

Draft

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 General or Health 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 General or Health Insurance Business) Regulations, 2022.
- (2) These Regulations shall come into force from 1<sup>st</sup> April, 2023 and shall remain in force for a period of three years thereafter.
- (3) The Regulations shall be applicable to Insurers transacting General Insurance or Health Insurance business.

**2. Definition**

(1) 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) **“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.
- (v) **“Expenses of Management”** shall include
  - (a) all expenses in the nature of operating expenses of General or Health Insurance business.
  - (b) commission to the insurance agents and intermediaries or insurance intermediaries.
  - (c) commission & expenses on reinsurance inward, which are charged to Revenue Account.

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

- (vi) **“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.
- (vii) **“Insurance Awareness”** means awareness creation done by Insurers through (a) direct campaigns including through branches, social media campaign, etc. and/or (b) supporting the General 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.

(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 General Insurance Business or Health Insurance Business**

3. (1) 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.
- (2) 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.

**Part- III**  
**Additional Allowable Expenses**

4. In addition to expenses of management limit as specified in sub-regulation (1) and (2) of [Regulation 3](#) above, 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 offices 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 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.

**(2) Expenses incurred towards Rural sector, Pradhan Mantri Suraksha Bima Yojana (PMSBY), Pradhan Mantri Jan Arogya Yojana (PMJAY) and Pradhan Mantri Fasal Bima Yojana (PMFBY) business or such other schemes as notified by Authority**

An 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.

**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 such other schemes as are notified by the 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.

**(3) Expenses incurred towards '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 as specified in [Regulation 3](#) to widen customer reach.

**Part – IV**

**Board approved policy and business plan**

5. Every insurer shall have a well-documented policy approved by its Board on annual basis, which shall, at the minimum specify:
- (i) Measures to bring cost effectiveness in the conduct of business and reduction of the expenses of management on an annual basis;
  - (ii) Manner of transfer of benefits, arising from reduction of expenses and/or from directly sourced business to the policyholders by way of reduction in premium;
  - (iii) Manner in which compliance with computation of additional allowance as per [Regulation 4](#) shall be ensured;
  - (iv) 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;
  - (v) Structure of commission payable in terms of IRDAI (Payment of Commission) Regulations, 2022 as amended from time to time.
  - (vi) Manner in which the compliance with the policy shall be ensured.

**Provided** that 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

ensuring that the allocation and apportionment of the expenses of management are in accordance with the Board approved policy.

**6. 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 business plan shall, 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 expenses 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 formulated as above shall be monitored by the Board at regular intervals.

**Part-V**

**Return of Expenses of Management**

- 7. All insurers transacting General Insurance or Health Insurance business, at the expiration of each financial year, shall prepare with reference to that year, 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 the Appointed Actuary of the Insurer.
- 8. The Return shall be certified by the statutory auditors 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.
- 9. 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.
- 10. 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

11.(1) The Authority may exercise forbearance in case an 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' upto 5 years.

(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 allowable limits, within a period of 3 years i.e. by the 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

### Compliances

12.(1) The Insurers shall ensure that their expenses of management are within the allowable limit on the overall basis. Where the insurer has exceeded the limits of expenses of management, the excess of such expenses shall be charged to the Profit and Loss Account.

(2) In case the amount of actual expenses of management exceeds by 10 percent or more of the projected expenses of management as per the Business plan formulated in terms of [Regulation 6](#), 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 having duration of business' upto 5 years.

### **13. Additional compliances**

(1) In case an insurer exceeds the limits of expenses of management as specified in these Regulations or does not follow 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) Restriction on opening of new places of business;
- (iii) Administer a warning to the insurer;
- (iv) Penal action under section 102 of the Act;

- (v) Removal of Managerial Personnel and / or appointment of Administrator;
- (vi) Restriction on performance incentive to Managing Director (MD) / Chief Executive Officer (CEO) / Whole-Time Directors (WTD) and Key Management Persons (KMPs);
- (vii) Any other action as specified in the Act.

