

Policy on Payment of Commission



"COMMISSION POLICY"
VERSION 5.1

Policy on Payment of Commission

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Revision History

Version No.	Date of Revision	Created by	Reviewed by	Approved by	Description of change
1	23 rd May, 2023	Compliance and Distribution	CFO, CBO and CEO	Board of Directors	First time creation
2	31 st October, 2023	Compliance and Distribution	CFO, CBO and CEO	Board of Directors	Addition of CGO's name in the CCR constitution and few revisions/additions done post review by law firm

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CHAPTER 1 – INTRODUCTION/DESCRIPTION

1) Background

In line with the IRDAI (Payment of Commission or Remuneration or Reward to Insurance Agents and Insurance Intermediaries) Regulations 2016 and subsequent the IRDAI (Payment of Commission) Regulations 2023 of 26th March 2023 and any other amendment made thereafter, from time to time ("**Commission Regulations**"), all the Insurers are required to have a Board approved written policy on payment of Commission to Insurance Agents and Insurance Intermediaries, as applicable, for soliciting, procuring and/or transacting insurance business. Such Board approved policy shall be reviewed periodically by the Board of Directors of Insurers.

Further, the IRDAI through its circular on "*Guidance note – Board policy of the insurer on the commission structure*" of 31 March 2023 ("**Commission Guidance Note**") read with Regulation 8 of the Commission Regulations has clarified that such Board approved policy should be clear and transparent to ensure "*fairness, transparency, compliance, efficiency, and industry reputation in the insurance distribution process*".

This policy ("**Policy**") has been drawn by Pramerica Life Insurance Limited ("**Company**") in accordance with the Commission Regulations, the Commission Guidance Note, the IRDAI (Expenses of Management of Insurers transacting Life Insurance business) Regulations 2023 ("**EOM Regulations**"), the Insurance Act 1938, the Insurance Regulatory and Development Authority Act 1999 ("**IRDA Act**"), as amended from time to time and any applicable rules or regulations made thereunder.

This Policy covers the compensation related aspects pertaining to the individual Insurance Agents [appointment of which is governed per the IRDAI (Appointment of Insurance Agents) Regulations 2016] and various Insurance Intermediaries (in accordance with the respective regulations governing such Insurance Intermediaries), and any other intermediaries permitted by the IRDAI and as prescribed under the Commission Regulations and other applicable laws.

This Policy will be approved by the Board of Directors of the Company and reviewed annually by the Board of Directors of the Company.

2) Definitions

- (a) "Authority" or "IRDAI" means Insurance Regulatory and Development Authority of India established under Section 3 of the IRDA Act.
- (b) "Company" means "Pramerica Life Insurance Limited."
- (c) "Commission" means any compensation including remuneration, or reward, by whatever name called, paid by the Company to Insurance Agents and Insurance Intermediaries, as applicable, for soliciting, procuring and/or transacting insurance business. For the purpose of this Policy, the Commission will consist of the following two aspects:
 - (i) Direct Commission (identifiable at insurance policy level for first year and renewal year)
 - (ii) Rewards
- (d) "Committee for Commission and Rewards" or the "CCR" shall mean the committee constituted under this Policy, comprising of the senior executives of the Company to govern the payment of Commission (including rewards) to the Insurance Agents and Insurance Intermediaries on a regular basis, in accordance with this Policy and the objectives set out hereunder and to formulate and administer separate operating procedures, processes and guidelines for day-to-day management of Commission payments to Insurance agents and Insurance Intermediaries and for effective implementation of this Policy. The composition, scope and responsibilities of

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CCR, is set out herein, under Annexure A.

- (e) "Insurance Intermediary" means an "Intermediary" or "insurance intermediary" as defined in Section 2(1)(f) of the IRDA Act and includes insurance brokers, reinsurance brokers, insurance consultants, corporate agents, third party administrator, surveyors and loss assessors, Common Public Service Centre-Special Purpose Vehicle ("CPSC-SPV") and such other entities, as may be notified by the Authority from time to time.
- (f) "Insurance Agent" is defined as per Regulation 2(4) of the IRDAI (Appointment of Insurance Agents) Regulations 2016 and means, an individual appointed by the Company for the purpose of soliciting and procuring insurance business including business relating to the continuance, renewal or revival of policies of insurance.

