



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

Ref: IRDA/ENF/ORD/ONS/ 029 /2/2015

**Final Order in the matter of Life Insurance Corporation of India**

Based on the reply to Show Cause Notice dated 18<sup>th</sup> December 2013 and submissions made during Personal Hearing Chaired by Sri R.K. Nair, Member (F&I), IRDA held on 15<sup>th</sup> May 2014 at 3 pm at the office of the Insurance Regulatory and Development Authority of India, 3<sup>rd</sup> Floor, Parishrama Bhavan, Basheerbagh, Hyderabad

The Insurance Regulatory and Development Authority of India (hereinafter, referred to as 'the Authority') carried out an onsite inspection of Life Insurance Corporation of India (hereinafter, referred to as the Insurer) from 21<sup>st</sup> November 2011 to 3<sup>rd</sup> December 2011. The Authority forwarded the inspection report to the Insurer vide letter dated 25<sup>th</sup> October 2012 seeking their comments.

Upon examining the submissions made by the Insurer vide letter dated 21<sup>st</sup> August 2012, the Authority had issued a Show Cause Notice on 18<sup>th</sup> December 2013 which was responded to by the insurer vide letter dated 20<sup>th</sup> January 2014.

As requested therein, a personal hearing was given to the Insurer on 15<sup>th</sup> May 2014.

Shri S.K. Roy, Chairman, along with his team Shri S.B. Mainak, Managing Director and Shri P.K. Arora, Appointed Actuary were present in the hearing on behalf of the Insurer. On behalf of the Authority, Dr. Mamta Suri, Sr. JD (I&C), Smt. Meena Kumari, Sr. JD (Actuarial), Shri Ramana Rao, JD (Investments), Shri V. Jayanth Kumar JD (Life), Shri R.K. Sharma, DD (F&A-life), Smt. B. Padmaja, Sr. AD (Inspection Compliance), Smt. Kanthishri, AD (Inspection Compliance), were present in the personal hearing.

The submissions made by the Insurer in their written reply to Show Cause Notice as also those made during the course of the personal hearing were taken into account.

The findings on the explanations offered by the Insurer to the issues raised in the Show Cause Notice and the decisions thereon are as follows:

**Charge 1 - Inspection Observation No 1(b)**

For the purpose of valuation, actual commission payable under Non Linked Products was not explicitly considered, but instead was assumed @6.25% of the premium under premium related expenses, though the actual commission payable under some products is more than 6.25% of the premium. Hence the Mathematical Reserve held in respect of each of the product did not reflect the true picture.

**This is in violation of Point No 2(1) of Schedule II-A of IRDA (Assets, Liabilities and Solvency Margin of Insurers) Regulations, 2000**

***Insurer's submission***

*The Regulations stipulates that the determination of the amount of liability under each policy shall be based on prudent assumptions of all relevant parameters based on insurer's expected experience and shall include an appropriate margin for adverse deviation. The renewal premium related cost of individual life assurance business is stable at around 6% and hence the premium related expense has been assumed for valuation as 6.25% which includes margin for adverse deviation. The suggestion that has been given in the report may mean major changes in the way valuation is carried out which would lead to practical difficulties given that the Corporation values over 30 crore policies over 160 products.*

**Decision:**

**In view of the fact that the actual rates of commission are known at the outset, the commission rates should not be assumed while arriving at Mathematical Reserve. As such, the Insurer's contention that they have built in their experience on said rate while arriving at Mathematical Reserve, is not acceptable.**

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However, the Authority while considering the difficulties expressed in terms of volumes involved in revising their existing practices and the consequential impact on the valuation, directs the insurer to align the valuation methodology with the requirements of the Regulation in a time-bound manner. The Insurer shall draw a time-line in consultation with the Actuarial Department of the Authority.

**Charge 2- Observation No 2(a)**

Method of arriving at Mathematical Reserves under Group Business (OYRGTA) for the year 2010-11 was not disclosed in Actuarial Report and Abstract (ARA).

**Violation of Circular No: IRDA/ACTL/CIR/GEN/045/03/2011 dated 7th March 2011 and point no. 2(6) & (7) of Schedule – IIA of IRDA (Assets, Liabilities and Solvency Margin of Insurers) Regulations, 2000.**

***Insurer's submission***

*The method by which the Mathematical Reserves under Group (OYRGTA) business is arrived at, is described in para 2 (under Group Business) of page 10 of ARA. The method as described thereon is the "unearned premium reserve" method. We shall explicitly disclose the name of the method used, in ARA from the next valuation.*

**Decision:**

Considering the corrective steps proposed by the insurer, the Authority directs the Insurer to ensure consistent compliance with various requirements of IRDA Circular No: IRDA/ACTL/CIR/GEN/045/03/2011 dated 7<sup>th</sup> March 2011.

The Authority also notes the Insurer's submissions that unexpired premium method is used for valuation purposes. In this regard, insurer is directed to ensure compliance with proviso to Clause 2(7) of the Schedule II-A of the IRDA (Assets, Liabilities and Solvency Margin of Insurers) Regulations, 2000 which requires confirmation that the valuation so arrived at is equal to the amount arrived at by using the Gross Premium Method. This disclosure shall form part of the ARA.



### **Charge 3**

#### **i) Inspection Observation No. 2(b)**

Interest rates for all cash accumulation products were declared based on the fund size irrespective of the actual investment return earned.

#### **ii) Inspection Observation No. 2(c)**

The details with respect to method to be followed in arriving at the interest rate to be declared under Group Product 'GGCA' from time to time were not disclosed.

### **Violation of Regulation (6) of IRDA (Protection of Policyholders' Interests) Regulations, 2002 (violation of policy terms and conditions)**

#### ***Insurer's submission***

*The interest rates declared range from 9% to 9.66% depending on the size of the funds. The distribution is made net of expenses at the end of the year as was the practice over the years. The insurer indicated that the current practice is more favourable to the policyholder than that specified in the policy document. Following the practice of earlier years will be in line with policyholder's reasonable expectations. These products have been withdrawn owing to the new products guidelines and subsequently no new policy has been issued.*

#### **Decision:**

The Authority notes insurer's submission that the practice was is in line with policyholders' reasonable expectations. It is also noted that the said products have been withdrawn. The Authority therefore, directs the insurer to ensure scrupulous compliance with Regulation (6) of IRDA (Protection of Policyholders' Interests) Regulations, 2002, henceforth.

### **Charge 4 (Eight Inspection Observations)**

#### **Inspection Observation No.2 (e)**

On examination of sample policy documents of Group Gratuity Cash Accumulation (GGCA) policy it is noticed that guaranteed interest rates are allowed as against internal circular P&GS/923 dated 04/01/2006 that prohibits interest rate or annuity



rate guarantees. The Insurer has no control on the guarantees offered by the P&GS Units and that the guarantees are neither captured in IT system nor in valuation data. Further it was noted that terms and conditions of Master policy document format of GGCA to be used by the P&GS Units is editable as such the guarantees may be modified manually.

