

REPORT ON INSURANCE SUB-BROKING IN INDIA

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I. Acknowledgements

The Committee gratefully acknowledges the valuable inputs given by the members of the committee, organizations and key stakeholders with whom the Committee had the opportunity to interact directly or indirectly.

The Committee would like to express its appreciation to the Secretary General of Life Insurance Council and the Secretary General of General Insurance Council who ably coordinated the meeting of the committee at Mumbai. The Committee gratefully acknowledges the valuable inputs and guidance given by Sri M Ram Prasad, Member (Non-Life).

The Committee gratefully acknowledges the valuable guidance given by Mr Sriram Taranikanti , Executive Director, IRDA

The committee would like to thank IBAI and its members for providing the valuable inputs on the subject and providing the legal inputs with the help of Mr Prabodh Chander.

Last but not the least, the Committee acknowledges the support and contribution made by the employees working in Brokers Department

Suresh Mathur

II. Order of the Chairman



बीमा विनियामक और विकास प्राधिकर
**INSURANCE REGULATORY AND
DEVELOPMENT AUTHORITY**

Date: 17/12/2012

IRDA/BRK/MISC/ORD/259/12/2012

Order

Various stakeholders have been requesting the Authority to consider sub broking system as prevalent in other jurisdictions. At present the insurers and brokers are mainly operating mostly in big cities. In order to increase the penetration of insurance in semi urban & rural areas presence of intermediaries is very vital.

The issue of sub broking is under consideration of the Authority for quite some time. After considerable deliberations on the issue of sub-broking, it has been decided to constitute a committee with the following members to examine various issues relating to sub-broking and submit their report to the Authority for consideration.

The committee is constituted to look into the matters relating to sub broking and other related matters. The committee comprises of the following members.

- 1) Mr P. C. James, Chair professor, NIA
- 2) Mr. Sanath Kumar, GM, New India Assurance Company } **Representing**
- 3) Mr. MukeshKumar, HDFC Ergo General Insurance Co Ltd } **General Insurance**
- 4) Ms. Anamika Rastravar, Bajaj General Insurance Co Ltd } **Council**
- 5) Mr. Malay Ghosh - ED/ President, Reliance Life Insurance Co. Ltd } **Representing**
- 6) Mr. Ramesh Vishwanathan, Sr VP ICICI Pru Life Ins Co. Ltd. } **Life Ins council**
- 7) Mr. Sohanlal Kadel, President, IBAI
- 8) Mr. Sanjay Kedia, Director, IBAI
- 9) Mr. Fali Poncha, Member, IBAI
- 10) Mr Suresh Mathur, Sr JD, IRDA,
- 11) Mr Satish Hegde, OSD, IRDA

The terms of reference of the above committee includes the following

- (i) To consider the introduction of a retail broking system in the insurance space in the country;
- (ii) To consider the qualifications, examination and syllabus and the licensing system, which should be introduced for the actors in a retail broking system;
- (iii) To consider the manner in which the retail broking system could operate as sub-brokers and together with insurance brokers the manner in which these could be dovetailed with the Common Service Centres proposed to be set up by the Government of India.



बीमा विनियामक और विकास प्राधिकरण
**INSURANCE REGULATORY AND
DEVELOPMENT AUTHORITY**

- (iv) To consider and recommend the draft agreement that should be entered into between the brokers and retail sub-brokers if such is the recommendation; and
- (v) Any other matter relevant to the above.

Mr. Suresh Mathur, SR JD, IRDA will chair the meetings. Mr. Satish Hegde, OSD, IRDA will act as member convener of the committee.

The Committee shall submit its report by 31st January, 2013.


J. Harinarayan
Chairman

III. Situation overview

(i) Terms of reference

The terms of reference of the above committee includes the following

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- (iii) To consider the manner in which the retail broking system could operate as sub-brokers and together with insurance brokers the manner in which these could be dovetailed with the Common Service Centres proposed to be set up
- (iv) To consider and recommend the draft agreement that should be entered into between the brokers and retail sub-brokers if such is the recommendation; and
- (v) Any other matter relevant to the above.

(ii) Objectives

Key objectives for consideration are to

- ❖ Increase penetration of Insurance with inclusive growth
- ❖ Enable the reach of insurers/brokers to semi urban and rural markets
- ❖ Provide Choice to the public in the semi urban & rural areas in selecting insurers/insurance products
- ❖ Enable brokers to expand operations in a cost effective manner
- ❖ Harness technology/infrastructure available in the semi urban and rural areas for inclusion of financial products
- ❖ Widen geographical presence of broking entities to help the insuring public in general

(iii) Meeting details

The order constituting the subcommittee was passed by the Chairman on 17th December, 2012 and the committee was asked to submit its report by 31st January, 2013. Due to paucity of time fast tracking was done by holding two meetings before the finalization of the report on sub broking.

The committee on sub broking first met on 3/1/2013 at the Life Insurance Council's office at Mumbai and the following sub groups were formed to look into focussed aspects of sub broking.

1) International scenario on sub broking system & Retail broking:

SI No	Name of the person	Company's Name
1	Mr Ramesh Vishwanathan	ICICI Pru Life
2	Mr Mukesh Kumar	HDFC Ergo
3	Mr Sanjay Kedia	IBAI

2) Legal Issues & Agreement

SI No	Name of the person	Company's Name
1	Mr Sohan Lal Kadel	IBAI
2	Mr Prabodh Chander	Invitee

3. Syllabus, Examination and Training aspects:

SI No	Name of the person	Company's Name
1	Mr P C James	NIA
2	Ms Anamika Roy Rashtrawar	Bajaj Allianz General Ins Co
3	Mr Malay Ghosh	Reliance Life Ins Company

4. Licensing and related issues:

Sl No	Name of the person	Company's Name
1	Mr Sanath Kumar	New India Assurance Co Ltd
2	Mr Fali Poncha	IBAI
3	Mr Malay Ghosh	Reliance Life Ins Company

It was decided to call Mr Prabodh Chander as a special invitee to the committees meetings

The second meeting of the committee was held on 17/1/2013 at General Insurance Council's office at Mumbai. The sub groups made a presentation on the topics for the benefit of all the members.

(iv) Brief details of earlier committee reports: Learning & Recommendations

Authority has appointed two expert committees earlier to look into the issues of intermediaries. The first expert committee headed by Mr S.V. Mony submitted its report in December, 2003 and the second expert committee headed by Mr G. K. Raman had submitted its report during November, 2006.

1) Extracts from the Expert committee headed by Mr S.V. Mony

The first committee was constituted to examine the remuneration system for insurance brokers, agents etc in general insurance business. The committee also commented on sub broking as any other item and the comments related to sub broking as mentioned in the report are reproduced below.

The sub broking as a proposal was considered and not accepted, as the sub broker has no privity of contract with the customer and is not liable for professional negligence to the customer. Sub broking will lead to unintended legal problems and should be avoided.

The above committee was constituted way back in 2003 when broking was in its infancy and its efficacy not tested. It was but natural for the committee not to recommend further liberalisation in insurance broking.

The observation made in this committee for lack of 'privity of contract' is taken care of in this report as the 'privity of contract' is a part of the standard agreement to be executed between the main broker and the sub broker, which is mandatory. The committee did not debate the issue of sub broking in its entirety but has taken it as any other item. No specific concerns/views/documents by any of the stakeholders are available in the report.

It is proposed by the committee to make the main broker responsible for any omission and commission and will be made liable for professional negligence.

As at 31/3/2003 the total numbers of licensed brokers are around 124.

With a decade gone since IRDA notified the insurance broking regulations, IRDA has licensed 343 brokers and insurance broking have developed as a key intermediary channel in the insurance market.

The regulator has brought in many regulatory controls during the decade to monitor the brokers activity aimed at protecting the interests of the customer. Regulatory actions have been initiated to curb violations. The IBAI which is an association of licensed insurance brokers/ self-regulatory body is demanding introduction of sub broking since last five years

2) Extracts from the Expert committee headed by Mr G.K. Raman

This committee was entrusted to look into the following two aspects. (i) to review the current regulations of the licensing of insurance brokers based on the past experience of the authority (ii) to make recommendations on how to strengthen the role of the brokers in view of the impending de-tariffing of non-life insurance that were under tariff.

As at 31/3/2006 the numbers of licensed brokers were 231.

While reviewing the developments in the broking profession since the introduction of the Insurance brokers since 2002, the committee opined that many states are not represented by the brokers mainly due to high cost involved in setting up of the branch offices by the licensed brokers. The committee also opined that this could be due to the several factors: the large amount of capital requirement, lack of entrepreneurship of locals, Inadequate availability of insurance potential, Proximity to the metros of a few states, opening of offices through opening of branches, lack of franchising and sub broking.

While reviewing the business practices the committee opined that the current strength of brokers is not adequate at that point if time considering the fact that market needs more brokers in a non-tariff environment. The committee also noticed that broker representation is uneven both geographically and spread wise in the country.

The committee mentioned that IBAI is vehemently demanding to allow sub broking in line with the sub broking allowed by SEBI. The committee observed that the sub broker in SEBI has duties more in line carrying out specific instructions given by the principal than one of having to professionally advise. Further, the committee opined that the SEBI sub broker model is the not the right example to be copied in insurance business wherein a higher degree of professional competence and expertise and liabilities to consumers are involved.

However committee observed that sub broking needs IRDA to issue new regulations. The major bottlenecks that exist as of that date were (i) privity of contract among the broker, sub broker and the consumer (ii) responsibility of liability (iii) professional credentials of insurance broker and potential of the insurance broker are not significant enough to allow for sub broking at that stage.

The committee touched upon the issue of capital requirement by a broking firm and recommended to fix the capital requirements as per the geographical locations.

The present regulations prescribe that a broker should open a branch office with qualified people which involve substantial capital requirement. The committee also acknowledged that the broker has to pay high salary which increases his fixed costs. The sub broking model suggested now will allow the broker to do business in small towns by appointing suitable sub brokers which will reduce the costs considerably.

Today we have around 300 licensed brokers who are mainly concentrated around the metros and big cities. It is felt that the reason for not expanding to the smaller towns was high cost of opening an office and cost involved in payment of salary. As observed by the previous committee, the Indian insurance market needs more brokers to represent the customers more throughout the country and sub broking is the only way to go forward in this direction.

The present committee deliberated on the issue of the professionalism to be brought in and hence recommends that the syllabus, training aspects will be robust in nature. The syllabus, training and examination pattern will be finalized in consultation with NIA. The committee is of the opinion that only professional and serious people with long term commitment should enrol as sub broker.

IV. Insurance scenario in India

Indian Insurance in the global scenario

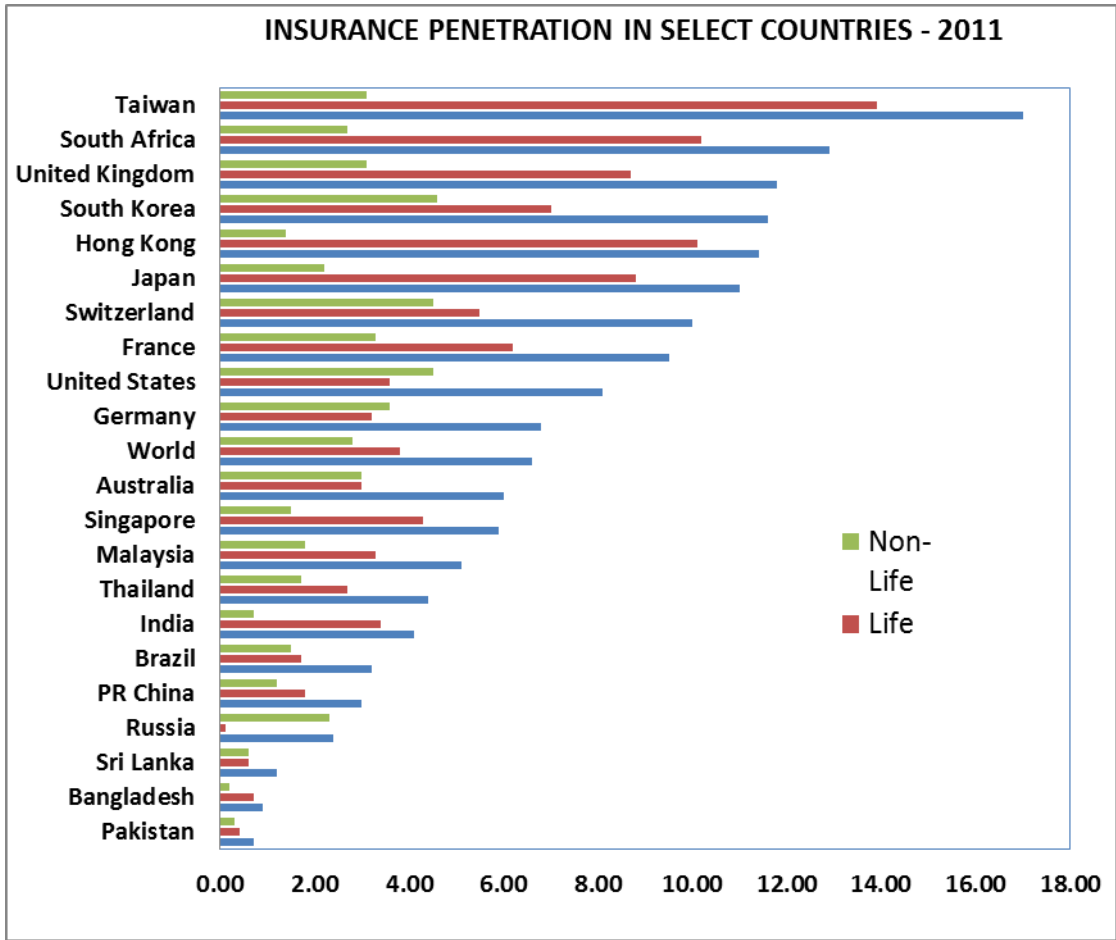
In the life insurance business, India ranked 10th among the 156 countries, for which the data is published by Swiss Re. During 2011-12, the life insurance premium in India declined by 8.5 per cent (inflation adjusted). During the same period, the global life insurance premium declined by 2.7 per cent. The share of Indian life insurance sector in global life insurance market stood at 2.30 per cent during 2011, as against 2.54 per cent in 2010.

The non-life insurance sector witnessed a significant growth of 13.5 per cent during 2011-12. Its performance is far better when compared to global non-life premium, which expanded by a meager 1.8 per cent during the same period. The share of Indian non-life insurance premium in global non-life insurance premium increased slightly from 0.57 per cent in 2010-11 to 0.62 per cent in the year 2011-12. India stood at 19th rank in global non-life premium income.

