



No. IRDA/ENF/ORD/ONS/ 208 /11/2019

**Final order in the matter of
M/s. India Infoline Insurance Brokers Ltd.**

[Based on reply to the Show Cause Notice dated 26th February 2019 and submissions made during Personal Hearing held on 7th August 2019 at 2:30 pm, chaired by Member (Distribution) at the office of Insurance Regulatory and Development Authority of India, Hyderabad]

Background: -

1. The Insurance Regulatory and Development Authority of India (hereinafter referred to as "Authority") had conducted during 23rd to 25th January 2017, an onsite inspection of M/s India Infoline Insurance Brokers Ltd. (hereinafter referred to as "Broker" or "Company") in order to examine overall regulatory compliance by the broker. The Authority forwarded a copy of the Inspection Report to the Broker on 15th June 2017 seeking comments and the Broker's response was received vide their letter dated 7th August 2017. Upon examining the documents on hand and submissions made by the Broker, the Authority issued Show Cause Notice (hereinafter referred to as "SCN") on 26th February 2019.

Show-Cause Notice, Reply and Personal Hearing:

2. The broker submitted its reply to the SCN by its letter dated 8th April 2019. As requested therein, a Personal Hearing was given to the Broker on 7th August 2019. Shri Morla Venkateswara Rao, Principal Officer, Shri R Mohan, Chief Compliance Officer – IIFL Group, Shri Anurag Naik, Director, Shri Boudhayan Ghosh, Assistant Vice President, Shri Bipin Puthur, Assistant Vice President and Shri Somendra Agarwal, Senior Manager attended the Personal Hearing, on behalf of the Broker. On behalf of the Authority Shri Prabhat Kumar Maiti, GM (Enforcement), Shri B. Raghavan, DGM (Enforcement), Shri K Srinivas, AGM (Brokers) and Shri Udit Malhotra, AM (Enforcement) attended the hearing.

The submissions made by the Broker in their written reply to the Show Cause Notice, those made during the course of the Personal hearing and the documents submitted by the Broker in evidence to their submissions have been considered by the Authority and accordingly the decisions on the charges are detailed below.

Charges, Submissions in reply thereof and Decisions:

3. Charge No. 1:

Employees of other group companies, who are not qualified for solicitation of Insurance Business, are being used for solicitation and there are instances where details of persons who solicited business are not recorded.

Authorized verifiers of the Broker are not having the requisite qualifications as mandated in the Regulations.

The Broker is in violation of Regulation 8(2)(xiv) and Regulation 23(2)(iv) of the IRDA (Insurance Brokers) Regulations, 2013.

Submission of the Broker:

The Broker submitted that during the inspection period i.e. as on 31.03.2016, it had 84 insurance broker qualified persons (100 hours training) as certified by NIA. Besides these, it had 352 Authorized Verifiers who are certified Specified Persons (50 hours training) under IRDA Regulations. In addition to these, it had 5284 certified tele-marketers (25 hours training).

The broker further submitted that the final solicitation and closure of policies with the clients were completed only by broker certified people/employees of the Company. Since the implementation of Authorised Verifier (AV) and their requisite training were initiated and enabled as per IRDA Distance Marketing Guidelines, dated 05.04.2011 the training of AV's continued even after IRDA Regulations notified on 8th Dec, 2013. Many of the AV's were qualified before IRDA amended regulations in 2013. The AV is engaged in initial contactability of the prospective clients, however the closure of the policies was effected by broker certified officials who were available at each of the branches. The Company had large pool of broker certified employees as submitted from time to time who solicit the business.

The Company have further restructured the business model into direct marketing and downsized distribution network over the last 4 years with a focus on quality of service, trained manpower, persistency and productivity.

With regard to the instances of irregular /incomplete signing of proposal forms as observed by IRDA, it was submitted that the Company has in place the system of signing the proposal form by broker qualified people and the same were followed, but these were stray instances and IIIBL has noted the same. Further they strengthened their process for verification and completeness of the proposal documents before login.

Decision:

The charge pertains to utilisation of unqualified and unlicensed persons by the Broker, for solicitation of Insurance business. The first part of the charge mentions about employees of other Group companies involved in solicitation of Insurance business for the Broker. Few sample proposal forms which were perused under the observation, indicated several issues, such as forged signature of Principal Officer, no signature on proposal form, proposal signed by IIFL Gold Loan staff etc. It is worthy to mention here that the Authority, during the renewal of Direct Broker's Licence on 26th November 2014 via Clause no 1 of its letter IRDA/DB 314/05 has levied a penalty of Rs.5 Lac on the Broker for "using the services of other group companies and various other individuals for providing Brokerage related services".

Steps taken by the Broker such as restructuring its business model and focussing on quality of service, as mentioned by the Broker, in its submission to Show Cause, are taken note of. However, the Broker could not explain how such instances are occurring in Broker's office despite the steps taken as indicated in their submission. Utilisation of services of other than Licensed and qualified persons for solicitation of business is violation of Regulation 8(2)(xiv) of IRDA (Insurance Brokers) Regulations, 2013 which envisages requirements to be fulfilled by individuals, who solicit business for the Broker.