### ***Insurer's submission***

*The Insurer submitted that instructions were issued to their units to call back the policy bonds which have been issued allowing guaranteed interest rates and to issue endorsement for necessary changes in the policy document in line with CO Circular No. P&GS/923 dated 04.01.2006. Further, the master policy document formats on LIC's site are now in PDF format, i.e., are non editable. The issue of guarantee is arising out of issuance of wrong policy bond. Instructions have been issued to call back the policies wrongly issued and rectify the same. As no guarantee really exists no reserves are kept.*

### **Decision:**

**The Authority, considered the following as regards Insurer's submissions:**

- **Issue of guarantee is arising out of issuance of wrong policy bond which have been called back.**
- **As no guarantee really exists no reserves are kept.**

**The insurer is directed to carry out an exercise to ensure that all the wrong policy documents have been called back and confirm the same to the Authority.**

**Further Regulatory Action in the matter given below Inspection Observation 17.**

### **Inspection Observation No 54A**

On 4<sup>th</sup> January 2011 an amount of ₹ 1251 crore from Employee Housing portfolio was transferred to LIC HFL, on the basis of an MOU. The MOU neither prescribes time limit within which the amount transferred to be paid by LIC HFL nor amount of interest payable for late payment. The transaction was also not disclosed in the related party transactions in the financial statements ending 31<sup>st</sup> March 2011. This amount was not received from LIC HFL till 31<sup>st</sup> March 2011.



***Insurer's submission***

*Regarding non disclosure of respective transactions in the financial statements ending 31<sup>st</sup> March, 2011 it is submitted that the amount was not actually transferred from the loan account as the records were transferred to LICHFL in a phased manner in the next financial year and hence the estimated amount of transfer continued and was reflected in the financial statement of the year 2010-11*

**Decision:**

**The Authority considered the fact that the necessary disclosure was made in financial statements for the year 2011-12, when the actual transfer happened, the charges are not being pressed.**

**Inspection Observation No 54 B**

Reconciliation of policy loans and calculations of provisions to be made for interest on policy loans accrued and outstanding, revealed several impurities such as extraneous debits, credits, un-reconciled and irrelevant items etc. Necessary systems are not in place for arriving at the loan interest outstanding/ accrued and no care is exercised before incorporating the figures generated by the systems into the accounts. Assets to the extent of impurities and un-reconciled amounts do not reflect a true and fair picture of this portfolio.

***Insurer's submission***

*It has been submitted that the IT programs were corrected to calculate the interest accrued but not paid on such policies in the books of the Insurer. Process of purification of loan records completed and all zones submitted reconciled loan schedule as on 31/03/2014*

**Decision:**

**The Authority considered the corrective action taken by the insurer.**

**The Regulatory Action in the matter given below Inspection Observation 17.**



### **Inspection Observation No 19**

On a sample verification of commission earnings of the Branch office (BO-904) vis-à-vis the data furnished under section 31 B(2) of the Insurance Act 1938 for the year 2010-11 it was found that

- The actual total premium income and commissions earned by the respective agents is not tallying with the data furnished
- The other payments made to the intermediaries viz. club allowances, gratuity and competition prizes are not being mentioned under commission earnings

#### ***Insurer's submission***

*The bonus commission paid was not reflected under commission earnings in respect of Corporate Agents/ Banks. Due to time constraints, data had to be extracted through alternate source of IT system where all the source files were to be migrated from the main system. During this period, IT systems were switching over to new E-FEAP system. This transition affected migration resulting in partial migration of premium data from some parts of the country.*

#### **Decision:**

**The Authority notes incorrect details filed under section 31B (2) of the Insurance Act, 1938 for the year 2010-11.**

**The Regulatory Action in the matter given below Inspection Observation 17.**

### **Inspection Observation No.38**

IT systems and controls are not in place to ensure that Group policies issued by P&GS are within prescribed / specified minimum membership requirements. This lapse is also endorsed by Internal Audit/Inspection Teams which revealed inappropriate systems and controls in this respect.

#### ***Insurer's submission***

*A check has been incorporated in the system for minimum membership requirement.*

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**Decision:**

**Clause A (3) of the Group Insurance guidelines, requires prudence on minimum group size. The Authority considers the Insurer's submission that they have now incorporated minimum membership requirement in their system.**

**The Regulatory Action in the matter given below Inspection Observation 17 below**

**Inspection Observation No 44**

Instances of deviations from the permissible family holding norms under key man policies, absence of financial viability assessment of the policy holder etc. were observed. Internal underwriting guidelines were not adhered while issuing the policies.

***Insurer's submission***

*Some proposals were accepted as a special case based on individual and company profile by going beyond internal underwriting guidelines at Central Office under Individual and Key Man Insurance (KMI). However these decisions to deviate are taken at Central Office where a prudent view of the proposal is taken. Underwriting decision which are in the interest of LIC and life assured are taken, after consulting the Reinsurer. However, lower offices follow the underwriting guidelines issued from time to time.*

**Decision:**

**The Authority observes deviation from the internal underwriting guidelines. However, considering the Insurer's submission that such decisions are taken only in exceptional cases at the Central Office, the charge is not being pressed.**

**Inspection Observation No.52 (A) (iv)**

On examination of status of EDMS project it was observed that a huge number of records are not available (Over 1 crore policies out of 35 crore policies) for scanning. Though the details of missing records were identified, specific road map to address the issue was not attempted.

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### **Insurer's submission**

- *It was found that Branches were having some excess docket apart from missing docket. It was observed that missing policy docket in a particular Branch can be matched to the excess docket available in some other Branch. The docket were missing due to transfer-out of masters without transferring the physical docket in the past. These were the excess docket in transferor Branches. To overcome the issue, an Option has been provided in e-FEAP module; vide e-FEAP update 12.70 dated 08.12.2012 to consider the excess docket available for scanning through regular batches. These scanned images will be automatically transferred to the Servicing Branches once uploaded in the DO Server. The project provides for marking the docket which are not available immediately for scanning purpose as Missing (M)*
- *Insurer is in the process of tracing the records that are still with the 'M' tag and analysing requirement for scanning as on date. Insurer has indicated that 56.80 lakh of policies are required to be traced from Missing policies. The work pertaining to tracing and of 5.03 lakh of these policies has since been completed.* ✓

### **Decision:**

**The Authority, while taking note of the measures taken to trace the missing policies, hereby directs the insurer to lay down clear timelines for completion of the exercise, under intimation to the Authority. Simultaneously, the insurer shall put in place adequate checks to ensure that servicing of policyholders is not affected in any manner.**

**Further Regulatory Action in the matter given below Inspection Observation 17.**

### **Inspection Observation No 17**

As per SOP, approval of reduction in interest rate can be given by investment committee (IC). IC can waive maximum up to 50% of NPV of loss of interest income. In case of reset of interest rate on NCD's of LIC Housing Finance Ltd., decision was taken by the Chairman in July 2009 to reduce the rate of interest from 11.15% to 9.60% and reported to IC instead of getting approval from IC. Further Net present value of loss of interest income amounting to ₹193.51 Crore is fully waived, though only maximum of 50% of the loss can be waived. Reset of interest rate is allowed

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only for NCD's purchased from Life and P&GS fund but not for NCD's purchased from ULIP fund.

