

# Current Issues in General Insurance 26th July 2018

## Expenses of Management (EOM) : *The journey so far...*

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# What's worked well for the industry?

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# Relaxation of the limits from the previously existent insurance rules : movement towards a liberal framework



## Section 17E of Insurance Rules, 1939

Capping on EOM - other than marine		
S.No.	Part of the total gross premium of the insurer written in India	% of premium
1	First 10 lakhs of rupees	35
2	Next 5 lakhs of rupees	32.5
3	Next 5 lakhs of rupees	30
4	Next 7.5 lakhs of rupees	27.5
5	Next 7.5 lakhs of rupees	25
6	Next 10 lakhs of rupees	22.5
7	Balance	20

Capping on EOM - Marine		
S.No.	Part of the total gross premium of the insurer written in India	% of premium
1	First 5 lakhs of rupees	25
2	Next 5 lakhs of rupees	22.5
3	Next 5 lakhs of rupees	20
4	Next 7.5 lakhs of rupees	17.5
4	Balance	15

## EOM regulations, 2016\*\*

Capping on EOM - Health Retail		
S.No.	Part of the total gross premium of the insurer written in India	% of premium
1	First 400 crore of rupees	37.5
2	The Balance	32.5

Capping on EOM - Fire		
S.No.	Part of the total gross premium of the insurer written in India	% of premium
1	First 200 crore of rupees	35
2	Next 150 crore of rupees	30
3	The Balance	27.5

Capping on EOM - Marine		
S.No.	Part of the total gross premium of the insurer written in India	% of premium
1	First 150 crore of rupees	27.5
2	Next 75 crore of rupees	22.5
3	The Balance	20

Capping on EOM - Motor		
S.No.	Part of the total gross premium of the insurer written in India	% of premium
1	First 500 crore of rupees	37.5
2	Next 250 crore of rupees	32.5
3	The Balance	30

\*\* Key LoBs have been mentioned

# Relaxation on the maximum commission paid in the new regulations rolled out in 2016



## Section 17E of Insurance Rules, 1939

Cap on commission/ remuneration*		
S.No.	Class of Business	% of premium
1	Fire	5
2	Marine	5
2	Miscellaneous	10

## Commission regulation, 2016\*\*

Cap on commission/ remuneration - Motor		
S.No.	Line of Business	% of premium
1	Motor Comprehensive	15
2	Motor (Stand-alone TP)	2.5

Capping on commission/ remuneration – Health		
S.No.	Line of Business	% of premium
1	Health - Individual	15
2	Health - Group (Employer-Employee only) - Annual	7.5

*Commission/ remuneration shall be payable only to the OD Individual includes annual premium, 3 years single premium, portion of the Motor (Comprehensive) policy. 3 years regular premium*

Capping on commission/ remuneration – other than Motor and Health – as a % of premium			
S.No.	Line of Business	Maximum commission	Maximum remuneration
1	Fire - Retail	15	16.5
2	Fire - Corporate (Risks with S.I. < Rs 2,500 crs)	10	11.5
3	Fire - Corporate (Risks with S.I. > Rs 2,500 crs)	5	6.25
4	Marine - Cargo	15	16.5
5	Marine - Hull	10	11.5

***In the 2016 regulations, R&R is over and above the commission paid and is capped at 30% of the commission payable***

*\*Capped within the EOM limit*

*\*\* 'Payment of Commission or Remuneration or Reward to Insurance Agents and Insurance Intermediaries' Regulations 2016 – Only key LoBs have been mentioned, R&*

# Illustration : Company X, EOM compliance under Section 17E of insurance rules, 1939



Company X : Regulatory Cap			
S.No.	LOB	FY17	FY18
1	Fire	14,89,671	18,33,388
2	Marine	5,11,712	5,49,422
3	Motor	90,83,992	1,04,99,318
4	Health + PA	40,51,179	46,04,116
5	Others	61,44,967	70,46,024
	Total	2,12,81,521	2,45,32,269

