Commission Policy for Insurance Agents and Insurance Intermediaries

HDFC Life

1. Introduction

1.1 The Insurance Regulatory and Development Authority of India (hereinafter, IRDAI/Authority) through its notification on the IRDAI (Payment of Commission) Regulations 2023 of 26 March 2023 (Regulations) and any other amendment made thereafter, from time to time has notified the provisions applicable for payment of Commissions to insurance agents and insurance intermediaries. The Regulations supersede the IRDAI (Payment of Commission or Remuneration or Reward to Insurance Agents and Insurance Intermediaries) Regulations 2016 and comes into force from 1 April 2023 onwards.

1.2 The Regulations require every insurer to have a written policy for payment of Commissions to insurance agents and insurance intermediaries, as applicable, for soliciting or procuring or transacting insurance business, duly approved by the Board and reviewed periodically. Further, the IRDAI through its circular on "*Guidance note – Board policy of the insurer on the commission structure*" notified on 31 March 2023 (Commission Guidance Note) read with R8 of the 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*".

1.3 This policy (Policy) has been prepared by HDFC Life Insurance Company Limited (Company)in accordance with the Regulations, the Commission Guidance Note, the IRDAI (Expenses of Management of Insurers transacting Life Insurance business) Regulations 2023 (as amended or any other norms notified in this regard from time to time) (EOM Regulations), the Insurance Act 1938 (as amended from time to time), the Insurance Regulatory and Development Authority Act 1999 (as amended from time to time), and any applicable rules or regulations made there under.

1.4 This Policy covers the Commission 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 intermediaries), and any other intermediaries permitted by the IRDAI, as prescribed under the Regulations.

1.5 This Policy will be approved by the Board and reviewed periodically by the Board. The Policy shall come into effect from 1 April 2024.

1.6 **Definitions:**

a) "Act" means the Insurance Act, 1938 (4 of 1938), as amended from time to time.

b) "Authority" or "IRDAI" means the Insurance Regulatory and Development Authority of India established under the provisions of Section 3 of the Insurance Regulatory and Development Authority Act, 1999 (41 of 1999).

c) "Commission" means any Commission including remuneration, or reward, by whatever name called, paid by the Company to insurance agent, intermediary or insurance intermediary, as applicable, for soliciting or procuring or transacting insurance business for the Company.

For the purpose of this Policy, the Commission shall also include any Productivity Commission payable to Insurance Agents and the Insurance Intermediaries upon meeting certain pre-specified parameters, as specified in the Commission & Remuneration Operating Manual (CROM).

d) Words and expressions used and not defined in these Regulations but defined in the Act, as amended from time to time, the Insurance Regulatory and Development Authority Act 1999 or in any of the rules or regulations made there under shall have the meaning respectively assigned to them in those acts, rules or regulations.

e) "Insurance Intermediary" means insurance intermediary or intermediary as defined under section 2(f) of the Insurance Regulatory and Development Authority Act 1999 and shall include insurance brokers, re-insurance brokers, insurance consultants, corporate agents, insurance marketing firms and web aggregators and any intermediary, as prescribed under the Regulations, as may be permitted by the IRDAI.

f) "Insurance Agent" means an individual appointed by the Company who receives or agrees to receive payment by way of Commission in consideration of his soliciting or procuring insurance business for the Company including business relating to the continuance, renewal or revival of policies of insurance.

1.7 **Objective:**

The objective of this Policy is to put in place the broad framework for payment of Commissions to Insurance Agents and Insurance Intermediaries pursuant to the aforesaid Regulations, as amended, and any other norms issued by the IRDAI in this regard from time to time. The objectives of this Policy are to ensure the following in relation to the creation and implementation of Commission structure:

a) it is in the interest of the policyholders;
b) it increases insurance penetration and density in the country;
c) it recognises the nature and tenure of the Company's insurance policies;
d) it is in the interest of the Insurance Agent and Insurance Intermediary;
e) it enhances the performance of the Insurance Agent and Insurance Intermediary;
f) it is commensurate with its business strategy of the Company;
g) it brings cost efficiencies in the conduct of business and simplification of the administration of insurance business of the Company;
h) it promotes fair and transparent competition among the Insurance Agents and Insurance Intermediaries, aligning incentives with customer needs, and encouraging efficient and cost-effective distribution;
i) the Insurance Agents and Insurance Intermediaries are compensated fairly for their work, regardless of their size or bargaining power;
j) it encourages good distribution practices of Insurance Agents and Insurance Intermediaries; and
k) it gives an indication on the relative degree of importance placed on each of the above.

