Insurance broking in india economics essay

Economics

RiskInvestopedia defines insurance as a contract in which an individual or entity receives financial protection or reimbursement against losses from an insurance company.[i]The insurance industry works on the principle of large numbers. Insurance CompanyCustomerProtectionIn this context, an insurance broker is an intermediary who represents the customer and helps or assists in procuring insurance. By definition, the insurance broker in an independent entity. The key distinction between an insurance broker and an insurance agent is that the agent represents an insurance company while the broker represents customers. The insurance brokerage and service sector encompasses insurance distribution, consulting, claims processing and other administrative services across various lines of property & casualty insurance, life insurance, retirement services and health insurance[ii].

Need for Insurance Broking

While it is normal to assume that the phenomenal growth in information technology would have reduced the need for insurance intermediaries, we should analyse this under the context of global de-regulation. Prior to 1990’s, information asymmetry and transaction costs were the prime reasons for insurance broking industry. Information and communication technology revolution has greatly reduced the inefficiencies in the insurance market but de-regulation and liberalization of insurance markets has resulted in greater product differentiation, which results in lower market transparency and thus increased need for intermediaries.

Functions of an Insurance Broker

The different functions of an insurance broker can be classified as follows[iii]:-

Information function :-

Provide information and advice to clients based on their insurance needsEconomies of scale and scope make it cheaper for a broker to search the insurance market than an individual buyerCan provide unbiased information on insurers' skills, capacities, financial strengths and reputationDeeper understanding of client's business can help provide greater risk information to insurers reducing moral hazard and adverse selection problemsInsurers can use this information to better price their policies

Market-maker function:-

Make the complex and multidimensional process of matching insurers with buyersIncrease industry transparency and competitivenessLeverage business volume to gain favourable terms and conditions for smaller and mid-sized insurance buyers

Transformation function:-

Perform pooling or aggregation function for reinsurance

Reduction of participation costs:-

Reduce time through expertise to execute complex , cross-border risk trading and risk management functionsParticipation costs are significant for small and mid-sized businesses

Service function:-

Increased efficiency in deal executions (purchase of insurance), deal monitoring and maintenance (changes in risk profiles, renewals), claims management and arbitration

Insurance broking in India

Insurance broking industry in India came into existence after the recommendations of the Malhotra committee. Insurance Regulatory and Development Authority (IRDA) was established in 1999 with the passing of IRDA Act of 1999 on 19th April, 1999. Insurance broker regulations came into effect from 16th October, 2002. As a result, licenses were issued by IRDA and broking operations came into being with the sole purpose of rendering professional service to the insurance buyers. Regulation(1)(i) of IRDA (Insurance Brokers) Regulations, 2002 defines insurance broker as a person for the time being licensed by the authority under regulation 11, who for a remuneration arranges insurance contracts with insurance companies and/or reinsurance companies on behalf of his clients[iv].

Market overview

As data for Indian insurance broking sector was not publicly available, we have used revenue/growth of insurance sector as proxy for the growth expected in insurance broking sector. The insurance sector grew at a CAGR of10. 7% in the period 2007-2011 as shown below. The total market value of insurance sector amounted to $74. 2 billion in 2011. Even though we see that the insurance sector is growing rapidly, India still accounts for only 5. 7% of the insurance sector in Asia. In the Indian context, the penetration of insurance broking is about 20%. Next, we compare the share of insurance broking sector of Asia in the global market and also, share of India in the Asian insurance broking market. Global insurance broking sector amounted to $ 43. 7 billion in 2011 of which Asia accounted only for $4. 6 billion.

Market segmentation

According to IRDA, brokers are classified into 3 types. The ‘ direct broker’ is authorized to arrange for the placement of insurance of clients, with insurers in India. He may deal with both life and general insurance. The ‘ reinsurance broker’ is authorized to place reinsurance business of clients who are insurers, with reinsurers. The ‘ composite broker’ is authorized to handle both direct business as well as reinsurance business. As on 30th June, 2012, the total number of in-force licenses stood at 333, out of which 284 are direct brokers, 43 are composite brokers and 6 are reinsurance brokers.

