

## **Distribution channels in insurance**

An insurance cover is an intangible product evidenced by a written contract known as the 'policy'. Insurers market various insurance covers either directly or through various distribution channels—individual agents, corporate agents (including Bancassurance) and Brokers. The marketer in the distribution network is in direct interface with the prospect and the customer.

Life insurance products are sold through individual agents and many of them have this as their only career occupation. General insurance products are sold through individual agents, corporate agents and brokers.

Distribution channels such as agents are licensed by the IRDA. To get an agency licence, one has to have certain minimum qualifications; practical training in insurance subjects and pass an examination conducted by the Insurance Institute of India.

IRDA regulations on licensing of agents/brokers lay down the code of conduct for individual agents, corporate agents and brokers. A separate note on the code of conduct is appended to this note.

Thus it is seen that the dos and don'ts for these intermediaries are given clearly at the point of sale as well as in the event of a claim. Service does not end with the customer receiving his document; it in fact only begins here. After sales service is as important or even more important – like when a refund has to be made or when a claim has to be made.

One of the issues that is of great concern affecting professionalism in insurance activities is resorting rebating by intermediaries. Rebating is prohibited as per Section 41 of the Insurance Act, 1938 and the public are advised not to deal with intermediaries offering rebate of any kind.

Rebating means a share of commission receivable by the agent/broker is given to the prospect/client. This is done to attract the client in the purchase of insurance contract by offering cash. Competition among agents/brokers is so cut-throat, some agents indulge in such unethical practices. Public are advised not to ask for any prohibited rebates in premium since commission payment to an agent is the only income for some to take care of their families. Similarly, agents are also advised not to indulge in such practices which could cause them loss of agency income.

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## Code of Conduct for Intermediaries

### I. **INSURANCE AGENT**

#### **Every insurance agent shall,---**

- identify himself and the insurance company of whom he is an insurance agent;
- disclose his licence to the prospect on demand;
- disseminate the requisite information in respect of insurance products offered for sale by his insurer and take into account the needs of the prospect while recommending a specific insurance plan;
- disclose the scales of commission in respect of the insurance product offered for sale, if asked by the prospect;
- indicate the premium to be charged by the insurer for the insurance product offered for sale;
- explain to the prospect the nature of information required in the proposal form by the insurer, and also the importance of disclosure of material information in the purchase of an insurance contract;
- bring to the notice of the insurer any adverse habits or income inconsistency of the prospect, in the form of a report (called "Insurance Agent's Confidential Report") along with every proposal submitted to the insurer, and any material fact that may adversely affect the underwriting decision of the insurer as regards acceptance of the proposal, by making all reasonable enquiries about the prospect;
- inform promptly the prospect about the acceptance or rejection of the proposal by the insurer;
- obtain the requisite documents at the time of filing the proposal form with the insurer; and other documents subsequently asked for by the insurer for completion of the proposal;
- render necessary assistance to the policyholders or claimants or beneficiaries in complying with the requirements for settlement of claims by the insurer;
- advise every individual policyholder to effect nomination or assignment or change of address or exercise of options, as the case may be, and offer necessary assistance in this behalf, wherever necessary;

#### **No insurance agent shall,----**

- solicit or procure insurance business without holding a valid licence;
- induce the prospect to omit any material information in the proposal form;
- induce the prospect to submit wrong information in the proposal form or documents submitted to the insurer for acceptance of the proposal;
- behave in a discourteous manner with the prospect;
- interfere with any proposal introduced by any other insurance agent;

- offer different rates, advantages, terms and conditions other than those offered by his insurer;
- demand or receive a share of proceeds from the beneficiary under an insurance contract;
- force a policyholder to terminate the existing policy and to effect a new proposal from him within three years from the date of such termination;
- have, in case of a corporate agent, a portfolio of insurance business under which the premium is in excess of fifty percent of total premium procured, in any year, from one person (who is not an individual) or one organisation or one group of organisations;
- apply for fresh licence to act as an insurance agent, if his licence was earlier cancelled by the designated person, and a period of five years has not elapsed from the date of such cancellation;
- become or remain a director of any insurance company;

Every insurance agent shall, with a view to conserve the insurance business already procured through him, make every attempt to ensure remittance of the premiums by the policyholders within the stipulated time, by giving notice to the policyholder orally and in writing;

## II. CORPORATE AGENT

Every **Licensed Corporate Agent** shall abide by the code of conduct specified below:

Every corporate agent shall:

