Ref: IRDA/Enf/Ord/ONS/065/03/2017

Final order in the matter of

M/s PNB Metlife Life Insurance Company Ltd

This order is issued on the basis of the reply of PNB Metlife Life Insurance Company Ltd, to the Show Cause Notice, by its letter dated 21/12/2016, and submissions made during Personal Hearing on 1st February, 2017 at 11.00 AM, taken by Member (F&I) at the office of Insurance Regulatory and Development Authority of India, 3rd Floor, Parishram Bhavan, Basheerbagh, Hyderabad.

Background:

The Insurance Regulatory and Development Authority of India (hereinafter referred to as "the Authority") carried out an onsite inspection of **PNB Metlife Life Insurance Company Ltd (hereinafter called the insurer)** during 11/11/2013 to 20/11/2013.

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 inspection covered the activities of the insurer related to the period of two Financial years 2011-12 and 2012-13.

The Inspection findings were communicated to the insurer for their comments on 21/01/2014. The insurer submitted its comments to the Authority vide its letter dated 14/02/2014. A show cause notice was issued to the insurer by the Authority on 07/11/2016. The insurer submitted its reply to the authority by its letter dated 21/12/2016. In its reply to the show cause notice, the insurer had requested for the personal hearing. The personal hearing of the insurer was conducted on 01/02/2017 at IRDAI office, 3rd Floor, Parishram Bhavan, Basheer Bagh, Hyderabad.

On behalf of PNB Metlife Life Insurance Company, the personal hearing was attended by Mr Tarun chugh, MD & CEO; Mr. Ashish Srivastava, Principal Officer; Mr. Neeraj Shah, CFO; Mr. Anil P.M., Head Legal; Ms Vijaya Nene,Head Operations; Mr. Sarang Cheema, Head Compliance and Mr. Sanjeev, GM Compliance. On behalf of the Authority Ms VR Iyer, Member (F&I); Mr V. Jayanth Kumar, General Manager Life; Mr PK Maiti, General Manager, Enforcement; Mr Vikas Jain, Assistant General Manager, Enforcement and Mr. Santosh Mishra, Assistatnt General Manager, Acturial were also present.

The submissions made by the insurer in their written reply to the Show Cause Notice, the documents submitted by the insurer in support of the reply, submission made during personal hearing and documents submitted post 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 1:** In respect of free-look cancellation of policy number 20979684, it was observed that the insurer has deducted an amount of Rs.6,74,160/- from the refund amount payable to the customer. On enquiry, the insurer has informed that the amount so deducted was equal to the 'surrender penalty waived' in respect of customer's existing policy (no. 00692986) which was surrendered earlier on customer's consent for taking out a new policy out of the proceeds of the surrender amount. The new policy so taken was cancelled by the customer under free-look and the insurer has deducted an amount equal to the surrender penalty waived earlier from the amount refundable after free-look cancellation. It may be noted that the insurer has waived surrender penalty because of the reason that the customer has accepted to take a new policy which amounts to 'rebating' in one form or the other. Secondly the deduction of 'surrender penalty waived earlier' from the proceeds of free-look cancellation amounts to deviation from policy terms & conditions and F&U guidelines regarding free-look cancellation condition. Copies of relevant correspondence in this regard were examined. The insurer has also confirmed that, on exception, they have waived 'surrender penalty' in three cases during FYs 2011-12 and 2012-13.

Violation: The insurer had violated the terms and conditions of the policy, under F&U guidelines by waiver of surrender charges and adopting wrong sales practice by rebating in the way of waiving surrender charges thus violating Section 41 of Insurance Act, 1938 and violation of regulation 6(2) &6(3) of Protection of policyholders' interest Regulations, 2002.

Response of the insurer: *Insurer submitted that the Company has a defined process and system level controls to recover the surrender charges as per the product file and use and that the Company, as a policy, does not waive off any surrender charges where the customer plans to take a new policy from the Company.*

The case cited in the observation was an exception wherein the health condition of the life assured did not permit reinstatement of his lapsed policy, which was resulting in financial loss as well as loss of insurance for the customer, though he was willing to reinstate the lapsed policy. Consequently, after detailed review of the case and considering the situation of the customer, as an exception, a new policy was allowed on the life of a family member by using the entire fund value of the surrendered policy. The customer was informed that any free-look request of the new policy would result in recovery of the surrender charges from the previous policy.

