



बीमा विनियामक और विकास प्राधिकरण
**INSURANCE REGULATORY AND
DEVELOPMENT AUTHORITY**

Ref: IRDA/LIFE/ORD/MISC/ 215 /09/2012

Final Order in the matter of
M/s SBI Life Insurance Company Ltd.

Based on Reply to Show Cause Notice Dt 19th December, 2011 and Submissions made in Personal Hearing on March 15, 2012 at 03.00 PM at the office of Insurance Regulatory & Development Authority, 3rd Floor, Parishram Bhavanam, Basheer Bagh, Hyderabad

Chaired by Sri J Hari Narayan, Chairman, IRDA

The Insurance Regulatory and Development Authority (hereinafter referred to as "the Authority") carried out an onsite inspection of M/s SBI Life Insurance Company Ltd (herein after referred to as "the insurer") between 20th December, 2010 to 24th December, 2010 which inter-alia revealed violations of the provisions of the Insurance Act, 1938 (the Act), various regulations / guidelines / circular issued by the Authority.

The Authority forwarded the copy of the inspection report to the insurer under the cover of letter dated 21 February, 2011 and sought the comments of the insurer to the same. Upon examining the submissions made by the insurer vide letter dated 19 March, 2011 the Authority issued notice to show-cause dated 19th December, 2011 which was responded to by the insurer vide replies dated 09th January, 2012. As per the request, a personal hearing was given to the insurer by Chairman, IRDA on March 15, 2012. Mr. M N Rao, MD&CEO and his team were present in the hearing. On behalf of IRDA, Mr. Sriram Taranikanti, FA, Mr. Suresh Mathur, Sr. JD(Intermediaries), Mr. M. Pulla Rao, Sr. JD (Inspections), Mr. SN Jayasimhan, JD (Investments), Ms. Mamta Suri, JD (F&A), Ms. Meena Kumari, HoD(Actl), Mr. V. Jayanth Kumar, JD (Life), Mr D V S Ramesh, D D (Life) and Ms R Lalita Kumari, A D (Life) were present in the personal hearing. The submissions of the insurer in their written reply to the following charges levelled in the Show Cause Notice as also those made during the course of the personal hearing were taken into account and a decision on each of the charges is issued hereunder.

1. **Charge 1:** Insurer has invested 5% in equity of 'SBI Pension Fund Pvt. Ltd' a private company even against specific directions from IRDA on a reference made by the Insurer - Violation to the proviso of section 27A (5) of Insurance Act, 1938.

Decision: The Insurer submits that the investment was a strategic investment to the tune of only Rs 1 Crores and was from Shareholders' portfolio causing no loss to policyholders' interests. It is also submitted that the investment is transferred on sale

from its books as on March 24, 2011. Considering submissions **no charges are pressed** as company is now compliant with Section 27 A (5) subsequent to the transfer of investments and investments made are insignificant from shareholders' funds. **However, Company is cautioned for this deviation and directed to ensure compliance to all the provisions of the Act.**

2. **Charge 2:** Insurer did not put in place fund wise Investment Policy for one of segregated ULIP funds namely, 'Top 300 fund'. Further, a decision was taken in Investment Sub Committee that for 'index funds', the regulatory 'prudential and exposure norm' requirements 'will not apply'. These are in contravention to Regulation 9 (2) and (5) of IRDA (Investment) Regulations respectively.

Decision: The Insurer submits that it reviews the investment policy twice a year and the review of 'Top 300 Fund' which was launched in early 2010 was inadvertently omitted its place in the investment policy. As regards the applicability of prudential and exposure norms to index funds, insurer submits that it always strictly followed the 10% exposure limits and the provision referred in the observation is only an enabler. **Considering the submissions of the insurer that there are no actual deviations from the norms prescribed, charges are not pressed. The Insurer is advised to ensure compliance to all the provisions of applicable regulations.**

3. **Charge 3:** The insurer is not computing the daily NAV in respect of its various segregated ULIP funds, in the manner prescribed by the Authority - Violation of Proviso No. 10.5 of "Guidelines on Unit Linked Insurance Products" dated December 21, 2005.

