



Ref.No: IRDA/ENF/ORD/ONS/ 252 / 12 / 2016

Final Order in the matter of M/s Liberty Videocon General Insurance Company Ltd.

Based on reply to the Show Cause Notice dated 25th August, 2016 and submissions made during Personal Hearing on 18th October, 2016 at 11.30 am taken by Member (F&I) at the office of Insurance Regulatory and Development Authority of India, 3rd Floor, Parishrama Bhavan, Basheerbagh, Hyderabad.

The Insurance Regulatory and Development Authority of India (hereinafter referred to as "the Authority") carried out an onsite inspection of **M/s Liberty Videocon General Insurance Company Ltd** (hereinafter referred to as "the general insurer") during 13th to 21st October, 2014. The Authority forwarded the copy of the Inspection Report to the general insurer on 31st December, 2014 and the general insurer responded vide letter dated 28th January, 2015. Upon examining the submissions made by the general insurer, the Authority issued Show Cause Notice on 21.07.2016 which was responded to by the general insurer vide letter dated 19.08.2016. As requested therein, a personal hearing was given to the general insurer on 18.10.2016. Sh Roopam Asthana, Whole Time Director & CEO, Sh Balaji Cuddapah, Country Head Underwriting & Claims, Sh Vimal Kishor, Company Secretary, Head-Legal, compliance and ERM were present in the hearing on behalf of the general insurer. On behalf of the Authority, Ms. V.R.Iyer, Member (F&I), Sh Prabhat Kumar Maiti, GM (Enforcement), Sh Mahipal Reddy, DGM (Non-life) & Sh K.Sridhar, AGM (Enforcement) were present during the personal hearing.

The submissions made by the general insurer in their written reply to the inspection observations, to the Show Cause Notice and also those made during the course of the personal hearing have been taken into account.

The findings on the explanations offered by the general insurer to the Show Cause Notice and the decisions thereon are detailed below.

1. Charge – 1

- a) Third party service providers whose services were not reported in the outsourcing statements were allotted codes in the Insurer's IT system. The Business Service Channel (BSC) codes allotted to the 2894 service providers (individuals / entities / motor dealers etc.) were used in the premium register. However, similar codes were not allotted to the service providers (60 in number) declared under outsourcing activities reported to Authority.
- b) It was observed that the insurer engaged unlicensed individuals / entities / motor dealers for soliciting insurance business. The business solicited through these unlicensed individuals/entities has been booked as "Direct Business", and the remuneration was

paid in the account of reimbursement of printing and distribution of marketing material and other services heading. The business sourced through these entities was logged on to the said code numbers. There may be around 300 codes generated in favour of motor/automobile dealers/motor workshops.

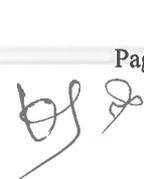
- c) The sample agreements entered with the Motor Dealers and others by the Insurer and the copies of payment vouchers along with Invoice/Bill preferred by the motor dealers/others are verified. It has been observed that apart from invoice/Bill, there are no supporting documents to substantiate that the charges/fees are for rendering the services indicated therein in the bill.

It emerges from the agreements, bills, expense pattern and accounting method that to accommodate the payments towards solicitation and procurement of insurance business, the insurer had entered into agreement with these motor dealers under the support services to facilitate the insurance business.

- d) The agreements with individuals also mentions the same services contained in the agreements with companies/entities. The services such as providing necessary space for advertisements and branding on website have no relevance for individuals. Moreover, the invoice preferred by the individual includes charges for display of board and signage, infrastructure support, training workshop.

While on one hand the particulars in invoices of service providers indicate the printing of marketing material including brochure, pamphlets, on the other hand the insurer confirmed that it has not printed any prospectus for any product for soliciting and procuring business.

- e) The service provider code opening form is used to allot code in the insurer IT system. The form contains the information on minimum business committed, mode of sourcing, type of business such as Motor Pvt, Motor-GCV etc. Thus, it is an expression of the intended objective to use the services of third party service providers for soliciting and procuring business without license.
- f) On examining sample payouts, it is noted that payments to 50 motor dealer vendors exceeds Rs.10 lac.
- g) Insurer allotted five Intermediary codes to Navnit Motors Private Limited and the businesses sourced under the codes were remunerated under insurance commission. The above entity was not licensed to source insurance business.
- h) The sample underwriting documents of the policies booked under direct sales establishes that the motor dealers/individuals are used in soliciting insurance business and were remunerated under account head of support services. The cover note/proposal noticeably confirms the name of the intermediary as the name under BSC code. The policy copies indicate the Agent Name as Direct but it bears the respective BSC code in reduced fonts at the bottom of the policy.