- a) be responsible for all acts of omission and commission of its corporate insurance executive and every specified person;
- b) ensure that the corporate insurance executive and all specified persons are properly trained, skilled and knowledgeable in the insurance products they market;
- c) ensure that the corporate insurance executive and the specified person do not make to the prospect any misrepresentation on policy benefits and returns available under the policy;
- d) ensure that no prospect is forced to buy an insurance product;
- e) give adequate pre-sales and post-sales advice to the insured in respect of the insurance product;
- f) extend all possible help and cooperation to an insured in completion of all formalities and documentation in the event of a claim;
- g) give due publicity to the fact that the corporate agent does not underwrite the risk or act as an insurer;
- h) enter into service level agreements with the insurer in which the duties and responsibilities of both are defined.

Every corporate agent or a corporate insurance executive or a specified person shall also follow the code of conduct specified below:

(i) Every corporate agent/ corporate insurance executive/ specified person shall,---

- (a) identify himself and the insurance company of whom he is a representative;
- (b) disclose his licence/ certificate to the prospect on demand;
- (c) disseminate the requisite information in respect of insurance products offered for sale by his insurer and take into account the needs of the prospect while recommending a specific insurance plan;
- (d) disclose the scales of commission in respect of the insurance product offered for sale, if asked by the prospect;
- (e) indicate the premium to be charged by the insurer for the insurance product offered for sale;
- (f) explain to the prospect the nature of information required in the proposal form by the insurer, and also the importance of disclosure of material information in the purchase of an insurance contract;
- (g) bring to the notice of the insurer any adverse habits or income inconsistency of the prospect, in the form of a report (called "Insurance Agent's Confidential Report") along with every proposal submitted to the insurer, and any material fact that may adversely affect the underwriting decision of the insurer as regards acceptance of the proposal, by making all reasonable enquiries about the prospect;
- (h) inform promptly the prospect about the acceptance or rejection of the proposal by the insurer;
- (i) obtain the requisite documents at the time of filing the proposal form with the insurer; and other documents subsequently asked for by the insurer for completion of the proposal;
- (j) render necessary assistance to the policyholders or claimants or beneficiaries in complying with the requirements for settlement of claims by the insurer;
- (k) advise every individual policyholder to effect nomination or assignment or change of address or exercise of options, as the case may be, and offer necessary assistance in this behalf, wherever necessary;

(ii) No corporate agent/ corporate insurance executive/ specified person shall,--

- (a) solicit or procure insurance business without holding a valid licence/ certificate;
- (b) induce the prospect to omit any material information in the proposal form;
- (c) induce the prospect to submit wrong information in the proposal form or documents submitted to the insurer for acceptance of the proposal;
- (d) behave in a discourteous manner with the prospect;
- (e) interfere with any proposal introduced by any other specified person or any insurance intermediary;

- (f) offer different rates, advantages, terms and conditions other than those offered by his insurer;
- (g) demand or receive a share of proceeds from the beneficiary under an insurance contract;
- (h) force a policyholder to terminate the existing policy and to effect a new proposal from him within three years from the date of such termination;
- (i) No corporate agent shall have a portfolio of insurance business from one person or one organization or one group of organizations under which the premium is in excess of fifty percent of total premium procured in any year;
- (j) apply for fresh licence to act as an insurance agent, if his licence was earlier cancelled by the designated person, and a period of five years has not elapsed from the date of such cancellation;
- (k) become or remain a director of any insurance company;

**(iii)** Every corporate agent shall, with a view to conserve the insurance business already procured through him, make every attempt to ensure remittance of the premiums by the policyholders within the stipulated time, by giving notice to the policyholder orally and in writing.

**(iv)** No director of a company or a partner of a firm or the chief executive or a corporate insurance executive or a specified person shall hold similar position with another corporate agent of any other insurance company.

### **III. INSURANCE BROKER**

Every **Insurance Broker** shall follow recognised standards of professional conduct and discharge his functions in the interest of the policyholders.

**Conduct in matters relating to clients relationship**— Every insurance broker shall:

conduct its dealings with clients with utmost good faith and integrity at all times;

- act with care and diligence;
- ensure that the client understands his relationship with the broker and on whose behalf the broker is acting;
- treat all information supplied by the prospective clients as completely confidential to themselves and to the insurer(s) to which the business is being offered;
- take appropriate steps to maintain the security of confidential documents in their possession;
- hold specific authority of client to develop terms;
- understand the type of client it is dealing with and the extent of the client's awareness of risk and insurance;
- obtain written mandate from client to represent the client to the insurer and communicate the grant of a cover to the client after effecting insurance;

- obtain written mandate from client to represent the client to the insurer/ reinsurer; and confirm cover to the insurer after effecting re-insurance, and submit relevant reinsurance acceptance and placement slips;
- avoid conflict of interest.

