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Beyond the Headlines

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**Reset, Not Rubble: Do the
Proposed IRDAI Rules Spell
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IRDAI's draft does not try to shut down the selling of insurance. It tries to change what sellers are paid for: the effort of explaining a policy and keeping the customer, instead of how big the sale is. The useful question is not whether selling survives, but which parts of the old easy extra margin (the "spread") survive with it.

Three years ago, India removed the upper limits on how much commission a seller could earn for selling an insurance policy. Now the regulator, IRDAI, wants to bring some of those limits back. On 23 September 2026 it released a draft for public feedback called "Recalibrating Economics of Insurance Distribution". People can send comments until 25 October. If the draft is adopted as it stands, the new rules would apply from FY28.

First, it lowers the total amount an insurer is allowed to spend on running its business and selling its policies, commissions included. This limit is called Expenses of Management, or EoM, and it is set as a share of premium, which is the money customers pay for their policies. For example, if an insurer collects ₹100 in premium and its limit is 15%, it can spend at most ₹15 on all its costs together.

Second, it sets limits on commission, which is the cut a seller keeps for selling a policy. These limits differ by product, by who is selling (a bank, an agent, an app) and by how much effort the sale needs.

This is unusual because the regulator is reversing itself. It removed the product-wise limits in 2023 and is now proposing to bring them back within three years. The reason is in its own data: sellers' pay grew much faster than the business they brought in. That is why the cuts are uneven. They are the biggest where seller pay has grown fastest compared with the premium. The extra margin sellers earned in those areas is the spread.

The question for an investor is which listed companies were living on that spread, and the market has already started to answer it. This note covers how the rules fit together, why the regulator acted now, who loses the spread, whether insurers win by default, and how much of the damage is real.

Situation Snapshot (as of 1 October 2026)

Item	Reading	Read-through
Status	Draft of 23 Sep; comments till 25 Oct; proposed to start from FY28	Only a proposal for now, not a rule. How long companies get to adjust depends on the start date finally announced
Life EoM	Insurers may spend 15% of premium within two years and 12.5% within five. Insurers already spending less than the benchmark get 10%	Insurers now spending 20% or more of premium will have to renegotiate their deals with sellers
General EoM	30% today, 25% in two years, 20% in five. The premium used to work out the percentage also changes, from all premium written (GWP) to only premium written directly in India (GDPI)	The same spending gives a different percentage on a different premium base, so read the cut with that change in mind

Life commission, first year	Banks and companies (entities) 5–20% and individual agents 6.25–25%, depending on how many years the customer pays premium. Long-term pure term plans 25% and 30%. Pure term plans paid once 7.5% and 10%. Savings plans paid once 1% and 2%	Term plans are favoured over savings plans. A term plan only pays out if the person dies and has no savings part
Life renewals	Term plan renewals 7.5% (entities) and 10% (agents)	Sellers still get paid each year for keeping a customer
Health	First year 15% (entities) vs 20% (agents); renewals 5% vs 10%	A big cut in what sellers earn for looking after existing customers
Motor	Compulsory third-party cover (for damage to others) on a new vehicle: nothing for entities, 2.5% for agents. Own-damage cover (for your own vehicle) 5% for entities and 10% for agents/associates	Compulsory cover will no longer pay institutions
Credit life	Single-premium commission capped at 2%, against about 22% on average today. Total payouts can reach 45% once other payments are added. Credit life is insurance sold with a loan, so the loan is cleared if the borrower dies	The sharpest cut; lenders bear it

1. How the Rules Fit Together: Two Walls and No Side Door

Imagine a shop. The owner has a fixed monthly budget for rent, salaries and advertising, and can spend it in any mix. That budget is the outer wall. Separately, a rule says no single salesperson can be paid more than a set share on each product. That is the inner wall. The proposal works like these two rules together, so it is easier to read as two walls than as one cut.

The outer wall is the EoM limit: a ceiling on everything the insurer spends, as a share of premium. Today general insurers can spend up to 30% of the premium they collect in India, and standalone health insurers 35%. Life insurers have different limits for different products. Inside this wall, the insurer is free to divide the money as it likes between commission, marketing, technology and staff. The 2023 changes gave it this freedom.

