Liberty General Insurance Limited – Expenses of Management, Commission & Allocation of Expenses Policy

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Liberty General Insurance

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Liberty General Insurance Limited – Expenses of Management, Commission & Allocation of Expenses Policy

A. Objective

The Policy is being framed with the objective of ensuring to comply with EOM Regulations and to provide for

a. The measure to bring cost effectiveness in conduct of business and reduction of EOM on an annual basis
b. The manner of transfer of benefits, arising from reduction of expenses and /or from the directly sourced business to the policyholders by way of reduction of premium
c. The manner in which the compliance with computation of additional allowance as per Regulations 10 and 11 shall be ensured compliance with computation of additional allowance shall be ensured
d. The manner of allocation and apportionment of expenses of management among various segments including
    1. Expenses which shall be allocated;
    2. Basis of allocation
    3. Expenses which shall be apportioned
    4. Basis of such apportionment
e. The Structure of commission payable.
f. The Manner of compliance with the policy

This Policy shall be effective from 1st April 2024.

B. Important Definitions

1. "Act" means the Insurance Act, 1938 (4 of 1938), as amended from time to time.
2. "Authority" means the Insurance Regulatory and Development Authority of India (IRDAI)established under the provisions of Section 3 of the Insurance Regulatory and Development Authority Act, 1999 (41 of 1999).
3. "Board" means the Board of Directors of Liberty General Insurance Limited
4. **"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.
5. "EOM Regulations" means RDAI has notified the Insurance Regulatory and Development Authority of India (Expenses of Management, including Commission of Insurers) Regulations, 2024
6. **"Expenses of Management (EOM)"** shall include (a) all expenses in the nature of operating expenses. (b) commission to the insurance agents, intermediaries or insurance intermediaries. (c) commission and expenses on reinsurance inward, which are charged to Revenue Account. **Provided** that it shall not include the charges as defined under 4. above.
7. **"Expense & Commission Committee (ECC)"** shall mean the committee comprises of President/ SMT- Distribution, President Underwriting, Chief Financial Officer (Convener), Chief Compliance Officer & Appointed Actuary.

8. “Insurtech Expenses” are those incurred towards technology enabled innovation in insurance services (policyholder oriented) that could result in new business models, applications, processes, or products.
9. “Insurance awareness” (1) direct campaigns including branches, social media campaign and or (2) supporting the general insurance council to educate customers and public at large in making the right choices based on their insurance requirements and role of agents, intermediaries, or insurance intermediaries, provided that it shall not include Insurance Advertisement as defined under the relevant regulations as notified by Insurance Regulatory & Development Authority of India (Authority)

C. EOM Limits

EOM Limits shall be in line with the business plan as approved by the Board and submitted to the Authority from time to time. The company shall submit detail business plan to IRDAI for bringing the EOM limit within 30% over a period of two years and shall request to IRDAI for forbearance for the period of 2 years i.e. FY 2025 & FY26.

ECC shall be responsible for :

(a) Ensure Expenditure levels in the Business plan are with the regulatory limits and continuously monitor the actual expenditure with the respect to the plan and appraise the CEO. CFO shall appraise the Board on continuous basis.
(b) Evolving strategies and taking tactical action for limiting the EOM to planned levels.
(c) Laying down framework for InsurTech and Insurance Awareness Expenditure
(d) Monitoring levels of Commission payable to Insurance Distributors
(e) Audit and review mechanism for the Expenses of Management
(f) Disciplinary proceeding in case of violation of Market conduct
(g) Ensuring the compliance with EOM Regulations issued by IRDAI including the adherence to the business plan approved by the Board and submitted with the Authority.
(h) Periodical review of Board approval commission policy of the company and adhere to the guidelines issued by the Authority in relation to the payment of commission.
(i) Review EOM and commission position and recommend the same to Audit Committee and Board for further review.
(j) performance and such other activities, as may be required under IRDAI Guidelines or advised by Board or any other committee or CEO of the Company

ECC shall meet as frequently as may be needed and at a minimum bi-monthly basis either physically or by electronic mode.

CFO being the convener of the ECC shall present necessary reports to the Audit Committee of the Board appraising the status of compliance of the Framework, apart from any other matter deemed fit and appropriate to be appraised to the Board. At a minimum following shall be reported to the Audit Committee:

(a) Actual EOM Vs Planned levels laid down product / LOB wise.
(b) Any outliers (as defined by the ECC) on commission payment together for the reason therefor.
(c) Any cases on undesirable market practices within the Company and action taken to curb such practices.
(d) Assessment of Loss ratio and expense management ratio and commensurate premium adjustment passed on to the Customers.

D. Additional allowances

1. Currently the Company does not have the branch office outside India or at IFSC, however in the event the Company opens such branches, upto 10% of gross premium from such branch shall be allowed as additional expense.
2. In the event the Company sells policies in rural sector, Pradhan Mantri Suraksha Bima Yojna (PMBSY), Pradhan Mantri Jan Arogya Yojna (PMJJY) and Pradhan Mantri Fasal Bima Yojna (PMFBY) or such other scheme as notified by the Authority, allowance up to 15% of incremental premium sourced from rural sectors, PMSBY, PMJAY & PMFBY subject to maximum of actual expense incurred on the above scheme during previous year.
3. Allowance up to 5% of allowable expenses towards InsurTech & Insurance awareness shall be availed as per due process.

