



Ref. IRDA/ENF/MISC/ONS/112/05/2015

**Final Order in the matter of M/s. India First Life Insurance Company Limited**

**Based on Reply to Show Cause Notice dated 11<sup>th</sup> June, 2014 and submissions made during Personal Hearing chaired by Mr. T.S.Vijayan, Chairman, IRDAI on 29<sup>th</sup> October, 2014 at 11:30AM at the office of Insurance Regulatory and Development Authority of India, 3<sup>rd</sup> Floor, Parishrama Bhavanam, Basheerbagh, Hyderabad**

The Insurance Regulatory and Development Authority of India (hereinafter referred to as "the Authority") carried out an onsite inspection of M/s. India First Life Insurance Company Limited (hereinafter referred to as "the Life Insurer") from 05<sup>th</sup> September, 2012 to 14<sup>th</sup> September, 2012. The Authority forwarded the copy of the Inspection Report to the Life Insurer vide letter dated 30<sup>th</sup> January, 2013 seeking comments on the same. Upon examining the submissions made by the Life Insurer vide letter dated 21<sup>st</sup> February, 2013, the Authority issued Show Cause Notice on 11<sup>th</sup> June, 2014 which was responded to by the Life Insurer vide letter dated 18<sup>th</sup> July, 2014. As requested therein, a personal hearing was given to the Life Insurer on 29<sup>th</sup> October, 2014. Dr.P Nandagopal, Managing Director & CEO, Mr. Chandan Khasnobis, Appointed Actuary, Mr.A.K.Sridhar, Chief Investment Officer, Mr.Karni Arha, Chief Financial Officer, Mr.K.R.Viswanarayan, Chief Compliance Officer, Mr.Tejas Panchal, Group Head-Compliance, Mrs.Shashikala Chowdary, National Account Manager were present in the hearing on behalf of the Life Insurer. On behalf of the Authority, Dr (Ms) Mamta Suri, the then Sr.JD (Inspection & Compliance), Ms. J. Meena Kumari, Sr. JD (Actuarial), Mr.V.Jayanth Kumar, JD (Life) and Mr.G.R.Surya Kumar, DD (Executive Assistant to Chairman) and Mr. K. Sridhar Rao, AD (Inspection-Compliance) were present in the personal hearing.

The submissions made by the Life 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 Life Insurer to the issues raised in the Show Cause Notice and the decisions are as follows.

**Charge 1**

With regard to the relocation of 'Places of Business', notice of relocation was not sent to all the policyholders serviced by it.

**This is in violation of Authority's Circular No 041/IRDA/BOO/Dec-06 dated 28-12-2006.**

**Submission by the Life Insurer**

*The Life Insurer submitted that the said relocation was their first relocation and inadvertently there was a lapse in despatching the notice of relocation to customers in advance. Further submitted that the number of customers as on date of relocation of place of business was only 97 and hence being a small number of customers, requested to condone the violation and further confirmed that they have ensured compliance for all other cases of relocation thereafter.*

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## Decision

The Life Insurer shall at all times adhere to the Authority's said Circular irrespective of the number of customers on record. Hence the Life Insurer has failed in complying with the same. However, considering the submissions that they have violated the norms with respect to first relocation only and that they have ensured compliance to subsequent relocations, no charges are being pressed. The Life Insurer is cautioned and directed to be vigilant hereinafter in adhering to the regulatory norms pertaining to offices' relocations/closures etc.

## Charge 2

Under Form-KT-1 of Actuarial Report and Abstract as at 31-03-2012, in respect of non-linked group life business for premiums not guaranteed for more than one year, the amount considered was Rs.14,913 Crores though the corresponding amount as per respective N LB-1 was Rs. 9,242 Crores.

## Charge 3

Under KT-1, in respect of Non-linked individual life business, the amount considered was Rs. 611 Crores though the corresponding amount as per NLB-2 was Rs. 644 Crores. The reason furnished by the Life Insurer for the difference was on account of sum assured under some of the products not being taken correctly.

**The above two charges are in violation of Para 3(4)-(a) & (b) of IRDA (Actuarial Report & Abstract) Regulations, 2000.**

## Submission by the Life Insurer

*For Charge 2: The Life Insurer while admitting the violation, submitted that the sum at risk for "group life business not guaranteed for more than one year" was overstated because the systems had not processed the deletions in case of this class of business. These deletions were manually processed when preparing the other forms. While investigating the root cause of the problem at the time of sending the solvency report for March 2012, in the meantime, they had decided to adopt a conservative approach when calculating the required solvency margin and so the higher sum at risk recorded by the system was used. The Life Insurer further confirmed that the problem has been sorted out before finalizing the quarterly solvency statement for the quarter ended June 30 2012 i.e., well before commencement of the Authority's inspection. They further informed that they have also re-submitted to the Authority, the revised KT-1 form giving corrected figures. Further pleaded that the lapse was done to avoid the risk of overstating the solvency.*

*For Charge 3: The Life Insurer while agreeing to the observation submitted that one of the par products offers option of taking up additional death benefit up to two times the sum assured. Few policyholders opted for this benefit but only basic sum assured was considered for solvency calculations instead of total sum assured (Basic + additional) which has resulted in a small understatement of required solvency margin. The Life Insurer assured that additional checks have now been introduced to ensure non-recurrence of such instances.*



## Decision

It is to be noted that the Life Insurer has submitted the form wrongly. This may lead to wrong estimation of Required Solvency Margin and also solvency ratio. Hence the Life Insurer has violated the provisions of Regulations mentioned herein. However, considering the submissions that they have re-submitted the corrected form, that the lapse on their part has not impacted mandatory solvency margin requirements and considering further confirmation that they have sorted out the gap in the systems, no charges are being pressed. The Life Insurer shall be vigilant hereinafter and use full and accurate particulars of every policy under which, there is a liability.

## Charge 4

Under KT-1, in respect of 'Education-143L002V01 and 'Young India — 143L011V01' unit linked products, the amount considered was based on 'Sum assured - Fund value + Future premium' though the products offered 'Sum assured + Fund value + Future premium' as death benefit.

Further, it was observed that the 'sum at risk after reinsurance' was also incorrectly arrived for the purposes of Required Solvency Margin calculations in respect of some of the product versions under 'Mahajeevan-143N018V01', 'Smart Save-143L010V01' and 'Money Balance143L017V01'.

**This is in violation of Para 3(4)-(a) & (b) of IRDA (Actuarial Report & Abstract) Regulations, 2000 & Non-compliance to Clause 6 of Corporate Governance Guidelines IRDA/F&A/CIR/025/2009-10 dated 05/08/2009.**

## Submission by the Life Insurer

*The Life Insurer while agreeing to the observation submitted that these are the only two unit linked products where life cover is sum assured plus fund value. As fund value is only a small proportion of sum assured and the volume of business under these two products is marginal as compared to total business, the impact is very little. The revised ratio after making all corrections stands at 8.24 which is more than the mandatory requirement.*

*With regard to Para 2 of the charge, It is submitted that additional checks have now been introduced to ensure that such instances are not repeated. Currently, control mechanism is in place to avoid such lapses and abide by Clause 6 of Corporate Governance Guidelines.*

## Decision

It shall be noted that such lapse on the part of the Life Insurer may lead to wrong estimation of Mathematical Reserves, Required Solvency Margin and hence wrong Solvency Margin. However, keeping in view that they have already taken corrective actions and resubmitted revised calculations after due corrections, and noting that the impact on solvency margin is marginal, the Life Insurer is warned for the violation and directed to be vigilant hereinafter.



