

10th Capacity Building Seminar in General Insurance

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Expense of Management – An Actuarial perspective

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Agenda



- Role of Appointed Actuaries
- Survey Results - 1
- Impact on Product pricing / filings
- Survey Results - 2
- Q & A session

EoM – Role of Appointed Actuaries



- Return of EoM certificate requires AA to confirm computation of different items in the certificate e.g. GWP, Actual and allowable expenses etc.
- Additionally, confirmation to compliance to Regulations 5 & 6 of the IRDAI EoM IRDAI Regulations i.e. Board Approved Policy capturing measures of cost efficiency, allocation of expenses etc. and Annual Business Plan.
- What are the expectations from AA with regards to following aspects:
 - *What comprises "Insurtech and Insurance Awareness" expenses?*
 - *Manner of transfer of benefits, arising from reduction of expenses and/or from directly sourced business to the policyholders by way of reduction in premium*
 - *Manner in which compliance with computation of additional allowance as per Regulation 4 shall be ensured*

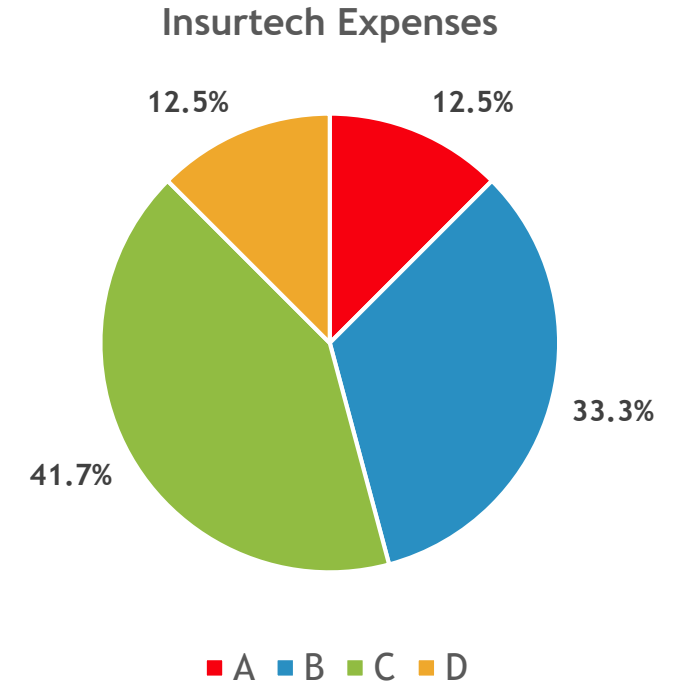
InsurTech Expenses – Survey Results

Q1. The Regulations allow an additional allowance towards 'Insurtech' expenses. The regulations also define what constitute insurtech expenses.

In your view (select any one of the following):

- A. The definition is fairly clear. I do not foresee any expense item where there would be divergent views, either within the company or auditors, as to whether or not it satisfies the criteria in the definition. Additionally, confirmation to compliance to Regulations 5 & 6 of the IRDAI EoM IRDAI Regulations i.e. Board Approved Policy capturing measures of cost efficiency, allocation of expenses etc. and Annual Business Plan.
- B. It is possible, although unlikely, to come across certain expense items where divergent views can arise on whether or not they satisfy the criteria in the definition.
- C. The classification of some of the routine technology related expenses into whether insurtech expenses or not could be subjective.
- D. All of the Above

Results – Total 24 responses



~75% respondents believe definition is not completely clear and AA need to work with Finance team closely and apply judgements.

Further, additional clarification from Authority would be appreciated.

