



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

Ref: IRDA /I&C /ORD /ONS /274 /12 /2014

Order in the matter of M/s Canara HSBC Oriental Bank of Commerce Life Insurance Company Limited

Based on the reply to the Show Cause Notice dated 14th February, 2014 and submissions made during Personal Hearing Chaired by Mr. T.S. Vijayan, Chairman, IRDA held on 5th September 2014 at 11.30 am at the office of the Insurance Regulatory and Development Authority, 3rd Floor, Parishrama Bhavan, Basheer Bagh, Hyderabad

The Insurance Regulatory and Development Authority (hereinafter, referred to as 'the Authority') carried out an onsite inspection of **M/s Canara HSBC Oriental Bank of Commerce Life Insurance Company Limited** (hereinafter, referred to as the Life Insurer) from 31st July 2012 to 9th August 2012. The Authority forwarded the inspection report to the Life Insurer vide letter dated 5th November 2012 seeking their comments on the same.

Upon examining the submissions made by the Life Insurer vide letter dated 21st November 2012, the Authority had issued a Show Cause Notice on 14th February 2014 which was responded to by the insurer vide letter dated 7th May 2014.

Mr. John Holden, CEO, along with his team comprising of Mr. Chirag Rathod, Appointed Actuary; Mr. Anuj Mathur, Chief Financial Officer; Mr. Vikas Anand, Chief Compliance Officer; and Mr. Chirag Jain, Director-Operations were present at the hearing on behalf of the Life Insurer. On behalf of the Authority, Dr. (Ms). Mamta Suri, Sr. JD (Inspection & Compliance), Ms. Meena Kumari, Sr. JD (Actuarial), Mr. V. Jayanth Kumar JD (Life), Mr. G.R. Surya Kumar, DD (Executive Assistant to Chairman) and Ms. B. Padmaja, Sr. 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 have been taken into account. The explanation offered by the Life Insurer to various charges in the Show Cause Notice and the decisions thereon are as follows:

Charge 1

Section A - Inspection Observation No 1 (a). It is noticed that 'Unutilized credit of Service Tax' of about ₹ 28 crore which is not readily realizable was considered for the purpose of computation of solvency margin.

This is in violation of Regulation 2 of IRDA (Assets Liabilities and Solvency Margin of Insurers), Regulations, 2000

Insurer's submission

Since the Company has been actively utilizing the credit, evidenced by the reduction in the said asset over time, it is of a "realizable character" and is therefore considered for solvency purposes. The balance of CENVAT credit as on 31st January, 2014 stood at ₹ 0.50 crore, compared to ₹ 28.21 crore as on 31st March, 2012, evidencing that the Service tax credit has been fully utilized and was of "realizable character".

It was further submitted that during the current financial year i.e., 2014-15 the Company has started paying its service tax liability (post utilization of available Cenvat Credit) in cash which further indicates the realizable nature of "Unutilized credit of Service Tax" and therefore there is no violation of the solvency regulations.

It was also submitted that the Company maintained a healthy solvency margin of 260% as on 31st March 2012

Decision:

As per the CENVAT Credit Rules 2004, unutilized credit of service tax is refundable only subject to such safeguards, conditions and limitations as may be specified by the Central Government by notification. Cenvat credit in effect can only be utilized by the entity and cannot be realized. The asset, therefore, cannot be considered for the purpose of solvency margin calculations.

The Authority notes the violation of Regulation 2 of IRDA (Assets, Liabilities and Solvency Margin of Insurers) Regulations, 2000. However, considering the fact that the life insurer has consistently maintained the solvency margin above the regulatory stipulations, the charge is not being pressed.

The life insurer is hereby directed to immediately discontinue the practice of considering unutilized Cenvat credit for the purposes of solvency margin calculations.



Charge 2:

Section A - Inspection Observation No.1 (b) From the Schedule – 12 of Financial Statements of the year 2011-12, it is noticed, that the provision towards 'Outstanding Premiums' included premiums due for more than 30 days for an amount of ₹ 1.91 crore.

This is in violation of Para 2(1)(a) of Schedule 1 of IRDA (Assets, Liabilities and Solvency Margin of Insurers) Regulations, 2000.

Insurer's submission

The Company had the policy of marking policies as lapsed in its policy administration system only after a period of 45 days to avoid any inconvenience to the customers paying premium on the last days of grace period of the 30 days and to accommodate premium in transit. The disallowance of ₹ 1.9 crore of outstanding premium would have resulted in reduction of corresponding reserve of approximately ₹ 1.8 crore and therefore, the overall impact on available solvency margin would have been minimal. The net impact of this practice was approx. 0.2% on solvency which was 260% as on 31st March 2012. The Company has changed its practice of recognizing 'Outstanding Premiums' from a period of 45 days to 30 days. As per the current practice, policies where premium is due for more than 30 days are not considered as an "asset" for the purpose of solvency margin calculation.

