Bajaj Allianz General Insurance Company Limited

Policy for payment of Commission
to Insurance Agents, Intermediaries and Insurance Intermediaries

Under the Insurance Regulatory and Development Authority of India (Payment of Commission) Regulations, 2023 **("the Regulations")**, an insurer is required to have in place a policy for payment of Commission to insurance Agents, Intermediaries and Insurance Intermediaries. This Policy **("Policy")** has been drawn according to the regulatory provisions applicable at the time of its approval by the Board of Directors (the Board). Any changes in the applicable mandatory regulatory provisions shall automatically be treated as part of this Policy until such time the Board of Directors have reviewed this Policy. The Policy would come into effect from 1 April 2023 in supersession of the earlier policies, in this respect, approved by the Board from time to time.

A) Objectives

The Policy sets out the framework and guidelines on payment of Commission to insurance agents, intermediaries and insurance intermediaries of the Company. The Policy does not detail the Company's processes for the day-to-day management of Commission to agents, intermediaries and insurance intermediaries.

This Policy is broadly formulated to ensure and promote fair, healthy and transparent competition amongst the agents, intermediaries and insurance intermediaries of the Company whilst duly ensuring the paramount interests of all its customers/policyholders and increasing insurance penetration across the country. Agents, Intermediaries, and Insurance Intermediaries are the core pillars and the most important channels of distribution of insurance products of the Company. Accordingly, the Policy is focused towards having the optimal Commission program to ensure best utilization of the capacities of agents, intermediaries and insurance intermediaries, while *inter-alia* ensuring:

i. Interest of policyholders are protected at all times, including avoiding excessive expenses at the cost of the policyholders,
ii. Objective of enhancing insurance penetration and density across the country,
iii. The nature and tenure of the different types of insurance products marketed by the Company is taken into consideration,
iv. Enhanced performance of the Insurance agents, Intermediaries or Insurance intermediaries,
v. Fair and reasonable commission structure for the agents, intermediaries and insurance intermediaries in line with the business strategy of the Company and the efforts required to acquire and sustain each type of business,
vi. Fair and transparent competition amongst agents, intermediaries, and insurance intermediaries,
vii. Commission structures are aligned with customer needs,
viii. Efficient cost structures commensurate with the Company's business strategy,
ix. Simplification of business processes and administration and
x. Alignment with the overall framework and guidelines laid down under the Company's Board Approved Policy on Expenses of Management.

B) Exclusions / Qualifications

i. No Commission shall be payable either to insurance agents, intermediaries or to the insurance intermediaries, where policies are procured directly by the Company,
ii. No Commission shall be payable to any insurance agent, intermediary or insurance intermediary who have been found guilty of being involved in any kind of fraud, fraudulent practice or malpractices of any nature.
iii. Generally, there would not be any restrictions in terms of specific products to be sold or not to be sold by the agents, intermediaries, or insurance intermediaries, as the case may be. However, certain lines of business or products do require special training to the business partners to ensure appropriate solicitation of business. Further, certain lines/products may

not be profitable for certain business models. Such cases may be decided by the Head of Underwriting and the Distribution Channel concerned on case-to-case basis.

C) Definitions

i. **"Commission"** means any compensation including remuneration, or reward or insurance penetration bonus, 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.

ii. **"Company"** means Bajaj Allianz General Insurance Company Limited.

iii. **"Insurance agent" or "agents"** means the individual insurance agents engaged by the Company.

iv. **"Insurance intermediaries" or "intermediaries"** means and includes:

- Corporate Agents
- Insurance Brokers
- Web Aggregators
- Insurance Marketing Firm
- Motor Insurance Service Providers (MISPs)
- Common Service Centres (CSC)
- Micro Insurance Agents
- Point of Sales Persons (POS)
- Any other person / entity as may be notified by the Authority from time to time authorized to solicit or procure or transact insurance business for an insurance company.

v. **"Insurance penetration Bonus"** means performance linked additional compensation paid to and received by an insurance agent or intermediaries or insurance intermediaries from the Company for soliciting and procuring insurance policies.

vi. **"Reward"** means the amounts paid, whether directly or indirectly, as an incentive by the Company to an insurance agent, intermediary or insurance intermediary towards various campaigns which may be run by the Company from time to time to drive a particular line of business, product, business model, etc.

vii. **"Cost ratio"** as a measure of efficiency for the purpose of this regulation may include on one or more out of the total cost to GWP or cost per policy or cost per customer.

