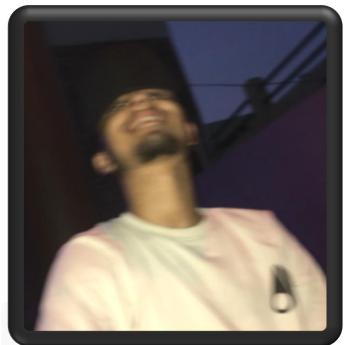


INSURANCE SER.



UNIT TEST – SECTION B

DATE – 11/10/2069

TIME – 11:40

D. Jhawar
Principal
S.M.D.R.S.D. College
Pathankot

- 1. Explain and illustrate the strength and weakness of insurance intermediaries in India. Suggest some improvement in it.**

- 2. Discuss the functions of insurance agent.**

- 3. Discuss the agency commission structure in detail.**

4. What are the prerequisites to become an agent ? Explain in detail training procedure for becoming an agent.

5. What are the different agency regulations ?

SOLUTION.

1. Explain and illustrate the strength and weakness of insurance intermediaries in India. Suggest some improvement in it.

Introduction (Step 1)

Insurance intermediaries are the distribution link between insurance companies and the public. They play a vital role in creating awareness about insurance products, assisting customers in choosing appropriate covers, completing documentation, and aiding in claims settlement. In India, intermediaries include agents, brokers, corporate agents, web aggregators, bancassurance partners, Third Party Administrators (TPAs) for health insurance, and others. The functioning of intermediaries is regulated by the Insurance Regulatory and Development Authority of India (IRDAI) which prescribes licensing, conduct and disclosure norms.

This answer examines intermediaries step-by-step: definition, types, functions; discusses strengths and weaknesses with illustrative examples; and concludes with practical suggestions for improvement. The style follows an exam-oriented, analytical approach suitable for GNDU B.Com students.

Step 2: Meaning and Types (Definition + Classification)

Definition: An insurance intermediary is any person or firm who, for remuneration or commission, brings together the insurer and the insured or assists in the administration of an insurance contract.

Major types in India:

1. **Insurance Agents** (individual and corporate) — appointed by insurers to solicit business and provide after-sales service.
2. **Insurance Brokers** — independent intermediaries representing the customer, offering advice, placing business with insurers, and assisting in claims.
3. **Corporate Agents** — banks, companies or organisations appointed by insurers to distribute products (bancassurance is a common form).
4. **Web Aggregators / Online Platforms** — digital marketplaces that allow comparison and purchase of policies.
5. **Third Party Administrators (TPAs)** — manage claims processing and administration in health insurance.
6. **Other channels** — micro-insurance distributors, Point of Sale Persons (POSPs), reinsurance intermediaries for larger markets.

Step 3: Key Functions of Intermediaries (Short list for exam)

1. Product advice and needs assessment.

2. Policy proposal preparation and documentation.
3. Premium collection and processing.
4. Claims assistance and coordination with insurers.
5. Customer education and follow-up (renewals, endorsements).
6. Market feedback to insurers (product design suggestions).

These functions form the basis for evaluating strengths and weaknesses.

Step 4: Strengths of Insurance Intermediaries (Step-by-step explanation + illustration)

Below are major strengths, each explained and followed by an illustrative example.

1. Market access and reach

Explanation: Intermediaries extend insurers' reach into rural and urban markets. Agents and POSPs often operate at the grassroots level.

Illustration: A local agent in a small town educates farmers about crop or micro-insurance schemes and helps them buy policies that the insurer could not sell directly.

2. Personalized advice and needs assessment

Explanation: Intermediaries evaluate customers' financial situation and recommend suitable covers and sums insured. **Illustration:** A broker helps a small business owner compare multiple liability and property products to find the best combination at realistic premiums.

3. Facilitation of claims and after-sales service

Explanation: Intermediaries assist in claim filing, documentation and follow up — reducing customer stress and claim turnaround time. **Illustration:** In a motor accident claim, an insurer-appointed agent helps the insured gather

required documents and coordinate with the surveyor to expedite settlement.

4. Product education and awareness creation

Explanation: Through canvassing and counseling, intermediaries inform customers about the benefits and limitations of insurance. **Illustration:** A corporate agent (bank) promotes health insurance at the time of a customer's loan approval — increasing awareness among those who might not otherwise purchase a policy.