The inner wall is the commission cap: a limit on what any one seller can earn on a product. The paper counts everything a seller receives as commission, including bonuses, awards, reimbursed expenses, brand payments and gifts. This closes the side door. Without it, an insurer could pay a bank a lower commission and make up the difference with a bonus or a free trip. With the cap counting everything, it cannot. The same budget logic applies to an insurer. Suppose it spends ₹20 out of every ₹100 of premium on commissions and running costs. That is a 20% cost ratio. If the limit falls to 15%, it has to cut ₹5 from every ₹100. It cannot hide the cut by paying sellers through bonuses or gifts, because those count as commission. The commission caps then decide which sellers and products give up that ₹5.

The way the limit is measured also changes. Premium can be counted in two ways. Gross written premium (GWP) is all the premium an insurer writes. Gross direct premium income (GDPI) is only the premium written directly in India. General insurers would now be measured on GDPI instead of GWP. A smaller base makes the same spending look like a bigger percentage. For example, with made-up numbers, costs of ₹30 are 30% of a ₹100 base but 33% of a ₹90 base. So a cut from 30% to 25% should not be read on its own.

2. Why Now: Freedom was Spent on Reach

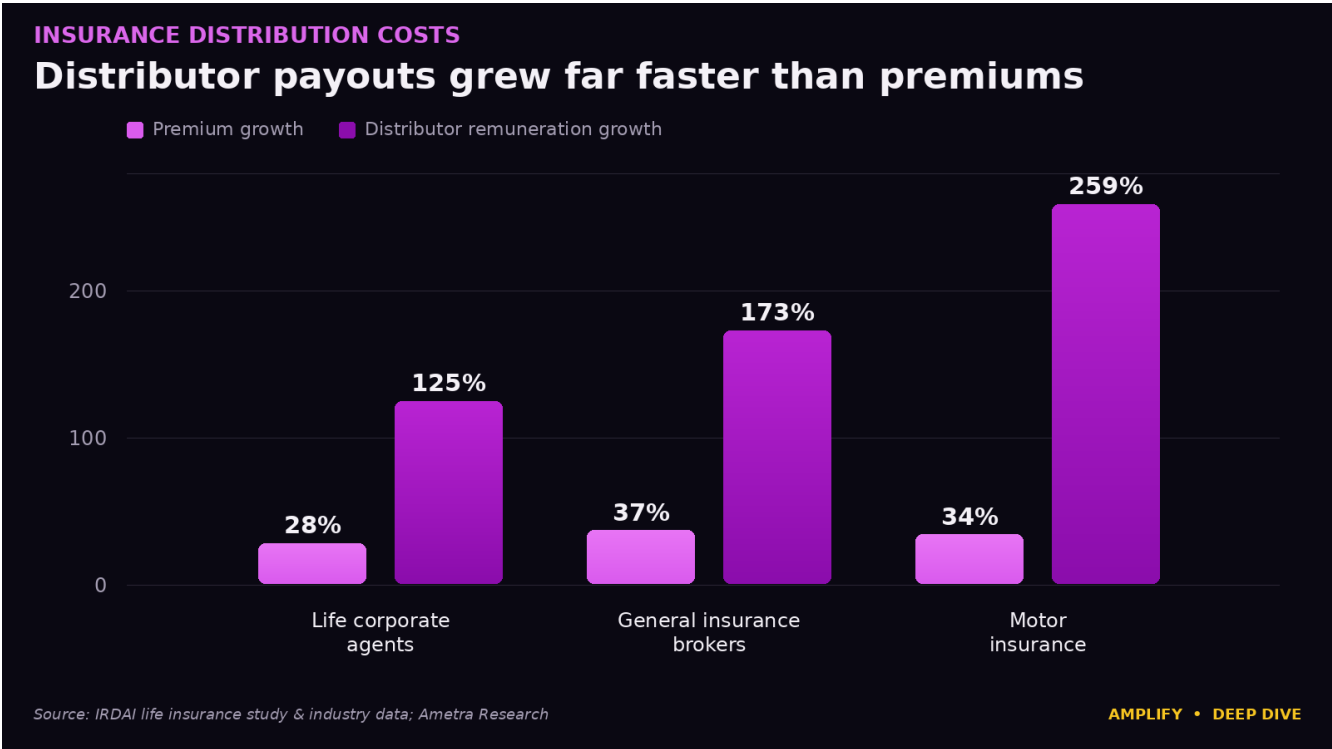
Once the product-wise limits were gone, insurers could pay more to reach more customers, and the cost data shows what they did with it. Between FY23 and FY25, the commissions and other payments to banks and corporate agents in IRDAI's life insurance study rose 125%. The premium from the new policies those sellers brought in rose only 28%. For example, If a shop doubled what it pays its sales team and sales went up by only about a quarter, each sale would now cost far more. That is what the numbers show.

