INSURANCE REGULATORY AND DEVELOPMENT AUTHORITY OF INDIA

NOTIFICATION

Hyderabad, the _____th November, 2022

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

F.No. IRDAI/Reg./___/- 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-

Objective - To enable and provide flexibility to the insurers to manage their expenses within the overall limits based on their gross written premium to optimally utilize their resources for enhancing benefits to policyholders.

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 01st April, 2023 and shall remain in force for a period of three years thereafter.

(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 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.

(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:

(i) all expenses in the nature of operating expenses of life insurance business.
(ii) commission to insurance agents and intermediaries or insurance intermediaries.
(iii) commission & expenses on reinsurance inward which are charged to Revenue Account.

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

(f) **“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.

(g) **“Insurance awareness”** means awareness creation done through (a) direct campaigns including through branches, social media campaign etc. and/or (b) supporting Life Insurance Council to educate its customers and public at large in making the right choices by being aware of insurance requirements and role of the Insurance intermediaries and agents;

Provided that it shall *not include* Insurance Advertisement as defined under IRDAI (Insurance Advertisements and Disclosure) Regulations, 2021 as amended from time to time.

(h) ***“*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.

(i) **“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

Limit 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 –

(1) the amount of commission paid to insurance agents and intermediaries or insurance intermediaries in respect of their business transacted in the financial year as may be allowed by the Authority from time to time;
(2) commission and expenses reimbursed on reinsurance inward; and
(3) operating expenses of life insurance business.

Provided that the sum of (3(1)), (3(2)) and (3(3)) 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 4.

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

(1) Five percent of all single premiums received during the year on policies granting:
   (a) An immediate annuity; or
   (b) A deferred annuity;

(2) 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 (1) above;

(3) Ten percent of all single premiums received during the year on group pure risk policies;
(4) Ten percent of all single premiums received during the year on individual pure risk policies;
(5) Fifteen percent of all premiums received on One-year renewable group policies, other than group fund based policies.
(6) 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 ₹10,000 crore	1 percent
In excess of ₹10,000 crore	0.80 percent

(7) Fifteen per cent of all first year's premiums and six per cent of all renewal premiums, received during the year on policies granting deferred annuity in consideration of more than one premium;
(8) Three fourth of one per cent of all annuities paid during the year;
(9) 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;
(10) One-twentieth of one per cent of the total sums assured of lapsed policies under the revival period at the beginning of the year;
(11) 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.

(12) The allowance shall be computed on the basis of the percentage of premium received other than premiums referred to in clause (1) to (11); during the year, as specified in Sr.No.1(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.

Part- III
Additional Allowable Expenses

6. In addition to the expenses limits as specified under Regulation 4, the insurer shall be allowed the following additional expenses

(1) **Head Office Expenses:** An insurer having his principal place of business in India and having branch outside India or having International Financial Service Centre Insurance (IFSC) Insurance Office (IIO) 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 or International Financial Service Centre Insurance Office (IIO) during the year.

(2) **Expenses incurred towards Rural sector, Pradhan Mantri Jeevan Jyoti Bima Yojana (PMJJBY) business or such other schemes as notified by Authority.**

An 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 PMJJBY or such other schemes as notified 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 IRDAI (Obligations of Insurers to Rural and Social Sectors) Regulations, 2015, Regulations as amended from time to time.

7. Expenses incurred towards the Insurtech and Insurance Awareness: An insurer shall be allowed an additional allowance towards Insurtech and insurance awareness expenses to the extent of five percent of allowable expenses of management computed under Regulation 4 to widen customer reach.

Part – IV
Board Approved Policy and Business Plan

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

(1) Measures to bring cost effectiveness in the conduct of business and reduction of the expenses of management on an annual basis;

(2) 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;

(3) Manner in which the compliance with computation of additional allowance as per Regulation 6 and 7 shall be ensured;

(4) 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;

(5) Structure of Commission payable in terms of IRDAI (Payment of Commission) Regulations, 2022 as amended from time to time.

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

Provided 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.

9. Business Plan:

(1) 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.

(2) The Business plan as above shall be monitored by the Board at regular intervals.

Part-V
Return of Expenses of Management

10. 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 as per the format specified under Schedule-I. The Return shall be signed by the Chief Executive Officer, the Chief Financial Officer, the Chief Compliance Officer and Appointed Actuary of the Insurer.

11. 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.

12. 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.

13. The return of expenses of management duly adopted by the Board along with the certified true copy of minutes of the meetings wherein the committee(s) and/or Board of the insurer has approved these documents, 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
Power to exercise forbearance in case of excess Expenses of Management

14.(1) The Authority may exercise forbearance in case an 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.

14.(2) In case of an insurer having actual expenses of management more than the allowable expenses of management for the financial year 2022-23, 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 limits, within a period of 3 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- VII

Reporting Segments and compliance

Reporting Segments:

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

(1) Linked policies:

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

(2) Non-linked:

(a) Non**-participating policies:**

(i) Life;
(ii) General Annuity and Pension;
(iii) Health;
(v) Variable.

(b) **Participating Policies:**

(i) Life;
(ii) General Annuity and Pension;
(iii) Health;
(v) 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:

16. (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 charged to Profit & Loss Account.

(2) In case of Non-participating (including 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 (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 Schedule I of these regulations.

(3) 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 8 and 9, 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 sub-regulation shall not be applicable to insurers with duration of business up to 5 years.