5. Market intelligence and product development support

Explanation: Intermediaries provide feedback from customers to insurers, helping refine product design and pricing. **Illustration:** An aggregator notices repeated complaints on policy wording for a certain cover; insurers revise the clause to reduce disputes.

6. Choice and competition (particularly brokers and aggregators)

Explanation: Brokers and aggregators enable customers to compare offers from multiple insurers, fostering competition and better pricing. **Illustration:** A corporate client using a broker secures coverage across three insurers, obtaining competitive terms and lower aggregate premiums.

7. Regulatory compliance and professional standards (where present)

Explanation: Licensed intermediaries operating under IRDAI rules are required to follow training and conduct norms, which can raise professionalism over time.

Step 5: Weaknesses of Insurance Intermediaries (Step-by-step analysis + illustration)

Despite the strengths, intermediaries in India face several weaknesses that impact consumer welfare and market efficiency.

1. Mis-selling and conflict of interest

Explanation: Commission structures can create incentives to sell high-commission products rather than customer-suitable ones. Agents tied to one insurer may not present alternatives. **Illustration:** An agent recommends a single insurer's ULIP because of higher commission, even when a term plan would better suit the client's protection needs.

2. Lack of professionalism and inadequate training

Explanation: Many intermediaries lack formal training or continuing education, leading to poor product knowledge and errors in documentation. **Illustration:** Incorrectly filled proposal forms or missed disclosures result in claim repudiation later.

3. Poor after-sales service and low accountability

Explanation: Some intermediaries focus on sale and neglect post-sale support; tracking and penalising poor performance is challenging. **Illustration:** Policy renewals lapse because the intermediary did not remind the client; the client loses coverage.

4. Limited transparency on commission and fees

Explanation: Customers are often unaware of commissions and remuneration structure; lack of disclosure breeds distrust.

5. Geographic and digital divide

Explanation: While agents serve in many areas, there are gaps — remote areas may be underserved; digital platforms favour urban, digitally literate users.

6. Concentration and channel conflict

Explanation: Bancassurance and corporate agents may give preferential push to products favourable to their employer or bank's partners. Brokers may face access limits with certain insurers.

7. Regulatory and enforcement gaps

Explanation: Although IRDAI prescribes rules, monitoring every intermediary is difficult. Penalties and enforcement may be slow.

Step 6: Illustrative Example (Comparative scenario)

Scenario: Two customers, A and B, need a life insurance policy.

- **Customer A** approaches a tied agent who only sells Insurer X products. The agent recommends a ULIP, influenced by higher commission and bonus offers. A later financial shock shows A had insufficient pure risk cover.
- **Customer B** consults an independent broker. The broker compares multiple term and savings products and recommends a term policy with a small investment plan for future savings. When B's family faced a claim, the term policy settlement was swift and adequate.

Learning: The example highlights how intermediary type and incentives affect suitability and customer outcomes.

Step 7: Suggestions for Improvement (Practical and exam-friendly)

Below are concrete suggestions, grouped by stakeholder, each with actionable steps.

A. Regulatory and industry level (IRDAI, insurers)

1. **Stronger pre-liscence training and mandatory continuing education** — require periodic certified courses and refreshers for agents and brokers.

- 2. Transparent disclosure norms** — mandate clear disclosure of commission, product features, exclusions, and surrender/lock-in details at the time of sale.
- 3. Performance monitoring and early warnings** — IRDAI and insurers should use digital dashboards to monitor complaints, lapses and claim ratios by intermediary; repeat poor performers should face sanctions or retraining.
- 4. Standardised product documents** — simplify and standardise key facts documents (one-page summaries) to reduce misinterpretation.
- 5. Strengthen grievance redressal** — faster routes via insurer helplines, IRDAI grievance portals and the Ombudsman with time-bound resolution.

B. For intermediaries and firms

- 1. Adopt digital tools** — CRM systems to track renewals, e-KYC, e-signatures, and online claim assistance to improve speed and transparency.
- 2. Code of conduct and ethics** — firms should institute internal audit, mystery shopping and strict disciplinary norms for mis-selling.
- 3. Customer-centric remuneration** — shift a part of commission to service and persistency bonuses to incentivise long-term client welfare rather than single-time sales.
- 4. Skill development** — tie promotion and higher remuneration to certifications and customer satisfaction metrics.

