

भारतीय बीमा विनियामक और विकास प्राधिकरण
INSURANCE REGULATORY AND DEVELOPMENT AUTHORITY OF INDIA

Report of
The Committee for Review of
MISP Guidelines



Submitted to
Chairman, IRDA of India

Date: 12th January, 2021
Hyderabad

ACKNOWLEDGEMENTS

The Committee would like to thank the Chairman, IRDAI for entrusting the Committee with the task of making recommendations for orderly conduct of motor insurance business through MISP Channel.

The Committee would also like to place on record the insights provided by Member (Distribution) and Member (Non-Life) for understanding the importance of imbining discipline across the market players for orderly conduct of motor insurance business through MISP Channel.

The Committee would also like to thank the external members Shri. KB Vijay Srinivas and Mr. Balwant Singh for their valuable inputs on market intelligence and for their suggestions to address the issues linked with MISP Channel.

Members of the Committee

S.No.	Name of the Committee Member	Signature
1	Randip Singh Jagpal, CGM (Intermediaries)	---- sd ----
2	J Meena Kumari, CGM (Inspection)	---- sd ----
3	Y Priya Bharat, CGM (Non-Life)	---- sd ----
4	T. S Naik, CGM (Agency Distribution)	---- sd ----
5	Ch B. ChandraSekhar, AGM (Inspection)	convenor
6	Vijay Srinivas, Retd GM & Director, United India Insurance Co Ltd	---- sd ----
7	Balwant Singh, Retd GM, Oriental Insurance Co Ltd	---- sd ----

Contents

Chapter	Description	Page No
1	Introduction	6
2	Executive Summary	7
3	Background	12
4	Review of MISP Guidelines	17
5	Sponsorship of MISP	20
6	Panel of insurers	23
7	Determination of premium of policies – premium rates	27
8	Distribution fees	29
9	Conflict of Interest	31
10	Role of Original Equipment Manufacturer	34
11	IT Portal	36
12	Payment of premium through single cheque	39
13	Miscellaneous	40
A	Minimum Standard clauses in agreement between insurer, insurance intermediary, OEM and their MISPs	42
B	Summary of Inspection Observations relating to practices adopted by Insurers, Intermediaries and MISPs	43
C	Summary of complaints received by the Authority relating MISP Channel	47

Abbreviations/Acronyms:

- Sponsoring Entity - Insurers or Intermediaries who appoint MISPs

- MISP - Motor Dealers appointed by insurers or intermediaries for Distribution of motor insurance policies

- MISP Guidelines - Guidelines issued by the Authority vide IRDA/INT/GDL/MISP/202/08/2017 dated 31st August, 2017

- OEM - Original Equipment Manufacturers

Chapter – 1

Introduction:

The Authority has issued MISIP Guidelines on 31/08/2017 with an objective to bring orderly conduct in the matter of distribution of motor insurance business through the motor dealers.

The Authority has undertaken onsite inspection of 19 insurance companies, 6 insurance brokers, 2 corporate agents and 14 MISIPs during the FY 2018-19. These onsite inspections revealed the fact that many of the entities were following the MISIP Guidelines in the true spirit.

The Authority has also received complaints from various stakeholders alleging mis-conduct in the conduct of motor insurance business through MISIP channel.

In this backdrop, the Authority has constituted a Committee on 18th June 2019 with the following terms of reference:

- To review various practices adopted by the insurers, intermediaries and MISIPs in distribution of motor insurance policies arising out of focus inspections undertaken and the complaints received;
- To examine the market conduct issues and operations relating to distribution of motor insurance policies through MISIP channel;
- To review the MISIP Guidelines and to suggest suitable measures for orderly conduct of motor insurance business through MISIP channel.

The Committee met in person and through video conference to work on the terms of reference allocated to it and finalized this report.

Chapter – 2

Executive Summary:

1. The Committee has taken note of the observations reported in the on-site inspection reports, off-site monitoring and the complaints received by the Authority. The Committee also noted that the motor insurance business sourced by MISPs through brokers and insurers put together constitutes around 25% of the total motor insurance business or around 11.25% of the overall general insurance business.
2. The committee is of the view that, given the potential opportunity for motor insurance business through the MISPs, there is a need to develop and strengthen regulatory framework and supervision activities for this distribution channel. It was also suggested that the registration, operational and code of conduct requirements across similar intermediaries remain the same.
3. In order to develop the MISP as another robust channel of distribution of motor insurance policies, the Committee makes the following suggestions:
 - i. Automotive dealers as one of the distribution channel on stand-alone basis soliciting motor insurance business similar to insurance broker representing the customer with conditions such as i) mandatorily have agreement with all insurers; ii) prohibited from collecting premium; iii) provide access to customer to make direct online payment to insurer;
 - ii. Alternatively, the automotive dealer may become a sub-broker or a sub-agent and work for a broker or a corporate agent respectively.
 - iii. Option to choose between (a) & (b) left to the automotive dealer
 - iv. Registration requirement, code of conduct and operational requirements may be same across intermediaries
 - v. Use of RegTech and SupTech for oversight and monitoring

4. The Committee reviewed the extant MISP Guidelines and based on the feedback received suggested the following amendments
- a) Sponsorship of MISP
 - i. MISP can be sponsored by either an insurance intermediary or any one or more of the insurance companies at the same time.
 - ii. if the MISP is sponsored by the insurance intermediary, then by default he has to deal with all insurers and his Application Programming Interface (API) software should reflect this.
 - b) Panel of insurers – Authority may choose from one of the six options given below based on the pros and cons of each model
 - i. Auto-dealers may be sponsored by only insurance companies directly similar to agents.
 - ii. Auto-dealers may be sponsored by an insurance intermediary and any one or more insurance company at the same time.
 - iii. Auto-dealers may be sponsored by the insurance brokers alone and may not be sponsored by the insurers or by corporate agents.
 - iv. Auto-dealers may be sponsored by the corporate agents alone and may not be sponsored by the insurers or by insurance brokers.
 - v. Auto-dealers may be sponsored by insurance brokers and corporate agents alone. In that case the corporate agents may sell insurance policies of all insurers.
 - vi. Auto-dealers will not be sponsored by any entity. Instead they will be granted certificate of registration by the Authority and they will tie-up with all insurance companies.
 - c) Determination of premium of policies – premium rates
 - i. All insurance companies may be directed either to develop a portal/app or use the existing electronic/e-commerce platform through which insurance policies shall be issued.
 - ii. the electronic platform/ portal shall have no functionality/ mechanism built into it that can alter/ modify/ change the premium quoted by the insurance company.