- i) The license of Hindustan Insurance Brokers Ltd was cancelled vide order dated 29.12.2008. The insurer accepted 11 motor insurance policies during 2013-14 from Hindustan Insurance Brokers Ltd and paid commission, though the broker did not possess a valid license. Similarly insurer accepted 8 motor insurance policies from Key Insurance Brokers Pvt. Ltd during 2013-14, whose license was not valid during the period of insurance policies.

Violation of

- a) Authority's circular IRDA/CIR/011/2003, dated 27-03-2003 on soliciting business through unlicensed entities
- b) Clause 6 of corporate governance guidelines of Annexure II of circular no. IRDA/F&A/Cir/0205/2009-10 dated 5th Aug, 2009 for lack of internal guidelines by not maintaining the background papers on payouts to vendors.
- c) Para 11.2 of Outsourcing guidelines circular ref.no. IRDA/Life/CIR/GLD/013/02/2011 dated 01st February, 2011

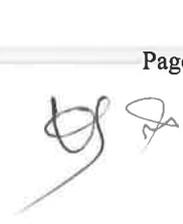
Submission of the insurer:

- a) BSC codes are being captured to track the business sourced by our sales employees from various locations, to examine, if the marketing and other spends are commensurate with benefits to the Company, for assessing quality of business sourced on various parameters (including sourcing location). It is further submitted that in some cases the above referred entities also provide some marketing related services. Allocation of BSC codes to vendors is for the purpose of internal tracking and data analytics and does not violate any outsourcing guideline.
- b) At all such locations where marketing services were being provided, the company had sales employees and since the business at these locations is sourced directly by the company sales employees, the same is booked under "direct" category.

It is submitted sales staff of the Company has been sourcing the business from the motor dealers' outlets and for data analysis purposes the various such service providers are tagged in the system.

It is further submitted that the motor dealer locations, garages/workshops etc., were engaged for providing various marketing and sales support services. Based on the nature and quantum of services, the company paid fee and charges towards various services provided, not commission towards the sourcing of business.

- c) It is submitted that the Company is carrying out adequate due diligence at the time of appointing the service providers, on-site supervision of such activities by our local sales personnel who assess the services provided and also authenticate the invoices raised. It is submitted that all these Service Providers are engaged to support our business through promotional and support activities e.g. marketing, advertisement, providing infrastructure, space etc.



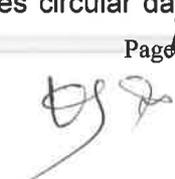
- d) The Company has a standardized template for engaging these service providers with indicative scope of work and within which the sales staff of the Company can agree as to which services are required for any particular period. The actual services rendered are captured in the invoice, which is authenticated and approved by our Sales employees before the same is paid by the Company.
- e) As with any marketing/advertising strategy, there is a need to measure its effectiveness and return on investment in the form of potential business that can ultimately be sourced. Accordingly, when investing in this form of promotion, it is important for the company to set potential business targets that can be sourced from such efforts and measure the end result to confirm continuation/stoppage/further investment in such modes of promotion.
- f) The Company submits that the said payments were made against various marketing & support services rendered by the said Service Providers.
- g) It is submitted that various codes were created under Navneet Insurance Brokers Private Limited to track the business from various sources of business/dealerships that it deals with. It is further submitted that the amount shown against the said dealers, is in fact commission paid to Navneet Insurance Brokers Private Limited and the same was captured in the system accordingly.
- h) It is submitted that wherever the BSC code is appearing, the same is being done for the sole purpose of tracking of business sourced by the company sales staff from particular sources and for future assessment of quality of business sourced there from. During internal audit it was noticed that the sales managers were erroneously writing BSC codes in the space meant for inputting intermediary and in such cases, the frontline sales staff have been sensitized by the Company from time to time not to do the same.
- i) It is submitted that at the time of engaging the Brokers, Hindustan Insurance Broker Ltd. had submitted that it has applied for the renewal and later on submitted the copy of license which is valid from 4th April 2012 to 3rd April 2015.