Other lines show the same pattern. In general insurance, premiums sold through brokers grew 37%, but commissions grew 173%. In motor insurance, premiums grew 34%, but commissions grew 259%. Private life insurers also spent more of every ₹100 of premium on commissions and running costs: ₹16.5 in FY21 and ₹20.2 in FY26. This extra cost did not disappear. It became part of the cost of winning customers and getting policies to them.

Credit life is the sharpest case. It is insurance sold along with a loan: if the borrower dies, the insurance repays the loan. Finance companies (NBFCs) sold ₹3,600 crore of it in FY23 and ₹10,300 crore in FY25. Nearly 93% was group policies, where one policy covers all of a lender's borrowers. The commission on these policies went from 5% to 28% in two years. Including other payments, it was about 45%. For example, on a ₹100 premium, that means the seller received about ₹28, or close to ₹45 with other payments, for what is usually an add-on to a loan.

The IRDAI chairman has linked very high first-year commissions to mis-selling, which means policies sold to people who do not need them or do not understand them. This is most likely when the seller earns more from closing the sale than from checking whether the policy suits the customer. For example, a loan officer who earns a big cut on every borrower covered has little reason to ask whether the borrower needs the cover.

The direction was also hinted at in advance. In December 2025, the Insurance Laws (Amendment) Bill was reported to give IRDAI the power to cap commissions through regulation. The data explains the design. Sellers' pay grew fastest where insurance could be attached to something already happening, such as a loan or a vehicle purchase. So the proposed table of limits does not cut every product by the same amount.



3. What the Caps Steer: Pay Follows Effort

Every rupee of premium is used in three ways: to pay claims, to cover the insurer's running costs, and to pay for winning the customer, which is mostly the seller's commission. The paper focuses on the third. Its test is whether the commission is fair for the extra work the seller actually did.

Examples are a credit-life policy sold with a loan, third-party motor cover sold with a new vehicle, and a savings plan paid with a single premium. In each, the seller did little extra work to win the customer but was paid generously. A showroom adding third-party cover to a new car adds very little, since the buyer needs that cover by law anyway. These are cut hardest.

Long-term term insurance is treated differently. Term insurance pays out only if the person dies, and it takes time to explain. Many people in India are also not adequately insured, which is called the protection gap. So the term keeps the highest first-year limits: 25% for banks and companies and 30% for individual agents. Renewals, which are the yearly payments for keeping the customer, get 7.5% and 10%.

Individual agents are allowed more than banks and companies in several products. The paper's view is that an individual agent does more of the work of finding and looking after a customer. Overall, money moves away from one-time payments made at the time of sale and toward products where the seller has to keep working after the sale: explaining, renewing and servicing.

There is a trade-off. Lower selling costs can reach the customer as a lower premium or a better policy value, but only if sellers keep selling the products that are harder to explain. If pay falls below what a seller needs to cover costs, effort can move toward products that pay better.

For example, a seller may stop explaining term plans and push whatever pays more. That risk falls first on businesses built on the old spread, and three groups are particularly exposed.

4. Who Lived on the Spread: Distributors and Lenders

Online distributors. Online sellers earn by keeping a share of each policy they sell. That share is called the take rate. For PB Fintech, the company behind Policy Bazaar, it was about 18.5% in April–June 2026 (Q1 FY27). In other words, it keeps about ₹18.5 of every ₹100 of premium. If the commission it can earn is cut, its revenue falls straight away.

About half of its core revenue comes from life insurance and half from general insurance, which includes health and motor. Management says life will see limited impact, while general insurance revenue could fall to one-third to 40% of today's level. Together, that is the roughly 30% fall in core online revenue the company gave. So the mix of products matters most. Term insurance is protected by its renewals, while health and motor take the damage.