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

1.8 **Scope of the Policy:**

- 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 thereby reducing conflicts, aligning incentives with a focus on addressing customer needs, and encouraging efficient and cost-effective distribution.
- The Board shall ensure that the Policy recognises and addresses potential conflicts of interest due to the Commission structure, such as the Insurance Agents or Insurance Intermediaries recommending products that are not in the customer's best interest in order to earn higher commissions.
- The fixed Commission for different insurance products in the same genre has been homogenized in order to avoid any conflicts. Productivity related Commission will depend on the achievement of the specific parameters agreed with the Insurance Agents or Insurance Intermediaries which are reviewed and approved by the CROM Committee (as defined in Section 3).

1.9 **Applicability:**

(a) 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.

(b) 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 though separate procedures and operating process and guidelines called as "Commission & Remuneration Operating Manual" (CROM) issued with the approval of the CROM Committee.

(c) The CROM Committee shall ensure that the CROM prescribed schemes are in line with the key points laid down under clause 1.8 of the Policy and are in accordance with the objectives set out in clause 1.7 of the Policy.

(d) The CROM, including any Commission structure set out there under, 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 the CROM is amended.

(e) 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 CROM Committee may consider paying separate Commission across its Insurance Agents and across different classes of Insurance Intermediaries, as the case may be.

(f) Where the insurance policies are sourced and procured directly by the Company without involvement of any intermediary / intermediary website, no Commission shall be payable to any Insurance Agent or Insurance Intermediary.

2. CROM Committee

2.1 A group comprising of the Deputy Managing Director, Chief Financial Officer, Appointed Actuary, Chief Risk Officer, Chief Compliance Officer and CMO & Group Head Strategy of the Company (all of them acting jointly) shall constitute the CROM Committee, and be authorized to formulate and administer the CROM in order to lay down and implement the Commission program for payout of Commission. The CROM Committee is further authorized to review, amend, repeal or modify any part of the CROM including any criteria/parameter, etc., either prospectively or retrospectively, on a case-to-case basis assessed on merit, across various versions of products, in so far as there is no detrimental impact on policyholders' interest and in accordance with this Policy and the extant applicable laws.

2.2 Considering that the schemes and campaigns are launched throughout the year, the Board authorizes the CROM Committee to approve the business promotion scheme or campaign from time to time.

3. Oversight of the implementation of the CROM

Notwithstanding the foregoing, the Board shall have effective oversight on the implementation of the Policy and the CROM. The CROM Committee shall submit a separate report for its respective distribution channel on the manner of implementation and compliance with the Policy and the underlying CROM, to the Board at least on an annual basis. Any changes suggested by the Board on such implementation, or any other aspect shall be incorporated in the Policy and/or the CROM and/or implemented as required.

4. Commission structure for insurance agent / insurance intermediary

4.1 The Commission structure for payment of commission to the Insurance Agents and Insurance Intermediaries shall be in accordance with the existing provisions under Reg 5 of IRDAI (Payment of Commission) Regulations ,2023 and under Reg 16 of IRDAI (Expenses of Management of Insurers transacting life insurance) Regulations, 2023 shall be linked to the EOM of the Company.

4.2 For business sourced from 1st April2023 the following shall be applicable:

A. The CROM which includes all matters for implementing the objectives and goals set out in this Policy and various the day-to-day matters in terms of implementation of norms on payment of Commission to the Insurance Agents and Insurance Intermediaries.

B. The CROM will contain the details of the Commission, including the Commission for Solicitation of Insurance, Productivity based rewards and Transacting Insurance business / Developing Insurance penetration remuneration, If any, payable to the individual Insurance Agents and Insurance Intermediaries.

