

22nd February, 2005C I R C U L A R

Subject: Special Discount in lieu of Agency Commission/Brokers Remuneration and Remuneration payable to Direct Insurance Brokers and Insurance Agents.

Attention is drawn to the Authority's circular No.GEN/CIR/009/MAR-04 dated 3rd March, 2004 on special discount in lieu of Agency Commission/Broker's Remuneration payable for Direct Insurance Brokers and Insurance Agents in General Insurance Business".

The above circular was valid for a period of one year starting from 1st April, 2004 to 31st March, 2005. The Authority has reviewed the performance of the industry, particularly the development of the system of brokerage and the benefits to insuring public through increased market penetration. A number of representations received from different stakeholders from time to time on the same have also been examined.

Accordingly, this circular is issued superceding Circular No.GEN/CIR/009/MAR-04 dated 3rd March, 2004 with the following changes:

1. (a) The eligibility limit for Special discount of 5 per cent in lieu of Agency Commission /Broker's Remuneration stands raised from paid up capital of above Rs.3 crore to above Rs.15 crore without any distinction between private and public sector.
- (b) The cover under the mega risk policies and project insurance (EAR/CAR/ALOP) above Rs.1500/- crore sum insured will also be eligible for Agency Commission/Broker's Remuneration irrespective of the capital structure and the insured will not be eligible for 5 per cent special discount.
- (c) In respect of Government Departments where paid up capital cannot be determined, the facility of 5% Special Discount in lieu of Agency Commission/Broker's Remuneration shall continue.
- (d) Companies or firms, whether Private Limited Companies or Public Sector Undertakings or statutory bodies having a paid up capital above Rs.15 crore except Mega risk policies and project insurance (EAR/CAR/ALOP) of sum insured above Rs.1500 crore shall henceforth have the option of either:
 - (i) availing a 5% Special Discount and place the Tariff business of Fire, Petrochemical, Engineering, Consequential Loss (Fire), MLOP and IAR directly with an insurer; or
 - (ii) seeking the services of an Insurance Broker/Insurance Agent, in which case they will become ineligible for availing the 5% Special Discount.

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2. The scale of Agency Commission/Brokers Remuneration shall be regulated as per the table given below:

No.	Class of Risk	Paid up Capital	Agency Commission (% of final premium excluding service tax)	Direct Brokers Remuneration (% of final premium excluding service tax)
1.	Tariff business of Fire, Petrochemical, Engineering, CL (Fire), MLOP and IAR insurances	Individuals	10%	12.5%
		Paid up capital upto Rs.15 crore	Upto 10%	Upto 12.5%
		Paid up capital above Rs.15 crore to 25 crore	Upto 6.25%	Upto 7.5%
		Paid up capital above Rs.25 crore	Upto 5%	Upto 6.25%
2.	The above mentioned risks in Sl.No.1 under Mega Policy & project insurance (CAR, EAR, ALOP) with sum insured above Rs.1500 crore	No cap on capital and no special discount	5%	6.25%
3.	Indian Motor Tariff and Statutory Insurances (Workmen's Compensation Act, 1923; Motor Vehicles Act, 1988; Public Liability Insurance Act, 1991)	N.A.	Upto 10%	Upto 10%
4.	All Non-Tariff Business excluding risks in Sl.No.2	N.A.	Upto 15%	Upto 17.5%

3. It is also clarified that:

- Special Discount in lieu of Agency Commission/Brokers Remuneration shall be restricted only to Tariff business of Fire, Petrochemical, IAR, CL (Fire), Engineering & MLOP for paid up capital above Rs.15 crore.
- In all cases where the insured is availing special discount in lieu of Agency Commission/Broker's Remuneration, the same should be indicated on the face of the policy.
- The percentage of special discount in lieu of Agency Commission/ Broker's Remuneration specified in item (c) above be applied on the final premium excluding service tax.
- For the purpose of evidence of paid up capital a copy of the latest Balance Sheet which is in public domain as per the requirements of the Companies Act, 1956 should be acceptable. In case of a balance sheet which is 2 years prior to the relevant year of placing insurance an auditor's certificate must be produced. In case of sole proprietorship and partnership firms a certificate from a Chartered Accountant to the client should be acceptable.

- e) In respect of branches in India of a foreign company reference should be drawn from the paid up capital of the company in the country in which it is incorporated and thereafter converting it into Indian Rupees.
- 4. The above orders come into effect from 1st April, 2005.
- 5. For Marine Hull Tariff business the existing scale of remuneration shall continue until further orders.
- 6. The Authority is examining the recommendations made by the Expert Committee on the other matters and shall take a final decision in due course of time.


(C. S. Rao) 22.2.05
Chairman