IMPACT: International Journal of Research in
Humanities, Arts and Literature (IMPACT: IJRHAL)
ISSN (P): 2347-4564; ISSN (E): 2321-8878
Vol. 7, Issue 3, Mar 2019, 111-128

KEY PERFORMANCE INDICATORS OF LIFE INSURANCE OPERATIONS IN INDIA

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Received: 25 Feb 2019 **Accepted:** 28 Feb 2019 **Published:** 13 Mar 2019

ABSTRACT

With the advent of IRDA Act 1999, we have 24 life insurance companies operating in India. The Life Insurance sector controls more than 36,625 crore of deployed capital and over 34,07,106 crores of managed assets. Insurance industry has over 32.50 crore in force policies. Growing interest in financial savings, disposable surplus and rising double income groups are some of the reasons for the growth in insurance industry. While most of the insurance companies completed more than 10 yrs. of operation still they are struggling with accumulated losses. While achieving break-even is a far-fetched goal, even expecting a decent Return on Investment seems to be a distant dream for most of the promoters. Out of 24 Life Insurance Companies, we have more than dozen companies who have piled up accumulated losses.India is one of the lowest penetrated economies across the globe; however we are not seeing any renewed activity on new entrants in life insurance space thus exhibiting the gloomy situation prevalent in the industry. Adding to the woes, stringent regulations from IRDAI on expense management and a cap on charges are dragging the bottom line further, thus impacting the overall profitability.

KEYWORDS*: ROI, Life Insurance, Profitability*

INTRODUCTION

Indian Life Insurance industry is one of the lowest penetrated markets across the globe. Life penetration is ~2.7% as on 2017, which is way below the global average of 6% penetration. This tantalized most of the foreign players to start their operations in India. However, that initial excitement got faded out, and we started witnessing many foreign partners exiting Indian market. Companies made many assumptions at the time of R3 filing and later started realizing that Indian market remains most complicated to operate and highly regulated. This is discouraging even the new players to venture into Indian market.At present we have 24 Life Insurance Companies including LIC.

In order to encourage FDI, government amended Insurance act and enhanced FDI from 26% to 49% percent. This was cleared to encourage new players into Indian market and also existing partners to infuse higher capital with a hope that the enhanced capital would be invested in distribution. But,surprisingly hike in FDI has actually helped Indian promoters to off load their stake than investing the money into distribution. Even the IPO permit also helped insurers only to divest their stake than investing money into distribution. Indian Insurance Industry has ~11000 branches across the country and we have not seen any further expansion from insurance companies in the country.

Industry registered double digit growth from 2000 to till date. This is impressive considering lower penetration and density in India. However, it is not creating enough excitement to add new players in Life Insurance space. Insurance industry is going through tough phase with series of regulations from IRDAI right from ULIP regulation (2010) to expense regulation (2016). Few may argue that these regulations will help insurance companies curtail expenses, but the fact remains that these regulations are dis-incentivizing distributors to take up insurance career as full time profession and discouraging companies to expand their operations.

STATEMENT OF THE PROBLEM

The absence of empirical studies in India, about the Key Performance Indicators of insurance companies became the motivation for the study. While taking in to consideration the absence of observed inquiry into the factors affecting insurance company's financial performance, the researcher endeavored to work on such neglected empirical evidence in the country. Hence, comprehending performance indicators is an important issue to be examined for the managers, insurance professionals, regulatory bodies and policy makers to support the sector in achieving the brilliance, so that essential economic outcomes could be obtained from the help of the sector in India by understanding the success and failure factors of profitability.

SIGNIFICANCE OF THE STUDY

Most of the studies previously focused on banks and few studies on insurance companies as well as some focused on analysis of financial performance, but not on comprehending performance indicators. Therefore, this study is expected to provide empirical evidence on the profitability of insurance companies in Indian Life Insurance Sector. Furthermore, many stakeholders would benefit from the results that will emerge from the study. Administrators would be interested in identifying indicators of success and failure to take necessary actions to improve the performance of the company and choose the right decisions. Government interested in knowing which companies deployedcapital productively or remained unsuccessful to take the necessary measures to avoid crises of the bankruptcy in these companies. Investors are curious in such studies in order to protect their investment, and directing it to the best investment. Customers intended in seeing the ability of insurance companies to pay their obligations based on the indicators of success of the companies. This study can contribute potentially and serve as a stepping stone for further research in the area.

