

IRDAI (Expenses of Management of Insurers transacting Life Insurance Business) Regulations, 2016 - forbearance for financial year 2020-21 under Regulation 14 (ii)

A. Request of Life Insurance Council:

1. The Life Insurance Council vide its letter dated 23rd March 2021, had recommended for forbearance for life insurers who are expected not to comply with the IRDAI (Expenses of Management of Insurers transacting life insurance business) Regulations, 2016 (EoM Regulations) for the financial year 2020-21 and financial year 2021-22; both at an overall level and at the segmental level. The Executive Committee of the Life Insurance Council endorsed the suggestions by its general body of life insurers and observed, *interalia*, as follows:

- i. ...The pandemic, its impact on business and lockdown has persisted in the current financial year 2020-21 as well. Considering prolonged uncertainty, the insurers had to exercise cost-cuts/ restrict additional investment to control operating expenses, leading to reduction in overall productivity during FY 2020-21*
- ii.The adverse impact on the top line growth (including renewal) and retention of the in-force block of policies due to prevailing pandemic situation would result in lower EoM allowances.*
- iii. Further, to regain business momentum, companies will have to re-invest on the resources in the next FY 2021-22, which will result in higher operating expense for the year. However, the benefits of which might not be realized in the same financial year.*

2. The Life Insurance Council had also indicated that the non-compliant insurers would be furnishing their road map of compliance to the Authority directly. The Life Insurance Council was informed vide IRDAI letter dated 16th April 2021 that the request for forbearance shall be processed only after a representation detailing the business plan and time period required for compliance with the EoM Regulations has been furnished by each of the non-compliant insurers as required under Regulation 14 (ii) of the EoM Regulations.

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3. Business plans were submitted by six life insurers in May and June 2021. They have indicated that the excess of expenses of management over the allowable limits shall be debited to shareholders account. They have indicated their expected date of compliance with EoM limits as under:

Sl. No.	Name of the Insurer	Expected financial year of EoM compliance
1	Aegon Life Insurance Co. Ltd.	2025-26
2	Aviva Life Insurance Co. India Ltd.	2021-22
3	Bharti Axa Life Insurance Co. Ltd.	2023-24
4	Pramerica Life Insurance Co. Ltd.	2022-23
5	Exide Life Insurance Co. Ltd.	2023-24
6	Future Generali Life Insurance Co. Ltd.	2025-26

4. The insurers, as part of their business plans have elaborated on the steps taken to bring about compliance with EoM Limits. Some of the insurers have also informed that they have revised their Board approved business plans as per the Authority's guidance reference IRDAI/Life/COVID-19/07/2020 dated 30th July 2020 to revisit the already approved annual business plans to factor the impact of the COVID-19.

B. EoM position of non-compliant insurers eligible under Regulation 14 (ii)

5. EoM position of non-compliant insurers eligible for forbearance under Regulation 14 (ii) for three years ending FY 2020-21 is as under:

Name of the Insurer	Year of commencement of operations	EoM % of permissible limits		
		FY 2020-21	FY 2019-20	FY 2018-19
1. Aegon Life Insurance Co. Ltd.	2008	153	150	140
2. Aviva India Life Insurance Co. Ltd.	2002	117	119	128
3. Bharti Axa Life Insurance Co. Ltd.	2006	129	142	137
4. Pramerica Life Insurance Co. Ltd.	2008	107	116	132
5. Exide Life Insurance Co. Ltd.	2001	106	122	118
6. Future Generali India Life Insurance Co. Ltd	2007	143	159	168

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6. These insurers were granted forbearance under the EoM Regulations for FY 2019-20 as well, wherein they had submitted that they would be compliant with the EoM limits as under:

Insurer	EoM % in FY 2019-20	EoM compliance expected in
1. Aegon Life Insurance Co. Ltd.	150	Not indicated*
2. Aviva Life Insurance Co. India Ltd.	119	FY 2020-21
3. Bharti Axa Life Insurance Co. Ltd.	142	FY 2023-24
4. Pramerica Life Insurance Co. Ltd	116	FY 2022-23
5. Exide Life Insurance Co. Ltd.	122	FY 2022-23
6. Future Generali India Life Insurance Co. Ltd.	159	FY 2021-22

*In FY 2020-21, the insurer had undertaken a complete restructuring of its business model to the digital based distribution platform

7. It is observed that M/s Aviva Life Insurance Co. India Ltd. and M/s Exide Life Insurance Co. Ltd., have revised their expected date of compliance and deferred it by one year while M/s Future Generali Life Insurance Co. Ltd. has revised the same and deferred it by four years.

C. Relevant Legislative/Regulatory Stipulations

8. As per Section 64J (b) of the Insurance Act, 1938, the functions of the Executive Committee of the Life Insurance Council shall be *to render 'advice' to the Authority in the matter of controlling the expenses of insurers in respect of their life insurance business in India.*

9. Section 64 K (1) of the Insurance Act, 1938

"It shall be the duty of the Executive Committee of the Life Insurance Council to meet at least once before the 31st day of March every year to advise the Authority in fixing under the proviso to sub-section (2) of section 40B the limits by which the actual expenses incurred by an insurer carrying on life insurance business in respect of such business in the preceding year may exceed the limits prescribed under that sub-section, and in fixing any such limits the Authority shall have due regard to the

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conditions obtaining in life insurance business generally during that year and he may fix different limits for different groups of insurers”.

10. Regulation 14, ‘Power to Exempt’ under IRDAI (Expenses of Management of Insurers Transacting Life Insurance Business) Regulations, 2016:

- (i) the Authority based upon the representation received from a newly registered insurer, in accordance with the provisions of the Act, may exercise forbearance for a period not exceeding ten years.*
- (ii) If an insurer fails to comply with these Regulations even after a period of ten years, the Authority, having regard to the business model of the insurer, may direct the existing Insurer to charge the expenses above the allowable limit to the shareholders’ account.*

Provided that no such direction shall be issued by the Authority unless a representation detailing the business plan and time period required for compliance with the Regulations has been furnished to the Authority in accordance with the applicable provisions of the Act.

D. EoM position of other non-compliant insurers

11. M/s Edelweiss Tokio Life Insurance Company Ltd. has an EoM of 129% in FY 2020-21 which is their 10th year of duration of business under the EoM Regulations. They were granted forbearance until FY 2020-21 vide IRDAI’s letter dated 13th September 2017.

12. M/s Sahara India Life Insurance Co. Ltd. (SILIC), has an EoM of 301% of the allowable limits in FY 2020-21. The insurer has been barred from underwriting new business vide IRDAI Order dated 23rd June 2017. In view of the same the non-compliance with EoM limits by the insurer may be taken on record. This in line with the stand taken for the FY 2019-20.

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E. Recommendation:

13. As stipulated under section 64 K (1) of the Insurance Act, 1938, having due regard to the conditions obtaining in life insurance business during FY 2020-21, in the persistent pandemic COVID-19 situation, which has impacted the expenses of management position of six life insurers (listed at para 3 above) who fall under Regulation 14 (ii) of the EoM Regulations, forbearance from compliance with EoM limits may be granted for FY 2020-21 subject to the following conditions:

- i. Excess of expenses over the allowable limits shall be borne by the shareholders.
- ii. The Appointed Actuary of the life insurer shall certify that the interests of policyholders, particularly under the participating line of business is not adversely affected in FY 2020-21 and at all times.
- iii. The Board of the life insurers shall regularly review the compliance with the EoM Limits and shall take steps to ensure compliance with the conditions/directions subject to which forbearance is being granted by the Authority

14. In case the forbearance is not granted, the provisions of Regulation 17 of the EoM Regulations on action for Non-compliance shall come into effect.

Placed for consideration of the Authority