C. The Commission structure shall be based on factors such as new business volume, frequency of disbursement, deferment, claw-back arrangement and or a combination of other parameters as deemed suitable as detailed in subsection “K” for individual Agents and subsection “L” for Insurance Intermediaries

D. Actual payable Commission for the Insurance Agents and Insurance Intermediaries shall be in the form of:

- Commission for solicitation of insurance (New Business & Renewal business)
- Productivity based rewards (New Business & Renewal business)
- Transacting Insurance business / Developing insurance penetration remuneration (New Business & Renewal business)

E. Commission for solicitation of Insurance shall be applicable to all the Insurance Agents and Insurance Intermediaries. This would be applicable for Individual and Group business

F. Productivity based rewards shall be applicable to all the Insurance Agents and Insurance Intermediaries who qualify on the parameters defined under Productivity Commission parameters specified in the CROM. This would be applicable for Individual and Group business

G. Transacting Insurance business / Developing Insurance penetration remuneration shall be applicable to the Insurance Agents and Insurance Intermediaries where the organization has a requirement for doing additional activities. This would be applicable for Individual and Group business

H. The frequency of commission payout to the Insurance Agents and Insurance Intermediaries shall be on a weekly / fortnightly / monthly / quarterly / half yearly / annual basis, as may be deemed feasible / operationally optimal.

I. The approved Commission structure shall be detailed in the CROM and shall be executed by the concerned department as defined in the CROM

J. Deviations if any under this Policy or the CROM shall be notified to CROM committee for appropriate action.

K. **Benefits for Individual Agents:** In addition to incentivizing the Insurance Agents to perform to the best of their abilities for the Company, it is of utmost importance to ensure that the interests of policyholders are protected. Therefore, the Company recognizes the need to prioritize the nature and tenure of policies, improved focus on protection, and safeguard the policyholders' interests at all times. Furthermore, the Company is committed to ensuring that the Insurance Agents receive long-term stability in their functioning and their savings goals are protected. The criteria for deciding the Productivity Commission for eligible insurance agents shall be as defined in the CROM, and the applicable scheme shall be monitored by the CROM Committee. The Company understands that the Insurance Agents are an integral part of the business and aims to provide them with the necessary support in the areas of Marketing, Renewal collections and other productivity enhancement parameters to ensure they can deliver their best to the policyholders while also securing their own future.

➢ An insurance agent will be eligible to receive Productivity Commission (defined as part of separate productivity Commission scheme/s approved by the CROM Committee) under one or more of the following heads, which are a combination of performance parameters and other schemes/campaigns aiding the overall brand/distribution/outreach of insurance plans of the Company:

- Gratuity / Term Insurance /PA Cover / Medical Insurance;
- Telephone Charges / Office Allowance / Transportation Allowance;

- Sales Promotion / Advertisement / Visibility Fees
- Gift Items / Competition Prizes;
- Education / Skill development benefits / Learning Programs (Domestic / International) (Physical or Digital);
- Development of new strategies for penetration of insurance (Lead Generation / Insurance Awareness activities);
- Mentor / Recruiter / Coach / Trainer;
- Persistency ratio;
- Volume of new business;
- Assets under management (AUM);
- Channel Performance;
- Number of months active with new business;
- Vintage in the Organisation as an Agent;
- Number of lives;
- Product Mix;
- Quality of business;
- No of training programs completed as participant;
- No of training programs certified;
- Or any other parameter as deemed fit by the CROM committee.

L. **Benefits for Intermediaries:** In order for the Insurance Intermediaries to have sufficient incentive to produce the necessary results and perform to the best of their abilities for the Company, it is essential for them to follow good distribution practices, ethical practices, and maintain a high standard of behavior. The criteria applicable for eligible Insurance Intermediaries shall be as defined in the CROM, and the applicable scheme shall be monitored by the CROM Committee to ensure compliance with the established guidelines and principles of good business practices. The Company also understands that the Insurance Intermediaries are an integral part of the business and aims to provide them with the necessary support in the areas of Marketing, Renewal collections and other productivity enhancement parameters. By rewarding the Insurance Intermediaries who exhibit these qualities, the Company can further promote and encourage a culture of excellence and professionalism within the industry.