OBJECTIVES OF THE STUDY

- To understand the key performance indicators of Life Insurance Operations in India
- To comprehend factors that influence the ROI

DESIGN/METHODOLOGY/APPROACH

This research is descriptive in nature, which aims to study the performance indicators of Life Insurance Operations in India and the factors which influence the ROI

Related review of literature is structured around the key components of performance indicators and profitability factors

AREA OF THE STUDY

The area of the study is about performance indicators of select life insurance companies in India. At present, there is one public sector company i.e., Life Insurance Corporation and 23 private life insurance companies. For the study purpose, we had selected 23 Life Insurance Companies except LIC.

SOURCES OF DATA

The data to be used in the study are to be collected only from secondary sources which include IRDAI Annual Reports, Journals and public disclosures of various Life insurance companies. It includes books, journals, magazines and company websites. Few website were also used to collect the information. The period of the study is for FY 2017-18.

LIMITATIONS

- Limited time to study the key indicators of LI Operations in India
- Research is limited to reviewing literature and best practices in Indian Life Insurance Industry

LITERATURE REVIEW

Neelaveni,V.(2012)[1] in her topic named "Financial Performance of Life Insurance Companies and products" was studying variables from financial statements and the CAGR which they registered sideways with the product portfolio. Researcher concluded that LIC is a public sector life insurance Company, which is considered as one of the sample companies. Even though it is big public sector company it is lagging behind in a number of financial aspects. The purpose of this study is that since LIC has been facing tough competition from private sector life insurance companies, it is losing market share consistently. This study aims to know the reasons for the same.

Malik(2011)[2] study determines the profitability aspect and the various elements influencing profitability in Pakistan. For determining specific elements, multiple regression model was applied where profitability was considered as dependent variable while age, size of company, volume of capital, leverage and loss ratio as independent variables. The research contained the time period from 2005 to 2009. The results suggested that there was no relationship of profitability with age, however significant positive relationship existed with size and volume of capital, and considerably adverse relationship with leverage and loss ratios.

Chaudhary and Kiran(2011)[3] in their study observed current scenario of life insurance industry in light of certain changes and regulations of IRDA. It only revealed the expansion of life insurance industry in terms of branch expansion, agent recruitment and new business acquisition.

Gulati and Jain(2011)[4]in their analysis identified business performance of various life insurers basis different indicators. The study further indicates that PSUs continue to perform in spite of advent of private insurance companies.

Gour and Gupta(2012)[5] studied the solvency ratio of Life Insurance Companies during the period 2009-10 to 2011-12. It analyzed whether performance of various companies was similar or was there any important difference. On the base of solvency ratio, grades were entrusted to varied companies which portrayed that ICICI is found to be the best among selected companies of industry followed by Birla Sun Life, SBI, HDFC and LIC. Also, the study revealed that the solvency of insurance companies was dependent on the investment income and interest rate scenario.

COMPREHENDING ROI FACTOR

Let us understand the Return on Investment factor for Life Insurance Industry. For calculation, we have taken all 23 private insurance companies except LIC. LIC was purposefully not taken else it would change averages. Since LIC has only 100 crore as capital we may face an anomaly. The data which is taken here is for FY 2017-18. Private industry gave a ROI of 18% on the total deployed capital.

This is much above than the risk free return, which by all means investors should be happy about that. However, this is an accounting profit which means the calculation is done for a financial year. Accumulated losses would be always different than the accounting profit.

