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Guidelines on Licensing of Corporate Agents

Introduction:

In order to spread awareness about insurance and to increase the coverage of a large section of population who have remained outside the pale of insurance coverage all these years, the Insurance Regulatory and Development Authority introduced a variety of intermediaries as "distribution" is key to insurance penetration. The Corporate Agent is a concept introduced with a view to taking advantage of the presence of a large number of firms, corporations, Banks, NGOs, cooperative societies and panchayats who are in contact with people in the normal discharge of their activities and utilize their presence and services for canvassing the sale of insurance contracts. Since insurance contracts are highly technical in nature, the Regulations issued by the Authority stipulated that the canvassing should be done only by "Specified Persons" engaged by the Corporate Agents and such specified persons should have the qualification prescribed by the Authority. In the case of corporate executives also, the Authority prescribed certain qualifications in order for the Corporate Agent to obtain a license.

Instances have, however, come to the notice of the Authority wherein Corporate Agents have resorted to use of introducers or finders or sub-agents who, in fact, sold the contracts and the Corporate Agent passed on varying levels of commission to them within the overall commission received from the Insurance Companies or by improperly charging to the public a higher premium than paid to the insurer and using the margin to pay the sales persons. The Authority had also noticed that a large number of Firms were floated by the same set of individuals under different or similar names and utilized the services of a large army of people who did not have the requisite qualifications to sell insurance products and paid remuneration for procuring the contracts.

In order to streamline the system of licensing of Corporate Agents, the Authority has, in addition to the Regulations already in force, decided to issue the following instructions under section 34 of Insurance Act, 1938 for compliance by the Insurance Companies while issuing the licenses to the Corporate Agents.

Authority competent to grant license:

The decision to engage any 'Person' as a Corporate Agent will be taken only in the Corporate Office of the Insurance Company and proceedings appointing the 'Person' as

Corporate Agent will be issued by an officer who will specially be designated by the Chief Executive Officer to issue such orders. The officer so designated shall maintain a list of Corporate Agents appointed by the Company and will be responsible for ensuring that the Corporate Agents comply with the Regulations and the circulars and instructions issued by the Authority from time to time. The officer will also communicate to the Authority the upto date list of Corporate Agents engaged by the Insurer on a half yearly basis. In this communication the officer should specially highlight the cancellation of licenses, if any, and give brief reasons leading to the cancellation.

Constitution of Corporate Agency

1. The applicant for Corporate Agency should normally be a company whose principal business should be other than distribution of insurance products. Insurance distribution should be a subsidiary activity. While selecting the Agent, stress should be placed on the availability of client base or access to data which would facilitate identification of prospects. The applicant could be any one of the entities indicated in sub regulation 2(k) of IRDA (Licensing of Corporate Agents) Regulations.
2. The Corporate Agent should canvass insurance products with the help of insurance professionals who satisfy the qualifications laid-down in the Regulations. They should not use any other modes like introducers, finders or sub-agents by whatever name they are called for procuring business.
3. In exceptional cases, grant of Corporate Agency for exclusively doing insurance intermediation can be considered by an insurer. In respect of such cases the Corporate Agent should be a Public Limited company with a minimum share capital of Rs.15 lakhs. The Capital should be kept in the form of a deposit in a Bank account to be utilized for setting up the office, or be invested in assets, subject to approval by the Insurer. No amount should be allowed to be given to any Director, shareholder any other entity as a loan or advance.
4. Such Companies created exclusively to canvass insurance business shall be set-up and owned by insurance professionals or its employees should be insurance professionals. Business will be transacted by only full time employees having required qualification as per regulations based on properly documented needs analysis process. The record of sales process should be available. These records should be available for inspection by the insurer and/or the IRDA, if required. Such an Agent can make use of the client data base from any organisation for which they can pay a fee not related to success or otherwise of the prospects becoming clients. The payment for client data plus Corporate Agency commission should be within the overall commission limit as per the Insurance Act.
5. As indicated in the second proviso to the Regulation 3(2) of the Licensing of Corporate Agents Regulations, ordinarily, only one license can be granted to one

group provided the group does not have any other insurance activity such as broker, insurer etc. Hence any application from a company for a Corporate agency licence where any member of the group is already engaged in insurance agency or brokerage or similar insurance activity, should be referred to IRDA for approval before a licence is issued. For this purpose, the applicant for a corporate agency licence should be required to make a solemn affirmation about any insurance related activities of any members of the group to which the applicant belongs. For this purpose, the members of a family, and shareholders holding a share of more than 10% in the share capital of the applicant company, shall be regarded as being in the same group.

6. The Application form for licence to act as a Corporate Agent shall be modified to enable verification of compliance with the above guidelines.

Organisation

7. The Chief Insurance Executive, the Designated Officer and other specified persons who will be employed by the applicant should be whole time employees of the applicant. At least one of the persons should have insurance qualification to the extent of FFII or AFII or such other qualification or experience that IRDA may, at its sole discretion, consider adequate.
8. Only whole time directors, partners or employees will be involved in supervising the sale of insurance. They should be sufficiently qualified to hold an agency licence in their own names. Those who would be actually selling the policies should obtain the certificate as specified person after undergoing practical training and examination as specified in the Regulations and then only they can be appointed as specified persons and be given the responsibility for soliciting and procuring insurance business on behalf of the corporate agent.
9. NGOs and SHGs who work as a corporate agent in the area of Micro-insurance may apply to IRDA and secure exemption from the requirement to maintain any specified shareholder fund. They will be guided by the provisions of Micro-insurance regulations as and when that is introduced.
10. If a corporate agent terminates its representation for an insurer, it should secure the specific written approval of IRDA before it can enter into an agency relationship with another insurer. IRDA may call for such information as necessary, including the observations of the insurer whose agency relationship is terminated, before deciding on such application.
11. Nothing contained in these guidelines shall take away the right of an insurer to cancel its agency agreement with a corporate agent in terms of its agency contract with it. Such termination of the agency agreement shall be reported immediately to IRDA by the insurer. In the event of such termination of agreement by the insurer, the corporate agent should secure the specific written

approval of IRDA before it can enter into an agency agreement with any other insurer.

