



Final Order in the matter of

M/s IndiaFirst Life Insurance Company Limited

Based on reply to the Show Cause Notice dated 5th January, 2017 and submissions made during Personal Hearing on 14th February, 2017 at 11-00 am taken by Member (F&I) at the office of Insurance Regulatory and Development Authority of India, 3rd Floor, Parishrama Bhavanam, Basheerbagh, Hyderabad.

Background:

The Insurance Regulatory and Development Authority of India (hereinafter referred to as "the Authority") carried out an onsite inspection of M/s IndiaFirst Life Insurance Co Ltd (Hereinafter referred to as "Insurer") during 15th to 26th February, 2016.

The inspection was intended to check the compliance of the insurer to Insurance Act, 1938, IRDA Act, 1999 and the Rules, Regulations, Circulars, Guidelines and other directions issued there under by the Authority.

The Authority forwarded a copy of the report of the said inspection to the Insurer seeking comments on 2nd June, 2016 and the insurer's comments were received vide their letters dated 22nd June, 2016, 14th September, 2016, 27th January, 2017 and 21st February, 2017. Upon examining the submissions made by the Insurer, the Authority issued Show Cause Notice on 5th January, 2017, which was responded to by the Insurer vide letter dated 27th January, 2017. As requested therein, a personal hearing was given to the Insurer on 14th February, 2017. Ms. R M Vishakha, MD & CEO, Mr. A.K.Sridhar, Chief Investment Officer, Mr. Satishwar Balakrishnan, Chief Financial Officer, Mr. Mohit Rochlani, Director Operations & IT, Ms. Peuli Das, Appointed Actuary, Mr. K.R. Viswanarayan, Head Governance & Company Secretary and Mr. Chinmay Kallianpur, AVP-Compliance were present in the hearing on behalf of the life insurer. On behalf of the Authority, Mrs. V.R. Iyer, Member (F&I), Ms. Mamta Suri, CGM (F&A), Mr. Jayanth Kumar, GM (Life), Mr. Prabhat Kumar Maiti, GM (Enforcement), Mr. Pankaj Kumar Tiwari, DGM (Actuarial), Mrs. B. Padmaja, DGM (F&A-Life), Mr. Prasad Rao Kalayru, DGM (Investment), Mr. Karthikeya Sharma, AGM (Actuarial) and Mr. K. Sridhar, AGM (Enforcement) were present during the personal hearing.

The submissions made by the insurer in their written reply to the Show Cause Notice, the documents submitted by the insurer in evidence of their submissions in reply and also those made in and after the personal hearing have been considered by the Authority and accordingly the decisions thereon are detailed below.

Charges, Submissions in reply thereof and Decisions:

1. Charge No. 1:

It was observed during the inspection that no shadow account of Superannuation fund is being maintained and there is no mention of specially assigned identification number (SAIN) for every policy account value maintained under this fund on the website.

Violation of Regulation 13(b), 15(b) & 18(c) IRDAI (Non-Linked Insurance Products) Regulations, 2013

Submission of Insurer:

We would like to submit to the Authority that, we are maintaining Shadow NAV and no of units on a daily basis in our records, which can be used to retrieve the Shadow account value of a policy on a daily basis. In support of submission, insurer has submitted historical NAV data of three group plans of FY 2014-15.

The company further informed that it is maintaining the SAIN wise account value on a daily basis and is disclosing the same on its website and provided a copy of the screen shot in support of submission.

Decision:

- a) As per Regulation 13b of IRDAI (Non-Linked Insurance Products) Regulations, 2013 the insurer is to maintain a shadow policy account on daily basis for a variable non linked insurance policy. Such shadow policy account shall be computed based on the actual accruals of all income elements like premiums, top-up premiums, income from investments as and when received and all actual debits to arrive at the actual gross investment return and reduction in yield to the policy account value. Hence the use of shadow policy account is mainly for internal purpose. Also the regulation does not allow the policy account of variable insurance product to be maintained in the form of units. Hence, here in after the life insurer **is directed** to maintain a shadow policy account value as prescribed at Regulation 13b of IRDAI (Non-Linked Insurance Products) Regulations, 2013.
- b) The Authority notes from the insurer submission that it has started maintaining the SAIN wise account value on a daily basis and is disclosing the same on its website as prescribed at Regulation 15(b) of IRDAI (Non-Linked Insurance Products) Regulations, 2013. In support of



submission, the insurer has provided a copy of the screen shot along with the link of its website. The submission is noted and no charge is pressed.

