Insurance

Most significant takeways

- Distributor types reduced to three from eight
- Hard commission caps are back
- EoM glide path tightens materially
- Bancassurance in the crosshairs
- Brokers/aggregators face cap squeeze
- Insurance-only wall comes down
- Motor dealers/MISPs must register as IDEs
- Compulsory loan-insurance bundling banned
- Mandatory cost audits + public disclosure

Distribution regulations: The word is out

Massive regulatory changes to have significant ramifications

IRDAI's Sep'26 consultation paper, "Recalibrating Economics of Insurance Distribution", is the most significant proposed overhaul of distribution regulation since the 2023 Expenses of Management (EoM) reforms. The 2023 reform removed hard commission caps and moved to an entity-level EoM ceiling computed on gross written premium (GWP) with the board's discretion, whereas this consultation paper proposes to reintroduce hard commission caps, tighten EoM computation, and collapse a fragmented eight-category distributor architecture into three types – insurance distribution entities (IDE), insurance distribution person (IDP) and market infrastructure institution for insurance (MII).

Most significant takeaways

- Distributor types reduced to three from eight: Corporate agents, brokers, IMFs, web aggregators, MISPs, etc. all collapse into IDE, IDP and MII. Entry capital is cut to INR1m, and registration is permanent. Easier entry = More competition.
- Hard commission caps are back: 2023 removed caps; this reverses that. Motor TP: near-nil for IDEs. Health first-year capped 15-20% (IDE/agent). Life 10yr+ PPT: 20-25% first year, just 3-5% renewal.
- EoM glide path tightens materially - Life: 15% in 2 years then 12.5% of premium in 5yrs. General: 25% in 2 years then 20% of GDPI in 5yrs. Computed on GDPI (not GWP), closing the reinsurance loophole. More importantly, earlier GI and HI were separate categories with 30% and 35% limits, now both have to go down to 25% in 2 years.
- Bancassurance in the crosshairs: Multi-bank tie-ups pay 33% avg commission vs. 13% for single tie-ups (IRDAI's own data). Expect compression + mandatory bank-commission disclosure.
- Brokers/aggregators face cap squeeze: Broker commissions rose 8.5%/17% of premium over FY23-25. Open-architecture IDEs get lower caps than closed-architecture agents - a direct disincentive for the broking model.
- Insurance-only wall comes down: IDEs/IDPs can now sell non-insurance financial and non-financial products. Net positive for cross-selling-led platforms; insurance economics still capped.
- Motor dealers/MISPs must register as IDEs: Mandatory IDE/PoSP tie-up, cashless-repair-denial banned, OEM incentive-linked agreements banned. Commission grew 259% vs. 34% premium growth over FY23-25.
- Compulsory loan-insurance bundling banned: Only defined "acceptable packages" allowed (disclosed commission, separate payment, no forced insurer choice). MSME property cover INR50m cap removed.
- Mandatory cost audits + public disclosure: All insurers + IDEs with >INR1b commission income and IDEs with >INR500m revenue must disclose revenue/expenses/related-party payments publicly.

Our view: Revenue of insurance brokers and banks/NBFCs will be hit more than that of individual agents; hence, the impact on banca-heavy insurers, especially on open architecture, will be higher. Multiple changes in the proposed regulations will call for significant overall changes in the way businesses are carried out across products and channels. We believe VNB margins and combined ratios for insurers will improve over the medium term; however, business growth in the shorter term could face challenges given disruption in many channels. Our preferred picks in life insurance continue to be SBI Life and Canara HSBC Life as we see relatively easier transition for them to new EoM limits. LIC will also be relatively better placed given its relatively low dependence on brokers and banca channel.

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Life Insurers – VNB margin benefits but near-term growth could be slow

With a significant reduction in distribution costs, we expect product-level profitability to improve for life insurance players. On the other hand, business volumes could be impacted in the medium term, with credit life business in particular could see some stress. Meanwhile, intense competition in open architecture banks could taper off.

General/Health insurers – profitability definitely improves with lower costs

Motor business will go through a sea change with several measures announced. However, with commissions going down on Motor TP and prices unchanged as the segment is tariffed, the profitability of the segment will improve. In the health segment, credit-linked product growth could be a challenge. Overall, we still expect combined ratios to improve on a slower growth.

Distributors – biggest impact

Distributors are likely to face the biggest impact if the regulations are implemented as they are. Take rates could go down meaningfully, especially on new health business and motor TP business.

Proposed structure of distributors

Aspect	Current regulation	Proposed reform
Entity-level categories	❖ 8: corporate agent, broker, composite broker, OEM broker, Insurance Marketing Firm (IMF), web aggregator, Common Service Centre (CSC), MISP dealer	❖ 3: Insurance Distribution Entity (IDE), Insurance Distribution Person (IDP), Market Infrastructure Institution (MII)
Individual-seller categories	❖ 9: agent, PoSP, specified person, designated person, insurance sales person, broker qualified person, rural authorized person, village level entrepreneur, authorized verifier	❖ 4 IDP sub-types: Insurance Agent, Insurance Associate, Specified Person, Point of Sale Person (PoSP)
MISP motor dealers	❖ Operate as PoSPs under OEM/dealer sponsorship, regardless of legal structure	❖ Those with IDE-eligible legal structure (company, LLP, etc.) must register as IDE and no longer remain PoSPs (see Motor Insurance section)

