HDFC ERGO GENERAL INSURANCE COMPANY LIMITED

Policy on Expenses of Management, including Commission

Created by	Finance, Distribution Planning & Program Management			
Recommended by	Chief Distribution Officer, Chief Financial Officer, Chief Underwriting Officer, SBU Presidents			
Review Period		Annual		
Version	Version 1.0	Version 1.1	Version 1.2	Version 1.3
Approved by Board of Directors on	April 16, 2024	October 11, 2024	July 12, 2025	July 13, 2026
Effective From	April 16, 2024	October 11, 2024	July 12, 2025	July 13, 2026

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I. Background:

Insurance Regulatory and Development Authority of India ("IRDAI"), vide Notification No. IRDAI/Reg/4/192/2023 dated March 26,2023 had prescribed the IRDAI (Expenses of Management, of Insurers transacting General or Health Insurance business) Regulation, 2023. Pursuant to the said regulation, the Policy of Expenses of Management was approved by the Board of Directors in its meeting held on April 27, 2023.

Further, IRDAI, vide Notification No. IRDAI/Reg./2/190/2023 dated March 26, 2023, had notified the IRDAI (Payment of Commission) Regulations, 2023 and as per the said regulation, the Policy for Payment of Commission was reviewed by the Commission Management Committee at its meeting held on April 19, 2023 and approved by the Board of Directors in its meeting held on April 27, 2023.

To enable and provide flexibility to manage the expenses, including commissions, within the overall limits, IRDAI had issued (Expenses of Management, including Commission, of Insurers) Regulations, 2024, which enabled that the policy for payment of commission may be subsumed in the Board approved policy for Expenses of Management. The Policy on Expenses of Management, including Commission was approved by the Board of Directors in its meeting held on October 11, 2024

II. Applicability

The Policy shall become applicable on or after April 1, 2025. The commission structure shall be applicable for all business solicited i.e. Retail, Group or Commercial including reinsurance inward business through various intermediaries. Further, all decisions, documents and memos executed and commission structure set under the erstwhile 'Policy for Payment of Commission' shall continue to hold under this Policy, unless changed.

III. Definition

A. "**Act**" means the Insurance Act, 1938 as amended from time to time.

B. **Authority** – means the Insurance Regulatory and Development Authority of India

C. "**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.

D. **"Company"** means the HDFC ERGO General Insurance Company Limited.

E. "**Charges**" means charge against profits such as income tax and other taxes like Goods and Service Tax (GST) borne by the insurer and other charges which are levied against the profits.

F. **"Expenses of Management"** shall include
(a) all expenses in the nature of operating expenses of General or Health Insurance business.
(b) commission to the insurance agents, intermediaries or insurance intermediaries.
(c) commission and expenses on reinsurance inward, which are charged to Revenue Account.

Provided that it shall not include the charges as defined in these Regulations.

G. **"Expenses of Management, including Commission regulation"** means Insurance Regulatory and Development Authority of India (Expenses of Management, including Commission, of Insurers) Regulations, 2024 as amended from time to time.

H. **"Business Segment" –** Segments as referred to in IRDAI (Preparation of Financial Statements and Auditors Report of Insurance Companies) Regulations, 2002 read with Master Circular on Preparation of Financial Statements – General Insurance Business of October 2012, as may be amended from time to time.

I. **"Hereditary Commission"** means the commission payable to the nominees of any Insurance Agents in the event of his/her unfortunate demise. The Company shall service such customers and commission shall be paid on renewals of earlier policies to the same product or internal migration to alternate product.

J. **"Insurance Distribution Channels"** means Insurance agent or Insurance Intermediary or any other channel partner notified by IRDAI from time to time

K. **"Insurance Agents"** or **"IA"** means an Individual agent who receives or agrees to receive payment by way of commission.

L. **"Insurance Intermediary"** or "II" includes
1. Corporate Agents
2. Insurance Brokers
3. Web Aggregators
4. Insurance Marketing Firm
5. Point of Sales Person (POSP)
6. Motor Insurance Service Provider
7. Common Public Service Centers (CPSC)
8. Micro Insurance Agents (MIA)
9. Any other entity as may be notified by the Authority from time to time.

M. **"Orphan Policies"** means the policies initially affected by an intermediary who are no longer associated with the Company.

N. **"Reward"** means the part of the commission which is paid as an additional incentive by whatever name to an intermediary towards benefits (such as gratuity, term insurance cover, various group insurance covers, telephone charges, office allowance, sales promotion gift items, competition prizes, contests etc.) or services (such as risk analysis, gap analysis, plan design, predictive modelling, data management, infrastructure, advertisement etc.).

O. **"Commission Management Committee"** or the 'CMC' shall mean the Committee comprising of the senior executives of the Company to govern the Commission paid to intermediaries on a regular basis.

All words and expressions used herein and not defined, but defined in the Insurance Act, 1938 (4 of 1938) or in the Insurance Regulatory and Development Authority Act, 1999 (41 of 1999), or in any Rules or Regulations made thereunder, shall have the meaning respectively assigned to them in those Acts or Rules or Regulations.