In view of the above mentioned violation, by virtue of powers vested under Section 102 (b) of the Insurance Act, 1938, the Authority levies on the broker a penalty of Rs. 4,00,000/- (Rupees Four lakh only), which is calculated based on four cases (at the rate of Rs.1 lakh per case for four cases) observed to have been solicited on different dates by using services of other group companies and other unlicensed individuals after issuance of Authority's order dated 26th November 2014.

Further, the Broker is directed to ensure compliance to Clause 2(I) of Regulation 8 of IRDAI (Insurance Brokers) Regulations, 2018 which mandates Broker qualified persons to fulfil requirements mentioned in Schedule I – Form E of the Regulations.

The second part of the charge is that the Authorised verifiers, whose services are utilised by the Broker for telemarketing activities, are not Broker examination qualified whereas Regulation 23(2)(iv) of IRDA (Insurance Brokers) Regulations, 2013 mandates Authorised verifiers to be qualified as required for Insurance Broker.

Taking note of the submission, the Broker is directed to ensure compliance of Regulation 45 of IRDAI (Insurance Brokers) Regulations, 2018 read with provisions of Schedule VI – Form T under Regulation 29 of IRDAI (Insurance Web Aggregators) Regulations 2017 which envisages the process and requirements to be fulfilled for solicitation over distance marketing mode.

4. Charge No. 2

The insurance broker has an online portal by name 5paisainsurance.com for distribution of insurance products. It is noticed that this portal is not an exclusive portal and is a sub-domain of their group online sales portal 5paisa.com.

The above is violation of **clause (1) of Schedule VIII read with regulation 22 of the IRDA (Insurance Brokers) Regulations, 2013; which mandates that “The website developed by the insurance broker shall carry the name of the Insurance Broker as licensed by the Authority and usage of any other name or linkage to any other website is prohibited.”**

Submission of Broker:

The Broker submitted that the online portal www.5paisainsurance.com is owned and used by IIFL Insurance Brokers Limited for its distribution of insurance products. This is an exclusive portal of IIFL Insurance Brokers Limited and is not a sub-domain of the group online sales portal 5paisa.com.

The said website www.5paisainsurance.com is a brand under IIFL Insurance Brokers Limited and accordingly carries its details as an insurance broker in the website including IRDA registration number, validity, disclaimer etc. mentioned on the face of the website. Accordingly, the portal carries the name of IIFL Insurance Brokers Limited and the same is not linked to any other website.

As IIFL Group is into the wide gamut of financial services and has a large number of clients for their insurance needs, the provision of contacting/re-directing to the Company's portal - www.iiflinsurance.com were enabled by the group companies. It was confirmed that, all the policy information/ insurance transactions/servicing are carried out only through the Company's portal www.iiflinsurance.com. Necessary rectifications/implementations on the observations were already implemented by the Company

Decision:

The observation pertains to portal used by the Broker, not being an exclusive portal and being a sub-domain of their group online sales portal. Also subsequent to issue of SCN to the Broker, it transpired during a routine check that there were different websites of Group companies which were offering the Insurance products offered by the Broker. Even as on date, the group website redirects to the Broker's website when one clicks on the tab “Insurance” on the group website.

AS

The Broker, in its submission has accepted that the provision of redirecting to the Broker's website was enabled by the Group companies. But even after the shortcoming was highlighted by the Inspection team and during personal hearing, the Broker continues to have its website linked to its Group company website although it is not allowed under the Regulations.

The Broker is warned for the said lapse and advised to strictly adhere to Regulation 44(2) of IRDAI (Insurance Brokers) Regulations, 2018 read with Schedule V – Form S under Regulation 28 of IRDAI (Insurance Web Aggregators) Regulations 2017 and Clause 13(d) of Guidelines on Insurance e-commerce issued by Authority dated 9th March 2017.

5. Charge No. 3

The insurance broker was procuring both life and general insurance business, in spite of having only one qualified person (QP) in each of the branch offices (during 2014-15 and 2015-16). The documents furnished along with the response of the entity to the Inspection report showed that 4 of the QPs out of 22 are having qualification in both Life and Non-life. This indicates that other QPs are doing business in Life and Non-life both, by having qualification in one area, in violation of the **Regulation 8.2.iii of IRDA (Insurance Brokers) Regulations, 2013, which inter alia mandates that each branch shall have at least one QP with necessary qualification.**

Submission of Broker:

The Broker submitted that the dominant business of the Company is into distribution of life insurance policies. Non-life distribution was carried out from very limited offices from 5 locations (Mumbai and 4 zonal offices). The Company had 9 dual certified qualified persons (Life & non-life), out of which 5 people were engaged in non-life business from the above centres. The other Qualified Persons were engaged in distribution of life insurance policies.

IIFL Insurance Brokers Limited had 22 as on July 2017, 84 as on March 2016 and 72 as on March 2015 IRDA certified life and/ or dual (life & non-life) qualified personnel.

During the inspection period, IIFL Insurance Brokers Limited had done very minimal percentage of non-life business.

