Insurance Regulatory and Development Authority of India

Press Release | 23rd September 2026

Recalibrating Economics of Insurance Distribution

IRDAI issues consultation paper on Distribution Reforms

Proposed reforms seek to simplify the distribution architecture, improve cost efficiency and transparency, align incentives with policyholder value and enable a more efficient and inclusive insurance sector

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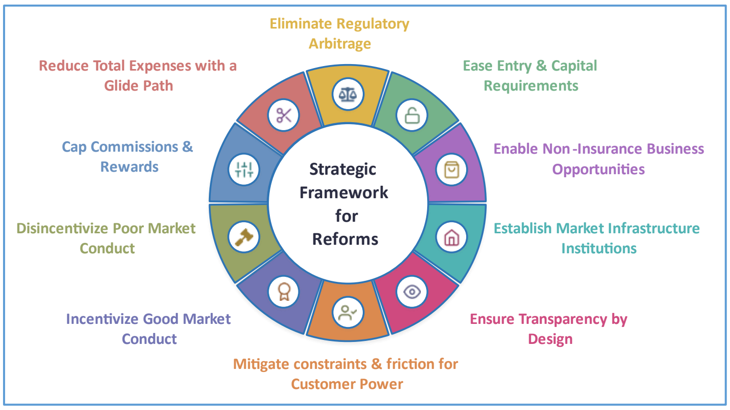
The Insurance Regulatory and Development Authority of India (IRDAI), on Wednesday, 23rd September 2026, released a Public Consultation Paper on **"Recalibrating Economics of Insurance Distribution"**, setting out a comprehensive framework of reforms covering the insurance distribution, its structure, expenses, commissions, market conduct, transparency and leveraging digital infrastructure.

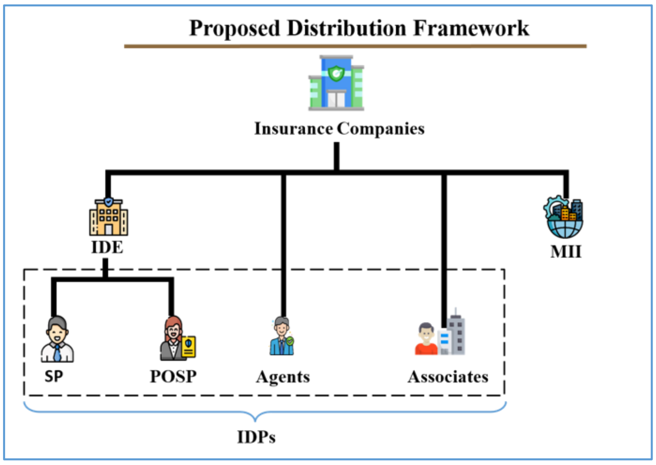
The primary aim is to foster a **customer-centric, competitive, efficient and transparent distribution ecosystem**, while enabling better and sustainable outcomes for policyholders, insurers and distributors.

The proposed reforms are anchored in the expectations of the **Sabka Bima Sabki Raksha (Amendment of Insurance Laws) Act, 2025**, which seeks to accelerate the growth and development of the insurance sector, strengthen policyholder protection, improve ease of doing business and enhance transparency in regulation making and regulatory oversight.

In furtherance of these objectives, the proposed distribution reforms seek to create a simpler, more open and competitive ecosystem by easing entry, expanding business and income opportunities, enabling non-insurance financial and non-financial activities, facilitating employment, removing operational constraints, strengthening skills through cost-efficient training, and setting clear regulatory expectations.



The proposed distribution architecture is guided by the principle of "*same structure, same functions, same norms.*"



It seeks to replace the existing complex and fragmented architecture with **three broad categories** of distribution entities namely **Insurance Distribution Entities (IDEs), Insurance Distribution Persons (IDPs) and Market Infrastructure Institutions (MIIs)**.