**Conduct in matters relating to Sales practices**— Every insurance Broker shall:

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- (a) confirm that it is a member of the Insurance Brokers Association of India or such a body of brokers as approved by the Authority which has a memorandum of understanding with the Authority;
- (b) confirm that he does not employ agents or canvassers to bring in business;
- (c) identify itself and explain as soon as possible the degree of choice in the products that are on offer;
- (d) ensure that the client understands the type of service it can offer;
- (e) ensure that the policy proposed is suitable to the needs of the prospective client;
- (f) give advice only on those matters in which it is knowledgeable and seek or recommend other specialist for advice when necessary;
- (g) not make inaccurate or unfair criticisms of any insurer or any member of the Insurance Brokers Association of India or member of such body of brokers as approved by the Authority;
- (h) explain why a policy or policies are proposed and provide comparisons in terms of price, cover or service where there is a choice of products;
- (i) state the period of cover for which the quotation remains valid if the proposed cover is not effected immediately;
- (j) explain when and how the premium is payable and how such premium is to be collected, where another party is financing all or part of the premium, full details shall be given to the client including any obligations that the client may owe to that party; and
- (k) explain the procedures to follow in the event of a loss.

**Conduct in relation to furnishing of information** — Every insurance broker shall: —

- (a) ensure that the consequences of non-disclosure and inaccuracies are pointed out to the prospective client;
- (b) avoid influencing the prospective client and make it clear that all the answers or statements given are the latter's -own responsibility. Ask the client to carefully check details of information given in the documents and request the client to make true, fair and complete disclosure where it believes that the client has not done so and in case further disclosure is not forthcoming it should consider declining to act further;
- (c) explain to the client the importance of disclosing all subsequent changes that might affect the insurance throughout the duration of the policy; and
- (d) disclose on behalf of its client all material facts within its knowledge and give a fair presentation of the risk.

**Conduct in relation to explanation of insurance contract** — Every insurance broker shall:

- (a) provide the list of insurer(s) participating under the insurance contract and advise any subsequent changes thereafter;
- (b) explain all the essential provisions of the cover afforded by the policy recommended by him so that, as far as possible, the prospective client understands what is being purchased;
- (c) quote terms exactly as provided by insurer;
- (d) draw attention to any warranty imposed under the policy, major or unusual restrictions, exclusions under the policy and explain how the contract may be cancelled;
- (e) provide the client with prompt written confirmation that insurance has been effected. If the final policy wording is not included with this confirmation, the same shall be forwarded as soon as possible;
- (f) notify changes to the terms and conditions of any insurance contract and give reasonable notice before any changes take effect;
- (g) advise its clients of any insurance proposed on their behalf which will be effected with an insurer outside India, where permitted, and, if appropriate, of the possible risks involved; and

**Conduct in relation to renewal of policies** — Every insurance broker shall:—

- (a) ensure that its client is aware of the expiry date of the insurance even if it chooses not to offer further cover to the client;
- (b) ensure that renewal notices contain a warning about the duty of disclosure including the necessity to advise changes affecting the policy, which have occurred since the policy inception or the last renewal date;
- (c) ensure that renewal notices contain a requirement for keeping a record (including copies of letters) of all information supplied to the insurer for the purpose of renewal of the contract;
- (d) ensure that the client receives the insurer's renewal invitation well in time before the expiry date.

**Conduct in relation to claim by client**— Every insurance broker shall: —

- (a) explain to its clients their obligation to notify claims promptly and to disclose all material facts and advise subsequent developments as soon as possible;
- (b) request the client to make true, fair and complete disclosure where it believes that the client has not done so. If further disclosure is not forthcoming it shall consider declining to act further for the client;
- (c) give prompt advice to the client of any requirements concerning the claim;
- (d) forward any information received from the client regarding a claim or an incident that may give rise to a claim without delay, and in any event within three working days;
- (e) advise the client without delay of the insurer's decision or otherwise of a claim; and give all reasonable assistance to the client in pursuing his claim.  
Provided that the insurance broker shall not take up recovery assignment on a policy contract which has not been serviced through him or should not work as a claims consultant for a policy which has not been serviced through him.

