



Finance Industry Development Council
(A Self Regulatory Organisation for NBFCs in India)

CIN: U91990MH2004NPL146931

City-II, 5TH Floor, CST Road, Near Mercedes Show Room, Kalina, Santacruz (East), Mumbai – 400098

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24th October 2026

The Chairman,
Insurance Regulatory and Development Authority of India (IRDAI)
Sy No. 115/1, Financial District,
Nanakramguda, Gachibowli,
Hyderabad - 500032

Subject: Feedback on the Consultation Paper “Recalibrating Economics of Insurance Distribution” — ensuring viable distribution, policyholder protection and “Insurance for All by 2047”

Respected Sir,

Finance Industry Development Council (FIDC) has been the voice and face of the NBFC sector for the last 22 years. In October last year, RBI recognised FIDC as the Self-Regulatory Organization (SRO) for NBFCs and HFCs in India. Since then, FIDC has expanded its membership base across the country covering the Upper Layer, Middle Layer and Base Layer NBFCs. FIDC has taken several Capacity Building initiatives for the NBFC Sector that include effectively engaging with the regulators and the policymakers.

FIDC places on record its wholehearted support for the Insurance Regulator’s flagship roadmap of “Insurance for All by 2047” under the Viksit Bharat 2047 vision articulation by the Government of India. We welcome IRDAI’s objective of ensuring that insurance distribution in the country is fair, transparent and aligned with policyholder interests and we are completely aligned with the laudable intent to support the growth of insurance penetration in the country.

In this regard, we would like to humbly submit the following:

A: NBFCs’ Key Role in Financial Inclusion

NBFCs are known to have pioneered the art of funding the unfunded by catering to the credit needs of the unbanked and the underbanked segment of the society in Rural, Semi-urban and Urban areas across the country. Recently, FIDC in partnership with TransUnion CIBIL has released a report titled “*Bharat Nirman: NBFC Forming the Foundation of Credit Dispersion*”.



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According to this report :

- Around 50% of the New to Credit customers are served by NBFCs
- NBFCs have grown their credit active consumer base by nearly 7 times over the last past decade which accounts to approximately 2.5 times faster than the overall credit industry.
- The share of our borrowers from Rural and Semi urban areas is around 59%

Thus, NBFCs today are playing a key role in furthering the Government's Agenda of Financial Inclusion.

B: Feedback on the Consultation Paper

We have conducted deliberations with our member NBFCs involved in the Insurance Distribution process in the country and would like to provide feedback on the Consultation Paper. We would like to highlight that Institutional distributors, comprising of Banks, NBFCs, and Microfinance Institutions (MFIs) have historically functioned as the primary engine for deepening financial inclusion, *originating 90% to 95% of credit-linked policies and protecting over 65 to 85 million lives annually in the country, alongside additional 110 to 120 million micro-insurance policyholders.*

While we are fully aligned with the Regulator's objective to optimize policyholder value and increase affordability of insurance products, we respectfully submit that certain proposals in the draft paper inadvertently challenge the economic viability of this institutional distribution framework and social benefit it extends to the society at large by deepening the insurance penetration.

At the outset, we would like to respectfully submit that the proposed commission limits - particularly the **2% cap on credit-life products, 5% cap on health products, Nil commission on Motor (third party) and 5% on own damage policy** - risk alienating the very distribution infrastructure required to expand insurance coverage. The intended outcome of the reform targets deepening of insurance while ensuring affordability for everyone and this cannot be achieved without the wholehearted participation of the massive distribution networks of the BFSI Industry.

The fundamental issue we would like to highlight is that the proposed approach appears to treat credit-linked or a point-of-sale attachment insurance product as a low effort, incremental sale that justifies the proposed low commission payout because the effort is deemed to be low. This paradox of "low-effort" overlooks the substantial customer-acquisition, technology, compliance



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and servicing infrastructure maintained by NBFCs to acquire and serve customers on behalf of the insurance manufacturers across the length and breadth of the country, more importantly in the semi-Urban and Rural geographies.

It is to be noted that this vast reach built over the last 25 years is not easily replicable by the insurance companies or by any other alternative mode of insurance distribution. The NBFC institutions source and verify customers, facilitate insurance-specific engagement and documentation, support policy issuance, provide post issuance services, and assist families with claims, thereby effectively operating as an extended arm for the insurers. Insurance companies benefit from this unfettered access to an established customer relationship and a ready distribution network of NBFCs without having to replicate that infrastructure themselves, which would come at a significant cost structure and would make it unviable for Insurance Companies to maintain it on their own.