Scope of business – non insurance activities and open vs closed architecture

Aspect	Current regulation	Proposed reform
Non-insurance business	❖ Mostly barred — brokers restricted to insurance only; banks (as corporate agents) restricted from non-insurance distribution beyond banking; IMFs may distribute a specified, limited set of financial products alongside insurance	❖ All IDEs and IDPs may sell non-insurance financial products (subject to the relevant financial-sector regulator's approval) and non-financial products/services, without insurance-only restriction
Open architecture limits	❖ Brokers: fully open (all insurers). Banks (corporate agents): light restriction — 9 life, 9 general, 9 health insurers. IMFs: 6 insurers per class. Agents: fully closed (1 insurer per class)	❖ All IDEs have the option (not obligation) of full open architecture — unlimited insurers, unlimited risk cover — subject to having adequately skilled IDPs
IDPs engaged by insurers	❖ Agents restricted to one insurer per segment; inconsistent rules across categories	❖ Explicitly closed architecture only; may represent one insurer per non-competing segment (one life + one general + one health + one of each mono-line) but never two competing insurers in the same segment
Hospitals	❖ Not a distribution category	❖ May register as IDE to distribute health insurance, subject to safeguards and lower commission limits
Non-dealer auto garages	❖ Not a distribution category	❖ May sell motor insurance by becoming an insurer's associate
Claims-support entities (TPAs, Surveyors)	❖ No explicit bar, though not typically distributors	❖ Explicitly barred from selling insurance products
Insurer self-distribution	❖ Not permitted beyond own products	❖ Insurers may distribute a non-competing group insurer's products (life/general/health) through branch offices — via employees only, not via any IDE/IDP — at lower commission

EOM Framework

Aspect	Current regulation (2023 framework)	Proposed reform
Computation base	❖ Entity-level EoM ceiling as % of Gross Written Premium (GWP), including direct, reinsurance and government business	❖ % of Gross Direct Premium Income (GDPI) only — excludes inward reinsurance, removing the double-counting anomaly that created headroom
Commission caps	❖ Removed in 2023; governed only by Board-approved commission policy	❖ Hard commission caps reinstated (see Distribution Commission Framework)
Reinsurance commission	❖ Could effectively be netted off against other commissions/expenses	❖ Any payment from a reinsurer to a cedant beyond claims settlement is classified as reinsurance commission and cannot be netted off for EoM computation
Life insurance EoM ceiling	❖ Entity level flexibility	❖ 15% of premium in 2 years, 12.5% in 5 years (FY27-28 = Year 1); insurers already below this must reach 10% over the long term
General insurance EoM ceiling	❖ 30% for GI, 35% for HI	❖ 25% of GDPI in 2 years, 20% in 5 years
Cost audit	❖ Not mandated	❖ Mandatory annual cost audit for all insurers (any size) and for IDEs with insurance revenue above INR1b, reported to Board and regulator
Public disclosure	❖ Limited to standard annual-report accounting disclosures	❖ IDEs with insurance revenue above INR500m must publicly disclose revenue, expenses, related-party payments and PAT on their website
IRDAI regulatory fee	❖ 0.05% of premium	❖ Reduced to 0.04% of premium, capped at INR200m

Illustrative proposed caps (as % of premium)

Product	Current effective market range	Proposed IDE cap	Proposed agent/associate cap
Motor TP (new vehicle)	~22% average, up to 50%	Nil	2.5%
Motor OD/PA/LL (new vehicle)	Embedded in ~24% blended motor commission	5%	10%
Health individual, first-time	Up to ~30% average premium mix	15%	20%
Health individual, renewal	Materially lower but uncapped	5%	10%
Property retail, first time	Uncapped; long-tenure fire/health products seen near 100% (front-loaded multi-year)	15%	20%
Life individual non-linked, PPT 10yrs+, first year	Highs close to 80% on some products	20%	25%
Life individual non-linked, PPT 10yrs+, renewal	N/A (uncapped)	3%	5%
Life individual pure term, single premium	N/A (uncapped)	7.5%	10%

Bundling with Loans/Credit & Mis-selling Guardrails

Aspect	Current regulation	Proposed reform
Compulsory bundling by banks/NBFCs	No explicit IRDAI prohibition. RBI's June 2026 Directions on Responsible Business Conduct address mis-selling of third-party products (including insurance) by banks/NBFCs, but this sits under RBI's remit over its regulated entities, not IRDAI's	Explicit IRDAI prohibition on compulsory bundling of insurance by banks/NBFCs registered as IDEs with their own products/services — positioned as complementing, not duplicating, RBI's June 2026 directions
Acceptable package offers	No defined safe-harbour list	Explicit illustrative list allowed: complimentary group term life for depositors/borrowers above a threshold; credit card with free base term/travel/accident cover; disclosed-commission group health scheme; loan-rate discount for additional life/property insurance security, subject to informed-consent safeguards (no forced insurer choice, premium paid separately and directly, not out of the loan amount)
Health-with-loan bundling	Not addressed	Packaging health benefit cover with home/motor loans against critical illness risk is to be discouraged as cost-inefficient for borrowers
MSME property cover cap	Package offers capped at INR50m risk cover	Cap removed entirely; property cover can go up to the value of the property, subject to commission limits
Suitability obligation	Not a formally enforceable requirement; customer consent/signature can currently be treated as sufficient	Made an enforceable obligation — mandatory documented needs and suitability analysis for life sales above a defined ticket size, with audit trail; mere consent does not absolve insurer/intermediary responsibility
Mis-selling definition/guidance	No consolidated IRDAI guidance; RBI's definition applies only to bank/NBFC-sold products	A 12-point illustrative mis-selling guidance list proposed under insurance regulations (e.g., selling regular premium as single premium, ULIPs to risk-averse/retired customers, term cover to non-earning dependents, inducing surrender for a new sale)
Incentive structures	Volume-linked rewards, trips and gifts to bank/NBFC staff selling insurance are common	Explicit ban on volume- or reward-linked incentives for bank/NBFC staff selling insurance
Accountability for mis-selling	Not individually tracked in public domain	Functional identity of the specific seller (specified person, PoSP, agent, associate) tagged to every policy; mis-selling incidents tied to that identity and made public via PIR
Consequence of mis-selling	Not systematically linked to commission	Mandatory commission claw-back by insurers on confirmed mis-selling