**(2)** The Authority, apart from taking action as enumerated in sub-regulation (1) above, may 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 direction issued by the Authority under these Regulations.

Notwithstanding such directions, the insurer shall continue to service the existing policyholders in such segments.

**14. Power to remove difficulties:** - In order to remove any difficulties in respect of the application or interpretation of any of the provisions of these regulations, the Chairperson may issue appropriate clarification or circular or direction or guidelines, as and when required, under any of the provisions of these regulations as deemed necessary.

**15. Repeal and Savings: -**

(1) Insurance Regulatory and Development Authority of India (Expenses of Management of Insurers transacting General or Health 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) above shall be deemed to have been done or taken under the corresponding provisions of these regulations.

**Chairman**

**Return of Expenses of Management**  
**(refer Regulation 7)**

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.	<b>Gross Premium written in India (GWP)</b> - Gross direct premium written in India - Premium on Reinsurance accepted / Inward reinsurance premium	
2.	<b>Actual Expenses of management</b> A. Operating Expenses B. Commission	
3.	<b>Total Actual Expenses of Management</b>	
4.	<b>Allowable Expenses of Management</b>	
	A. Allowable expenses as per <a href="#">sub-regulation (1)</a> or <a href="#">sub-regulation (2)</a> of Regulation 3	
	B. <a href="#">Additional Allowance</a> (a) as per sub-regulation (1) of Regulation 4 (b) as per sub-regulation (2) of Regulation 4 (c) as per sub-regulation (3) of Regulation 4	
5	<b>Total Allowable Expenses of Management</b>	
6.	<b>Difference (5-3)</b>	
7.	Overall Excess of Actual expenses of management over allowable charged to <b>Profit and Loss Accounts.</b>	

**It is hereby certified that**

- the computations given above (including computation of additional allowances) are in accordance with the provisions of IRDAI (Expenses of Management of Insurers transacting General or Health Insurance Business) Regulations, 2022;
- the company has complied with the provisions pertaining to formulation and implementation of the Board approved policy and business plan as specified in [Regulation 5 & 6](#) of the IRDAI (Expenses of Management of Insurers transacting General or Health Insurance Business) Regulations, 2022; and
- the company has complied with the [Regulation 12](#) of the IRDAI (Expenses of Management of Insurers transacting General or Health Insurance Business) Regulations, 2022.

Date: Chief Executive Officer      Chief Financial Officer      Chief Compliance Officer      Appointed Actuary



(refer Regulation 8)

**Certificate on Return of Expenses of Management prepared under Regulation ..... of the Insurance Regulatory and Development Authority of India (Expenses of Management of Insurers Transacting General or Health Insurance Business) Regulations, 2022**

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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 Returns” and specified annexures thereto), prepared by the Insurer pursuant to [Regulation 7](#) of the Insurance Regulatory and Development Authority of India (Expenses of Management of Insurers Transacting General or Health 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 the [Insurance Regulatory and Development Authority of India \(Expenses of Management of Insurers transacting General or Health Insurance Business\) Regulations, 2022](#).
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.
3. The insurer has complied with the provisions of Regulation 12, the excess of expenses has been charged to the Profit and Loss Account.
4. The apportionment, allocation and accounting of expenses incurred towards insurtech, Insurance awareness, rural sector, Pradhan Mantri Suraksha Bima Yojana (PMSBY), Pradhan Mantri Jan Arogya Yojana (PMJAY) and Pradhan Mantri Fasal Bima Yojana (PMFBY) or such other schemes as specified by the Authority are correct as per books of accounts and records maintained by insurer and as per generally accepted accounting principles.

Place of signature	For XYZ & Co. Chartered Accountants
Date	Firm's Registration Number: ..... (Signature) (Name of the Member)  (Designation) Membership Number

*Note: Please furnish the details of deviation/exception, if any observed.*