Insurance Commission Curbs: Will Policyholders See The Savings?

Samiksha Choudhary | Oct 09, 2026

IRDAI # insurance distribution costs # insurance commission limits # policyholder benefits # insurance brokers

IBAI has urged the government to review IRDAI's proposed insurance distribution reforms, warning of potential risks to jobs and customer choice. Industry experts say lower commissions alone will not guarantee cheaper premiums or better policyholder outcomes



The Insurance Brokers Association of India (IBAI) has urged Prime Minister Narendra Modi to review proposed changes to insurance distribution costs, arguing that tighter commission caps and lower expense limits could affect employment, competition and access to independent advice without ensuring that savings reach policyholders.

In a letter dated 2 October 2026, IBAI asked the government not to notify regulations arising from the Insurance Regulatory and Development Authority of India's (IRDAI) consultation paper, Recalibrating Economics of Insurance Distribution, without a published impact assessment. It also called for the existing 2023 expense-of-management framework to remain in place until its scheduled review in 2028.

While IBAI supports measures to address mis-selling, including prohibiting compulsory insurance bundling with loans and strengthening suitability requirements, it has raised concerns about proposed product- and channel-specific commission caps and a reduction in insurers' overall expense limits.

The dispute centres on a key question: will tighter controls on distribution costs translate into lower premiums and better service, or could they weaken distribution channels without delivering measurable benefits to customers?

Lower Commissions May Not Guarantee Savings

Col Sanjeev Govila (retd), Certified Financial Planner and CEO of Hum Fauji Initiatives, said the focus should be on the value policyholders receive rather than distribution costs alone.

"The actual question is not whether distributors are being paid too much, but whether customers are receiving value for what the insurance system spends on distribution," he said.

Govila said distribution channels serve different purposes. Insurance sold alongside a loan, for instance, may not involve the same needs assessment, product comparison and ongoing support as advice from an independent intermediary.

He favours remuneration linked to outcomes such as policy persistency, suitability of sales, complaints and servicing quality. As he put it, "Ultimately, saving Rs 100 of distribution cost is meaningless to the policyholder unless a fair part of that Rs 100 reaches them."

IBAI has raised a similar concern, arguing that the proposed framework does not establish a mechanism to ensure that lower distribution costs translate into reduced premiums. It has called for the existing framework to be retained, with tighter computation rules where necessary.

Premiums Depend On More Than Distribution Costs

Yogesh Agarwal, Founder and CEO of Onsurity, said lower distribution costs could create scope for more competitive group insurance pricing, particularly for small and medium enterprises (SMEs). However, premiums also depend on claims experience, medical inflation, customer demographics and the extent of coverage.

Intermediaries can help businesses select suitable policies, negotiate terms and navigate claims. Reducing distribution costs without considering these functions could affect the value customers receive from their insurance cover.

"A lower premium means little if the employer ends up with weaker protection," Agarwal said.

The issue is particularly relevant for micro, small and medium enterprises (MSMEs), where insurance penetration remains low and businesses may need support to assess risks and understand policy terms. IBAI has argued that reforms should encourage wider coverage rather than expand the scope for insurance sales driven by lending requirements.

Independent Brokers And Customer Choice

Milan Sanghvi, Executive Director-Marketing at IFFCO-TOKIO General Insurance, said tighter controls could improve transparency and accountability, provided they do not unnecessarily restrict independent distribution.

"The objective should be to address misselling and improve customer protection without unnecessarily restricting distribution channels," he said.

IBAI's letter highlights the role of customer-appointed brokers in comparing products, negotiating coverage and assisting policyholders with claims. The association warns that restrictions could shift business towards insurer-linked distribution channels, potentially reducing access to independent advice.

The regulatory challenge is to distinguish between practices that create conflicts of interest and distribution models that help customers make informed decisions. Stronger disclosure and suitability requirements could improve accountability, but the effect of commission limits will depend on how they alter incentives across different channels.

Digital Brokers Face Cost Pressures

Rakesh Kumar, Managing Director and Founder of Square Insurance, said tighter commission and expense limits could put near-term pressure on smaller and newer brokers. The longer-term impact would depend on their ability to adapt through greater efficiency, scale and sustainable operating models.

Digital brokers invest in technology that allows customers to compare premiums, coverage, exclusions, deductibles and service features. Kumar said regulation should encourage transparency while allowing distributors to continue investing in technology and customer support.

A transition period and sufficient flexibility could help smaller businesses adapt. If cost controls constrain these investments,

customers could have fewer options for comparing policies and accessing digital services.

Customer Outcomes Will Determine Success

IBAI has proposed retaining the 2023 expense framework, with tighter computation rules where required and a realistic transition period. It has also suggested refunds or lower renewal premiums in certain cases of forced insurance sales where claims ratios fall below a prescribed threshold.

The proposals reflect the association's argument that reforms should establish a direct link between cost reductions and customer benefits. Its estimate that at least 10 lakh livelihoods could be at risk over five years is based on IBAI's own preliminary assessment and requires independent scrutiny.

Ultimately, the effectiveness of the proposed changes will depend on whether they improve affordability and accountability while preserving access to suitable advice, adequate coverage and claims support. Lower distribution costs may create room for reform, but the real test will be whether policyholders see tangible benefits.

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