Motor Insurance Distribution

Aspect	Current regulation (MISP guidelines)	Proposed reform
Registration requirement	❖ MISP motor dealers act as PoSPs under OEM/dealer sponsorship regardless of legal structure; no mandate to register as a full distribution entity	❖ Dealers with IDE-eligible legal structure (company, LLP, etc.) must register as IDE mandatorily; those with proprietorship/unregistered-partnership structure must tie up as PoSPs of an IDE or become an associate of a single insurer
Commission levels	❖ Average ~24% across new/old vehicles, up to 31% for OEM brokers/MISPs on new vehicles; motor TP commission rose from 4.3% (FY23) to 22% (FY25) despite being a nil-effort, mandatory product	❖ Materially lower caps: new-vehicle TP nil (IDE) / 2.5% (agents); old-vehicle TP 2.5% (IDE) / 5% (agents); OD/PA/LL new-vehicle 5% (IDE) / 10% (agents)
Choice/transparency at point of sale	❖ Customer typically has no visibility of commission and limited ability to choose insurer at the dealership	❖ Mandatory obligations: prominently display the MII digital-purchase option (with QR code) at the point of sale; make new-vehicle customers aware of it; share customer mobile number with PIR for VAHAN-based validation of compliance
OEM/dealer incentive agreements	❖ Service-level agreements and performance-linked incentive plans tying repairs/service to insurance sales are not proactively restricted	❖ Explicitly barred if they work against policyholder interest, including service-linked incentive plans that reward dealers for insurance sales
Cashless repair access	❖ Some dealers reportedly deny cashless repair if the policy wasn't bought from them	❖ Explicit market-conduct rule: cashless repair service cannot be denied based on where the insurance policy was purchased
Digital/MII purchase alternative	❖ Not integrated into the motor sales journey	❖ Digital purchase to be actively promoted via MII platforms (e.g., Bima Sugam), capped at a ~5% platform fee; a mandatory mechanism to offer the MII option (with opt-out) is posed as a consultation question

Exhibit 1: Commissions grew 18% YoY in FY25 compared to 7% YoY growth in premiums

	FY24			FY25			YoY growth (%)		
INRb	Public	Private	Industry	Public	Private	Industry	Public	Private	Industry
First year premium	390	765	1,155	370	880	1,250	-5.2	15.1	8.3
Single premium	1,836	793	2,629	1,898	830	2,727	3.3	4.7	3.7
Renewal premium	2,531	1,984	4,515	2,621	2,259	4,880	3.5	13.9	8.1
Total premium	**4,758**	**3,542**	**8,299**	**4,888**	**3,969**	**8,858**	**2.8**	**12.1**	**6.7**
First year commission	111	168	279	100	236	336	-9.9	40.2	20.3
Single premium commission	8	45	53	8	65	72	-2.9	43.8	36.9
Renewal commission	141	42	183	146	54	200	3.3	28.0	9.0
Total commission	**260**	**256**	**515**	**253**	**355**	**608**	**-2.5**	**38.8**	**18.0**
First year commission %	28.4	22.0	24.2	27.0	26.8	26.9			
Single premium commission %	0.4	5.7	2.0	0.4	7.8	2.7			
Renewal commission %	5.6	2.1	4.1	5.6	2.4	4.1			
Total commission %	5.5	7.2	6.2	5.2	8.9	6.9			

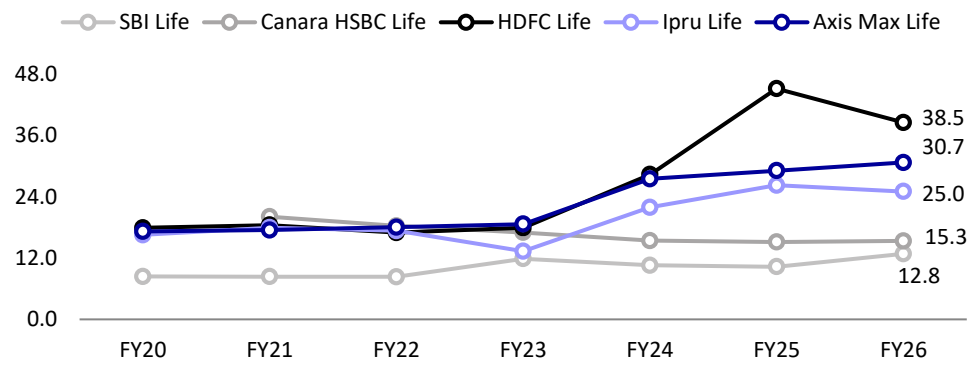
Source: MOFSL, IRDAI annual report

Exhibit 2: Contribution of life insurance commissions to revenue of key banks

Commission from life insurance (INRm)	FY20	FY21	FY22	FY23	FY24	FY25	FY26	FY21-26 CAGR
HDFC Bank	21,828	14,814	15,565	18,993	30,593	50,270	56,875	31%
% of total income	*2.7*	*1.6*	*1.5*	*1.6*	*1.9*	*3.0*	*3.0*	
ICICI Bank	8,500	6,364	5,776	3,821	3,161	3,275	2,882	-15%
% of total income	*1.7*	*1.1*	*0.9*	*0.5*	*0.3*	*0.3*	*0.2*	
Axis Bank	6,920	9,635	11,873	13,594	19,793	27,469	32,338	27%
% of total income	*1.7*	*2.3*	*2.5*	*2.3*	*2.7*	*3.5*	*3.9*	
SBI	11,169	12,398	15,675	20,399	22,322	23,559	23,846	14%
% of total income	*0.8*	*0.8*	*1.0*	*1.1*	*1.1*	*1.0*	*1.0*	
Canara Bank	1,048	1,879	2,493	3,001	3,100	3,733	4,578	19%
% of total income	*0.5*	*0.5*	*0.6*	*0.6*	*0.6*	*0.6*	*0.7*	

Source: MOFSL, Companies

Exhibit 3: First-year commission ratios (%) across insurers; PSUs operating at half of private players



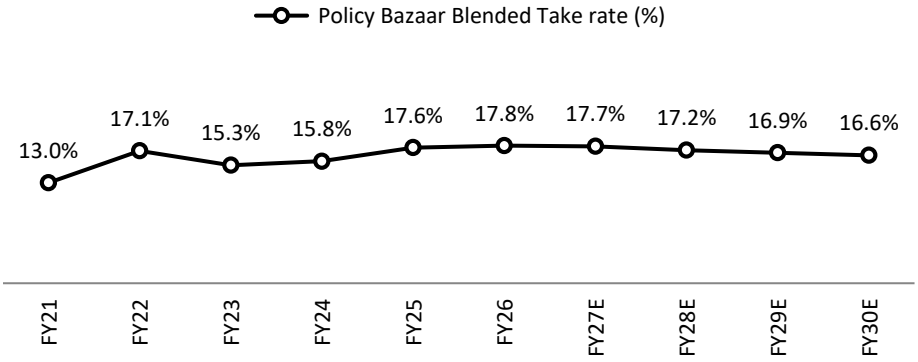
Source: MOFSL, Companies

Exhibit 4: Banca dominated distribution mix of key insurers

Channel mix (FY26 %)	Bancassurance	Agents	Others
SBI Life	62.5	26.6	11.0
Canara HSBC Life	92.0		8.0
HDFC Life	58.0	18.0	24.0
Ipru Life	29.8	25.1	45.0
Axis Max Life	55.0	45.0	