**All the above Inspection Observations are in Violation of Clause 6 of Annexure II of Corporate Governance Guidelines, 2009.**

***Insurer's submission***

*The decision to reduce rate of interest was taken by the Chairman. Given the prevailing market conditions at that time where LIC HFL itself had reduced its lending rate, one lender of LIC HFL had also pre-closed their loan without any prepayment charges and while another had reduced the rate of interest from 11.10% to 9.25%. Guidelines for reduction in rate of interest have been approved as per IC meeting dated 20.09.2005. Insurer submitted that the SOP was in the draft stage at the time of inspection, hence cannot be treated as violation of SOP.*

**Decision:**

**The Inspection Observation and the submissions made by the insurer thereon, show deviation from the laid down processes as regards managing their investment portfolio.**

**Various inspections observations under Charge 4 viz., 2(e), 54B, 19, 38, 52 (A)(iv) and 17 have shown that the internal controls mechanism and processes of the insurer requires to be strengthened further. In this connection the Authority directs the insurer to furnish a report on steps taken to improve internal controls in the light of the observations in the inspection reports of the Authority and also in the spirit of Clause 6 of Annexure II of Corporate Governance Guidelines, 2009.**

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## **Charge 5 (Two Inspection Observations)**

### **Inspection Observation No 3 (a)**

Huge number of valuation error records were noticed under individual business as at 31<sup>st</sup> March 2010 (34 lakh with basic liability of ₹ 10923 crore) and 31<sup>st</sup> March 2011 (35.47 lakh with basic liability of ₹ 12741 crore). Procedure for monitoring and method of determination of mathematical reserves in respect of these error records not disclosed under Actuarial Report and Abstract (ARA)/ Appointed Actuary's Annual Report (AAAR).

#### ***Insurer's submission:***

*The validation error records are only in thousands and the figure of 35.47 lakh apart from including these errors also include the historical difference in opening figures of data D and valuation data V and the differences can be expected to be reduced only gradually with the exit of very old policies. The process of data extraction, checking for accuracy and reconciliation has been disclosed in page 61 of AAAR as at 31<sup>st</sup> March, 2011 under "valuation system, method and assumption for valuation basis". Detailed comments on would be incorporated in the AAAR in future reports.*

#### **Decision:**

**The Authority observes violation of clause 9.3 (d) of circular no. IRDA/ACTL/CIR/GEN/045/03/2011 dated 7<sup>th</sup> March 2011 requiring disclosure of method used in valuation for policy liabilities.**

### **Inspection Observation No.3 (b)**

Almost 10% of total liability under Group Immediate Annuities pertain to LIC Employees' Pension Scheme were kept as reserve towards "Margin for impurities (D-V Reserve)". Method adopted for creating and maintaining such reserve in the valuation returns was not disclosed.

**The above is a violation of Circular Regulation 9.3 (d) of Circular No: IRDA/ ACTL/ CIR/ GEN/ 045/ 03/ 2011 dated 7<sup>th</sup> March 2011**



### ***Insurer's submission***

*Maintaining higher margin for data impurities is a prudent measure. The method adopted for creating and maintaining such reserve shall be disclosed in future valuation.*

### **Decision:**

**The Authority observes violation of clause 9.3 (d) of circular no. IRDA/ACTL/CIR/GEN/045/03/2011 dated 7<sup>th</sup> March 2011 requiring disclosure of method used in valuation for policy liabilities.**

**The Authority considers the submissions under Inspection Observation 3 (a) and 3 (b) that the detailed comments on valuation system, method and assumption for valuation basis; and the method adopted for creating and maintaining Margin for impurities reserve shall be incorporated in the AAAR reports in future. The Insurer is hereby, directed to ensure compliance at all times.**

### **Charge 6**

#### **Inspection Observation No 4(a)**

It is noticed that though the Employees' wage revision was due since Financial year 2007-08, the expected level of increase in expenses was not taken into account for valuation (the expense assumption was revised as at 31.03.2011 only) during successive financial years. Further the increase in expenses assumption was considered only in respect of Non-Linked Assurance business while the same was not considered for Annuity and Pension business.

Sharp increase in per policy expenses under Non Linked Individual Assurance par plans resulted in a huge amount of deficit.

**This is in violation of Para 5(1) (a) of schedule II A of IRDA (Assets, Liabilities and Solvency Margin of Insurers) Regulations, 2000 for not providing for the expenses**

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### ***Insurer's submission***

*The increase in expense on account of possible wage rise was incorporated as at 31<sup>st</sup> March, 2010 valuation itself and not in 31<sup>st</sup> March, 2011 valuation as mentioned. The impact of the same was also included in the experience analysis for "in payment annuity/pension business". Further payments through ECS had also resulted in reduction of expenses which had compensating effect.*

*During the valuation as at 31<sup>st</sup> March, 2013 also the impact of possible wage rise on expenses was recognized and have provided for the same in the expense basis.*

### **Decision:**

**The Authority considers Insurer's submissions and various facts on record. The charge is not being pressed.**

### **Charge 7**

#### **Inspection Observation No 7**

In view of the significant size of the policy holders' liabilities, to effectively manage operational risk, to ensure more clarity and a true and fair view of valuation to be carried out, the product wise documentation/details of methods of setting assumptions, valuation formulae/ methodology to be used, valuation software/code being adopted, valuation process flow along with clear roles and responsibilities of various officials involved shall be maintained by complying to para 8.2 of Actuarial Practice standards of IAI. However the same is not ensured.

**This is in violation of Rule 39 of Insurance Rules 1939 and Clause 6 of Annexure II of Corporate Governance Guidelines, 2009**

### ***Insurer's submission***

*As per 8.2 of Actuarial Practice standard 1, the Appointed Actuary has satisfied himself about appropriate valuation procedures including documentation before documenting the details of Valuation system, Valuation method and assumptions for valuation basis and use of actuarial software developed in-house in pages 61 to 79 in his report AAAR as at 31<sup>st</sup> March, 2011.*

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**Decision:**

The Authority considers the submission of the Insurer. The charge is not pressed.

**Charge 8**

**Inspection Observation No 12**

Investment pattern of ULIPs in respect of various ULIP funds (Future Plus- Balanced & Growth and Jeevan Saathi- Secured) as at 31<sup>st</sup> October 2011 is inconsistent with that approved under File and Use. Similar observation was also made by the concurrent Auditors.

**The above is a violation of File and Use Guidelines.**

***Insurer's submission***

*There was a slight deviation in respect of these three funds on account of appreciation in the market value of equity investments. Jeevan Sathi Plus is a tiny fund and had an AUM of ₹ 25 lakh only as on 31.10.2011, the same was set right on 16.11.2011. For two other medium sized funds also the pattern was brought in line with approved investment pattern by 29.02.2012.*

**Decision:**

The Authority observes violation of limits specified under F&U and violation of circular no. IRDA/ACTL/FUP/VER/1.0 dated November 2000. The Authority considers the small size of the Jeevan Sathi Plus fund and the corrective steps taken by the insurer in case of the other two medium sized funds. Insurer is hereby, directed to confirm through their internal audit department that deviations noted have not impacted the policyholders' interest. Insurer shall also ensure strict compliance with the requirements henceforth.

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## **Charge No 9**

### **Inspection Observation No 16**

Inter Fund Transfers from unit funds to non unit funds to Life (Par) funds were predominantly observed in Nov 2011.