3) Objective

The objective of this Policy is to define the broad framework with regard to the payment of Commission to Insurance Agents and Insurance Intermediaries pursuant to the Commission Regulations and the Commission Guidance Note, as amended, and any other norms issued by the IRDAI in this regard from time to time. The objectives of this Policy are to consider the following in relation to the creation and implementation of Commission structure:

- (a) Encouraging business efficiency, cost efficiency and effectiveness in the conduct of business and simplification of the administration of insurance business of the Company and to enhance productivity among various distribution models of the Company;
- (b) Encouraging efficient and cost-effective distribution;
- (c) Increasing insurance penetration and density in the country;
- (d) Safeguarding policyholder's interests along with the interest of the Insurance Agents and Insurance Intermediaries;
- (e) Enhancing the performance of Insurance Agents and Insurance Intermediaries;
- (f) Promoting fair and transparent competition among various distribution channels of the Company;
- (g) Recognizing the nature and tenure of the Company's insurance policies;
- (h) Aligning products and incentives with customer needs;
- (i) Ensuring this Policy is commensurate with the Company's business strategies;
- (j) Facilitating the development of new business models and products;
- (k) Ensuring that the Insurance Agents and Insurance Intermediaries are compensated fairly for their work, regardless of their size or bargaining power;
- (l) Encouraging good distribution practices of the Insurance Agents and Insurance Intermediaries;
- (m) Giving an indication on the relative degree of importance placed on each of the above.

In formulating the structure for the Commission payable, the objectives of this Policy shall be followed, as may be deemed appropriate for a particular insurance product, Insurance Agents and Insurance Intermediaries and the overall growth and development of the Company's business.

4) Scope of the Policy:

(a) Objectives and Principles –

The Board will ensure that objectives and principles of this Policy shall underpin the setting and implementation of the Commission structure. These objectives include promoting fair and transparent competition among the Insurance Agents and Insurance Intermediaries, aligning incentives with a focus on addressing customer needs, and encouraging efficient and cost-effective distribution of insurance products.

(b) Fairness and Reasonableness–

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The Board shall ensure that the Commission structure adopted is reasonable and does not result in excessive compensation to any particular Insurance Agent and/or Insurance Intermediary. The Board shall ensure that the Commission structure is commensurate with the efforts required to acquire and sustain that type of business, regardless of the size or bargaining power of the Insurance Agents and Insurance Intermediaries.

(c) Good Distribution Practice–

The Board shall ensure that the Commission structure adopted and implemented encourages good distribution practices of Insurance Agents and Insurance Intermediaries, with a view to enhancing customer satisfaction, building a stronger relationship with the customers, increasing the Company's market share and ensuring compliance with regulatory requirements.

(d) Regular Review-

The Board shall ensure a regular review process is carried out in relation to the Company's Commission structure, as set out under this Policy. The review shall be conducted by the Audit Committee of the Company in accordance with this Policy.

(e) Market Conduct–

For this purpose, the performance and compliance of the Commission structure shall be reviewed in accordance with this Policy. The Board shall set out the governance and oversight mechanism of the market practices and conduct of its Insurance Agents and Insurance Intermediaries to ensure that the Insurance Agents and Insurance Intermediaries adhere to high standards of behaviour and ethical practices.

(f) Monitoring and Reporting

The Board has put in place reporting requirements for the Commission structure, which includes regular reporting to the Board and the senior management of the Company on the performance and compliance of the Commission structure.