Company X : Actual Expenses			
S.No.	LOB	FY17	FY18
1	Fire	6,18,688	8,56,581
2	Marine	6,76,042	6,74,358
3	Motor	1,41,97,625	1,62,45,694
4	Health + PA	55,91,811	66,95,897
5	Others	31,09,469	37,64,567
	Total	2,41,93,635	2,82,37,097

Company X : Regulatory compliance (Actual / Permissible)			
S.No.	LOB	FY17	FY18
1	Fire	42%	47%
2	Marine	132%	123%
3	Motor	156%	155%
4	Health + PA	138%	145%
5	Others	51%	53%
	Total	114%	115%

# Illustration : Company X, EOM compliance under EOM regulations, 2016



Company X : Regulatory Cap			
S.No.	LOB	FY17	FY18
1	Fire	22,35,273	27,07,885
2	Marine	7,75,857	8,26,138
3	Motor	1,40,62,917	1,61,85,905
4	Health + PA	62,63,697	70,93,102
5	Others	86,36,305	98,75,259
	Total	3,19,74,050	3,66,88,289

Company X : Actual Expenses			
S.No.	LOB	FY17	FY18
1	Fire	6,18,688	8,56,581
2	Marine	6,76,042	6,74,358
3	Motor	1,41,97,625	1,62,45,694
4	Health + PA	55,91,811	66,95,897
5	Others	31,09,469	37,64,567
	Total	2,41,93,635	2,82,37,097

Company X : Regulatory compliance (Actual / Permissible)			
S.No.	LOB	FY17	FY18
1	Fire	28%	32%
2	Marine	87%	82%
3	Motor	101%	100%
4	Health + PA	89%	94%
5	Others	36%	38%
	Total	76%	77%

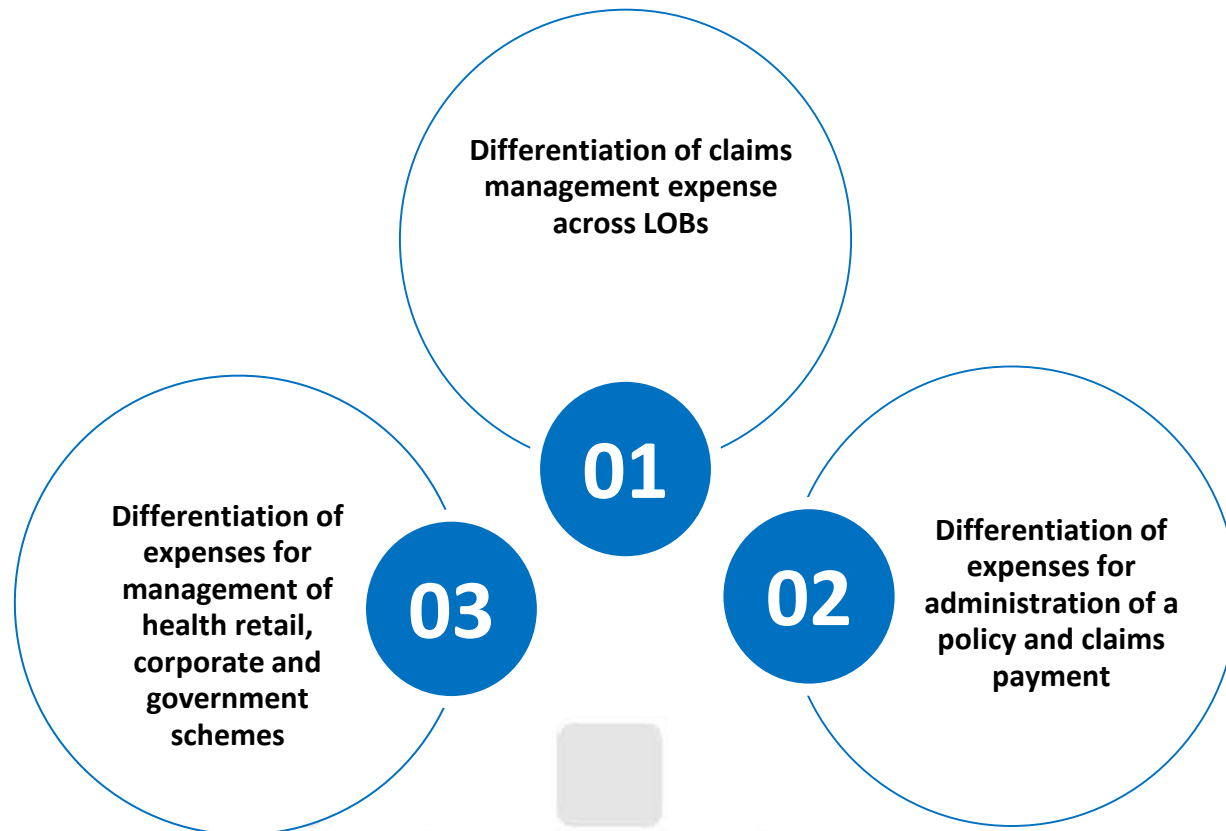
1. Limit for Health business is calculated as the average of 'retail' and 'corporate' business