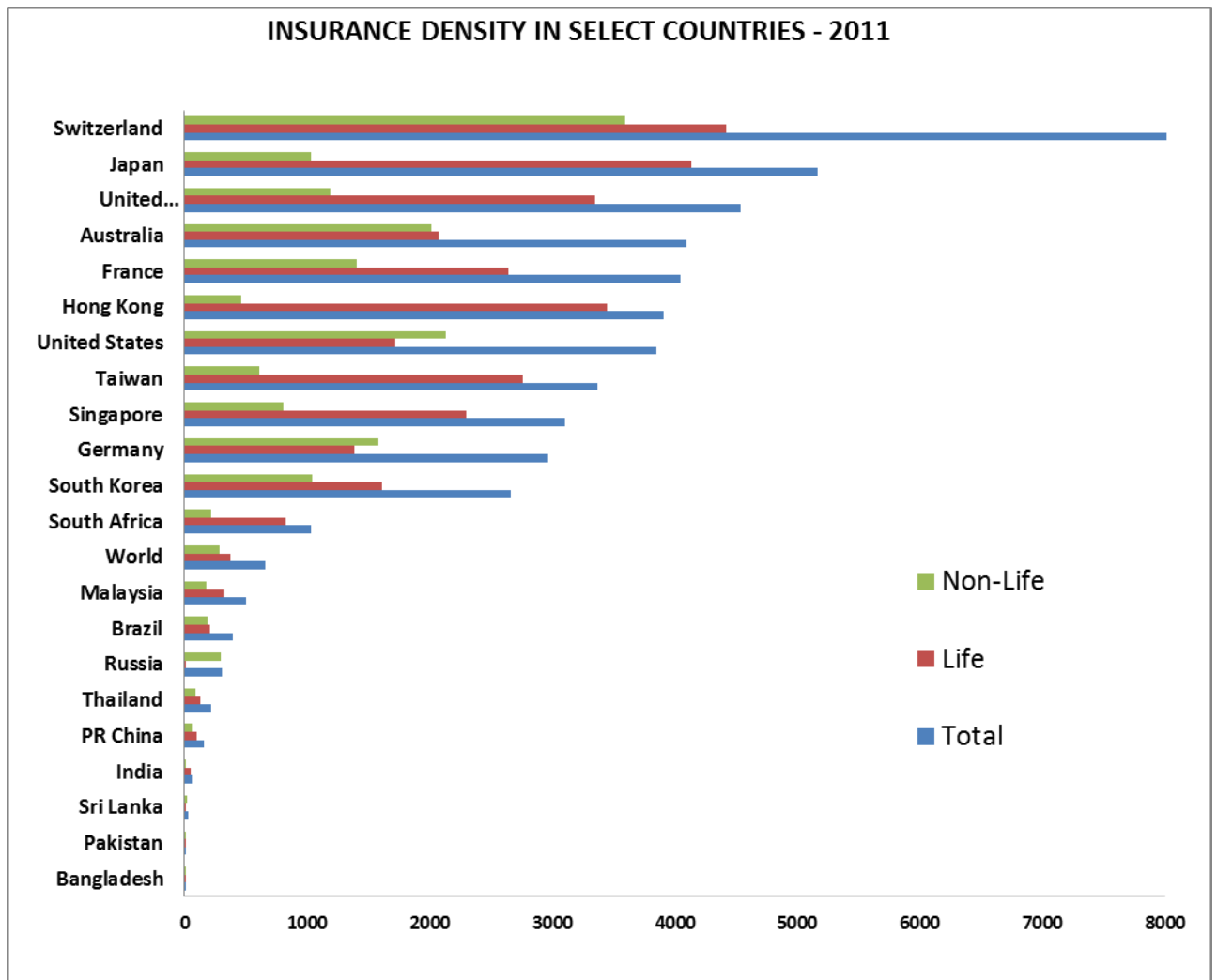
Growth in insurance is measured in terms of insurance density and insurance penetration. The definitions of insurance penetration and insurance density are given below.

Insurance density is calculated as the ratio of premium to population (per capita premium).

Insurance penetration is measured as the percentage of insurance premium to GDP,



Source: Swiss Re, Sigma No. 3/2012



Source: Swiss Re, Sigma No. 3/2012. Data is in USD.

Insurance penetration & density in India

The measure of insurance penetration and density reflects the level of development of insurance sector in a country. While insurance penetration is measured as the percentage of insurance premium to GDP, insurance density is calculated as the ratio of premium to population (per capita premium). Since opening up of Indian insurance sector for private participation, India has reported increase in insurance density for every subsequent year and for the first time reported a fall in the year 2011. However, insurance penetration, which surged consistently till 2009, slipped in the consecutive second year on

account of slower rate of growth in the life insurance premium as compared to the rate of growth of the Indian economy

TABLE
INSURANCE PENETRATION AND DENSITY IN INDIA

Year	Life		Non-Life		Industry	
	Density (USD)	Penetration (percentage)	Density (USD)	Penetration (percentage)	Density (USD)	Penetration (percentage)
2001	9.1	2.15	2.4	0.56	11.5	2.71
2002	11.7	2.59	3.0	0.67	14.7	3.26
2003	12.9	2.26	3.5	0.62	16.4	2.88
2004	15.7	2.53	4.0	0.64	19.7	3.17
2005	18.3	2.53	4.4	0.61	22.7	3.14
2006	33.2	4.10	5.2	0.60	38.4	4.80
2007	40.4	4.00	6.2	0.60	46.6	4.70
2008	41.2	4.00	6.2	0.60	47.4	4.60
2009	47.7	4.60	6.7	0.60	54.3	5.20
2010	55.7	4.40	8.7	0.71	64.4	5.10
2011	49.0	3.40	10.0	0.70	59.0	4.10

* Insurance density is measured as ratio of premium (in US Dollar) to total population.

* Insurance penetration is measured as ratio of premium (in US Dollars) to GDP (in US Dollars).

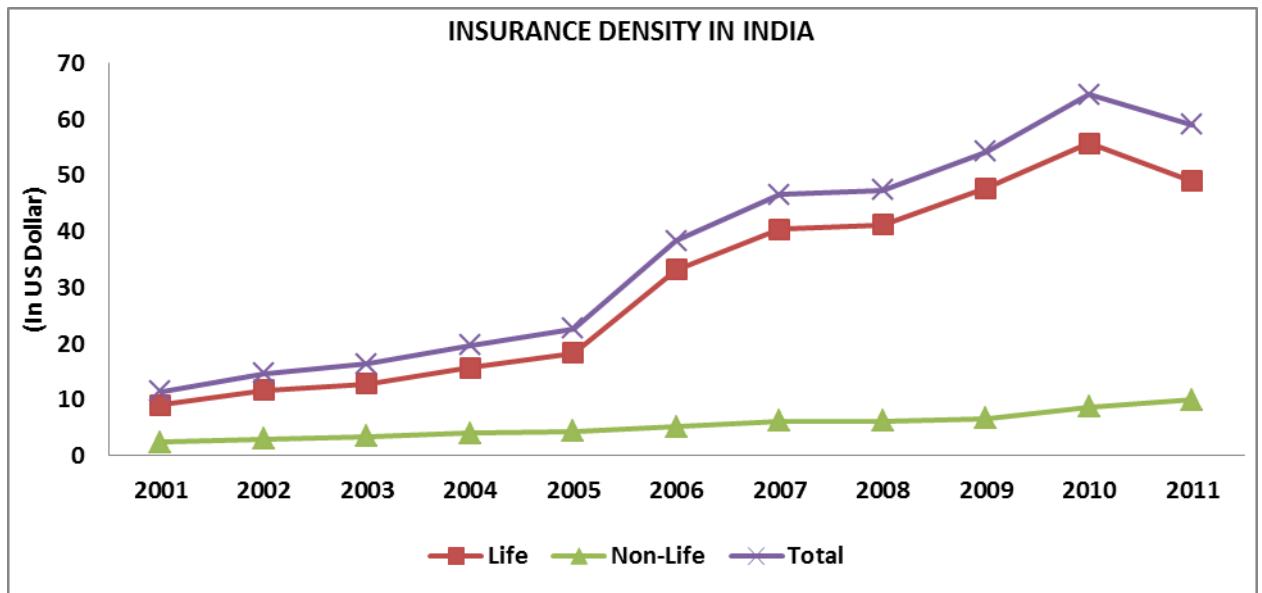
* The data of Insurance penetration is available with rounding off to one digit after decimal from 2006.

Source: Swiss Re, Various Issues.

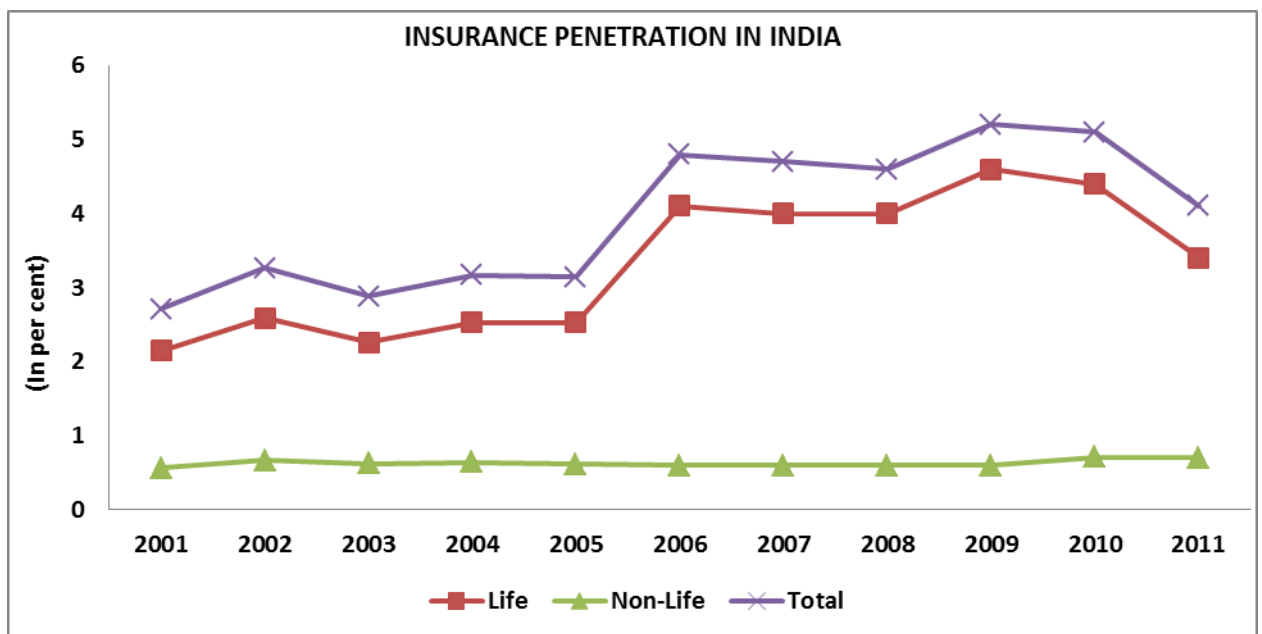
Insurance growth is generally measured in terms of the density and the penetration made both in Life insurance and General insurance business. The insurance density of life insurance sector had gone up from USD 9.1 in 2001 to USD 49.0 in 2011 while reaching the peak at USD 55.7 in 2010. Similarly, life insurance penetration surged from 2.15 per cent in 2001 to 4.60 per cent in 2009, before slipping to 4.40 per cent in 2010 and further slipping to 3.40 per cent in 2011.

It is heartening to note that the Life insurance business has grown many folds after the opening of the sector whereas the penetration made by the general insurance is not significant.

Over the last 10 years, the penetration of non-life insurance sector in the country remained steady within the narrow range of 0.55-0.75 per cent. However, its density has gone up from USD 2.4 in 2001 to USD 10.0 in 2011.



Source: IRDA annual report 2011-12



Source: IRDA annual report 2011-12

Registered insurers in India

At the end-September 2012, there are fifty-two insurance companies operating in India; of which twenty four are in the life insurance business and twenty-seven are in general insurance business. In addition, GIC is the sole national re-insurer.

Of the fifty two companies presently in operations, eight are in the public sector - two are specialized insurers, namely ECGC and AIC, one in life insurance namely LIC, four in general insurance and one re-insurance. The remaining forty four companies are in the private sector.

TABLE
REGISTERED INSURERS IN INDIA
(As on 30th September, 2012)

Type of business	Public Sector	Private Sector	Total
Life Insurance	1	23	24
General Insurance	*6	**21	27
Re-insurance	1	0	1
Total	8	44	52

* Includes specialized insurance companies - ECGC and AIC.

** Includes four Standalone Health Insurance Companies - Star Health & Allied Insurance Co., Apollo Munich Health Insurance Co., Max Bupa Health Insurance Co., and Religare Health Insurance Co.

Source: IRDA annual report 2011-12

Distribution channels:

Insurance is a product which is distributed by different channels. The recognised distribution channels are

- 1) Individual agents
- 2) Corporate agents
- 3) Banca (banks as corporate agents)
- 4) Insurance Brokers
- 5) Direct channel
- 6) Micro insurance agents
- 7) Distance marketing channel
- 8) Internet channel

In India insurance is distributed through Individual Agents, Corporate Agents, Banks, Brokers and Direct channel. Micro insurance products are distributed

through micro-insurance agents. Recently IRDA has recognised the distance marketing mode as one of the types of distribution channel. Of late insurers are using the internet mode as one of the modes to sell insurance directly to the customers.

Life Insurance:

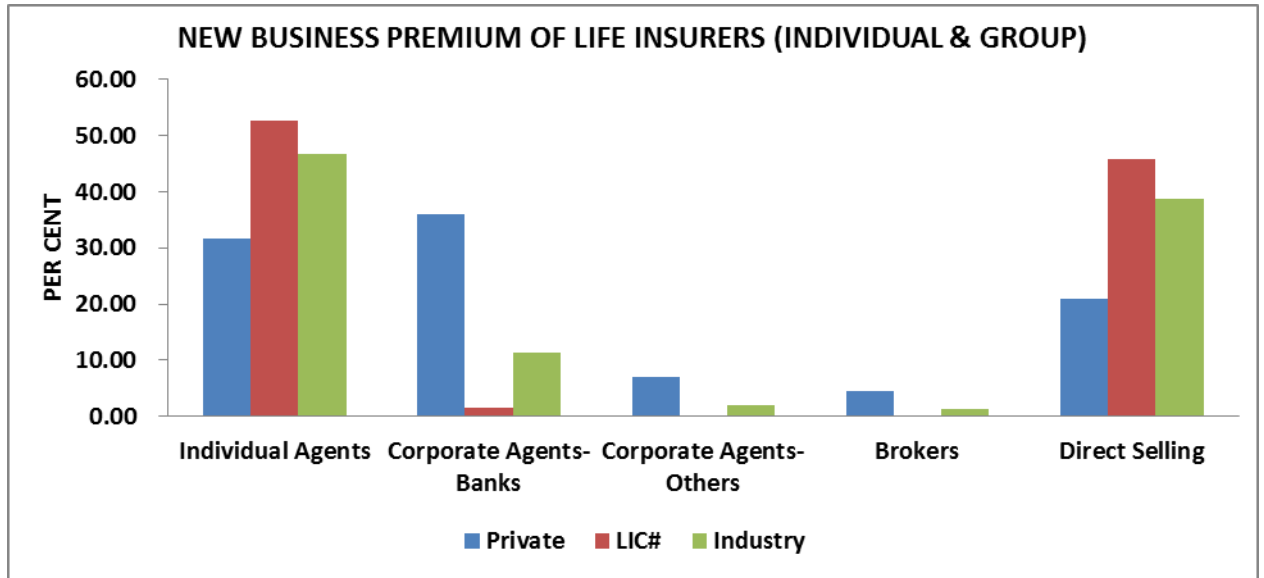
Individual agents continue to play a major role in procuring new insurance business. At the aggregate level (individual and group business together), individual agents contributed 46.64 per cent of the total new business. However, their share declined from 53.90 per cent in 2010-11. The channel which witnessed a noticeable growth as compared to previous year was direct selling. This mode contributed 38.78 per cent of the total new business as compared to 32.36 per cent during the year 2010-11.