5) Applicability

- (a) This Policy shall be applicable to all the Insurance Agents and Insurance Intermediaries associated with the Company including CPSC-SPV.
- (b) This Policy shall not be applicable to insurance products specified under the IRDAI (Micro Insurance) Regulations, 2015 and such other insurance products as may be specified by the IRDAI from time to time.
- (c) Any new Commission structure for payment of Commission to the Insurance Agents and Insurance Intermediaries under this Policy shall not apply to already sold insurance policies.
- (d) The Policy sets out a broad framework on payment of Commission to the Insurance Agents and Insurance Intermediaries. The Policy does not detail all other operational matters for implementing the objectives and goals set out in this Policy and various day-to-day matters in terms of implementation of norms on payment of Commission to the Insurance Agents and Insurance Intermediaries. Such matters shall be dealt with by the Company with the approval of the CCR mentioned under Annexure A of this Policy.
- (e) The CCR shall act in accordance with the key points laid down in clause 4 under Chapter 1 of this Policy and the objectives set out in clause 3 under Chapter 1 of this Policy.

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- (f) The Commission structure set out under this Policy including operational procedures, processes and guidelines issued with the approval of the CCR, may be subject to change, due to any changes in applicable law, the Company's internal considerations as well as market practices, and shall be effective from the date on which this Policy and such operational procedures, process and guidelines are amended.
- (g) It is clarified that the computation of the Company's overall limits on Commission shall be done at the organization level, and not at each policy level or Insurance Agent, Insurance Intermediary or class of Insurance Intermediary or at any channel level. The CCR may consider paying a separate Commission across its Insurance Agents and across different classes of Insurance Intermediaries, as the case may be.
- (h) Where the insurance policies are sourced and procured directly by the Company, no Commission shall be payable to any Insurance Agent or Insurance Intermediary.

CHAPTER – 2 – MANNER AND CONDITIONS ON PAYMENT OF COMMISSION TO AN INSURANCE AGENT AND INSURANCE INTERMEDIARY

The payment of Commission to all the Insurance Agents and Insurance Intermediaries shall be within the limits specified in this Policy, in line with the Expenses of Management (EOM) limits prescribed by the IRDAI under the EOM Regulations and as per the following criteria:

- Quality of business procured by the Insurance Agents and Insurance Intermediaries irrespective of their size of business;
- Practices involved in solicitation of business by the Insurance Agents and Insurance Intermediaries;
- Protection of customer's interests; and
- Uniformity in approach towards all Insurance Agents and Insurance Intermediaries.

The Commission payout procedure and the Commission structure set out under this Policy will be subject to regular reviews to evaluate its effectiveness and efficiency basis impact on premium rates, benefit pay-outs, penetration, alignment with customer needs, interests etc.

The CCR will provide regular updates to the management and the Board on the performance and compliance of the Commission structure established in line with this Policy. For effective implementation of this Policy, the CCR shall establish the required internal standard operating procedures, processes and guidelines for Commission payments to the Insurance Agents and Insurance Intermediaries.

The Commission payable to the Insurance Agents and Insurance Intermediaries under this Policy may also depend on various factors, including continuity, renewal, termination or death of an Insurance Agent etc. The Commission payment including rewards payment, if any payable to the individual Insurance Agents and Insurance Intermediaries shall be decided by the CCR, in accordance with the following:

1) Payment of Direct Commission:

While making payment of any direct Commission, the parameters defined in Annexure B of the Policy along with the product wise caps on maximum direct Commission payable to the Insurance Agents, and Insurance Intermediaries shall be considered.

However, the broad guidelines to determine the manner and conditions of payment of direct Commission are:

- Direct Commission shall be on the basis of nature and tenure of insurance policy;
- Direct Commission shall be paid on the basis of parameters defined in Annexure B of this Policy; and

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- Direct Commission shall be determined irrespective of size and bargaining power of the Insurance Agent(s) and Insurance intermediary(ies).

2) Payment of Rewards

The rewards entitlement of an Insurance Agent and Insurance Intermediary shall be determined based on the parameters including but not limited to those set out in Annexure C of the Policy.

3) Timelines

The timelines for payment of Commission to Insurance Agents and Insurance Intermediaries will be determined by the CCR from time to time, in accordance with the internal operating procedures, processes and guidelines for Commission payments to Insurance Agents and Insurance Intermediaries.