Decision:

The Authority notes the violation of Para 2(1)(a) of Schedule 1 of IRDA (Assets, Liabilities and Solvency Margin of Insurers) Regulations, 2000 in calculation of solvency margin. However, considering the Insurer's submission that the adverse impact on the solvency ratio is approx. 0.2% on the computed solvency margin of 260% as at 31st March 2012 and that the Insurer has rectified the methodology for computation of the said ratio in line with the requirement of the aforesaid Regulations effective from 2012-13, the charge is not being pressed.

However, insurer is directed to ensure compliance with the provisions of the above mentioned Regulations on a continuing basis.

Section A - Observation No.2:

In respect of the 'Group Traditional Plan', it is observed that the interest rate was declared based on the respective scheme's fund value as at 31-03-2012 taking into consideration the interest rates declared by competitors, as against interest earned based on investment performance of the fund.

This is in violation of File & Use Guidelines



Insurer's submission

The Company has set its interest rates in accordance with the File & Use and with full cognizance of Policyholders' Reasonable Expectations (PRE).

Being set up in November 26, 2010, the fund size is relatively small and hence the impact of fixed expenses on the fund is relatively high. In such circumstances, the Company felt it would be unreasonable and contrary to PRE for early customers to have to finance the full fixed expenses of setting up and operating the fund at early durations through lower interest rate declarations. Instead, the Company felt it was more reasonable to set interest rates based upon PRE of returns (assessed based upon rates declared by other companies with more mature funds where the impact of expenses is spread, as well as the rates available on other asset classes such as 10 year Govt-Securities & 5 year Fixed Deposits (SBI) yielding 8.36% to 9.11%) and for the difference to be financed by Shareholders.

Decision:

It is observed that while clearances under the F&U guidelines as regards interest rate to be declared was linked to investment performance of the fund, Life insurer had declared interest on 'Group Traditional Plan' based on the rates declared by the competitors.

However, the Authority considers the following

- **the fund size was small as on the date of inspection**
- **interest is declared at a higher end in line with the market rate, to meet policyholders reasonable expectations;**
- **net interest rate earned by the fund was about 6.6%. The difference of declared interest rate was borne by the shareholders.**

The charges are not being pressed.

The Life Insurer is however, advised to strictly comply with the terms and conditions cleared under 'File and Use' guidelines.

Charge 3:

Section B - Observation No.1.

The pattern of investment / prudential and exposure norms are monitored at consolidated life fund level and the requirement of holding a minimum of 50% in Government Securities or Other Approved Securities was not complied during the period from 16-03-2012 to 30-03-2012. The matter of non-compliance with regulatory

provisions was also not reported to the Authority in the quarterly/annual investment report/returns for the period ending 31-03-2012.

This is in violation of IRDA (Investment) Regulations, 2000. It is also breach of trust reposed by the Authority in the Life insurer.

Insurer's submission

The incident occurred due to a system bug in M-Fund in respect of classification of the reverse repo investment (with underlying government securities). The incident was purely unintentional, with minor deviation for a very brief period. The exposure in government securities was immediately increased upon the identification. Corrective steps were immediately taken to enhance the system controls.

Further, as advised by the Authority, the system was verified by the Concurrent Auditors and the certificate of the same was reviewed by the Audit Committee. It has been indicated that the insurer had inadvertently missed disclosing the details of the bug in Investments returns.

Decision:

The Authority considers the corrective action brought in by the insurer post inspection and the confirmation on system based monitoring of prudential and exposure limits as per the regulatory stipulations.

While the charges are not pressed, the life Insurer is, advised to be strengthen internal controls to ensure strict compliance with the IRDA (Investment) Regulations, 2000 at all times.

Section C - Observation No.1(c): It is noticed that the premium (including service tax) due under non-linked policies and life cover charges under unit linked policies; beyond days of grace was not recognised in accordance to the provisions of Para 2 of Part I of Schedule-A of IRDA (Preparation of Financial Statements and Auditor's Report of Insurance Companies) Regulations, 2002.

This is in violation of Para 2 of Part I Schedule A of IRDA (Preparation of Financial Statements and Auditor's Report of Insurance Companies) Regulations, 2002.

Insurer's submission

The Company has changed its practice of recognizing Outstanding Premiums from a period of 45 days to 30 days. As per the current practice, cases where premium is due for more than 30 days are not considered for premium accounting for "Other than Linked business".