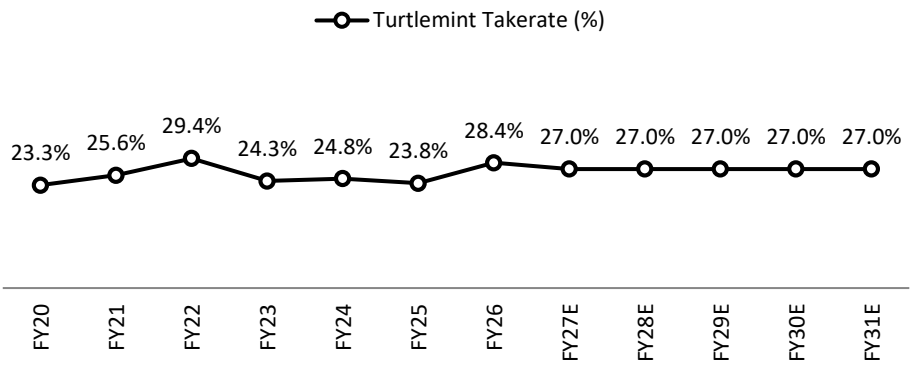
Source: MOFSL, Companies

Exhibit 5: Take-rate of Policybazaar over the years



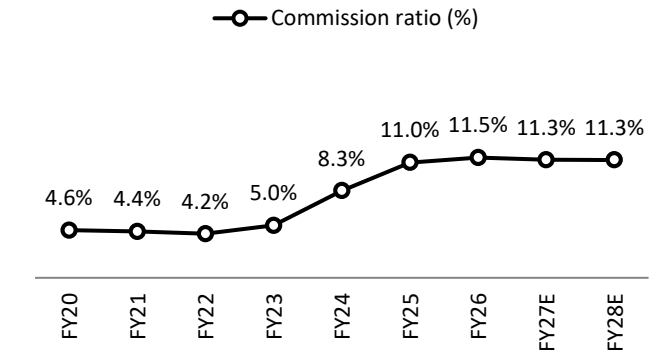
Source: MOFSL, PB Fintech

Exhibit 6: Take-rate of Turtlemint over the years



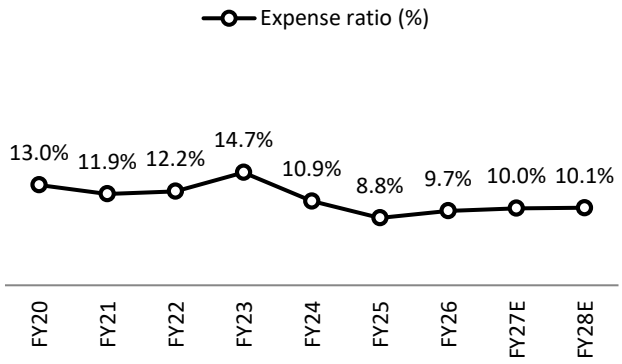
Source: MOFSL, Company

Exhibit 7: HDFC Life commission ratio trends



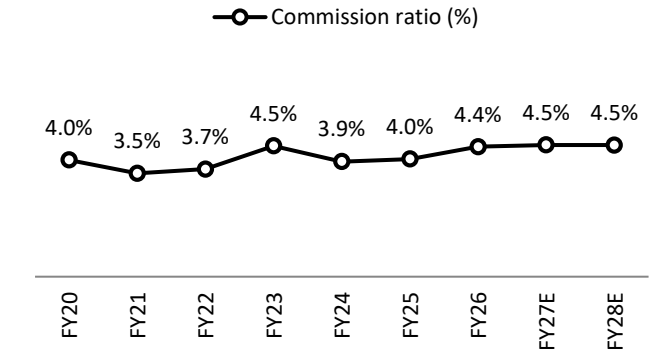
Source: MOFSL, Company

Exhibit 8: HDFC Life expense ratio trends



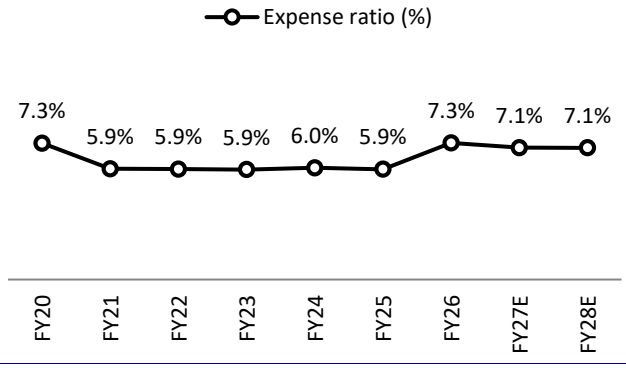
Source: MOFSL, Company

Exhibit 9: SBI Life commission ratio trends



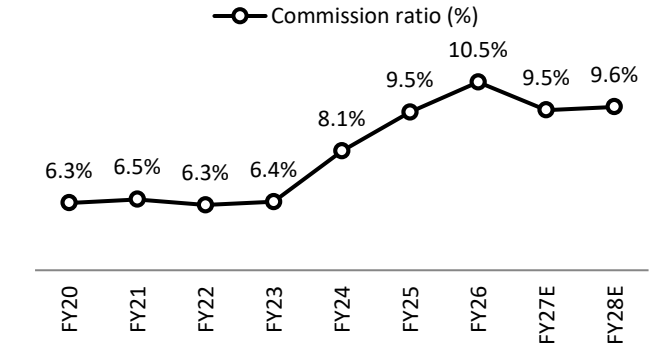
Source: MOFSL, Company

Exhibit 10: SBI Life expense ratio trends



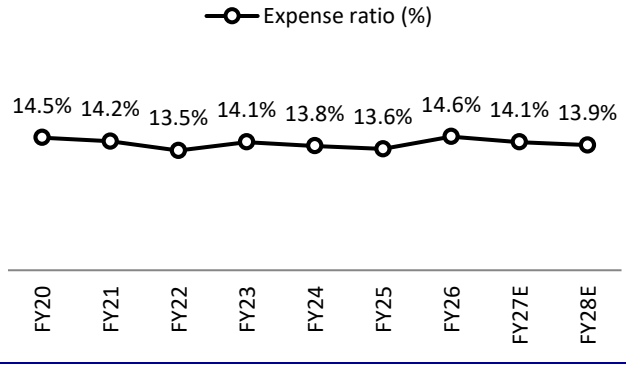
Source: MOFSL, Company

Exhibit 11: Max Life commission ratio trends