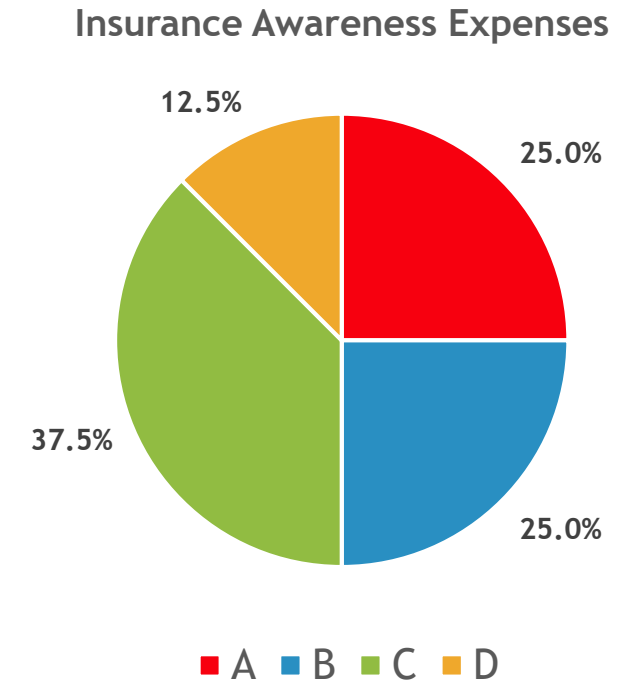
Insurance Awareness Expenses – Survey Results

Q2. The Regulations allow an additional allowance towards 'Insurance Awareness' expenses. The regulations also define what constitute insurance awareness expenses. Further, it is also clarified that it shall not include Insurance Advertisement as defined under IRDAI (Insurance Advertisements and Disclosure) Regulations, 2021.

In your view (select any one of the following):

- A. The definition is fairly clear. I do not foresee any expense item where there would be divergent views, either within the company or auditors, as to whether or not it satisfies the criteria in the definition.
- B. It is possible, albeit unlikely, to come across certain expense items where divergent views can arise on whether or not they satisfy the criteria in the definition.
- C. The classification of some of the routine marketing related expenses into whether insurance awareness expenses or not could be subjective.
- D. All of the Above

Results – Total 24 responses



~62% respondents believe things are not completely clear.

AA may need to work with Finance team closely and apply judgements.

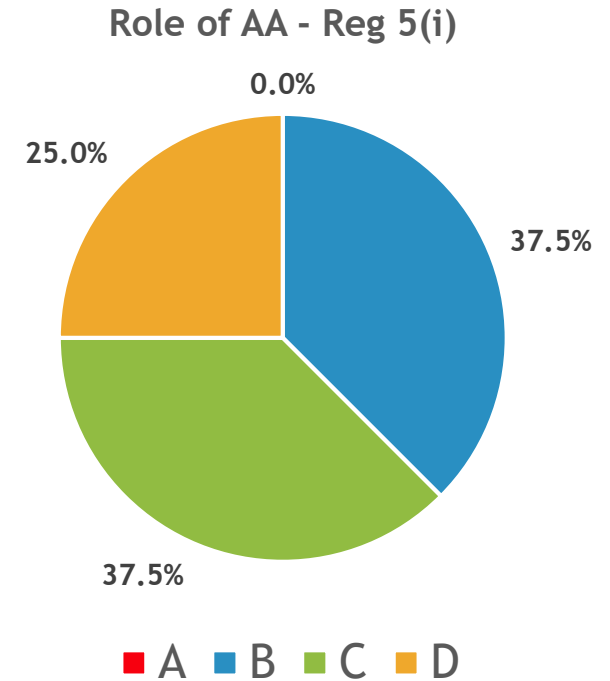
Role of AA : Reg 5(i) – Survey Results

Q3. As per the Regulation 5 (i), every insurer should have a well-documented Board-approved EoM policy which among other things, must clearly specify measures to bring cost effectiveness in the conduct of business and reduction of EoM on an annual basis.