### **Charge 5**

In respect of 'Retirement Benefit Plan- 143N016V01', the insurer has declared, based on present interest rate scenario and other market conditions, an interest rate between 9.4% p.a. and 9.8% p.a. based on the particular scheme fund value as at 31.03.2012. However as per respective File & Use of the product, contributions under this plan are invested as per Non-linked Investment Regulations. The investment pattern of the fund is governed by the IRDAI regulation on the controlled fund (Pension & General Annuity Fund). In this regard, it was observed that though the Life insurer had maintained a separate fund (NON PGF) for the product of Rs. 160.88 Crores as at 31-03-2012, investments in G. Sec and Other approved Securities stood at 38.09% only as against the required minimum of 40% applicable for Pension & General Annuity business as per regulation applicable to non-linked business.

**This is in violation of Circular No IRDA/ ACTL/ FUP/VER 2.0/Dec. 2001, dated 12.12.2001.**

### **Submission by the Life Insurer**

*The Life Insurer submitted that the pension and general annuity fund comprises 'the entire Group Funds' which comprises "more than one year and Retirement and Superannuation Funds". The Limits on asset allocation and exposure norms are monitored on all these funds taken together as per Regulation 3 of IRDA (Investment Regulations), 2000. The prescribed investment pattern has been applied at overall "Pension & General Fund category" as a whole and not at the individual fund/product level hence there is full adherence to these Regulations. The interest credited is closer to the investment return earned on the fund. The declaration of interest is consistent with existing market practice and is not violating any prevalent Regulation.*

### **Decision**

**Considering the submissions made by the Life Insurer no charges are being pressed.**

### **Charge 6**

Reinsurance premiums were not ceded, as per the respective treaty in place (50:50 quota share per life). It was observed, for the quarter April-June 2012 itself that there was a short payment of around Rs. 30 lakhs involving a few hundred lives. As the full credit of the reinsurance arrangement was taken in arriving at the mathematical reserves and claim payments from time to time, the gap caused concern as the same left scope for disagreement from the reinsurer to honor respective claims.

### **Charge 7**

Reinsurance commission of 50%/10% available to the Life insurer under reinsurance treaty for medically underwritten individual life policies was not accounted so far.

The above are in violation of

- 1) Rule 39 (12) of Insurance Rules 1939 related to poor systems.
- 2) Para 3(4)-(a) & (b) of IRDA (Actuarial Report & Abstracts) Regulations, 2000.



**3) Clause 6 of Corporate Governance Guidelines IRDA/F&A/CIR/025/2009-10 dated 05/08/2009.**

**Submission by the Life Insurer**

*For Charge No.6, the Life Insurer while accepting the lapse, submitted that the reinsurance premium under the product in question was calculated manually and it missed calculation of reinsurance premium for renewal policies when they became due for the first time, i.e., for the quarter April to June 2012. Further confirmed that they have rectified the same and communicated this to the reinsurer accordingly i.e., from April, 2012 to June, 2012. Systems have now been developed (Reinsurance System) i.e. Renova which is supporting all the reinsurer issues to ensure avoidance of such lapses.*

*For Charge No.7, the Life Insurer while accepting the observation made, submitted that they were a fairly new company into second year of operations at the time of inspection by the Authority and were still setting up systems as per the need. Confirmed now that as submitted above under charge 6, the Renova Reinsurance Systems have resolved during the implementation of this system. The selection discount / reinsurance commission was calculated and recovered from the reinsurers. Currently the control mechanism to avoid such lapses is in place.*

**Decision**

**Not taking into account the reinsurance premiums, which is an expense for the Life Insurer, will have an impact on the revenue surplus and raises a question on the authenticity and fairness of the financials submitted. Hence, violation of the Regulations, guidelines, rules mentioned herein. However, keeping in view the confirmation given by the Life Insurer of having taken corrective actions and placing systems to ensure correct calculation of premiums to be ceded, the Life Insurer is warned for the violations and directed to be vigilant hereafter.**

**Charge No.8**

Reinsurance arrangements on 50:50 quota share basis with Hannover Re & GIC, under reinsurance program for the years 2011-12 and 2012-13 were not filed with the Authority.

**This is in violation of Regulation 3 of IRDA (Life Reinsurance) Regulations, 2000.**

**Submission by the Life Insurer**

*The Life Insurer submitted that, reinsurance arrangement was made risk-sharing basis on facultative basis, under Group business for some groups (including social sector and rural groups). The Company's intention was to cover all such groups under quota share. However, the reinsurance program was not clearly showing this, leading to the impression that quota share would be limited to social sector and rural groups. Further confirmed that post observation by the Authority they had filed the respective Facultative Quota Share Treaties and also stated that since 1<sup>st</sup> April, 2014 they do not have any Quota Share arrangement for any new business. The revised reinsurance programme has been placed in the forthcoming Board meeting for approval and on approval of the same by the Board; it shall be filed with the Authority.*

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### Decision

Life Insurer shall note that any intention, which is not articulated properly, shall not be regarded as filed with the Authority. However, considering the submissions made by the Life Insurer, **no charges are being pressed**. The Life Insurer is advised to be in compliant with the stipulated regulatory norms while filing reinsurance programmes, treaties as the case may be.

### Charge No.9

In terms of Investment Policy - IP with respect to non-linked investments, Chief Investment Officer (CIO) was authorized, in certain circumstances, to go beyond statutory/regulatory prudential and exposure norms applicable to investments by allowing reducing proportion of G-Sec and infrastructure investments to even 0%. IP also permitted blanket relaxation with respect to Group and Sector (Industry) exposure up to 15%.

**This is in violation of Regulations 3 of the IRDA (Investment) Regulations, 2000.**

### Submission by the Life Insurer

*The Life Insurer submitted that the powers given to CIO (on certain exceptional cases), is only to have higher exposures at the individual product level with a clear condition that at no point of time this can lead to higher/lower exposure at the consolidated Fund Level, as prescribed by the IRDA (Investments) Regulations, 2000. The Life Insurer also submitted copy of certification from their concurrent auditor that certified the compliance of the said Regulations.*

### Decision

**The Life Insurer's submissions are considered and hence no charges are being pressed.**

### Charge No.10

It was observed that the Fund Managers in the Investment front office can trade for any amount. The process of not keeping internal (for e.g. per day, per security, etc.) limit for individual Fund Managers which they can trade may expose the Life insurer to increased operational risk.

**This is in violation of Clause 6 of Corporate Governance Guidelines IRDA/F&A/CIR/025/2009-10 dated 05/08/2009.**

### Submission by the Life Insurer

*The Life Insurer submitted that, every investment transaction / deal carried out by the Fund Manager is only post discussions with the CIO and in compliance with the overall investment strategy /tactical investment ideas. However, post inspection of the Authority, Investment Committee (IC) in its meeting held on January 28, 2014, approved the delegation limits for per day, per security transaction limits at three levels viz. Fund Manager, CIO and Sub Committee of IC. Currently, all the transactions follow the limits specified in the delegation policy. The Life Insurer has also submitted copy of concurrent auditors' report wherein the auditors certified of the Life Insurer having prescribed delegation limits.*



### **Decision**

The Life Insurer's submissions are considered hence **no charges are pressed**.

### **Charge No.11**

Under Para 32 of Sch. 16 of Financial Statements for 2011-12, the Life Insurer had shown Rs.2.34 Crores as Unclaimed Amount on account of "Cheques issued but not encashed by the policyholders". However, as per trial balance dated 31-03-2012, cheques issued were Rs.2.16 Crores and the balance Rs.17.85 lakhs refunds were pending for approval. Hence correct reporting was not ensured.

This is in violation of circular No IRDA/ F&I/ CIR/ CMP/ 174/ 11/ 2010 dated 04/11/2010.

### **Submission by the Life Insurer**

*The Life Insurer submitted that the said wrong reporting was due to mis-interpretation of the said circular. However, the wrong reporting has not resulted in overstatement or understatement of the liability in the books. Further confirmed that post discussion during the course of inspection accepted the observation and immediately ensured the same is reported in the manner as suggested.*

### **Decision**

The Life Insurer's submissions are considered and hence **no charges are being pressed**.

