



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

Ref. IRDA/ENF/MISC/ONS/199/10/2016

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

Based on reply to Show Cause Notice dated 12th July, 2016 and submissions made during Personal Hearing chaired by Mrs. V.R.Iyer, Member (F&I), Insurance Regulatory and Development Authority of India (IRDAI) on 29th September, 2016 at 11:00AM at the office of Insurance Regulatory and Development Authority of India, 3rd 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 Life Insurance Company Limited (hereinafter referred to as "the Life Insurer/Company") from 4th November, 2013 to 14th November, 2013. The Authority forwarded the copy of the Inspection Report to the Life Insurer vide letter dated 19th December, 2013 seeking comments on the same. Upon examining the submissions made by the Life Insurer vide letters dated 10th February, 2014 and 21st February, 2014, the Authority raised further queries vide email dated 21st June, 2016 which was responded to vide letter dated 23rd June, 2016. On examination of the submissions by the Life Insurer, it was observed that the Life Insurer has not complied with the applicable provisions of the Insurance, 1938, Regulations issued by the Authority, guidelines framed thereunder. Hence, the Authority issued Show Cause Notice on 12th July, 2016 which was responded to by the Life Insurer vide letter dated 12th August, 2016. As requested therein, a personal hearing was given to the Life Insurer on 29th September, 2016. Mr. Casparus J H Kromhout, MD&CEO, Mr. T.K.Banerjee, Vice Chairman, Mr. Manoj Jain, MD, Mr.G.Vaidyanathan, CFO, Mr.I.Sambasiva Rao, Appointed Actuary, Ms.G.V.Chitra, Sr.Manager (Compliance), Ms.Samatha, Compliance Officer were present in the hearing on behalf of the Life Insurer. On behalf of the Authority, Ms.Mamta Suri, HoD (F&A), Mr.Prabhat Kumar Maiti, General Manager (Enforcement), Mr.Gautam Kumar, DGM (Life), Mr.P.K.Tewari, DGM (Actuarial) and Mr. K.Sridhar Rao, Assistant General Manager (Enforcement) were present in the personal hearing.

The submissions made by the Life Insurer in their written reply to Show Cause Notice and all relevant submissions made during the course of the personal hearing were taken into account.

The findings on the explanations offered by the Life Insurer to the following charges and the decisions are as follows.

Charge No.1

Policies which were in lapsed status, for duration of 6 months or less from the date of first unpaid premium were only considered for the purpose of valuation. Further, under the lapsed policies 100% of the calculated reserves were taken as lapsed reserves and credit for the probability for revival of lapse policies has not been considered. Total policies lapsed were 129070 out of which considered for valuation was 34879.

परिश्रम भवन, तीसरा तल, बशीरबाग, हैदराबाद-500 004. भारत

☎ : 91-040-2338 1100, फैक्स: 91-040-6682 3334

ई-मेल: irda@irda.gov.in वेब: www.irda.gov.in

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Parisharam Bhavan, 3rd Floor, Basheer Bagh, Hyderabad-500 004. India.

Ph.: 91-040-2338 1100, Fax: 91-040-6682 3334

E-mail : irda@irda.gov.in Web.: www.irda.gov.in

Violation of Point no.2 (2) and 5(1)(a) of Schedule IIA (See Regulation 4) of IRDA (Assets, Liabilities and Solvency Margin of Insurers) Regulations, 2000.

Submission by the Life Insurer

Regulation 8 of Schedule IIA of IRDA (Assets, Liability and Solvency Margin of Insurers), 2000 allows the appointed actuary to make an aggregate reserve for the lapsed policies. Based on the same, the Appointed Actuary has applied additional requirements for provisions of Rs.12.86 Crores as against the requirement of Rs.6.22 Crores. Neither the Regulation referred herein nor the Regulation 2(2) and Regulation 5(1)(a) of the said schedule require mandatory disclosure in determination of amount of liability or the manner of the calculation of the reserve. The Company has followed APS7 of the Institute of Actuaries of India and held additional margin for adverse deviation. The methodology met with the expected level of parameters as prescribed in Clause (a) of Regulation 5(1) of Schedule IIA of Regulations referred above.