Hence, as an industry, we would like to respectfully state that the notion of low effort is in reality a very high effort that is latent in the operation of the NBFC industry and has not been fully appreciated in the IRDAI consultation paper. Our effort in the continuation of this note would be to put forward facts that unpeel this latent high effort by the NBFC industry to support the insurance manufacturers and set the stage for an informed data driven dialogue with IRDAI.

We hereby humbly present our observations and constructive recommendations for your kind consideration and subsequent dialogue.

1. Macroeconomic, Societal & Industry Consequences of the intended reform

- 1.1. **Threat to Employment Across Staff:** The current commission payout proposals for distributors lead to a significant margin compression, grossly failing to defray the marginal insurance distribution costs. This will lead to a viability conundrum for NBFCs, and they might be constrained to exercise their economic choice to downsize or exit their insurance distribution vertical, resulting in possible separations of salaried employees servicing the insurance distribution and servicing channel.
- 1.2. **Grassroots PoSP Disruption:** Over 1.4 million certified Point-of-Sale Persons (PoSPs) rely on micro-commissions. Proposed caps will slash their per-transaction earnings by ~90% (e.g., standard two-wheeler package policy payout, collapsing from Rs 1,000 to Rs 100), making micro-entrepreneurship unviable.

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- 1.3.Lower Penetration:** lower commission payout will lead to exit of NBFCs to be a corporate agent leading to lower incidence of counseling of borrowers and in-turn lower penetration of insurance

2. Core Economic Concerns and Funding Viability Deficit

2.1.IRDAI circular omits the latent credit loss risk assumed by NBFCs while extending loans to customers to buy insurance:

- 2.1.1. **Credit risk assumed by NBFCs on Premium Funding:** It is to be noted that more than 90% of the credit-linked insurance sale is funded by the NBFCs to solve the affordability challenge on behalf of the insurers. In facilitating the credit-linked insurance for financially constrained retail and micro borrowers who cannot pay the upfront premiums, lenders fund the premium and absorb the risk of credit defaults which average at minimum 3.0% for unsecured products and between 1%-1.5% for high ticket secured lending products like mortgage. Hence, the commission payouts largely defray this credit loss risk that the NBFCs undertake on behalf of the Insurance manufacturers while solving the affordability challenge.
- 2.1.2. **Current proposed commission payout fails to provide economic rationale towards average credit loss:** The proposed 1% - 2.0% commission on credit linked insurance falls short of this 3.0% average credit loss for NBFCs enabling insurance purchase resulting in an immediate upfront cash loss. Hence under the current proposed commission payout structure, the insurance distribution and assumption of credit risk on behalf of the manufacturers would be immediately unviable for NBFCs just by the possibility of non-coverage of credit loss related expenses. In fact, NBFCs will likely incur an average 1%-1.5% loss on a portfolio basis on every insurance policy sold because of the associated credit loss that would accrue of the tenure of the loan.

2.2. Real Costs of Insurance Distribution through NBFCs:

- 2.2.1. **Activity-Based Cost Accounting:** Comprehensive activity-based costing validates that institutional distribution partners incur **actual operating expenses of 30% to 35% of written gross premium**. This includes Customer Acquisition Cost (CAC) allocation, physical branch network infrastructure levies, dedicated lending-IT integrations, localized customer education, regulatory compliance, and on-ground claims documentation assistance. (Calculation shown in Annexure)
- 2.2.2. **The Viability Deficit:** Proposed commission caps of 2.0% for Credit Life and 5.0% for Credit Health leave an **unfunded deficit exceeding 30%**, rendering continued

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distribution of insurance by NBFCs economically unviable and operationally unsustainable.

2.3. Operational Breakdown in Direct Borrower Payment Mandates:

- 2.3.1. **Real life distribution challenge:** The draft paper emphasizes that insurance premiums must be paid directly by the borrower to the insurance company. Retail and rural borrowers lack immediate liquidity for upfront out-of-pocket payments. Lenders fund the premium to ensure instant family protection. Borrowers drop off without completing the separate transaction, leaving families uninsured.
- 2.3.2. **Pragmatic Solution:** We humbly request that regulations permit lenders to disburse funded premiums directly to insurers on the borrower's behalf, supported by an automated electronic lien-marking mechanism.

3. Economics of Open Architecture – Disincentivizing customers choice:

3.1. Proposed higher payout for closed architecture disincentivizes customers' choice:

- 3.1.1. **RBI Supervisory Stance:** During annual supervisory reviews, the RBI strongly advises lenders to maintain Open Architecture to offer customer choice and prevent bundling and captive mis-selling. The draft circular prescribes lower commission caps for Open architecture compared to Closed architecture
- 3.1.2. **Systemic Contradiction:** This disparity penalizes open customer choice, encouraging institutions to revert to captive single-insurer tied model and in direct contravention with RBI governance guidance.

