

INSURANCE REGULATORY AND DEVELOPMENT AUTHORITY OF INDIA
NOTIFICATION

Hyderabad, _____, 2022

Insurance Regulatory and Development Authority of India (Expenses of Management of Insurers transacting life insurance business) Regulations, 2022

F.No. In exercise of the powers conferred by clause (je) of sub-section (2) of Section 114A read with Section 40B and 40C of the Insurance Act, 1938 (4 of 1938), the Authority, in consultation with the Insurance Advisory Committee, hereby makes the following Regulations, namely-

Part-I

1. Short title and Commencement

- (1) These regulations may be called the Insurance Regulatory and Development Authority of India (Expenses of Management of Insurers transacting life insurance business) Regulations, 2022
- (2) These Regulations shall come into force from the date of their publication in the official Gazette.
- (3) The Regulations shall be applicable to Insurers transacting the life insurance business in India.

2. Definition

- (1) In these regulations, unless the context otherwise requires –
 - (a) **“Act”** means the Insurance Act, 1938 (4 of 1938)
 - (b) **“Authority”** means the Insurance Regulatory and Development Authority of India established under sub-section (1) of Section 3 of Insurance Regulatory and Development Authority Act, 1999 (41 of 1999)
 - (c) **“Charges”**: means charge against profit such as income tax, wealth tax and other taxes like goods and service Tax borne by the insurer and other charges which are levied against the profits.
 - (d) **“Duration of Business”**: means the duration of an insurer’s business reckoned from the beginning of the financial year of commencement of business if the date of commencement is in the first half of the financial year; and from the beginning of the immediately succeeding financial year if the date of commencement is in the second half of the financial year.
 - (e) **“Expenses of Management”** shall include all expenses in the nature of operating expenses of life insurance business including commission, remuneration/brokerage, rewards to the insurance agents, intermediaries and insurance intermediaries and commission on reinsurance inward which are charged to Revenue Account. However, it shall not include the Charges as defined in these Regulations.
 - (f) **“Group Fund Based policies”** include non-participating and variable insurance plans wherein a life insurer assures a return, whether guaranteed or otherwise, on the corpus created through periodic or lump-sum contribution received from the master policyholder who is generally the employer/ trustee and employees are the members. These also include the products specifically so mentioned in the Regulations governing the life insurance products.
 - (g) **“Pure Risk Products”** are insurance products where the payment of agreed sum (without any saving element) is assured on the happening of any contingency dependent on human life within the term of the policy and does not provide any payment of benefits either before survival or on survival of the insured and/or on maturity of the policy.
- (2) All words and expressions used herein and not defined, but defined in the Insurance Act, 1938 (4 of 1938) or in the Insurance Regulatory and Development Authority Act, 1999 (41 of 1999), or in any Rules or Regulations made thereunder, shall have the meaning respectively assigned to them in those Acts or Rules or Regulations.

Part –II

Limits of expenses of management in life insurance business

3. No insurer carrying on life insurance business in India, shall spend in any financial year as expenses of management, an amount exceeding -
- i. the amount of commission or other remuneration/ rewards paid to insurance agents and insurance intermediaries in respect of their business transacted in the financial year as may be allowed by the Authority from time to time;
 - ii. Commission and expenses reimbursed on reinsurance inward; and
 - iii. Operating expenses of life insurance business.
- Provided that the sum of (i), (ii) and (iii) above shall not exceed an amount computed on the basis of percentages in respect of various segments of business written during a financial year as specified in Regulation 4.

4. No insurer shall, in respect of the life insurance business transacted by him in India, spend as expenses of management in any financial year an amount exceeding the aggregate sum of—
- i. Five percent of all single premiums received during the year on policies granting:
 - a. An immediate annuity; or
 - b. A deferred annuity;
 - ii. Five per cent of all premiums received on other single premium policies during the year **excluding**:
 - a. Group Fund based policies;
 - b. Individual Pure Risk policies;
 - c. Group Pure Risk policies; and
 - d. Policies covered under clause (i) above;
 - iii. Ten percent of all single premiums received during the year on group pure risk policies;
 - iv. Ten percent of all single premiums received during the year on individual pure risk policies;
 - v. Fifteen percent of all premiums received on One-year renewable group policies, other than group fund based policies.
 - vi. **Group Fund based policies**: Allowance shall be based on the average of Assets under Management of Group Fund based policies at the beginning and at the end of the financial year as under:

Average Asset under Management (AUM)	Allowable Expenses of Management
Up to Rs. 10,000 crore	1 percent
In excess of Rs. 10,000 crore	0.80 percent

- vii. Ten per cent of all first year's premiums and four per cent of all renewal premiums, received during the year on policies granting deferred annuity in consideration of more than one premium;
- viii. one-half of one per cent of all annuities paid during the year;
- ix. one-twentieth of one per cent of the average of the total sums assured of paid up policies on which no further premiums are payable at the beginning and end of the year;
- x. one-hundredth of one per cent of the total sums assured of lapsed policies under the revival period at the beginning of the year;
- xi. an amount computed on the basis of the percentage of regular premiums pure risk business as specified in Sr No 1 (i) of Schedule-I.

Provided that the percentage specified in the above table shall, in respect of any first year's premium where the maximum premium paying period under the policy is less than ten years, be reduced to a number equal to seven and half times the number of whole years in that period.

- xii. The allowance shall be computed on the basis of the percentage of premium received other than premiums referred to in clause (i) to (xi); during the year, as specified in Sr No I (ii) of Schedule-I. **Provided** that the percentage specified in the above table shall, in respect of any first year's premium where the maximum premium paying period under the policy is less than five years, be reduced to a number equal to seven and half times the number of whole years in that period.
5. **Group insurance business with** Regular Premium plans with limited premium payment term and/or pre-determined policy term shall be treated as regular business with due classification into first year premium and renewal premium. Plans other than those mentioned above shall be treated as Single Premium plans.
6. An insurer having duration of business up to 10 years shall be allowed additional allowance of 5% of premium over and above the aforesaid limits, for the Life policies as indicated under S No 1(ii) of Schedule I to these regulations.
7. In respect of Non-Participating Non-Linked policies, an insurer having duration of business up to 10 years shall be allowed an additional allowance in a graded manner, on an overall basis, excluding S No 1 Schedule I. Such additional allowance shall be 10% of total allowable expenses under Non Participating Non-Linked segment in the first year and shall reduce by 1% every year to become zero at the end of the 10th year of operations.

Part- III
Other Allowable Expenses

8. **Head Office Expenses**

An insurer having his principal place of business in India and having branch outside India shall be allowed an additional allowance towards share of Head Office expenses. Such allowance shall not exceed 5 per cent of the gross premium income written direct outside India through such branch office during the year.

9. **Expenses incurred towards Rural sector, Pradhan Mantri Jeevan Jyoti Bima Yojana (PMJJBY) business**

An insurer reporting growth in the gross premium sourced from Rural sector and PMJJBY business shall be allowed an additional allowance.

Provided such allowance shall not exceed 10 per cent of the incremental premium over the previous financial year, sourced from the rural sector and the above specified schemes.

Provided further that in no case, such allowance shall exceed the actual expenses of management incurred for the rural sector and the above specified schemes during the previous financial year.

'Rural sector' shall be as per definition given under the Regulations notified by the Authority from time to time.

10. **Expenses incurred towards the Insurtech**

An insurer shall be allowed an additional allowance towards the Insurtech expenses incurred to the extent of 20 percent of such expenditure.

11. **Expenses incurred towards the Ind AS**

The expenses incurred by an insurer towards the implementation of Ind AS Accounting Standards shall be considered as additional allowance for the purpose of these regulations.

12. **Expenses incurred towards the Insurance Awareness**

An insurer shall be allowed an additional allowance for the expenses incurred towards the insurance awareness to the extent of 2 percent of total allowable expenses (excluding insurance awareness expenses) computed as per the limits specified under Regulation 3 & 4 above.