D) Commission (including penetration bonus and rewards) – Manner and conditions of payment of Commission

i. The Commission would be paid only after issuance of the insurance policy.

ii. In case of receipt of premium by installments, the Commission shall be commensurate with quantum of premium received by the Company under each such installment.

iii. The Commission will be based on the premium amount received by the Company and excludes any tax or cess from its computation and shall be as per the arrangement or

agreement entered into with the agents, intermediaries or insurance intermediaries by the Company from time to time.

iv. Accrual for commission paid on long term motor policies will be aligned with premium payment and first year premium recognition. However for extended warranty where collection happens much before premium recognition accrual for commission paid will be aligned with premium recognition.

v. The Commission would be paid electronically or by account payee cross cheque to the concerned agent, intermediary or insurance intermediary only at such frequency as the Company may agree with each of them.

vi. In order to mentor fresh rookie agents/POS the Company may also pay a fixed stipend to such new agents for a period of one year. Similarly, in order to retain established agents/POS the Company may pay deferred commissions.

vii. Where the agent, intermediary or insurance intermediaries license is no longer active at the time of renewal, the Company may decide to assign such policies either to its direct channel or to an agent, intermediary or insurance intermediary and pay such Commissions as it deems fit keeping in mind the best interests of the policyholders, not exceeding the commission paid to the agent who became inactive.

viii. In the unfortunate event of the death of the Individual insurance agent while remaining engaged with the Company, the legal heirs of the individual agent will get the commissions at such rates as decided by the Company, upon receipt of the renewal premiums by the Company. If any of the legal heirs wishes to take up the insurance agency, the Company may provide training and/or internship at its own cost.

ix. The Company may prescribe **'Good distribution practices'** criteria as it may deem fit and link part/whole of the Commission to achievement of such criteria. The Company may also pay Commission on a deferred basis, in such cases, until such criteria are achieved. An indicative list of such 'Good distribution practice' criteria is as follows:

1. Sustainable business volumes,
2. Enhancing insurance penetration,
3. Good quality of business e.g. preferred customer segments / line of business / product mix (including various product variants) / geographies,
4. Acceptable policyholders support and servicing capabilities,
5. Low policyholders' complaints / grievances,
6. Healthy business composition: mix of new business / renewal business,
7. Healthy claims ratio, in terms of frequency and severity. Catastrophe and large claims may be excluded which may be deemed to be beyond the control of the agent/intermediaries,
8. Increasing sales of policies to existing customers,
9. Enhancing insurance awareness and Insurtech adoption.

x. ***Insurance Penetration bonuses*** – As part of the total Commission, the agents, intermediaries and insurance intermediaries shall also be over and above the per policy commission be entitled to volume-based commission which may also be linked to some good distribution practices criteria as indicated above.

xi. ***Rewards –*** As part of the total Commission, the agents, intermediaries and insurance intermediaries, the Company would run various business promotion schemes and campaigns through the year for its agents, intermediaries or insurance intermediaries and communicate the criteria for payments of rewards thereunder to its agents and intermediaries from time to time, in accordance with the objective and transparent criteria set out below in this Policy. Considering that the business promotion schemes and campaigns are launched throughout the year, the Board authorizes the CFO and the CDOs / Respective Sales head to jointly approve such business promotion schemes or campaigns from time to time.

By putting in place an objective and transparent criteria as set out below, the Company encourages both its agents, intermediaries or insurance intermediaries to constantly improve quality and volume of sales which also assists the Company in understanding the policyholders' needs, emerging market trends, supplement profitability and ultimately benefit its policyholders. The Company may accordingly evaluate the performance of such agents, intermediaries or insurance intermediaries on an on-going basis based on the following broad eligibility criteria for entitlement to rewards and penetration linked bonuses:

(1) Business achievement during the campaign period,
(2) Quality of business e.g. preferred customer segments/geographies, etc,
(3) Product mix including product variants,
(4) Business composition: New / renewal premium mix,
(5) Number of complaints and queries lodged by policyholders,
(6) Number/value of claims in the financial year,
(7) Overall business profitability,
(8) Insurance penetration,
(9) Insurance awareness,
(10) Insurtech adoption and
(11) Such other criteria as may be recommended by the CDO / Respective Sales head.

It is hereby clarified that Rewards & Penetration linked bonuses may not necessarily be linked to each and every insurance policy solicited by an insurance agent or an insurance intermediary or insurance intermediaries.

xii. The **maximum Commission** (including penetration bonus and rewards) to be paid to Agents, Intermediaries and Insurance Intermediaries shall within the overall limits prescribed under Annexure A to this Policy. The MD & CEO and the CFO on recommendation of the concerned distribution channel head may allow for additional commissions, from the said limits, based on the Company's business targets, prevailing market and socio-economic conditions, penetration opportunity, opportunity to geographically expand in new markets, drive new product sales /add on's /riders, the projected level of EoM by end of the financial year etc. While approving, the reasons therefor may be documented. The overall commission (including penetration bonus and rewards) shall, at the end of each financial year, under no circumstances exceed the Expense of Management (EOM) limits in line with IRDAI (Expenses of Management of Insurers transacting General and Health Insurance Business) Regulation, 2023 and as referred to as maximum commission payable in clause 5 (a) of the Regulations. (As premium inflows vary seasonally while costs like salaries and overheads are fixed, the Company's expenses may exceed EoM limits on a monthly or quarterly basis, as long as the Company's expenses are within the EoM limits by end of the year).