NEW BUSINESS PREMIUM (INDIVIDUAL AND GROUP) OF LIFE INSURERS FOR 2011-12 - CHANNEL WISE						
Insurer	Individual Agents	Corporate Agents		Brokers	Direct Selling	Total Group New Business
		Banks	Others*			
Private	31.59	36.08	6.92	4.42	20.99	100.00
LIC#	52.55	1.51	0.12	0.05	45.76	100.00
Industry	46.64	11.25	2.04	1.28	38.78	100.00
*Any entity other than banks but licensed as a corporate agent.						
# Does not include its overseas new business premium.						
Note: 1) New business premium includes first year premium and single premium.						
2) The leads obtained through referral arrangements have been included in the respective channels.						

Source: IRDA annual report 2011-12

From the above it is clear that the brokers' contribution under private insurers is nearly 4.5% whereas in case of LIC brokers' contribution is as low as 0.05% and hence on overall industry basis the ratio of business contributed by brokers in Life is only 1.28%.

This clearly shows that there is ample scope for the brokers to contribute in life insurance growth in the coming years. Committee is of the opinion that sub broking model will augur well for the growth of life insurance industry.



Source: IRDA annual report 2011-12

Non-Life Insurance:

Channel wise gross direct premium income and number of policies for Non-Life Insurers for the FY 2011-12

	Individual Agents	Corporate Agents		Brokers	Direct Selling	Others	Total Group New Business
		Banks	Others Corporate agents				
Premium (in rupees crores)	20917	3273	1239	9921	18566	3865	57964
Policies (in '000)	52396	7076	1986	5392	21775	3312	92308

From the above we can see that in non-life insurance the contributions made by the brokers are quite significant. It works to nearly 17.12 % in premium and 5.8% in number of policies. It is also observed that the contribution made by individual agents is nearly 36% in premium and 63.84% in policies. These figures indicate that there is ample scope for the brokers to penetrate further in the retail market.

The general insurance penetration, measured as a percentage of GDP, is among the lowest within 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. It is estimated that about 70% of the two wheelers plying on the road are not insured, over 90% of the population is not covered under health insurance and almost 99% homes are uninsured.

These figures reflect that there is ample scope for growth in general insurance market in India. The retail insurance business has picked up in the post financial sector reforms period and the retail segment has overtaken the corporate segment in the last five years. The entry of the private sector has changed the entire game plan. On a year-on-year basis, liabilities and personal accident insurance have grown 26 and 22 per cent respectively. In the last two years, health and motor insurance has grown rapidly at about 45 per cent. Last year, the premium amount of motor and health insurance stood at Rs 12,900 crore and Rs 5,000 crore respectively.

However, “this is only a tip of the iceberg,” as the retail base of the insurance sector has to grow in the rural sector in the coming years and there is much to be done in the General space.

Facts indicate that India's 70 per cent of the population resides in hinterlands and 56 per cent of the overall consumption comes from there. Increase in incomes, rising non-farm employment opportunities, higher aspirations and the Government's focus on rural sustainability schemes are major factors that have been driving the rural markets' growth. Rural spending was significantly higher at Rs 3,75,000 crore (US\$ 67.57 billion) than urban consumption at Rs 2,99,400 crore (US\$ 53.95 billion) between 2009-10 and 2011-12 wherein rural consumption per person outpaced its urban counterpart by 2 per cent, according to a study by CRISIL and preliminary data released for 2011-12 by the National Sample Survey Organisation (NSSO).

Rural markets are also very viable targets for marketers as a young population; rising income and low penetration of many consumer durables imply that they are a strong source of demand. Moreover, the consumption pattern in rural areas is witnessing a shift from necessities to discretionary articles. The survey has revealed that about one in every two rural households now has a mobile phone and around 42 per cent of rural households owned a television in 2009-10, up from 26 per cent in 2004-05.

Another study made by the Boston Consulting Group (BCG) has found that small town consumers (those residing in tier-4 towns) are spending higher on premium products as against their peers in urban lands. Such consumers moved up the value chain during 37 per cent purchase occasions as against 31 per cent in metros in 2011-12. India Inc is definitely determined to tap higher aspirations and the urbanising consumer in smaller towns.

With the on-going efforts to get the rural India financially included, there is a large opportunity to tap the semi urban and rural markets which would open up for general insurance. In order to capitalize on the growth in the economy and to increase penetration, the general insurance industry would need to ensure that they are able to reach out to the various customer segments.

Characteristics of the retail General insurance market are:

- General insurance products are tertiary products in the customer purchase consideration set. Taking the examples of motor insurance the primary product is the motor car. The loan for the purchase is the secondary product. Motor insurance is the tertiary product.
- Relatively low involvement of the customer in decision making since products are standardized.
- Low ticket size, yearly contracts result in lower yield/policy for intermediaries resulting in General insurance being an unattractive career option.
- There are hence few dedicated intermediary channels for general insurance products.

Characteristics of the Life Insurance Market:

- The number of Brokers doing Life insurance business are comparatively less
- Life insurance business is usually long term business
- The individual agents who are the main distributors of Life Insurance are attached to one insurer
- After the opening of the sector many new products are introduced however they are yet to reach the rural poor for lack of distributors in many rural areas
- Brokers could not open their offices at semi urban and rural areas due to the strict prevailing conditions regarding the capital requirement and infrastructure facility to be provided
- The products sold are not on need analysis
- Though cheap products are available like term insurance they are not informed to the rural poor which defeats the very purpose of liberalisation of the insurance sector

Under the sub broking format, insurance products would be sold at the doorsteps of the rural population at an affordable cost

Moreover, globally, the use of brokers by large corporates as well as mid-tier/SME is far higher. In fact in the UK, brokers place about 60% of non-life insurance premium. Various forms of sub broking are allowed in economies as diverse as that of the UK, South Africa, Tanzania, Qatar etcetera. The increase in broking penetration for such classes of business not only addresses customers' interest but also reduces costs for the insurance companies whilst simultaneously developing the distribution system of insurance broking.

V. International practices of sub-broking

Internationally, the concept of Sub-broker is a common phenomenon and replicating it is essential to penetrate large potential markets like India. Globally, the use of brokers by large corporates as well as mid-tier/SMEs is far higher. In fact in the UK, brokers place about 60% of non-life insurance premium. Various forms of sub broking are allowed in economies as diverse as that of the UK, South Africa, Tanzania, Qatar etcetera. The increase in broking penetration for such classes of business not only addresses customers' interest but also reduces costs for the insurance companies whilst simultaneously developing the distribution system of insurance broking. The model of international sub-broking as practiced in the economies of the UK, South Africa, Tanzania and Singapore are detailed in Annexure- 2.

The overall aim of both the insurance broking model and of the regulator is to ensure that clients receive the service and products that they expect and that they are treated fairly. The FSA's expectations are that Firms must be able to demonstrate that they are consistently delivering fair outcomes to customers and that senior management are taking responsibility for ensuring that the firm and staff at all levels deliver the outcomes relevant to their business through establishing an appropriate culture. This applies to any distribution method that regulated firm chooses to adopt, whether it be via a sub-broking model or direct to market.

It is observed that in UK the practices of sub broking are in operation in one form or the other. In the US and Singapore markets, there are similar practices. These intermediaries are known by various names such as, Independent Financial Advisors, Approved Persons, Independent Insurance Agents, Financial Advisors and they are regulated by specified rules and regulations of regulatory bodies such as FSA, NAIC, MAS. The method of remuneration for the services rendered by them is ultimately from the insurance consumers whereas regulatory forums/insurers play a role in administering the charges for the services rendered by such intermediaries.

These intermediaries do have their own recognized representative bodies/ associations in respective jurisdictions and such bodies serve the responsibilities of good market conduct practices and governance issues of their members.

VI. Need for Sub broking in India

IRDA had recognized the need for brokers in the Indian Insurance market way back in 2002 and detailed regulations were notified. The insurance brokers are regulated by IRDA (Insurance Brokers) Regulations, 2002 and a decade has passed since its notification. The regulation stipulates certain conditions as far as capital requirements are concerned for a broker which is hindering their expansion and in turn the spread of insurance in semi-urban and rural areas.

In India, insurance is distributed through the help of intermediaries and brokers are also recognized as important types of intermediaries. Brokers are different from other intermediaries and unique in nature as they represent the customers whereas all other intermediaries represent the insurers.

The intermediaries who represent insurers are tied agents (Insurance Agents), Corporate agents, Banks (Corporate agents), Micro insurance agents. Since 2010 IRDA has notified the Distance marketing guidelines, Web aggregators' guidelines and modified Referral guidelines which are aimed to help the insurers to increase the spread.

However, no significant steps have been taken to further strengthen the channel of insurance broking, even though insurance brokers are the representatives of the customers. It is a fact that there have been reports about the mis-selling of insurance products both in Life insurance and general insurance. The complaints on mis selling from customers have increased over the years. IRDA has formed a separate department to look after the consumers affairs in 2010.

The root cause for this increase in mis-selling is sale by intermediaries for their own self-interest ignoring the policyholders' interests. It is also seen that the attrition rate among the tied agents has increased after the modification of the ULIP products after 1/9/2010. This has led to many orphan policies and the policyholders are deprived of after sale service.

Brokers who represent the consumers are expected to sell the insurance products after a detailed need based analysis and can sell products of their choice. Also, instead of one insurer, the customer will have the advantage of looking at products of many insurers and opt for the product which best suits his need. However today we have around 300 active brokers present mostly in urban centres. Under the present IRDA (Insurance Brokers) Regulations 2002, a licensed broker under code of conduct 3(b) has to confirm that he does not employ agents or canvassers to bring in business. This effectively means that if a Broker firm had to employ personnel for the purpose of canvassing, such personnel should contractually be on the pay rolls of the firm as any other regular employees and should have undergone mandatory training and passed the necessary examination.

Our experience in the last few years has shown that the concept of broking has not percolated down to smaller cities, towns and villages primarily because of stringent procedure for obtaining a license, trained manpower and nonexistence of business volumes. It becomes economically unviable for a broker either to set up business or establish a branch office. Nonetheless the existence of business in such small cities cannot be denied. To cater such small size business, it would be worthwhile to try a business model which remunerates a person who canvasses business, based on the volume of business he brings to the table.

The future of India lies with its rural market and as described in the preceding paragraphs the rural market is increasing in its size and also has ample opportunity for many business including the insurance. IRDA is also responsible for the sustainable and orderly growth of insurance business in

India. It is the primary responsibility of IRDA that the benefits of the insurance reach the rural poor which is the mission of IRDA.

The total number of licenses issued as on 31-12-2012 are 343, of which 294 are direct brokers, 43 are composite brokers and 6 are reinsurance brokers and the state wise distribution of licenses is as follows.

State Wise List of Insurance Brokers

Sl. No.	State	No of Licensed Brokers*
1	Maharashtra	110
2	Delhi	66
3	West Bengal	30
4	Tamil Nadu	30
5	Andhra Pradesh	22
6	Uttar Pradesh	23
7	Gujarat	13
8	Karnataka	13
9	Punjab	11
10	Kerala	10
11	Rajasthan	6
12	Chandigarh	4
13	Madhya Pradesh	3
14	Haryana	2
Total		343

From the above it is evident that as of now the brokers are concentrated in Metros and big cities. Many states are not represented at all. Being the representatives of the customer brokers are not serving in many places of our country. Therefore to spread the message of insurance this committee feels that sub broking model will enable the brokers to spread to other areas which are not represented so far.

As stated above the growth of general insurance is below the expected level (0.7% of GDP and being static for more than half a decade) and there exists a huge potential for growth and hence the need to increase the distributors particularly in rural areas. Therefore IRDA is of the view that if sub broking is allowed in India, due to the entry of brokers in semi urban and rural areas the

rural population, who are deprived of the benefits of insurance cover, can get good cover for both their life and their belongings. By allowing the sub broking brokers could reach the rural places which are not tapped so far and thus help in creating new avenues for the increased penetration. Thus sub broking model could help in spreading the insurance awareness in semi urban and rural areas which will ultimately help both customers and insurers.

As at 2011-12 the contribution made by the brokers is only around 1% of the gross underwritten premium. This clearly indicates that there exists a huge potential for the brokers in the life insurance field. Brokers could not reach the semi urban and rural areas for want of capital requirements to set up their own office and employ experienced people. By allowing sub broking this major problem will be solved and brokers could solicit business from semi urban and rural areas which will ultimately result in increased business and spread.

The term plans which are said be the real form of life insurance are getting cheaper day by day. During the last decade the premium rates have come down drastically. However it is observed that these plans are not sold in rural areas mainly for the low commission rates offered to distributors. However being the representatives of the customer brokers could convince the facility to the rural people and can provide a better insurance cover at affordable cost. This is the essence of liberalisation and rural people could avail this facility.

It is also possible to sell the health insurance policies which have become very much essential now due to the increased cost of medical treatments in semi urban and rural areas. The presence of sub broker in these semi urban and rural areas will give wide publicity of various products of all the insurers and thus may benefit both customers and insurers as well. Brokers could give proper service to the life insurance customers with the help of their sub brokers who represent them and this may solve the problem as expressed by some life insurers regarding the after sales service for life insurance policies.

Micro insurance and sub broking:

In order to facilitate penetration of micro insurance to the lower income segments, IRDA has formulated the micro insurance regulations. Micro Insurance Regulation, 2005 provides a platform to distribute insurance

products, which are affordable to the rural and urban poor and to enable micro insurance to be an integral part of the country's wider insurance system.

The main thrust of micro insurance regulations is protection of low income people with affordable insurance product to help cope with and recover from common risks with standardized popular insurance products adhering to certain levels of cover, premium and benefit standards. These regulations have allowed Non-Government Organizations (NGOs) and Self Help Groups (SHGs) to act as agents to insurance companies in distributing and marketing the micro-insurance product. In case the sub broking model is approved the brokers could also be roped in to market the micro-insurance products also. This will help further to sale these products which are aimed at protection of low income groups will be fulfilled.

Two years back IRDA approved some combo products. In this type of product the product will be designed and marketed by the one non-life insurer and automatically the proposer will get the cover for his life. Usually the health insurance product designed by one non-life insurer or a standalone health insurer if purchased by the proposer will provide the life risk cover automatically to some limited extent. Only one proposal form is used to give benefit of two products (one life & one non-life product). Few insurers released to these products with lot of fanfare. However the sale of these products could not be done on expected line.

In case the sub broking model is approved the sub broker being present in semi urban and rural areas can sell these products to the rural poor which will take care of health and life cover aspect at the same time at affordable cost. Also the prospective policyholders will have the choice of insurers/products if they are sold by broker channel.

To summarize sub broking model will help the authority in spreading the message if insurance in nook and corner of the country, help the rural poor to get adequate protection and affordable cost and increase the business in general.