Sales Organisation

12. All sales support material, such as prospectus, sales brochures, sales illustrations and publicity write up, shall be submitted to and approved before use by the insurer for which the agent is working. The insurer shall be responsible to organize specific training for the staff of the corporate agent related to its products that will be sold by the corporate agent.
13. Every paper and every statement put forth by the corporate agent, whether written or oral, shall clearly state the position of the agent as a corporate agent and state the name and address of the insurance company for which it is acting as agent.
14. The agent shall not make ambiguous statements that can mislead the public such as "In association with", "by arrangement with" or similar expressions that can mislead the lay reader into assuming that the agent is an insurer.
15. Where group insurance is sold through corporate agents the same should comply with the guidelines on group insurance.
16. Where insurance is sold as an ancillary product along with a product being sold by any of the major shareholders or their associates, the agent shall ensure that the shareholder or its associate does not compel the buyer of the other product to necessarily buy the insurance product through it. The insurer shall also not require the agent to insure every client with it. The buyer of the primary product shall have the liberty to choose his own insurer. Where the insured is charged for the insurance element of the product, the actual premium relating to the insurance shall be clearly disclosed and shall be no more than the amount paid to the insurer in respect of such insurance.
17. In the corporate agency system there shall be no sub-agents or "introducers" or "referral providers" or "lead generators" by whatever name called. Sale of insurance products shall only be done by persons qualified as "specified persons". This does not prevent other employees of a corporate agent's or its sister company's organization referring prospects to the specified person for sale of insurance products provided such a reference shall not be rewarded on the basis of success of sale.

Sales & Services administration

18. The agent shall not be given the discretion of underwriting the business. The agent may be permitted to confirm insurance cover only on the basis of very clear underwriting criteria provided by the insurer for whom the agent is acting.
19. The Name of the agent shall not appear on the certificate of insurance in a prominent manner that could mislead the buyer of insurance. The name and address of the insurer shall be the only name appearing at the head of the Certificate of Insurance. Where the agent is authorized by the insurer to issue the certificate of insurance based on underwriting criteria provided by the insurer, the name of the agent shall be clearly suffixed with the words "as agent for"
20. Unless the computer system used by the agent is directly linked to the insurer's computer system so that all particulars of the business transacted are automatically captured in the insurer's system, the agent shall provide to the insurer, a complete set of records in respect of the business sold by the agent, including completed proposal forms, copies of policies or certificates of insurance and a premium register with particulars of payment to the insurer, daily or at the most, on a weekly basis. Requirements of Section 64VB shall be fully complied with.
21. A corporate agent shall not charge an administration fee or service charge or any other charge to the policyholder insured through it. The corporate agent shall advise the policyholder the premium as quoted by the insurer, net of any group discount where applicable, without adding any margins to cover its costs. Likewise, the insurer shall not pay any amount other than the permitted agency commission, whether as administration charge or reimbursement of expenses or profit commission or in any other form to the corporate agent. This does not prevent the insurer from sharing expenses of co-branded sales literature with the corporate agent. Such expenses, however, should be reasonable and should not in any way be linked with the success in sale or premium earned by the corporate agent. The insurer shall not also enter into additional relationships with the corporate agent with payment of remuneration such as risk management fees or risk inspection charge or loss minimization expenses.
22. While the agent may be given the role of facilitating claims processing, the agent shall not be given authority to settle any claim.
23. Every corporate agent or corporate insurance executive or specified person shall be guided by code of conduct specified in Section 9 of IRDA (Licensing of Corporate Agents) Regulations, 2002.

Periodical Returns

24. Every corporate agent shall submit to the insurer monthly statistics of business transacted through it, in such forms as the insurer may specify from time to time.
25. Every corporate agent shall file with the insurer, its annual audited accounts together with such other statements in such forms as the insurer or IRDA may specify from time to time, within 6 months of the close of the financial year.
26. Every corporate agent shall furnish to the insurer and IRDA, such information in respect of the business transacted by it, in such form and within such time as may be specified by IRDA or by the insurer, as and when required.
27. Every insurer shall ensure continued compliance with the Regulations and these guidelines.

Applicability

These guidelines will apply to all new applications for corporate agency and to all renewals of existing corporate agency licences. It will be the responsibility of the Corporate DP of the Company to ensure that the corporate agent applying for the renewal of license satisfies all the requirements of the guidelines prescribed here. In case of non-compliance of the some of the guidelines the Corporate DP may recommend for renewal to IRDA, in which event IRDA may exercise discretion by allowing such period of time to achieve compliance with these guidelines. IRDA may also agree to issue the license subject to the corporate agent providing an undertaking not to canvass any new business, merely to enable the corporate agent to secure the benefit under Section 44 of the Insurance Act, 1938.

All Insurers and the Corporate Agents are requested to comply with the provisions of the guidelines.

C S Rao
14.7.05
(C.S. Rao)
Chairman