- iii. On entering customer and vehicle details, the insurance intermediary system will fetch premium from insurers on real time basis. Once the customer consent is taken premium may be mandated to be paid online directly to the insurance company.
- iv. The insurance intermediary shall not restrict the accessibility of the insurers to the electronic platform from any location or auto-dealer or any type of make or model or variant or inability of their system to manage volume or for any reason whatsoever

d) Distribution fees

- i. The commission rates may be same across all intermediaries, including MISPs as specified in the IRDAI's (Payment of commission, remuneration and rewards to insurance agents and insurance intermediaries) Regulations, 2017.
- ii. Insurance companies may be mandated to disclose the premium amounts received by each distribution channel along with the corresponding commissions paid and also show the rewards.
- iii. an annual audit of the books of accounts of the insurers and insurance intermediaries be undertaken by any of the professional audit firms to verify compliance of Guidelines 15(5)(d) of the MISP Guidelines and the same shall be placed to its Board of Directors through its Audit Committee for their approval. The compliance report of the professional audit firm will also be uploaded on the BAP portal of the Authority.
- iv. Monitoring and supervision of the MISP and the sponsors of the MISP may be undertaken regularly to examine compliance to various provisions of the applicable guidelines on MISP and, in particular, the payment of commission or rewards or any other payments.

e) Conflict of Interest

- i. the MISP shall mandatorily disclose to the customer the remuneration and reward that he gets from the insurance company or the insurance intermediary.
- ii. in case of cashless settlement:
 - a. the MISP should necessarily segregate the two functions of sales and servicing of motor insurance policies and ensure that there is complete arms-length relationship between the two
 - b. the policyholder shall sign-off on the claim estimate prepared by the auto-dealer giving the break-up of the parts and labour which will be shared with the insurer

and the surveyor. Before the final settlement, the insured shall also sign on the final bills giving the break-up of the parts and labour.

iii. the OEM or an insurance intermediary shall not interfere directly or indirectly in the motor insurance claims of the policyholder other than submission of documents and follow up with insurance company for final decision.

f) Role of Original Equipment Manufacturer

i. OEMs should be brought into the regulatory ambit by including OEM in the definition of MISP.

ii. the OEM's shall be equal to MISP and will be subject to all the provisions of MISP Guidelines.

iii. OEM's shall give the list of their authorized-dealers and authorized sub-dealers to IRDAI and that list can be uploaded at IIB for generating unique identification number of the MISP.

g) IT Portal

i. have full integration of insurance intermediary with insurers computer systems so that premiums quoted to customers come directly from insurer systems without any intervention by the insurance intermediary.

ii. redesign the current system of the insurance intermediary of seeking customer consent for purchasing the motor insurance policy so that the customer exercises his choice of insurer through an OTP based system before the issuance of a new motor insurance policy or its renewal.

iii. the insurance intermediary should give access of the electronic platform/ portal to the customer showing the insurers, premium proposed, remuneration payable to MISP & insurance intermediary and other features. The customer can then exercise his choice of insurer for the motor insurance policy based on the information given on the portal.

iv. an annual audit of the IT portal to check compliance of the MISP Guidelines with regard to the access controls and pricing rules may be undertaken.

h) Payment of premium through single cheque

- i. the customer should make payment to the insurance company directly which is facilitated by the MISP. MISP shall not collect the insurance premium amount in its own account and then transfer the same to the insurance company.
- i) Miscellaneous
 - i. the agreement between the insurer and insurance intermediaries should be redrawn so that core functions of the insurer as defined under the outsourcing regulations are performed by the insurer alone without any interference, consent, concurrence and consensus of the insurance intermediary.
 - ii. the spare part costs and labour charges shall be decided by a joint committee of OEM and the General Insurance Council annually.
 - iii. minimum standard clauses in the agreement governing the operational relationship between the insurer, insurance intermediary, OEM and their MISPs.

Chapter – 3

Background and Objective of Motor Insurance Service Provider (MISP) Guidelines

1. Motor Insurance constitutes 45% of the overall business of general insurance in India and is one of the important Lines of business (LoB) in the General Insurance business. Motor insurance as sourced through various intermediaries/distribution channels as a percentage of motor gross direct premium and as a percentage of number of motor insurance policies for the last five years is given below:

S.No	Intermediaries/Distribution Channels	Market Share of Motor GDP for Last five Years				
		2015-16	2016-17	2017-18	2018-19	2019-20
1	(a) Insurer Direct - MISP	NA	NA	1.4%	3.3%	2.8%
	(b) Insurer Direct - other than MISP	13.8%	11.0%	7.0%	4.3%	4.9%
2	Agents	46.7%	44.8%	43.5%	40.4%	37.8%
3	(a) Brokers -MISP	NA	NA	14.1%	23.8%	23.6%
	(b) Brokers - Other than MISP	26.3%	29.1%	17.8%	10.6%	13.4%
4	(a) Corporate Agents-MISP	NA	NA	2.8%	2.1%	1.1%
	(b) Corporate Agents-other than MISP	9.9%	12.4%	10.0%	9.6%	9.4%
5	Others if any (other than above channels like PoS)	3.2%	2.7%	3.4%	5.9%	7.1%

S.No	Intermediaries/Distribution Channels	Market Share of Number of Motor Policies for Last five Years				
		2015-16	2016-17	2017-18	2018-19	2019-20

1	(a) Insurer Direct - MISP	NA	NA	2.83%	7.72%	6.95%
	(b) Insurer Direct - other than MISP	20.85%	12.68%	10.11%	6.99%	7.36%
2	Agents	57.24%	50.55%	48.85%	42.70%	37.51%
3	(a) Brokers -MISP	NA	NA	9.46%	18.69%	19.15%
	(b) Brokers - Other than MISP	14.15%	19.34%	12.40%	9.63%	14.49%
4	(a) Corporate Agents-MISP	NA	NA	5.39%	3.06%	0.22%
	(b) Corporate Agents-other than MISP	4.70%	14.22%	6.69%	4.33%	4.82%
5	others if any (other than above channels , POS etc.)	3.07%	3.21%	4.27%	6.87%	9.49%

Source: Non-Life Department of IRDAI

- From the above, it is evident that during the year 2019-20, out of the total motor premium, MISPs had sourced around 23 % through brokers and 2.8% through insurers. In terms of total number of motor insurance policies, MISPs had sourced around 19% through brokers and 6.95% through insurers. This amounts to around 25% of the total motor business in terms of premium or number of policies. Similar trend noted during the year 2018-19. If motor insurance business is representing 45% of the overall general insurance business, then the business sourced by MISPs represent 11.25% of the overall general insurance business. The possible reason could be that the automotive dealers become the natural choice for seeking motor insurance by the customers while purchasing the vehicles, due to the mandatory requirements to purchase insurance. This necessitates the need and importance to strengthen the regulatory framework and supervision activities with respect to business sourced through MISPs.

3. There are different types of insurance products that are generally offered under the motor insurance LoB. However, Own damage cover (OD), third party cover (TP) are the basic covers that provide coverage for own damages and third party damages respectively. Mostly comprehensive cover which includes both OD & TP is purchased by the customers to ensure that there are no gaps in the insurance cover. Out of these, motor third party insurance cover is mandatory in accordance with Section 146 of the Motor Vehicle Act, 1988, as any vehicle plying on the roads must have at least motor third party insurance policy. It is also a pre-requisite for registration of any motor vehicle in India as per Rule 47 of the Motor Vehicle Rules, 1988. In order to meet this requirement, motor Insurance is bought at the time of purchase of every vehicle in India.
4. However, as mentioned earlier, in order to protect the vehicle from own damage, it has become customary to purchase own damage cover while purchasing the vehicle, resulting in purchasing of the comprehensive cover.
5. Automotive dealers came into the ambit of insurance industry due to the above mentioned legal framework. It was mandatory to have insurance of the vehicle at the time of the registration, but automotive dealers were not authorized to solicit motor insurance business from any prospective customer of insurance. This has led to a situation where the automotive dealers started working with many of the agents, corporate agents, brokers and insurers for providing insurance to their customers. Over a period, automotive dealers and insurance companies realized that the automotive dealers were a potential source of major business opportunity under motor insurance. Also, as it was a business opportunity for the insurance companies, they started making payments to the automotive dealers in the name of infrastructure support, advertisement support etc to attract business from them and also to get support for their marketing and distribution of their products. Taking advantage of the situation, automotive dealers started referring the business to insurers who were making higher pay-outs. This has led to a situation of exorbitant pay-outs to automotive dealers by insurance companies.