The Company had laid down the policy of treating policies as lapsed in the policy administration system after a period of 45 days to avoid any inconvenience to the customers paying premium on the last days of the 30 days grace period and to accommodate premiums in transit.

The disallowance of ₹ 1.9 crore of outstanding premium would have resulted in corresponding reduction in reserves of approximately ₹ 1.8 crore. Therefore, the overall net impact on profitability and solvency was minimal.

Decision:

The Authority notes that the Life Insurer has adopted the 'extra' grace period to accommodate the premium in transit to avoid inconvenience caused to policyholders.

This practice is resulting in delay in accounting of 'outstanding premium' in violation of Para 2 of Part I, Schedule A of IRDA (Preparation of Financial Statements and Auditor's Report of Insurance Companies) Regulations, 2002. However, considering the corrective action taken by the insurer and the solvency margin as on 31st March 2012 maintained at 260%, the charge is not being pressed.

The Life Insurer is however, directed to ensure compliance with the requirements of the IRDA (Preparation of Financial Statements and Auditor's Report of Insurance Companies) Regulations, 2002.

Charge 4:

Section C - Observation No.6: It is observed that the policies are issued despite shortfall in the premium by debiting such shortfall to operating expenses.

The above practice, tantamount to violation of Section 41 and Section 64VB of Insurance Act, 1938.

Insurer's submission

Financial Year 2010-11: Short premium amount (in excess of ₹ 250) was ₹ 1.28 lakh in 292 cases. As the amounts were insignificant, the Company in the interest of the customers and operational ease, decided to bear the differential amounts.

Financial Year 2011-12: Short premium amount (in excess of ₹ 250) was ₹ 1.2 lakh. This was in respect of 129 cases due to change in service tax rates from 1% to 1.5 %. For these proposals the amount was collected from the customer before the change in the rate of service tax and the Company at that time decided to fund the additional amount in the interest of the customer and operational ease.



The objective of funding the shortfall in the premium arose on account of changes in service tax rates and thereby, the element of inducement which is the primary prohibition under Section 41 does not exist.

The life Insurer submitted that going forward in cases of shortfall of premium of more than ₹ 100, policies are not being issued, except in few 'exceptional cases.'

Decision:

The Authority considered the Life Insurer's submissions that the aim of allowing such shortfall is to avoid operational inconvenience to the policyholders and that the shortfall is less than ₹ 10 in 88% cases. The Authority also considers that in some cases the shortfall is arising out of change in service tax rate applicable to life insurance policies. The total shortfall is observed to be in the range of ₹ 1.15 lakh to ₹ 3.58 lakh in the last 4 years ending 31st March 2014. However, given the fact that such practices have the underlying potential of being misused, the Life Insurer is hereby cautioned and directed to strictly comply with the provisions of section 64VB of the Insurance Act, 1938.

Charge 5:

Section D - Observation No.1: Inordinate delays were observed in communicating the underwriting decision to the policyholder

This is a violation of Regulation 4(6) of IRDA (Protection of Policyholders' Interests) Regulations, 2002.

Insurer's submission

In 4 cases, due to customer's cheques getting bounced, the policy issuance did not take place. In respect of 2 cases policy dispatch was delayed due to some internal processing issues. In 3 cases due to system related errors there was delay in the dispatch of policy document.

Decision:

The Authority observes that in 5 out of 9 cases, the life Insurer has accepted the delay in despatch of policy documents arising out of internal processing/system related issues. In 2 other cases, based on the documents on record, delay in dispatch of document is observed. In all in 7 cases out of 9 cases, there was non-compliance with Regulation 4 (6) of IRDA (Protection of Policyholders' Interests) Regulations, 2002.



Insurer is warned on the inadequacies observed in the internal processes/systems/controls and is hereby directed to strengthen the internal processes to ensure compliance with the mandate under the said Regulations.

Charge 6:

Section D - Observation No.2: It is noticed that no procedures have been put in place to allow the corporate agents to record the date of receipt of the proposal related documents and also the proposal deposit bank instruments. It was further observed that corrective measures have not been put in place to comply with the provisions of Section 64 VB (4) of the Insurance Act, 1938 despite being noticed in the inspections carried out. Further, delays were observed in respect of receipt of proposal forms in the offices of the insurer from the corporate agents.

The above is a violation of Regulation 4(6) of IRDA (Protection of Policyholders' Interests) Regulations, 2002 and violation of Section 64 VB(4) of Insurance Act, 1938.