Further a certificate duly signed by Appointed Actuary is submitted to establish that the Company has created sufficient reserves for the year in question towards lapsed policies that have not acquired any surrender value and it was also submitted in the said certificate that the company created a separate reserve for lapsed policies that have acquired surrender value and shown the same under the heading "Reduced paid" in the NLB forms. The number of such policies was 9034 and the reserve created was Rs.13.9 Crores.

The valuation method is in line with Clause (2) of Regulation 2 of Schedule IIA as the revival analysis adopted has taken into consideration: the duration of the policies, mathematical reserve, revival probability, lapse reserves of individual participating and non participating policies. It is also to be noted that the valuation method adopted was not prejudice to the benefits available to policy holders and was also not contrary to any established practice.

Further it is confirmed that the provision for lapse reserves is being made for all lapsed policies as suggested by the Authority from the Financial Year 2013-14 onwards.

Decision

Keeping in view their submissions on low revival experience and the figures in support of the same during the personal hearing, **no charges are being pressed.** However, the Life Insurer is directed to ensure that while applying any approximation for calculating the mathematical reserve, the Life insurer should comply with the Regulation 2(8) of schedule II in the IRDAI (Assets, Liabilities and Solvency Margin of Life Insurance Business) Regulations 2016.

Charge No.2

For the year 2012-13, expenses under the head "Outsourcing expenses" were not disclosed correctly. There was a difference in disclosure between actual expenses incurred



and expenses reported. For instance, payment made to an outsourcing entity was disclosed as Rs.5.83 Crores whereas actual payment made was Rs.9.61 Crores.

As per the provisions of Circular No. 067/IRDA/F&A /Mar 08, all the insurers were required to disclose by way of notes to accounts the bifurcation of expenses under various heads viz., "outsourcing expenses", "marketing expenses" etc., correctly.

Violation of provisions of Para VI of annexure to Circular 67/IRDA/F&A/Mar 08 dated 28th March, 2008.

Submission by the Life Insurer

The Outsourcing guidelines issued in 2011, clearly defines what is Outsourcing, in the very first Para itself. The company has been consistently reporting outsourcing expenses on the basis of our understanding right from the Financial Year 2007-2008. The circular referred herein requires the disclosure of listed head of expenses falling under Schedule 3 as part of Notes to Accounts; one of the expenses being outsourcing expenditure. All payments made to the Vendor totalling to Rs.9.61 Crores do not fall under the category of outsourcing activities and hence only the value of activities that fall under outsourcing was reported in the Company's notes to accounts. The company believes that the disclosures are in compliance to the requirements of the circular. Further it is to submit that the Company has done the reporting based on its understanding of Outsourcing. In the event the Authority prefers more elaborate or more inclusive disclosures, the same will be followed.

Decision

The submissions made are taken on record and hence no charges are being pressed. However, the Life Insurer is hereby advised that the total expenses incurred in respect of an outsourced entity shall be reported as per Regulatory norms with break up/purpose of payouts and disclosures shall be complete in all respects for examination of the Authority.

Charge No.3

Internal circular issued by the Life Insurer permitted its sales personnel to deposit the cheque collected by them within 10 days from the date of issue of receipt.

The above circular defeats the spirit of provisions of Section 64VB (4) of Insurance Act, 1938 which mandates that the premium received by the insurance agent shall be remitted within 24 hours at the Life Insurer.

