



No. IRDA/ENF/ORD/ONS/145 /07/2016

Final Order in the matter of  
M/s. Shriram General Insurance Company Limited

Based on reply to the Show Cause Notice dated 22<sup>nd</sup> April, 2016 and submissions made during Personal Hearing on 21<sup>st</sup> June, 2016 at 11:30 am taken by Member (F&I) at the office of Insurance Regulatory and Development Authority of India, 3<sup>rd</sup> Floor, Parishrama Bhavanam, Basheerbagh, Hyderabad.

The Insurance Regulatory and Development Authority of India (hereinafter referred to as "the Authority") carried out an onsite inspection of M/s **Shriram General Insurance Company Limited** (hereinafter referred to as "Insurer") from 25-2-13 to 8-3-13. The Authority forwarded the copy of the Inspection Report to the Insurer seeking comments and the insurer's comments were received vide their letter dated 3-10-13. Upon examining the submissions made by the Insurer, the Authority issued Show Cause Notice on 22<sup>nd</sup> April, 2016 which was responded to by the Insurer vide letter dated 19-5-2016. As requested therein, a personal hearing was given to the Insurer on 21.6.2016. Shri Anil Kumar Aggarwal, MD&CEO, Shri Farhat Hussain, Chief Underwriting Officer, Shri Ashwani Dhanawat, Chief Investment Officer, and Shri Kuljeet Baweja, General Manager, were present in the hearing on behalf of the General Insurer. On behalf of the Authority, Mrs V. R.Iyer, Member (F&I), Shri Lalit Kumar, FA & HOD (Enforcement), Shri Prabhat Kumar Maiti, JD (Enforcement), Shri B.Raghavan, DD (Enforcement), Shri Sankara Srinivas, OSD (Non-Life) were present during the personal hearing.

The submissions made by the Insurer in their written reply to the Show Cause Notice and also those made during the course of the personal hearing and the decisions thereon are detailed below.

1. Charge No.1:

Outstanding Loss Reserve (OSLR) for Motor OD and Commercial line of business:

SGICL implemented the method of providing the initial claimed amount by the insured as the OSLR in the system at the time of claim intimation. The provision for OSLR remained same in the system until the settlement of the claim. In order to arrive at OSLR at the time of valuation, the insurer had estimated ('Paid to estimate %') i.e., intimated claim amount to paid amount percentage based on past experience. There is an element of subjectivity in the estimation of 'Paid to estimate' percentage to arrive at

OSLR at the time of valuation. In this regard, the method or process of arriving at the percentage and factors used for different segments to estimate OSLR were not discussed in Chapter- 8 'Reserving' of Financial Condition Report (FCR) or Appointed Actuary's report on estimation of reserves for IBNR claims.

However, as per the method adopted by the insurer, negative outstanding reserves would result for some of the known claims and also it is observed that the insurer is not taking into consideration the surveyor report recommendations.

Violation of Section 2(ii)(b)(I) of Regulation 4 (Schedule IIB) of IRDA (ALSM) Regulations, 2000, which prescribes that the amount is to be provided in full where the amounts of outstanding claims of the insurers are known.

**Submissions of Insurer:** *The method or process of arriving at the percentage and factors used for different segments to estimate OSLR are mentioned in Chapter – 7 'Adequacy of Reserves' (FCR) for FY 2015-16.*

*It is submitted that from FY 2015-16, reserves for outstanding claims are determined as per the method prescribed in the regulation.*

*Where the amount of outstanding claims of the insured is known, as per surveyor report, the amount is provided in full and for other claims a formula based on paid to estimate is used.*

*Further, it is submitted that in the erstwhile formula any negatives were considered as zero. Therefore, no negative outstanding results would arrive. Insurer has also informed that they have incorporated the procedure as suggested in their FCR of 2015-16.*

**Decision:** The submission made by the insurer, is taken note of. However, the insurer is directed to comply with Clause 3(2)(a) of Schedule II under Regulation 5 of IRDA (ALSM) Regulations, 2016.