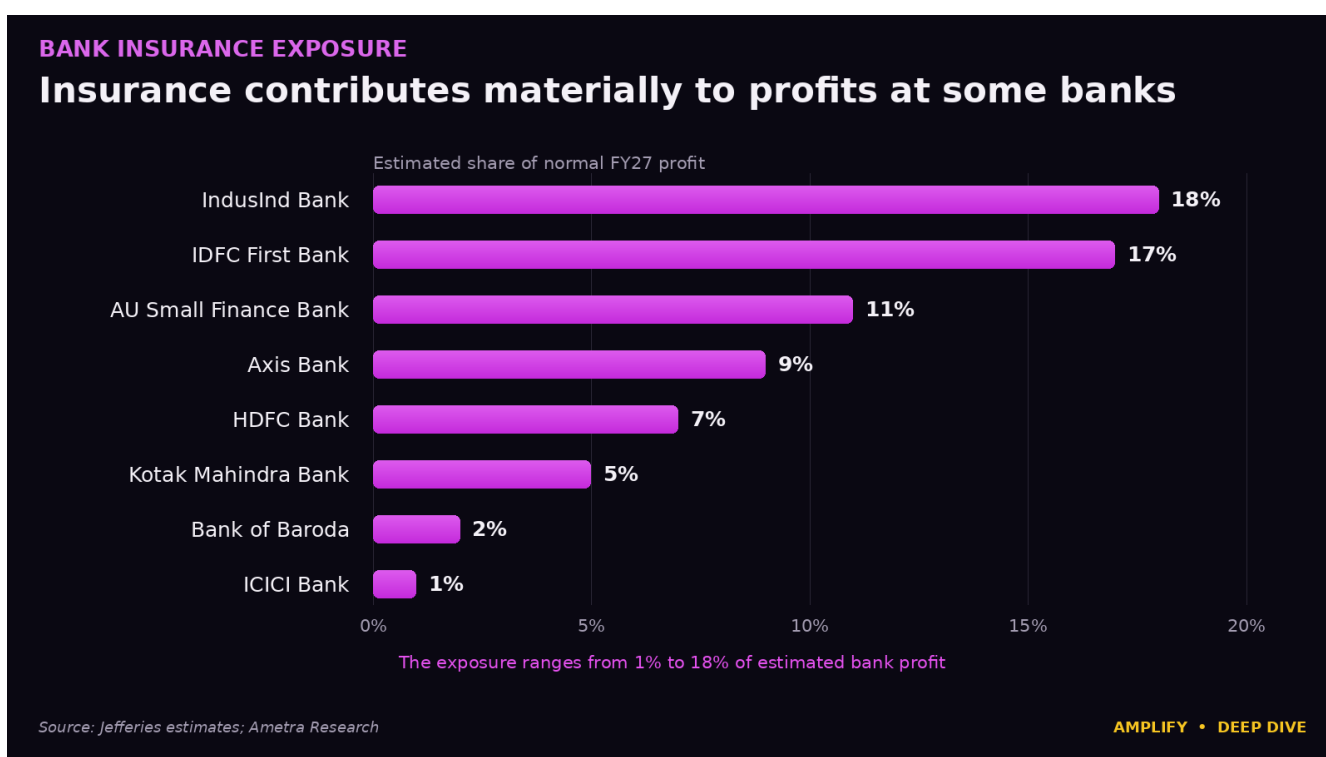
Jefferies, a brokerage, estimates that earnings will fall 10–12%. But it assumes only a 10% cut in commission on new policies, while the proposed cuts are much bigger, between one-third and two-thirds. So the real hit, before the company reduces its own costs, could be larger. PB Fintech has also said it is not yet clear whether the new limits will apply to policies already sold. If they do, renewal income would also fall.

Lenders. Many of the easiest sales were made at the loan counter, where a bank or finance company offers insurance on the same visit as the loan. So lenders are hit too. Kotak says first-year commissions at finance companies averaged 42–67% of premium. Banks averaged 27% on life policies, with a maximum of 62%. IIFL, a brokerage, estimates that credit-life commission would be cut by about 90% and motor by about 70%, compared with what is paid now.

Insurance commission is about 26% of L&T Finance's pre-tax profit for FY26, against roughly 18% at Poonawalla Fincorp and 16% at Cholamandalam. If lenders cover half of the loss by paying staff less incentive and earning from other sources, IIFL still sees about 12% of L&T Finance's profit after tax at risk, and 3–5% for most other finance companies.