The Broker agreed to submit an undertaking that Life business has been solicited by Life Qualified/certified personnel and Non-Life business has been solicited by Non-Life Qualified/certified personnel

Decision:

Taking note of the submission of the Broker that Life and Non-Life business has been solicited by respective Qualified persons, charge is not pressed. However, the Broker is advised to ensure continuous compliance to Clause 2(c) of Regulation 8 of IRDAI (Insurance Brokers) Regulations, 2018, in letter and spirit.

6. Charge No. 4

The insurance broker did not submit any documents confirming that they do have the practice of obtaining written mandate from the client. Few copies of mandates are submitted which are created just before the response to the inspection report are being prepared and hence have the potential to be treated as not reflecting the practice of the Broker. **Hence the Broker is in violation of Clause 2(h) of Schedule VI-A of IRDAI (Insurance Brokers) Regulations, 2013.**

Submission of Broker:

The Broker confirmed that it has implemented from July 2017, the process of obtaining the mandate letter from the customers authorizing IIFL Insurance Brokers limited to represent on behalf of the customers to the insurer. Sample copies of the mandate letters obtained from the clients were also submitted along with Broker's reply to the inspection report. The Broker denied that these were created and not reflecting its actual practice.

Decision:

Taking note of the Broker's submission with respect to obtaining mandate letters from customers, the Broker is directed to ensure compliance of Clause 2(h) of Schedule I – Form H under Regulation 30 & 8(2) of IRDAI (Insurance Brokers) Regulations, 2018.

7. Charge No. 5

The insurance broker was approved by TRAI to do telemarketing activity at seven locations only. However, as per the insurance broker's submission on status of Qualified Persons, Authorised Verifiers, Tele Marketers, it was observed that telemarketing activity was conducted at nine locations in 2014-15 and at eight locations in 2015-16.

The reply of the Broker to the Inspection report and supporting documents furnished along with the reply could not establish that during the period 2012-13 to 2014-15, telemarketing was done through branches approved by the TRAI during 2011.

In this manner, the broker violated Regulation 23(2)(i) of IRDA (Insurance Brokers) Regulations, 2013.

Submission of Broker:

The Broker submitted that the tele-marketing was done through branches approved by TRAI from 2011 and submitted copy of certificate of Registration as Telemarketer issued by TRAI.

Decision:

The submission furnished by the Broker, is taken on record and the charge is not pressed. However, the Broker is advised to ensure strict adherence to provisions of Regulation 45 of IRDAI (Insurance Brokers) Regulations, 2018 read with Provision 2(n) and other relevant provisions of IRDAI (Insurance Web Aggregators) Regulations 2017.

8. Charge No. 6

The charge pertains to utilization of telemarketing facility by the Broker in association with the group companies (which includes Lead generation from Group companies and sharing of information amongst the Group companies). The Broker, in its response to Inspection report has indirectly accepted that it used to share the information with its group companies under the guise of general information sharing with the consent of customers. **Thus the Broker was in violation of Regulation 23(2)(iii) of the IRDA (Insurance Brokers) Regulations 2013.**

Submission of Broker:

The Broker submitted that the information provided by the group companies to IIFL Insurance Brokers Limited was restricted only to the name, contact numbers and was only on client request. The group companies were not in any way sharing their business information with IIFL Insurance Brokers Limited or IIFL Insurance Brokers Limited was not sharing any information with their group companies. Based on the above contact details, IIFL Insurance Brokers Limited independently contacted the potential customers over phone initially for their interest in insurance products and further through personal meetings to understand their needs and servicing them.

Decision:

Broker submitted that sharing of information amongst group companies was minimal and was done only on client request. However, the Broker was unable to provide any documentary evidence where the customer has clearly consented to sharing his information with the Group companies.

The Broker is directed to ensure adherence to Regulation 45 of IRDAI (Insurance Brokers) Regulations, 2018 read with provisions of Clause a of Schedule VIII – Form W under Regulation 32 of IRDAI (Insurance Web

Aggregators) Regulations 2017 which prescribes conduct in matters relating to clients relationship and other extant Regulations.

9. Charge No. 7

The insurance broker was asked to provide the details with respect to the lead generation from Chennai office. However, no documentation was received with respect to the lead generation from Chennai Office

The insurance broker was also asked to provide the details with respect to the compliance of Authority's circular No. IRDA/ADMN/GDL/MISC/059/04/2011 dated 05/04/2011 which requires that the insurance broker shall prepare standardized scripts for presentation of benefits, features and disclosures under each of the products proposed to be sold over the distance modes. However, the insurance broker could not share any documents confirming the compliance. The insurance broker was also asked to provide the details with respect to the information as and when there is a change/addition to the list of broker qualified persons or opening/closing of branch offices. However, the insurance broker did not submit any documents with respect to same. During the Inspection, the insurance broker has provided the renewal process flow but the same is silent on any renewal notices.

It is clear that the broker has either shared a write up in support of their process flow or preferred not to share any transaction level documents, during the onsite inspection. This approach of the broker debarred the inspection team from doing inspection on specific activities of the broker. Although in some of the above cases they submitted some documents along with their response to the inspection observation, their action during the onsite inspection implies that they did not co-operate with the inspection team and hence violated Regulation 41(1)(f) of IRDA (Insurance Brokers) Regulations, 2013.

