

# INSURANCE DIRECT BROKER

# OVERVIEW – INDIAN INSURANCE INDUSTRY

Since India's independence, our government has made relentless efforts to uplift the insurance sector. Insurance has now emerged as a key sector in our economy. The insurance industry of India comprises of **57 insurance companies**, out of which **24 are in the life insurance segment**, while **33 are non-life insurers**.

## Recent Government Initiatives

### FDI LIMIT INCREASED

*Union Budget 2021 increased FDI limit in insurance from 49% to 74%. India's Insurance Regulatory and Development Authority (IRDAI) has announced the issuance of digital insurance policies by insurance firms through Digilocker.*

### FUNDING

*In February 2021, the Finance Ministry announced to infuse Rs. 3,000 crore (US\$ 413.13 million) into state-owned general insurance companies to improve the overall financial health of companies.*

### CROP INSURANCE SCHEME

*Under Union Budget 2021, fund of INR 16,000 crore (US\$ 2.20 billion) has been allocated for crop insurance scheme.*

# MILESTONES OF GROWTH OF THE INSURANCE SECTOR

01	Nationalisation of life insurance (under LIC Act 1956) and non-life insurance companies (under GIC Act 1972)		
	02	Setting up of the Insurance Regulatory and Development Authority of India (IRDAI) in 1999.	
		03	Privatization and globalization of the insurance sector for both private and foreign players in 2000
	04	Increase in the foreign investment cap to 26% from 49% in 2015	
05	Union Budget 2019: Notification of 100% foreign direct investment (FDI) for the insurance intermediaries (announced in the Budget Speech of 2019-20). This has further liberalized the sector		

# MARKET SIZE

*In India, the overall market size of the insurance sector is expected to US\$ 280 billion in 2020.*



## GOVERNMENT POLICY

*Government's policy of insuring the uninsured has gradually pushed insurance penetration in the country and proliferation of insurance schemes.*



## GROSS PREMIUM

*Gross premium collected by life insurance companies in India increased from Rs. 2.56 trillion (US\$ 39.7 billion) in FY12 to Rs. 7.31 trillion (US\$ 94.7 billion) in FY20. During FY12-FY20, premium from new business of life insurance companies in India increased at a CAGR of 15% to reach Rs. 2.13 trillion (US\$ 37 billion) in FY20.*



## OVERALL INSURANCE PENETRATION

*Overall insurance penetration (premiums as% of GDP) in India reached 3.71% in FY19 from 2.71% in FY02*



## ANNUALISED PREMIUM EQUIVALENT

*Life insurers reported 14% YoY growth in individual annualised premium equivalent (APE) in October 2020, compared with 4% YoY in September 2020.*



## MARKET ANALYSIS

*The market share of private sector companies in the non-life insurance market rose from 15% in FY04 to 56% in FY21 (till April 2020). In life insurance segment, private players had a market share of 31.3% in new business in FY20.*



## HEALTH INSURANCE

*In October 2020, health insurance witnessed an increase in premiums at Rs. 4,074.8 crore (US\$ 553.93 million) compared with Rs. 3,840.6 crore (US\$ 554.29 million), recording 6% growth on y-o-y basis. Retail health also witnessed a 30% increase in premiums to Rs. 1,982.6 crore (US\$ 269.69 million)*

