Efficacy of the 'Insurance Marketing Firm' Channel

A Report by

NATIONAL INSURANCE ACADEMY

Pune

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EXECUTIVE SUMMARY

Background:

The Insurance Regulatory and Development Authority of India (IRDAI), had in 2007, constituted a committee under the chairmanship of Mr. N. M. Govardhan, former Chairman of Life Insurance Corporation of India and Member, Interim Insurance Regulatory Authority, Government of India, to advise the Regulator on the changes necessary to make the then existing distribution channels effective, professional and accountable and to facilitate provision of services all over the country in a cost effective manner. In an exhaustive report submitted in May 2008, the Committee expressed its concern over the low penetration of General Insurance in India and provided various recommendations for strengthening the channels. Regarding multiple tie-ups of Corporate Agent with the Insurers, the Committee recommended to consider a model akin to 'Independent Financial Advisors (IFAs)', in future.

In the Global context, **'Independent Financial Advisors (IFAs)'** are the qualified professionals who work for their clients to offer independent advice on financial matters and recommend suitable financial products from the whole of the market. In the Indian context, IFAs are the individuals whose primary role is to advise their clients regarding investment in Mutual Funds and other financial products like – Insurance, Small savings etc. and typically, the IFAs have an area-specific, relationship based business model.

In 2014, the IRDAI examined the idea of a distribution model akin to IFAs and to increase insurance penetration in India. It came up with **'Registration of Insurance Marketing Firm Regulations, 2015'** on 21st January 2015. The Regulations allowed a Company, LLP, or a Co-operative society with a Net worth of Rs. 10 lakh or more to undertake distribution of Insurance products by registering itself with the authority as an 'IMF', provided it fulfils the criteria mentioned in the Regulations. To improve Insurance penetration in every stratum of society, district-wise registration approach was prescribed for the IMF. An IMF has been authorized to sell specified Insurance products of maximum two Life Insurers, two General Insurers and two Health Insurers through its 'Insurance Sales Persons (ISPs)'. It can also undertake Servicing activities for those Insurers. An IMF can also distribute financial products regulated by other Regulators through its authorised and trained 'Financial Service Executives (FSEs)'.

Objectives of the Research Project:

An IMF can sell all individual/retail Insurance products, but for commercial lines, its business pitch has been restricted to MSMEs. The unique distribution platform of IMF has been endowed with variety of Insurance products as well as financial products to encourage cross-selling. The facility of taking up servicing activities for Insurers has provided a source of income and business leads to an IMF. The novel business opportunity of 'IMF', associated with low Net Worth requirement, was intended to attract many entrepreneurial minds from all the districts of India to take up IMF business. The ability and focus of the IMF model to penetrate into rural India leveraging cross-selling and relationship building, was intended to invite all the Insurers to expand their reach of business and servicing activities. When envisaged, the IMF channel was expected to spread rapidly in all parts of the country and provide substantial contribution in Insurance business.

In fact, during the last 5 years, 332 IMFs have been registered covering only 94 districts out of 718 districts in India. The IRDAI Report shows that in F.Y. 2018-19, the IMFs have procured total 27,998 policies from all the three segments of insurance bringing in total new business premium of Rs. 37.95 Cr and a Renewal premium of 28.04 Cr. The not so encouraging performance of the much talked about 'IMF channel' has created a wave of surprise in the Industry and has led the Academy to take up a Research Project to understand what exactly ails the privileged channel and to find ways to improve the spread and growth of the channel. Subsequently, the Insurance Regulator also advised NIA to expedite the project work.

The following are the Objectives of the Research Project:

1) **To critically examine the structure of the IMF from the viability perspective.**
2) **To understand the difficulties faced by the IMFs as well as the Insurers during the process of doing the business**
3) **To provide recommendations for improving efficiency & attractiveness of IMF channel.**

Research Methodology:

As a first step, to get a thorough idea of 'IMF set up' and its 'spread and performance', the Academy went through the **Secondary data** available on website and various reports of the

IRDAI. During the course of the study, we referred to various Regulations, Guidelines and Public Disclosures and also visited websites of the Insurers and various Financial Regulators.

For **Primary data** collection, we visited an IMF in Pune to have a better idea of the setup of the IMF and documentations involved in the entire process of setting up an IMF. We had in-depth telephonic interviews of the Principal Officers of 5 IMFs from various parts of India to understand their views and the difficulties faced by each of them. Based on these discussions, we prepared an exhaustive questionnaire and sent it to 70 IMFs all over India. We also had detailed discussions with officials of Insurance Companies to understand their views, policies and areas of concern to the insurers.

The analysis of Secondary data and the interactions with the officials of IMFs & the Insurers helped us to get a clear picture of the challenges faced by the channel:-

1) The number of IMFs registered during 5 years from inception is very low (332)

An IMF is the result of a tie-up between an Insurer and a business entity, and hence, the IMFs would grow in number only with the awareness about and acceptance of 'the IMF concept' by **both the parties** – the Insurance Companies and the business entities.

Though a few Insurers have taken conscious efforts to build their fleet of IMFs, many Insurers are not inclined to welcome an IMF as their Distribution and Servicing partner.

Currently, the IMF does not seem to be an attractive channel for the business entities also. Though the IMF Regulations permit so, at present, the IMFs are not working as 'Approved Person' for 'Insurance Repositories' and they are not engaged in servicing activities for the Insurers. The IMFs are not able to earn/do not earn any income from these permitted activities. The IMFs are not able to earn any service charges for the services rendered by their FSEs. Also, the IMFs are not appointing FSEs for various reasons. The IMFs are not taking advantage of cross-selling of products and are not getting any business leads from the servicing activities. Hence, in the present situation, the remuneration and reimbursement from the Insurers is the only source of income for the IMFs. In other words, the financial viability of the present IMFs depends solely on their expertise in the sale of Insurance.

Ultimately, the quality and number of 'Insurance Sales Persons (ISPs)' of an IMF and the ability of an IMF to retain its productive ISPs, has a great role in the sustainability of the IMF. The arrangement of fixed pay to an ISP as per the minimum wages of the land, has its disadvantages. 'Insurance' still being a 'Push Product' in India, the sale of Insurance requires a great skill. For a beginner IMF, it may require a long time and great struggle to understand the Insurance market and attain a comfort level. Hence, because of the present limitations and peculiarities of the IMF business, it does not seem lucrative to the other business entities. To the existing experienced Insurance Agents, the IMF Regulations compel to resign from their Agency appointments before they join IMF. The deserving agents, especially from the Life Insurance side, do not come forward to join IMF for the fear of losing their years long Renewal commission.

Thus, it can be presumed that the IMF channel is not supported by the Insurers and it is also not attracting the business entities and entrepreneurial minds with the result that the IMFs are not growing in numbers.

2) The percentage of 'IMFs Registered' to 'NOCs issued' is low:

Every year, near about 20% of the entities that obtain NOC, turn up to get registered as IMFs. It is reported that the technical problems and delay in issuance of NOC for IMFs is one of the reasons for the prospective IMFs not turning up for Registration.

3) IMFs are present only in 94 districts and concentrated in Tier-I cities

An IMF can log-in its business only with the office of Insurer within the district opted by that IMF. Hence, an IMF gets formed only in a district which has the office of the Insurer and who is willing to have tie-up with the IMF. The offices of the Insurers are not distributed equitably in all the districts. Further, there is no presence of Insurers in some districts and, therefore, there are no IMFs in those districts. At the same time, not all Insurers have embraced IMF for their distribution. The lack of awareness and non-acceptance of IMF concept amongst prospective entities, regulatory condition of inclusion of Aspirational District while expansion are also some of the reasons that is found to hinder geographical spread of the IMF channel. In large cities, the IMF model may be working as an opportunity to sell Insurance products of multiple companies with limited net worth, but the original focus of the IMF channel to penetrate into rural area with relationship building and cross-selling has been lost probably because of lack of awareness and some inherent limitations of the IMF model.

The discussions we had with the Insurers and the IMFs and the analysis of responses received from some of the IMFs, has brought to light a few ***Areas of concern*** for them as given below:

1. The process to get an NOC from the IRDAI takes a long time and is not user-friendly
2. The process of Registration of an IMF with the IRDAI has become difficult for the IMFs because of lack of awareness of tie-up procedure at Insurer level
3. The present limit on the maximum number of tie-ups with the Insurers restricts the product basket of IMFs and affects their business opportunity and retention of ISPs.
4. The Change of tie-ups with the Insurers is difficult for IMFs because the agreement with some Insurers has no mention of 'exit clause' and the allied arrangements.
5. Expansion of Geographical Area of operation for an IMF to other two districts has become difficult because of the condition of inclusion of Aspirational District.
6. The Fixed Pay equivalent to 'Minimum wages' to ISPs increases the financial burden on IMFs at the early stages and affects the appointment of more number of ISPs and the productivity of the IMFs.
7. The Remuneration to IMFs by the Insurers is not at par with other intermediaries. Also, as per the Regulations, the General Insurers and the Health Insurers are not required to reimburse the expenses on ISPs to IMFs
8. The servicing activities for the Insurers are not being allowed to be undertaken by the IMFs.
9. There is confusion about appointment of FSEs and selling of other Financial Products and the IMFs do not get suitable persons willing to be associated with an IMF

After thoroughly examining the challenges and the areas of concern, the discussions with the Stakeholders and experts, the Academy has arrived at the following

Suggestions/ Recommendations:

Part I – To improve the financial viability and sustainability of an IMF:

1) Ensure continuity of Agency benefits to the Insurance Agents who desire to become an IMF. This would motivate the experienced and entrepreneurial Insurance Agents to embrace the IMF idea, to supervise and lead the IMFs to realize their potential for business and spread in true sense.

2) Increase the permissible number of tie-ups to 'three Insurers' in each segment of Insurance and provide scope for specialization in 'Insurance Segment of Choice' by increasing permissible number of tie-ups in that segment

3) Redefine the regulatory relationship between an IMF and an ISP so as to modify the Pay structure of ISPs to 'Variable pay' which depends on criteria like volume and quality of business secured by the ISP. This would motivate the IMFs to appoint more number of ISPs all over the district and it would also improve productivity of the ISPs.

4) Encourage the insurers to welcome IMFs as their distribution partners and provide the IMFs competitive remuneration rates for mutual benefits

5) Provide for 'Reimbursement of expenses on ISPs' to IMFs from all the Insurers – Life, General and Health. The rate and structure of the reimbursement need to have a rational relationship with the business parameters of the IMF

6) Create awareness, clarity and willingness amongst both – the Insurers and the IMFs regarding outsourcing of servicing activities of Insurers. This would help the IMFs to earn income, get business leads and it would also enhance the Servicing horizon of an Insurer in a cost-effective manner

7) Discuss with the other financial Regulators regarding the practicability and design of suitable models for distribution of other financial products by IMFs and create awareness amongst the IMFs about the cross-selling of products

Part II – To increase Geographical spread and penetration of the IMFs:

1) Ensure acceptance of, and support to, the IMF channel by the Insurance Companies as the channel can take roots and progress ***only if*** it is welcomed by the Insurers. The high number of tie-ups by a few Insurers indicates the value of the channel. The need is to enhance the value and clear the clouds to make the channel acceptable by Insurers

2) Provide for additional incentive to IMFs for bringing business from deprived areas

3) Re-examine the Regulatory condition of inclusion of 'Aspirational District' for expansion of an IMF, as it is impracticable for the IMFs and it hinders their spread

Part III – Support from the Insurance Regulator:

1) Standardize the IMF related Processes and Documents

2) Up-grade the IMF Portal to make it user-friendly and in sync with digital innovations

3) Strengthen the Department of IMF of the IRDAI, to boost the IMF channel

Conclusion:

Complementary blending of variety of products and servicing activities for the ultimate penetration of Insurance into all parts of India, is the essence of 'the IMF Model'. The two wings of the IMF – 'Insurance products and Servicing' & 'other financial products' – are to be filled with new energy. The intended focus of the channel is to be sharpened with incentives and then … as the IMF channel is boosted with awareness and support from all the Stakeholders … no doubt, it would take off and reach new heights, as was designed!

CONTENTS

ANNEXURES

LIST OF ABBREVIATIONS

1.	AIC	Agriculture Insurance Company of India Ltd.
2.	AMC	Asset Management Company
3.	AMFI	Association of Mutual Funds in India
4.	AML	Anti-Money Laundering
5.	AP	Approved Person
6.	CAMS	Computer Age Management Services
7.	CEO	Chief Executive Officer
8.	CFP	Certified Financial Planner
9.	DSA	Direct Sales Agent
10.	ECGC	Export Credit Guarantee Corporation of India Ltd.
11.	eIA	e-Insurance Account
12.	F.Y.	Financial Year
13.	FAQ	Frequently Asked Questions
14.	FCA	Financial Conduct Authority
15.	FSE	Financial Services Executive
16.	GSLI	Group Savings Linked Insurance
17.	IA	Investment Advisor
18.	IFA	Independent Financial Advisor
19.	IMF	Insurance Marketing Firm
20.	IR	Insurance Repository
21.	IRDAI	Insurance Regulatory and Development Authority of India
22.	ISP	Insurance Sales Person
23.	KVP	Kisan Vikas Patra
24.	KYC	Know Your Customer
25.	LIC of India	Life Insurance Corporation of India
26.	LLP	Limited Liability Partnership
27.	MCA	Ministry of Corporate Affairs
28.	MIS	Monthly Income Scheme
29.	MSME	Micro, Small and Medium Enterprises
30.	NBFC	Non-Banking Financial Corporation
31.	NCT	National Capital Territory
32.	NIA	National Insurance Academy
33.	NISM	National Institute of Securities Markets
34.	NITI Aayog	National Institution for Transforming India
35.	NOC	No Objection Certificate
36.	NSC	National Savings Certificate
37.	NSDL	National Securities Depository Limited
38.	PAN	Permanent Account Number
39.	PFRDA	Pension Fund Regulatory & Development Authority
40.	PMFBY	Pradhan Mantri Fasal Bima Yojana
41.	PO	Principal Officer
42.	RA	Retirement Advisor
43.	RBI	Reserve Bank of India
44.	RIA	Registered Investment Advisor
45.	ROC	Registrar of Companies
46.	SAHI	Stand Alone Health Insurer
47.	SAS	Standardized Agency System
48.	SEBI	Securities and Exchange Board of India
49.	UT	Union Territory

CHAPTER 1

Objectives of the Research Project

The Insurance Regulatory and Development Authority of India (IRDAI) introduced a new distribution channel 'Insurance Marketing Firm' (IMF) in January 2015. The main objective was to create a distribution channel to increase the penetration of insurance in the country. The channel has been equipped with unique features like district-wise registration, the scope for tie-ups with multiple Insurers, and facility to market products of different financial institutions under the other financial market regulators.

The Industry has been closely watching the performance of this channel. Over the past 2-3 years, there have been discussions that the business growth, as well as the geographical spread of the IMF channel, is not as per the initial expectations. A few IMFs have exited as well.

The concern about the Insurance ecosystem prompted National Insurance Academy (NIA) to undertake a research project to study the efficacy of the channel and to understand and analyze the factors that have been hindering the performance of the channel.

Subsequently, the Insurance Regulator also advised NIA to expedite the work on this project.

The following are the Objectives of the Research Project:

1) **To critically examine the structure of the IMF from the viability perspective.**
2) **To understand the difficulties faced by the IMFs while doing business.**
3) **To come up with recommendations for improving the efficiency & attractiveness of the IMF channel.**

Research Methodology

The study involved the collection of both secondary and primary data.

Secondary Data Collection:

As a first step, we took an extensive review of literature available on the subject that included:

1) Data and reports that are available on the IRDAI website, various Regulations, Guidelines, Public disclosures, and Handbooks relevant to the study.
2) Websites of all Indian Insurers

3) Websites of other financial market regulators like Reserve Bank of Indian (RBI), Securities and Exchange Board of India (SEBI), Pension Fund Regulatory and Development Authority (PFRDA), Indian Post, and websites of other important institutions like National Securities Depository Limited (NSDL), National Institute of Securities Markets (NISM), etc.

This exhaustive exercise gave us a thorough idea of the setup of the IMF, details like the spread of the IMFs over the years, tie-up details of the IMFs, and opinions of experts about the IMF channel. We have also analysed the Business Performance of the channel over the last 4 years.

Primary Data Collection:

In the next step, we visited the office of an Insurance Marketing Firm in Pune to understand what an IMF stands for, it's physical setup, the process of documentation, and collected all relevant information.

Next, we had in-depth telephonic interviews of the Principal Officers of five IMFs from Pune, Nagpur, Ghaziabad, Mohali, and North-West Delhi to understand their views and the problems they encountered in their work sphere. Based on these discussions, we created an exhaustive questionnaire and it was sent out to seventy IMFs all over India. Twelve IMFs provided their responses and suggestions.

To understand the views and the experiences of the Insurers with the IMF channel, the project team met the officials of select insurance companies responsible for the development and nurturing of the IMF channel in their respective companies. The team held detailed discussions on matters like - procedure and criteria for payment of remuneration/reimbursement to IMFs, problems faced during the formation of IMFs and their tie-up procedures, etc. The team also mailed a structured questionnaire to concerned officials of all the Life, General, and Health Insurers to elicit their views and suggestions regarding the performance of the channel. However, the team received a detailed report regarding difficulties faced by the IMFs only from one Insurance Company. The team learnt that this company organized a special meeting of the IMFs and prepared the report after discussions. Many insurance companies sent brief responses to the questionnaire while a large number of insurers did not respond.

Subsequently, on 7th January 2020, NIA conducted a Meeting of the representatives of a select IMFs based in and around Pune. In all, representatives of eight IMFs participated in the meeting. The team discussed in detail the difficulties and constraints faced by the IMFs. They also provided suggestions for the growth of the IMF channel. The analysis of the secondary data and the information gathered directly from various stakeholders helped us to critically examine the 'IMF Set up'. We at NIA discussed with many industry experts to obtain an academic insight into 'the IMF Concept'.

With this, the study has taken the form of a 'Research Report'. The following pages unfold the 'IMF Set up' and some recommendations for various Stakeholders.

CHAPTER 2

Background of The Distribution Channel 'Insurance Marketing Firm'

2.1. Report of Govardhan Committee on 'Distribution Channels':

The Insurance Industry in India was opened to private insurance companies in August 2000 after IRDAI was incorporated as a statutory body in April 2000 to regulate and develop the Insurance Industry in India. To spread the message of insurance and to increase the insurance penetration in the country, IRDAI enlarged the scope of the intermediary's structure from the traditional tied individual agents to Brokers, Corporate Agents, Bancassurance model, Micro Insurance agents, Direct Sales, and Referral system. The Insurers also adopted Computer Points at convenient locations to assist on-line purchase/sale of insurance products.