Part A: Commission, Structure, Methodology & Framework (Clause IV to Clause VIII)

IV. Objective and Principles

The objectives and principles that underpin the requirement to have the commission structure for intermediaries are as follows:

- To increase insurance penetration and density within the country
- To ensure that the intermediaries act in the best interests of the customers
- To ensure fair compensation to intermediaries to attract talent and create adequate employment opportunities
- To ensure that commissions paid are aligned with nature and tenure of the insurance policy
- To achieve the growth targets outlined in the Board approved business plan
- To enhance the efficiency of business operations and align them with the Company's strategic objectives, thereby reducing costs.
- To encourage innovation in the development and distribution of the Company's products and services.
- To promote fair and transparent competition among intermediaries and align the interest of the intermediaries

V. Structure of Commission

The Company will evaluate different commission structures currently prevalent in the market or those proposed by the intermediaries. The Commission structure finalized for given portfolio of risks or category of risks shall be reasonable and will not be

expected to result in excessive compensation for intermediaries at the expense of customers or the Company. Further, the Commission structure finalized will be commensurate with the efforts required to acquire and sustain the business. The commission structure would be basis the objectives and principles outlined above and independent of the size or bargaining power of any intermediary.

The commission structure finalized for a given portfolio or category of risks may include, but are not limited to:

- Amount per policy or certificate of insurance
- Percentage of the premium sourced by the intermediary for a given product / cover within a given time period
- Percentage of total or part of the premium sourced by the intermediary for a given product / cover during the year
- Percentage of the premium sourced by the intermediary and an additional reward, if applicable, basis the overall portfolio profitability ascertained periodically
- Combination of above
- Any other structure as agreed with intermediary from time to time

The total amount of commission at Company level shall not exceed the overall limits as defined in the Insurance Regulatory and Development Authority of India (Expenses of Management, including Commission, of Insurers) Regulations, 2024 as amended from time to time.

VI. Methodology for determining the Commission Structure

The Company will establish the commission structure applicable for a given intermediary for the business sourced considering the market demands, profitability of the portfolio or category of risks, Company's strategic objectives and the long-term sustainability of the portfolio.

The criteria that may be considered by the Company include, but are not limited to:

a) Meeting or exceeding business thresholds
b) Policy nature and tenure
c) Historical or existing market norms
d) Expected profitability across different rating factors e.g. geography, business type, risk characteristics etc.
e) Supporting insurance penetration in new or under-penetrated geographic markets, products etc. from the Company perspective
f) Efforts involved in soliciting and servicing policies
g) Costs involved in building the new technology / platform
h) Customer satisfaction or Net Promoter Score (NPS) of the channel
i) Any other criteria established by the Company from time to time.

Further, the commission shall be applicable only on the premium sourced and / or booked during the period.

Additionally, no Commission shall be given to an intermediary for and on account of the business sourced directly by the employees of the Company or through the Company's digital platforms. However, if an intermediary has made efforts for soliciting or procuring or transacting insurance business but the Company's digital platforms have been used to complete the payment then commission, as applicable, would be payable to the intermediary e.g. non-orphan policies fulfilled directly or through the Company's digital platforms during renewals but was sourced originally via an intermediary.

The commission on renewal policies shall be payable subject to the eligibility criteria prescribed by the Company from time to time and as communicated by the Company.

In case of orphan policies, the Company may decide to service directly or allot such policies to intermediaries whose license is in force for the purpose of conservation and rendering effective policy service to the policyholders. The Company shall consider inter-alia the track record of the intermediary and complaints registered against an intermediary while allotting the orphan policies.

VII. Commission Management Committee

With a view to ensure that the Commission structure is implemented, a Committee comprising of senior executives of the Company has been constituted, viz. the "Commission Management Committee" or the "CMC". The composition, responsibility and reporting of the CMC is as under:

- Deputy Managing Director
- Director & Chief Business Officer
- Chief Financial Officer
- Chief Technology Officer
- Chief Underwriting Officer
- Chief Compliance Officer
- Appointed Actuary

The CMC shall conduct at least one meeting every quarter of any financial year. The presence of any of the four necessary members of the Committee in every meeting of the CMC shall be essential to constitute minimum quorum.

The CMC shall review the distribution practices of intermediaries and stipulate commission structures that help enhance customer satisfaction, promote fair and transparent competition among intermediaries and aligns the interest of the intermediaries, increase the insurer's market share and ensure compliance with regulatory requirements. The CMC shall also handle grievances, if any, of intermediaries in the matter of determination of eligibility and payment of Commissions. The CMC shall have the responsibility to oversee the plans, procedures and strategies to bring cost efficiencies in the conduct and operation of business and reduce the rate of commissions on a continuous basis.

The CMC shall provide operational philosophy, guidelines and processes from time to

time to deal with Renewal Commission, Hereditary Commission and transfer of orphan policies. The CMC shall review list of intermediaries who have taken transfer from the Company and the number of orphan policies allotted to other intermediaries. Apart from the same, the CMC shall continuously monitor implementation of this policy.

The commission structure report shall be reported periodically to the CMC and the Board of the Company shall be appraised on the status of compliance of the Policy, apart from any other matter deemed fit and appropriate.

VIII. Market Conduct and Governance

The Commission structure instituted by the CMC shall outline governance and oversight mechanism for market conduct issues to ensure that an intermediary adhere to high standards of behavior and ethical practices which avoids any potential conflict of interest. The Company shall ensure that no business is procured through an intermediary, whose license or capacity to solicit insurance business has been cancelled, terminated, blacklisted or under suspension either by the Company or any other insurer owing to a disciplinary action or by way of an external enforcement Authority, such as IRDAI, Court etc. For cases where fraudulent activity of the intermediary has been determined, the Company may not pay any Commission to such intermediary or may recover the loss amount from the Commission payable to such intermediary.