- c) The approval of products under F&U guidelines made by life insurer was considered by the Authority only after the insurer providing a certificate informing that all the processes and the suitable infrastructure/system requirements are established to enable the company to perform all the day to day operations. In the above case it is evident that the Insurer launched the product even before their infrastructure/system was ready to abide by the mandates of the regulation and the insurer is **warned** for the lapse on its part. Hereinafter, the insurer is **directed** to be cautious and to ensure that before launch of a product, the company to establish suitable infrastructure with proper checks and controls in compliance to Regulation 18(c) IRDAI (Non-Linked Insurance Products) Regulations, 2013.

2. Charge No.2

It was observed that the reinsurance calculation done by insurer was on approximate basis where the Sum at Risk (SAR) was Sum Assured less paid up value (instead of reserves). However this approximation is not correct and it should have been as per the SAR definition defined in the Insurance act.

Violation of Clause 6 of Corporate Governance Guidelines for insurance Companies Circular no.IRDA/F&A/Cir/025/2009-10 dated 5th August, 2009.

Submission of Insurer:

While calculating the sum at risk for traditional policies for the purpose of reinsurance premium calculation, the paid up value has been used as agreed in the treaty between the insurer and as specified in File & Use documents. However, for calculation of mathematical reserve and for solvency purpose, the sum at risk is calculated as prescribed in the Insurance Act.

Insurer further submitted that the process of reinsurance premium is administered and automated on an application called RENOVA which generates the reinsurance premium based on the rules set up on the basis of the process document and as vetted by reinsurers.

Decision:

On examining the sample reinsurance agreement copy provided by the insurer, it is noted that the methodology agreed for calculation of SAR in the



reinsurance treaty is different from that adopted which is based on the Board approved reinsurance process manual. However, the insurer subsequently intimated this difference in methodology adopted for calculation of SAR, to the reinsurer for concurrence, which subsequently accepted by the later. The insurer further confirmed that the SAR calculation applied for solvency purpose is based on the mathematical reserve. Taking note of the submission, the life Insurer is **advised** to ensure that all the terms of the reinsurance treaty is unscrupulously followed and with regard to SAR calculation the insurer maintains consistency irrespective of the purpose i.e. whether it is for reinsurance premium calculation or calculation of RSM.

3. Charge No.3

Insurer informed to the inspection team that they were sending the CoIs to the group master policyholders but were not ensuring whether they reached the members of the group. No confirmation was obtained by insurer from the master policyholders in this regard.

Violation of Clause C-7 of Group Guidelines No.015/IRDA/Life/Circular/GI Guidelines/2005 dated 14/07/2005

Submission of Insurer:

We would like to inform that subsequent to the order dated 21st May, 2015, we have initiated technology changes in the master policy holders system, the COI's are getting printed over the counter at the bank and handed to customer once premium is paid. Distributor portal access is also available with bank branches to generate the COI and hand over to the customers as and when required. We have started dispatching the COI's and intimating the customers through SMS about member enrolment for Group Credit Life policies from July, 2016.

Decision:

The Authority advised the insurer at charge 18 of order dated 21st May, 2015 to ensure that the Certificates of Insurance (COI) reach the members of the group in case of a group policy.

However, taking note of the insurer submission that the COI's are getting printed over the counter at the bank and handed to customer once premium is paid, no charge is pressed.



In respect of non employer employee groups the insurer is **advised** to ensure that the certificate of insurance is issued to the members of the group, as prescribed at para 7 of the group guidelines dated 14-07-2005. Further, as per para 11 of the group guidelines dated 14-07-2005, insurer to either collect a confirmation from the master policyholder or to inspect the records of the master policyholder or to insist for an auditor certification on the issue of COI.

The insurer is advised to ensure strict compliance to group guidelines and also to make certain that the COI reaches every group member, with regard to group policy solicited by any distribution channel including the bancassurance channel.

4. Charge No.4

It was observed from the sample cases that claims were repudiated by Insurer on the grounds of financial non-disclosure and on disclosing the wrong income at the time of proposal, however, it is noted that the Insurer had no evidence or justification for the repudiation. The claims were repudiated based on the opinion of the investigator or on the basis of suspicion but without any evidence to prove its stand and it was also observed that at the time of underwriting, no income proof was asked for. Similarly, claims were also repudiated by insurer on the reasons of age misrepresentation.