### **Charge No.12**

Necessary process and system controls with respect to accounting and administration of policy loans granted to policyholders were not adopted. Instances were noticed where interest calculated in policy administration system and taken into books of account was differing.

This is in violation of Clause 6 of Corporate Governance Guidelines IRDA/F&A/CIR/025/2009-10 dated 05/08/2009.

### **Submission by the Life Insurer**

*The Life Insurer submitted that the number of requests for policy loans were very few and hence were being managed manually. Further confirmed that now the necessary policy framework for managing the transactions is in place wherein regular MIS for monitoring, control and mitigation of such risks due to any manual errors are being followed. Further submitted there were 90 cases where policy loans were issued and all the cases were re-examined for errors.*

### **Decision**

Considering the submissions made, **no charges are being pressed**. The Life Insurer is advised to strengthen their policy administration systems to ensure protection of policy holders' interests.



### **Charge No.13**

Non-Linked premium within days of grace had not been recognized as outstanding premium, though they maintain mathematical reserve to honor any claims arising during the period. Thus, Sch. 12 of Accounts (Advances and Other Assets) was understated to the extent of the same.

**This is in violation of Para 2 of Schedule A-Part I of IRDA (Preparation of financial statements and auditor's report of insurance companies) regulations, 2002 and Violation of Para 3(4)-(a) & (b) of IRDA (Actuarial Report & Abstract) Regulations, 2000 due to the wrong submission of the data.**

### **Submission by the Life Insurer**

*The Life Insurer while agreeing to the observation submitted that the amount involved was Rs.17 Lakhs not being recognized as outstanding premium. This outstanding premium represents only 0.01% of the total premium income for the financial year 2011-12. Further confirmed that they have been now recognizing such premium as outstanding and disclosing in financials (under Schedule 12 – "Other Assets") since April, 2012 and having the same done was shared with inspection team of the Authority also.*

### **Decision**

**Considering the submissions of the Life Insurer, no charges are being pressed. However, the Life Insurer is cautioned for the violation and to be observant hereinafter.**

### **Charge No.14**

Premium amount of Group Term business (OYRGTA) was considered under the category of regular premium policies with 100% of premium being allowable expenditure and the contributions received under Retirement Benefit plan was considered under deferred annuity first year premium category (the same should have been considered as single premium and taken under the category of 5% allowable expenditure). Hence, the authenticity of compliance of the Life Insurer to the limits prescribed on expenses of management is questionable.

**This is in violation of the provisions of IRDA circular IRDA/F&I/CIR/EMT/085/04/2012 dated 12.04.2012.**

### **Submission by the Life Insurer**

*The Life Insurer agreed with Authority's observation and stated they have now rectified and accordingly they have been recognizing the said premiums under single premium category and taken under category of 5% allowable expenditure since 2012-13. Further confirmed that the recalculated actual to allowable expenses of management was observed to be around 89% (actual submitted percentage was 72%).*





## Decision

Considering the corrective action taken by the Life Insurer and that the above lapse has not affected the allowable limits on expenses of management, no charges are being pressed.

## Charge 15

In allocating units on receipt of premium under unit linked policies, NAV as on the date of realization of the cheque was considered rather than the NAV as on the date of collection of the local cheque. Also, with regard to cheque collections by an outsourced entity during first week of September, 2012, considerable delays were noticed in realization of cheques.

**This is in Violation of Clause 10.6-1-1 of Authority's ULIP guidelines No. 032/IRDA/ACTL/DEC-2005 dated 21-12-2005 and violation of Clause 8.2 of the outsourcing guidelines No. IRDA /LIFE/CIR/GLD/013/02/2011 dated 01/02/2011.**

## Submission by the Life Insurer

*The Life Insurer, with reference to cheque collection by the outsourced entity submitted that the delay was due to unavoidable reasons at the specified locations and an effective control and reconciliation mechanism has been now put in place to eliminate such delays. In respect of applying of NAV, they have confirmed that the system enhancement has been completed and effectively put in place to capture the date and time for all such collections. The Life Insurer also submitted the screenshots of software to the Authority.*

## Decision

While considering the Life Insurer's submission of having taken corrective actions to ensure correct application of NAV, no charges are being pressed. However, the Life Insurer is directed to ensure the compliance of the ULIP Guidelines and Circulars mentioned herein.

## Charge No.16

'Date of commencement of risk' under any ULIP policy from the 'date of proposal deposit' itself was allowed, although underwriting decision was taken after about four months. This had resulted in deduction of mortality charges and policy administration charges during the period for which no effective risk cover was available to the policyholder.

**This is in violation of File and Use Guidelines.**

## Submission by the Life Insurer

*The Life Insurer submitted that this policy was more of a customer friendly initiative and the same was approved by the Board and any financial impact is borne by the shareholder. However, w.e.f October 2013, the changes were made to ensure compliance of the Authority's observation. The risk commencement date is the date of underwriting decision and the mortality premium is deducted from the underwriting decision date only.*



### Decision

Commencement of risk cannot be retrospective across the board. It has to be retrospective (which is referred as backdating in life insurance policies) only if there is a specific request from the prospects. In the ULIPs backdating across the board may have implications of cost to the policyholder (an income to the Life Insurer), while there is no assured benefit of market gain. It is noticed from the relevant documents pertaining to the observation that the Life Insurer has settled all those claims occurred during the period from the date of receipt of proposal deposit and date of completion of the same. Further, considering the submission that they have changed the process to ensure adherence to the File and Use Guidelines, the Life Insurer is warned for the violation and hereby directed to be vigilant in complying with File and Use guidelines hereinafter.

### Charge No.17

Most of the proposals along with proposal deposit remittances were received at bank branches of Corporate Agents (Banks) and no corporate agent had recorded the date of receipt of the proposal related documents. The date on which the proposal papers along with proposal deposit instrument received at the Life Insurer's office was reckoned as 'date of receipt of proposal'.

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

### Submission by the Life Insurer

*The Life Insurer agreed to the observation made. Further informed that the delay beyond the regulatory limits were very few in number and with effect from September 2012, the proposal forms are filled electronically through a TAB-based application where all such dates are system generated and captured electronically. The adherences to the Regulatory requirements are calculated based on these system captured dates. The Life Insurer also submitted the screen shots of the application form generating the dates in confirmation to the submission.*

### Decision

Considering the submissions made, no charges are being pressed. However, the Life Insurer is advised to place the systems to ensure compliance with the extant regulations.

### Charge No.18

With respect to group lives covered under Social Sector Obligation during 2010-11 & 2011-12, there is no mechanism in place to ensure whether the Certificate of Insurance (COI) reached the members covered,

**This is in violation of Clause C-7 of Group Guidelines No.015/IRDA/Life/Circular/GI Guidelines/2005 dated 14/07/2005.**



### **Submission by the Life Insurer**

*The Life Insurer submitted that, now the systems are in place to ensure that the member COI's are available for downloading in electronic format at any given point of time and submitted the screenshot of COI being generated by the system. The Life Insurer has also assured that it shall ensure that the COI is going to the Master Policy Holder and is available in real time basis.*

### **Decision**

**Considering the submissions of the Life Insurer, no charges are being pressed. However the Life Insurer is advised to ensure that the COI is in fact reached the member.**

### **Charge No.19**

There is no uniform spread of business under social sector business, i.e., during 2010-11, under social sector obligations around 61% and 38% lives were covered on 01-01-2011 and 01-02-2011 respectively (i.e. only in the last quarter of the financial year), and during 2011-12 around 90% lives were covered on 16-05-2011 (i.e., on a single day of the financial year).