**This is in violation of circular No IRDA/FA/02/10/2003-04 dated 29<sup>th</sup> October 2003**

#### ***Insurer's submission***

*The excess investment in non-unit funds was to be transferred to Life (Par) Funds as per internal valuations and advices. Hence instead of selling the assets and giving cash to Life (Par) Fund, assets on Book Value were transferred. Investment Committee accorded its sanction on the same in its meeting held on 30.08.2011. The transfer between unit and non unit funds were carried out on prevailing market prices.*

#### **Decision:**

**The Authority observes violation of circular No IRDA/FA/02/10/2003-04 dated 29<sup>th</sup> October 2003 which clearly prohibits transfer of assets (investments) between different policyholders' funds. Insurer is directed to ensure strict compliance with the requirements of the circular going forward.**

## **Charge 10**

### **Inspection Observation No 22**

Disclosures in respect of expenses incurred towards motivational campaigns/incentives paid to Development Officers/Sales reward campaigns/outsourced activities expended under the heads of account viz. Outsourcing expenses, Business development Expenses, Market support expenses were not made as required.

**This is in Violation of Circular No 067/IRDA/F&A/ Cir/Mar-08 dated 28.03.2008**

#### ***Insurer's submission***

*Annual Reports upto 2012-13 are published without the prescribed disclosure mentioned in the circular. From the F Y 2013-14 onwards, the said disclosure on operating expenses will form part of "Notes to Accounts."*

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**Decision:**

The Authority observes violation of Circular No 067/IRDA/F&A/ Cir/Mar-08 dated 28.03.2008 and notes the corrective action taken by the insurer. The Authority hereby directs the insurer to ensure strict compliance henceforth.

**Charge 12**

**Inspection Observation No. 56:**

Subsidiary companies are shown as Joint Ventures/Associates under Schedule 15A of Annual Financial Statements.

This is in violation of para 5 of the Accounting Standard (AS)-21.

***Insurer's submission***

*The wrong disclosure was made through an oversight. Disclosure in respect of Subsidiary companies under Schedule 15A was made from the Financial Year 31<sup>st</sup> March 2012 onwards. LIC Nepal Ltd., LIC (International EC), Bahrain and LIC Lanka where LIC holds more than ½ of voting power is shown as joint venture. Disclosure arising of the MoU in Joint Venture Agreements*

**Decision:**

The Authority notes the corrective action taken by the Insurer as regards two entities viz., LIC Pension Fund and LIC Card Services Ltd.

As regards disclosures in case of LIC Nepal Ltd., LIC (International EC), Bahrain and LIC Lanka wherein LIC holds more than 51% of the voting rights/equity, the Insurer is hereby directed to comply with Accounting Standards (AS) with specific reference to AS 18 & 21. The disclosure requirements cannot be driven by the agreements between two parties but are based on definitions prescribed therein.

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The Insurer is directed to strictly comply with the Accounting Standards as stipulated under Regulation 1, Schedule A of the IRDA (Preparation of Financial Statements and Auditor's Report of Insurance Companies) Regulations, 2002.

**Charge 13**

**Inspection Observation No.57**

Unclaimed Maturity Claims were written back instead of disclosing the same as a separate line of item in Schedule 13 – 'Current Liabilities'

The above is a violation of IRDA Circular IRDA/F&I/CIR/174/11/2010 dated 4-11-2010.

***Insurer's submission***

*Amount appearing under 'Unclaimed Maturity Claims Written Back' is pertaining to Outside India business, hence not shown as a separate line item in Schedule 13 – 'Current Liabilities'.*

**Decision:**

Keeping in view the Insurer's submission that the unclaimed maturity claims written back pertain to outside India business and that the amount involved was ₹44.31 lakh the charge is not being pressed.

**Charge 14**

**Inspection Observation No 18 (a)**

Asset mix of various ULIP funds vis-à-vis the asset composition of approved asset pattern is not placed on the web portal.

This is in violation of Circular IRDA/Life/Misc/Cir129/08/2010 dated 16-08-2010

***Insurer's submission***

*With effect from half year ending September 2012, Asset mix of various ULIP Funds is being regularly put on the web portal.*

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**Decision:**

The Authority observes the violation of Circular IRDA/Life/Misc/Cir129/08/2010 dated 16-08-2010 and the corrective action taken by the insurer effective from September 2012. The Authority directs the insurer to ensure continued compliance with the provisions of the circular.

**Charge 15**

**Inspection Observation No 20**

Referral fee paid to various referral entities during the year 2010-11 was classified and reported in operating expenses instead of commission payments in the Schedule-2 to financial statements.

This is in violation of IRDA circular No IRDA/CIR/F&A/088/Mar-055 dated 30.03.2005

***Insurer's submission***

*While allotting Referral fee codes, the same was included in Operating Expenses instead of commission payments as the title of expense was "fee" and not commission. However as on date there is no referral arrangement.*

**Decision:**

The Authority observes violation of IRDA circular No IRDA/CIR/F&A/088/Mar-055 dated 30.03.2005. The Authority also notes that there is no referral arrangement as on date of inspection. The Authority therefore, directs the insurer to rectify the accounting codes in their system and ensure continued compliance with the circular.

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## **Charge 16**

### **Inspection Observation No.23**

Payments towards administrative expenses were made to various master policy holders. During the year 2010-11 the payments made were to the tune of ₹ 7.44 Crore.

**This is in violation of Clause C(4) of IRDA's Guidelines on Group Insurance Policies issued vide circular 015/IRDA/Life/Circular/GI Guidelines/2005 dated 14<sup>th</sup> July, 2005.**

#### ***Insurer's submission***

*Instructions have been given to operational units (dated 27<sup>th</sup> April 2012) to comply with IRDA guidelines and not to reimburse administrative expenses.*

#### **Decision:**

**The Insurer has violated Clause C (4) of IRDA's Guidelines on Group Insurance Policies issued vide circular 015/IRDA/Life/Circular/GI Guidelines/ 2005 dated 14<sup>th</sup> July, 2005 by making payments towards administrative expenses to various master policy holders. While noting the Insurer's submissions as regards corrective action, in the matter, the Authority directs the insurer to comply with various requirements of the group insurance guidelines, scrupulously in future.**

**The Insurer is further directed to recover the administrative expenses reimbursed to various Master Policy Holders.**

## **Charge 17 to 19**

### **[Inspection Observation No.24 (a),to 24(c)]**

**Under Charges 17 to 19, violation of File and use guidelines IRDA/ ACTL/FUP/VER 2.0/DEC 20011, dated 12-12-2001 have been observed especially in case of Micro Insurance Products. The Authority vide letter no. IRDA/Life/Complaints-MI/13 dated 21<sup>st</sup> August 2014 has issued detailed directions on streamlining of the Micro Insurance business by the insurer.**

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## **Charge No. 20**

### **Inspection Observation no 26**

Internal Audit reports of 10 Branch offices revealed irregularities in the area of claims handling viz.,

- Recycling of policies from surrender value and death claim proceeds ;
- Mass cancellation of outstanding claims by the branches to reduce the o/s claims ;
- Cheques recycled from the claims were utilized for new business on the lives not related to the policyholder;
- Maturity claims are settled without policy bond and discharge form.

The above irregularities were observed in earlier years also by the internal Audit team.

#### *Insurer's submission:*

*Recycling of new business proposal deposit is not allowed from surrender value and death claim proceeds. However, if specific written request comes from claimant, then after due verification of genuineness of the request, Branch-in-charge will allow for the same. Mass cancellation of outstanding claims by the branches to reduce the o/s claims is strictly prohibited. Internal Audit Department issues special reports for such acts and explanations are called. Cancellation of any death claim liability is strictly prohibited. Some cancellation of death claim takes place due to some data error in policy master or any wrong calculation of claim amount. At present, if any cancellation of death claims is noticed without valid reason, then our Internal audit and Inspection department are issuing special audit reports and appropriate action is being taken. Offices have been instructed to settle the claim after obtaining proper documents for settlement of the same.*

#### **Decision:**

**Inspection observations have brought out inadequacies in internal control processes of the Insurer. The Insurer is therefore, directed to strengthen its internal controls/processes.**

### **Inspection Observation no 27**

Death claims which were repudiated and later on admitted by claims review committee were not settled along with penal interest. Instructions were given to its operating offices



to settle death claims in such cases to pay 'basic SA only' and to pay penal interest 'on demand' preventing the operational offices in paying penal interest.

