



Ref. IRDA/ENF/MISC/ONS/27/12/2017

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

Based on the reply to Show Cause Notice dated 24<sup>th</sup> July, 2017 and submissions made during Personal Hearing, chaired by Mr.P.J.Joseph, Member (Non-Life), Insurance Regulatory and Development Authority of India (IRDAI) on 6<sup>th</sup> October, 2017 at 02:00 P.M. at the office of Insurance Regulatory and Development Authority of India, 3<sup>rd</sup> Floor, Parishrama Bhavanam, Basheerbagh, Hyderabad.

Background

The Insurance Regulatory and Development Authority of India (herein after referred to as IRDAI/Authority) had conducted an onsite inspection of M/s. Reliance Nippon Life Insurance Company Limited (Hereinafter referred to as "the Life Insurer/Company") during 26<sup>th</sup> November, 2014 to 06<sup>th</sup> December, 2014.

The inspection was intended to check the compliance of the Life Insurer to the provisions of Insurance Act, 1938, IRDA Act, 1999, Rules, Regulations, Circulars, Guidelines and other directions issued there under by the Authority. The inspection covered the activities of the Life Insurer for the financial years 2012-13 and 2013-14.

The Authority forwarded a copy of the report to the Life Insurer on 28<sup>th</sup> July, 2015 and the reply was received at the Authority vide letter dated 2<sup>nd</sup> September, 2015. Post scrutiny of the first compliance, the Authority had raised further queries on some of the observations for which the Life Insurer submitted their responses vide emails/ letters dated 23<sup>rd</sup> February, 2017, 28<sup>th</sup> April, 2017, 2<sup>nd</sup> May, 2017, 4<sup>th</sup> May, 2017 and 26<sup>th</sup> May, 2017. Upon examining the submissions made by the Life Insurer vide the communications referred herein, the Authority issued a Show Cause Notice on 24<sup>th</sup> July, 2017 which was responded to by the Life Insurer vide letter dated 31<sup>st</sup> August, 2017. As requested therein, a personal hearing was given to the Life Insurer on 6<sup>th</sup> October, 2017. Mr. Ashish Vohra, Executive Director & CEO, Mr.Prithesh Chaubey, Appointed Actuary, Mr.Sunder Krishnan, Chief Risk Officer, Mr.Srinivasan Iyengar, Chief Operating Officer, Mr.Viral Berawala, Chief Investment Officer, Mr.Katusuhisa Kumasako, Head Nippon Representative, Mr.Ashish Lakhtakia, CS & Head-Legal and Compliance were present in the hearing on behalf of the Life Insurer. On behalf of the Authority, Mr.V.Jayanth Kumar, CGM (Life), Mr.A.Ramana Rao, GM & HoD (F&A-Life), Mr.Prabhat Kumar Maiti, GM (Enforcement), Mr.C.S.Kumar, DGM (Actuarial), Ms.B.Padmaja, DGM (F&A-Life) and Mr.K.Sridhar Rao, AGM (Enforcement) were present in the personal hearing.

The submissions made by the Life Insurer in their written reply to Show Cause Notice, the documents submitted by the Life Insurer in evidence of their submissions in reply and also those made during and post personal hearing, have been considered by the Authority and accordingly the decisions thereon are detailed below.

Charges, Submissions in reply thereof and Decisions

Charge No.1

Licensed individual agents of the Life Insurer were engaged as Agency managers and Mentors.

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**Violation of Clause 8.4/8.5 of Outsourcing guidelines, IRDA/LIFE/CIR/GLD/013/02/2011 dated 01.02.2011.**

**Submission by the Life Insurer**

*The Master Trainer agreement under which Agency Managers and Mentors were engaged, is a separate agreement (besides agency licensing contract) to provide training (including trainings on products/ sales orientation and other similar trainings) to wide network of agents. The Company has shown the framework, agreements and attendance records at the time of inspection. The agent hiring process was with the Company and not master trainer – who were paid nominal amounts for the lectures. The master trainers were also not canvassing business and hence the talent of their training experience was sought to be reaped. The same is clearly evident from the payout data submitted to the Authority which indicates that there was neither intention to pay excess commission to agents nor any intention to pay excess fees for training.*

*However, post inspection, it is to confirm that the referred trainer arrangements with individual agents were already terminated. A certificate duly signed by the Authorised signatory of the Company is submitted in confirmation of the same.*

*Further system controls have been implemented such as, collection of PAN from the master trainer, de dup based on PAN as a part of on-boarding due diligence and Monthly de-dup check activity to check the Master Trainers PAN, Mobile number with existing sales employees and advisors to ensure that no individual agent is engaged as such hereinafter.*

**Decision**

**Agents shall not be contracted to perform any outsourcing activity other than those permitted by the respective regulations/instructions governing their licensing and functioning. The activity of training comes under the ambit of outsourcing and no insurance agent shall be engaged for this outsourcing activity. Hence the Life Insurer has violated the provisions mentioned under the charge. The submissions that they have terminated all such agreements as on date and that they have placed system controls to ensure non-recurrence of such tie ups, are noted. However, the Life Insurer is warned for the violation already committed. Further, the Life Insurer is directed to ensure continuous compliance with Regulation 14(vi) of IRDAI (Outsourcing of Activities by Indian Insurers) Regulations, 2017.**

**Charge No.2**

**a)** The age wise analysis of maturity claims paid for the financial years 2012-2013 and 2013-14 reveals that the Life Insurer has not ensured prescribed Turn around Times in settlement of the same. 58% (2012-13) and 38% (2013-14) of total maturity claims were paid after 30 days of maturity.

**b)** It was also observed that at the year end, large number of maturity claims was pending with the Life insurer as on 31<sup>st</sup> March, 2013, 31<sup>st</sup> March, 2014 and 30<sup>th</sup> September, 2014. The data on maturity claims indicate that a considerable number is outstanding for more than one year.