Violation of F&U guidelines, Sec.45 of Insurance Act, 1938 & clause 6 of Corporate Governance guidelines Circular no. IRDA/F&A/Cir/025/2009-10 dated 5th August, 2009.

Submission of Insurer:

The cases have been repudiated based on evidences collected at the time of investigation done during death claim processing. Based on the same, the Company has reasons to believe that the said policies had been taken by the Life Assured based on misrepresentation of facts and only with an intention to claim money by way of insurance.

Hence said cases have been repudiated considering public interest at large since the insurance amount is paid from the pool of the amount collected by way of insurance from other customers and honoring such frivolous claims would cause injustice to other genuine customers.



Hence we wish to submit to the Authority that the Company has not resorted to any unfair practice in respect of repudiation of claim. As per our Board UW guidelines we call for income proof at proposal stage. As per Board approved UW policy dated 12/08/2016, for term policies the company seeks financial documents where SA is more than 5 lacs and for other than term policies, we seek income proof if SAR is above 25 lacs and financial questionnaire if SAR is between 15 – 25 lacs.

As a process, before repudiating a claim we do check whether the non-disclosure /incorrect information was vital/material to contract and would have made the company take a different view while underwriting the risk. The company further informs that the intermediaries involved in suppression of material facts were terminated.

Decision:

The Authority has noted submissions of the insurer and no charges are pressed. The insurer is **advised** to adhere to all relevant regulations / guidelines while settling claims and to strengthen the systems for scrutiny of proposal papers before the risk is covered.

5. Charge No.5

It was observed that the insurer had issued pre-underwritten term insurance policies to the employees and clients of a motor dealer, for up-to a sum assured of Rs 20 Lakh.

The insurer had repudiated the claim on the basis of non-disclosure of previous policies from multiple insurance companies, while it was also observed that at the time of issuance, no proposal form was required and no such details about previous policies was asked for, from the customer. Only a declaration of good health was taken. Therefore, the Insurer had wrongly repudiated the claim on the wrong ground and had violated the terms and conditions of the policy.

Violation of

- a) Sec.45 of Insurance Act, 1938 and Regulation 4(4) of IRDA (Protection of Policyholders' Interests) Regulations, 2002.
- b) F&U guidelines by not complying with Board approved life underwriting policy on financial underwriting and collection of documents.



Submission of Insurer:

The claim was rejected due to fraudulent intention and circumstances involving the death of the LA being highly suspicious. LA had taken multiple policies and death reported was due to sunstroke, which was unlikely as the temperature on the date of death was 35 degree. As per the income disclosed in the income tax returns the LA the LA was not eligible for insurance of having multiple insurance policies of SA 88 lakhs as per Human Life Value calculations. As the circumstances involving the death were highly suspicious coupled with multiple insurance policies procured within a short span of time, we had reasons to believe that the said Insurance policy was taken by LA only with fraudulent intention to claim money by way of Insurance and the claim was repudiated.

Decision:

As the Proposal was not collected before the acceptance of risk, there was no scope for disclosing material information including previous policy details. Hence in case anything adverse is noticed at the time of claim, that cannot be established as consequence of such apparently un-intentional non-disclosure. Further, even if the cause of death appears to be suspicious, insurer has to establish the same. As per the response the insurer repudiated the claim based on its belief that the cause of death is suspicious. Mere belief shall not be a ground for repudiation.

At risk acceptance stage the insurer has only collected a declaration of good health form from the member for coverage upto 20 lacs without insisting for a proposal form, income details, relevant documents to check premium payment ability, details of previous policies etc of the member enrolled. Insurer has also not complied with the Board approved underwriting guidelines applicable for term plans by not collecting the proposal form, SUC details, income proofs/financial documents etc for allowing coverage under non medical limit to groups other than Employer-Employee.

The company repudiated the claim on 15/05/2013, informing the claimant that the actual cause of death is not furnished with supporting treatment details, whereas it is noted from the internal note of the insurer that the reinsurers agreed to pay the claim. Further, as per Regulation 8 of IRDA (Protection of Policyholders' Interests) Regulations, 2002 an insurer should inform of any requirement of additional documents/queries within a period of 15 days of the receipt of the claim, whereas in the present case the requirement was informed to claimant only with the repudiation letter addressed by insurer after 6 months of intimation of death claim.