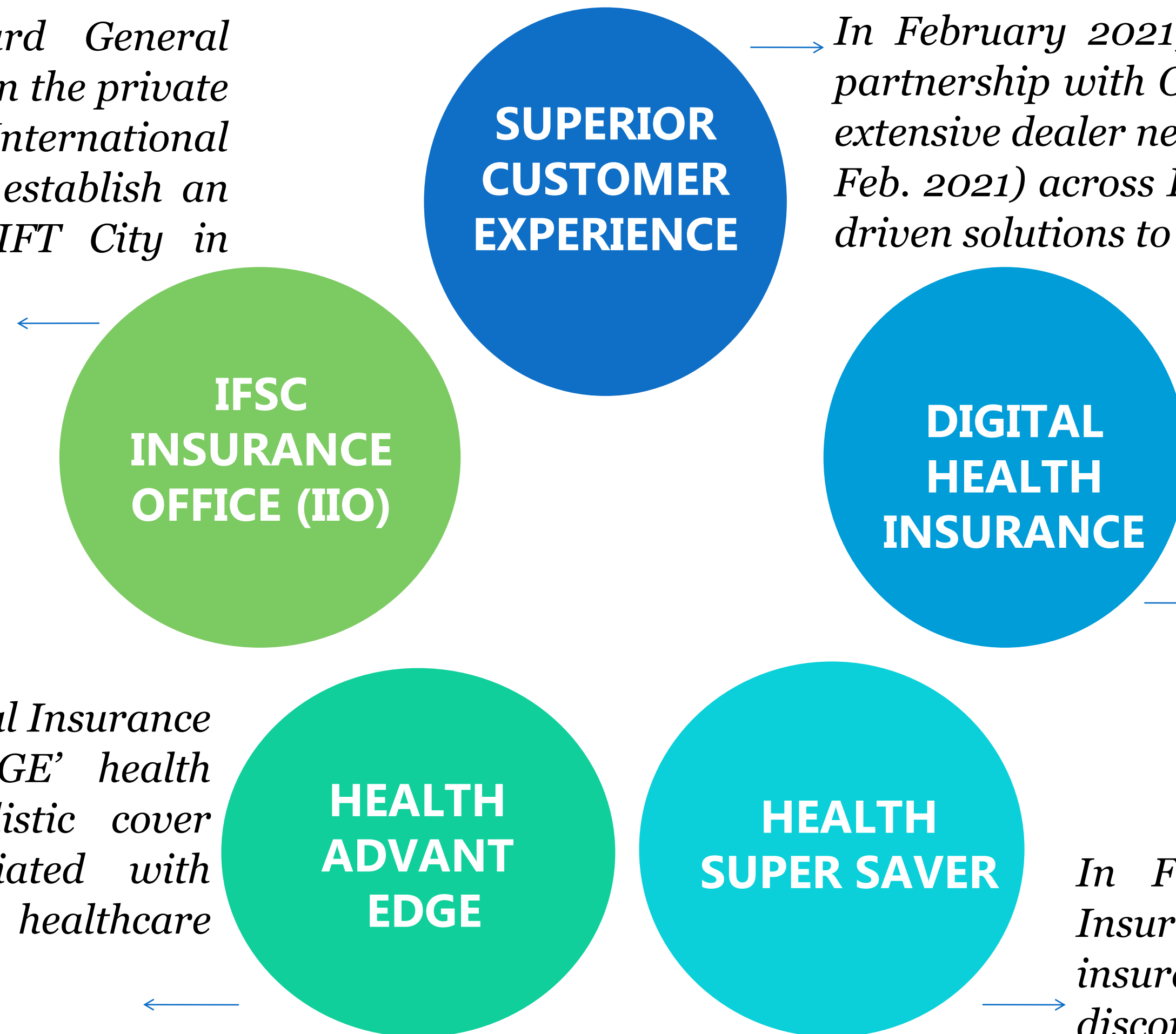


# RECENT DEVELOPMENTS & INVESTMENTS IN INSURANCE SECTOR

*The following are some of the major investments and developments in the Indian insurance sector.*

*Companies are trying to leverage strategic partnership to offer various services as follows:*

*In February 2021, ICICI Lombard General Insurance, a non-life insurance firm in the private sector, has been authorised by the International Financial Services Centre (IFSC) to establish an IFSC Insurance Office (IIO) in GIFT City in Gandhinagar, Gujarat.*



*→ In February 2021, Edelweiss General Insurance signed a partnership with Okinawa Autotech Pvt Ltd. to leverage the extensive dealer network of Okinawa (~350 dealerships as of Feb. 2021) across India to provide easy, end-to-end, digital-driven solutions to ensure superior customer experience.*

*→ In February 2021, Star Health Insurance partnered with PhonePe to offer digital health insurance on PhonePe, through its Arogya Sanjeevani policy.*

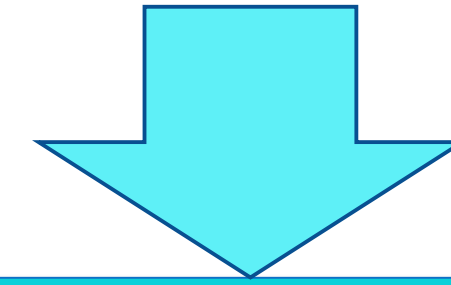
*In February 2021, Bharti AXA General Insurance launched its 'Health Advant EDGE' health insurance scheme to provide holistic cover against accelerating costs associated with medical requirements and other healthcare facilities.*

*→ In February 2021, Future Generali India Insurance launched 'Health Super Saver' insurance plan, with an 80% premium discount.*