**c)** On examination of unclaimed amounts data, it was observed that a considerable number of cases/amount was belonging to surrenders. Many of the cases belong to the year 2010.

**d)** The turnaround time under different kinds of policy payments viz., survival benefits, surrenders, maturity claims and death claims payment of different kinds of claims was very high on examination of development of the outstanding position over the six month period (from



outstanding as on 31/03/2014 to outstanding as on 30/09/2014). Significant proportion of outstanding under these heads of claims remained outstanding as on 30/09/2014.

**Violation of Regulation 8 of IRDAI (Protection of policyholders' Interests) Regulations, 2002.**

**Submission by the Life Insurer**

**a) and b) –**

The following statistics of maturity claims paid financial year wise in compliance to Regulation 8(3) of IRDAI (Protection of policyholders' Interests) Regulations, 2002 is submitted as below–

FY	Total number of Maturity claims	Settlement within 30 days from Maturity date (last document also received)	%	Settlement beyond 30 days from maturity date due date but within 30 days from last document received	%	Cumulative compliance of the Regulation 8(3) of IRDAI (PPI) Regulations, 2002
FY13	31762	17082	54	14669	46	99.97
FY14	37290	26077	70	11163	30	99.87
FY15	29284	20989	72	8236	28	99.8
FY16	14812	13642	92	1139	8	99.79
FY17	33427	31610	95	1787	5	99.91

The Company is an agency driven company with wide span of operations in Tier 3 and Tier 4 locations. The reasons for the time elapse from Maturity date to Settlement date are – i) non-submission of mandatory documents by the policy holders and their latest KYC, bank account details to enable electronic fund transfer and original policy schedule despite several follow up ii) poor contact details of customers and connectivity in Tier 3 & Tier 4 cities for old policies (sourced prior to 2010) where the company is majorly present due to its financial inclusion objective.

The Company has taken all the required steps to reduce the outstanding claims such as proactive engagement with policy holders, call attempts on every un settled case where contact number is available, sending a further communication in addition to the multiple communication already sent and displaying unclaimed details on the company's website as per regulatory requirements.

Post August, 2013, intimation communication has been modified regarding upcoming maturity to the customers from 90, 75, 60, 45 and 30 days prior to maturity. After maturity date calling was also implemented to get the customer to provide with documentation.

Further the Company has implemented systems controls such as i) to automatically move the amounts pending to unclaimed account to start earning interest ii) Multiple follow-ups in the form of letters, SMS, calls etc are done iii) The turnaround times are defined and monitored on a continuous basis and reviewed on a monthly basis at the leadership level.

Due to these intensive efforts, the Company has witnessed a continuous decline in unclaimed amounts and have seen a significant reduction in the amounts since March, 2014. The latest data of maturity claims outstanding (comparing the figures as on 30.09.2014) ageing from due date is placed below.

<b>Number of Maturity Claims outstanding ageing from due date</b>	<b>As on 30.09.14</b>	<b>As on 31.03.15</b>	<b>As on 31.03.16</b>	<b>As on 31.03.17</b>
Total Number of Maturity claims outstanding	8,006	1,565	1,393	1,002
Less than 3 months	2,724	486	1,060	628
3 months to 6 months	860	368	53	8
6 months to 1 Year	3,628	245	62	84
1 Year and above	794	466	218	282

Further reduction of this number is a key focus area for the Company and more progress is expected by the end of the current financial year.

It is to confirm that the company has paid interest on outstanding amounts to policy holders and the same has been borne from shareholders' fund.

c) The build up under the head "Surrender payable" is mainly due to foreclosure of lapsed policies. This is to submit that these cases are pending because of the requirement of documents from the customers for which multiple communications have been sent. In addition to this, the branches also try to contact these customers to inform them to submit the requisite documents. The company has significantly improved the situation owing to the relentless efforts in contacting the customers who do not furnish contact details despite several follow up measures. There is a sharp reduction in case of pending for foreclosure payments. This is clear from the summary of current situation of unclaimed amounts under Surrenders are as below.

(Rs.in Lakhs)

<b>As on 31.03.15</b>		<b>As on 31.03.16</b>		<b>As on 31.03.17</b>		% from 2015 to 2017
No of Policies	Amount	No of Policies	Amount	No of Policies	Amount	
367,276	68,876.19	54,548	19,428.51	34,718	9,194.23	90.55

To further strengthen the process, entire refund process upon attaining foreclosure status has been automated to auto trigger payout calls. The process flow is as follows-

1. Auto call gets logged based on "foreclosure due" logic prior to attaining foreclosure status.
2. Upon auto foreclosure of policies in Life Asia and once foreclosure value is auto generated (based on foreclosure clause set up in Life Asia), payment request would go to finance for payout
3. Finance team will process the payment
4. The entire process is completed within 10 days from the date of foreclosure.

Reduction of outstanding number is a key focus area for the organization and much more progress is expected by the end of the current financial year.

d) The Company has significantly improved the situation owing to relentless efforts in contacting the customers who do not furnish contact details despite several follow up measures. The company has paid interest on the outstanding amount to the policy holder and the same has been borne from Shareholders fund which is an additional burden on the company. The improvements

on reduction of unclaimed amounts under each category of claims on year-on-year basis is evident from the below statistics of unclaimed amounts-

<b>Particulars</b>	<b>As on 31.03.15</b>	<b>As on 31.03.16</b>	<b>As on 31.03.17</b>
	<b>Rs. in crore</b>	<b>Rs. in crore</b>	<b>Rs. in crore</b>
Surrender Payable	689	194	92
Maturity Payable	25	14	19
Survival Payable	20	9	6
Death Payable	34	11	5

As is evident by the declining outstanding numbers as of March, 2016 and March, 2017, the efforts taken to reach out customers have ensured that more and more customers submit the required details/documents on a timely basis. This has resulted in steep decline in unpaid maturities.