Additional compliance:

17. In case an insurer exceeds the limits of expenses as specified in these regulations; in case of participating policies, non-participating policies (including Linked) policies on an overall basis, 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 actions:

(1) Excess to be charged to Shareholders' Account;

(2) Restrictions on opening of new places of business;

(3) Administer a warning to the insurer;

(4) Cause a valuation of the insurer to evaluate its financial health and soundness;

(5) Penal action under section 102 of the Act;

(6) Restriction of performance incentive to Managing Director (MD) / Chief Executive Officer (CEO) / Whole Time Director (WTD) and Key Management Persons (KMP);

(7) Removal of Managerial Personnel and / or appointment of Administrator;

(8) Any other action as specified in the Act.

18. The Authority may, apart from taking action as enumerated in Regulation 17, 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.

19. 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.

20. 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

Part-A

(refer regulation 10)

Name of the Insurer:

Financial Year

(₹ 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*							
2		**All single premium received during the year on policies granting**							
	(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				10			

	the year on Individual pure risk policies							
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 ₹10,000 crore				1			
	(ii) AUM in excess of ₹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				15			
	(ii) Renewal premiums				6			
9	All annuities paid during the year				0.75			
10	For 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				0.1			
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				0.05			
	Total							

* 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.

Schedule- I
Part-B
(refer regulation 10)

<table>
<tr><td colspan="8">Name of the Insurer:
Financial Year
(₹ in Lakhs)</td></tr>
<tr><td>**S. No.**</td><td colspan="4">**Particulars**</td><td>**Allowable Expense as per Part A**</td><td>**Actual Expenses**</td><td>**Excess**</td></tr>
<tr><td>**1**</td><td colspan="4">**Linked policies**</td><td></td><td></td><td></td></tr>
<tr><td></td><td>**i**</td><td colspan="3">Life</td><td></td><td></td><td></td></tr>
<tr><td></td><td>**ii.**</td><td colspan="3">General Annuity and Pension</td><td></td><td></td><td></td></tr>
<tr><td></td><td>**iii.**</td><td colspan="3">Health</td><td></td><td></td><td></td></tr>
<tr><td></td><td>**iv.**</td><td colspan="3">Variable</td><td></td><td></td><td></td></tr>
<tr><td></td><td colspan="4">**SUB-TOTAL (A)**</td><td></td><td></td><td></td></tr>
<tr><td>**2**</td><td colspan="4">**Non-linked**</td><td></td><td></td><td></td></tr>
<tr><td></td><td>**i.**</td><td colspan="3">**Non-participating policies**</td><td></td><td></td><td></td></tr>
<tr><td></td><td></td><td>**a)**</td><td colspan="2">Life</td><td></td><td></td><td></td></tr>
<tr><td></td><td></td><td>**b)**</td><td colspan="2">General Annuity and Pension</td><td></td><td></td><td></td></tr>
<tr><td></td><td></td><td>**c)**</td><td colspan="2">Health</td><td></td><td></td><td></td></tr>
<tr><td></td><td></td><td>**d)**</td><td colspan="2">Variable</td><td></td><td></td><td></td></tr>
<tr><td></td><td></td><td colspan="3">**SUB-TOTAL (B)**</td><td></td><td></td><td></td></tr>
<tr><td></td><td>**ii.**</td><td colspan="3">**Participating Policies**</td><td></td><td></td><td></td></tr>
<tr><td></td><td></td><td>**a)**</td><td colspan="2">Life</td><td></td><td></td><td></td></tr>
<tr><td></td><td></td><td>**b)**</td><td colspan="2">General Annuity and Pension</td><td></td><td></td><td></td></tr>
<tr><td></td><td></td><td>**c)**</td><td colspan="2">Health</td><td></td><td></td><td></td></tr>
<tr><td></td><td></td><td>**d)**</td><td colspan="2">Variable</td><td></td><td></td><td></td></tr>
<tr><td></td><td></td><td colspan="3">**SUB-TOTAL (C)**</td><td></td><td></td><td></td></tr>
<tr><td colspan="5">**Total D = (A+B+C)**</td><td></td><td></td><td></td></tr>
<tr><td>**3**</td><td colspan="7">**Additional Allowance**</td></tr>
<tr><td></td><td colspan="3">**Allowance of Head Office expense and other additional allowances (please refer Part III of Regulations)**</td><td>**Gross Premium written direct outside India through such branch**</td><td>Percentage of Premium/ Expenses</td><td>Allowable Expense</td><td></td></tr>
<tr><td></td><td colspan="3">**Branch 1**</td><td></td><td>5</td><td></td><td></td></tr>
</table>

	Branch 2		5		
	PMJJBY (Rural/ Social)				
	Insurtech & Insurance Awareness	**Expenses**	5		
	Total Allowable Expenses as per part A				
	Total (E)				
	Total	**(D+E)**			
	Annualized Premium Equivalent (APE)				

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**

Appointed Actuary

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 11)

Certificate on Return of Expenses of Management prepared under Regulation 12 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 10 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 4 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]

[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 4 of the Insurance Regulatory and Development Authority of India (Expenses of Management of Insurers transacting life insurance business) Regulations, 2012 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."

3. The Insurer has complied with the provisions of Regulation 16, the excess of expenses has been charged to Profit & Loss Account. Such excess expenses have been charged on overall basis for par products and for non-par (including linked) products.
4. The apportionment, allocation and accounting of expenses relating to Insurtech, insurance awareness, rural sector, Pradhan Mantri Jeevan Jyoti Bima Yojana (PMJJBY) or such other schemes as may be specified by Authority, 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

(Please furnish deviations/ exceptions observed, if any)