Banks differ widely. Jefferies estimates how much of each bank's profit in a normal FY27 comes from selling insurance: about 18% for IndusInd Bank, 17% for IDFC First, 11% for AU Small Finance Bank, 9% for Axis, 7% for HDFC Bank, 5% for Kotak Mahindra Bank, 2% for Bank of Baroda and 1% for ICICI Bank.

So the risk depends less on whether a bank sells insurance and more on how much of its profit comes from it. Two banks can sell the same amount of insurance, but the one earning a fifth of its profit from it is far more exposed than the one earning a hundredth. The ban on compulsory bundling adds a risk to volumes. Bundling means making customers buy insurance along with a loan. A lender that wants cover for its whole loan book will now have to buy a group policy itself and pay the premium.



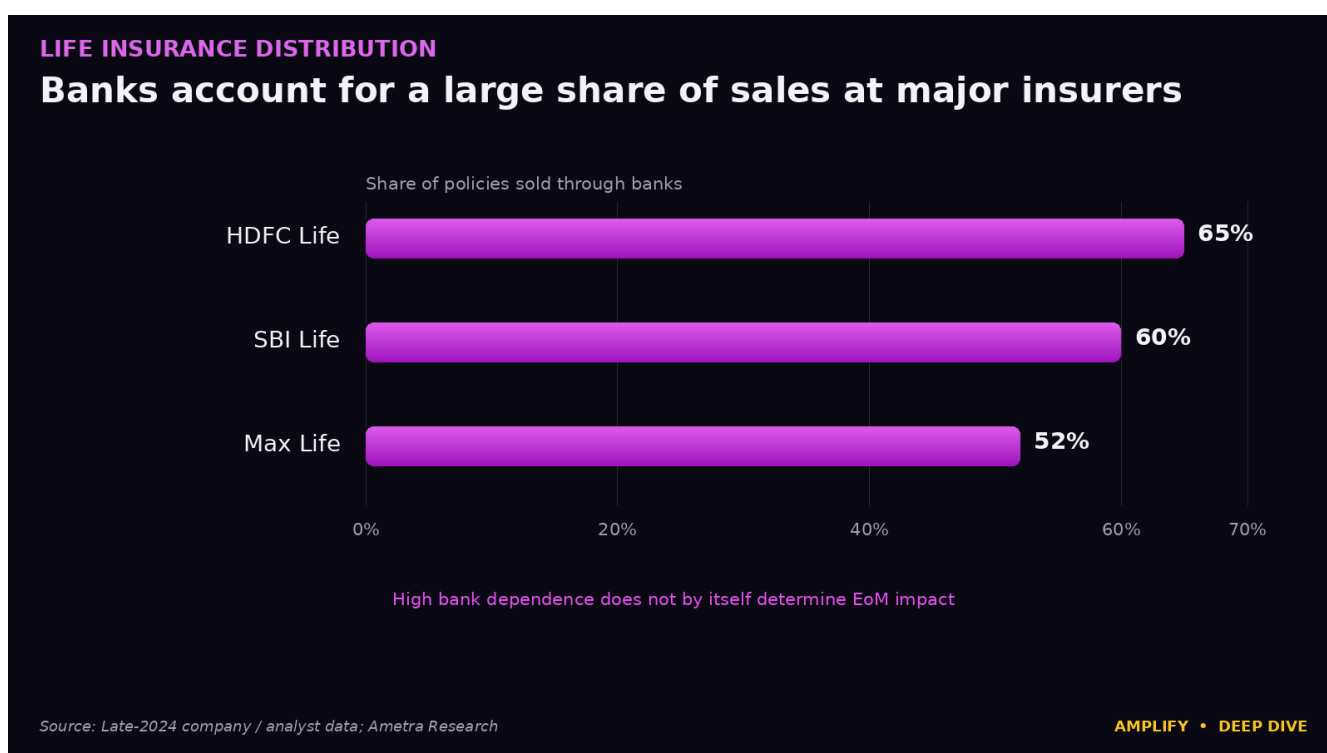
5. Are Insurers the Winners? Only the Ones with EoM Headroom

If sellers lose, it is tempting to say insurers win, because commission is their cost. But the outer wall is the limit that counts, so the question is how far each insurer's spending sits above it. Headroom means the room an insurer has below the limit. For example, if the pass mark rises to 75%, a student already scoring 90% is fine, while a student scoring 60% has to change how they study.