**This is in violation of Para B of circular Ref No: IRDA/F&A/012/2005-06, dated 08-06-2005 and in violation of Regulation 3 of IRDA (Protection of policyholders' interests) Regulations, 2002.**

### **Submission by the Life Insurer**

*The Life Insurer submitted that for the low income groups, though they are provided with loans and other financial services throughout the year, the life insurance cover against these loans were collectively covered en-masse for administrative convenience and this led to the aggregation of premium on a single day. The Life Insurer assured that they will ensure compliance of the said circular hereinafter. They further submitted the first quarter of 2014-15 business figures wherein they tried to establish that there is uniform spread of business of social sector obligations.*

### **Decision**

**The Life Insurer's practice of issuing insurance cover en-masse for administrative convenience does not serve the true purpose of insurance as people will not get cover since the inception of the loan and other financial services against which policy is being taken. However, keeping in view the undertaking given by the Life Insurer, no charges are being pressed. The Life Insurer is advised to ensure continuous compliance to the regulatory directions in this regard.**

### **Charge No.20**

Proposal forms pertaining to 'over the counter' (OTC) version of Unit Linked Plan "Smart Save" did not cover the mandatory disclosure "In this policy, the investment risk in investment portfolio is borne by the policyholder" on top of the proposal form.

**This is in Para 1.1.6 of Part-III Disclosure Norms of ULIP Guidelines, 032/IRDA/ACTL/Dec, 2005 dated 21.12.2005.**



### **Submission by the Life Insurer**

*The Life Insurer while accepting the lapse, confirmed that having discovered the error, rectified it on all proposal forms subsequently and that systems are now in place to monitor that such instances are not repeated.*

### **Decision**

**Considering the submissions and undertaking as above, no charges are being pressed. The Life Insurer is advised to be cautious hereinafter.**

### **Charge No.21**

The provisions with regard to income tax benefits available on proposal form did not include the prevailing condition of sum assured being at least 10 (ten) times the premium paid in any year during policy term.

**This is in violation of sub section (1), (2) & (3) of Regulation 3 of IRDA (Protection of policyholders' interests) Regulations, 2002 and in non compliance with respect to Clause 6 of Corporate Governance Guidelines IRDA/F&A/CIR/025/2009-10 dated 05/08/2009.**

### **Submission by the Life Insurer**

*The Life Insurer submitted that the error is due to non-withdrawal of old proposal forms from circulation immediately post change of Income Tax provisions. Further confirmed that all the subsequent proposal forms have been amended to incorporate the conditionality of tax benefits and that they have placed systems to monitor that such instances do not recur.*

### **Decision**

**Considering the submissions made by the Life Insurer, no charges are being pressed. However, the Life Insurer is cautioned to ensure informed decision by the prospective policy holders in accordance with IRDA (Protection of Policyholders' Interests) Regulations, 2002.**

### **Charge No.22**

It was observed that many employees of banks (Corporate Agents) who were not specified persons (SPs) were soliciting insurance business and commissions paid to the respective corporate agents. Also, bank employees other than SPs had signed the relevant documents. It was also observed from the top 25 producers on the basis of premium procured during 2011-12, pertaining to Andhra Bank and Bank of Baroda, there were only 4 and 3 SPs respectively. Thus, it is evident that most of the business solicited by these Banks was through unlicensed individuals.

### **Charge No.23**

From the sales process examined, it was observed that the employees of the Banks were acting as introducers or referrals and the sale was closed by the Business Development Managers / insurance Advisors. Though the licensed SPs on behalf of a



corporate agent were not involved in the solicitation and close of sale process, commission on the policies which were sourced by the Business Development Managers/insurance Advisors was given to the corporate agents.

#### **Charge No.24**

It was observed that the Life insurer had created some dummy codes in their new business processing / policy administration systems (Life Asia) and good number of policies were logged under such dummy codes and those policies were sourced by the Business Development Managers on the references of Bank employees (who were not SPs) and commission was paid to the respective corporate agents (Banks).

The above two charges are in violation of

- 1) **Circular: No. IRDA/CIR/010/2003, dated 27-3-2003.**
- 2) **Clause 2 & clause 8 of Guidelines on licensing of corporate agents No.017/IRDA/Circular/CA Guidelines/2005 dated 14/07/2005.**
- 3) **Circular No.049/IRDA/ACTL/ULIP/January 08 dated 01/01/2008.**

#### **Submission by the Life Insurer**

*For Charge No.22, the Life Insurer submitted that the inspection was conducted at the point of time when the company is fairly new into second full year of operations. Prior to start of operations, the Corporate Agents viz., Andhra Bank and Bank of Baroda were already doing business with other existing Life Insurance Companies. When these corporate agents transferred their tie up to India First Life, it was noted that the existing number of specified persons was inadequate and there was a need to strengthen the sales process for better customer interaction. Hence to achieve the same, the Company has deployed around 1000 of their employees, designated as Business Development Managers (BDMs) at various offices of the Bank branches to help the specified persons. They supervise and handhold the specified persons in the Bank branches for better customer engagement.*

*Further stated that the company is pre-dominantly Banc assurance company where by large part of the business was sourced by two corporate agents, Andhra Bank and Bank of Baroda who are also their promoters. It is also stated that the Life Insurer has imparted training to specified persons that has helped in increasing the count of specified persons 466 to 4103 as at 31/03/2014 and also continuously getting more persons trained and licensed to do the business on behalf of the Life Insurer. The Life Insurer further submitted that the issues were discussed with the Banks and they are aware of the same as it is discussed during the Life Insurer's Board meetings.*

*For Charge No.23 the Life Insurer submitted that the BDMs do not engage in the solicitation but only oversee the entire sales process from solicitation to completion of proposal forms and help the specified persons in completing the sales process expeditiously through video demonstrations and generating benefit illustrations and responding to any queries from the customers. Also at the point of time, training was still being imparted to specified persons and hand holding was done by the BDMs to assist them.*

*For Charge No.24 the Life Insurer submitted that where the customer expects service at his door step, some part of the documentation gets done outside the Bank premises, usually at the customer location. As the Bank's staff (specified persons) in certain cases could not leave their work stations*



during busy banking hours, to facilitate early completion of documentation, the BDMs helped reach out to the customer in procuring the signed proposal forms. India First additionally adopted the practice of collecting BDMs signature on such proposal forms as an added precaution to fix accountability in case of possible gaps if any. Hence specified persons only solicited insurance business and as stated in earlier Paras, BDMs were assisting and helping the specified persons in completing the sale processes as a support role.

### Decision

On verification of relevant documents relating to solicitation process of business, it is observed that they are signed by the persons other than specified persons of the corporate agents. Benefit illustration signed by unlicensed individuals and also the lower number of specified persons to service all the branches of corporate agents clearly shows solicitation of business by unlicensed individuals. In case of solicitation of policy through Corporate Agents, the person who actually solicits the policies shall obtain the certificate as specified persons after undergoing practical training and examination as specified in the Regulations and then only can be appointed as specified persons and be given the responsibility for soliciting and procuring insurance business on behalf of the corporate agent. Hence involvement of Business Development Managers is contradictory to the provisions of the Regulations on Corporate Agency Licensing. Hence the Life Insurer has violated the provisions of the Act, guidelines, circulars mentioned herein and Payment of commission to the Corporate Agents on policies that are not solicited shall be considered as violation of Section 40(1) of Insurance Act, 1938 also.

Having regard to the facts of the case and the gravity of the violations committed by the Life Insurer, considering the same as two violations (with respect to two corporate agents), as per the powers vested on the Authority vide Section 102(b) of Insurance Act, 1938 a penalty of Rs.10,00,000/- (Rupees Ten Lakhs only)( i.e. Rs.5 Lakhs x 2) is levied on the Life Insurer.