## **2. Charge No.2:**

It was observed from top 20 policies of Motor OD and Personal Accident and its underwriting documents that several of the policies are sourced through unlicensed persons /entities. The examination of 26 sample policies revealed that the premium was booked under direct code but the intermediary code on the cover note/proposal/quality check form proves the involvement of unlicensed persons/entities in soliciting and procuring business.

The second instance of business being sourced through unlicensed persons /entities is that the insurer is availing the services of Shriram Value Services Pvt. Ltd. (SVS) with

respect to IT Solutions as service provider and M/s. Silver Shine Consultants Pvt. Ltd. (SCL) as an end to end service provider. The scope of the services to be rendered was mentioned in the agreements entered into by both the parties. From the data of persons / entities to whom insurer provided user ID / access to its policy administration system, It is evident that the insurer had generated and allotted online access codes to its policy administration system to M/s. SVS and / or M/s. Shriram Transport Finance Co. Ltd. (STFC). Further, the employees of M/s. SVS and / or M/s. STFC are using the said online access and are engaged in solicitation and procurement of insurance business and also underwriting / entering the said business in policy administration system of the insurer.

The third instance of business being sourced through unlicensed persons/entities is that in 10 policies out of top 20 policies, though the business was said to be sourced through an intermediary / producer, the name of that intermediary / producer was not appearing on the policy documents. It is evident from the underwriting documents viz. proposal form / cover note / receipt that the said policy was sourced from an unlicensed entity and booked under code as per policy document.

**Violation of:**

- i) IRDA circular ref.no.IRDA/Cir/010/2003, dated 27.03.2003 for using services of unlicensed entities for soliciting business.
- ii) Clause 6 under Annexure II of Corporate Governance guidelines issued by Authority vide circular: No. IRDA/F&A/CIR/025/2009-10, dated 5-8-2009.

**Submissions of Insurer:**

*The insurer encourages its employees to source business directly from the market/family/relations using its influence and the mentioned policies were sourced directly by insurer's employees. No payment in any form was ever paid for these policies and therefore, the observation that the policies are sourced through unlicensed persons / entities is not correct. The management cost of the insurer is the lowest in the industry (9%) whereas the industry management cost hovers between 20 to 30% which corroborates direct sourcing of business without out flow of any form of payment.*

*Further, the insurer neither generated nor provided online access to SVS. They are involved only in the non-core activities.*

*Regarding the charge that related to the 10 policies mentioned in the observation, it is submitted that they were sourced directly by the insurer and the name of the intermediary was not displayed on the policy. Being a direct business, the insured contacts directly to the insurer and not to any intermediary. The direct business brings down the cost of acquisition as no commission is paid as is evident from the fact that the insurer's management expenses are lowest in the non life insurance industry at 8.72% for FY 2012-13.*

**Decision:** The submissions made by the insurer were considered. Although the insurer has furnished an undertaking that it did not make payment of any commission or any other pay outs towards procuring business under direct channel but it is observed that the service providers viz. SVS and STFC were given access to the policy administration system of the Insurer. The detailed steps described in the process of writing business indicate that the service providers were involved in procuring business which is violation of IRDA circular ref.no. IRDA/Cir/010/2003, dated 27.03.2003. Hence under the powers vested in the Authority under Section 102(b) of Insurance Act 1938, **a penalty of Rs.5,00,000 (Rupees Five lakh only)** is levied on the General Insurer. The General Insurer is further directed to discontinue such practice of involving the service providers in the distribution of insurance product.

**3. Charge No 3, 13 and 16:**

**Charge No.3:** It was found from examination of sample policies that the insurer has allowed discounts up to 85% under Fire and up to 71% under engineering segments on the base rates filed.

Violation of point 1, 3(ix), 8 & 11 of F&U guidelines dated 28/09/2006 by offering discounts other than those filed & approved by IRDA.