VII. Benefits of Sub broking

- Customers from semi urban and rural areas will have more choice and can thus take a more informed decision
- Broker, who represents the clients, can place business with all insurers
- Broker channel can penetrate into newer markets at low cost if sub broking is allowed
- Improves quality of life of people with sale of products like Health Insurance in smaller cities
- Increases employment in the insurance sector
- Increases awareness about insurance, in general, across smaller class of towns
- Micro-insurance products can be sold through sub brokers (subject to the modifications of Micro-insurance Regulations).
- Combo products can be sold through sub brokers

VIII. CSC model & Sub Broking:

Incorporation of Common Service Centres (CSCs) for insurance distribution

The Ministry of Information Technology through their National E-Governance plan has established one lakh Common Service Centres. For each cluster of six villages there is one common service center. The Ministry of It has mandated certain infrastructure requirements for the common service centers which includes computer, printer, scanner and connectivity. These common service centers are basically providing G2C and B2C services to the rural populations. RBI has already permitted the village level entrepreneur who is manning these CSCs to become a banking correspondent. In order to leverage the strength of such infrastructure for procurement of insurance business it is suggested that we may facilitate CSCs to come under the sub broking model.

Existing Rural Technology Platforms

Common Service Centre (CSC) implemented by Department of Information Technology (DIT), Government of India in a public private partnership (PPP) framework with a focus on rural entrepreneurship & market mechanisms with nearly 100,000 centres as of Dec 2012

'e-Choupal', being one of the largest initiative among all Internet-based interventions in rural India. 'e-Choupal' services today reach out to over 4 million farmers in over 40,000 villages through 6500 kiosks across ten states of Madhya Pradesh, Haryana, Uttarakhand, Karnataka, Andhra Pradesh, Uttar Pradesh, Rajasthan, Maharashtra, Kerela and Tamil Nadu.

Amongst the two CSC has wider reach, deeper penetration with lesser infrastructure bottlenecks and can be the ideal platform.

B2C - General Insurance Sector

The aim is to improve services for customers in the Insurance sector by

- Facilitating customer service through education, information, speedy processing of claims and online issuance of policies on web
- Providing automated grievance reporting and redressal facility to customers
- Creating and enlarging business opportunities
- Creating holistic database of insurance users

Integrate insurance database(s) with other government database(s) to analyse social security aspects and facilitate service delivery

Structure of CSC – 3 Tier

State Designated Agency (SDA) identified by the State Government responsible for managing the implementation over the entire State.

Service Centre Agencies (SCA) which are private entities, who are appointed by the State Governments -

Examples of SCA - SREI Sahaj, 3i Infotech Ltd, Reliance Communications, CMS Computers Ltd, Zoom developments

Village Level Entrepreneurs (VLEs) who run the CSC, who are appointed by the SCAs to run and manage the CSCs at pre-defined locations

Concept of RAP (Rural Authorised Persons)

A registered Village Level Entrepreneur (VLE) of the SCA upon successful completion of training and examination specified under guideline is certified to act as a RAP by the IRDA

Additional consideration for: RRIA (Retail Rural Insurance Advisor)

Village Level Entrepreneurs (VLEs) who run the CSC, who are appointed by the SCAs to run and manage the CSCs at pre-defined locations can be trained as RRIA (Retail Rural Insurance Advisor) to provide Insurance services.

The detailed draft guidelines are enclosed in Annexure- III.

IX. ELIGIBILITY, SYLLABUS TRAINING and REGISTRATION

Eligibility:

Individuals: The minimum qualification for a sub-broker is 12th standard pass

SYLLABUS FOR TRAINING & EXAMINATION OF SUB BROKERS

The sub broker is required to understand all the essential aspects of Life insurance, Non-Life insurance and the following subjects are included in the syllabus.

I) PRINCIPLES AND PRACTICES OF INSURANCE

The topics like introduction to Insurance, Basic Principles of Insurance, Classification of Insurance, Insurance Documents, policy terms and conditions are included in the syllabus.

II) LEGAL ASPECTS OF INSURANCE

The topics like the Legal Environment, The Principles of Law of contract Relevant Provisions of various Acts and their applicability to Insurance, Motor Vehicles Act, and Regulatory Environment are included in this part.

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III) GENERAL INSURANCE:

The topics like Fire insurance,. engineering insurance, motor insurance, personal accident insurance: health insurance, rural insurance products- micro insurance, other miscellaneous insurances personal insurances are included in this part.

IV) LIFE INSURANCE:

The topics like Life Insurance Products , Insurance Documents, Computation Of Premium, Computation of benefits: Claims- Maturity Claim, Death Claim, Nomination & Assignment .and Micro Insurance are included in this part.

The detailed syllabus is attached as Annexure –IV.

Training:

The training shall include two aspects:

- (i) Mandatory training: Sub-brokers would have to go through 50 hours of mandatory training. Such training would also have to be made available online such that it is made available at a pan India level. The syllabus shall be in line with that of the mandatory agents program.
- (ii) Practical training: In addition to (i) above, sub-brokers would have to go through 20 hours of internal training under the broker to whom the sub-broker has registered an application to function as such. The broker shall bear the responsibility of certification and confirmation in addition to training the sub-broking on the functioning of internal systems.

Examination:

2 Hours Examination with 100 Objective Type Questions may be conducted, by National Insurance Academy, based on the syllabus. Maximum Marks: 100 and Minimum marks for Passing the examination is 50.

Registration:

Application for sub broking shall be forwarded by the main broker to the IRDA. Registration shall be done by the IRDA through a separate portal

X. Summary overview

At present the brokers are mainly operating mostly from big cities. It is desirable that we have to increase the penetration of insurance in semi-urban and rural areas. Sub broking is one model which can help in increasing the penetration and spread of insurance. Various stakeholders are requesting the authority to consider sub broking system in India for quite some time now.

Hence it was decided to form a committee on sub broking to look into issue of allowing licensed insurance brokers to engage the services of sub-brokers. The committee comprised of experts from the field of Non-Life insurance, Life Insurance, NIA, IBAI and two persons from the authority.

“Sub-Broker” in normal insurance parlance as the term is commonly referred and understood means any person not being a licensed brokers, and who acts on behalf of a licensed broker for assisting the insured / clients of the licensed broker.

Under the present IRDA (Insurance Brokers) Regulations 2002, a licensed broker under code of conduct 3(b) has to confirm that he does not employ agents or canvassers to bring in business. This effectively means that if a Broker firm had to employ personnel for the purpose of canvassing, such personnel should contractually be on the pay rolls of the firm as any other regular employees and should have undergone mandatory training and passed the necessary examination.

Our experience in the last few years has shown that the concept of broking has not percolated down to smaller cities, towns and villages primarily because of high cost of obtaining a license, trained manpower and non existence of business volumes. It becomes economically unviable for a broker either to set up business or establish a branch office. Nonetheless the existence of business in such small cities cannot be denied. To cater such small size business, it would be worthwhile to try a business model which

remunerates a person who canvasses business, based on the volume of business he brings to the table.

The Principal would either appoint a person already having insurance experience and / or train him in order to determine his ability to handle the work before entering into Memorandum of Understanding. To begin with sub broker should be able to handle retail business like standard personal lines in addition to normal property and miscellaneous covers. The Principal would also provide adequate support to this outfit by deputing experienced personnel to supervise and guide the local official in handling insurance proposal. All large risks and specialized type of covers such as Liability, D & O Liability, Professional Indemnity, etc. would be referred to the Principal.

Drawing a parallel from the agency channel of distribution, a sub-broker is an agent of the broker. The aim of sub-broking is customer-centric giving the customer the opportunity to choose products from multiple insurers while augmenting insurance penetration.

XI. Recommendations:

The committee would like to make the following recommendations as per the **terms of reference** given to the committee vide order number IRDA/BRK/MISC/ORD/259/12/2012 dated 17/12/2012 which are mentioned below.

Terms of reference given:

- (i) to consider the introduction of a retail broking system in the insurance space in the country;**

Recommendations of the committee:

- After introduction of IRDA (Insurance Brokers) Regulations, 2002 a decade is passed. The Indian insurance market is maturing fast and brokers' role is recognized in India. The insurance brokers are contributing considerably for the growth of insurance in India. Committee is of the opinion that it is the right time to introduce the sub broking system in India. This will enable the concept of broking to percolate down to smaller towns which will ultimately help the rural poor.
- The committee recommends allowing sub brokers to sell all the insurance products except reinsurance business.

Terms of reference given:

- (ii) to consider the qualifications, examination and syllabus and the licensing system which should be introduced for the actors in a retail broking system;**

Recommendations of the committee:

- The committee recommends inclusions of all the important topics needed to discharge the duties of a sub broker are included in the syllabus. The detailed syllabus recommended is given in annexure-IV
- It is recommended that a sub broker should also receive 20 hrs practical training from the main broker in addition to the mandatory training of 50 hrs

- It is recommended that NIA will continue as an examination body for sub brokers
- It is recommended that the examination may be held through online system

Terms of reference given:

- (iii) **to consider the manner in which the retail broking system could operate as sub-brokers and together with insurance brokers the manner in which these could be dovetailed with the Common Service Centers proposed to be set up by the Government of India.**

Recommendations of the committee:

- The following entities/persons may be considered for sub broking
 “Person” means-
 - (i) an individual; or
 - (ii) a firm; or
 - (iii) a company formed under the Companies Act, 1956 (1 of 1956); or
 - (iv) Limited Liability Partnership
 - (v) any other person recognized by the Authority.
- The firm, company and the LLP should have minimum paid up capital of rupees 5 lakhs to become eligible to register as sub broker
- If the sub broker places premium of more than rupees 10 crores for two Financial Years he has to upgrade his status as broker and cannot continue as sub broker.
- The sub broker can place business worth rupees one lakh per policy. This thresh hold limit applies for both Life and Non-Life business.
- Brokers having a certain degree of consistency and scale of revenues, geographical presence and IRDA licensed broking workforce can appoint sub brokers

- The available infrastructure of Common Service Centers (CSC) in the rural areas may be utilized for procuring insurance business through sub broking model
- The eligible brokers may be allowed to appoint sub brokers in places where they do not have any office or branch office
- The licensing system should be made as simple and the main broker after conducting necessary due diligence shall forward the application for sub broking to the IRDA. IRDA will register them as sub broker
- The accountability of any omission & commission by the sub broker will rest with the main broker
- Certain aspects of existing infrastructure of training and examination of insurance agents may also be considered for utilization in sub broking model
- The training will consist of two parts. Theoretical training which will be given at the recognized center (NIA) and the practical training to the sub broker will be provided by the main broker.

Terms of reference given:

- (v) **to consider and recommend the draft agreement that should be entered into between the brokers and retail sub-brokers if such is the recommendation; and**

Recommendations of the committee:

- An agreement between the sub broker & broker should include all the modalities of working of sub broking system. The standard agreement is enclosed as Annexure-I
- Agreement between Brokers and sub Brokers should be for a minimum period of 5 years

Terms of reference given:

(vi) any other matter relevant to the above.

Recommendations of the committee:

- The committee recommends sub brokers may be allowed to sell the micro-insurance and combo products which will help to cater to the needs of the rural people.
- In case the above proposal is accepted the committee recommends to include the topics related to 'Micro-insurance' may be included in the syllabus recommended and as given in annexure-IV.
- Certain aspects of existing infrastructure of training and examination of insurance agents may also be considered for utilization in sub broking model
- If the sub broker is terminated for any reasons the main broker is responsible for the servicing of the policies sold by the sub broker.

XII. Important points for consideration of a sub-broking application

Finally the committee would like to mention that the following points should be kept in mind while considering the application from a sub broker.

- Brokers who have completed at least one full financial year only can sponsor a sub broker. It is clarified that part of a financial year will not be considered while checking the eligibility to sponsor.
- The degree of consistency in performance, scale of revenues, and geographical presence could decide the eligibility of a main broker to appoint a sub broker. IRDA decision is final and IRDA could use its discretion to allow a broker on case to case basis.
- The main broker after conducting necessary due diligence shall forward the application for sub broking to the IRDA. IRDA after due verification register the sub broker.
- The accountability of any omission & commission by the sub broker will rest with the main broker
- An agreement between the sub broker & broker as given in Annexure I will be executed which include all the modalities of working of sub broking system (including aspects related to remuneration)
- Agreement between Brokers and sub Brokers should be for a minimum period of 5 years
- NIA or anybody duly recognised by IRDA will act as an examination body for sub brokers
- The examination may be held through online system
- In case of any disciplinary matters the decision of IRDA is final and binding on the sub broker & the main broker.

Annexure:

ANNEXURE- I

Proforma of the ‘Standard agreement’ to be executed between “insurance broker” and the proposed “sub insurance broker”

Note : i. The agreement shall not cover reinsurance broking business.

ii. The actual text of the agreement shall be developed later in consultation with the requirements which IRDA may like to finally incorporate therein.

iii. This agreement shall be a part of IRDA’s “Standard Agreement” to be notified as a schedule of the Sub-Insurance broker regulations, 2013.

iv. This standard agreement shall specify that provisions contained therein are minimum to be agreed upon by parties to the contract.

v. Additional provisions, to suit the specific working needs, can be added by the respective parties provided: they are not in derogation or in prejudice to the regulatory and legislative provisions pertaining to insurance sub-brokers.

The standard agreement **shall provide for the following** Articles in order to protect interest of the policyholders and to promote an orderly growth of insurance business, through the medium of Insurance sub-broking model. This model agreement has the approval of the Authority and sanction of the Law.

1. Parties to the contract, i.e., insurance broker and the proposed sub-broker.

2. Date, period of the contract, place of the execution and other necessary formalities, which are required to be complied in making the contract as a perfect legal document capable of enforcement within the provisions of the: Contract Act of India, Companies Act, 1956, IRDA Act 1999, Insurance Act 1938 and regulations made thereunder.

3. **Interpretations** and necessary definitions for comprehensive understanding and implementation need to be provided in the Agreement, some of which are explained herein below:

3.1 needs to have general prescription to the effect that parties to the contract shall adhere to the meanings of the words and expressions defined here in.

3.2 alphabetically narrate and enumerate necessary definition such as:-

- i. Definitions given in IRDA Broking Regulations 2 (1) (a) to (m) and 2 (2) shall have the meaning assigned to them respectively for the purpose of this agreement
- ii. Meaning of the word “Sub-broking” shall be same as defined in the IRDA (Insurance sub-broker) Regulations 2013.
- iii. Functions of the “Sub-broker” shall be any one or more of the functions performed by the direct broker as specified in Reg. 3 of IRDA Broking Regulations.
- iv. “Registration” means Certificate of registration of the “Sub-broker”, more specifically provided in the IRDA (Insurance Sub-Broker) Regulations 2013.
- v. “Agreement” means a contract, duly enforceable by law and executed between the “insurance broker” and the “Sub-broker” for the purposes of transacting insurance broking functions in India. This agreement is deemed to have taken cognizance and incorporation of provisions of regulations applicable to the system of Insurance sub-broking.
- vi. “Solicitation” means :
 - a. Soliciting or procuring insurance proposal/mandate from a client, whether approached by the sub-broker/insurance broker or when the sub-broker/insurance broker is approached by the client, for the purposes of transacting functions as a sub-broker/insurance broker, in

consideration of a remuneration specified in regulation 19 of IRDA (Insurance Broker) Regulations, 2002.

b. And includes; distance marketing of insurance products as defined in IRDA Guidelines dated 05.04.2011.

vii. “Client” means a person who obtains or seeks to obtain insurance contract and engages a sub-broker/broker for the functions specified in the Regulations.

viii. “Remuneration” means remuneration as specified in IRDA (Insurance Sub-Brokers) Regulations, 2013, and includes consideration an insurance sub-broker receives for discharge of his functions as specified in the said Regulations.