In your view, what is the role and responsibility of appointed actuary (AA) in this regard (select any one of the following):

- A. AA is directly responsible to identify measures to bring cost effectiveness in the conduct of business and reduce EoM.
- B. The responsibility applies to the company as a whole. However, it is to be noted that as per IRDAI (Appointed Actuary) Regulations 2022, the AA has a duty to render actuarial advice on expenses of management. An AA only needs to document his advice and it is up to the management to accept / reject the advice.
- C. AA is usually not involved in decision making around the expenses incurred by the organization e.g. additional man-power hiring, admin expenses etc. Thus, the role of AA is only to review the expense allocation methodology as outlined in the EoM Regulations.
- D. Need clarity from Authority / Profession of the role of AA with regards to EoM Regulations and the actual expectations

Results – Total 24 responses



~75% respondents believe AA are not directly involved and only needs to provide guidance / advice

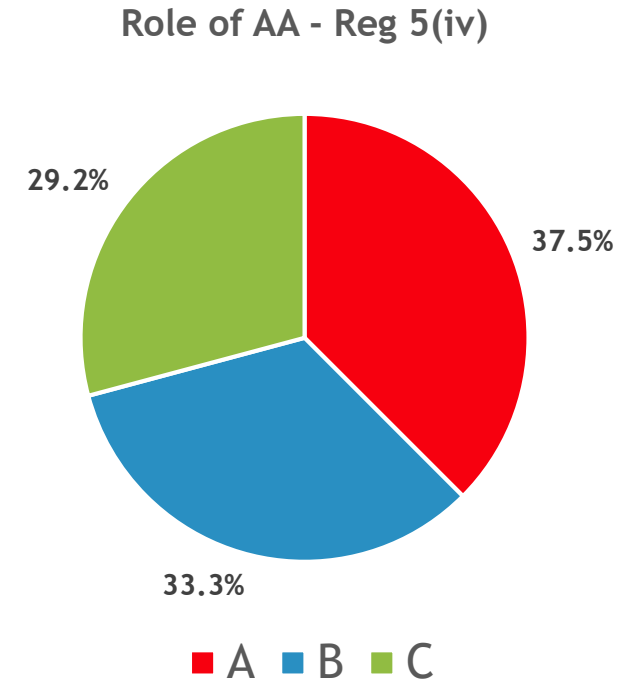
Role of AA : Reg 5(iv) – Survey Results

Q6. As per Regulation 5 (iv), every insurer should have a well-documented Board-approved EoM policy which among other things, require: Manner of allocation and apportionment of expenses of management amongst various business segments including the following parameters: a) Expenses which shall be allocated; b) Basis of allocation; c) Expenses which shall be apportioned; d) Basis of such apportionment.

In your view, what is the role and responsibility of appointed actuary (AA) in this regard (select any one of the following choices):

- A. The AA is not directly responsible to develop the allocation / apportionment policy. However, the AA shall provide actuarial advice to the company on how to allocate / apportion expenses of management amongst various business segments, so that the same is not unfair to policyholders and accurately distribute the costs of doing business as much as possible.
- B. In addition to (a) above, while pricing the products, ensure that the same allocation / apportionment is considered while pricing the products..
- C. This allocation / apportionment policy is entirely the responsibility of the CFO. The AA is directly responsible only to ensure that that the allocation and apportionment of expenses are in accordance with the Board approved policy.

Results – Total 24 responses



67% respondents believe AA is not directly responsible on the allocation methodology but rather advice / implement the agreed policy.