It proposes simpler registration, significantly lower entry and capital requirements, reduced regulatory fees and greater flexibility for distributors to undertake insurance as well as other financial and non-financial activities, thereby expanding avenues for business diversification and revenue generation and allowing people in relatively small markets to also venture into insurance business.

Entities with the same structure would have the **same scope of business, obligations and regulatory framework**. A clearer **distinction between open and closed distribution architectures** would promote competition and reduce regulatory arbitrage and operational constraints. The reforms are intended to simplify the distribution architecture making it more customer facing where customers easily understand who they are buying through, along with expanding opportunities for IDPs, supporting employment generation and improving their income potential. The reforms aim to enable entrepreneurs across the country, including in smaller markets, to participate in insurance distribution.

Alongside this, the Expense of Management (EoM) framework is proposed to be recalibrated through lower limits with a phased glide path.

For **life insurers**, the EoM limit would move to a company-level basis linked to **Gross Direct Premium Income (GDPI)**, with the limit proposed at **15% within two years and 12.5% within five years**. [*Box 2 of the Part 1 of Consultation Paper*]

For **general insurers**, the basis would shift from **Gross Written Premium (GWP) to domestic Gross Direct Premium Income (GDPI)**, with the EoM limit reducing from **30% of GWP to 20% of GDPI within five years**, also through progressive annual reductions. [*Box 2 of the Part 1 of Consultation Paper*]

The regulatory fee on insurers is also proposed to be reduced.

The proposed reduction in EoM is intended to **lower the overall cost of insurance**, thereby expanding the risk pool available in general insurance and enhancing returns to policyholders in life savings products. The phased approach seeks to balance **improved value and affordability for policyholders** with the **financial sustainability of insurers**, while progressively improving cost efficiency across the sector.

The commission framework is proposed to be recalibrated in parallel.

Instead of a uniform approach, commission limits would take into account the **segment, line of business, distribution channel, product complexity and the effort involved in selling and servicing the product.** [*Box 4A and 4B of the Part 1 of Consultation Paper*]. The **sale of products in under-served areas** (small towns with population of upto 50 thousand and rural areas, and smaller cities with population upto 10 lakhs) may have **rewards over and above the normal commission limits**.

The proposals also include cost audits and safeguards against indirect payments with the objective of ensuring greater accountability for the actual cost of distribution.

Greater transparency and stronger accountability are proposed to strengthen the ability of policyholders to make informed choices.

Insurers and large distribution entities would be required **to disclose commission policies and structures** in a simple and accessible manner, while specified commercial policies would carry commission disclosures. This would enable customers in being aware of the distribution costs built into the pricing.

The reforms also seek to **strengthen safeguards against compulsory bundling of insurance** with other financial products and services and **address mis-selling** through greater accountability. This includes **documenting customer needs and suitability**, explicitly including all forms of remuneration, **direct or indirect, monetary or non-monetary**, within the definition of commission for regulatory purposes, and **prohibiting volume-linked or reward-linked incentives for bank and NBFC staff selling insurance**. It also includes linking the identity of the individual with the policy sold, placing information on mis-selling incidents in the public domain, and providing for **commission claw-back in cases of mis-selling**. The consultation paper also proposes tracking dark patterns and making relevant performance information available to strengthen market discipline. Greater transparency in product information, remuneration and distribution practices, along with appropriate safeguards against mis-selling and unfair practices, will give much greater confidence to customers.

Digital infrastructure is an important part of this transition.

The consultation paper proposes **Market Infrastructure Institutions (MIIs)** for insurance as digital, pull-based alternatives for insurance distribution, with Bima Sugam identified as one such infrastructure. The paper also envisages greater use of the **Public Insurance Registry (PIR)** to support transparency, comparison, portability and operational efficiency. Together, these digital and technology-enabled channels are intended to improve ease of purchase and servicing, expand consumer choice and facilitate wider access to insurance, including among currently underserved segments.