**Submissions of Insurer:**

*This is to submit that GWP of the Company for FY 10-11 was Rs. 780 Cr. and for FY 11-12 was Rs. 1266 Cr. out of which Fire portfolio was only 0.57% (FY 10-11) and 0.61% (FY 11-12), Engineering Portfolio was only 0.28% for FY 10-11 & 11-12. The premium quoted by the company for different risks barring a few exceptions are as per the filings done with the Authority and also keeping in mind the industry practice. Such deviated rates have been derived based on the loading and discounts considering low exposure, quality of risk and PML.*

**Charge No. 13:** The sample top 20 policies issued for Group Personal Accident insurance in the year 2011-12 were examined. The underwriting for these Group PA policies is based on experience. It was observed from the said examination of the said policies that the insurer had allowed more than stipulated group discount / underwriting discount to its associate / group companies.

**Violation of:**

- 1) F&U guidelines contained in Circular No.021/IRDA/F&U/Sep.06 dated 28.09.2006
- 2) Circular No.IRDA/NL/CIR/F&U/003/01/2011 dated 06.01.2011 which prohibits practices like offering of premium rates outside the range filed with IRDA, offering discounts in premium etc.

**Submissions of Insurer:**

*We submit that the discounts offered by us are not based on group affinity but on the merits of the risk exposure. The five policies on which the discount is provided are the policies issued for accidental death only cover for which the erstwhile market agreement is lower than the rate charged by SGICL.*

**Charge No.16:** The GPA policy no. 421010/48/11/000140 for the period 10-10-2010 to 09-10-2011 was issued to M/s. Shriram Group Companies i.e. associate / group companies of the insurer. The premium for the said policy amounting to Rs. 87.50 Lakhs (excluding Service Tax) was debited to CD account no. AB0000000138. The insurer had issued this policy with warranty that, "the policy is on adjustable basis at the end of the year, Based on auditor's certificate for number of employees and gross salaries paid". As per the filed version of the product, there is no such provision. Also the insurer had charged a rate by allowing a discount of 53.33% on the filed rate.

**Violation of:**

1. F&U guidelines 021/IRDA/F&U/Sep.06 dated 28.09.2006
2. Circular No. IRDA/NL/CIR/F&U/003/01/2011 dated 06.01.2011 which stipulates that practices like offering of premium rates outside the range filed with IRDA, offering discounts in premium etc. will attract penal action.

**Submissions of Insurer:**

*We submit that in the group policies, when they are issued on the group pertaining to employer - employee relation, the remuneration varies on yearly basis on account of increase or decrease of salaries. Such policies can only be issued on adjustable basis and if not allowed the same will not be fair to either policyholder or insurer. The policy bearing no. 421010/48/11/000140 for the period 10-10-2010 to 09-10-2011 is for accidental death only cover for which the erstwhile market agreement is lower than the rate charged by SGICL.*

**Decision (Charges 3, 13 and 16):**

Insurer has violated provisions of F & U guidelines 021/IRDA/F&U/Sep.06 dated 28.09.2006 and also violated circular no. IRDA/NL/CIR/F&U/003/01/2011 dated 06.01.2011 which prohibits practices like offering features and discounts in premium other than that filed with and approved by the Authority.

For the above violation, under the powers vested in the Authority under Section 102(b) of Insurance Act 1938, a **penalty of Rs.5,00,000 (Rupees Five lakhs only)** is levied on the General Insurer. Also the General Insurer is further directed to discontinue such practice of deviation from the terms and conditions filed with and approved by the Authority.

**4. Charge No. 4:** Reinsurance Cessions to Indian Reinsurer (GIC Re): It was observed from the statement RI 1 that the insurer has ceded only 5.67% and 4.70%, for 2010-11 and 2011-12 respectively of the premium for different classes of insurance written in India to the Indian reinsurer as specified by the Authority in accordance with the provisions of Part IVA of the Insurance Act, 1938 and Reg. 3.3 of IRDA (General Insurance - Reinsurance) Regulations, 2000.