Insurer's submission

The Life Insurer jointly with Corporate Agents has put in place the process to capture information on the proposal forms including the date, time of dispatch of application along with the instrument to the company's office and name of the bank staff handling the process. The Corporate Agents have also taken steps to educate and create awareness amongst its staff at various branches through issuance of internal circulars / trainings and workshops. The process of enlarging its electronic payment mode through direct bank account transfer from the customers' bank account is being enlarged.

Decision:

The Authority observes violation of Regulation 4(6) of IRDA (Protection of Policyholders' Interests) Regulations, 2002 and violation of Section 64 VB(4) of Insurance Act, 1938. However, considering the corrective action taken by the insurer the charge is not being pressed. The Life Insurer is directed to ensure strict compliance with the Regulations.



Charge 7:

Section DI - Observation No.1: It is noticed that neither the Specified Person (SP) surrendered his certificate to the Designated Person (DP) on his ceasing to be an employee of the corporate agent nor the DP collected the certificate.

The above is a violation of Regulation 10(6) of IRDA (Licensing of Corporate Agents) Regulations, 2002 and also Clause 6 of Annexure II of Corporate Governance Guidelines, 2009.

Insurer's submission

If the Specified Person is not able to submit his certificate, then in such cases the Designated Person takes a declaration from the Corporate Agent (CA), and immediately blocks the Specified Persons code in its system.

The insurer further submitted that the communication with the Corporate Agents has been enhanced.

Decision:

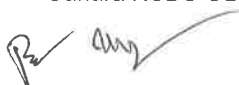
The Authority notes the processes followed by the insurer as regards blocking the codes of SPs in their systems on receipt/intimation of the termination request. It is also noted that in case of 5 out of 149 SPs on ceasing to be employees of the CA, certificates were not obtained. It has been indicated by the insurer that 4 certificates have been destroyed by the Corporate Agent and 1 has been lost in transit.

In view of the possible mis-use of unauthorised certificates lying in the hands of unauthorised persons, the Insurer is warned for the aforesaid violation. The Life Insurer is hereby directed to ensure that their systems/processes are strengthened and certificates of all persons ceasing to be SPs be collected in compliance with Regulation 10(6) of the IRDA (Licensing of Corporate Agents) Regulations, 2002.

Charge 8

Section DI - Observation No.2. It was observed that no procedures are in place to mandate the Corporate Agents to place the Reports of the Inspections carried out as per the provisions of the Authority's circular IRDA/CAGTS/CIR/ LCE/093/06/2010 dated 07-06-10 before their respective Boards.

The above is a violation of IRDA Circular IRDA/CAGTS/CIR/LCE/093/06/2010, dated 07-06-2010



Insurer's submission

The provisions of the referred circular do not mandatorily require the insurer to place the inspection reports before the Board of the Corporate Agent.

Since the corporate agents (i.e. Canara Bank, Oriental Bank of Commerce and HSBC) are also the shareholders and promoters of the Life Insurer, the CMD, ED, General Manager and other Senior Staff of the corporate agent form part of the Company's Board and Audit Committee before which the Company places the inspection reports for detailed deliberations and action points to be taken.

The Life Insurer further submitted that the Inspection Report and Action Taken Report are signed by the Authorized personnel of the Corporate Agent and is presented in Board Meeting of the Corporate Agent.

It was further indicated that the Corporate Agency report along with the action plan for 2012 and 2013 was discussed in the Audit Committee of the Board with representation from the senior management of the Corporate Agents.

Decision:

The Authority notes the processes with the Insurer wherein exceptions noted during the inspection of CAs are discussed with the senior management of the CAs. The Authority also notes the Inspection Report and Action Taken Report thereon are currently being taken to the Board with representation from the senior management of the CAs.

The Life Insurer is hereby, directed to lay down systems to ensure the inspection report and action taken reports are escalated to the Board of the CAs as stipulated under IRDA circular IRDA/CAGTS/CIR/LCE/093/06/2010, dated 07-06-2010 .

Charge 9

Section DI - Observation No.3:

From the examination of rewards and recognition programs to corporate agents and pay-outs to various vendors, it was observed that various sales campaigns were floated to the employees of Corporate Agents who were not the licensed specified persons(SPs).

The above is a violation of Section 40 (1) of Insurance Act, 1938 and Clause 21 of IRDA Circular No.017/IRDA/Circular/CA Guidelines/2005 dated 14/07/2005 on Guidelines on Licensing of Corporate Agents.



Insurer's submission

As per our understanding there are no explicit restrictions within the current regulatory framework either on (a) conducting training programs for the staff of corporate agents or (b) as to the criteria, manner, mode to be adopted or place in which it can be conducted or held. It may also be noted that as per clause 12 of Corporate Agency guidelines 2005: "The insurer shall be responsible for organizing trainings for the staff of the Corporate Agents related to its products sold", which implies that not only the SPs but also other staff, would need to participate in these programs.