Submission of Broker:

The observations pertain to the details/ documents with regard to lead generation from Chennai office, copies of the approval letters of the insurance manufacturers for the standardized scripts used for tele-calling, copies of past periodical filings made with regard to opening & closing of branches and the list of qualified persons as periodically updated to IRDA and copies of renewal notices issued to the customers, as sought by inspection team during the inspection. As these details were to be compiled from various locations and departments, the same required some time, and so all the details could not be produced immediately to the inspection team. This was explained to the inspection team and accordingly they had noted in their exit report dated 24.01.2017 with an advice to submit to their office. Subsequently upon compilation of the above, the same was submitted to inspection team vide email dated 27.01. 2017. Thus, the Broker has fully complied with the inspection requirements. Accordingly, this should not be construed as non-cooperation to the inspection.

The Broker also submitted that it had fully co-operated with the inspection team and submitted all the details as required by them from time to time and also

demonstrated its systems and processes, documents and records. Even the Inspection report dated 15.06.2017 as well as exit report dated 24.01.2017 did not mention about any non-cooperation.

The Broker further stated that leads from Chennai office were shared in a common shared folder in the system and hence there were no specific correspondence to the same and so were not available.

The Broker has also specifically brought out that with regard to point no. 15,16 and 18, the documents were submitted immediately (within 3 days) on completion of the site visit by the inspection team. This should not be construed as non-cooperation or delay in submission. Further, the Broker submitted that they have further strengthened the process and maintenance through soft copy form to ensure submissions as and when required.

The Broker denied the allegation that it has violated Regulation 41 (1) (f) of IRDA (Insurance Broker) Regulations 2013.

Decision:

The charge pertains to non –sharing of requisite documents by the Broker, with the Inspection team during Inspection. The Broker, in its response to Inspection report and Show cause notice, submitted some documents with respect to requirements of the Inspection team. Broker must understand that Inspection team seeks certain documents, during Inspection, for ascertaining the compliance of the entity with Regulations from different aspects. Unable to share documents with the Inspection team during the time of Inspection and later submitting bundles of those documents to the Authority defeats the very purpose of onsite Inspection of the entity.

The Broker is warned for the lapse and directed to meticulously adhere to Clause 1(c) & 1(e) of Schedule II- Form Z under Regulation 42(3) of IRDAI (Insurance Brokers) Regulations, 2018.

10. Charge No. 8

The insurance broker does not have the infrastructure of its own for the purpose of running their insurance broking operations. It is noticed and also evident from their financial statements that the infrastructure is shared among the group companies and there is no clear demarcation of space and facilities made available to the insurance broker. The sub-lease agreement does not specify all these details. For the purpose of sharing infrastructure, the insurance broker is paying a rent of Rs.9.85 crore to their group companies. It is also evident from the telephone bills that the telephone lines are registered in the name of their group company and were being used by the insurance broker for their telemarketing activities.

The supporting documents provided by the Broker, in response to the Inspection report indicates that the Broker was occupying different area every month which should not be the case when a Broker has permanent office and respective infrastructure earmarked for its own business. This clearly indicates that the Broker is not having its own office infrastructure and it is being shared by all the group companies (of the same parent group India Infoline Company). Hence the Broker has violated Regulation 8(2)(ii) of IRDA (Insurance Brokers) Regulations, 2013.

Submission of Broker:

The Broker confirmed that the Company had offices/branches at various locations on lease hold, leave & license, premises usage arrangements etc. The details of which were periodically filed with IRDA. All these offices/branches have their own infrastructure, communication facilities. Thus, the Broker denied that it was occupying different / unidentified area and not having own office infrastructure. At times, depending on the number of employees, the space usage might have increased or decreased which should not be construed as occupying different area.

Further with regard to varying rental payments, the broker clarified that the rental paid were based on the manpower occupied by the Company in the particular premises and so the rental amounts were changing since the number of employees were differing from time to time due to its nature of business.

Decision:

The charge pertains to the Broker not having its own office infrastructure and the same being shared by all the Group companies. Although the Broker is paying a hefty amount of rent for utilisation of premises, there is no clear demarcated area which is used as office space by the Broker. Even the telephone lines, which are meant to be used for telemarketing by the Broker, are registered in Group company's name although the Broker has obtained license from TRAI to function as telemarketer. The reasoning provided by the Broker, for utilisation of varying office area every month, does not appear credible enough to conclude that the broker indeed has their own office infrastructure.

It is worthy to mention that during its renewal of Direct Broker License on 26th November 2014, a penalty of Rs 5 Lakh was imposed on the Broker via Clause 5 of letter ref no. IRDA/DB 314/05 dated 26th November 2014 for the conclusion that

"all the branches of company operating from other group companies and none of Broker's branches has got independent lease deeds but the same has been executed by Broker's other group companies. The Broker is using these premises by getting authority letters for using such premises, which do not indicate any payment terms and other terms and conditions relating to costs. In the process the Broker is paying/making huge payouts to its

other group companies. This indicates that the broker do not have necessary infrastructure to effectively discharge their activities. This is a violation of Regulation 8(2)(ii) of IRDA (Insurance Brokers) Regulations, 2013. A penalty of Rs 5 lakhs imposed for the said violation. Further, kindly have separate lease deed wherever the group/associate company has entered into a lease agreement on behalf of the broking company indicating clearly the location, rent agreed, any other material condition. An undertaking to this effect may be submitted to the Authority”.

