Date: 29.03.2023	**Publication:** Economic Times
Page no: 7|6	**Edition:** All Editions

REMOVES CAPS and allows additional expenses; changes to help insurers reduce their losses

IRDAI's New Rules for Commission Payouts may Lead to Better Pricing

Our Bureau

Mumbai: The insurance regulator has introduced new regulations on commission payments to intermediaries and expenses of management for general and health insurance companies.

While the Payment of Commission Regulations, 2023, removes previous caps on payments, the Expenses of Management (EOM) Regulations, 2023, allows for additional expenses related to foreign and IFSC branches, Insurtech, and insurance awareness.

The new regulations issued by the Insurance Regulatory and Development Authority of India (IRDAI) will be effective from April 1.

"The objective of these regulations is to provide the insurers the flexibility to manage their expenses based on their growth aspirations and the ever-changing insurance needs with an objective to improve insurance penetration," said IRDAI in its notification.

Under the EOM Regulations, 2023, general insurance companies can work with EOM up to 30% of gross premium written, while insurers carrying on standalone health insurance business are allowed to go up to 35% of gross premium written.

"We firmly believe that the shift from product level commissions to a company-wide limit of expenses, as proposed through the proposed regulations, will ensure parity across varying business models while rendering greater flexibility in managing expenses for insurers," said Tapan Singhel, CEO, Bajaj Allianz General Insurance.

Many insurance companies are currently exceeding the prescribed limits on expenses, while the industry as a whole is experiencing a combined ratio of over 118%, indicating significant losses. By managing expenses more effectively, insurers may be able to reduce their losses and offer better pricing and products to customers in the long term.

"With the majority of the insurers above the prescribed norms of expenses and with the industry reeling with a combined ratio of more than 118%, these EOM limits will help in bringing cost discipline and take the industry in the right direction of prudency and profitability," said Singhel.

IRDAI is expected to announce a similar cap on EOM for life insurance companies soon.

"Although the regulation has removed previous caps on commission to agents and intermediaries, insurers are unlikely to pay a higher commission to ensure that they do not breach the overall expense limit as commissions are subject to the EOM limits set by the IRDAI," said a life insurance company executive.

"Moving to such a liberalised regime will help intermediaries and insurers to enter into more viable arrangements and increase penetration," said Indranath Bishnu, Partner, Cyril Amarchand Mangaldas.