➢ An Insurance Intermediary will be eligible to receive Productivity Commission (defined as part of separate productivity Commission scheme/s approved by the CROM Committee) under one or more of the following heads, which are a combination of performance parameters and other schemes/campaigns aiding the overall brand/distribution/outreach of insurance plans of the Company:

- Data Modelling / Management Services
- Infrastructure charges;
- Technology implementation;
- Advertisement / Visibility fees;
- Manpower charges;
- Volume of New Business;
- Assets Under Management(AUM);
- Channel Sales Targets;
- Persistency Ratio;
- Product Mix;
- Number of lives;
- Number of policies;
- Branch Activation;
- Specified Person / Broker Qualified Person Activation;

- Specified Person / Broker Qualified Person Skill building / Learning Programs (Domestic/International) (Digital / Physical)
- Business (Premium or NOP generated from different category branches);
- Policy Term;
- Market share for HDFC Life;
- Or any other parameter as deemed fit by the CROM committee

M. The Company shall have right to claw-back Commission including Productivity Commission and / or take appropriate disciplinary action including penalty in case of mis selling, as detailed in the CROM.

N. Orphan policies currently are serviced directly by the Company's Direct Channel Front Line Sales (FLS) and Business Retention Teams. The Company may at its discretion consider allocating orphan policies to any Insurance Agent / Intermediary which will be governed by the provisions as laid down in the CROM.

O. The Insurance Agents and Insurance Intermediaries shall be eligible to sell products as per the File and Use document filed with the IRDAI or the Use and File document of the respective product/plan offering, as may be applicable. Nonetheless the Company may, depending on customer segments decide that certain products will be sold through certain channels or to certain category of customers only.

P. Renewal commission in the event of the death of the Insurance Agent shall be governed by CROM. The Company at its discretion may consider hiring spouse or children of the deceased Insurance Agent to work with the Company as an Insurance Agent or employee based on their eligibility as per the Company terms and conditions.

5. Ownership and Regular Review of the Policy

5.1 The Policy is owned by the Board. This Policy will be reviewed by the Audit Committee of the Company, at least on, an annual basis.

5.2 This Policy will also be reviewed by the Board on an annual basis and any modifications or improvements will be accordingly incorporated in the Policy. 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.

5.3 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 Board during the next review.

6. Monitoring and Reporting

6.1 For effective monitoring and oversight, the CROM Committee shall at least on annual basis report to the Board of Directors of the Company and senior management on the performance and compliance of 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 CROM Committee.

7. Disclosure

7.1 This Policy is subject to the rules, regulations and guidelines issued by the IRDAI from time to time.

7.2 The Policy shall be reviewed on an annual basis or as and when required on account of changes in the applicable laws.

7.3 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 CROM and the Board approved policy on EOM and other internal separate operating procedure and guidelines as decided by the Company.

Except in so far as specified in the Regulations, Commission Guidance Note and other IRDAI regulatory framework, nothing contained herein 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.

Annexure : (New Grid Incorporated basis the direction from CROM committee)

Maximum Commission for solicitation of Insurance for Insurance agents & Insurance Intermediaries:

	Column A	**Column B**
Par - Savings / Non Par - Savings / Term - ROP & Income Plus / Health / Pension Deferred	**Commission for Solicitation of Insurance in % (Upto) (All Products & remaining term plan options)**	**Commission for Solicitation of Insurance in % (Upto) (Term plans other than Return Of Premium & Income Plus)**
5	30.00%	40.00%
6	36.00%	40.00%
7	42.00%	Same as grid mentioned in **column A**
8	48.00%	
9	54.00%	
10	60.00%	
11	60.00%	
12	60.00%	
13+	65.00%	
Immediate Annuity or Pension (Single Premium)	2.00%	
Other Single premium policies	7.00%	
UL Regular - PPT <= 10 (Incl Smart Protect)	15.00%	
UL Regular - PPT >10 (Incl Smart Protect)	20.00%	
UL - C2I	7.50%	
UL - C2W (All modes)	1.00%	

Group Term Products – upto 15%

Credit Life Products – upto 10%