

5th Seminar on Current Issues in General Insurance

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Expense Of Management (EOM)

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General Insurance Industry – Contd...



	2001	2018
No. of players	Gen insurance : PSUs-4, Pvt –Nil Specialized cos : 2 Reinsurer : 1 Brokers : Nil Agents : ~45,000	Gen insurance : PSUs-4, Pvt- 21 Specialized cos : 2 Health Cos : 6 Reinsurer : 9 Brokers : 433 Agents : 765502
Market Size and Structure	Total Premium : ` 100 billion Corp - Retail Mix : 60 : 40 Public-Private share : 100 : 0 No of policies : 37 million Ticket Size : ` 2,700 No of Offices : 3,252 No of Employees : 80,900	Total Premium : ` 1506 Billion Corp - Retail Mix : 33 : 67 Public-Private share : 52: 48 No of Policies : 158 million Ticket Size : `9540 No of offices : 9413 No of Employees : 113091
Composition of portfolio	Motor 40% Fire/Engineering 26% Accident & Health 9% Marine/Aviation/Liabilities 10% Others 15%	Motor 39% Fire/Engineering 9% Accident & Health 28% Marine/Aviation/Liabilities 4% Others 20%
State of Tariff	Pricing and wording under tariff for Fire / Engg. /Motor	Free pricing except Motor third party liability Partial wording detariffed for Fire / Engg. / Motor

Statutes and Regulations-Governing Laws



- Regulator - Insurance Regulatory and Development Authority (IRDAI) operating under the Ministry of Finance, Government of India.
- Insurance Act, 1938, Insurance Law (Amendment) Act, 2015 and Rules thereunder – Amendments to be approved by parliament only
- Regulations – Amendments by Board of IRDAI
- Circulars, corrigendums, guidelines & Orders issued by operative management of IRDAI
- The Companies Act, 2013 w.e.f April 1, 2014; The Companies Act 1956 upto March 31, 2014
- The Income Tax Act, 1961 and Rules made thereunder
- **GST – CGST / SGST Act 2017**
- Foreign Exchange Management Act, 1999
- Indirect tax and other Local laws

Major Compliances by General Insurer



The General Insurance Company needs to comply with the following regulations issued by IRDAI from time to time

- IRDAI (Obligations of Insurers to Rural and Social sectors) Regulations 2015
- IRDAI (Assets, Liabilities and Solvency Margin of General Insurance business) Regulations 2016
- **IRDAI (Expense of Management of Insurers transacting General and Health Insurance business) Regulations 2016**
- IRDAI (Obligation of Insurers in respect of Motor Third Party Insurance business) Regulations 2015
- IRDAI (Payment of Commission or Remuneration or Reward to Insurance Agents & Insurance Intermediaries) Regulations 2016

EOM Regulation (new) Highlights



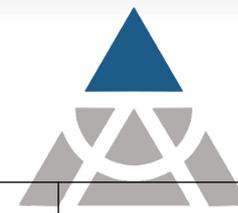
- IRDAI has come up with the new regulation on Expenses of Management of Insurers transacting General or Health insurance business on May 9, 2016
- Segments which will be considered for calculation as per direction given by the Authority:
 - **Fire**
 - **Marine**
 - **Health incl. PA:**
 - **Health Group** : Any Health insurance policy including PA, Travel issued to group/Corporate body
 - **Health Govt. Scheme** : Any scheme launched by the Government to cover health risk incl. PA of public at large e.g. RSBY, etc.,
 - **Health Retail** : Any Health insurance policy including PA, Travel issued to individual or his family
 - **Motor**
 - **Miscellaneous:**
 - **Misc. Retail** : Any insurance policy issued to an individual or his family other than health mentioned above
 - **Misc. Corporate / Group** : Misc. Corporate shall include Workmen's compensation, Employers Liability, Product Liability, Engineering, Aviation, Public Liability issued to Group/Corporate body
 - Any other segments which contributed >10% of the Misc. class

Allocation & Apportionment



- Insurer shall have a **well documented policy** for allocation and apportionment of expenses of management amongst various business segments.
- The policy shall, at minimum, cover:
 - Expenses which shall be allocated
 - Basis of allocation
 - Expenses which shall be apportioned
 - Basis of such apportionment
 - Manner in which the compliance with the policy shall be ensured
- The policy shall be **approved by the Board** and shall be available for inspection by the Authority.
- The policy shall be **reviewed by the Board on an annual basis**
- Any revision in the policy shall be **disclosed in the Annual Report** along with its implication on various segments.