Decision: The submissions of the Insurer are that the appropriation / expropriation factor applied has to be based on the estimate of the transaction costs involved and these estimates are subject to periodic review. The Insurer further confirms that it has implemented the Unit Price Methodology based on NAV process Guidelines dated 29th July, 2011. **Taking into consideration the submissions made, the issue is not pressed.**

4. **Charge 4:** Policies where grace period expired and interest receivable on premiums are wrongly included in "outstanding premiums" in Schedule-12 to financial statements. In some policies, premium is also understated as Rs.100.00 while actuals are more than the stated - Violation of provisions of Schedule A-Part 1-Reg. 2 of IRDA (Preparation of Financial Statements and Auditor's Report) Regulations.

Decision: Considering the submissions of the Insurer that the cases with FUP belonging to year 2008 and 2009 were picked up erroneously which account only 1.3% and amounts of Rs 100/- are cases of interest / bank charges that are receivable and all of these are appropriately regrouped in the Financial Year 2010-11, **the charges are not pressed. However, Insurer is cautioned to ensure**

compliance to IRDA (Preparation of Financial Statements and Auditor's Report) Regulations.

5. **Charge 5:** In case of "Cap Assure Gratuity Scheme", extra units were allocated to the extent of 3% of fund contributions made in the 1st year (close to a sum of Rs. 1 crore) in case of one of group policies, though the said scheme has not been transferred from another insurer - *Violation of the File & Use.*

Decision: Insurer submits that even though the extra allocation was not exactly for the same purpose as stated in the F & U, in principle, the allocation was done for a similar purpose and the decision was taken for the benefit of the client with no loss accruing. Considering the features of the product that allow the extra allocations only in the event of transfer of funds from another insurer which are subsequently recoverable in three equal instalments from the accumulated fund value, **no charges are pressed. However, Insurer is advised to ensure compliance to File and Use.**

6. **Charge 6:** The insurer has appointed M/s.BNP Paribas, Paris, as Risk Monitor to manage the Portfolio under a series of products with "highest NAV guarantee" feature. It is observed that during the process of managing the fund and deciding on the equity weights in the fund, there has been no involvement of actuarial function in the process and also there is a time lag of 2 days (instead of daily rebalancing of equity/ debt portfolio) in implementing the risk rebalancing mechanism - *Violation of the approved F&U procedure.*

Decision: The Insurer submits that BNP's role as stated in the 'Risk Agreement' is purely advisory and it takes asset allocation decisions based on internal risk monitoring processes. It further confirms that the Actuarial department fully monitors the portfolio and deviations between strategy suggested by risk monitor and actual equity weight is owing to investment decisions taken in house, keeping in view the interests of policyholders. **Considering the submissions, no charges are pressed.**

7. **Charge 7:**The insurer is following "*smoothing fund approach*" in declaring and crediting interest rates in respect of retirement benefit schemes – *Violation of File and Use.*

Decision: Insurer submits that full disclosure of the smoothing methodology is done in the sales literature and File and Use of the products. However, in respect of old products that are closed to new business their respective fresh contributions are placed under the new cap assure scheme and the process adopted was in the long term interests of the policyholders. **Considering the submissions, no charges are pressed.**

8. **Charge 8:** Commissions paid to State Bank Group entities as disclosed in the related party transactions of accounts were not agreeing with the reports furnished to the Authority, hence no consistency in the figures submitted to the Authority – Violation to IRDA (Preparation of Financial Statements and Auditor’s Report) Regulations.

Decision: The insurer submits that the difference for the year 2009-10 is owing to service tax payable and for regrouping the sales incentive paid to intermediaries under Operating Expenses. **On considering the same no charges are pressed and the insurer is advised to ensure compliance to IRDA Circular IRDA/F&I/Cir/Data/091/06/2010 dated 11.06.2011.**

9. **Charge 9:** The Insurer offered Dhanaraksha Plus Limited Premium Paying Term (2years) Group product as a Single premium product against the approved F&U norms by receiving second year’s premium in advance along with first year’s premium. Further, a discount of 4% on the advance premium is given. Premium calculator made available to the Master Policy Holders was also designed to calculate Single Premium only and premium quotation also does not reveal that the product is yearly premium payment product. From the Certificate of Insurance and Membership forms it is observed that the members are not guided about the fact that the product is yearly premium payment product as, in almost all cases of regular policies of this product, both years premiums are received as single installment. 99.99% of the premium thus procured under the product is sourced by SBI Group and the commissions are paid at 40% and 7.5% on 1st and 2nd year premiums respectively.