While the company had waived the surrender penalty and issued a new policy using the surrender proceeds of the previous policy as a bonafide customer centric measure, it appears that the customer had adopted this route purely for the purpose of avoiding deduction of the surrender penalty. This is evidenced by the customer approaching the company for a free-

look cancellation of the new policy (20979684) immediately after its issuance. The company had therefore recovered the surrender penalty which was waived earlier from the premium which was refunded under the policy which was cancelled during the free-look period.

Decision: By allowing the surrender proceeds to use to buy a new policy, the insurer encouraged lapse and re-entry, the practice of which can never be in the interest of the policyholder and hence the insurer has indulged in a wrong business practice. Moreover the new policy is taken on a different life. Hence two policies are absolutely separate insurance contracts guided by the terms and conditions specified in the policy bond subject to applicable regulatory framework. As per the submission in their response, the Insurer informed the policyholder that any free-look request of the new policy would result in recovery of the surrender charges waived in the previous policy. This is a violation of the policy terms and condition and the free-look provisions of Para 6(2) and 6(3) of Protection of Policyholders interest Regulations, 2002. The insurer is warned for such violation and directed to ensure that such violation is not be repeated in future.

The Insurer is further directed to re-open the file of policy No. 20979684; recalculate the proceeds of free-look cancellation in complying with the Para 6(2) and 6(3) of Protection of Policyholders interest Regulations, 2002 and refund the excess amount deducted which is equal to the surrender penalty waived in the previous policy (No. 00692986). The Insurer should submit an action taken report in this matter within one months' time.

2. Charge 2:

(1) It was observed that refund of premium in case of free-look cancellation was delayed beyond 10 days from date of receipt of request for cancellations in 161 cases during 2011-12 and 636 cases during 2012-13.

Violation: The insurer had violated the provisions of Para 10 of Protection of Policyholders' Interest regulations, 2002

(2) In case of a Met Suraksha policy (Policy No. 20855594, Sum Assured – Rs.25 Lacs, Premium – Rs.5,600/- and FLC charges – Rs.6,188/-), it was observed that the premium was insufficient to fund the free-look cancellation charges. It may be noted that the insured might be informed/convinced in such cases that:

i. No amount will be payable to him in case he opts for free-look cancellation, and
ii. The insured can enjoy the insurance cover for one complete year with the amount he paid towards first premium.

Violation: The Insurer has applied Free Look Cancellation in cases where they are not supposed to cancel a policy under FLC. This is a violation of PPI regulation 6(2) of PPI regulation 2002.

Response of the insurer: *The Insurer submitted that they have a robust system / process to track and manage customer requests to ensure the adherence to prescribed regulatory timelines. The Company has control reports and regular dashboards to monitor such*

requests and conduct proper root cause analysis in case of any deviations, followed by the corrective action.

In the sample cases cited in the observation, the Company has also processed the free-look requests with speed and efficiency on receipt of requests from the customers.

In 4 out of the 10 sample cases referred in the observation, the free-look requests were received from customers who were reissued with fresh policy bonds on account of the customer informing the Company that they had not received the original policy documents. These requests were received well after the policy issuance dates and in fact these policies had lapsed by the time these requests were raised. Upon receipt of the duplicate policy documents, the said customers had submitted their free-look cancellation requests within the 15 day period, calculated from the date of receipt of the policy that was reissued, as per Sec 6(2) of the IRDAI (Protection of Policyholder's Interests' Regulations), 2002.

Further, in 6 out of the 10 sample cases, the free-look cancellation requests were allowed in view of the legal notice or a complaint submitted by policyholder citing misspelling or challenging the disallowance of the initial free-look cancellation request. In these cases also, the Company after evaluating the merits of the complaints and looking at the trends of the Judiciary/Ombudsman while deciding such complaints had thought it prudent and beneficial to treat these policies as cancelled during the free-look period and refund the premiums.