EOM Form-A



Particulars	Gross Premium in India	Part of the total gross premium of the insurer written in India	Percentage of Premium	Allowed Expenses
1. Fire Business				
Fire		First 200 crore of rupees	35.00	
		Next 150 crore of rupees	30.00	
		The Balance	27.50	
2. Marine Business		First 150 crore of rupees	27.50	
		Next 75 crore of rupees	22.50	
		The Balance	20.00	
3. Motor		First 500 Crore of Rupees	37.50	
		Next 250 Crore of Rupees	32.50	
		The Balance	30.00	
4. Health Retail		First 400 crore of rupees	37.50	
		The Balance	32.50	
5. Health Group/ Corporate		First 250 crore of rupees	35.00	
		The Balance	27.50	
6. Health Govt Scheme		First 200 crore of rupees	30.00	
		The Balance	22.50	
7. Miscellaneous Group / Corporate		First 200 crore of rupees	35.00	
		Next 150 crore of rupees	30.00	
		The Balance	27.50	
8. Miscellaneous retail		First 150 crore of rupees	37.50	
		Next 75 crore of rupees	32.50	
		The Balance	30.00	

Gross Underwriting Experience



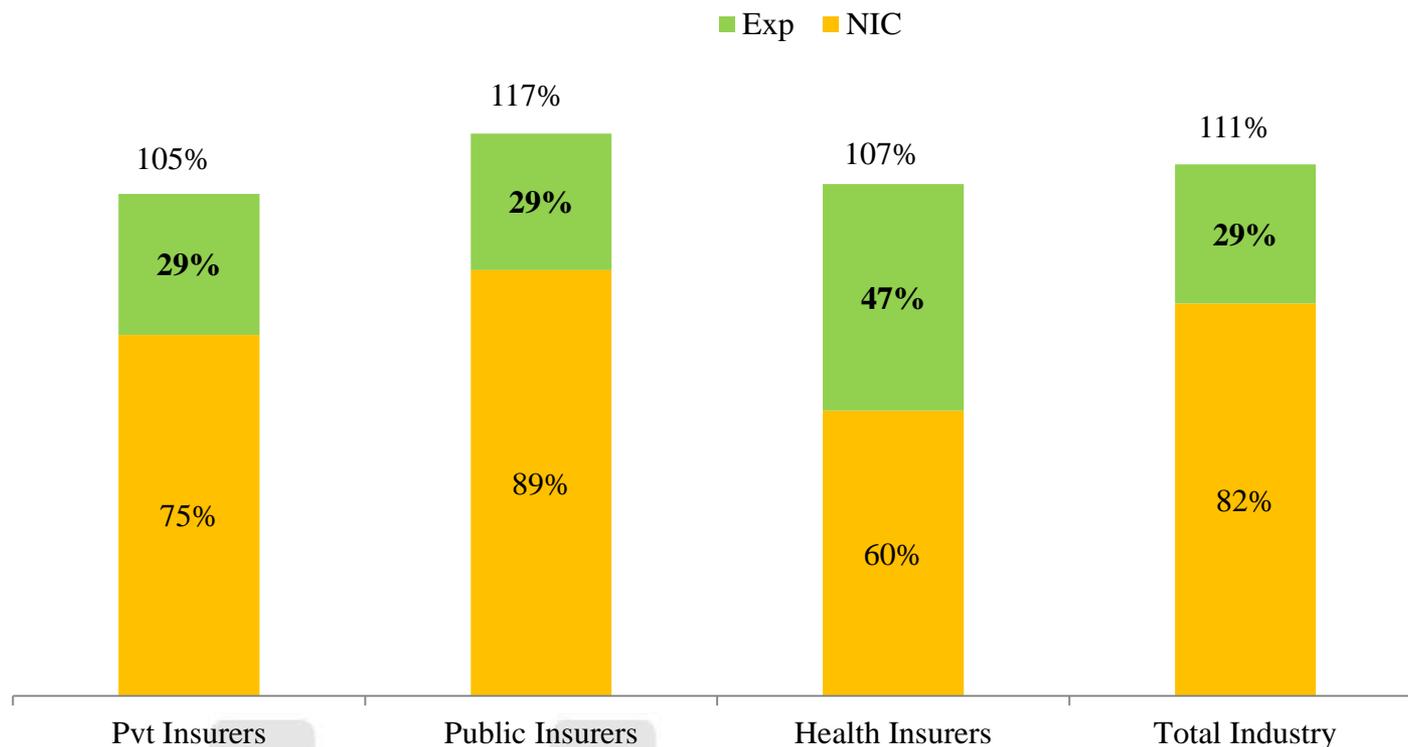
	07-08	08-09	09-10	10-11	11-12	12-13	13-14	14-15	15-16	16-17	CAGR
GDPI	30,480	33,564	39,238	48,215	59,792	71,206	79,936	87,151	99,333	130,970	16%
GWP	33,482	37,323	43,652	53,515	68,249	74,277	83,027	90,365	102,396	134,177	15%
GEP	30,663	35,366	40,675	48,588	60,874	71,289	78,698	86,436	96,050	118,182	14%
Gr Direct Claims % to GEP	21,384	27,082	31,441	38,983	53,727	50,326	63,819	71,387	78,692	112,024	18%
	69.7%	76.6%	77.3%	80.2%	88.3%	70.6%	81.1%	82.6%	81.9%	94.8%	
Gr Direct Commissio n % to GWP	2,284	2,525	2,751	2,922	3,543	4,206	4,892	5,267	5,975	6,856	12%
	7.4%	7.1%	6.8%	6.0%	5.8%	5.9%	6.2%	601.0%	6.2%	5.8%	
Exp of Mgnt % to GWP	6,252	7,470	8,588	10,983	11,953	14,421	15,737	20,037	23,073	30,098	17%
	20.4%	21.1%	21.1%	22.6%	19.6%	20.2%	20.0%	23.2%	24.0%	25.5%	
U/w Surplus/(De ficit) % to GEP	744	(1,711)	(2,104)	(4,299)	(8,349)	2,336	(5,750)	(10,246)	(11,691)	(30,797)	
	2.4%	-4.8%	-5.2%	-8.8%	-13.7%	3.3%	-7.3%	-11.9%	-12.2%	-26.1%	