SBI Life remains the most profitable company for FY 2017-18 with shareholders getting an ROI of 118% followed closely by Kotak with 77% ROI. The top 2 companies are bank promoted insurance companies and they always can utilize the bank branches for distributing their products which not saves lots of capital expenditure. Reliance Life Insurance did not generate any profit for 2017-18. Companies which struggle to generate profit and registered negative return are Aviva Life Insurance, Bharti Axa Life Insurance, Aegon Life Insurance, Future Generali Life Insurance and Edelweiss Tokio Life Insurance.

Return on Investment for Life Insurance Companies in India for 2017-18 is as follows.

Table 1

Return on Investment in (000's) for FY 2017-18			
Company	**Capital**	**Profit / Loss**	**ROI (in %)**
SBI Life	10,000,000	11,844,583	118
Kotak	5,623,265	4,345,201	77
Bajaj Allianz	12,106,640	8,066,147	67
Shriram Life	1,752,266	931,628	53
HDFC	23,253,772	11,267,446	48
ICICI Life	48,588,295	17,188,971	35
Max Life	19,869,042	6,151,742	31
Canara HSBC	10,750,000	1,678,448	16
Star Union Daichi	5,275,697	758,945	14
IDBI Federal	8,000,000	1,009,425	13
DHFL Pramerica	12,069,836	1,215,354	10
Tata AIA	19,535,000	1,857,234	10
BSLI	21,012,108	1,668,317	8
MetLife	20,128,843	1,416,924	7
India First	7,550,000	512,069	7
Exide Life	17,500,000	600,248	3
Sahara Life	23,20,000	59,578	3
Reliance Life	14,994,827	5,314	0
Aviva	20,049,000	(520,208)	-3
Bharti Axa	26,136,452	(727,272)	-3
Aegon	19,263,499	(1,070,254)	-6
Future Generali	17,378,206	(1,433,515)	-8
Edelweiss	19,974,687	(2,326,958)	-12
Total Industry	**360,811,435**	**64,499,367**	**18**

Source: IRDA Annual Report 2017-18

KEY PERFORMANCE INDICATORS

While there are so many factors which influence the profitability of Life Insurance Companies in India, the Key Performance Indicators can be defined as follows.

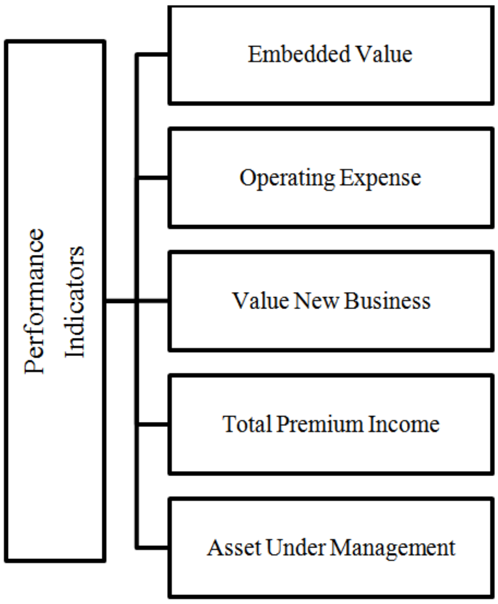

Figure 1

EMBEDDED VALUE

Embedded value of a Life Insurance Company is the present value of future profits plus the adjusted net asset value. It's capacity to add new business in future is never taken into consideration. Embedded value will only consider existing business and does not factor future business. Higher the business company generates, higher will be embedded value. Embedded value of a Life Insurance Company is the value assigned to an Insurance Company basis the future profits which are discounted at Present Value and the Adjusted Net Asset Value of the company. Adjusted Net Asset Value is the difference between assets and liabilities value at fair market value.

Embedded value can be calculated using European Embedded Value method or Market Consistent Embedded Value method. In India, companies follow Market Consistent Embedded Value. Generic formula to calculate Embedded Value is as follows:

EV = PVFP + ANAV

where

EV = Embedded Value

PVFP = present value of future profits

ANAV = adjusted net asset value

Its calculation is based on certain actuarial assumptions both on economic and non-economic front. Hence, no two actuaries will assign the same embedded value to the firm. Assumptions will include considering life span of the policy holder, investment return and policy persistency.