In 2007, IRDAI felt the need to study how these channels were functioning and to ascertain their efficacy, their cost-effectiveness, and their weaknesses. On 21st September 2007, the Regulator constituted a ten-member committee of representatives from Life and Non-Life Insurance companies under the Chairmanship of Sri. N. M. Govardhan, the former Chairman of Life Insurance Corporation of India (LIC of India). The committee undertook a study to provide recommendations on the changes necessary to make the distribution channels effective, professional, and accountable while serving the interests of the insured and to facilitate the provision of services all over the country, cost-effectively even for the low priced insurance products. Based on the "Terms of Reference" the committee identified and examined many issues concerning the Insurance sector.

On 13th May 2008, the Govardhan Committee submitted its exhaustive Report on 'Distribution Channels'. The report consisted of the recommendations, their rationale, and the changes required in any Act, Regulations, or IRDAI Guidelines. In the Report, along with other issues, the committee devoted a separate chapter for 'General Insurance Coverage'.

While expressing its concern about penetration of General insurance in India, the Committee had observed:

"The General Insurance penetration in India is among the lowest in the world (0.6%)… It is also the lowest amongst the various financial services product categories in India and has remained largely stagnant over the last ten years…The low penetration in general insurance is primarily on account of low penetration in retail insurance products…Low ticket size and yearly contracts result in lower yield per policy for intermediaries, resulting in General insurance being an unattractive career option. Hence, there are few dedicated intermediary channels for General Insurance products… With the on-going efforts to get rural India financially included, there is a large opportunity to tap the semi-urban and rural markets for General Insurance. In this context, to increase penetration, there is a need to review the current distribution structure for retail insurance products…"

With the intent of increasing penetration of General Insurance, the Committee observed –"Bring General Insurance to the doorstep of the customer… In addition to developing existing insurance channels, get other existing retail distribution infrastructure to sell General Insurance… Make General Insurance an attractive career option for individuals to pursue…"

In the recommendations specific for General Insurance Intermediaries the Committee opined-"…Retail insurance agent is a new concept to sell personal lines. The committee feels that this would increase the penetration of General Insurance retail products. In order to provide a comprehensive product range to the consumer with comparison across products, it is proposed that the Retail Insurance agents be allowed to contract with multiple insurance companies…"

Regarding multiple tie-ups of a Corporate Agent with Insurers, the Committee mentioned that it was not appropriate at that point in time; but, a model akin to 'Independent Financial Advisors' may be considered in the future.

2.2. Information on Independent Financial Adviser

In the global context, 'Independent Financial Advisers (IFAs)' are the professionals who work independently and offer advice to their clients on financial matters and recommend suitable financial products from the whole of the market. IFAs do not represent any particular Insurance Company, Bank, or Financial Product Provider and they do not receive any commission from such companies. IFAs get fees from their clients for the advice they provide.

The term IFA is said to have originated in the United Kingdom (UK) in 1988 when the Government introduced "the Polarization Regime" which forced the financial advisers either to get tied with a single Insurer/ Product Provider or to be an Independent Practitioner. Thereafter, in the UK, to offer independent financial advice as an IFA, an individual must be an appointed representative of a firm registered with the Regulator - Financial Conduct Authority (FCA). The FCA requires such firms to ensure that the individuals acting as IFAs, meet strict qualification and competence requirements. The appropriate qualifications are determined by the 'Financial Services Skills Council' at the behest of the FCA.

An IFA generally conducts a detailed survey of the client's financial position, preferences, and objectives; this is sometimes known as 'fact find'. The adviser then recommends appropriate action plan to meet the client's objectives, and if necessary recommends suitable financial products to match the client's needs. Individuals and businesses consult IFAs on many matters including Investment, Retirement Planning, Insurance protection, and Mortgages, or other loans. IFAs also advise on some Tax and Legal matters.

On the lines similar to "Independent Financial Adviser" in the UK, the SEBI introduced the "Registered Investment Advisor (RIA) Regulations, 2013" in India. As per these Regulations, no person in India shall act as an 'Investment Adviser' unless he has obtained a certificate of registration as RIA from SEBI.

An individual, partnership firm, body corporate, or a company can apply for registration as Investment Adviser. An individual who has completed his post-graduation in finance-related topics or who has completed graduation in any discipline and has 5 years' experience in the financial sector, can pass two examinations conducted by NISM and apply to SEBI for registration as an Investment Adviser (RIA).

The RIA is compensated only through the fees paid by the investor. RIA is barred to earn any commission or remuneration directly or indirectly from Insurance Companies or Mutual Fund Companies or any other company for the products he recommended to his clients. This will ensure that the RIA will protect the interest of the investors by recommending the best suited financial products as per the need of the investor.

In the Indian context, the term 'Independent Financial Advisors (IFAs)' has been used to describe individuals whose primary role is to advise their clients investments in Mutual funds and other financial products like - Life insurance, General insurance, Small Savings, etc. IFAs also execute their clients' Mutual fund requirements through their Registration numbers. Most of the IFAs sell Mutual funds products of multiple Asset Management Companies (AMCs).

Typically, **an IFA has an area-specific, relationship-based business model** that is different from the business model of other national-level intermediaries like banks. The Indian Retail Market is characterized by a low level of awareness and knowledge among Investors and it is said that the IFA model is the most suitable distribution model for this market.

The Retail Investors rely heavily on an Individual Advisor for his/her help or guidance even on some basic financial matters like getting a permanent account number (PAN) and card, opening a bank account, procuring Capital Gain statements, or attending to Income Tax queries. The IFA also invests a lot of time in increasing the awareness of these investors about their needs and educating them about the financial markets and the financial products. The process results in the sale of some financial products by the IFA which are the most suitable for the clients.

Thus, as compared to other categories of intermediaries, an IFA in particular, does a lot more of the hand-holding of his clients and in the process, builds more personalized relationships in his area. He gains the confidence of the investors by his competence and earns their trust by his actions. The relations based on trust and dependability enables him to gain and retain clients and also add more clients to his portfolio based on referrals. The IFA business model requires an investment of time and effort to acquire clients.

Despite the higher upfront cost of acquiring a retail investor, the IFA Business model works efficiently because of the sticky nature of retail investors that not only provides breakeven, but it also provides profitability in the long run. Though the banks dominate the distribution of financial products in the top Indian cities and the high net worth individual (HNI) segments, the IFAs dominate distribution in the small cities and retail segments. Most of the investments in the Indian Retail Market are the result of the advisory processes that the IFAs from the urban and rural areas carry from door to door. Thus, with a large fleet of distributors on the ground – the IFA business model - has played a major role to broaden the distribution base and the penetration of the financial products in the retail markets of India. **(Reference: Profile_ of_IFA, fifaindia.org)**

2.3. Launch of the Insurance Marketing Firm Channel

In January 2014, IRDAI took forward the idea from the 'Govardhan Committee Report' to allow the Distribution companies to have multiple tie-ups with Insurers to design a model akin to the Independent Financial Advisors (IFAs). On 16th and 17th January 2014, it conducted meetings with the representatives of Life and non-Life Insurance Companies to discuss the concept of – "Insurance Marketing Firm (IMF)" at length.

Based on the recommendations received during the meetings, IRDAI on 20th January 2014, constituted a Working Group to study the report of the Govardhan Committee on 'Distribution Channels 'and explore the possibility of introducing a new distribution channel on the lines of 'lnsurance Marketing Firm (IMF)'. The Regulator called for recommendations from the Working Group on matters like - Requirement of capital for IMF, Geographical spread within which the IMF can operate, Distribution costs/remuneration/incentives to be paid to IMF, Fit and Proper Criteria, Quality Standards, training and recruitment of salespersons and the process of sales for IMF.

IRDAI published the "Exposure Draft" of "Insurance Marketing Firm Regulations" and called for comments and suggestions from the stakeholders for further examination.

Eventually, in consultation with the 'Insurance Advisory Committee', IRDAI issued the **'Registration of Insurance Marketing Firm Regulations, 2015'** on 21st January 2015, with the purpose to increase the Insurance Penetration in India through an area-wise registration approach.

The new distribution channel – IMF – was given the exclusive privilege of distributing Insurance products as well as other financial products, under **one roof** along with conducting back-office activities for the Insurers. The net worth requirement for an IMF was decided as Rs. Ten lakh and its area of operation was limited to one district, initially.

An IMF is allowed to solicit and procure Insurance products of maximum two Life, two Non-life, and two stand-alone Health Insurers through its trained and certified 'Insurance Sales Persons (ISPs)'. An IMF can also sell the permissible financial products of Banks, Mutual funds, Post office, etc. through its qualified and certified 'Financial Service Executives (FSEs)'. An IMF is also allowed to take up back-office activities of the insurance companies with whom they have tied-up with. An IMF can work as an 'Approved Person for Insurance Repository'. Initially, an IMF was also allowed to work as 'Surveyor and Loss Assessor'.

On 20th August 2015, the IRDAI notified "IRDAI (Registration of Corporate Agents) Regulations, 2015" thereby allowing Corporate Agents (Net worth Rs. 50 Lakh) to have multiple tie-ups with Insurers (maximum 3 tie-ups each with Life, Non-life and Health Insurers)

2.4. Clarifications and Amendments to the IMF Regulations:

IRDAI has been regularly reviewing the IMF Regulations. From time to time, it has issued clarifications on various aspects related to IMF channel like the name chosen by an IMF, the number of tie-ups, the remuneration to IMFs, and credit hours per day for training of PO and ISPs.

According to the feedback and suggestions received from various stakeholders, the Regulator issued the "IRDAI (Registration of Insurance Marketing Firm) (First Amendment) Regulations, 2017" in January 2017. The key amendments were regarding the training of Principal Officer (PO) and ISP, the area of operation of IMFs operating in state capitals, and distance marketing activities of IMFs.

Committee to review the IMF Regulations again in 2018:

From the time of the launch of the IMF channel and till March 2018, IRDAI had issued No Objection Certificates (NOC) to 990 IMF applicants and 212 IMFs were registered. The IMF's were found to have set up in the states of Maharashtra, Uttar Pradesh, Gujarat, and Delhi.

The Business performance of the IMFs during the financial year (F.Y.) 2016-17 and 2017-18 were as given in the following table:

Table 1 - Business Performance of IMF

Life Insurance	2017-18	2016-17	Non-Life Insurance	2017-18	2016-17	Health Insurance	2017-18	2016-17
No. of Policies	2962	2612	No. of policies	13134	5015	No. of policies	1450	1358
New Business (in lakhs)	2064.00	1432.10	New Business (in lakhs)	1067.00	368.07	New Business (in lakhs)	179.00	130.76
Ren. Premium (in lakhs)	350.00		Ren. Premium (in lakhs)	70.00		Ren. Premium (in lakhs)	26.00	

(Source: IRDAI Reports)

IRDAI observed that the actual performance of the IMF channel was lower from what was originally envisaged while formulating the IMF Regulations. Hence, in May 2018, IRDAI conducted workshops at Chandigarh, Ahmedabad, and Hyderabad with the representatives of IMFs, Insurance companies, and Life and General Insurance Councils to receive feedback on various operational and practical issues regarding the functioning of the IMFs.

Taking into account the feedback received and looking into the evolving needs of all the stakeholders, IRDAI once again felt the need to review the IMF Regulations to create a more comprehensive and robust framework for IMFs. Hence, a ten-member Committee represented by the IRDAI, Insurance companies and IMFs was formed on 15th June 2018 to re-visit IMF Regulations to help the channel to evolve and fulfill its objectives of spreading insurance coverage to all stratum of the society. Along with other matters, the committee was supposed to provide

1) Recommendations for issuing guidelines for areas on which the Regulations were silent
2) Recommendations to further strengthen the channel by allowing the IMFs to market the products which fall under the jurisdiction of other financial sector regulators, including creating avenues for discussion with the other Regulators.

The committee submitted its report on 9th August 2018. Accepting some of the recommendations of the Committee, the Authority issued the "IRDAI (Registration of Insurance Marketing Firm) (Amendment) Regulations, 2019 on 24th July 2019.

2.5. The Salient features of the Current IMF Regulations

- A Company, Limited Liability Partnership (LLP), Co-operative Society or any other entity as specified in the IMF Regulations can be registered by the Authority as an IMF provided it fulfills the criteria as mentioned in the Regulations and has "Insurance Marketing" or "IMF" in its name.
- IMF Registration is valid for 3 years, which can be renewed 90 days before its expiry
- **The Principal Officer (PO)** of an IMF is the overall in charge of an IMF who is responsible for regulatory compliance of the IMF. The PO can be a Director, partner, any officer or employee so designated and approved by the Authority to exclusively carry out the functions of the IMF and who possesses the requisite qualifications and practical training and who has passed the examination as required under the regulations.
- **Insurance Sales Person (ISP)** is an individual resident of the district opted by the IMF and employed by the IMF to solicit and market the Insurance products. An ISP should possess the requisite qualification and training as specified and get a fixed minimum monthly salary from the IMF as per the law of the land. The IMF may give him additional variable pay depending on arrangements between the IMF and the ISP
- **Financial Service Executives (FSE)** is an individual having the necessary qualification and training and is employed by an IMF to market the financial products other than insurance and of the entities controlled by the other regulators in the Financial Market. The FSEs hold valid Licenses/ Certificates/ Authorization issued by the respective financial authorities for the marketing of such products. The FSEs get remuneration from the financial entities as per the applicable guidelines of the respective Regulators.
- Initially an IMF can start its operations in one district. At the time of Renewal, it can expand to a maximum of three districts provided one of the districts is an 'Aspirational District' designated as such by the National Institution for Transforming India (NITI Aayog).
- The IMF should maintain the Net worth of Rs. 5 lakh if opting only for one Aspirational District and Rs. 10 lakh in all other cases.
- The IMF should maintain specified 'Professional Indemnity Insurance' at all times.

Scope of the activities of an IMF:

1) An IMF can solicit Insurance products of maximum two Life, two General and two Health Insurers through its ISPs. In addition to these tie-ups, an IMF has also the option to engage with Agriculture Insurance Company of India Ltd. (AIC) and Export Credit Guarantee Corporation Ltd. (ECGC).

Insurance products allowed to be sold by an IMF:

a. All kinds of products sold on individual and/ or retail basis, including Crop insurance for non-loanee farmers and Combi products.

b. Property, Group Personal Accident, Group Health, The Group Savings Linked Insurance Scheme (GSLI) and Term Insurance policies for Micro, Small and Medium Enterprises(MSME)

2) An IMF can Market the following financial products through appointed FSEs:

   a) Mutual fund products of Mutual Fund Companies regulated by SEBI
   b) Pension products regulated by PFRDA
   c) Other financial products distributed by SEBI licensed Investment Advisors
   d) Banking/ financial products of Banks/ NBFC regulated by RBI
   e) Non-insurance products offered by Department of Posts, Government of India
   f) Any other financial product or activity permitted by IRDAI from time to time

3) An IMF can undertake the following Insurance Servicing activities

   a) Such activities for tied up Insurers as allowed in the IRDAI (Outsourcing of activities by Indian Insurers) Regulations, 2017, as amended from time to time
   b) Becoming the Approved Person of Insurance Repositories
   c) Any other insurance-related activity permitted by IRDAI from time to time.

- **Remuneration payable from the Insurers to an IMF**:

The payment of remuneration and/or reward to an IMF by an Insurer shall be as per IRDAI (Payment of Commission or Remuneration or Reward to Insurance Agents and Insurance Intermediaries) Regulations, 2016.

Besides, the IMF may receive reimbursement of expenses from Life Insurers towards recruitment, training and mentoring of their ISPs. The reimbursement shall not exceed 50%

of the first-year commission and 10% of renewal commission received by IMFs from Life Insurers and it will be based on a mutual agreement between an Insurer and an IMF.

Report of Govardhan Committee on Distribution Channels -

On 13th May 2008, the Govardhan Committee submitted its exhaustive report on 'Distribution channels' to the IRDAI. The Committee expressed its concern over the low penetration of General Insurance in India. It proposed the retail Insurance agents be allowed to contract with multiple Insurers. Regarding multiple tie-ups of a Corporate Agent with Insurers, the Committee mentioned that a model akin to 'Independent Financial Advisors' may be considered in the future.

Independent Financial Advisor

In the global context, Independent Financial Advisor (IFA) is highly qualified, competent professionals who offers independent advice on financial matters and recommend suitable financial products to his/her clients. He/she does not represent any particular financial product provider and do not receive any commission from such companies. They get fees from the clients for their advice on 'Financial Planning'.

In the Indian context, 'IFA' describe the individuals whose primary role is to advise the clients towards investment in Mutual Funds and other financial products. Most of the IFAs sell Mutual Fund products of multiple AMCs and they execute their clients Mutual Fund requirements through their Registration numbers. Typically an IFA has an area-specific, relationship-based business model which is said to be the most suitable for the Indian retail market. Whereas the banks dominate the distribution of financial products in top cities and the HNI segment, the IFAs dominate distribution in small cities and retail segments. An IFA helps clients on petty financial matters and also educates them regarding their financial needs and the products available in the market. The trust based relationship results into sale of multiple financial products by the IFA.

The Launch of the IMF Channel

In January 2014, the IRDAI took further the idea of allowing Distribution Companies to have multiple tie-ups with the Insurers and constituted a Working Group to explore the possibility of introducing a new distribution channel. Eventually, based on recommendations of the Working Group, suggestions from various stakeholders, and the ‘Insurance Advisory Committee’, the IRDAI launched the distribution channel ‘Insurance Marketing Firm’ on 21st January 2015.

Further, according to the feedback & suggestions received from the stakeholders, the regulator issued various clarifications and also issued Amendment Regulations in January 2017 and July 2019.

The Salient features of the current IMF Regulations –

- A Company, a LLP or a Co-operative society can become an IMF
- An IMF can be tied up with 2 companies each - from Life, General and Health Insurance sectors and AIC & ECGC to solicit and procure their products through its ‘Insurance Sales Persons (ISPs)’
- An IMF can also take up Servicing activities for the tied-up Insurers
- An IMF can initially open its offices and submit Insurance business in only one district which can be expanded to two more districts at the time of renewal of IMF registration, provided one of the districts should be an Aspirational district
- Net worth requirement shall be Rs. 5 lakh if opted for only one Aspirational district and Rs. 10 lakh for other cases
- An IMF can become an ‘Approved Person’ of an ‘Insurance Repository’
- An IMF can market other Financial Products through the individuals appointed as ‘Financial Service Executives (FSEs)’ who are qualified and authorized by the respective Financial Regulators

CHAPTER 3

The Positioning of 'Insurance Marketing Firm' Channel

The Indian Insurance market has been segregated into various segments based on the demography. The insurance needs of these segments are being taken care of by many Insurers with their Life and Non-Life products through different distribution channels. The Government of India has also launched various Social Security Schemes to provide Insurance cover to the poor strata of Indian society. The Micro Insurance Agents cater to the need of low-income segments with suitable Micro Insurance products. The Tied and Retail agents work for the individuals and small units with a wide range of individual and retail products. The Brokers and Corporate Agents have their business models for the larger ticket segments. The online platform serves the IT savvy strata of society.