The proposed reforms are intended to work together to support a distribution ecosystem capable of reaching a larger and more diverse customer base, bringing uninsured citizens into the insurance fold:

A simpler architecture can facilitate competition, innovation and wider participation; lower structural costs can support affordability; better-aligned remuneration can strengthen incentives for quality advice and service; greater transparency can improve customer choice; and digital infrastructure can reduce transaction costs and enable more direct access to insurance.

Consultation with stakeholders

IRDAI has invited comments and suggestions from the public and all stakeholders on the proposed reforms on **"Recalibrating Economics of Insurance Distribution."** The consultation paper seeks views on the problems identified, the proposed strategic objectives, reform measures and their implementation. The consultation paper can be accessed from https://iib.gov.in/dr.

Comments/feedback may be submitted through the web consultation process, through the prescribed Excel template uploaded on the consultation portal, or by email. The last date for submission of comments and feedback is **25 October 2026**.

IRDAI remains committed to fostering a responsive, competitive and policyholder-centric insurance ecosystem, and will continue to engage with stakeholders and monitor the implementation of the reforms to ensure that policyholder interests remain central to the development of the insurance sector. IRDAI looks forward to the active participation of all stakeholders in shaping these reforms.

Annexure A: Regulatory objectives and corresponding Reforms

No.	Objective	Reforms
1	Eliminate scope for regulatory arbitrage	• Adopt only three distributor types (IDE, IDP, MII) • Same scope, obligations and regulations for same structure • Sharper distinction between open and closed architecture
2	Remove restrictions on non-insurance business opportunities for intermediaries	• Enhance competition • Generate employment • Improve income of IDPs
3	Ease-up entry and capital requirements	• Reduce capital requirement significantly • Simplify registration • Lower fees
4	Reduce total expenses with a glide path	• Lower EoM limits with a medium-term glide path • Refine EoM computation to preclude work-around the limits • Mandate cost audit and disclosure of results • Nudge insurers to focus on improving operational efficiency • Allow insurers to distribute products of their group non-competing insurer
5	Caps on commission and rewards with a framework of effort & complexity, and aligned to removal of regulatory arbitrage	• Distinction between open architecture and closed architecture • Higher commission for those with restrictions on scope (closed architecture) • Opportunity-based commission level for open architecture • Link commission levels to complexity of products and efforts to sell • Reduce layers in distribution • Considering all payments to distributors to preclude work-around
6	Set-up market infrastructure institutions that work only for public and policyholders	• Fully digital pull-based customer- facing MIIs such as Bima Sugam • More MIIs promoted by insurers envisaged • PIR owned by the regulator- a population-scale, interoperable and non-exclusionary DPI for Insurance and a business-facing digital infrastructure
7	Create incentives for good market conduct	• Enhance competition in distribution with mandatory disclosure • Link commissions to complexity and efforts required to sell • Larger renewal commission for life products with long payment terms and persistency • Allow higher limits for those in closed architecture • Permit packaging of insurance products with other lending serving policyholders' interest explicitly, whereas prohibiting compulsory bundling • Know performance of distributors and insurers on various customer outcomes
8	Build-in disincentives for bad conduct	• Disclose EoM and commission information in public domain • Place performance of IDPs and IDEs in public domain • Place performance of insurers & distributors in public domain • Track dark patterns actively and placing the information in public domain • Identify individuals involved in unfair practices
9	Ensure transparency by design, and not as an option or enforcement	• Disclose product features, pricing and quality • Set regulatory expectations & establish oversight systems • Performance & conduct of insurers and distributors in public domain • Mention commission on policies with sum-insured > ₹ 50 crore • Disclose EoM & commission performance of insurers & large distributors • Mandate cost audit and placing results in public domain
10	Mitigate structural constraints and operational friction to customer power	• Reduce layers in distribution • Mandate direct connect between purchaser and insurer before policy issue • Require direct payment to insurers • Improve transparency • Enable customers to compare products and services • Expand scope for direct purchase • Make the portability journey seamless through the PIR • Enhanced oversight on grievance redressal