

**INSURANCE REGULATORY AND DEVELOPMENT AUTHORITY OF INDIA
NOTIFICATION**

Hyderabad, the _____, 2024

Insurance Regulatory and Development Authority of India (Expenses of Management, including Commission, of Insurers) Regulations, 2024

F.No. IRDAI/Reg./___/- In exercise of the powers conferred by clause (ic), clause (jd) and clause (je) of sub-section (2) of Section 114A, read with Section 31B, 40, 40B and 40C of the Insurance Act, 1938 (4 of 1938), and sub-section (1) and clause (e) of sub section (2) of section 14 and section 26 of the Insurance Regulatory and Development Authority Act, 1999 (41 of 1999), the Authority, in consultation with the Insurance Advisory Committee, hereby makes the following Regulations, namely-

Objective - To enable and provide flexibility to the insurers to manage their expenses, including commissions, within the overall limits as specified by the Authority to optimally utilize their resources for enhancing benefits to policyholders and to improve insurance penetration.

Part-I

1. Short title and Commencement

- a) These regulations may be called the Insurance Regulatory and Development Authority of India (Expenses of Management, including Commission, of Insurers) Regulations, 2024.
- b) The Regulations shall be applicable to Insurers transacting Life Insurance Business, General Insurance Business or Health Insurance Business in India.
- c) These Regulations shall come into force from 1st April, 2024.
- d) These Regulations shall be reviewed once in every three years from the date of notification, unless the review or repeal or amendment is warranted earlier.

2. Definitions

- (a) In these regulations, unless the context otherwise requires –
 - I. **“Act”** means the Insurance Act, 1938 (4 of 1938).
 - II. **“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).
 - III. **“Charges”** means charge against profits such as income tax and other taxes like Goods and Service Tax (GST) borne by the insurer and other charges which are levied against the profits.
 - IV. **“Commission”** means any compensation including remuneration, or reward, by whatever name called, paid by an insurer to an Insurance agent, Intermediary or Insurance intermediary, as applicable, for soliciting or procuring or transacting insurance business.

- V. **“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.
- VI. **“Expenses of Management”** shall include:
- (i) all expenses in the nature of operating expenses of life or general or health Insurance business.
 - (ii) commission to the Insurance agents, Intermediaries or Insurance Intermediaries.
 - (iii) commission and expenses on reinsurance inward, which are charged to Revenue Account.

Provided that, it shall not include the charges as defined in these Regulations.

- VII. **“Insurtech expenses”** means expenses incurred towards technology-enabled innovation in insurance services (policyholder oriented) that could result in new business models, applications, processes or products.
- VIII. **“Insurance awareness”** means awareness creation through (a) direct campaigns including through branch offices, social media campaign and/or (b) supporting Life Insurance Council or General Insurance Council, as applicable to educate their customers and public at large in making the right choices based on their insurance requirements and role of the Insurance agents, Intermediaries or Insurance intermediaries;

Provided that it shall *not include* Insurance Advertisements as defined under the relevant Regulations as notified by the Authority.

- (b) 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

Board Approved Policy and Business Plan

3. **Board Approved Policy for Expenses of Management:** Every insurer shall have a well-documented policy approved by its Board on an annual basis for Expenses of Management, which shall, at the minimum specify:
- (a) Measures to bring cost effectiveness in the conduct of business and reduction of the expenses of management on an annual basis;
 - (b) 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;
 - (c) Manner in which the compliance with computation of additional allowance as per Regulations 10 and 11 shall be ensured;
 - (d) Manner of allocation and apportionment of expenses of management amongst various business segments including the following parameters, at the minimum:
 - I. Expenses which shall be allocated;
 - II. Basis of allocation;

- III. Expenses which shall be apportioned;
- IV. Basis of such apportionment;

(e) Manner in which the compliance with the policy shall be ensured.

Provided that any revision in the policy along with its implication on various business segments shall be disclosed under notes to accounts forming part of the 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.