**Decision for (a) to (d)**

The submissions specified that the Life Insurer has taken pro-active steps to settle the maturity claims within prescribed TAT, reduce the unclaimed amounts under surrenders and reduce the outstanding position of Survival benefits, surrenders, maturity claims and death claims etc,. However, the latest data submitted, still indicates that there is a huge scope for improvement in the systems and procedures. Claim against policies is a core contractual obligation for the Life insurer. So the Life Insurer shall be vigilant to ensure compliance to the time periods laid in the Regulatory norms prescribed by the Authority. The Authority while cautioning the Life Insurer, hereby advises to further strengthen their systems for settlement of all the referred claims within prescribed time periods.

Further, in light of the latest regulatory changes in respect of dealing with unclaimed amounts, the Life Insurer shall be vigilant and fully prompt on clearance of the unclaimed amounts, in the interest of policy holders.

Wherever there is a delay on the part of the Life Insurer, the Life Insurer shall ensure payment of penal interest in line with Regulation 14 of IRDAI (Protection of policyholders’ Interests) Regulations, 2017.

**Charge No.3**

In case of free look cancellation (FLC) of non-linked policies, the Life insurer is in practice of deducting the proportionate premium instead of proportionate risk premium/mortality charges. The premium deducted includes savings portion also. The impact was more prominent for Single premium and Limited Premium Payment Term cases where premium was collected over a shorter period compared to the policy term.

**Violation of Regulation 6(2) of IRDAI (PPI) Regulations, 2002.**

**Submissions by the Life Insurer**

It is to submit that under traditional plan the risk premium is not being segregated and the charges are deducted from the total premium. This is industry practice to charge proportionate premium instead of proportionate risk premium. There is no standard practice prescribed by Authority. Few industry players interpreted proportionate risk premium as all inclusive premium owing to the wording in the Regulation which even permits reduction of expenses, in addition to the risk premium. Further, in an opaque traditional policy it was difficult to weed out mortality risk premium.

However, to comply with the stated intention of the Authority in the Inspection Report, it is to submit that the company has already implemented system to deduct proportionate mortality risk premium instead of proportionate premium under free look cancellation of non-linked policies in terms of provisions of Regulation 6(2) of IRDAI (Protection of Policyholders' Interests) Regulations, 2002.

Post observation by the Authority, the Company has identified the affected policies since inception, and started refunding the amounts excess recovered to the respective policy holders by debiting shareholders account.

Please find below the year-wise break-up of the FLC cases where proportionate premium has been deducted instead of proportionate risk premium.

Please note that refund amount = Proportionate Premium minus Proportionate Risk Premium.

<b>Financial Year</b>	<b>NOP</b>	<b>Refund Amount (in INR)</b>
FY 12-13	1,160	2,100,943.77
FY 13-14	6,606	12,456,875.40
FY 14-15	5,514	8,973,776.01
FY 15-16	3,920	61,55,457.14
FY 16-17	1,483	671,584.75
<b>Total</b>	<b>18,683</b>	<b>30,358,637.07</b>

Policy wise data is also submitted to the Authority.

### **Decision**

It shall be noted that the provisions of Regulation 6(2) of IRDAI (Protection of Policyholders' Interests) Regulations, 2002 categorically elucidate about the deduction of proportionate risk premium and not the proportionate amount of total premium under a policy, in case of Free Look Cancellation (FLC). Hence the submission of the Life Insurer that "There is no standard practice prescribed by Authority" is evasive. There is no second meaning of "Proportionate risk Premium", across the Life Insurance Industry either in principle or in practice, other than the proportionate premium required to cover the pure insurance portion of a policy. Hence the Life Insurer's contention that "this is industry practice to charge proportionate premium instead of proportionate risk premium" is also arbitrary. The policy wise data of free look cancellations submitted by the Life Insurer as above indicates that the difference between the premium recovered and premium actually recoverable is considerable. The Life Insurer's repeated attempts to justify their wrong practice indicate that they failed to act in the interest of the policyholders, in time. The policy holders were put to considerable loss because of unilateral approach of the Life Insurer. Hence treating the same as a gross violation of Regulation 6(2) of IRDAI (Protection of policyholders' Interests) Regulations, 2002, the Authority as per the powers vested on it under Section 102(b) of Insurance Act, 1938, levies a penalty of Rs.5,00,000/- (Rupees Five Lakhs only) on the Life Insurer.

The submissions that the number of affected policies are 18683 and that the Company initiated the process of refunding the excess recovered by debiting shareholders' account, are noted. However, the Life Insurer shall also pay the penal interest on the amounts to be refunded against each of the policy out of 18683 policies at a rate which is 2% above the bank rate (repo rate prevailing as on date) by debiting the share holders' account. The interest referred herein shall be reckoned from the date on which the excess amount was

recovered from the policy holders at the time of FLC to the date of refund.

The Life Insurer shall complete the process of refund to the affected policy holders within six months from the date of issuance of this order. Till the completion of process, the company is advised to submit a status report on a monthly basis to the Authority.

The Life Insurer is also directed to ensure compliance with the regulatory norms and guidelines prescribed by the Authority in regard to Free Look Cancellations and also to ensure compliance with the policy terms and conditions as approved under File & Use procedure continuously.