Violation of Regulation 3.3 of IRDA (General Insurance - Reinsurance) Regulations, 2000.

**Submission of Insurer:** *The percentage under observation computed by the inspection team is on the total GWP i.e., without deducting the premium 100% ceded to motor third party insurance pool. As per the motor pool agreement the pool has to cede obligatory cession of 10% to GIC Re and the said regulations have been complied with respect to obligatory cession.*

**Decision:** The submission of the insurer is accepted and the charge is not pressed.

**5. Charge No.5:** Insurer is not furnishing a copy of proposal to the insured within 30 days of acceptance of risk. This is violation of Regulation 4(1) of the IRDA (Protection of Policyholders' Interests) Regulations, 2002.

**Submissions of Insurer:**

The insurer has revised its processes and is following regulations and is furnishing a copy of the proposal as mandated by the regulations.

**Decision:** Insurer's submission is accepted and the charge is not pressed. However it is the duty of an insurer to furnish to the insured free of charge, within 30 days of the acceptance of a proposal, a copy of the proposal form. As such, the General insurer is advised to ensure compliance to the provisions of IRDA (Protection of Policyholders' Interests) Regulations, 2002.

**6. Charge No.6:** The insurer is recording the information obtained orally or in writing. However, no confirmation or communication of the same is done within a period of 15 days thereof with the proposer though such information is incorporated in the policy. This is a violation of Regulation 4(4) of the IRDA (Protection of Policyholders' Interests) Regulations, 2002.

**Submissions of Insurer:**

The insurer has revised its processes and is following regulations and is furnishing a copy of the proposal as mandated by the regulations.

**Decision:** The insurer's submission is accepted and the charge is not pressed. However, the insurer is advised to strictly follow at all times the provisions of Regulation

4(4) of IRDA (Protection of Policyholders' interests) Regulations, 2002 which mandates that in case the proposal form is not used the insurer shall record the information obtained orally or in writing, and confirm it within a period of 15 days thereof with the proposer and incorporate the information in its cover note or policy.

7. **Charge No.7 :** No standard Reasons were recorded for claims closed / Repudiated without payment. Following reasons were observed from the statement submitted:

Claim docs pending	1698
Claim withdrawn	1729
Claim within excess	179
Delay in claim intimation	1209
Invalid DL/RC/Permit	642
Fabricated claim	224
No insurable interest	351
Others	1073
Total – Repudiated claims	7105

**Violation of:**

Guidelines contained in Circular No.IRDA/HLTH /Misc/cir.216/09/2011 dated 20th Sep, 2011.

**Submissions of Insurer:**

The proper reasons were recorded for claim repudiation. The claims repudiation letter are manually prepared therefore the wordings used for repudiation of claims differ as per the claim officer handling the file.

Proper and standard reasons are recorded for claim repudiation. The reasons stated for 7105 claims repudiation are classified in eight standard categories and were acknowledged by the inspection officer.

Further, delay in intimation is not the only reason for repudiation of the claims and in addition to delay in intimation, other reasons are also attached to the claims based on which the insurer repudiated the claims. In support of their assertion, the insurer has attached copies of a few sample letters sent to the insured repudiating the claim.

**Decision:** The submission made by the insurer is accepted and the charge is not pressed further. Still, the insurer is advised to strictly adhere to the guidelines contained in Circular No.IRDA/HLTH /Misc/cir.216/09/2011 dated 20th Sep, 2011.

8. **Charge No.8:** The examination of the sample claim files proves that the provisions of GR-8 are deviated albeit the reasons were provided therein in claim notes. The insurer has not documented standard procedure in considering the claims on non standard/substandard basis.

