



IRDAI/LIFE/ORD/MISC/218/11/2016

ORDER

Issued by exercising the powers vested under Section 33 (6), 102 (b) of Insurance Act, 1938 read with Section 14(2)(h) of IRDA Act, 1999 in the matter of M/s. Reliance Nippon Life Insurance Company Ltd.

Based on the -

- (i) Reply of M/s Reliance Nippon Life Insurance Co Ltd (RNLIC) dated January 12, 2016 and January 22, 2016 to the Notice Dated 22nd December, 2015 issued under Section 33 (6) of the Insurance Act, 1938.
- (ii) Submissions made by RNLIC during Personal Hearing on 3rd June, 2016 at 3:00 PM, Chaired by Sri Nilesh Sathe, Member (Life), IRDAI, at the office of Insurance Regulatory and Development Authority of India, 3rd Floor, Parishrama Bhavanam, Basheer Bagh, Hyderabad.
- (iii) The information submitted post personal hearing vide emails of RNLIC dated 30/6/2016 and 26/7/2016.

The Authority has issued an Order bearing No. IRDA/LIFE/ORD/MISC/103/04/2014 dated 11/4/2014 in the matter of Reliance Life Insurance Company Ltd. (Presently Reliance Nippon Life Insurance Co. Ltd, hereinafter referred to as "RNLIC") based on the onsite inspection of RNLIC from 18/1/2012 to 25/1/2012. In the said Final Order of 11/4/2014, with regard to the observations on Channel Development Associates (CDAs) contained in Charges 41 and 42, the Authority had reserved the right to cause an investigation under the provisions of Section 33 of the Insurance Act, 1938 and Section 14 (2) (h) of IRDA Act, 1999.

2. Accordingly, the Authority appointed five Chartered Accountant Firms (CA firms) for investigation into the working of 25 CDAs by exercising the powers vested in terms of Section 33 of Insurance Act, 1938 read with Section 14 (2) (h) of IRDA Act, 1999. The Reports in respect of 23 CDAs along with the annexures received from these CA Firms were forwarded to RNLIC for their comments vide Authority's letters dated April 9 (20 Audit Reports) and April

20, 2015 (3 Audit Reports). RNLIC has submitted its response vide letter dated 4th May, 2015.

3. After examining the Reports of CDAs submitted by CA firms and the response of RNLIC dated 4th May 2015, the Authority issued a Notice under Section 33 (6) of the Insurance Act, 1938 on December 22, 2015 stating all irregularities and regulatory violations in the administration of CDA channel and calling for an explanation as to why appropriate action be not initiated against RNLIC including termination of all CDAs. In response to this Notice, RNLIC has submitted responses bearing No. O/01-16/LCCS/8267 dated January 12, 2016 and January 22, 2016. The Authority has also sent a response dated May 5, 2016 to RNLIC addressing the issues raised by RNLIC in its letter dated January 22, 2016. As sought by RNLIC, a personal hearing was accorded on 3rd June, 2016 at IRDAI-Hyderabad.

4. Mr. S.V. Sunder Krishnan, Chief Risk Officer, Mr. Ashish Lakhtakia, Head Legal & Compliance and Company Secretary and Mr. Niraj Kumar, Head CDA were present in the personal hearing on behalf of the Life Insurer. On behalf of the Authority, Mr. V. Jayanth Kumar, General Manager (Life), Mr. Gautam Kumar, Deputy General Manager (Life-Coordination) and Ms. B. Aruna, Manager (Life-Regulatory Actions) were present.

5. The Authority also sought additional information during personal hearing and RNLIC has submitted its response through its emails dated June 30, 2016 and July 26, 2016.

6. The findings on the explanations offered by RNLIC to the issues raised in the Notice dated 22nd December, 2015 and the decisions are as follows:

7. **Charge (a)** - Many of the CDAs are not imparting training and there was no adequate office space (Serial No.1 of Annexure I). RNLIC in its response (page 11 of response dated 4th May, 2015) inter alia stated that RNLIC training team along with the sales team also regularly helps the CDA in conducting training and skill development sessions. If RNLIC is involved in these activities the objective of appointing CDAs is questionable and making payments to CDAs will only increase the costs of RNLIC. Violation of Clause 6 of Corporate Governance Guidelines for Insurance Companies dated 5/8/2009 (Corporate Governance Guidelines).