#### **Charge No. 4**

a) In sample ULIP cases (Policy No. 16823498 and 16919315), it was observed that the mortality charges in the first month were based on the full sum assured whereas the benefit under these cases should have been based on higher of Sum assured and Fund value. This resulted into deduction of higher mortality charges in the first month deviating from the provisions of F&U application.

b) The Life Insurer is providing guaranteed returns under Group Variable Insurance product namely, Reliance Life Insurance Group Gratuity plan in the form of "Differential Credit" to the policyholders which were neither allowed as per approved F&U nor allowed as part of master policy document. As per fund statement of policyholders for policy numbers 40001115 (The Trustees UHBVNL Employees Pension Fund) & 40001118 (The trustees Reliance Infrastructure Limited) respectively and pertaining to period starting from 1<sup>st</sup> April 2013 to 4<sup>th</sup> Dec 2014, portion of guaranteed investment returns credited to the account in the form of differential credit, which were as high as 24% & 40% of total earning credited to fund account of master policyholders.

c) With respect to Group products, it was observed that the Life insurer is in practice of offering group insurance products to the group having size lesser than the approved terms & conditions as specified in the F&U. Around 15% of total business solicited by the insurer deviates terms & conditions specified in F&U with respect to group size criteria.

#### ***Violation of File and Use Guidelines.***

#### **Submission by the Life Insurer**

a) *It is to submit that the alleged inadvertent error pertained to only first month and that in subsequent months, the deduction was appropriate in line with the benefit structure as per the approved File and Use. The systems are already enhanced to deduct the mortality charges based on Sum at Risk, even during the first month (although currently this is happening from second month) and confirm such instances will not occur in future. The same is reviewed periodically to eliminate deviations, if any.*

b) *The Company has not given any guarantee to policy holders. It is a well accepted practice and principle that declaration of interest is no guarantee of returns. The basis underlying the declaration of interest rates for group Traditional fund based insurance products whereby the interest rate is declared in advance at the beginning of the financial year or quarter.*

*As per Authority's circular no. 01/IRDA/ACTL/MC/2006-07 dated 12<sup>th</sup> July 2006 which provides for highlighting deviations to the Board and Appointed Actuary on quarterly basis. It is also submitted that IRDAI circular Ref. no. 064/IRDA/ACTL/March-2008 dated 18<sup>th</sup> March 2008 which allows life insurance company to submit to the Authority, details of such policy*

sold in specified format and certified jointly by Chief Executive Officer, Compliance Officer and the appointed actuary to reinforce the coordinated decision making process. It is further to submit that the Company has reported the product deviation report to the Authority for their record and placed the same before Board of directors. It is to submit that in the best interest of Policyholder and to meet their expectation, differential credit was given. It is to certify that the deficit funding of the differential credit was borne by the Shareholders. Advance declaration of interest is a product feature approved by the Authority. Copy of the F&U wherein approval is provided by the Authority is submitted.

c) It is to inform to the Authority that whenever any policy was issued with less than minimum size as per F&U, the same was reported to the Authority in its respective quarter's Group Deviation Report. The report was also placed before the Board.

Post, 7<sup>th</sup> July, 2014, deviation to F&U Terms and conditions with respect to minimum member size has been stopped, to be in compliance with IRDAI circular ref. IRDA/ACTL/ REG/ CIR/ 158/07/2014-15 dated 7<sup>th</sup> July, 2014.

### Decision

- a) Based on the confirmation of having corrected the systems and the assurance that the Company will ensure non-recurrence of such issues in future, the charge is not pressed.
- b) The submission that the "Differential Credit" is the difference between "the rate of interest declared at the beginning of a financial year" and "the rate of interest that represents the return on the policy account value during the year" is taken note of. It is further noted that the said credit is entirely borne by the shareholders. But the life insurer shall note that the terminology "Differential Credit" was neither approved in F&U nor in Policy Terms and Conditions. The Life Insurer should have kept the Authority informed about the decision of giving Differential credits to the policy holders in case of deficit funding i.e., the short fall between interest rate declared at the beginning of the year and interest earned by the Policy Account.

As there is no noticeable impact on policy holders' interest and that the differential credit given is being funded from shareholders' fund, the charge is not pressed.

c) The circular Ref. no. 064/IRDA/ACTL/March-2008 dated 18th March 2008, does not allow flexibility to deviate from the minimum group size under group policies, from that approved under the file and use. Hence the Life insurer's reference to the said circular is not apt to counter the violation noticed. In fact, the violation noticed is that of approved File & Use guidelines and the Life Insurer is warned for the said violation. The submissions that post 7<sup>th</sup> July, 2014, deviation to F&U Terms and condition with respect to minimum member size has been stopped so as to be in compliance with IRDAI circular ref. IRDA/ACTL/ REG/ CIR/ 158/07/ 2014-15 dated 7<sup>th</sup> July, 2014 are taken on record.

### Charge no.5

It was observed that the Life Insurer has kept huge amounts of premium deposits without adjusting the same to the premium for reinstatement of policies or without refunding the same to the policy holders. Further it is noticed that the Life Insurer is in practice of accepting the said premium deposits (usually insufficient premium under the policies) without obtaining Declaration of Good Health (DGH), a requirement for reinstatement.

**Violation of Clause 6 of Annexure II of Corporate Governance Guidelines, IRDA/F&A/CIR/025/2009-10 dated 05.08.2009.**



## Submissions by the Life Insurer

The new internal process of reinstatement wherein the amount is refunded after 90 days from the date of call logging/date of receipt whichever is later w.e.f. 01/10/2016 was initiated. As a process, the premium deposit towards reinstatement of policies is either adjusted against the policies or refund is initiated within 90 days. Where it is more than 30 days communication with the policy holder has been initiated every 15 days. It is to submit that there is no case pending beyond the stipulated period i.e. 90 days. The entire process has been automated and the Company placed a robust control in process to refund the cases wherein customer has not approached within the stipulated Turnaround Time (TAT). The auto refund is initiated if premium remains unapplied for more than 90 days from date of receipt or date of request for reinstatement, whichever is later.