Also, since it does not factor future business and also the brand image or good will, the company has in investor's mind generally investors will apply multiple basis of these two factors. Recently, we had seen IPRU Life, HDFC Life and SBI Life going for public issue and disclosing their embedded values. And, all three companies have been valued at more than 3 times multiple of the declared embedded value.

Embedded value is the key determinant for Life Insurance profitability. Augmenting embedded value will be the key result area of top management. Higher embedded value means higher valuation for the company, which in turn provides promoters higher returns to off load their stake.

OPERATING EXPENSES

Operating expenses are running expenses of the organization for their day to day operations. Commission and other disbursements to distributors will be treated separately. Operating expenses and commission will put together is part of the overall expense of the organization.

These are recurring in nature and some are direct expenses, which are linked to sourcing of new business and others indirect expenses that will be incurred as fixed expense irrespective of new customer acquisition. We would not find any change in fixed nature expenses like employee salary cost, employee training and office rent irrespective of the business sourced. However, will have few expenses like medical fees, policy bond printing which will proportionate to the amount of business sourced by the company.

Even though companies have allowed the factor, the operating expense as part of product design within the stipulated ratios, we still witness companies consciously attempting to curtail opex, as this is the only way out for registering higher surplus.

As per the expense regulation, every insurer will have to comply with the limits prescribed by the regulator. Allowable expense limits are defined product wise and effective 2018-19, insurers cannot exceed actual expense more than allowable expense.

Table 2

Sl. No.	Financial year	Percentage of actual expenses to allowable expense
1.	2015-16* and 2016-17	120 percentage
2.	2017-18	110 percentage
3.	2018-19 and onwards	Not above 100 percentage

Noncompliance to these limits will empower IRDAI to charge excess expenses to shareholders account. Companies which have higher expenses than the allowable expenses will end up paying the difference from shareholder's account. Companies which struggle to achieve operational efficiency will have an adverse impact on their overall profitability. This will dent the ROI of promoter.

VALUE NEW BUSINESS (VNB MARGINS)

Insurance companies make profit when they end up selling Non-participating plans, especially term plans. However, the industry flavor is endowment plans and we find customers hardly buying term plans. Hence, companies keep pushing their term plan portfolio asany excess generated from the term plans is deemed as direct profit, as it will never go for distribution to policy holders. Companies also would show inclination in having higher product mix of ULIP plans. This will not only help them enhance their Asset Under Management but also allow them to charge on fund management which in turn gets transferred to shareholder account without being part of surplus distribution since ULIP is a Non PAR plan.

Companies when they design product will take a conservative stance on interest rates, mortality table and expense assumptions. If the actual experience is as per their assumption, then companies end up making profit which straight away goes to shareholders account.

Profitability at product level is calculated basis the value new business. Value New business is the profit, which the company is going to generate in the life time of the product. A VNB margin of 20% indicates that for every Rs.100/- premium underwritten by Insurance Company the expected profit will be Rs.20/- at the end of the policy term.

VNB Margin is calculated as

VNB Margin=VNB/APE

VNB=Value New Business

APE= Annualized Premium Equivalent

=200/1000*100=20%

VNB margins are pretty high in term plan than typical endowment plans.

TOTAL PREMIUM INCOME

Total Premium Income will include both the New Business Premium and Renewal Premium. Total Premium Income is the major source of revenue for Insurance Companies. Companies will incur heavy expenses at the time of acquisition since the cost is front loaded. However, they will achieve break even once the renewals start coming in. Hence, higher the persistency ratio, higher is the profitability for insurance companies. Companies with only new business without strong renewal base will incur losses.