Net Underwriting Experience

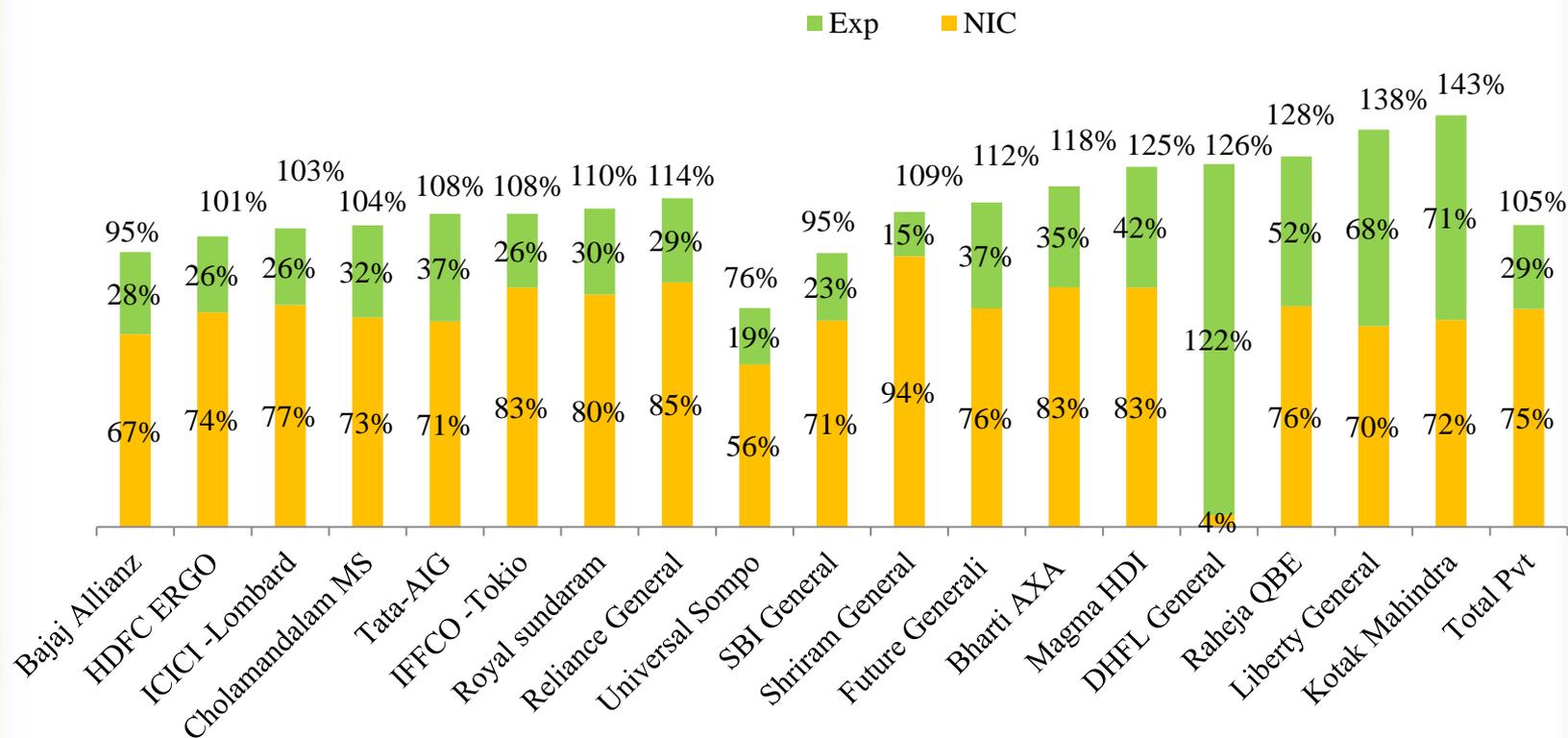


	07-08	08-09	09-10	10-11	11-12	12-13	13-14	14-15	15-16	16-17	CAGR
NWP	22,328	26,163	30,697	38,150	47,852	55,890	64,864	71,300	81,450	94,178	15%
NEP	20,558	24,439	28,287	34,585	42,641	51,226	60,010	67,428	75,878	88,725	16%
Net Direct Claims % to NEP	16,951	20,892	24,686	32,100	37,739	42,550	49,164	55,232	64,495	80,662	17%
	82.5%	85.5%	87.3%	92.8%	88.5%	83.1%	81.9%	81.9%	85.0%	90.9%	
Net Direct Commission % to NWP	617	1,047	1,199	1,332	1,772	1,708	2,578	2,664	2,973	1,380	8%
	2.8%	4.0%	3.9%	3.5%	3.7%	3.1%	4.0%	3.7%	3.7%	1.5%	
Exp of Mgmt % to NEP	6,252	7,470	8,588	10,983	11,953	14,421	15,737	20,037	23,073	30,098	17%
	30.4%	30.6%	30.4%	31.8%	28.0%	28.2%	26.2%	29.7%	30.4%	33.9%	
U/W Surplus/(De ficit) % to NEP	(3,263)	(4,971)	(6,186)	(9,830)	(8,823)	7,453	(7,469)	10,504	(14,663)	(23,415)	22%
	-15.9%	-20.3%	-21.9%	-28.4%	-20.7%	-14.5%	-12.4%	-15.6%	-19.3%	26.4%	