Amidst all these distribution channels, the Regulator had introduced the IMF Channel to fill the gaps in the untapped insurance market with a district-wise Registration approach. An IMF can solicit or market all kinds of Insurance products sold on an individual and/or retail basis. However, the IMF cannot sell commercial lines of business to any segment except MSMEs. The IMF can market products like - Property, Group Personal Accident, Group Health, GSLI, and Term Insurance policies - only for Micro, Small and Medium Enterprises (MSMEs). **This product restriction for IMF channel defines the boundaries of its target segments and underlines the area where the business focus of an IMF should be.**

To achieve the objective of increased Insurance Penetration, in addition to selling Insurance products, the IMF has also been allowed to sell other financial products and provide servicing activities of the Insurers. Thus, an IMF – a model akin to IFA – has been equipped to provide the complete Financial Planning for a client. An IMF performs the execution part of the financial planning of its client by providing him suitable Insurance/ Financial products through its ISPs and FSEs. As per the IMF regulations, an IMF can also take up back-office servicing activities for the tied-up Insurers.

The IMF business model has the potential to earn and retain the clients by providing them a complete financial solution. In the process, an IMF can expand its business by leveraging the opportunity of cross-selling of financial products. An IMF can also take advantage of the added footfall approaching for the servicing activities.

The holistic business platform of an IMF combined with a Net-worth requirement of only Rs 10 lakh was supposed to attract many entrepreneurial minds from all over the country. It was expected that many individuals and entities, even from tier II and tier III cities, would come forward to set-up an IMF. It was expected that the Insurers would also welcome the IMF channel as a means to reach the deeper population via ISPs who will be the residents of a particular district.

The positioning of the Channel – Insurance Marketing Firm:

In the Indian Insurance scenario, various distribution channels are catering to the Insurance needs of people from various segments. An IMF can sell all individual/ retail products. However, it can sell products like Property, Group Personal Accident, Group Health, GSLI, and Term Insurance Plans for MSMEs. The product restriction defines the boundaries and focus of IMF business. An IMF distribution model equipped with Insurance Products as well as Financial Products was supposed to take roots and expand in every district of India.

CHAPTER 4

Secondary Data Collected from IRDAI Reports and IRDAI Website

The following section provides data regarding the number of NOCs issued, Registration of IMFs, and the 'State-wise District-wise' penetration of IMFs over the years, on the backdrop of the presence of Insurers across the country.

4.1. Year-wise issue of NOCs and Registration of Insurance Marketing Firms

Table 1 shows the number of new IMF Registrations issued per year since 2017 is showing a decreasing trend. However, the number appears to show signs of a rise in the F.Y. 2019-20.

Table 1 - Number of NOC Issued and Number of IMF Registration Issued

	As On 31.03.2016	As On 31.03.2017	As On 31.03.2018	As On 31.03.2019	As On 31.12.2019
IMF Registrations issued	14	100	98	60	60
Cumulative IMF	14	114	212	272	332
NOCs issued by IRDAI	41	593	356	386	161
Cumulative NOCs issued		634	990	1376	1537

(Source: IRDAI Reports

During the first 9 months, 60 new IMFs have been registered although the number of NOCs issued during the period is less than the earlier years. It is also observed that every year, the number of IMFs registered is much less than the number of NOCs issued.

4.2. Year-wise, State/UT-wise Registration of Insurance Marketing Firms:

Table 2 gives the Year-wise spread of IMFs in 29 States and 7 Union Territories (UT) of India from the F.Y. 2015-16. It shows that as on 31st December 2019, more IMFs were registered in Maharashtra, Delhi (National Capital Region), Uttar Pradesh, and Gujarat and the number of Registrations there has been increasing year after year. In the States of Telangana, West Bengal, Punjab, Andhra Pradesh, Karnataka, Kerala, and Haryana, IMFs are in two-digit numbers and the numbers are increasing but at a low pace.

In the North-Eastern States of Arunachal Pradesh, Assam, Manipur, Meghalaya, Mizoram, Nagaland, Sikkim, and Tripura no IMF has been registered. Similarly, in Goa, Dadra & Nagar Haveli – Daman & Diu and Puducherry there is no presence of IMFs.

Table 2 - Year-wise, State-wise Registrations issued for IMFs

Sr. No.	States	As on 31.03.2016	As on 31.03.2017	As on 31.03.2018	As on 31.03.2019	As on 31.12.2019
1	Andhra Pradesh	0	3	6	7	12
2	Arunachal Pradesh	0	0	0	0	0
3	Assam	0	0	0	0	0
4	Bihar	0	3	5	6	7
5	Chhattisgarh	0	0	2	2	3
6	Goa	0	0	0	0	0
7	Gujarat	0	9	20	26	32
8	Haryana	1	6	8	10	11
9	Himachal Pradesh	0	0	2	2	3
10	Jammu & Kashmir	0	0	2	4	4
11	Jharkhand	0	0	1	1	3
12	Karnataka	0	4	5	5	11
13	Kerala	0	3	5	10	11
14	Madhya Pradesh	0	2	2	3	3
15	Maharashtra	5	24	38	48	62
16	Manipur	0	0	0	0	0
17	Meghalaya	0	0	0	0	0
18	Mizoram	0	0	0	0	0
19	Nagaland	0	0	0	0	0
20	Orissa	0	0	1	3	4
21	Punjab	0	6	12	13	14
22	Rajasthan	0	1	3	7	8
23	Sikkim	0	0	0	0	0
24	Tamil Nadu	1	5	5	7	9
25	Telangana	0	6	16	18	20
26	Tripura	0	0	0	0	0
27	Uttarakhand	0	0	2	5	6
28	Uttar Pradesh	3	19	32	40	43
29	West Bengal	0	4	9	13	15
30	Andaman & Nicobar	0	0	0	0	0
31	Chandigarh	0	1	5	6	7
32	Dadra & Nagar Haveli	0	0	0	0	0
33	Daman & Diu	0				
34	Delhi (NCT)	4	18	31	36	44
35	Lakshadweep	0	0	0	0	0
36	Puducherry	0	0	0	0	0
	Total	**14**	**114**	**212**	**272**	**332**

4.3. Presence of offices of the Insurers:

The Geography of India has been divided into 718 districts. The presence of the IMF in any district is closely related to the presence of the offices of the Insurers in that district. An IMF can procure Insurance business from any part of India but it can log-in the business only with the office of the tied-up Insurer which falls in the district opted by that IMF. If a district has a minimal presence or no presence of an Insurer, that district will have a low potential for the formation of an IMF. Hence, it is necessary to have a look at the district-wise presence of the Insurers in the country.

('Annexure 1' gives State wise number of districts in which the offices of Insures are present as on 31st March 2018. 'Annexure 2' gives State wise number of districts in which offices of Insurers are not existent as at 31st March 2018.)

The number of offices of Insurers in India in the last 10 years i.e. from F.Y.2009-10 to F.Y. 2018-19:

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
LIC of India	3250	3371	3455	3526	4839	4877	4892	4897	4908	4932
Private Life Insurers	8768	8175	7712	6759	6193	6156	6179	6057	6204	6347
Life Industry	**12018**	**11546**	**11167**	**10285**	**11032**	**11033**	**11071**	**10954**	**11112**	**11279**
General Insurers	**6097**	**6242**	**6675**	**7656**	**9394**	**9862**	**10200**	**10464**	**10339**	**10609**
AIC	**18**	**18**	**22**	**22**	**22**	**23**	**19**	**19**	**20**	**20**
ECGC	**57**	**51**	**51**	**60**	**61**	**64**	**64**	**64**	**66**	**66**
Health Insurers	**245**	**349**	**302**	**361**	**395**	**458**	**520**	**594**	**775**	**883**

It is observed that in the Life Insurance Industry, the number of offices of 'LIC of India' has increased every year but the overall number of Life offices was decreasing till the F.Y.2016-17. After that it is showing an increasing trend as the number of offices of the Private Insurers is increasing from F.Y.2017-18. The number of offices of General Insurers has been showing increasing trend during the last 10 years though there was a dip in the F.Y. 2017-18. The number of Offices of Health Insurers is showing an increasing trend since F.Y. 2012-13.

In the F.Y. 2018-19, the Life Insurers, the General Insurers, and the Stand Alone Health Insurers have opened 167, 270, and 108 new offices making their entry into 44, 94 and 17 districts, respectively.

After the opening up of the Insurance sector in 2000, though the number of offices of the Insurers has increased with the entry of Private Insurers, the offices have not been distributed in all the districts of India. Some districts in India still do not have the presence of the office of any Insurer.

Table 3.1 - No. of Districts having presence / no presence of Insurers as on 31st March 2019:

Insurer	No. of Districts in which offices are present	No. of Districts in which offices are not present
Life	678	40
General	647	71
Stand Alone Health	245	473

In the Life Insurance segment, as on 31st March 2019, LIC of India had its offices in 669 districts (93.18%). The private sector Life Insurers had their offices in 587 districts covering 81.75% districts of India. In all, the offices of Life Insurers are present in 678 districts; but the Life offices are not present in 40 districts. Out of these 40 districts, 34 Districts are in the 7 North-Eastern states - Arunachal Pradesh, Assam, Manipur, Meghalaya, Mizoram, Nagaland, and Sikkim. All the districts of the remaining 22 states are now covered by Life offices.

In the General Insurance segment, the Public Insurers have offices in 647 out of 718 districts in the country (90.11%). The Private General Insurers are present in 290 districts covering 40.4% of the districts. Still, 71 districts in India do not have offices of any of the General Insurers.

In India, the First Stand Alone Health Insurer (SAHI) started its operations in 2006. As on 31st March 2019, the offices of 7 SAHI are in 245 districts covering 34% of districts. In the States like Kerala (13 out of 14), Andhra Pradesh (11 out of 13), and Delhi NCT (9 out of 11) large proportion of districts have SAHI offices. But still, SAHI does not have its branches in 473 districts of India.

Table 3.2 provides **Tier wise Distribution of Offices of Insurers** as on 31st March 2019

Table 3.2 - Tier wise Number of Offices of Insurers as on 31st March 2019

Insurer/ Tier	Tier I	Tier II	Tier III	Tier IV	Tier V	Tier VI	Total
Life	6710	1357	1850	1133	146	83	**11279**
General	6548	1085	1635	977	295	69	**10609**
Specialized (AIC & ECGC)	86	0	0	0	0	0	**86**
Stand Alone Health	793	39	45	6	0	0	**883**

Tier I – Population 1,00,000 & above, Tier II – Population 50,000 to 99,999, Tier III - Population 20,000 to 49,999
Tier IV – Population 10,000 to 19,999, Tier VI – Population less than 5,000, Tier V – Population 5,000 to 9,999

(Annexure 3 provides a list of Tier I and Tier II cities in India)

It is observed that the presence of specialized Insurers is only in Tier-I cities.

It is also observed that 38.4% of the offices of the Life Insurers are located in semi-urban areas, 35.1% of Life offices are in Urban areas and only 2% of Life offices are located in Rural areas.

For SAHI Insurers, 50% and 40% of the offices are in Metro and Urban areas and 10% of the offices are in semi-urban areas. SAHI Insurers do not have their offices in Rural areas and 90% of their offices are located in Tier-I cities.

4.4. State/UT wise offices of the Insurers and IMFs:

As on 31st March 2019 - 24 Life Insurers, 27 General Insurers, and 7 Stand Alone Health Insurers were operational in 29 States and 7 Union Territories of India. In all 272 IMFs were functional across the country.

Table 4 gives the data related to the State-wise spread of IMFs as of 31st March 2019 and the offices of Life, General, and Stand-Alone Health Insurers (SAHI) in each State/ UT.

It shows that Maharashtra has the highest number of offices of General Insurers and Health Insurers and it also has the highest number of IMFs (48). Uttar Pradesh has the highest number of offices of Life Insurers and it has IMFs (40) with the second rank. Delhi (NCT) has the third-highest number of IMFs (36).

Table 4 - State/UT wise offices of Insurers and IMFs as on 31st March 2019

Sr. No.	States	Life Insurer	General Insurer	Health Insurer	Number of IMFs
1	Andhra Pradesh	516	528	31	**7**
2	Arunachal Pradesh	15	12	0	**0**
3	Assam	280	238	8	**0**
4	Bihar	477	277	11	**6**
5	Chhattisgarh	203	175	12	**2**
6	Goa	55	63	4	**0**
7	Gujarat	646	674	47	**26**
8	Haryana	324	317	38	**10**
9	Himachal Pradesh	113	118	2	**2**
10	Jammu & Kashmir	99	110	4	**4**
11	Jharkhand	294	202	13	**1**
12	Karnataka	615	685	65	**5**
13	Kerala	598	553	73	**10**
14	Madhya Pradesh	643	452	36	**3**
15	Maharashtra	1113	1234	133	**48**
16	Manipur	26	12	1	**0**
17	Meghalaya	26	31	1	**0**
18	Mizoram	12	13	0	**0**
19	Nagaland	17	13	1	**0**
20	Orissa	402	340	16	**3**
21	Punjab	363	460	27	**13**
22	Rajasthan	521	560	35	**7**
23	Sikkim	9	10	0	**0**
24	Tamil Nadu	960	1172	107	**7**
25	Telangana	366	348	41	**18**
26	Tripura	38	45	2	**0**
27	Uttarakhand	147	126	9	**5**
28	Uttar Pradesh	1342	935	62	**40**
29	West Bengal	743	537	51	**13**
30	Andaman & Nicobar	3	10	0	**0**
31	Chandigarh	38	59	9	**6**
32	Dadra & Nagar Haveli	2	5	0	**0**
33	Daman & Diu	1	3	0	**0**
34	Delhi (NCT)	248	340	40	**36**
35	Lakshadweep	1	2	0	**0**
36	Puducherry	23	36	4	**0**
	Total	**11279**	**10695**	**883**	**272**

In the States of Madhya Pradesh, Karnataka, Tamil Nadu, Orissa, and Jharkhand, the registration of IMFs is much lower as compared to the presence of offices of the Insurers in these states. Similar is the case with the States of Andhra Pradesh, Rajasthan, Bihar, Chhattisgarh, Kerala, and West Bengal. The States of Telangana and Gujarat have a good number of IMFs.

In the State of Goa, though there are a considerable number of offices of the Insurers, there is no presence of any IMF.

In the North-Eastern states except Assam, the number of offices of the Insurers is less. There is no presence of IMFs in these States. **Assam has a good number of offices of the Insurers, but still, it has no presence of an IMF.**

Also, in the Union Territories of Dadra-Nagar Haveli – Daman-Diu and Puducherry, there are no IMFs.

4.5. District-wise distribution of IMFs:

(Annexure 4 provides District-wise Registration of IMFs as on 31st December 2019)

The IRDAI has opted District wise registration approach for IMFs and it has issued 332 IMF Registrations up to the end of December 2019. As on 31st December 2019, the Registrations of 17 IMFs were canceled, the Registrations of 25 IMFs expired and only 290 IMFs were operational in India.

It is observed that the 290 IMFs which are operational cover only 94 districts out of 718 districts and there is no IMF in the remaining districts in India.

Table 5 gives a consolidation of District wise distribution of IMFs as on 31st December 2019

Also, from table 5, the IMFs can be seen to be concentrated in tier I cities like Mumbai, Delhi, Pune, Hyderabad, and Ahmedabad. The channel is not seen wading even into tier II and tier III cities encompassing other districts of India.

(Annexure 3 gives a list of Tier I and Tier II cities in India)

Table 5 - Consolidation of District wise distribution of IMFs as on 31st December 2019

District	No. of IMFs
Mumbai	23
Pune	19
Hyderabad	17
Ahmedabad	13
Lucknow	12
Bangalore	8
Kolkata	8
North West Delhi	8
South West Delhi	8
GautamBudh Nagar	7
Mohali	7
Chandigarh	6
Dehradun	6
Thane	6
Vadodara	6
South Delhi	5
Surat	5
West Delhi	5
7 Districts	4
5 Districts	3
14 Districts	2
50 Districts	1
Total 94 Districts	**290 IMFs**

As seen in the earlier part, the offices of Life Insurers and General Insurers are present in 678 and 647 districts of India respectively, and certainly, there is a scope for the formation of IMFs in these districts. But, still, the IMFs are not present in 624 districts out of 718 districts in India.

4.6. State-wise Districts with presence/no presence of IMFs:

A large number of districts have no presence of IMFs and certain States have a good presence of IMFs. Table 6 gives data of the number of districts in a State having presence of IMFs and the percentage of districts covered by IMFs, in a State.

Table 6 - State-wise Districts with IMFs as at 31st December 2019:

Sr. No.	State	Total no. of Districts	Districts with IMF	Districts without of IMF	Percentage of Districts Covered
1	Andhra Pradesh	13	2	11	15%
2	Arunachal Pradesh	21	0	21	0%
3	Assam	33	0	33	0%
4	Bihar	38	3	35	8%
5	Chhattisgarh	27	1	26	4%
6	Goa	2	0	2	0%
7	Gujarat	33	7	26	21%
8	Haryana	22	9	13	41%
9	Himachal Pradesh	12	3	9	25%
10	Jammu & Kashmir	22	1	21	5%
11	Jharkhand	24	3	21	13%
12	Karnataka	30	6	24	20%
13	Kerala	14	6	8	43%
14	Madhya Pradesh	51	2	49	4%
15	Maharashtra	36	6	30	17%
16	Manipur	16	0	16	0%
17	Meghalaya	11	0	11	0%
18	Mizoram	8	0	8	0%
19	Nagaland	11	0	11	0%
20	Orissa	30	3	27	10%
21	Punjab	22	4	18	18%
22	Rajasthan	33	5	28	15%
23	Sikkim	4	0	4	0%
24	Tamil Nadu	32	3	29	9%
25	Telangana	31	3	28	10%
26	Tripura	8	0	8	0%
27	Uttarakhand	13	1	12	8%
28	Uttar Pradesh	75	14	61	19%
29	West Bengal	23	3	20	13%
30	Andaman & Nicobar	3	0	3	0%
31	Chandigarh	1	1		100%
32	Dadra & Nagar Haveli	1	0	1	0%
33	Daman & Diu	2	0	2	0%
34	Delhi (NCT)	11	8	3	73%
35	Lakshadweep	1	0	1	0%
36	Puducherry	4	0	4	0%
		718	**94**	**624**	

Table 6 shows that the percentage of Districts covered by IMFs is better in Delhi (NCT) - 73%, Kerala - 43%, and Haryana - 41%. In other States, the percentage of Districts having the presence of IMFs is low. Even the State of Maharashtra - which has the highest number of IMFs (62) - has only 17% of districts covered by IMFs. The State of Uttar Pradesh has 43 IMFs, but it has only 19% of districts covered by IMFs. It is observed that in these States, the IMF is concentrated in big cities.