4) Payment of Commission on cessation and/or termination of the relationship/agreement between the Company and the Insurance Agent(s)/ Insurance Intermediary(ies)

The payment of Commission in situations stipulated above, shall be governed by the terms and conditions of the contract/agreement entered into between the Insurance Agent/ Insurance Intermediary and the Company.

CHAPTER – 3 – REVIEW AND MODIFICATION OF THE POLICY

1) Return on payment of Commission:

Within 45 days of the expiration of each financial year, the Company will submit returns on payment of Commission made by the Company to the Insurance Agents and the Insurance Intermediaries during the preceding financial year, approved by the Board of Directors of the Company, in the format prescribed by the IRDAI.

The Return shall be reviewed by the Audit Committee of the Company prior to being placed for approval of the Board of Directors of the Company.

2) Monitoring and Reporting

For effective monitoring and oversight, the CCR shall on quarterly, basis report to the Board of Directors of the Company and senior management on the performance and compliance of the Policy and the Commission structure, including assessments of its effectiveness, efficiency, impact on premium rates, benefit pay-outs, penetration, alignment with customer needs and interests, report on any complaints and grievances received and any conflicts of interest identified by the CCR.

3) Review and Modification of the Policy

This Policy will be reviewed by the Audit Committee of the Company on an annual basis.

This Policy will also be reviewed by the Board of the Company on an annual basis and any modifications or improvements will be accordingly incorporated in the Policy to ensure compliance with applicable laws and regulations. Notwithstanding the foregoing, this Policy may be modified, with the approval of the Board or notification/ratification thereof to/by the Board at any time during the year.

Any amendments in the Regulations, Commission Guidance Note and other IRDAI regulatory framework applicable to this Policy shall automatically be deemed to be incorporated herein. Such changes in the Policy will be ratified by the

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Board during the next review.

4) Effective Date

The Policy will be applicable with effect from Financial Year 2024.

5) Disclosure

- This Policy is subject to the rules, regulations and guidelines issued by the IRDAI from time to time.
- Any aspect relating to Commission which is not specifically included in this Policy shall be governed in accordance with the applicable regulatory provisions of the IRDAI from time to time read with the Board approved policy on expenses of management and other internal separate operating procedure and guidelines as decided by the Board or CCR on behalf of the Board.
- Except in so far as specified in the Regulations, Commission Guidance Note, EOM Regulations and other IRDAI regulatory framework, nothing contained here in the Policy shall deem to prevent the Company to avail services of the Insurance Agents and Insurance Intermediaries, in the ordinary course of business and at arm's length basis.

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Annexure A

Committee for Commission and Rewards (“CCR”)

With a view to undertake the responsibilities assigned to it under this Policy, a committee comprising of senior executives of the Company is constituted, which shall be named as the “Committee for Commission and Rewards” or the “CCR”. The composition, responsibility, and reporting of the CCR shall be as under:

A. Composition of CCR

The CCR shall be a six-member committee, comprising of senior executives holding following positions in the Company:

1. Managing Director and Chief Executive Officer*
2. Chief Business Officer*
3. Chief Financial Officer*
4. Appointed Actuary*
5. Chief Compliance Officer*
6. Chief Growth Officer*

Apart from the abovementioned members of the CCR, there shall be certain senior executives of the Company (including business heads), who would remain as permanent invitees to the CCR and will be involved in the process of designing, processing and payout of Commission.

The CCR shall, from time to time, add or remove executives from the abovementioned list of designated members of the CCR and permanent invitees to the CCR, keeping in view their responsibilities and potential to contribute to the objectives of this Policy and responsibilities of the CCR as mentioned under this Policy.

B. Responsibilities of the CCR

The CCR shall inter-alia have the responsibilities,

- assigned to it by the Board from time to time, or
- as mentioned in this Policy, as amended from time to time.