xiii. **Motor Individual Service Providers (MISP):** It is clarified that in the case of Motor Insurance business solicited by the MISP sponsored by an Insurance Broker, the Company may pay Commission in the form of Distribution Fees to both the Broker as also the individual MISP (Motor Dealers) under this Policy. The Commission payment made to

individual MISPs mapped to a Broker shall be towards policyholder support services provided by such MISP(s) based on performance-based criteria(s) and which *inter-alia* may include support services specialized / focused at ensuring the following –

- Provide dedicated assistance and explain to the customers the importance of disclosing all subsequent changes that might affect the insurance throughout the duration of the policy,
- Explain all the essential provisions of the cover afforded by the policy, as far as possible, the prospective client understands what is being purchased,
- Support the customer throughout the purchase journey and draw attention of the customer to any warranty imposed under the policy, major or unusual restrictions, exclusions under the policy,
- Ensure that all policyholder complaints are dealt with promptly and ensure that there is a robust system for recording and monitoring complaints,
- Actively support insurance awareness initiatives aimed at explaining insurance to consumers and the community at large,
- Enabling dedicated customer support through the use of digital enablers and
- Ensure fair customer feedback mechanism to be tracked through NPS score or any such equivalent matrix.

Similarly, the broker needs to be compensated for setting up and maintaining the entire insurance eco system between the Broker, the insurer and the MISP including the technology platform, integration between the three entities, the premium collection and reconciliation process, etc.

xiv. Market Conduct: The Company shall constitute an internal committee called **"Commission or Remuneration or Rewards Committee"** which shall comprise of the CFO, CCO, CDO Retail, CDO institutional, Technical Head and the Appointed Actuary (quorum to comprise of minimum 4 including the CDO).

The Committee shall be constituted and empowered to study, review and be updated on the various market practices across Agents, Intermediaries, and Insurance Intermediaries. The committee shall also be responsible to decide on the commission and/or penetration bonus or rewards structure and shall ensure that the total amount of commission payable (including penetration bonus or rewards) shall not exceed Expense of Management (EOM) limits in line with IRDAI (Expenses of Management of Insurers transacting Life insurance business) Regulation, 2023.

This Committee shall be responsible to ensure the governance and oversight mechanism for market conduct to ensure that all agents, intermediaries, and insurance intermediaries adhere to highest standards of behaviour and ethical practices. In the event of any conduct issues identified by the Committee, the same shall be immediately taken up by the Company with the concerned Agent, Intermediary or insurance Intermediary to sensitize them to immediately cease or amend the said practices or conduct which are detrimental to the interests of the policyholders and the insurance market at large. The same may also be reported to the General Insurance Council if deemed necessary by the Company for initiating further appropriate action in the matter.

The committee shall also ensure that there is no conflict of interest in respect of the relationship between the Company and its Agents, Intermediaries and Insurance Intermediaries, which may be detrimental to the interests of the policyholders including such Agents, Intermediaries and Insurance Intermediaries carrying out any additional services permitted under the regulations (apart from solicitation of business).

The Company may **claw-back the Commission** paid based on criteria prescribed by the Company or as agreed with the agent, intermediary or insurance intermediary including in the event of the agent, intermediary or insurance intermediary involved in any fraudulent practices.

Given IRDAI's focus on enhancing insurance awareness, the agents, Intermediaries and insurance intermediaries will also be entrusted to drive insurance awareness across the country.

The Company will also put in place an effective mechanism of ***termination / suspension*** of Agents, intermediaries or Insurance intermediaries in line with the Policy on "General Conditions for appointment of Agents" approved by the Board of Directors of the Company from time to time read with IRDAI guidelines on appointment of agents.