Note: committee decided that the following expressions may better be defined in the insurance sub-broking regulations 2013 and accordingly the needful shall be done at that point of time.

(a) Affiliate (b) mutatis-mutandis (c) privity of contract (d) Common service center

(e) state designated agency (f) State center agency (g) Village level entrepreneur

(h) Principal officer of CSC/SCA etc

3.3. **The interpretation** of the words and expressions used in this agreement and referred herein above shall have the sense and meaning, unless a contrary intention appears from the context and that the said contrary intention shall not be to the prejudice of IRDA (Insurance Brokers) Regulations and insurance legislation governing the insurance sector.

4. That the provisions of sub-regulations: 17, 19 to 21, 23, 25 to 41 of IRDA (Insurance Brokers) Regulations 2002, shall apply mutatis-mutandis to the “sub-brokers”.

5. The name of the “Insurance sub-broker” shall reflect its name as such and its line of activity to enable the public to differentiate IRDA licensed insurance brokers and registered insurance brokers from other non-licensed insurance entities, such as consultants, risk managers, etc.

6. Memorandum and Articles of Association of insurance brokers seeking to engage and affiliate with IRDA registered “insurance sub-brokers” shall incorporate one of its main objectives to reflect this relationship and both the parties shall be bound to comply with the relevant provisions of Companies Act 1956 and the said Memorandum and Articles of Association

7. That the regulatory returns, including financial statements and annual reports; required to be furnished by the insurance broker shall contain information of the business and other activities of the sub-broker. The sub-broker shall be equally liable to furnish true and fair information, on time, to the insurance broker/IRDA and be liable for the: negligence, deficiency and untruthfulness, if any.

8. (i) There shall be established a privity of contract by the sub-brokers and his client's and he be liable for professional negligence, if any.

(ii) That the mandate of engagement received from the client shall provide for this contractual relationship and deficiency, if any, by the sub-broker shall be governed by the Consumer Protection Act of India, in addition to terms of this agreement and IRDA regulations.

(iii) That sub-broker shall proportionately participate, by mutual agreement with “insurance brokers”, in the professional indemnity insurance requirements specified in Regulation 24 of the IRDA (Insurance Brokers) Regulations 2002.

9. That the sub-broker shall not commence its business unless this contract is duly signed and executed between both the parties and is duly submitted to the IRDA.

10. The obligations of the sub-broker, either directly and / or through the insurance broker, to the client shall be as provided here in below in addition to what has been specified by IRDA in its respective regulations :-

That both the parties to the contract, individually and collectively, shall be obliged :

- i. to ensure that their employees and persons who solicit insurance business shall be competent, professionals to exercise due care and prudence reasonably expected from them and that they shall also adhere to matters of the code of conduct prescribed.
- ii. Ensure that both the parties educate the client on all necessary details of insurance products they seek to solicit and make him aware about his rights and duties
- iii. That they scrupulously follow functions of a direct insurance broker as specified in: (a) Sub regulation 3 of IRDA (Brokers) Regulations 2002 and (b) Regulation 10 of Insurance Sub-Broker regulations 2013.
- iv. That the sub-broker comply with the regulations specified in para 4 above in its letter and spirit
- v. That conduct of the sub-broker to the client is as per the matters specified in the code of conduct and other guidelines issued by the Authority, IBAI and insurers from time to time.
- vi. That the quotation(s) of pricing presented to the client is strictly as per the terms from the insurer and that they do not add any additional pricing or the terms thereto.
- vii. That a clear communication shall be made to the client about inception of the insurance cover and acceptance of the proposal by the insurer. That no endorsement or midterm variations to the policy wordings shall be arranged without the specific requests/mandate of the client.
- viii. That the complaint received from the client shall be attended in accordance with:- IRDA guidelines, clause 8 of Code Of Conduct, and that the IBAI's established standards for redressal of consumer concerns/grievances. The protection of policyholders interest regulations of the IRDA shall continue to apply both on insurance broker and insurance sub-broker and its compliance report furnished annually to the IRDA.

- ix. That the insurance broker and insurance sub-broker shall be respectively accountable for the omissions and commissions of their own employees and persons engaged by them, in case of violations committed by such employees/persons, the client shall hold them responsible for indemnification for their such acts.
- x. That each of the parties to this contract shall have an access to the IT system/platform on which they operate so that there is an effective co-ordination and communication in effecting service to the clients.
- xi. That none of the parties shall attempt or act to attempt unfair means to divert or wean away the business of each other
- xii. That standards of reasonableness, prudence, acting in public interest, appropriateness, capacity building, efficiency, equal protection of law and such other practices shall apply to both the parties, respectively.
- xiii. Know your customers norms shall be complied by the sub-broker in respect of clients introduced/solicited by him.
- xiv. The sub-broker shall adhere to appropriate sales practices and comply with requisite guidelines of the Authority, while soliciting insurance business on behalf of the insurance broker

11. Obligations of the sub-broker, to the insurance broker and their joint obligations shall be as under:-

- i. To ensure that all requirements of the Insurance Broker or any insurer for: any additional information or declaration or confirmation subsequent to the date of the first proposal is: promptly, fully and accurately obtained by the Insurance sub-Broker and provided to the Insurance Broker.
- ii. That renewal of the Client's Business shall be the Insurance sub-Broker's responsibility who will liaise with the Insurance Broker for proper and timely interchange of information and the subsequent consideration of renewal terms.

- iii. Any complaint that is received by either of the party to contract shall be dealt in an expeditious manner and in terms of the regulations/guidelines for the said purpose. The sub-broker shall provide necessary assistance in dealing with all such complaints that emanate from the business introduced by him.
- iv. Sub-broker shall not accept a purported notice of cancellation of insurance contract, avoidance or reservation of rights by the insurer and send such notices to the Insurance Broker immediately following receipt.
- v. Insurance Broker acts on the instructions of the Insurance sub-Broker of his Client in-respect of business introduced by sub-broker. The Insurance sub-Broker warrants to Insurance Broker that all such instructions are correct, complete and appropriate and agrees fully and effectively on demand to indemnify Insurance Broker for and against any costs claims damages or losses suffered or incurred by the Insurance sub-Broker or Client as a result of the reliance by Insurance Broker or any other party on such instructions or by reason of any error or omission in those instructions.
- vi. Insurance sub-broker acts as per the Authority's regulations for the purposes of receiving and holding premiums from Insured's and for receiving and holding premium refunds
- vii. The Insurance sub-Broker agrees to notify Insurance Broker immediately in writing of any loss or incident which may give rise to a claim under any contract of insurance covered by this Agreement, or to inform the Insurer direct where previously agreed by the concerned broker.
- viii. The Insurance sub-Broker undertakes to notify Insurance Broker within 30 days in writing, of any changes in its owners, directors, partners or controllers and all changes in its name or trading name.
- ix. Insurance Broker undertakes to notify the Insurance sub-Broker within 30 days in writing of such changes with respect to Insurance Broker.

- x. The Insurance sub-Broker undertakes to immediately notify Insurance Broker in writing within 30 days of:
 - a. Any changes about its registration with the Authority
 - b. If any of its owners, partners, directors or controllers is or becomes the subject of any disciplinary proceedings or the Authority's investigation from time to time; or
- xi. Advertisement shall be made by any of the parties of the contract in compliance of the IRDA (Advertisement & Disclosure) Regulation, 2000 & 2007
- xii. Both the parties shall take measures to enhance the awareness of insurance to their clients.
- xiii. Both shall act within the self-regulatory role and ambit in addition to the regulations notified by the Authority.
- xiv. The sub-broker shall maintain its own records and report its activities to the insurance broker. He shall furnish half yearly compliance report of all the regulatory requirements to the insurance broker.
- xv. The sub-broker shall display at his place of work/office its registration certificate, necessary information about his activities, functions/provisions of the code of conduct, approach and duties in handling of the complaints. He will also draw reference to statutory provisions such as:(a) section 38,39,41,42E,45 and 64 VB of the Insurance Act, 1938 (b) availability of the institution of the ombudsman, IRDA grievance redressal(IGMS), Institution of the surveyor and loss assessment and other material disclosures to be made by the insured may be explained.
- xvi. Both the parties shall perform their duties, functions and terms of this agreement in a manner that they do not work as a fronting arrangements or a franchise institution. Both the parties shall act in the public interest and in a fiduciary capacity in the interest of the integrity of the Indian insurance market.

12. Obligation of the insurance broker to the sub-insurance broker to be as under:-

- i. To obey the instructions of the Insurance sub-Broker as are necessary for the Insurance Broker to comply with the Authority's regulations
- ii. To assimilate all underwriting information relating to the risk and/or claims collection for presentation to the insurance market;
- iii. To prepare documentation as is required by the insurers for the acceptance of the risk and or claims collection and shall ensure that such documentation shall acknowledge the Insurance sub-Broker's appointment, if required;
- iv. To advise the insurance sub-brokers on all warranties and conditions about the insurance products by the client.
- v. To present quotations to the Insurance sub-Broker only on the terms quoted to Insurance Broker by insurers quoting the gross premium, without amendment, alteration, rider enhancement unless previously agreed by the Insurance sub-Broker on behalf of the client and confirmed in writing to Insurance Broker
- vi. To provide in a timely fashion information reasonably requested by the Sub-Broker in relation to this Agreement without limitation.
- vii. Unless insurance sub-broker provide his consent, the Insurance Broker will not contact sub-brokers' clients without his prior approval during the period of this agreement or for twelve calendar months following termination. However ,if sub-broker agrees that both or someone acting on their behalf may contact insurance sub-broker's client, if it is reasonable to do so in order to act in the best interests of sub-broker's client, the insurance broker may do so.
- viii. To improve service standards of sub-broker and share its expertise. Exercise professional control and supervision on the sub-broker.

- ix. The insurance broker, while finalizing the terms of relationship with the sub-broker, shall give preference to those geographical areas of the country which have business potential but are not duly represented by the broking model.

13. Terms of sharing of remuneration:-

The procedure for remuneration that would be specified in the regulations shall govern the principle of sharing the remuneration between the Insurance broker and the sub-broker

14. 1. Procedural Steps and Terms of insurance broking business to be attended by the insurance broker/sub-broker shall be:

- i. the best practices and standards, developed and practiced in the market.
- ii. and other matters forming part of various provisions of the IRDA insurance regulations.

2. Without prejudice to generality of principle of : insurance solicitation, customers service parameters and specifications of 1 above, these terms shall include any one or more of the following :

a. **Sales process** shall cover :

- i. Particulars of the proposal form and prospectus to be explained
- ii. Scope of the benefits of the insurance product including warranties, exceptions, conditions of the insurance cover; whether the product is participating with profit or not; what are the riders attached to it.
- iii. Information pertaining to pricing and premium including discounts, deductibles and all other material information in respect of the proposed insurance cover to enable the client to exercise his choice.
- iv. Necessary certification to be made that all the contents and the information specified in (i) to (iv) above has been fully

explained to the client and that the client is understanding its knowledge before making a choice.

- v. The language of communication, as far as possible, may be as simple as possible.
- vi. The necessary provisions of law such as: (a) section 38,39,41,42E, 45 and 64 VB of the Insurance act,1938 (b) availability of the institution of the ombudsman, IRDA grievance redressal(IGMS), Institution of the surveyor and loss assessment and other material disclosures to be made by the insured may be explained.
- vii. All that is necessary to form part of the insurance contract need to be advised and the process facilitated.
- viii. Other sales practices such as :
 1. The identification of being a sub broker/member of the IBAI and not being the agent or an unauthorized person to solicit the proposal.
 2. Explain the choices available to the client to meet his needs, furnish necessary comparisons on pricing and coverage of the product.
 3. Satisfy the queries of the prospect.
 4. Not to make use of: agents, canvassers, third parties, unapproved persons, any other extended chains of insurance intermediaries on behalf of the sub-broker which is not approved.
 5. The sub-broker shall keep direct access to the potential customers in the market as a registered/ licensed entity of the IRDA, in order to promote broking/sub-broking services. The persons to be used by the sub- brokers have to be qualified as required in the registration norms and the definition of solicitation.
 6. The sub-broker shall have the authority to obtain quotes and share the same with the insurance broker and deal with the matters involved in the process of sale/solicitation.

7. Wherever sub-broker needs, guidance to comply with the instructions of the clients and the regulatory requirements in the process he shall immediately seek advises from the insurance broker.
8. Keep free and fair flow and exchange of information with the insurance brokers to effectively render services to the client.

b. After sales services

- i. Each of the parties to the agreement shall pay due attention to the after sales services required to the client in matters of : claim, grievances and complaint made by the client, changes required to be effected in the policy document and assessment of the risk profile of the client from time to time.
- ii. The broker/sub-broker is not mandated to settle the claim on behalf of the client but is required to assist the negotiations and compliance of the documentation aspects to be filed by the claimant to the insurer. He shall fully comply with the clause 7 of the code of conduct of IRDA broker regulations.
- iii. The renewal requirements of the contract shall be met by both the parties to this contract in terms of Clause 6 of Code of Conduct.
- iv. There shall be a written communication sent to the client at a reasonable date in advance of the last date of the expiry of the existing insurance contract. The notice shall give details of pricing in addition to other information relevant to the renewal of the contract and needs of the client if they have undergone changes due to the risk perception at that point of time.

15. Training and continuing professional education.

- i. Sub broker shall also comply: clause 12 of the code of conduct to develop its human resources.
- ii. He shall also comply with other educational & training requirements specified for him in the regulations for the purposes of registration/renewal and bear the cost for the same.

- iii. The insurance broker shall, in addition, impart practical and on the job training to the sub-broker on mutually agreed terms.

16. Disputes:

- a. Any dispute, a conflict or a contest or a lack of agreement and understanding between the parties to this contract on any of the terms of this agreement shall be resolved by the parties in terms of the arbitration clause and the parties hereby agree for insertion of such an arbitration clause into this agreement.
- b. The parties also agree that they shall exercise the option of resorting to disciplinary or an advisory forum of the IBAI before proceeding for the arbitration and conciliation under the arbitration and conciliation act.
- c. Jurisdiction of the resolution of the dispute shall be an Indian territory preferably where the cause of action has arisen or where any of the parties to the agreement transacts its business or resides. iv. Choice of Law shall be an Indian Law if the recourse to the courts becomes necessary. It is agreed by the parties that enforceability of the agreement shall be between the parties and/or the Regulatory Authority and not to third parties to this contract.

17. Confidentiality & Disclosure

- i. Both the parties to the contract are bound to the IRDA (Broking) Regulation 28 pertaining to disclosure.
- ii. Both parties will treat information received from the other relating to this agreement and to the client's business as confidential and will not disclose it to any other person not entitled to receive it except as may be necessary to fulfill their respective obligations in the conduct of the business.
- iii. Both parties shall furnish information as may be required by law or regulatory Authority.