The Company while processing the above referred free-look cancellation requests had taken the date when the traditional policies therein had lapsed as the date of the free-look cancellation. This was being done to ensure that there were no unwanted deductions being made from the amounts which needed to be refunded to the customer. This was a standard process for such cases, purely as a customer centric measure.

In the second part of the charge, they submitted that the instances referred in the above observation were of cases where sum of the applicable charges for free-look cancellation were exceeding the premium paid by the customer and these were mainly the cases where the premium payment mode is monthly or quarterly and the sum Assured is high. It was hence recommended by the Authority that the customers may be informed specifically about such scenarios at the time of free-look cancellations. In all cases of free-look cancellation requests, the Company does have a defined process to inform the customers the benefits of staying invested and covered. We wish to further submit that, considering the recommendation of the Authority in this observation, the Company has, effective from 2014, implemented the process of specifically informing the customers where premium is not sufficient to fund the free-look cancellation charges and advise them to continue with the insurance cover.

Decision: In view of the submission of the insurer, the charges are not pressed, however the Insurer is advised to ensure compliance to Para 6(2) and Para 10 of Protection of Policyholders' Interest regulations, 2002.

3. **Charge 3:** In case of policy no. 20803957, it was observed that the insurer has issued the policy under 'partnership insurance' to M/s Educomp Solutions though the entity is not a partnership firm but a private limited company.

Violation: The insurer had not issued the term insurance policy under key man insurance. Thus, it had violated the provisions of IRDA Circular dated 30/06/2006 in regard to the key man insurance.

Response of the insurer: *The Insurer submitted that the Company has been issuing only term insurance policies under Key man Insurance in accordance with the IRDA circular dated June 30, 2006. They further clarified that policy number 20803957 issued to M/s Educomp Solutions under Key man Insurance is a term insurance product ('Met Suraksha' product - UIN 117N020V01) and that there is no breach by the Company of the Authority's directions under the above cited circular.*

Decision: The policy referred under the observation was having benefit of life cover with return of premium and a guaranteed addition of 10% of premium at maturity. A policy which is having a predefined payment at the end of maturity cannot be treated as a term policy. Hence the policy is not a pure term policy and the insurer has violated the provisions of IRDA Circular dated 30/06/2006. The insurer is warned for such violation and directed to comply with the circular dated June 30, 2006 in true spirit.

4. **Charge 4:** In case of Met Grameen Ashray policies procured by Micro Insurance agents, it was observed that multiple policies were issued to the same customer by splitting the premium/sum assured. As a result, the maximum cover of Rs.50000/- of life micro insurance prescribed under Regulation 2(e) of the IRDA (Micro Insurance) Regulations-2005 stands circumvented. There are instances where more than 10 policies were issued to a single policyholder.

Violation: Thus the insurer had violated the provisions of regulation 2(e) of IRDA (Micro Insurance) Regulations, 2005.

Response of the insurer: *The Insurer submitted that while Schedule II of the IRDAI (Micro Insurance) Regulations, 2005 prescribes the maximum sum assured as INR 50000, it does not categorically limit the same to per life. In-fact, the specific reference to the maximum sum assured per life is only provided for Item no. 4, i.e., Personal Accident Cover, in Schedule I of the IRDAI (Micro Insurance), Regulations, 2005. We submit that the Company had therefore defined processes considering the interpretation to allow maximum sum assured at policy level. The offer of the policies as identified by the Authority was under a bonafide belief that the same were not prohibited under the extant regulations. The Company however has, in view of the observation, revised its processes since March 2014 by enhancing the system level control by including a check to ensure the sum assured by an individual on his life, i.e., at client level, does not exceed the maximum sum assured value in a product as per the Micro Insurance Regulations.*

Decision: Products approved as Micro Insurance product are designed for prospective policyholders with limited affordability. Hence the permissible range of life cover is kept

at a very low level between R. 5000 to Rs. 50000 for Term Insurance product, as per the IRDAI (Micro Insurance), Regulations, 2005. Those who can afford higher premium may go for other products with higher allowable Sum Assured and thereby benefited through higher sum assured rebate. In view of the increasing affordability, maximum Sum Assured has be enhanced to Rs. 200000 for product offering life insurance coverage as per 2(e) of the IRDA (Micro Insurance) Regulations, 2015. Hence although it is not specifically mentioned in the IRDAI (Micro Insurance), Regulations, 2005, that the maximum sum assured is applicable per life, the intention is very clear. The interpretation of the Insurer that the maximum sum assured is applicable per policy bears no logic. The insurer is found to violate the provisions of Regulation 2(e) of the IRDA (Micro Insurance) Regulations, 2005 and warned for the same. The Insurer is further directed ensure compliance to Schedule II (regulation 2(e)) of the IRDA (Micro Insurance) Regulations, 2015.