No district of the North Eastern States, Dadra-Nagar Haveli-Daman-Diu, Puducherry and Goa has any presence of IMF.

Vide a recent amendment to the IMF Regulations, the IRDAI has mandated the inclusion of at least one Aspirational District, as declared by the NITI Aayog, for expansion of an IMF to other districts. Annexure 5 gives information about the NITI Aayog and Annexure 6 gives the list of Aspirational Districts as in the year 2018.

4.7. Number of Tie-ups of Insurers with IMFs:

Table 7 - Number of Tie-ups of Insurers with IMFs as on 31st December 2019:

LIFE

Sr. No.	Life Insurers	IMFs tied
1	Max Life	171
2	LIC of India	68
3	PNB Metlife	55
4	HDFC Life	53
5	Aviva Life	45
6	ICICI Prudential	26
7	SBI Life	17
8	Future Generali	15
9	Kotak Mahindra	4
10	Aegon Life	4
11	Reliance Life	2
12	Exide Life	1
13	Bharati AXA	1
14	Birla Sunlife	1
	Total	**463**

GENERAL

Sr. No.	General Insurers	IMFs tied
1	New India Assurance	50
2	ICICI Lombard	35
3	National Insurance	25
4	TATA AIG	21
5	Bajaj Allianz	16
6	United India Insurance	16
7	Reliance General	12
8	HDFC ERGO General	11
9	IFFCO Tokio	9
10	SBI General	6
11	Future Generali	5
12	Universal Sompo	4
13	Cholamandalam MS	3
14	Oriental Insurance	3
15	Bharati AXA	2
16	Liberty Videocon	2
17	Royal Sundaram	2
18	Kotak Mahindra	1
19	Go Digit	1
20	Raheja QBE	1
	Total	**225**

HEALTH

Sr. No.	Health Insurers	IMFs tied
1	Star Health	59
2	Manipal Cigna	40
3	HDFC Ergo	39
4	Religare Health	36
5	Max Bupa	28
6	Aditya Birla Health	2
	Total	**204**

Table 7 gives a data consolidated from the 'List of IMFs as on 31.12.2019 appearing on the IRDAI website. It provides the number of IMFs tied up by the Insurers from all the 3 segments, as at 31st December 2019. From the table, it is observed that the tie-up potential of IMFs has not been utilized in full.

As on 31st December 2019, there were 290 IMFs in operation and each IMF could have tie-ups with 2 Insurers from each segment. Thus, there is a scope for 580 tie-ups in each Insurance segment. But, the table shows that the Life Insurance segment has 463 tie-ups, the General Insurance segment has 225 tie-ups and the Health Insurers have only 204 tie-ups with the IMFs. Thus, there exists a gap between the potential for tie-ups and the actual number of tie-ups in each segment of Insurance.

Out of 24 Life Insurance companies, only 14 companies have tied up with IMFs. Max Life Insurance has the highest number of IMFs tied up (171); followed by LIC of India (68). Out of 27 General Insurance companies, 20 companies have tie-ups with IMFs, and the Public Sector Insurer 'New India Assurance Company' has the highest number of tie-ups (50); followed by the largest private sector General Insurance Company - ICICI Lombard (35). Out of 7 SAHI Insurers, 6 Insurers have IMF tie-ups; 'Star Health' having the maximum number of tie-ups (59).

Furthermore, in each segment, only 5 to 6 Insurers have tied-up with a major chunk of the IMFs and the tie-ups are not evenly distributed amongst all the Insurers.

Recently, vide IMF Amendment Regulations issued in July 2019, IMFs are also allowed to have tie-ups with the specialized Insurers - ECGC and AIC - over and above the two tie-ups from each Insurance segment. But so far no tie-up is seen in place with ECGC or AIC.

Export Credit Guarantee Corporation of India Ltd. (ECGC)

ECGC Ltd. is a specialized credit Insurance Company functioning under the administrative control of the 'Ministry of Commerce and Industry' to protect the Insurable Interest of Indian Exporters and Banks in India. The core activity of the Company is to underwrite the export credit insurance business.

Agricultural Insurance Company of India Ltd. (AIC)

AIC is a specialized Insurer underwriting business in agriculture insurance. AIC has been the main Insurer under Pradhan Mantri Fasal Bima Yojana (PMFBY). Other than Government sponsored schemes AIC also has certain in-house products for Crop Insurance

4.8. Business Performance of the IMFs:

Table 8 - Business performance of the IMFs for F.Y.2017-18 and F.Y. 2016-17:

Life Insurance	2017-18	2016-17	Non-Life Insurance	2017-18	2016-17	Health Insurance	2017-18	2016-17
No. of Policies	2962	2612	No. of policies	13134	5015	No. of policies	1450	1358
New Business (in lakhs)	2064.00	1432.10	New Business (in lakhs)	1067.00	368.07	New Business (in lakhs)	179.00	130.76
Ren. Premium (in lakhs)	350.00		Ren. Premium (in lakhs)	70.00		Ren. Premium (in lakhs)	26.00	

(Source IRDA Reports)

Further, the IRDAI report shows that in the F.Y. 2018-19, the IMFs have procured total 27,998 policies in all the three segments of Insurance - Life, General, and Health (there are no separate numbers) - bringing in total New Business premium of Rs.37.95 Crores and a Renewal premium of Rs.28.04 Cr.

The detailed business performance figures of the individual IMFs are not available. But, the consolidated business done by the 272 IMFs in the F.Y.2018-19 is certainly not encouraging. It apparently points towards a lack of professional approach and expertise in the distribution channel members.

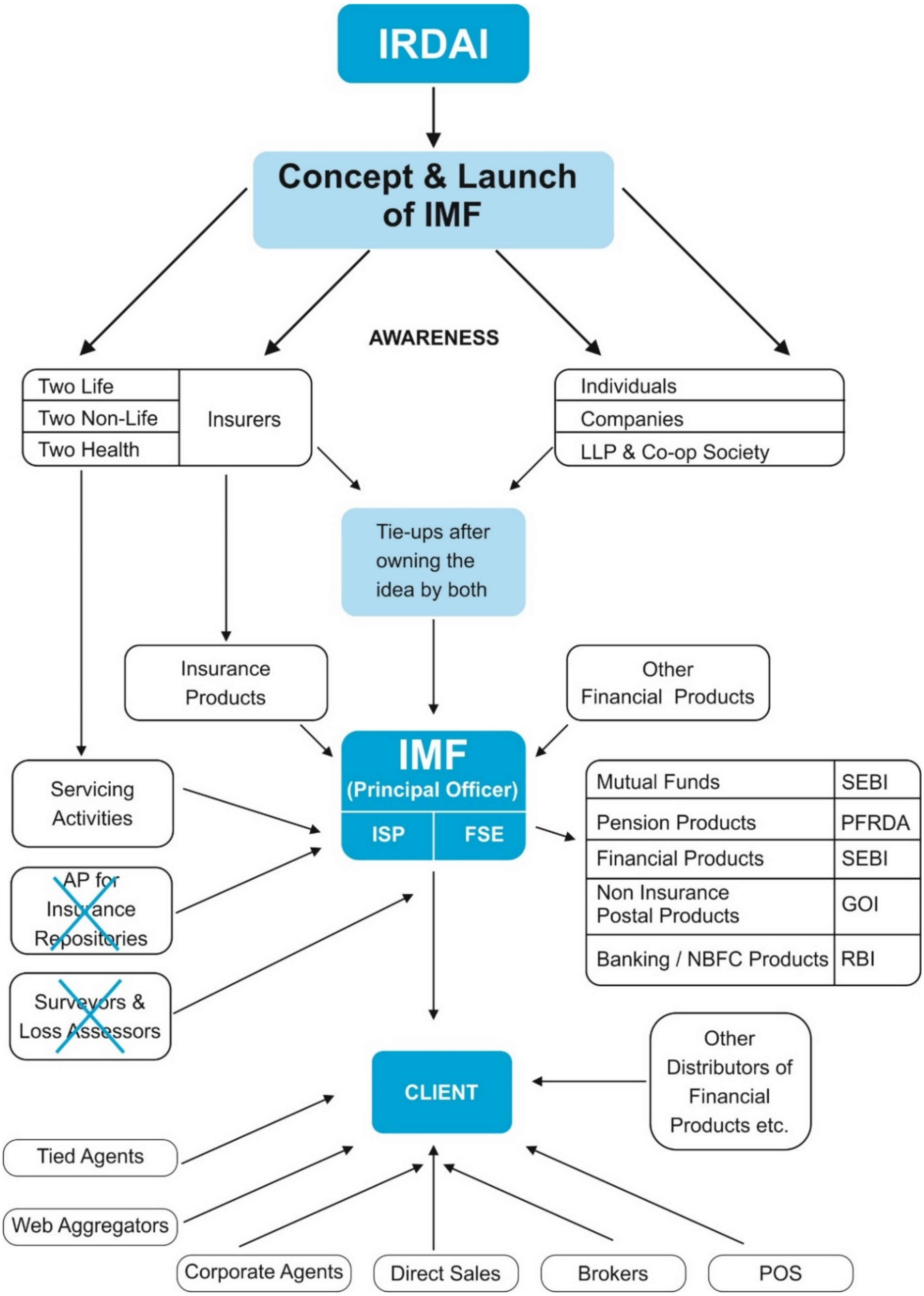
From the data collected from the IRDAI reports and the IRDAI website, it appears that even after 5 years from the launch of the IMF channel, the number of IMFs Registered, the geographical spread of the IMFs, the number of IMFs tied-up by the Insurers and the business performance of the IMF channel - are not as expected. The feedback received from the IMFs at work and the Insurers - who are working seriously with the IMF channel - also points to certain areas that are to be examined critically. Some challenges can be seen to have emerged from the synthesis of these pieces of information, which need immediate attention by the stakeholders.

Information from Secondary Data:

1) Up to 31st December 2019, 1537 NOCs were issued for IMFs and 332 IMFs were registered. Every year, the number of IMFs registered was much less than the number of NOCs issued
2) Up to December 2019, the States like Maharashtra, Delhi (NCT), Uttar Pradesh and Gujarat showed a better and increasing number of IMFs Registered
3) In India, the offices of Insurers have different proportions in geographical classification like Metro, Urban and Rural area, and Tier-wise classification of Indian cities. Up to 31st March 2019, in India 40, 71 and 473 districts do not have offices of Life, General, and Health Insurers, respectively.
4) In some states like Madhya Pradesh, Karnataka, Tamil Nadu, Orissa, and Jharkhand the proportion of IMFs is much lower on the backdrop of the presence of offices of the Insurers. In the North-Eastern States, the offices of Insurers are less and there is no presence of Brokers or IMFs.
5) Till 31st December 2019, Registrations of 17 IMFs were canceled and registrations of 25 IMFs expired. In all 290 IMFs were functional in 94 districts of India. Out of 718 districts of India, 624 districts do not have presence of IMFs.
6) The proportion of districts having the presence of IMFs is very less in the majority of the States. Delhi (NCT) has the maximum districts (73%) covered by IMFs but the State Maharashtra which has the highest number of IMFs (62) has only 17% districts covered by the IMFs. It is observed that the IMFs are concentrated in big cities.
7) Tie-up potential of IMFs is not utilized in full and out of the probable 580 tie-ups; only 463, 225, and 204 tie-ups have taken place in Life, General, and Health Insurance segments. In each segment, the major chunk of tie-ups pertains to only 5-6 Insurers and the tie-ups are not distributed evenly among all the Insurers. No tie-ups have materialized with AIC or ECGC.
8) The business performance of the IMF channel is not assuring. In the F.Y. 2018-19, the 272 IMFs have procured a total of 27,998 policies from all the 3 segments – Life, General, and Health – bringing in a total New Business premium of Rs. 37.95 Cr and a total Renewal premium of Rs. 28.04 Cr. The premium contribution of IMF channel was only 0.06% for Life business and 0.016% for Health business.

The following section would discuss the challenges and the difficulties faced by the IMF channel in detail.

'Insurance Marketing Firm' in the Insurance Ecosystem



CHAPTER 5

The IMF Channel: The Challenges

5.1. The number of IMFs registered (332) during the 5 years since inception is very low

An IMF can get formed only when a qualified person (an Individual/ Company/ LLP/ Co-operative Society) having the requisite Net worth comes forward for the business of IMF, complies with all the requirements and at least one of the Insurance companies gives its consent to have a tie-up with that IMF. **Thus, an IMF gets formed only with the acceptance of BOTH the parties** –

- **A. Entities interested to take up IMF business**
- **B. The Insurers willing to have an IMF as their distribution partner**

If the count of formation of IMFs is said to be low, then both the parties – the Insurers as well as the prospective entities – would be responsible with the probable reasons being -

1) The Lack of awareness about the concept of IMF
2) The Lack of willingness to own the IMF idea for various reasons

5.1.1. Acceptance of IMF channel by Insurance Companies:

1) Table – 7 from Secondary Data shows that the tie-up potential of IMFs has not been utilized to the extent it was envisaged. The analysis of tie-up details of IMFs also shows that the majority of IMFs are tied up with only 5-6 Insurers from each segment and the tie-ups when entered into are not evenly distributed among all the Insurers.
2) It is reported by a few IMFs who have taken up the work that they came to know about IMF concept from the officials of some Insurance companies and those officials motivated them to take up IMF. Further, they provided all the support during the process of IMF formation.
3) In their feedback, the IMFs have reported that the grass-root level units of many Insurers were either not aware of the IMF concept or the exact procedures and documentations required to have a tie-up with an IMF. Some of the IMFs have also reported that some of the Insurance companies were not willing to have tie-ups with IMFs. Some IMFs have reported that a few Insurance companies initially gave

their consent for the tie-up, but later on, they did not assist them to complete the formalities.

4) Vide Amendment to the IMF Regulations in July 2019, though IMFs are allowed to have tie-ups with ECGC and AIC, the project team learned from the officials of IMF that the specialized insurers are currently not empaneling the IMF.
5) Currently Max Life Insurance has mentioned "IMF" under the option "Careers" on its website. It is reported that 'Max Life Insurance' has a specially dedicated vertical for IMF and the company takes special efforts to identify prospects for IMF and provides them every help in getting NOC from IRDAI, incorporation with ROC, and getting registered with IRDAI. (The result is that 'Max Life Insurance' has the maximum number of tie-ups – 171)
6) In their Public Disclosures of 2019-20 (statement N40), only 6 companies have shown their business from IMF channel separately, under the head - "IMF". The companies are - LIC of India, Exide Life Insurance, HDFC Life Insurance, ICICI Prudential Life, Apollo Munich General, and Reliance General Insurance.
7) As a part of the IMF Research Project by NIA, a questionnaire was sent to all the Insurers through e-mail. Only 'Oriental Insurance Company' conducted a meeting of IMFs and sent us a report of the outcome of the meeting. No other Insurer responded to the questionnaire.

Inference:

The discussions above indicate that majority of the Insurers seem to have accepted the IMFs as a distribution channel, though only a few Insurers are taking conscious efforts to create a channel of IMFs for distribution of their insurance products.

5.1.2. Acceptance by entities to take up IMF business:

It was presumed that the concept of IMF may motivate existing entities as well as individuals to start an IMF e.g. a financial Company already in existence can - along with other aspects – add "Insurance Marketing" in its name and move forward to become an IMF. The idea of IMF may encourage a businessman working in another sector to form a new company as IMF. Further, Individuals like financial advisors, Insurance Agents, Surveyors, experienced employees with an entrepreneurial mindset, retired employees, finance persons having a good network of people, etc. would also think of acquiring the necessary qualification and enter into the IMF business.

1) Companies/ LLPs already working in Financial/ other Sector:

The entities already associated with the financial sector or with some other sector can form an IMF. For these entities, the Infrastructure would already be in place and they may have to only comply with the requirements like Training and Examination for the PO and the ISPs, etc. They have only to get the Consent from at least one of the Insurers and a NOC from IRDAI to get registered with IRDAI.

2) Existing Financial Advisors/Individuals having experience in Financial or Insurance Sector:

Owning an Insurance Marketing Firm would certainly be a matter of pride and satisfaction for an Individual. The individuals who are associated with the Financial Sector/ Insurance Sector as advisors or agents can form IMFs. As per the IMF regulations, these individuals have to resign from their existing Agency appointments if they are a Director/ Managing partner/ PO or ISP of an IMF.

These individual prospective IMF owners would have to incur initial investment in acquiring infrastructures like office space, machines, and manpower. They would also have to spend on, and arrange for, Training and Examination for their PO and their ISP, take follow-up with IRDAI for NOC and Registration and take follow up with the Insurers for Consent and tie-ups.

Such interested entities and entrepreneurial individuals looking for business opportunities in the market would grab the idea of IMF only if they find the IMF idea a beneficial one on monetary terms. If the prospective entities can see the better performing, flourishing IMFs in their area they would also get attracted to the IMF business. If the business plan for an IMF gives a better picture of the top line as well as of the bottom line, only then the prospects would be ready to take all the troubles and they would move forward to form their IMFs.

Hence academically, it would be appropriate to have a look at the financial picture and the financial viability and sustainability of an IMF. In the following section we examine all the avenues of Income as well as the probable expenses of an IMF.

5.1.2.1. Financial viability and sustainability of an IMF set up:

The following are the Sources of Income for an IMF:

1) Remuneration by Life/ non-Life/ Health Insurers - **(2) Part I - Sch.IV of IMF Regulations**
2) Reimbursement of expenses on ISPs by Life Insurers - **(2) Part I - Sch.IV of IMF Regulations**
3) Fees for undertaking Insurance Service activities as in Regulation - **3 (b), (3) Part I - Sch.IV**

i. Fees for undertaking outsourced activities of Insurers

ii. Fees for becoming Approved Person for Insurance Repositories

4) 'Applicable Service Charges' from financial entities for services rendered by FSEs.

1) Remuneration by Life/ Non-Life/ Health Insurers to IMFs:

As per IRDAI (Registration of Insurance Marketing Firm) Regulations, 2015 (Point (2) Part I of Schedule IV), the payment of remuneration and/or reward to an Insurance Marketing Firm by an insurer shall be as per Insurance Regulatory and Development Authority of India (Payment of Commission or Remuneration or Reward to Insurance Agents and Insurance Intermediaries) Regulations, 2016 dated 14 December 2016 (as amended from time to time).