As such, the insurer is **advised** to re-examine and to take an appropriate decision on the matter based on all available documentary evidence. The decision taken in this regard shall be informed to the Authority within 3 months of issue of the Order.

Insurer is also advised to ensure strict compliance to the provisions of Insurance Act, 1938 and IRDA (Protection of Policyholders' Interests) Regulations, 2002 on claim settlement matters.

6. **Charge No. 6**

a) Delay was observed in acting on the surrender requests by the insurer.

b) Issues were observed in the auto foreclosure of the policies by the insurer with regard to auto foreclosed policies under the three plans (Future, Savings and Education). As per the terms and conditions of the policies, if the premium payment is discontinued and the policy is not revived during the revival period of 2 years, the policy would be surrendered and the surrender value would be payable to the policy holder. In this regards, delay was observed in surrendering the policy after the elapse of revival period and delay in the payment of the surrender value to the policy holders without penal interest.

Violation of Regulation 8(2, 3 & 5) of IRDA (Protection of Policyholders' Interests) Regulations, 2002

Submission of Insurer:

a) In the best interest of the policyholder on receipt of surrender request a call is made to policyholder to explain the benefits of staying invested for a longer period. In case customer is not contactable after multiple attempts a written communication is sent asking them to contact us. The requests are processed basis the request date NAV to ensure that there is no monetary impact to the policyholder's.

b) Policies were timely surrendered into the system as per the product feature, however due to non-availability of bank account details the amount was kept on hold on the date of policy termination. Fund value has been calculated basis on the NAV of Foreclosure date. As per IRDAI guidelines on unclaimed amount, interest payment has been made on all the pay-outs which were made from 1st Oct 2015.

c) Bank account details are mandatorily collected at proposal stage from year 2014 onwards and also in the surrender request form to facilitate the company in speedy settlement of payments.



Decision:

In the sample cases examined by the inspection team, delay was observed in auto foreclosure action and also in the settlement of surrender requests. In the name of post retention calling, insurer cannot hold the surrender request for an indefinite period. Insurer is **advised** to ensure compliance to the claim settlement timelines prescribed in IRDA (Protection of Policyholders' Interests) Regulations, 2002.

Further, on examination of the statement of unclaimed amounts as at 30th September, 2016, it is observed that most of the unclaimed amounts are pending beyond 6 months and around 50% of the unclaimed amounts are pending with reason 'company a/c third party / sundry a/c'. Insurer is advised to focus on clearance of unclaimed amounts by reviewing it on a regular basis, to take all possible steps to reduce the ageing of unclaimed amounts and also ensure compliance to procedure prescribed in Circular ref:IRDA/F&A/ Cir/CLD/114/5/2015 dated 29-05-2015 on handling of unclaimed amounts pertaining to policyholders.

Further direction on unclaimed amounts is at charge 10 of the order.

7. **Charge no. 7**

It was observed that the policies which were auto surrendered after the elapse of revival period of 2 years (lapsed after premium payment of 2 years) and the one cancelled in 5th policy year were paid less surrender value than the value mentioned in the terms and conditions of the policy due to wrong deduction of surrender charges.

Violation of F&U guidelines

Submission of Insurer:

In case the policyholder pays 2 full years premium and revival period ends just before completion of 4th policy year and hence the surrender penalty of 4th year surrender charge is applied to the policy. For e.g. if the policy commencement date is 1/4/2010 then after paying 2 full years premium as on 1/4/2011, the premium will be due on 1/4/2012. Thereafter the revival period is two years from First unpaid Premium and which is ending on 31/3/2014. In the system setup we gave the customer time till midnight of 31st March, so technically the auto surrender happens on 1/4/2014 and hence the surrender penalty of 4th year surrender charge is applied to the policy.



We would like to submit to the Authority that we have applied the above surrender charge table for cases leading to auto termination post expiry of revival period of two years. The same practice was followed across all products which were launched in FY 2009-10, such as IndiaFirst Savings Plan (UIN143L004V01), IndiaFirst Future(143003V01) & Education (143002V01).

