



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

**No. IRDA/ENF/ORD/113/05/2015**

**Order in the matter of  
M/s Raheja QBE General Insurance Company Limited**

Based on reply to the Show Cause Notice dated 23rd September, 2014 and submissions made during Personal Hearing chaired by Shri T.S.Vijayan, Chairman, IRDA, on 8th December, 2014 in the office of Insurance Regulatory and Development Authority of India, 3rd Floor, Parisrama Bhavan, Basheer Bagh, Hyderabad.

The Insurance Regulatory and Development Authority of India (hereinafter referred to as "the Authority") carried out an onsite inspection of M/s Raheja QBE General Insurance Company Limited (hereinafter referred to as "the General Insurer") from 17<sup>th</sup> to 26<sup>th</sup> July, 2013. The Authority forwarded a copy of the Inspection Report to the General Insurer seeking comments of the general insurer on the same. Upon examining the submissions made by the general Insurer vide letter dated 31st October 2013, the Authority issued a Show Cause Notice on 23<sup>rd</sup> September, 2014 which was responded to by the general Insurer vide letter dated 30<sup>th</sup> October, 2014. As requested therein, a personal hearing was given to the general Insurer on 8<sup>th</sup> December, 2014. Shri Praveen Gupta, CEO, Mr. Bruce Howe, Chief Operating Officer, QBE Asia Pacific, Shri Rakesh Sharma, CFO, Shri Arup Das, Head Claims, Shri Anirudh Singh, Vice President (Planning & Strategy) and Shri Harsh Bajpai, Company Secretary, were present in the hearing on behalf of the general insurer. On behalf of the Authority, Shri M.Ramaprasad, Member (Non life), Dr. (Ms) Mamta Suri, the then Sr. JD (Inspections & Compliance), Shri Suresh Mathur, Sr. JD (Non life) and Shri B.Raghavan, DD (Compliance) were present during the personal hearing.

The submissions made by the general insurer in their written reply to the Show Cause Notice as 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 issues raised in the Show Cause Notice and the decisions thereon are detailed below.

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## Charge No.1

**Observation:** The general insurer is maintaining the Main IT server/Disaster Recovery Site, Core Systems, Mailing System, Front End system at QBE Data Centre, Sydney, Australia.

**Violation of Regulation 7 (c) of IRDA (Registration of Indian Insurance Companies) Regulations, 2000.**

**Submission made by the Insurer:** The general insurer submitted that all the systems including servers are in India only but only for protecting against any disaster, that Disaster Recovery mechanism is maintained in Australia. The general insurer has submitted that Core Insurance System, Investment System, Mailing System, Directory and Software Distribution servers, Reporting servers, TDS and HR System and Auxiliary systems such as Voice recording/Firewalls etc. are installed and operating at Mumbai. Similarly the Work Area Recovery site is located at Mumbai. The insurer has further submitted that the Disaster Recovery Site can be enabled only by the Emergency Management Team (EMT) consisting of CEO & MD, CFO, CUO, Head Claims, and Head –HR.

It was further submitted by the insurer that full confidentiality and security of the data is ensured. The general insurer has submitted Invoices and payment voucher relating to the purchase and installation of various systems at Mumbai, to substantiate their submission that all primary systems are operating in India only.

### Decision:

*Taking note of the submissions made by the general insurer, the charge is not pressed, However, the insurer is advised to strictly ensure the confidentiality of all the data accessible at the Disaster Recovery site.*

## Charge No.2

**Observation:** Inconsistency in regard to Reserve for Unexpired Risk relating to Fire and Marine business. (Inconsistency being the URR is not as per 1/365 method and also is less than minimum 50% of net premium).