An IMF can have tie-ups with 6 Insurers and it may receive remuneration/ commission from those Life Insurers, General Insurers, and Health Insurers for sale of their Insurance Products.

IRDAI (Payment of Commission/Remuneration/Reward to Insurance Agents and Insurance Intermediaries) Regulations, 2016 dated. 14th December 2016 came into force from 1st April 2017 and applies to –

1. Corporate Agent
2. Insurance Broker
3. Web Aggregator
4. Insurance Marketing Firm
5. Any other entity as may be notified by the Authority from time to time.

The Regulation specifies the maximum commission or remuneration as a percentage of premium that is allowed to be paid for Insurance products offered by Insurers and it also says

a. The commission or remuneration to be paid to an insurance agent or an insurance intermediary **shall be decided by the Insurer based on its Board approved policy.**

b. The objectives of the policy for payment of commission or remuneration or reward shall include the utilization of insurance agents and insurance intermediaries in the manner that gives an indication of the relative degree of importance placed on each of them.

c. The reward to be paid to an insurance agent or an insurance intermediary over and above the commission or remuneration shall be decided by the insurer based on an objective and transparent criteria approved by its Board.

As per the Regulations, the Insurers have the discretion to place relative importance to all the intermediaries and hence to decide upon the relative rates of commission/ remuneration/ reward to the intermediaries. Accordingly, the rate of Remuneration and Reimbursement for IMFs may vary from Insurer to Insurer subject to maximum remuneration specified in the Regulations. Similarly, the relative weightage given to the commission rate for IMF with respect to other intermediaries would also vary from Insurer to Insurer.

2) Reimbursement of expenses on ISPs by Life Insurers to IMFs:

As per **IRDAI (Registration of Insurance Marketing Firm) Regulations, 2015 Point (2) Part I of Schedule IV**

Besides, the IMF may receive reimbursement of expenses from Life Insurers towards recruitment, training and mentoring of their ISPs. This reimbursement shall not exceed 50% of the first-year commission and 10% of renewal commission received by the IMF in case of Life Insurers…

Thus, an IMF may receive 'Reimbursement of expenses on ISPs' from Life Insurers. The rate and criteria for reimbursement may be decided by an arrangement between the Insurer and the IMF.

The General Insurers and the Health Insurers would pay only the basic commission to IMFs and they are not required to pay anything like 'Reimbursement of expenses on ISPs' to IMFs.

3) Fees for undertaking Insurance Service activities under Regulation 3(b)

As per **IRDAI (Registration of Insurance Marketing Firm) Regulations, 2015 Point (3) Part I of Schedule IV**

The IMF shall also be entitled to receive the fees for undertaking insurance service activities as mentioned in regulations 3(b) as may be mutually agreed to between the IMF and the Insurance Company which shall be reasonable depending upon the time and effort and should be evidenced by an agreement entered into at the outset with a basis of fees being clearly addressed. Regulations 3(b), Insurance Servicing Activities of IMF refer to –

i) Undertaking such activities of Insurers as allowed in the IRDAI (Outsourcing of Activities by Indian Insurers) Regulations, 2017 as amended from time to time.

ii) Becoming Approved Person of Insurance Repositories

3. i) Fees from Insurers for undertaking outsourced Insurance Service Activities

An Insurance company can outsource its non-core servicing activities to a third party. An IMF can undertake such activities of Insurers as allowed by the IRDAI in 'Outsourcing of Activities by Indian Insurers Regulations, 2017 and the IMF can earn fees from the Insurers for such activities.

As per IRDAI (Outsourcing of Activities by Indian Insurers) Regulations, 2017,

The Board of Directors or 'Outsourcing Committee' of an Insurance Company shall approve and put in place an 'Outsourcing Policy' for that Company. The outsourcing arrangements shall be governed by written agreements that are legally binding for a specified period, subject to periodical renewals, if necessary, that clearly describe all important aspects of the outsourcing arrangement, including the rights and obligations of all parties, validating the Insurer's need to perform the activities proposed for outsourcing.

Activities prohibited from Outsourcing include:

a) Compliance with A**nti-money Laundering** (AML) & Know Your Customer (KYC) guidelines provided KYC verification through third-party service providers is allowed as per Cl. 3.1.2 of IRDAI AML Master Circular dated. 28th Sept 2015.

b) Decision making in Underwriting and Claims functions excluding procedural activities related to payment of Survival Benefit claims in Life Insurance;

Outsourcing Activities supporting Policy Servicing:

i. Though the policy servicing remains an integral activity for the Insurer who is responsible for the services rendered, the activities that support Policyholder servicing are allowed to be outsourced.

ii. Where collection of premiums is outsourced by the Insurer, it shall put in place procedures and ensure issuance of premium acknowledgments to the policyholders at the point of collection of premiums through such outsourced Service providers.

Regarding Insurance Intermediaries, the Regulations also provides that -

Insurers shall ensure compliance with the following **additional principles** where outsourcing service providers are the related parties or group entities of Insurers or Insurance Intermediaries registered with the Authority.

a) To avoid a potential conflict of interest, Insurers shall endeavor that the related Parties or group entities of Insurers or Insurance Intermediaries registered with the Authority **shall ordinarily not be engaged for outsourcing any of the activities.**

b) Insurers shall not outsource any activity that leads to a potential conflict of interest with the functions of the Insurer or with the functions of Insurance Intermediaries.

As per the provisions of **IRDAI (Outsourcing of Activities by Indian Insurers) Regulations, 2017** the activities that can be outsourced by an Insurer to a Third-party may include the following:

1. Premium collection with due provision for proper premium payment acknowledgment
2. KYC verification
3. Case preparation for Underwriting and Revival
4. Case preparation for Loan and Surrender
5. Procedural activities related to payment of Survival Benefit claims in Life Insurance;

Though the IRDAI 'Outsourcing of Activities Regulations' prohibit Insurers to engage any intermediary for the outsourcing of the activities, the IMF Regulations allow IMFs to take up such activities for the Insurers.

As per the list of IMFs on the IRDAI website, out of 332 registered IMFs, 302 IMFs have sought permission from IRDAI to undertake servicing activities for Insurers. But, as per the feedback received from IMFs, the Insurers are neither aware of the activities that can be outsourced nor are they willing to outsource such activities to IMFs. Though the IMFs are interested in undertaking back-office servicing activities for Insurers; IMFs are not earning any additional income from the servicing activities that they can do for the Insurers.

3. ii) Fees for becoming an Approved Person of Insurance Repositories:

As per Regulation 3(b) and Part I (3) of Schedule IV of the IMF Regulations, an IMF can earn fees by becoming an Approved Person of Insurance Repositories.

Insurance Repository (IR):

In April 2011, IRDAI issued the first guidelines on "Insurance Repository" to be formed to collate and keep safe custody of all insurance policies, in dematerialized format.

"Insurance Repository" is a company which has been granted a certificate of registration by IRDAI for maintaining data of insurance policies in electronic form on behalf of the Insurers. The Insurance Repository is a single location "e-policy" database of all insurance policies of an individual. Insurance Repositories enter into agreements with the insurers who share electronic data pertaining to insurance policies with them.

Presently, the IRDAI has approved the following 4 entities to act as Insurance Repositories:

1. NSDL Database Management Limited
2. Central Insurance Repository Limited

3. Karvy Insurance Repository Limited
4. CAMS Repository Services Limited

A policyholder needs to open an e-Insurance Account (eIA) with one of the Insurance Repositories to be able to keep his policies as e-policies. An individual can have only one eIA with any one of the Insurance Repositories. Once an eIA is opened, the account holder can ask for the conversion of all his policies issued by various Insurers to electronic mode to credit to his single account. The Insurance Repository provides the policyholder a facility to undertake changes, modifications and revisions in his policy with speed and accuracy. In addition, the Repository acts as a 'single stop shop' for policy servicing. The e-Insurance Account and all servicing would be offered 'Free of cost' to the policyholder.

Approved Person (AP) for Insurance Repository (IR):

To discharge its services & obligations and to represent it before policyholders, an Insurance Repository may appoint any number of '**Approved Persons (APs**)' subject to prior permission of IRDAI. The 'Approved Person' helps policyholders to open their eIAs and fulfill their KYC requirements. A company registered under the Companies Act, and having a paid-up capital of more than Rs. 5 lakh is eligible to be appointed as an "Approved Person" of an Insurance Repository. A company shall not have formed only to carry out the functions of an AP.

No 'Approved Person' shall apply directly to IRDAI for this purpose. The application for an 'Approved Person' shall be sponsored by an Insurance Repository and it will be submitted to the Authority (IRDAI) by the Repository in the prescribed form "A". Once the appointment is approved by the IRDAI, the AP will enter into a formal agreement with the Insurance Repository before commencing operations. A Corporate Agent or an Insurance Broker licensed by the Authority can become an AP and can serve only the policies procured by it.

As on 31st March 2019, a total of 311 active Approved Persons are associated with Insurance Repositories, a total 23.58 lakh eIAs are created and 35.65 lakh policies are converted into electronic mode under Insurance Repositories.

Although the IMF Regulations allow IMFs to work as 'Approved Person', the list of IMFs appearing on the IRDAI website does not show any IMF that has been approved to become an 'Approved Person'. Also, it is reported that approval is not being given to IMFs to work as 'Approved Person' for Insurance Repository.

Thus, at present, IMFs are not able to work as an 'Approved Person' and are not able to earn any fees from the Insurers for the same.

4) 'Applicable Service Charges' from financial entities for services rendered by FSEs:

To work on the lines of an IFA and to provide a complete financial solution to a client, an IMF has been allowed to distribute financial products and undertake activities regulated by any other financial regulator subject to fulfillment of the regulatory framework of such Regulator.

Regulation 3(c) allows an IMF **to market other financial products through the FSEs** engaged by the IMF. FSEs are trained and qualified personnel having valid Licenses / Certificates / Authorizations issued by the concerned Regulators/ Authorities to market the financial products. FSEs may get their commission/ remuneration from the respective financial entities as per the applicable guidelines.

As per Regulation 3(c) & Part I(4) of Schedule IV of the IMF Regulations – The IMF will also be entitled **to collect the 'Applicable Service Charges' from the financial entities for the services rendered by the FSEs** employed by the IMF.

An IMF can appoint FSEs to sell the following products:

1) Mutual funds of companies regulated by SEBI:

As on March 2020, there are 46 Registered Mutual Funds in India. As per the SEBI guidelines, a Mutual fund distributor registered with the Association of Mutual Funds (AMFI) can only be engaged in marketing and selling of Mutual funds. An individual qualified by passing NISM (National Institute of Security Markets) Certification examination can be registered with AMFI as a Mutual Fund distributor and can obtain a unique AMFI Registration number (ARN). A Mutual Fund distributor gets trail commission / brokerage from Mutual Fund Companies (AMCs) as per the standard rates declared by the company.

If an IMF appoints a Mutual Fund Distributor as its FSE, the FSE will get a trail commission from the AMCs; but, **there is no provision to get any "Service Charge" to the IMF from the AMC**.

An AMFI registered company qualified to work as Mutual Fund Distributor/ Broker, can appoint individuals as its sub-brokers and can bargain with the AMCs depending on the quantum of Assets under advisory to get rates of commission or brokerage higher than the standard rates. In such cases the Broker Company can earn over & above the basic commission of individual Mutual fund Distributors working under it.

2) Pension Products regulated by PFRDA:

An individual who is a graduate in any discipline and possess a valid certification on 'Retirement Planning' or 'Retirement Advisory services' issued by National Institute of Securities Market (NISM) or an 'Investment Advisor' under SEBI regulations can get himself registered with PFRDA as 'Retirement Advisor' (RA).

The 'Retirement Advisor' can engage in the activity of providing advice and facilitating on-boarding to 'National Pension System' or any other pension schemes regulated by PFRDA, to the prospects or subscribers. An IMF can appoint such 'Retirement Advisor' as its FSE.

At present, an individual Retirement Adviser appointed as FSE by an IMF may charge fees from the prospect, subject to the maximum of charges as specified by PFRDA; **but there is no provision for payment of any "Service Charges" to the IMF for the activities of its Retirement Advisor.**

3) Other Financial products distributed by SEBI licensed Investment Advisors:

"Investment advice" is advice relating to purchasing, selling or otherwise dealing with securities or investment products and advice on investment portfolio containing securities or investment products, whether written, oral, or through any other means of communication for the benefit of the client and shall include financial planning.

As per SEBI (Investment Advisers) Regulations, 2013, notified on January 21, 2013, no person shall act as an Investment Adviser or hold itself out as an Investment Adviser unless he has obtained a certificate of registration from SEBI on and from the commencement of IA Regulations unless an exemption specifically applies. An individual with a post-graduate degree in finance-related topics or a graduate in any discipline with five years experience in the financial sector can take two exams (Level 1 and Level 2) conducted by NISM and get registered with SEBI as 'Registered Investment Advisor (RIA)'. In lieu of these two certifications, the person can pass CFP as well. As per the guidelines, **SEBI licensed Investment Adviser shall not undertake any distribution/execution services pursuant to the grant of registration.**

RIA cannot sell any financial product, but he can provide a financial plan for an individual. RIA works on the 'Fee-only' module. RIA gets upfront fees from the clients.

An Insurance Marketing Firm distributes Insurance Products of the Insurers with whom it has tied up. Hence, whether an IMF can appoint RIA as its FSE is to be verified from the concerned Authorities. An IMF cannot earn any 'Service charges' by appointing SEBI approved Financial Advisors.

4) Banking/ Financial products of Banks/ NBFC regulated by RBI:

Generally, a bank or an NBFC registers suitable individuals as their Direct Sales Agents (DSAs) to market their retail products like loans, credit cards, and consumer credits. The Bank or NBFC centers into DSA Agreement with an individual and allots DSA code to the individual and also provides the necessary training to him.

> In rural areas, RBI has allowed banks to appoint Business Correspondents (BCs) / Business Facilitators to help the customers in opening a savings bank account and dealing with petty cash transactions. Business Correspondents can meet the last mile customer.

The DSAs work as a referral agent and find potential customers for the bank/ NBFC they represent. For the effort put in by the DSA, a payout – say, a percentage of the loan amount – is provided to the DSA.IMF can appoint DSA of any bank/NBFC as its FSE. The DSA would get his payout, **but there is no provision for payment of Service charges to IMF by the bank/ NBFC.**

5) Non-insurance products offered by Dept. of Posts, Government of India:

Other than Postal Life Insurance, the Indian Post office has financial products like Kisan Vikas Patra / National Savings Certificate / Term Deposit / Monthly Income Scheme, etc. To promote the sale of these products by liaison between post offices, District Institutional Finance Offices & Investors and to render the services at the doorstep of the Investors, Individual or Institutional agents are appointed by the District Collectors under the ‘Standardized Agency System (SAS)’. The SAS agent is eligible for a 1% commission against the collections made by him under specified postal products, from respective post office/bank. (In the State of Maharashtra, there is no appointment of SAS agents since 2005.)

India post has now introduced the ‘franchisee scheme’ through which the counter services like - Sale of stamps and stationery, Booking of Registered articles, Speed Post articles & Money Orders, etc. are to be franchised. The selected franchisee will sign a Memorandum of Agreement with the Department. The selection is done considering the capacity of a person to manage and market a range of products, his sense of the community needs and public aspects of the job, and his willingness to accept technological options.

An IMF can appoint SAS agents of Post office as their FSEs. **There is no provision for payment of any ‘service charges’ to an IMF by the Post office for the services of the SAS Agent**.

Thus, at present, an IMF cannot earn any ‘Service Charges’ for the services rendered by its FSEs. It is also reported by the IMFs that they are not appointing FSEs for various reasons.

From these discussions, it can be seen that – presently, IMFs do not undertake servicing activities for Insurers, cannot become Approved Person of Insurance Repositories, and cannot earn any service charges from the financial entities for the services rendered by their FSEs.

And hence, presently, the Source of Income for an IMF is only from the Insurers and it is in the form of –

1. Commission/ Remuneration from tied up Life/ General/ Health Insurers for the sale of Insurance Products
2. Reimbursement of expenses on ISPs, if eligible, only from Life Insurers

Expenses of an IMF:

The new entrants of IMF businesses who are starting from scratch have to incur a heavy cost (around Rs. 2.5 lakh) at the beginning. An IMF also has to spend a considerable amount (approximately Rs. 50,000) every month for running the business.

On the income side, the IMF relies solely on the Remuneration and Reimbursement (Life side) from Insurers. Hence, in the present situation, the sale of Insurance Products and ultimately, the performance of an 'Insurance Sales Person (ISP)' - who solicits and procures Insurance products – plays a vital role in the financial viability and Sustainability of an IMF.

5.1.2.2. Insurance Sales Person (ISP) of an Insurance Marketing Firm:

As per Part II of Schedule II of the IMF Regulations, the ISP of an IMF should be a 12th pass individual who is resident of the district opted by the IMF and who has undergone the training prescribed by the Authority and has qualified in the examination. In India, Insurance still being a 'Push' product, the ISP needs special skills to identify the prospects and to explain to them the Insurance products and their benefits. The ISP also requires a lot of patience and he must be provided with a strong handholding while passing through a lot of rejections from the clients.

This 'Insurance Sales Person (ISP)' is the only 'source' of income for an IMF and hence the financial viability and sustainability of an IMF has to do a lot with the number and the quality of its ISPs. The financial health of an IMF also depends on the training and the support the ISPs get from the (Principal Officer of the) IMF and the ability of the IMF to retain its productive ISPs. The IMF Amendment Regulations issued in July 2019 has now also allowed the 'Principal Officers' to solicit and procure Insurance Business.

Conditions to migrate from the existing Agency Appointment to an IMF:

Apparently, for an established Insurance Agent, starting an IMF is a great business opportunity; because with some additional Net Worth, he can continue with his core business with a wider product basket of multiple financial providers. Certainly, a person who has a fair experience of the diversities and complexities of Insurance marketing can take up an IMF on a strong footing.