The broker, vide point no 5 of its letter dated 26th November 2014 to the Authority, declared and gave an undertaking that *“We would ensure to have all necessary infrastructure to effectively discharge our activities and ensure separate lease deeds wherever group/associate company has entered into and ensure as a lease agreement on behalf of the company indicating clearly the location, rent agreed and other material condition”.*

It is clear that even after imposition of penalty by the Authority earlier and undertaking given by the Broker to have a proper infrastructure , the Broker continues to function without having proper infrastructure and proper lease deeds depicting clear payment term and other terms and condition relating to cost, till date. Moreover, Broker has not given any clear justification for having telephone lines registered in the Group company’s name although it was meant for utilisation for telemarketing by the Broker. In other words, the scenario leading to the Authority’s conclusion of violation as above and levy of the penalty of Rs.5 lakh on the broker continues to remain unchanged even now.

Therefore, for the broker’s failure to comply with Authority’s direction contained in its communication dated 26th November 2014 till date, by virtue of powers vested in it under Section 102 (b) of the Insurance Act, 1938, the Authority levies a penalty of Rs. 100,00,000/-(Rupees One crore only), which is calculated by applying the prescription “one lakh rupee for each day during which such failure continues or one crore rupees, whichever is less”. The reasoning for arriving at the figure of Rs.1 crore is that the violation for which penalty was levied on 26-11-14 should have been remedied by the broker within a reasonable time but the same has remained un-remedied even till date i.e. nearly for five years. Thus, the violation attracts a penalty of Rs.1 lakh per day (under the provisions of Section 102(b) of the insurance Act 1938 which underwent amendment on 26-12-2014) for the period during which it has continued to remain, with a maximum leviabale penalty of Rs.1 crore. It is reckoned that the period during which the violation has subsisted is 27-12-2014 to the date of this order.

The broker is directed to immediately take action to comply with the directions contained in Clause 5 of letter ref no. IRDA/DB 314/05 dated 26th November 2014.

The Broker is also directed to strictly ensure that it fulfils the requirements as envisaged in Clause 2(b) of Regulation 8 of IRDAI (Insurance Brokers) Regulations, 2018.

11. Charge No. 9

The Exclusion under the Professional Indemnity policy includes the followings:

- Directly brought about or contributed to by any dishonest fraudulent criminal or malicious act or omission of the insured or their predecessors in business as defined in the operative clause of this insurance or of any person at the time employed by the insured or such predecessors in the business.
- By any insurer or insurance company by reason of any negligent act error or omission committed by the insured in the course of their activities as insurance agents.

These two exclusions override the coverage requirements as per the regulations.

Also there are certain sub limits in some of the risks covered under the PI policy, those are not in line of the requirement of **Regulation 1 of Schedule III of IRDA (Insurance Brokers) Regulations, 2013.**

Submission of Broker:

The Broker submitted that it has taken the Professional Indemnity Insurance Policy from Oriental Insurance Company Limited in line with the IRDA (Insurance Broker) Regulations.

With regard to the exclusion clauses in the Professional Indemnity Insurance Policy for the year 2013-14, 2014-15, the Broker had taken it up with the insurance company for necessary rectification.

The Broker confirmed that the mentioned clauses were reinstated in their subsequent Professional Indemnity Insurance Renewal Policy during the years 2016-17, 2017-18 and 2018-19.

The Broker submitted that with regard to 2 exclusion of clauses in the PI policy as pointed out by inspection, the same were already rectified from the year 2016-17. However, with regard to retroactive clause, sub-limits as brought out during the hearing, the Company will take up with the Insurance Company – Oriental Insurance for necessary rectification and would submit to IRDA after rectifications.

Decision:

The charge pertains to different provisions in the Professional Indemnity Policy taken by the Broker, which are not in adherence to the requirements

of the Regulations. The exclusions under the PI policy mention fraudulent, criminal, negligent act by insured or its predecessors whereas Regulations mandate these to be covered under the PI policy.

The retroactive period for which PI Coverage is taken must be from the date of inception of the Broker getting into Insurance Broking business but it was noticed that Broker is taking PI cover for shorter period. (sometimes even one year) although the Broker has obtained License from the Authority since the year 2005.

It was also observed that there are certain sub limits in coverage of some risks under the PI policy taken by the Broker.

The Broker is directed to obtain PI cover in compliance with Schedule II – Form S under Regulation 24(1) of IRDAI (Insurance Brokers) Regulations, 2018, in all respects and confirm compliance to the Authority regarding same within 1 month of receipt of this order.

12. Charge No. 10

The charge refers to employing agents to bring business. The broker had in their employment persons who were possessing agency licence. Further, the statements of the accounts of the Broker reflect that they have paid some amount under the head of “Brokerage & Commission Agent Service” and “Commission Payable-Agent”. The submission of the Broker to the Inspection report that the particulars of the Brokerage were erroneously labelled in the account head without any supportive document is not convincing.