18. Termination

- i. Whenever any of the parties to the agreement decide to terminate/suspend or cancel their relationship before the tenure agreed upon, each one of them is bound to seek prior approval of the Authority and substantiate the reasons of such an action.
- ii. Both parties are bound to furnish an arrangement of service to be rendered to the clients whose contracts are in force at the time of such termination/suspension/cancellation.
- iii. The notice of termination as stated above (i) shall be given at least 60 days in advance.
- iv. The dispute or disagreement in respect of termination, if any, between both the parties shall be referred to a Disciplinary Committee constituted by the IBAI and if the said committee fails to resolve the dispute, the IBAI or the parties to the agreement shall refer the same for arbitration/constellation proceedings as per the terms of Arbitration clause.
- v. In addition to any specific ground for termination/suspension/cancellation, which either of the party may like to advance, with cogent reasons/circumstances, other reasonable grounds would be : (a) suspecting either of the parties of fraud, (b) dishonesty, (c) bad administration, (d) abuse of discretion, (e) bad faith with the client, (f) attracting any of the disqualifications prescribed for the registration/the license and/or any other specific violation of the terms of the agreement/the IRDA regulations

19. Agreement to be read as a whole: i. No part of this agreement shall be read in parts as all the provisions of this agreement constitute the entire agreement and understanding of the parties subject to the provisions of the IRDA regulations. ii. This agreement/the contract shall have the force of the law and approval of the IRDA for the purposes of the compliance and enforcement.

IN WITNESS WHEREOF THE PARTIES HERETO have executed this Agreement on the date recorded below

Signed

1. For and on behalf of the Insurance broker namely-----addressed to-----

1. For and on behalf of the Insurance sub-broker namely-----addressed to-----

Witnesses

1.

Name;

Address:

2.

Name;

Address:

3. .

Name;

Address:

ANNEXURE-II

International practices of sub-broking

Internationally also the concept of Sub-broker is common phenomenon and therefore in order to penetrate large potential markets like India. The model of international sub-broking as practiced in the economies of the UK, South Africa, Tanzania and separately for Singapore, are as follows:

1. The United Kingdom

Any person or firm (including sub-brokers, introducers etc), who wishes to carry out insurance broking activities in the UK, must fulfill one of two criteria:

1. Directly authorized by the FSA; or
2. Exempt from regulation because another, directly FSA-authorized, insurance broker has confirmed to the FSA that it will take regulatory responsibility for their actions.

A broker obtains quotes directly from the Insurance marketplace; however, in certain the broker may obtain quotes and place business through other third parties or distribution methods.

Appointed Representative: A sub-broker is an Appointed Representative (AR) of a firm, which has been directly authorized by the FSA. They are then allowed to operate under the regulated firm's (also known as Principal firm) permissions that have been granted to them by the FSA and the Principal firm takes on regulatory responsibility for their AR.

Introducer Appointed Representative: If a firm only wants to carry out introductions to a regulated firm, then there is the option of becoming an Introducer Appointed Representative (IAR). This means that they are only allowed to introduce potential customers to a regulated firm and do no more. This in effect means that these types of firms are exempt from authorization as the Principal firm has agreed to take regulatory responsibility for them.

The AR/IAR will only be allowed to carry out the activities for which their Principal firm has permissions. The FSA expects that where a directly authorized takes on responsibility for an AR or IAR that it will have a contract in place clearly identifying what activity the AR/IAR can undertake. The FSA will also expect the Principal firm to be able to demonstrate control and oversight of the AR/IAR.

To summarize, the arrangement in the UK can be classified in three parts:

- i. Authorised broker- Appointed Representative,
- ii. Authorised broker- Introducer Appointed Representative and
- iii. Between two authorized brokers

Authorization Requirements

The sale of general insurance has been regulated by the Financial Services Authority (FSA) since 14 January 2005. Any person or firm (including sub-brokers, introducers etc), who wishes to carry out insurance broking activities in the UK, must fulfill one of two criteria:

1. Directly authorized by the FSA; or
2. Exempt from regulation because another, directly FSA-authorized, insurance broker has confirmed to the FSA that it will take regulatory responsibility for their actions.

Direct authorization - Before a firm can carry on a regulated activity the FSA must be satisfied that the firm can meet and continue to meet the minimum standards, called Threshold Conditions, and that the persons running the firm are fit and proper. The FSA will look at numerous factors when determining an application for authorization including that a firm has adequate resources (both financial and non financial), the competence and ability of its management and that its business plan is appropriate.

When applying to the FSA to become authorized, there are different types of permissions that firms can apply for, e.g. advising on contracts of insurance, arranging contracts of insurance. Insurance Brokers need to look at the type

of activity they wish to perform and then apply for the appropriate permissions that allow them to do this.

Exempt from regulation - This is where a broker (often a sub-broker) becomes an 'Appointed Representative' (AR) of a directly authorized firm. They are then allowed to operate under the regulated firm's (also known as Principal firm) permissions that have been granted to them by the FSA and the Principal firm takes on regulatory responsibility for their AR. If a firm only wants to carry out introductions to a regulated firm, then there is the option of becoming an Introducer Appointed Representative (IAR). This means that they are only allowed to introduce potential customers to a regulated firm and do no more. This in effect means that these types of firms are exempt from authorization as the Principal firm has agreed to take regulatory responsibility for them. The AR/IAR will only be allowed to carry out the activities for which their Principal firm has permissions. The FSA expects that where a directly authorized takes on responsibility for an AR or IAR that it will have a contract in place clearly identifying what activity the AR/IAR can undertake. The FSA will also expect the Principal firm to be able to demonstrate control and oversight of the AR/IAR.

Routes to Marketplace

A broker can obtain quotes directly from the Insurance marketplace; however, in certain instances they may broker to obtain quotes and place business through other third parties or distribution methods.

Sub Broker/Producing Broker – An authorized insurance broker not being a part of any other broker and being directly authorized by the FSA, who has the direct contact with the client but uses another broker (often known as wholesale broker/placing broker) to place the insurance contract with the risk carrier. There will generally be a terms of engagement between the two brokers setting out who is responsible for which activities in the transaction. In some circumstances there can be an extended "chain" of intermediaries, where each (other than the ultimate client facing broker) is the Wholesale Broker to the next broker towards the client, but also a Sub Broker to the next broker towards the insurer.

Introducer Appointed Representative (IAR) - a third party appointed to actively promote the services of a broker and is able to pass customers' contact details to the broker, but permitted to do no more (i.e. cannot give advice, help the customer complete forms, etc”);

Appointed Representative (AR) – a third party appoints to conduct regulated activities in the name of a broker, up to the limit of the broker's FSA permissions and subject to any additional restrictions/limitations prescribed in the AR contract. An AR may have permission from its Principal to work on a Sub Broker basis with other brokers, or directly with insurers, rather than solely placing all of its business via its Principal.

Introducer – A firm or individual who simply provides potential clients with the broker's contact details in order to facilitate an introduction and does no more. It would be up to the potential client to initiate any contact with the broker.

Networks model – A bigger broker has a number of directly authorised brokers within its 'network'; such smaller brokers do not have access to products and insurers that the big broker does. The aim therefore of this model is to improve trading ability for these smaller brokers with a focused panel of insurers, providing exclusive products to the client and improved earnings for the broker. For each transaction the smaller broker will deal directly with the insurer. The bigger broker also shares its expertise and intellectual property to raise broking standards, improve service levels to clients and help brokers deliver a differentiated customer experience.

Regulatory requirements

This section provides a very high-level overview of the regulatory requirements in the UK, focusing mainly on the conduct of business requirements that the FSA expects firms to meet. The FSA expects firms to have appropriate systems and controls in place in order to ensure that customers are treated fairly and that a firm's conduct is that which is expected of a professional firm. Some of the key requirements the FSA expects of firms are listed below.

Where a sub-broker arrangement is between two directly authorized firms, each would be responsible for ensuring its own compliance with the requirements. If the sub-broker is an AR or IAR of another broker (Principal), it would be the responsibility of the Principal to ensure the Sub Broker's compliance.

Disclosure Requirements – the FSA expects firms to provide information to its clients on remuneration (fee, commission etc), information about the service being offered (e.g. if we are providing advice or not), information about the product itself (key features, key exclusions etc), information about who is acting on behalf of whom (e.g. whether we are acting as agent of an insurer), how to make a complaint, information about any third party that we may have used etc. This information needs to be provided to the customer up-front in a clear way.

Governance – the regulator expects insurance brokers in the UK to have effective governance in place at an organizational level (e.g. having an effective Board, Risk Committee, Audit Committee etc) and over any third party's activities (e.g. making sure that we are satisfied that any third parties we deal with are fit and proper).

Systems & Controls – the FSA expects firms to have adequate financial and operating controls (e.g. compliance and risk management function). Firms need to ensure that they have adequate resources within their controlled functions and that risk management and compliance cultures have been embedded throughout the business.

Conflicts of Interest – the FSA expects firms to identify and manage any potential conflicts of interests that may exist in any relationships it has. For example, an insurance broker must ensure that it does not choose to place business with an insurer just because it offers higher fees.

Financial Promotions - any financial promotions (advertisements) should be clear, fair and not misleading. A firm should have arrangements in place to ensure that all such promotions are checked before being issued to ensure

that they do not breach any requirements, including making claims with no evidence to back them up.

Complaints Handling - firms need to have an appropriate system in place to ensure that complaints are identified, recorded, handled fairly and fair outcomes reached. In the UK, certain complaints (consumer complaints) need to be reported to the regulator.

Financial crime – Financial Crime controls are essential to reduce the risk of financial loss or reputational damage for regulatory and legislative reasons. There must be systems and controls in place to reduce the risk. Risks include: Bribery and Corruption, Money Laundering, Trade Sanctions, Internal/External Fraud, Insider Trading.

Client Money - All client monies (premium) has to be protected throughout the life of the policy, by monies being held separately in a secure account, for timely payment to markets. All client money related transactions need to be tracked throughout the end to end process from receipt from the client through to payment to the relevant market/s.

Training & Competence – the FSA needs to be satisfied that an insurance broker's staff is capable and competent. One of the ways insurance brokers can satisfy the regulator of this is by having an appropriate training and competence regime in place. In the UK, training is provided on line, including the testing process. Competence is checked via the supervision framework, whereby competent managers/team leaders/supervisors would manage this locally.

It is worth noting that the above list is not exhaustive and there are many other requirements that are required to be met in the UK.

The FSA do recognize that different types of customers should expect different types of services. So, for example, they differentiate between consumers (your everyday person wishing to buy car insurance for example) to large corporate clients (clients who are sophisticated and have a much fuller understanding of insurance). Therefore, the FSA expects firms to differ in the way they treat consumers compared to the way they treat larger, more

educated clients. An example of this would be ensuring that the disclosure information issued to a consumer is not full of technical 'jargon', that any advice given to them is fully explained etc. Consumers also have the right to refer their complaints to the financial ombudsman service (FOS) in the UK which is an independent adjudicator that consumers can refer their complaints to if they feel the insurance broker has not handled their complaint fairly.

Conclusion

The overall aim of both the insurance broking model and of the regulator is to ensure that clients receive the service and products that they expect and that they are treated fairly. The FSA's expectations are that Firms must be able to demonstrate that they are consistently delivering fair outcomes to customers and that senior management are taking responsibility for ensuring that the firm and staff at all levels deliver the outcomes relevant to their business through establishing an appropriate culture. This applies to any distribution method that regulated firm chooses to adopt, whether it be via a sub-broking model or direct to market.

2. South Africa

In South Africa "Insurance" falls under the definition of a financial product and is regulated by the "Financial Services Board" (www.fsb.co.za) known as the "FSB". The FSB is a local government body set-up to regulate the financial services industry. "The Financial Advisory and Intermediary Services Act, 2002", known as the "FAIS Act" is the main piece of legislation which governs the rendering of advisory and intermediary financial services as a broker/brokerage in South Africa. The FAIS Act distinguishes between the different categories of financial services rendered. Brokerage licenses are tailored (by license category) for the type of financial service which is rendered, e.g. there is a license category for retail insurance broking, there is a license category for institutional insurance broking, there is a license category which covers every type of financial service defined under the FAIS Act. Licensing occurs at a brokerage level, a license can consist of an individual broker or a group of brokers, the company is licensed and each individual broker is also registered under the license.

Fit and Proper Requirements

The FAIS Act is read in conjunction with a number of Board Notices and The General Code of Conduct. Different aspects of the FAIS Act are further detailed and expanded in the Board Notices. In order to be licensed with the FSB there is a requirement of certain “fit and proper” standards to be met and maintained. These are detailed in Board Notice 106. There are a few areas of Fit and Proper, namely Operational Ability, Financial Soundness, Experience (specific per license category ranging between 3 months and 2 years depending on complexity of license category), Qualifications (“formal” as per a list of approved qualifications and “industry specific” above your formal qualification prescribed by the FSB called the Regulatory Exams with level 1 and 2), Continuous Professional Development Points (CPD points) and Honesty & Integrity. The level of experience and qualifications required by the Fit and Proper standards differ per license category.

All brokers/advisers are required to adhere to the “General Code of Conduct” (Board Notice 80 of 2003). The Code of Conduct documents the way in which the FAIS Act expects brokers to conduct business in line with the FAIS Act. The Code of Conduct contains provisions and guidelines for the different types of processes that must be followed, between an adviser and the client as well as procedures to be followed by the brokerage.

The FAIS Act makes provision for two types of people under the license, a Key Individual and a Representative. A Key Individual/s is the person/s who accepts responsibility for the actions under the license. A Representative acts under the license as a broker and represents the license. Should new brokers/advisers (representatives) wish to join the Financial Services Industry, they need to obtain all the Fit and Proper requirements before they are eligible to be registered under the license, they can obtain these Fit and Proper requirements under “supervision”. The FAIS Act allows a period of supervision for new representatives. There are detailed guidelines for supervision covered in Board Notice 104 of 2008. There is a requirement for a contractual agreement between a representative (broker) and a financial service provider (brokerage). A representative can be an individual or a juristic person,

regardless of the type of representative each individual person must be registered under the license and adhere to the Fit and Proper requirements. A Key Individual has to meet all the Fit & Proper requirements before being approved for registration, a Key Individual cannot act under supervision. Every FSP (Financial Services Provider) must have at least one Key Individual covering the license categories under the license. Fit and Proper requirements to become a Key Individual can be obtained by acting as a Representative (and/or a representative under supervision).

Manner in which the retail broking system could operate as sub brokers

In South Africa there are concerns similar to India regarding the limited provision of financial services to rural and semi urban areas of the community. With primary brokers having already obtained a license from the Financial Services Board (FSB), secondary brokers join primary ones as a representative (where they do not meet the Fit and Proper requirements, they may act under supervision) and focus more on the aspect of insurance penetration. This opens up a window of opportunity to benefit from economies of scale and scope to penetrate these lower income markets. There are a number of ways this is achieved. Here are a few examples of the most common structures:

- Large financial service providers create agencies under their FSP license, where each broker is individually registered as a representative under the FSP license and acts as an agent of the FSP. These are often agencies where only one brand of product is provided and the brokers are sole agents to the provider. In other instances the broker is able to provide products from multiple product providers. The products are normally standardised with very basic features and limited flexibility, to reduce the cost and cater for the lower income market.
- Call centres are created. Each agent within the agency is registered under the FSP license.
- Often the large FSPs are large Banks or an Insurance Product Provider.