CMC shall identify and address potential conflicts of interest due to the commission structure such as intermediaries recommending products not in the customer's best interest to earn higher commissions e.g. higher commissions being paid to an intermediary sourcing only rollover or renewal business. Furthermore, the commission structure shall have absolute caps in respect of commission payable to an intermediary for large premium policies or certain segments e.g. Large property risk underwritten as RI inward or Employer-employee group health business.

Part B: Expenses of Management
(Clause IX to Clause X)

IX. Limit on Expenses of Management

The Management shall at all time ensure that the Company is in compliance of the limit on Expenses of Management, as prescribed under clause 6 & 11 of Expenses of Management, including Commission regulation and / or as prescribed by the Authority from time to time. As per current regulation, the limit prescribed is 30% of the gross written premium (GWP) in India plus the additional limit allowed for certain specific nature of expenses. In case of breach of the limit of expenses such excess shall be charged to the Profit & Loss Account.

The Company shall explore operational efficiencies in conduct of business by reviewing and improving the processes, sourcing business directly/online sources and increased adoption of technology to bring down the overall expenses on a year to year basis. The realized cost benefit arising out of the operational efficiencies would be

passed on to the policy holders through better product/service offerings and/or reduced premiums as appropriate considering the overall performance of the product(s) and Company as a whole, as applicable.

X. Allocation and Apportionment of Expenses of Management

A. All Commissions shall be directly allocated to the respective Business Segment.

B. The operating expenses of the Company are allocated and apportioned amongst various business segments based on the Company Structure comprising of Sales, Service and Support Functions.

- Sales Function includes Corporate Business Group, Retail Business Group and Rural & Agri Business Group.
- Service Functions include Underwriting, Claims, Operations, Reinsurance and Customer Experience Management.
- Support Functions include Finance, Human Resources, Information Technology, Marketing, Workplace Management etc.

The expenses incurred by Sales and Service Functions are direct in nature. Expenses incurred by Support Functions are indirect in nature.

C. Operating expenses relating to insurance business are allocated to specific classes of business on the following basis:

- Direct expenses that are directly identifiable to a business segment are allocated on actuals and other direct expenses are apportioned in proportion to the gross written premium of respective business segment;
- Expenses pertaining to Support Functions and/or any other expenses, which are not directly allocable, are apportioned to respective business segments on the basis of gross written premium of the Company.

XI. Returns to the Authority

The Company shall file a Return of Expenses of Management in the prescribed format, on a yearly basis, duly signed by the MD and CEO, CFO, Chief Compliance Officer and Appointed Actuary and certified by the Statutory Auditor.

Further, the Company shall also submit to the Authority a Return on payment of commission by the insurer to the Insurance agent, Intermediary or Insurance Intermediary.

The aforesaid Returns, prior to filing with the Authority, shall be reviewed by the Audit Committee, who shall recommend the same for the approval of the Board of Directors.

The Return shall be filed with the Authority as per the prescribed timelines.

XII. Review process

The CMC shall review the methodology of ascertaining the commission structure for intermediaries and its effectiveness / efficiency shall be monitored periodically. The impact of the commission structure on the underlying premium rates and benefits offered for a given product shall be reviewed by the CMC. Further, the CMC shall continuously monitor performance of the Company against the approved Business Plan for the applicable financial year and appraise the Board about the same at the end of every quarter of the financial year.

The position of Expenses of Management shall be placed before the Board of Directors and Audit and Compliance Committee of Directors, on a periodic basis, confirming whether the Company is in compliance with the limit prescribed under the Expenses of Management.

The said Policy shall be reviewed by the Audit Committee / Board on an annual basis.

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Structure of Commission Rates for FY2026-27 per the deliberations during the Commission Management Committee meetings to be read with the Policy on Expense on Management, including Commission

The Commission Management Committee (CMC) reviews the commission paid to the agents and insurance intermediaries, across the policy tenure, based on the below grid for FY2026-27:

Sr No.	Line of Business	Average Commission upto
1	Accident & Health	30.0%
2	Any Government Scheme (Including crop)	As specified in the Government Scheme
3	Motor	32.5%
4	Fire + Miscellaneous	20.0%
5	Marine	20.0%
6	Engineering	20.0%
7	Liability	20.0%
8	Others	22.5%

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IX. Commission Management Committee

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XI. Returns to the Authority

XII. Review of Policy

XIII. Market conduct & Governance

I. Background:

Insurance Regulatory and Development Authority of India ("IRDAI"), vide Notification No. IRDAI/Reg/4/192/2023 dated March 26,2023 had prescribed the IRDAI (Expenses of Management, of Insurers transacting General or Health Insurance business) Regulation, 2023. Pursuant to the said regulation, the Policy of Expenses of Management was approved by the Board of Directors in its meeting held on April 27, 2023.

Further, IRDAI, vide Notification No. IRDAI/Reg./2/190/2023 dated March 26, 2023, had notified the IRDAI (Payment of Commission) Regulations, 2023 and as per the said regulation, the Policy for Payment of Commission was reviewed by the Commission Management Committee at its meeting held on April 19, 2023 and approved by the Board of Directors in its meeting held on April 27, 2023.

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III. Definition

A. "**Act**" means the Insurance Act, 1938 as amended from time to time.

B. **Authority** – means the Insurance Regulatory and Development Authority of India

C. "**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.

D. **"Company"** means the HDFC ERGO General Insurance Company Limited.

E. "**Charges**" means charge against profits such as income tax and other taxes like Goods and Service Tax (GST) borne by the insurer and other charges which are levied against the profits.