4. Board Approved Policy for Payment of Commission

- (a) Every insurer shall have a written policy approved by the board for the payment of commission;
- (b) While framing the policy on payment of commission, the insurer shall at the minimum take into consideration the following that:
 - I. It includes the structure of commission payable;
 - II. it is in the interest of the policyholders;
 - III. it increases insurance penetration and density in the country;
 - IV. it is commensurate with the nature and tenure of the insurance policy;
 - V. it protects the interest of the Insurance agent, Intermediary or Insurance intermediary and enhances their performance;
 - VI. it is commensurate with its business strategy;
 - VII. it is simple to administer and cost effective.
- (c) The Board approved policy shall be reviewed periodically;
- (d) The policy for payment of commission may be subsumed in the Board approved policy for Expenses of Management.

5. Business Plan:

- (a) Every insurer shall formulate a business plan prior to the commencement of the financial year, on an annual basis, which shall be approved by the Board. The plan shall at the minimum cover the various parameters as laid down in the format specified by the Authority from time to time and at the minimum, clearly specify the following:
 - I. the projected requirements of capital during the said financial year;
 - II. projection of solvency margin on a quarterly basis;
 - III. 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.
- (b) The Business plan as above shall be monitored by the Board at regular intervals.

Part – III

Limit of Expenses of Management

6. Limit of expenses of management in General Insurance Business or Health Insurance Business

- (a) No insurer carrying on General Insurance Business in India shall incur expenses of management in excess of 30 percent of gross premium written in India in a financial year.
- (b) No insurer exclusively carrying on Health Insurance Business in India shall incur expenses of management in excess of 35 percent of gross premium written in India in a financial year.

7. Limit of expenses of management in Life Insurance Business

No insurer carrying on Life Insurance Business in India, shall incur expenses of management in a financial year, an amount exceeding the sum of –

- (a) the amount of commission paid to Insurance agents, Intermediaries or Insurance intermediaries in respect of their business transacted in the financial year;
- (b) commission and expenses reimbursed on reinsurance inward; and
- (c) operating expenses of life insurance business.

Provided that the sum of (7(a)), (7(b)) and (7(c)) above shall not exceed an amount computed on the basis of percentages in respect of various segments of business transacted during a financial year as specified in Regulation 8.

8. No insurer shall, in respect of the life insurance business transacted by it in India, incur as expenses of management in any financial year an amount exceeding the aggregate sum of—

- (a) Five percent of all single premiums received during the year on policies granting:
 - I. immediate annuity; or
 - II. deferred annuity;
- (b) Five per cent of all premiums received on other single premium policies during the year **excluding**:
 - I. Group Pure Risk policies;
 - II. Individual Pure Risk policies;
 - III. Group Fund based policies; and
 - IV. Policies covered under sub regulation (a) above;
- (c) Ten percent of all single premiums received during the year on group pure risk policies;
- (d) Fourteen percent of all single premiums received during the year on individual pure risk policies;
- (e) Group Fund based policies: Allowance shall be based on the average of Assets under Management (AUM) 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

- (f) Fifteen percent of all premiums received on one-year renewable group policies, other than group fund based policies;

- (g) Fifteen per cent of all first year's premiums and six per cent of all renewal premiums, received during the year on policies (other than group policies) granting deferred annuity and pension in consideration of more than one premium;
- (h) Three fourth of one per cent of all annuities paid during the year;
- (i) One-tenth 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;
- (j) One-fiftieth of one per cent of the average of the total sums assured of lapsed policies under the revival period at the beginning and end of the year;
- (k) An amount computed on the basis of the percentage of regular premium pure risk business as under:

Pure risk Products	Particular	Allowable expense of management
First Year Regular Premium	In respect of policy with premium payment term 10 years and above	100%
	In respect of policy with premium payment term less than 10 years	Such percentage to be reduced to a number equal to seven and half times the number of whole years in that period.
Renewal Premium		25%

- (l) The allowance shall be computed on the basis of the percentage of premium received other than premiums referred to in sub regulation (a) to (k) above; during the year as under:

Life	Particular	Allowable expense of management
First Year Regular Premium	In respect of policy with premium payment term 10 years and above	80%
	In respect of policy with premium payment term less than 10 years	Such percentage to be reduced to a number equal to seven and half times the number of whole years in that period.
Renewal Premium		17.5%

9. **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.