It is also found on sample verification of maturity claims and death claims settled that even though there is an inordinate delay of upto 1 year 2 months, they were settled without penal interest.

**This is in violation of Regulation 8 of IRDA (Protection of Policyholders' Interests) Regulations 2002 and Clause 6 of Annexure II of Corporate Governance Guidelines, 2009**

***Insurer's submission***

*Instructions have been amended in respect of payment of penal interest /'on demand' vide our circular Ref: CO/CRM/860/23 dtd 7/5/2012 which states that if repudiated death claim is admitted by Claims Review Committee in principle then penal interest should be paid with net claim amount.*

*Instructions regarding inordinate delay in settlement of any maturity claim or death claim have been issued vide our circular Ref: CO/CRM /845/23 dt. 2/11/2011.*

**Decision:**

**The Insurer's practice of paying interest 'on demand' is not an acceptable practice as it affects the interest of the affected policyholders.**

**While observing that insurer has brought in corrective action effective from 7<sup>th</sup> May 2012, the Authority directs the Insurer to strengthen internal controls in compliance with Clause 6 of Annexure II of Corporate Governance Guidelines, 2009**

**Charge 21**

**Inspection Observation No.33**

Summary of audit findings by the Audit Department during 2010-11 with respect to Group Insurance Scheme Administration revealed that Experience Rating Analysis calculations were not done and premium not being revised accordingly.

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**The above is a violation of profit sharing Circular IRDA/ACTL/FUP/Ver A/Aug 2003 dated 2nd September, 2003.**

***Insurer's submission***

*The audit findings during 2010-11 have been complied with satisfactorily by the units/Zones and reports have been closed. The ERA calculations are being checked during Quality Management Analysis (QMA) visits by CO officials.*

**Decision:**

**The Authority observes violation of profit sharing Circular IRDA/ACTL/FUP/Ver A/Aug 2003 dated 2<sup>nd</sup> September, 2003. In view of the fact that the Audit department of the insurer is monitoring compliance, the charges are not being pressed.**

**Charge 22**

**Inspection Observation No.36**

- Under Non-Employer-Employee Group Term Insurance schemes, issuance of Certificates of insurance (COI) was specifically delegated to the Group Organizer/Administrator. In such cases no checks, controls and measures are in place to ensure implementation of the same and no measures in place for providing the pre numbered COIs to Group Organizer/Administrator.
- Under Non-Employer-Employee Group policies, claim monies are paid to the Group Policy Holder/Organizer.

**This is in violation to Clause C-7 and C-8 of Group Guidelines issued vide circular 015/IRDA/Life/Circular/GI Guidelines/2005 dated 14<sup>th</sup> July, 2005.**

***Insurer's submission***

*Detailed instructions on issuance of certificate of insurance to non Employer-Employee group members and settlement of claim has been issued on 19.06.2012.*

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**Decision:**

While considering the insurer's submissions that measures to provide pre numbered COIs to Group Organizer/Administrator have been initiated from 19<sup>th</sup> June 2012, the Authority hereby, directs the insurer to ensure continued compliance.

As regards payment of claims favouring Group Policy Holder/Organizer, insurer is directed to ensure compliance with Clause C 7 of the Group Insurance guidelines which clearly specify that the insurer shall be responsible to ensure that the claim payment is made in the name of the insured member even if the claim monies are sent to the group manager for administrative convenience.

**Charge 23**

**Inspection Observation No.37**

Neither surprise inspections of the books and records of Group Policy Holders is being carried out nor 'certificate of compliance' is obtained from their Auditors. The internal Inspection/ Audit/ QMA questionnaires of the Corporation also do not contain questionnaires to check whether the operating offices are carrying out this activity.

This is in violation of Clause C-11 of Guidelines on Group Insurance Policies issued vide circular 015/IRDA/Life/Circular/GI Guidelines/2005 dated 14<sup>th</sup> July, 2005.

***Insurer's submission***

*The insurer submitted that their Audit department has been advised to incorporate this item in the questionnaire.*

**Decision:**

The Authority observes violation of Clause C-11 of circular 015/IRDA/Life/Circular/GI Guidelines/2005 dated 14<sup>th</sup> July, 2005: Guidelines on Group Insurance Policies and hereby, directs the insurer to ensure strict compliance.

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**Charge 24**

**Inspection Observation No 39 (a)**

Copy of the proposal form is not being furnished to the Policy holders

**This is in violation of Regulation 4(1) of IRDA (Protection of Policyholders' Interests) Regulations, 2002**

***Insurer's submission***

*Instructions have been issued to all the Zonal Managers to supply a copy of proposal form to the insured.*

**Decision:**

**The Authority observes violation of Regulations 4 (1) of IRDA (Protection of Policyholders' Interests) Regulations, 2002 and the corrective measures taken thereon and hereby, directs the insurer to ensure strict compliance.**

**Charge 25**

**Inspection Observation No 39(b)**

Several critical policy conditions were either incorrectly mentioned or not mentioned at all in the policy documents' format being used for several products. Some instances are- Maximum Allowable Double Accident Benefit wrongly mentioned, Information regarding claim requirements/cutoff timings for applicability of NAV/ Suicide Clause/ whether the policy is with profits (Par) or without profits (Non –Par) are not mentioned.

**This is in violation of Regulations 6 (1) of IRDA (Protection of Policyholders' Interests) Regulations, 2002**

***Insurer's submission***

*Instructions regarding the operational matters like maximum allowable Double Accident Benefit, Information regarding claim requirements, Cut off timings for applicability of NAV, Suicide Clause etc. have been issued to Regional Managers (Actuarial).*

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**Decision:**

The Authority observes violation of Regulations 6 (1) of IRDA (Protection of Policyholders' Interests) Regulations, 2002 and the corrective measures taken thereon, and hereby, directs the insurer to ensure strict compliance.

**Charge 26**

**Inspection Observation No 39(c)**

On examination of the sample policy records of two of the insurer's branches, it was observed that the insurer is not duly informing the policy holders with regard to the option available to review the policy terms and conditions within 15 days of receipt of the policy document. This issue was also observed by the internal audit of the Insurer.

**This is a violation to Regulations 6 of IRDA (Protection of Policyholders' Interests) Regulations, 2002**

***Insurer's submission***

*We would like to state that instructions have been issued to all Regional Managers(Actuarial) in all our Zonal offices vide our letter Ref: CO/U&R/CJP/13-14/409 dated 20.12.2013, instructing them to ensure that the letter informing the policyholder about free look period is sent along with the policy bond. Copy of our letter is enclosed herewith for your ready reference.*

**Decision:**

The Authority observes violation to Regulations 6 of IRDA (Protection of Policyholders' Interests) Regulations, 2002 and the corrective measures taken thereon, and hereby, directs the insurer to ensure strict compliance.