As per Part II (2) (ii) of Schedule IV of the IMF Regulations, "an individual agent cannot migrate or join any IMF as a PO/ISP/Managing Partner/ Director unless he has resigned from his existing Agency Appointment… Provided that the continuation of agency benefits of an agent migrating to or joining an IMF shall be governed by the Board approved policy of the respective Insurers". Normally, **Insurers do not pay Renewal commission or continue Agency benefits to such agents who migrate from the Insurance Company to an IMF.**

The commission to a general Institute agent is paid on the yearly agreements and there is no Renewal commission. But, in the Life Insurance segment, the Renewal Commission of agents runs for many years depending on the term of the policy. Hence, the experienced Life Insurance agents with a long-standing would not form or join an IMF for the fear of losing their many years of handsome Renewal commission on resigning from their existing Agency appointment. Thus, the **IMF Models find themselves deprived of the experienced Life Insurance Salespersons who have good selling skills and an excellent sense of the Insurance Market.**

Fixed pay and Variable pay to an ISP:

For a beginner ISP it takes a long time to become productive**.** An IMF spends money, energy and some months on the training and mentoring of the ISP, only to let time to tell whether the investment on the ISP was fruitful or not. Still, an IMF is required continuously to search for suitable persons in the market and continue to appointing new ISPs.

As per Part II (1) of Schedule IV of the IMF Regulations, every ISP shall be paid a fixed minimum monthly salary as per the applicable laws. Variable pay over and above the fixed monthly salary may also be paid depending on the arrangement between the IMF and the ISP.

Thus, an IMF has to pay a fixed payment to an ISP as per the current provisions of the ‘Payment of Minimum Wages Act’ of the State and of the Zone in which the IMFs fall into. E.g. Pune city falls under Zone I of Maharashtra and ISP of an IMF would be a skilled worker. Thus, in March 2020, the minimum payment to an ISP in Pune would be around Rs. 12,000/-.

This peculiar requirement of ‘fixed pay’ may attract some individuals to work as an ISP of an IMF, but it has its disadvantages:

a. In the initial months of struggle when an IMF is earning very less, the IMF would face the burden to give a fixed pay to an ISP who may not become productive initially.
b. Once an ISP gets a regular fixed pay, he/she may become complacent and may lose the urge to go about in the market for business, if he is not a person with high goals.
c. The considerable amount of fixed pay to an ISP clubbed with the trial period for an ISP, discourages the IMFs from appointing more ISPs to expand their business. The IMFs tend to prefer ‘the PO and one ISP’ model; thus limiting the scope of their business and deterring the very purpose of Insurance Penetration.

Attrition of ISPs:

An IMF may invest a large amount of time, energy and money to nurture an ISP. The IMF always faces the business risk of migration of its trained ISP to another IMF or an Insurance Company as its tied Agent. To mitigate the risk of attrition of its ISPs, the IMF must be able to provide to its ISPs-

1) Attractive and Competitive pay scale which would be directly proportional to the business performance of an ISP
2) A wide product range of multiple Insurers which would increase the probability and frequency of sale of the Insurance products by the ISP, thereby fairly increasing his income than the income if he would have been having when tied to a single Insurance company or another IMF.

Along with the necessary business skills, both - the IMF as well as the ISPs – have to understand the importance of hard work, a reasonable and transparent pay structure, and the extra benefits for quality & loyalty, for mutual benefit.

In the current scenario, the IMFs - started by beginners - have to struggle hard to appoint, train and retain the ISPs. Owing to the lack of experience and expertise in the Insurance field, it takes them a very long time to understand the market and attain the breakeven point. It would be no wonder that the IMFs which are put to difficult tests of patience to attain the financial viability, would silently walk towards 'EXIT'.

Till 31st December 2019, 17 Registrations of IMFs were cancelled and Registrations of 25 IMFs were not renewed. The reasons thereof can be studied separately. Amongst others, an IMF from Karimnagar gives its reason for cancellation as - "Facing difficulties in operating in the given geographical locations". Another IMF from Coimbatore applied for cancellation under the reason "Business scope under this channel is not as much prospective".

The low number of IMFs formed and the exit of some IMFs indicates that 'the IMF' does not seem to be an attractive option for the entrepreneurial minds.

Inference:

From the discussions so far, it can be inferred that – though the IMF Regulations mention various sources of income for an IMF, in fact currently, the IMFs are not undertaking Servicing activities of Insurers and also, they are not becoming 'Approved Persons' for Insurance Repositories. The IMFs are not appointing 'Financial Services Executives (FSEs)' for various reasons and they are not getting benefits of cross-selling of products.

Remuneration and reimbursement from the Insurers is the only source of income for an IMF. Hence, the expertise of an IMF in the sale of Insurance Products and the number and quality of its Insurance Sales Persons (ISPs) would determine the financial health and growth of an IMF. However, the IMF channel is deprived of experienced Life Insurance Salespersons who have good selling skills and a better sense of the Insurance

Market. The IMFs also have the dissent over 'fixed pay structure' for the ISPs and the attrition of ISPs.

Overall, the financial viability and sustainability of the IMF Model are under question. The number of cancellations and non-renewal of IMF registrations indicate the difficulty of the IMFs in continuing with their business.

In a nutshell, it appears the IMF channel is not being supported well by the Insurers and it is also seen as an non-attractive channel for the prospective entities to own it. The result is that, during the five years from its inception the channel has not taken roots as expected and only 332 IMFs are registered.

5.2. The Percentage of 'IMFs Registered' to 'NOCs issued' is low:

It is a point of concern that the cumulative number of NOCs issued by the IRDAI till 31st December 2019 was 1,537 whereas the NOCs realized into IMFs were only 332 i.e. 21.60%. The cumulative percentage has been stagnating at a similar level for the last 3 years with the figures of 17.98%, 21.41% and 19.76, for F.Y. 2016-17, 2017-18 and 2018-19, respectively.

The yearly figures of the percentage of 'IMFs Registered' to 'NOCs issued' from F.Y.2016-17 to F.Y. 2018-19 were 16.86%, 27.52%, and 15.54% respectively. During the first 3 quarters of F.Y. 2019-20, the number of NOCs issued is 161; out of which 60 IMFs have been registered. The realization rate seems to be improved to 37.26%. But, it still remains low.

Initially, the IMF regulations stipulated the IMFs to have tie-ups with two Life, two non-Life, and two Health Insurance companies at any point in time. However, vide its Circular dated. 2nd March 2016, the IRDAI clarified that the IMFs need not compulsorily tie up with all 6 Insurers. In other words, an IMF can be started even with only one tie-up. As reported, practically many entities could not complete the formalities for tie-ups with all 6 Insurers, and in the early days, unaware of the clarifications issued by the IRDAI, they did not turn for Registration with the IRDAI. It was reported that some IMFs even had to struggle hard to get completed the tie-up formalities from even one Insurer.

Also, it is reported by some Insurers that the IRDAI portal (imf.irda.gov.in) for getting NOC was not user-friendly and on many occasions, the process took a very long time. Because of the technical problems and a great delay involved in the whole process, many prospective entities got irritated and lost their focus on IMF business. They quit the idea of the formation of an IMF and after getting NOC did not turn to the IRDAI for getting registered as an IMF.

The fact that the initial enthusiasm of entities appearing to obtain NOCs gets waned till they reach the stage of Registration of IMF – may be pointing that the primary research done by the prospective IMFs might not have provided them a lucrative picture of IMF, for various reasons.4.3

It is also to be noted that the 'number of NOCs issued by the IRDAI per year' is also reducing gradually. It was 593 in the F.Y. 2016-17, 386 in F.Y. 2018-19, and only 161 during the first 3 quarters of F.Y. 2019-20.

5.3. IMFs are present only in 94 districts and concentrated in Tier-I cities:

As discussed earlier, the IMF channel requiring a low net worth and facilitated to sell multiple financial products, was supposed to penetrate even into faraway districts. Eventually, expand taking advantage of cross-selling of products and added footfall with Insurance Servicing activities. But the fact is that during five years from the launch, the IMFs have entered into only 94 districts out of 718 districts of India and that too are concentrated in big cities. The picture is far from the expectations and the probable reasons maybe –

1) As per the IMF Regulations, an IMF can log-in the business only with the office of the Insurer present in the district, it has opted. Hence, the IMFs can be formed only in the districts in which there is a presence of the offices of the Insurers. The Insurers do not have their offices in all the districts of India. In many districts of the North Eastern States, there is no presence of Insurers, Brokers, and IMFs.
2) The IMF channel has not been embraced by many Insurers for their distribution and not all the Insurers have their offices in all the districts. The disinterest of the very

Insurers who are the only Insurers present in a particular district may prohibit the formation of an IMF in that district.

3) The prospective IMFs may not find the presence of 'Insurer of their choice' in their district.
4) It seems that there is a lack of awareness about the IMF Concept amongst the prospective entities, especially from semi-urban and rural areas. The Insurers may not be interested to motivate the target entities to take up the IMF business.
5) In some areas the Insurance arena might have already occupied by other strong Insurance Intermediaries like tied agents and the weak beginners may not want to enter into fierce competition. The existing robust Insurance Agents may not be finding the IMF idea as a lucrative business opportunity for reasons as discussed earlier.
6) The IMF idea may not sound a financially viable and sustainable one for the prospective IMF owners in the area and they may not wish to enter into the IMF business.
7) In large Cities, the IMF idea may be taken up as an opportunity to market Insurance products of multiple players with low Net Worth requirement. But, it seems that the basic idea of the IMF model comprising of 'Cross-selling of a whole range of financial products leveraging the relationships has not worked out in other areas, probably because of the lack of awareness and the inherent limitations.
8) The recent amendment of the IMF Regulations has compelled the IMFs to include one 'Aspirational District' for their expansion to other districts. This condition seems to have become a hindrance to the expansion of successful IMFs, at least to their adjacent districts.

The IMF Channel: The Challenges

The number of IMFs registered during 5 years from inception is low (332)-

The reasons can be attributed to lack of awareness and lack of willingness for various reasons, of both – the Insurers and the prospective IMF owners.

From the Secondary data and the feedback received from the IMFs, it is observed that the majority of the Insurers are not inclined to accept IMFs as a distribution channel, though a few Insurers are taking conscious efforts to create a robust channel of IMFs.

For the prospective entities, the IMF channel might not be appearing as lucrative. Presently Remuneration & Reimbursement from the Insurers is the only source of income for an IMF. The IMFs also have concerns over the 'fixed pay structure' for the ISPs and the attrition of the ISPs. The IMFs are not appointing 'Financial Services Executives (FSEs)' for various reasons and they are not getting benefits of cross-selling of products. The IMFs are not undertaking Servicing activities of Insurers and they are not becoming 'Approved Persons' for Insurance Repositories. The number of cancellations and non-renewal of IMF registrations indicate the difficulty of the IMFs in continuing with the business.

The result is that during the five years from inception the channel has not taken roots.

The Percentage of 'IMFs Registered' to 'NOCs issued' is low:

The percentage of 'IMFs Registered' to 'NOCs issued' was stagnating around 20% over the 4 years since inception. Though it has improved to 37% for FY 2018-19, it is still low.

It is reported that, in the initial years, the IMFs could not complete tie-up formalities with 6 Insurers and did not turn for registration. It is also reported that the technical problems with the IMF Portal and the delay in getting NOC has de-motivated many prospective entities from getting registered as IMFs. The IMF model might not have provided a lucrative picture for some of those entities who quit the idea of IMF after getting the NOC.

IMFs are present only in 94 districts; IMFs are concentrated in Tier-I cities:

Though IMF channel is facilitated with the wings of Insurance Products, Insurance Servicing activities, Financial Products and requirement of a low Net worth, it has not penetrated all the districts of India as per the expectations at the time of its launch. The reasons maybe –

The Insurers are not present in all the districts of India, many Insurers have not accepted IMF as their distribution channel, lack of awareness about IMF concept amongst the prospective entities, IMF idea may not sound a lucrative idea for the prospects, the compulsion of the addition of an Aspirational District for expansion may be a hindrance.

CHAPTER 6

The Areas of Concern for the IMFs and the Insurers:

The IMFs and the Insurers have also reported their concerns as follows:

6.1. The Process to get NOC from the IRDAI:

It is reported by the Insurers and the IMFs that,

1. The IMF portal is not user-friendly and many technical issues are associated with it.
2. The requests for NOC remain unattended at IRDAI for a long time.
3. The Requirements are informed in piecemeal causing further delay.
4. It is very difficult to have telephonic contact with the IRDAI officials.

Overall, the technical problems and the delay in the process to get NOC from the IRDAI appears to be very discouraging for the prospective IMF owners.

The effects are –

a. The Morale of the initially enthusiastic entrepreneur goes down drastically during the irritating and lengthy process for NOC and he quits the idea of IMF formation for the fear of having similar experiences in the future.

b. The Insurance Company officials who try to help the prospective IMFs during the process are the only communication points for the aggrieved prospects. Their relations get strained in the process of obtaining the NOC. Consequent bad publicity of the Insurers in the market makes it difficult for them to get new prospects

c. It is reported that there is no initial support from the IRDAI during the NOC process and the prospective IMF owner has to have a tie-up with the Insurance Company which holds his hand during the process; though he/she may not be interested in working with that particular Insurance Company

6.2. The Process of Registration of an IMF with the IRDAI:

The IMF Registration process appears difficult for the prospective IMFs for the following reasons:

a. Many Insurance Companies are either not aware of the IMF concept or are not willing to have IMFs as their distribution partner. Many times their Ground level staff is not aware of the exact procedure for a tie-up and the prospective IMFs have to run from pillar-to-post for getting the consent and completing other formalities. It is reported that there is no handholding or motivation from many Insurers during the IMF Registration process.

b. Also, there are problems related to IMF Registration on the IMF portal

6.3. Limit on the Maximum number of tie-ups (two) with the Insurers:

The area of operation for an IMF is limited to a district. As per the IMF Regulation (3) a. (i), IMFs are allowed to have tie-ups with two Insurers from each segment. At present, the Sale of Insurance products is the only source of income for IMFs. The IMFs can do well and retain their ISPs only if they get maximum business opportunities with a full product range for any particular benefit.

Hence, the IMFs are demanding for an increase in the number of tie-ups in each category.

Some IMFs also want to specialize in one Insurance category, say Health or Non-life, and expect more tie-ups in that particular category.

The IMFs have also reported that ECGC and AIC are not responding to tie-up requests of IMFs.

6.4. Change of tie-ups with the Insurers:

The IMF Regulations 3 a. (i) states – "…. Provided further that any change in the engagement of Insurers shall be governed by the terms of the agreement entered into between the Insurance Marketing Firm and the Insurer, with a suitable arrangement for servicing existing policyholders by the concerned Insurer, in case of cancellation/ termination/ discontinuity of agreement…"

The format of the Tie-up Agreement between an Insurance Company and an IMF has not been standardized.

Some IMFs want to change their existing tie-up with an Insurer. The Tie-up Agreement of some Insurance Companies does not provide any clause for the exit of an IMF from the tie-up. Sometimes the agreement also does not provide for any arrangement for payment of Residual Commission or continuance of Renewal commission to the IMF after its exit from the tie-up.

In such cases, though an IMF faces difficulties while dealing with the Insurer, the IMF cannot come out of the agreement and have a tie-up with another Insurance company till Renewal of the IMF registration or till the end of the Agreement period. This causes loss to the IMF on the business front.

6.5. The Geographical area of operation for an IMF :

As per Part III(1) of Schedule IV of the IMF Regulations, an IMF is free to solicit or procure Insurance business from all over the country but the business so procured must be logged in at the Office of the Insurance Company within the area of its operation**.**

> **IRDAI Website - Frequently Asked Questions (IMF):**
>
> **Q. 10) Can an IMF procure insurance business from outside its district/area of operation?**
>
> Yes. An IMF is free to solicit or procure Insurance business from all over the country but the business so procured must be logged in at the Office of the corresponding Insurance Company within the area of its operation.

As per Part III of Schedule IV of the IMF Regulations, a maximum of three districts within a State are allowed for Registration/Renewal of an IMF. It also says that, if an applicant is opting for more than one district, at least one of the districts shall be an 'Aspirational district' as per the list published by NITI Aayog, Government of India.

The IMFs are demanding that the condition for Inclusion of one Aspirational District for expansion to other districts should not be insisted.

6.6. Fixed Payment to ISPs:

As per the IMF Regulations, an IMF has to pay a fixed remuneration to ISPs as per the provisions of 'Payment of Minimum Wages Act' of the State and the Zone in which IMFs fall into. Over and above fixed pay, an IMF may also pay a variable component to an ISP depending on his performance. The IMFs have expressed their unhappiness over the arrangement of 'fixed pay' for various reasons as discussed earlier.

6.7. Remuneration to IMFs by the Insurers:

As per the Regulatory provisions, every Insurance company can decide on the relative rate of commission to be paid to any distribution channel. Every Insurance Company is free to select its 'channel of choice' and design its commission rates accordingly.

Some IMFs have reported that some Insurance companies pay higher rates of commission to tied agents or brokers than that to IMFs. The IMFs expect parity with the rates of commission.

Also, as per the IMF Regulations, only Life Insurers may provide Reimbursement to IMFs of expenses towards recruitment, training and mentoring of their ISPs. The IMFs expect similar reimbursement from the General as well as the Health Insurers.

6.8. Back office activities for the Insurers:

It was reported that Insurers, as well as IMFs, are not aware of the activities that can be outsourced to IMFs. It was also reported that the Insurers are not willing to allow IMFs to take up their Back office servicing activities.
Though a few IMFs have shown disinterest in taking up such activities for Insurers, many IMFs want to take up servicing activities for Insurers.

6.9. Appointment of FSEs and selling of other Financial Products:

It was reported that the IMFs are not clear about selling financial products regulated by other Authorities. The IMFs are not clear about whether the licensed Individuals are to be appointed as their FSEs or whether the licenses/Certificates from the Financial Regulators for selling the financial products are to be taken in the name of the IMF.

It was also reported that some IMFs are not appointing FSEs as they are finding it difficult to get suitable persons who want to get associated with the IMFs. Some IMFs have also expressed their disinterest in selling the products of other financial entities. Thus, it appears that as of today, IMFs are not leveraging on the idea of cross-selling of financial products.

The Areas of Concern reported by the Insurers and the IMFs:

1) The Process to get NOC from the IRDAI appears to be very discouraging for the prospective IMF owners because of technical problems of the IMF Portal of the IRDAI and the delay in the process. It erodes the morale of the initially enthusiastic entrepreneurs and it also strains the relationship between the handholding Insurer and the prospective entity.