Compliance with additional allowances shall be monitored by EOM Committee at least on quarterly basis

E. Policy on payment of Commission

The Commission shall be paid by the Company as per the policy approved by the Board for such purpose from time to time. Policy on payment of Commission is annexed herewith as Annexure I.

F. Policy on allocation and apportionment of expenses

The allocation and apportionment of expenses shall be as per Board approved policy on allocation and apportionment of the expenses. Policy on allocation and apportionment of expenses is annexed herewith as Annexure II

G. Business Plan

Business plan detailing the requirement of capital during the financial year, solvency margins on quarterly basis and projection of expenses of management shall be formulated and be approved by the Board on annual basis. As the Company is yet to achieve the desired EOM limits, the business plan for two FY (up to FY 25-26) shall be submitted with the Authority along with this Policy.

Transfer of Benefits to the Policyholders

ECC shall assess the product performance in relation to expenses and explore the options of passing the benefit to the Policyholder.

Review of the responsibilities and performance of the ECC

The performance of the EOM policy and ECC shall be reviewed by the Audit Committee annually and if necessary updated wherever considered appropriate including the Charter and responsibilities of the ECC Committee. Any change to the Charter shall be approved by the Board.

H. Returns of expenses of management

EOM Return shall be signed by CEO, CFO, CCO and AA of the Company and the same shall be certified by at least one joint statutory auditor. Post such certification the return shall be placed before the Audit Committee for its review, which will recommend it to Board for approval. Post Board approval, the return shall be submitted with IRDAI along with certified true copy of minutes of Board Meeting, in which the said return was approved.

I. Review

This Policy shall be reviewed at such interval as may be required and recommended by the management. However, regulatory changes, if any during the period for which this Policy pending review by the Board shall be deemed as part of this Policy.

Annexure I -LGI-PAYMENT OF COMMISSION POLICY

A. Objective

The Policy is being framed with the objective of providing for payment of commission payable to insurance intermediaries and being designed to ensure that: -

1. It includes the structure of commission payable.
2. it is in the interest of the policyholders.
3. it increases insurance penetration and density in the country.
4. It is commensurate with the nature and tenure of the insurance policy.
5. Is in the interest of the Insurance agent, Intermediary, or Insurance intermediary and enhances their performance.
6. it is commensurate with its business strategy.
7. It is simple to administer and cost effective.

This Policy shall be effective from 1st April 2024.

B. Important Definitions

1. "Act" means the Insurance Act, 1938 (4 of 1938), as amended from time to time.
2. "Authority" means the Insurance Regulatory and Development Authority of India (IRDAI)established under the provisions of Section 3 of the Insurance Regulatory and Development Authority Act, 1999 (41 of 1999).
3. “Commission” means any compensation including remuneration, or reward, by whatever name called, paid by an insurer to Insurance agent, Intermediary, or Insurance intermediary, as applicable, for soliciting or procuring or transacting insurance business.
4. Words and expressions used and not defined in these Regulations but defined in the Act, as amended from time to time, the Insurance Regulatory and Development Authority Act, 1999 or in any of the rules or regulations made there under shall have the meaning respectively assigned to them in those Acts, Rules or regulation.
5. Unless specifically defined is any other circular, regulation for the time being in force, Insurance Intermediaries shall include the entities/ individuals, who are soliciting the insurance policies including insurance brokers, corporate agents, MISP, POSP, individual agents CSCs, Web aggregators, IMFs and such other entities engaged in insurance solicitation and as may be recognized by IRDAI from time to time.

C. Commission

The Company shall pay such commission to insurance intermediaries as per **Schedule I** of this Policy.

The overall Commission shall not be more than Expenses of Management (EOM) limits prescribed by the Authority from time to time.

D. Rewards/Incentive

The Company shall have the reward program to incentivize its insurance intermediaries and the incentive shall be paid on based in *inter alia.*

1. Intermediary's commitment in ensuring the better policyholder protection.
2. Insurance penetration.
3. Geographical coverage
4. Type of insurance coverages being solicited by Insurance Intermediary.
5. Growth
6. Compliance with regulatory requirements
7. Such other parameters as may be specified and agreed while formatting such incentive policies from time to time.

On overall basis, the sum total of incentive/ reward and commission in whichever form shall be within overall ceiling as mentioned in Schedule I to this Policy.

E Market Conduct

ECC shall monitor the market conduct to ensure that intermediaries adhere to high standards of behavior and ethical practices. The Commission offered should be commensurate with the premium charged and type of products in the best interest of customers.

F. Returns and reporting

The Company shall, within 45 days of the expiration of each financial year, shall submit to the Authority the Board approved returns on payment of commission by the Company as per formats prescribed by the Authority.