**Charge 27**

**Inspection Observation no 41**

An amount of ₹ 250 was being charged for registration of change of nomination in violation of the provisions of section 39 (3) of the Act.

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**This is in violation of Section 39 of Insurance Act 1938**

***Insurer's submission***

*A decision for discontinuing the practice of charging alteration fee of ₹ 50/- for effecting change of nomination has been taken with immediate effect and instructions have been issued to all our offices on 6.1.2014. ₹ 50/- was being charged and not ₹ 250/- as mentioned in the report.*

**Decision:**

**The Authority notes the corrective action brought in by the insurer as regards alteration fee charged for effecting change of nomination. Insurer is reprimanded for violation of Section 39 of Insurance Act 1938.**

**Charge 28**

**Inspection Observation No 43**

Policy Servicing Guidelines issued to various operating offices revealed that the following terms and conditions under various products were modified without prior approval from the Authority. It is also noticed that the modified terms and conditions were also not informed to the existing policy holders of the said products.

**The above is violation of File and Use Guidelines and Regulations 6(1) of IRDA (Protection of Policyholders' Interests) Regulations, 2002**

**Sl. No. 1 : Suicide Clause under policies with Single Premium**

*Single premium products being sold in the market and the fairness to the policyholders were discussed in detail and a conscious decision was taken to allow similar benefit (which was approved for Jeevan Aastha plan by IRDA in December 2008) to other plans having single premium mode.*

**Sl. No. 2 : PWB under CDA plans and risk plans to minors**

*In case of Komal Jeevan (T-159) also, it was intended that the PWB shall not operate if death occurs in case of death due to suicide in first year of policy. With the intention to align with other plans the PWB in case of suicide after one year was allowed.*

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**Sl. No. 3 : Grant of loan under Money Back policies**

*As Jeevan Sanchay plans (T. No. 123 to 126) were introduced prior to the formation of IRDA under which there was no 'File & Use' document, the decision to allow loan under these plans was not formally informed to the Regulator.*

**Sl. No. 4 – SSV and Loan provision in the first year under Bima Bachat Plan**

*As allowing SSV in the first policy year under Bima Bachat which is a single premium plan was in the interest of the policyholders, it was decided to allow SSV in the first year under this plan.*

**Sl. No. 5 –Cash Value of bonus along with GSV under New Jeevan Suraksha I (T-147) and New Jeevan Dhara I (T-148)**

*The decision to make payment of cash value of bonus along with the GSV in 202 cases is not only fair to these policyholders but is also in accordance with the decision taken in this regard which did not specify that it would be effective only prospectively. The benefit has been extended to all policies which are in the books of the Corporation.*

*In respect of all the points mentioned under charge no.28, the modifications have been made in the interest of the policyholders. No modifications contrary to 'File & Use' were made which curtails the benefits already assured in the policy conditions. The benefits arising out of these modifications were made applicable to all the policyholders without any discrimination.*

**Decision:**

**Modifying the policy terms and conditions without the consent of the policyholders is violation of Regulations 6(1) of IRDA (Protection of Policyholders' Interests) Regulations, 2002.**

**Considering the Insurer's submissions that the said modifications were made in the interest of the policyholders' and were made applicable to all the policyholders without any discrimination, charges are not being pressed.**

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However, insurer is directed to file modifications carried out on existing products under F&U guidelines. The Insurer is also directed to inform the changes to the affected policyholders.

The Insurer is further directed to ensure strict compliance with Regulations 6(1) of IRDA (Protection of Policyholders' Interests) Regulations, 2002 and Clause 4 of the F & U guidelines.

### Charge 29

#### Inspection Observation No 45

Instances are noticed wherein filled in proposal forms were altered without necessary authentication from the proposers and policies are issued with terms and conditions other than as applied by the proposers. It is also noticed that policies are split and more than one policy was issued under a single proposal.

The above is violation of the provisions of Regulation 3(2) of IRDA (Protection of Policyholders' Interests) Regulations, 2002

#### *Insurer's submission*

*Instructions regarding the authentication from proposers wherever proposal forms are altered / corrected etc. have been issued to all Regional Managers (Actuarial).*

#### **Decision:**

Tampering with the proposal forms without the consent of the policyholders may affect the policyholders' interest adversely. It also gives way for possible mis-sale of products/features which may not meet the requirements of the policyholder. As per Regulation 3(2) of IRDA (Protection of Policyholders' Interests) Regulations, 2002 the Insurer or its agents or other intermediary is required to provide all material information in respect of a proposed cover to the prospect to enable the prospect to decide on the best cover that would be in his or her interest. The Insurer's practice of altering the proposal form without the consent of the prospect, is therefore a violation of the said Regulation. The

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Authority therefore, imposes a penalty of ₹ 5 lakh (Rupees Five Lakh) under section 102 (b) of the Insurance Act, 1938.

**Charge 30**

**Inspection Observation No 46**

The underwriting policy and subsequent modifications are not placed before the Board for approval.

The above is violations of point 2(b) of Annexure1- Responsibilities of the Board of Directors read with Clause 5.2 of Corporate Governance Guidelines , 2009 (Circular No IRDA/ F&A / CIR/025/2009-10 dated 5<sup>th</sup> August 2009).

***Insurer's submission***

*The Underwriting Policy has now been approved by the Board.*

**Decision:**

The Insurer's underwriting policy was not approved by the Board in violation of point 2(b) of Annexure 1- Responsibilities of the Board of Directors read with Clause 5.2 of Corporate Governance Guidelines, 2009 (Circular No. IRDA/ F&A / CIR/025/2009-10 dated 5<sup>th</sup> August 2009). The Insurer is directed to ensure scrupulous compliance of the above referred guidelines, henceforth.

**Charge 31**

**Inspection Observation No 47**

Benefit illustration for all ULIP policies are not being given to the proposers.

The above is violation of Authority's circular IRDA/ ACTL/ CIR/ ULIP/ 066/ 04/ 2010 dated 27.04.2010.

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***Insurer's submission***

*Instructions regarding the Benefit illustrations to be provided to the proposer under all ULIP policies have been issued to all Regional Mangers (Actuarial)*

**Decision:**

The Authority notes that insurer has violated the requirements under IRDA circular No IRDA/ACTL/CIR/ULIP/066/04/2010 dated 27/04/2010 and directs the Insurer to ensure compliance with the provisions at the operating units.

**Charge 32**

**Inspection Observation No 48**

Name and contact details of the agents are not prominently displayed in the policy documents.

The above is violation of Authority's circular No IRDA/CAD/CIR/AGN/137/08/2010 dated 25.08.2010

***Insurer's submission***

*Instructions regarding the printing of name and contact details of agents in the policy documents have been issued to all Regional Mangers (Actuarial).*

**Decision:**

The Authority notes that insurer has violated the requirements under IRDA circular No IRDA/CAD/CIR/AGN/137/08/2010 dated 25.08.2010 and directs the Insurer to ensure compliance at the operating units.

**Charge 33**

**Inspection Observation No 49**

The prescribed time lines for reporting Suspicious Transaction Reports to FIU-IND are not adhered to since 01/04/2010.

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The above is violation of Para 3.1-7 of the AML Master Circular No. IRDA/F&I/CIR/AML/158/09/2010 dated 24/09/2010.