Submission by the Life Insurer

The Company is operating significantly in rural/unserved segments that face challenges in banking facilities. The Company has acted vigorously to improve the collection systems by aggressively strengthening the Company's tie up with banking partners to enhance banking reach. It is to confirm that 98.4% of banking instruments during last five financial years



have been banked within 0-2 days from the date of receipt. Only 1.6% of banking instruments have been banked beyond two days, which can be considered very reasonable keeping in view, the operating segments of the Company. Section 64VB deals with the commencement of risk by the Insurer and Section 64VB (4) of Insurance Act, 1938 specifically stipulates, the duties of the insurance agent collecting premium on insurance policies on behalf of the Insurer. These receipts are issued by the Company representatives only and insurance agents are not authorised to issue any receipts to the policy applicants. Further, the intent of the circular was not to delay the deposit of premiums but to cater to the banking challenges referred above. The interests of policyholders are not affected on account of timely issuance of receipt on collection of premiums. However, post observation made by the Authority, the circular was withdrawn on 16th April, 2014.

In addition to the submissions made above, a certification is submitted that there are no complaints of delay/misappropriation made by the policy holders with regard to remittance of premium/issue of policy or misappropriation of premium received by the sales personnel.

Decision

It shall be noted that the internal procedures, processes, rules should not be laid down in such a way to give scope for violation of Regulatory norms for which the regulated entities are subject to. The internal circular issued by the Life Insurer has given scope for the sales personnel to violate the regulatory norms mentioned herein.

The confirmations given by the Life Insurer that the receipts were issued by the company representatives only, that there were no instances of complaints/misappropriations with regard to remittances of premiums and further confirmation that the said circular was withdrawn post observation by the Authority are noted.

However, the Life Insurer is hereby **warned** for issuing such circular. The Life Insurer is directed to be vigilant hereinafter while stipulating such procedures.

Charge No.4

NAV on the date of discharge from the policy holder is applied instead of the date of maturity while settling maturity claims. Further the Life Insurer has automated the settlement option (without option/consent by the policy holder) on maturity date, if the policyholder does not revert for the communication sent.

Violation of provisions of File and Use Guidelines and ULIP Guidelines No.31/IRDA/ACTL/Dec-2005 dated 21.12.2005.

Submission by the Life Insurer

The Company received enormous requests accompanied by complaints from policyholders that during adverse market conditions, if the policy matures, it is discomfort in withdrawing at the stage after being associated with the company and continuing the policy for such a



long period. Therefore, in order to benefit the customers, the company adopted ULIP plans with a settlement option which reads as follows;

“On surviving up to the end of the policy term, instead of the maturity value, the policyholder can opt to withdraw the units in his credit in not more than five instalments, within a period of five years from the date of maturity, at the prevailing Net Asset Value at the time of each instalment”.

In respect of the above mentioned policy in question the company has adopted the aforesaid approach of offering the settlement option to the customer.

Also, in the interests of the policyholders the company decided to implement the following;

Automate the settlement option post maturity date, if the policyholder fails to revert to the communication sent by the company which is initiated 45 days prior to the maturity date. The communication sent by the company includes, amount and units available as on date the communication is initiated along with a discharge form besides clearly communicating the requirements to be submitted for availing the maturity payout. The relevant copies of the communication being sent to our policyholders have been shared with the inspection team.

Further it is to submit that the maturity disposition letters were issued to all the cases, out of which no response was received from 1128 cases (1.8% of total maturity cases). Since no response was received and considering the interests of the policy holders the auto settlement option was opted by the Company. Subsequent to auto settlements also, communications are being sent to policyholders. Looking into the overall percentage of auto settlement, the company has not received any undue benefits, and no burden was given for the policy holders. The fund value movement analysis of these 1128 cases where Auto Settlement Option was done shows that in all the cases, the policy holders have been benefitted by the practice adopted by the Company.

An analysis of sample cases where auto settlement option was adopted is submitted in support of the argument that the fund value had grown and none of the policy holders were at loss.