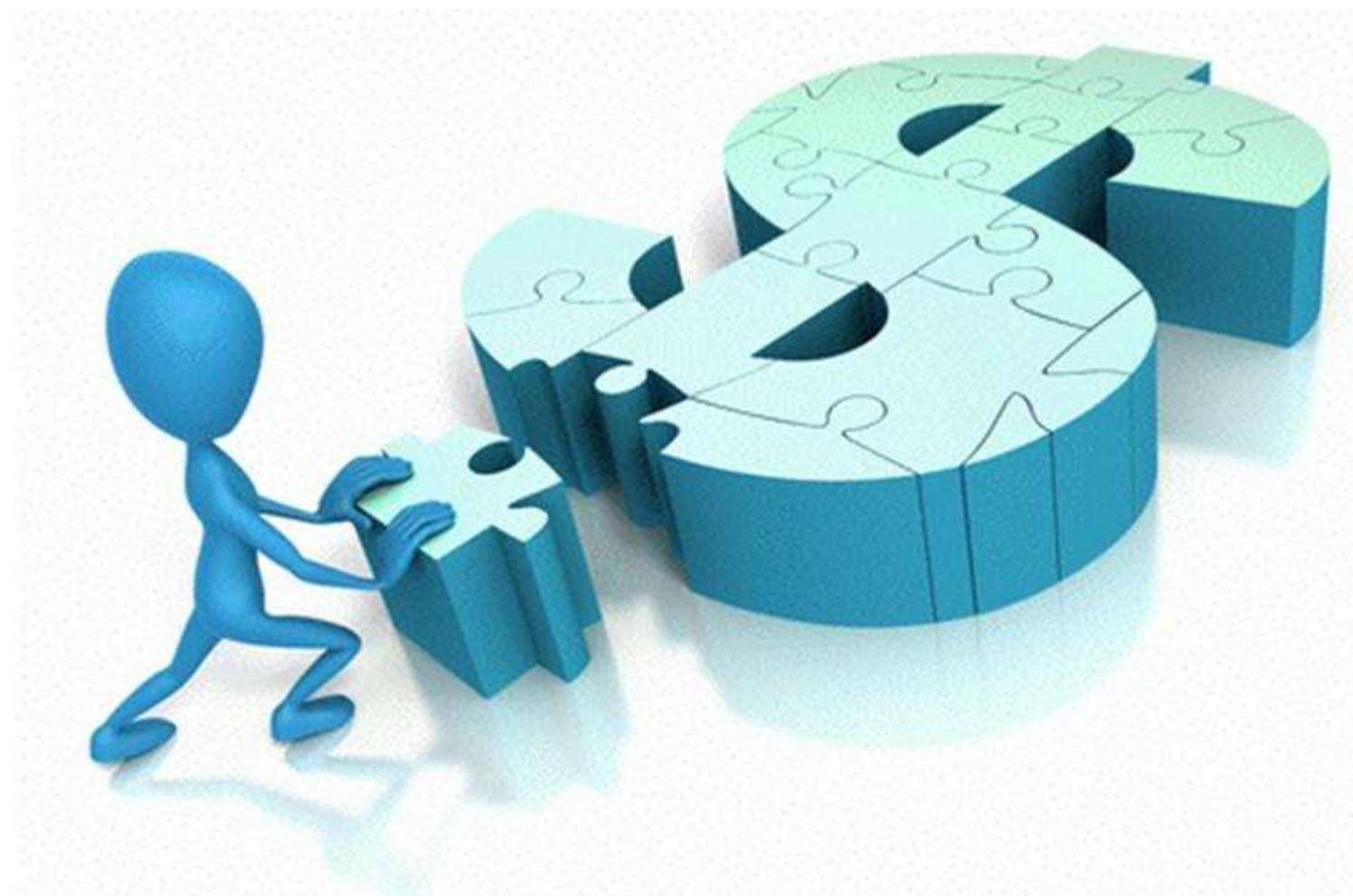
# FDI IN INSURANCE SECTOR & REGULATORY AUTHORITY



Union Budget 2019: Notification of **100% foreign direct investment (FDI)** for the insurance intermediaries (announced in the Budget Speech of 2019-20). This has further liberalized the sector.



The Regulatory authority for the insurance business is **Insurance Regulatory and Development Authority of India (IRDAI)**. IRDAI was set up in the year 1999.



# PROSPECTS IN THE INDIAN INSURANCE MARKET

*The future looks promising for the life insurance industry with several changes in regulatory framework which will lead to further change in the way the industry conducts its business and engages with its customers.*

01

*The overall insurance industry is expected to reach US\$ 280 billion by the end of 2020. Life insurance industry in the country is expected to increase by 14-15% annually for the next three to five years.*

02

*The scope of IoT in Indian insurance market continues to go beyond telematics and customer risk assessment. Currently, there are 110+ InsurTech start-ups operating in India.*

03

*Demographic factors such as growing middle class, young insurable population and growing awareness of the need for protection and retirement planning will support the growth of Indian life insurance.*



# FIVE FORCES ANALYSIS

*The profitability and growth of an insurance broker is affected by the following 5 factors:*

## THREAT OF SUBSTITUTES

*Similarity in services makes switchover a potent threat.*

*Investment oriented customers have switched to other avenues.*

## BARGAINING POWER OF SUPPLIERS

*Supplier being the distributor or agent have high bargaining power because they have customer database and can influence customers in making choices.*

## THREAT OF NEW ENTRANTS

- Other financial companies can enter the industry
- Overall threat is medium given that entry is subject to license and regulations.

*Above 2 factors have a neutral impact on the growth of insurance broker. This is because customer's bargaining power and coming of new entrants only results in more competition for the broker to enhance his services.*

## COMPETITIVE RIVALRY

- Insurance industry is becoming highly competitive with 52 players operating in the industry.
  - Companies are competing on price and also using low price and high returns strategy for customers to lure them.
- Above 2 factors adversely impact the growth of insurance broker due to high availability of other insurance solutions to the buyers.*

## BARGAINING POWER OF BUYERS

*Bargaining power of customers especially corporate is very high because they pay huge amount of premium.*



# KEY FACTORS OF GROWTH IN INSURANCE INDUSTRY

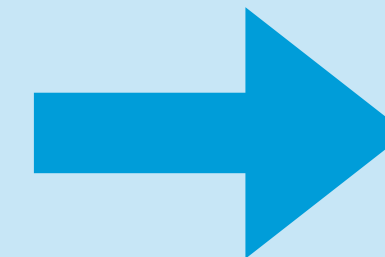
*The growth of insurance industry is sustained by the following key factors:*