C. For customers and civil society

- 1. Financial literacy drives** — joint campaigns by insurers, IRDAI, and consumer groups to educate about policy types, exclusions and claim procedures.

2. **Encourage comparison shopping** — use aggregators and brokers to ensure competitive purchasing.

D. Technological measures

1. **Open APIs and data portability** — allow customers to port policy data across platforms to enable comparison and switching.
2. **AI-assisted suitability checks** — simple digital tools that ask basic questions and flag unsuitable sales (e.g., selling endowment to a young breadwinner needing pure term cover).

Each of these suggestions should be followed with measurable targets — e.g., reducing complaints per 1,000 policies by X% (to be set by regulator) and increasing policy persistency.

Short Conclusion

Insurance intermediaries are the backbone of the Indian insurance sector, connecting insurers with the public and spreading awareness about financial protection. Their contribution to increasing insurance penetration, guiding customers, and assisting in claims is highly valuable. However, challenges such as mis-selling, lack of training, and limited transparency reduce their effectiveness. By improving education, enforcing stricter regulations, and embracing technology-driven transparency, intermediaries can become more professional, ethical, and customer-oriented — ensuring sustainable growth for India's insurance industry.

2. Discuss the functions of insurance agent.

Introduction

An **insurance agent** is a licensed individual who acts as a link between the insurance company (insurer) and the customer (insured). The agent plays a crucial role in promoting, selling, and servicing insurance policies. In India, insurance agents are regulated by the **Insurance Regulatory and Development Authority of India (IRDAI)**, which prescribes the code of conduct, training, and licensing requirements.

Insurance agents are often the **first point of contact** for policyholders and play a key role in spreading awareness, explaining policies, and assisting in claims.

Meaning of Insurance Agent

According to the **IRDAI (Licensing of Insurance Agents) Regulations**, “An insurance agent means an individual appointed by an insurer to solicit or procure insurance business and to provide service to policyholders on behalf of the insurer.”

Thus, an agent is a representative of the insurer but acts as a guide to the customer in selecting a suitable insurance policy.

Types of Insurance Agents

- 1. Life Insurance Agent** – sells life insurance policies (e.g., term plan, endowment plan, ULIP).
- 2. General Insurance Agent** – deals in non-life insurance such as motor, fire, health, and marine insurance.

3. **Composite Agent** – authorized to sell both life and general insurance.
 4. **Corporate Agent** – a company or institution (like a bank) acting as an agent for one or more insurers.
-

Functions of an Insurance Agent

Below are the major functions explained point-wise with short illustrations:

1. Prospecting and Canvassing

Explanation: The first duty of an agent is to identify potential customers and make them aware of insurance needs.

Example: An agent may approach families, shop owners, or farmers and explain the importance of life or crop insurance.

2. Explaining Policy Features and Advising Clients

Explanation: The agent explains various types of insurance plans, their benefits, premiums, terms, and exclusions to help customers choose the right policy.

Example: Advising a young salaried person to buy a term life policy instead of an endowment plan for better risk coverage.

3. Filling Proposal Forms and Documentation

Explanation: Agents help customers fill out proposal forms correctly and collect necessary documents like ID proof, income details, and medical reports.

Example: An agent ensures the client discloses all health conditions to avoid claim disputes later.

4. Collection of Premiums

Explanation: Agents collect the first premium from the proposer and deposit it with the insurance company as per IRDAI guidelines.

Example: Collecting the cheque or online payment and issuing a receipt immediately.

5. Policy Delivery and Record Keeping

Explanation: The agent delivers the policy bond or digital document to the insured and keeps records of sales, renewals, and client details.

6. Assistance in Policy Servicing

Explanation: Agents help clients in making changes like address updates, nomination, or mode of premium payment.

Example: Assisting a client in converting a policy from annual to quarterly premium payment mode.

7. Renewal and Follow-up

Explanation: Agents remind customers about due dates for renewal premiums to prevent policy lapse.

Example: Sending a reminder message or visiting the client before the premium due date.