Part – IV
Board Approved Policy and Business Plan

13. Every insurer shall have a well-documented policy approved by its Board on annual basis, which shall, at least specify:

- (i) Measures to bring cost effectiveness in the conduct of business and reduction of the expenses of management on an annual basis;
- (ii) Manner of transfer of benefits, arising from reduction of expenses and/or from the directly sourced business to the policyholders by way of reduction in the premium;
- (iii) Manner in which the compliance with computation of additional allowance as per Regulation 4 shall be ensured;
- (iv) Manner of allocation and apportionment of expenses of management amongst various business segments including the following parameters:
 - a) Expenses which shall be allocated;
 - b) Basis of allocation;
 - c) Expenses which shall be apportioned;
 - d) Basis of such apportionment;
- (v) Manner in which the compliance with the policy shall be ensured.

Any revision in the policy along with its implication on various segments shall be disclosed suitably under notes to accounts forming part of financial statements.

The Appointed Actuary and the Chief Financial Officer shall be responsible for the allocation and apportionment of the expenses of management in accordance with the Board approved policy.

14. Business Plan:

- (i) Every insurer shall formulate a business plan in advance on an annual basis, which shall be approved by the respective Board. The plan shall, at the minimum, clearly specify the following-
 - (a) the projected requirements of capital during the said financial year;
 - (b) projection of solvency margin on a quarterly basis;
 - (c) the projection of expense of management (in rupees as well as percentage of gross premium written in India) and the compliance or otherwise with the limits of expenses of management.
- (ii) The Business plan shall be monitored by the Board at regular intervals for compliance with the expenses of management limit and infusion of the additional capital in line with business plan.

Part-V
Return of Expenses of Management

15. All insurers transacting Life insurance business, at the expiration of each financial year, shall prepare with reference to that year a Return of Expenses of Management in the format given in **Schedule-I**. The

Return shall be signed by the Chief Executive Officer, the Chief Financial Officer and the Chief Compliance Officer of the Insurer.

16. The Return shall be certified by the Statutory Auditor of the Insurer and the certificate duly signed by at least one of the statutory auditors shall be filed in the format given in **Schedule- II**.
17. The Return along with the statutory auditor's certificate shall be reviewed by the Audit Committee prior to being placed for approval of the Board of the Insurer.
18. The Statement of Expenses of Management duly adopted by the Board, shall be filed with the Authority along with Returns indicated in sub-section (1) of Section 15 of the Act in the manner and within the time specified therein.

Part- VI

Reporting Segments and compliance

Reporting Segments:

19. For the purpose of these Regulations, the following shall be segments which will be monitored by the Authority;

- (1) **Linked policies:**

- i. Life;
- ii. General Annuity and Pension;
- iii. Health;
- iv. Variable.

- (2) **Non-linked:**

- i. **Non-participating policies:**

- a) Life;
 - b) General Annuity and Pension;
 - c) Health;
 - d) Variable.

- ii. **Participating Policies:**

- a) Life;
 - b) General Annuity and Pension;
 - c) Health;
 - d) Variable.

- (3) Variable insurance shall be further segregated into Life, General Annuity and Pension and Health where any such segment contributes ten percent or more of the total Premium of an insurer.

- (4) Any Other Class as may be specified by the Authority.

Compliance:

20. (1) The Insurers shall ensure that their expenses of management are within the allowable limits on the Participating policies on an overall or aggregate basis. Where an insurer has exceeded the overall limits of expenses of management, excess of such expenses shall be borne by the Shareholders.

- (2) In case of Non-participating and Linked policies, the Insurers shall ensure that their expenses of management are within the allowable limits. Where an insurer has exceeded the limits of expenses of management on overall or aggregated basis for Non-participating and Linked policies, the excess of such expenses shall be borne by the shareholders.

Such allowable limits on an overall basis shall be calculated on the basis of specific limits stipulated in Schedule I of these regulations.

Action for Non-compliance:

22. In case an insurer exceeds the limits of expenses as specified in these regulations; in case of participating policies, non-participating policies or Linked policies on an overall basis, or violates the directions issued by the Authority in this regard, it may be subject to one or more of the following actions:

- (1) Excess to be charged to Shareholders' Account;
- (2) Restriction on performance incentive to Managing Director (MD) / Chief Executive Director (CEO)/ Whole-Time Directors (WTD) and Key Management Persons (KMPs);
- (3) Restrictions on opening of new places of business;
- (4) The Authority may, after giving the insurer an opportunity of being heard, administer a warning to the insurer
- (5) Cause a valuation of the insurer to evaluate its financial health and soundness.
- (6) Penal action under section 102 of the Act;
- (7) Removal of Managerial Personnel and / or appointment of Administrator;
- (8) Any other action as specified in the Act.