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Submission of RNLIC:

In response, RNLIC submitted that their training team helps the CDAs in training process. The support is supplementary and not the core training that is provided to the agents by the CDAs. RNLIC provides timely feedback to all CDA to update their training syllabus. CDAs are specialized in training the agents to leverage their contact base and they impart training to the advisors to develop a set of professional skills, knowledge and behaviours. The CDAs are trained by RNLIC training team and the CDAs in turn impart training to advisors as required. The success of the arrangement depends upon the activation of the agents and production of the business by their respective agents. Therefore, to ensure success of the channel, RNLIC proactively monitors training activities and is involved in the training process for supervision. Thus the additional time invested by RNLIC is fruitful in the form of development of better training programmes for agents and improved performance by the agents. The payments to CDAs are based on the performance of the agent and concrete parameters such as activation of newly licensed advisors – activation fee, actively engaging & ensuring repeat performance from advisors, quality of business brought in by advisors – persistency fee and other allowances based on size and performance of the team. These parameters are uniform for all CDAs and centrally decided by the Corporate Office. Therefore, CDA Channel is more cost effective in comparison to other sales channels that carry the burden of fixed cost salaries and rentals.

Vide email dated 26/7/2016, RNLIC submitted the data of total costs incurred towards commission to agents and payouts to CDAs from the FY 2011-12 to 2015-16. RNLIC in its email dated 30/6/2016 stated that the granular details of the CDA model are not readily available for FYs upto 2011.

Table-1

Year	Active CDA	Opening count of advisors FY-wise	Closing count of advisors FY-wise	New business Premium	Commission to agents-FYC	CDA-Payout	Active Advisor Count
				(In Cr.)	(In Cr.)	(In Cr.)	
2011-12	5122	26535	24010	161.96	45.69	42.6	16638
2012-13	4096	24010	21334	114.86	30.45	35.51	13300
2013-14	3895	21334	22530	105.81	28.46	30.61	15133
2014-15	3242	22530	15417	98.53	23.68	25.91	10448
2015-16	2705	15417	11079	98.49	24.05	36.47	8401

Table-2 – Cost effective model

Financial Year	New business Premium	Renewal Premium	Total Premium	First Year Commission to agents	Renewal Commission to agents	Total Commission to agents- (A)	Total Payout to CDA (B)	Company Employee Salary allocated to CDA model (C)	Allocated infra cost (D)	Total cost (A+B+C+D)	Total cost/Total Premium %
2011-12	161.96	401.65	563.61	45.69	10.09	55.78	42.6	36.05	17.91	152.34	27%
2012-13	114.86	280.81	395.67	30.45	9.69	40.14	35.51	35.53	13.07	124.25	31%
2013-14	105.81	246.48	352.29	28.46	9.91	38.37	30.61	29.87	12.93	111.79	32%
2014-15	98.53	267.13	365.66	23.68	7.96	31.64	25.91	37.55	7.13	102.23	28%
2015-16	98.49	285.67	384.16	24.06	8.49	32.55	36.47	34.87	3.32	107.20	28%
Totals						198.48	171.10	173.87	54.36		

8. **Charge (b):** CDAs are not aware of terms and conditions of appointment/letter of engagement (Serial No.2 of Annexure I) and were not following them (Serial No. 3 of Annexure I) and no records are maintained by CDAs (Serial No.4 of Annexure I). Few CDAs are also collecting premium in cash and one CDA Sai Life Care has paid part premium on behalf of customer (Serial No.5 of Annexure I). RNLIC has not exercised proper control on the activities of CDAs. Violation of Clause 6 of Corporate Governance Guidelines for Insurance Companies dated 5/8/2009 (Corporate Governance Guidelines).

Submission of RNLIC:

In response, RNLIC submitted that prior to recruitment the CDA is explained in detail about the terms and conditions of appointment. Many CDAs already have some sort of established business or are working in some capacity. At the time of recruitment, RNLIC gives them a detailed induction training which includes how to recruit an advisor, roles and responsibilities of CDAs, terms and conditions of the agreement, regulatory provisions related to appointment of agent, AML KYC, etc. RNLIC monitors the working of CDA on a routine basis. In case of any deviation from the rules and regulation mentioned under agreement, they immediately take necessary action against the violators. The CDAs are appointed after a thorough due diligence process w.e.f FY 2012-13 onwards, duly performed by independent risk function of the Company. These exceptional instances pointed out in the audit report are prior to that period. RNLIC further submitted that CDAs were not mandated /required under the

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law/rules/regulations to maintain any of the above records, as CDAs are facilitators/service providers.

RNLIC officials during personal hearing mentioned that post April 2013, verification from external agency is done at the time of recruitment of CDAs and they started checking whether the CDA has any political background of, etc. and submit a report to RNLIC. Intensive due diligence is done before recruitment of new CDA's. RNLIC mentioned that CDA compensation structure has been gradually improved and has been made robust as on date towards hiring and training advisors. They have a system in place where first their employees train CDAs and in turn these CDAs train the advisors. RNLIC also submitted that they have advised their CDAs to maintain all the training records now and a format has been given to them.