***Insurer's submission***

*There was a delay in submission of Suspicious Transaction Report for the period 01.04.2010 to 31.07.2010 due to fine tuning of system generating Suspicious Transaction Report. However on and after 01.08.2010 Suspicious Transaction Reports are filed within the prescribed timeline.*

**Decision:**

The Authority notes that the Insurer has not adhered to timelines for reporting of since 1<sup>st</sup> April 2010 and hereby, directs the Insurer to ensure compliance with clause 3.2 of the AML/CFT guidelines Master Circular (2010).

**Charge 34**

**Inspection Observation No. 50**

The prescribed time lines for reporting the Cash Transaction Reports to FIU- IND were not adhered to since January 2011.

The above is violation of Para 3.1-8 of the AML Master Circular No. IRDA/F&I/CIR/AML/158/09/2010 dated 24/09/2010.

***Insurer's submission***

*The Cash Transaction Report for the month of January 2011 was submitted on 15.2.2011 to FIU-IND. No Cash Transaction Reports observed for the month of February & March 2011, hence it was not reported to FIU-IND. Cash Transaction Reports were reported to FIU-India within the prescribed time line.*

**Decision:**

The Authority notes that the insurer has reported CTRs of April 2010 to June 2010 to FIU-IND, after 3-4 months and hereby, directs the Insurer to ensure compliance with clause 3.2 of the AML/CFT guidelines Master Circular (2010).

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### **Charge 35**

#### **Inspection Observation No 8(a)**

Minutes of Investment Committee meeting dated 31/03/2011 revealed that the Investment Committee has advised for transfer of illiquid securities through inter scheme fund transfer in proportion to redemption amount. Towards this, it is necessary for the insurer to put an upper limit on the proportion of illiquid securities in any particular ULIP fund on a regular basis to avoid concentration of illiquid securities in any of the ULIP funds.

**The above is violation of Circular No. IRDA/ F&I /CIR /INV /173 /08 /2011 dated 29<sup>th</sup> Jul, 2011.**

#### ***Insurer's submission***

*The internal guidelines approved by Investment Committee for ULIP Funds stipulate that minimum 80% of equity investments has to be in Nifty/ Junior Nifty Stocks which are highly liquid. Over 90% of ULIP Funds are invested in CNX 100 stocks and more than 95% is invested in BSE 200 stocks which are highly liquid.*

#### **Decision:**

**In the absence of robust system to deal with the inter fund transfers, modus operandi of Investment Committee to transfer illiquid securities at entire asset class level instead of individual scrip level would definitely affect one set of segregated fund at the cost of other. However, considering the fact that the insurer has invested in highly liquid securities, irrespective of the IC's decisions, the charges are not pressed.**

### **Charge 36**

#### **Inspection Observation No 8(b)**

Minutes of 681st Meeting of Investment Committee dated 30/08/2011 revealed that to avoid temporary shortage of funds in Bank account of one scheme and to avoid overdraft penalty "temporary borrowing/lending of cash" between different ULIP Funds were approved. On two occasions inter scheme cash transfers taken place without complying with the requirements of Authority's circular dated 29/10/2003

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The above is violation of Circular No. IRDA/FA/02/10/2003-04 dated 29/10/2003.

***Insurer's submission***

*These are very rare occasions amounting to a few lakh of rupees. This is being done to avoid overdraft penalty which is very high and to avoid reputation risk. The interest of the transferor schemes has also not been compromised for both the cases mentioned in the report because interest has been paid to transferor schemes at CBLO rates. These cases may not be deemed to fall under 'Purchase/Sale' transactions as per IRDA circular dated 29.10.03.*

**Decision:**

**Borrowing/lending of cash is different from 'purchase/sale transactions' allowed under the Authority's circular dated 29<sup>th</sup> October 2003. Insurer's practice is a violation of the said circular. However, considering the fact that the temporary borrowing/lending of cash between different ULIP funds is small and the interest is paid to transferor at CBLO rates, charges are not being pressed.**

**Charge 37 (Two Inspection Observations)**

**Inspection Observation No 9(a)**

Lending of securities on a temporary basis was allowed to CCIL (up to a maximum of ₹ 1,000 cr) in consideration of a fee @ 2.5% per day for the period for which the securities are lent on the total value of the securities. Such an arrangement is in violation of Section 27(5) of Insurance Act, 1938.

The above is violation of Section 27 A (5) of Insurance Act, 1938.

***Insurer's submission***

*Section 27(A) (10) of the Insurance Act as applied to LIC do not pose any legal impediment to LIC's participation on the envisaged Securities Lending Scheme. This is because once the act of securities lending is, in itself, construed as an act of investment, the question of it being construed as an "encumbrance on investments" does not arise. Right to receive coupon and maturity payments lies with the legal owner of the security lent i.e. LIC.*

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**Decision:**

In view of the internal decisions taken by the Authority, that 'Lending Govt. Securities to CCIL for handling settlement shortages under the RBI approved scheme (SLOC)' shall be construed as investment', the charges are not being pressed.

**Inspection Observation No.9(c)**

While subscribing the Non-Convertible Debentures (NCDs) of a company the Insurer also accepted the asset cover of the fixed assets of 'private ltd company' of the subsidiary company of the bond issuing company, thus taking exposure to 'private limited' companies indirectly.

The above is violation of Section 27 A (5) of Insurance Act, 1938.

***Insurer's submission***

*LIC had subscribed to the NCDs of a public limited company and that company offered assets of its wholly owned subsidiary as security besides its own assets. Since this exposure of LIC was to a public limited company it should not be considered as exposure in a private limited company.*

**Decision:**

In view of the submissions made by the Insurer the charges are not being pressed.

**Charge 38 (Three Inspection Observations)**

**Inspection Observation No 9(b)**

Exposure limit of 10% in single investee company has been breached during November, 2010.

***Insurer's submission***

*The example quoted in the Inspection observation refers to shares of ITC which were purchased in the trading portfolio. Shares purchased in the trading portfolio are normally*

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*sold within a day or two. The holding in ITC for Life Fund as on 01.04.2010 was 10.52% and as on 29.02.2012 stood at 9.83%. As per IRDA (Investment Regulations amended upto 2013) Exposure limit is 15% in Single Investee Company for all funds together and as at 31.12.2013 exposure is 13.49% in all funds taken together.*

**Decision:**

**The Authority observes that LIC had consistently violated the limits under Regulation 5 of IRDA (Investment) Regulations, 2000 despite earlier communication vide letter dated 14<sup>th</sup> April 2009 wherein LIC was advised to demonstrate its systems capability to measure, manage and monitor various exposure on continuous basis. Investments returns as at 31<sup>st</sup> March 2010 show single company exposure of 11.86% and 31<sup>st</sup> March 2012 show 15.35% in violation of the said investment regulations.**

**Decision in the matter is given below the Charge 39.**

**Inspection Observation No. 11**

'Group' and 'Industry' Exposure Limits were calculated and monitored at aggregate ULIP fund level instead of segregated Fund level.

***Insurer's submission***

*From 01.04.2013 Group and Industry exposure limits are monitored at segregated fund level.*

**Decision:**

**The Authority notes the corrective steps taken by the insurer effective 01/04/2013.**

**The Authority notes violations under Inspection Observations 9 (b) and 11. The Amendments to IRDA Investment Regulations brought about in 2013 relaxing the exposure norms in Single Investee Company and the group/industry cannot be made applicable in the year of inspection.**

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**Decision in the matter is given below the Charge 39.**

**Inspection Observation No 15(a)**

Extracts from SAP security master data, changes effected to security master through 'Prowess', company profiles and Insurer's holding as at 30/09/2011 revealed significant disparities in terms of quantity of shares held vis-à-vis reported. Thus, the absence of effective internal controls resulted in filing the incorrect reports to the Authority.