### Charge No.25

No controls were in place on whether the inspection reports carried out by the virtue of the provisions of Circular IRDA/CAGTS/CIR/LCE/093/06/2010 dated 07/06/2010 sent to Corporate agents, were placed before the Board of respective corporate agents. The Life insurer did not also provide the action taken reports to the inspection team, as required under Para 2 of the said circular.

This is in violation of the Circular IRDA/CAGTS/CIR/LCE/093/06/2010 dated 07/06/2010.

### Submission by the Life Insurer

The Life Insurer stated that the inspection reports will be shared with the Corporate Agents on the observations made and cover the action to be taken, if any and these open issues are discussed periodically on an ongoing basis. These are also included in the subsequent inspection reports. The Life Insurer further assured that they shall ensure documentation of the same.



## Decision

Considering the submissions of the Life Insurer, no charges are being pressed. 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 Corporate Agents as stipulated under IRDA circular IRDA/CAGTS/CIR/LCE/093/06/2010, dated 07-06-2010.

## Charge No.26

Minimum business requirement was not stipulated to the corporate agents.

This is in violation of provisions of Authority's Circular Ref: IRDA/Life/CIR/AGN/257/11/2011 dated 25-11-2011.

## Submission by the Life Insurer

*The Life Insurer submitted that their business plan is approved by the Board of Directors which includes the business targets of Corporate Agents, Bank of Baroda and Andhra Bank who are also shareholders. Meetings were scheduled on an ongoing basis and discussed about business projections at length with wealth management departments of both the partner banks. In case of licensed agents, the minimum business requirements are forming part of the terms and conditions signed by the agents.*

## Decision

Considering the submissions, no charges are being pressed. However, the Life Insurer shall note that not stipulating the Minimum Business Requirement may be counterproductive, if some corporate agents/individual agents are on rolls with 'zero' or with 'insignificant' business. Hence, the Life Insurer is advised to prescribe certain Minimum Business Requirement for the corporate agents/individual agents.

## Charge 27

Various sales campaigns to the employees of corporate agents were floated which were in the nature of "Gift Cards", "online redemption points" and "foreign trips". The beneficiaries of sales campaigns were in thousands whereas the number of specified persons is only around 300 and 700 with Andhra Bank and Bank of Baroda respectively.

The amounts spent on such campaigns during 2010-11 and 2011-12 were debited to Rewards and Recognitions Account and Sales Promotion Expenses. It is evident that in view of restrictions on remunerations/rewards other than commission to corporate agents, they have resorted to arranging foreign trips and distribution of gift cards / online redemption points schemes to the employees of Banks.

This is in violation of

- Section 40 (1) of Insurance Act, 1938
- Section 40 A of Insurance Act 1938
- Clause 21 of Guidelines on licensing of corporate Agents No.017/IRDA/Circular/CA Guidelines/2005 dated 14/07/2005.

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## Submission by the Life Insurer

*The Life Insurer submitted that they floated three contests namely "Dinner with CMD", "Club First" and "Family First". "Dinner with CMD" as the name suggests is a motivational program to meet the management of both the Bank and the Insurance company over dinner, wherein no rewards or incentives were distributed except merit certificates. As regards "Club First" and "Family first" programme, these were recognition clubs where the nominated bank employees, basing on their learning scores were nominated for additional training programmes to help them improve their performance.*

*The Life Insurer with regard to Rewards and Recognition submitted that the programme was used to conduct training programs both nationally and internationally as has been the market practice in the industry. Care has been taken to ensure that each participant in these programmes underwent important training lessons on topics like human life value, soft skills, customer retention, claims management etc conducted by experts in the field. These trainings have helped in increasing the specified persons count significantly in three years and increase the awareness of the insurance products within the employee community of the banks.*

*The Life Insurer further submitted that the expenses mentioned herein were incurred towards recognition, training and promotion programs which are within overall limits of sales related expenses as mentioned in the file and use of the products.*

## Decision

**Commissions and rewards shall be regulated as per the provisions of the Insurance Act, 1938 wherever applicable. However expenses as part of File and Use shall relate to marketing, publicity and training etc. In the absence of any link between rewards given to employees of Banks (Corporate Agents) other than licensed specified persons to sell business and marketability and other benefits, such expenses could not be considered as within the scope of File and Use approved expenses. 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.**

**The Life Insurer has not replied to a contest called "Mission 300 Crores in 75 days", for Bank of Baroda and "Mission 100 Crores in 100 days" for Andhra Bank, wherein reward trips to foreign countries like Singapore, Egypt, and Malaysia etc were offered on the basis of business achievements.**

**The Life Insurer's contention 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. On verification of the documents pertaining to the eligibility criteria for the programmes enunciated by the Life Insurer, it is found that they are based on business targets, i.e., reward points allotted were based on the business achievement. Hence, Rewarding of Specified Persons, other employees and senior management with gifts/foreign tour, the qualifying criteria being achievement of campaign targets, cannot be construed as training imparted.**





It is observed that the Life insurer has expended Rs. 18.86 Crores (by debiting Rewards and Recognitions Account and Sales Promotion Expenses Account) in such programs on two corporate agents for two years viz., 2010-11 and 2011-12. The same is considered as four instances of failure to comply with the provisions of circulars, guidelines and Act as referred under the charge. Having regard to the facts of the case and the gravity of the violations committed by the Life Insurer, considering the same as four violations (two corporate agents for two financial years) the Authority, in exercise of powers vested under section 102(b) of the Insurance Act, 1938 imposes a penalty of Rs.20,00,000/- (Rupees Twenty Lakhs only) (Rs.5,00,000 X 4) 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 the relevant regulatory regime.

#### **Charge No.28**

Differential rates of commissions to Corporate Agents (CAs) and individual agents are offered, however, as per the respective products' 'File & Use', the approved rates of commission were same across all distribution channels.

This is in violation of File & Use guidelines - Circular No IRDA/ ACTL/ FUP/VER 2.0/Dec. 2001, dated 12.12.2001.

#### **Submission by the Life Insurer**

*The Life Insurer submitted that as persistency of the policies is a major problem in the tied agency models in the industry due to early churn of the agents, India First adopted a strategy to divide a total commission payable as per File and Use documents in two installments to help retention and incentivisation for the individual agents –1) Commission on sale of a product and 2) Commission on performance and persistency achievement. The procedure adopted with good intention to enforce the persistency targets. The Life Insurer further confirmed that there have been no complaints from their individual agents with regard to commission being paid on a deferred basis for specific products. The Life Insurer further confirmed that they have been paying uniform commission as per File & Use of the products in line with IRDA (Linked and Non-Linked insurance products) Regulations, 2013, across all channels and products since August, 2013.*

#### **Decision**

The Life Insurer shall not deviate from the approved File and Use. Hence, by offering differential commission without prior approval of the Authority shall be construed as a File and Use violation. Hence, the Life Insurer is warned for the violation and hereby advised to ensure compliance of the approved File and Use.

#### **Charge No.29**

On examination of the premium income generated, commission paid and reimbursement of advertisement and publicity expenses, it was observed that the % of commission (net of ST) plus reimbursement of expenses to the premium income generated under "Abhaya Jeevan" (AB Group Life Insurance Scheme) is to the tune of 15.73% and 19.18% in 2010-11 and 2011-12 respectively, whereas the same in case of "Jeevan Suraksha" (Bank of Baroda Group Life Insurance Scheme) it was 118% and 44.66% respectively.