E) Board supervision

The regulation puts onus on the Board for efficient management of the policy to ensure efficiency in costs of the Company, protecting the interest of policyholders and intermediaries and enhancing penetration. The table below accordingly reflects the indicative assessment parameters the Company will be required to adhere to in achievement of the said objectives:

Objective to be addressed	Indicative assessment parameters
Efficient cost structures	• Ensure cost ratio in line with or better than comparable peers • Ensure COR amongst the best in industry • Cost ratio as KRA for all regional heads and above • Commission limits at LOB level keeping in mind the efforts required across segments
Interests of policyholders are protected at all times	• Ensure cost ratio in line with or better than comparable peers • Ensure the grievance ratio is in line with or lower than and Net Promoter score (NPS) is in line with or higher than comparable peers • Ensure fair pricing practice followed (Premium charged as per regulatory filing) • Ensure claw-back of commission/disciplinary action in case of fraud • Head Technical to consider discounts to be offered on directly sourced businesses and to customers with multiple products/policies (to enhance penetration) subject to F&U/U&F and underwriting guidelines.
Increase in insurance penetration and density	• GWP & NOP growth – target ahead of industry growth or be amongst the leading insurers • Higher penetration in smaller geographies • Higher commission for products with smaller ticket size – 2W, Travel, PA, etc. • Higher commissions for MSME segment • Higher commissions for promoting health insurance which is a focus area under the Insurance Act • Maintain amongst the largest distribution network with targets for addition to distribution
The nature and tenure of the insurance policy	• Ensure diversified and a widespread product portfolio • Ensure ample products added to portfolio during the year

Objective to be addressed	Indicative assessment parameters
	• Enhance inclusion by maintaining a much higher contribution from Rural and Social sector than prescribed by IRDAI
Protecting the interest of the insurance agents, intermediaries or insurance intermediaries	• Maintain amongst the lowest grievance ratio and amongst highest NPS score • Ensure interest of the smaller agents & POS segment; ensuring that they are not marginalized through higher remuneration on retail products and separate verticals created for these type of agents • A 3 tier compensation structure to enhance performance – commission, penetration bonus and rewardsf • Provision for hereditary commission to nominee of agent in case of death of an agent while in service • Providing health insurance, accident insurance and other insurance to individual intermediaries and their families based on the reward programmes run by the company which specifies the criteria for eligibility.

The Board, in addition to the above, may also review or monitor such other additional parameters towards the Company ensuring fulfillment of each of the said objectives in true spirit.

F) Review of Policy

In terms of the applicable regulatory framework, the Board shall have effective oversight of the implementation of this Policy. The MD & CEO and CFO shall annually provide a report to the Board setting out the manner of implementation and compliance with the Policy And a certificate of compliance with the policy.

The Board shall consider the report and suggest changes to the manner of implementation or otherwise, in the event warranted, based on its review.

This Policy will be reviewed annually by the Board and any modifications or improvements will be accordingly incorporated. Notwithstanding the foregoing, this Policy may be modified during the year by the MD & CEO and CFO jointly prior to any such annual review and such modifications shall be reported to the Board annually for ratification.

Internal Audit shall audit the adherence to the process detailed in the policy and related documentation and such Compliance shall be reported to the Audit Committee, half-yearly.

Annexure A

Line of business	Average commission to be maintained for FY2024
Retail lines	
Motor – 2W	35%
Motor – 4W	25%
Motor – CV	30%
Motor EW	20%
Motor total	**30%**
Retail health* including PA and Travel	**27.5%**

Home insurance	**27.5%**
EW non motor	**10.0%**
Commercial lines [1]	**15%**
Miscellaneous and Other lines [2]	**30%**
Government health and Crop	**As per government tender terms**

Notes:

1. Commercial lines include Property, Engineering, Liabilities, GMC, Marine, etc.

2. Miscellaneous and Other lines include Rural business, New products like Cyber insurance, Pet Insurance etc.

3. While adhering to the above stated limits, the Company may, through the commission structure, endeavor to:

    a. Drive insurance awareness through agents, intermediaries and insurance intermediaries,
    b. Provide for higher commissions to:
        - Enhance penetration in smaller towns in India or newer geographies the Company is venturing into,
        - Encouraging MSME/SME coverages,
        - Enhance sale of smaller ticket size products including 2W, PA, Travel, Retail health, etc.
        - Drive retail sales which require higher efforts in solicitation, deal conclusion and servicing (including claims assistance),
        - Drive larger coverages per customer and more policies per customer,
        - Drive sales of new product/lines.
        - In line with Section 3(2AA) of the Insurance Act which specifies that the Authority shall give preference to register applicants for licence to carry on insurance business for providing health cover to individuals or groups of individuals and in line with the extra EOM limit provided by the Authority to SAHI Companies, the Company may, with the approval of CEO and CFO, pay up to 5% more for such segments or intermediaries selling health insurance as they deem necessary.

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Version 1 was approved by the Board of Directors vide Circular Resolution passed dt 3 April 2017.
Version 2 was approved at the Board meeting held on 17 October 2018.
Version 3 was approved at the Board meeting held on 15 May 2020.
Version 4 was approved at the Board meeting held on 20 October 2021
Version 5 was approved at the Board meeting held on 21 April 2023 pursuant to revised commission regulations.
Version 6 was approved at the Board meeting held on 23 January 2024