## ECONOMY



*India's robust economy is itself a key driver of the growth in insurance businesses, as higher incomes result in higher premiums written.*

## HIGHER HOUSEHOLD SAVINGS



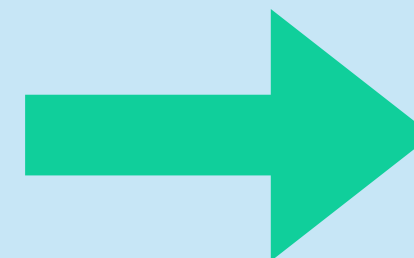
*More personal disposable income results in higher household savings. These savings get channelized into various financial saving schemes like insurance policies and pension funds.*

## GDP



*Per capita GDP of India is expected to reach US\$ 3,274 in 2023 from US\$ 2,135 in 2018*

## INVESTMENT IN SAVINGS SCHEME



*Government encouragement towards savings is another key factor. Tax exemptions and deductions are given to individuals who invest in various financial saving schemes like insurance policies.*

# CATEGORIES OF THE INSURANCE DIRECT BROKER

*Direct broker is a type of insurance broker who solicits and arranges insurance and/or reinsurance for its clients with insurers and/or reinsurers located only in India, in exchange for remuneration or fees, and also provides other services such as:*

**Direct broker  
Services:**

**CLAIM CONSULTANCY**

**RISK MANAGEMENT SERVICES**

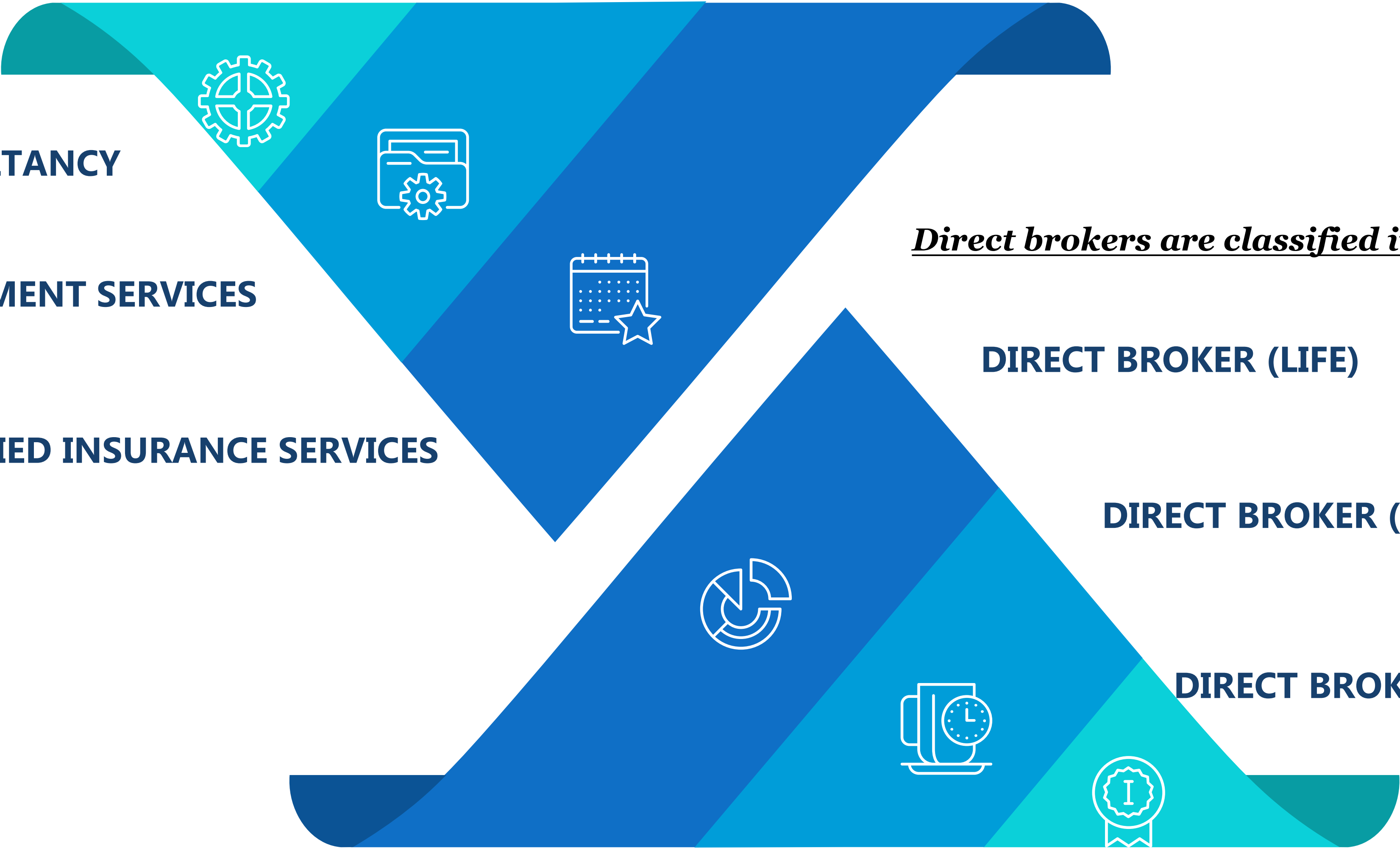
**OTHER ALLIED INSURANCE SERVICES**

**Direct brokers are classified into 3 categories:**

**DIRECT BROKER (LIFE)**

**DIRECT BROKER (GENERAL)**

**DIRECT BROKER (LIFE & GENERAL)**



# ROLE OF A BROKER

## INTERMEDIARIES

01

*Brokers are intermediaries between the prospective customers and insurers. In order to ensure that insurance and reinsurance business is transacted along proper lines, there are set out rules of conduct and licensing procedures to be followed.*

