



Ref: IRDA/LIFE/ORD/MISC/213/12/2015

Final Order in the matter of
M/s. Max Life Insurance Company Limited

Based on Reply to Show Cause Notice Dated 20th July, 2015 and Submissions made during Personal Hearing Chaired by Sri Nilesh Sathe, Member (Life), IRDAI on 15th September, 2015 at 11.00 AM at the office of Insurance Regulatory and Development Authority of India, 3rd Floor, Parishrama Bhavanam, Basheer Bagh, Hyderabad.

The Insurance Regulatory and Development Authority of India (hereinafter referred to as "the Authority") after examining the Action Taken Report submitted by Max Life Insurance Company Ltd (hereinafter referred to as "the Life Insurer") in compliance to the Final Order dated 18th December, 2014, noticed that the Life Insurer has not complied with the directions fully with regard to Charge No.3. Hence, the Authority vide its letter No. IRDA/Life/236/MaxLife/2012 dated 25th March 2015 directed the Board of the Life Insurer for comprehensive execution of the Directions issued by the Authority in the decision to the Charge-3 of the Final Order dated 18th December, 2014 and submit an action taken report along with the minutes of the Board meeting within a period of 90 days for which the Life Insurer has submitted the response vide letter dated 7th April, 2015. After examination of the reply and annexures submitted by the Life Insurer, the Authority noticed certain violations to the Outsourcing Guidelines Ref: IRDA/Life/CIR/GLD/013/02/2011 dated 01st February, 2011 on 'Outsourcing of Activities by Insurance Companies' (hereafter referred as the Guidelines) and sought further information through letter dated 14th May, 2015 to provide the details of payments made to Amserve Consultants Pvt. Ltd (which is a related party of its Corporate Agent M/s. Amsure Insurance Agency Ltd.) and The Peerless General Finance & Investment Co. Ltd., (which is a related party of its Corporate Agent Peerless Financial Products Distribution Ltd) during the three financial years starting from 2011-12 for which the Life Insurer has submitted the details vide its letter dated May 29, 2015. On examination of the reply of the Life Insurer, a Show Cause Notice vide letter Ref: IRDA /Life/236/ISR/Max Life/2012 dated 20th July, 2015 was issued to the Life Insurer, which was responded to by the Life Insurer vide letter dated 10th August, 2015. As requested therein, a personal hearing was given to the Life Insurer on 15th September, 2015.

Mr. Rajesh Sud, Managing Director and Chief Executive Officer, Mr Prashant Tripathy, CFO, Mr. Amitabh Lal Das, Chief Legal Officer, Mr Abhijit Neogy, Corporate Vice President, Regulatory Affairs were present in the personal hearing on

behalf of the Life Insurer. On behalf of the Authority, Mr V. Jayanth Kumar JD(Life), and Mr. V.Chandra Sekhar, OSD (Life) 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 in to 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: Entering into outsourcing agreements with Amserve Consultants Pvt. Ltd and Peerless General Finance & Investment Co. Ltd which are related parties to the Corporate Agents, Amserve Insurance Agency Ltd and Peerless Financial Products Distribution Ltd. respectively is in violation of clause 9.12 of the Outsourcing Guidelines. (Cir. Ref: IRDA/Life/CIR/GLD/013/02/2011 dated 1st February, 2011.

In response, the Life insurer informed that as per their understanding, the outsourcing guidelines do not prohibit entering into outsourcing agreements with related parties of Corporate Agents. The Life Insurer submitted that its legal interpretation of Clause 9.12 which was validated by external legal advisors was different from the interpretation mentioned in the above charge. However, based on guidance of the Authority, the Life Insurer opted to terminate the agreements with these two entities within a few weeks of the Order of the Authority dt. 18th December, 2014. The Life Insurer confirmed termination of these agreements as was submitted vide its letter dt.29th May,2015

Decision: *The submission of the Life Insurer is not acceptable as the provisions of Clause 9.12 of Outsourcing guidelines clearly specify that the Insurer shall ensure that the third party service provider does not have conflict of interest and that in case of conflict of interest among group entities , the insurer shall avoid outsourcing to such entities. Clause 19 of the Guidelines is specific in mandating the insurers to terminate all the existing outsourcing contracts entered into, that are in contravention of the Guidelines. However, taking into account the submissions that it has terminated the agreements with these two entities, the Life Insurer is warned for violation of Clause 9.12 and Clause 19 of the Outsourcing Guidelines and is advised to ensure scrupulous compliance to the provisions of Clause 9.12 of the Guidelines hereafter, in respect of all the outsourcing agreements.*

Charge 2: The insurer failed to consider the material risk management principles and in doing effective cost benefit analysis by paying a flat fee irrespective of the premium size of the policy, which is, disproportionately higher in relation to the services performed, to the above service providers, which is in violation of Clause 9.6(ii) of the Outsourcing Guidelines.