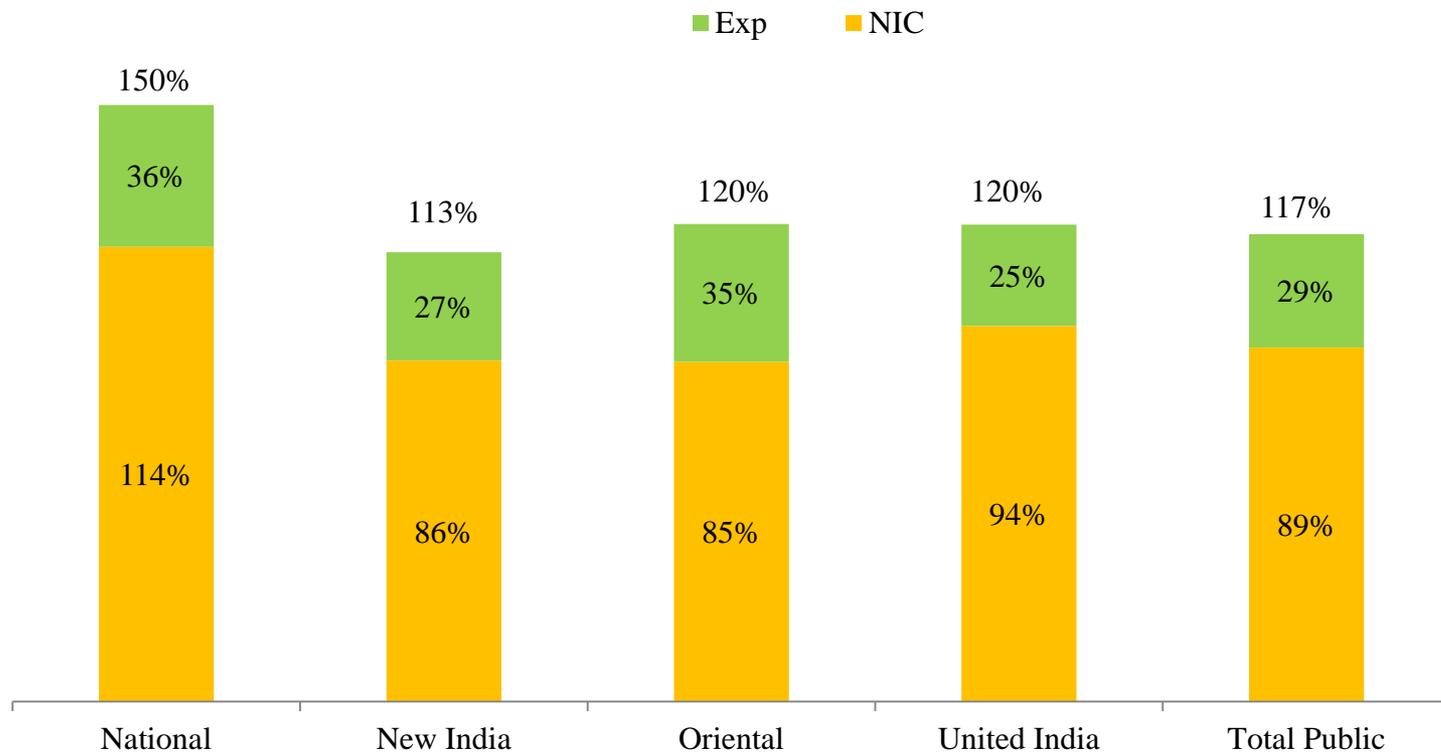
NCoR - FY17-18 LR% + Expense Ratio



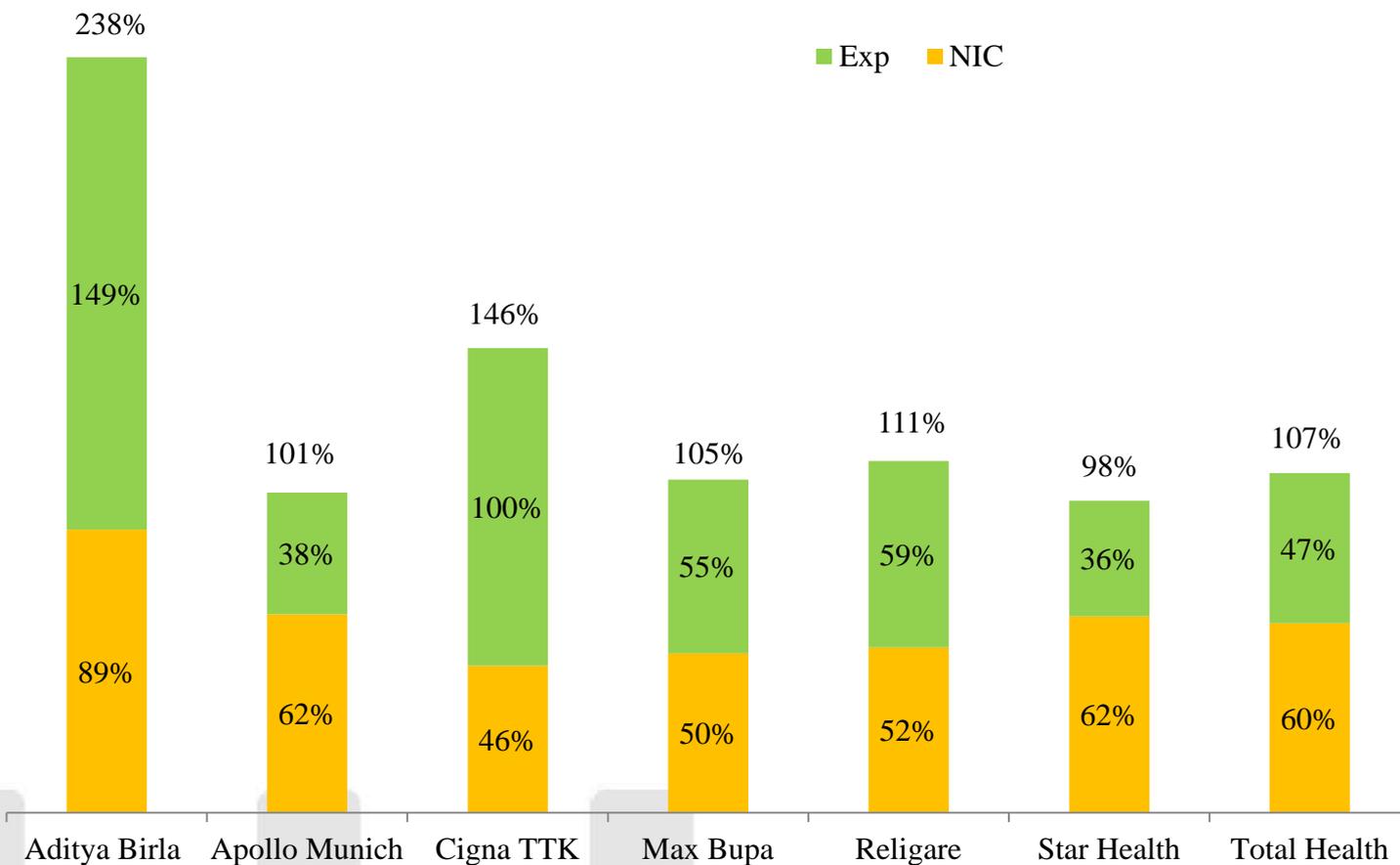
NCoR Ratio – Private FY17-18



NCoR Ratio – Public FY17-18



NCoR – Health FY17-18



Return of EoM



- Annual return shall be prepared in the prescribed format
- The Return shall be signed by CEO, CFO and Chief Compliance Officer
- The Return shall be certified by Appointed Actuary
- The Return shall be certified by one of the Statutory Auditor of the Company in the prescribed format
- The Return duly certified by statutory auditor shall be reviewed by the **Audit Committee** prior to being placed for **approval of the Board**.
- The Return duly adopted by Board, shall be filed with the Authority within the timeline specified (i.e within 6 month from end of the year)
- **Transitional Provisions:**
 - For FY 2015-16, Either to comply with these regulations or with the earlier provisions of the Rule 17E of Insurance Rules, 1939
 - From FY 2016-17 onwards, these regulations will be applicable

Action for Non-compliance



- Insurer shall ensure that their EoM are within the allowable limits on segmental basis.
- Company is **compliant on an overall basis but violated the limits of EoM for one or more segments**, the excess of such expenses shall be borne by the Shareholders.
- **Any violation on overall basis** may entail one or more of the following actions:
 - Excess to be charged to Shareholders Account
 - Restriction on performance incentive to MD/CEO, Whole-time Directors and 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 direct the insurer to not underwrite new business in one or more segments in case of persistent violation of these regulations
- Ensure at segment level, the deviation between the actual loss ratio and the loss ratio projected at the time of filing of the product shall not be $> 10\%$.
- If it is $>10\%$ over a period of three years or more, an exception report along with the plan of action specifying the reasons for such deviation shall be filed with the Authority.

Points for Discussion



- Commission Regulation & Expense Regulation – Can both be combined for simplicity.
- Uniformity in Line of businesses in EOM and Preparation of Financial Statements – may ease the compliance
- IFRS ; IND AS – impact on the EOM regulation

Thank You