**This is in violation of Section 40A (1) of the Insurance Act, 1938, Violation of Clause 21 of Corporate Agents guidelines and violation of Clause C — 4 of Group Insurance Guidelines No.015/IRDA/Life/Circular/GI Guidelines/2005 dated 14/07/2005.**

**Submission by the Life Insurer**

*The Life Insurer submitted that in the initial period, they being a new entrant in the market, the advertisement expenses as a percentage of sales may appear high, but on the larger picture of enrolling large customer base over three years' time frame, this initiative has immensely benefited the Company in terms of customer acquisition and adding to the net revenue margins of the product sales. It is also to be noted that the large scale education of a new product from a newly formed company would only give results over a period of time. After an intense promotional campaign the costs of which were borne by the bank and reimbursed by India First, business with Andhra Bank substantially improved thereby about a million account holders were covered in a period of few years and this portfolio of business has been most profitable contributing to the company's bottom line. The Life Insurer further submitted that advertisements also include display of suggestion boxes, kiosks, product literature at the bank branches.*

**Decision**

**The Life Insurer shall not pay any amount other than the permitted agency commission to the corporate agent whether as administration charge or reimbursement of expenses or profit commission or in any other form. Besides, there shall be no other payment of any other description to the group organizer/group manager under a group insurance policy. In the instant case, the Corporate Agents are also Group Master Policy holders. The referred exorbitant payments over and above approved commission under the policies mentioned herein, made towards reimbursement of advertisement expenses are in gross violation of the said provisions. Hence, considering the violations as four instances i.e., two corporate agents for two financial years, the Authority as per the powers vested on it vide section 102(b) of Insurance Act, 1938, a penalty of Rs. 20,00,000 (Rupees Twenty Lakhs only) (Rs.5,00,000X4) is levied on the Life Insurer. The Life Insurer is also hereby directed to discontinue such payments immediately and to ensure compliance with extant relevant regulatory norms.**

**Charge No.30**

Two "Joint Sale Advertisements" were not filed with the Authority.

**This is in violation of Point No. 3.7.1 of Guidelines on Insurance Advertisements, dated 14-05-2007.**

**Submission by the Life Insurer**

*The Life Insurer submitted that the advertisements were not Joint Sale Advertisements. Further submitted that Baroda First and Abhaya First are not the brand names of India First but those of the Banks which offered them as wealth management solutions to its customers offering them a range of benefits viz, term protection, regular savings into fixed income, participation in the*



upside of the equity through ULIPs – all combined with the convenience of savings bank accounts.

### **Decision**

The Life Insurer's submissions are considered and hence **no charges are being pressed.**

### **Charge No.31**

The Life insurer and the two top performing Corporate Agents of the Life insurer i.e. Bank of Baroda (BoB) and Andhra Bank (AB) offered joint sale products, viz., "Baroda First Wealth Pack" and "Abhaya First Wealth Pack" respectively, which are a combination of 2 banking & 2 insurance products, i.e. 1) a Savings Bank Account, (2) A Recurring Deposit Account, (3) 'Smart Save'-ULIP Insurance Plan and (4) a Group Term Life Insurance cover. The wealth packs were in 3 variants i.e. Silver, Gold and Platinum which include conditions outside the scope of File & Use of the insurance products, as below.

- In case of Smart Save, ULIP Insurance Plan-
  - a) Restricted the Premium component
  - b) Offered term 10 years as against minimum 15 years term and
  - c) Offered Sum Assured + Fund value as Death benefit as against Sum Assured or Fund Value whichever is higher
- Under Group insurance product restricted the sum Assured component

**The above is in violation of File & Use Guidelines.**

### **Submission by the Life Insurer**

*The Life Insurer submitted that the wealth packs mentioned herein are marketing solutions, which are offers made by both the Corporate Agents, to its banking customers. Basing on the needs of the customers; option was given by the Corporate Agents to its customers to build a balanced portfolio in the long term. However, these packs were not mandatory as it was clearly indicated that all the 4 products were distinct and would be governed as per their individual terms and conditions. Customers were given complete choice to opt for different premium or sum assured level and they are free to opt for any other product not forming part of the wealth packs.*

*Further submitted that the observations made by the Authority with respect to the File and Use violations are with respect to the advertisements issued in the website of the Corporate Agents. The Life Insurer further confirmed that no product is issued in violation of File and Use and all the products sold under these wealth packs have complied with the approved File and Use of the respective products. They further confirmed that no complaints have been received with regard to the advertisements issued on the website of the corporate agent.*

### **Decision**

**The website contents (Andhra Bank's wealth pack) clearly indicate the features which are not approved as per File and Use. Hence the Life Insurer's submissions that no product is issued in violation of File and Use cannot be accepted. The submissions**



that there are no complaints with regard to the said contents cannot also be considered, for the reason that the prospects may not have knowledge about the approved features of the product, hence might not have made any complaint. The Life Insurer shall always ensure that the Corporate Agents comply with relevant Regulations and guidelines. The Life Insurer has also violated the provisions of Clause 27 of Guidelines on Licensing of Corporate Agents, No.017/IRDA/Circular/CA Guidelines/2005 dated 14/07/2005. Hence, considering the violation as serious in nature the Authority as per the powers vested on it levies a penalty of Rs.5,00,000 (Rupees Five Lakhs only) on the Life Insurer.

### **Charge No.32**

The contents regarding the "Wealth Packs" on the web sites of the Corporate Agents (Banks) were 'unfair or misleading advertisements' as they described benefits that did not match the policy provisions.

**This is violation of Regulation 2 (d) (iii) of IRDA Insurance Advertisements and Disclosure) Regulations, 2000.**

### **Submission by the Life Insurer**

*The Life Insurer submitted that the marketing solutions through wealth packs were offers made by both the Corporate Agents, to its bank customers. Based on needs of the customers; option was given by the Corporate Agents to its customers to build a balanced portfolio in the long term. However, the pack was not mandatory as we clearly indicated that all the four products mentioned were distinct and would be governed as per their individual terms & conditions. The advertisement displayed on the bank's website had information about banking as well as insurance products.*

### **Decision**

**The advertisements are in fact misleading as they contain the features which were not in consistent with approved versions of the relevant products. The Life Insurer is advised to discontinue the advertisements immediately. The Life Insurer is hereby warned for the misleading advertisements and directed to be vigilant herein after.**

### **Charge No.33**

The contents, i.e. sales support material on the respective web sites of the corporate agents (Andhra Bank & Bank of Baroda) regarding the "Wealth Packs" mentioned in the previous charges was not submitted to and approved before use by the Life insurer.

**This is in violation of Regulation 6(1) & 6(2) of IRDA (Insurance Advertisements & Disclosure) Regulations, 2000 and Provisions of Clause 12 of Corporate Agency Guidelines, 2005.**

### **Submission by the Life Insurer**

*The Life Insurer submitted that they have discussed with the Marketing team of the Corporate Agents, that any advertisements on insurance should be approved by the Company before releasing the same in the bank branches or elsewhere in order to*



comply with the IRDA (Advertisement) Regulations and Advertisement Guidelines. Further the Life Insurer has given an undertaking that they will be more vigilant in ensuring compliance with the relevant regulations.

### Decision

Every advertisement by an insurance agent that affects an insurer must be approved by the insurer in writing prior to issue. While considering the submissions, the Life Insurer is advised to ensure compliance to the same.

### Charge No.34

Under the wealth packs the prospect was compelled to deposit the required amount (both for banking and insurance products) for 10 years continuously and there was no option to select the premium paying term and policy term and also to opt-out from the Group Insurance (though the premiums were paid by the prospect himself at the time of renewal of group policy). It was also observed that the common proposal form used for "Smart Save" (individual ULIP) and "Group Term Life Insurance" was not filed with the Authority.

This is in violation of File and Use - No IRDA/ ACTL/ FUP/VER 2.0/Dec. 2001, dated 12.12.2001 and Regulation 3 (2) and 3 (3) of IRDA (Protection of policyholders' Interests) Regulations, 2002

### Submission by the Life Insurer

The Life Insurer submitted that the wealth packs were not mandatory as it was clearly indicated that all the 4 products were distinct and would be governed as per their individual terms and conditions. Prospects were given all the options available under the same products and wherever prospect has come back selecting other options, the same has been honored.