8. Claims Assistance

Explanation: Agents guide policyholders or nominees during claim settlement by helping with claim forms, documents, and communication with

the insurer.

Example: Helping the family of a deceased insured person file a life insurance claim smoothly.

9. After-Sales Service

Explanation: Providing continuous support, answering queries, and ensuring customer satisfaction even after policy issuance.

10. Feedback and Market Intelligence

Explanation: Agents convey market trends, customer opinions, and suggestions to the insurer, helping in product improvement.

Example: Reporting customer demand for low-premium health plans.

Importance of Insurance Agents

- They increase **insurance awareness and penetration** in rural and urban areas.
 - They serve as **trusted advisors** and improve customer relationships.
 - They **simplify complex insurance terms** for common people.
 - They assist in **faster claim settlements** and grievance handling.
-

Conclusion

Insurance agents play an essential role in the success of the insurance industry. They not only generate business but also maintain the insurer's reputation through efficient service and customer care. By offering honest advice, proper guidance, and after-sale support, agents build trust between

the insurer and the insured. Therefore, a well-trained and ethical insurance agent is a key pillar in the development of India's insurance sector.

3. Discuss the agency commission structure in detail.

Introduction

The **agency commission** is the remuneration paid by an insurance company to its agents for procuring insurance business and providing after-sale services.

It serves as the main source of income for insurance agents and is designed to **motivate agents** to bring in new customers while maintaining existing policies.

In India, the commission structure is regulated by the **Insurance Regulatory and Development Authority of India (IRDAI)** to ensure fairness, prevent mis-selling, and maintain ethical practices.

Meaning of Agency Commission

Agency commission refers to the percentage of premium paid by an insurance company to its agents as compensation for the business procured and services rendered.

It varies according to:

- The **type of policy** (life or general insurance),
 - The **term of policy**, and
 - Whether it is a **first-year** or **renewal** premium.
-

Objectives of Commission System

1. To **reward** agents for their efforts in generating business.
 2. To **encourage long-term policy renewals** and persistency.
 3. To ensure **fair compensation** for customer service and follow-up.
 4. To **motivate agents** to spread insurance awareness and reach untapped areas.
-

Regulatory Authority

The commission payable to insurance agents in India is governed by **IRDAI (Payment of Commission or Remuneration or Reward) Regulations, 2016** and updated circulars issued from time to time.

The purpose of these regulations is to:

- Ensure **transparency and uniformity**,
 - Prevent **unethical practices** like over-commissioning, and
 - Encourage **long-term business sustainability**.
-

Commission Structure for Life Insurance Agents

IRDAI prescribes different commission limits depending on the **type and duration of policy**.

1. Traditional Life Insurance Policies (Endowment, Whole Life, etc.)

Type of Policy	Commission on 1st Year Premium	Commission on Renewal Premiums
Regular premium (policy term \geq 12 years)	Up to 35%	Up to 7.5%
Single premium policy	Up to 2%	—
Limited premium payment policy (term 5–11 years)	Up to 20–30%	Up to 7.5%

Example:

If an agent sells an endowment policy with ₹20,000 annual premium for 20 years, he can earn up to ₹7,000 (35%) as commission in the first year and ₹1,500 (7.5%) each in subsequent renewals.

2. Term Insurance Plans

- First-year commission: **Up to 40%** of premium.
- Renewal commission: **Up to 10%**.

Reason: Term plans have lower premiums, so a slightly higher commission rate is allowed to motivate agents.

3. Unit Linked Insurance Plans (ULIPs)

Type	First Year	Renewal
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Regular premium	Up to 30%	Up to 7.5%
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Type	First Year Renewal
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Single premium	Up to 2% —
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4. Group Insurance Policies

Type	Commission
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One-year renewable group term policy	Up to 7.5%
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Single premium group policy	Up to 2%
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Group gratuity/superannuation schemes	Up to 2% of the premium
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Commission Structure for General Insurance Agents

In general insurance, the commission depends on the **class of business**.

Type of General Insurance	Maximum Commission Allowed (as per IRDAI)
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Fire, Marine, Engineering	Up to 15% of premium
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Motor Insurance (Own Damage portion)	Up to 15%
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Motor Third-Party	Up to 2.5%
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Health Insurance (Retail)	Up to 15%
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Crop Insurance (Government schemes)	Up to 10%
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Miscellaneous (Burglary, Personal Accident, etc.)	Up to 15%
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Note:

For **reinsurance business**, commission is mutually agreed upon between the insurer and the reinsurer — it is not fixed by IRDAI.