In response, the Life insurer submitted that the service provider was servicing the policyholders spread over rural and semi urban locations. The service fee was

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agreed considering geographical and infrastructural limitations and the ability of the service provider to reach out to the policyholders in the remote areas. It was further submitted that the costs of the services are considered appropriate when compared with the cost of setting up own infrastructure in such locations. The Cost Benefit analysis was done on the basis of internal benchmarks.

Decision: *The submissions of the Life Insurer that the service fee is based on the location vis-à-vis the ability of the service provider is not acceptable, as these factors alone cannot determine the consideration amount. The Life Insurer shall note that the Cost – Benefit Analysis shall be also one of the determinants before deciding the service fee payable to any Service Provider. On an examination of the fee paid vis-à-vis the services outsourced, it is observed that Service Fee agreed and paid to the service provider is disproportionate to the nature of services and that the service fee has been hiked by more than 100% within the same financial year (2011-12) bespeaks the life insurer not carrying out effective cost – benefit analysis as envisaged in Clause 9.6 (ii) of the Guidelines, thereby violating these provisions of the Guidelines.*

Further agreeing to pay a fixed fee towards various activities irrespective of the underlying premium also works against cost effectiveness. Also the Life Insurer has not substantiated how the Company has derived benefits in terms of renewing the business (policy or premium).

The submissions of Life Insurer that the outsourcing agreements in question with Amserve Consultants Pvt Ltd and Peerless General Finance and Investment Co Ltd have been terminated on 31st December 2014 and 31st March 2015 respectively after the issue of Final Order dated 18th December 2014 are taken into account. Further It is observed that the Insurer has already been penalized Rs 50 lacs vide Final Order dated 18th December 2014 with regard to same violation of 9.6(ii) of Outsourcing Guidelines. Therefore taking into account the fact that the agreements in question have been terminated and the Insurer has already been penalized for the same violation no further monetary penalty is being levied. The Life Insurer is warned for the violation and advised to scrupulously follow the Outsourcing guidelines while entering into Outsourcing agreements in future.

On the examination of the above payments, it appears that there is no proper review of outsourcing agreements by the board as envisaged under clause 9.3 of the Outsourcing guidelines.

Charge 3: *Inspite of being charged vide Show Cause Notice dated 3rd July, 2014 and penalised/warned vide final order ref: IRDA/LIFE/ORD/MISC/277/12/2014 dated 18th December, 2014 for the violations of Clause 9.12 & 9.6(ii) of the Outsourcing guidelines, you have continued the agreements till December, 2014 with Amserve*


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Consultants Pvt. Ltd and upto March, 2015 with Peerless General Finance & Investment Co. Ltd.

In response, the Life insurer submitted that the vendors have had long term relationship with Max Life Insurance. Amserve Consultants Pvt Ltd was working with Max Life since 2005 and Peerless General Finance and Investment Co Ltd since 2006. They are related parties of Corporate Agents, for which appropriate disclosures were duly made. The Life Insurer has taken leverage of the infrastructure and geographical spread of the two vendors. The Life Insurer submitted that it could not terminate these relationships abruptly in view of the contractual terms. However, the relationship with Amserve Amserve Consultants Pvt Ltd ended on 31.12.2014 and Peerless General Finance and Investment Co Ltd on 31.3.15, within just a few weeks of the Authority's order of 1st December, 2014. The Life Insurer now confirmed termination of these agreements as was submitted vide its letter dt. 29th May, 2015

Decision: The submissions of the life insurer that it could not terminate these relationships abruptly in view of the contractual terms are considered. However, the Life Insurer is advised to ensure scrupulous compliance to the provisions of the Outsourcing Guidelines hereafter, in respect of all the outsourcing agreements.

Further, if the Life Insurer feels aggrieved by this Order, an appeal may be preferred to the Securities Appellate Tribunal as per the provisions stipulated under Section 110 of the Insurance Act, 1938 within a period of 45 days from the date of receipt of this order.


(Niles̄ Sathe)
Member (Life)

Place: Hyderabad
Date: 2nd December, 2015