Both the issues indicate that the Broker has violated clause 3(b) of the Schedule VI-A read with regulation 28 of the IRDA (Insurance Brokers) Regulations, 2013; which mandates that no insurance broker shall employ agents or canvassers to bring the business.

Submission of Broker:

The Broker submitted that it had not appointed any agents nor any brokerage or commissions were paid by IIFL Insurance Broker Limited towards procurement of insurance business and the same was correctly reflected as per its audited annual statement for the year 2015-16.

As a part of Company's policy, all the employees are required to submit a declaration of “Letter of Authorization and Declaration” at the time of joining the company. Through the declaration, the employees confirm that they are not holding any agency license from any insurance company. This ensures the Company system of not appointing agents or employees who hold any agency license. Besides the above, the Company has the system of background verification on the employees which also covers if they were acting as agents.

The mentioned particulars of ledgers namely Brokerage and Commission - Agent Services and Commission Payable were inadvertently and erroneously labelled in the ledger account head. The same were rectified and accordingly the audited

financial statements of the Company for the above financial years were correct. The Broker clarified that the expenses of Rs.4.19 cr and Rs.3.19 cr were in the nature of customer support services including data entry, scanning of documents, printing, posting of reminders and other documents etc and were not towards solicitation of Insurance business.

Accordingly, this is not in violation of Clause 3(b) of the Schedule VIA read with Regulation 28 of the IRDA (Insurance Broker) Regulations, 2013.

Decision:

The charge is with regard to employing agents by the Broker for solicitation of business. The statements of accounts of the Broker reflect payment under the head of commission, which further strengthens the charge.

Previously the Broker was penalised Rs. 5 Lakhs by the Authority via Clause 1 of its letter ref no IRDA/DB 314/05 dated 26th November 2014 for using the services of individuals for providing brokerage related services and advised to ensure that no agents/canvassers must be utilised by Broker.

In their response, the broker has submitted that the Brokerage and Commission - Agent Services and Commission Payable were inadvertently and erroneously labelled in the ledger account head. The Broker clarified that the expenses of Rs.4.19 cr and Rs.3.19 cr were in the nature of customer support services including data entry, scanning of documents, printing, posting of reminders and other documents etc and were not towards solicitation of Insurance business. The broker has further submitted that the erroneous entries were accordingly rectified and confirmed that the audited financial statements of the Company for the above financial years were correct. Taking note of these categorical submissions of the broker, the broker is advised to ensure compliance of Clause 3(b) of Schedule I – Form H under Regulation 30 & 8(2) of IRDAI (Insurance Brokers) Regulations, 2018 in letter and spirit.

13. Charge No. 11

In the financial statements of the insurance broker, it is noticed that there are number of transactions between the related parties. The Broker did not share the note pertaining to related party transactions with the Inspection team and also the sub-lease agreement provided by the Broker did not specify the services obtained from the related parties for which huge amount of sum is paid. All the above indicates that apparently the Broker is transferring funds to group companies without any proper accountability of the same and for availing some services which is not disclosed properly.

Submission of Broker:

The Broker submitted that the Company has in place a Related Party Transaction Policy as approved by its board since August 2014. All the Related Party

Transactions (RPT) are duly approved through omnibus approval by the Board as per the said policy from time to time.

The Company has been ensuring that all the transactions with group companies or as per the RPT Policy approved by the Board and all these transactions are carried out at arm's length basis and the terms and conditions and the pricing were at then prevailing market rates. Further, the nature of services also clearly mentioned under the detailed explanation of each services availed in Audit Committee Notes as well as Note No 26(f) of annual report FY 14-15 & Note no 26(b) of annual report of FY 15-16.

With regard to sub-lease agreement entered with India Infoline Limited and the rent paid thereon, the Broker confirmed that the sublease was for the premises used by the Company and the rent was based on the area of sub-lease, and the connected infrastructure was provided as per the prevailing market rates on an arm length basis. Such rent is paid by the company on monthly basis.

Decision:

The charge pertains to related party transactions done by the Broker with its Group companies without any proper accountability and for availing certain services without proper disclosure. There were several transactions done by the Broker with the Group companies involving huge amounts. For most of those transactions, Broker submitted that those were meant for availing certain services from those companies without being able to furnish underlying agreements executed with those companies.

The Broker continued to do such transactions with Group companies, even after being penalised by the Authority for Rs 5 Lakhs via Clause 1 of its letter ref no IRDA/DB 314/05 dated 26th November 2014, for using the services of other Group companies for providing brokerage related services and entering into agreement with its holding company without mention of specific payment terms in the agreement.

It is also worthy to mention that even after being advised by the Authority via Clause a of its letter IRDA/DB 314/05 dated 26th November 2014, not to extend any loans or invest in ICDs of their holding company and other Group companies and submit an undertaking regarding the same, and the broker, vide point 'a' of its letter dated 26th November 2014 to the Authority, giving an undertaking that "*We undertake that we will not extend any loans or invest in ICDs of our Holding Company or other Group companies in future*", the Broker continued to carry out such transactions for a long period of time (it is also not confirmed whether Broker has stopped such practices now or not).