6. It is in this background that the Authority vide its order ref no. IRDA/ NL/ ORD/ CMT/ 199/ 11/ 2015 dated 13.11.2015 constituted a committee on motor dealer payouts in motor insurance business. The terms of reference of the committee were as follows:
 - a. To study the existing practices in the industry on the payouts (called by different names like infrastructure expenses, etc) made to motor dealers or motor insurance business.
 - b. To examine the deviations from the existing norms.
 - c. To align with the Insurance Act, regulations, guidelines on the provisions for expenses of management, outsourcing, etc.
 - d. To bring transparency and uniformity in such activities.
 - e. To design standard formats for agreements (between insurers and dealers) on outsourcing.

7. The committee recommended that automotive dealers should be recognized as a distribution channel for selling motor insurance policies and recommended a new regulatory framework in order to synchronize the established practices prevalent in the market and the regulatory prescriptions to the effect. The Committee had recommended that the Authority adopt one of the following 4 channels of distribution namely:
 - f. Auto Insurance Marketing Firm
 - g. Procurement of Insurance Business through brokers (Broker Model)
 - h. Automotive Dealers as POS under Licensed Intermediaries
 - i. Corporate Agent Model

8. Thereafter, based on the examination of the report of the committee and the interaction held with insurers and other stakeholders the Authority issued MISP guidelines in 2017 with the intention of streamlining the process and bringing the practices of vehicle insurance, being sold by automotive dealers under the provisions of Insurance Act, 1938.

9. Following the issuance of MISP Guidelines, the insurers and the insurance intermediaries sponsored the automotive dealers as MISP. The IRDAI/ IIB designed a portal in which the information pertaining to the MISP sponsored by the insurance company and the

insurance intermediary is uploaded. The portal captures the name, PAN number of the automotive dealers, the OEM whose dealership it holds and the sponsoring entities name. It has a de-duplication feature which does not allow the MISP to be sponsored by both the insurance company and the insurance intermediary.

10. Based on the above, the number of OEM in the two-wheeler and private car category in the Indian market are as under:

- j. Number of OEM's in 2-wheeler segment – 23
- k. Number of OEM's in private car segment – 37

11. The MISP's sponsored by insurers and insurance intermediaries of these OEM's as on 31.8.2020 are as under:

S.No	Number of entities who have sponsored MISPs	MISPs sponsored by the entities
Insurers	22	3,320
Insurance Brokers	22	12,086
Corporate Agents	5	423
Total	49	15,829

Source: IIB, Hyderabad

Chapter - 4

Review of MISIP Guidelines

1. The Committee examined the provisions of the MISIP Guidelines to understand the areas that it is intended to deal with and the possible outcomes that it could achieve. Also the committee examined the areas and provisions which are commonly violated by the entities involved in the solicitation of the motor insurance business. Further, the complaints that were received given the possible areas that need more focus in handling the solicitation of motor insurance business.
2. The MISIP guidelines appeared to have been designed with an expectation that the sponsoring entity i.e., the insurance company or the insurance intermediary would shoulder the responsibility of taking on board the MISIPs and the entire process of solicitation. However, the onsite inspection findings of IRDAI and the complaints reveal that the entire process of on boarding the MISIPs and the process of solicitation was not dealt as envisaged in the MISIP guidelines.
3. The committee examined the genesis of the entire issue and also examined what if the automotive dealers are completely eliminated from the solicitation process of motor insurance business. However, the subject is so entangled that eliminating the automotive dealer from solicitation may simply results in indulging in to practices (heavy pay-out were made to automotive dealers for advertisements, infrastructure, system support etc.) that were existent before recognizing the automotive dealers for solicitation purposes and also results in unlicensed solicitation without any supervision over automotive dealers.
4. This Committee was of the view that, based on the experience gained over the years around various practices in dealing with automotive dealers by the insurers, eliminating automotive dealers from the system of solicitation of motor insurance business is not anymore an option, as there is no foolproof mechanism to identify and establish that the automotive dealers are not involved either in solicitation or given other kind of supports.

Even, if foolproof mechanism exists the cost of supervision for ensuring compliance to such practices could be very high. To that extent, the committee felt that the regulatory framework may have to necessarily include automotive dealers as one of the mechanism to solicit motor insurance business.

5. The areas that the automotive dealers currently dealing with include solicitation of insurance business and providing cashless claims servicing.
6. If automotive dealers are to be considered as one of the distribution channel, the following methods may be adopted:
 - a. The automotive dealers may be considered as one of the insurance intermediary exclusively soliciting motor insurance business, similar to insurance broker representing the customer with the following conditions:
 - i. the automotive dealer may have to mandatorily have an agreement with all the insurers with respect to utilizing the online/e-commerce platform of the insurance companies for filling up the proposal form and completing the solicitation
 - ii. the automotive dealer may be prohibited from collecting premium
 - iii. the automotive dealer may provide access to the customer to make direct online payment to the insurance company through the respective insurance company link.
 - iv. the automotive dealers may not be allowed to use any of its systems and payments methods either for solicitation or for premium payment.
 - b. Alternatively, the automotive dealers may become sub-broker for an insurance broker or sub-agent for a corporate agents. If the automotive dealer has opted to work for the insurance broker or the corporate agent, then they should not be allowed to become an insurance intermediary as mentioned at para (a) above.
 - c. The option to choose between (a) or (b) may be left to the automotive dealer.
 - d. The registration requirements, code of conduct and operational requirements may be same across similar distribution channels, so that there are no gaps in

regulatory frameworks across intermediaries and also facilitates better supervision.

- e. However, given the huge numbers, there may be a need to bring automation into regulatory and supervisory activities adopting reg tech and sup tech, so that there is ease of handling the portfolio.
 - f. Insurance companies may be strictly prohibited from taking up outsourcing activities or any other activity with the intermediaries or their related parties, group entities, associated entities, subsidiaries.
7. If proposal at para 6 above is considered, then a regulation may be issued covering the options that are available to the automotive dealers.
 8. The Committee felt that the current MISP guidelines may require certain changes, if the proposal at para 6 is not considered, major changes that may be required to the current MISP guidelines are dealt separately in the subsequent chapters.