**The above observations are violation of Regulation 5 of IRDA (Investments) Regulations, 2000**

***Insurer's submission***

*The errors as indicated in the IRDA Inspection report were corrected immediately and informed to IRDA. Systems are now strengthened to ensure non occurrence of such errors.*

**Decision:**

**The Authority notes the corrective steps taken by the insurer and warns the insurer for incorrect returns filed with the Authority. Insurer is hereby, directed to strengthen their systems to ensure non-reoccurrence of such errors.**

**Charge 39 (Two Inspection Observations)**

**Inspection Observation No 10**

A provision of reserve @ 0.4% of 'Standard Assets' on ULIP Funds was not made as required under Authority's circular dated 24<sup>th</sup> January 2007.

Further security wise break up statement of NPA's relating to Pension/Life Fund revealed that the Loss/doubtful and 'substandard assets' were carrying categories of investments (COI) codes earmarked for Approved investments. Hence the returns submitted to the Authority and public disclosures may not reveal true and existing situation.

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**The above is violation of F&A Circular 32/2/ F&A/ Circulars /169/ Jan-07 dated 24.01.2007 and for wrong classification of Form 7A.**

***Insurer's submission***

*The providing of reserve @ 0.40% of standard assets is being done in all funds except ULIP funds. Since daily mark to market valuation are applied for Corporate bonds, the provisioning is not being made for ULIP portfolio.*

*Loans given to State Government for infrastructure development are classified under IRDA code ILWC (Infrastructure - Term Loans - with charge). Loans given to State Government for housing are classified as HLSH (Loans to State Government for Housing). These loans are Government Guaranteed and therefore they are considered as secured loans. Secured loans to Corporate are classified under ELMI (Loans - Secured Loans - Mortgage of Property in India -Term Loan).*

*NPA Statements as on 31.03.2011, 30.09.2011 & 31.12.2011 were checked but any security which is classified as loss/ doubtful and marked as EPPD (Perpetual Debt Instruments of Tier I & II Capital issued by Non-PSU Banks) or EUPD (Perpetual Debt Instruments of Tier I & II Capital issued by PSU Banks) were not located in NPA reports.*

*It is observed that only two COI viz. OTLW (Term Loans (without charge)), OSLU (Short term loans - unsecured deposits) are available for loan under 'other investments' as per IRDA format and in our opinion as the loans granted by the Corporation are secured they will appear under ILWC, HLSH, ELMI etc.*

**Decision:**

**The IRDA circular F&A Circular 32/2/ F&A/ Circulars /169/ Jan-07 dated 24.01.2007 is provides basis for determination of minimum provisions of loss on account of loans and advances. It is not specifically made applicable to ULIP Funds, charges are not being pressed.**

**Insurer is warned for wrong classification in Form 7A and directed to ensure compliance henceforth.**

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#### **Inspection Observation No 14**

The Authority's communications (dated 22/01/2009 and 07/12/2010) stipulated that 'all equity investment in a single investee company (From all funds of the Corporation) cannot be more than 10% of outstanding shares (face value) of the investee company. However, Investment Committee in its 665<sup>th</sup> committee has prescribed the debt exposure to be more than 10% in PSU Banks (30% or 10% of Fund size whichever is lower), Infrastructure and Housing (35% of the capital employed or 10% of the respective fund size whichever is lower) and in any other company (20% of Capital employed or 10% of the respective fund size whichever is lower).

**The above is violation of Section 27 A (4) of Insurance Act, 1938 and Regulation 5 of Investment Regulations, 2000**

#### ***Insurer's submission***

*As the Regulations of 2008 provide for investment of upto 10% of respective fund size, it was submitted that Investment Committee had provided for stricter norms for Debt exposure. At individual fund level (Life fund, P&GS fund and ULIP fund) equity exposure in a single company is not more than 10% of outstanding shares (Face value) of that company.*

#### **Decision:**

**Based on the insurer's submission and documentary evidences on file, violation of Section 27 A (4) of Insurance Act, 1938 and Regulation 5 of Investment Regulations, 2000 is observed.**

**The Authority observes violation of Section 27 A (4) of Insurance Act, 1938 and Regulation 5 of Investment Regulations, 2000 and exposure norms under Charge 38 and 39. The Authority also observes non-compliance with the directions of the Authority. A penalty of ₹ 5 lakh is therefore imposed on the Insurer u/s 102 (b) of the Insurance Act, 1938.**

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## **Charge 40**

### **Inspection Observation No 15(b)**

In arriving at investee company exposure, the numerator (as per col-1 of the table) refers to preference shares, convertible debentures along with equity whereas the denominator consists equity only (as per col2 of the table) thereby causing an inconsistency in arriving at exposure status. This appears to be one of the reasons for reporting many exceptions (272 for life fund) in Form 4A though equity holding is less than 10%.

**The above is violation of Regulation 5(a) of IRDA (Investment) Regulations, 2000**

### ***Insurer's submission***

*The Regulation 5 of the 4<sup>th</sup> Amendment IRDA (Investment) Regulation, 2008, states that in respect of investment in 'equity', preference shares, convertible debentures, limit for investee company is 10% of outstanding equity shares (face value) or 10% of the respective fund whichever is lower. The aforesaid anomaly has been referred to IRDA.*

### **Decision:**

**The Authority considers insurer's submission made. The charge is not being pressed.**

## **Charge 41**

### **Inspection Observation No 18 (b)**

Under NAV Guaranteed plans decision to sell or buy securities ought to be based on the recommendation of decision support software, as per respective File & Use correspondence. Also, Investment pattern for these NAV guaranteed plan as approved by IC states that- if a 'sell' recommendation is received, the fund manager will take a decision to sell the assets irrespective of whether the market value of the assets is more or less than the acquisition cost. It was observed that trading in these plans is not adhering to the model recommendation, as also respective IC guideline. No reasons are assigned for not following the model recommendation.

**The above is violation of File and Use Guidelines and Clause 6 of Annexure II of Corporate Governance Guidelines, 2009.**



***Insurer's submission***

*Details of recommendations and action taken for the reported period have been provided to show that action was taken in line with recommendation. However, insurer has also submitted that it is not practically possible to buy or sell huge quantity of shares running into thousands of crore if the recommendations says so.*

**Decision:**


**Based on the insurer's submission and documentary evidences on file, charge is not being pressed.**

**Order Summary:**

In conclusion, as directed under the respective charges, the penalty of ₹ 10 Lakh (Rupees Ten Lakh only) shall be remitted within a period of 15 days from the date of receipt of this Order by the Insurer through NEFT/ RTGS (details for which will be communicated separately).

An intimation of remittance may be sent to Sri Lalit Kumar, FA & HoD (Enforcement) at the Insurance Regulatory and Development Authority of India, 3rd Floor, Parishrama Bhavan, Basheer bagh, Hyderabad 500 004.

Insurer is also advised to confirm compliance in respect of all other directions issued herein within 15 days from the date of issuance of this order.

  
(R.K. Nair)  
Member (F&I)

**Place: Hyderabad**  
**Date: 12<sup>th</sup> February 2015**