The importance of the presence of the senior management staff of the Corporate Agents in such training programs is crucial and unique to a Bancassurance model, as SPs need leaders and motivators and more importantly have a mentor.

From January 2013 onwards the Company has reevaluated the criteria of participants for the 'senior management' of Corporate Agents and currently it may be noted that the majority of the employees attending the programs are only Specified Persons with a select group of senior management for mentoring, training and leadership support.

Decision:

The Authority reiterates the requirements under Clause 12 of the Corporate Agency guidelines 2005 wherein a responsibility is imposed on Insurers for organizing training for the staff of Corporate Agents related to its products that will be sold by the Corporate Agent.

However, the Life Insurer's contentions that rewards and recognition programs to Corporate Agents, sales campaigns floated to the employees of Corporate Agents who were not the licensed specified persons (SPs) are part of training program is not acceptable. Rewarding of Specified Persons, other employees and senior management (as mentors) with gifts/foreign tour, the qualifying criteria being achievement of campaign targets, cannot be construed as training imparted.

It is observed that the insurer has expended ₹ 13.78 crore in such programs on three corporate agents for two years viz., 2010-11 and 2011-12. The same is considered as six instances of failure to comply with Section 40 (1) of Insurance Act, 1938 and Clause 21 of Guidelines on Licensing of Corporate Agents issued vide Circular No. 017/IRDA/Circular/CA Guidelines/2005 dated 14/07/2005. Having regard to the facts of the case and the gravity of the violations committed by the Life Insurer, the Authority, in exercise of powers vested under section 102(b) of the Insurance Act, 1938 imposes a penalty of ₹30 lakh (Rupees Thirty Lakh) for the said violation.

The Life Insurer is further directed to discontinue the practice of gifts /rewards and recognition programs in the name of training the staff of Corporate Agents and ensure strict compliance with Section 40 (1) of Insurance Act, 1938 and

Clause 21 of Guidelines on Licensing of Corporate Agents - Circular No. 017/IRDA/Circular/CA Guidelines/2005 dated 14/07/2005.

Charge 10

Section E - Observation No.2 (a): Under Unit Linked Child Plan mortality charges and/or supplementary benefit charges are continuously deducted for claims under premium waiver benefit even after settlement of death claim.

The above is in violation of the File and Use guidelines.

Insurer's submission

The observation was in respect of 4 policies on account of system related inadvertence in marking waiver of policies. The same was rectified on August 08, 2012. A formal documented process was implemented in 2013 whereby the Company has created a Data Quality Team to proactively identify and rectify such system related issues and take corrective measures.

Further, as the initiation of premium waiver process is manual, 18 instances missed the mark in the past 5 years. The process of maker-checker is now laid down and strengthened with waiver marking centralized. All 47 cases on waiver are working as per requirement currently.

Decision under this charge given under Charge 11 below

Charge 11

Section E – Observation No. 2 (b): In one of the instances it was noticed that future premiums to be funded after settlement of death claim found to have been not funded.

The above is a violation of File and Use guidelines

Insurer's submission

The observation was in respect of 1 policy, whereby on account of system related inadvertence, the future premiums after settlement of death claim was found to have been not funded. The same was rectified on August 08, 2012. The Company has created a Data Quality Team to proactively identify and rectify such system related issues and take corrective measures.

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Decision:

The Authority notes that the Insurer has agreed on system related inadvertence/manual interventions which lead to violation of F&U guidelines under Charge 10 and 11 above.

The Authority considers the corrective measures taken by the insurer in terms of creation of Data Quality Team and maker-checker mechanism laid down to strengthen the waiver marking process.

Insurer is hereby directed to ensure strict adherence to the product specifications filed under File and Use.

Charge 12

Section E - Observation No.4:

It was observed that the process of payment of surrender value was taken up after lapse of the lock-in period resulting in undue delay in the final payment of surrender value to the policy holder.

The above is a violation of Regulation (8) of IRDA (Protection of Policyholders' Interests) Regulations, 2002.

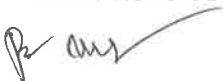
Insurer's submission

The Life Insurer submitted that the 10 days TAT for servicing of surrender requests starts from the date of the expiry of lock-in-period, from July 2013 onwards all the necessary internal activities required for the surrender payout are completed prior to the lapse of the lock-in-period and surrender payouts are initiated immediately on the date of expiry of the lock in period. TAT has since improved for surrender payment to an average of 6 days from the end of the lock-in-period.