Chapter - 5

Sponsorship of MISP

1. The current provisions around the sponsoring entity and the possible outcomes were analyzed. The Committee identified that there could be more than one possible approach to achieve this with each approach having its own pros and cons.
2. As per the existing clause 5(a) of the MISP Guideline, the MISP shall be sponsored by either insurer(s) or an insurance intermediary. It therefore mandates that the automotive dealers can be sponsored by either an insurance intermediary or any one or more insurance companies. As per clause 5(f) of the MISP Guidelines, if an insurance intermediary appoints the MISP, then it is required to work for the number of insurers as allowed under the respective regulations governing such intermediary.
3. On examining the complaints received and the inspection observations, it appears that the insurance brokers are representing limited number of insurers, resulting into a panel of insurance companies. This has led to solicitation of insurance policies of only those insurers who are on the panel of the brokers. It was in this context that the insurance brokers and MISPs were precluded from setting up a panel of insurers. As brokers represent the customer, they are expected to provide best solutions to the customer, irrespective of the insurance company. Hence, the creation of such a panel of insurers is restrictive, leads to undesirable market practices and goes against the principles on which brokers are licensed. To that extent, IRDAI clarified, vide circular dated 11th January, 2018, that neither the insurance broker nor the MISP are allowed to create a panel of insurers for soliciting motor insurance policies.
4. Due to the above conditions, three methods of sponsoring are being currently followed:
 - a. MISPs sponsored by the insurers solicit insurance business only for those insurers;

- b.** MISPs sponsored by the brokers, by virtue of the regulations applicable to the brokers, solicit insurance business across all insurance companies representing customers;
 - c.** MISPs sponsored by the corporate agent, by virtue of the regulations applicable to the corporate agents, solicit insurance business of those insurers with whom the corporate agent has a tie-up resulting in a panel of insurers. To that extent such MISPs are not allowed to solicit insurance business for the rest of the insurance companies.
- 5. It can therefore be inferred that the solicitation process that is applicable to the MISPs are not uniform across all the MISPs, but differ depending on the sponsoring entity. In some situations, it represents the customers and in some other situations, it may represent one insurer or a panel of insurers. The choice to the customer depends on who sponsored the automotive dealer. This is one glaring difference between the current framework applicable to intermediaries. In case of intermediaries, within each category of intermediaries, the applicable regulatory framework remains the same. Because of this, the framework that is expected to be built for the supervision of the automotive dealers may get complicated.
- 6. From the data collected from IIB as given below, it appears that majority of the automotive dealers are sponsored by the insurance brokers. Though the absolute number of MISPs sponsored by the insurance companies appear more, but actually it may not be more as MISPs can be sponsored simultaneously by more than one insurance company.
- 7. Some of the insurance intermediaries have the Original Equipment Manufacturer (OEM) in their group through which motor insurance policies are sold. It is observed where the OEM has no insurance intermediary in their group, they have preferred to go through an insurance intermediary instead of leaving it to the auto-dealer to have the tie-up with insurance companies. Only a few dealers are sponsored by insurance companies. The choice of the customer therefore gets restricted to the insurance companies that have a tie-up with the insurance intermediaries.

Recommendation

1. The Committee therefore recommends the following:
 - a. the condition that a MISP can be sponsored by either an insurance intermediary or any one or more of the insurance companies and not both, may be amended. The MISP can be sponsored by an insurance intermediary and any one or more insurance company at the same time. This will allow the MISP to offer motor insurance policies to customers of those insurance companies who are not on the panel of the insurance intermediaries by entering into a tie-up with them.
 - b. if the MISP is sponsored by the insurance intermediary, then by default he has to deal with all insurers and his Application Programming Interface (API) software should reflect this.

Chapter - 6

Panel of insurers

1. IRDA circular dated 11th January, 2018 clarifying that neither the insurance broker nor the MISP can create a panel of insurers for selling motor insurance policies. A panel of insurers is created by an insurance intermediary when ties up with limited number of insurers and sells only their motor insurance policies to the exclusion of other insurers. The MISP does not sell insurance products of all insurers.
2. This means that the MISP shall work for the number of insurers as allowed under the insurance brokers/ corporate agents regulations. The number of insurers with whom the corporate agent works is three. So, the MISP shall work for three insurers in case the MISP is sponsored by a corporate agent. Similarly, the insurance broker works with all insurers, as no restriction on number of insurers has been imposed by the IRDAI (Insurance Brokers) Regulations, 2018. So, the MISP sponsored by an insurance broker shall work with all insurers.
3. Since a corporate agent can tie-up with a maximum of three insurers, the MISPs sponsored by a corporate agent sells policies of only three insurance companies. On the other hand, insurance brokers are allowed to sell insurance policies of all insurers. However, the insurance brokers have a tie-up with a limited number of insurers. Therefore, insurance policies of only those insurers are sold who are on the panel of the insurance brokers. It was in this context that the insurance brokers and MISPs were precluded from setting up a panel of insurers. The intention was clear: all the general insurance company would have to be empaneled and the insurance brokers were precluded from setting up their own panel of selective general insurers. The creation of such a panel of insurers is restrictive and leads to undesirable market practices.

Recommendation

9. The Committee therefore recommends the following options of which one could be considered by the Authority:

- a. Automotive-dealers may be sponsored by only insurance companies directly, similar to agents. If the automotive-dealer is allowed to work with any number of insurance companies, then it needs a stricter regime similar to brokers or web aggregators.
 - i. **Pros:** This would remove the dual intermediaries from the chain and enable to have an exclusive distribution channel for the insurer, in addition to the existing brokers and corporate agents.
 - ii. **Cons:** May be tied up with only one insurance company (eliminates the choice restrictions, if allowed to tie up with all insurers). However, if allowed to be sponsored by all insurers, the MISPs may choose to place business depending on the income it generates from the insurers and not necessarily based on the needs of the customers.
- b. Automotive dealers may be sponsored by an insurance intermediary and any one or more insurance company at the same time. This will allow the MISP to offer motor insurance policies to customers of those insurance companies who are not on the panel of the insurance intermediaries by entering into a tie-up with them directly. This may not be an ideal option, due to the possible conflict of interest.
 - i. **Pros:** It provides a bigger platform for the customers in terms of choice.
 - ii. **Cons:** Depending on the sponsoring entity, the applicable requirements change. MISP need to establish different systems in place and should have protocols as to when he can act for intermediary or insurer. This could result in complex systems and may be difficult for supervision to ensure compliance. If the automotive dealers are sponsored by both the insurance company and the intermediary, there could be conflict. The MISPs may choose to place business either with the insurer or through its intermediary depending on the income it generates and not necessarily based on the needs of the customers. This may also lead to MISPs arm twisting of the entities for higher remuneration in lieu of getting business.

- c. Automotive-dealers may be sponsored by the insurance brokers alone as broker qualified persons and may not be sponsored by the insurers or by corporate agents.
 - i. **Pros:** By this arrangement, the automotive-dealer can represent the customers and may solicit insurance business for any of the insurance company depending on the needs of the customers through the insurance brokers. The existing regulatory framework may be amended to reflect this. This could be the simplest of all the options, as there may be any additional regulatory framework required.
 - ii. **Cons:** The potential to have two different distribution channels to tap the penetration may be lost.
- d. Automotive-dealers may be sponsored by the corporate agents alone as specified persons and may not be sponsored by the insurers or by insurance brokers.
 - i. **Pros:** There may not be any added advantage with this option.
 - ii. **Cons:** The customer may not get full choice, as the corporate agent may be tied up to only three insurance companies.
- e. Auto-dealers may be sponsored by insurance brokers and corporate agents alone. In that case the corporate agents may sell insurance policies of all insurers.
 - i. **Pros:** The customer will get full choice of insurance policies of all insurers. The issues associated with creation of a panel of insurers may be eliminated.
 - ii. **Cons:** The regulations applicable to corporate agents may need to differentiate its role based on the type of policies it is selling. This may be complex to handle and supervise.
- f. Automotive dealers may be defined under “insurance intermediary” and grant certificate of registration by the Authority similar to broker or web aggregator, with a condition that they can’t sell other than “motor insurance”. The Authority may build a regulatory architecture around licensing these MISPs. In this model the customer will get full choice of insurance policies of all insurers and they will be under continuous supervision within the purview of insurance Act, 1938.

- i. **Pros:** Create an additional channel for distribution, instead of two channels now working for the same business.
- ii. **Cons:** Supervision of MISPs may be challenging, due to the large numbers.