Regarding acceptance of business from Key Insurance Brokers Pvt. Ltd, it is submitted that, at the time of engaging the said broker, it represented to us that it has applied to the Authority for renewal of license. The Company stopped receiving business from any Broker, whose license has expired after Authority circular dated 11th October, 2013.

Decision:

On examining the documents it is noted that

- 1) Payments were made by insurer to vendors towards printing and distribution of marketing material. The activities outsourced to vendors who were allotted BSC codes were not disclosed in the outsourcing statements filed with the Authority. In this regard, insurer is advised to refer to para 3(xi) of the Outsourcing guidelines circular dated 1st



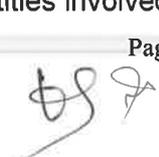
Feb,2011 wherein outsourcing of printing activity was defined as a non core activity and which needs to be reported to Authority in the HLY statement filed with Authority in accordance to para 11.2 of the referred outsourcing guidelines. Further at para 13 of the guidelines, insurers have been advised to refer to IRDAI for further clarification in case of any ambiguity regarding the classification of the activities as core or noncore which are not specified in the guidelines. Insurer is hereby advised to submit details of all outsourced activities falling under the ambit of outsourcing guidelines in the HLY statement and in case of any ambiguity may seek clarification from Authority.

- 2) A sample closing slip verified has shown that the policy was solicited by service vendor as an intermediary with code no. BSC5003728 and the policy document show that the business was booked under direct channel having BSC code of the service vendor printed on the bottom of policy document. Similarly other examined cover note nos.20000015927, 20000014243, 20000015928, 2000016660, 20000013809, 20000009573 & 20000011481 and a few quotation/closing slips also show the vendors as an intermediary.
- 3) Sample invoices examined show that the payments made by insurer to motor dealer vendors was towards training & workshop.
- 4) Based on insurer submission on mapping of qualified sales managers with that of BSC codes, Authority sought data on mapping and business solicited from the BSC code locations for the FY 13-14 & 14-15. The general insurer has only provided the mapping data of the BSC codes but not the details of the business solicited by the sales managers from the locations of these BSC codes. If such data is not available insurer cannot do any cost benefit analysis of the outsourced activities.
- 5) Major portion of the monthly payout by insurer to motor dealer vendors was towards training/workshop/development support services offered to insurer. It could not be understood why a support on the training activity on a monthly basis at around 270 motor dealers locations is required for the general insurer for its individual agents of around 700 spread across the country and paying of amounts upto Rs.11 lakhs during few months for this service to the vendor cum motor dealers.

Thus all above indicate that the insurer created intermediary codes for unauthorized entities, solicited business through these entities, booked under direct channel and made payment in the name of outsourced activities.

In view of the violations observed, the Authority in exercise of the powers vested in Section 102(b) of the Act imposes a penalty of Rs.5 lakh for the violation of Authority circular no.IRDA/CIR/011/2003 dated 27-03-2003 and Outsourcing guidelines dated 1st Feb, 2011.

Insurer is advised to exercise due diligence while entering into agreements and to re-examine all the existing agreements as per para 10 of Outsourcing guidelines dated 1st February, 2011 on the services outsourced, terms and payment, entities involved and to



submit an action taken report by 31-03-2017. The outsourcing arrangements should be in line with insurer's Board approved comprehensive outsourcing policy, company to review vendor performance on an annual basis, to assess cost benefit analysis, avoid conflict of interest in any of the outsourcing agreements and to comply with all applicable Regulations prescribed by the Authority from time to time

- 6) Insurer has accepted business from a broker whose license was in cancelled status at that point of time. However, taking note of insurer submission on insurer stopping solicitation of business from brokers whose license has expired post Authority circular dated 11th October, 2013, no charge is pressed. Henceforth insurer is advised to ensure compliance to Regulation 16(2) of IRDA (Insurance Brokers) Regulations, 2013.

2. **Charge – 2**

- a) It is observed that insurer has made a payment of Rs.19530 during 2013-14 towards professional fee to its tied agent with license no.9742722.
- b) The payments to individual agents were examined on sample basis. It was observed that the insurer had paid professional fee apart from stipulated insurance commission to its individual agents during the year 2013-14. The payout made to licensed entity (license no 9742722) was not disclosed to the Authority as required under Form 31B (2) of Insurance Act, 1938. Further, the insurer did not furnish the details of other payments, if any, of the above agents in the details submitted to inspection team.
- c) Sample examination of the payments to the third party service providers revealed that the insurer appointed the insurance agents of other insurers as vendors allotting BSC codes to perform the services.
- d) The insurer stated that affinity channel is under direct sales. The records of premium and payments to vendors reveal that the vendor under affinity channel is given BSC code and premium generated through them is linked to respective code. The sample vendors payments vis-a -vis the premium mapped under their codes were examined.