Decision

It shall be noted that the Maturity date is contractual date which is known well in advance. Hence the procedures in this regard shall be robust enough to settle the maturity claim on or before maturity date. From the observation and submissions, it is noted that the Company’s systems are not sufficient enough to ensure the same. Further the settlement option shall have consent/option by the policy holders and the approved File and Use of the product shall have default settlement option. Hence by adopting such practice, the Life Insurer indicated their casual approach towards adhering to the approved File and Use norms of the product in question. The lapse



on the part of the Life Insurer is considered to be a gross violation of File and Use and the provisions of the guidelines mentioned herein.

The Life Insurer shall discontinue such practice immediately under intimation to the Authority.

The regulatory action in this regard is mentioned under decision part of Charge no.6.

Charge No.5

Group claims paid date for the financial years 2011-12 and 2012-13 revealed that death claims were settled in favour of Group Master Policyholder. Further the Life Insurer had not obtained a confirmation of receipt of claim payment from the beneficiaries.

Violation of Clause C-7 of Circular No.015/IRDA/Life/Circular/GI Guidelines/2005 dated 14/07/2005.

Submission by the Life Insurer

Under the scheme of non - employer - employee group issued to the loanees of Grameen Financial Services Limited, Bangalore, were covered. The entity is a reputed micro finance institution. Most of the members are from BPL category and insurance is against a small loan (starting from Rs 2000) which they have taken from the master policy holder. Most of the members do not have any bank account. Under these circumstances the scheme cheque if paid in the name of nominee, two types of problems will arise. 1) Nominee will find it difficult to encash the cheque. 2) Master policy holder may not be in a position to recover the loan in many of the cases as the members and the nominees are very poor. It is because of this reason that the company is giving cheques in the name of master policy holder. The company sent investigators and investigated about 100 cases and observed that correct amount has been paid to nominee after realization of the loan by the master policy holder.

However, with regard to other master policy holders, since January, 2015, the Company has followed the practice of settling the claim amount equal to the loan outstanding to the master policy holder and the balance amount to nominee/beneficiary by taking separate discharge voucher which is in line with the Authority's circular December, 2014 and October, 2015.

Further sample discharge vouchers received from the beneficiaries are submitted to establish that the Company is ensuring that the eligible claim amount is received at beneficiary.

Decision

Group Master Policyholder shall only be a facilitator in claim settlement process. The entire claim shall be paid in favour of beneficiary only. The Life Insurer has



violated the Clause mentioned herein by settling the claim in favour of Master policy holder. Hence the Authority as per the powers vested vide section 102(b) of Insurance Act, 1938 levies a penalty of Rs.1 Lakh (Rupees One Lakh only) on the Life Insurer.

Further the Life Insurer is advised that any practices and procedures while settlement of death claims under non-employer employee group policies shall be in accordance with the Circulars issued by the Authority in December, 2014 and October, 2015 and any other pertinent regulatory prescriptions.

Charge No.6

Under a product (Shriram Credit Shield (UIN: 128N019V01), in many instances, the Life Insurer had covered the loan term of less than 3 years and provided the flat cover of Rs. 5000 for the balance period (till completion of 3 years).

Submission by the Life Insurer

The Company is working in the segments which are not penetrated markets and where the challenges are not known upfront. This sometimes requires innovations to meet the needs of these segments. A significant example of such Financial/Economic inclusion is providing Individual life cover to Truck operators; this is a very vulnerable segment with lifestyle challenges also for whom very few life insurance options are available. This segment had a loan tenure of less than 3 years and there was no product at the disposal of the company at that point of time. Hence to give life coverage to this segment, the Company had made use of the said product. Otherwise, only a part of the group would have been covered. However, subsequently the Company has obtained approval from the authority for two year loan tenure to cover this segment (under Loan protector product). In the process, the requirement of Section 3B of Insurance Act, 1938 regarding premium rates, advantages, terms and conditions have been met. No additional premium has been charged to such members and no hardship has been caused to those who have availed full term of the policy period. In adopting the above principle, there is no violation of file and use for the benefits. The same is done for the benefits of the beneficiaries. Under the policy, the policyholder took the policy to cover their loanees where loan tenure is less than 3 years. The Company has continued with a flat cover of Rs.5,000 for the period up to 3 years because three years is the minimum term to be covered.