Chapter - 7

Determination of premium of policies - Premium Rates

1. The findings of onsite inspection with respect to the determination of the premium rates indicate that the policies solicited through insurance intermediaries appears to have same premium rates across all insurance companies. It was also noted that such premium rates are different from the premium rates filed with the Authority.
2. As per clause 11(d) of the MISP Guidelines, MISP should not directly or indirectly interfere in determination of premium of policies. As per clause 15(4) of the MISP Guidelines, pricing of every motor insurance policy should be decided by the insurer and it should be the responsibility of the insurer to ensure that motor insurance policy pricing is in compliance with that approved by the Authority.
3. Basis this, neither MISP nor the registered insurance intermediary can change the premium rates offered by the insurance company. However, on examining the findings of the onsite inspection for solicitation of insurance business, it appears that the insurance intermediaries have created an electronic platform/ portal through which the motor insurance policies are solicited and renewed. This electronic platform/ portal is owned, operated and controlled by the insurance intermediaries. The insurance companies provide the relevant motor insurance product features along with the premium rates to the insurance intermediary for the purpose of solicitation. The premium rates supplied by the insurance companies appear to include premium rates, discounts based on the make/ model of vehicle, geography and various other parameters. The insurance intermediary uploads these details on to the electronic platform/ portal which is accessed by the MISP to solicit insurance policies to customers.
4. However, it is understood that the premium rates appear same across all insurance companies for the same make/ model/ geography of the vehicle. It is also noted that the broker has control over the portal and allows access to only few insurers to the MISP.

This goes against the policyholder's interest as customer is denied the choice. The underlying reason appeared to be that the products with higher premiums or the products with higher commission are given access to while solicitation, as higher premium charged from the customer goes to pay higher commissions, rewards and brokerage to the detriment of the policyholder. By this way, customers are also forced to pay higher premium because insurance companies are not allowed to reduce premiums.

5. This approach also interferes with the underwriting and premium determination process of the insurance companies, and may lead to unfair treatment to the customer.
6. **Recommendations:** The Committee, therefore, recommends the following:
 - a. As on today, all the insurance companies have their own electronic /e-commerce platforms for solicitation of the motor insurance business and other businesses. All the insurance companies may be directed either to develop a portal/app or use the existing electronic/e-commerce platform through which all motor insurance policies will be issued.
 - b. The electronic /e-commerce platform or portal /app of the insurance company shall have no functionality/mechanism built into it that can allow any alteration/ modification/ change in the premium rates quoted by the insurance company through the portal/platform.
 - c. On entering the details of the customer and the vehicles, the platform/portal of the insurance company may provide the premium quote. Once the consent of the customer is taken, the premium may be mandated to be paid directly to the insurance company through online. This allows the insurance intermediary system to fetch premium rates from insurers on real time basis. The insurance intermediary shall not restrict the accessibility of the insurers to the electronic platform from any location or auto-dealer or any type of make or model or variant or inability of their system to manage volume or for any reason whatsoever.

Chapter - 8

Distribution Fees

1. The examination of the current provisions around the payment of the distribution fees to the MISPs and the insurance intermediaries and the inspection findings, it is observed that in some cases payments were made to both insurance intermediaries and MISPs or payments other than commission were paid to the insurance intermediaries and MISPs.
2. As per clause 15(5) of the MISP Guidelines, distribution fees:
 - a. In case the MISP is sponsored directly by the insurer(s) then it should receive distribution fees directly.
 - b. In case the MISP is sponsored by the insurance intermediary then it should receive distribution fees through insurance intermediary only.
 - c. The maximum distribution fees payable should be as follows:

	Max. Distribution Fees payable to MISP	Max. Remuneration & Reward payable to insurance intermediary by insurer*
2 wheeler automotive vehicle	22.5% of the OD portion of the automotive vehicle	22.5% of the OD portion of the automotive vehicle
Other than 2 wheeler automotive vehicle	19.5% of the OD portion of the automotive vehicle	19.5% of the OD portion of the automotive vehicle

*- *the insurer shall not pay both the remuneration & reward and distribution fees on the same motor insurance policy.*

3. As per the above mentioned clause, the MISP or any of its associates, should not receive directly or indirectly from the insurer and the insurer should not pay directly or indirectly to the MISP or any of its associate company as fees, charges, infrastructure expenses, advertising expenses, documentation charges, legal fees, advisory fees or any other payment by whatever name called except as specified in these guidelines.

4. This implies that the MISP should not be paid and the MISP should not receive distribution fees in excess of what has been laid down in the guidelines.
5. However, as per the findings of the onsite inspection, the insurers have paid to the insurance intermediaries and MISPs amounts in excess of the limits of distribution fees stipulated in the guidelines. These appear to be in the form of tours, advertising charges, training charges, and various other forms.
6. **Recommendation:** The Committee therefore recommends the following:
 - a. The commission rates may be same across all intermediaries, including MISPs as specified in the IRDAI's (Payment of commission, remuneration and rewards to insurance agents and insurance intermediaries) Regulations, 2017.
 - b. Insurance companies may be mandated to disclose the premium amounts received by each distribution channel along with the corresponding commissions paid and also show the rewards payments made.
 - c. An annual audit of the books of accounts of the insurers or the insurance intermediaries, depending on who has sponsored the MISP, be undertaken by any of the professional audit firms to verify compliance to the commissions payments, rewards and any other payments, if any, and such audit report may be mandated to be placed in the impending meeting of its Board of Directors through its Audit Committee for their necessary action. The audit report along with the compliance report of the professional audit firm along with the Board of Directors decision may be uploaded on the BAP portal of the Authority within fifteen days of such meeting.
 - d. Monitoring and supervision of the MISP and the sponsors of the MISP may be undertaken regularly to examine compliance to various provisions of the applicable guidelines on MISP and, in particular, the payment of commission or rewards or any other payments.

Chapter - 9

Conflict of Interest

1. The Committee noted that the same MISPs are soliciting the policies at one end and are also involved in claims servicing of the vehicles at the other end resulting in potential conflicts of interest.
2. With respect to the conduct on matters relating to client's relationship, as per the code of conduct for sponsoring entity, its employees and MISP under Guideline 10(n) and 14(f) of the MISP Guidelines, every sponsoring entity, its employees and MISP should avoid conflict of interest.
3. However, the activities performed by the MISP when it is soliciting and distributing insurance policies and the activities performed during claims settlement could be an area of potential conflict of interest in terms of the above code of conduct.
4. In accordance with the IRDAI exposure draft on Conflict of Interest Guidelines, 2019, conflict of interest means a situation in which a person or organization is involved in multiple interests, financial or otherwise, and serving one interest could involve working against another and includes situations when a person's impartial and objective performance of duties or decision-making could be jeopardized because of personal interests being involved.
5. The automotive-dealers are in a conflict of interest position because when the customer buys the insurance policy through him, they will earn commission. When the policyholder comes for servicing of his motor vehicle under the insurance policy that the dealer sold, they will earn through the cost of repairs. At the time of renewal, if the customer has chosen a different insurer or purchased a policy through a different intermediary, it could possibly have an impact on the servicing of the motor vehicle. Therefore, this is a situation when a person's (motor dealer) impartial and objective performance of duties or decision-

making could be jeopardized because of personal interests being involved (first in selling an insurance policy and earning commission and then in undertaking servicing and repairs under the policy that he sold).