LVGICL engaging the services of several of the insurance agents of other insurance companies as vendors corroborates that these entities/persons services were used to source business. The pattern of payments to these vendors shows that the business is solicited and procured by them and the remuneration is paid under professional fee/contract charges.

- e) The sample examination of payments to few entities revealed that the service vendors are either the associates of Insurance brokers or related to them. The payment made to M/s Navnit Motors Pvt Ltd appear to be additional payments to insurance broker M/s Navnit Insurance Broking, routed through their associates/related parties as 3 out of 4 directors of broking firm are the common directors.



Violation of

- a) Para 8.2 & 8.4/5 of outsourcing guidelines circular ref.no.IRDA/Life /CIR/GLD /013 /02/2011 dated 01st February, 2011.
- b) Clause 21 of corporate agency guidelines circular ref.no.017/IRDA/circular/CA Guidelines/2005, dated 14-07-2005.
- c) Commission circular ref.no.011/IRDA/Brok-comm/Aug-08 dated 25-08-2008 and Section 31B (2) of Insurance Act, 1938.
- d) Violation of Regulation 3(2) of IRDA (Licensing of Insurance Agents) Regulation, 2000 which states that 'a licence issued in accordance with this regulation shall entitle the applicant to act as insurance agent for one life insurer or one general insurer or both, as the case may be'.

Submission of the insurer:

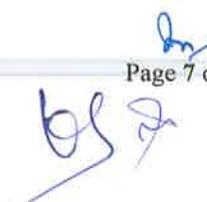
- a) It is submitted that few service providers who were earlier engaged for providing marketing related services have later become the licensed agents of the Company. It is further submitted that the vendor was not involved in outsourced activities after being licensed. As such payment made to Vendor for services rendered before licensed as agent, were not included in 31B (2) report.
- b) It is submitted that only after preliminary due diligence, service providers are appointed. While creating the BSC/Vendor codes, the Company obtains the KYC documents from each Vendor and unless the vendor declares, that he/she is the corporate agent/agent of some other company, the Company does not come to know about the status of such Vendors.

The Company has noted the observation and will include this specifically in the checklist as part of vendor code opening form. While on this, it is humbly submitted that the agency regulations do not prohibit agents from carrying on activities other than soliciting insurance business for the entities other than for which they are the insurance agents.

- c) As per the due diligence carried out by the Company, the Company did not come across any information confirming the relationship among the service providers and the brokers.
- d) The amount paid to Navnit Insurance Brokers Private Limited was infact commission and amount paid to Navnit Motor Pvt. Ltd was related to Claim payments made to the workshops of Navnit Motors P. Ltd.

Decision:

- a) Insurer confirmation on point 'a, b & e' of the charge is taken on record. Insurer submitted that no payment other than commission was paid to the vendors after being licensed to act as insurance agents.



- b) In the vendor code opening form, insurer collects details such as 'minimum business guarantee', mode of sourcing, type of business etc., which clearly indicate that business commitments were taken while entering into agreements and the vendors were involved in solicitation.
- c) On examining sample cases, it is observed that insurer allotted BSC codes and utilized the services of individuals who are also acting as tied agents to other general insurers (vendor code BSC5001009 having license no 8519661 / Vendor code BSC5001628 having license no. 4844837 / Vendor code BSC5000025 having license no. 8981061 / vendor code BSC5001094 having license no 1680997 / Corporate agent license no. 945472 with BSC code 5000085 / similarly other vendor codes BSC 5000076, BSC 5001413 & BSC5004004). On examining the closing slip of a JPA policy issued by the insurer to a co-op bank, it shows the vendor code BSC5001628 as intermediary in the closing slip.

Further, it is difficult to understand how a licensed tied agent soliciting general insurance business for another general insurer can get involved in distribution of publicity/marketing material and offer services of training/workshop to this general insurer. As such, based on the documentary evidence available, insurer's submission on not involving these vendors in insurance solicitation cannot be accepted.

In view of the violation of Agency regulations and outsourcing guidelines, the Authority in exercise of the powers vested in Section 102(b) of the Act imposes a penalty of Rs.5 lakh.