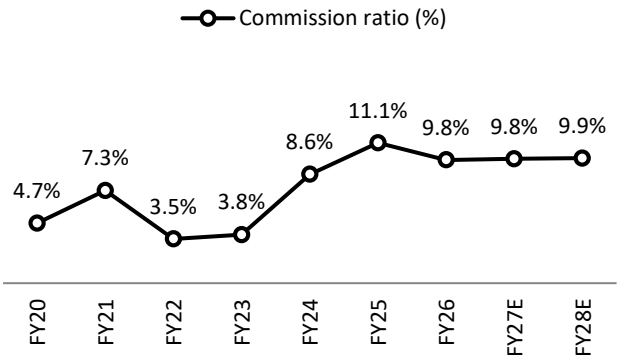
Source: MOFSL, Company

Exhibit 12: Max Life expense ratio trends



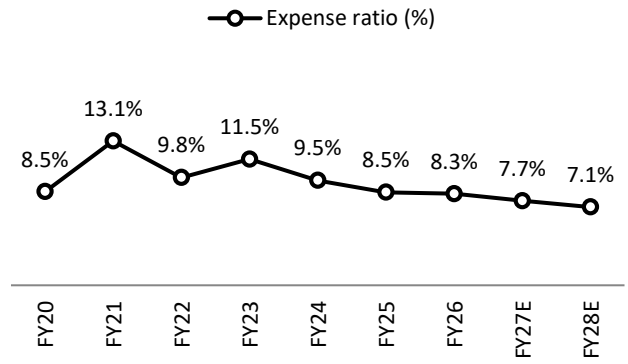
Source: MOFSL, Company

Exhibit 13: IPRU Life commission ratio trends



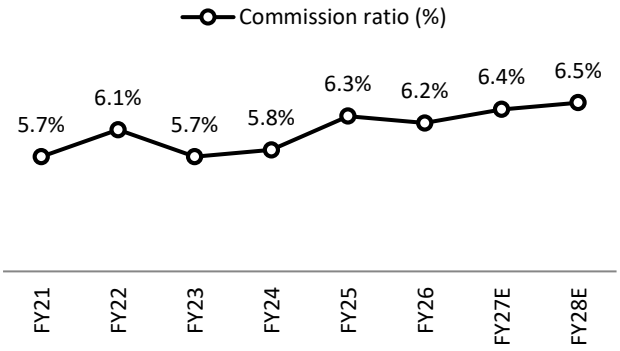
Source: MOFSL, Company

Exhibit 14: IPRU Life expense ratio trends



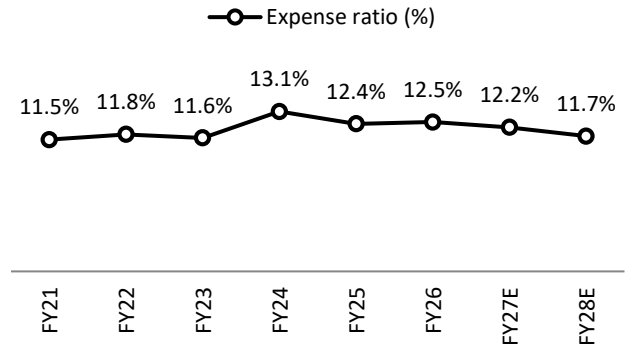
Source: MOFSL, Company

Exhibit 15: Canara HSBC Life commission ratio trends



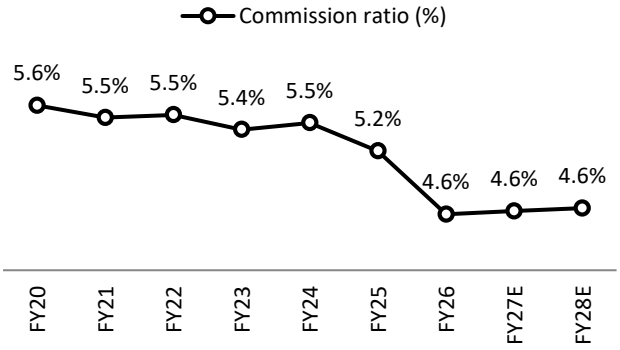
Source: MOFSL, Company

Exhibit 16: Canara HSBC Life expense ratio trends



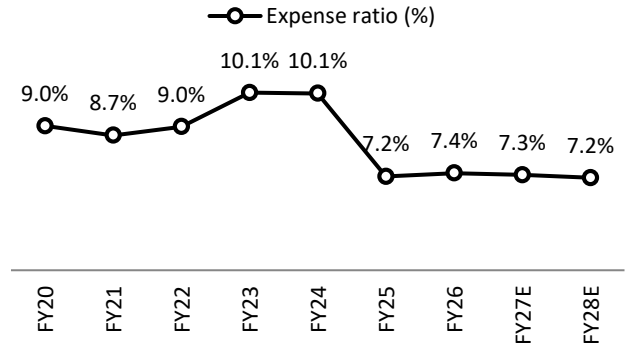
Source: MOFSL, Company

Exhibit 17: LIC commission ratio trends



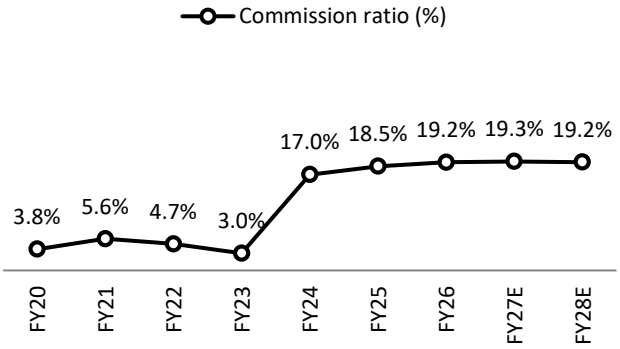
Source: MOFSL, Company

Exhibit 18: LIC expense ratio trends