6. The current business model is so ingrained in the business process that the untangling of sale and servicing of insurance policies appears challenging. It is also observed that the business model of the automotive-dealer has also undergone a significant shift. Earlier the dealer used to earn his income on the sale of vehicle. However, after being allowed to solicit and service insurance policies, the auto-dealers have seen significant increase in their profits. It is thought that major share of the profits appear to be coming from insurance activities rather than sale of the vehicle. This anomalous situation can be set right either by either dis-allowing both sale and service by the automotive-dealer or by having greater disclosure to the policyholder. Both the approaches have its own challenges. The disallowance of an automotive-dealer to both sale and service of motor insurance policy will lead to large scale disruption in the short term. Moreover, as explained earlier, the implementation of such conditions will be extremely difficult to monitor and supervise.
7. It appears that the OEM decide the spare parts costs and the labour charges which has a direct bearing on the claims costs to the detriment of the customer, as customers will not be in a position to avail the coverage for subsequent damages. Also, if overall claim costs are higher, the premiums may also be higher reflecting the higher claim costs which is detrimental to the customer.
8. **Recommendation:** The Committee, therefore, recommends the following:
 - a. MISPs may be mandated to disclose commissions, rewards and any other payments that it may receive from insurers or intermediaries in such sale of the policy. This would bring in transparency, strengthen disclosures and empower customer to make an informed decision.
 - b. In case of cashless settlement,

- i. the MISP should necessarily segregate the two functions of sales and servicing of motor insurance policies and ensure that there is complete arms-length relationship between the two.
 - ii. the customer shall sign-off on the claim estimate prepared by the automotive-dealer giving the break-up of the parts and labour which will be shared with the insurer and the surveyor. Before the final settlement, the customer shall also sign on the final bills giving the break-up of the parts and labour.
- c. the OEM or an insurance intermediary may be prohibited from interfering directly or indirectly in the motor insurance claims of the policyholder other than submission of documents and follow up with insurance company for final decision

Chapter - 10

Role of Original Equipment Manufacturer

1. The Committee examined the role of OEMs within the framework of MISP guidelines.
2. As per clause 3 of the Circular dated 1st November, 2017 on MISP, OEMs and financiers are not covered under these guidelines. The MISP Guidelines cover, insurers, insurance intermediaries and automobile dealers. However, vide circular dated 11th January, 2018, on the role & responsibilities of MISP vis-à-vis Original Equipment Manufacturers (OEMs), it is clarified that no MISP can enter into agreement with the OEM which has an influence or bearing on the sale of motor insurance policies, to ensure that the MISP guidelines work in the interest of the customers. This appeared to have been issued, acknowledging that there is a possibility that the OEMs exercising influence and interfering in the selling and servicing of motor insurance policies.
3. It was observed that the OEMs were found to be exercising undue influence both on the insurance intermediary and the automobile dealers who had become MISP without having accountability of their actions. Moreover, their actions were against policyholder's interest.
4. From market information available to the Committee, it appears that the OEM's have their dealer evaluation programme wherein a methodology is deduced to reward automotive dealer for issuing new motor insurance policies. There appears to be a methodology of rewarding the dealer for retaining the insurance policies issued through them. It is also noted that most of these OEMs are part of the group entities of the insurance intermediaries. By having retention criteria as one of the sales performance parameters and linking it to rewards, the OEMs forces the MISP to make customers buy motor insurance policies from them thereby restricting the choice of the policyholder and also possibly acting in unfair trade practice.
5. **Recommendation:** The Committee therefore recommends the following:

- a. The Original Equipment Manufacturers (OEMs) wield tremendous influence over the automotive dealers. Currently the OEMs are outside the purview of the regulations and are not accountable for their actions. The OEMs should be brought into the regulatory ambit. Therefore, the definition of MISP should also include OEM.
- b. the OEM's shall be equal to MISP and will be subject to all the provisions of MISP Guidelines.
- c. OEM's should give the list of their authorized-dealers and authorized sub-dealers to IRDAI and that list can be uploaded in IIB portal for generating unique identification number of the MISP.

Chapter - 11

IT Portal

1. The Committee examined the need for systems and infrastructure requirements in the process of solicitation of business.
2. It is also observed that intermediaries appear to have IT portals with access controls and may result in elimination of choice to the customers. It is through the electronic platform/ portal that the insurance intermediary exercises control over the automotive dealers and the insurance companies.
3. The electronic platform / portal appeared to have designed to enable MISPs to use for solicitation. However, the choice of insurers available appear to be controlled by the intermediary again to the detriment of policyholders. Neither MISP nor the insurance company have any control over this.
4. The electronic platform/ portal is the pivot through which the pricing, access, geographies, renewals, commissions, claims, etc is controlled by the insurance intermediary which could act as detriment to the policyholders. It appears that there are two major ways in which the control is exercised by the insurance intermediary:
 - a. Access control rules - These are typically rules which define who have access to what type of business like geography, which dealers even in a given geography etc. The insurance intermediary maintains logs for all these systems.
 - b. Pricing rules - price comes from the insurance intermediary's in API for all insurance companies
5. The audit of the IT portal would show the logs that on certain days when any one company didn't do any business in a state or all over India. This would show when access was denied. Similarly, the audit will also be able to show, if insurance companies have been given access all over India or all dealers in a state etc. The audit of the IT portal on the

determination of price will show that ultimate price control is with broker. Whenever prices are changed, the auditor can look at correspondence with that insurance company i.e. when did they ask for change, what changes were asked and then compared with when the changes were actually incorporated in the system and whether there was any change to pricing asked by insurance company and finally allowed.

6. It is noted that the insurance intermediary obtains customer consent through a follow-up telephone call after issuing the motor insurance policy. Nowhere is the customer given a chance to exercise his choice in selecting the insurer or to understand the discounts available for a particular product. The customer is informed about the name of the insurer, the premium charged and the coverages which is not in policyholder's interest.

7. **Recommendation:** The Committee therefore recommends the following:

- a. have full integration of insurance intermediary with insurers computer systems so that premiums quoted to customers come directly from insurer systems without any intervention by the insurance intermediary.
- b. redesign the current system of the insurance intermediary of seeking customer consent for purchasing the motor insurance policy so that the customer exercises his choice of insurer through an OTP based system before the issuance of a new motor insurance policy or its renewal. An OTP will be sent to the registered mobile of the customer informing him of the insurers and the proposed premium. The customer will select the insurer and confirm the same through the OTP which will be actual customer choice.
- c. the insurance intermediary should give access of the electronic platform/ portal to the customer showing the insurers, premium proposed, remuneration payable to MISIP & insurance intermediary and other features. The customer can then exercise his choice of insurer for the motor insurance policy based on the information given on the portal.
- d. an annual audit of the IT portal to check compliance of the MISIP Guidelines with regard to the access controls and pricing rules may be undertaken. This is to check compliance to the MISIP Guidelines on interference/ control in determination of

premium of policies, imposition of risk selection by insurers, curtailment of choice of insurers, interference in product design etc. and compliance of ISNP Guidelines.