Part – IV
Additional Allowable Expenses

10. **Expenses incurred towards the Insurtech and Insurance Awareness:** An insurer shall be allowed an additional allowance towards both Insurtech expenses and insurance awareness expenses to the extent of five percent of allowable expenses of management computed under Regulation 6 or Regulation 8, as applicable to widen customer reach.

11. In addition to the expenses limits as specified under sub-regulation (a) and (b) of Regulation 6 and Regulation 8, as applicable, the insurer shall be allowed the following additional expenses:

- (a) **Head Office Expenses:** General Insurer or Health Insurer or Life Insurer having his principal place of business in India and having branch outside India or having International Financial Service Centre (IFSC) Insurance Office (IIO) shall be allowed an additional allowance towards share of Head Office expenses.

Such allowance for a General Insurer or a Health Insurer shall not exceed 10 per cent of the gross premium income written outside India through such branch office or International Financial Service Centre Insurance Office (IIO) during the year.

Such allowance for a Life Insurer shall not exceed 5 per cent of the gross premium income written direct outside India through such branch office or International Financial Service Centre Insurance Office (IIO) during the year.

- (b) **Expenses incurred towards Rural sector business, Pradhan Mantri Suraksha Bima Yojana (PMSBY), Pradhan Mantri Jan Arogya Yojana (PMJAY), Pradhan Mantri Fasal Bima Yojana (PMFBY), Pradhan Mantri Jeevan Jyoti Bima Yojana (PMJJBY) or such other schemes as specified by the Authority.**

A General Insurer or Health Insurer reporting growth in the gross direct premium sourced from Rural Sector, PMJAY and PMFBY or such other schemes as specified by Authority shall be allowed an additional allowance and a Life Insurer reporting growth in the gross direct premium sourced from Rural Sector, or such other schemes as specified by Authority shall be allowed an additional allowance.

Provided that such allowance shall not exceed 15 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.

Provided also that in case of PMSBY or PMJJBY or such other schemes as are specified by Authority, such allowance shall not exceed 15 per cent of the gross direct premium sourced during the year from such schemes.

For the purposes of this Regulation, 'Rural Sector' shall have the meaning specified under the relevant Regulations as amended from time to time.

Part – V

12. **Commission payable to Insurance Agent, Intermediaries or Insurance intermediaries by insurers**

- (a) The total amount of commission payable for general insurance products, including health insurance products offered by general insurers and health insurance products offered by standalone health insurers shall not exceed the Expense of Management limits specified under these regulations, as amended from time to time.

- (b) The total amount of commission payable for life insurance products including health insurance products offered by life insurers shall not exceed the Expense of Management limits specified under these regulations, as amended from time to time.

Part – VI

Return of Expenses of Management and payment of Commission by the insurer

13. Return of Expenses of Management

- (a) All insurers transacting Life Insurance business, or General insurance business or Health Insurance business, at the expiration of each financial year, shall prepare with reference to that year a Return of Expenses of Management as per the format at schedule I (Life Insurance Business) and Schedule II (General Insurance Business or Health Insurance Business). The Return shall be signed by the Chief Executive Officer, the Chief Financial Officer, the Chief Compliance Officer and Appointed Actuary of the Insurer.
- (b) The return filed under sub regulation (a) 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 as specified by the Authority from time to time.
- (c) 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.
- (d) The return duly adopted by the Board along with the certified true copy of the minutes of the meetings wherein the Audit committee and/or Board of the insurer has approved these documents, shall be filed with the Authority along with returns provided in sub-section (1) of Section 15 of the Act in the manner and within the time specified therein.