02

## LICENSED WITH IRDA

*All brokers operating in the insurance market need to be duly licensed by IRDA*

03

## TIMELY RETURN FILING

*Need to submit periodic returns reporting details of the operations*



# CONDITIONS OF REGISTRATION & VALIDITY

## Conditions of Registration

- A registered Insurance Broker shall act exclusively to carry on the business of an insurance broker as permitted;
- The Insurance Broker shall comply with the provisions of the Act, Insurance Regulatory and Development Authority Act, 1999 and the Regulations, Circulars, Guidelines and any other instructions issued there under from time to time by the Authority;
- The Insurance Broker shall forthwith inform the Authority in writing, if any information or particulars previously submitted to the Authority by them are found to be false or misleading in respect of any material particular or if there is any material change in the information already submitted;
- The Insurance Broker shall take adequate steps for redressal of grievances of its clients within 14 days of receipt of such complaint and keep the Authority informed about the number, nature and other particulars of the complaints received from such clients in format and manner as may be specified by the Authority;
- The Insurance Broker shall solicit and procure reasonable number of insurance policies.
- The Insurance Broker shall maintain records in the format specified by the Authority which shall capture policy-wise details.
- The Insurance Broker under no circumstance undertake multi-level marketing for solicitation and procuring insurance products;
- The Insurance Broker shall ensure compliance of Code of Conduct applicable to it;
- The Insurance Broker shall maintain books of accounts as specified in these regulations.

## Validity of Certificate of Registration

A Certificate of Registration shall be valid for a period of **three years** from the date of issue.

# DIRECT BROKER REGISTRATION

*For getting licensed by IRDAI & to work as a Broker, user has to first fill an online 'New User' registration form available on IRDA BAP Portal.*  
*Steps to register on the portal:*

## OPEN WEBSITE

*Open a browser and enter the address: [www.irdabap.gov.in](http://www.irdabap.gov.in). The IRDA BAP portal home page is displayed*

## USER REGSITRATION

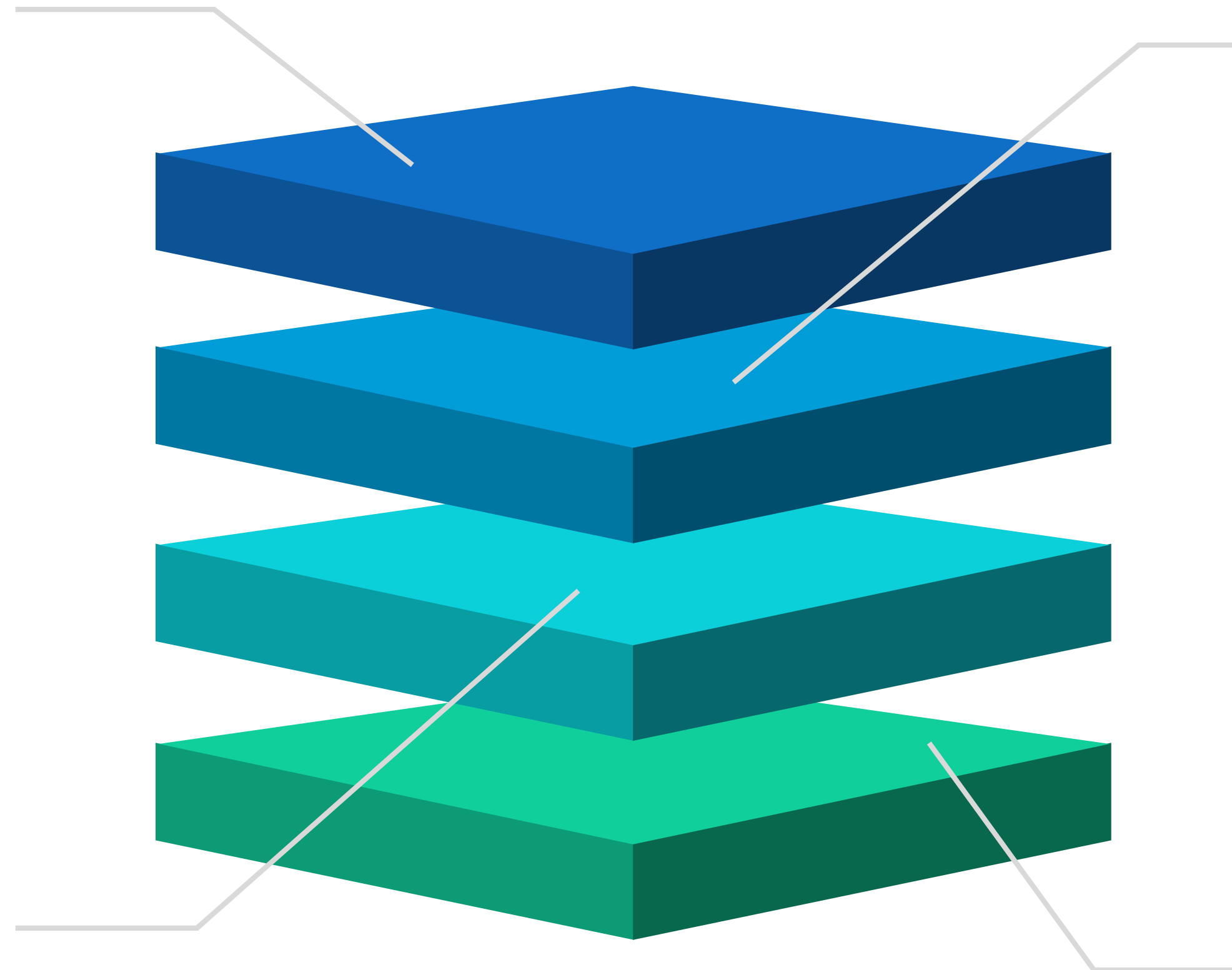
*Click Register. The User Registration screen is displayed*

