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To,
All the Zonal/Divisional/State/Regional Units

Dear Comrades,

AIIEA Responds to IRDAI Consultation Paper on
"Recalibrating the Economics of Insurance Distribution"

The Insurance Regulatory and Development Authority of India (IRDAI), on September 23, 2026, issued a consultation paper titled "Recalibrating the Economics of Insurance Distribution". The stated objective was to improve insurance distribution and enhance customer experience. Before framing the final regulations, IRDAI invited suggestions and comments from market participants and other stakeholders. The deadline for submitting responses was October 31, 2026. The AIIEA has submitted its response to the consultation paper.

In its response, the AIIEA has emphasised that the problems confronting the Indian insurance industry cannot be understood or addressed merely through the prism of distribution costs and commercial efficiency. The fundamental issue lies in the economic and social conditions prevailing in the country, the unequal distribution of income and wealth, declining household savings and the limited purchasing power of large sections of the population. The AIIEA has pointed out that high premiums, high acquisition costs, moderate growth of new business volumes and low levels of insurance penetration and density were projected as compelling reasons for introducing insurance reforms. Competition was presented as a panacea for all the ills afflicting the sector, with the public sector being portrayed as the principal obstacle. Three decades of competition later, the government and the regulator continue to identify virtually the same problems. This clearly raises serious questions about the efficacy of the reforms pursued so far, the AIIEA has observed. The consultation paper now places considerable emphasis on distribution costs, but this approach overlooks the larger economic realities. Life insurance growth is closely linked to disposable incomes, while general insurance growth depends substantially on the size of the asset-owning population. Despite economic growth, wealth is increasingly concentrated in a few hands, household savings have declined and a large proportion of the workforce remains outside regular wage or salaried employment. Unless economic growth translates into higher and more widely distributed incomes, meaningful and sustained expansion of insurance coverage will remain elusive.

The AIIEA has pointed out in clear terms that Insurance must be recognised not merely as a commercial product but as an important instrument of social and economic security. The objective of distribution reforms should, therefore, be to ensure affordable insurance protection for all sections of society, expand geographical outreach, strengthen financial inclusion and mobilise long-term savings. Cost reduction cannot become an overriding consideration at the expense of employment, accessibility, quality of service and the social obligations of insurance institutions. In this context, the distinctive contribution of LIC and public-sector general insurance companies in extending insurance protection to rural areas, economically weaker sections and underserved populations deserves due recognition. Strengthening public-sector insurance institutions, expanding their branch networks, undertaking recruitment and reinvigorating the agency force should form an integral part of the reform agenda. Technology must complement the human interface and improve service delivery rather than become an instrument for reducing employment or withdrawing physical access to insurance.

AIIEA has also expressed serious reservations about the policy direction underlying the Sabka Bima Sabki Raksha Act. The increase in the foreign direct investment limit in insurance from 74 per cent to 100 per cent represents a major shift towards full foreign ownership of insurance companies. The stated objective of insurance for all cannot be achieved merely by opening the sector further to foreign capital. Insurance protection, when left predominantly to market forces, becomes dependent on the ability to pay. A genuinely inclusive approach requires universal public provision, stronger public healthcare, universal pension protection and robust public insurance institutions accountable to the people. Rural insurance obligations and coverage targets for the unorganised sector must be clearly defined and effectively enforced. Specialised micro-insurance products should be developed for Self-Help Groups, gig workers and other vulnerable sections, with appropriate regulatory incentives and necessary exemptions for the additional operational and distribution expenses involved.

AIIEA has underlined the need to protect and strengthen the individual agency network, which continues to play a vital role in insurance awareness, distribution and servicing, particularly in rural and semi-urban areas. The interests of individual agents cannot be equated with those of large corporate distribution entities. Fair remuneration, reasonable first-year commissions, renewal income, social security, professional recognition and institutional support are essential for sustaining the agency profession. While commission regulation and transparency are necessary, they should not undermine the livelihood of individual agents. There is a stronger case for rationalising disproportionate payouts to large corporate distribution entities, which enjoy economies of scale and greater bargaining power. The proposal to shift from insurer-paid commissions to distribution fees collected directly from policyholders has been opposed, as it would increase the financial burden on customers, particularly first-time buyers and economically weaker sections.

According to the AIIEA, the proposed restructuring of distribution channels also requires careful reconsideration. While arguing that policyholder protection must occupy the centre stage of distribution reforms, the AIIEA has observed that the objective of the distribution reforms must be to create competent and accountable insurance professionals rather than merely increase the number of persons authorised to sell insurance. AIIEA has also stressed that reducing Expenses of Management cannot be an end in itself. Expenditure on branches, manpower, agency development, policyholder services and expansion into underserved areas represents essential investment in insurance outreach. Uniform and indiscriminate expenditure reduction could adversely affect employment, service quality and the social responsibilities of public-sector insurers. Any reduction in costs must translate into tangible benefits for policyholders through affordable premiums and improved services.

The alarming findings relating to policy discontinuance and poor persistency, including the substantial commissions earned by banks from the sale of financial products, underline the seriousness of mis-selling. In motor insurance, stringent safeguards must ensure that automobile dealers do not coerce customers into purchasing insurance from designated sources or deny cashless claim facilities to those purchasing policies elsewhere. The AIIEA has called for comprehensive impact assessments, phased implementation and meaningful consultations with insurers, distributors, employees' organisations and policyholder representatives. In fine, the AIIEA’s understanding is that distribution reforms must be judged not by the reduction in expenditure ratios, the number of new intermediaries or the volume of policies sold, but by their contribution to wider insurance coverage, affordability, policyholder protection and quality of service.

With Greetings,

Comradely Yours



General Secretary