- Benefits are obtained by leveraging economies of scale, reducing the cost of doing business, allowing for profit in lower income market segments.
- Sharing of fixed costs (compliance, operational, licensing etc.), thus reducing the cost per policy placed.

At all times the individual providing the advice is licensed, either they are already Fit & Proper or acting under supervision (where they are working towards becoming Fit and Proper). With the prescribed Fit & Proper standards and variable commission based remuneration, becoming a broker is not the most sought after occupation. This leads to a scarcity of talent in the industry which is more prominent in the lower income market.

Retail Broking in terms of sub broking, referral and introducer arrangements

Referrals/introducer arrangements can take place, where a referral is made it would be made in the form of a lead or an introduction of business to an appropriately licensed FSP. A once-off referral fee can be paid to the referrer agreed to by both parties. An individual referring business is not allowed to render any advisory or intermediary services. Where advisory or intermediary services are rendered then licensing is required. Sharing of commission is only permissible where there is a joint rendering of financial services and both FSP's are licensed appropriately.

3. Tanzania

In Tanzania, an “agent for insurer” (or insurance agent) refers to a person who transacts insurance business on behalf of a registered insurer while an “agent for broker” refers to a person who transacts insurance business on behalf of a registered insurance broker. A broker, an insurance agent and an agent for broker all need to be registered. An insurance agent registered for more than three years may work for up to three registered insurers provided the agent has displayed satisfactory performance for three consecutive years. However, an agent for the insurance broker can not act for more than one broker and must act in accordance with an agreement drawn up between the broker and the agent (here functioning as the sub-broker). The broker is responsible for the acts of the sub-broker; even premiums paid to the sub-broker shall be deemed to have been paid to the broker. The Commissioner may make regulations setting down the minimum qualifications and attributes required to any person or body of persons to whom an Agency Agreement may be issued by an insurer or broker. The Commissioner may refuse to permit the issue of an Agency Agreement to any person or body of persons who, in his opinion, does not possess the prescribed attributes or qualifications.

Insurance Sub-broking: Applicable Legal Provisions

The Insurance Act, 2009

No. 10 of 2009

An Act, to establish the Tanzania Insurance Regulatory Authority (TIRA) to provide for the Functions and Powers of the TIRA in regulating and supervising insurance business and for related matters.

PART – I

Interpretation (Provision No. 3)

“Agent for Broker” means a person who transacts insurance business on behalf of a registered Insurance Broker.

“Agent for Insurer” means a person who transacts insurance business on behalf of a registered Insurer and shall have the same meaning as “Insurance Agent.”

“Broker” means the “Insurance Broker” described in this Act.

“Insurance Agent” means a person who solicits applications for insurance, collects monies by way of premium and acting in accordance with Agency Agreement and may find the registered Insurer for whom he acts in the issue of insurance cover and the term “Agent” shall be construed accordingly.

“Insurance Broker” means a person, who acting with complete freedom as to his choice of undertaking and for commission or other compensation and not being an Agent of the Insurer, bring together, view a view to the insurance or reinsurance of risks, persons seeking insurance or reinsurance undertaking carry out work preparatory to the conclusion of contracts of insurance or reinsurance, and where appropriate, assists in the administration and performance of the contracts, in particular in the event of a claim.

“Insurer” means a person carrying on insurance business other than a broker or agent.

“The Insured” means a person effecting a contract of insurance with an Insurer.

PART VI

Registration of Insurance Brokers, Agents and Agents for Brokers etc.

Insurance Brokers, Agents and Agents for Brokers to be registered (Section 61)

1. A person shall not act in Tanzania as Insurance Broker, Insurance Agent or Agent for an Insurance Broker, unless he is registered as such in accordance with the Provisions of this Part.
2. No Insurance Agent shall act for both Insurance Company and an Insurance Broker.

3. An employee of a registered Insurance Broker may accept insurance business without himself being registered provided the compensation of that employee is not related to the volume of business so handled.
4. An employee of a registered Insurance Agent or Agent for an Insurance Broker may -
 - (b) Accept over the counter insurance business at the permanent office for that Agent without being registered, provided that the compensation of such employee is not related to the volume of business so handled;
 - (c) Accept insurance business elsewhere than at the permanent office of the Agent without being registered, provided that employee carries an identity card issued in accordance with the Provisions of Section 64(3) and he accepts only that insurance as permitted in terms of the Agency Agreement of his Principal.

Agents to act for one Principal only (Section 62)

- (1) An Insurance Agent registered for not more than three years may act for one Insurer transacting general insurance business and one Insurer transacting long term insurance business.
- (2) An Insurance Agent registered for more than three years may act for up to three Insurers registered under the Act.
- (3) Notwithstanding Subsection (2), an Insurance Agent referred to under Subsection shall not act to up to three Insurers unless –
 - (a) there have been no instances of non compliance to this Act against the Agent for a period of three years consecutively, and
 - (b) the Agent has the approval in writing of all Insurers that the Agent is acting for them.
- (4) An Agent for an Insurance Broker shall not act for more than one Broker registered under this Act.
- (5) An Insurance Agent or Agent for a Broker shall not act outside the terms of an approved Agency Agreement.

Insurer's and Broker's Responsibilities for Agents (Section 63)

- (1) An Insurer and an Insurance Broker shall be liable for the acts of their Agents and of any employee of an Agent in carrying out the duties of an Agent where the act complained of falls within the area of authority of the Agent or his employee as is explicitly stated in the Agency Agreement or might reasonably be implied from it by a person seeking insurance.
- (2) In so far as it affects a policy holder or potential policy-holder, all premiums paid to an Agent or an employee of an Agent shall be deemed to have been paid to the Insurer or Broker for whom he is the Agent.
- (3) Nothing contained in this Section shall prevent an Insurer or a Broker from seeking redress against an Agent or employee of an Agent, or both, as a result of the Insurer or Broker incurring an expense or liability which, but for the provisions of this Section, the expense or liability would not otherwise have incurred.
- (4) Nothing contained in this Section shall prevent an Agent from seeking redress against his employee where an Insurer or Broker incurs an expense or liability under Subsections (1) or (2) and where the said Agent is similarly liable to the Insurer or Broker under the provisions of Subsection (3).

Registration of Agents (Section 64)

- (1) The Commissioner may make regulations setting down the minimum attributes and qualifications required to any person or body of persons to whom an Agency Agreement may be issued by an Insurer or Broker.
- (2) An Insurer or Broker employing an Agent shall issue to that Agent a form of Agency Agreement to be approved by the Commissioner.
- (3) Every Insurer and Broker shall issue to each Agent and each employee of an Agent identity cards of a type approved by the Commissioner stating the name of the Insurer or Broker, the class or classes of

business the Agent or employee of the Agent is empowered to transact, whether he is empowered to effect insurance cover and collect premiums, and the name, address and a photograph of the Agent, or an employee of an Agent approved by the Insurer or Broker as eligible to undertake business as defined under Section 61 (5) (b).

- (4) Insurers and Broker shall maintain -
 - (a) records of all Agency Agreements issued in accordance with Subsection (2), and
 - (b) duplicate copies of all identity cards issued in accordance with Subsection (3).
- (5) The Commissioner may refuse to permit the issue by an Insurer or Broker of an Agency Agreement to any person or body of persons who, in his opinion, does not possess the prescribed attributes or qualifications.

Country wise key parameters

Country	UK	South Africa	Tanzania
Objective		Retail broking to these lower income segments	
Regulations for Sub broking	Yes	Yes	Yes
Name of Regulator	FSA - Financial services authority	Financial Services Board	Tanzania Insurance Regulatory Authority (TIRA)
Term for sub Broker	Two categories	Referral - Not licensed	Agent for Broker
	Appointed representative – Licensed	Advisory - Intermediary - Licensing is required	
	Introducer Appointed Representative - Not licensed - Principal Firm takes regulatory responsibility		
Licensed by Regulator	Yes	Yes	Yes
Licensing types		Individual Broker / Body of brokers	

<p>Types of permission</p>	<p>Advising on contracts of insurance, arranging contracts of insurance.</p>	<p>Retail broking / Institutional Broking</p>	
<p>Regulatory Requirements</p>	<p>Remuneration Disclosure / Governance / Systems & controls / Conflict of interest / Complaints Handling / Financial crime / Client Money</p>	<p>Fit and proper standards - Operational Ability, Financial Soundness, Experience (specific per license category ranging between 3 months and 2 years depending on complexity of license category), Qualifications (“formal” as per a list of approved qualifications and “industry specific” and Honesty & Integrity</p>	<p>Agent identity cards / the class or classes of business the Agent or employee of the Agent is empowered to transact / maintain records of all Agency Agreements</p>
<p>Training</p>	<p>Yes</p>	<p>Formal qualification prescribed by the FSB called the Regulatory Exams with level 1 and 2). Continuous Professional Development Points (CPD points)</p>	<p>Commissioner may make regulations setting down the minimum attributes and qualifications</p>

CONCLUSION

In view of the above practices it is observed that in UK the practices of sub broking are in operation in one form or the other. In the US and Singapore markets, there are similar practices. These intermediaries are known by various names such as, Independent Financial Advisors, Approved Persons, Independent Insurance Agents, Financial Advisors and they are regulated by specified rules and regulations of regulatory bodies such as FSA, NAIC, MAS. The method of remuneration for the services rendered by them is ultimately from the insurance consumers whereas regulatory forums/insurers play a role in administering the charges for the services rendered by such intermediaries. These intermediaries do have their own recognized representative bodies/ associations in respective jurisdictions and such bodies serve the responsibilities of good market conduct practices and governance issues of their members.

ANNEXURE III

Guidelines on Common Service Centres for Insurance Business

These Guidelines are issued in exercise of the powers conferred upon the Authority under Section 14(1) of the IRDA Act, 1999 to protect the interests of the policyholder and to regulate, promote and to ensure the orderly growth of the insurance industry.

1. Scope and applicability of these Guidelines:

These Guidelines cover soliciting and servicing activities of Insurers / brokers through the State Centre Agency and Village Level Entrepreneurs who already exist as a part of Common Service centers (CSC's) throughout the country under Nation e-governance plan launched by Ministry of IT, Government of India.

Department of Electronics and Information Technology (DEIT) and Department of Administrative Reforms and Public Grievances (DAR&PG) has formulated the National e-Governance Plan (NeGP).

2. Definitions:

- (i) "Authority" means the Insurance Regulatory and Development Authority established under the provisions of Section 3 of the Insurance Regulatory and Development Authority Act, 1999 (41 of 1999)
- (ii) "Insurance Broker" – as defined in Regulation 2 (i) of IRDA (Insurance Brokers) Regulations, 2002.
- (iii) "Insurer" – as defined in Section 2 (9) of Insurance Act, 1938.
- (iv) "State Designated Agency" would be the nodal agency at state level involved for the monitoring and supervision of the project progress at the state level.
- (v) "State Centre Agency" would be the main implementing Agency providing the required investment budget and the functional specifications of the CSC.
- (vi) For the purpose of these guidelines "SCA" is one who is IRDA certified sub broker, having entered into agreement for a minimum period of three years with an insurance broker having a valid license issued by IRDA to solicit insurance business and provide claims services through VLEs registered with them. Each SCA shall have one officer hereinafter called as "Principal Officer of SCA" exclusively to monitor the services rendered by RAPs and responsible for providing required technical (Insurance) advice and assistance to RAPs operating at village level.

- (vii) "Village level Entrepreneur" would be the local level entrepreneur who would be in-charge of running the daily operations of the CSC.
- (viii) **"Rural Authorized Persons"** (RAP)- For the purpose of soliciting insurance business and providing claims services to insurers/brokers through the proposed model, a RAP is one who is a registered VLE of the SCA, and upon successful completion of training and examination specified under guideline.. is certified by IRDA to act as Rural Authorized Person"
- (ix) "Agreement" for the purpose of these guidelines means an agreement for a minimum period of three years entered into between a SCA and Insurance broker having a valid license issued by IRDA, clearly indicating their duties and responsibilities, obligations towards the insurer and customer in providing insurance and claims related services, terms and conditions of agreement, remuneration sharing ratio, change management in case of termination of agreement / non-renewal/suspension/cancellation of license of broker with whom the agreement is entered into/ expiry of SCA's agreement with the SDA and such other information required under these guidelines.
- (x) "Principal Officer of SCA" – A person under the employment of SCA who holds a minimum qualification of "Degree" from a recognized university and has completed at least 100 hours of theoretical training and passed the broker examination from an institution recognized by the Authority as provided under Regulation 2(k) of IRDA (Insurance Brokers) Regulations, 2002,to oversee the working of RAPs under him.
- (xi) "Solicitation" – For the purpose of these guidelines, solicitation is defined as the approach of a client, by an Insurer or an intermediary through a RAP with a view to induce the client to purchase an insurance policy.
- (xii) All words and expressions used and not defined in these guidelines but defined in the Insurance Act, 1938 (4 of 1938), the Insurance Regulatory and Development Authority Act, 1999 or in any of the Regulations / Guidelines made there under shall have the meanings respectively assigned to them in those Acts or Regulations / Guidelines.

3. Compliance

Insurers/ Brokers/SCA's/RAPs shall, in addition to these guidelines, comply with all the applicable provisions of the Insurance Act, 1938, the IRDA Act, 1999, and the rules, regulations, circulars or guidelines, as applicable, to be issued from time to time.

4. Prohibition

Under the proposed model a SCA is prohibited from selling insurance policy/ies through a RAP, unless he enters into an agreement with an IRDA licensed broker, as stated in these guidelines.

5. Functions of a Rural Authorized Person

The functions of a RAP shall include any one or more of the following:-

- a. Obtaining detailed information relating to insured's occupation and protection needs and render advice on appropriate insurance cover.
- b. Providing requisite underwriting information like age, income, family medical history, illness suffered and such other information as required by an insurer in assessing the risk.
- c. Acting promptly on instructions from a client and providing him written acknowledgements and information on proposal acceptance and status of claims settlement
- d. Assisting clients in paying premium in compliance with section 64VB of Insurance Act, 1938 (4 of 1938).
- e. Advise and assist clients in effecting transfer, nomination, assignment and so on in the policy and inform insurers about changes like, change in residential address, change in nomination, sale of vehicle etc. for updation and arrange to get necessary endorsement in the policy documents
- f. Assist and facilitate claims settlement process by helping insured in filling claim form, collect copy of documents like death certificate, nomination, assignment, and such other documents required for settlement of claims by insurers.
- g. Inform clients about payment of renewal premium and send policy renewal notices to clients on behalf of insurers.

6. Agreement between Insurance Broker and SCA :

The agreement between the insurance Broker and SCA, by whatever name called, shall interalia include the following clauses:

- (i) The SCA shall maintain /preserve all the entries made by them and record in a manner that is compliant with the provisions of these guidelines.
- (ii) The SCA shall arrange to send the hard copies of proposal and claims related documents to insurers
- (iii) The SCA shall maintain records of all the Rural Authorized persons employed by them along with their training and assessment particulars.
- (iv) The Insurance Broker shall visit SCA /RAP on regular intervals and ensure smooth functioning of SCA /RAP.
- (v) The records under (i) & (ii) above shall be open to inspection by the Authority.
- (vi) Remuneration will be shared between brokers, SCA & RAP as specified in Section 8 of these Guidelines.