Further to confirm that the said product was withdrawn and new product was launched post approval of the Authority, to which the Company has been adhering to the terms and conditions approved under File and Use.

Decision

The submissions elaborated as above, cannot justify the deviation from original file and use. The Life Insurer shall note that, whenever they realise the demand of a specific feature that is not available in the approved File and Use, they shall



approach the Authority for revision of the product in order to include the required feature. The new feature can only be marketed post approval of the revision. So, the Life Insurer's resorting to such practice again indicates their casual approach towards regulatory prescriptions with regard to File and Use.

Hence the Authority, for the violations mentioned herein and also those mentioned under charge 4, levies a penalty of Rs.5,00,000 (Rupees Five Lakhs only) on the Life Insurer as per the powers vested under Section 102(b) of Insurance Act, 1938.

Charge No.7

Outsourcing activities such as Infrastructure services, Customer Awareness Meet, Agents product Training and Claim Investigations with various entities/individuals was not reported to the Authority.

Violation of Clause 11 and Clause 13 of Outsourcing Guidelines, IRDA/LIFE/CIR/GLD/013 /0 2/2011 dated 01.02.2011

Submission by the Life Insurer

The Company has been complying with the outsourcing guidelines and has properly reported the outsourced activities to the Authority. The term reporting has been mentioned in Clause 4, 11 and 13 of the outsourcing guidelines. To the Company's understanding, the use of the word "reporting" led to believe that all activities listed in Column 3 of Annexure 1 of the outsourcing guidelines, 2011 only requires to be reported. However, the Company has not violated the provisions of Clause 11 of the Guidelines in timely reporting of the outsourcing activities. The Company has been reporting the Outsourcing data in Form A on a half yearly basis. With reference to Clause 13 of the said guidelines, the Company has not exercised undue freedom in outsourcing certain activities but have taken proper risk assessment and due diligence.

Further, there was a series of communications from December, 2014 with the Authority on the returns in Form 'A' submitted by the Company. The Company had explained the basis of its reporting as stated above. The Authority had called for a meeting in December, 2015 and advised that all activities outsourced must be included in the half yearly returns irrespective of the nature of activity. Subsequently the company has been complying with the advice and submitted revised returns w.e.f. 1st April, 2015 along with the corresponding details for previous year.

The issue was due to interpretation and understanding and however, post advice by the Authority, the Company has been submitting the returns to cover all the activities including the activities as stated in the charge.



Decision

It shall be noted that the activities such as agents training, claim investigations do fall within the ambit of activities on a continuing basis that would normally be undertaken by the Life Insurer itself. Further in case of any doubt, the Life Insurer may clarify from IRDAI rather than concluding on its own with regard to classification as envisaged under Clause 13 of Outsourcing Guidelines, 2011.

The submissions and confirmations made are noted. However, as the compliance to the reporting requirements mandated in the said guidelines was not ensured in totality at that point of time, the Life Insurer is hereby warned for the same. Further, the Life Insurer shall ensure continuous compliance to pertinent regulatory norms with regard to Outsourcing.

Summary:


In conclusion, as directed under the respective charges, the penalty of Rs.6,00,000 (Rupees Six Lakhs only) shall be remitted by the Life 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.Prabhat Kumar Maiti, General Manager (Enforcement) at the Insurance Regulatory and Development Authority of India, 3rd Floor, Parishrama Bhavanam, Basheerbagh, Hyderabad-500 004.

Further

- a) The Life Insurer shall confirm compliance in respect of all the directions referred to in this Order, within 21 days from the date of issuance of this order. Timelines, if any as applicable shall also be communicated to the Authority.
- b) The Order shall be placed before the Audit committee of the Life Insurer and also in the next immediate Board meeting and to provide a copy of the minutes of the discussion.
- c) 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: 17th October, 2016


(V R Iyer)

Member (F&I)