Special Provisions

1. Renewal Commission:

Agents continue to receive renewal commissions as long as the policy remains in force, even after they retire (subject to certain limits).

2. Commission Restrictions:

- No commission is payable on policies issued to the agent himself or his family.
- Agents must not share or rebate commissions to attract business — this is a punishable offence under the **Insurance Act, 1938 (Section 41)**.

3. Bonus or Reward:

In addition to commission, insurers may provide **performance-based rewards** (subject to IRDAI limits) for high persistency, ethical conduct, and policy renewals.

Advantages of Commission System

- 1. Motivates agents** to increase business and reach new customers.
- 2. Links reward with effort** — higher performance yields higher earnings.
- 3. Encourages renewals**, ensuring long-term business.
- 4. Supports customer service**, as agents follow up regularly for renewals.

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5. **Expands insurance penetration**, especially in rural areas.

Limitations of the Commission Structure

1. **Risk of mis-selling** — Agents may promote high-commission products over suitable ones.
2. **Lack of transparency** — Customers are often unaware of commission amounts.
3. **High first-year commission** may cause short-term sales focus.
4. **Unequal distribution** — Smaller agents may earn less, reducing motivation.
5. **Complex regulations** may create confusion about rates and compliance.

Suggestions for Improvement

1. **Balanced commission structure** — reduce the gap between first-year and renewal commissions to encourage long-term service.
2. **Full disclosure** — commissions should be clearly stated in the policy document for customer awareness.
3. **Link commission to persistency ratio** — agents should earn more when clients retain policies longer.
4. **Digital monitoring** — IRDAI and insurers can use online dashboards to track high commission practices.
5. **Ethics training** — agents should undergo continuous training on ethical sales practices.

Conclusion

The **agency commission structure** is a vital component of India's insurance distribution system. It motivates agents to reach customers, sell policies, and provide ongoing service. However, it must strike a balance between **reward and responsibility**. With transparent policies, better monitoring, and focus on customer satisfaction, the commission system can remain a powerful tool for expanding insurance coverage and building public trust in the industry.

MANJEET Enterprises

4. What are the prerequisites to become an agent ? Explain in detail training procedure for becoming an agent.

Introduction

Insurance agents are the **key link between insurers and the public**. They play an essential role in spreading awareness, explaining policies, and assisting in claims.

To ensure that only competent and ethical individuals perform this role, the **Insurance Regulatory and Development Authority of India (IRDAI)** has laid down specific eligibility conditions, training requirements, and licensing procedures.

The process of becoming an insurance agent in India is well-defined and aims to maintain professionalism, integrity, and quality in the insurance industry.

Meaning of an Insurance Agent

According to the **IRDAI (Licensing of Insurance Agents) Regulations**, “An insurance agent means an individual appointed by an insurer to solicit or procure insurance business and to provide service to policyholders on behalf of the insurer.”

Thus, an insurance agent acts as a **representative of the insurer** and also serves as a **guide to the policyholder**.

Step 1: Prerequisites to Become an Insurance Agent

To become an insurance agent in India, the following basic eligibility conditions must be satisfied:

1. Age Requirement

The applicant must be **at least 18 years of age** at the time of application.

2. Educational Qualification

- For **urban areas**: Minimum qualification is **10+2 (Senior Secondary)** or equivalent.
- For **rural areas**: Minimum qualification is **10th pass**. IRDAI may relax this requirement in special cases (for example, experienced field workers in micro-insurance).

3. Indian Citizenship

The person must be an **Indian citizen**. Foreign nationals are not eligible unless specifically approved by the regulator.

4. Fit and Proper Criteria

The applicant must be of **good moral character and financial soundness**. He should not have been:

- Convicted of any criminal offence involving dishonesty, fraud, or moral turpitude, or
- Declared insolvent or bankrupt.

5. Sponsorship by an Insurer

The applicant must be **sponsored by an insurance company** that is willing to appoint him as its agent.

Alternatively, he can apply directly through the **IRDAI's online portal** and later choose the insurer.