5. **Charge 5:** In case of some ULIP policies procured through distance marketing, it was observed that multiple policies were issued to the same customer to circumvent Para 9.6 (ii) of the 'Guidelines on Distance Marketing' dated 05th April, 2012 which restricts maximum single premium to Rs.1,00,000/-.

Violation: Thus, the insurer had violated the provisions of Para 9.6 (ii) of the 'Guidelines on Distance Marketing' dated 05th April, 2011 which restricts maximum single premium to be Rs.1,00,000.

Response of the insurer: *The insurer submitted that, in 2012, they contacted the existing customers whose policies were being foreclosed as per the policy terms and conditions, to explain to them the benefits of insurance and staying covered. They further submitted that, in regard to the sample cases cited in the observation, since the customers had multiple policies which had lapsed over a period of time, they were being contacted separately for each of these policies and basis the customers' interest in the new products, the Company had allowed issuance of the new policies using the foreclosure amount from earlier policies. The new policies to these existing customers were issued over a period of time, and in no single policy the maximum premium was more than the limit of Rs 1 lakh as prescribed in the Distance Marketing Guidelines dated April 5, 2012. They have strengthened their processes and systems to ensure that such multiple issuances of policies to a single client do not occur. They further submitted to the Authority that the Company has discontinued such type of offerings with effect from 2013.*

Decision: Considering that the Insurer has strengthened their processes and systems to ensure that such multiple issuances of policies to a single client do not occur, charge is not pressed. But the insurer is directed to ensure the compliance to the provisions of "the guidelines of distance marketing" in terms of the maximum Single Premium under the policy sold through distance marketing mode.

6. **Charge 6:** In case of Maturity Claims delays were observed in settlement where the status of the policies was not in-force. The insurer had been insisting customers for remittance of outstanding premiums and on receipt of amount due, the policies was reinstated even after the date of maturity. After the policies are reinstated, the maturity claims were settled. Instead of following the 'non-forfeiture conditions' as per the terms and conditions of the policy as filed under F&U Guidelines for settlement of maturity claims on lapsed policies, the policies were reinstated even after the term of the contracts. Insurer's IT system also allows reinstatement of policies after the expiry of contract term.

Violation: The insurer had deviated from the terms and conditions of the policy as filed and approved under file and use by allowing the reinstatement after the date of maturity and not settling maturity claims at the date of maturity under the policies.

Response of the insurer: *The Insurer submitted that as a process, they settles all claims as per the policy terms and conditions. In the event of a policy in lapsed status as on the date of maturity, the reduced paid up value is paid to the policyholder. In the case as referred in the observation (policy no. 00505418; Met Smart Gold), the Company had permitted the policyholder to reinstate the policy so as to enable her to obtain full maturity benefit as opposed to the reduced paid up value. This was allowed considering that the premium was received before the maturity date; however the other reinstatement formalities were pending from the customer. They further submitted that this was done on an exceptional basis and only keeping the interest of the customer in mind. Such exceptions were allowed only in 3 instances. The Company has stopped such exceptions post receiving the feedback from the Authority.*

Decision: As per the submission in response to the show cause notice and during personal hearing, the premium was received on 31/12/2012 and the NAV of 19/08/2013 was applied for allocation of unit. This is not in compliance to the section 10.6 (applicability of NAV for allocation of Unit) of ULIP guideline dated 21/12/2005. Also by allowing the reinstatement of policy after the maturity date, the insurer kept the fund invested beyond the maturity date. This is a violation of the benefit feature as filed under File and use procedure. The Insurer violated the File and Use circular No. IRDA/Actl/FUP/VER 2.0/Dec 2001 dated 12/12/2001. Hence, in exercise of powers vested under Section 102 (b) of Insurance Act, 1938 a penalty of Rs.5 Lakhs (Rupees Five Lakhs only) is levied.