The CCR shall remain responsible at all times for the following:

I. Levels of Commission payable to the Insurance Agents and Insurance Intermediaries

- a. To establish the required internal standard operating procedures, processes and guidelines for Commission payments to the Insurance Agents and Insurance Intermediaries in accordance with the parameters set out in this Policy, to implement and continuously monitor the implementation of such parameters, and to administer the levels of Commission(s) payable against every parameter set out therein,
- b. To add any new parameter over and above those set out in this Policy, keeping in view the business strategy, business performance and business priority of the Company from time to time,
- c. Remove, review, amend, modify or supplement an existing parameter set out in this Policy, keeping in view the business strategy, business performance and business priority of the Company from time to time,
- d. To set limits of expense on account of any or all parameters set out in this Policy (including in any additional parameters thereto), if and when the CCR considers it desirable in accordance with the Commission Regulations, Board approved policy of the Company on expenses of management, EOM Regulations and other applicable laws,
- e. To set volume target on account of any or all parameters set out in this Policy (including in any additional

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- f. parameters thereto), if and when the CCR considers it desirable, To perform, carryout, execute all other actions with respect to the Commission payable in the best interest of the Company and commensurate to the business strategy, business performance and business priority of the Company from time to time.
- II. Levels of spending and determination of entitlement of Insurance Agents and Insurance Intermediaries on account of rewards
 - a. To implement and continuously monitor the implementation of parameters set out in this Policy, administering the levels of expenditure to be undertaken by the Company on account of rewards against every parameter set out therein,
 - b. To add any new parameter over and above those set out in this Policy, keeping in view the business strategy, business performance and business priority of the Company from time to time,
 - c. Remove, review, amend, modify or supplement an existing parameter set out in this Policy, keeping in view the business strategy, business performance and business priority of the Company from time to time,
 - d. To set limits of expense on account of any or all parameters set out in this Policy (including in any additional parameters thereto), if and when the CCR considers it desirable in accordance with the Commission Regulations, Board approved policy of the Company on expenses of management, EOM Regulations and other applicable laws,
 - e. To perform, carryout, execute all other actions with respect to rewards payable in the best interest of the Company and commensurate to the business strategy, business performance and business priority of the Company from time to time.
- III. Renewal Commission, Hereditary Commission and transfer of orphan policies

The CCR shall provide operational philosophy, procedures, guidelines, and processes from time to time to deal with renewal Commission, hereditary Commission and transfer of orphan policies. Apart from the same, the CCR shall continuously monitor the implementation of such operational philosophy, procedures, guidelines, and processes.

The CCR, in line with intent to keep pace with market forces and innovation, new business model, may evolve new format or structure for payment of any "Other" Commission, *ie*, Commission based on the persistency, asset under management (AUM) for ULIP policies, volume linkage / achievement, vintage or seniority, expertise or quality, any other performance or qualitative criteria, structures/propositions linked to soliciting, procuring and/or transacting in insurance business, as may be appropriate.

IV. Disciplinary proceedings against misconduct

In the absence of an established process of initiating disciplinary proceedings against misconduct of any Insurance Agent and/or Insurance Intermediary, the CCR in such events and upon reference to it, shall constitute an appropriate disciplinary body to deal with such misconduct.

C. Meetings of the CCR

The CCR shall conduct at least one meeting during every quarter of a financial year. The presence of any four out of the total designated members of the CCR shall constitute the quorum for any meeting. The CCR shall take decisions in any meeting through the process of voting and on the basis of a simple majority of the members present and voting in the meeting.

Every meeting of the CCR shall be chaired by the Chief Executive Officer of the Company. In the absence of the Chief Executive Officer in any meeting, the Chief Financial Officer shall chair the meetings of the CCR. In the absence of the

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Chief Executive Officer and the Chief Financial Officer in any meeting, the members of the CCR present in the meeting and form the quorum shall nominate one amongst such members of the CCR as Chairman of that meeting of the CCR.

The Chief Compliance Officer (in discussion with the Chief Financial Officer and/or the Chief Business Officer) shall remain responsible for convening the meetings of the CCR periodically and conducting business in the meeting. Besides, any member of the CCR can also convene a meeting of the CCR for conduct of any business with prior notice of atleast one day to designated members of the CCR and permanent invitees to the CCR (if any).