Market outlook

Though data for growth of insurance broking sector is not available, we can reasonably assume that the growth of insurance broking sector is dependent on insurance sector. The insurance sector is all set to grow at a projected rate of 16. 3% during 2011-2016.

Indian Insurance Broking Landscape

Types of people/institutions starting insurance broking companiesRecent regulationsCompanies vs complexityGeograpical analysisInsurance business divided by geography and Insurance broking divided by geography – opportunity ? Different insurances segregated by complexity and thus attractiveness for brokingGeneral/standard products and what is potentialBespoke contracts esp in certain areas? Marine, hull, aircraft.. where premiums are highOut of the 333 licenses that are currently mentioned in the IRDA annual report, closer scrutiny revealed very interesting results. Only 284 are active licenses and 49 licenses have been cancelled or are under the process of being revoked. Out of the big three in the insurance broking world – Marsh, Mclennan and Company (MMC), Aon and Willis, only MMC and Aon are still active while Willis' license was cancelled by IRDA in 2010[1]due to regulatory violations. The results of the analysis are shown below.

Division by type of licenses

86% of the licenses are direct broking licenses through which brokers operate in either general insurance or life insurance or both. There are only 4 standalone reinsurance brokers and 35 composite brokers i. e. have licenses to operate in both reinsurance and direct broking businesses.

Geographical distribution of insurance broking companies in India

Out of the total 284 active insurance broking companies, 55% are concentrated in Maharashtra (Mumbai and Pune) and NCR region (New Delhi, Noida and Gurgaon). Tamil Nadu(Chennai, Coimbatore and Trichy) and West Bengal (Kolkata) come next with 10% each. The other states in which broking companies have a presence are Andhra Pradesh(Hyderabad), Punjab(Chandigarh and Ludhiana), Karnataka(Bangalore), Kerala(Cochin and Thrissur), Gujarat(Surat, Ahmedabad, Rajkot, Bharuch), Madhya Pradesh(Bhopal, Indore), Uttar Pradesh(Lucknow, Agra, Kanpur, Varanasi) and Rajasthan(Jaipur). Firstly, Out of the 28 states in India, only 12 have broking companies present in themMumbai, Kolkata, New Delhi , Hyderabad and Chennai alone have 189 out of 284 licenses. This means that Tier II and Tier III cities hardly have any broking presence

Segmentation by promoters

While most of the insurance broking companies are promoted by individuals, a few MNCs have set up shop in India mainly to cater to their global clients. Also, many Indian conglomerate houses like Tatas, Birlas, Ambanis and Hindujas have entered this business.

Insight into Indian insurance consumer

Ernst & Young’s " Voice of the customer : Time for insurers to rethink their relationships" was studied and the key findings are listed below.

Key findings on Life and Pensions

Indian customers are satisfied and confident on the insurance companies and their products contrary to the common perception that confidence in the industry is low. The mean customer satisfaction rating among the surveyed customers was 7. 9/10 compared to 7. 3/10 for UK and ChinaIndian insurers’ quality of service is below that of other service sectors. 55% of low income customers and 50% of middle and high income customers believe that the service levels provided by insurers is below par. The three main issues where service levels could be improved were:-Claims ManagementGeneral AdministrationResponse times and communicationMis-selling of products is a key concern. While customers are satisfied at the time of purchase, at a later date they realize that some features of policies are not in line with initial promises of agents74% of Indian customers who purchase insurance research before making a purchase compared to 44% in China and 37% in UK. Most consumers focus on price competitiveness and hence, online research and price comparison are proving to be key drivers in purchase decisionsIntermediaries play an important role in selling of insurance.

Personal interaction with the consumers is key to influence their purchase decision.