F. **"Expenses of Management"** shall include
(a) all expenses in the nature of operating expenses of General or Health Insurance business.
(b) commission to the insurance agents, intermediaries or insurance intermediaries.
(c) commission and expenses on reinsurance inward, which are charged to Revenue Account.

Provided that it shall not include the charges as defined in these Regulations.

G. **"Expenses of Management, including Commission regulation"** means Insurance Regulatory and Development Authority of India (Expenses of Management, including Commission, of Insurers) Regulations, 2024 as amended from time to time.

H. **"Business Segment" –** Segments as referred to in IRDAI (Preparation of Financial Statements and Auditors Report of Insurance Companies) Regulations, 2002 read with Master Circular on Preparation of Financial Statements – General Insurance Business of October 2012, as may be amended from time to time.

I. **"Hereditary Commission"** means the commission payable to the nominees of any Insurance Agents in the event of his/her unfortunate demise. The Company shall service such customers and commission shall be paid on renewals of earlier policies to the same product or internal migration to alternate product.

J. **"Insurance Distribution Channels"** means Insurance agent or Insurance Intermediary or any other channel partner notified by IRDAI from time to time

K. **"Insurance Agents"** or **"IA"** means an Individual agent who receives or agrees to receive payment by way of commission.

L. **"Insurance Intermediary"** or "II" includes
1. Corporate Agents
2. Insurance Brokers
3. Web Aggregators
4. Insurance Marketing Firm
5. Point of Sales Person (POSP)
6. Motor Insurance Service Provider
7. Common Public Service Centers (CPSC)
8. Micro Insurance Agents (MIA)
9. Any other entity as may be notified by the Authority from time to time.

M. **"Orphan Policies"** means the policies initially affected by an intermediary who are no longer associated with the Company.

N. **"Reward"** means the part of the commission which is paid as an additional incentive by whatever name to an intermediary towards benefits (such as gratuity, term insurance cover, various group insurance covers, telephone charges, office allowance, sales promotion gift items, competition prizes, contests etc.) or services (such as risk analysis, gap analysis, plan design, predictive modelling, data management, infrastructure, advertisement etc.).

O. **"Commission Management Committee"** or the 'CMC' shall mean the Committee comprising of the senior executives of the Company to govern the Commission paid to intermediaries on a regular basis.

All words and expressions used herein and not defined, but defined in the Insurance Act, 1938 (4 of 1938) or in the Insurance Regulatory and Development Authority Act, 1999 (41 of 1999), or in any Rules or Regulations made thereunder, shall have the meaning respectively assigned to them in those Acts or Rules or Regulations.

Part A: Commission, Structure, Methodology & Framework (Clause IV to Clause VIII)

IV. Objective and Principles

The objectives and principles that underpin the requirement to have the commission structure for intermediaries are as follows:

- To increase insurance penetration and density within the country
- To ensure that the intermediaries act in the best interests of the customers
- To ensure fair compensation to intermediaries to attract talent and create adequate employment opportunities
- To ensure that commissions paid are aligned with nature and tenure of the insurance policy
- To achieve the growth targets outlined in the Board approved business plan
- To enhance the efficiency of business operations and align them with the Company's strategic objectives, thereby reducing costs.
- To encourage innovation in the development and distribution of the Company's products and services.
- To promote fair and transparent competition among intermediaries and align the interest of the intermediaries

V. Structure of Commission

The Company will evaluate different commission structures currently prevalent in the market or those proposed by the intermediaries. The Commission structure finalized for given portfolio of risks or category of risks shall be reasonable and will not be expected to result in excessive compensation for intermediaries at the expense of customers or the Company. Further, the Commission structure finalized will be commensurate with the efforts required to acquire and sustain the business. The

commission structure would be basis the objectives and principles outlined above and independent of the size or bargaining power of any intermediary.

The commission structure finalized for a given portfolio or category of risks may include, but are not limited to:

- Amount per policy or certificate of insurance
- Percentage of the premium sourced by the intermediary for a given product / cover within a given time period
- Percentage of total or part of the premium sourced by the intermediary for a given product / cover during the year
- Percentage of the premium sourced by the intermediary and an additional reward, if applicable, basis the overall portfolio profitability ascertained periodically
- Combination of above
- Any other structure as agreed with intermediary from time to time

The total amount of commission at Company level shall not exceed the overall limits as defined in the Insurance Regulatory and Development Authority of India (Expenses of Management, including Commission, of Insurers) Regulations, 2024 as amended from time to time.

VI. Methodology for determining the Commission Structure

The Company will establish the commission structure applicable for a given intermediary for the business sourced considering the market demands, profitability of the portfolio or category of risks, Company's strategic objectives and the long-term sustainability of the portfolio.

The criteria that may be considered by the Company include, but are not limited to:

a) Meeting or exceeding business thresholds
b) Policy nature and tenure
c) Historical or existing market norms
d) Expected profitability across different rating factors e.g. geography, business type, risk characteristics etc.
e) Supporting insurance penetration in new or under-penetrated geographic markets, products etc. from the Company perspective
f) Efforts involved in soliciting and servicing policies
g) Costs involved in building the new technology / platform
h) Customer satisfaction or Net Promoter Score (NPS) of the channel
i) Any other criteria established by the Company from time to time.

Further, the commission shall be applicable only on the premium sourced and / or booked during the period.

