Federation of LIC of India Class I Officers' Association
(Union of Class I Officers)

National Federation of Insurance Field Workers of India NFIFWI
(Union of Class II Officers)

All India Insurance Employees Association (AIIEA - Union of Class III and IV employees)

All India LIC Employees Federation (AILEF - Union of Class III and IV employees)

To, **Date-**13-09-2022

The Chairman
Insurance Regulatory and Development Authority of India,
Hyderabad.

Sub: Our observation on the Draft Regulation on Payment of Commission or Remuneration or Reward to Insurance Agents and Insurance Intermediaries.

Respected Sir,

We are a front consisting of four major trade unions in LIC of India viz. **Federation of LIC of India Class I Officers' Association (Union of Class I Officers), National Federation of Insurance Field Workers of India (NFIFWI - Union of Class II Officers), All India Insurance Employees Association (AIIEA - Union of Class III and IV employees) and All India LIC Employees Federation (AILICEF - Union of Class III and IV employees),** which together represents 85% of the total Employee and Officers' strength in LIC.

Since last 66 years we have been recruiting agents and, in the process, we observe this profession is not a preferred profession even today. People do not accept this profession very willingly but join to get remunerated to maintain livelihood in almost all the cases. Therefore, any change in agency commission structure, as has been mentioned in the draft regulation, will affect the fraternity of life insurance agents in an adverse manner, who are more or less 25 lakhs in number. The agents would lose aggressive interest to procure new policies for the companies.

We have gone through the draft regulation analytically and after thorough study apprehend its adverse impact on the insurance agents, insurers, the insurance industry in our country and the society as a whole. Here are the reasons:

1. **In the draft regulation, one of the objectives says that it will provide the insurers the flexibility to manage their expenses with further objective to improve insurance penetration.** Since 1956 LIC has been efficiently managing its expenses to achieve its target year after year with high level of satisfaction of almost 27 crore policy holders.

This regulation to reduce the commission on premium in the very first year will rather disturb the smooth going practice of policy holder-agent-LIC relationship resulting in hurdles in insurance penetration. The draft linked Expenses Of Management (EOM) with the commission structure. Evidently, the insurers with less EOM will get an advantage to offer higher commission compared to the companies with higher EOM. To be more specific it has been proposed that if an insurance company's actual EOM is within 70% of allowable EOM in the preceding year, the company has the liberty to adopt commission limits in accordance with the board approved policy or as per schedule 1. This proposed change gives an unlimited scope for the company to fix upper cap, which will for sure disturb the level playing ground for agents of different companies, which in turn may result in exodus of agents from companies who pay less remuneration to companies who pay higher remuneration. Since additional commission to the intermediaries will in no way benefit the policy holders directly, after payment of commission at a standard rate, the surplus due to low EOM may be paid to the policy holders as bonus or loyalty as the case may be. This holds good for all insurers.

2. **The draft regulation defines "Reward" as the amount paid, whether directly or indirectly, as an incentive including gratuity, term insurance cover, group insurance covers, telephone charges, office allowance etc.** Gratuity to LIC agents is paid only after attaining the age of 60 years, who serves at least for 15 consecutive years. Also any kind of group insurance is a moral responsibility of the organization. Gratuity or insurance are nothing but social security measures. And telephone charges and office allowances are paid to agents for the expenses they incur for procurement of business and building long term relationship with customer on behalf of the insurer.. So, at least these can not be termed as rewards. Gratuity to an agent is paid at an old age and insured sum is paid to the nominees of the agents in the event of death of an agent. These provisions save the families of the agents in distress. Inclusion of the expenses behind these social security measures under the ambit of maximum limit on first year's commission will certainly reduce the commission for no logic.

3. **The draft regulation allows discounts in the premium for such policy holders who buy policies directly.** Differential premium for the same product is unethical. In our country rebating on premium is prohibited. Discounting on premium for direct purchase is indirectly a kind of rebating which should not be allowed. Moreover, in our country agents are remunerated only when policies are purchased through them.

There are high possibilities that after elaborate consultation with a qualified and competent agent, one would purchase a policy directly from an insurer to avail discount on the premium. This will open an avenue to ditch the agents and may act as deterrent to people willing to take up agency as their profession.

4. **The draft regulation proposes to cap the maximum payable commission at 20% for regular premium or limited premium policies.** As has been mentioned at the beginning of this letter that agency even today is not a preferred profession. A lot of efforts and resources are put in to convince people to take up agency as a profession. We offer this profession to the people just to find a way of earning to live. During the era when the cost of living is increasing every day, instead of increasing commission rate, decreasing is inhuman and irrational. This is not a profession of employment where the provision in hike in income is there. Neither this is a profession like medical or law practitioners where the fees can be commensurately increased. But the expenses in the form of conveyance, entertaining prospects by an agent cannot be reduced. Rather an agent is required to meet prospects multiple number of times. In most of the cases refusal is the ultimate result. To procure a single policy an agent is required to spend behind 4/5 and even more no. of prospects. Sometimes the newly adjusted policies are cancelled due to cheque dishonour or for cooling off causing monetary harm to the concerned agents. Therefore, the decrease in commission on first year premium will discourage the agents which will adversely impact the profession and the life insurance industry as a whole. We logically believe that the regulations under discussion, if notified through gazette will do harm to the profession as well as life insurance industry.

Considering the above stated facts, we earnestly request you to kindly rescind the draft regulation on payment of commission or remuneration or reward to insurance agents and insurance intermediaries.

With thanks and regards,

Yours faithfully

S. Rajkumar	**Vivek Singh**	**Shreekant Mishra**	**Rajesh Kumar**
General Secretary	Secretary General	General Secretary	General Secretary
Federation of LIC Class I Officers' Associations	NFIFWI	AIIEA	AILICEF