These returns shall be reviewed by the Audit Committee prior to being placed for approval of the Board.

G. Review

This Policy shall be reviewed at such interval as may be required and recommended by the management. However, regulatory changes, if any during the period for which this Policy pending review by the Board shall be deemed as part of this Policy.

Schedule – I

<u>Commission payable under general insurance products</u>

Maximum commission for a given financial year at each Line of business level shall not exceed the below mentioned limits.

S. No	Line of business	Maximum commission % of GWP to Insurance agent, Intermediary, or Insurance intermediaries
1	Accident & Health line of business	As per plan & subject to maximum19%
2	Motor line of business	As per plan & subject to maximum 30%
3	Other Line of Business not covered above	As per plan & subject to maximum 22%

(Maximum commission as above is based on recent trend & plan)

For the reasons to be recorded, commission may be paid to one or more intermediary in respect of single policy.

Considering business requirements & exigencies, additional 10% of above limit at segment level may be allowed.

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Annexure II

Liberty General Insurance Limited
Allocation and Apportionment of the Expenses of Management Policy

A. Purpose

This policy aims to provide methodology of allocation and apportionment of expenses of management amongst the business segments in the financial statement of the company.

IRDAI has notified the Insurance Regulatory and Development Authority of India (Expenses of Management, including Commission of Insurers) Regulations, 2024
The above-mentioned regulation stipulates that every insurer shall have a well-documented policy for allocation and apportionment of expenses of management amongst various business segments and shall, at the minimum, cover.

i. Expenses which shall be allocated.
ii. Basis of allocation.
iii. Expenses which shall be apportioned.
iv. Basis of such apportionment
v. Manner in which the compliance with the policy shall be ensured.

This policy is framed to ensure compliance with the above mentioned regulation and adopt the same while allocating/apportioning expenses of management amongst various business segments.

B. Scope

"Expenses of Management" shall include all expenses in the nature of operating expenses including commission, brokerage/remuneration to the insurance to the insurance agents, intermediaries and insurance intermediaries which are charged to Revenue Account. However, it shall not include the Charges. Charges means charge against profit such as income tax and wealth tax and other taxes like GST borne by the insurer and other charges which are levied against the profit.

C. Methodology of allocation

The Company shall adopt the following methodology for allocation and apportionment of expenses of Management.

For Expenses: -
I. Allocation of Expenses (direct expenses):
Allocation of expense is assigning the whole expense directly to a particular business segment. Operating expenses directly related and identifiable with a specific business segment shall be allocated to that business segment.
II. Apportionment of Expenses:

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Expenses that cannot be directly identifiable with a specific business segment and hence cannot be assigned in whole to any particular business segment shall be apportioned on the basis of Net Written Premium in each business segment.

Indicative heads of expenses and the basis of their allocation and apportionment are given below:

Nature of Expense*	Method
Employee related Cost, including Salary, Benefits, Bonus & Incentives, Travel, Telephone & other employee related expenses.	Wherever employees are identified to specific segments, the same shall be allocated to the respective segments. For all other employees, the expenses will be apportioned on the basis of Net Written Premium to all segments of business.
Rents, Utilities, infrastructure repairs & maintenance related costs including branches	1) To be allocated to specific business segment wherever specifically identified to specific segments. For instance, RSBY, crop etc., for which an office/facility has been set up specifically. 2) Balance to be apportioned on the basis of Net Written Premium to all segments of business.
Insurance Pool related expenses	To be allocated to specific business segment (for instance terrorism pool to Fire & Engineering only on the basis of statement received from the Pool)
Outsourcing expenses, business support, trainings, seminars, sales promotions and advertisements	1) To be allocated to respective business segment wherever incurred for specific business segments. 2) General expenses to be apportioned on the basis of Net Written Premium to all segments of business.
Printing & Stationery, Postage and Courier expenses	1) Policy and cover note related printing expenses and postage and courier expenses related to policy despatch to be allocated/apportioned to respective business segment on the basis of policy count or NWP whichever is suitable. 2) Other expenses to be apportioned on the basis of Net Written Premium to all segments of business.
Communication, Bank Charges, Audit fees, membership fees, Depreciation, Information technology related expenses, other professional fees and all miscellaneous and other expenses not covered above.	To be apportioned on the basis of Net Written Premium to all segments of business.

*** Indicative in nature and not an exhaustive list**

Commission/brokerage/other remuneration:

All commission/brokerage/rewards and other remunerations incurred to the insurance agents, intermediaries and insurance intermediaries are allocated to the respective business segment on direct basis as per the sourcing of business done by them.

With respect to the long-term policy, commission/brokerage/rewards/ any other form of remuneration if any payable on total long-term premium will be allocated on premium basis within sub-segment. For instance, for a new private car comprehensive policy, allocation will be based on total long-term premium for own damage & third party.

Monitoring and review of the policy

Finance Department would maintain records for allocation/apportionment of such expenses as per above policy which are subject to audit by the Statutory Auditors. This policy is subject to review by the Board. Any revision in the policy shall be included as required, in the disclosures forming part of the Annual Financial Reports of the Company.