Also, Authority via Clause (b) of its letter IRDA/DB 314/05 dated 26th November 2014, in the matter of India Infoline Insurance Services Ltd giving and taking back advance of Rs 1 crore from the Broker, advised the Broker to wind up India Infoline Insurance Services Ltd and update the status to Authority. The Broker vide point 'b' of its letter dated 26th November 2014 to

the Authority, gave an undertaking that *“We undertake to take steps to windup India Infoline Insurance Services Limited, the erstwhile Corporate Agent of ICICI Prudential and update the status to IRDA”* . But the Broker, instead of winding up the said entity, continued to do transactions of huge amounts with the said entity.

It is clear that after being penalised and directed by the Authority earlier for transactions with the Group companies, the Broker did not stop such practices and kept on doing such transactions under the guise of availing services from these companies, without having any proper agreement for the same. The Broker cannot justify its action of non-adherence to Authority’s directions under the pretext of omnibus approval by the Board as per Related party transaction policy of the Company. The Broker, licensed by the Authority, is obligated to adhere to Authority’s Regulations and directions.

Hence it is evident that Broker has no regard for Authority’s direction and is violating the Authority’s Regulations and instructions in a brazen manner. This also implies the Broker’s inclination to violate regulatory requirements.

The broker acted in violation of Authority’s direction dated 26th November 2014; till the year 2015-16 as per the documents made available during the onsite inspection. Hence considering that violation continued for more than one hundred days, by virtue of powers vested under Section 102 (b) of the Insurance Act, 1938, the Authority levies on the broker a penalty of Rs. 1,00,00,000/--(Rupees one crore only).

The Broker is also directed to update the status to the Authority in this regard and submit an undertaking that such transactions with Group companies, will not be done by the Broker.

14. Charge No. 12

During the course of inspection, the insurance broker was asked to furnish support documents such as invoices raised, vouchers, agreements etc. relating to customer support services, commission bills raised with the insurers, related party transactions, form 26AS of employees having insurance agency license etc. The insurance broker was unable to provide any of such back-up paper relating to their accounts. It was informed to the inspection team that the same were to be obtained from an outsourcing agency as the vouchers, invoices and other back-up papers have been handed over to an outsourcing agency for maintenance.

The Broker has violated Regulation 29(4) of IRDA (Insurance Brokers) Regulations 2013 which mandates all the books of accounts, statements and documents etc. shall be maintained at the head office of the insurance brokers or such other branch office as may be designated by them and notified to the Authority, and shall be available on all the working days to such officers of the Authority, authorized in this behalf by it for inspection.

Submission of Broker:

The Broker submitted that the books of accounts, documents and records of the Company were diligently maintained and kept at its Head Office/Registered Office IIFL House, Sun Infotech Park, Road No. 16 V, Plot No. b/23, Wagle Estate, Thane Industrial Area, Thane - 400064. The same was also demonstrated to the inspection team during the inspection. The documents relating to earlier financial year were kept in safe custody in its warehouse at Bhiwandi.

The retrieval of old documents/records takes some time and the same is incidental. As soon as the documents were compiled/retrieved the same was submitted to the inspection team. The Broker requested to note the above compliances and cooperation.

Now, the Broker has also implemented a system wherein the scan copies of the invoices / vouchers can be made available as and when required.

Decision:

The charge pertains to non-maintenance of documents such as invoices, vouchers, agreements etc. by the Broker at its head office or its designated branch notified to the Authority.

The Broker, was unable to provide a logical reason as to why such significant documents were not maintained at its head office and why they were not made available to the Inspection team during Inspection, even though they were intimated about the Inspection in advance.

The Broker is cautioned for the lapse and advised to ensure adherence to Clause 4 of Regulation 34 of IRDAI (Insurance Brokers) Regulations, 2018.

15. Charge No. 13

The insurance broker does not have proper system of internal controls commensurate with the size of their operations. This fact has also been identified by the internal auditor.

The Broker, in its response to the Inspection report, submitted that in due course of time, it has rectified all the shortcomings on its part which was pointed out by Auditors. But the response does not specifically touch upon the shortcomings pointed out and respective steps taken in that regard.

Not having proper internal controls in its office, the Broker is in violation of Regulation 31(1) of IRDA (insurance Brokers) Regulations 2013.

Submission of Broker:

The Broker submitted that the Company has put in place proper internal audit systems. Further the internal controls and systems are of adequate size to commensurate with the size, nature and complexity of the business and the same are verified by the statutory auditor periodically. The Company had appointed internal auditors to review and monitor such controls and systems in place to identify any process deviation and highlight such cases to management in order to further strengthen the process and system and improve the business effectiveness and efficiency. During such internal audits conducted in FY 2014-15 and FY 2015-16, the internal auditor had identified certain process deficiencies which were reported to the Board along with the necessary rectification and implementation. The action taken on the observation is also reviewed by the Board periodically. Further, the implementation was verified by the internal auditors and statutory auditors have confirmed the same.

With regard to the deficiencies as pointed out, the Broker submitted that in case of online policies, PLVCs were conducted after the online login and hence there is no Prelog in verification.