Additionally, no Commission shall be given to an intermediary for and on account of the business sourced directly by the employees of the Company or through the Company's digital platforms. However, if an intermediary has made efforts for soliciting

or procuring or transacting insurance business but the Company's digital platforms have been used to complete the payment then commission, as applicable, would be payable to the intermediary e.g. non-orphan policies fulfilled directly or through the Company's digital platforms during renewals but was sourced originally via an intermediary.

In case of orphan policies, the Company may decide to service directly or allot such policies to intermediaries whose license is in force for the purpose of conservation and rendering effective policy service to the policyholders. The Company shall consider inter-alia the track record of the intermediary and complaints registered against an intermediary while allotting the orphan policies.

VII. Commission Management Committee

With a view to ensure that the Commission structure is implemented, a Committee comprising of senior executives of the Company has been constituted, viz. the "Commission Management Committee" or the "CMC". The composition, responsibility and reporting of the CMC is as under:

- Executive Director & Chief Financial Officer
- Executive Director
- Director & Chief Business Officer
- Chief Technology Officer
- Chief Underwriting Officer
- Chief Compliance Officer
- Appointed Actuary

The CMC shall conduct at least one meeting every quarter of any financial year. The presence of any of the four necessary members of the Committee in every meeting of the CMC shall be essential to constitute minimum quorum.

The CMC shall review the distribution practices of intermediaries and stipulate commission structures that help enhance customer satisfaction, promote fair and transparent competition among intermediaries and aligns the interest of the intermediaries, increase the insurer's market share and ensure compliance with regulatory requirements. The CMC shall also handle grievances, if any, of intermediaries in the matter of determination of eligibility and payment of Commissions. The CMC shall have the responsibility to oversee the plans, procedures and strategies to bring cost efficiencies in the conduct and operation of business and reduce the rate of commissions on a continuous basis.

The CMC shall provide operational philosophy, guidelines and processes from time to time to deal with Renewal Commission, Hereditary Commission and transfer of orphan policies. The CMC shall review list of intermediaries who have taken transfer from the Company and the number of orphan policies allotted to other intermediaries. Apart from the same, the CMC shall continuously monitor implementation of this policy.

The commission structure report shall be reported periodically to the CMC and the Board of the Company shall be appraised on the status of compliance of the Policy, apart from any other matter deemed fit and appropriate.

VIII. Market Conduct and Governance

The Commission structure instituted by the CMC shall outline governance and oversight mechanism for market conduct issues to ensure that an intermediary adhere to high standards of behavior and ethical practices which avoids any potential conflict of interest. The Company shall ensure that no business is procured through an intermediary, whose license or capacity to solicit insurance business has been cancelled, terminated, blacklisted or under suspension either by the Company or any other insurer owing to a disciplinary action or by way of an external enforcement Authority, such as IRDAI, Court etc. For cases where fraudulent activity of the intermediary has been determined, the Company may not pay any Commission to such intermediary or may recover the loss amount from the Commission payable to such intermediary.

CMC shall identify and address potential conflicts of interest due to the commission structure such as intermediaries recommending products not in the customer's best interest to earn higher commissions e.g. higher commissions being paid to an intermediary sourcing only rollover or renewal business. Furthermore, the commission structure shall have absolute caps in respect of commission payable to an intermediary for large premium policies or certain segments e.g. Large property risk underwritten as RI inward or Employer-employee group health business.

Part B: Expenses of Management
(Clause IX to Clause X)

IX. Limit on Expenses of Management

The Management shall at all time ensure that the Company is in compliance of the limit on Expenses of Management, as prescribed under clause 6 & 11 of Expenses of Management, including Commission regulation and / or as prescribed by the Authority from time to time. As per current regulation, the limit prescribed is 30% of the gross written premium (GWP) in India plus the additional limit allowed for certain specific nature of expenses. In case of breach of the limit of expenses such excess shall be charged to the Profit & Loss Account.

The Company shall explore operational efficiencies in conduct of business by reviewing and improving the processes, sourcing business directly/online sources and increased adoption of technology to bring down the overall expenses on a year to year basis. The realized cost benefit arising out of the operational efficiencies would be passed on to the policy holders through better product/service offerings and/or reduced premiums as appropriate considering the overall performance of the product(s) and Company as a whole, as applicable.

X. Allocation and Apportionment of Expenses of Management

A. All Commissions shall be directly allocated to the respective Business Segment.

B. The operating expenses of the Company are allocated and apportioned amongst various business segments based on the Company Structure comprising of Sales, Service and Support Functions.

- Sales Function includes Corporate Business Group, Retail Business Group and Rural & Agri Business Group.
- Service Functions include Underwriting, Claims, Operations, Reinsurance and Customer Experience Management.
- Support Functions include Finance, Human Resources, Information Technology, Marketing, Workplace Management etc.

The expenses incurred by Sales and Service Functions are direct in nature. Expenses incurred by Support Functions are indirect in nature.

C. Operating expenses relating to insurance business are allocated to specific classes of business on the following basis:

- Direct expenses that are directly identifiable to a business segment are allocated on actuals and other direct expenses are apportioned in proportion to the gross written premium of respective business segment;
- Expenses pertaining to Support Functions and/or any other expenses, which are not directly allocable, are apportioned to respective business segments on the basis of gross written premium of the Company.

XI. Returns to the Authority

The Company shall file a Return of Expenses of Management in the prescribed format, on a yearly basis, duly signed by the MD and CEO, CFO, Chief Compliance Officer and Appointed Actuary and certified by the Statutory Auditor.

Further, the Company shall also submit to the Authority a Return on payment of commission by the insurer to the Insurance agent, Intermediary or Insurance Intermediary.