# EOM : the interpretation challenges



# Tedious task to appropriately segregate expenses between each LoB

- Segregation of administration expenses across different LoBs is quite subjective:



# Which comes first ? EOM regulations, 2016 or regulations on preparation of financial statements

## TPA expenses

Fully accounted as a part of incurred claims

1

## In-house claims management

Only 3% of gross written premium is allowed towards claims expenses as a part of incurred claims

2

## Part TPA & part in-house claims management

Partly capped and partly uncapped

3

*Regulations on preparation of financial statements says that claims settlement cost is to be treated as a part of claims, hence excluded from the EOM limit*

# Illustration of TPA income : Income from insurers as a proportion of premium serviced



S. No.	TPA	Income from insurers	Total premium serviced	Ratio	FY
1	E-Meditek	5,62,139	1,06,66,036	5.3%	2017
2	Paramount	6,52,618	1,40,35,700	4.6%	2016
3	Raksh TPA	4,03,284	93,02,807	4.3%	2016

*Insurers pay more than ~4% of the premium as TPA management cost; in addition it also maintains an in-house team to manage activities which the TPA is not permitted to handle on behalf of the insurer, implying that the insurer incurs more than ~5% towards claims settlement*

*For in-house claims management, the expenses are capped at 3% of the premium which turns out to being disadvantageous*

# **EOM compliance : the way out!**

# Writing business in expense efficient LoBs is helping insurers be compliant with EOM regulations



*Heavy bend of business written towards the LoBs where the expenses incurred are way less as compared to the prescribed limits, thus ensuring compliance with the regulations at company level.*

Company Y : Illustration			
S.No.	Gross Premium	FY17	FY18
1	Fire	13,12,009	14,20,497
2	Marine	2,18,714	2,19,402
3	Motor	39,26,369	64,72,948
4	Health + PA	11,15,435	15,95,365
5	Others	62,99,778	1,34,00,419
	<b>Total</b>	<b>1,28,72,305</b>	<b>2,31,08,631</b>
	<b>Regulatory compliance (Actual / Permissible)</b>	<b>63%</b>	<b>50%</b>

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# Impact on new insurers

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# Illustration : Current state assessment of Company Z (5<sup>th</sup> year of reporting)



Company Z : Regulatory Cap			
S.No.	LOB	FY17	FY18
1	Fire	1,03,426	1,54,884
2	Marine	35,676	55,790
3	Motor	15,34,056	20,49,777
4	Health + PA	3,47,230	4,93,464
5	Others	1,30,197	2,17,299
	Total	21,50,586	29,71,213

Company Z : Actual Expenses			
S.No.	LOB	FY17	FY18
1	Fire	85,668	1,31,720
2	Marine	57,303	83,416
3	Motor	25,78,674	28,76,289
4	Health + PA	5,87,096	7,28,660
5	Others	1,49,231	2,40,110
	Total	34,57,972	40,60,195

Company Z : Regulatory compliance (Actual / Permissible)			
S.No.	LOB	FY17	FY18
1	Fire	83%	85%
2	Marine	161%	150%
3	Motor	168%	140%
4	Health + PA	169%	148%
5	Others	115%	110%
	Total	161%	137%

1. Limit for Health business is calculated on a weighted average basis considering both 'retail' and 'corporate' capping

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**Thank you!**

**Questions?**

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