IRDAI RAISES COMMISSIONS ON LIFE INSURANCE PRODUCTS

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IGIDR

Why the worry on commissions

- Global evidence that front commissions cause mis-selling
- Indian evidence that high front loads cause mis-selling
- Two government committees have flagged concerns and recommended going no load

Response of regulators

- NPS: 0.25% upfront commission plus CRA charges of Rs 244 per account per year
- SEBI removed front commissions in 2009. Has restricted upfronting trail commissions to a max of 1% of investment amount
- IRDAI is the outlier

IRDAI is the outlier

- Ignored the recommendations of two government committees

- From today life insurance products carry higher commissions, both front and trail

- IRDAI has also formalised what were earlier illegal payouts to distributors

Background to life insurance in India

- Life insurance in FY16 was a Rs 3.6 trillion premium industry
- 12.77% in Ulips, 87.23% in traditional plans, of this term policies are less than 3%

- 24% premium from single premium
- 76% premium is from regular preimium

- 62% of the premium is renewal
- 38% of the premium is first year (single + regular)

4 changes from April 1, 2017

- 1. Change in intermediary categories
- 2. Change in nomenclature of payments
- 3. Addition of a payment category
- 4. Change in compensation structure

1. Change in intermediary categories

- Before April 1 2017: 5 categories.
  Agents, corporate agents, insurance brokers, web aggregators and insurance marketing firms

- From April 1 2017: 3 categories

1. Agents
2. Intermediaries with > half income from insurance
3. Intermediaries with < half income from insurance

2. Change in nomenclature of payments

- Before 1 April 2017: all payouts to distributors called commissions

- From 1 April 2017:

Agents payouts are called commissions
Intermediaries payouts are called remuneration

3. Addition of a payment category

- From 1 April 2017: agents and intermediaries get 'rewards’
- Agents get 20% of 1st year commission as ‘reward’
- Intermediaries with > 50% income from insurance get 20% of 1st year commission as ‘reward’
- Intermediaries with < 50% income from insurance get no ‘reward’

3. Addition of a payment category

IRDAI says:

* Agents' rewards are needed to cover:
gratuity, term insurance cover, various group insurance, covers, telephone charges, office allowance, sales promotion, gift, items, competition prizes
* Intermediary 'rewards' to cover:
services such a risk analysis, gap analysis, plan design, predictive modelling, data management, infrastructure, advertisement and such other items, including any additional incentives by whatever name called

4. Change in compensation structure

- a. Higher commissions for pure risk
- b. Higher renewal commissions
- c. Addition of rewards raises maximum compensation limits to a peak rate of 48%

4.a Higher commissions for pure risk

- Regular premium
- 1st year commissions on pure risk policies goes up from 35% to 40%
- No change for bundled products – stay at 35%

- Single premium
- Commissions up from 2% to 7.5% for pure risk
- Stay at 2% for bundled

4.b Higher renewal commissions

- Pure risk goes from 5% to 10%
- Bundled goes from 5% to 7.5%

- NPS: front cost 0.25%
- Mutual fund: zero

4.c ‘Rewards’ get added to 1st year commission

- 20% of 1st year commission is additional payouts to agents and intermediaries.
- Add the hike in commissions and the ‘rewards’ to get a peak rate of first year pay outs of 48% in the industry.

4. c Pure risk max 1st year payouts on regular premium policies

	TOTAL COMMISSION + REWARD (old rates)
AGENT	48% (35%)
INTERMEDIARY > 50% INCOME FROM INSURANCE	48% (35%)
INTERMEDIARY < 50% INCOME FROM INSURANCE	40% (35%)

4. c Pure risk max 1st year payouts on single premium policies

	TOTAL COMMISSION + REWARD (old rates)
AGENT	9% (2%)
INTERMEDIARY > 50% INCOME FROM INSURANCE	9% (2%)
INTERMEDIARY < 50% INCOME FROM INSURANCE	7.5% (2%)

4 c Bundled max 1st year payouts on regular premium policies

	TOTAL COMMISSION + REWARD (old rates)
AGENT	42% (35%)
INTERMEDIARY > 50% INCOME FROM INSURANCE	42% (35%)
INTERMEDIARY < 50% INCOME FROM INSURANCE	35% (35%)

4. c Bundled max 1st year payouts on single premium policies

	TOTAL COMMISSION + REWARD (old rates)
AGENT	2.4% (2%)
INTERMEDIARY > 50% INCOME FROM INSURANCE	2.4% (2%)
INTERMEDIARY < 50% INCOME FROM INSURANCE	2% (2%)

What's good and what's not

- Raising commissions for pure risk is good
- Raising renewal commissions is good
- But raising first year payouts is sending the wrong signal to sellers
- Insurance industry suffers from churning with 5th year persistency at 44% for the industry

‘Rewards’ legalise illegal payouts

- Insurance industry breaches commission caps in various ways
 Office, marketing, gifts, trips, banners, stationary, software are some heads under which commissions have been paid
- We have a regulator in India who has legalised illegal payments
- IRDAI has tossed the ball at firms to ensure consumer protection, while opening the gates for mis-selling and churning

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