14. Return on payment of Commission by the insurer

- (a) All insurers, within 45 days of the expiration of each financial year, shall submit to the Authority the Board approved returns on payment of commission by the insurer to the Insurance agent, Intermediary or Insurance Intermediary.
- (b) The formats for such information and data shall be specified by the Authority from time to time.
- (c) These returns shall be reviewed by the Audit Committee prior to being placed for approval of the Board of the insurer.

Part - VII

Power to exercise forbearance in case of excess Expenses of Management

- 15. General or Health Insurers:** The Authority may exercise forbearance in case a General Insurer or Health insurer exceeds the limits of expenses of management. Such forbearance may be exercised on a case to case basis in respect of insurers having 'duration of business' up to 5 years.
- 16. Life Insurers:** The Authority may exercise forbearance in case a Life insurer exceeds the limits of expenses of management on an overall basis in the Participating and Non-Participating (including Linked) business. Such forbearance may be exercised on a case to case basis in respect of insurers having 'duration of business' up to 5 years.

17. In case of an insurer having actual expenses of management more than the allowable expenses of management for the financial year 2023-24, the Authority, having regard to the business model of the insurer, may grant forbearance subject to the confirmation by its board that it shall bring its actual expenses within the allowable limits, within a period of 2 years i.e. by the end of financial year 2025-26.

Provided that no such direction shall be issued by the Authority unless a representation detailing the business plan has been furnished by the Insurer to the Authority.

Part - VIII

Reporting Segments: Life Insurers

Reporting Segments:

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

(a) **Linked policies:**

- (i) Life;
- (ii) General Annuity and Pension;
- (iii) Health;
- (iv) Others as specified by the Authority.

(b) **Non-linked:**

I. **Non-participating policies:**

- (i) Life;
- (ii) General Annuity and Pension;
- (iii) Health;
- (iv) Others as specified by the Authority.

II. **Participating Policies:**

- (i) Life;
- (ii) General Annuity and Pension;
- (iii) Health;
- (iv) Others as specified by the Authority.

- (c) Variable insurance shall be allocated to Life, General Annuity and Pension and Health under the Linked and Non-Linked segments, as applicable.

Part - IX

Compliances

19. General or Health Insurer

Insurers carrying on General Insurance Business or Health Insurance Business shall ensure that its expenses of management are within the allowable limits on the overall basis. Where the General Insurer or Health Insurer has exceeded the limit of expenses of management, excess of such expenses shall be charged to Profit & Loss Account.

20. Life Insurer

- (a) Insurers carrying on life insurance business shall ensure that its expenses of management are within the allowable limits on the Participating policies on an overall basis. Where the Life Insurer has exceeded the overall limits of expenses of management for Participating policies, excess of such expenses shall be charged to Profit & Loss Account.
- (b) In case of Non-participating (including Linked) policies, the Life Insurer shall ensure that its expenses of management are within the allowable limits on an overall basis. Where the Life Insurer has exceeded the limits of expenses of management on overall basis for Non-participating (including Linked) policies, the excess of such expenses shall be charged to Profit & Loss Account.

Such allowable limits on an overall basis shall be calculated on the basis of specific limits stipulated in regulation 8.

21. Life or General or Health Insurer

In case the actual expenses of management of an insurer exceeds by 10 percent or more of the projected expenses of management levels as per the Business plan formulated in terms of Regulation 5, no variable pay shall be payable to Managing Director (MD) / Chief Executive Officer (CEO) / Whole-Time Directors (WTD) and Key Management Persons (KMPs) for the said financial year. The Nomination and Remuneration Committee shall ensure the compliance of the same.

Provided that this regulation shall not be applicable to the insurer where the duration of business is up to 5 years.

22. Additional compliance:

- (a) In case an Insurer exceeds the limits of expenses as specified in these regulations or is not in compliance with the directions issued by the Authority in this regard; it may be subject to one or more of the following:
 - I. Excess to be charged to Profit and Loss Account;
 - II. Restrictions on opening of new places of business;
 - III. Administer a warning to the insurer;
 - IV. Cause a valuation of the insurer to evaluate its financial health and soundness;
 - V. Penal action under section 102 of the Act;
 - VI. Restriction of performance incentive to Managing Director (MD) / Chief Executive Officer (CEO) / Whole Time Director (WTD) and Key Management Personnel (KMPs);
 - VII. Removal of Managerial Personnel and / or appointment of Administrator;
 - VIII. Any other action as specified in the Act.
- (b) The Authority may, apart from taking action as enumerated in sub regulation (a), 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.

