**Item No. 10**

**Forbearance for F.Y. 2020-21 under Regulations 11(ii) of IRDAI (Expenses of Management of Insurers transacting General or Health Insurance Business) Regulations, 2016**

1. For the year 2020-21, the following seven non-life companies have actual expenses more than Allowable expenses and are non-complaint with the EoM limits: -

| Insurer | Actual Exps. | Allowable Exps. | EoM Ratio | Excess charged to Shareholders' Account |
|---|---|---|---|---|
| Raheja QBE | Rs. 150.38 Cr. | Rs. 108.02 Cr. | 139% | Rs. 42.36 Cr. |
| Care Health | Rs. 1074.56 Cr. | Rs. 834.34 Cr. | 129% | Rs. 240.21 Cr. |
| Liberty | Rs. 647.14 Cr. | Rs. 509.18 Cr. | 127% | Rs. 157.93 Cr. |
| Oriental | Rs. 4135.01 Cr. | Rs. 3874.24 Cr. | 107% | Rs. 260.76 Cr. |
| Chola MS | Rs. 1470.43 Cr. | Rs. 1388.30 Cr. | 106% | Rs. 146.49 Cr. |
| National | Rs. 4556.48 Cr. | Rs. 4321.15 Cr. | 105% | Rs. 360.54 Cr. |
| United India | Rs. 4998.88 Cr. | Rs. 4925.44 Cr. | 101% | Rs. 141.45 Cr |

2. The reasons for non-compliance with the EoM Limits (as submitted) may be noted as under: -

| Insurer | Reasons |
|---|---|
| Raheja QBE | Lower premium base, Increase in expenses due to business expansion, increase in expense due to Digitalization. |
| Care Health | Nil premium under PMJAY Scheme during FY 2020-21, Mono-line nature of standalone health insurance, competitive intensity in the business, relatively lower premium size per health insurance policy, |
| Liberty General | De-growth in premium (mainly under Motor Segment), No decrease in fixed expenses, economic conditions and increase in expense due to Digitalization |
| Oriental | Amortization of expenses pertaining to One-time pension scheme |
| Chola MS | Absorption of advances to intermediaries and prepaid expenses as per Authority's Directions, Decrease in premium of Motor business (mainly Commercial vehicles), increase in expense due to Digitalization. |
| National | Amortization of expenses pertaining to One-time pension scheme and de-growth |
| United India | Amortization of expenses pertaining to One-time pension scheme, Increase in Net commission due to reduced reinsurance cessions in 20-21. |

3. The relevant **Regulatory provisions** of IRDAI (Expenses of Management of Insurers transacting General or Health Insurance Business) Regulations, 2016 are as under: -

**(A) Reg. 11 Powers to Exempt:**

*"(i) The Authority based upon a representation received from a newly registered insurer, in accordance with the provisions of the Act, may exercise forbearance for a period not exceeding five years.*
*(ii) If an insurer fails to comply with these regulations even after the period of five years, the Authority, having regard to the business model of the insurer, may direct an 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."*

**(B) Reg. 14 Action for Non-compliance: -**

*"Any violation of the limits on overall basis or the directions issued by the Authority in this regard may entail one or more of the following actions:*
*(i) Excess to be charged to Shareholders' Account;*
*(ii) Restriction on performance incentive to Managing Director (MD) / Chief Executive Director (CEO) / Whole-Time Directors (WTD)and Key Management Persons (KMPs);*
*(iii) Restriction on opening of new places of business;*
*(iv) Graded Penal action under section 102 of the Act;*
*(v) Removal of Managerial Personnel and / or appointment of Administrator;*
*(vi) Any other action as specified in the Act."*

4. General Insurance Council vide email dated 09.04.2021 has requested the Authority to consider its recommendations and grant approval for forbearance of the expenses of management (EoM) in excess of limits prescribed by the Authority for seven companies i.e. Liberty, Chola MS, Raheja QBE, Care health, Manipal Cigna, Oriental and National. However, the following may be noted: -

    a. ManipalCigna was already granted forbearance vide Authority's letter dated 22.05.2020 for FYs 2019-20 to 2020-21 and
    b. In case of United India, the reasons for non-compliance are similar to 'Oriental Insurance' and 'National Insurance', as detailed in GI council's recommendations i.e. amortization of expenses pertaining to One-time pension scheme.

5. The companies have also submitted their representations in terms of Regulations 11(ii) of IRDAI (Expenses of Management of Insurers transacting General or Health Insurance Business) Regulations, 2016 and requested for forbearance from compliance with EoM Limits. The forbearance granted to the insurer in past and submitted expected year of compliance may be noted as under:

| Insurer | Forbearance granted in past for | Expected year of compliance |
|---|---|---|
| Raheja QBE | (i) FY 2015-16 to FY 2018-19 & (ii) FY 2019-20 | 2022-23 |
| Care Health | (i) FY 2018-19 to FY 2019-20 | 2028-29 |
| Liberty General | (i) FY 2018-19 to FY 2019-20 | 2025-26 |
| Oriental | (i) FY 2019-20 | Forbearance sought for FY 2020-21 |
| Chola MS | NA | 2022-23 |
| National | (i) FY 2019-20 | Forbearance sought for FY 2020-21 |
| United India | (i) FY 2019-20 | Forbearance sought for FY 2020-21 |