During the Personal Hearing, RNLIC admitted that there were few cases of multi level marketing before 2011 and that they have terminated them based on findings of their internal audit which was well before the Inspection of 2012 and taken strict action against multi level marketing. RNLIC officials also submitted that many agents were terminated whenever any irregularity has been noticed and suitable actions were initiated. During the personal hearing, the Authority specifically mentioned that the CA Firms in their Report mentioned that there were no records available with Mutyala Getwin Online Marketing Pvt. Ltd., (which was referred under Charge 42 of Final Order dated 11/4/2014 that this entity was involved in multi level marketing). RNLIC submitted that the records are centrally maintained and CDA only assist in recruitment, training and motivating agents. In reply to a specific query, RNLIC vide its email dated 30/6/2016 informed that CDA M/s. Vcare Life was terminated on 24/1/2013 and M/s. Mutyala Getwin Online Marketing Pvt. Ltd., was terminated on 16th July, 2015 i.e. post Inspection. (these entities were referred under Charges 41 and 42 in the Final Order dated 11/4/2014).

Decision on charge (a) and charge (b):

RNLIC in its email dated 30/6/2016 stated that the granular details of the CDA model are not readily available for FYs upto 2011. The Authority once again advised RNLIC to submit the data as per the details sought in the personal hearing vide email dated July 1, 2016. Vide email dated 26/7/2016, RNLIC submitted Board approved policy on CDA model and break-up data of variable fees paid to CDAs only for the FYs 2014-15 and 2015-16. Non availability and non-submission of data prior to FY 2011 establishes that RNLIC did not have

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proper internal controls as required under Clause 6 of Corporate Governance Guidelines.

The response of RNLIC that CDAs were not mandated / required under the law/rules/regulations to maintain any of the above records, as CDAs are facilitators/service providers is not correct because as per their own terms and conditions of the agreement with CDAs, CDAs need to maintain records of agents, etc.

The response of RNLIC that the CDAs are appointed after a thorough due diligence process with effect from FY 2012-13 onwards which is performed by an independent risk function of the Company shows that RNLIC have initiated such controls **only after inspection of 2012**. Absence of due diligence process as detailed by them prior to 2012 is in violation of Clause 6 of Corporate Governance Guidelines which details the control functions of Board of Directors. However, a considerate view has been taken in view of the submissions of RNLIC that there is a reasonable progress in control mechanism now. RNLIC is hereby advised to ensure strict compliance to Corporate Governance Guidelines.

9. **Charge (c):** Remuneration paid to CDAs is linked or directly correlated to the commissions paid to Agent connected to CDA for procuring business and cost of procuring business increased due to CDAs (Serial No. 6 of Annexure I). Violation of Clause 6 of Corporate Governance Guidelines for Insurance Companies dated 5/8/2009 (Corporate Governance Guidelines).

Submission of RNLIC:

In response, RNLIC submitted that the payout of CDA is variable and is not only linked to the performance of the agent but also includes persistency, repeat performance from advisors, other allowances, etc.

The performance of the CDAs is measured objectively on the performance of the advisors recruited by him. The business of the company depends upon the ability of the advisors in understanding thoroughly from the CDAs, the terms and conditions of policies/schemes, the rights, liabilities and obligations of the advisors, the customer mindset, the rules and regulations framed by the Authority and the Company from time to time, communication skills while dealing with customers, etc. CDAs play an important role in developing these skills in the advisors with regular training and development sessions conducted

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by the CDAs. The payment to CDAs is based upon performance of the agent and therefore more cost effective.

Decision: RNLIC vide email dated 26/7/2016 submitted the data of total costs incurred towards commission to agents and payouts to CDAs from the FY 2011-12 to 2015-16. From the data it is observed that RNLIC has incurred 198.48 crores towards the cost of commission to agents. RNLIC incurred 171.10 crores towards payouts to CDAs apart from the cost towards employees' salary allocated to CDA Model (173.87 crores) and infrastructure cost allocated to CDAs (54.36 crores) from the FYs 2011-12 to 2015-16 and in all amounting to 399.33 crores which is almost double the expenditure of commission paid to the agents as per the data table submitted by RNLIC which is placed in the charge (a) above. RNLIC has not exercised proper internal controls as required under Clause 6 of Corporate Governance Guidelines. Hence, RNLIC is hereby advised to strengthen their internal control mechanism and ensure strict compliance to Corporate Governance Guidelines.

10. **Charge (d):** CDA Channel seems to be an indirect way of sourcing business (Serial No.7 of Annexure I).