23. The Authority may, apart from taking action as enumerated in Regulation 22, also direct the insurer not to underwrite new business in one or more segments in case of repeated breach of the limits of expenses or violation of any directions issued by the Authority under these Regulations.

Notwithstanding such directions, the insurer shall continue to service the existing policyholders in such segments.

24. **Power to remove difficulties:** The Chairperson of the Authority shall have the powers to issue any clarifications in order to remove difficulties in the interpretation or implementation of these Regulations. The interpretation of the Chairperson shall be final and binding on the insurers.

25. Repeal and Savings: -

(1) Insurance Regulatory and Development Authority of India (Expenses of Management of Insurers transacting Life Insurance Business) Regulations, 2016 shall be repealed from the date these Regulations come into force.

(2) Unless otherwise provided by these Regulations, anything done or any action taken or purported to have been done or taken in respect of the Regulations mentioned in sub-regulation (1) shall be deemed to have been done or taken under the corresponding provisions of these regulations.

Chairman

Schedule- I
(refer regulation 15)

**Part-A (Please refer
Regulation 16)**

Name of the Insurer:

Financial Year

(Rs in Lakhs)

S. No.	Type of Policy/ Product	Gross written Premium**			% of Allowable of Expenses of Management	Allowable Expenses		
		Non-linked		Linked		Non-linked		Linked
		Participating	Non-Participating			Participating	Non-Participating	
1	(i) Pure Risk Products							
	(a) First year Regular Premium							
	- In respect of policies with premium payment term 10 years and above				100			
	- Others please specify*							
	(b) Renewal Premium				25			
	(ii) Life							
	(a) First year Regular Premium				80			
	(b) Renewal Premium				17.5			
	- Others please specify*							
	All single premium received during the year on policies granting							
2	(i) An immediate annuity				5			
	(ii) A deferred annuity				5			
3	All premium received on other single premium policies excluding policies specified in regulation 4 (ii) (a), (b), (c) and (d)				5			
4	All single premiums received during the year on Group Pure Risk policies				10			
5	All single premiums received during the year on Individual pure risk policies				10			
6	All premium received on One year renewable group policies, other than group fund based policies				15			
7	Group Fund based policies							
	(i) AUM up to Rs. 10,000 crore				1			
	(ii) AUM in excess of Rs. 10,000 crore				0.8			
8	For premiums received during the year on policies granting deferred annuity in consideration of more than one premium as under							
	(i) First year's premiums				10			
	(ii) Renewal premiums				4			
9	All annuities paid during the year				0.5			
10	For average of the total sums assured of paid up policies on which				0.05			

	no further premiums are payable at the beginning and end of the year							
11	For lapsed policies under the revival period at the beginning of the year							
	(i)	Total sum assured of lapsed policies under the revival period				0.01		
	Total							
<p>* For where the maximum premium paying period under the policy is less than ten years / five years as the case may be, be reduced to a number equal to seven and half times the number of whole years in that period. **Participating, Non-participating and Linked Business has to be further classified into the segments as specified in Regulation 15.</p>								

Part-B					
Name of the Insurer:					
Financial Year					
(Rs in Lakhs)					
S. No.	Particular		Allowable Expense as per Part A	Actual Expenses	Excess
1	Linked policies				
	i	Life			
	ii.	General Annuity and Pension			
	iii.	Health			
		Variable			
		SUB-TOTAL (A)			
2	Non-linked				
	i.	Non-participating policies			
	a)	Life			
	b)	General Annuity and Pension			
	c)	Health			
	d)	Variable			
		SUB-TOTAL (B)			
	ii.	Participating Policies			
	a)	Life			
	b)	General Annuity and Pension			
	c)	Health			
	d)	Variable			
		SUB-TOTAL (C)			
		Additional Allowance			
	Total D = (A+B+C)				
3					