The insurer's settlement of claims for reduced IDV in theft claims for whatever reasons is contrary to the provisions of GR-8 of Insured Declared Value of IMT, 2002. The insurer, therefore, absolved itself of the responsibility of paying due attention to the IDV in the policies and settled claims for less than IDV.

**Submissions of Insurer:**

The provision of GR-8 of IMT 2002 provides that in no case the claim payment shall exceed IDV and SGICL has not paid any claim in excess of IDV. The policy wordings states that the Company may at its option repair, reinstate or replace the vehicle insured or part thereof and / or its accessories or may pay in cash the amount of the loss for damage.

**Decision:** As per the observation, there was no mention that the claims are paid on sub-standard basis. The insurer's action of settling the theft claims total loss/constructive total loss of vehicle, for amounts less than the IDV is violation of GR 8 of the Indian Motor Tariff. The insurer's explanation by reference to a portion of GR 8 is not relevant to the violation pointed out in the observation. Therefore, for the violation of GR 8 of Indian Motor Tariff, under the powers vested in the Authority under Section 102(b) of Insurance act 1938, **a penalty of Rs.5,00,000 (Rupees Five lakhs only)** is levied on the General Insurer. Also the General Insurer is directed to ensure compliance of GR 8 of the Indian Motor Tariff.

9. **Charge No.9:** The insurer is allowing underwriting discounting upto 70% for vehicles on Own Damage premium only of Motor Erstwhile Tariff. The insurer violates Point 1, 3(ix), 8 & 11 of F&U guidelines dated 28/09/2006 by offering discounts other than those filed with & approved by IRDA.

**Submissions of Insurer:**

*The underwriting manual filed with the Authority under F&U guidelines states that, "It is estimated in our Pricing that overall discounts for the year are determined at 15% of the TAC RATES for Motor - Private cars and Two Wheelers. For Motor - Commercial Vehicles, the ratio is determined at 20%." This has been strictly followed and we furnish an Undertaking to the effect that the discounts offered by us did not exceed the levels permitted and approved by the Authority. Hence there is no violation of F&U guidelines.*

**Decision:** Insurer's justification based on overall discount indicates that they are applying differential discount rate across policyholders with similar risk factors. The insurer did not provide proper justification in the referred case where they have applied a discount of 70% for vehicles on Own Damage premium; as such this is a deviation from the rate approved in the File and Use. Hence the Insurer is directed to ensure that the discount, if any, is applicable at individual risk level and not at overall level because the TAC rate is based on individual risk. The insurer is further directed to



ensure that it does not allow discount beyond the limit as approved under File and Use and the board approved underwriting policy.

**10. Charge No.10:** It was observed from top 20 motor policies that the insurer had applied imposed excess. The said application of imposed excess was not communicated to the proposer / insured before entering into contract.

Following issues are also noted this regard:

- a. The information about adverse claim experience was not available on the proposal form.
- b. Out of above mentioned four sample cases in three cases, the vehicles were brand new vehicles.
- c. Though as per brokers slip deductible should be as per IMT only, the insurer applied imposed excess on these policies.
- d. The motor insurance business underwriting guidelines / manual of the insurer does not specify any underwriting criteria based on which the said imposed excess was applied.

The above mentioned point No. (a) to (d) are in contravention of File and Use guidelines issued by the Authority and IRDA (Protection of Policy Holders' Interests) Regulations, 2002.

**Violation of:**

1) Point 1, 3(ix), 8, 11 & 26 of F&U guidelines dated 28/09/2006 offering different terms other than those filed with & approved by IRDA and circular no. IRDA/NL/Cir/F&U/003/01/2011 dated 6<sup>th</sup> January, 2011.

2) Violation of circular 048/IRDA/De-tariff/Dec07 dated 18<sup>th</sup> Dec,2007, circular no.066/IRDA/F&U/Mar-08 dated 26<sup>th</sup> March, 2008 & cir.no.019/IRDA/NL/F&U/Oct-08 dated 6<sup>th</sup> Nov, 2008 by changing the terms and conditions of Indian motor tariff.