Key findings on non-life insurance

Analysis of the Insurance Broking Industry : External Strategic Context

USA

Rivalry Among Competitors

Factors influencing Rivalry

Rating

Degree of Industry Concentration

Low

High

Industry growth rate compared to economy growth rate

Lower

Higher

Fixed or Storage costs as percentage of total costs

High

Low

Differentiation creating price premiums

Low

High

Switching cost for switching to other competitors

Low

High

Openness of terms of sales

Secret

Open

Excess capacity in the industry – present and expected

Large

NA

Small

Strategic stakes – competitors only in this industry or diversified

High

Low

Homogeneity of Competitors

Low

High

RIVALRY: Overall Rating

Low

High

Market is dominated by the big 3 - MMC, Aon and Willis (combined 2011 revenues $26 billion) but there are over 4000 players in the market and competition in mid and small market is intense but less in big bracket businessThere are a large number of players (4000+) with revenues of $23 billion but the top 3 constitute - Aon, MMC and Willis - constitute most of the marketInsurance broking industry is to grow at 3. 0% in 2012 and 3. 5% in 2013Being a service business, fixed cost is relatively low but various states in the U. S have different locked-in capital requirements. Further, recent crisis has led to higher capital requirements globallyMajority of the firms are non-differentiated but global firms like Aon, MMC and Willis provide specialist consulting services, global capabilitiesMarket prices, open and highly competitive. Specialist brokers have capabilities that can't be imitated by others and hence pricing can be complex in very few insurance classes

Barriers to exit

Assets specificity – assets cannot be elsewhere

High

Small

Cost of exit – if exiting industry

High

Small

Social & Govt restrictions on exiting industry

High

Small

Strategic interrelationships between business & others

High

Low

Emotional Barriers

High

Low

EXIT BARRIERS: Overall Rating

High

Low

Minimal barriers to exit are present for insurance brokers. High specialised knowledge assets are key in this industry in big bracket businss but in mid and small business, it is moderateExit costs are low as it is services business with no long term obligation to customersU. S states regulate insurance. Government restrictions are minimal

Barriers to Entry

Factors Influencing Entry

Rating

Economies of scale

Small

Large

Product differentiation creating price premiums

Low

High

Brand identity requiring brand building by entrant

Low

High

Switching cost for switching to other competitors

Low

High

Access to channels of distribution

Easy

Limited

Capital requirements

Small

Large

Access to technology/Distribution channels

Easy

Restricted

Access to raw materials

Easy

Restricted

Other Advantages Independent of Scale

Low

High

Expected Retaliation

Low

High

Government protection against entry

None

High

ENTRY BARRIERS: Overall Rating

Low

High

Moderately high barriers to entry due to lock-in capital, license regulations and training requirements. Further, as it is state regulated, different requirements in each U. S StateLarge economies of scale exploited for lowering cost of commoditized products. Global presence can also be leveraged for big global clientsDifferentiation present for risk management/customized insurance products and consulting servicesBig 3 are established brands. There are several large regional playersOnline channels are easily accessible. Hence. access to potential customer base is easyCapital requirement differs in each state but is moderately highAccess to technology is easy and it is leveraged for business especially after Graham-leach-Bliley actInsurance policy freely available for sale in the market and customers are essentially the entire country populationFree market rules. Licensing and regulation exists only to prevent frauds

Buyer Power

Factors influencing Buyer Power

Rating

Intrinsic Leverage

Buyer Concentration relative to industry

High

Low

Volume of Buyers Purchases

Large

Small

Availability of substitutes to industry’s products

Many

Few

Switching costs (to alternate products)

Low

High

Buyer Information/Expertise

High

Low

Buyer’s threat of backward integration relative to industry's threat of backward integration