6. Mandatory Training and Examination

Before obtaining the license, the candidate must:

- Undergo **prescribed training** with an approved institution, and
 - **Pass the examination** conducted by the IRDAI or its authorized testing agency (e.g., National Insurance Academy, NISM, or NSE-IT).
-

7. Application and License Fee

The applicant must pay the **prescribed fee** to the IRDAI for licensing (as per current regulation, ₹250 for individual agent license, subject to change).

Step 2: Training Procedure for Becoming an Insurance Agent

Training is a **core prerequisite** because it equips prospective agents with the knowledge of insurance principles, ethics, and regulatory compliance.

The detailed procedure is as follows:

1. Enrollment in an Approved Training Institution

- The candidate must enroll in an **IRDAI-accredited training institute** or the training department of an insurer.
 - Many insurance companies, such as LIC, ICICI Prudential, SBI Life, etc., have their own approved training centers.
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2. Duration of Training

The duration depends on the type of insurance business:

Type of Agent	Minimum Training Hours	Mode of Training
Life Insurance Agent	25 hours	Online / Classroom
General Insurance Agent	25 hours	Online / Classroom
Composite Agent (Life + General)	50 hours	Online / Classroom

(Earlier, the requirement was 50 hours; IRDAI reduced it to 25 hours to encourage new entrants with digital learning methods.)

3. Contents of Training

The syllabus for the pre-licensing training includes the following modules:

1. **Basics of Insurance:** Principles, risk management, indemnity, insurable interest, etc.
2. **Types of Insurance:** Life, health, fire, marine, and miscellaneous insurance.

- 3. Insurance Products:** Features, benefits, exclusions, and policy conditions.
- 4. Regulatory Framework:** IRDAI functions, code of conduct, and legal provisions under the **Insurance Act, 1938**.
- 5. Role and Duties of Agents:** Prospecting, documentation, claims assistance, and post-sale service.
- 6. Ethical Sales Practices:** Avoiding mis-selling, maintaining transparency, customer service ethics.
- 7. Digital Literacy:** e-KYC, online policy issuance, and use of insurance portals.

Training is a blend of theory, practical cases, and mock exercises.

4. Mode of Training

Training can be conducted through:

- **Offline (classroom) sessions** at insurer training centers or institutes, or
- **Online/e-learning modules** via IRDAI-approved digital platforms.

All participants must attend the full duration and pass internal assessments to qualify for the IRDAI exam.

5. Examination by IRDAI

After successful completion of training, the candidate must appear for an **online examination** conducted by **IRDAI-authorized bodies** (like NSE-IT).

Exam pattern:

- **Mode:** Computer-based test (online).

- **Type:** Multiple-choice questions (MCQs).
 - **Total Marks:** 50 marks (usually).
 - **Passing Criteria:** 35% to 40% marks, depending on category.
 - **Language:** Available in English, Hindi, and regional languages.
-

6. Grant of License

If the candidate passes the examination and fulfills all eligibility criteria, IRDAI grants a **license** to act as an insurance agent.

- The **license is valid for 3 years** (subject to renewal).
 - Renewal requires the agent to complete **25 hours of refresher training** and maintain a good record (no violations or fraud).
-

7. Appointment by the Insurer

Once licensed, the insurance company formally **appoints the candidate as its agent** and issues an **appointment letter and identity card**.

The agent's name is also entered in the IRDAI's centralized database.

8. Post-Licensing Obligations

- Follow the **Code of Conduct for Agents** as per Schedule I of IRDAI Regulations.
 - Maintain client confidentiality and proper record-keeping.
 - Avoid rebating or misleading advertisements.
 - Continue professional education through refresher training.
-

Step 3: Renewal of License

After three years, the agent must:

1. Undergo **25 hours of refresher training**,
2. Submit a renewal application and fee, and
3. Maintain a good record of conduct and compliance.

If the renewal is delayed beyond one year, the agent must undergo the full training and examination again.

Step 4: Benefits of Proper Training

1. Ensures **professionalism** and ethical selling.
 2. Builds **customer confidence** in the agent.
 3. Reduces **mis-selling and fraud**.
 4. Improves **product knowledge** and service quality.
 5. Enhances **career growth** and earning potential.
-

Conclusion

Becoming an insurance agent in India involves fulfilling specific **eligibility criteria**, **completing mandatory training**, and **passing the IRDAI examination**.