3) Clause 6 of corporate governance guidelines by deviating from their internal underwriting guidelines/manual by imposing excess.

**Submissions of Insurer:**

*The details of imposed excess was properly communicated to the Proposer, copy of consent letter of the Proposer with respect to the same is submitted.*

**Decision:** *The documents submitted by the insurer are taken on record. Still, the insurer is **warned** against such practices and directed to follow in letter and spirit the F&U guidelines and the provisions of Indian Motor Tariff.*

**11. Charge No.11:** Motor OD Claim Vehicle No. OR-05-R-6161, HP Agreement with STFC Ltd., Broker: RSIBP Ltd.

This is a claim case where the financier was M/s. Shriram Transport Finance Co. Ltd. and for single event of loss the claim was registered and paid on two different policies i.e. on earlier policy and on renewal policy.

This is violation of Clause 6 of Corporate governance guidelines contained in Annexure II of Authority's circular: No. IRDA/F&A/CIR/025/2009-10, dated 5-8-2009.

**Submissions of Insurer:**

*SGICL is having proper and sufficient controls in place for settlement of Motor OD claims and is continued to improve control measures according to the requirement. The date of loss was 28/06/2011 and the insured intimated the same on 4/7/2011. The call centre executive by mistake entered the date of loss as 29/06/2010 instead of 28/6/2011 which is subsequently stated as 28.06.2010. The dates being same the mistake was in the year because of which the loss was registered on the policy bearing no. 10003/31/10/360599 for the year 2010 - 11 and the claim was settled at the IDV of the captioned policy for Rs. 6,58,500 /- after deducting the excess of Rs. 1500/- on 21/10/2011. When insured received the cheque for a lesser amount then he contacted us and we realized the error and prepared a further cheque of Rs. 1,40,000/- on the policy bearing no. 10003/31/11/564982 policy period from 12-03-2011 to 11-03-2012 and delivered the same to the insured. Thus the claim was settled for Rs. 7,98,500/- after deducting the excess of Rs. 1500/- .*

*Further, increase in IDV in a succeeding year is possible if the market price of the vehicle goes up.*

**Decision:** The submissions of the insurer indicate that there was no motive behind payment of one claim in two years. Further, the situation seems to have arisen due to reasons like inadvertently recording the date wrongly. Also it is noted that the increase in IDV in succeeding year is possible if the price of the vehicle goes up. Taking an objective view of the submissions made by the insurer, the charge is not pressed. However, the insurer is advised to exercise strict control and attention to ensure that instances of this nature do not recur in future.

**12. Charge No.12 :** It was observed from the data for Motor OD claims repudiated that the insurer in the financial year 2011-12 had repudiated 9544 claims. The reasons based on which repudiation was done were not found in the General Exceptions / conditions of the policy.

This is violation of the Regulation 9(5) of the IRDA (Protection of Policyholders' Interests) Regulations, 2002, which mandates the insurer to record and communicate to the insured the reasons for repudiation of claim.

### **Submissions of Insurer:**

*The cases observed by the investigation officer are clearly the cases wherein the insured has violated the conditions of the policy wordings and hence was negligent. The way the reasons were mentioned for repudiating the claim was with the intention that it would be easily understood by the insured. Further, the insurer has submitted that they have started to mention in the repudiation letter the exact reason due to which the claim was repudiated. They have also submitted some sample copies of the repudiation letters. They have further submitted that they cannot afford to pay claims to negligent insured out of the premium received from other vigilant insured persons.*

### **Decision:**

The insurer's submission and the sample repudiation letters furnished by them have been taken note of. Since they have started to convey to the insured the reasons of repudiation of claim, the charge is not pressed. However, it is strictly emphasized upon the insurer to follow the provisions of IRDA (Protection of Policyholders' interests) Regulations, 2002.