Decision:

The Authority observed delay in 4 out of 6 sample cases pointed out by the inspection report. The Life Insurer has claimed this delay to be on account of system related / operational coordination issues.

The Life Insurer is hereby directed to strengthen their processes and ensure continued compliance with the requirements under the IRDA (Protection of Policyholders' Interests) Regulations, 2002 in line with the stipulations contained therein.



Charge 13

Section E - Observation No.5 :

It is observed that the date of receipt of the surrender request is not recorded at the time of receipt of surrender requests from policyholders at various touch points of the branches of Corporate Agents, but is only stamped at the time of receiving at the hub office or Head Office of the insurer. The procedure adopted may not enable the insurer to assess the time / date of receipt of the requests for appropriate settlements.

The above is a violation of Regulation 8 (2) of IRDA (PPI) Regulations and Clause (6) of Corporate Governance Guidelines Circular No. IRDA/F&A/CIR/025/2009-10 dated 05/08/2009.

Insurer's submission

In conjunction with Corporate Agents process to capture the information on the proposal form like date, time of dispatch of application along with the instrument to the company's office and name of the bank staff handling the process has been put in place.

The Corporate Agent has also taken steps to educate and create awareness amongst its various branches and staff through issuance of internal circulars and communications in order to ensure compliance with the process

Decision:

The Authority observes absence of system of recording time of receipt of surrender request at the branches of Corporate Agents (CAs).

While taking note of the corrective steps implemented by the Life Insurer in coordination with CAs, the Life Insurer is hereby directed to strengthen its internal controls to ensure compliance with the requirements of the IRDA (Protection of Policyholders' Interest) Regulations, 2002 at all times.

Charge 14

Section E - Observation No.6: Delay of more than 15 days was observed while registering the assignments.

The above is a violation of Regulation 10 (1) (c) of IRDA (Protection of Policyholders' Interest), Regulations, 2002.



Insurer's submission

The observation was in respect of three policies. There was no delay in case of two policies as pending requirements from the customer was awaited to register the assignment. In one policy there was delay due to some internal process.

During the period from January 2013 to December 2013, the average TAT for processing assignment requests was 7 days.

Decision:

The Life Insurer has accepted that there was a delay in one case out of 3 cases pointed out by the inspection team.

While noting that the Life Insurer has taken corrective steps to bring down the average TAT to 7 days, the Authority directs the Life Insurer to strengthen their internal controls to ensure compliance with various requirements under IRDA (Protection of Policyholders' Interest) Regulations, 2002.

Charge 15

Section E - Observation No.7: On examination of the charges deducted under some of the unit linked products it was observed;

- i. Mortality charges were deducted from the commencement of the policy under 'Saral Bima' and 'Saral Bima Plus' plans, though life cover is not offered in first 45 days of the policy
- ii. Mortality charges (under unit linked products) were deducted in the grace period though premiums were not paid on due date.
- iii. Mortality charges were not deducted on attaining 7 years of age, though life cover commenced as per policy terms and conditions.
- iv. Incorrect (less) charges were deducted towards premium waiver benefits

The above show violation of Clause (6) of Corporate Governance Guidelines - Circular No IRDA/F&A/CIR/025/2009-10 dated 05/08/2009 and of File and Use Guidelines.

Insurer's submission

In respect of point (i) above, the Company has already added back the extra charges deducted towards mortality during the first 45 days for in force policies on books of the Life Insurer.

In case of point (ii) mortality charges are deducted during grace period because the mortality cover continues to be provided during grace period, in the best interest of

customers, even if premiums are not paid. Hence full life cover is provided to customers, in the event of death of the insurer during grace period. The policy is treated as an in force during the grace period irrespective of whether premiums are paid or not.

In respect of point (iii) policy terms and conditions have been checked. Life cover commences on the Policy anniversary immediately succeeding the date on which the minor attains 7 years of age. Mortality charges in respect of minor lives are being deducted in system in accordance with the provisions as mentioned above.

In respect of point (iv) above, the system has been rectified since August 07, 2009. Since then the problem of under-charging for premium waiver benefits has been corrected. Charges are not recovered from the customers where under-charging had occurred previously since the amounts involved are small.

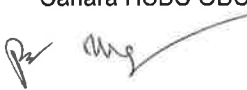
Decision:

The Authority takes note of the submissions made by the Life Insurer on the points at (i) to (iv) referred to above. Life Insurer has

- (i) Agreed with the violation and brought in corrective steps. The Life Insurer has checked for the possibility of error in all the policies that were in-force and rectified the same.**
- (ii) Confirmed that the life cover continues during the grace period and the practice is in the best interest of the customers.**
- (iii) Confirmed that the mortality charges in respect of minor lives are being deducted in accordance with the policy terms and conditions.**
- (iv) Confirmed that the charges incorrectly deducted (less) towards premium waiver benefit have not been taken from the customers as a customer centric measure and that the amount towards the same has been borne by the shareholders.**

While taking note of the submissions made by them, the Authority, hereby, directs the Life Insurer to ensure strict adherence to the product specifications filed under File and Use.

