



Chairman's Communiqué

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Chairman

Banking, Financial Services & Insurance Board,

Journal & Publications Committee and

AI Strategy & Innovation Board, ICMAI

IRDAI's proposed mandatory cost audit for insurers: a call to responsibility and an opportunity for the CMA profession

Dear Professional Colleagues,

India is the tenth largest insurance market in the world by premium, yet insurance reaches too few of its people. The aim of "Insurance for All by 2047" will not be met by only capital alone. It needs disciplined spending and figures that regulators, policyholders and investors can rely on. On both counts, our profession has something to offer.

Two recent developments deserve the attention of every member. The Sabka Bima Sabki Raksha (Amendment of Insurance Laws) Act, 2025, which received Presidential assent in December 2025 and largely took effect on 5 February 2026, raised the permissible foreign investment in insurers from 74 to 100 percent. It also lowered the net owned fund required of foreign reinsurers from ₹5,000 crore to ₹1,000 crore. New capital and new entrants will follow, and each entrant will need sound costing and reporting from its first year.

The second development is more recent. On 23 September 2026, IRDAI released its consultation paper, "Recalibrating Economics of Insurance Distribution". One proposal in it speaks directly to our profession. Every insurer would undergo an annual cost audit covering all expenses, including payouts and non-monetary incentives to intermediaries, and so would every distribution entity with insurance income above ₹100 crore, with the report going to its Board and to the regulator. Comments are invited till 25 October 2026.

The consultation paper itself makes the case for this audit. The Authority observes that the expenses of insurers, after years of decline, have started rising again, and that payments to distributors have grown much faster than the business on which they are earned. Rewards and incentives now add substantially to base commission, and operating expenses other than commission differ sharply from one insurer to another. In such conditions, an expense ceiling is only as dependable as the verification behind it. Unless an independent professional confirms what is being counted under the ceiling, the ceiling cannot be relied upon. Cost audit provides that assurance.

For insurers, the audit will show what each product, channel and region actually costs. That may be uncomfortable at first, but a cost that is recorded, classified and justified

is a cost that can be controlled. The paper's stated aim in lowering expense limits is to reduce the cost of doing business and improve value for policyholders. I would add a word of caution: an audit does not lower premiums by itself. It makes the limits enforceable and the savings traceable. Once avoidable cost and leakage are taken out, every rupee saved can reach the family as a lower premium, a better benefit or a claim paid.

This is familiar ground for the Cost and Management Accountant. Cost records, cost audit and reporting to the Board have long been our work, and Section 148 of the Companies Act, 2013 already entrusts cost audit to the practising Cost Accountant. We look to the Authority to carry the same principle into insurance, for we are, in the truest sense, custodians of cost truth. The opportunity reaches well beyond the audit report: costing and profitability systems by product, channel and region; support to Boards and Audit Committees, which the paper expects to certify distribution costs; scrutiny of related-party and outsourced payments; preparation of the cost disclosures proposed for the public domain; and claims cost management, especially in health insurance. For our members and students, these are new avenues of practice, employment and public standing.

To help the sector prepare, the Banking, Financial Services and Insurance Board (BFSIB) of the Institute has launched a special publication, INSCOST: Cost Management, Cost Governance, Cost Disclosure and Cost Assurance Framework for the Indian Insurance Sector. Its four themes correspond closely to what the consultation paper asks of insurers and distributors, and it is offered as a helping hand to the industry and to our members alike.

Insurance is a promise made today and kept many years later. A family that pays its premium trusts that the money will be spent wisely and the claim honoured when the day comes. Our profession can help earn that trust, in the city and in the village alike, on the road to "Insurance for All by 2047".

With warm professional regards,

CMA Harshad Shamkant Deshpande

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