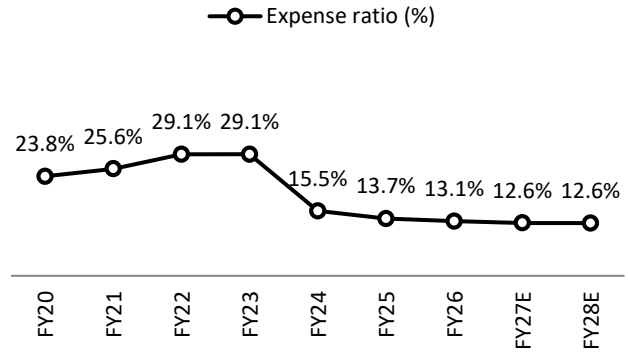
Source: MOFSL, Company

Exhibit 19: ICICI Lombard commission ratio trends



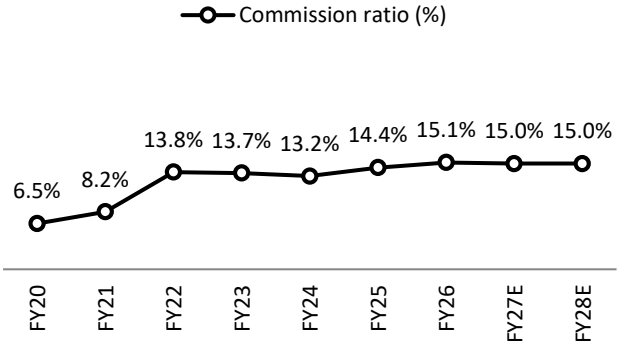
Source: MOFSL, Company

Exhibit 20: ICICI Lombard expense ratio trends



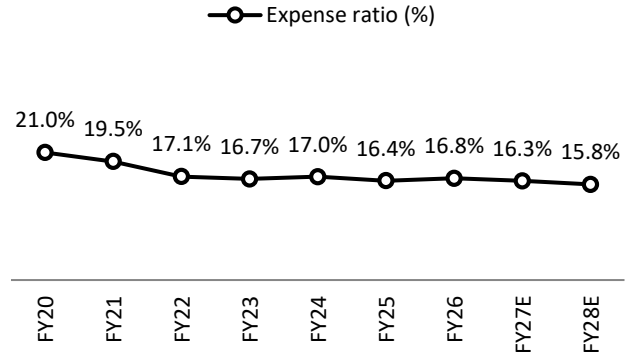
Source: MOFSL, Company

Exhibit 21: Star health commission ratio trends



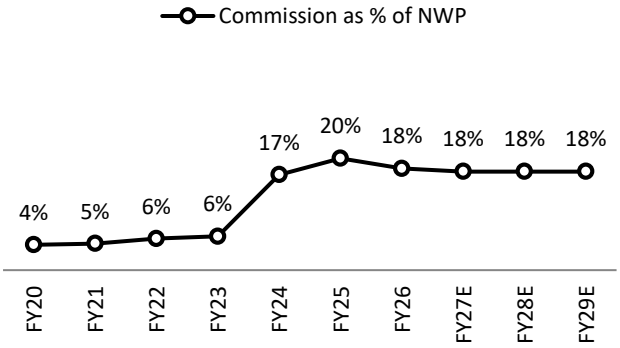
Source: MOFSL, Company

Exhibit 22: Star Health expense ratio trends



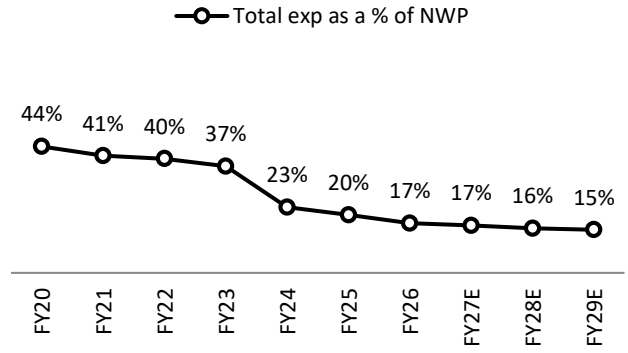
Source: MOFSL, Company

Exhibit 23: Niva Bupa commission ratio trends



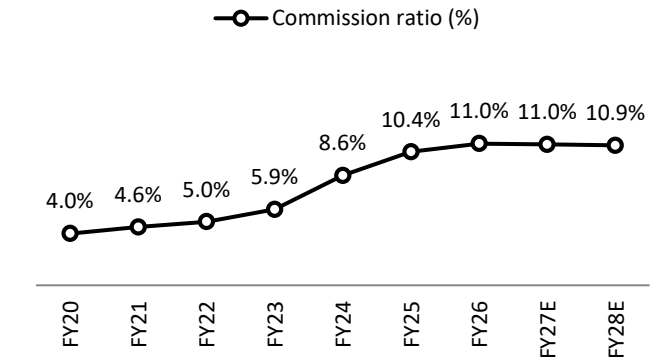
Source: MOFSL, Company

Exhibit 24: Niva Bupa expense ratio trends



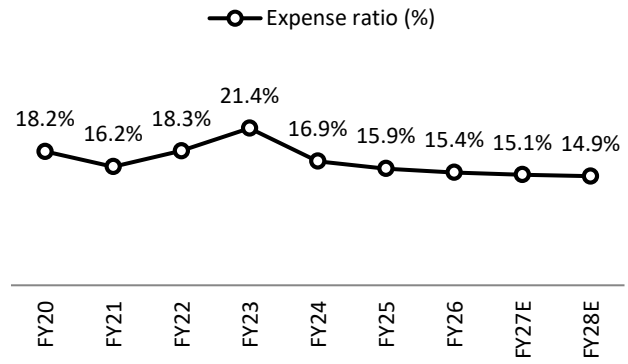
Source: MOFSL, Company

Exhibit 25: BALIC commission ratio trends



