



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

Ref: IRDA/LIFE/ORD/MISC/030/001/2014

Final Order in the matter of

M/s. Life Insurance Corporation of India

**Based on Reply to Show Cause Notice Dated 17th October, 2013 and
Submissions made during Personal Hearing On 17th December, 2013 at
4:30PM**

Chaired by Sri Sudhin Roy Chowdhury, Member (Life), IRDA

**At the office of Insurance Regulatory and Development Authority, 3rd Floor,
Parishrama Bhavanam, Basheer Bagh, Hyderabad**

The Insurance Regulatory and Development Authority (hereinafter referred to as "the Authority") carried out an onsite inspection of two of the branches of Life Insurance Corporation of India and the Corporate Office (hereinafter referred to as "the Life Insurer") during May, 2013 to examine the procedures in place to comply with the Anti Money Laundering guidelines issued by the Authority. The Authority forwarded the copy of the Inspection Report to the Insurer vide letter dated 24th June, 2013 seeking comments. On examining the submissions made by the Life Insurer vide letter dated 09th July, 2013, the Authority has issued a Show Cause Notice on 25th September, 2013 which was responded to by the Life Insurer vide letter dated 17th October, 2013. As requested therein, a personal hearing was given to the Insurer on 17th December, 2013.

Mr S B Mainak, Managing Director, Mr. S C Rathi, ED (Internal Audit) and Mr B Venugopal, ED (IT-BPR) were present in the hearing on behalf of the Life Insurer. On behalf of the Authority, Dr Mamta Suri, JD (Sectoral Development Department), Mr V. Jayanth Kumar, JD (Life), Mr DVS Ramesh, DD (Life-Coordination), Ms .B .Padmaja, Sr.AD (SDD - AML&RI) and Mr K.Sridhar Rao, AD (Life-Regulatory Actions) were present in the personal hearing.

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

The findings on the explanations offered by the Life Insurer to the issues raised in the Show Cause Notice dated 25th September, 2013 and the decisions are as follows.

Charge 1: System checks and controls are not in place for detection and monitoring when a single person makes multiple cash transactions aggregating to more than Rs. 50000/- in cash. Further, systems are also not capable of aggregating the multiple

transactions made by a person under different roles like proposer, life assured and assignee. Hence lack of controls was observed in this regard at the operational level for monitoring cash transactions and reporting the CTR (Cash Transaction Report) activity. This is in Violation of 3(I) of AML Master Circular IRDA/F&I/CIR/AML/158/09/2010 dated 24/09/2010.

In response the Life Insurer submitted that necessary checks have been placed in the Core Insurance Solution (e FEAP) to comply with the provisions of the Prevention of Money-Laundering Act (PMLA), in line with the various Guidelines issued by IRDA and that wherever a single remittance exceeds Rs 50,000/- in cash, the system will ask for the PAN or such related information. The corporation further submitted that procedures were in place to monitor the transactions in the back-end Data warehouse on a weekly basis which generates the reports of likely violations for further review and reporting. It was further submitted that the unique customer-Id generated by the Corporation was the basis for monitoring across its divisional, zonal and central office level to keep strict vigil on Money Laundering.

Decision: The submissions that all transactions from every office of LIC are clubbed together every week and a report is generated and scrutinised to establish whether there are breaches to threshold level placed in any of the offices and further submission that all the periodic reports required by the Authority and the FIU-IND are also generated are considered. However, the Life Insurer is hereby advised to put in place specific systems and controls to comply with the provisions of point no. 3.2 (ii) (b) and (d) of IRDA circular No. IRDA/F&I/Cir/AML/231/10/2011 dated 05/10/2011 so as to ensure avoidance of possible attempts by customers to circumvent the requirement of submission of PAN / Form 60/61, as the case may be.

Charge 2: There is no system of matching identities of entities and/or designated persons (banned by UNSC) with the relevant data furnished in the proposal form at the inception of the contract. Provisions are also not made in the systems to link with the proposal data at the new business stage with reference to certain parameter points. This is in violation of 3(I) of AML Master Circular IRDA/F&I/CIR/AML/158/09/2010 dated 24/09/2010.

In response the Life Insurer has submitted that the system of matching identities of entities/or designated persons (banned by UNSC) with the relevant data furnished in the proposal form at the inception of the contract, has been incorporated in E-FEAP vide update dated 22.07.2013. The provision that was made available earlier to verify the names of such proponents was inadvertently not included at the time of conversion to E-FEAP, which is now restored in the New Business module of E-FEAP

Decision: Insurer submitted having restored the procedures from 22/07/2013 and considering the submissions of the Corporation, no charges are pressed.

Charge 3: Systems are not in place for analyzing the data pertaining to Surrenders for generation/reporting of STR's. This is in violation of Clause 3.2 of AML Master Circular No. IRDA/F&I/CIR/AML/158/09/2010 dated 24/09/2010.

In response the Life Insurer has submitted that their Corporate Active Data warehouse (CADW) has made available reports for the perusal in respect of surrenders and further confirmed that systems are in place for analyzing the data pertaining to surrenders for generation /reporting of Suspicious Transaction Reports.

Decision: On examination of the observation and the compliances it is noted that the Life Insurer did not put in place the systems previously for reviewing the surrenders from the perspective of reporting the STRs. The Authority therefore warns LIC of India for this serious gap in the procedures / systems and hereby directs the Corporation to be vigilant in future while complying with AML guidelines issued from time to time.

Charge 4: Instances were observed where declaration by Development Officers had been used as valid proof of address. This is in violation of the provisions of Clause 3.1.1. (iv) of AML Circular IRDA/F&I/CIR/AML/158/09/2010 dated 24/09/2010.

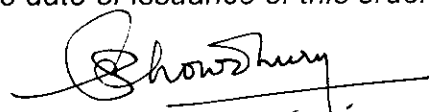
In response the Life Insurer has submitted that they have issued detailed instructions to all their concerned offices not to accept declaration by Development Officers as valid proof of address.

Decision: While noting that the suggested list for documenting the proof of residence in Annexure – I of AML Guidelines dated 24/09/2010 is only illustrative in nature, the Corporation is advised to examine from the perspective of avoiding a potential conflict of interest when allowing certifications by its sales personnel as Address Proofs.

The Life Insurer is hereby directed to confirm the compliance of the respective advices / directions referred in this order within 15 days from the date of issuance of this order.

Place: Hyderabad

Date: 20/01 /2014


(Sudhin Roy Chowdhury)

Member (Life)