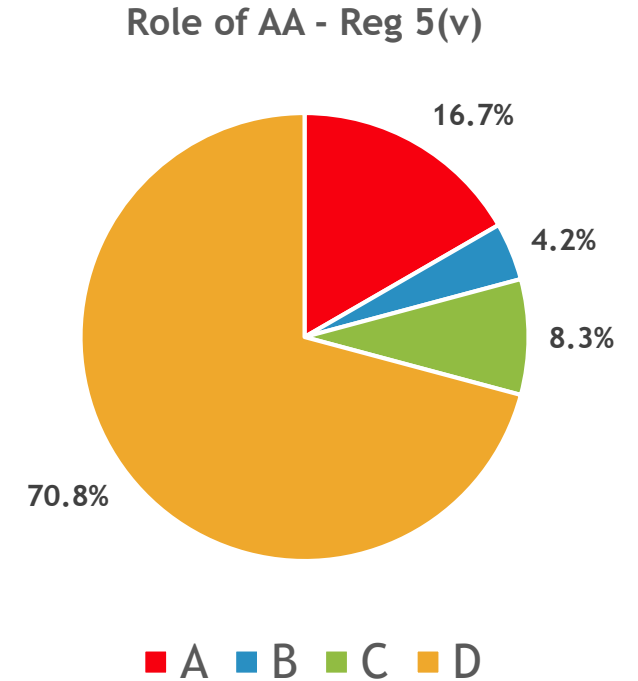
Role of AA : Reg 5(v) – Survey Results

Q7. As per Regulation 5 (v), every insurer should have a well-documented Board-approved EoM policy which among other things, require: Structure of commission payable in terms of IRDAI (Payment of Commission) Regulations, 2023 as amended from time to time.

In your view, what is the role and responsibility of appointed actuary (AA) in this regard (select any number of the following choices):

- A. Provide actuarial advice to the company in devising the commission payment structure of the insurer.
- B. Ensuring that the commission gets paid in line with the board approved policy.
- C. Take into the account the actual commission paid while pricing the products.
- D. AA is responsible to ensure that the premium rates of the insurance products are fair. Therefore, AA shall monitor the commission structure and advice company if the premium rates are not fair in any product / business segment due to the commission structure.

Results – Total 24 responses



~70% respondents believe AA is only concerned with premium rates are fair.

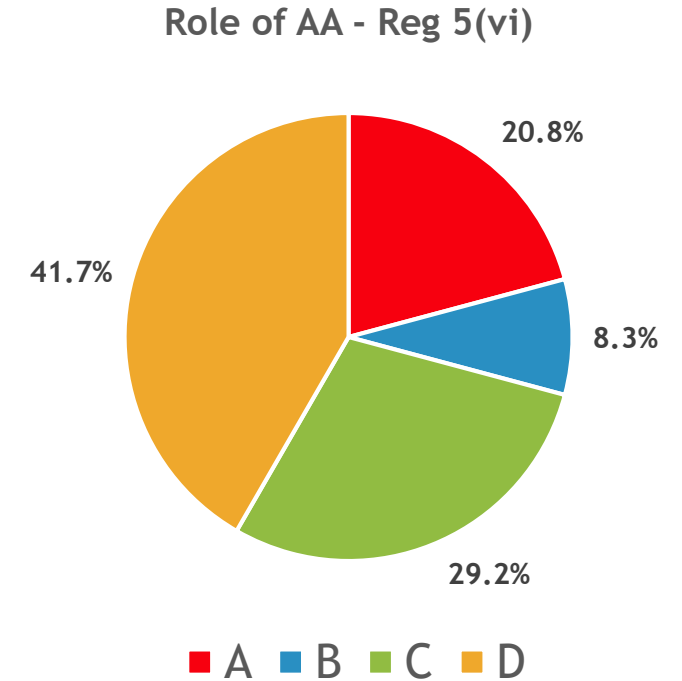
Role of AA : Reg 5(vi) – Survey Results

Q8. As per Regulation 5 (vi), every insurer should have a well-documented Board-approved EoM policy which among other things, require: manner in which the compliance with Board approved EoM policy shall be ensured.

In your view, what is the role and responsibility of appointed actuary (AA) in this regard:

- A. Check every month / quarter if there are deviance in commission set out in the EoM policy.
- B. Check every month / quarter if the discounts as set out in EoM policy is given to the suitable policyholders.
- C. Ensure that there is a reduction in expense of management on annual basis.
- D. Any other.

Results – Total 24 responses



Most respondents believe AA is only required to review the Board Approved policy and ensure its compliance.