The process flow of refund is listed below for the Authority's kind perusal:

- 1) Auto refund gets processed as per defined rule (TAT T+90)
- 2) Policy servicing team initiates refund
- 3) Finance team will process payout

The status of reinstatement suspense as on 31st Jan 2017 is given below. It is evident that there are no cases pending in the >90 bucket.

(Amount in Crores)

Ageing	0-30		31-60		61-90		>90	
	NOP	Amt	NOP	Amt	NOP	Amt	NOP	Amt
Reinstatement premium	1909	3.68	873	2.03	502	1.08	0	0

Further, it is to submit that as on 30/09/2017, nothing is pending under reinstatement beyond 90 days. The refund has been initiated wherever applicable.

These cases are pending on account of requirement of documents from the customers for which multiple communications have been sent to the customers. In addition to this, the branches also try to contact these customers to inform them to submit the required documents.

The overall outstanding numbers have come down as the Company has implemented various controls and robust systems to collect customer contact details to make the payment within regulatory TAT. Further, the Company continuously reviews its processes and controls to strengthen them in order to address any gaps.

With regard to accepting premium without procuring DGH, a sample data check of renewal premiums above 180-days collected in the month of September, 2014 and October, 2014 shows that out of total 27204 (more than 180 days) renewal premiums receipting during this period, DGH was collected in 23960 cases. This shows that DGH was collected in 90% of the cases.

The DGH was not received along with the premium deposit in following scenarios –

1. Premium cheques deposited in the drop box
2. Premium cheque mailed by the customer to branch/HO
3. Premium collected by runner and DGH not collected by oversight
4. Online payment.



As such, it is quite evident that the Company had a process of collecting DGH at the time of receipt of renewal premium. For lapsed cases the Company used to send letters and SMSs to customers to revive the policy or complete the requirements. The SMSs sent to customers clearly mentioned the need to reinstate the policy to ensure security of family. A sample copy of SMS/letter is submitted to the Authority for examination.

### **Decision**

At the outset, the documentary evidence brought out by the Authority (the process note on reinstatement of policy which was in vogue at the time of inspection) clearly indicates that, if the requirements are not received within 30 days of receipt of the premium deposit, refund shall be initiated. Hence by keeping huge amounts of premium deposits received for reinstatement of policies, the Life Insurer has not ensured that its own internal procedure was being followed. It was noticed that in case of 372 cases the premium deposit was lying for more than 30 days. This indicates poor internal controls. The Life Insurer is warned for the same.

The submissions that they are adhering to their new SOP w.e.f. October, 2016 are noted. The Life Insurer is advised to strengthen their systems to ensure continuous compliance to their internal processes.

The Life Insurer shall also ensure that all the requirements for reinstatement shall be raised at one go, at the time of receipt of deposit, to enable the policy holder to understand the complete set of requirement for reinstatement of their policy. Any negligence on the part of the Life insurer, in this regard may deprive the policyholder of continuance of risk coverage which is the basic purpose of taking out insurance policy.

### **Charge No.6**

The Life Insurer was in practice of accepting premium in excess of actual installment premium due; such premium collected kept in advance premium account and is not refunded to the policy holders. The list provided by the Life Insurer contains the premium received in the year 2004-05 which were still neither refunded to the policy holder nor was it adjusted to subsequent policy transactions. Further the Life insurer was maintaining shareholder pool account, under which all premiums were collected. Any income received from such advance premiums are being credited to the shareholders account.

***Violation of Section 10(2) and (3) and Section 11(1), 1(A) 1(8) and 64VB(3) of the Insurance Act, 1938, /RDA (Preparation of Financial Statements and Auditor's Report of Insurance Companies) Regulations, 2002 and also violation of Clause 6 of Annexure II of Corporate Governance Guidelines, 2009 for keeping the refunds pending for such a long period.***

### **Submission by the Life Insurer**

*It is to submit that excess amounts (excess of premiums), if any were collected owing to give impact to premium rounding off. Post the Authority's inspection, the Company further corrected the systems and processes to ensure that exact amount is collected and even if by chance excess is collected, the same is immediately refunded. The premiums collected from customer are transferred to policyholders pool account and any amount earned on this is being passed on to customers. The investment Standard Operating Procedure is submitted for reference of the Authority in support of the same.*



Hence, excess premium, if any is lying under policy holder pool account and corresponding investment income is also credited to policyholders pool account only and not to the shareholders fund.

Further, it is to confirm that the cases referred by the Authority are new business premiums along with new business applications. It is to confirm that all the relevant premiums were collected as per the premium calculator /benefit illustration and these cases are not excess premiums. A sample of 30 cases from the list provided by the Authority is submitted to establish that the premium collected is as per the premium calculator/benefit illustration.

Status codes such as Contract withdrawn (WD), Contract Declined (DC), Contract postponed (PO), Contract Rejected (RJ), Proposal stage (PS) and No Cash (NC) (cash part of the deposit where cheque dishonoured) etc can be seen in the list provided by the Authority. The breakup of the total 1616 cases as provided by the Authority is as follows.

Status Code	Total No of proposals
WD	1345
RJ	121
DC	45
PS	40
NC	38
PO	27
Total	1616

Hence it is to be reiterated that none of these are excess premiums.

### **Decision**

In light of the confirmations and submissions made by the Life Insurer, **the charge is not pressed.**

### **Charge No.7**

Lease agreement with Rent Works India Private Limited (lease arrangement was for IT equipments and furniture and fittings), was considered as operating lease instead of financial lease. As per the terms and conditions under the agreement, the lease is fit to be classified as financial lease.