**Violation of Circular No.45/IRDA/ F&A/Mar-06 dt. 31-3-06**

**Submission made by the Insurer:** The general insurer while agreeing that this was a discrepancy, had submitted that they have already taken corrective action and also that they have put in place proper systems to ensure compliance. They have now submitted a copy of Form HG as at 31<sup>st</sup> March, 2014 (as



submitted to Actuarial Department) to substantiate their claim that they have taken corrective action. Further they have submitted that the said discrepancy's impact on the solvency position is just .002 which did not have any bearing on business operations and no claims remained unsatisfied for want of solvency and there has been no adverse effect or loss to any policyholder.

***Decision:***

***Since corrective action has already been taken, the charge is not pressed. However, the general insurer is advised to be cautious to ensure that inconsistencies of this nature are not repeated.***

**Charge No.3:**

The general insurer did not attach zero value to reinsurance balances outstanding for more than 3 months

**Violation of Regulation 3 of IRDA (Assets, Liabilities and Solvency Margin of Insurers) Regulations, 2000**

**Submission made by the Insurer:** The general insurer submitted that what has been referred to as the reinsurance balance outstanding for which zero value has not been attached is the service tax on the reinsurance premium. The general insurer has further submitted that the said service tax was due from the Govt. of India insurers and hence they did not attach zero value to the balances. However, the general insurer had submitted that they have already taken corrective action for year 2013-14. They have submitted a copy of Form Assets-AA mentioning the details of assets submitted to Authority as at 31-3-2014. In the said form, they have indicated that the item "other assets" contains "amount due from reinsurers taken as zero".

***Decision:***

**The Authority takes on record the submissions of the insurer and the corrective action taken by them and does not press the charge. However, the general insurer is advised to ensure compliance of the above regulation.**

**Charge No.4**

Health segment RSM and liabilities provision: The insurer failed to provide Required Solvency Margin (RSM) and liabilities under health line of business

**Violation of Schedule II-B (3) of IRDA (Assets, Liabilities and Solvency Margin of Insurers) Regulations, 2000**



**Submission made by the Insurer:** While agreeing that this was an error which crept in due to typographical mistake, the general insurer has submitted that on noticing the error, they have already taken corrective action besides putting in place proper checks and balances to ensure proper compliance. Further, they have submitted that the amount involved was Rs.1.24 lakh which constituted just 0.0003% on the solvency computation. In addition, the insurer has submitted that against those health policies, there was no claim thus far. The general insurer has submitted a copy of Form KG as at 31-3-2014, containing the provision for Required Solvency Margin for Health insurance.

***Decision:***

***Taking note of the submission in regard to corrective action taken by the general insurer, the charge is not pressed. However, the general insurer is advised to be cautious to avoid such violations.***

**Charge No.5**

**Premium Deficiency Reserves (PDR):** The general insurer had failed to include Maintenance costs (management expenses) in the Premium Deficiency Reserves.

**Violation of Regulation 3 of Part I of Sch. B of IRDA (Preparation of Financial Statements and Auditor's Report of Insurance Companies) Regulations 2002**

**Submission made by the Insurer:** The insurer has submitted that their earlier response (submitted by them in their comments on the Inspection report observations) was intended to agree that there was no explicit assumption in the spreadsheet model and it was not intended to mean either (i) that they agreed that the declared PDR was less than the minimum required or (ii) that there was no known implicit allowance for maintenance expenses in the PDRs declared. The general insurer has stated that the PDR contained a margin of at least 24% of URR above the expected future claim costs and that this margin is available to meet any associated expenses including maintenance expenses for all 3 financial reporting classes.

**Decision:**

**The explanation given by the general insurer is accepted and on that basis, the charge is not pressed.**

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## **Charge No.6**

**Process documentation:** Failure to maintain process documentation or audit trail of the actuarial workings, documentation with details of methods of setting assumptions, and valuation process flow

**Violation of para 8.3 of Guidance Note 21 'Appointed Actuary and General Insurance business' of the Institute of Actuaries of India**

**Submission made by the Insurer:** The general insurer has submitted that they are maintaining the documentation and they have submitted the list of documents maintained by them. Further, they have sent a copy of the e-mail sent by the Authority confirming that the FCR filed by the general insurer has been taken on record.

