BHARTI AXA LIFE INSURANCE

Subject	- Extract of Policy for Expense of Management & Payment of Commission & Remuneration to Agents & Intermediaries
Reviewed by	- Chief Financial Officer, Chief Appointed Actuary, Chief Distribution Officer (Proprietary), Chief Distribution Officer (Partnerships), Head of Digital Business, Chief Compliance officer
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Section I – Context and Background

As per the regulations issued by the Insurance Regulatory Development Authority (IRDAI), insurance companies are required to prepare financial statements (Revenue account and Balance sheet) separately for different line of business including Participating, Non-participating, Group and Unit-linked products etc.

For the purpose of preparation of segmental financial statements, there are direct expenses like commissions which are incurred for specific business segments and thereby can be charged to the respective segments. However, there are many costs like salaries, marketing and advertisement, occupancy costs and information technology costs etc. which are incurred at the company level /distribution channel level and cannot be directly charged to a specific business segment. This requires allocation of common expenses to different business segments based on defined underlying drivers.

Insurance Regulatory and Development Authority of India (IRDAI) earlier issued **"IRDAI Expenses of Management of Insurers transacting life insurance business Regulations, 2016"** on 9th May 2016 vide notification no. F. No. IRDAI/Reg/14/126/2016 which require Insurer to have a policy for allocation of direct expenses and apportionment of indirect expenses of management amongst various business segments.

The said regulations were replaced and IRDAI had issued **"IRDAI Expenses of Management of Insurers transacting life insurance business Regulations, 2024"**, which was applicable from 1st April 2024 and required Insurer to have a documented policy approved by its Board on annual basis. The purpose of this policy is to defining:

a. measures to bring cost effectiveness in the conduct of business and reduction of the expenses of management on an annual basis.
b. manner of transfer of benefits, arising from reduction of expenses and/or from the directly sourced business to the policyholders by way of reduction in the premium.
c. manner in which the compliance with computation of additional allowance as per Regulation 6 and 7 shall be ensured with respect to Head office expenses, cost incurred towards Rural sector, Pradhan Mantri Jeevan Jyoti Bima Yojana (PMJJBY) business or such other schemes as notified by the Authority and expenses incurred towards the Insurtech and Insurance Awareness.

d. manner for allocating and appropriating costs to various business segments for the preparation of segmental financial statements.
e. structure of Commission payable in terms of IRDAI (Payment of Commission) Regulations, 2024 as amended from time to time.
f. manner in which the compliance with the policy shall be ensured

The policy will be reviewed annually to see if there are any major changes in fundamentals of the business which would require changes in the allocation driver or basis of split. Any significant revision in the methodology will be disclosed in the Notes to Accounts along with the implication on various segments.

Separately, IRDAI had earlier issued IRDAI (Payment of Commission or Remuneration or Reward to Insurance Agents and Insurance Intermediaries) Regulations, 2016 vide Notification No. IRDAI/Reg/25/137/2016 dated 14th December 2016 and effective 1st April 2017 and amendments made to it from time to time.

IRDAI had further issued IRDAI (Payment of Commission) Regulations, 2024 which was effective 1st April 2024 and replaced the earlier regulation. As per the new regulation, the Company is required to frame a Policy for Payment of commission and matters related thereto.

In addition to the above, the policy on payment of commission shall also take into consideration the following-

(i) it is in the interest of the policyholders;

(ii) it increases insurance penetration and density in the country;

(iii) the nature and tenure of the insurance policy;

(iv) the interest of the Insurance agent, Intermediary or Insurance intermediary;

(v) enhances the performance of the Insurance agent, Intermediary or Insurance intermediary;

(vi) it is commensurate with its business strategy;

(vii) brings cost efficiencies in the conduct of business and simplification of the administration of insurance business; and

(viii) gives an indication on the relative degree of importance placed on each of the above.

Key Definitions:

1. **"Insurance Agent"** means an individual appointed by insurance Company ('the Company') for the purpose of soliciting or procuring insurance business including business relating to the continuance, renewal or revival of policies of insurance.

   'Point of Sale' Agent should also be considered as a "Insurance Agent" for the purpose of this Policy.

2. **"Insurance Intermediary"** is as defined in Section 2(1)(f) of the IRDA Act, 1999 and for the purpose of this regulation includes
   a. Corporate Agents
   b. Insurance Brokers
   c. Web Aggregators
   d. Insurance Marketing Firm
   e. Any other entity as may be notified by the Authority from time to time.

3. "Commission" as defined in IRDAI (Payment of Commission) Regulations, 2024, "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

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Section II – Detailed Policy

A. Structure of Commission in accordance with IRDAI (Payment of Commission) Regulations 2024

Commission Limits:

The total amount of commission payable under life insurance products including health insurance products offered by life insurers shall not exceed the Expense of Management (EOM) limits specified under Insurance Regulatory and Development Authority of India (Expenses of Management of Insurers transacting Life insurance business) Regulations, 2023 as amended from time to time.