Chapter - 12

Payment of premium through single cheque

1. The Committee examined the current practice of collecting the premium payment from the customer while soliciting the motor insurance policy.
2. There is lack of transparency in the cost of insurance premium when the customer buys the vehicle for the first time through the automotive dealer as the customer pays one single cheque/payment for the cost of the vehicle and the insurance premium.
3. The MISP then pays through the insurance intermediary or directly to the insurance company through his own account. The customer does not know the insurance premium being paid as it is subsumed in the cost of the vehicle. This lack of transparency is not in the interest of the policyholder's interest as the true cost of insurance is not known to the customer. The customer may not be aware of the coverage options and discounts available in the process. The customer also cannot negotiate with the MISP to get the best coverage at the optimal price.
4. There are also instances, where the policies are cancelled immediately after issuance refunding the premium. In cases, where MISP is making the payment through its account, the sources of funding is not known to the insurer and may also lead to possible anti money laundering activities.
5. **Recommendation:** The Committee therefore recommends the following:
 - a. the customer should make payment to the insurance company directly which is facilitated by the MISP. MISP shall not collect the insurance premium amount in its own account and then transfer the same to the insurance company.

Chapter - 13

Miscellaneous

1. The Committee examined various other provisions that are applicable to the MISPs.
2. The insurers and insurance intermediaries have entered into agreement between them on how the MISP business will be conducted. These are beyond the Outsourcing Regulations and the MISP Guidelines.
3. The sponsoring entities have also entered into agreements with the MISP as per the MISP Guidelines for its implementation. However, many operational aspects relating to MISP Guidelines such as distribution fees, daily reconciliation, weekly reconciliation, terms of usage electronic platform, IT portal, mandatory KYC, are not covered in the agreement leaving the agreement incomplete from operational perspective.
4. It is observed that the agreements between insurance intermediaries and insurers cover areas which includes issuance of policy, handling of short / excess premium, break-in insurance, No Claim Bonus confirmation, policy cancellation, issuance/ dispatch of renewal notices, etc. It also covers areas of claims which includes repair claims intimation and registration, surveyor deputation and assessment, payment of settlement amount and surveyor fees, total loss claims, flood/ natural loss/ bulk claims, general points on claims, miscellaneous points, etc. In many these clauses, consent or concurrence or consultation of the insurance intermediary is not required. These clauses could be in direct violation of the regulations on outsourcing as core functions of the insurer such as underwriting and claim settlement has been delegated and outsourced to the insurance intermediary.
5. It is also observed that the spare parts costs and the labour charges are decided by the OEM. These are increased unilaterally by the OEM without notice or consultation with the stakeholders. The customer is forced to buy the spare costs at the prices determined by

the OEM and get the vehicle serviced at the labour charges fixed by the OEM. The increased costs are passed on to the insurance company and to ultimately to the customer.

6. **Recommendation:** The Committee therefore recommends the following:

- a. the agreement between the insurer and insurance intermediaries/MISP or intermediary and MISP may be redrawn so that core functions of the insurer as defined under the regulations on outsourcing are performed by the insurer alone without any interference, consent, concurrence and consensus of the insurance intermediary.
- b. If cashless services are to be allowed through the automotive dealers, the spare part costs and labour charges need to be decided by a joint committee of OEM and the General Insurance Council annually.
- c. minimum standard areas in the agreement governing the operational relationship between the (i) insurer and insurance intermediary or MISPs or (ii) intermediary and MISP may be standardized. Minimum standard areas are attached as Annexure "A".

Annexure “A”

Minimum Standard clauses in agreement between insurer, insurance intermediary, OEM and their MISPs

1. Appointment and Scope of Operations
2. Period of Agreement
3. The services to be rendered by the OEM and their MISPs pertaining to selling and servicing of motor insurance policies and the procedure, as prescribed by the sponsor, to be followed by the OEM and their MISPs
4. The distribution fee payable by the sponsor to the OEM and their MISPs for each of the services rendered by them. Complete details on the basis on which payment becomes payable shall be documented.
5. Payment of premium to the insurer and compliance to Sec 64VB of the Insurance Act, 1938
6. Turnaround times for each of the services to be rendered by the OEMs and their MISPs, the course of action in case of default of services.
7. Terms of Use of IT portal/ electronic platform
8. A clause that obligates OEMs and their MISPs to disclose to the policyholders, the remuneration and reward received by them for selling and servicing motor insurance policy sold to the customer.
9. Obligations of OEMs and their MISPs
10. Obligations of sponsors
11. Code of conduct
12. Compliance to KYC requirements
13. Customer Grievances
14. Inspection, Audit and Access rights to the office of OEMs and their MISPs by sponsors and IRDAI
15. Confidentiality requirements
16. Data Privacy
17. Termination notice
18. Arbitration and Dispute resolution
19. Compliance with the Laws, Rules, Regulations, Guidelines, Circulars, etc

Annexure “B”

Summary of major Inspection Observations relating to practices adopted by Insurers, Intermediaries and MISPs

A. The practices reported in onsite inspection reports pertaining to general insurance companies are as under:

Sl.No.	Inspection Observations
1	Insurers are not ensuring that Point of Sales Persons (POSPs) are available at all the business establishments of the MISPs where insurance business is procured. Which implies, business is solicited through unlicensed persons
2	Discounts offered were over and above approved rates under F&U
3	Insurer is engaging entities which are not registered as MISPs with them and booking the business in their name
4	Instances of differential treatment to the policyholders on the basis of sourcing of business. Cashless claim service offered to only those customers who buy motor policies from MISPs.
5	Solicitation was done at Multiple locations by single Designated person/PoS by MISP-Intermediaries
6	MISPs were allowed to decide the premium payable by customers for motor policies
7	Excess pay-outs over and above commission/reward were made to MISPs under various other heads
8	Third party cheques accepted towards payment of premium
9	Insurer has not terminated outsourcing agreements with auto dealers subsequent to notification of the guidelines
10	Issuance of receipts by the MISPs in their own names and not of the insurer
11	No periodic review of operations of MISP was done by the insurer to check the controls, systems, procedures and safeguards in place by MISPs.
12	No weekly reconciliation of MISPs regarding motor insurance premium distribution and premium collected. No monthly audit of remuneration paid to MISPs

13	No system put in place for day to day monitoring of MISP operations
----	---

B. The practices reported in onsite inspection reports pertaining to MISPs (Motor Dealers)

Sl.No.	Inspection Observations
1	MISPs are sourcing insurance for vehicles sold by other dealers
2	Same premium charged for all insurers irrespective of rating factors of different insurers
3	MISP controlling or interfering in determination of premium of policies and is offering discount on the policies
4	MISP has failed to offer a choice of motor insurance policies of different insurers to the prospect
5	MISPs are entering into agreements with insurer for hoarding/advertisements.
6	Falsely raising of invoices in the name of Sister Concerns for business sourced through them.
7	MISPs are not providing separate receipt to acknowledge the premium payment
8	MISPs are not remitting the premium to the insurers within 24 hours of collection the premium.
9	MISP received: excess pay-outs related to commission & insurance activities; distribution fees paid for third party premium; rewards given for motor policies; received payouts from insurers without having any agreement
10	Unexplained receipts from insurers indicating possibility of Money laundering
11	No training was provided by the Sponsoring entity to the insurance sales persons.
12	MISP collects premiums in cheques drawn in its name
13	MISPs are not taking express consent from customers for distribution of insurance policies
14	No single e-insurance account is opened