4. Recommendations from FIDC on behalf of the NBFC community for IRDAI's consideration and subsequent dialogue:

We respectfully place before the Authority the following constructive recommendations:

- 4.1. Reassess the proposed caps through a published impact assessment** covering policyholder affordability, insurance penetration, jobs, rural access, claims assistance, competition and insurer costs while adhering to the RBI guided open architecture philosophy.

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4.2. Provide a 5-Year Harmonized Transition Glide Path to NBFC distributors in line with that proposed for the Insurance Manufacturers in the Consultation Paper

We request that just like the manufacturers have been provided with a 5-year glide path for expense of management alignment, *NBFCs distributors should also be provided with a similar path on attenuation of commission structures over a 5-year period*. The NBFC community undertakes to voluntarily bring down the commission structures from the current high 40s to an acceptable 25% over a period of 5 years. This will require realignment of sales channels, further adoption of technology and distribution reimagination. Effective transition of this vision will take time and investment and a sudden cut to the bone of the commission payout structure will force the industry to exit insurance distribution altogether due to a lack of viability. Hence, the glide path will protect and provide sufficient adjustment duration to slowly align to the reduced commission structure without jeopardizing the insurance penetration in the country and the NBFC distribution infrastructure that has been painstakingly built over the last 25 years. The “Suo-moto” glide path on group linked insurance proposed by FIDC and ratified by the NBFC members is as follows: -

Glide Path for lender distributors	FY2 8	FY2 9	FY3 0	FY3 1	FY3 2
Group Credit linked Insurance - Life, Health, Motor, Property	35%	33%	30%	27%	25%
Point of Sale attachment (Motor) - Third party	10%	8%	7%	6%	5%
Point of Sale attachment (Motor) - Own damage	15%	13%	12%	11%	10%

4.4. Parity for Open Architecture Payouts

Align commission ceilings between Open and Closed architecture models to preserve customer choice and ensure harmony with RBI supervisory guidelines.

4.5. Cost structures associated with Insurance Distribution by NBFCs

The cost model for an Institutional lender like NBFC in sourcing, financing and servicing a retail policy is given in the attached Annexure



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C: Request for an In-Person Meeting

We hereby request you to kindly give us an appointment for an early date where a small delegation of few of our Directors and Management team would like to have a detailed discussion in person.

We respectfully state that this is not an argument against reform or policyholder protection. It is a request that reform be grounded in verified costs, channel realities and measurable consumer outcomes, which ultimately benefits the end consumer, while also protecting the genuine interests of the industry participants.

We look forward to a positive consideration of our submission and also an appointment for an early date. Assuring you of our full cooperation always and thanking you in anticipation.

Yours Sincerely,

For FINANCE INDUSTRY DEVELOPMENT COUNCIL

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Encl.: Annexure

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ANNEXURE:

Activity-Based Distribution Cost Allocation Model

Empirical cost model for an institutional lender (Bank/NBFC) in sourcing, financing, and servicing an attached retail policy:

Ref	Cost Component / Parameter	Value (INR / %)
1	Insurance Premium Underwritten (Indicative average ticket size)	~Rs 3,500
2	Customer Revenue from Lending Product (Lifetime relationship revenue)	~Rs 20,000
3	Customer Acquisition Cost (CAC) (Direct loan origination, verification, underwriting)	~Rs 4,500
4	Insurance Allocation Factor (IAF) (Premium / Customer Revenue: 3,500 / 20,000)	17.5%
5	Allocable Direct Acquisition Cost (CAC * IAF: 4,500 * 17.5%)	~Rs 790
6	Infrastructure Access Fee (Fixed levy for retail branch network: 5% of CAC)	~Rs 225
7	Revised Operating Cost Allocable (Direct Acquisition + Infrastructure Fee)	~Rs 1,015
8	Credit Loss Risk Subsidy (Empirical average credit cost on premium funding: 3% of Premium)	~Rs 105
9	Total Allocable Distribution Cost (Operating Cost + Credit Risk Subsidy)	~Rs 1,120
10	Baseline Distribution Cost as Premium % (Total Allocable Cost / Premium)	32%

Note: The activity-based model validates that institutional distribution costs stand at ~32% of premium. Proposed caps of 2.0% (Credit Life) and 5.0% (Credit Health) cause immediate net-negative operating margins, rendering institutional distribution unviable.