D. Reporting of the CCR

The Chief Executive Officer and the Chairman of the CCR shall present a report to the Audit Committee of the Board in its every quarterly meeting, appraising the status of compliance of this Policy, apart from any other matter deemed fit and appropriate to be appraised to the Board.

E. Review of the responsibilities and performance of the CCR

The Company's Board shall have effective oversight on the implementation of the Policy and on the working of the CCR. The responsibilities and performance of the CCR shall be reviewed by the Audit Committee of the Board quarterly and if necessary, updated when there are significant changes in the practices or as warranted in accordance with the business plan, business strategy or business priorities of the Company from time to time. Any such change to the responsibilities, performance of the CCR shall be approved by the Board.

As set out above at Clause 2 under Chapter 3 of this Policy, the CCR shall also submit a report on the manner of implementation and compliance with this Policy to the Company's Board.

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Annexure B

Direct Commission shall be paid as the rates and terms and conditions specified in the table herein below:

Product	Nature of business	Direct Commission Range (% of Allowable of Expenses of Management)
Pure Risk -	New Business (in respect of insurance policies with premium payment term of 10 years and above)	0-100
	Others* (in respect of insurance policies with premium payment term less than 10 years)	0-67.5
	Renewal	0-25
Life	New Business (in respect of insurance policies with premium payment term of 10 years and above)	0-80
	Others* (in respect of insurance policies with premium payment term less than 10 years)	0-67.5
	Renewal	0-17.5
All single premium received during the year on insurance policies granting – Immediate Annuity	Single Premium	0-5
All single premium received during the year on insurance policies granting – Deferred Annuity	Single Premium	0-5
All premiums received during the year on other single premium insurance policies excluding group fund-based insurance policies, individual pure risk policies, group pure risk policies, immediate annuity and deferred annuity	Single Premium	0-5
All single premium insurance policies on group pure risk product	Single Premium	0-10
All single premium insurance policies on individual pure risk product	Single Premium	0-14
All premiums on one-year renewable group insurance policies (other than group fund based)	Single Premium	0-15
Group Fund insurance policies – AUM upto Rs. 10000/- crore	Fund Basis	0-1
Policies granting deferred annuity in consideration of more than one premium	First Year Premiums	0-15
	Renewal	0-6

* For where the maximum premium paying period under the insurance policy is less than ten years be reduced to a number equal to seven and half times the number of whole years in that period. Hence, allowable shall be as per

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following:

Premium paying term (No of whole years)	% of Allowable of Expenses of management
9	67.50
8	60.00
7	52.50
6	45.00
5	37.50
4	30.00
3	22.50
2	15.00
1	7.50
0	0

Any addition, amendment/modification or deletion of products or the rates of Direct Commission under the above established Direct Commission structure shall be done by the CCR in accordance with the applicable statutory/regulatory provisions and shall be reported to the Board on regular basis, in accordance with Clause 2 under Chapter 3 of this Policy.

The Direct Commission structure for all the products which are open to new business shall be based on this Policy.

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Annexure C

The list of parameters/eligibility criteria which shall determine the applicability and quantum of rewards payable to the Insurance Agents and Insurance Intermediaries are as follows:

- a) Business linked parameters such as:
 - New Business premium
 - Product mix
 - Renewal business
 - Persistency metrics
 - Other aspects depending upon business context
- b) Quality linked parameters such as:
 - Good distribution practices such as:
 - (i) Low grievance rate
 - (ii) Need based selling
 - (iii) Low Freelook cancellations
 - (iv) Higher persistency
- c) Nature of insurance agent(s) and/or insurance intermediaries such as:
 - Dependent on insurance business as its primary business
 - Infrastructure
 - Vintage of association with the Company

The above parameters, applicability of rewards, quantum of rewards and other aspects related to the rewards shall be determined and monitored by the CCR. Any addition, amendment/modification or deletion under the above-mentioned parameters or any other aspects of the rewards shall be done by the CCR in accordance with the applicable statutory/regulatory provisions and shall be reported to the Board on regular basis, in accordance with Clause 2 under Chapter 3 of this Policy.