Policy for Expense of Management & Payment of Commission & Remuneration to Agents & Intermediaries (May 2024) (Version 3)

BHARTI AXA LIFE INSURANCE

Subject	-	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
Version Review Date	- -	Version 3 Reviewed on 07th May 2024

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, 2023"** on 26th March 2023 vide notification no. F. No. IRDAI/Reg/3/191/2023, which was applicable from 1st April 2023 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, 2023 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, 2023 vide Notification No. IRDAI/Reg/2/190/2023 dated 26th March 2023 which was effective 1st April 2023 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, 2023, "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

Detailed methodology and governance

A. Measures to bring cost effectiveness in the conduct of business and reduction of the expenses of management on an annual basis

Management will ensure the consistent focus on cost effectiveness to ensure the consistent reduction in expense of management. The same will be utmost priority of Management through various initiatives and governance around top line business growth, expansion of multi-channel distribution network, specific focus on new distribution tie ups, increase productivity of distribution channels, significant focus on training, recruitment and front-line attrition management, focus on persistency, cost rationalization etc.

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

Management will ensure that benefits arising by way of reduction in expense on management through various aforesaid initiatives are being passed off to customers through reduction in the premium. The same will be governed by management and the cost effectiveness would be considered while pricing the products.

C. Manner in which the compliance with computation of additional allowance as per Regulation 6 and 7 shall be ensured

The calculation methodology of additional allowance as specified by the Authority in Regulations 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

Allocation Methodology

The allocation methodology outlines the following with respect to charging costs to different line of business:

1) Basis of cost split into Direct and Indirect expenses
2) Basis of cost split into distribution and management
3) Basis of cost split into First year expenses (acquisition) and Renewal expenses (maintenance)
4) Drivers used for allocation

There are multiple basis and drivers which can be used for expense allocation. This makes allocation a complex exercise and would require use of management judgment and best estimates based on business specific factors relevant to Bharti AXA Life. This allocation methodology attempts to identify the most reasonable driver for each of the expense category and then uses that specific driver to allocate expenses between segments. This ensures that all the segments reflect true and fair position in financials. More importantly, the idea of defining this methodology is to provide a standard approach for allocation of expense over a period of time.

Overview of the methodology

a) *Direct expenses*: All the expenses which are incurred specifically for a product segment and are accordingly charged to the respective line of business are categorized as direct expenses. These expenses are completely variable in nature and do not require allocation basis.

Direct expenses mainly include expenses like New Business Commission and Renewal Commission which are incurred as a defined percentage of premium income.

b) *Indirect expenses*: - All the other expenses which are incurred at an overall company level and cannot be directly charged to a business segment are indirect expenses. These are charged to different business segments based on an allocation driver which is defined based on the nature of expenses.

Indirect expenses are mainly categorized into following categories for the purpose of allocation:

1) Distribution expenses
2) Management expenses

These expenses are further categorized as First year expenses and Renewal expenses.

However, a different allocation methodology is adopted for Group segment. This segment has single premium products which generates nearly ~30-35% of new business premium annually under master policy agreement having very few policies. Allocation of expenses based on single standard driver will result in either substantial portion of expenses getting allocated to this segment or otherwise. In order to ensure that this segment is charged with reasonable portion of overall expenses, a differential basis is adopted for allocation after considering the specific nature of this segment. Group fund business which is not part of the Group segment (as Company is not currently selling these products) is out of scope of this methodology.

The basis of allocation for each of the above expense categories including allocation methodology for Group segment is detailed in subsequent section.

Detailed methodology

a) ***Distribution expenses***- All the expenses which are incurred as part of sales channels or to provide direct support to these channels for the purpose of sourcing premium income are categorized as Distribution expenses. *It is to be noted that all the expenses which are incurred specifically for a product segment or can be identified at a product segment will be charged to the respective line of business.*

These expenses include the following:

1) Direct costs of sales channels- Salaries and related expenses of sales and supervisory headcount
2) Acquisition costs incurred to source the business- Variable incentives, contests and R&R etc.
3) Cost of support functions which provide direct support to channels- Chief Distribution Officer, Distribution training, Distribution HR, Channel development etc.
4) Branch running costs- Admin/Infra and IT costs of operating branches
5) Advertisement and Publicity expense

Split between First year expense and Renewal expense: Most of the distribution expenses are essentially acquisition in nature as these expenses are spent primarily to source new business. The Company is yet to build a significant book of inforce policies and hence sales channels focus most of their efforts to drive new business policies. The goal sheets of sales force including variable payouts like incentives/contests are linked to new business. Accordingly, these expenses are split between First year and Renewal in the ratio of 100:0 respectively.

However, for certain expenses like branch running costs and other support expenses, a small portion of 5% to 10% has been considered as renewal expenses towards servicing of existing book of business.

Allocation driver:

The basis to identify the allocation driver is to determine the most relevant input which drives the expense. For Distribution expenses which are acquisition in nature, the most relevant drivers for cost allocation can be either new business premium or number of new policies or first year commission as top line growth is the most important KPI for sales channels. Therefore, for an appropriate allocation, equal weightage is given for each driver. For Branch admin and IT cost, considering the fact that efforts required to source a policy is same across product category and ticket size of policy should not impact the cost allocation, most of the distribution cost are allocated based on number of new policies. The only expense within this category which is treated differently and is allocated based on new business premium is Advertisement and Publicity expense as spends under this category is not related to number of policies.

