

**GOVERNMENT OF INDIA
FINANCE
LOK SABHA**

UNSTARRED QUESTION NO:2708
ANSWERED ON:07.02.2014
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;
- (e) whether payment of large amounts of salaries/incentives to CFOs and higher management has resulted in higher premiums for the common people and if so, the reaction of the Government thereto; and
- (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): As per General Insurers' Public Sector Association of India (GIPSA) the Public Sector General Insurance Companies (PSGICs) viz. National Insurance Company Ltd., New India Assurance Company Ltd., Oriental Insurance Company Ltd., and United India Insurance Company Ltd. have not asked for any revival package from Government.

(b): 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% and Section 42E of the Insurance Act, 1938 lays down that the maximum remuneration that may be paid to an insurance intermediary is 30%.

(c and d): Insurance Regulatory and Development Authority (IRDA) has observed higher payouts in the name of advertisement/publicity etc., and has penalised M/s Cholamandalam General Insurance Co. in the year 2010-11 and M/s Indusind Bank (Corporate Agent) in the year 2011-12 in this regard.

(e and f): Payment of remuneration to CEOs / Whole Time Directors of Indian Insurance companies is subject to approval of IRDA as provided under Section 34(A) (1) of the Insurance Act, 1938. Remuneration for the purpose of this section means and includes any provision conferring any benefit or providing any amenity or perquisite in whatever form, whether during or after the termination of the term of office of the Manager or Chief Executive Officer, or a managing or Whole Time Director, by whatever name called. Further, rule 17(D) and 17(E) of Insurance Rules 1939 stipulate the limitation of management expenses for both Life and General Insurers.

While according approval for appointment of CEO of insurance companies, IRDA limits the payment of remuneration by insurers to MD & CEO from Policyholders account, to Rs. 1.5 Crore in any one year. Any amount over and above this can be paid by Insurers only from the Shareholders account. Further, the Insurers are also required to disclose the details of the payment made as remuneration to MD and CEO in the Notes to Accounts which form part of the financial statements of the Insurer.

IRDA's Corporate Governance guidelines on Insurance Sector inter-alia provide for constitution of a Remuneration Committee, which shall determine the insurer's policy on specific remuneration packages and any compensation payment for the CEO and Executive Directors of the company, keeping in view the limits prescribed statutorily in the Insurance Act, 1938 and Rules framed there under in order to protect the interest of policy holders.

Since the total amount of remuneration in any form to be paid to CEOs under policyholders' account is restricted to Rs.1.5 Crore per annum, the impact on such outgo on premium levels is controlled.