Decision:

As per the life insurer F&U approved policy terms & conditions, from the sixth policy year onwards there will be no surrender charge irrespective of the no. of years premiums paid and all prior surrenders are subject to surrender charge. The applicable surrender charge is based on the date on which the surrender is made i.e. the date on which the surrender action is taken and payment is made.

However, in respect of the observed sample of auto foreclosed policies, it was noted that in respect of policies lapsed after payment of 2/3 years premium and auto foreclosed after the revival period, the foreclosure action was taken in the policy year immediately followed after the expiry of the revival period, whereas the surrender charge applicable on the last day of revival period was applied. The application of surrender charge by life insurer with regard to auto foreclosed policies was in contrast to the procedure prescribed in the F&U documents. It is expected that under no circumstance, the life insurer shall deviate from the original file and use policy terms and conditions.

As such, in the interest of the policyholders, the life insurer is **directed** to re-examine all such auto foreclosed policies where 2/3 years premiums were paid in respect of the India First Savings Plan (UIN143L004V01), IndiaFirst Future (143003V01) & Education (143002V01) plan. The life insurer to recalculate the actual applicable surrender charge based on the date of surrender. The list of all such cases wherever a difference of surrender charge is payable to policyholder is to be provided to the Authority within 21 days of the issue of order. Immediately after submission of list, the life insurer to initiate the payment of the excess surrender value recovered and to complete the process of payment within 6 months of the issue of the order. Till such time, the company is advised to submit a status report on a bi-monthly basis until the process is completed.

The Life insurer shall refund the excess surrender charge collected along with the interest at a rate which is 2% above the bank rate (repo rate) prevalent as at 1st April, 2017 by debiting the shareholders' account. The interest referred

herein shall be reckoned from the date on which the excess surrender charge was recovered and till the date of payment consequent to these orders.

The insurer is also **directed** to ensure that, herienafter the company complies with the policy terms and conditions approved under F&U guidelines.

8. **Charge No. 8**

On examination of premium collection and utilization, Claims settlement and maintenance of Shareholders' funds not representing solvency margin, few issues were observed:

Insurer maintaining separate shareholders' funds viz. Shareholders' funds representing solvency margin and Shareholders' funds not representing solvency Margin (Names as Shareholders working capital account). Whereas the insurer has misrepresented the Authority under investment returns filled with Authority and also in public disclosures, that it is maintaining only shareholders' funds representing solvency margin.

On examination of shareholders' funds not representing solvency margin it was evident that the insurer is pooling all receipts of premium collections under Non-ULIP portfolio and ULIP portfolio unclaimed amounts by the policy holders etc. which is in entirety of policy holders money is kept as part of Shareholders' funds not representing solvency margin. Any amount earned on these investments will be of shareholders of the insurer. This practice has been adopted by the Insurer from the inception of the company.

This provides that there shall be separate account for receipts of policy holders and no part of the policy holders fund shall be utilised by the shareholders. The procedure adopted by the insurer will have impact on profitability and surplus declaration to policy holders.

As per the statement provided by the insurer Rs 94.57 Crore of policy fund is held under the shareholders account not representing solvency margin as on 31st March, 2015.

Violation of

- Section 10 & 11 of Insurance Act, 1938
- Regulation 3 read with point 1 of Part I, Point B of Part II of Schedule A, point 13(a) of Point IV of Schedule A and Schedule 8, 8A & 13 under Part



V of IRDA (Preparation of Financial statements & Auditor's report of insurance companies) Regulations, 2000

- Point 10 of annexure II of Authority circular no. Inv/Cir/008/2008-09 dated 22-08-2008.
- Authority public disclosure guidelines issued vide circular no. IRDA/F&I/Cir/PBDis /105/05/2011 dated 27/05/2011 and circular no. IRDA/F&I/Cir/F&A/012/01/2010 dated 28/01/2010 by filing incorrect information in public disclosure form L 12.
- Point 2.4.9 of Authority circular no. IRDA/F&A/Cir/232/12/2013 dated 11-12-2013.

Submission of Insurer:

The company classifies the funds into 3 broad Categories,

- Policyholders funds
- Funds earmarked for Solvency (backing Required Solvency margin/ Shareholders' funds representing solvency margin) and
- Working capital fund (shareholders fund not representing solvency margin /working capital / SFNRSM).

Policyholder's fund represents the fund maintained to meet the policyholder's liabilities for all the policies inforce. Working capital fund (SFNRSM) is a common fund to manage the day to day running of the operations of the company.