It is also observed that though few of the above requirements are essential as per the terms and conditions of the agreements/letter of engagements entered between RNLIC and CDAs, the CDAs are not adhering to these terms and conditions and RNLIC also does not have effective checks and controls with regard to the functioning of the CDAs which reflects poorly on the market conduct of RNLIC. Violation of Clause 6 of Corporate Governance Guidelines for Insurance Companies dated 5/8/2009 (Corporate Governance Guidelines).

Submission of RNLIC:

In response, RNLIC submitted the following:

- (i) That the role of a CDA is to assist RNLIC in recruitment of advisors, training, on the job mentoring and monitoring of licensed advisors and not solicitation of insurance business. RNLIC referred some of the clauses of Letter of Engagement which prohibit solicitation by CDAs. The remuneration payable to a CDA is uniform and standardized based upon concrete criteria pre-determined by RNLIC. The agreement contained certain perfunctory checks and controls. All records related to CDA are maintained centrally.
- (ii) That despite objections by RNLIC, the IRDAI investigations covered transactions prior to 2012 which were subject matter of two IRDAI

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inspections and detailed reports. The Board of RNLIC has taken note of action plans initiated by RNLIC. The investigators were offensive and coerced local CDAs to give information, when records were centralized in Corporate Office.

- (iii) Most of the observations pertain to dated financial years, which were already subjected to detailed inspections by IRDAI inspectors. Conclusions in the SCN appear to be premeditated and prejudiced based upon conclusions already drawn up.
- (iv) To comply with the Clause 6 of Corporate Governance Guidelines, in addition to the enclosed presentation on Risk Management Activities, the following specific controls on CDA ensures the fact that appropriate checks and balances are in place:
 - No CDA can function or start operations without an investigation by Risk Function and clearance by them. This process is in place with effect from FY 2012-13.
 - CDA function is closely audited by Aneja Associates – Internal Auditor Complaints against mis-selling or customer grievances are investigated by the Risk Function and strong actions are initiated against the non-compliant CDAs.
 - From a compliance perspective, even though outsourcing guidelines do not apply to non core functions performed by CDA, on a conservative basis the same have been reported to IRDAI as a matter of abundant caution.
 - Regional risk and investigation functionaries, core employees of RNLIC perform mystery shopping and surprise investigations on the activities of CDA.

Decision: As per the terms and conditions of the agreements executed by RNLIC, CDAs are supposed to maintain the accurate accounts and records pertaining to him/her and to his/her agents. Hence, not co-operating with the investigating Agency by non-submission of data and non-availability of records/ data in majority of the cases indicates that RNLIC does not have effective checks and controls with regard to the functioning of the CDAs.

The response of RNLIC that *from a compliance perspective, even though outsourcing guidelines do not apply to non-core functions performed by CDA, on a conservative basis the same have been reported to IRDAI as a matter of abundant caution* is not correct because as per Clause 11 of the Outsourcing guidelines, all the outsourcing arrangements, irrespective of Core or Non – Core need to be reported to the Authority. Hence, RNLIC is hereby advised to

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strengthen their checks and control mechanism and ensure strict compliance to Corporate Governance and Outsourcing Guidelines.

11. **Charge (e):** Payments are processed without proper invoices and without any basis (Serial No.8 of Annexure I). The response of RNLIC (page 10, 13 of RNLIC response dated 4th May, 2015) that the process of payments was done directly by way of credit to the CDA's bank account given that there was an agreement between CDA and RNLIC, shows lack of internal checks and controls. Further, payouts are made without any cost-benefit analysis. This is in violation of Clause 9.5 and 9.6 (ii) of Guidelines on Outsourcing of Activities by Insurance Companies (Outsourcing Guidelines) dated 1/2/2011.

Submission of RNLIC:

In response, RNLIC submitted that the cases highlighted by Auditors are prior to December 2013, when the remuneration was directly credited to the bank account of CDAs without submission of invoices by the CDAs. However, post December 2013, the CDAs generate invoices and payments are released post verification of the invoices by RNLIC. The payments are checked by independent auditors. The costs incurred and payments to CDAs are based upon performance of the agent and based on the invoice raised by the CDA.

During the personal hearing, it was specifically enquired whether RNLIC has a board approved policy on this CDA model and if not, advised RNLIC to get it done and file a copy of board approved policy to the Authority. RNLIC vide its email dated 26/7/2016 submitted a copy of the Board approved Policy approved by the Board on 19.07.2016.