The aforesaid Returns, prior to filing with the Authority, shall be reviewed by the Audit Committee, who shall recommend the same for the approval of the Board of Directors.

The Return shall be filed with the Authority as per the prescribed timelines.

XII. Review process

The CMC shall review the methodology of ascertaining the commission structure for intermediaries and its effectiveness / efficiency shall be monitored periodically. The

impact of the commission structure on the underlying premium rates and benefits offered for a given product shall be reviewed by the CMC. Further, the CMC shall continuously monitor performance of the Company against the approved Business Plan for the applicable financial year and appraise the Board about the same at the end of every quarter of the financial year.

The position of Expenses of Management shall be placed before the Board of Directors and Audit and Compliance Committee of Directors, on a periodic basis, confirming whether the Company is in compliance with the limit prescribed under the Expenses of Management.

The said Policy shall be reviewed by the Audit Committee / Board on an annual basis.

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Structure of Commission Rates for FY2025-26 per the deliberations during the Commission Management Committee meetings to be read with the Policy on Expense on Management, including Commission

The Commission Management Committee (CMC) has been reviewing the commission paid to the agents and insurance intermediaries, across the policy tenure, based on the below grid for FY2025-26 and is as under:

Sr No.	Line of Business	Average Commission upto
1	Health Individual	45.0%
2	Health group (including Employer-Employee)	30.0%
3	Any Government Scheme (Including crop)	As specified in the Government Scheme
4	Motor	35.0%
5	Fire + Miscellaneous	30.0%
6	Marine	30.0%
7	Engineering	30.0%
8	Liability	30.0%
9	Others	30.0%

HDFC ERGO GENERAL INSURANCE COMPANY LIMITED

Policy on Expenses of Management, including Commission

Created by	Finance, Distribution Planning & Program Management	
Recommended by	Chief Distribution Officer, Chief Financial Officer, Chief Underwriting Officer, SBU Presidents	
Review Period	Annual	
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I. Background:

Insurance Regulatory and Development Authority of India ("IRDAI"), vide Notification No. IRDAI/Reg/4/192/2023 dated March 26,2023 had prescribed the IRDAI (Expenses of Management, of Insurers transacting General or Health Insurance business) Regulation, 2023. Pursuant to the said regulation, the Policy of Expenses of Management was approved by the Board of Directors in its meeting held on April 27, 2023.

Further, IRDAI, vide Notification No. IRDAI/Reg./2/190/2023 dated March 26, 2023, had notified the IRDAI (Payment of Commission) Regulations, 2023 and as per the said regulation, the Policy for Payment of Commission was reviewed by the Commission Management Committee at its meeting held on April 19, 2023 and approved by the Board of Directors in its meeting held on April 27, 2023.

To enable and provide flexibility to manage the expenses, including commissions, within the overall limits, IRDAI had issued (Expenses of Management, including Commission, of Insurers) Regulations, 2024, which enabled that the policy for payment of commission may be subsumed in the Board approved policy for Expenses of Management.

II. Applicability

The Policy shall become applicable on or after April 1, 2024. The commission structure shall be applicable for all business solicited i.e. Retail, Group or Commercial including reinsurance inward business through various intermediaries. Further, all decisions, documents and memos executed and commission structure set under the erstwhile 'Policy for Payment of Commission' shall continue to hold under this Policy, unless changed.

III. Definition

A. "**Act**" means the Insurance Act, 1938 as amended from time to time.

B. **Authority** – means the Insurance Regulatory and Development Authority of India

C. "**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.

D. **"Company"** means the HDFC ERGO General Insurance Company Limited.

E. "**Charges**" means charge against profits such as income tax and other taxes like Goods and Service Tax (GST) borne by the insurer and other charges which are levied against the profits.

F. **"Expenses of Management"** shall include
(a) all expenses in the nature of operating expenses of General or Health Insurance business.
(b) commission to the insurance agents, intermediaries or insurance intermediaries.
(c) commission and expenses on reinsurance inward, which are charged to Revenue Account.

Provided that it shall not include the charges as defined in these Regulations.

G. **"Expenses of Management, including Commission regulation"** means Insurance Regulatory and Development Authority of India (Expenses of Management, including Commission, of Insurers) Regulations, 2024 as amended from time to time.

H. **"Business Segment" –** Segments as referred to in IRDAI (Preparation of Financial Statements and Auditors Report of Insurance Companies) Regulations, 2002 read with Master Circular on Preparation of Financial Statements – General Insurance Business of October 2012, as may be amended from time to time.

I. **"Hereditary Commission"** means the commission payable to the nominees of any Insurance Agents in the event of his/her unfortunate demise. The Company shall service such customers and commission shall be paid on renewals of earlier policies to the same product or internal migration to alternate product.

J. **"Insurance Distribution Channels"** means Insurance agent or Insurance Intermediary or any other channel partner notified by IRDAI from time to time

K. **"Insurance Agents"** or **"IA"** means an Individual agent who receives or agrees to receive payment by way of commission.

L. **"Insurance Intermediary"** or "II" includes
1. Corporate Agents
2. Insurance Brokers
3. Web Aggregators
4. Insurance Marketing Firm
5. Point of Sales Person (POSP)
6. Motor Insurance Service Provider
7. Common Public Service Centers (CPSC)
8. Micro Insurance Agents (MIA)
9. Any other entity as may be notified by the Authority from time to time.

M. **"Orphan Policies"** means the policies initially affected by an intermediary who are no longer associated with the Company.