7. **Charge 7:** From the payouts made to CBMs, it was observed that maximum amount was paid towards 'Business support fee' that means to circumvent the provisions of additional payouts (overriding commission) to agents; the insurer had resorted to such type of model. In most of the above cases the payouts to agents and their CBMs put together had exceeded the limits of Section 40 (A) of the Insurance Act, 1938. It was also observed that M/s Avaran Services was appointed both as CBM and also Micro Insurance Agent.

Violation: The insurer violated Clause 8.5 of Outsourcing Guidelines which says that "subject to these guidelines, agents, corporate agents, brokers, TPAs and Surveyors and other regulated entities shall not be contracted to perform any outsourced activity other than those permitted by the respective regulations/instructions governing their licensing

and functioning." And the insurer had also violated clause 11 of outsourcing guidelines by not reporting such outsourced activity to the authority.

Response of the insurer: *The Insurer submitted that they engage as CBMs individuals or entities who are not their insurance agents. CBMs have separate and distinct functions from insurance agents. Broadly, the functions of a CBM are to assist the Company in recruiting, licensing and training/skill development of insurance agents, and they are remunerated by way of the professional fees under an agreement with the Company.*

Initial response to the observation that M/s Avaran Services was appointed both as our CBM and also as our micro-insurance agent, the Insurer clarified that this CBM was only permitted to distribute our micro-insurance product which is a group product and was not permitted to solicit insurance business in respect of any individual insurance products. The remuneration paid to Avaran, as a CBM, was only for the services of individual agent activitisation, training and mentoring.

Whereas in the response to show cause notice and during personal hearing, they submitted that it was a defunct Micro Insurance Agent who had never sourced any micro insurance business for the Company (and whose appointment as a micro insurance agent has since been terminated) and was therefore appointed as a CBM. Even as a CBM, it was only paid an amount of Rs.5,309/- by way of fees while acting as a CBM. The Company does not appoint insurance agents as its CBMs and hence we request that the provisions of Cl. 8.5 are not applicable. The Company was not in violation of Cl. 8.5 of Outsourcing Guidelines. As for reporting of these services under the Outsourcing Guidelines, they submitted that the nature of services provided by the CBMs is not covered specifically under the 'non core' activities which require reporting as per the extant IRDAI Outsourcing Guidelines. They further submitted that considering the Authority's observations in this matter, since FY 2014-15, they have started reporting these contracts to the Authority in the half yearly reporting on outsourced activities.

Decision: Regarding solicitation of insurance by M/s Avaran Services, in the capacity of a Micro Insurance Agent, the insurer contradicted their earlier submission by mentioning that Micro Insurance Agent had never sourced any micro insurance business. This indicates that that the insurer paid additional amount to the Micro Insurance Agent, in the name of 'Business support fee'. However, considering that the amount of fees paid for such services are very small, the charge is not pressed. The insurer is further directed to ensure compliance to clause 8.5 of Outsourcing Guidelines dated 01/02/2011 by not engaging any regulated entity for any outsourcing activity.

8. **Charge 8:** The insurer had made payments to 3 Group policyholders in the name of infrastructure fee for display of their products in the premises of the group organizers and engaged the services of some call centres for the purpose of lead generation for the Group Term Life product and incurred expenses on behalf of the group organizer.

Violation: The insurer had violated provisions of Clause C (4) of IRDA's Guidelines on Group Insurance Policies issued vide circular 015/IRDA/Life/Circular/ GI Guidelines/2005

dated 14th July, 2005 which clearly specifies that there shall be no other payment whether as management expenses, documentation expenses or profit commission or bulk discount or payment of any other description to the Group Organizer or Group Manager.

