CIRCULAR

The CEO's of All Non-Life Insurance Companies

Expenses of Management (EOM) under section 40C of the Insurance Act, 1938 read with Rule 17E of the Insurance Rules 1939

A detailed review of the various elements of the ‘Expenses of Management’ (EOM) reckoned by non-life insurers for compliance with section 40C of the Insurance Act, 1938 read with Rule 17E of the Insurance Rules 1939 undertaken by the Authority recently has indicated that there are divergent practices in the presentation of details and interpretation of the applicable provisions among the insurers.

2. The issues have been examined and the following clarifications are provided to facilitate a uniform approach by all companies:

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| 1      | Rule 17E(3)(i) to 17E(3) (ii) | Interest earned on paid up capital | It should be based on:
|        |                    |             | a) Yearly mean yield on the interest yielding investments (excluding equity, real estate etc..) during the year applied on the mean equity capital. |
|        |                    |             | Equity capital for this purpose includes:
|        |                    |             | • Share Premium; Reserves & Surplus, shareholders portion of credit balance in Fair Value Change Account net of
|        |                    |             | • Debit balances in the Profit and Loss Account,
|        |                    |             | • debit balance in Fair Value Change Account and
<p>|        |                    |             | • Preliminary expenses, if any. |
|        |                    |             | b) Profit on sale of investments/loss on sale of investments should be excluded for the purpose of computation of investment income |</p>
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<td>2</td>
<td>Explanation (b) to section 40C</td>
<td>'Charges' to be included.</td>
<td>All charges levied directly or indirectly in respect of the insurance business but excluding taxes which are charge against profits e.g. income tax, wealth tax. The other taxes like Service Tax borne by the insurer, Fringe Benefit Tax, which are not charge against profits should however, not be excluded.</td>
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| 3      | Explanation b(iii) to section 40C of the Insurance Act, 1938 | Expenses that can be excluded for the purposes of 'expenses of management'. | Only expenses debited to profit and loss account relating exclusively to the 'management of capital'; 'dealings with shareholders' and a proper share of managerial expenses calculated in such manner as prescribed in Rule 17-FB alone can be excluded for the purpose of EOM. Expenses towards: (i) 'Management of Capital' includes fees for increasing authorized capital, issue expense, underwriting fees (if any.), lead managers' fee etc. and expense incurred towards managing capital which includes employee cost involved in the activities of investment of capital, relevant bank charges, demat charges etc. (ii) 'Dealings with shareholders' includes expenses for calling and holding meetings of shareholders, secretarial expenses, stamp duty incurred in increase/decrease of capital etc., (iii) Proper share of managerial expenses to be deducted (Y) shall be computed as under: 
\[(15\% \text{ of } C)/P = X\]  
\[Y = R \times X\]  
Where,  
C is the Paid-up Capital of the Insurer,  
P is the gross premium written direct in India,  
X is the proportion of 15\% of C and P  
R is the total Remuneration of Chief Executive Officer of the insurer (by whatever name called)  
Y is the deductible proportion of total remuneration received by the Chief Executive Officer of the insurer. |
3. The statement of the management expense should be signed by the Managing Director/CEO and certified by at least one of the Statutory Auditors of the insurer.


5. This circular is effective from the financial year 2010-11.

(R. K. Nair)
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