Insurer is advised to ensure compliance to para 8.4/5 of outsourcing guidelines & clause 21 of Corporate agents guidelines dated 14-07-2005 on engaging of licensed entities for outsourced activities.

3. Charge – 3

The agreements pertaining to major payments to some of the third party service providers were examined. The indicative pricing and cost of the services to be rendered is not specifically mentioned in the agreements. The schedule broadly suggests the rates for the services shall be agreed from time to time. Consequently, it could not be ascertained that the payments made to such service providers are proportionate to the services received. The checks and controls were not in place to evaluate the payments to service providers.

Violation of Clause 6 of corporate governance guidelines of Annexure II of circular no. IRDA/F&A/Cir/0205/2009-10 dated 5th Aug, 2009 for lack of internal controls on payouts to vendors.

Submission of the insurer:

It is submitted that the payments are based on the services. These services are variable in nature and agreed to by our local sales staff with the said Vendors from time to time. The extreme variability makes it impossible to template the same and is discussed and closed at short notice by local sales employees. Invoices against the said services are authorized by Country Head –Sales as per Delegation of Authority matrix of the company. Accordingly, checks and controls are maintained through the oversight of our local employees. The observations of the authority are noted and the Company is in the process of examination, as to what extent, further documentation in respect of the said invoices is required to be strengthened.

Decision:

Insurer submission is noted. Insurer is advised to

- Evaluate cost benefit analysis and due diligence in engaging service vendors.
- Ensure compliance to comprehensive outsourcing policy approved by its Board in selection of service vendors and activities to be outsourced.
- Insurer is also advised to cross check whether any of its service vendors are licensed entities and if so insurer to ensure compliance to para 8.5 of Outsourcing guidelines dated 1st February, 2011.
- To maintain all background papers, supporting documents and invoices/ bills relevant to the payments released to vendors.

4. Charge – 4

The Insurer's quotation slips and closing slips including the premium computation in respect of Fire and Engineering insurance demonstrates the distortions in discount structure by modifying the filed rate structure as a strategy to meet the competition in the market.

It was observed from the underwriting records that the discounts are offered as a result of competition/to match competitors' quotes rather than considering them on the track record of the insured/merits/good features. The factors and basis of discount are not correctly presented in the quote slips/closing slips.

The premium rates filed under File and Use include the Act of God (AOG) premium rates. The discounts in the above cases are applied on the basic premium rate. The insurer explained that the rate arrived upon discounting on basic rate together with AOG premium rates applied separately would be equivalent or less than filed premium rate with maximum discount as the erstwhile tariff rate is inbuilt with AOG perils such as STFI.

However, submitting the quotations with the discount structure showing discounts in certain cases as high as 99.9 percent on basic rate to the customers and intermediaries by modifying the premium rate structure as filed with the Authority is contrary to the requirements of disclosure of `material information` regarding a proposal or policy.



The distorted rating structure with high discounts on basic rate and covering the reduction in basic premium by overcharging on catastrophic perils may mislead the reinsurance brokers to develop appropriate reinsurance terms in the reinsurance market.

Violation of

- a) Para 3(ix), 11, 17.1 & 26 of File and Use guidelines ref. 021/IRDA/F&U/SEP-06, dt.28.6.2006.
- b) Circular no.IRDA/NL/Cir/F&U/003/01/2011 dated 6th Jan, 2011.
- c) Regulation 11(1) of IRDA (Policyholders Interests) Regulations, 2002.

Submission of the insurer:

For all the sample policies verified by inspection team, we have adhered to the maximum discount approved by the Authority on the erstwhile Tariff rates for the occupancies mentioned. There is no deviation from the discount approved by the Authority in Engineering, Fire and Industrial All Risk Policies.

The company has filed one rate (FLEXA + STFI), wherein 90% discount of the total is allowed. However, while issuing quote(s), the same was broken in two parts i.e FLEXA and STFI. Pursuant to the market practice of showing premium for FLEXA and NatCat perils separately, the intermediaries and ultimate customers understand and seek quotations basis FLEXA less discount + NatCAT. We have followed the market practice but ensured compliance of F&U guidelines. It is further submitted that the customer referred by the Authority in the Show Cause Notice is a large Corporate Customer approaching the Company through insurance Brokers and understands the nuances of premium calculations.