Further RNLIC in its email dated 26th July 2016 mentioned that the granular details of the CDA model are not available for Financial Years prior to FY 2011 and submitted the data pertaining to the FYs 2011-12 to 2015-16 in two tables shown in charge (a) above

12. **Charge (f):** Payment of Unit Meeting Allowances to CDAs (Serial No. 9 of Annexure I), the response of RNLIC that "this was a monthly payment based upon activation of advisors and not on the frequency of meetings held by CDA and given the productivity of the CDA in recruiting many advisors and the productivity of advisors under CDA, it is expected that the CDA would have met the advisors frequently' (page No. 24, 33 of RNLIC response dated 4th May, 2015) shows that the payouts are made to CDA without any proof of conduct of Unit meetings. Payments cannot be made on expectation basis or

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conjecture. This is in violation of clause 9.6 (ii) of Outsourcing Guidelines dated 1/2/2011 and Clause 6 of Corporate Governance Guidelines dated 5/8/2009.

Submission of RNLIC:

In response, RNLIC submitted that the success of the arrangement depends upon the activation of the agents and production of the business by the agents. Therefore, to ensure success of the channel, RNLIC proactively monitors training activities and is involved in the training process for supervision. Thus the additional time invested by RNLIC is fruitful in the form of development of better training programmes for agents and improved performance by the agents.

Unit meeting allowance was paid on activation of advisors along with productivity on Weighted Received Premium (WRP). This was a monthly payout ranging from INR 3000 to 5000 per month based upon activation of advisors and not on the frequency of meetings held by CDA. The Unit Meeting allowance is based upon the activity level and is to reward the efforts of the CDA in an objective manner. Outsourcing Guidelines do not apply to CDA and payments to them. Even in the hypothetical event the guidelines are applied, RNLIC is in compliant with the guidelines.

During personal hearing, RNLIC submitted that this allowance is discontinued from FY 2014-15.

Decision on charge (e) and charge (f) As stated by RNLIC that post inspection in 2012 the insurer has started some due diligence and strict control mechanism, it may be observed from Table -1 that by 2015-16 number of active CDAs are almost reduced upto 50% in comparison of the Year 2011-12 , which itself indicates that there was no proper due diligence in the earlier years i.e prior to the IRDAI Onsite Inspection in 2012. As per the response of RNLIC to the above charge (e), RNLIC is making these payments after generating invoices only post December 2013. Further mere generation of invoice will not suffice, they need to be properly verified against the job performed or results achieved before releasing the payments. The response of RNLIC itself establishes that the payments are made to CDAs without any basis of invoice prior to December 2013. It is clear that RNLIC has not reviewed internally how this channel is useful and meeting the objectives for which it is started. Hence, the statement of RNLIC that this channel is a cost-effective channel *does not stand as RNLIC is not adopting procedure of sound Risk*

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Management principles as laid down in the Clause 9 of the outsourcing guidelines. Further with regard to Board approved Policy on CDA, it is established that the same was not in existence prior to 19th July 2016 and hence the payment to these CDAs was being made arbitrarily and without any set procedure and not adhering to risk management principles with regard to CDAs.

RNLIC in charge (a) above submitted that CDA Channel is more cost effective in comparison to other sales channels that carry the burden of fixed cost salaries and rentals. It can be seen from the data (two tables) submitted by RNLIC, from FYs 2011-12 to 2015-16, RNLIC have paid 198.48 crores to agents working under CDAs as commission. RNLIC also incurred additional three costs towards (i) payout to CDAs (171.10 crores), (ii) employee salary allocated to CDA model (173.87 crores) and (iii) allocated infrastructure cost (54.36 crores) apart from the commission payouts to Agents. The cost of employees' salary on CDA channel itself is more than the cost incurred on CDA payouts. The total of these three costs are 399.33 crores and this is the additional cost apart from commission payouts in this channel.

The payments to CDAs without invoices and without any basis prior to December 2013 clearly establishes the poor risk management principles adopted by RNLIC and proves the violations of set provisions of Clause 9.6 (ii) of Outsourcing Guidelines. The Authority, by exercising the powers vested under Section 102 (b) of the Insurance Act, 1938, imposes a penalty of Rs. 10,00,000 (Rs. Ten lakhs) for violating the provisions of Clause 9.6 (ii) of Outsourcing Guidelines during the years 2011-12, 2012-13.

RNLIC is further advised to ensure strict compliance to Outsourcing and Corporate Governance Guidelines in this regard.

13. **Charge (g):** Few CDAs were not available and few could not be traced as CDA agreement is terminated as stated in the Audit Reports. (Serial No. 10 of Annexure I). No proper due diligence exercised at the time of appointment of CDAs. Violation of Clause 10 of Outsourcing Guidelines.