Decision: The Insurer submitted that transparent disclosures were made to all stakeholders as per the approved features. Further, it submits that the collection of advance premium was clearly envisaged as communicated to the Authority and the commissions are paid as per the approved File and Use.

The product, as per the File and Use, was to be offered as Limited Premium Paying Term with Yearly Premium payment option. On examining the observations and the submissions, it is noticed that while there was a mention about advance payments in its correspondence to IRDA, insurer did not obtain prior approval under File and Use for giving 4% discount on the premium. ***The Insurer is hereby warned for not obtaining prior approval before considering a discount of 4% on the advance premiums.***

On examining the certificate of insurance and membership forms it is concluded that members to be enrolled were not guided about the fact that the product is yearly premium payment product. Further, from the fact that 93% of both the years’ premiums were received upfront in the year 2008-09,

94% in the year 2009-10 and 97% in 2010-11, it is clear that there was no informed choice available to the members of the group insurance of this particular policy. Given the preparedness on the part of the members of the group to pay two yearly instalments at one go as a single instalment, the intermediary/insurer have failed in discharging the obligations cast on them in informing/guiding the policyholders/members to avail themselves of single premium version of the product rather than promoting the two year limited premium payment term version of the same product which benefitted the intermediary.

While commission payouts involved would have been as per the File and Use norms, it is concluded that the large scale sale of two year limited premium payment term policies as single premium payment policy have only facilitated higher commission payments to the Intermediaries involved, who are again predominantly, SBI and its associate Banks, promoters of the Life Insurer. These business practices adopted by the Life Insurer and the intermediaries involved, severely dent the faith of insuring public. On comprehensively examining all the above factors, I come to the conclusion that the Insurer has adopted business policies in violation of prescribed norms, as under:

- a) Two year policies sold as Single Premium Policy in violation of File & Use Guidelines.
- b) No informed choice given to the members of these group insurance policies as envisaged under Regulation 3 (2) and 3 (3) of IRDA (Protection of Policyholders' Interests) Regulations, 2002.
- c) Paying excess commission to Corporate Agents over and above the eligible 2% commission they would have otherwise eligible had the Single Premium version of the policy been offered.

In light of these violations, in accordance to the powers vested under Section 102 of the Act, a penalty of Rs 5, 00,000 (Rupees Five lacs only) is levied on the insurer. Insurer is also warned for not adopting the business practices with fairness and transparency.

The penalty referred herein is to be paid by insurer without prejudice to the action which the AUTHORITY would take against the Corporate Agents who have also violated the regulatory provisions while soliciting the said Group Insurance Business. Further without prejudice to the penal action taken, the Authority reserves the right to examine issuance of suitable directions to the Life Insurer under Section 34 (1) (b) of the Act, to identify the members /

beneficiaries, as the case may be, of the group insurance schemes and apportion the excess commission paid to Corporate Agents, over and above the eligible 2% of Commission on the product sold under the guise of Single Premium policies, and refund the same to the members / beneficiaries of Group Schemes by debiting the same to shareholders' account.

10. **Charge 10:** It is observed that Insurer is settling the death claims in favour of Master Policyholder (Banks) and also not conducted any surprise inspection of the books and records of the group organizer at least once a year - Violation of Group Insurance Guidelines (Clause C 7 & 11) dated 14-07-2005.

Decision: As regards conduct of surprise inspection of Group Organisers the submission of the insurer that it has commenced periodical visits to the Group Organizers to verify the process adopted and the maintenance of the membership data is taken into consideration **and no charges are pressed.** With regards to payment of claims favouring Master Policy Holders, the submissions of the insurer that the cheques are issued in favour of the Bank / NBFCs along with the name of life assured and the loan account number as part of well established banking practice is not in order, as it is in violation of Clause C 7 that envisages the payment of claims in favour of beneficiaries of members. In light of this, **in accordance to the powers vested under the provisions of Section 102 of the Act, a penalty of Rs 1,00,000 (Rupees One Lac Only) is imposed. Insurer is directed to adhere the provisions of Clause C 7 and Clause C – 11 of Group Insurance Guidelines.**

11. **Charge 11:** Necessary provision for funding of future premiums in case of death claims under 'Unit linked Child Plus' product, which has in built premium waiver is not made and premium is paid by the insurer by debiting 'benefit paid' account on due date - Violation of IRDA Regulations on 'Asset Liability and Solvency Margin', 'Actuarial Report and Abstract' and 'Preparation of Financial Statements and Auditor's Report of Insurance Companies'.