Decision:

As per coverage, exclusions and memo 8 to Section 1-material damage of erstwhile CAR policy wordings, coverage towards AOG perils is an inbuilt cover and rate charged for CAR cover to include the coverage for AOG perils risk. The general insurer has also not shown any bifurcation of rate in the rate filed with the Authority towards base rate and rate for AOG perils. Whereas insurer has bifurcated the rate into base rate and rate for AOG perils and has allowed differential discount on both the rates. By this, the prospect was misled and given impression as if he was given a heavy discount though not the case. The business practice adopted by the insurer by showing an inbuilt cover as an additional cover misleads the prospects, further it is also in deviation of the F&U guidelines by deviating from the rating guide filed with Authority. Further, the maximum discount proposed in F&U documents filed with Authority was for various good risk factors and it cannot be deemed by insurer that by allowing the discount at its discretion by restricting it to maximum permissible discount doesn't mean complying to rating structure filed under F&U guidelines.

In view of the violations of F&U guidelines observed, the Authority in exercise of the powers vested under Section 102(b) of the Insurance Act, imposes a penalty of Rs.5 Lakh.

Insurer is advised to ensure strict compliance to the rating structure filed with Authority under F&U guidelines in letter and spirit. Insurer is also advised to have inbuilt system checks and controls on the rating structure approved by the Authority.

5. Charge – 5

- a) The examination of sample Group Health policy reveals that the insurer inserted the condition of restriction on related charges in accordance with room rent restriction. The proportionate reduction in other treatment charges as per room type/room eligibility was not in line with the product approval under File & Use Guidelines.
- b) The maximum Group discount permissible for group size of above 50001 persons is 30 percent according to the GPA product filed by the insurer under File & Use guidelines. On examining sample quotations, it was observed that the group discount offered was in excess of 30 percent. It was also observed from the two sample cases examined that the Insurer offered credibility discount upto 50% in addition to the permitted discount parameters.

Violation of the provisions of Regulation 4 of IRDA (Health Insurance) Regulations, 2013.

Submission of the insurer:

- a) The company submitted that the room rent limitation was included in its group health policy as per file and uses procedure and was approved by Authority. The definition of room rent in the Policy reads as under: "Room rent" means the amount charged by a hospital for occupancy of a bed on per day (24 hours) basis and shall include associated medical expenses". The company further submitted that the room rent cap was not applicable on hospitalization expenses such as 'drugs & medicines consumed on the premises, dressing, ordinary splints and plaster costs, cost of prosthetic and other devices or equipment if implanted during a surgical procedure'. The company reiterates that limiting the room rent was included in its group health policy as per F&U and was approved by the Authority.
- b) It is submitted that, as per the filed underwriting manual and rating approach, Group Policies would be experience rated. In view of the above the Company may provide the discount based on the experience and the discount structure shall be referred only in case where statically credible information is not available. With respect to credibility discount, it is submitted that the product is typically experience rated where the experience of the portfolio is considered to derive the renewal terms. We have followed the methodology of providing a credibility rating for such experience as indicated in our Technical Note forming part of the File & Use documentation:

Decision:

As per the policy terms and conditions of Group health Policy filed by insurer with and approved by the Authority, the policy wordings though state that the associated medical expenses will be limited in accordance with room rent restriction, the policy wordings doesn't define the term 'associated medical expenses'. As such, it is incorrect to make any proportionate deduction in proportion to room rent without proper disclosure to the policyholders on the hospitalization expenses that would be considered as associated medical expenses.

Henceforth, insurer is hereby directed to give clear information to the customers in the brochures, sales literature, policy wordings etc on the associated medical expenses that would be limited based on applicable room rent cap. Further, within 6 months of the issue of the Order, insurer is also advised to make a fresh filing and seek approval from Authority under F&U guidelines on the revised policy wordings drawing clear reference to the explanation on the hospitalization expenses that would be considered as associated medical expenses for applying the room rent limit.

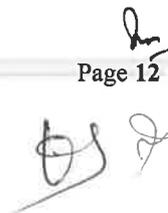
Further, insurer is directed to ensure that no claim is settled based on the product features and conditions that is not filed and approved under File and Use procedure and thereby complying with Reg. 4 (a) and 4 (b) of IRDA (Health Insurance) Regulations, 2013 which stipulates "file and use" procedure for health insurance products.

