

**GOVERNMENT OF INDIA
FINANCE
LOK SABHA**

UNSTARRED QUESTION NO:431

ANSWERED ON:23.11.2012

REVIVAL PACKAGE TO INSURANCE COMPANIES

Azad Shri Kirti (Jha)

Will the Minister of FINANCE be pleased to state:

- (a) whether General Insurance Companies have requested the Government for a revival package and if so, the details thereof;
- (b) the detailed norms fixed for payment of commission;
- (c) whether instances of payment of higher amount of commission occur in the name of advertisement/publicity/business promotion/ IT services to agents/corporate agents/brokers;
- (d) if so, the details thereof and the reaction of the Government thereto? and
- (e) whether payment of large amounts of salaries/incentives to CEOs and higher management has resulted in higher premiums for the common people and if so, the reaction of the Government thereto;
- (f) the steps taken or proposed to be taken by Insurance Regulatory Development Authority (IRDA) to recover the excess amount paid to Agents/Brokers/Corporate Agents and the reasons for failure to recover the amount if any, in the past?

Answer

THE MINISTER OF STATE IN THE MINISTRY OF FINANCE (SHRI NAMO NARAIN MEENA)

(a): No, Madam.

(b) to (d): Section 40A of the Insurance Act, 1938 lays down that the maximum commission that can be paid to an insurance agent shall not exceed 15%, Section 42E of the Insurance Act, 1938 lays down that the maximum remuneration that may be paid to an insurance intermediary is 30%. Further it provides that the Authority may specify different amounts payable by way of commission, fee or remuneration to an intermediary or insurance intermediary or different classes of insurance business. In the case of few companies, Insurance Regulatory and Development Authority (IRDA) has observed higher payouts in the name of advertisement / publicity etc. IRDA has penalized M/s Cholamandalam General Insurance in the year 2010-11 and M/s Indusind Bank (Corporate Agent) in the year 2011-12 in this regard.

(e): Section 40C of the insurance Act, 1938 places limit on the expenses of management including commission or remuneration for procuring general insurance business. The limits on the expenses of management prescribed in Rule 17E of the Insurance Rules, 1939 give the manner and amount for determining the limits on the commissions and operating expenses. Any amount over and above the limits so prescribed though related to operating expenses, salaries, incentives, etc cannot be solely attributable to salaries. Therefore the remuneration of the CEOs/ Whole Time Directors up to Rs.1.5 crore is to be borne from Policyholders' account and any pay exceeding the limit to be borne from the shareholders' account. IRDA by limiting the remuneration to 1.5 crore from policyholders' account has limited the burden on the policyholders'.

(f): There is no express provision neither in the Insurance Act nor any Regulation of IRDA which prescribes recovery of the excess amounts from the licensed entities. However, on observing any such instance, IRDA would initiate action against the licensed entity for violating the guidelines of the Authority on the limits of payment of commission.