

Insurance & Reinsurance - India

Draft regulations attempt to streamline premium aggregation industry

Contributed by **Tuli & Co**

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Insurance in India has traditionally been sold through an agency force. However, over the past few years, distance marketing of insurance products has grown. A number of Indian insurers have recently launched online sales portals and developed products oriented towards online sales.

The premium aggregation industry has also been growing over the last few years. Following the privatisation of the Indian insurance industry and the establishment of the Insurance Regulatory and Development Authority (IRDA), regulations and guidelines were issued to govern insurance brokers, corporate agents, insurance agents, third-party administrators and insurance surveyors and loss assessors. However, until 2011, premium aggregators were unregulated by the IRDA. During this period, a number of premium comparison and premium aggregation websites operated in India and levied payments on a varying basis, but it was unclear whether charging for premium comparison or aggregation was permitted, and if so, to what extent.

In November 2011 the IRDA issued its Guidelines on Web Aggregators, which made clear that only those entities that were registered with the IRDA as web aggregators could carry out premium aggregation activities. The guidelines also imposed further restrictions on the scope and ambit of these activities and the payments that could be received for the same. The guidelines met a mixed response from the industry, and while a few entities applied to the IRDA to be licensed, requests for the amendment of various aspects of the guidelines continued to be made.

The IRDA recently published an exposure draft for its Web Aggregators Regulations 2013. The draft regulations suggest several important changes that, if implemented, could widely affect the entities presently licensed as web aggregators, as well as those planning to apply for a licence. The proposed changes include:

- capping the fee for comparison charts displayed on a web aggregator's website at Rs50,000 a year, cutting the amount allowed to be paid by 50%;
- prohibiting insurers from paying for leads (insurers were previously permitted to pay Rs10 for each lead);
- prohibiting web aggregators from having multiple websites to sell insurance;
- prohibiting web aggregators from selling any product other than insurance or displaying any information on products or services of other financial institutions or any other company on their website;
- prohibiting web aggregators from displaying ratings, rankings, endorsements or bestseller notices of insurance products on their websites;
- requiring web aggregators to maintain professional indemnity insurance;
- permitting web aggregators to have agreements only with insurers (web aggregators were previously permitted to also have agreements with insurance brokers); and
- permitting web aggregators to undertake telemarketing services and some specified outsourced services.

In the context of the suggested changes, the market reaction to the draft regulations has been largely negative. While a few of the changes (eg, allowing web aggregators to carry out telemarketing and outsourcing services) have been positively received, the draft regulations have largely been viewed as imposing greater restrictions on a segment of the industry that was already operating with limited functionality.

Furthermore, if the draft regulations are implemented in their present form, foreign investment limits for web aggregators would be capped at 26%. This clarification is bound to create significant issues for web aggregators that have been registered with the IRDA since November 2011 with foreign investment in excess of 26%.

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Overall, it appears that if the draft regulations are implemented as they stand, potential investors may consider revising their business plans or withdrawing from this segment of the insurance industry.

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