Decision: The Insurer submits that the non provision of in-built premium waiver benefit reserves was an oversight and has not materially altered the solvency and the financials of the company. The Insurer also confirms that necessary provisions are made in the books of accounts as per policy conditions for all the products. **In light of these submissions, charges are not pressed and Insurer is directed to ensure compliance to all the provisions of all the referred regulations.**

12. **Charge 12:** As at 31.03.2010 more than 12000 claims were pending out of 15922 maturity claims due in 2009-10 (Mostly the claims are from group portfolio). Out of 1863 individual maturity claims settled in 09-10, 424 were settled beyond 180 days from the maturity date - Violation of Regulation 8 of IRDA (Protection of Policyholders' Interests).

Decision: In respect of Group Insurance claims the Insurer submits that as per Memorandum of Understanding entered under the Ladli scheme with Government

of Delhi, the Government has to notify the eligibility and beneficiaries' Bank account details to the insurer to enable it to settle the claims, hence delays. As regards 424 maturity claims referred in the observation, the insurer submits that the delay is owing to non availability of documents from the beneficiaries. **On examining submissions made, no charges are pressed and the Insurer is directed to ensure the compliance to all the provisions of IRDA (Protection of Policyholders' Interests) Regulations, 2002.**

13. **Charge 13:** Insurer is settling the entire accumulated amount under deferred annuity policies to the policyholder, in lieu of annuity payments even after the annuity vesting date on case to case basis, in effect allowing 100% commutation of annuity against the File & Use. Further, Insurer is also settling lump sum amount in lieu of annuity payments where the monthly annuity is less than Rs 300/-, though as per File & Use minimum monthly annuity could be Rs 250/- - Violation of File and Use and Section 4 of Insurance Act, 1938.

Decision: The submissions of the insurer that few annuities are commuted in view of the small amounts of monthly annuity with higher cost of servicing are taken into consideration. The submissions that the needs of the annuitants (like sickness etc.) are also the basis for lump sum payment after commencement of the annuity payment are also considered. On examining the submissions I am of the considered opinion that settling lump sum benefits after commencement of the annuities and settling lump sum benefits, though, the annuity payable is more than the minimum annuity agreed at the File and Use, is a gross violation of the norms and against the principle of annuity business which shall by all means protect the continuity of the payment of agreed annuity. However, considering the number of cases involved (6 cases in three years), **the Insurer is reprimanded for the violations and advised to ensure compliance to File and Use norms and upheld in high esteem the objectives of annuity plans.**

14. **Charge 14:** The insurer is deducting an amount of Rs 200/- towards administration charges in addition to allowable deductions, while settling Free Look cancellations of Non-linked plans (excluding pension plans) - Violation of Regulation 6 (2) of IRDA (Protection of Policyholders' Interests) Regulations, 2002.

Decision: The Insurer submits that Rs 200 are the administration charges in addition to stamp duty and medical expenses and no proportionate medical mortality charges have been recovered. The Insurer also submitted that it has refunded all the recoveries made on Free Look Cancellations. **In light of confirmation submitted by Insurer on the action taken, no charges are pressed. However, the insurer is reprimanded for adopting a practice which is not just for all policyholders owing to varying mortality charges. Insurer is directed to ensure compliance to Regulation 6 (2) referred above.**

15. **Charge 15:** Undue delay is observed while sending cheques pertaining to Partial withdrawal / full surrender payouts to the clients - Violation of Regulation 10 of IRDA (Protection of Policyholders' Interests) Regulations.