- (vii) Prior approval of IRDA is required for initiating any activity, by a SCA under this model. A copy of the agreement entered into between the IRDA licensed insurance broker and SCA, has to be filed with Authority.
- (viii) The SCAs shall develop suitable system to ensure continuity in the services rendered by RAP to policyholders, even after the termination of agreement with licensed insurance broker/ SCA.

7. Persons engaged for solicitation:

- (a) For the purpose of solicitation of insurance business through CSC only Rural Authorized Person (RAP)is authorized, through an Insurance Broker.
- (b) Insurance Broker and SCA shall be responsible for all acts of commission and omission of the persons deployed on their behalf.
- (c) Rural Authorized Person should possess the minimum qualification of :
 - (i) Class 10th from a recognized Board.
 - (ii) Minimum knowledge of Computer application / operations.
 - (iii) Should have completed at least 25 hours of theoretical training from an institution recognized by the Authority.
 - (iv) Should pass an examination, at the end of the period of training mentioned above and conducted by the National Insurance Academy, Pune or any other examining body recognized by the Authority. The syllabus for above training is to be prescribed by the IRDA.
 - (v) In the process of procurement of insurance business and providing claims services through this model, regulatory provisions, disclosures, ethical conduct of business and specific instructions that would be issued by IRDA from time to time shall be strictly complied with.
 - (vi) The products to be sold through this model will be prescribed by the IRDA in due course.

8. Remuneration:

Remuneration payable shall not exceed:

- i) percentage of the brokerage as specified below
 - a. Rural Authorized Person (VLE) - 60%
 - b. State Centre Agency – 20%
 - c. Insurance Broker – 20%

9. Obligations of Rural Authorized Person :

- a. Rural Authorized Person shall be appointed by SCA and this SCA will have an agreement with one IRDA licensed broking entity.
- b. In the process of soliciting insurance business and providing claims services on behalf of the SCA/broker/insurer, RAP shall ensure compliance of KYC norms, AML guidelines, and regulations, disclosure norms, guidelines issued by IRDA from time to time in this regard

- c. Rural Authorized Persons are barred from soliciting insurance in their individual capacity in any mode, or on behalf of any organization other than the agreed Broking Company.
- d. At no point of time of its functioning, a Rural Authorized Person shall have referral arrangement with any Insurer or act as an insurance agent, insurance broker, corporate agent, micro insurance agent, TPA, Surveyor or a loss assessor.
- e. Rural Authorized Person shall maintain the records and the reports of its activities related to Insurance under the agreement with Insurer / Broker, in the manner specified in the agreement entered into between the Insurer / broker and the SCA/VLE.
- f. Rural Authorized Person shall comply with all the provisions of the Act, the IRDA Act, 1999, the rules and regulations framed thereunder and other directions issued by the Authority from time to time.
- g. Rural Authorized Person shall not accept any payment from Insurer / Insurance Broker other than the remuneration specified in clause 8 of the guidelines.

10. Obligations of State Centre Agency (SCA):

- a. Should have an agreement in writing with an IRDA licensed Insurance Broker which shall be for a minimum period of three years with terms & conditions on solicitation of insurance business, claims servicing, policyholder servicing, remuneration sharing etc. clearly spelt out.
- b. Should have at least one person called the "Principal officer of SCA" ,who has completed at least 100 hours of theoretical training and should have passed the broker examination from an institution recognized by the Authority to oversee the working of RAPs under him.
- c. SCA shall maintain the records and the reports of its activities related to insurance received from RAPs in the manner specified in the agreement entered into between the Insurer / broker and the SCA/RAP and file half yearly returns in the prescribed form as provided in the guidelines- Annexure A
- d. SCA should appoint the RAPs and should ensure completion of training and examination specified in these guidelines by them.

11. Obligations of Insurance Brokers

- a. An Insurance Broker shall not pay any fee or remuneration, by whatever name called, to RAP other than % of brokerage as specified in section- 8 of these Guidelines.
- b. An Insurance Broker shall maintain records and the reports of activities received from SCA/RAPs under this model.
- c. An Insurance Broker should ensure that there will not be any leakage of data from SCA/RAP.
- d. An Insurance Broker should file half yearly report to Authority in the prescribed form (Annexure C)

12. Obligations of the Insurers:

- a. File periodical returns as provided in Annexure B of these guidelines.
- b. Develop suitable system to redress customer grievance/complaints
- c. Develop simple OTC products which are easy to understand by the RAPs and rural customers and file the same with IRDA for approval.
- d. Develop suitable feedback mechanisms to bring in improvements in the services rendered, effect changes if any required in the policy terms and conditions
- e. Develop suitable system to ensure continued insurance protection and servicing to rural customers.

13. Code of Conduct:

Every Rural Authorized person shall:

- a. conduct its dealing with clients with utmost good faith and integrity at all times;
- b. act with due care and diligence;
- c. treat all information supplied by the prospective clients as completely confidential to themselves and to the insurer(s) to which the business is being offered;
- d. ensure that the policy proposed is suitable to the needs of the prospective client;
- e. ensure that the consequences of non-disclosure and inaccuracies are pointed out to the prospective client.
- f. ensure that the client receives the insurer's renewal invitation well in time before the expiry date.
- g. explain to its clients their obligation to notify claims promptly and to disclose all material facts and advise subsequent developments as soon as possible.
- h. give prompt advice to the client of any requirements concerning the claim;
- i. forward any information received from the client regarding a claim or an incident that may give rise to a claim without delay.
- j. Advise the client without delay of the insurer's decision or otherwise of a claim; and give all reasonable assistance to the client in pursuing his claim.
- k. acknowledge receipt of all monies received in connection with an insurance policy;
- l. ensure that statements made are not misleading or extravagant.
- m. draw the attention of the client to Section 41 of the Insurance Act, 1938 which prohibits rebating and sharing of commission.

14. Termination of Agreement and Policyholder Servicing

In the event of termination of agreement of SCA & broker, SCA & SDA, and suspension/cancellation/non-renewal of broker license by IRDA, it shall be the responsibility of the broker to obtain information from SCA in respect of insurance business solicited by RAPs through this model

and in inform in writing to all such policyholders about the arrangement made to service their policies including the information about the contact details of the Officials of Insurance Companies who would be providing the services in all such matters pursuant to the termination of agreement between SCA/Broker or SCA/SDA.

15. Action against the Insurance Broker :-

An Insurance Broker that fails to furnish any information or furnishes wrong information to the Authority relating to the agreement and transactions with SCA / VLEs, or;

An Insurance Broker that fails to comply with these guidelines and such other directions issued by the Authority from time to time shall be liable for action as provided under the provisions of the Act, the Insurance Regulatory and Development Act, 1999 (41 of 1999) and the relevant Regulations made thereunder.

Provided that no such action shall be initiated by the Authority and order passed thereafter without giving an opportunity of hearing to the Insurance Broker.

16. Power of Authority to inspect:

(1) The Authority may appoint one or more of its officers as an inspecting authority to undertake inspection of the premises of the SCA / RAP to ascertain and see how activities are carried on, and also to inspect the books of accounts, records and documents of the SCA/RAP for any of the purposes specified in sub-regulation (2).

(2) The purpose referred to in sub-regulation (1) may be for one or more of the follows:-

(i) to ensure that the provisions of the Act, rules, regulations are being complied with;

(ii) to investigate the complaints received from any insured, any insurer, other insurance brokers or any other person on any matter having a bearing on the activities of the RAP / SCA / insurance broker; and

(iii) to investigate the affairs of the RAP/SCA/insurance broker *suo motu* in the interest of proper development of insurance business or in the policy holder's interest.

17. Power of the authority to issue clarifications:

In order to remove any difficulties in respect of the application or interpretation of any of the provisions of these Guidelines, the Authority may issue appropriate clarifications from time to time.

Annexure III A

Format of half yearly reporting by SCAs

For the period from... to....

Name of the Broking Company:

IRDA Broker license no:

Date of expiry of license:

Period of Agreement:

No. of IRDA certified RAPs on rolls:

S.No.	Name of RAP	IRDA certificate no	Training & Examination particulars	Net premium procured (Gross premium less service tax, TPA and other service charges)	Net Commission paid during the period.

Date:

Name & seal of the SCA

Signature of principal officer of SCA

Annexure III B

Format of half yearly reporting by Insurers for premium procured through CSCs, for the period from... to...

Sl. No	Name of the Broking entity	IRDA license no	Gross premium income during the period	Commission paid during the period	Net premium income during the period (Gross premium less service tax, service and other charges)	Income Tax deducted during the period

Date:

Name and Seal of the insurance company

Name and Signature of the Compliance officer

Annexure III C

Format of half yearly reporting by Brokers

For the period from... to

Name of the broking entity

IRDA license no and expiry date

Name of the SCA	IRDA certificate no	Name of the principal officer of SCA	Name of the insurer to whom business solicited	Premium procured during the period	Commission received from Insurer

Date:

Name and Seal of the Broking entity

Name and signature of Principal Officer of broking entity

Annexure-IV

SYLLABUS FOR TRAINING & EXAMINATION OF SUB BROKERS

Training:

50 Hours training covering the topics given in the Syllabus.

Examination:

2 Hours Examination with 100 Objective Type Questions may be conducted, by National Insurance Academy, based on the syllabus. Maximum Marks: 100 and Minimum marks for Passing the examination is 50.

SYLLABUS for Training and Examination

I) PRINCIPLES AND PRACTICES OF INSURANCE

Introduction to Insurance : The concept of Risk Perils and Hazards-classification of risks – Risk Assessment & Transfer-The concept of Insurance-Purpose and need of insurance - Probability of risks – how insurance works – insurance as security.

Basic Principles of Insurance: Insurable interest – material facts, Indemnity, Utmost good faith – Indemnity – Subrogation – contribution – Proximate Cause.

Classification of Insurance: Life and General Insurance, Classification as Per the Insurance Legislation, Personal and Commercial Line Insurances, Liability and credit Insurance, Other Miscellaneous Insurance.

Insurance Documents and policy terms and conditions: Insurance Policy document / conditions, scope of cover – exclusions and warranties, Endorsements and riders in insurance. Deductibles, franchise, co-insurance arrangements, Documents relating to underwriting and claims settlement, etc.

II) LEGAL ASPECTS OF INSURANCE

The Legal Environment, The Insurance Act, 1938, Life Insurance Corporation Act, 1956 – General Insurance Business Nationalization Act, 1972, Insurance Regulatory and Development Authority (IRDA) Act, 1999.

The Principles of Law of contract (India Contract Act, 1872) – Ingredients of a valid contract – Modes of discharge of contracts – Contracts of indemnity and guarantee – Bailment – Assignments – Law of agency – Law of arbitration

– application to insurance. Laws regulating Insurance business – Insurance Act, 1938.

Relevant Provisions of various Acts and their applicability to Insurance, Motor Vehicles Act, 1939 and 1988, The Carriage of Goods by Sea Act, 1925, The Indian Railways Act, 1890 (as amended) The carriers Act, 1965, The Carriage by Air Act 1972, Workmen’s Compensation Act, 1923, Employees State Insurance Act, 1948, The Indian Stamp Act 1899, Consumer Protection Act, Arbitration Act, Lok Adalats and Insurance Ombudsmen.

Regulatory Environment: Need for Regulation, Objectives of Regulations, IRDA Regulation – Protection of Policyholders Interest, TPA, Advertisements, Rural and Social Sector, Micro Insurance and Surveyors.

III) GENERAL INSURANCE:

FIRE INSURANCE: Standard Fire and Special Peril Policy - Scope, coverage, exclusions, etc Proposal Form, Cover note - Policy and Renewal Notice, Fixation of Sum Insured & Market Value determination, Drafting Of Policy, Endorsements, Warranties, Clauses, Premium Rates, Discounts & Deductibles, Fire Claims, Surveyor’s Role, functions and duties in assessment of loss, Average And Escalation clause, Salvage management. Etc.

ENGINEERING INSURANCE: Types of Engineering Insurance, Operational Insurance Covers – Machinery Insurance, Machinery (LOP) Insurance, Boiler Insurance, DOS Insurance & Electronic Equipment Insurance.

MOTOR INSURANCE: Types Of Motor Polices, Certificate of Insurance/ Cover note, Miscellaneous and Special Types Of Vehicle, Scope of cover of Liability To Third Parties, Liability Only Policy Forms, Personal Accident Cover For Owner-Driver, General Exceptions (Applicable to All Sections of the Policy) and Package policies, Commercial Vehicles Package Policy, etc. Claims: Types Of Losses, Claim documents, survey and loss assessment, Computation of Vehicle Damage Claims, Frauds and leakages in Motor insurance, Motor – Third party liability.

PERSONAL ACCIDENT INSURANCE: Individual and group Personal Accident covers, Underwriting of Personal Accident Insurance, Personal Accident Claims.

HEALTH INSURANCE: Health Insurance requirements of individuals, Types Of Health Insurance Products, Disability And Sickness Income Insurance,

Hospitalization Reimbursement Insurance, Health Insurance Claims, Role Of TPAs, TPA Regulations and working.

RURAL INSURANCE PRODUCTS- Cattle Insurance, Goat, Poultry Insurance, Etc - Other Livestock and Sub Animals Insurance, Crop Insurance, Weather Insurance, Horticulture and Other Plantations Insurance, Agricultural Pump Set Insurance, Animal Driven Cart, Rural Accident, Farmers Package policy, etc.

MICRO INSURANCE – Concept of Micro Insurance, IRDA Regulations relating to Micro Insurance, Micro Insurance Products, Various micro insurance channels, Policy Servicing, etc.

OTHER MISCELLANEOUS INSURANCES - Burglary, Theft, Fidelity Guarantee, Money Insurance, Package Policies such as Jewellers' Policy, Bankers Insurance, Office Package, etc.

PERSONAL INSURANCES – Household Insurance, Shop Insurance,

IV) LIFE INSURANCE:

Life Insurance Products - Different Types of Life Insurance Products - Term Insurance, Whole Life and Endowment including ULIP, Classification of Annuities - Immediate Annuity, Deferred Annuity, Life Annuity. Group Insurance, etc. Financial Need analysis & selection of appropriate policy.

Health Insurance in the Life Insurance sector

Insurance Documents: Prospectus, Proposal Form, First Premium Receipt, Policy Document, Endorsement, Renewal Notice, & Bonus Notice, etc.

Computation Of Premium: Factors of Calculating the Premium, Extra Premium, Mode of Premium Payable, Concept of Level Premium, Importance of Mortality Table, etc.

Computation of benefits: Bonus, Guaranteed Additions, Surrender Value, Guaranteed Value, Paid up Value, etc.

Claims- Maturity Claim, Death Claim, Nomination & Assignment.

Micro Insurance – Concept of Micro Insurance, IRDA Regulations relating to Micro Insurance, Micro Insurance Products, Various micro insurance channels, Policy Servicing, etc.

Members of the committee:

Sl. No	Name of the Member	Signature
1	Mr. P C James	
2	Mr. Sanath Kumar	
3	Mr. Mukesh Kumar	
4	Ms. Anamika Rastravar	
5	Mr. Malay Ghosh	
6	Mr. Ramesh Vishwanathan	
7	Mr. Sohanlal Kadel	
8	Mr. Sanjay Kedia	
9	Mr. Fali Poncha	
10	Mr. Suresh Mathur	
11	Mr. Satish Hegde	