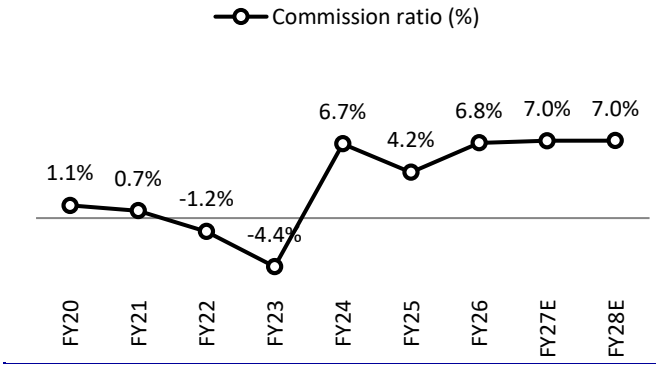
Source: MOFSL, Company

Exhibit 26: BALIC expense ratio trends



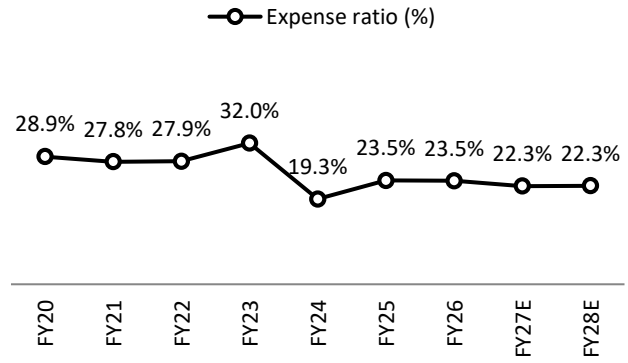
Source: MOFSL, Company

Exhibit 27: BAGIC commission ratio trends



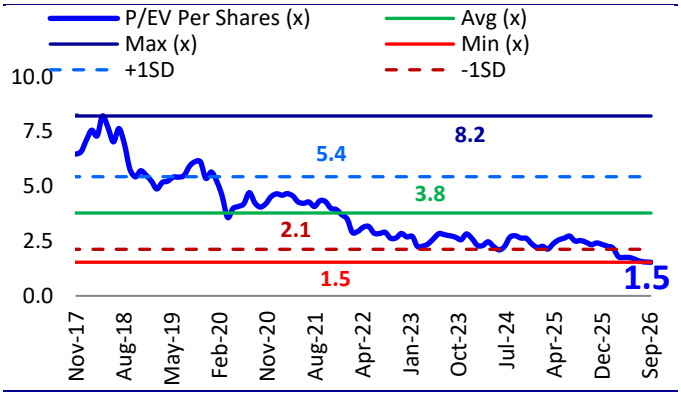
Source: MOFSL, Company

Exhibit 28: BAGIC expense ratio trends



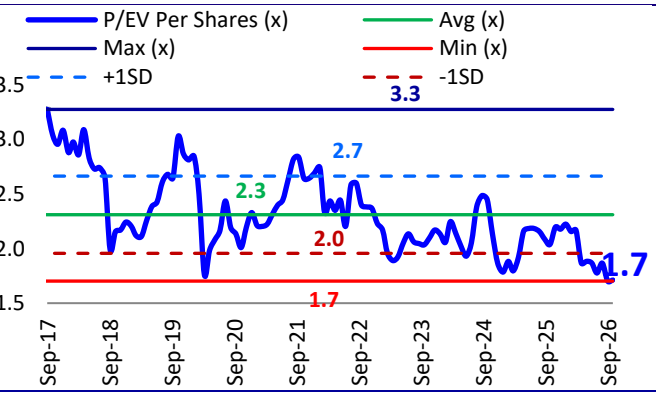
Source: MOFSL, Company

Exhibit 29: HDFC Life One year forward P/EV



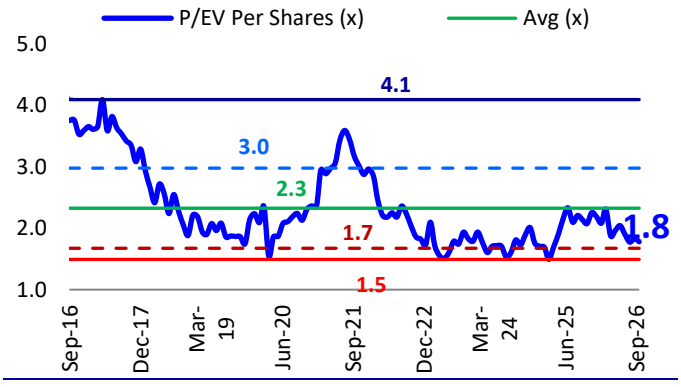
Source: MOFSL, Company

Exhibit 30: SBI Life One year forward P/EV



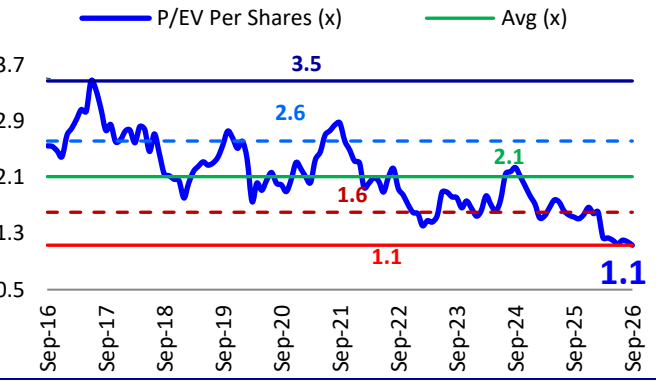
Source: MOFSL, Company

Exhibit 31: Max Life One year forward P/EV



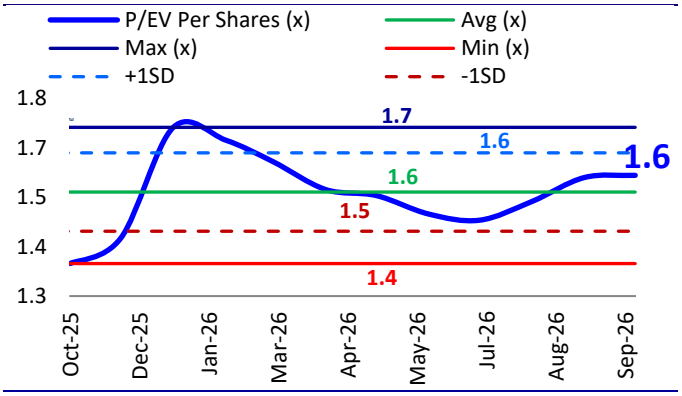
Source: MOFSL, Company

Exhibit 32: IPRU Life One year forward P/EV



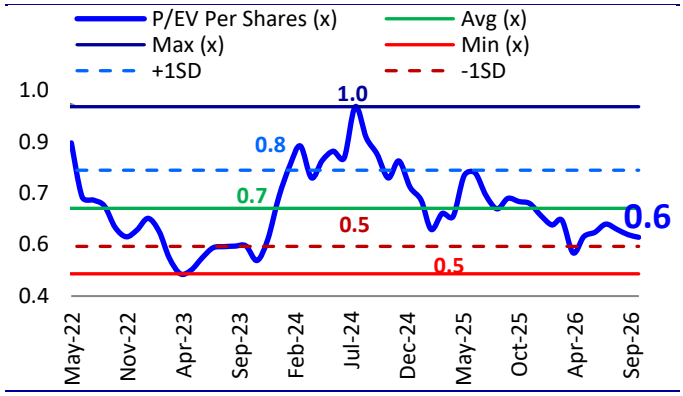