6. Charge – 6

- a) The 'Engine Safe' motor add on cover was approved by the Authority on 28th March, 2014. However, the insurer included Engine Safe cover in the cover notes issued prior to receipt of the approval (cover note nos 20000063396 / 20000058122 / 20000000422 / 20000087561). Further, insured was not given information in the policy document of the add-on covers towards which premium has been collected in the cover note.
- b) From the available documents, it is also noted that motor IDV was calculated wrongly in respect of motor policy issued vide cover note no. 20000087561 to M/s Puri Constructions Pvt Ltd.

Violation of

- i) F&U guidelines issued vide circular no.066/IRDA/F&U/Mar-08 dated 26-03-2008, circular no.021/IRDA/F&U/Sep-06 dated 28-09-2006 (para 1, 2, 14, 17.1 & 26), Circular ref.no.048/IRDA/De-tariff/Dec-07 dated 1-12-2007, Circular.no.19/IRDA/NL/F&U/Oct-08 dated 6th Nov, 2008, Circular ref. No. IRDA/NL/CIR/F&U/073/11/2009, dated 16-11-2009 and Circular ref.no. Ref: IRDA/NL/CIR /F&U/003/01/2011 dated 06-01-2011.
- ii) Provisions of General Regulation 8 of All India Motor Tariff.
- iii) Regulation 7 (p) of IRDA (Policyholders' Interests) Regulations, 2002.



Submission of the insurer:

Insurer submitted that the Company has launched Engine cover only after approval of the Authority and none of the Policies issued by the Company contained this add-on cover before its approval by the Authority. Insurer informed that the add-on cover was wrongly referred by sales personnel in cover notes referred and confirmed that the Policies were issued without this cover after proper due diligence and in support provided copy of policy documents.

With respect to observation related to wrong calculation of IDV, we hereby submit the policy schedule, invoice copy along with Custom duty slip for reference of the Authority. We understand that as per the above calculation, there is no mistake in calculation of IDV.

Decision:

Insurer submission is noted, no charge is pressed. Insurer is advised to ensure compliance to F&U guidelines at all times.

7. Charge – 7

During 2013-14 & 2014-15, insurer appointed 13 in-house surveyors who are not possessing license for assessment of Motor Own damage claims with estimated loss /assessed loss exceeding Rs. 20,000/-. Although the estimated loss/assessed loss was in excess of Rs. 20000/- in the said claims, the survey report was not obtained from licensed surveyor.

Violation of section 64UM (2) of Insurance Act, 1938

Submission of the insurer:

It is submitted that in-house surveyors are being used so that there is transparent, efficient and fast settlement of claims which in turn improves the service levels of claim settlement process and also increases customer satisfaction. All claims above INR 20,000/- initially assessed by in-house surveyors are duly scrutinized by in-house licensed surveyors for confirmation of the loss assessed. The existing team of licensed surveyors additionally supervises such claims so that proper assessment of these losses is done to avoid any undue inconvenience to our customers.

It is further submitted that an internal audit of the said process was carried and NIL observation audit report was issued by internal Auditor of the Company. Insurer further certified that only 7.5% of the total surveys conducted were handled by in house claim handlers under the supervision of licensed surveyors and also confirmed that post inspection all claims are being surveyed directly by licensed surveyors.



Decision:

From the insurer submission, it is noted that the loss assessment carried on by in house surveyors was supervised by licensed surveyors and the practice followed by insurer was for the speedy settlement of claims. Since insurer confirmed that post inspection all claims are being surveyed directly by licensed surveyors, no charge is pressed.

Insurer is advised to ensure strict compliance to Regulation 64UM of Insurance Act, 1938.

In conclusion, as directed under the respective charges, the penalty of Rs. 15 lakh (Rupees Fifteen lakh only) shall be debited to the shareholders' account of the general insurer and the amount shall be remitted to Insurance Regulatory and Development Authority of India within a period of 15 days from the date of receipt of this Order. The penalty shall be remitted through the NEFT as per details being intimated to the insurer as per a separate e-mail. The transfer shall be made under intimation to Mr.Prabhat Kumar Maiti, JD-Enforcement.

Further,

- a) The general Insurer shall confirm compliance in respect of all the directions referred to in this Order, within 15 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 general insurer feels aggrieved by any of the decisions in this order, an appeal may be preferred to Securities Appellate Tribunal as per Section.110 of the Insurance Act, 1938.

Place: Hyderabad
Date: 22.12.2016


(V R IYER)
Member (F&I)