High

Nil

Low

Price Sensitivity

Product Differences

Small

High

Brand Identity

Low

High

Contribution to quality of buyer’s final product/experience

Low

High

Contribution to cost of buyer’s final product

High

Low

Buyer’s profitability

Low

Nil

High

BUYER POWER: Overall Rating

Low

High

Buyers tend to be either individual consumers or medium to large businesses. Their negotiating position tends to be moderately high as they can get quotes from multiple brokersLarge number of small buyers, with low switching cost lead to improving quality of the industrySubstitutes such as direct sales , online exist only for standard products. Complex products need customer specific risk underwritingLow switching cost due to 4000+ firmsCost can escalate in protracted claims management cases. Even otherwise, costs in searching and pitching to customers is high due to nature of industry (services, fee based in U. S)

Supplier Power

Factors influencing Supplier Power

Supplier Concentration relative to your industry concentration

High

Low

Availability of substitute inputs for your industry

Few

Many

Switching cost for switching to other suppliers/alternate inputs

High

Low

Supplier’s threat of forward integration

High

Low

Your threat of backward integration

Low

High

Contribution to quality of your product

High

Low

Contribution to cost of your final product

High

Low

Your importance to supplier

Low

High

SUPPLIER POWER: Overall Rating

High

Low

High attractiveness as bargaining power of suppliers is low. Insurers depend on brokers for business, especially higher quality business and hence provide rebates/discounts to policy premiums. Almost 60% of insurance business in U. S is placed by brokersLarge no. of suppliers exist. There are over 1000 insurance companies in USLow no. of substitutes as direct selling/online is the only substitue for insurance brokers and it is not developed still. Investment banks entered this sector but have not been successfulSwitching cost is moderately high as entire clientele is through broker onlyInsurance brokers are into risk consulting and self-insurance setup practices that may pose some threat to insurersInsurance companies expect low claims ratio and hence quality should be maintained due to supplier pressureInsurance companies expectation of lower claims ratio leads to careful selection of broking customers. There is a loss of opportunity here

Complimentor Power

Factors influencing Complementor Power

Rating

Complementors can influence buyer decision/choice/ Switching Cost

High

Low

Concentration of Key Complementors relative to industry

High

Low

Assymetric integration. Complementors can invade your space whereas you can not

High

Low

Ease of Unbundling : Customers can purchase & use complement independently

Difficult

Easy

Availability of substitutes to complementor's product

Few

NA

Many

Switching cost for the industry

High

Low

Market Growth Rate

Slow

High

COMPLIMENTOR POWER: Over all Rating

Low

High

Moderately complementor power as limited to only certains products in general insurance categories – auto insurance, travel insurance etc. Insurance typically of a lower cost than the complementing product to buyer.

However, having insurance from a reliable provider becomes paramount in that case and hence the need for a broker to have reliable information. Threat also exists to the broker from the auto car dealer/ travel agent as the buyer is in process of being offered a bundled product.

Threat from Substitutes

Factors influencing Threat from Substitutes

Rating

Availability of close substitutes

High

Low

Switching cost for switching to substitutes

Low

High

Substitute’s price-value equation

Better

Worse

Profitability of the producers of substitutes

High

Low

SUBSTITUTE’s THREAT : Overall Rating

High

Low

Low threat from substitutes. However, this is on the rise with the growth of online retailing of insurance products, entry of insurance and other financial services companies into insurance brokingHigh as for standard products, direct sales from insurers is also on the rise. Further customers shop for price only in standard productsLow cost of switching, especially with the advent of online web interfaces for standard transaction based services. For specialized risk consulting, it is moderateSubstitute channels are on the rise as technology is leveraged but this hasn't changed the industry profile in the last decade and the top players continue to dominate especially online direct sales.

Government Actions

Possible Government actions

Rating

Industry protection

Low

High

Industry regulation (pollution, etc.)

High

Low

Customs and tariff restrictions abroad – bilateral arrangements

High

NA

Low

GOVERNMENT ACTIONS: Over all Rating

Low

High

Strict government regulations lower industry attractiveness for insurance brokingFree market enterprise and only CPD is required every yearHighly unregulated but some restrictions may be state specific

Adjacent Industries

" Captive insurance" have been emerging especially for large conglomerates as alternatives to insurance for risk management. Captive insurance companies are insurance companies established with the specific objective of insuring risks emanating from their parent group or groups, but they sometimes also insure risks of the group's customers[2].

Overall attractiveness

INDUSTRY PROFITABILITY

High Levels of Industry ProfitabilityWeak RivalryDifficult to EnterWeak BuyersWeak SuppliersPoor SubstitutesWeak Complimentors

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2

1

Strong RivalryEasy to EnterPowerful BuyersPowerful SuppliersClose SubstitutesPowerful ComplimentorsLow Levels of Industry Profitability

Rivalry

Entrants

Buyers

Suppliers

Substitutes

Complimentors

INDUSTRY ACTORS

India

Rivalry Among Competitors

Factors influencing Rivalry

Rating

Degree of Industry Concentration

Low

High

Industry growth rate compared to economy growth rate

Lower

Higher

Fixed or Storage costs as percentage of total costs

High

Low

Differentiation creating price premiums

Low

High

Switching cost for switching to other competitors

Low

High

Openness of terms of sales

Secret

Open

Excess capacity in the industry – present and expected

Large

NA

Small

Strategic stakes – competitors only in this industry or diversified

High

Not allowed by IRDA

Low

Homogeneity of Competitors

Low

High

RIVALRY: Overall Rating

Low

High

Rivalry is based primarily on services offered due to non-differentiated product. Stringent regulations and a huge potential market lead to moderate competitive rivalry.

333 registered brokers in India. Market unsaturated as brokers geographically spread out in the major metropolitan cities. Insurance industry showed a decline of 1. 57% in life insurance while a growth of 24. 19% in non-life insurance in FY 2011-12The regulations stipulate a lock-in capital requirement of 50 lakh - 2. 5 crore. Also, theoretical and practical training imparted by an institution which is recognized by IRDA is required for license approval. Market prices, open or else tariffed by IRDA

Barriers to Exit

Rating

Assets specificity – assets cannot be elsewhere

High

Small

Cost of exit – if exiting industry

High

Small

Social & Govt restrictions on exiting industry

High

Small

Strategic interrelationships between business & others

High

Low

Emotional Barriers

High

Low

EXIT BARRIERS: Overall Rating

High

Low

Minimal barriers to exit are present for insurance brokers.

Business in mostly transaction based and though knowledge assets are required, it is not keyPaid-up capital can be recovered easily. No regulations are applicable to exit.

Barriers to Entry

Factors Influencing Entry

Rating

Economies of scale

Small

Large

Product differentiation creating price premiums

Low

High

Brand identity requiring brand building by entrant

Low

High

Switching cost for switching to other competitors

Low

High

Access to channels of distribution

Easy

Limited

Capital requirements

Small

Large

Access to technology/Distribution channels

Easy

Restricted

Access to raw materials

Easy

Restricted

Other Advantages Independent of Scale

Low

High

Expected Retaliation

Low

High

Government protection against entry

None

High

ENTRY BARRIERS: Overall Rating

Low

High

Moderately high barriers to entry due to lock-in capital, license regulations and training requirements.

Large economies of scale are exploited for lowering cost of commoditized productDifferentiation present for risk management/customized insurance products. No established brand currently exists in insurance broking sector. Online channels are easily accessible. Hence access to potential customer base is easy. Paid-up capital of 50 lakh - 2. 5 crore locked in for as long as the broker is in business. Insurance policy freely available for sale in the market. Government protection against entry is high due to strict IRDA regulations and guidelines.