Limit of expenses of management as per EOM Regulations:

According to the IRDAI (Expenses of Management of Insurers transacting Life insurance business) Regulations, 2024, Life insurer can spend in any financial year as expenses of management, upto an amount computed on the basis of percentages in respect of various segments of business transacted during a financial year as specified in Regulation 4 of the said Regulations which is enumerated in below table for most of products category:

#	**Category of Life Insurance Product**	% of Allowable of Expenses of Management	
		% of New Business Premium	% of Renewal Premium
1	**Regular Premium Policies**		
A	Individual Pure Risk - In respect of policies with premium payment term 10 years and above	100%	25%
	Individual Pure Risk - In respect of policies with premium payment term less than 10 years	7.5 times of PPT (maximum 67.5%)	
B	Individual other than Pure Risk - In respect of policies with premium payment term 10 years and above	80%	17.5%

	Individual other than Pure Risk - In respect of policies with premium payment term less than 10 years	7.5 times of PPT (maximum 67.5%)	
C	Policies granting deferred annuity	15%	6.0%
2	**Single Premium Policies**		
A	Individual Pure Risk	14%	NA
B	Others if any	5%	NA
3	**Group Policies**		
A	Single Premium Group Pure Risk	10%	NA
B	One year renewable Group policies	15%	15%
C	Group Fund/savings based Policies- Regular Premium policies	ULIP 2% and Traditional 1%	NA

The calculation of aforesaid limits would be strictly in line with the percentages given in the Regulation 4 and format provided in schedule 1 Part-A (Regulation 10) under IRDAI Expense of Management Regulation 2024.

The overall amount computed basis the aforesaid percentages can be used for payment of:

1. commission to insurance agents, intermediaries or insurance intermediaries in respect of their business transacted in the financial year as may be allowed by the Authority from time to time;

2. commission and expenses reimbursed on reinsurance inward; and

3. operating expenses of life insurance business.

Commission and other payments to Agents and Intermediaries:

According to this policy, the Insurance agent or intermediary would be entitled to following compensation:

1. **Base Commission:**

Product Category	Regular Premium Policies	Single Premium Policies
Individual - Pure Risk	**First Year Commission** – Maximum 40% of New Business Premium **Renewal Year Commission** – Maximum 15% of Renewal Premium	Maximum 10% of Single Business Premium
Individual – Other than Pure Risk	**First Year Commission** – Maximum 35% of New Business Premium **Renewal Year Commission** – Maximum 10% of Renewal Premium	Maximum 5% of Single Business Premium
Single Premium Group Pure Risk	NA	Maximum 10% of Single Business Premium
One Year renewable Group policies	Maximum 15% of New Business Premium	NA

Annuity Products	**First Year Commission** – Maximum 15% of New Business Premium **Renewal Year Commission** – Maximum 6% of Renewal Premium	Maximum 5% of Single Business Premium

The aforesaid table defined the maximum commission rates which can be paid for each product categories. Product Head in concurrence with CFO, will be authorized and responsible to define the specific commission rates for every product variant, within the overall limits as specified in above table.

2. **Reward & Other Payments:** In addition to aforesaid Base Commission, Company may pay the "Reward or Other payments" basis the below mentioned criteria:

   a. Nature and Type of products being sold
   b. Tenure of product being sold
   c. Mode of premium collection
   d. business model and drivers
   e. Business targets achieved
   f. Achievement of Persistency targets
   g. Other quantitative and qualitative vectors achieved by the agents/ intermediaries with the objective of enhance the performance of agents/ intermediaries.

The reward payment shall be subject to the below conditions:

- New Business Reward: Maximum 150% of First Year Commission
- Renewal Business Reward – Maximum 7.5% of Renewal Year Premium
- Minimum New Business achievement for Business Partners - Rs. 10 Lacs
- Minimum New Business achievement for Individual Agents – Basis performance criteria mentioned respective bonus/ rewards/ incentive schemes

The respective Chief Distribution Officer in discussion with Chief Financial Officer can decide the quantum of Reward to be given to respective Business Partners and Agents subject to the overall limits and conditions as defined in this policy.

The total commission and reward on overall company basis (not at product/ agent or intermediaries' level) will be within the overall limits of "Expense of Management" as computed on the basis of percentages given for various products under Regulation 4 of IRDAI (Expenses of Management of Insurers transacting Life insurance business) Regulations, 2024

3. **Trail Commission:** For certain partners, trail commission shall be paid on ULIP policies on AUM. This will be capped to 2%. Agent will not be entitled for other compensation on these set of products. This will be determined basis approval from Chief Executive Officer, Chief Growth Officer and Chief Financial Officer.

Governance around commission and other payments to Agents and Intermediaries:

The payments to agents/ intermediaries would be strictly governed according to this policy.