Submission of RNLIC:

In response, RNLIC submitted that these CDAs were not interested in meeting the auditors and disclosing any documents to them as they were terminated. This was also explained to the Auditors. Towards, due diligence, the response is as stated in the submissions made against the Charge (d). The CDAs are

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appointed after a thorough due diligence process as mentioned above with effect from FY 2012-13.

Decision: The response of RNLIC that the CDAs are appointed after a thorough due diligence process w.e.f. FY 2012-13 shows that prior to 2012-13 there was no proper due diligence exercised by them which is a violation of Clause 10 of Outsourcing Guidelines. RNLIC is hereby advised to ensure compliance to Outsourcing Guidelines.

14. **Charge (h):** In one case, Partnership Deed of CDA Pious Financial Solution (Serial No.11 of Annexure I) allows CDA to carry on insurance business of all kinds/soliciting or procuring, act as insurance agent/broker though the same is restricted under letter of engagement of CDA. No proper due diligence at the time of appointment of CDAs and no control on the activities of CDAs. Violation of Clause 10 of Outsourcing Guidelines.

Submission of RNLIC:

In response, RNLIC submitted that the CDA cannot solicit insurance business as per the agreement with RNLIC. RNLIC also mentioned that they have noted the technical point of the auditor and would advise the CDA to amend his partnership deed, if it is legally so advised or warranted.

Decision: The response shows failure in exercising proper due diligence at the time of appointment of CDAs which is a violation of Clause 10 of Outsourcing Guidelines. RNLIC is hereby advised to ensure strict compliance to Outsourcing Guidelines.

15. **Charge (i):** There was no minimum qualification criteria adopted by RNLIC (Serial No. 12 of Annexure I) while recruiting CDAs for imparting training to agents. It is observed that CDA Prem Shah is only 8th standard pass which is less than the qualification prescribed for Agents. Thus, the purpose of appointment of CDA is questionable and no due diligence exercised at the time of appointment of CDA. Violation of Clause 10 of Outsourcing Guidelines.

Submission of RNLIC:

In response, RNLIC submitted that the CDAs are not agents but service providers/facilitators so the prescribed qualifications for an agent are not applicable to CDAs. The role of a CDA is to assist RNLIC in recruitment of advisors, training, on the job mentoring and monitoring of licensed advisors



and not solicitation of insurance business. Internal memo dated 1st April 2012 was issued wherein the minimum qualification criteria was brought into effect. During the personal hearing RNLIC mentioned that now the prescribed qualification for urban areas is 12th passed and in rural areas, it is 10th pass.

Decision: RNLIC's response above shows that they have not exercised proper due diligence at the time of outsourcing the activities prior to 2012 which establishes the violation of Clause 10 of Outsourcing Guidelines. RNLIC is hereby advised to ensure strict compliance to Outsourcing Guidelines.

16. **Charge (j):** In the case of CDA Krupa Susan George (Serial No.13 of Annexure I), relatives who are agents also mapped to the CDA and sometimes these agents are acting as CDAs. Violation of Clause 10 of Outsourcing Guidelines.

Submission of RNLIC:

In response, RNLIC submitted that coincidentally, when the inspection occurred, Susan George was on maternity leave and her father Mr. George Varghese, the advisor only attended answering the queries raised by the Auditors as he was aware of the activities of his daughter i.e. CDA. An advisory was sent to all CDAs urging them not to employ their relatives as Agents w.e.f. 1st April, 2011. Post IRDA onsite inspection in 2012, RNLIC introduced system controls such as de-dupe on PAN, Bank Account, Address, Name of the CDA, etc.

RNLIC mentioned that CDAs are not engaged in the core activities that could be outsourced. Activities performed by the CDAs are non-core and outsourcing guidelines do not apply to the same. The above observations are dated and pertain to period prior to the effective date of circular. W.e.f. 1.4.2013 no CDA can effectively function immediately post his/her appointment, without the clearance by independent risk function.

Decision: The response of RNLIC that CDAs are non-core and Outsourcing Guidelines do not apply to the same is not correct because as per Clause 11 of the Outsourcing Guidelines, all the outsourcing arrangements are to be reported to the Authority. No proper due diligence and control on the activities of CDAs which is a violation of Clause 10 of Outsourcing Guidelines dated 1/2/2011. RNLIC is hereby advised to ensure compliance to Outsourcing Guidelines.