This structured process ensures that only qualified individuals enter the profession, thereby maintaining trust and efficiency in the insurance sector. Proper training not only equips agents with technical knowledge but also instills ethical values, ensuring that they serve both the insurer and the insured in a fair and responsible manner.

5. What are the different agency regulations ?

Introduction

Insurance agents play a vital role in promoting, distributing, and servicing insurance products in India.

To ensure that agents work **ethically, professionally, and transparently**, the **Insurance Regulatory and Development Authority of India (IRDAI)** has framed several **agency regulations**.

These regulations define who can become an agent, how they are licensed, their code of conduct, the commission structure, and the disciplinary procedures in case of violations.

Agency regulations are crucial because insurance involves the public's trust and money — and hence, the behavior of agents directly affects the reputation of the insurance industry.

Meaning of Agency Regulations

Agency regulations refer to the set of rules, laws, and guidelines framed by the IRDAI under the **Insurance Act, 1938** to govern the appointment, training, conduct, remuneration, and responsibilities of insurance agents in India.

These regulations ensure that:

1. Only qualified and trained persons act as insurance agents.
2. Agents follow ethical practices and protect policyholders' interests.
3. The relationship between insurers and agents remains transparent and legally defined.

Major Agency Regulations in India

The key regulations related to insurance agents are:

- 1. Insurance Act, 1938** (Primary legislation)
- 2. IRDAI (Licensing of Insurance Agents) Regulations**
- 3. IRDAI (Payment of Commission or Remuneration or Reward) Regulations, 2016**
- 4. IRDAI (Appointment of Insurance Agents) Regulations**
- 5. IRDAI (Protection of Policyholders' Interests) Regulations, 2017**
- 6. IRDAI (Registration of Corporate Agents) Regulations, 2015**
- 7. Code of Conduct for Insurance Agents** (Schedule I of the Regulations)

Let's understand each in detail.

1. The Insurance Act, 1938 (Legal Foundation)

This is the **main law governing insurance business in India**.

Key Provisions Related to Agents:

- **Section 42:**
No person can act as an insurance agent without holding a valid license issued by the IRDAI.
- **Section 40:**
Limits the commission or remuneration payable to agents and prohibits excessive commissions.

- **Section 41:**
Prohibits rebating (offering part of the commission to attract customers).
- **Section 102–105C:**
Specifies penalties for violations like misrepresentation, fraud, or mis-selling by agents.

Purpose:

To ensure that only authorized, trained, and ethical individuals act as agents and to prevent exploitation of customers.

2. IRDAI (Licensing of Insurance Agents) Regulations

These regulations define the **eligibility, training, examination, and licensing process** for becoming an insurance agent.

Main Provisions:

1. Eligibility:

- Minimum age 18 years.
- Educational qualification – 10th or 12th standard (depending on area).
- Indian citizenship and good moral character.

2. Training:

- Minimum 25 hours of pre-licensing training from an IRDAI-approved institution.
- 50 hours for composite agents (life + general).

3. Examination:

- Must pass the IRDAI pre-licensing exam (conducted by NISM or NSE-IT).

4. License Validity:

- 3 years, renewable on completion of refresher training.

5. Renewal:

- Requires 25 hours of additional training and good record.

6. Revocation of License:

- The license can be cancelled if the agent commits fraud, misrepresents facts, or violates the Code of Conduct.

Objective:

To ensure that every agent entering the insurance profession is trained, tested, and licensed.

3. IRDAI (Payment of Commission or Remuneration or Reward) Regulations, 2016

These regulations prescribe **maximum limits of commission and rewards** payable to insurance agents and intermediaries.

Key Provisions:

1. Maximum Commission:

- Life insurance (first year): up to 35–40% of premium.
- Renewal: up to 7.5–10%.
- General insurance: up to 15% for most classes of business.

2. Disclosure Requirement:

- The insurer must disclose commission details to the customer.

3. Performance-Based Rewards:

- Additional rewards may be paid based on persistency, volume, or quality of business — but within limits set by IRDAI.

4. Prohibition of Excess Payments:

- No insurer can pay any commission beyond prescribed limits.