### **Decision:**

*Taking note of the submission made by the general insurer, the charge is not pressed. However, they are directed to ensure that the Guidance Note 21 is fully and completely implemented by them.*

## **Charge No.7**

**Advertisement:** Failure to insert the Unique Identification Number on the Advertisements released in 2011-12 and 2012-13.

**Violation of point No.7 of the Authority Guidelines Circular No. 007/IRDA/ CIR/ADV/MAY-07 dated 14<sup>th</sup> May, 2007 on 'Advertisement, promotion and publicity of insurance companies and insurance intermediaries'.**

**Submission made by the Insurer:** The general insurer submitted that they inadvertently failed to mention the UIN on the Advertisement before its release. But the covering letters through which the Advertisements were filed with the Authority carried the UIN of the respective Advertisement. They further submitted that they had allotted the UIN to Advertisements and also filed them with the Authority but inadvertently failed to mention the UIN in the Advertisements published. They have further stated that they have now put in place a maker checker mechanism to ensure that mistakes of such nature noticed by Inspection do not recur.



**Decision:**

*Taking note of the submissions made by the general insurer, the charge is not pressed. However, the general insurer is advised to ensure that the Authority's relevant circular on Advertisement is followed scrupulously.*

**Charge No.8**

Release of an Institutional Advertisement with a wording ("A leader in PIDO – Professional Indemnity and Directors & Officers Liability") that has the potential to mislead the public.

**Violation of Point No.5.3 of Authority's Guidelines dated 14<sup>th</sup> May, 2007 on advertisements.**

**Submission made by the Insurer:** The general insurer has submitted that they are a specialist PIDO underwriter and wanted to project this image in the Advertisement. They have further submitted that they wanted to promote the brand amongst a select group and they used the Advertisement only towards two targeted audience who were a knowledgeable segment. It is further submitted that they never intended to mislead anyone but only wanted to convey that PIDO has the lead share in the portfolio of their operations and not to convey that they are market leaders in terms of business volumes. Further, they have submitted that they had stopped the circulation of the Advertisement at all levels of their business operations.

**Decision:**

*Taking note of the submissions made by the general insurer, the charge is not pressed. However, the general insurer is advised to ensure that the Authority's circular on Advertisement is followed scrupulously.*

**Charge No.9**

**Group Insurance:** Issue of Group Personal Accident Insurance to H&R Johnson by naming it "Johnson Suraksha" which was not approved by the Authority. Also Certificate of insurance not carrying important details.

**Violation of:**

(1) Para C7 of IRDA circular ref. 015/IRDA/Life/Circular /GI Guidelines/2005, dt. 14.7.2005

(2) Para 4 & 28 of F&U guidelines dated 28/09/ 2006 which requires prior approval of Authority for effecting any change in product.



**Submission made by the Insurer:** The general insurer submitted that the heading section of the Certificate of Insurance carries the insurer's name with their trademark Raheja QBE thereby giving the impression that the insurer owns and are responsible for the insurance cover. Further, the intention of the words "Suraksha" was to assure the beneficiary policyholder that the policy was availed by H&R Johnson for the benefit and protection of the beneficiaries. The words "Johnson Suraksha" only signifies the sponsor. The insurer has further submitted that the wordings, terms and conditions in the policy are exactly as per the filings done by the insurer with the Authority. It was further submitted that the sheet bearing "Johnson Suraksha" forms only a part of the schedule attached with the main policy.

**Decision:**

*Taking note of the submission of the general insurer, the charge is not pressed. However Insurer is directed to ensure that Certificate of Insurance contains all the relevant details as required under Para C7 of IRDA circular ref. 015/IRDA/Life/Circular /GI Guidelines/2005.*

**Charge No.10:** Failure to conduct surprise inspection of the books and records of group organizer.

**Violation of Point C-11 of Authority's guideline No. 015/IRDA/Life/Circular/GI Guidelines/2005, dt. 14-7-05**

**Submission made by the Insurer:** The general insurer has mentioned that they conduct off-site inspection and do record reconciliation with the group organizer. The general insurer has submitted proof for the action of offsite reconciliation done by them.