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17. **Charge (k):** Complete information not furnished to the Auditors in some of the cases/CDAs (Serial No.14 of Annexure I). **AM Jain & Co** in all the CDA reports audited by them, amongst other things, mentioned that they sought the details of commission paid for revival of lapsed policies as per Sub Section 2 (A) of Section 40 of the Insurance Act for which RNLIC inter alia stated that they can show the commission calculation for revival policies and that they will provide the certificate for compliance of Section 40 (2A). But Auditor mentioned that they have not received the same from RNLIC till the date of submission of Audit Report to the Authority. The Auditors also mentioned that RNLIC could not provide the details as sought by them prior to 2012. Beldi & Associates has mentioned that basis of payment as sought by them were not clearly provided by RNLIC and RNLIC simply stated that the payout of CDA is variable and includes persistency, repeat performance from advisors, other allowances etc. **Soni Rajendra & Co** mentioned that RNLIC could not provide the details of active agents with each of CDA Varun Enterprises and CDA Prem Shah. The Auditors also mentioned that RNLIC could not provide the details of manner of working of CDA Varun Enterprises and the breakup of payments made to this CDA as sought by the Auditors. Non- production of the information before the investigating Agency / Auditors is a violation of provisions of Section 33 (3) of the Insurance Act, 1938.

Submission of RNLIC:

In response, RNLIC submitted that in the case of **Beldi & Associates**, the CDA incentive payout is a document which indicates the remuneration to be given to the CDA. This is RNLIC management approved document and the same varies from financial year to financial year depending on the business expectations and market scenario. RNLIC has produced monthly break up of payments effected to CDAs from the FYs 2011-12 to 2014-15 till June 2014 as required by the Auditors.

In the case of **A.M. Jain & Co.**, RNLIC submitted that CDAs do not come under the purview of Section 40 (2A) as they are not agents of the Company and do not effect any policy for RNLIC. So far as the data of revival of policies sought by the auditors are concerned, RNLIC informed that they do not maintain any separate data and there is no specific categorization of lapsed policies as much as the data is system driven and whenever the policies are revived, the system automatically treats them as "in force policies". RNLIC stated that they have provided complete details of all commission paid to advisors for all periods. RNLIC stated that they have explained to the auditors that there is no commission payment on lapsed policies. The above issue has been raised by

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the auditors more in the context that CDAs are not maintaining the above records at a local level.

With regard to **Soni Rajendra & Co's** observations, RNLIC submitted that they have produced the break up for the FYs 13-14 & 14-15 till January 2015 under various parameters.

RNLIC stated that CDAs are not aware about the manner in which invoices are generated from the systems. However, CDA payouts are standardized and uniform across a category of CDAs. RNLIC further stated that prior to December 2013, the remuneration was directly credited to the bank account of CDAs, without submission of invoices by the CDAs.

In the instances CDAs are neither vested with powers to maintain any such records nor do the CDAs have information in their custody as per provisions of Section 33 of Insurance Act. The information is available and was furnished to the auditors when they visited the Corporate Office.

Decision: The CA firms mentioned in their report that RNLIC could not submit the required details (as stated in the charge). The response of RNLIC also shows that they have not submitted the required data prior to 2012 as sought by the Auditors. RNLIC has also failed to submit the data pertaining to granular details of this CDA model to the Authority upto FY 2011-12 (reference their email dated 30/6/2016)

In the Final Order 11/4/2014, the Authority has reserved the rights to order investigations into the working of CDAs in view of the charges 41 and 42 mentioned thereunder. Hence, the proceedings under Inspection Report of 2012 are not completely concluded with regard to these charges. To examine the matter in detail, the Authority has ordered investigations into the administration of CDA channel of RNLIC so that a proper and justifiable regulatory action / decision may be taken based on the detailed material findings. By not providing the data sought by the Investigating Authority, RNLIC violated the provisions of Section 33 (3) of the Insurance Act, 1938. Section 33 (3) of the Insurance Act, 1938 reads as follows:

“It shall be the duty of every manager, managing director or other officer of the insurer to produce before the Investigating Authority directed to make the investigation under sub-section (1), or inspection under sub-section (2), all such books of account, registers and other documents in his custody or power and to furnish him with any

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statement and information relating to the affairs of the insurer as the said Investigating Authority may require of him within such time as the said Investigating Authority may specify.”

The response to the charge (d) above of RNLIC that ‘despite objections by RNLIC, the IRDAI investigations covered transactions prior to 2012 which were subject matter of two IRDAI inspections and detailed reports’ itself shows that RNLIC has objected for data prior to 2012 sought by auditors, in violation of Section 33 (3) of the Insurance Act, 1938.

Hence by **exercising the powers vested under Section 102 (b) of the Insurance Act, 1938, the Authority imposes a penalty of Rs. 5,00,000 (Rs. Five Lakhs) for violation of Section 33 (3) of Insurance Act, 1938,**

18. **Charge (I):** In case of few CDAs (Serial No.15 of Annexure I), one of the partners is also acting as agent. This is in violation of provisions of Clause 8.5 of Outsourcing Guidelines dated 1/2/2011.