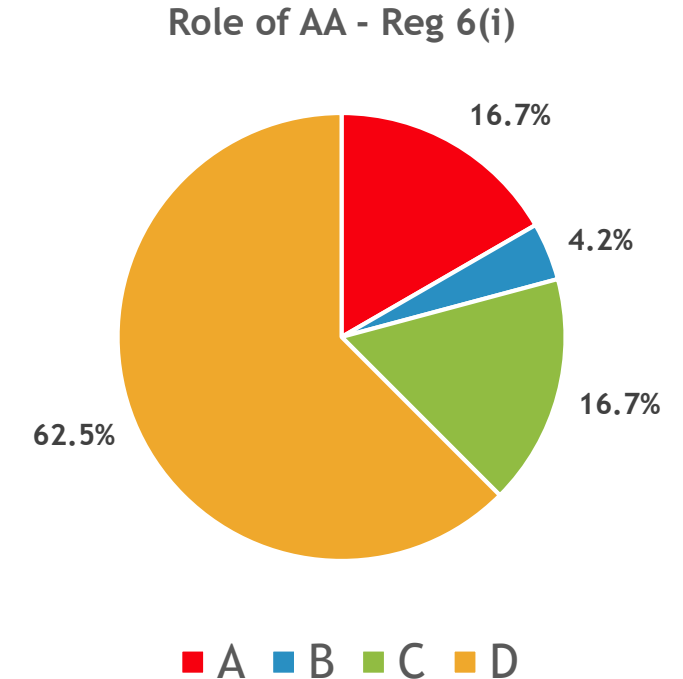
Role of AA : Reg 6(i) – Survey Results

Q9. As per Regulation 6 (i) Every insurer shall formulate a business plan in advance on an annual basis, which shall be approved by the respective Boards. The business plan shall, at the minimum, clearly specify the following- (i) the projected requirements of capital during the said financial year; (ii) projection of solvency margin on a quarterly basis; (iii) the projection of expenses 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.

In your view, what is the role and responsibility of appointed actuary (AA) in this regard:

- A. Advise the insurer on projection of expenses of management and ensure compliance or otherwise with the limits of EoM.
- B. Flag the LoBs where you expect the EoM will not be met.
- C. Advise the insurer to change the strategy to ensure that there is compliance with EoM regulations.
- D. Any other. Any other: Provide actuarial advice on the formulation of business plan viz. projected loss ratios, identification of business segments which are profitable / unprofitable, identification of business segments with low / high expenses of management etc

Results – Total 24 responses



~62% respondents believe AA should only provide actuarial advice on formulation of business plan around LR, business segment profitability etc.

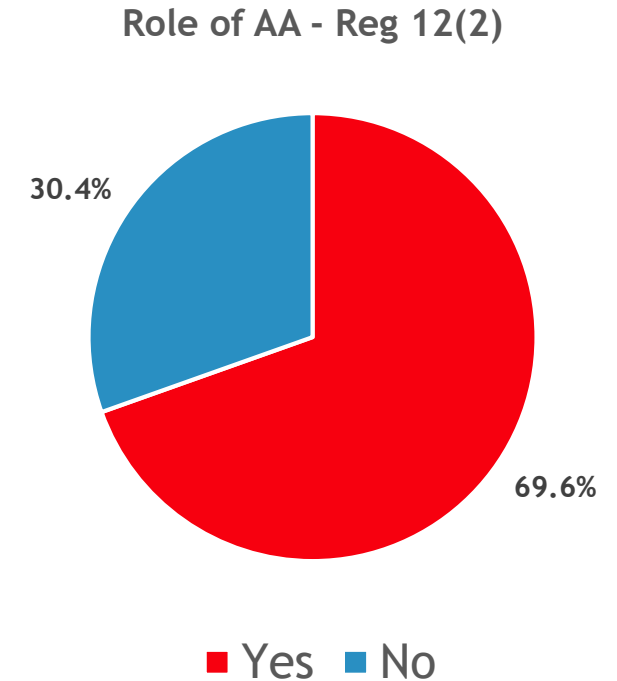
Role of AA : Reg 12(2) – Survey Results

Q10(a). As per Regulation 12 (2), in case the amount of actual expenses of management exceeds by 10 percent or more of the projected expenses of management as per the business plan formulated in terms of Regulation 6, no variable pay shall be payable to Managing Director (MD) / Chief Executive Officer (CEO) / Whole-Time Directors (WTD) and Key Managerial Personnel (KMPs) for the said financial year.