### Decision

As per the pertinent documents with respect to Wealth Pack, it is noticed that it was not highlighted that the policyholders are free to opt for any other product not forming part of the Wealth Pack. However considering the confirmation made by the Life Insurer that the prospects were given all the options available and where ever prospects have come back selecting other options the same was honoured by the Life Insurer, no charges are being pressed.

### Charge No.35

The Joint Sale Advertisement published on the website of "Bank of Baroda" did not carry the mandatory disclosures required for a ULIP Product. Also it was not disclosed that the Corporate Agent is the "Agents of the Life insurer", their License Number, Claims Procedure, etc.

This is in violation of provisions of 1.4.1 to 1.4.5 of Part-I Advertisements of ULIP Guidelines, 2005.



### **Submission by the Life Insurer**

*The Life Insurer while accepting to the observations raised by the Authority, submitted that post observation, they have been ensuring that all advertisements of Corporate Agents are approved by them before releasing.*

### **Decision**

**Considering the submissions of the Life Insurer, no charges are being pressed. The Life Insurer is cautioned for the violation and directed to be vigilant hereinafter.**

### **Charge No.36**

With respect to the, "AB Jeevan Abhaya" scheme- a group policy to cover Andhra Bank's Savings Bank Account holders; it was observed that the contents of the product displayed on the web site of Andhra Bank were not approved by the insurer in writing prior to issue.

**This is in violation of Regulation 6(1) of IRDA (Insurance Advertisements and Disclosure) Regulations, 2000 and Clause 8.2 of the outsourcing guidelines, dated 01/02/2011.**

### **Submission by the Life Insurer**

*The Life insurer stated that they have communicated the requirement for Andhra Bank to submit all advertisements pertaining to insurance to the company for approval before they are released. The Life Insurer further submitted that they take the responsibility on behalf of Corporate Agent and ensure necessary compliance in this regard. Further given an undertaking that they will ensure release of advertisements by the Corporate Agents only post approval by them.*

### **Decision**

**Considering the submissions, the Life Insurer is hereby cautioned for the violation and advised to ensure compliance to relevant regulatory norms.**

### **Charge 37**

Details of the agents/broker servicing the policy, their contact details were not incorporated on the first page of the policy document.

**This is in violation of Authority's Circular Ref: IRDA/CAD/CIR/AGN/137/08, dated 25-08-2010.**

### **Submission by the Life Insurer**

*The Life Insurer agreed with the observation and confirmed of having taken steps to immediately rectify the same in its systems. They further submitted screenshots of the policy documents wherein they have shown proof of having incorporated the requisite details.*



### Decision

The Life Insurer's submissions are considered and hence no charges are being pressed.

### Charge No.38

There were no systems in place to examine the capabilities of Divisional Marketing Associates (DMAs), at the time of appointing them. The activities that were outsourced to DMAs are to carry out recruitment and training the prospective advisors.

This is in violation of point no. 10.1(i) of Authority's Guidelines on Outsourcing Activities No. IRDA/LIFE/CIR/GLD/013/02/2011 dated 01/02/2011.

### Submission by the Life Insurer

*The Life Insurer submitted that the Associates work closely with their Sales Heads for the recruitment and to mentor and guide the advisors in their day to day activities. The Associates are only providing a supporting role to expand business in Agency channel. Further stated that the activity of recruitment and training of agents was not outsourced.*

### Decision

Considering the confirmation made by the Life Insurer that they have not outsourced the said activities, no charges are being pressed.

### Charge No.39

Submission of the original policy document by the policy holders was not insisted for registering the assignment, to affix corresponding endorsement. Only notice of assignment and application for assignment (in format prescribed by the Life insurer) was collected.

This is in violation of section 38 of Act, 1938.

### Submission by the Life Insurer

*The Life Insurer given an undertaking that they will comply with the provisions of the Act, pertaining to the assignments and the missed out policy documents will be recalled for endorsements and the same will be intimated to the Authority. Further informed that the process was already initiated.*

### Decision

Considering the submissions made by the Life Insurer, no charges are being pressed. However, the Life Insurer is hereby advised to ensure compliance of the relevant provisions of the Act, pertaining to registration of assignments.

### Charge No.40

Delay was observed with respect to the procedure followed by insurer for claim settlement. On receipt of death claims intimation, it was noted that the communication to the claimant was sent with



considerable time gap from the date of intimation of the claim. Also, undue delay was observed in registering the death claims where claim intimations were submitted at bank branches. Thus, the process adopted resulted in undue delay in claims settlement.

**This is in Violation of Para 8(2) of IRDA (Protection of Policyholders' interests) Regulations, 2002.**

#### **Submission by the Life Insurer**

*The Life Insurer while agreeing to the observation made, submitted that the cases examined were exceptional and further confirmed that they have now placed all the necessary systems to ensure that the claim intimation at the point of submission is captured for adherence to the regulatory time lines. The Life Insurer has also submitted that there were six such cases and confirmed that they have paid applicable penal interest.*

#### **Decision**

**Considering the submissions that they have now placed all the necessary systems to ensure settlement of claims within time frames and that they have paid applicable penal interest on delayed claims, no charges are being pressed. However, the Life Insurer is hereby directed to be cautious in ensuring timelines prescribed as per the said Regulation, for settlement of claims hereinafter.**

#### **Charge No.41**

Under ULIPs, all the charges (including mortality, policy administration) were deducted during the period between 'Date of Death' to 'Date of claim intimation/registration'. In this regard, on scrutiny of the details of charges deducted under a sample policy numbers, the time gap between 'Date of Death' and 'Date of death claim registration' was significant.

**This is in violation of File and Use Guidelines.**

#### **Submission by the Life Insurer**

*The Life Insurer submitted that the date of intimation is taken for arriving at the fund value payable to the claimant and this is the standard industry practice as the time period from the date of death to date of intimation would vary from case to case. The funds will be active till intimation and the same is payable to the claimant and hence charges were deducted. It is also submitted that reversal of mortality charges would have an impact on valuations and other reports.*

#### **Decision**

**The Life Insurer is expected not to deduct mortality charges for a period during which there is no effective risk cover. The Life Insurer is hereby directed to refund the aggregate mortality charges recovered since the date of death, to the beneficiary/nominee, for claims settled hereinafter.**





### Charge No.42

Death claims under Non-Employer-Employee Group policies were settled in favor of Master Policy Holder (MPH) and it was also not ensured whether the amount finally reached the beneficiaries. This is in violation of clause C-7 of group guidelines, 2005.

### Submission by the Life Insurer

*The Life Insurer while agreeing to the observation, informed that they have placed proper systems to ensure settlement of the claims in favor of the Nominee in all their Group Policies since the financial year 2012-13 and no claim is made in favour of Master Policyholder since then. Also, in the past, where the claim was settled in favour of the master policyholder, it was ensured that the amount finally reached the beneficiary.*

### Decision

**Considering the submissions that they have corrected the procedure now, no charges are being pressed for this charge. However, regulatory action on similar charge is indicated under Charge 43.**

### Charge No.43

Claims settlement process flow chart of Group Death Claims under the master policies issued to "BSS Microfinance" revealed that the claim amounts were paid in advance by BSS Microfinance to claimant / nominee and the said amounts were recovered by the master policyholder from the Life insurer. Thus, the master policyholder acted as de facto Life insurer and the process in place had not allowed any scope for the insurer to review the claim to decide whether to honor a claim or otherwise.