Product Head in concurrence with Chief Financial Officer, will be authorized and responsible to define the specific commission rates for every product variant, within the overall limits as specified in this policy.

The respective Chief Distribution Officer in discussion with Chief Financial Officer (CFO) can decide the quantum of Reward to be given to respective Business Partners and Agents subject to the limits and conditions as defined in this policy.

Following principles should be followed while executing the policy

- Ensure that commission structure is designed in a manner which ensures fairness, transparency, compliance, efficiency and industry reputation in the insurance distribution process
- Ensure a healthy, fair and transparent competition among agents, intermediaries and insurance intermediaries aligning the incentives with customer needs and encouraging efficient and cost-effective distribution
- Ensure that the rewards design increases insurance penetration and density in the country and is commensurate with the business strategy
- it should be in in the interests of the policyholders
- It should bring cost efficiencies in the conduct of business and simplification of the administration of Insurance business
- It should give an indication on the relative degree of importance placed on each of them

The respective Chief Distribution Officer and Chief Financial Officer shall also be authorized to:

- Define the criteria for deferment of commission
- Lay down the criteria for clawback of commission
- Define criteria for management of Orphan Policies
- Guide for implementing penalty on the errant distributors for indulging in poor sales practices
- Define the criteria for orphan policies and commission on such policies
- Transfer of business from one agent to another upon termination of an agent / intermediary
- Set persistency norms and monitoring of the same

1. **Payment of commission and remuneration on termination of agents and intermediaries**

    - **Agent or Intermediaries is in abeyance** - In case of reinstatement, renewal commissions falling due only after date of reinstatement shall be payable to Agent or Intermediaries subject to issuance of policies(s) of Rs.50, 000

    - With effect from the date of cessation of the arrangement as a Point of Sales Person (POSP) and on immediate empanelment of the exiting POSP as an Insurance Agent with the Company, the Insurance Agent would continue to be entitled to commission for the business procured in the capacity of a POSP

- In case of surrender of license by existing broker, the broker will share relevant approvals taken from regulator for surrender of license and transfer database to a new broker. The company would evaluate and pay renewal commission basis documents submitted to the new broker as per guidelines laid by the regulator. Similar process may be adopted for other intermediaries, subject to the extant regulatory framework.

- **Newly appointed Agents or Intermediaries** – the Company holds the right to waive off payment or modify the rate of renewal commission / remuneration, provided such understanding is documented in writing with the Agent or Intermediary.

- **Termination of Agent or Intermediary -** No Renewal Commission / Remuneration will be paid for policies sourced. The Company shall have discretion on payment of remuneration to Agents / Intermediaries / employees to whom policies are assigned for servicing.

The Product Head, Business Head, COO, and CFO shall jointly decide on applicability of the above to Agents and Intermediaries.

- **Discretion on Renewal Commission – For Active Agents/ Intermediaries:** The Company shall have the discretion to determine the renewal commission payable to all active Agents and Insurance Intermediaries, based on the following:
    1. **Reduction in Standard RYC Rates**: RYC rates may be reduced to a specified percentage for both current and future policies sourced by such Agents / Intermediaries.
    2. **Commission Withholding / Claw-back Clause**: Commission may be withheld, partially paid, forfeited, or clawed back based on quality parameters to protect the interests of the customer and the Company.
    3. **Performance - Based Rewards**: A reward structure may be implemented quarterly or annually, based on:
        - Renewal Book Size
        - Collection Efficiency
        - Persistency
        - Complaint Ratio
        - Relationship vintage

Approval for these parameters shall lie jointly with the Product Head, Business Head, COO, and CFO.

2. Hereditary commission

In case of death of an insurance agent, his nominee/legal heir shall be entitled to receive such commission as the original agent would have been entitled to receive in respect of business procured by such agent.

In case of death of such legal heir, then no such commission shall be payable to next legal heir.

Submission of Returns on payment of Commission by the insurer

Company will submit the Board approved Returns on payment of commission by the insurer to the Insurance agent/ Intermediary within 45 days of the expiration of each financial year. These returns shall be reviewed by the Audit Committee prior to being placed for approval of the Board of the insurer.

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 plan shall, at the minimum, clearly specify the following-

(a) the projected requirements of capital during the said financial year;

(b) projection of solvency margin on a quarterly basis;

(c) the projection of expense 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 as above shall be monitored by the Board at regular intervals.

B. manner in which the compliance with the policy shall be ensured

The Appointed Actuary and the Chief Financial Officer shall be responsible for the allocation and apportionment of the expenses of management in accordance with the Board approved policy.

Management will ensure 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 Board approved Business plan will be strictly followed by Management and to be reviewed by the Board on regular intervals.

Review of policy and exception management

Any exceptions to the above guidelines will be evaluate on merit on a case to case basis and will be approved by Chief Distribution Officer, Chief Finance Officer and Chief Executive Officer. The Policy will be reviewed annually by Board of Directors of the Company.

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