Similarly, Distribution maintenance expenses are allocated based on number of inforce policies for each segment.

Group Products: The expenses for group segment are identified separately and charged to Group segment directly. These expenses mainly include headcount related expenses like salaries & travel etc. and are 100% acquisition in nature as these products are single premium products. Other than these expenses, Advertisement and publicity expenses get allocated to Group Segment in the ratio of new business premium. The group gratuity as a product does not require any marketing support for generation of premium income and hence there will not be any apportionment of Advertisement & Marketing expenses to this segment.

Detailed break-up of allocation of Distribution expenses is as below:

Distribution expenses	First Year Expenses	Renewal Expenses	Driver - First year Expenses	Driver -Renewal Expenses
Agency, CAB & Banca	100%	0%	Equal Weights of FYC, NB NOP & New Business Sales	NA
Other Channels	100%	0%	Channel APE	NA
Sales Support cost	95%	5%	Annualised Premium (APE)	Inforce policies
Branch Admin and IT costs	90%	10%	Number of New policies	Inforce policies
Advertisement and Publicity expenses	100%	0%	NB premium	NA
Group Distribution costs	100%	0%	Direct allocation	NA

b) ***Management expenses***- These expenses are broadly functional expenses of non-sales functions which are not directly associated to distribution channels and are support functions in nature. These functions are not involved in direct acquisition of business and hence called as management expenses or fixed expenses. For the purpose of allocation, these expenses are categorized as below:

1) Expenses for non-sales functions:

Split between First year expense and Renewal expense: The split of non-sales functional expenses is based on ratio of headcount involved in acquisition or maintenance activities in respective functions. Based on a high-level study, each job profile is analyzed and mapped either to an acquisition or maintenance activity and accordingly the overall ratio is arrived. All the functions which are involved in both the activities i.e. acquisition and maintenance, ratio has been arrived using best estimates.

Allocation driver: First year expenses under this category are allocated between segments based on New Business Policies as the amount of efforts spend by support functions per policy remain same irrespective of the ticket size. Similarly, renewal expenses are allocated based on the ratio of inforce policies by segment.

Group Segment: First year and Renewal expenses are allocated based on the ratio of Annualized Premium Equivalent (APE) and Asset under Management (AUM) respectively between Individual and Group products. Gratuity AUM to be considered at 1% instead of 100%.

Detailed break-up of allocation of Management expenses is as below:

Management expenses	First Year Expenses	Renewal Expenses	Driver - First year Expenses	Driver -Renewal Expenses
Top Mgmt (except COO and CDO)	50%	50%	Number of New policies	Inforce policies
COO*	50%	50%	Number of New policies	Inforce policies
Product	100%	0%	Number of New policies	NA
Actuary*	21%	79%	Number of New policies	Inforce policies
Finance Control*	52%	48%	Number of New policies	Inforce policies
Strategic Plan & Bus Development	100%	0%	Number of New policies	NA
HR and IT *	86%	14%	Number of New policies	Inforce policies
Cost of other support Functions*	50%	50%	Number of New policies	Inforce policies

**Note- Ratios for above functions are arrived at considering the split of expenses for various sub-functions and are subject to change basis the number of employees and work allocation*

2) Other expenses require special drivers:

All other expenses which are not covered under any of the above heads are individually classified as first year or renewal depending on the inherent nature. Similarly, allocation driver is determined for each of the expense head depending on the nature of each expense. The details of these expenses are given below:-

Management expenses	First Year Expenses	Renewal Expenses	Driver - First year Expenses	Driver -Renewal Expenses
Underwriting	100%	0%	No of Policies Underwritten	NA
Stamp duty and Medical fee Individual	100%	0%	On Actuals	NA
Stamp duty and Medical fee Group	100%	0%	On Actuals	NA
Claims	0%	100%	NA	Number of claims
Customer mgmt and Policy Servicing	33%	67%	Number of New policies	Inforce policies
Investments	0%	100%	NA	AUM
Group Operations	70%	30%	Direct Allocation	Direct Allocation
New Business Operations	100%	0%	Number of New policies	NA
Branch Operations	50%	50%	Number of New policies	Inforce policies
Distribution Operations	95%	5%	Number of New policies	Inforce policies
Bank Charges and Finance Operations	16%	84%	Number of New policies	Inforce policies
Policy Servicing	0%	100%	NA	Inforce policies

E. Structure of Commission in accordance with IRDAI (Payment of Commission) Regulations 2023

<u>Commission Limits:</u>

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.

<u>Limit of expenses of management as per EOM Regulations:</u>

According to the IRDAI (Expenses of Management of Insurers transacting Life insurance business) Regulations, 2023, 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 based Policies	1% or 0.80% of Average AUM	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 2023.

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. **<u>Reward & Other Payments:</u>** 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, 2023

<u>Governance around commission and other payments to Agents and Intermediaries:</u>

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

Terminated Agents and Agents in abeyance mode will be not be eligible to any commission.

Terminated Agents - In case of reinstatement, the renewal commissions with respect to Policies sourced before termination shall not be payable to Agent.

Agent is in abeyance - In case of reinstatement, renewal commissions falling due only after date of reinstatement shall be payable to Agent 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.

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.

F. 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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