Response of the insurer: *The insurer submitted that that these Banks were engaged in their capacity of banks to provide certain services to them through separate agreements and these services/facilities were independent of the group policy, which they had separately purchased from them. If they had procured these services/facilities from any other vendors that provide similar services then we would have been paid the similar rates to them. Similarly, if the bank had received a similar request for services/facilities from any other institution, it would have levied charges for provision of those services/facilities at similar rates and they were not entitled to receive these services from these banks free of any charges merely by virtue of their having issued the bank a group insurance policy and they confirmed that in all such cases they have paid reasonable rates to the banks on receipt of such services and they confirmed that from 2012-13 onwards they have ceased these arrangements.*

However, basis the views expressed by the Authority on similar arrangements in various orders pronounced pursuant to onsite inspection of other insurers, we had terminated/discontinued all such engagements by October 2012 itself, i.e., before the inspection conducted by the Authority in 2013.

Decision: In view of the submission of the insurer the charge is not pressed, however the insurer is directed to ensure compliance to provisions of Clause C (4) of IRDA's Guidelines on Group Insurance Policies issued vide circular 015/IRDA/Life/Circular/ GI Guidelines/2005 dated 14th July, 2005 which clearly specifies that there shall be no other payment whether as management expenses, documentation expenses or profit commission or bulk discount or payment of any other description to the Group Organizer or Group Manager.

9. Charge 9:

(i) As per the provisions of IRDA (Database sharing) Regulations, 2010, insurer had to get the referral leads only from the registered referral partners. From the sample cases examined, it was observed that the insurer had engaged unapproved entities for the purpose of lead generation in violation of the said regulations.

(ii) It was observed that the insurer continued to avail the services of the few of the entities, on which at the earlier occasion, the Insurer was directed by the Authority to ensure compliance to IRDA (Sharing of Data Base) Regulations, 2010 in this regard.

Violation: The insurer had been using the services of many external service providers, for the purpose of lead generation purpose in violation of IRDA (sharing of data base) regulations, 2010.

Response of the insurer: (i) *The Insurer submitted that, the agreements entered with the vendors referred in the observation were not 'Referral Agreements' entered for the purpose of lead generation activities. Those were agreements entered for the purpose of, either,*

1. Medical Examinations of proposed Life Assured - (Super Religare Laboratories Pvt. Ltd).

2. Digital printing of marketing collaterals (T-Shirts, cups, etc.) – (KG Enterprises)

3. Display of Product Brochures (advertising on Portal)- (Apna Paisa Pvt. Ltd, Direct care Solutions, eTechaces Marketing & Consultants),

They further submitted that the remuneration paid to the concerned vendors were purely for the services rendered in terms of their engagement none of which were in the nature of lead generation. The arrangements for display of products with web aggregators were terminated in 2011 itself, on or before coming into effect of the IRDAI's guidelines on Web Aggregators issued in 2011 and none of these agreements are lead generation agreements and that payment vouchers were noted as such, inadvertently.

(ii) *The Insurer submitted that they have never violated the provisions of IRDA (sharing of data base) regulations, 2010 as the below referred vendors were never engaged for any referral or lead generation activities. These vendors are / were being engaged for the following services:*

1. Pace Setters Business Solutions - This entity was engaged for the purpose of collecting good health declarations, ECS mandate forms, verification of customer contact details, etc. There has not been any lead generation activity undertaken by this entity.

2. IKF Technologies - This entity's engagement was terminated w.e.f November, 2010.

3. In Sync - This entity has been engaged for the purpose of calling its existing customers for various service related issues. In this regard PNB MetLife is to furnish the database to be called by the entity. There is no lead generation activity being carried out by the said entity.

4. Storm Communications - This entity was engaged by PNB MetLife for the purpose of procuring venues and other infrastructure arrangements for the purpose of PNB MetLife carrying out marketing activities. The fees paid to this entity were a management fees to be determined @15% of the actual expenses. There was no lead generation activity which was entrusted to this entity. Moreover, the engagement with this entity has been terminated in November, 2012.

The Insurer further submitted that they have been reporting the agreements with Pace Setters and In Sync to the Authority under our outsourced services reporting since 2011.