**13. Charge No. 14:** GPA policies are issued which are of non-employer-employee nature because the proposer/ policy holder that is mentioned as M/s Shriram Chits & Group Companies or M/s Shriram Epc are not in existence. However the insurer had not issued certificate of insurance to the members of the group.

It was observed from the claim settlement documents registered against policy no. 421010/48/12/000140 that all the claims irrespective of the employer / group company were settled in favour of M/s. M/s. Shriram Chits Tamilnadu Pvt. Ltd..

Violation of Para C (7) of Authority circular no. 015/IRDA/Life/Circular/GI Guidelines / 2005 dated 14-07-2005.

### **Submissions of Insurer:**

*Though Sriram Group is not a separate legal entity unlike its member companies which are incorporated and registered under Companies Act, 1956 and enjoy the status of a separate legal entity. All these separate legal entities are a part of Shriram Group. The clause C (7) of the circular states about non employer - employee cases whereas the members of the group were employees of the Companies mentioned in the observation. The insurer has further submitted that hereafter they will issue certificate of insurance to individual policyholder.*

*M/s Shriram Chits was the customer in the insurance contract on behalf of its employees and group companies as per Section 64VB and the related regulations. It is the direct duty of the insured (in this case M/s Shriram Chit and its employees- as we understand the language of Section 64 VB and the undefined definition of the insured), to pay the premium in accordance with the law.*

The insurer has submitted that hereafter they will settle the claim in favour of the insured and not in favour of the group entity.

**Decision:** Para C (7) of Authority's circular No.15/IRDA/Life/Circular/GI Guidelines / 2005 dated 14-07-2005 clearly mentions that in the case of non-employer employee group policies, issue of certificate of insurance is necessary and claims arising out of such policies should be settled directly to the insured. In the light of this position, Insurer is **warned** against continuing with such practices even after the violation being pointed out in inspection report and directed to strictly follow the guidelines contained in Circular No. 015/IRDA/Life/Circular/GI Guidelines / 2005 dated 14-07-2005

**14. Charge No.15:** The insurer had marketed Group JPA policies with the following deviations from the filed product:

- i) As per point no. Sum Insured (b) of filed version of the JPA product "*Maximum Sum Insured would be generally be Rs. 1,00,000/- and Minimum Sum Insured for each member would be restricted to Rs.25000/-.*" But in the policies examined, the Sum Insured offered by the insurer was Rs.10000/-. Thus, as per said filed product the sum insured of Rs.10000/- could not be granted.
- ii) The rate filed in the file & use version filed is Rs. 15/- for the Sum Insured of Rs. 25000/-, accordingly for the Sum Insured of Rs. 10000/- the rate will arrive at Rs.6/-. As against that, the insurer had charged Rs.7/- per person for Sum Insured of Rs.10000/-.

**Violation:** The insurer by offering unapproved premium rate and Sum Assured, in the above cases committed violation of point 3(ix) & 11 of F&U guidelines contained in Circular No.021/IRDA/F&U/Sep-2006 dated 28/09/2006

**Submission of Insurer:**

*The members covered under the JPA policies issued with sum insured of Rs. 10,000/- per person were weaker section of the society. The said policies were issued for the benefit of the society and to help increase insurance penetration.*

*IRDA (Micro Insurance) Regulations 2005 also states that minimum amount of cover for PA policies issued shall be Rs. 10,000/-. However, in the year 2015 the said minimum limit of Rs. 10,000 was also removed. Thus the spirit of the regulation is to increase insurance penetration and to cover lower strata of the society who are otherwise deprived of the insurance cover.*

*The variation in the sum insured/premium has been made keeping in view of the need and affordability of the customer (as the customer belongs to weaker section) without any perceivable benefit to the insurer.*

*This is also in line with the Authority's objective of spreading insurance, granting cover to low income groups and of working towards Authority's objective of financial inclusion.*

*In light of the same it is appealed that the Authority may not take a harsh view on the said deviation which was for a good and noble cause.*

The insurer has submitted an Undertaking to the effect that they had issued only one policy in four years.