2) Many Insurers are not willing to have tie-ups with the IMFs or their ground-level staff is not aware of the IMF concept and hence the IMFs find it difficult to complete tie-up formalities with the Insurers. Also, some technical problems are associated with the IMF portal.
3) To get a maximum business opportunity, retain the ISPs and attain financial viability, the IMFs are demanding for an increase in the number of permissible tie-ups with the Insurers. The IMFs also want to specialize in one of the Insurance Segments.
4) The tie-up agreements of some of the Insurers do not have any provision for the exit of the IMF from the contract before the end of the agreement period.
5) The regulatory condition of inclusion of one Aspirational district while expanding an IMF to two more districts at the time of Renewal proves to be a hindrance for expansion of IMFs as it is not practicable for them to expand to an Aspirational district which is geographically far from the district opted by an IMF.
6) The provision of fixed pay (equivalent to Minimum Wages of the land) to an ISP poses various problems for the IMFs.
7) Some Insurance Companies pay commission to other channels such as tied agents or brokers at a rate higher than that for 'IMF channel'. Also, the IMF regulation has not provided for reimbursement of expenses on ISPs by the General Insurers and the Health Insurers.
8) The Insurers and the IMFs are not aware of the Servicing activities that can be taken up by an IMF.
9) The IMFs are not appointing FSEs for sales of other financial products as they are not clear about whether the licensed individuals are to be appointed or the IMF as an entity is to take a license for such sale. The IMFs also find it difficult to get suitable individuals who are willing to work with an IMF.

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We have discussed the challenges and the areas of concern for the IMFs and the Insurers, in detail. Also, we have tried to analyze the financial viability and sustainability of the present IMF set up. Now, the following section would provide some Suggestions/ Recommendations to address these issues.

CHAPTER 7

Suggestions / Recommendations:

7.1. Part I - To Improve the Financial Viability and Sustainability of an IMF:

7.1.1. Ensure Continuity of the Agency benefits to Insurance Agents who become an IMF:

The IMF channel needs skilled and experienced personnel from the Insurance field. Presently, the individual Insurance Agents do not want to become an IMF because they lose their agency benefits on resigning from their Agency appointment. It is not the Regulatory condition of "Resigning from the existing Agency Appointment" - which prevents the experienced Insurance Agents from taking up IMFs, but it is actually "their probable deprival from their hard-earned, well-deserved agency benefits like Renewal commission after resignation" - which keeps them away from taking the IMF route. Hence, instead of the individual Insurance Companies frame their rules, the Regulator may direct that the benefits being paid to the migrating agents are to be safeguarded/continued. The Insurance Regulator needs to take concrete steps to ensure the continuance of the Agency benefits to such migrating Agents on the lines of SEBI as mentioned below.

FREQUENTLY ASKED QUESTIONS (FAQs) -SEBI (INVESTMENT ADVISERS) REGULATIONS, 2013
Q. 28. Whether an individual registered as an investment adviser can receive a trailing commission for the distribution services provided before the grant of registration?
Yes. Individuals registered as investment advisers can continue to receive the trailing commission for the distribution services provided by them before granting of registration as an Investment Adviser.

Traditionally, an Insurance Company gets business from the tied agents who are supervised by their Agency Managers. By having a tie-up with an IMF, the Insurer gets the business from the ISPs/ PO who are managed by the IMF. But, as the IMF may also work for the competitors, the continuance of agency benefits to an agent migrated to an IMF may pose a problem to the Insurers.

But, this move to motivating the talented and entrepreneurial Insurance Agents to embrace the IMF concept is essential for the benefit of all the stakeholders. With the active support of such marketers, the IMFs would grow in their performance and also, the business-minded IMFs would sincerely think for their further geographical expansion to the remote areas of the country.

7.1.2. Increase the permissible number of tie-ups and provide scope for Specialization:

An IMF can market only retail lines of business and the area of operation of an IMF is restricted to within the District(s). To earn better revenue, retain its ISPs and sustain in competition, an IMF should be enabled with enough product variety. For any Insurance segment, it is difficult that the full product range gets covered with the product baskets of only two Insurers.

Hence, to provide a considerable business opportunity, **an IMF may be allowed to have at least three tie-ups each in all the three segments** - Life, Non-life, and Health. Also, the tie-up arrangement of IMFs with ECGC and AIC should be taken care of.

Also, the IMFs may be allowed to decide on their "Insurance Segment of Choice" and to have more number of tie-ups in that segment (out of total suggested 9 tie-ups). e.g. if an IMF feels that 'Life Insurance' is its core strength and wants to focus on Life Insurance, it may be allowed to have tie-ups with say, 5 Life Insurers (out of total 9 tie-ups and 2 tie-ups each from other two categories).

This flexibility of tie-ups and provision for specialization would help the IMFs to concentrate and progress in their core area of interest, along with maintaining a scope to provide a Comprehensive Insurance Solution with other tie-ups.

7.1.3. Modify Pay Structure of ISPs:

The regulatory provision of 'Fixed Payment of Minimum Wages' to an ISP has various disadvantages as discussed earlier. Hence,

1. The regulatory Provision of treating an ISP as an employee of IMF and the 'Payment of Minimum Wages to ISP' need to be removed
2. The regulatory relationship between an IMF and its ISP should be such that an IMF may pay only variable remuneration to its ISP, depending upon his tenure as an ISP

and the quality and volume of the business he brings in. An IMF may decide on the rate of variable pay to its ISP, to make it competitive to attract and retain the marketing talent.

The 'only Variable pay to ISP' model would motivate an IMF to appoint more number of ISPs from all over the district without much financial burden on the IMF in the early stages. It would also increase the productivity of individual ISPs and ultimately, it would work to weed out the wrong selection on both sides, as time passes.

- Though the IMF Regulations mention 'FSE' as an employee of an IMF, it does not speak about any wages to 'FSE' by the IMF.
- The Corporate Agent Regulations does not speak about 'Minimum wages' to 'Specified Person' of Corporate Agent.
- The Broker Regulations does not speak about 'Minimum wages' to 'Specified Person of Brokers

7.1.4. Ensure better Remuneration from the Insurers:

As per the present Regulatory provision on payment of remuneration to the intermediaries, the Insurers have the discretion to decide on the relative weightage of all their intermediaries while deciding the basic commission/ remuneration structure. Hence, the Insurers can pay more to the tied Agents or the Brokers.

To strengthen the IMF channel, the Insurers may be encouraged to accept IMFs as their valuable distribution partners and pay them the competitive commission rates for mutual benefit.

7.1.5. Provide for 'Reimbursement of expenses on ISPs' from all the Insurers:

As per the IMF Regulations, **only the Life Insurers** may reimburse the expenses towards recruitment, training, and mentoring of the ISPs, to the IMFs.

The ISPs work for the Insurers from all the three segments. There need to be regulatory changes so that the General, as well as the Health Insurers, may also reimburse the IMFs their expenses on ISPs. The rate and structure of this overriding reimbursement may have a rational relationship with the business parameters of an

IMF, like the volume of the business, persistency of the policies, the number of ISPs appointed, and the retention of ISPs, etc.

The rate of Reimbursement needs to have a logical parity for all the three Insurance segments and the rate of Reimbursement can be decided in such a way that – an IMF would get a reasonable reward for its extra efforts on ISPs and still, the IMF remains a cost-effective welcome channel for the Insurers to outsource part of their marketing/and servicing job.

7.1.6. Create awareness and willingness to outsource servicing activities of Insurers:

According to the provisions of the IRDAI (Outsourcing of Activities by Indian Insurers) Regulations-2017, the Insurers can outsource many activities except their core functions. Though these regulations prohibit the Insurers to outsource these activities to the intermediaries, the IMF Regulations allow the IMFs to take up such activities. But presently there is no awareness, clarity, and willingness amongst both - the Insurers as well as the IMFs - regarding the functions that can be outsourced by an Insurer to an IMF.

Hence, on the backdrop of all the regulatory provisions, a participative discussion can be had with all the Insurers to enlist the activities that can be outsourced to the IMFs and to understand the concerns of the Insurers, if any. The Regulator needs to provide clarifications/ solutions wherever necessary.

Once the insurers are ready with their servicing platform to be outsourced to the IMFs, the IMFs may be made aware of, and encouraged, to take up servicing activities for the insurers. The opportunity of servicing the existing policyholders would provide leads to the IMFs (it may be called 'Data leakage' by some) which in turn would help them to further the business for mutual benefit.

7.1.7. Discuss practicability & create awareness about the sale of financial products:

As per the IMF Regulations, an IMF can appoint the following individuals as its FSEs to market the respective financial products:

1. An AMFI registered 'Mutual Fund Advisor' to sell the products of registered Mutual Funds.

Presently, there are 1000+ Mutual Fund Advisors in India.

2. A PFRDA registered 'Retirement Advisor' to sell the pension products of PFRDA. The website 'npscra.nsdl.co.in' shows a list of 61 registered individuals 'Retirement Advisors' in India, as on 09.01.2020.
3. 'Bank' or 'NBFC' registered 'Direct Sales Agents' (DSAs) to sell products like a loan, credit cards, etc. Many banks and NBFCs have their fleet of DSAs.
4. 'Standardized Agency System (SAS)' Agents of Post Offices (who are appointed by District Collectors) for sale of non-Insurance products of Post office like NSC, KVP, MIS, etc.
5. **A SEBI registered 'Registered Investment Advisor' (RIA) is not supposed to undertake any distribution. IMF distributes many Insurance Products and financial products. Hence, whether an IMF can appoint an RIA as its FSE, is to be verified from the concerned Authorities.** As per the list appearing at the website of SEBI (Intermediaries), there are 1,291 RIAs in India, as on 12.03.2020.

Although a facility has been provided to the IMF to take advantage of cross-selling while providing a complete financial solution to a client, but in reality, it is observed that the IMFs do not appoint any FSEs for various reasons like - lack of awareness, lack of interest, lack of suitable persons who are interested to work with an IMF, etc. Also, some IMFs have a basic confusion – whether the Individuals are to be appointed as FSEs or the Licenses/ Certificates for the sale of financial products are to be taken in the name of the IMF itself.

At present, there is limited scope for an IMF to appoint a 'Mutual Fund Advisor' or a 'Retirement Advisor' as it's FSE because the number of persons working as such advisors is very low. But, an IMF can appoint a DSA of any Bank/NBFC or a SAS Agent from a Post office as its FSE.

The wording "Insurance Marketing" in the name of an IMF points to "Insurance" as the core interest & expertise of an IMF. While convincing a qualified individual to work as FSE under the name of an "Insurance Marketing Firm", it would be necessary to emphasize the monetary benefits other than cross-selling that the individual would earn from its association with an IMF as its FSE.

In a nutshell, to broaden the canvass of financial products in the present environment, the Regulator can have discussions with other financial market Regulators and entities to find suitable models for the distribution of financial products through Individual FSEs or IMF as an entity.

Once the framework for the distribution of other financial products gets ready, the IMFs may be made aware of the details of all such financial products, the required Certifications/ Registrations, the commission structure, receivable service charges, if any, etc. The IMFs may be motivated to sell all the financial products along with Insurance, in turn, to provide a complete financial solution while leveraging it for deeper penetration.

7.2. Part II: To increase Geographical spread and penetration of the IMFs:

7.2.1. Ensure Acceptance and Support to IMF channel by the Insurance Companies:

The geographical spread of the IMF channel and its presence in every district of India is possible only with the support and acceptance of the channel by all the Insurers. And the Insurance Companies would come forward and welcome IMFs as their distribution partners only if they find some value in this channel regarding its potential for business performance and its ability to penetrate the distant and rural areas in a cost-effective manner.

The present scenario shows that, in the Life Insurance segment, 'Max Life Insurance' has tied up with 171 IMFs. The Insurer is taking special efforts to identify the prospects and form new IMFs. 'LIC of India' has 68 IMFs tied up. In the General Insurance segment, the 'New India Assurance' has 50 tie-ups and in the Health Insurance segment, 'Star Health' has 59 tie-ups. These companies are increasing their tie-ups with IMF channel. The number of IMFs tied up by these Insurers **CERTAINLY points towards the value the channel has for the Insurers.**

Now, the Regulator needs to take steps to add some more value to the IMF channel and improve its financial viability and sustainability with the support of all the stakeholders. The Regulator needs to increase the tie-up potential of the IMF channel by modifying the number of permissible tie-ups and it should promote collaboration of the IMFs with all the Insurers. The Regulator needs to take every effort to encourage the Insurance Companies to discuss the IMF Concept and clear the clouds of doubt to get the channel accepted by all the Insurers.

The following are some of the suggestions for the Insurers:

1. The Insurers need to create a special vertical for IMFs and they need to have in place their IMF related policies, procedures and documentation.
2. The Insurers are the ones who can reach the grounds of India and they should create awareness about IMF as a distribution channel amongst target individuals and entities such as Retired Personnel, educated youngsters and existing business entities and try to popularize the IMF concept
3. The Insurers are required to educate their grass root level staff regarding the entire IMF Registration Process and train them to provide support to IMFs while formation and tie-ups.
4. The Insurance Companies need to have their well-developed internal software system to support the IMF channel. They need to make modifications in their software as soon as any IMF related change/amendment takes place e.g. addition of new products, approval for a tie-up, etc.
5. Insurance Companies can provide an IMF portal, similar to Agency Portal, to the IMFs.
6. **The Insurers have to pay special attention to the North Eastern Region and promote the IMFs in consonance with various Developmental activities carried out in these areas by Government Authorities aiming at growth parity of the region with the rest of the country**

7.2.2. Provide for additional incentive to IMFs for bringing business from deprived areas:

One may not prohibit the IMFs from concentrating on big cities, but one can certainly incentivize IMFs for working in the deprived areas.

The Regulator needs to define and systematically grade the untouched districts/Insurance pockets in India and should come up with an arrangement of additional remuneration to the IMFs for their Registration in such areas and bringing business from such areas. This initiative will attract the potential entities/ Individuals from such areas to take up IMFs.

To increase Mutual Fund penetration beyond top cities in India, in 2013, SEBI declared the top 15 cities in India and provided for payment of additional brokerage for the Mutual fund business coming from places other than the top 15 cities. Now, as per SEBI circular, SEBI/HO/IMD/DF2/CIR/P/2018/16 dated 02.02.2018, the terms and definition of "15 cities", is substituted with "30 cities", with effect from April 1, 2018, and now Mutual Fund Houses are to pay additional distribution fees (additional Total Expense Ratio 'TER' up to 30 basis points) for business inflows from 'B30' towns (Beyond top 30 towns)

7.2.3. Re-examine the Regulatory condition of Inclusion of 'Aspirational District' for expansion:

Technically, though an IMF can procure Insurance business from all over India, the IMF has to submit the proposals only in the office of the Insurer within the district of its choice. From a client's perspective, if the office of an Insurer is far away from the place of his residence, he would face a lot of inconveniences when any servicing issue or a claim arises under the policy. Hence, the clients who are far away from the geographical area of an IMF, would not be willing to do business with that IMF and thus, **the facility for an IMF to procure business from all over India loses its value because of the restriction on the office of the Insurer to process the business.**

For a successful IMF, as time passes, the spread of its clients and its relationship network gets widened and begins to enter into the adjacent districts. Hence, after 2-3 years, the IMF may think of its expansion to the adjacent districts. However in the present scenario, the Regulatory condition of "Inclusion of at least one Aspirational district for expansion" **puts an end** to the scope and hope of any expansion of the IMF. e.g. an IMF in Pune may want to expand to its adjacent district, say – Ahmednagar. The IMF can expand to that district only if it opts also to expand to any one of the four Aspirational districts in Maharashtra namely - Gadchiroli, Jalgaon, Nandurbar, or

Osmanabad. Now, as all the four Aspirational districts are far from Pune, the IMF finds it impracticable to set up its office in any of the Aspirational Districts in Maharashtra State and in-turn, that particular IMF would drop its idea of penetrating the nearby Ahmednagar District.

It is also known that many Insurers do not have their officers in many Aspirational Districts. Hence, IMFs may find it difficult to make an entry and begin Insurance operations in such districts. Hence, the suggestions are -

1) To leverage on the prospective clientele, an IMF can be allowed to expand to the districts of its choice. The Regulatory condition of "Opting for at least one Aspirational district for expansion" may be examined afresh.
2) The Insurers and the distribution channels may be incentivized with some other suitable means to start and expand their operations in the Aspirational Districts.

7.3. Part III: Support from the Insurance Regulator:

7.3.1. Standardization of IMF related processes and Documents:

To bring uniformity of the IMF platforms of all the Insurers and to encourage the IMFs to work hard with peace of mind, the Regulator needs to streamline the IMF related processes and standardize the documents, wherever possible. e.g.

1) Formats of various applications
2) Consent letter by Insurer for a tie-up
3) Tie-up agreements between an Insurer and an IMF for all matters and clauses like –
   - The exit of both the parties from a tie-up with sufficient Notice period
   - Arrangements for residual payments to IMF on its exit
   - Responsibility of servicing support for IMF clients if the tie-up is broken etc.

3) Formats of Compliance/ Reports

7.3.2. Up-gradation of the IMF Portal:

a. Immediate attention is required to be paid to the technical issues related to the process of 'getting NOC for IMF' and 'Registration of IMF' on the IMF Portal and the problems are to be resolved on day to day basis.

b. A sample of 'Object Clause – Nature of Work' may be displayed on the IMF portal

c. All Links related to IMF formation e.g. getting NOC, New Registration, applying for PO/ ISP Exam, getting Certificate of Exam, uploading 'form A' etc. may be provided on one single webpage

d. The IMF Portal is to provide the facility to directly upload Business Performance, Compliance Report, etc. It should also enable two-way communications between the IRDAI and the IMFs. This should reduce communication with the IRDAI through individual e-mails.

e. The IMF Portal needs to be upgraded for smooth and hassle-free processing of requests in consonance with the present Digital Innovations. The Portal needs to be interactive and should provide an online query resolution mechanism. It should also give IMFs the facility to modify certain permissible details once they establish their identity.

7.3.3. Strengthening of the Department of IMF:

The IMF department of the IRDAI should make concerted efforts to create awareness about IMF channel and encourage the potential individuals and entities all over India to take IMF as a profession. Various awareness programs in collaboration with other regulators and business/trade organizations are to be arranged. Digital Media and Social platforms can also be used to popularize the IMF channel.

The Regulator should promote the collaboration of Insurers from all 3 segments with the IMFs.

1. The IMF department needs to be strengthened to support the prospective/ IMFs all over India. There is a requirement of a single Contact point at the IRDAI for "IMF", which shall promptly attend to the queries during the process of getting NOC, IMF

Registration and formalities of tie-ups. The contact numbers of the concerned IRDAI officials and their suitable timings are to be displayed on the IMF portal.

2. The Requests for NOC and Registration are to be attended on a daily basis by the IRDAI.
3. ‘Name of the Company’ for which NOC is requested by a prospective IMF needs to be cross-checked by the department on Ministry of Corporate Affair (MCA) website to avoid duplication of the name and consequent rejection of the name by the ROC.
4. The IMF Registration process has to be made smarter and simpler with minimum need for paper compliance.
5. The IRDAI can intimate all IMF related developments to all the IMFs through e-Mails, regularly.
6. The IRDAI compliance formats need to be made simpler and standardized.
7. The IRDAI need to conduct Orientation Programmes for the POs to educate them about the IMF concept and the procedures for NOC and IMF Registration.
8. The IRDAI need to conduct Induction Programmes and training programs for IMFs which also include guidance on the compliance matters and the Audit of an IMF.
9. The List of IMFs on IRDAI website should include all tie-ups added at the time of renewal of Registration of an IMF.
10. The IMFs expect that they are to be monitored by IRDAI continuously and get support whenever necessary.
11. Because of the peculiar positioning of the IMF which includes the sale of multiple financial products along with servicing the job of Insurance companies, the curriculum of examination for the PO and the ISP needs to be reviewed.