In your view, do you expect that the amount of actual expenses of management will not exceed by 10 percent or more of the projected expenses of management as per the business plan formulated in terms of Regulation 6:

- Yes / No

Results – Total 23 responses



~30% respondents believe that the final results will deviate beyond 10% threshold.

EoM – Product Pricing implications

- Product filing regulations requires similar risks to be charged the same premium
- EoM IRDAI Regulations 5(ii) requires - *transfer of benefits, arising from reduction of expenses and/or from directly sourced business*

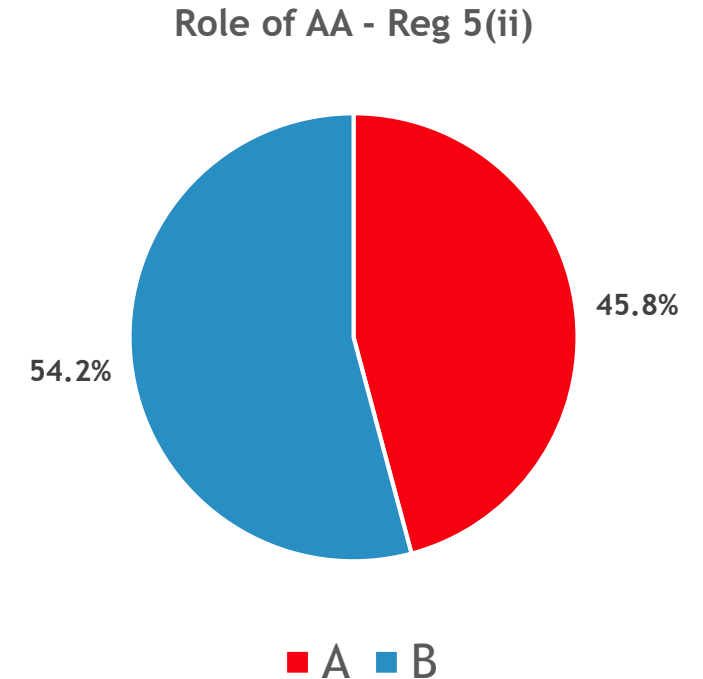
Role of AA : Reg 5(ii) – Survey Results

Q4. As per the Regulation 5 (ii), every insurer should have a well-documented Board-approved EoM policy which among other things, must clearly specify manner of transfer of benefits arising from reduction of expenses to policyholders by way of reduction of premium.

In your view, what is the role and responsibility of appointed actuary (AA) in this regard: AA is responsible to track reduction in EoM at least on an annual basis, and accordingly revise premiums through reduced expense loading

- A. Similar / identical retail risks need to be charged the same premiums i.e. the final gross premium charged to the policyholder needs to remain the same irrespective of the commission costs of the underlying distribution channel.
- B. Similar / identical retail risks need to be charged the same risk premiums and commission costs to be adjusted i.e. the final gross premium charged to the policyholder varies depending on the commission costs of the underlying distribution channel.

Results – Total 24 responses



Need clarity from Authority on the implication of this regulation on pricing of products