The Shareholders Fund is maintained as Solvency Fund and Shareholders Working Capital Fund (Solvency 2) Fund for internal purposes only to monitor the investment returns by the Investment Committee from the Funds.

The inflows / outflows into the shareholders working capital fund are detailed below :

1. Shareholders Capital.
2. Any expense related outflow.
3. Premium Deposit inflows once funds are received
4. Premium outflows to the Policyholders funds once policy has been issued
5. Unclaimed refunds – Policyholders

The money towards proposal deposit (application money where issuance is pending) is maintained in SFNRSM fund till the policy is issued and the entire premium is moved into the respective policy holders funds immediately on issuance. In case of claims on registration an outstanding liability is created which is common for all policy holders fund and the settlement is done using the working capital fund (separate shareholder account), the same gets adjusted

from the policy holders fund at the month end when the policyholders liability is ascertained where the policies with registered claim is not considered as the policy is no longer in force. The process is followed for operational efficiency and convenience without adversely impacting the policy holder's funds.

Both the shareholders funds were considered for solvency calculation and the entire fund was shown as "FRSM" for reporting purpose. The amount pertaining to policyholders in the shareholders fund not representing solvency margin, a corresponding liability is created as unallocated premium, unclaimed amount, and outstanding claims which nullifies the effect thereby not impacting the solvency margin calculation. Details as below.

FY ended	Shareholders Fund NRSM	Proposal deposits and unclaimed lying in SFNRSM
31/03/2010	229.53	43.62
31/03/2011	319.04	91.64
31/03/2012	380.96	53.22
31/03/2013	292.17	66.62
31/03/2014	259.51	75.06
31/03/2015	192.10	160.49
31/03/2016	261.92	172.96

We hereby confirm that, basis the above observation, India First Life **has now discontinued** the practice of pooling the proposal deposits and unclaimed in shareholders' fund. However, currently the same is being maintained as part of policy holder's fund.

Decision:

As per Insurance Act, every life insurer is directed to keep separate accounts relating to funds of shareholders and policyholders'. Further life insurers were also directed to maintain strict segregation of investments between Shareholders and Policyholders funds at 'Scrip' level for every individual fund without making arbitrary transfer of investments from one fund to another and the income/losses accrued / capital gains/losses on the investments is to be credited/debited to the Revenue account/ Profit & Loss account, as the case may be. This point has been stressed and highlighted several times to insurers through various circulars issued from time to time.

The Authority through IRDA (Preparation of Financial Statements and Auditor's Report of Insurance Companies) Regulations, 2000 has also directed the life

insurers to comply with Accounting Standards issued by the ICAI, to the extent applicable to insurers carrying on life insurance business and in case of any departure from the accounting policies the same shall be separately disclosed with reasons for such departure.

Similarly through circular on Public disclosures (PD), insurers were advised that while placing the financial results before the Board, the CEO, CFO and Appointed Actuary of the company shall certify that the financial results do not contain any false or misleading statements or figures and do not omit any material fact which may make the statements or figures contained therein misleading. On examination of PD form L-12, it is observed that the policyholders' funds lying in shareholders fund were shown as 'Investments shareholders schedule'. Details as below.

Financial year	Solvency fund *	Shareholder's Fund AUM **		Total amount shown in public disclosure form L-12 under Investments Shareholders (1+2)
		Shareholder's Fund AUM excluding amount pertaining to Policyholder (1)	Shareholder's Fund AUM - amount pertaining to Policyholder (2)	
2012-13	108.59	225.55	66.62	400.76
2013-14	162.44	184.45	75.06	421.95
2014-15	274.69	31.61	160.49	466.79
2015-16	333.69	88.96	172.96	595.61

* Shareholders fund representing solvency margin / solvency fund / Funds earmarked for Solvency (backing Required Solvency margin).

** Shareholders fund not representing solvency margin.

The process adopted by the life insurer is not in compliance with the provisions of the Insurance Act mentioned herein. There shall be a separate account for receipts of policy holders and no part of the policy holders fund shall be utilized by the shareholders. The procedure adopted by the insurer will have impact on profitability and surplus declaration to policy holders, as the insurer gets advantage of time difference in transferring claim from policyholder a/c to Shareholder a/c and till making payment. However, considering the confirmation submitted by the life insurer that the company has now discontinued the practice

of pooling the proposal deposits and unclaimed amounts into shareholders' fund, the charges are not being pressed.