Table 3

Financial year	Total Premium Income(Rs.Crores)
2001	34898
2002	50094
2003	55748
2004	66654
2005	82855
2006	105876
2007	156076
2008	201351
2009	221785

Table 3 Contd.,	
2010	265447
2011	291605
2012	287072
2013	287202
2014	314302
2015	328101
2016	366943
2017	418476
2018	458809

Source: IIB Fact Book 2016-17

During 17 yrs. between 2001 and 2018,Life Insurance Industry has grown at a CAGR of 16%. The only time where the industry had de-grown is during 2012 and 2013. Total premium with a higher share of renewal premium is the determinant of profit, since renewal premium will have lower cost outgo. In fact most products break even only when the persistency is higher which amounts to cost averaging.

ASSET UNDER MANAGEMENT

As on 31st March 2018, the investments made by the Insurance Industry stood at 3457989crores, as against 3076537 crores on 31stMarch, 2017, registering an increase of 12.40percent.

Funds of Life Insurers are split based on Investments made out of traditional products andULIP products. The funds of life insurers as on 31stMarch 2018 was 3189060 crores, of which2811119 crores (88.15 percent to total funds) isfrom traditional products and balance of 377941crores (11.85 percent to total funds) from ULIP products.

Table 4: Total Investment of the Insurance Sector (As On 31st March)

(₹ crore)						
SECTOR	LIFE		GENERAL,HEALTH AND RE-INSURANCE		TOTAL	
	2017	2018	2017	2018	2017	2018
Public	2275277 (13.25)	2526923 (11.06)	138964 (13.38)	162503 (16.94)	2414241 (13.26)	2689426 (11.4)
Private	578917 (17.44)	662137 (14.37)	83379 (27.17)	106426 (27.64)	662296 (18.58)	768563 (16.04)
Total	**2854193 (14.07)**	**3189060 (11.74)**	**222344 (18.19)**	**268929 (20.95)**	**3076537 (14.36)**	**3457989 (12.41)**

Note: 1 Figure in Brackets Represents Growth in Percentage over the Previous Year.

Asset under Management has significant impact on profitability. Higher AUM allows insurance companies to charge higher Fund Management, which is part of profit and will straight away go to shareholders account considering ULIP plans non participatory.

ULIP levy various charges to the customer viz. Premium Allocation Charges, Policy Allocation Charges, Mortality Charges, Discontinuance charges and Partial Withdrawal Charges in addition to Fund Management Charges. The ULIP guideline defines the maximum net reduction in yield every year from 5th year onwards. The net reduction allowed in yield is 3% for policy term up to 10 yrs. and 2.25% for policy term above 10years. Charging 2.25% on a higher Asset under Management is surely a key determinant of profit.

ACCOUNTING PROCESS

Indian Insurance industry follows NON IFRS accounting process. As per NON IFRS accounting system, all acquisition costs are up-fronted thus making business loss making. Let us take an example

NON IFRS	
Premium Income(A)	100
Acquisition Cost(B)	75
Technical Reserve©	50
Margin=A-B-C	**-25**

Assuming Premium Income is Rs.100 and the cost to acquire the business is Rs.75. Then, we are left with Rs.25. The basis the actuarial estimate we needed to maintain is a reserve of Rs.50. Hence, it is a loss making proposition.

Now let us look at IFRS accounting process.

IFRS	
Premium Income(A)	100
Deferred Cost of acquisition(B)	25
Technical Reserve©	50
Margin=A-B-C	**25**

CONCLUSIONS

While key determinants are vital in enhancing the ROI factor for promoters, the list of determinants is long and unending. Source of profits would remain constant, which is the surplus generated on EMI viz. Expense, mortality and Investments. Till 2010, companies were fully focusing on expansion and building top line. However, post 2010 due to series of regulations from IRDAI, the focus shifted in the right direction which is enhancing efficiency and bottom line. Similarly, we are witnessing enhanced life expectancy which dropped mortality rate across ages. This in turn, caused a drop in premium for term plans by more than 20% in the last 6 years. While prima facie it appeared to be a loss making proposition for the insurer in terms of impacting bottom line; however it has helped insurers to push term products, which now have become the flavor of customers as they see protection as the foundation in their basis financial planning.