The Authority further observes that the Life Insurer's practice of extending 'the extra grace period' is not in accordance with the IRDA (Treatment of Discontinued Linked Insurance Policies) Regulations, 2010 where 'grace period' is clearly defined. Hence, the Life Insurer is directed to ensure scrupulous compliance with the provisions on 'grace period' and the permissible deduction of charges, stipulated under the Regulatory framework.



Charge 16

Section F - Observation No.1: Delays were observed while processing the member additions under group policies. Similarly, in one of the group schemes undue delays were observed in processing the member application forms.

The above is a violation of Regulation 4 of the IRDA (Protection of Policyholders' Interests) Regulations, 2002 and Clause (6) of Corporate Governance Guidelines - Circular No. IRDA/F&A/CIR/025/2009-10 dated 05/08/2009.

Insurer's submission

Whilst there exists operational and logistical challenges in consolidating various documentations, the Company has pursuant to the Authority's observation, taken various steps to improve the processes around group policies acceptance and issuance.

Decision:

The Authority observes that delays in processing the group policies in violation of the stipulations of Regulation 4 of the IRDA (Protection of Policyholders' Interests) Regulations, 2002 which lays down that the "proposals shall be processed by the insurer with speed and efficiency and all decisions thereof shall be communicated by it in writing within a reasonable period not exceeding 15 days from the receipt of proposals by the insurer".

The non-compliances observed also indicate inadequacies in internal controls which is a violation of Clause (6) of Corporate Governance Guidelines - Circular No. IRDA/F&A/CIR/025/2009-10 dated 05/08/2009. In view of the short comings in the processes and internal controls, the Life Insurer is hereby directed to strengthen their processes/systems and internal controls in compliance with the said Regulations.

Charge 17

Section F - Observation No.3: In respect of a Group Term Insurance Plan offered to the Self Help Groups, a flat premium per member was charged considering the average age as 25 years, while the average age under various master policies issued was in the range of 36.5 years to 39.12 years.

The above is a violation of File & Use Guidelines.



Insurer's submission

Insurer submitted that since the group was an open group, the average age of the group was not known at the time of issuance of the master policy and hence the premium is based upon an assumption of an average age.

Since inception, the mortality experience for the scheme continues to remain positive (claims ratio of less than 30%) and hence it is believed that it is unreasonable to increase the premiums to customers beyond ₹ 100 in spite of the observed variation in average age especially since the group represents a lower income population.

Further, this product has been withdrawn with effect from 01 Aug 2013 in accordance with IRDA Product Regulations.

Decision:

The Authority observes violation of File and Use Guidelines in view of fact that the premium was charged for the group product at a flat rate considering the age group of 25 years, while the actual age of members in the group is higher. Considering the Life Insurer's submission that it would be unreasonable to increase the premiums charged to customers (who belong to lower income strata), despite the variation observed in the average age of the group, the charge is not being pressed.

The Life Insurer is however, directed to ensure scrupulous compliance with File and Use stipulations, henceforth. Any modifications thereof must be filed with the Authority.

Charge 18

Section F - Observation No.4 (i) & (ii):

- i) Inordinate delays were observed in respect of settlement of death claims in Group Policies.
- ii) Claims are registered only on receipt of claim forms from the MPH/Bank, treating the date of receipt of such claim form as 'claim intimation' date.
- iii) It was observed that penal interest is not paid in respect of delayed claim settlements.

The above is a violation of Regulation 8 of IRDA (Protection of Policyholders' Interests) Regulations, 2002.

Insurer's submission

There were 152 group claims that were intimated in year 2010-11 and 2011-12. Average time from claim information till claim settlement: 54 Days; one claim had to be kept pending beyond 1 year as the Company was awaiting the final police investigation report as it was a death under suspicious circumstances.



The date of receipt of information regarding the death of a member should not be taken as the date for the purpose of calculating the claim settlement as these could be verbal communication given on a pro active basis to enable the insurer to initiate investigation and such communications are at times hearsay and may not always provide any concrete information.

The correct date for the purpose of calculating the claim settlement period should be reckoned only from the date of "receipt of the Claim Form" by the insurer and not basis unsubstantiated verbal or email communication.