Source: MOFSL, Company

Exhibit 33: Canara HSBC Life One year forward P/EV



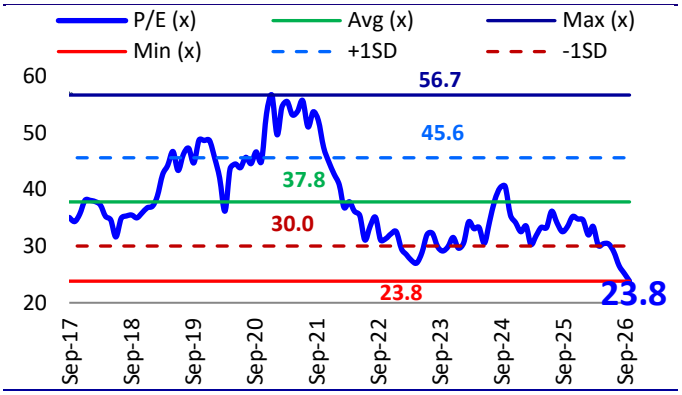
Source: MOFSL, Company

Exhibit 34: LIC One year forward P/EV



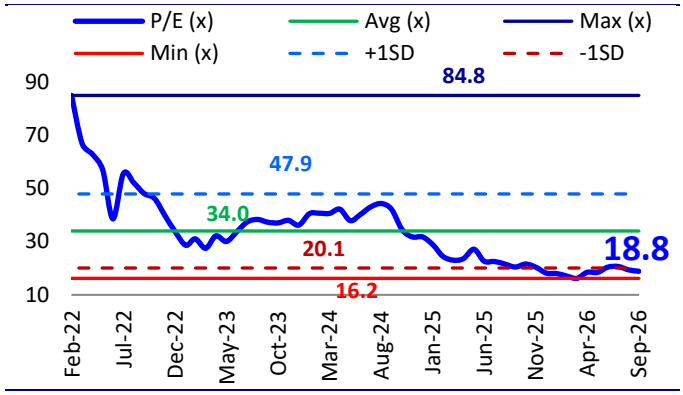
Source: MOFSL, Company

Exhibit 35: ICICI Lombard One year forward P/E



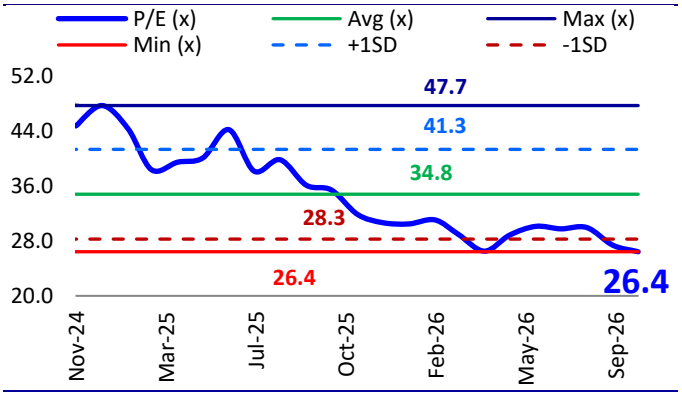
Source: MOFSL, Company

Exhibit 36: Star Health One year forward P/E



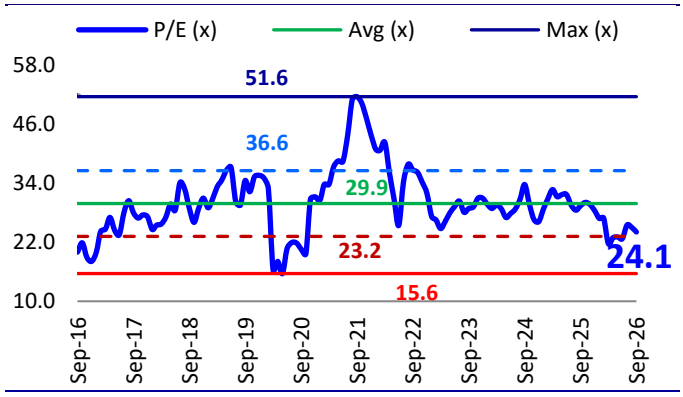
Source: MOFSL, Company

Exhibit 37: Niva Bupa One year forward P/E



Source: MOFSL, Company

Exhibit 38: Bajaj Finserv One year forward P/E



Source: MOFSL, Company

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SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
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