

To
The Chief Financial Officer
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Royalty for Brand Usage by Max Life to Axis Bank– Benchmarking Report

Background

Max Life Insurance Company Limited.(Max Life) is engaged in life insurance business and being in insurance industry, is regulated by IRDAI.

Max Life is promoted by Max Financial Services (MFSL) and Axis Bank (Axis). We understand that Axis as a promoter wants to charge Max Life royalty fee towards license to use brand name and Logo (Royalty fee) @ 15 bps of adjusted operating revenue of Max Life (Refer Annexure A of the estimated amounts based on FY 24 Financials) as per its prevailing brand usage guidelines/ policy.

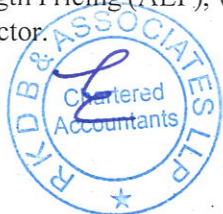
Statutory Provisions

The Companies Act, 2013 (the Act) introduced sections 177, 184 and 188, which contain provisions regarding Related Party Transactions. These sections, along with the relevant rules framed under the Act and the Secretarial Standards issued by the Institute of Company Secretaries of India, have introduced certain compliance requirements with respect to Related Party Transactions. The IRDAI Corporate Governance Regulations also require adherence to various compliances for entering into transaction with Related Party(ies).

In terms of Section 188 of the companies Act, transactions which are in ordinary course of business and are at arms' length price requires Audit Committee approval. Also, under Income Tax act, transactions under Transfer Pricing should be at Arm's Length. Therefore, it is important to determine the arms' length price of the transaction.

Arm's Length Price Determination

To determine the Arm's Length Pricing (ALP), we need to check the practices across Life Insurance Industry as well General Insurance sector.



The method of determination of ALP is neither defined under the Companies Act, 2013 nor IRDAI Regulations. The detailed methodology of pricing is explained under section 92C (1) of the Income-tax Act, 1961 read with Rule 10B/10AB of the Income-tax Rules, 1962, which specifies methods of determining ALP.

Further, GST laws by virtue of Section 7 and Section 15 read with Rules under GST laws have prescribed valuation mechanism on the transfer or right of use of the trademark in case of Related Parties. One of the key method of valuation is Open Market Value, which means value charged for similar brand trademark usage by other entities.

In order to determine the open market value, below methodology has been followed:

- A. Regulatory restrictions, limits or permission on payment against use of brand name and logo
- B. Amounts charged by other banks/ promoters from their related parties in Insurance space
- C. Comparison of proposed amounts to be charged by Axis Bank from Max Life vis-à-vis amounts charged from its other related parties.

A. Relevant regulations on charging royalty fee for use of Brand name/logo

IRDAI:

All insurers shall endeavor to create their trade logo. Where an Insurer uses the trade logo of any of its promoting partners and/ or any other parties, there shall be in place a written agreement setting forth the underlying terms and conditions, and shall be in compliance with the extant laws.

The parties to the agreement shall specify the consideration towards usage of trade logo in the agreement in unambiguous terms.

SEBI:

The listed entity shall formulate a policy on the materiality of related party transactions and on dealing with related party transactions [including clear threshold limits] duly approved by the board of directors and such policy shall be reviewed by the board of directors at least once every three years and updated accordingly.

As per the regulation 23(1A) of the SEBI (LODR) regulations, transactions involving payments of 5% of the turnover to Related party for brand usage or royalty shall be considered as material related party transaction. Accordingly, a broader range has been provided which regulations consider material transactions. In addition, the listed entities shall be guided by the thresholds set out in regulation 24 of the SEBI (LODR) regulations to seek approval of its shareholders as and when applicable.

B. Royalty fee charged by promoters in Insurance space

In our understanding, some of the promoters do not charge fee for usage of brand trademarks from their subsidiaries except below mentioned Companies. It may also be noted that most of Insurance players are loss making considering long gestation period and hence no charges made.



i. Royalty payments by Life Insurance Companies:

(INR Crs.)	HDFC Life	ICICI Pru	SBI Life	PNB Met life
Particulars	FY24	FY24	FY24	FY24
Brand Usage Fee	242	8	38	2
Gross Premium	63,076	43,236	81,431	9,732
SH Profit (PBT)	1,564	923	1,942	289
Adjusted Operating Revenue (Adj. Op. Revenue)*	1,801	2,841	3,632	385
Brand charges as a % of Total premium	0.38%	0.02%	0.05%	0.02%
Brand charges as a % of SH Profit	15.47%	0.9%	2.0%	0.8%
Brand charges as a % of Adj. Op. Revenue	13.4%	0.3%	1.0%	0.6%

ii. Brand/Royalty payments by Insurance Companies – Other than Life Insurance:

(INR Crs.)	HDFC ERGO	ICICI Lombard
Particulars	FY24	FY24
Brand Usage Fee	47	17
Total Premium	18,802	25,594
SH Profit (PBT)	578	2,555
Adjusted Operating Revenue (Adj. Op. Revenue)*	670	2,751
Brand charges as a % of Total premium	0.25%	0.07%
Brand charges as a % of SH Profit	8.1%	0.7%
Brand charges as a % of Adj. Op. Revenue	7.0%	0.6%

Hence, in Insurance sector, in case promoters want to charge the royalty fee, is the same ranges from 30 bps to 100 bps (except HDFC Group).

*Adjusted operating revenue is calculated as total income as per Shareholder's account/Statement of profit and Loss as reduced by other Income i.e., Total Income (-) Other Income.

Note: Amounts are based upon public disclosures made over company's websites and are on best effort basis.

C. Royalty fee charged by Axis Bank

We understand that Axis Bank has allowed brand usage to its subsidiaries/associates only and charges 15 bps of adjusted operating revenue as tabulated below:

Particulars (INR Crs.)	Axis Finance	Axis Securities	Axis Asset Management	Axis Capital
	FY24	FY24	FY24	FY24
Operating Revenue	3154.1	1136.1	1262.5	531.6
Royalty charges	4.6	1.6	1.9	0.8
Royalty charges (% to Operating revenue)	0.15%	0.15%	0.15%	0.15%



Conclusion

- SEBI and IRDAI allows Royalty Fee for brand usage and there is no restriction
- Since the fee charged by Axis bank from its subsidiaries/associate entities is 0.15% of adjusted operating revenue, proposed amounts are consistent with the brand fee charged to other Axis entities
- In Insurance space, amounts are charged in the range of 30 bps to 100 bps of Adjusted Operating Revenue. Also we have found no amounts in some of Insurance Companies towards brand usage/royalty and this may be because of long gestation period in Insurance sector. Considering that proposed amounts are well below Insurance sector brand usage charges and hence at Arm's Length
- Taking the above factors into consideration, we conclude that proposed amounts by Axis Bank to Life 15 bps of adjusted Operating Revenue is at Arm's Length



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Annexure A

Proposed payment by Max Life to Axis Bank @ 15 bps of Operating Adjusted Revenue basis FY24 Financial Statements:

		(INR Crs)
Particulars of Shareholder Account		FY24
Amounts Transferred from the Policyholders' Account to Shareholders Account	(A)	261.23
Income From Investments		
(a) Interest, Dividends & Rent – Gross	(B)	377.29
(b) Profit on sale/redemption of investments	(C)	19.52
(c) (Loss) on sale/ redemption of investments	(D)	(2.52)
Other income		
Miscellaneous income	(E)	30.30
Total Income F=(A+B+C+D+E)		685.83
Adjusted Operating Revenue G=F-E		655.53
Royalty @0.15%*G		0.98