Banks' share of an insurer's sales does not explain everything. HDFC Life, SBI Life and Max Life sold roughly 65%, 60% and 52% of their policies through banks, on late-2024 data, yet their shares reacted differently. Analysts point to the terms of each insurer's deal with its banks and how much commission is paid today. The cost figures above are only for comparison. They are not a test of who will pass, because the regulator measures EoM on its own premium base and its own product rules.

Lower commissions also do not go straight into profit. Part of the savings has to show up as lower overall spending, because the EoM limit applies to everything the insurer spends, not just commission. Smaller insurers are also at a disadvantage, as technology, compliance and selling systems cost them more relative to their premium. For example, a system that costs ₹10 crore a year is 0.1% of the premium of an insurer collecting ₹10,000 crore, but 2% of the premium of one collecting ₹500 crore.

Health and general insurers show the same split. Niva Bupa's CEO called the proposals manageable and said the company can reach the proposed 25% within two years. Shares of ICICI Lombard and Go Digit rose at first. Investors expect less competition over commissions in motor insurance: when insurers cannot pay sellers more, they stop bidding against each other. Own-damage cover is still a risk, as its commissions are cut too.



6. Does it Spell ill for Distribution? The Function Survives; the Spread does not

That brings us back to the title. The function survives for a simple reason: insurance still has to be sold. The proposal tries to change how that selling is paid for, not remove it. Value moves toward service, renewals, help with claims and direct digital sales, where customers buy online straight from the insurer. The regulator also wants institutions like Bima Sugam, a planned common online marketplace for buying and managing insurance, to make it easier for customers to come to insurance rather than being chased by sellers. PB Fintech's chairman has said the company could look at getting an insurance licence of its own, becoming an insurer itself, as one possible response.

What does not survive is the easy margin from large upfront payments. Sellers now face two pressures at once. They earn less on each policy, but costs such as compliance, technology and servicing stay the same. Small sellers cannot spread those costs over enough policies. Lenders that make a large part of their profit from credit-life or motor insurance are also exposed.

Two things could change this view. The first is the final rules. This is still a draft, so the limits and the time given to adjust can change. The second is servicing. A 5% limit on health renewals may be too low to pay for the follow-up that keeps policies alive, which would work against the regulator's own goal. Two further risks: if Bima Sugam is adopted slowly, middlemen will not be removed as quickly as hoped, and if sellers raise their prices or charges to make up for lost commission, less insurance may be sold.

Ametra's Read

This is a repricing of who gets to keep the margin on winning customers, and a push from first-year selling toward customers staying covered year after year.

— **Distribution economics reset.** The clearest pressure is on health, motor and credit life, where proposed payouts are much lower.

— **EoM headroom matters.** Insurers should be judged on their current costs and how far they sit from the limit, not just on how much they depend on banks.

— **Lenders are the under-discussed leg.** What matters is how much of a lender's pre-tax profit comes from insurance commission, and how much of it is credit life.

— **Do not average into a draft.** The final commission limits, the treatment of renewals and the start dates can change the hit to earnings a lot.

The bottom line: the regulator is shrinking the intermediary's toll, not abolishing the road. The businesses at risk are the ones whose economics depended most heavily on the old toll.

Positioning Map

Area	Key Variable	What to Watch
Low-cost life insurers	EoM headroom: room below the spending limit	Whether they can stay within the proposed framework
Higher-cost private life insurers	EoM gap: how far above the limit they are	Renegotiating with sellers and cutting costs
Health insurers	Commission exposure and group selling, where one organisation buys for many people	Cost of winning customers and servicing them
Motor-led general insurers	Mix of third-party and own-damage cover	Benefit from less commission competition vs pressure on own-damage
Online distributors	Take rate and product mix	Revenue per policy and renewal income
Credit-life-heavy lenders	Insurance income as a share of pre-tax profit	How much that income can fall and how much they can make up elsewhere

Final rules	Commission limits and transition	Size of the eventual hit to earnings
Bima Sugam	Adoption	How fast the way insurance is sold changes

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