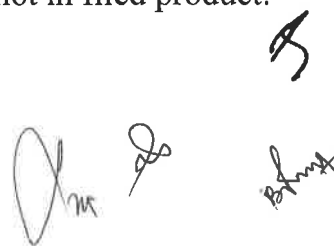
**Decision:**

*The general insurer is advised that they should conduct surprise onsite inspection of their group organizer as required by the above referred guidelines.*

**Charge No.11:**

It was noticed during the examination of 21 sample policies issued by the general insurer that they had resorted to the following acts:

- (a) Offer of discounts in premium not specified in filing
- (b) Renewal discount was allowed on premium in Public Liability Act policies
- (c) Use of Endorsements/proposal/wordings not in filed product.

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- (d) Applying differential premium rating during two policy periods viz. 21<sup>st</sup> July, 2011 to 31<sup>st</sup> March, 2012 and the period starting 1<sup>st</sup> April, 2012
- (e) Standard policy provisions: In respect of policy No.G000057 (which was an All Risks Insurance Policy) issued by the insurer, the policy provisions show that some of the definitions and conditions in the policy are beyond standard policy provisions of All Risks Insurance Policy approved by the Authority.
- (f) Not using the proposal form filed with the Authority.

**Violation/non-compliance of File & Use Guidelines contained in Circular No. 021/IRDA/F&U/Sep. 06, dated 28-9-2006**

**Submission made by the Insurer:**

The insurer submitted in respect of point (a) and (b) that any discounting allowed was as per the underwriting guideline which was filed with (alongwith the respective product) and approved by the Authority. They have submitted a copy of the products filed with the Authority.

In respect of point (c), the insurer submitted that the exclusions (viz Money laundering, bribes, Illegal Payments, extensions for Management Buyouts.) were implicit in the cover granted. For including the endorsements/exclusions, they approached the Authority (after the Inspection) and the same were approved without the company having to charge any additional premium towards such explicit endorsements.

In regard to point (d) and (e), the general insurer submitted that the terms, policy provisions, pricing etc. were modified on the request of a specific client (They have submitted a copy of the e-mail exchanged from them and the client).

In regard to point (f), the general insurer submitted that though they normally use their own proposal forms, in a few cases where intermediary finds it difficult to obtain the information, they used other proposal forms. But they have submitted that the proposal form used by them contains questions seeking underwriting information similar to all proposal forms being used in the Indian market across insurers which are also IRDA approved and the same have been used by the general insurer.

**Decision:**

**Taking note of the submissions of the general insurer, the charge is not pressed.**



**Charge No.12:**

**Policy servicing:** Failure to use the Prospectus of products sold. Only product information statements are used.

**Violation of Regulation 3(1) of IRDA (Protection of Policyholders' interests) Regulations, 2002 and Rule 11 of Insurance Rules 1939.**

**Submission made by the Insurer:** The general insurer has stated that they had filed Product Information Statement (PIS) with each product for IRDA approval. They say that PIS, which contains all details, is nothing but a Prospectus but has been given a different name.

**Decision:**

*Taking note of the submissions of the general insurer, the charge is not pressed.*

**Charge No.13:**

**Charge 13a :** Failure to file separate underwriting policy for inward reinsurance business.

**Charge 13b:** Exceeding the limits for foreign placements in excess of domestic placements as prescribed by the Authority

**Charge 13c:** Opportunity to Indian insurers/Indian Reinsurer: The insurer did not offer an opportunity to Indian reinsurer to participate in its facultative and treaty surpluses.