***Violation of Regulation 2(e) of IRDA (Assets Liabilities and Solvency Margin of Insurers) Regulations, 2000 and Violation of Regulation 3(1) read with Clause 1 of Schedule A (Part 1) of IRDA (Preparation of Financial Statements and Auditor's Report of Insurance Companies) Regulations, 2002 (Accounting Standard 19 prescribed by/CAI).***

### **Submissions by the Life Insurer**

It is to submit that the referred lease agreement with Rent Works India Private Limited had been terminated in June, 2015. The Company had classified the same as operating lease under Clarification provided in Accounting Standard-9 by Institute of Chartered Accountants of India. Even when the lease is considered as financial lease, there would not have been any impact on the solvency margin (ASM) of the Company and was well above the specified limit as below –

Year	ASM reported (%)	Revised ASM(%)
2012-13	429	398
2013-14	439	411
2014-15	355	352

Further, the Authority sought confirmation whether the company had adopted such practice under any other such leases also by treating them as operating leases. It is to confirm that the Company has taken in account lease arrangement with another company as an operating lease. The revised calculations of ASM for the last four years after considering all the similar leases as financial leases are given below:-

<b>Year</b>	<b>ASM reported (%)</b>	<b>Revised ASM (%)</b>
2013-14	439	411
2014-15	355	347
2015-16	304	300
2016-17	272	271

### **Decision**

On the examination of clause 4.6 of the said agreement it was observed that all the risks associated with the assets are with Life insurer and Life insurer's obligation to pay lease rent is unconditional. On further examination, it is noticed that as per Clause 11 which is "termination clause", if either party cancels the lease, the Life insurer is required to pay all the losses associated with termination of lease agreement including liquidated damages equal to the aggregate amount of all present value of all future rentals payable under the agreement. As per Para-8 (c&d) read with para-9(a) of Institute of Chartered Accountants of India's Accounting Standard 19, the lease agreement containing the above mentioned features shall be classified as 'finance lease' instead of 'operating lease'. Hence the submissions of the Life Insurer are unacceptable.

However, in light of the confirmations that there was no significant impact on the Available Solvency Margin, **the charge is not pressed.**

The Life Insurer shall conform to the provisions of Regulations mentioned under the charge continuously. Such violations, if found hereinafter will be viewed seriously.

### **Charge No.8**

On examination of the sample policies issued for the financial years 2012-13 and 2013-14, it was observed that the Life Insurer has issued the policies under product which was closed for sale.

***Violation of File and Use Guidelines (At the time of issuance of Show Cause notice vide letter dated 24/07/2017 the charge made was violation of Section 64e of IRDAI (Linked Products) Regulations, 2013 inadvertently. However during the course of personal hearing the same was changed to File and Use violation with mutual consent of the Authority and the Life Insurer).***

### **Submission by the Life Insurer**

*This is a dated issue and the Company has checked the records. The product was originally designed for three months as close ended products. The original file and use document was filed with the Actuarial section of the Authority during the December, 2011. However, the Actuarial section directed the Company to seek approval of Investment function for creation of an Investment Fund (Unit Linked).*

*The following additional conditions were imposed by the Authority in the email document submitted to the Authority during personal hearing, which supersedes all other earlier stipulations.*

a) The product should be open for a period of six months

b) The new business premium income targeted under the product should be in the range of Rs.300 Crores to Rs.500 Crores

c) The name of the product fund cannot contain serial number II – Life Bond Fund II which was the originally applied name-however, the Authority approved the fund name as Reliance Assured Maturity Debt fund.

The company accepted the above conditions. However, the garnered funds (new business premium) were less than Rs. 100 Crores by 28<sup>th</sup> August, 2012. Consequently the Company could not approach the Authority for closure of the fund and the product.

The instance observed in the inspection report pertains to a customer to whom another product was sold. However, the customer saw the product being open in the website and demanded that his funds be transferred to this product. Request letter from the policy holder is submitted to the Authority. Owing to the concern raised by Chief Investment Officer and Actuary in the above mail correspondence regarding the fall in interests rate, the product also not sold with the sole exception of customer demanding the product. Post December, 2013, when all the existing products were withdrawn, the Company has implemented system enhancements and process improvements to ensure that no more products are sold. It is to submit that no new logins post 31.12.2013 have been permitted after the date of 31.12.2013.

The Life Insurer further submitted a series of e-mail communications made with the Authority.

### Decision

The Life Insurer indicated a series of e-mail communication sent by them to the Authority, referring that some conditions were imposed by the Authority. However, there was no such condition in support of the submission that they could keep the product open for sale, till the fund under the product would garner a premium income of Rs.300 Crores. This is authenticated by the revised File & Use (incorporating all the proposed changes) submitted to the Authority, post all such e-mail communications. In the said File & Use it was clearly mentioned that "Section 6.1.8 Market for: Limited Period: This is a close ended product. This plan will be Open for new business only up to 6 months from the date of Approval". In the same File & Use, under section 10, the expected total new premium was mentioned as Rs. 300 Crores. However section 10 of the File & Use indicates the expected volume of business and never considered as a product approval condition; the volume may or may not be reached. For example, a product may not be closed immediately when the company achieved the expected volume of business and vice versa. The product referred herein was having a closure date of 28.08.2012 (which is 6 months from the date of approval of the product). No additional condition was imposed by the Authority which could justify the Life Insurer's action to keep the product open for sale beyond 6 months from the date of approval of the product. Around 30 (thirty) policies, as identified during the onsite inspection, were issued under the product even after this closure date, which is in violation of File & Use Guidelines. The Life Insurer is warned for the same. The Life insurer is further directed to ensure strict adherence to the approved version of File & Use. Henceforth, any such violation will be viewed seriously.

### Charge No.9

The Life insurer failed to furnish any of the following details with respect to various group policies i.e.,



- Actual investment returns credited for various group policies
- Basis for the calculation of interest rate in case of traditional products
- NAV calculations in case of fund based ULIP product
- Funds maintained for each of the product including Variable Insurance Product (VIP)

- No inputs were received from Investment team with respect to fund maintained for VIP products based on which interest credited to policyholders has been calculated.

