

**Item No. 15****Compliance with Regulation 16 of the IRDAI (Expenses of Management of Insurer's transacting Life Insurance Business) Regulations, 2016 (EoM Regulations)****Insurer: Life Insurance Corporation of India****I. Background:**

1. Life Insurance Corporation of India (the insurer) has been non-compliant with EoM limits in a few segments (Linked Life, Linked General Annuity and Pension, Non-Linked-Non-Par Health and Linked Health) though they are compliant at overall level, since FY 2016-17. They have been seeking exemption from compliance with Regulation 16 of the EoM Regulations, which stipulates that, the excess of expenses of management (EoM) is to be borne by shareholders.

2. As there is no provision for exemption under Regulation 16 of the EoM Regulations, the insurer was advised to provide a commitment, not to exceed the EoM limits at segment level in succeeding years. However, the insurer reiterated their submissions and requested for relaxation from compliance with the provisions of EoM Regulations even in subsequent years. The Insurer therefore was advised to provide reasons for violation of Regulation 16 and directions of the Authority issued in the matter.

3. The Insurer has submitted that LIC maintains a single fund in accordance with Section 24 of LIC Act, 1956. Any surplus either from the non-par business or from the par business is allocated among the policyholders and the shareholders in the ratio of 95:5 as approved by Gol. Post amendment to Section 28 (1) in the Life Insurance Corporation (Amendment) Act, 2011, LIC could allocate 90% or more of the surplus to policyholders. However, with the approval of Gol they have continued the distribution of surplus in the ratio of 95:5. By continuing to allocate the surplus in the ratio of 95:5 instead of 90:10, they are distributing excess surplus to the policyholders. To that extent the excess of expenses of management is already being borne by the Gol. Thus, LIC is compliant with the Regulation 16 of the EoM Regulations, 2016.

4. Considering the above submission of the insurer, the Authority granted necessary forbearance to the insurer towards compliance with Regulation 16 of the EoM Regulations in its 112<sup>th</sup> meeting, as a special case, as the policyholder's interest had not been compromised on account of breach of the limits of EoM from FY 2017-18 to FY 2019-20.

## II. Insurer's submissions on EoM for FY 2020-21:

5. The insurer is compliant with expenses of management limits on overall basis. They have, however, exceeded the allowable limits under the following segments:

(Rs. Lakh)			
Segment	Allowable Limits	Actual Limits	Excess
Linked business (General Annuity & Pension and Health)	548.64	5788	5239.36
Linked business (Health)	1679.89	1903.69	223.80
Non-Linked business (Health (non-par)	12064.26	21522.54	9458.28
General Annuity & Pension (Par)	3287.42	7116.18	3828.76

6. Reasons submitted by them for exceeding the aforesaid allowable expenses:

- While calculating the allowable limits for expenses, higher component is linked with First Year Premium. However, under linked business, most of the plans are closed plans. i.e., no new business is underwritten for the same but the schemes are incurring substantial operating expenses.
- Non-linked health business: The actual expenses incurred are high due to special underwriting and special claim management requirements
- General Annuity & Pension (Par) business: Negligible new business is underwritten, but substantial operating expenses are incurred under the segment towards servicing of existing policies.
- The insurer continued to allocate the surplus in the ratio of 95:5 between shareholders and par policyholders instead of 90:10 for the FY 2020-21 and the excess surplus has been distributed to the policyholders. Hence, for the year 2020-21 also the excess share of expenses of management is already borne by the shareholder i.e., Government of India. Thus, they are already complying with Regulation 16 of EoM Regulations.

## III. Insurer's Request:

7. In view of the above fact, the insurer has requested to consider them as compliant of Regulation 16 of EoM Regulations for the financial year 2020-21.

## IV. Regulation 16 of EoM Regulation reads as under:

8. *The insurers shall ensure that their expenses of management are within the*

*allowable limit on the segmental basis. Where an insurer has violated the limits of expenses of management for one or more segments but is overall compliant with the limits, the excess of such expenses shall be borne by the Shareholders.*

## **V. Comments & Recommendation:**

9. The intention of the Regulation 16 is to dissuade life insurers from allocating excess expenses to participating line of business, thereby, leading to adverse impact on the bonus declared to them. As such, the excess of expenses at segment level was to be borne by shareholders.

10. As seen from the details provided by the insurer the objective and the intention of Regulation 16 of the EoM Regulations has been achieved.

11. In view of the above, it is proposed that the submission of the insurer may be considered as compliance with Regulation 16 of EoM Regulations.

Placed for approval of the Authority.