## SELECT USER TYPE

*From User Type drop down list, select Corporate*

## SELECT USER ROLE

*From User Role drop down list, select Broker. The Corporate Registration screen is displayed*



# CAPITAL REQUIREMENT, NET-WORTH REQUIREMENT & APPLICABLE FEES

## Capital Requirement

An applicant seeking to become a direct broker shall have a minimum paid up capital of **Rs. 75 lakhs**.

- The capital in the case of a company limited by shares and a cooperative society shall be in the form of equity shares;
- For the contribution of partners in the case of LLP shall only be in cash;
- The shares of an insurance broker held as capital or contributions in case of a LLP or equivalent shall not be pledged in any form or manner to secure credit or any other facility and shall at all times be unencumbered.
- The investment in the applicant by the promoters/ shareholders/ partners shall be from their own funds and not from any other sources.

## Net Worth Requirement

The net-worth of a Direct Broker shall at no time during the period of certificate of registration fall below **Rs. 50 lakhs**;

## Application Fees

Application Processing Fees - Direct broker at the time of application for certificate of registration, pay a nonrefundable application fees of **Rs. 25,000**.

In case of direct broker - **Rs.50,000** after grant of in-principle approval in case of a fresh applicant.

In the case of Renewal of Registration, the fee shall be **Rs 1,00,000** for a period of 3 years.



# CODE OF CONDUCT

*All insurance brokers have to follow recognized standards of professional conduct and discharge their functions in the interest of the clients or policyholders.*

*Conduct in matters relating to client's relationship & sales practices*

*Conduct in relation to furnishing of information, explanation of insurance contract, renewal of policies, claim by client, receipt of complaints, documentation*

*Conduct in matters relating to advertising, receipt of remuneration and training*

*Every insurance broker shall display in every office where it is carrying on business and to which the public have access a notice to the effect that a copy of the code of conduct is available upon request*

*An insurance broker as defined in these regulations shall not act as an insurance agent of any insurer*

*Every insurance broker shall abide by the provisions of the Insurance Act, 1938, Insurance Regulatory and Development Authority Act 1999, rules and regulations made there under*

# INTERNAL CONTROL & SYSTEMS

*Here are the key directives for internal control & systems laid out by IRDA:*



## INTERNAL AUDIT

*Every insurance broker shall ensure that a proper system of internal audit is in place and that their internal controls and systems are adequate for the size, nature and complexity of its business.*



## DESIGNATE COMPLIANCE OFFICER

*In case of reinsurance and composite brokers it is mandatory that the insurance broker shall have internal audit systems and designate a compliance officer who is an employee of the insurance broker.*



## DESIGNATED COMPLIANCE OFFICER IF EARNING > 5CR

*Without prejudice to the above, it is mandatory for an insurance broker who in a financial year earns more than rupees five crore remuneration (including reward) to have a designated Compliance Officer who will be responsible for the internal controls and systems.*

*Moreover, IRDAI had notified the Corporate Governance Guidelines for all the Insurance Companies in India in the year 2016. It allows participation of the IRDA in review process of the International Association of Insurance Supervisors (IAIS), particularly on the Initial Coverage Period (ICP), concerning Suitability of Persons, Corporate Governance, Risk Management and Internal Controls.*

# KEY FUNCTIONS OF INTERNAL CONTROL

**THERE ARE 4  
KEY FUNCTIONS  
OF INTERNAL  
CONTROL**

**RISK  
MANAGEMENT**

**ACTUARIES**

**COMPLIANCE  
MANAGEMENT**

**INTERNAL  
AUDIT**

*These are essential components of the system of governance in insurance. Moreover, these key functions are expected to be independent from the operations so as to ensure an effective and reliable internal control atmosphere within an insurance company.*

*This supports high quality of decision-making by the upper management. On the other hand, it is also important that these governance requirements do not cause burden on insurers. Accordingly, with a view to provide due weightage to all internal control functions, and to enhance the governance system of insurers, the IRDAI constitutes the Committee on Corporate Governance Guidelines for Insurers.*



# CO-BROKING

*The Revised IRDAI (Insurance Brokers) Regulations 2020 also allow collaboration of 2 or more registered insurance brokers in certain circumstances. They can jointly handle the brokerage of insurance requirements of their clients, but only after the written consent of the client himself. It is open to a client to appoint in writing more than one insurance broker to jointly handle the broking of its insurance requirements depending on the skills that the insurance brokers may bring to the activity and to decide the manner in which the remuneration or fee payable on the business may be shared among them.*

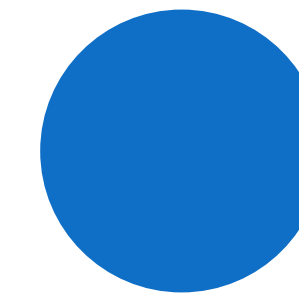
*In such a situation the registered insurance brokers shall enter into Terms of Business Agreement for providing insurance broking services to the specified client and the Agreement shall include, amongst other things, the manner defining the duties and responsibilities of each registered insurance broker, the manner of sharing of remuneration or fee among themselves, the reason for providing insurance broking services jointly. The manner in which the remuneration is shared among the co-brokers shall be disclosed to the insurer.*

***There are 2 different scenarios where co-broking is allowed:***

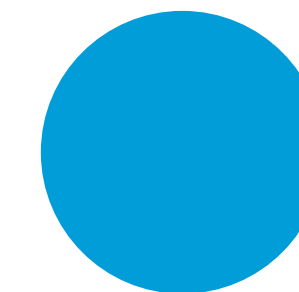


# DIRECT CO-BROKING

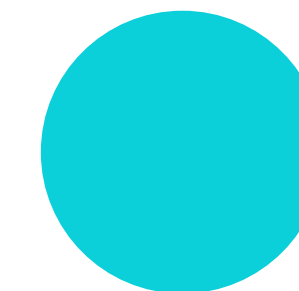
*In a direct insurance model, each of the direct co-brokers shall hold a valid certificate of IRDAI registration in the class of their business. Each of the co-brokers shall be responsible to ensure compliance with the co-broking provisions and guidelines issued by the Authority from time to time.*



*In any case, the total of remuneration shared among the insurance brokers together shall not be more than the limits specified in IRDAI (Payment of commission or remuneration or reward to insurance agents and insurance intermediaries) Regulations, 2016.*



*The insurance company shall be guided by the instructions of the client in respect of the payment of remuneration to the co-brokers for their share.*



*Co-broking shall not be allowed for individuals and retail model of insurance business.*

# REINSURANCE CO-BROKING

*In case of reinsurance, each of the direct co-brokers must hold a valid certificate of IRDAI registration in their class of business.*

*Each of them shall be accountable to fulfill the compliance related to co-broker provisions and guidelines issued by the IRDA from time to time.*

*In any case, the total remuneration shared among these co-brokers shall not be more than the limits specified under the regulations stated above.*



# OUTSOURCING OF ACTIVITIES

*In case of reinsurance, each of the direct co-brokers must hold a valid certificate of IRDAI registration in their class of business.*

*Growing competition in insurance sector has led to commoditization of the insurance services. The challenging market forces and rising demands are now compelling the insurance companies to further customize their services to meet the growing expectations of their clients.*

*By and by, it is also very essential for these companies to reduce their turnaround time (TAT) for their new services while also ensuring that the customer experience is superior class.*

*Hence, a number of insurance companies have now started tapping the market to trace the customer analytics through the BPOs and KPOs, which can further improve their services and profitability. Due to changing regulations, and a severe shortage of skilled and experienced manpower the margins are now shrinking. The Insurance companies have now started availing BPO services in order to tackle all these challenges. As BPOs and call centres are primary source of customer information, insurers are collaborating with these entities to gather market data and to improve their customer analytics.*

**However, the Insurance broker shall not outsource any of the following activities in any manner whatsoever:**

*The functions of the direct/ reinsurance/ composite broker as stated in the guidelines.*



*Risk management services unless the broker does not undertake this activity at all claims consultancy services unless the broker does not undertake this activity at all.*



# ONLINE SALES, TELEMARKETING AND DISTANCE MARKETING



## ONLINE SALES

*Insurance brokers may offer the insurance products online to the buyers by linking them to the web portals of the insurers only upon consent of the insurance company for the same.*

*Such online sale of insurance online by the Insurance Broker shall be done only upon approval from IRDA, in line with the IRDAI guidelines in so far as they are applicable.*

## TELE-MARKETING OF INSURANCE SERVICES

*This refers to the sale of insurance by the way of leads generated over web portal as well as off-line mode and completed through tele-marketing process.*

- This model shall be set up by the brokers only upon approval from IRDA*
- The Insurance Broker can undertake outsourcing activities only to the extent of tele-calling as allowed under IRDAI Regulations in so far as they are applicable.*

# VARIOUS STRATEGIES INVOLVED IN INSURANCE BUSINESSES

*The growth in insurance sector is also driven by useful strategies employed by the market players. Some of them are explained below:*

## **COST OPTIMIZATION**

*Market Players are focusing more on Information Technology in order to automate the processes involved, thereby cutting costs without affecting service delivery.*

*On an average, digitalization will bring down 15-20% of total cost for life insurance and 20-30% for non-life insurance segment.*

*From October 2016, IRDAI has also made it mandatory to have an E-insurance accounts for buying the insurance policies.*

## **DIFFERENTIATION OF PRODUCTS**

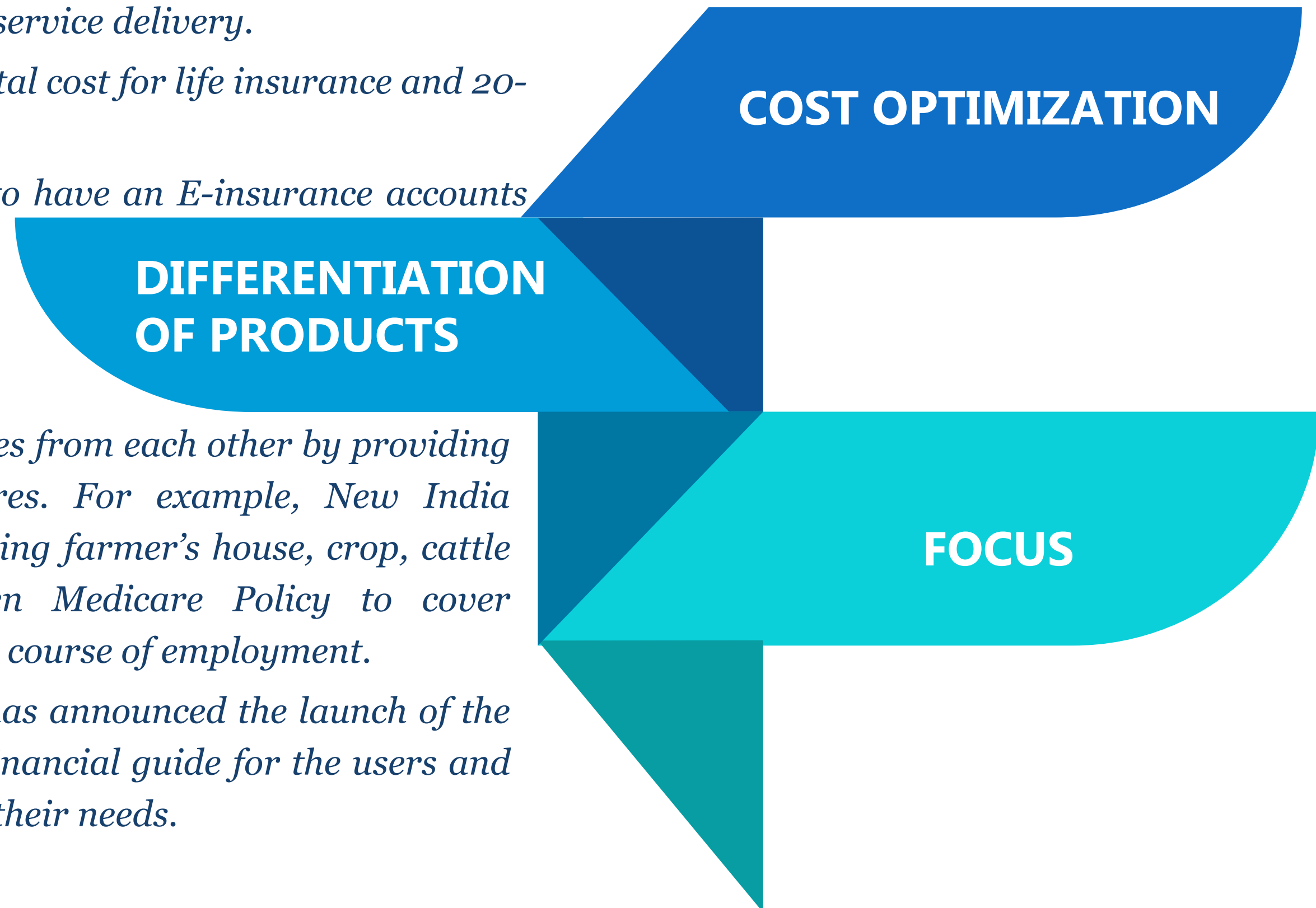
*These days' companies are trying to differentiate themselves from each other by providing wide range of insurance products with unique features. For example, New India Assurance launched Farmers' Package Insurance to covering farmer's house, crop, cattle etc. Similarly United India had introduced Workmen Medicare Policy to cover hospitalization expenses arising out of accidents during the course of employment.*

*In March 2017, HDFC Life in collaboration with Haptik, has announced the launch of the country's 1st life insurance AI chatbot. This will act as a financial guide for the users and will help them choose the most appropriate plans befitting their needs.*

## **FOCUS**

*There are some entities that are focusing on providing their unique kind of service, which helps in differentiation from others.*

*For instance, SBI is concentrating on individual regular premium products as against single premium and group products.*



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# Thank You

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