C. The practices reported in onsite inspection reports pertaining to Brokers & Corporate Agents:

Sl.No.	Inspection Observations
1.	Portal established for use of Brokers/MISPs wherein, allows the broker/MISP to modify fields like no claim bonus and discounts to enable to alter the amount of premium to be charged
2.	MISPs are allowed to collect premiums via cheques drawn in their name
3.	Many of the MISPs are issuing policies of a single insurer, without giving choice of different insurers to the clients
4.	Written consent/choice not obtained from prospective client and comparative quotations are not given to the prospective client.
5.	MISPs are involved in collection of premiums through escrow account of the broker
6.	Broker's online portal allows same premium for any insurer irrespective of risk factors of each insurer, against F&U of products.
7.	Designated person of the MISP: lesser qualification than the qualification required; working with multiple MISPs appointed by the Broker; Non availability of DP in many MISPs sponsored by Broker.
8.	MISP has solicited the business without the designated person passing the POSP examination
9.	MISPs solicited business through persons who have not undergone training or passed the examination prescribed by IRDAI.
10.	Broker received fee towards 'motor handling charges' from its group company for maintaining insurance documents and for assisting in claim settlement.
11.	MISPs issue consolidated dealer cheques to sponsoring entity/insurer by pooling individual cheques and cash collected from the clients
12.	Excess payment of distribution fees to MISPs over and above specified percentage on OD premium.
13.	Distribution fee is paid to MISPs where the renewal of policies has happened through the online portal of the insurance broker
14.	Proper system not put in place for day to day monitoring of MISPs' operations

15.	Solicitation of Insurance through Telemarketing mode but business mapped under MISP mode
16.	Delay in remittance of premiums to insurers.
17.	Solicitation of Insurance business by unlicensed persons
18.	Insurance Business solicited by the same Designated Person of the MISP from Multiple locations
19.	Payments of Distribution fees to dealers for policies sold via 'Distance Marketing Mode' or 'Non MISP model'
20.	Instances of payments of Distribution fees to MISPs for policies sold before November 2017

Annexure “C”

Summary of complaints received by the Authority relating MISP Channel

Sl.No.	Brief description of the complaint
1.	<p>The MISP Guidelines capped the remuneration payable to MISPs at 22.5% for 2-wheelers and 19.5% for other automotive vehicles. However, over the last 6 months, some players reportedly resorted to practices that conveniently circumvented these stipulations and payment to intermediaries significantly higher is being made through surrogate means is known to many in the industry.</p> <p>The methods adopted by players reportedly include taking relatives of intermediary employees on their rolls, camouflaging payouts under publicity expenses, diversion of CSR allocation to intermediary controlled trusts and many other ways which cannot be exposed unless a forensic audit is done.</p> <p>Some companies implemented the MISP Guidelines in true letter and spirit. But, the result has been the rapid decline in the market share of the companies who have lost about 6% of market share in Motor in just 11 months. The sharp fall in market share in such a short span makes it very evident that the conditions get skewed in favour of some companies resorting to such practices.</p> <p>Motor is primarily a retail line of business. At the POS, the customer is at the mercy of the dealer. With little bargaining power, the customer often ends paying the premium quoted by the dealer. The practice of commission linked to premium coupled with unauthorized payouts has meant that the customer is forced to cough up much higher than reasonable normal premium with a lion's share ending up with intermediaries. That he is forced to pay up much more than needed, despite cheaper options available, is a travesty to free market forces that are supposed to prevail in a competitive market. The decline in premium is primarily due to the company losing the dealer business in a large way.</p>

	<p>To conclude:</p> <p>a) to scrap the MISP guidelines altogether and allow market forces to find a new normal;</p> <p>b) If the above is not possible, a proper implementation of MISP Guidelines with exemplary punishment meted out to deviants and establishing an effective monitoring mechanism;</p>
2.	<p>It is a well-known existing market practice within the automobile insurance distribution network wherein automobile dealers for a particular brand/ manufacturer (OEM) are aligned with specific intermediaries in line with MISP Guidelines [which apparently formalized the insurance business model of dealers in favour of manufacturer (OEM) to the detriment of the agent and in some ways restricting the dealer to align insurance business as per an invisible OEM mandate under a shadow OEM model] for mediating and soliciting motor insurance policies to customers for vehicles sold at their dealerships. Such intermediaries receive the commission as mandated by guidelines and retain a part/portion of the commission and remit the balance to the automobile dealers. For this deduction, apparently there is/are no guidelines not any market practice which is standard and this may vary vastly across particular manufacturer's dealers.</p> <p>The Regulator may consider taking the initiative to evaluate the reasonability of the deductions in the insurance commission made by such intermediaries acting as MISP sponsoring entities and the basis and rationale of the same.</p>
3.	<p>Attention is drawn to the challenge w.r.t enrolment under MISP by certain brokers who are managing OEM supported insurance program inspite of insurers willingness to sign SLAs at par with other insurers who are part of the panel and also ready to assure equal or better performance in the future as well. In the absence of implementation of guidelines fully, a sizable chunk of Private Cars and Two Wheelers business of those customers who buy new cars and two wheelers from dealers of these OEMs or renew their motor policies through these brokers. Is denied At the</p>

same time such customers are also denied the right to choose and also an opportunity to avail better services, contrary to the spirit of MISP Guidelines.

This is despite that some insurers have repeatedly reached out to these brokers with a request to enroll. However a positive response or feedback is not forthcoming.



भारतीय बीमा विनियामक और विकास प्राधिकरण
INSURANCE REGULATORY AND
DEVELOPMENT AUTHORITY OF INDIA

Office Order

Date: 18/06/2019

Ref: IRDAI/INSP/ORD/OFS/ 102 /06/2019

Re: Constitution of Committee to Review MISP Guidelines.

1. In order to review the MISP Guidelines, a committee is constituted with the following officials:
 - 1.1 Mr. Randip Singh Jagpal, CGM (Intermediaries) – Chairman
 - 1.2 Ms. J.Meenakumari, CGM (Inspections) – Member
 - 1.3 Ms. YegnaPriya Bharat – CGM (Non-Life) – Member
 - 1.4 Mr. T.S. Naik, GM (Agency Distribution) – Member
 - 1.5 Mr. Ch.B.Chandra Sekhar, AGM (Inspection) – Convener
2. The Terms of Reference for the Committee are as under:
 - 2.1 To review various practices adopted by the insurers, intermediaries and MISPs in distribution of motor insurance policies arising out of focus inspections undertaken and the complaints received;
 - 2.2 To examine the market conduct issues and operations relating to distribution of motor insurance policies through MISP channel,
 - 2.3 To review the MISP Guidelines and to suggest suitable measures for orderly conduct of motor insurance business through MISP channel.
3. The Committee shall submit its report to the Chairman, IRDAI within a period of two months from the date of this order.
4. This is issued with the approval of the Competent Authority.

Sujay Banarji

Member (Distribution)



भारतीय बीमा विनियामक और विकास प्राधिकरण
INSURANCE REGULATORY AND
DEVELOPMENT AUTHORITY OF INDIA

Office Order

Date: 24/07/2019

Ref: IRDAI/INSP/ORD/OFS/117/07/2019

Re: Committee to Review MISP Guidelines – Inclusion of additional members.

- 1) On 18/06/2019, a Committee has been constituted to review MISP Guidelines vide order No. IRDAI/INSP/ORD/OFS/102/06/2019.
- 2) The following members are included in the Committee with effect from the date of this order:
 - 2.1 Shri Vijay Srinivas, Retd. GM & Director of United India Insurance Co. Ltd.
 - 2.2 Shri Balwant Singh, Retd. GM of Oriental Insurance Co. Ltd.
- 3) This is issued with the approval of the Competent Authority.

Member (Non-Life)