On the investment front, Insurers profitability is dependent on their Asset under management. Higher the AUM, bigger is the profit for the insurer. Generating surplus on investment is primarily dependent on the interest rate assumption. Any drop in interest rate is good for the overall economy except insurance companies, who are net investors. This is all the more alarming especially when insurer is backing any guaranteed product which is surely going to dent the overall profitability. IRDAI recently allowed insurers to venture into interest derivatives so that they can safeguard their investments against interest rate downfall. All the actuarial assumptions are factored in such a way that, if the insurance company's actual experience is closer to assumptions and they end up generating surplus. Technological disruptions are going to influence the way business is operated. Insurance company is no exception to this disruption. Big Data, Artificial Intelligence and Internet of Things are making inroads in all functions of Insurance Company.

Robotic underwriting and investing in digital is going to save huge money for companies. Wearable along with data analytics have a vital role to play, and companies will deploy technology to achieve efficiency and scalability in operations, thus enhancing the profitability and ROI for the investors.

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ANNEXURES

INSURANCE REGUALTORY AND DEVELOPMENT AUTHORITY OF INDIA

NOTIFICATION

HYDERABAD, the _______ , 2015

Insurance Regulatory and Development Authority of India (Expenses of Management of Insurers transacting the business of life insurance) Regulations, 2015

F.No. IRDAI /---/--/---/2015: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-

Short Title and Commencement

These regulations may be called the Insurance Regulatory and Development Authority of India (Expenses of Management of Insurers transacting life insurance business) Regulations, 2015

- These regulations shall come into force from the date of their publication in the official Gazette
- The Regulations shall be applicable to Insurers transacting the business of life insurance.

Definition

In these regulations, unless the context otherwise requires –

- **"Act"** means the Insurance Act, 1938 (4 of 1938)
- **"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)
- **'Charges'**: means charge against profit such as income tax, wealth tax and other taxes like Service Tax borne by the insurer and other charges which are against profits.
- "**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.
- **"Expenses of Management"** shall include all expenses in the nature of operating expenses including commission, remuneration to the insurance agents, intermediaries and insurance intermediaries which are charged to Revenue Account. However, it shall not include the Charges as defined in these Regulations.
- **"Pure Risk Regular premium 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 on survival of the insured and/or 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

Limitation of Expenses of Management in Life-Insurance Business

No insurer carrying on Life Insurance Business in India, shall spend in any financial year as expenses of management, an amount exceeding –

- the amount of commission or other remuneration paid to insurance agents and insurance intermediaries in respect of their business transacted in the financial year as may be allowed by the Authority from time to time;

- Provided that the Authority based upon the representation received from an insurer, may allow higher remuneration to the insurance agents and insurance intermediaries with such conditions as may be deemed fit.
- Commission / expenses reimbursed on reinsurance inward; and
- Operating expenses.

Provided that the sum of (i), (ii) and (iii) shall not exceed an amount computed on the basis of percentages appropriate to the various parts of its total gross premium written in India during the year as specified in Regulation 4.

No insurer shall, in respect of the life insurance business transacted by him inIndia, spend as expenses of management in any financial year an amount exceeding theaggregate sum of—

Five percent of all single premiums received during the year on policies granting:

- An immediate annuity policies; or
- A deferred annuity policies; or
- One year renewable group policies, other than group fund based policies.

Five per cent of all premium received on other single premium policies during the year excluding

- Group fund based policies;
- Policies covered under clause (i) above;
- one percent of all the premium / contribution received on group fund based policies;
- Ten per cent of all first year’s premiums and four per cent of all renewal premiums, received during the year on policies granting deferred annuity in consideration of more than one premium;
- one-third of one per cent of all annuities paid during the year;
- one-twentieth of one per cent of the average of the total sums assured by policies on which no further premiums are payable at the beginning and end of the year;
- an amount computed on the basis of the percentage of the percentages of the insurer’s pure risk business as specified in part-A of Schedule-1.