23. 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.

24. Repeal and Savings: -

- (a) Insurance Regulatory and Development Authority of India (Expenses of Management of Insurers transacting General or Health Insurance Business) Regulations, 2023 shall be repealed from the date these Regulations come into force.
- (b) Insurance Regulatory and Development Authority of India (Expenses of Management of Insurers transacting Life Insurance Business) Regulations, 2023 shall be repealed from the date these Regulations come into force.
- (c) Insurance Regulatory and Development Authority of India (Payment of Commission) Regulations, 2023 shall be repealed from the date these Regulations come into force.
- (d) 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 (a), (b) and (c) shall be deemed to have been done or taken under the corresponding provisions of these regulations.

Chairman

	(b) as per sub-regulation (a) of Regulation 11											
	(c) as per sub-regulation (b) of Regulation 11											
5	Total Allowable Expenses of Management											
6	Difference (5-3)											
7	Overall Excess of Actual expenses of management overall allowable charged to Profit and Loss Account.											

It is hereby certified that:

- a) the computations given above (including computation of additional allowance) are in accordance with the provisions of Insurance Regulatory and Development Authority of India (Expenses of Management, including Commission, of Insurers) Regulations, 2024;
- b) the company has complied with the provisions pertaining to formulation and implementation of the Board approved policy and business plan as specified under Regulation 3 and 5 of the Insurance Regulatory and Development Authority of India (Expenses of Management, including Commission, of Insurers) Regulations, 2024; and
- c) the company has complied with Regulation 20 and Regulation 21 of the Insurance Regulatory and Development Authority of India (Expenses of Management, including Commission, of Insurers) Regulations, 2024.

Chief Executive Officer

Chief Financial Officer

Chief Compliance Officer

Appointed Actuary

Date:

Place:

Schedule - II

**Return of Expenses of Management of General or Health Insurance Business
(refer Regulation 13(a))**

1. Name of the Insurer:
2. Registration No.
3. Year of Operation & Duration of Business
4. Financial year:

S. No.	Particulars	Amount (Rs. in Lakhs)
1	Gross Premium written in India (GWP) A. Gross direct premium written in India B. Premium on Reinsurance accepted / Inward reinsurance premium	
2	Actual Expenses A. Operating Expenses B. Commission and other Remuneration	
3	Total Actual Expenses of Management	
4	Allowable Expenses of Management A. Allowable expenses as per sub-regulation (a) or sub-regulation (b) of Regulation 6 B. <u>Additional Allowance</u> (a) as per Regulation 10 (b) as per sub-regulation (a) of Regulation 11 (c) as per sub-regulation (b) of Regulation 11	
5	Total Allowable Expenses of Management	
6	Difference (5-3)	
7	Overall Excess of Actual expenses of management overall allowable charged to Profit and Loss Account.	

It is hereby certified that:

- a) the computations given above (including computation of additional allowance) are in accordance with the provisions of Insurance Regulatory and Development Authority of India (Expenses of Management, including Commission, of Insurers) Regulations, 2024;
- b) the company has complied with the provisions pertaining to formulation and implementation of the Board approved policy and business plan as specified under Regulation 3 and 5 of the Insurance Regulatory and Development Authority of India (Expenses of Management, including Commission, of Insurers) Regulations, 2024; and
- c) the company has complied with Regulation 19 and Regulation 21 of the Insurance Regulatory and Development Authority of India (Expenses of Management, including Commission, of Insurers) Regulations, 2024.

Chief Executive Officer

Chief Financial Officer

Chief Compliance
Officer

Appointed Actuary

Date:

Place: