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IMFs: Another channel to buy your investment plans from

Today is the last day for the insurance industry to submit comments on the exposure draft guidelines issued by the insurance regulator on IMFs (insurance marketing firms) and the authority is expected roll out the norms on this within the next few months.

What is an IMF? It is a new distribution channel, based on the Govardhan Committee's recommendations on distribution, with muti-tie-ups, that will allow it to market several insurance policies along with other financial products such as mutual funds and the new pension scheme (NPS), all together, under one roof.

Like brokers and agents, these insurance marketing firms will be charging commissions. In addition to this, they can charge performance-based incentives, marketing expenses and expenses towards infrastructure.

This model is in line of Independent Financial Advisor which is quite successful in developed markets like the UK and Malaysia in the Asian markets. The Irda has also been contemplating on this idea for quite some time now and insurers are counting on it to be a hit in India as well.

"An open architecture definitely helps in deepening the market as well as beneficial to the end customers in providing them products according to their needs. So this is a step in the right direction," said Mohit Rochlani, Head, Bancassurance, IndiaFirst Life Insurance.

"If you want to increase penetration in the tier-2 and 3 cities, the model is a clear necessity and should be rolled out as soon as possible," added Sharad Mathur, Senior Vice President, Retail, SBI General Insurance.

However, there are some conditions on operations that the industry finds restrictive. The IMFs will be allowed to operate in only one district initially and to extend to the full state once the licence is up for renewal, that is, after three years of operations.

This criteria, insurer say, needs to be tweaked. "Irda should not have made a blanket rule and been a little flexible. IMFs would need an opportunity for wider area of operations for the channel to be commercially viable. Moreover, restricting their spread is completely contradictory to the idea of increasing the penetration and the whole point of introducing the model," said Mathur of SBI General Insurance.

While the IMF having fiduciary responsibility towards its clients, which the old system of banccasurance partnership didn't have, is a progressive step, many are skeptical on the number of charges and payments that the IMF has been allowed to charge, especially when they won't be exclusive partners to any one company. Also, unlike broker, IMFs have no limitations on the volume of business they can generate for a single company. The industry therefore feels incentives linked to 'performance' could again lead to pushing only those products where the commissions are higher.

Keeping the licensing criteria moderate is a good move. To be an insurance marketing firm, a company will need to have at least Rs 10 lakh of net worth at all times and will have to buy a professional indemnity insurance policy that is equal to four times the business turnover of the marketing firm. The license will be given for three years.

"A lesser capital requirement, as compared to broking license, will encourage a lot of professionals in financial services to become entrepreneurs," said Rochlani of IndiaFirst Life Insurance