**Conduct in relation to receipt of complaints** — Every insurance broker shall:—

- (a) ensure that letters of instruction, policies and renewal documents contain details of complaints handling procedures;
- (b) accept complaints either by phone or in writing;
- (c) acknowledge a complaint within fourteen days from the receipt of correspondence, advise the member of staff who will be dealing with the complaint and the timetable for dealing with it;
- (d) ensure that response letters are sent and inform the complainant of what he may do if he is unhappy with the response;
- (e) ensure that complaints are dealt with at a suitably senior level;
- (f) have in place a system for recording and monitoring complaints.

**Conduct in relation to documentation** — Every insurance broker shall:—

- (a) ensure that any documents issued comply with all statutory or regulatory requirements from time to time in force;
- (b) send policy documentation without avoidable delay,
- (c) make available, with policy documentation, advice that the documentation shall be read carefully and retained by the client;
- (d) not withhold documentation from its clients without their consent, unless adequate and justifiable reasons are disclosed in writing and without delay to the client. Where documentation is withheld, the client must still receive full details of the insurance contract;
- (e) acknowledge receipt of all monies received in connection with an insurance policy;
- (f) ensure that their reply is sent promptly or use its best endeavours to obtain a prompt reply to all correspondence;
- (g) ensure that all written terms and conditions are fair in substance and set out, clearly and in plain language, client's rights and responsibilities; and
- (h) subject to the payment of any monies owed to it, make available to any new insurance broker instructed by the client all documentation to which the client is entitled and which is necessary for the new insurance broker to act on behalf of the client.

**Conduct in matters relating to advertising** — Every insurance broker shall conform to the relevant provisions of the Insurance Regulatory and Development Authority (Insurance Advertisements and Disclosure) Regulations, 2000, and :—

- (a) ensure that statements made are not misleading or extravagant;
- (b) where appropriate, distinguish between contractual benefits which the insurance policy is bound to provide and non-contractual benefits which may be provided;
- (c) ensure that advertisements shall not be restricted to the policies of one insurer, except where the reasons for such restriction are fully explained with the prior approval of that insurer;
- (d) ensure that advertisements contain nothing which is in breach of the law nor omit anything which the law requires;
- (e) ensure that advertisement does not encourage or condone defiance or breach of the law;
- (f) ensure that advertisements contain nothing which is likely, in the light of generally prevailing standards of decency and propriety, to cause grave or widespread offence or to cause disharmony;

- (g) ensure that advertisements are not so framed as to abuse the trust of clients or exploit their lack of experience or knowledge;
- (h) ensure that all descriptions, claims and comparisons, which relate to matters of objectively ascertainable fact shall be capable of substantiation.

**Conduct in matters relating receipt of remuneration**— Every insurance broker shall:—

- (a) disclose whether in addition to the remuneration prescribed under these regulations, he proposes to charge the client, and if so in what manner;
- (b) advise the client in writing of the insurance premium and any fees or charges separately and the purpose of any related services;
- (c) if requested by a client, disclose the amount of remuneration or other remuneration it receives as a result of effecting insurance for that client. This will include any payment received as a result of securing on behalf of the client any service additional to the arrangement of the contract of insurance; and
- (d) advise its clients, prior to effecting the insurance, of their intention to make any deductions from the amount of claim collected for a client, where this is a recognised practice for the type of insurance concerned.

**Conduct in relation to matters relating to training** — Every insurance broker shall:

- (a) that its staff are aware of and adhere to the standards expected of them by this code;
- (b) ensure that staff are competent, suitable and have been given adequate training;
- (c) ensure that there is a system in place to monitor the quality of advice given by its staff;
- (d) ensure that members of staff are aware of legal requirements including the law of agency affecting their activities; and only handle classes of business in which they are competent;
- (e) draw the attention of the client to Section 41 of the Act, which prohibits rebating and sharing of commission.

Every insurance broker shall display in every office where it is carrying on business and to which the public have access a notice to the effect that a copy of the code of conduct is available upon request and that if a member of the public wishes to make a complaint or requires the assistance of the Authority in resolving a dispute, he may write to the Authority.

An insurance broker as defined in these regulations shall not act as an insurance agent of any insurer under section 42 of the Act.

Every insurance broker shall abide by the provisions of the Insurance Act, 1938 (4 of 1938), Insurance Regulatory And Development Authority Act 1999(41 of 1999), rules and regulations made there under which may be applicable and relevant to the activities carried on by them as insurance brokers.