is restricted as prescribed by the central government from time to time.

b. A corporate agency license can be for either life insurance, general insurance (retail only), health insurance (individual only) or composite (subject to the same restrictions as applicable for life, general and health).

c. A Corporate Agent shall have arrangements with a maximum of three life insurers/general insurers/health insurers (as the case may be) to distribute their products.

d. A Corporate Agent is not allowed to place more than 90% of the business it procures with any one insurer (in each of the categories—life/general/health, as applicable) in the first year. This limit is lowered to 75%, 60% and 50% in the second, third and fourth years onwards, respectively.

e. The regulations state that following one year, the Corporate Agent will be allowed to distribute only those products approved by the IRDA that are exclusively designed by the insurer for sale through the corporate agency channel. It is unclear what this ‘one year’ period is referring to—one year following the issuance of the regulations, one year of Corporate Agency license, or something else.

f. A Corporate Agent is required to hold a professional indemnity insurance cover of two times the total annual remuneration, subject to a minimum of INR 15 lakhs (INR 1.5 million).

g. There are other detailed regulations specified governing:
    - The procedure for registration and renewal
    - The remuneration to the Corporate Agent
    - Code of conduct
    - Penalties
    - Maintenance of accounts, etc.

What next?

Insurers are required to provide comments on these draft regulations to the IRDA by 10 April 2015. At this stage, it is unclear what shape the final regulations would take, as we would expect different insurers to provide contradictory views on various provisions, especially those governing the maximum limit on business through any one insurer.

However, if the final regulations are in line with this draft, this would have far-reaching implications on the distribution of insurance business in India.

For example, all the bancassurance distribution arrangements are currently ‘exclusive’—i.e., the banks (as Corporate Agents) distribute the products of only one insurance company. With these new regulations, banks are required to distribute the products of at least two insurance companies. By the fourth year, all banks will be expected to have at least three distribution arrangements (so that the proportion of business from any one insurer does not exceed 50%). If implemented as drafted, this may change the entire landscape of distribution through banks (and indeed through other Corporate Agents) in areas such as training/support provided by the insurers, co-branded products, remuneration structure, etc.

The change could also impact the valuation of insurance companies at a time when many joint venture partners have started to think about changing the equity stakes following the passing of the Insurance Laws (Amendment) Act, 2015. A key part of the value of future new business relates to the value of business that can be sold through banks (and other Corporate Agents), driven by future volumes and margins, both of which could be impacted by these proposed changes.

It is to be seen if this would be in the long-term interest of the industry.

Contact details

If you have any questions about this e-Alert, please contact:

Sanket Kawatkar
Principal and Consulting Actuary
B/712, 215 ATRIUM
Chakala, Andheri-Kurla Road, Andheri (E)
Mumbai 400 059, India
Office +91 22 6784 8410
Mobile +91 98201 81681
Email **sanket.kawatkar@milliman.com**

Richard Holloway
Managing Director - South East Asia & India, Life
133 Cecil Street, #12-02 Keck Seng Tower
Singapore 069535
Office +65 6327 2301
Mobile +65 9732 0150
Email **richard.holloway@milliman.com**

Shamit Gupta
Consulting Actuary
Global Business Square
401, Fourth Floor, Plot No 32
Institutional Area, Sector-44
Gurgaon 122 022, India
Office +91 124 464 1507
Mobile +91 98330 31513
Email **shamit.gupta@milliman.com**

Philip Jackson
Consulting Actuary
B/712, 215 ATRIUM
Chakala, Andheri-Kurla Road, Andheri (E)
Mumbai 400 059, India
Office +91 22 6784 8413
Mobile +91 96192 94144
Email **philip.jackson@milliman.com**

Disclaimer