**Decision:** The insurer's submission that they had issued only one policy is taken on record. However, the insurer is **warned** against issuing policies with terms and conditions at variance with that filed with and approved by the Authority.

**15. Charge No.17 :**

As per the quote sheet for GPA policy no. 421010/48/11/000140, the basis of sum insured is auditor's certificate on number of employees and gross salaries paid. Accordingly, the insurer had adjusted the policy based on auditors' certificate. Based on above submission, the insurer had to receive premium amount of Rs.34.25 lakhs against the above policy. Upon examination of said Auditors certificate, it was observed that the auditor had certified the salary paid to the employees of the concerned company but there was no specific certification about number of employees. Even though the warranty mentioned in the policy was breached, the insurer had accepted the said certificates as the policies were of its own associate / group companies.

The insurer had 2241 Cash Deposit accounts (CD Accounts) in its books as on 31-12-2012. The sample of CD Account no. AB0000000138 registers for 2010-11 to 2012-13 (upto Dec. 12) in the name of M/s. Shriram Group of Companies was examined. The issues observed are as under;

- i) For the GPA policy no. 421010/48/11/000140, the premium amount of Rs. 34.25 Lakhs (including Serve Tax) was to be received from the insured. It was noted from the CD Register for CD account no. AB0000000138 for the period 2010-11, 2011-12 and 2012-13 (upto Dec.12) that the said amount of Rs. 34.25 Lakhs was not recovered from the insured / debited to the CD account.
- ii) The delay in ascertaining the amount as premium from the date of inception of risk was ranging between 3 to 143 days
- iii) It is pertinent to note that in 27 cases out of 28, the insurer had assumed the risk without having sufficient premium in the concerned CD account, as on the date of inception of risk.
- iv) For the above mentioned 27 policies, the premium amounting to Rs. 594.59 Lakhs was not received in advance i.e. before assumption of risk.
- v) The insurer had favored its associate / group companies by assuming the insurance risk without receipt of premium in advance.
- vi) Thus, it is evident that the insurer had assumed the risk without the receipt of premium in advance. Further, the balance premium for the said risk was not recovered / debited to concern CD account by the insurer.

Violation of Section 64VB (1) & (4) of Insurance Act, 1938.

**Submissions of Insurer:**

*We have not violated the provisions of Section 64 VB (1) & (4) of the Insurance Act, 1938 and regulations pertaining to the manner of receipt of the premium in respect of contract of insurance issued by us. In all the above cases, cheque is received in advance before inception of risk. A statement mentioning the cheque date and clearing date of the cheque is furnished.*


**Decision:** The insurer has attached a letter from their banker conveying the details of the cheques and the date of clearing which indicate that the premium was received before the insurer assumed the risk. Hence, accepting the submission of the insurer, the charge is not pressed.

**Summary:**

In conclusion, as directed under the respective charges, the penalty of *Rs.15,00,000 (Rupees Fifteen Lakh only)* shall be remitted by the General Insurer by debiting shareholders' account within a period of 15 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. P.K.Maiti, Joint Director (Enforcement) at the Insurance Regulatory and Development Authority of India, 3rd Floor, Parishrama Bhavanam, Basheerbagh, Hyderabad-500 004.

***Further***

- a) The General Insurer shall confirm compliance in respect of all the directions referred to in this Order, within 21 days from the date of receipt of this order. Timelines, if any as applicable shall also be communicated to the Authority.
- b) The Order shall be placed before the Audit committee of the General Insurer and also in the next immediate Board meeting and to provide a copy of the minutes of the discussion.
- c) If the General Insurer feels aggrieved by any of the decisions in this order, an appeal may be preferred to the Securities Appellate Tribunal as per Section 110 of the Insurance Act, 1938.

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

Place: Hyderabad  
Date : 25<sup>th</sup> July, 2016