Decision: It is evident from the documentary evidence that the Insurer entered into agreement with "Direct Care Solutions Pvt. Ltd" on 21st February 2011, for lead generation, even after effective date (1st July 2010) of IRDA (sharing of data base) regulations, 2010, whereas regulation 8(1) of the said regulation requires Authority's

approval for registration of referral company for lead generation. Also there are several occasions where vouchers are drawn for payment under the head of "Lead generation". Hence Insurer's submission that "none of these agreements are lead generation agreements" is not acceptable and the Insurer has violated regulation 8(1) of IRDA (sharing of data base) regulations, 2010. Through in exercise of powers vested under Section 102 (b) of Insurance Act, 1938 a penalty of Rs.5 Lakhs (Rupees Five Lakhs only) is levied. From the submission post personal hearing it is understood that such agreements are discontinued during the period 2012-2014. Considering this submission Insurer is advised not to enter any such agreement which is in violation of any regulatory prescription.

10. **Charge 10:** On the examination of NAV application in case of new business, it was observed that the insurer is in practice of applying NAV on the risk commencement date even though the amount in respective insurance premium is not received.

Violation /Concern: The insurer had violated the provisions of Clause 10.6 of Annexure of Guidelines on Unit Linked Insurance products dated 21.12.2005 regarding allocation of units which states that the allotment of units to the policyholder should be done only after the receipt of premium.

Response of the insurer: *As per Cl. 10.6.1.1 of the ULIP Guidelines, 2005, in respect of premiums/funds switch request received up to the cutoff time along with a local cheque or a demand draft payable at par at the place, the closing NAV of the day on which premium is received shall be applicable. The Company has accordingly built the controls to adhere to the above provisions of allocating the NAV.*

In the 3 instances referred in the observation, the initial premium cheques were dishonored and the customer had to make fresh payment and policies had to be re-issued in the system. These were stray incidents where the NAV was allocated basis the first premium receipt. We submit that the Company has already strengthened the process and its systems for such scenarios to ensure that the NAV of the re-issuance date is allocated in such cases.

Decision: In view of the submission of the insurer, that the Company has already strengthened the process and its systems in order to address such scenarios, the charge is not pressed. However the insurer is advised to ensure compliance of IRDA (Linked Insurance Products) Regulations, 2013 and similar direction issued by the Insurer from time to time, with respect to the allocation of NAV in case of ULIP.

11. **Charge 11:** On the examination of unallocated premium schedule the following issues were observed.

a. Amount collected by the insurer towards the premium in respect of lapsed policies were shown as unallocated premium, these amounts were lying in unallocated premium account. As per the policy of the insurer with regard to premium received in respect of lapsed policies, if the all requirements are not met within 90 days then amount received shall be

refunded to the policy holder. The insurer has deviated from above policy by not refunding the amount to policyholder.

b. In the sample cases, where the proposals were declined by the insurer, the insurer had not refunded the amount to the proposer for a period of more than one year. The insurer has not put in place an effective system for refunding of proposal deposit amounts in case of declined proposals in compliance with provisions of Regulation4.6 of IRDA (Protection of Policyholders' Interests) Regulations 2002.

Violation: The insurer had not adjusted the money lying in policy deposit into premium nor had it refunded the amount. So it had violated the Para 4(6) of Protection of policy holder's interest regulations, 2002.

Response of the insurer: *The insurer submitted that the Company has built processes to ensure that the proposals are dealt within the prescribed timelines, subject to receipt of the required documents for issuance of cover or reinstatement of the policy.*

In regard to the 4 cases (as cited in the observation) where premium was unallocated in respect of lapsed policies, they submitted that the Company had a process to refund unallocated premium after a period of 90 days in case the requirements are still pending from the customer. However, only in the event where the policyholders were actively engaged with the Company for the purpose of completing the requirements of reinstatement of lapsed policies, the Company did not refund the premium in the interest of the customers. The Company has defined approval metrics to retain such deposits beyond the stated period. The Company has a robust process to monitor and deal with unallocated premium. Following are the activities that are carried out as standard process as part of engagement with the policyholders to help in completing the pending requirements for reinstatement of the policies:

- *Letters are sent to customer informing them requirements of medicals or short premium*
- *SMS is sent regularly to customer reminding them that paid premium cannot be applied as requirements remains incomplete.*
- *Calls are also made to customer informing them about pending requirements.*

In regard to the other 2 cases pertaining to proposals that were declined by the Company, the refunds were processed by the Company within the prescribed regulatory timelines.