Provided that the percentage specified in the above table shall, in respect of any first year’s premium where the maximum premiums paying period under the policy is not throughout life morethan five years, be reduced to a number equal to seven and half times the number of whole years in that period.

An amount computed on the basis of the percentages for the time being appropriate to the duration, of the insurer’s life-insurance business specified.The allowance shall be on the basis of the percentage of premium received other than premiums referred to in clause (i), (ii), (iii), (iv) and (vii) during the year as specified in part-B of Schedule-I.

Provided that the percentage specified in the above table shall, in respect of any first year's premium where the maximum premiums paying period under the policy is not throughout life morethan five years, be reduced to a number equal to seven and half times the number of whole years in that period.

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 quoted above shall be treated as Single Premium plans.

Part- III

Head Office Expenses

An insurer having his principle place of business in India and having branch outside India shall be allowed an additional allowance towards share of Head Office. Such allowance shall not exceed 5 per cent of the gross premium income written direct outside India through such branch company during the year.

Part – IV

Allocation and Apportionment of Expenses of Management

Every insurer shall have a well-documented Policy for allocation of direct expenses and apportionment of indirect expenses of management amongst various business segments. The Policy shall, at the minimum, cover

Expenses which shall be allocated;

- Basis of allocation;
- Expenses which shall be apportioned;
- Basis of such apportionment;
- Manner of allocation and / or apportionment of acquisition expenses and renewal expenses;
- Manner in which the compliance with the Policy shall be ensured.

The Policy shall be approved by the Board of Directors of the company and the same shall be available for inspection for the Authority.

- The Appointed Actuary and the Chief Financial Officer shall be responsible to allocate and apportion the expenses of management in accordance with the Board approved policy.
- The Policy shall be subject to the annual review by the board. Any revision in the policy shall be disclosed in the annual report along with its implication on various segments.

Part-V

Return of Expense of Management

- 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 in format given Schedule-II.**(The format shall be specified separately by the Authority)**

- The Return shall be certified by the Statutory Auditor of the Insurer and certificate duly signed at least by any one of the statutory auditors shall be filed in format given in **Schedule- III**.
- 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.
- The statement of expenses of management and the financial statements, along with the Auditor's Report, duly adopted by the Board, shall be filed with the Authority within the time specified in Section 15 of the Act.
- The return shall be signed by the Chief Executive Officer, the Appointed Actuary, the Chief Financial Officer and Chief Compliance Officer of the Company.

Part- VI

Power to Exempt and Action for Non-compliance

Powers to Exempt

- 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 five years.
- Beyond the period of five years, the Authority, 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.

The Insurers shall ensure that its expenses of management are within the allowable limit on the segmental basis. For the purpose of these Regulations, the following shall be segments which will be monitored by the Authority;

Linked policies

- Life;
- General Annuity and Pension;
- Health;
- Variable

Non-linked

Non-Participating Policies

- Life;
- General Annuity and Pension;
- Health;
- Variable

Participating Policies

- Life;
- General Annuity and Pension;
- Health;
- Variable

Variable insurance shall be further segregated into Life, General Annuity and Pension and Health where any such segment contributes ten percent or more in total Premium of an insurer.

- Any Other Class as may be specified by the Authority.
- Insurer shall ensure that its expenses of management are within the allowable limit on the segmental basis. Where the company has violated the limit of expenses of management for one or more segments but compliant on overall basis, the excess of such expenses shall be borne by the Shareholders.

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 following actions

- Excess to be charged to Shareholders' Account as specified in Regulation 14 (ii) above;
- Restriction on performance incentive to Managing Director (MD) / Chief Executive Director (CEO) / Whole-Time Directors (WTD)and Key Management Persons (KMPs);
- Restriction on opening of new places of business;
- Graded Penal action under section 102 of the Act;
- Removal of Managerial Personnel and / or appointment of Administrator;
- Any other action as specified in the Act.

The Authority may, apart from taking action as enumerated in Regulation 17, may also direct the insurer to not underwrite new business in one or more segments in case of persistent violation of these Regulations.

