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CIRCULAR

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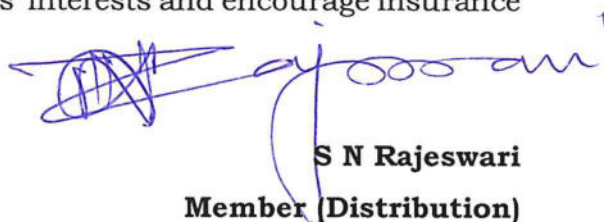
All Life Insurers/General Insurers/Standalone Health Insurers;

Sub: **Guidance note - Board policy of the insurer on the commission structure**

1. This circular is issued in exercise of the powers conferred under Section 34 of the Insurance Act, 1938 and Section 14(2)(e) of the IRDAI Act, 1999 and Regulation 8 of the IRDAI (Payment of Commission) Regulations, 2023,
2. As the "Insurance Agents, Intermediaries or Insurance Intermediaries" (herein after referred to as intermediaries) play a crucial role in the distribution of insurance products, it is essential for the insurers to have a clear and transparent board policy on their commission structure to ensure fairness, transparency, compliance, efficiency, and industry reputation in the insurance distribution process.
3. The board policy on commission structures for intermediaries shall, at the minimum, include the following key elements:
 - (i) **Objectives and Principles:** The board policy shall clearly state the objectives and principles that underpin the commission structure. This shall include promoting fair and transparent competition among intermediaries, aligning incentives with customer needs, and encouraging efficient and cost-effective distribution.
 - (ii) **Fairness and Reasonableness:** The commission structure shall be reasonable and not result in excessive compensation for intermediaries at the expense of customers or the insurer. Insurers shall ensure their commission structure is commensurate with the efforts required to acquire and sustain that type of business. This means intermediaries shall be compensated fairly for their work, regardless of their size or bargaining power.

- (iii) **Good distribution practice:** The Board policy on commission structure shall encourage good distribution practices of intermediaries. This can help enhance customer satisfaction, build a stronger relationship with the customers, increase the insurer's market share and ensure compliance with regulatory requirements.
- (iv) **Regular review:** The board policy shall establish a standard review process for the commission structure, which includes assessments of its effectiveness, efficiency, impact on premium rates, benefit pay-outs, penetration, alignment with customer needs and interests etc. The review shall be conducted by the audit committee at least on an annual basis.
- (v) **Market Conduct:** The board policy shall outline the governance and oversight mechanism for market conduct to ensure that intermediaries adhere to high standards of behaviour and ethical practices. The board policy shall recognise and address potential conflicts of interest due to the commission structure, such as intermediaries recommending products not in the customer's best interest to earn higher commissions. Furthermore, the board may also put appropriate caps in absolute amounts in certain segments, for example group products.
- (vi) **Monitoring and Reporting:** The board policy shall establish reporting requirements for the commission structure, which includes regular reporting to the board of directors and senior management on the performance and compliance of the commission structure.
- (vii) **Applicability:** Any new commission structure shall not apply to already sold policies.

Overall, the commission structure of intermediaries shall be designed to promote fair and transparent practices that protect policyholders' interests and encourage insurance penetration.



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Member (Distribution)