Decision: The Insurer submits that the cases pointed out were exceptions where either the inward got misplaced or there was a system problem. It also submits that in all the cases, the NAV of the request date was allowed and has maintained an average Turn Around Time of 8 days in case of Surrenders and 6.5 days in case of partial withdrawals. **Considering the submissions, the Insurer is directed to ensure timely settlement of all surrenders / partial withdrawals.**

16. **Charge 16:** It is observed that Insurer is not adhering time frame for submitting the STRs to FIU - Violation of IRDA circular on AML / CFT Guidelines (Point no. 3.2 (i) (b)).

Decision: The Insurer submits that all STRs are reported within 7 working days as per the Guidelines while reports were generated on a monthly basis. **Considering the submissions no charges are pressed.**

17. **Charge 17:** From the List of rural policies it is observed that there are number of policies with urban address – Violation of section 32 B of the Act.

Decision: Insurer submits that the rural classification is done based on the location names available from Census Data base. It also submits that necessary adjustments after the observations were made and confirms that the rural business coverage is higher than the minimum stipulated benchmark as per the Act. Insurer confirms having put in place the best practices for ensuring the accuracy of data. **In light of these submissions no charges are pressed.**

18. **Charge 18:** Certain customer communications from Regional Manager of the insurer were on the lines of Advertisements but were not taken as advertisements under the purview of the relevant guidelines and other disclosure norms framed by Authority. These Ads are also not filed with IRDA as Advertisements - Violation of Regulation 3 (1) (v) of IRDA (Insurance Advertisement) Regulations, point no. 3.4.2.6 of Advertisement Guidelines dated 14th May, 2007 and Part – III (Disclosure Norms) of ULIP Guidelines dated 21st December, 2005.

Decision: Considering the Insurer's submissions that the said communication is no longer in circulation and it has put necessary systems in place to arrest any recurrence of such incidents, **no charges are pressed. However, considering the sensitivity of the communications made to policyholders, the Insurer is reprimanded for not averting the release of such communications by its subordinate offices. Insurer is also directed to ensure compliance to all norms pertaining to Advertisements.**

19. **Charge 19:** SBI, the corporate agent of the insurer has come out with an insurance advertisement (Highlighting 'Availability of free coverage for 9 critical illnesses' while availing housing loan) which is neither filed with the Authority nor approved by Insurer.

Decision: The Insurer submits that the advertisement by the bank was taken out for the sole purpose of promoting Bank's home loan product and the Bank is bearing the full premium for the Citi 9 product and offered for free. **Considering the**

submissions, charges are not pressed. *The lenient view taken here is without prejudice to the action which the AUTHORITY would take against the Corporate Agent, SBI, which has also violated the regulatory provisions while issuing the advertisement.*

20. **Charge 20:** Non-compliance with Authority's circular 041/Dec-06 dated 28th December 2006 is observed in some of the closure/merger/relocation of insurer's branch offices. Intimation to policyholders has not been sent in 74 relocations and IRDA was intimated after the stipulated period.

Decision: Considering the submissions of the Insurer that it has put in place a systematic procedure with appropriate checks and balances to ensure that all instructions issued in this regard are strictly complied with, **charges are not pressed and the Insurer is directed to ensure compliance to all the instructions issued by IRDA.**

21. **Charge 21:** The mandatory requirement of obtaining the application for license (Form VA - in case of individual agent and Form A-2 -in case of SP of Corporate Agent) is done even before the applicant is sponsored for 'practical training' and completion of the 'pre recruitment test' - Violation of Regulation 3 of IRDA (Licensing of insurance agents) Regulations.

Decision: Considering the submissions of the Insurer that Licenses are issued only after ensuring all the conditions specified by the Authority for grant of License is fulfilled, including the application for License is complete in all respects and duly supported by the requisite documents, **no charges are pressed.**

Accordingly, in exercise of the powers conferred upon me under the provisions of the Insurance Act, 1938, I hereby direct the insurer to remit the penalty of **Rs 6,00,000 (Rupees Six Lakhs only)** by debiting the Shareholder's Account, within a period of 15 days from the date of receipt of this Order through a cross demand draft drawn in favour of Insurance Regulatory and Development Authority and payable at Hyderabad which may be sent to Mr. V Jayanth Kumar, Joint Director (Life) at the Insurance Regulatory and Development Authority, 3rd Floor, Parisrama Bhavan, Basheer Bagh, Hyderabad 500 004.

Place: Hyderabad
Date: 18th September, 2012


(J Hari Narayan)
Chairman