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

Transitional Provisions

For the financial year 2015-16, Insurers have option either to comply with these regulations or with the provisions of erstwhile Rule 17D as the case may be.

Insurer opted to comply with the rules shall be deemed to be compliant to these regulations.

From the financial year 2016-17 onwards, insurers shall comply with these regulations.

Interpretation: The interpretation of these regulations shall be that of the Chairperson, whose decision on all issues shall be final.

Schedule- I

Part-A

[Please Refer Regulation 4 (vii)]

Premium Payment Terms	*Percentage of Premiums Received During the Year*	
	of First Year's Premiums	*of Renewal Premiums*
• In respect of policies with premium • Payment term above 11 years	100	25

Part –B

(Please refer Regulation 4 (viii)

Duration of Insurer's Life Insurance Business	*Percentage of Premiums Received During the year other than Premiums Referred to in Clause (i), (ii), (iii), (iv) and (vii)*	
	of First Year's Premiums	*of Renewal Premiums*
First Seventh Years		
(a) in respect of policies in force with premium payment terms between 6 years and 7 years	60	20
(b) in respect of policies in force with premium payment terms between 8 years and 11 years	70	20
(c) in respect of policies with premium payment term above 11 years	80	20
Eight to Tenth Years		
(a) in respect of policies in force with premium payment terms between 6 years and 8 years	55	15
(b) in respect of policies in force with premium payment terms above 9 years	75	15
After the Tenth Year as Under		
(a) in respect of policies in force with premium payment term between 6 years and 7 years	50	12
(b) in respect of policies with premium payment term between 8 years and 11 years	60	12
(c) in respect of policies with premium payment term above 11 years	70	12

Schedule- III

(Please refer Regulation 11)

Certificate on compliance of Insurance Regulatory and Development Authority of India (Expenses of Management of Insurers transacting life insurance business) Regulations, 2015

I/We............. (Name of the Auditor) have examined the Books of Account, registers, records and papers of ____________ (Name of the Insurer) as required to be maintained under the Insurance Act, 1938, Regulations and guidelines issued there under for the financial year ended on 31st March, 20____.

We hereby certify that in respect of the aforesaid financial year

- The Insurer has considered management expense as defined in these regulations for the purpose of computation of expense of management.

- The Insurer has computed the Expense of Management in accordance with IRDAI (Expenses of Management of Insurers transacting life insurance business) Regulations, 2015 and the computation of EoM has been found in order.
- The payments made by the Insurer towards outsourcing arrangement are in compliance with the outsourcing guidelines issued by the Authority except the deviation as provided below. (Please furnish the detail of deviation, if any observed).
- The Insurer has a well-documented policy on apportionment and allocation of expenses and the same is approved by the Board of Directors of the Insurer.
- The policy of the insurer on allocation and apportionment of expense is not in contravention of any provisions of regulations / circular issued in this regard by the Authority.
- The Board approved policy on allocation and apportionment of expenses of management is followed on consistency basis. (pl give the detail in case any deviation is observed).
- The expense to different segments have been allocated and apportioned on the basis of

  We have gone through the method of allocation and apportionment and found the same in order.
- Insurer has complied with the provisions of regulation 14 and in accordance with the directions issued by the Authority vide order no............., the excess of expenses has been charged to the shareholders' fund.
- The actual expenses of company are within the allowable limit on overall basis. However, actual expenses are above the allowable limit in case of the following segments. (give detail thereof)

The Insurer has complied with the provisions of Regulations 16 and such excess has been borne by the shareholders.

R. Radhika et al., A Study on Life Insurance Penetration in India, International Journal of Human Resource Management and Research (IJHRMR), Volume 9, Issue 1, January-February 2019, pp. 119-124

Expenses of Management shown in Schedule II match with the expenses of Management shown in Revenue Account and there are no deviation in the same. (In case of deviation, please furnish detail)

(Signature of the Statutory Auditor)

Name and Membership No. of Partner

Name of the Audit Firm