Objective:

To bring transparency and fairness in agent remuneration and discourage mis-selling.

4. IRDAI (Appointment of Insurance Agents) Regulations

These regulations govern **how insurers appoint and manage agents**.

Main Provisions:

1. Appointment Letter:

Every insurer must issue a formal appointment letter to its agents stating terms and conditions.

2. Identity Card:

Agents must carry a valid ID card during solicitation.

3. Code of Conduct:

Agents must follow the conduct guidelines laid down in Schedule I (explained later).

4. Termination:

An insurer can terminate an agent for misconduct, poor performance, or breach of regulations.

5. Confidentiality:

Agents must maintain confidentiality of policyholder information.

Objective:

To ensure a transparent and professional relationship between insurer and agent.

5. IRDAI (Protection of Policyholders' Interests) Regulations, 2017

Although not exclusively about agents, these regulations define the **standards of service and disclosure** that agents must follow while dealing with customers.

Main Provisions:

1. Duty of Disclosure:

Agents must clearly explain product features, exclusions, and charges.

2. Avoid Mis-selling:

Agents must recommend suitable products based on customers' needs and financial condition.

3. Fair Communication:

No false promises, misleading advertisements, or exaggerated returns.

4. Claims Assistance:

Agents must help policyholders in filing claims and ensure fair handling.

Objective:

To protect policyholders from unethical or uninformed selling practices.

6. IRDAI (Registration of Corporate Agents) Regulations, 2015

These govern the licensing and functioning of **corporate agents** such as banks, NBFCs, or large institutions that distribute insurance products.

Main Provisions:

1. Registration:

Corporate agents must register with IRDAI and pay the prescribed fee.

2. Training:

Employees of corporate agents who sell insurance must undergo training and certification.

3. Multiple Insurers:

A corporate agent can tie up with **up to three insurers** each in life, general, and health segments.

4. Code of Conduct:

Corporate agents must comply with similar ethical and conduct standards as individual agents.

7. Code of Conduct for Insurance Agents (Schedule I)

This is one of the most important regulatory elements governing agent behavior.

Key Principles:

1. Honesty and Integrity:

Act in good faith and in the best interest of the policyholder.

2. Transparency:

Provide true and complete information about policies, benefits, exclusions, and charges.

3. Confidentiality:

Keep customer information private and use it only for legitimate business.

4. No Rebating:

Never offer or accept any illegal commission-sharing or discounts to attract clients.

5. Avoid Conflict of Interest:

Do not represent more than one insurer of the same class of business.

6. Claims Assistance:

Guide and help policyholders in settlement of claims honestly and promptly.

7. Professional Conduct:

Maintain dignity, proper dress, and polite behavior while representing the insurer.

8. Continuous Learning:

Keep updated with product knowledge and regulatory changes.

Violation of the Code can lead to **suspension, cancellation, or penalties** under the IRDAI regulations.

8. Penalties for Violation of Regulations

Under the **Insurance Act, 1938** and **IRDAI Act, 1999**, agents may face the following penalties:

Nature of Offence	Penalty / Consequence
Acting without license	Fine up to ₹10,000 or higher
Rebating or commission sharing	Fine up to ₹500 or imprisonment up to 1 year
Misrepresentation or fraud	License cancellation + prosecution
Breach of code of conduct	Suspension or permanent ban

These penalties maintain discipline and protect the credibility of the insurance profession.

9. Importance of Agency Regulations

1. **Professionalism:** Ensures that only trained and ethical persons act as agents.
 2. **Transparency:** Builds public trust in the insurance system.
 3. **Consumer Protection:** Prevents mis-selling and fraud.
 4. **Fair Competition:** Standardizes remuneration and practices.
 5. **Accountability:** Enables IRDAI to monitor and take action against violations.
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Conclusion

Agency regulations in India form the backbone of the insurance distribution system. They ensure that agents act as **responsible representatives** of insurers and **trusted advisors** to customers.

By enforcing strict licensing, training, and conduct rules, the IRDAI safeguards policyholders' interests and maintains ethical standards in the insurance industry.

In short, **agency regulations promote professionalism, transparency, and trust** — the three pillars necessary for the healthy growth of India's insurance market.

Tatvam asi