-With respect to Group VIP products & Fund based product, no separate funds were maintained within the investment team of Life insurer which would justify the rates as imputed into the Life Asia for justifying the calculations of actual interest rate earned & that which is given to the policyholders in the form of interest credited to their accounts.

***Violation of Section 33(3) of Insurance Act, 1938 and Regulations 4 (b) and 4 (c) (iv) & (vi) of IRDA (Linked Insurance products) Regulations, 2013***

**Submission by the Life Insurer**

*It is to state that the Company submitted all the required documents, processes at the time of inspection to inspection team of the Authority. The charge raised in inspection report was non-provision of submissions of basis of interest rate calculations which was provided at the time of inspection. The notice required submission of documentary evidence in support of submission which was also provided along with the submission of response to show cause notice. The Company has a product council and Executive Investment committee that deliberate upon interest rates, investment returns, expected yield etc, and it is to confirm that the submitted information are a part of discussion and the Board is briefed of the same. There is adequate segregation of funds and investment structure. The same is once again submitted to the Authority's reference. The investment team used to sit in a distant place and there might have been a communication gap during inspection. The calculations are straight forward and every detail is available.*

**Decision**

**The submissions of the Life Insurer are considered and hence the charge is not pressed.**

**Charge No.10**

a) The process note regarding the calculation of interests rates credited to the policy holders under a non-linked non-par group saving variable insurance product, revealed that the same is in deviation from terms & conditions specified in approved F&U.

b) The Life Insurer has eight variable insurance products in total including group products. However, the company is still in the process of developing software based system to maintain shadow accounts with respect to VIP products. In the absence of maintenance of shadow accounts and separate investment funds being maintained for VIP products, Insurer has left ample scope of discretion about the interest rate to be credited to policyholders' accounts.

***Violation of File and Use Guidelines, Regulation 13(b) and Regulation 18 of IRDA/ (Non-Linked Products) Regulations, 2013.***

**Submission by the Life Insurer**

a) *The interest rate is declared in advance at the beginning of every financial year and quarter depending upon the product structure. The actual interest rate declared is the weighted*

expected return on the fund. The Company agrees with Authority's observation that the F&U does not allow for adjustment of margin for adverse deviation. However, in order to smoothen the interest rate from one year to another and also to maintain the consistency with previously declared interest rate, company allows some adjustment in the interest rate. However, the Company has discontinued the above practice once the Authority raised the issue. It is to confirm that "Shadow Accounting System" has been implemented in terms of product regulations. Documentary evidence of the same is submitted for reference of the Authority.

**b)** The shadow account has been built into excel and is being rolled out in the policy administration system (PAS). The development of shadow account has been going on for some time, the detailed approach highlighting the scope of work and calculation model was finalized between Finance, Actuarial Pricing and Product management team in June, 2015, a BRD was further made in December, 2015. IT team has been developing system basis that, during the course of time there were technological challenges in implementing the shadow account because of which the development took longer than expected time. Further, it is to submit that group VIP products were launched in FY 13-14 and have not completed 5 years for reduction in yield to apply in terms of product regulations, there was no impact on the policy holders. It is to confirm that the Company is maintaining a separate fund for Reliance Group Jan Samridhi plan and declaring the crediting rate based on the asset profile of the fund. Hence, there is almost no scope for applying discretion on interest rate to be credited to the fund.

However, the company has now implemented "Shadow Accounting System" in terms of product regulation. Documentary evidence in this regard is submitted.

#### **Decision**

**a)** It is evident that there were no systems in place for Shadow account at the time of inspection. Not having systems in place for Shadow accounting is a violation of Regulation 13(b) (Maintenance of Shadow policy account value on daily basis) and also Regulation 18 of the IRDA (Non-linked insurance products) regulations, 2013 regarding system readiness. Also, the practice followed by the Life insurer in making adjustments to the expected yield is not appropriate and also not in line with F&U (which is also admitted by the Life insurer). The Life Insurer is warned for the same.

**b)** Software based system to maintain shadow accounts with respect to VIP products shall be there. Considering the submissions that they have now implemented the systems, the charge is not pressed.

#### **Charge No.11**

With respect to pricing of group products, it was observed that the Life Insurer was in practice of applying discount rates based on large schemes (depending on the group size) instead of large premium schemes.

#### **Violation of File and Use Guidelines.**

#### **Submissions by the Life Insurer**

It is clearly stipulated under Section 14 of the File and Use document that "The discount in the expense loading is allowed for large schemes, where large scheme discounts depends upon the number of members in the Group and their average sum assured. The discounts were offered keeping in mind the experience with the client, quality of portfolio, group patronage, long term relationship and premium size. The Company has filed the list of deviations with the Authority, on



a quarterly basis up to June, 2014. However, the Company has discontinued the practice of offering discounts and issuing policies with lesser number of members. It is to confirm that post inspection, the company has modified its systems/pricing models to conform to the terms and conditions provided in File and Use. It is also to submit that the company has incorporated sufficient checks and controls built in the Company's models and quotation process to curb mispricing issues.

The Authority may kindly note that with effect from 7<sup>th</sup> July, 2014, the Company has not deviated from any File and Use deviations. Systems controls have been implemented to prevent File and Use deviations. For example, to ensure group with less than member size as stipulated File and Use document is not accepted at the time of inception as well as renewal.

**Decision**

Considering the submissions made, **the charge is not pressed**. However, the Life Insurer shall ensure compliance to the Authority's circular No. IRDA/ACTL/CIR/158/07/2014-15 dated 07/07/2014 continuously.

**Charge No.12**

The Authority vide final order Ref No. IRDNLIFE/ORD/MISC/103/04/2014 dated 11<sup>th</sup> April,2014, directed the Life Insurer to change the death claim process with respect to Group policy issued to Reliance Mutual Fund. However, the Life Insurer has not ensured the same. A sample of two instances revealed the same.