Buyer Power

Factors influencing Buyer Power

Rating

Intrinsic Leverage

Buyer Concentration relative to industry

High

Low

Volume of Buyers Purchases

Large

Small

Availability of substitutes to industry’s products

Many

Few

Switching costs (to alternate products)

Low

High

Buyer Information/Expertise

High

Low

Buyer’s threat of backward integration relative to industry's threat of backward integration

High

Nil

Low

Price Sensitivity

Product Differences

Small

High

Brand Identity

Low

High

Contribution to quality of buyer’s final product/experience

Low

High

Contribution to cost of buyer’s final product

High

Low

Buyer’s profitability

Low

Nil

High

BUYER POWER: Overall Rating

Low

High

Buyers tend to be either individual consumers or medium to large businesses. Their negotiating position tends to be moderate as they can get quotes from multiple brokers but the buyers are highly isolated and fragmented in nature.

Large number of small sized buyersSubstitutes such as direct sales exist only for standard products. Complex products need customer specific risk underwritingLarge number of small buyers, with low switching cost lead to improving quality of the industryCost can escalate in protracted claims management cases. Even otherwise, costs in searching and pitching to customers is high due to nature of industry

Supplier Power

High attractiveness as bargaining power of suppliers is low. Insurers depend on brokers for business, especially higher quality business and hence provide rebates/discounts to policy premiums. Though the necessity of insurance brokers to be independent and unbiased along with regulatory conditions reduces the bargaining power of suppliers further and increase attractiveness

Large no. of suppliers exist. There are close to 40 insurance companies in India. Direct selling is the only substitute for insurance brokers and it is not developed stillSwitching cost is moderately high as entire clientele is through broker onlyInsurance companies expect low claims ratio and hence quality should be maintained due to supplier pressureInsurance companies expectation of lower claims ratio leads to careful selection of broking customers. There is a loss of opportunity hereBrokers are very important to insurance companies. Close to 20% of insurance business in India is placed by brokers

Complimetor Power

Factors influencing Complementor Power

Rating

Complementors can influence buyer decision/choice/ Switching Cost

High

Low

Concentration of Key Complementors relative to industry

High

Low

Assymetric integration. Complementors can invade your space whereas you can not

High

Low

Ease of Unbundling : Customers can purchase & use complement independently

Difficult

Easy

Availability of substitutes to complementor’s product

Few

NA

Many

Switching cost for the industry

High

Low

Market Growth Rate

Slow

High

COMPLIMENTOR POWER: Over all Rating

Low

High

Moderately complementor power as limited to only certains products in general insurance categories – auto insurance, travel insurance etc.

Insurance typically of a lower cost than the complementing product to buyer. However, having insurance from a reliable provider becomes paramount in that case and hence the need for a broker to have reliable information. Threat also exists to the broker from the auto car dealer/ travel agent as the buyer is in process of being offered a bundled product.

Threat from substitutes

Factors influencing Threat from Substitutes

Rating

Availability of close substitutes

High

Low

Switching cost for switching to substitutes

Low

High

Substitute’s price-value equation

Better

Worse

Profitability of the producers of substitutes

High

Low

SUBSTITUTE’s THREAT : Overall Rating

High

Low

Low threat from substitutes. However, this is on the rise with the growth of online retailing of insurance productsAvailability of substitutes is moderate as for standard products, direct sales from insurers is possibleSwitching cost is low, especially with the advent of online web interfaces. Neutral as substitute channels are still underdeveloped, especially online direct sales.

Government actions

Possible Government actions

Rating

Industry protection

Low

High

Industry regulation (pollution, etc.)

High

Low

Customs and tariff restrictions abroad – bilateral arrangements

High

NA

Low

GOVERNMENT ACTIONS: Over all Rating

Low

High

Strict goverrnment regulations lower industry attractiveness for insurance broking

FDI investment is capped at 26% and moderately high entry. Futher CPD required every year. Licensing to be done every 3 yearsIndustry regulation is moderately high as broking premium capped (as % of premium) by IRDA on all classes of insurance

Adjacent Industries

No such players are existent in India. However, abroad the concept of " captive insurance" has been emerging especially for large conglomerates as alternatives to insurance for risk management. Captive insurance companies are insurance companies established with the specific objective of insuring risks emanating from their parent group or groups, but they sometimes also insure risks of the group's customers.