In case of signature forgery allegations, it was identified that customers were instigated by ex-employees by making this complaint and with an intent to poach this customer. However, the Company had fully demonstrated the genuinity and its compliances allegations and replied on all such complaints. Accordingly, broker submitted that these were ingeniune complaints/claims with ulterior motives.

The broker reiterated their strengthening of process.

Decision:

The charge pertains to different shortcomings identified by the Internal auditor of the company indicating towards lack of internal controls in the Broker's office. The submission and certificate of internal auditor furnished by the Broker in this regard are taken note of. However, Broker is advised to ensure due diligence in regard to shortcomings pointed out by the Internal auditor and ensure that those issues do not recur in future so as to be in adherence with Regulation 31(1) of IRDAI (Insurance Brokers) Regulations, 2018.



16. Summary of Decisions:

The following is the summary of decisions in this order:

Charge No.	Brief Title of charge and the provisions violated	Decision
1	Charge: Unqualified persons used for solicitation Provision: Regulation 8(2)(xiv) & 23(2)(iv) of IRDA(Insurance Brokers) Regulations, 2013	Penalty of Rupees four Lakhs & Direction
2	Charge: Online portal of Broker Provision: Clause 1 of Schedule VIII read with Regulation 22 of IRDA (Insurance Brokers) Regulations , 2013	Warning & Advisory
3	Charge: Qualified person in branch Provision: Regulation 8(2)(iii) of IRDA (Insurance Brokers) Regulations, 2013	Advisory
4	Charge: Written mandate Provision: Clause 2(h) of Schedule VIA of IRDA (Insurance Brokers) Regulations, 2013	Direction
5	Charge: Telemarketing locations Provision: Regulation 23(2)(i) of IRDA (Insurance Brokers) Regulations, 2013.	Advisory
6	Charge: Leads from Group companies Provision: Regulation 23(2)(iii) of IRDA (insurance Brokers) Regulations, 2013.	Direction
7	Charge: Non Cooperation with Inspection team Provision : Regulation 41(1)(f) of IRDA (Insurance Brokers) Regulations, 2013	Warning & Direction
8	Charge: Office Infrastructure Provision: Regulation 8(2)(ii) of IRDA (Insurance Brokers) Regulations , 2013	Penalty of one crore& Direction
9	Charge: Professional Indemnity policy Provision : Provisions of Schedule III of IRDA (Insurance Brokers) Regulations, 2013	Direction

10	Charge: Utilisation of agents Provision : Clause 3(b) of Schedule VIA read with Regulation 28 of IRDA (Insurance Broker) Regulations, 2013	Advisory
11	Charge: Related party transactions Provision: Provision of Regulation 41(1)(o) of the IRDA (Insurance Brokers) Regulations, 2013.	Penalty of one crore & Direction
12	Charge: Maintenance of documents Provision: Regulation 29(4) of the IRDA (Insurance Brokers) Regulations, 2013.	Caution & Advisory
13	Charge: Internal controls Provision : Regulation 31(1) of the IRDA (Insurance Brokers) Regulations, 2013	Advisory

17. As directed under the respective charges, the penalty of Rs 2,04,00,000/- (Rs Two crore and four lakhs only) shall be remitted by the Insurance broker within a period of 15 days from the date of receipt of this Order through NEFT/ RTGS (details for which will be communicated separately). An intimation of remittance may be sent to Mr. Prabhat Kumar Maiti, General Manager (Enforcement) at the Insurance Regulatory and Development Authority of India, Sy. No. 115/1; Financial District; Nanakramguda; Gachibowli; Hyderabad – 500032.

General Directions to the Broker:

Apart from the various grounds and reasons given under different charges above, for penalty levied and the specific directions given, it is felt necessary that the following instructions are to be noted by the Broker for compliance and implementation:

The levy of penalties as listed above and the directions for strict compliance given under charges, wherever felt necessary, are the result of the very little inclination, noticed on the part of the broker, to abide by the rules, regulations, circulars etc. which govern their functioning and registration as a broker. In other words, there is hardly any enthusiasm or responsibility exhibited by the broker to abide by the various regulatory prescriptions. This, despite the fact that the broker has been penalised in the past for various violations and directions have been given in the past to comply with the regulatory provisions. But it is found that the broker has shown little heed to follow and abide by the directions of the Authority. In the light of this scenario of very little compliance by the broker on almost all fronts and violations taking place repeatedly, the broker is directed that they must ensure very strict compliance to the regulatory provisions and the directions given by the Authority. The broker is further directed that in case their present attitude of non-

compliance continues in future, the violations/non compliances will be dealt with utmost seriousness.

18. The Broker shall confirm compliance in respect of all the directions within 21 days from the date of receipt of this order. The order shall be placed before the Audit committee of the broking firm and also in the next immediate Board meeting and the Insurance broker shall submit to the Authority a copy of the minutes of the discussion.

19. If the Insurance Broker feels aggrieved by any of the decisions in this order, an appeal may be preferred to the Securities Appellate Tribunal as per Section 110 of the Insurance Act, 1938.

The broker is required to acknowledge receipt of this letter.



(SujayBanarji)

Member (Distribution)

Place : Hyderabad

Date : 25th November , 2019