**This is in violation of Clause C — 7 of Group Insurance Guidelines No.015/IRDA/Life/Circular/GI Guidelines/2005 dated 14/07/2005 and Point 2.1 (v) & 2.3 of the Authority's Guidelines on Outsourcing Activities No. IRDA/LIFE/CIR/GLD/013/02/2011 dated 01/02/2011.**

### Submission by the Life Insurer

*The Life Insurer submitted that the claim settlement process has not been outsourced to the Master Policyholder in case of "BSS Microfinance" and stated that all payments were made only after the claims were duly processed by their claims team.*

### Decision

**The process flow chart clearly depicts and substantiates the charges made. Payment of claims well in advance by group policyholder clearly shows complete freedom on the part of master policyholder in deciding the validity of claims payment and no control on the part of the Life insurer in deciding about claim settlement. Payment of Death claim proceeds to the Master Policy Holder is in violation of Clause C-7 of Group Insurance Guidelines, 2005. Hence as per the powers vested on the Authority vide Section 102(b) of Insurance Act, 1938, a penalty of Rs. 5,00,000 (Rupees Five Lakhs only) is levied on the Life Insurer. The Life Insurer is also hereby directed to**



**discontinue the process of settlement of claim mentioned herein, immediately under intimation to the Authority.**

**Charge No.44**

No corporate agent of the Life insurer, who sold the group insurance products, had filed certificate from an independent auditor confirming compliance by corporate agent with Section 64 VB of Insurance Act, 1938, IRDA (Insurance Advertisements and Disclosures) Regulations, 2000, IRDA (Protection of Policyholders' Interests) Regulations, 2002 and Sections 40A of the Insurance Act, 1938, as mandated.

**This is in violation of Clause B-3 of Group Insurance Guidelines No.015/IRDA/Life/Circular/GI Guidelines/2005.**

**Submission by the Life Insurer**

*The Life Insurer submitted that the Corporate Agents have complied with the aforementioned Regulations and these were verified during their annual inspection by the Life Insurer. The Life Insurer assured and given an undertaking that the compliance with Clause B-3 of the Authority's Group guidelines, 2005 will be ensured from the financial year 2014-15.*

**Decision**

**Considering the assurance given by the Life Insurer, no charges are being pressed. However, the Life Insurer is advised to continuously ensure the compliance of aforementioned provisions of the Guidelines of the Authority.**

**Charge No.45**

A certificate was not obtained at the end of the membership form from the prospect (member to be covered under the group scheme who has signed in vernacular) that the contents of the form and documents were fully explained to him that he fully understood the significance of the proposed contract, as required under Regulation 3(4) of IRDA (Protection of Policyholders' interests) Regulations, 2002. It was also observed that claims were unduly repudiated on the grounds that "nondisclosure in health declaration".

**This is in violation of Regulation 3(4) & 4 (2) of IRDA (Protection of Policyholders' interests) Regulations, 2002.**

**Submission by the Life Insurer**

*The Life Insurer while admitting the lapse submitted that they have now incorporated vernacular declaration in the membership forms. Further they have submitted that they examined all the cases where vernacular declarations were not available and the claims have been rejected. They furnished that there were 38 repudiated cases under which membership forms does not contain vernacular declaration. The Life Insurer further confirmed that all these repudiations are made on the basis of Non-disclosure of material facts and that there are no litigations against the Company for all these 38 cases.*



## Decision

The forms and documents used in the grant of cover may, depending on the circumstances of each case, be made available in languages recognized under the Constitution of India (Regulations 4(2) of IRDA (Protection of Policyholders' Interests) Regulations, 2002). In the instant case, the Life Insurer should have at least ensured that the contents of the proposal forms are made understood by the policy holder. Hence the Life Insurer has besides the provision of Regulations mentioned herein has also violated the provisions of Regulations 4(2) of IRDA (PPI) Regulations, 2002. Non-provision of vernacular declaration in the membership form may lead to unintentional non-disclosure by the Members of the group which ultimately lead to repudiation of the claims. The lapse on the part of the Life Insurer has jeopardized the interests of these policy holders. Hence as per the powers vested on the Authority vide Section 102(b) of Insurance Act, 1938, a penalty of Rs. 5,00,000 (Rupees Five Lakhs only) is levied on the Life Insurer. The Life Insurer is also directed to reopen all such cases (including these 38 cases) and settle the claims in favour of the beneficiary/nominee of the Life assured subject to other policy terms and conditions. This exercise shall be completed within 90 days from the date of this order.

## Charge No.46

In case of repudiation of a death claim under group policies, the fact of repudiation was not communicated to the claimant / nominee whereas the same was communicated to the respective branch manager of the Bank and the grievance redressal procedure like review of the claim, Ombudsman address, etc., were not provided in the communication sent even to the Bank branch managers. The insurer did not put in place any systems to ascertain whether the fact of repudiation of claim was communicated to the nominee / claimant by the master policyholder.

**This is in violation of Clause C — 7 of Group Insurance Guidelines No.015/IRDA/Life/Circular/GI Guidelines/2005.**

## Submission by the Life Insurer

*The Life Insurer submitted that they have been communicating the repudiations directly to the claimants since July, 2012. The communication also includes the grievance redressal mechanism available to the claimants in case they do not satisfy with the decision of repudiations.*

## Decision

**It is desired that repudiations are directly communicated by informing the avenues available for preferring the representations. Considering the corrective actions taken, no charges are being pressed.**

## Charge No.47

The Life insurer sent the certificates of insurance (COI) to the master policyholders and did not put in place systems to ascertain whether the said COIs were transmitted to the members covered under all the Group Schemes and also, the premium charged was not mentioned in the COI.



This is in violation of Clause C-7 of Group Insurance Guidelines No.015/IRDA/Life/Circular/GI Guidelines/2005 dated 14/07/2005.

**Submission by the Life Insurer**

*The Life Insurer while accepting the observations, submitted that post inspection by the Authority, they have incorporated the requisite details in the COI.*

**Decision**

Considering the corrective action taken by the Life Insurer, **no charges are being pressed.**

**Charge No.48**

Interest was not paid to claimants in respect of claims which were ready for payment, but the payment cannot be made due to reasons of a proper identification of the payee.

This is in violation of Regulation 8(4) of the IRDA (Protection of Policyholders' Interests) Regulations, 2002.

**Submission by the Life Insurer**

*The Life Insurer submitted that in the sample examined by the Authority, the nominee was a minor and it took time to ascertain the guardian details to whom the claim payment was to be made. However, the applicable interest was paid subsequently.*

**Decision**

Considering the corrective action taken, **no charges are being pressed.** However, the Life Insurer is cautioned for the violation and directed to be vigilant in complying with the regulatory norms while processing the claims.

**Summary:**

In conclusion, as directed under the respective charges, the penalty of **Rs 65,00,000 (Rupees Sixty Five Lakhs only)** shall be remitted by the Life Insurer by debiting shareholders' account within a period of 15 days from the date of receipt of this Order through NEFT/ RTGS (details for which will be communicated separately). An intimation of remittance may be sent to Mr. Lalit Kumar, F.A. & HoD (Enforcement) at the Insurance Regulatory and Development Authority, 3rd Floor, Parishrama Bhavanam, Basheerbagh, Hyderabad 500 004.

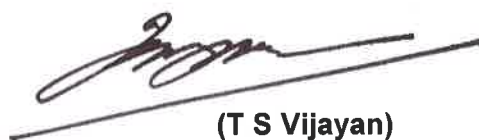
**Further**

- a) The Life Insurer shall confirm compliance in respect of all the directions referred to in this Order, within 21 days from the date of issuance of this order. Timelines, if any as applicable shall also be communicated to the Authority.

- b) The Order shall be placed before the Audit committee of the insurer and also in the next immediate Board meeting and to provide a copy of the minutes of the discussion.
- c) If the Life Insurer feels aggrieved by any of the decisions in this order, an appeal may be preferred to the Securities Appellate Tribunal as per Section 110 of the Insurance Laws (Amendment) Act, 2015.

Place: Hyderabad

Date: 26<sup>th</sup> May, 2015



(T S Vijayan)

CHAIRMAN