The life insurer is **directed** to ensure that the balance existing unclaimed amount lying in the shareholders fund is also transferred to the 'single segregated account for unclaimed amount' as prescribed under circular no. no.IRDA/F&A/Cir/CPM/134/07/2015 dated 24/07/2015. Hereinafter, the life insurer is advised to ensure strict compliance with various provisions of the Insurance Act in the best interest of the policyholders'.

9. Charge No.9

On examination of the policy wise unclaimed amounts, it was observed that insurer was classifying amount as unclaimed before initiating refund to the policy holders' instead of classifying it as claims outstanding as the claims were not settled. An amount of Rs 72 crore unclaimed amount was kept under shareholders account as on 31st March, 2015.

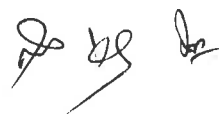
Further, insurer submitted that a letter is sent to policyholder 60 days in advance along with SMS & calling, thereby informing the policy auto foreclosure date and asking for bank A/c details, if not available.

Violation of

- Point 'd' of Para 4.4 of Master circular on preparation of financial statements circular Ref:IRDA/F&A/Cir/232/2013 read with explanation at point 1 of Authority circular no.IRDA./F&A/Cir/GLD/195/08//2014 dated 14-08-2014, circular no. IRDA./F&A/Cir/GLD /56/02//2014 dated 13-02-2014 and point'd' of circular no.IRDA/F&I/Cir/CMP/174 /11/2010 dated 4/11/2010 on treatment of an outstanding claim as unclaimed amount.
- Circular no.IRDA/F&A/Cir/CPM/134/07/2015 dated 24/07/2015 on not maintaining a single segregated account for unclaimed money and the procedure with regard to treatment of investment income of unclaimed amount.

Submission of Insurer (a) and (b):

We accept the observation raised by the Authority, claims liability is created immediately on intimation and the same was considered as unclaimed irrespective of their settlement status. **This has been addressed in the financial statements for the year ended 31st March, 2016** whereby the unsettled claims were classified as outstanding liabilities and previous year's numbers were accordingly reclassified. We confirm that these changes are within



the same schedule of current liabilities and do not impact any other schedule in the financial statement.

In accordance with provisions of circular no. IRDA/F&A/Cir/CPM/134/07/2015 dated 24/07/2015, the Company has accrued interest from 1st October 2015 till 31st March 2016 into the unclaimed account. From 1st April 2016 the investment income earned has been allocated to the single segregated account for unclaimed amount.

The company proactively sends communications (SMS / letters) and also makes calls for the collection of bank account details for refunding the unclaimed amount.

Decision :

At explanation point 1 of the clarificatory circular dated 14/08/2014, Authority has clarified that unclaimed amount includes any amount payable to policyholder as death claim, maturity claim, survival benefits, premium due for refund, premium deposit not adjusted against premium and indemnity claims etc. remained unclaimed beyond six months from the due date for settlement of the claim amount.

The life insurer has not followed the procedure prescribed in the circular dated 14/08/2014 and the circular dated 04/11/2010 and has classified the amounts as unclaimed even before initiating refund and kept the fund in the shareholders working capital account.

However, taking note of the life insurer confirmation that the practice has been changed from 31/03/2016 and the unclaimed amounts and investment income earned on it were being transferred to single segregated fund as prescribed at Authority circular dated 24/07/2015, hence no charge is pressed.

The insurer is also advised to ensure strict compliance at all times to the procedure prescribed with regard to unclaimed monies and at no point of time it should be transferred to shareholders account.

10. Charge No.10

a) On examining the policy wise unclaimed details provided by the insurer, it was observed that claims amounting to Rs.15 Crore of 2318 policies as on 31st March, 2015 were not refunded to the policyholders' and the reasons informed as customer details not available. In this regard its pertinent to note that majority



of these amounts was received by the insurer from banking channels as direct debit customer bank account. Insurer's claim that the customer details are not available shows lack of internal controls in case where the amount are received from the banking channels, as the details of customer are captured while receiving the amounts from the bank customer.

b) On the examination of efforts made by the Insurer on refunding the unclaimed amounts to policyholders' it was observed that no document was available about the communication sent to the policy holders regarding their unclaimed amounts.