N. **"Reward"** means the part of the commission which is paid as an additional incentive by whatever name to an intermediary towards benefits (such as gratuity, term insurance cover, various group insurance covers, telephone charges, office allowance, sales promotion gift items, competition prizes, contests etc.) or services (such as risk analysis, gap analysis, plan design, predictive modelling, data management, infrastructure, advertisement etc.).

O. **"Commission Management Committee"** or the 'CMC' shall mean the Committee comprising of the senior executives of the Company to govern the Commission paid to intermediaries on a regular basis.

All words and expressions used herein and not defined, but defined in the Insurance Act, 1938 (4 of 1938) or in the Insurance Regulatory and Development Authority Act, 1999 (41 of 1999), or in any Rules or Regulations made thereunder, shall have the meaning respectively assigned to them in those Acts or Rules or Regulations.

Part A: Commission, Structure, Methodology & Framework (Clause IV to Clause VIII)

IV. Objective and Principles

The objectives and principles that underpin the requirement to have the commission structure for intermediaries are as follows:

- To increase insurance penetration and density within the country
- To ensure that the intermediaries act in the best interests of the customers
- To ensure fair compensation to intermediaries to attract talent and create adequate employment opportunities
- To ensure that commissions paid are aligned with nature and tenure of the insurance policy
- To achieve the growth targets outlined in the Board approved business plan
- To enhance the efficiency of business operations and align them with the Company's strategic objectives, thereby reducing costs.
- To encourage innovation in the development and distribution of the Company's products and services.
- To promote fair and transparent competition among intermediaries and align the interest of the intermediaries

V. Structure of Commission

The Company will evaluate different commission structures currently prevalent in the market or those proposed by the intermediaries. The Commission structure finalized for given portfolio of risks or category of risks shall be reasonable and will not be expected to result in excessive compensation for intermediaries at the expense of customers or the Company. Further, the Commission structure finalized will be

commensurate with the efforts required to acquire and sustain the business. The commission structure would be basis the objectives and principles outlined above and independent of the size or bargaining power of any intermediary.

The commission structure finalized for a given portfolio or category of risks may include, but are not limited to:

- Amount per policy or certificate of insurance
- Percentage of the premium sourced by the intermediary for a given product / cover within a given time period
- Percentage of total or part of the premium sourced by the intermediary for a given product / cover during the year
- Percentage of the premium sourced by the intermediary and an additional reward, if applicable, basis the overall portfolio profitability ascertained periodically
- Combination of above
- Any other structure as agreed with intermediary from time to time

The total amount of commission at Company level shall not exceed the overall limits as defined in the Insurance Regulatory and Development Authority of India (Expenses of Management, including Commission, of Insurers) Regulations, 2024 as amended from time to time.

VI. Methodology for determining the Commission Structure

The Company will establish the commission structure applicable for a given intermediary for the business sourced considering the market demands, profitability of the portfolio or category of risks, Company's strategic objectives and the long-term sustainability of the portfolio.

The criteria that may be considered by the Company include, but are not limited to:

a) Meeting or exceeding business thresholds
b) Policy nature and tenure
c) Historical or existing market norms
d) Expected profitability across different rating factors e.g. geography, business type, risk characteristics etc.
e) Supporting insurance penetration in new or under-penetrated geographic markets, products etc. from the Company perspective
f) Efforts involved in soliciting and servicing policies
g) Costs involved in building the new technology / platform
h) Customer satisfaction or Net Promoter Score (NPS) of the channel
i) Any other criteria established by the Company from time to time.

Further, the commission shall be applicable only on the premium sourced and / or booked during the period.

Additionally, no Commission shall be given to an intermediary for and on account of

the business sourced directly by the employees of the Company or through the Company's digital platforms. However, if an intermediary has made efforts for soliciting or procuring or transacting insurance business but the Company's digital platforms have been used to complete the payment then commission, as applicable, would be payable to the intermediary e.g. non-orphan policies fulfilled directly or through the Company's digital platforms during renewals but was sourced originally via an intermediary.

In case of orphan policies, the Company may decide to service directly or allot such policies to intermediaries whose license is in force for the purpose of conservation and rendering effective policy service to the policyholders. The Company shall consider inter-alia the track record of the intermediary and complaints registered against an intermediary while allotting the orphan policies.

VII. Commission Management Committee

With a view to ensure that the Commission structure is implemented, a Committee comprising of senior executives of the Company has been constituted, viz. the "Commission Management Committee" or the "CMC". The composition, responsibility and reporting of the CMC is as under:

- Chief Financial Officer
- Director & Chief Business Officer
- Director & Chief Operating Officer
- Chief Distribution Officer
- Chief Underwriting Officer
- Chief Technology Officer
- Chief Compliance Officer
- Appointed Actuary

The CMC shall conduct at least one meeting every quarter of any financial year. The presence of any of the four necessary members of the Committee in every meeting of the CMC shall be essential to constitute minimum quorum.

The CMC shall review the distribution practices of intermediaries and stipulate commission structures that help enhance customer satisfaction, promote fair and transparent competition among intermediaries and aligns the interest of the intermediaries, increase the insurer's market share and ensure compliance with regulatory requirements. The CMC shall also handle grievances, if any, of intermediaries in the matter of determination of eligibility and payment of Commissions. The CMC shall have the responsibility to oversee the plans, procedures and strategies to bring cost efficiencies in the conduct and operation of business and reduce the rate of commissions on a continuous basis.