**Violation of Regulations 4, 3(11) and 3(10) of General Insurance –Reinsurance Regulations, 2000**

**Submission made by the Insurer:** In regard to charge 13a, The general insurer has submitted that they filed Underwriting policy in regard to Reinsurance as part of the overall Underwriting Policy. They have assured that the new filings will be as per the guidance provided to them. They have attached a copy of the reinsurance policy (which is separate from their underwriting policy) for the year 2014-15.

In regard to charge 13b, the general insurer has submitted that in their understanding the limits for foreign placements in excess of domestic placements apply only to treaty arrangement and not to facultative. They have a special dispensation from GIC to cede their Pharma and Clinical trial portfolio to QBE as much as 50% of the book outside the treaty given the high severity nature of business. RQBE's reinsurance arrangement has been intended to maximize retention within India (85%).

In regard to charge 13c, the insurer has submitted that all referrals to GIC Re were made initially over phone and through personal meetings.

**Decision:** *The Authority takes note of the submissions made by the general insurer. The general insurer is directed to comply with the regulations.*

**Charge No.14:**

**Charge 14a: Claims:** In two cases, appointment of surveyor was done after 72 hours.

**Violation of Regulation (1) of IRDA (Protection of Policyholders' interests) Regulations, 2002**

**Submission made by the Insurer :** They have submitted that there were no delays in the appointment of surveyors and to support their statement, they have submitted a CD containing the photos taken by the surveyor and a mail sent to Surveyor. .

**Decision:** **Taking note of the submission, the charge is not pressed.**

**Charge 14b:** Surveyor report submission beyond six months – In four cases examined by the Inspection, surveyor report was submitted beyond 6 months

**Violation of Regulation 9(2) of IRDA (Protection of Policyholders'Interests) Regulations, 2002.**

**Submission made by the Insurer :** The general insurer has submitted documents which indicate that the survey reports were submitted by the Surveyors in the four cases within 6 months. On that basis, the insurer has submitted that there is no violation of the Regulations.

**Decision:** **Taking note of the insurer's submissions, the charge is not pressed.**

**Charge 14c:** Motor OD claim No.VC000037 – Claim repudiation conveyed to the insured without communicating the reason for the repudiation

**Violation of Regulation 9(5) of IRDA (Protection of Policyholders' Interests) Regulations, 2002.**

**Submission made by the Insurer:** The general insurer has submitted a copy of an e-mail conveying the reasons for repudiation of the claim.

**Decision:** *Taking note of the submissions of general insurer, the charge is not pressed.*

**Charge 14d: Reserving in Liability claims:** The insurer has made under provision towards the liability claims examined by the Inspection .

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**Violation of Clause 2(ii)(b) of Schedule II-B (Valuation of Liabilities (General Insurance) of IRDA (Assets, Liabilities and Solvency Margin of insurers) Regulations, 2000**

**Submission made by the Insurer:** In case of occurrence of loss under General Insurance, the amount outstanding for the claim is usually not known until properly assessed and adjusted.

The actuary has provided for reserves which includes IBNER claims and IBNR to allow for circumstances warranting payment of more than the case reserve. Hence there is no under provisioning.

In case of claim LC000003, the reserving was based on the best experience of the past and the estimate of the eventual claims.

In claim No.MC000006, the claim handler's estimate was that the claim may not be payable as the loss fell outside the currency of the policy. Hence the claim handler had put in a nominal reserve.

**Decision:**

**Keeping in view the submissions made by the insurer that the reserving was made based on the estimates made available by the Appointed Actuary and also the fact that both the claims reported were ultimately closed/repudiated, the charge is not pressed further.**

**Further**

- a) **The General Insurer shall confirm compliance in respect of all the directions referred to in this Order, within 21 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, he may appeal to Securities Appellate Tribunal as per the procedure prescribed under Section 110 of the Insurance Act, 1938.**

**Place: Hyderabad  
Dated: 28/05/2015**



**T. S. Vijayan  
Chairman**