6. The following points may be considered: -

   a. During financial year 2020-21, for non-life insurance industry, it is noted that: -
      - Premium under 'Marine segment', 'Motor segment' and 'Other segment' has reported de-growth, premium under 'fire segment' has reported reduced growth, while 'Health segment' has reported increased growth by 0.24% only;
      - Reduced growth in number of new policies issued (de-growth in case of Private and Public sector insurers) may be noted

   b. Segmental Excess (Actual Expenses Less Allowable Expenses) for the Non-Life Insurance industry may be noted as under – **Rs. in Crore**

| Segments/ Sub-segments as per EoM Reg. 2016 | 2020-21 | % Share | 2019-20 | % Share |
|---|---|---|---|---|
| Fire | 174 | 5% | 212 | 6% |
| Marine | 49 | 1% | 66 | 2% |
| **Motor** | **1287** | **36%** | **1467** | **39%** |
| Health-Retail | 982 | 27% | 1141 | 30% |
| Health Group/Corp | 710 | 20% | 834 | 22% |
| Health Govt. | 77 | 2% | 2 | 0% |
| **Health Total** | **1768** | **49%** | **1976** | **52%** |
| Misc-Retail | 4 | 0% | 31 | 1% |
| Misc. Group/Corp | 338 | 9% | 59 | 2% |
| **Grand Total** | **3621** | **100%** | **3810** | **100%** |

From the above, it may be noted that: -

i. Around 49% and 52% of total excess of actual expenses over the allowable expenses was reported for Health segments for FY 2020-21 & 2019-20, respectively,

ii. Around 36% and 39% of total excess of actual expenses over the allowable expenses was reported for Motor segments for FY 2020-21 & 2019-20, respectively, and
iii. Insurers having significant (dominant) share of Motor premium and/ or Health premium in total premium will not be able to set-off their segmental excess on overall base, in case the other segments do not have adequate surplus of allowable expenses.

c. Oriental, United India and National: -

In case of Oriental and United India, amortization of expenses pertaining to One-time pension scheme and in case of National, amortization of expenses pertaining to One-time pension scheme and de-growth in premium has prima-facie resulted in the non-compliance with EoM limits for FY 2020-21. The Authority in its 108th meeting has approved the amortization of the cost for a period not exceeding 5 years, subject to conditions. Hence, the impact of the same on the expenses of PSUs will be upto FY 2023-24.

d. Care Health

i. In case of Care Health, the decreased premium growth on year on year basis in spite of reduced growth in expenses has prima-facie resulted in the non-compliance with EoM limits for FY 2020-21.
ii. In case of standalone health insurance companies, the Authority has granted forbearance from EoM Regulations upto 12th year of operation (as of now), as it noted that SAHI companies are able to bring their expenses within the allowable limits only between $10^{th}$ -$15^{th}$ year of operation due to various factors e.g. High Setup cost, mono line nature of business, high Infrastructure cost, IT establishment charges, customer database creation expenses, Health risk management and fraud prevention competitive premium rates and long gestation period (around 12-15 years of operation);
iii. In FY 2020-21, Care Health was in $8^{th}$ Year of operation.

e. Raheja QBE, Liberty and Chola Ms: -

i. In case of Raheja QBE, the lower premium base (in spite of premium growth), increase in expenses, major dependency on ‘Motor and Other liability’ segment has prima facie resulted in the non-compliance with EoM limits for FY 2020-21;
ii. In case of Liberty, the de-growth in premium (mainly under motor segment) has prima facie resulted in the non-compliance with EoM limits for FY 2020-21; and
iii. In case of Chola MS, absorption of pre-paid expenses & advances to intermediaries, the de-growth in premium (mainly under motor segment) and major dependent on Motor Segment has prima facie resulted in the non-compliance with EoM limits for FY 2020-21

7. In case the forbearance is not granted, the provisions of Reg. 14 IRDAI (Expenses of Management of Insurers transacting General or Health Insurance Business) Regulations, 2016 (Action for non-compliance) shall come into effect (refer para 3(B)).

**Recommendations: -** The following is recommended: -

8. Oriental, United India and National may be granted forbearance for FY 2020-21, subject to the following: -
   i. Expenses of management in excess of the permissible limit shall be charged to Profit and Loss Account for FY 2020-21;
   ii. The allocation and apportionment of Expenses of Management should be in accordance with the Board approved policy; and
   iii. The Board of the insurers shall review the compliance with the EoM Limits.

9. Care Health, Raheja QBE, Liberty and Chola Ms may be granted forbearance for FY 2020-21, subject to the following: -
   i. Expenses of management in excess of the permissible limit shall be charged to Profit and Loss Account;
   ii. The company shall adhere to business projections submitted to the Authority and in case of any significant variations from the submitted projections, action for non-compliance will be initiated as detailed in the IRDAI (Expenses of Management of Insurers transacting General or Health Insurance Business) Regulations, 2016;
   iii. The Board will review its expenses of management on Quarterly basis in terms of submitted business projections; and
   iv. The allocation and apportionment of Expenses of Management should be in accordance with the Board approved policy.

10. In case of Chola MS, in addition to the above conditions, the insurer may be advised to charge the expenses of absorption i.e. non-linked to the relevant year's premium to the Shareholder's account for FY 2020-21

Placed for the approval of the Authority.