The CMC shall provide operational philosophy, guidelines and processes from time to time to deal with Renewal Commission, Hereditary Commission and transfer of orphan policies. The CMC shall review list of intermediaries who have taken transfer

from the Company and the number of orphan policies allotted to other intermediaries. Apart from the same, the CMC shall continuously monitor implementation of this policy.

The commission structure report shall be reported periodically to the CMC and the Board of the Company shall be appraised on the status of compliance of the Policy, apart from any other matter deemed fit and appropriate.

VIII. Market Conduct and Governance

The Commission structure instituted by the CMC shall outline governance and oversight mechanism for market conduct issues to ensure that an intermediary adhere to high standards of behavior and ethical practices which avoids any potential conflict of interest. The Company shall ensure that no business is procured through an intermediary, whose license or capacity to solicit insurance business has been cancelled, terminated, blacklisted or under suspension either by the Company or any other insurer owing to a disciplinary action or by way of an external enforcement Authority, such as IRDAI, Court etc. For cases where fraudulent activity of the intermediary has been determined, the Company may not pay any Commission to such intermediary or may recover the loss amount from the Commission payable to such intermediary.

CMC shall identify and address potential conflicts of interest due to the commission structure such as intermediaries recommending products not in the customer's best interest to earn higher commissions e.g. higher commissions being paid to an intermediary sourcing only rollover or renewal business. Furthermore, the commission structure shall have absolute caps in respect of commission payable to an intermediary for large premium policies or certain segments e.g. Large property risk underwritten as RI inward or Employer-employee group health business.

Part B: Expenses of Management
(Clause IX to Clause X)

IX. Limit on Expenses of Management

The Management shall at all time ensure that the Company is in compliance of the limit on Expenses of Management, as prescribed under clause 6 & 11 of Expenses of Management, including Commission regulation and / or as prescribed by the Authority from time to time. As per current regulation, the limit prescribed is 30% of the gross written premium (GWP) in India plus the additional limit allowed for certain specific nature of expenses. In case of breach of the limit of expenses such excess shall be charged to the Profit & Loss Account.

The Company shall explore operational efficiencies in conduct of business by reviewing and improving the processes, sourcing business directly/online sources and increased adoption of technology to bring down the overall expenses on a year to year basis. The realized cost benefit arising out of the operational efficiencies

would be passed on to the policy holders through better product/service offerings and/or reduced premiums as appropriate considering the overall performance of the product(s) and Company as a whole, as applicable.

X. Allocation and Apportionment of Expenses of Management

A. All Commissions shall be directly allocated to the respective Business Segment.

B. The operating expenses of the Company are allocated and apportioned amongst various business segments based on the Company Structure comprising of Sales, Service and Support Functions.

- Sales Function includes Corporate Business Group, Retail Business Group and Rural & Agri Business Group.
- Service Functions include Underwriting, Claims, Operations, Reinsurance and Customer Experience Management.
- Support Functions include Finance, Human Resources, Information Technology, Marketing, Workplace Management etc.

The expenses incurred by Sales and Service Functions are direct in nature. Expenses incurred by Support Functions are indirect in nature.

C. Operating expenses relating to insurance business are allocated to specific classes of business on the following basis:

- Direct expenses that are directly identifiable to a business segment are allocated on actuals and other direct expenses are apportioned in proportion to the gross written premium of respective business segment;
- Expenses pertaining to Support Functions and/or any other expenses, which are not directly allocable, are apportioned to respective business segments on the basis of gross written premium of the Company.

XI. Returns to the Authority

The Company shall file a Return of Expenses of Management in the prescribed format, on a yearly basis, duly signed by the MD and CEO, CFO, Chief Compliance Officer and Appointed Actuary and certified by the Statutory Auditor.

Further, the Company shall also submit to the Authority a Return on payment of commission by the insurer to the Insurance agent, Intermediary or Insurance Intermediary.

The aforesaid Returns, prior to filing with the Authority, shall be reviewed by the Audit Committee, who shall recommend the same for the approval of the Board of Directors.

The Return shall be filed with the Authority as per the prescribed timelines.

XII. Review process

The CMC shall review the methodology of ascertaining the commission structure for intermediaries and its effectiveness / efficiency shall be monitored periodically. The impact of the commission structure on the underlying premium rates and benefits offered for a given product shall be reviewed by the CMC. Further, the CMC shall continuously monitor performance of the Company against the approved Business Plan for the applicable financial year and appraise the Board about the same at the end of every quarter of the financial year.

The position of Expenses of Management shall be placed before the Board of Directors and Audit and Compliance Committee of Directors, on a periodic basis, confirming whether the Company is in compliance with the limit prescribed under the Expenses of Management.

The said Policy shall be reviewed by the Audit Committee / Board on an annual basis.

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Structure of Commission Rates for FY2024-25 per the deliberations during the Commission Management Committee meetings to be read with the Policy on Expense on Management, including Commission

The Commission Management Committee (CMC) has been reviewing the commission paid to the agents and insurance intermediaries, across the policy tenure, based on the below grid since FY23-24, which continues to be the benchmark for FY2024-25 and is as under:

Sr No.	Line of Business	Average Commission upto
1	Health Individual	45.0%
2	Health group (including Employer-Employee)	30.0%
3	Any Government Scheme (Including crop)	As specified in the Government Scheme
4	Motor	35.0%
5	Fire + Miscellaneous	30.0%
6	Marine	30.0%
7	Engineering	30.0%
8	Liability	30.0%
9	Others	30.0%