IB puts restrictions on salary, allowances of insurance CEOs

The Insurance Board (IB) — insurance sector regulator of the country — has placed curbs on the salary and allowances of chief executive officers (CEOs) of insurance firms. The IB has issued a circular to the insurance firms that have placed restrictions on the salary and facilities of CEOs those insurance companies have to execute from today.

Insurance firms can pay up to six per cent of average expenses made for total salaries and allowances of staffers in the last three fiscals to the chief executive or 0.5 per cent of the average of the three fiscal's total assets, whichever is lower.

IB has instructed the insurance companies to pay attention to the solvency of the company, salary of the CEOs in other similar companies in the country, management cost, claim settlement, insurance surrender, compliance, underwriting profit of last three fiscals, financial status of the company and renewal rate of insurance policies — especially for life insurers — while fixing the salary and allowances of the CEO.

Chairman of IB, Chiranjibi Chapagain, has said that the insurance sector regulator has provided this guidance to the insurance firms to prevent unhealthy competition in the market after the entry of new players. The IB has issued licence to eight new life insurers and extended letter of intent (LoI) to three non-life firms a few months back. There are altogether 17 life insurance firms in operation and there will be 20 non-life firms if the IB extends licence to the companies that have received LoI from the insurance sector regulator.

Newly opened insurance firms will have to fix the salary and allowances of CEOs based on the lowest industry average of the last three fiscals of insurance firms in operation. However, new companies can offer up to 150 per cent of the industrial average to the CEO for the first contractual period. Industrial average means up to six per cent of the three fiscal's average expenses of the insurance firms or up to 0.5 per cent of the average asset of the three fiscals, whichever is lower.

The Insurance Board has also issued an instruction to the insurance firms to provide additional facilities based on the performance of the company. Insurance companies cannot extend incentives like bonus as per the labor act and other prevailing acts. The incentives must not exceed 70 per cent of the total salary and allowances, which is up to six per cent of the total staff expenses or 0.5 per cent of the assets, whichever is lower. If the additional facilities exceed 40 per cent of annual salary and allowances, the amount exceeding 40 per cent should be put into the reserve fund for three years and that needs to be mentioned in reverse income in financial statement of the company if it incurs a loss.

However, the insurance companies can provide facility of life insurance and medical insurance to the CEO and health insurance to family members of the CEO.

Source: The Himalayan Times, 18th December, 2017

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