Decision: in view of the submission of the insurer, the charge is not pressed. However, the insurer is directed to ensure the timely adjustment or refund of the unadjusted premium in the policy/proposal deposit in compliance to the provisions of the Para 4.6 of IRDA (Protection of policyholders' interest) Regulations, 2002.

12. **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**: Violation of Free-look terms and Condition **Provision**: Regulation 6(2) &6(3) of Protection of policyholders' interest Regulations, 2002	**Warning and direction to pay the policyholder, excess amount recovered from the free-look proceeds.**
2	**Charge**: delay in payment under free look cancelation and wrong free look cancellation **Provision**: Para 10 & Regulation 6(2) & 6(3) of Protection of policyholders' interest Regulations, 2002 respectively.	**Advised to ensure compliance to Para 6(2) and Para 10 of Protection of Policyholders' Interest regulations, 2002.**
3	**Charge**: issuing non term insurance policy under key man insurance **Provision**: Provisions of IRDA Circular dated 30/06/2006 regarding key man insurance.	**Warned and directed to comply with the circular.**
4	**Charge**: Issuing multiple policies under micro insurance policies by splitting the sum assured. **Provision**: Regulation 2(e) of IRDA (Micro Insurance) Regulations, 2005.	**Directed to ensure compliance to Schedule II (regulation 2(e)) of the IRDA (Micro Insurance) Regulations, 2015.**
5	**Charge**: issuing multiple ULIP policies under the policies solicited through distance marketing mode. **Provision**: Para 9.6 (ii) of the 'Guidelines on Distance Marketing' dated 05th April, 2011.	**Directed to ensure the compliance to the provisions of "the guidelines of distance marketing" in terms of the maximum Single Premium under the policy sold through distance marketing mode.**
6	**Charge**: Reinstatement of policies after the date of maturity **Provision**: The terms and conditions of the policy as filed and approved under file and use.	**Penalty of Rs 5 Lakh levied.**
7	**Charge**: Extra payouts made to CBMs in the name of Business support fee **Provision**: Clause 8.5 of Outsourcing Guidelines dated 01/02/2011.	**Directed to ensure compliance to clause 8.5 of Outsourcing Guidelines dated 01/02/2011**
8.	**Charge**: Payments to Group policyholders in the name of infrastructure fee for display of	**Directed to ensure compliance**

	their products in the premises of the group organizers. **Provision**: Provisions of Clause C (4) of IRDA's Guidelines on Group Insurance Policies issued vide circular 015/IRDA/Life/Circular/ GI Guidelines/2005 dated 14th July, 2005	**to provisions of Clause C (4) of IRDA's Guidelines on Group Insurance Policies issued vide circular 015/IRDA/Life/Circular/ GI Guidelines/2005 dated 14th July, 2005**
9	**Charge**: Using the services of many external service providers, for the purpose of lead generation. **Provision**: Regulation 8(1) of IRDA (sharing of data base) regulations, 2010.	**Penalty of Rs 5 Lakh**
10	**13. Charge**: Applying NAV on the risk commencement date without receiving the premium. **Provision**: Clause 10.6 of Annexure of Guidelines on Unit Linked Insurance products dated 21.12.2005.	**Advised to ensure compliance of IRDA (Linked Insurance Products) Regulations, 2013**
11	**Charge**: Not adjusted the money lying in policy deposit into premium nor refunded. **Provision**: Para 4(6) of Protection of policy holder's interest regulations, 2002.	**Directed to ensure the timely adjustment or refund of the unadjusted premium in the policy/proposal deposit in compliance to the provisions of the Para 4.6 of IRDA (Protection of policyholders' interest) Regulations, 2002.**

14. Conclusion:

(i) In conclusion, as directed under the respective charge, a penalty of Rs 10 Lakhs (Ten lakhs) shall be remitted by PNB MetLife Insurance Company Ltd by debiting shareholders' account within a period of 15 days from the date of receipt of this order through NEFT/RTGS (details of which would be communicated separately). An intimation of remittance may be sent to Mr. P.K. Maiti, General Manager (Enforcement) at the Insurance Regulatory and Development Authority of India, 3rd Floor, Parishram Bhavan, Basheer Bagh, Hyderabad, 500004.

(ii) *Further:*

a) The 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) If the 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: 24th March, 2017

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