Overall attractiveness

INDUSTRY PROFITABILITY

High Levels of Industry ProfitabilityWeak RivalryDifficult to EnterWeak BuyersWeak SuppliersPoor SubstitutesWeak Complimentors

5

4

3

2

1

Strong RivalryEasy to EnterPowerful BuyersPowerful SuppliersClose SubstitutesPowerful ComplimentorsLow Levels of Industry Profitability

Rivalry

Entrants

Buyers

Suppliers

Substitutes

Complimentors

INDUSTRY ACTORS

Overall Assesment

2012

2015

What is most important

What can we influence

Rivalry

Barrier to Entry

Buyer Power

Supplier Power

Complementor Power

Threat of Substitutes

Government Action

Adjacent Industries

Overall Attractiveness

ive Forces

Analysis

Using Porter's five forces we analyzed the attractiveness of the Indian and U. S Insurance broking sector on 7 parameters:-Rivalry from competitorsBargaining power of suppliersBargaining power of buyersThreat from substitutesBarriers to EntryBarriers to ExitGovernment Actions

Methodology

The insurance broking industry in India was studied from secondary data from IRDA Annual report 2011-2012, Marketline industry reports on Indian insurance and broking sectors and Insurance Brokers Association of India. The US broking industry was studied from Moody's report on Insurance brokers, Moody's analysis of Marsh & Mclennan Companies (MMC) and MMC's annual report. We calculated the attractiveness of each of the parameters and gave it a score (1-5) and averaged the score across the different parameters to come with an overall attractiveness score. The detailed approach is illustrated in Appendix II. The graphical representation of the results is given below for both Indian and the U. S A.

Results

In the graph above, we can see that the U. S insurance broking industry is more attractive due to government actions and the bargaining powers enjoyed buy the buyers i. e. customers purchasing insurance while the Indian industry has higher barriers to entry mainly due to protection by IRDA guidelines. The differences observed above are typical of an emerging market and developed market.

Insurance Industry value chain

In this section, we look at the entire value chain for an insurance company from product development to financial management of the assets. We also have identified the areas in the value chain that the insurance broker adds value to the insurance company and the customers.

IRDA Insurance Broking Guidelines – Key points

Regulating Authority

Insurance Regulatory and Development Authority

Paid-up Capital Requirement

Direct Broker - INR 50 LakhsReinsurance Broker - INR 200 LakhsComposite Broker - INR 250 Lakhs

FDI Limit

26%

Remuneration

Direct general Business: -1. 10% on law-mandated insurance covers2. 12. 5% on other tariffed products3. 17. 5% on non-tariffed productsIndividual Life Insurance:-1. 30% of 1st year premium & 5% on subsequent yearsAnnuity :-1. 2% of single premium policies2. 7. 5% of 1st year premium in multi year policies and 2% on renewalsGroup Insurance:-1. 0. 5% to 7. 5% of risk premium

Global trends in the Insurance Broking Industry

Globally, the clout of brokers has increased despite the advances in information and communication technology. This has benefitted the customers as brokers' pressure has driven down insurance prices by squeezing insurers. Further, major players like Aon, MMC and Willis have grown inorganically by M&As and the industry has seen a lot of consolidation over the last 10 years. Since 2000, deregulation in Europe and other parts in the West has led to many new entrants like investment banks, internet companies offering financial services and specialized risk consultants. The traditional revenue model in the broking industry has been transaction based i. e commissions paid by clients and insurance companies. In India, the brokers are not allowed to charge a fee from clients and commissions are only paid by insurance companies.

Appendix -1

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).