Suggestions / Recommendations:

Part I – To improve the financial viability and sustainability of an IMF:

1. Ensure continuity of Agency benefits to Insurance Agents who take up an IMF
2. Increase the permissible number of tie-ups and provide scope for specialization in any one segment of Insurance
3. Modify the pay structure of ISPs to variable pay
4. Ensure better remuneration from the Insurers to IMFs
5. Provide for ‘Reimbursement of expenses on ISPs’ from the Insurers from all segments
6. Create awareness and willingness to outsource servicing activities of the Insurers
7. Discuss practicability and create awareness regarding the sale of financial products

Part II – To increase the Geographical spread and penetration of IMFs:

1. Ensure Acceptance and Support to the IMF channel by the Insurers
2. Consider payment of additional incentive to IMFs in deprived areas and for bringing business from other than top cities
3. Re-examine the regulatory condition of inclusion of ‘Aspirational District’ for expansion

Part III: Support by the Regulator

1. Standardization of IMF related processes and Documents
2. Up-gradation of the IMF Portal
3. Strengthening of the department of IMF

Annexure 1 :
State-wise no. of Districts with offices of Insurers as at 31st March 2018

Sr. No.	States	no. of Districts	Districts with Life offices	Districts with General Ins. offices	Districts with SAHI offices
1	Andhra Pradesh	13	13	13	11
2	Arunachal Pradesh	21	5	4	0
3	Assam	33	27	26	5
4	Bihar	38	38	32	3
5	Chhattisgarh	27	17	16	4
6	Goa	2	2	2	2
7	Gujarat	33	29	26	15
8	Haryana	22	21	21	14
9	Himachal Pradesh	12	11	10	2
10	Jammu & Kashmir	22	21	14	1
11	Jharkhand	24	23	17	3
12	Karnataka	30	30	30	16
13	Kerala	14	14	14	13
14	Madhya Pradesh	51	50	39	11
15	Maharashtra	36	36	35	18
16	Manipur	16	6	3	0
17	Meghalaya	11	8	5	1
18	Mizoram	8	6	4	0
19	Nagaland	11	7	4	0
20	Orissa	30	30	27	5
21	Punjab	22	21	20	9
22	Rajasthan	33	33	32	11
23	Sikkim	4	2	2	0
24	Tamil Nadu	32	32	32	25
25	Telangana	31	21	10	12
26	Tripura	8	4	4	1
27	Uttarakhand	13	13	9	4
28	Uttar Pradesh	75	75	66	18
29	West Bengal	23	21	19	14
30	Andaman & Nicobar	3	2	1	0
31	Chandigarh	1	1	1	1
32	Dadra & Nagar Haveli	1	1	1	0
33	Daman & Diu	2	1	2	0
34	Delhi	11	9	9	8
35	Lakshadweep	1	1	1	0
36	Puducherry	4	3	2	1
	Total	**718**	**634**	**553**	**228**
	Position at 31.03.19		**678**	**647**	**245**

Annexure 2: State-wise Number of districts with no offices of Insurers as at 31st March 2018					
Sr. No.	**States**	**No. of Districts**	**Districts with no Life offices**	**Districts with no General offices**	**Districts with no SAHI office**
1	Andhra Pradesh	13	0	0	2
2	Arunachal Pradesh	21	16	17	21
3	Assam	33	6	7	28
4	Bihar	38	0	6	35
5	Chhattisgarh	27	10	11	23
6	Goa	2	0	0	0
7	Gujarat	33	4	7	18
8	Haryana	22	1	1	8
9	Himachal Pradesh	12	1	2	10
10	Jammu & Kashmir	22	1	8	21
11	Jharkhand	24	1	7	21
12	Karnataka	30	0	0	14
13	Kerala	14	0	0	1
14	Madhya Pradesh	51	1	12	40
15	Maharashtra	36	0	1	18
16	Manipur	16	10	13	16
17	Meghalaya	11	3	6	10
18	Mizoram	8	2	4	8
19	Nagaland	11	4	7	11
20	Orissa	30	0	3	25
21	Punjab	22	1	2	13
22	Rajasthan	33	0	1	22
23	Sikkim	4	2	2	4
24	Tamil Nadu	32	0	0	7
25	Telangana	31	10	21	19
26	Tripura	8	4	4	7
27	Uttarakhand	13	0	4	9
28	Uttar Pradesh	75	0	9	57
29	West Bengal	23	2	4	9
30	Andaman & Nicobar	3	1	2	3
31	Chandigarh	1	0	0	0
32	Dadra & Nagar Haveli	1	0	0	1
33	Daman & Diu	2	1	0	2
34	Delhi	11	2	2	3
35	Lakshadweep	1	0	0	1
36	Puducherry	4	1	2	3
	Total	**718**	**84**	**165**	**490**
	Position as at 31.03.2019		**40**	**71**	**473**

Annexure 3: Tier I and Tier II Cities in India:			
Tier - I Cities	**Tier - II Cities**		
1. Bangalore	1. Agra	32. Gurgaon	63. Nagpur
2. Chennai	2. Ajmer	33. Guwahati	64. Nanded
3. Delhi	3. Aligarh	34. Hubli–Dharwad	65. Nashik
4. Hyderabad	4. Amravati	35. Hamirpur-Himachal Pradesh	66. Nellore
5. Kolkata	5. Amritsar	36. Indore	67. Noida
6. Mumbai	6. Asansol	37. Jabalpur	68. Patna
7. Ahmedabad	7. Aurangabad	38. Jaipur	69. Pondicherry
8. Pune	8. Bareilly	39. Jalandhar	70. Purulia Prayagraj
9. Vishakhapatnam	9. Belgaum	40. Jammu	71. Raipur
	10. Bhavnagar	41. Jamnagar	72. Rajkot
	11. Bhiwandi	42. Jamshedpur	73. Rajahmundry
	12. Bhopal	43. Jhansi	74. Ranchi
	13. Bhubaneswar	44. Jodhpur	75. Rourkela
	14. Bikaner	45. Kakinada	76. Salem
	15. Bilaspur	46. Kannur	77. Sangli
	16. Bokaro Steel City	47. Kanpur	78. Shimla
	17. Chandigarh	48. Kochi	79. Siliguri
	18. Coimbatore	49. Goa	80. Solapur
	19. Cuttack	50. Kolhapur	81. Srinagar
	20. Dehradun	51. Kollam	82. Thiruvananthapuram
	21. Dhanbad	52. Kozhikode	83. Thrissur
	22. Bhilai	53. Kurnool	84. Tiruchirappalli
	23. Durgapur	54. Ludhiana	85. Tiruppur
	24. Erode	55. Lucknow	86. Ujjain
	25. Faridabad	56. Madurai	87. Bijapur
	26. Firozabad	57. Malappuram	88. Vadodara
	27. Ghaziabad	58. Mathura	89. Varanasi
	28. Gorakhpur	59. Mangalore	90. Vasai-Virar City
	29. Gulbarga	60. Meerut	91. Vijayawada
	30. Guntur	61. Moradabad	92. Vellore
	31. Gwalior	62. Mysore	93. Warangal
			94. Surat

Annexure 4:
District wise Registration of IMFs as on 31.12.2019

District	No. of IMFs Registered	Registration Cancelled/ Surrendered	Net no. of IMFs
Mumbai	26	3	23
Pune	20	1	19
Hyderabad	18	1	17
Ahmedabad	16	3	13
Lucknow	15	3	12
Bangalore	8	0	8
Kolkata	10	2	8
North West Delhi	10	2	8
South West Delhi	8	0	8
Gautam Budh Nagar	7	0	7
Mohali	7	0	7
Chandigarh	7	1	6
Dehradun	6	0	6
Thane	7	1	6
Vadodara	6	0	6
South Delhi	7	2	5
Surat	5	0	5
West Delhi	9	4	5
East Delhi	4	0	4
Ernakulam	4	0	4
Ghaziabad	5	1	4
Jammu	4	0	4
Ludhiana	5	1	4
Nagpur	5	1	4
Varanasi	4	0	4
Gurgaon	3	0	3
Jaipur	4	1	3
Nashik	3	0	3
Raipur	3	0	3
Rangareddy	3	0	3
Central Delhi	2	0	2
Chennai	4	2	2
Coimbatore	3	1	2
Gorakhpur	2	0	2
Guntur	4	2	2
Hooghly	2	0	2
Khorda	2	0	2

District	No. of IMFs Registered	Registration Cancelled/ Surrendered	Net no. of IMFs
Krishna, Andhra Pradesh	3	1	2
North Delhi	2	0	2
Patna	4	2	2
Rohtak	2	0	2
Thiruvananthapuram	2	0	2
Thrissur	2	0	2
Warangal	2	0	2
Ajmer	1	0	1
Aligarh	1	0	1
Allahabad	1	0	1
Ambala	1	0	1
Amritsar	1	0	1
Anand	1	0	1
Aurangabad	1	0	1
Belgaum	1	0	1
Bhopal	1	0	1
Cuttack	1	0	1
Deoria, Uttar Pradesh	1	0	1
Dhanbad	1	0	1
Gadag, Karnataka	1	0	1
Gandhinagar	2	1	1
Gaya	1	0	1
Hamirpur, Himachal Pradesh	1	0	1
Hazaribagh, Jharkhand	1	0	1
Hoshiarpur, Punjab	1	0	1
Jalaun	1	0	1
Jalpaiguri	1	0	1
Jind	1	0	1
Jodhpur	1	0	1
Kannur	1	0	1
Kanpur	1	0	1
Kanyakumari	1	0	1
Karnal	1	0	1
Kurukshetra	1	0	1
Malappuram	1	0	1
Mandi, Himachal Pradesh	1	0	1
Mathura	1	0	1
Meerut	1	0	1
Moradabad	1	0	1

District	No. of IMFs Registered	Registration Cancelled/ Surrendered	Net no. of IMFs
Muzaffarnagar	1	0	1
Muzaffarpur	2	1	1
North 24 Paraganas	1	0	1
North East Delhi	1	0	1
Palakkad	1	0	1
Panchkula	1	0	1
Prakasam	1	0	1
Pratapgarh, Rajasthan	1	0	1
Rajkot	1	0	1
Ranchi	1	0	1
Sambalpur	1	0	1
Shimla	1	0	1
Shimoga	1	0	1
Sirohi	1	0	1
Sonipat	1	0	1
Ujjain	1	0	1
Valsad	1	0	1
Yamunanagar	1	0	1
Bardhaman	1	1	0
Indore	1	1	0
Kancheepuram	1	1	0
Karimnagar	1	1	0
New Delhi	1	1	0
94 Districts	**332**	**42**	**290**

Annexure 5:
The NITI Aayog

The NITI Aayog:

The **NITI Aayog (National Institution for Transforming India)** (*Policy Commission*) has been established on 1st January 2015, by the Government of India, to replace the Planning Commission. It is a policy think tank of the Government of India and is chaired by the Prime Minister of India. It has been formulated to achieve sustainable development goals with the involvement of State Governments of India in the economic policy-making process. The Governing Council of NITI Aayog comprises of all the state Chief Ministers, the Chief Ministers of Delhi and Puducherry, the Lieutenant Governor of Andaman and Nicobar, and a vice-chairman nominated by the Prime Minister. Besides, temporary members such as experts and specialists from leading universities and research institutions are also selected.

'Transformation of Aspirational Districts Programme' of NITI Aayog:

For administrative convenience, the 29 States across India are segregated into 718 districts and these districts exhibit their own socio-economic, cultural, and political attributes. In India, there are significant inter-state and inter-district variations in the living standards of the citizens. Some districts are well developed on socio-economic counts and some are not progressed so far.

In 2016, India was ranked 131 among 188 countries on the Human Development Index. Unless the underdeveloped Indian districts are brought up towards equitable development, India would not be able to progress at the rapid pace that would be achieved from the Government's broad range of initiatives and development strategy. Hence in January 2018, the NITI Aayog came up with the initiative of the 'Transformation of Aspirational Districts Programme' to uplift the districts which have shown relatively lesser progress in achieving key social outcomes.

Under this program, 115 most backward districts from across 28 states are identified as 'Aspirational Districts' based on the composite index which includes published data of deprivation enumerated under Socio-Economic Caste Census, Health & Nutrition, Education and Basic Infrastructure. The Districts are aspiring to first catch-up with the best district within their state and subsequently aspire to become one of the best in the country, by competing with, and learning from others.

To administer the Programme, officers at the level of Joint Secretary/ Additional Secretary are nominated to become the 'Central Prabhari Officers' of each district. The States have also appointed their State-nodal and Prabhari officers. An Empowered Committee under the Convenorship of 'the CEO, NITI Aayog' helps in the convergence of various government schemes and streamlining of the efforts in Aspirational Districts.

The Programme monitors the real-time progress of Aspirational districts, based on 49 crucial indicators from 5 core areas of focus – namely, Health & Nutrition, Education, Agriculture & Water Resources, Financial Inclusion & Skill Development, and Basic Infrastructure - which have a direct bearing on the quality of life and economic productivity of citizens. The Programme focuses to expeditiously improve the socio-economic status of the citizens of Aspirational Districts, in terms of basic amenities, infrastructure facilities, health facilities, and standard of living; in turn, improving the ranking of India in the Human Development Index.

"SabkaSaath - SabkaVikas"-

To ensure that "a New India by 2022" is a part of every individual's vision, especially in the rural areas, 'Transformation of Aspirational Districts Programme' aims to improve the ability of people to participate fully in the rapidly growing Indian economy. This synergy-enhancing initiative would eventually give every corner of India – rural or urban – a chance to exceed its aspirations, by providing a platform to be heard and by extending the help to ensure inclusive growth for all.

(Annexure 6 provides a list of 115 Aspirational Districts declared by the NITI Aayog as in 2018)

Annexure 6:
List of Aspirational Districts as decided by NITI Aayog in 2018:

Sr. No.	State Name	District Name	Sr. No.	State Name	District Name
1	Andhra Pradesh	Kadapa	41	Jharkhand	Bokaro
2	Andhra Pradesh	Visakhapatnam	42	Jharkhand	Chatra
3	Andhra Pradesh	Vizianagaram	43	Jharkhand	Dumka
4	Arunachal Pradesh	Namsai	44	Jharkhand	East Singhbhum
5	Assam	Barpeta	45	Jharkhand	Garhwa
6	Assam	Darrang	46	Jharkhand	Giridih
7	Assam	Dhubri	47	Jharkhand	Godda
8	Assam	Goalpara	48	Jharkhand	Gumla
9	Assam	Hailakandi	49	Jharkhand	Hazaribag
10	Assam	Baksa	50	Jharkhand	Latehar
11	Assam	Udalguri	51	Jharkhand	Lohardaga
12	Bihar	Araria	52	Jharkhand	Pakur
13	Bihar	Aurangabad	53	Jharkhand	Palamu
14	Bihar	Banka	54	Jharkhand	Ranchi
15	Bihar	Begusarai	55	Jharkhand	Sahibganj
16	Bihar	Gaya	56	Jharkhand	Simdega
17	Bihar	Jamui	57	Jharkhand	West Singhbhum
18	Bihar	Katihar	58	Jharkhand	Khunti
19	Bihar	Khagaria	59	Jharkhand	Ramgarh
20	Bihar	Muzaffarpur	60	Karnataka	Gadag
21	Bihar	Nawada	61	Karnataka	Kalaburagai
22	Bihar	Purnia	62	Kerala	Wayanad
23	Bihar	Sheikhpura	63	Madhya Pradesh	Barwani
24	Bihar	Sitamarhi	64	Madhya Pradesh	Chatttarpur
25	Chhattisgarh	Bastar	65	Madhya Pradesh	Damoh
26	Chhattisgarh	Dantewada	66	Madhya Pradesh	East Nimar
27	Chhattisgarh	Kanker	67	Madhya Pradesh	Guna
28	Chhattisgarh	Korba	68	Madhya Pradesh	Rajgarh
29	Chhattisgarh	Mahasamund	69	Madhya Pradesh	Vidisha
30	Chhattisgarh	Rajnandagaon	70	Madhya Pradesh	Singrauli
31	Chhattisgarh	Bijapur	71	Maharashtra	Gadchiroli
32	Chhattisgarh	Narayanpur	72	Maharashtra	Jalgaon
33	Chhattisgarh	Sukma	73	Maharashtra	Nandurbar
34	Chhattisgarh	Kondagaon	74	Maharashtra	Osmanabad
35	Gujarat	Dohad	75	Manipur	Chandel
36	Gujarat	Narmada	76	Meghalaya	Ri Bhoi
37	Haryana	Nuh	77	Mizoram	Mamit
38	Himachal Pradesh	Chamba	78	Nagaland	Kiphrie
39	Jammu And Kashmir	Baramulla	79	Odisha	Balangir
40	Jammu And Kashmir	Kupwara	80	Odisha	Dhenkanal

Sr. No.	State Name	District Name	Sr. No.	State Name	District Name
81	Odisha	Gajapati	98	Tamil Nadu	Virudhunagar
82	Odisha	Kalahandi	99	Telangana	Adilabad
83	Odisha	Kandhamal	100	Telangana	Khammam
84	Odisha	Koraput	101	Telangana	Warangal Rural
85	Odisha	Malkangiri	102	Tripura	Dhalai
86	Odisha	Nabarangapur	103	Uttar Pradesh	Bahraich
87	Odisha	Nuapara	104	Uttar Pradesh	Balrampur
88	Odisha	Rayagada	105	Uttar Pradesh	Chandauli
89	Punjab	Ferozepur	106	Uttar Pradesh	Chitrakoot
90	Punjab	Moga	107	Uttar Pradesh	Fatehpur
91	Rajasthan	Baran	108	Uttar Pradesh	Shravasti
92	Rajasthan	Dholpur	109	Uttar Pradesh	Siddharthnagar
93	Rajasthan	Jaisalmer	110	Uttar Pradesh	Sonbhadra
94	Rajasthan	Karauli	111	Uttarakhand	Haridwar
95	Rajasthan	Sirohi	112	Uttarakhand	Udham Singh Nagar
96	Sikkim	West District	113	West Bengal	Birbhum
97	Tamil Nadu	Ramanathapuram	114	West Bengal	Dakshin Dinajpur
			115	West Bengal	Nadia

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