Violation of Regulation 8 of IRDA (Protection of Policyholders' Interests) Regulations, 2002.

Submission of Insurer:

- a) These policies were sourced through bank but the premium did not come through partner bank accounts and hence the bank account numbers were not captured during policy issuance. India First has taken several steps to get the account details of these customers and this is being monitored on regular basis at the senior management level. The process of capturing the bank account details in the proposal form for making any payments to the customer has been incorporated from 2014.
- b) To pay the unclaimed amount to the customers, various steps were taken to get the bank account details though letter / SMS/Calling and also efforts are ongoing with the respective banks to get the details of the customer accounts.

Decision

On examining the available data and the unclaimed amount statement as on 30th September, 2016, it is noted that

- 53% of the unclaimed amounts were pending beyond 6 months.
- The reasons for pendency were not clear from the statement, as 96% of the unclaimed amounts were pending for three reasons i.e 'cash / cheque, company account/ third party and sundry a/c'.
- Around 10 paid up claims above 10 lacs were pending for more than a year with the reasons 'customer details not available'.

Further, on examination of the efforts made by the Insurer on refunding the unclaimed amounts to policyholders', it was observed that no documents were available about the follow-up communication sent to the policy holders regarding their unclaimed amounts.

Since insurer informed that bank details were collected at proposal stage from year 2014 onwards, it should devise a policy to collect the bank details of other customers who were insured prior to 2014 by sending a communication to all such customers and also to include a standard clause as a foot note in all future correspondence with the Policyholders, as prescribed at point 4(a) of circular dated 13/08/2014 on payments to policyholders in order to ensure that no amount in future would become unclaimed.

Insurer is **advised** to bring down the unclaimed account balance, follow up rigorously through intermediaries and to clear all high value unclaimed amounts on priority basis. Insurer is advised to submit an action taken report along with status of unclaimed amounts as on 31st July, 2017.

11. Summary of Decisions:

The following is the summary of decisions in this order:

Charge No.	Brief Title of charge and the provisions violated	Decision
1	Charge: Not maintaining shadow account of superannuation fund and policy account value on the website. Provision: Regulation 13(b), 15(b) & 18(c) of IRDAI (Non-linked insurance products) Regulations, 2013.	Direction & Warning
2	Charge: Sum at risk calculation for reinsurance was not done on approximate basis. Provision: Clause 6 of Corporate Governance guidelines.	Direction to ensure compliance.
3	Charge: Insurer not obtained any confirmation from group policyholder on issuance of COIs to group members. Provision: Clause C-7 of Group guidelines dated 14-07-2005.	Advisory to ensure compliance to group guidelines.
4	Charge: Issues observed on claim repudiations. Provision: F&U guidelines, Section 45 of Insurance Act & clause 6 of Corporate Governance Guidelines.	Advisory
5	Charge: Issues observed on claim repudiation. Provision: Section 45 of Insurance Act, Regulation 4(4) of IRDA (Protection of Policyholders' Interests)	Advisory


	Regulations, 2002 and F&U guidelines.	
6	Charge: Delay observed in taking action on the surrender requests. Provision: IRDA (Protection of Policyholders' Interests) Regulations, 2002	Advisory
7	Charge: Recovery of surrender charge on auto foreclosure of policies. Provision: F & U guidelines.	Direction
8.	Charge: Insurer maintaining separate shareholders' fund and pooling unclaimed amounts of policyholders into this account. Provision: Section 10 & 11 of Insurance Act, IRDA (Preparation of Financial Statements and Auditor's report of insurance companies) Regulations, 2002 and various other circulars.	Direction
9	Charge: Insurer was classifying the claim amount as unclaimed even before initiating refund to the policyholder. Provision: Master circular on preparation of financial statements and circular dated 24/07/15.	Advisory
10	Charge: Follow up on unclaimed amounts. Provision: IRDA (Protection of Policyholders' Interests) Regulations, 2002	Advisory

12. Conclusion:

- (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 receipt of this order.
- (b) The Order shall be placed before the Audit committee of the life Insurer and also in the next immediate Board meeting and the life Insurer shall provide a copy of the minutes of the discussion.

13. 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 Act, 1938.

Place: Hyderabad
Date: 5th May, 2017


(V.R.IYER)
Member (F&I)

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