***Violation of Clause C-7 of Group Insurance Guidelines, 2005 and non-compliance with the Authority's directions given vide order Ref No. IRDA/LIFEIORDIMISC/10310412014 dated 11th April, 2014.***

**Submission by the Life Insurer**

It is to confirm that since June, 2014 onwards nominee's bank account has been credited in terms of Authority's direction. With regard to two instances noted by the Authority, under one instance, the claim was received prior to the date of order and therefore claim documents were submitted with express understanding/consent from nominee beneficiary to credit the insurance claim into mutual fund account of the unit holder as per the underlying scheme of Reliance Mutual Fund. The system changes, process changes and the changes at the client's end were implemented by 8/6/2014. In another instance, actual date of settlement is 15/07/2013 and not 15/07/2014 as mentioned by the Authority.

**Decision**

Based on the submission made and confirmations given, **the charge is not pressed**

**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	Engaging individual agents for outsourcing activities	Warning and Direction



	<b>Violation of Clause 8.4/8.5 of Outsourcing guidelines, IRDA/LIFE/CIR/GLD/013/02/2011 dated 01.02.2011</b>	
2	Delay in settlement of Maturity claims, survival benefits and surrenders, huge amount lying under unclaimed amounts  <b>Violation of Regulation 8 of IRDAI (Protection of policyholders' Interests) Regulations, 2002</b>	Caution/advisory and direction
3	Proportionate premium deducted instead of proportionate risk premium in case of FLCs  <b>Violation of Regulation 6(2) of IRDAI (PPI) Regulations, 2002</b>	<b>Penalty of Rs.5,00,000 and direction</b>
4	Wrong deduction of mortality charges, Differential credit given under Group/Variable products and Group policies issued without adhering to minimum prescribed membership.  <b>Violation of File and Use Guidelines</b>	Charge not pressed
5	Huge amounts of premium deposits collected for Reinstatement of policies, were pending to be adjusted/refunded.  <b>Violation of Clause 6 of Annexure II of Corporate Governance Guidelines, IRDA/F&amp;A/CIR/025/2009-10 dated 05.08.2009</b>	Warning and Advisory
6	Excess of actual installment premium due; such premium collected kept in advance premium account and is not refunded to the policy holders. The account is parked in shareholders pool account.  <b>Violation of Section 10(2) and (3) and Section 11(1), 1(A) 1(8) and 64VB(3) of the Insurance Act, 1938, IRDA (Preparation of Financial Statements and Auditor's Report of Insurance Companies) Regulations, 2002 and also violation of Clause 6 of Annexure II of Corporate Governance Guidelines, 2009 for keeping the refunds pending for such a long period.</b>	Charge not pressed
7	Lease agreement considered as Operating lease instead of Financial lease.  <b>Violation of Regulation 2(e) of IRDA (Assets Liabilities and Solvency Margin of Insurers) Regulations, 2000 and Violation of Regulation 3(1) read with Clause 1 of Schedule A (Part 1) of IRDA (Preparation of Financial Statements and Auditor's Report of Insurance Companies) Regulations, 2002 (Accounting Standard 19 prescribed by ICAI)</b>	Charge not pressed & advisory
8	Policies issued under a product which is closed for sale.  <b>Violation of File and Use Guidelines</b>	Warning & Direction
9	Failed to furnish details (mentioned under the charge) with respect to various group policies.  <b>Violation of Section 33(3) of Insurance Act, 1938 and Regulations 4 (b) and 4 (c) (iv) &amp; (vi) of IRDA (Linked Insurance products) Regulations, 2013</b>	Charge not pressed

10	<p>a) The process note regarding the calculation of interests rates credited to the policy holders under a non-linked non-par group saving variable insurance product, non in line with F&amp;U.</p> <p>b)The company does not have software based system to maintain shadow accounts with respect to VIP products.</p> <p><b>Violation of File and Use Guidelines, Regulation 13(b) and Regulation 18 of IRDA/ (Non-Linked Products) Regulations, 2013</b></p>	<p>a) Warning</p> <p>b) Advisory</p>
11	<p>Applied discount rates under Group pricing in violation of File and Use.</p> <p><b>Violation of both the file and use and also the circular ref: 064/IRDA/ACTL/March-2008 dated 18/3/2008</b></p>	Charge not pressed
12	<p>The Life Insurer has not changed the death claim process with respect to Group policy issued to Reliance Mutual Fund even after Authority's order Ref No. IRDNLIFE/ORD/MISC/103/04/2014 dated 11th April, 2014.</p> <p><b>Violation of Clause C-7 of Group Insurance Guidelines, 2005 and non-compliance with the Authority's directions given vide order Ref No. IRDA/ LIFE/ ORD/ MISC/1 03/04/2014 dated 11<sup>th</sup> April, 2014</b></p>	Charge not pressed

### Conclusion

- i) As directed under the respective charges, the penalty of Rs. 5,00,000 (Rupees Five Lakhs only) shall be remitted by the Life Insurer through NEFT/ RTGS (details for which will be communicated separately) by debiting shareholders' account, within a period of 15 days from the date of receipt of this Order. An intimation of remittance may be sent to Mr.Prabhat Kumar Maiti, General Manager (Enforcement) at the Insurance Regulatory and Development Authority of India, 3rd Floor, Parishrama Bhavanam, Basheerbagh, Hyderabad-500 004.
- ii) The Life Insurer shall confirm the 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.
- iii) The Order shall be placed before the Audit committee of the Life Insurer and also in the next immediate Board meeting and to provide a copy of the minutes of the discussion.
- iv) If the Life 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: 21<sup>st</sup> December, 2017.



(P.J. Joseph)

Member (Non-Life)