The Company has confirmed paying penal interest, as required under Regulation 8(5) of IRDA (Protection of Policyholders' Interests) Regulations, 2002 in all policies where claims are paid beyond 180 days from the date of registration of the claim by the Company.

Decision:

The Authority observes that there were inordinate delays in settlement of claims arising out of delays in forwarding of claim forms by the Master Policy Holder (MPH). From the sample cases it has been observed that MPHs had forwarded the documents relating to intimation of death with a delay of 26 to 146 days. As such, the Life Insurer's submission that the claims have been paid within 30 days of receipt of last documentation/clarification and within 180 days of claim intimation is not acceptable. The Life Insurer calls for additional information and/or investigation is communicated only after receipt of claim forms at its office. As such, compliance with the requirements of Regulation 8 of the IRDA (Protection of Policyholders' Interests) Regulations, 2002 is not established.

In view of the above, the Life Insurer is directed to strengthen its processes of collecting the claim forms from MPHs to ensure compliance with the TAT prescribed under the said Regulations.

The Life Insurer is further directed to identify all the claim settlement cases where a delay in settlement of claims was observed and pay the penal interest in accordance with the stipulations Regulation 8 (5) IRDA (Protection of Policyholders' Interests) Regulations, 2002 and confirm. The Life Insurer shall also confirm compliance with the directions of the Authority.

Charge 19

Observation No.4 (iii & v): From the sample examination of settlement of Group claims, it was observed that the insurer is settling the claims in favor of Master Policy Holder (MPH) under Non-employer-employee groups. Delays in encashment of cheques and crediting the proceeds to the nominee's account by the MPH were also observed.

The above is violation of the provisions of Clause C-7 of Guidelines on Group Insurance Policies issued vide Circular No: 15/IRDA/Life/Circular/GI Guidelines/2005, dated 14/7/2005.

Insurer's submission

The Insurer submitted that the Company effects and always aims at payments directly in the name of the nominee. In rural areas there are practical/ genuine difficulties in settling the claim amount in favour of the nominee / beneficiary. Most of these nominees do not have easy access to banking and financial services and thus, generally do not have a bank account. Owing to this, payment of claim amount through the identified stipulated formal modes becomes not only difficult for the life insurer, but is also extremely inconvenient for the beneficiaries in encashment. It also poses a challenge in terms of operational feasibility to track and process the payment of claims in favour of the nominee. On account of these constraints and difficulties faced by the nominee/beneficiaries, the insurer had to make the payment to the Master Policyholder.

The insurer submitted that they made efforts at the strengthening process in March 2013 to ensure that the nominee details are obtained upfront and payment of claims is made in favour of the nominee only. After the change in the processes, the insurer has ensured payouts in favour of the nominee only, however in exceptional scenarios, where the payout may have to be made in the name of the master policyholder valid discharge from the master policyholder is obtained.

Decision:

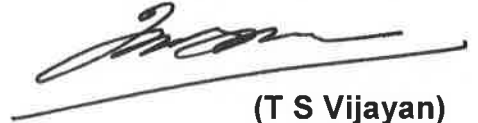
The Authority took note of the submissions of the insurer as regards difficulties expressed in tracking the beneficiaries/nominees and processing the payment of claims in favour of them. However, the practice of issuing claim payments in favour of Master Policy Holders (Self Help Groups in this case) but not in favour of the beneficiary of the group insurance policy has a potential of jeopardising the financial interests of the dependents of the deceased policyholder. In light of this, the Life Insurer's practice is considered to be violation of Clause C-7 of the Group Insurance guidelines. In view of the observed violation, the Authority under powers vested under section 102 of the Act imposes a penalty of ₹ 1 lakh (Rupees One lakh only).

The Life Insurer is directed to comply with the requirements of the group Insurance guidelines which stipulate that the insurer is totally responsible to ensure that the claim payment is made in the name of the insured member even if the cheque is sent to the group manager for administrative convenience. The Life Insurer is further directed to lay down systems/processes to ensure scrupulous compliance with the requirements of the group insurance guidelines, as amended from time to time.

In conclusion, as directed under the respective charges, the penalty of ₹ 31 Lakh (Rupees Thirty one lakh only) shall be remitted within a period of 15 days from the date of receipt of this Order by the Life Insurer through NEFT/ RTGS (details for which will be communicated separately). An intimation of remittance may be sent to Dr. (Ms) Mamta Suri, Sr. JD (Inspection & Compliance) at the Insurance Regulatory and Development Authority, 3rd Floor, Parishrama Bhavan, Basheer bagh, Hyderabad 500 004.

The penalty amount shall be debited to shareholder's account.

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.



(T S Vijayan)
CHAIRMAN

Place: Hyderabad

Date: 12th December 2014