	Allowance of Head Office expense where the insurer has branch (please refer Regulation 6)	Gross Premium written direct outside India through such branch	Percentage of Premium/ Expenses	Allowable Expense	
	Branch		5		
	Branch		5		
	PMJJBY (Rural/ Social)				
	Insuretech	Expenses	20		
	Insurance Awareness	Total Allowable Expenses as per part A	2		
	Total (E)				
	Total	(D+E)			

It is certified that the calculations given above are in accordance with Insurance Regulatory and Development Authority of India (Expenses of Management of Insurers transacting life insurance business) Regulations, 2022.

Chief Executive Officer

Chief Financial Officer

Chief Compliance Officer

Date:

Place:

Note : 1. Allowable expenses will be taken from Form A. The expenses which are allowed other than on premium based shall be apportioned in the segments appropriately and the basis shall be followed consistently.

2. Head Office expense shall not be apportioned among any segment.

SCHEDULE- II

(refer regulation 16)

Certificate on Return of Expenses of Management prepared under Regulation 17 of the Insurance Regulatory and Development Authority of India (Expenses of Management of Insurers transacting life insurance business) Regulations, 2022

To the Board of Directors of (name of the Insurer)

I/We..... (Name of the Auditor), the statutory auditors of (name of the Insurer) (hereinafter "the Insurer") have examined the attached Return of Expenses of Management for the financial year ended (specify the date) (hereinafter "the Return"), prepared by the Insurer pursuant to Regulation of the Insurance Regulatory and Development Authority of India (Expenses of Management of Insurers transacting life insurance business) Regulations, 2022 (hereinafter "the Regulations").

The management of the Insurer is responsible for preparation of the Return. The management of the Insurer is also responsible for preparation and maintenance of the proper books of account and such other relevant records as prescribed under relevant laws and Regulations. This responsibility includes designing, implementing and monitoring of internal controls relevant to the preparation and maintenance of such books of account and records and the particulars furnished in the aforesaid Return.

The management of the Insurer is also responsible for compliance with, *inter alia*, the requirements of the Regulations. This includes the responsibility to design and consistently implement a Policy for allocation and apportionment of expenses of management, duly approved by its Board of Directors, as envisaged in the aforesaid Regulations.

My / Our responsibility is to verify the aforesaid Return of Expenses of Management. We have carried out our verification in accordance with the Guidance Note on Audit Reports and Certificates for Special Purposes, issued by the Institute of Chartered Accountants of India.

Based on our aforesaid verification and to the best of our knowledge and belief and according to the information, explanations and representations given to us by the management of the Insurer, I/we hereby certify that:

1. The computation of Expenses of Management as contained in the attached Return are in accordance with Regulation of the Insurance Regulatory and Development Authority of India (Expenses of Management of Insurers transacting life insurance business) Regulations, 2022.¹
2. The apportionment and allocation of management expenses amongst various business segments is in accordance with the policy laid down in this regard by the Insurer.²
3. The Insurer has complied with the provisions of Regulation 21 read with Regulation 22, the excess of expenses has been charged to the Shareholders' Fund. Such excess expenses have been charged on segmental basis for par products and overall on basis for non-par and linked products.
4. The apportionment, allocation and accounting of expenses relating to fintech/ insuretech, IndAS, insurance awareness etc. are correct as per the books and records maintained by the insurer and as per the generally accepted accounting principles.

Place:

For XYZ & Co.
Chartered Accountants
Firm's Registration Number

Date:

.....
(Signature)
(Name of the Member)
(Designation)
Membership Number

¹ Or where applicable,

"The computation of Expenses of Management as contained in the attached Return of Expenses of management is in accordance with Regulation of the Insurance Regulatory and Development Authority of India (Expenses of Management of Insurers transacting life insurance business) Regulations, 2016 except as specified below/ except as given in the Annexure to this Certificate."

² Or where applicable:

"The apportionment and allocation of management expenses amongst various business segments is in accordance with the policy laid down in this regard by the Insurer except as specified below/ in the Annexure to this Certificate."