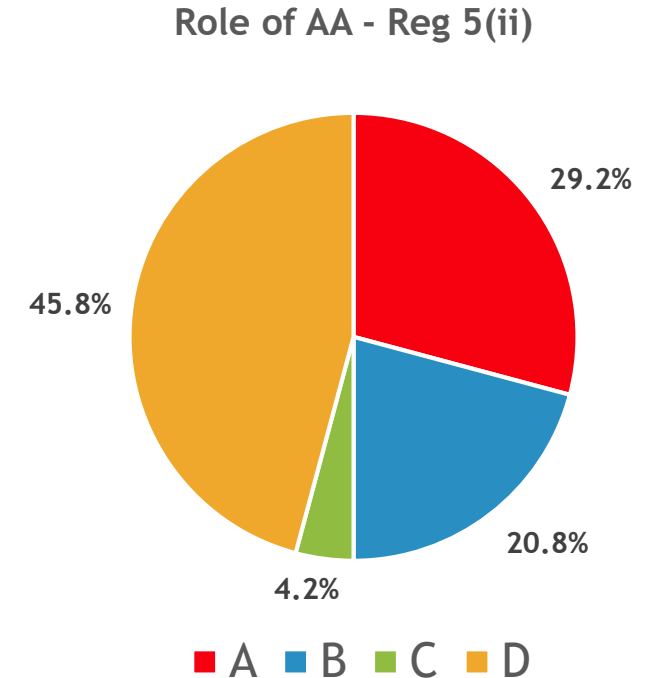
Role of AA : Reg 5(ii) – Survey Results

Q5. As per the Regulation 5 (ii), every insurer should have a well-documented Board-approved EoM policy which among other things, must clearly specify manner of transfer of benefits arising from directly sourced business to the policyholders.

In your view, what is the role and responsibility of appointed actuary (AA) in this regard (select any number of the following choices)

- A. For all new product filings, there should be some discount for directly sourced policies.
- B. Even for existing products, some discount should be offered for directly sourced policies.
- C. Spread expected commission savings due to direct business across all the policyholders of a particular product and reduce expense loading based on expected direct customer business mix.
- D. There are direct marketing expenses involved (customer call center / follow up calls etc.,). Hence, direct business does not necessarily to saving in all cases. Hence, we are not in a position to decrease commissions for the same, if savings are not considerable

Results – Total 24 responses



~50% of respondents believe regulatory expectations of savings from direct sourcing v/s actual costs needs to be balanced.

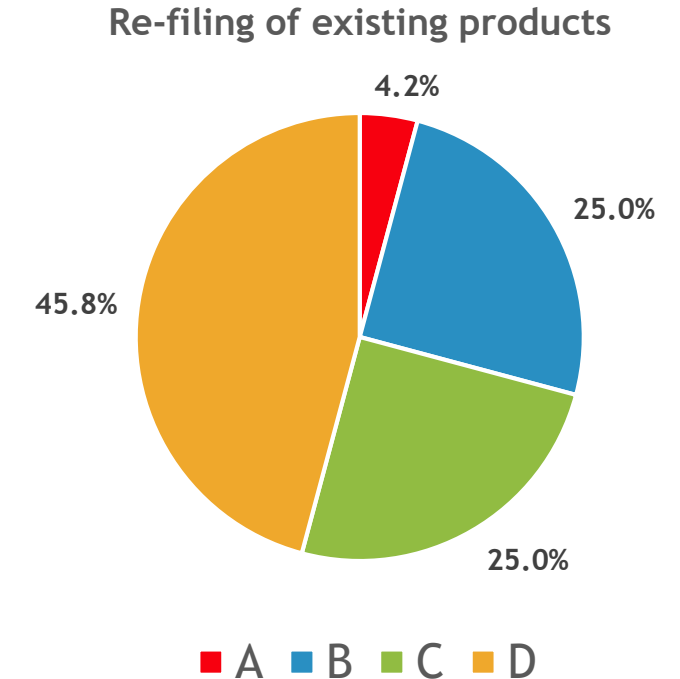
AA need to evaluate the efficiency of direct channels to an Insurance Company

Re-filing of existing Products – Survey Results

Q11. Do you believe that the existing filed products need re-filing due to the impact of these EOM Regulations.

- A. Yes. If the existing product does not offer discount for directly sourced policies.
- B. Yes. Because discount for directly sourced policies has to be offered. And also channels with lower acquisition expenses need to be charged lower premiums, everything else being equal..
- C. No. However, when these product are revised, offer discount to directly sourced policies if it is not present already.
- D. Re-filing for existing products is not required

Results – Total 24 responses



~70 respondents believe that existing products do not need price revisions.

Not sure how this will help compliance with EOM Regulation



Thank You