Submission of RNLIC:

In response, RNLIC submitted that such relationships existed prior to the new rules being in place, wherein persistency and other qualitative requirements like low level of complaints or no complaints were factors considered to continue the relationships. RNLIC stated that they have taken preventive steps to prevent/control such instances. Even in the observed case, the CDA (partnership firm) was not engaged to do any activity other than training and mentoring of agents, which we believe is not restrictive under clause 8.5 of Outsourcing Guidelines also. Training and mentoring is a non-core function and therefore there is no violation of Outsourcing Guidelines.

Decision: The partnership firm where a licensed agent was also a partner is allowed to function as CDA by RNLIC.

As per Clause 8.5 of Outsourcing Guidelines Agents, Corporate Agents, Brokers, TPA's 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 hence it is a violation of Clause 8.5 of Outsourcing Guidelines. RNLIC is hereby advised to ensure strict compliance to Outsourcing Guidelines.

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19. **Charge (m):** CDA Varun Enterprises signing the proposal form at the place of "Sales Manager" (Serial No. 16 of Annexure I) shows that CDA is involved directly in solicitation and the payments to this CDA attracts the provisions of Section 40 (1) of Insurance Act, 1938 and also Authority's Circular No. IRDA/CIR/010/2003 dated 27/3/2003.

Submission of RNLIC:

In response, RNLIC submitted that merely because signature of one over-zealous CDA was found in a proposal form does not ipso facto make him an agent. No commission is paid to a CDA for solicitation. In the specific instance where his signature was found, the actual licensed agent who executed the solicitation process signed the proposal form in the designated place. When the concerned CDA was asked for clarification, he pointed out that he had actually performed his mentoring role. In the present case, the commission was paid only to the agent and not to CDA.

Decision: RNLIC Submission has been taken on record. As the instances of such cases are very few, the charges are not pressed. However, RNLIC is hereby strictly advised to strengthen their internal controls and systems so that such type of instances can be eliminated.

20. **Charge (n):** CDAs not maintained any records of its agents and business sourced by them. RNLIC could not provide the copies of licences of some of the agents mapped to CDAs in few cases (Serial No. 17 of Annexure I). Non-maintenance of any records on the business and agents sourced by them is a violation of provisions of Section 43 (1) of the Insurance Act, 1938.

Submission of RNLIC:

In response, RNLIC submitted that the agency records are maintained centrally by RNLIC. The responsibility of the licensing process was never vested with CDA, who only identifies the agent and motivates the agent to join the insurance business. The insurance agents are employed by RNLIC and not by the CDA. As per Section 43 (1) of IA, RNLIC is maintaining centralized report/register of all insurance agents and the same are being reviewed by various inspections of IRDAI.

Decision: Despite the claims of RNLIC that it is maintaining the registers in respect of agents but as per the finding of investigating CA firm report, RNLIC

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could not provide the details of agents mapped to some of the CDAs, hence it can be concluded that the register was not ready to be placed before the investigating CA firms, which is as good as not being maintained properly and thus the violation of Section 43 (1) of Insurance Act, 1938. RNLIC is hereby advised to ensure compliance to provisions of Section 43 (1) of Insurance Act, 1938, henceforth.

The Authority, by exercising the powers vested under Section 33 (6) (a) of Insurance Act, 1938, directs RNLIC to review all the arrangements with CDAs and terminate all the CDA agreements which are not as per the provisions of Outsourcing Guidelines and submit an Action Taken Report to the Authority within a span of 60 days from the date of this Order. RNLIC is also directed to take effective steps to ensure that the administration of the channel is strengthened to avoid recurrence of irregularities cited in this Order.

RNLIC is also hereby advised to place a copy of this Order before their Board in the ensuing Board Meeting and submit a copy of the Board resolution to the Authority thereafter.

The penalty amount of Rs. 15,00,000 (Rs. Fifteen lakhs only) shall be remitted by RNLIC by debiting the Shareholders' Account within a period of 45 days from the date of receipt of this Order through NEFT/RTGS (details for which will be communicated separately). An intimation of remittance may be sent to Mr. V. Jayanth Kumar, General Manager (Life) at the Insurance Regulatory and Development Authority of India, 5th Floor, Parishram Bhavan, Basheer Bagh, Hyderabad 500004, email id life@irda.gov.in.

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 as amended from time to time.

This has the approval of the Competent Authority.

Place : Hyderabad
Date : 3rd November, 2016


(Nilesh Sathe)
Member (Life)