



**Ref.No: IRDA/ENF/ORD/ONS/005/01/2016**

**Final Order in the matter of M/s Universal Sampo General Insurance Co Limited**

**Based on reply to the Show Cause Notice dated 22<sup>nd</sup> July, 2015 and submissions made during Personal Hearing on 24<sup>th</sup> September, 2015 at 2:30 pm 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 **Universal Sampo General Insurance CO Limited** (hereinafter referred to as "the General Insurer") from 9<sup>th</sup> to 18<sup>th</sup> July, 2012. The Authority forwarded the copy of the Inspection Report to the Insurer seeking comments on the same under the cover letter dated 16<sup>th</sup> November, 2012. Upon examining the submissions made by the Insurer vide letter dated 15<sup>th</sup> December, 2012 the Authority issued Show Cause Notice on 22<sup>nd</sup> July, 2015 which was responded to by the Insurer vide letter dated 14<sup>th</sup> August, 2015. As requested therein, a personal hearing was given to the Insurer on 24<sup>th</sup> September, 2015. Mr. O.N.Singh, Executive Chairman, Mr.Rajiv Kumar, Head – Corporate Planning & Operations were present in the hearing on behalf of the General Insurer. On behalf of the Authority, Mrs.V.R.Iyer, Member (F&I), Mr.Lalit Kumar, FA & HOD (Enforcement), Mr.Suresh Mathur, Sr.JD (Non-life), Mr.Prabhat Kumar Maiti, JD (Enforcement) and Mr. K.Sridhar, Sr.AD (Enforcement) were present during the personal hearing.

The submissions made by the Insurer in their written reply to the inspection observations, Show Cause Notice and also those made during the course of the personal hearing have been taken into account.

The findings on the explanations offered by the General Insurer to the issues raised in the Show Cause Notice and the decisions thereon are detailed below.

**1. Charge**

a) The company's Board considered the incentive policy including rewards and recognition scheme for Bank Specified Persons. Consequent to the incentive policies approved by Board, the payments were made to the corporate agents in the form of infrastructure payment / rent and the reimbursements.

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b) Payments made to corporate agents as per form 31B (2) filed with Authority are compared against the data furnished for Form 26Q (TDS). Upon examination, it was observed that there was inconsistency between the payment data furnished by the insurer and actual payments made as per Form 26Q data.

c) Insurer is accounting infrastructure payments made to the two corporate agents (banks) under the accounting head of "Rent". However, from the infrastructure bills raised by the banks it is noted that the amounts are claimed by one banker towards "Providing information of USGI products" and by another banker towards "infrastructure fees as per Agreement". It is noted from the above that to accommodate extra payments to banks, insurer had accounted infrastructure charges under accounting head Rent.

**Violation of Authority circular no. 11/IRDA/Brok-Comm/Aug-08 dated 25-08-2008 & clause 21 of corporate agents guidelines circular ref.no.017/IRDA/Circular/CA guidelines 2005 dated 14-07-2005.**

Submission of the insurer:

- a) The scheme was introduced for bank officials like specified persons in FY 11-12 to provide the top achievers at the locations with the Lap top on revolving basis to facilitate the General Insurance business. No incentivisation to any individual has been made. The laptop provided to the branch officials used to be retained in the bank branch on transfer of employees.
- b) The form 31 B (2) pertains to the amount of commission payable to the Corporate agents for the Financial year which also accounts to the provisional / actual payments for the business procured in the last quarter/ month of the Financial year, whereas the form No. 26 Q (TDS) data, pertains to actual amount paid for the business and TDS deducted but does not include provisions. As such, there is a difference in the form No. 31 B (2) and 26 Q (TDS) Data.
- c) The company started full-fledged business operations in the Financial Year 2009-2010. To save on the cost of operations for opening of our own offices in initial years of operations, the company had utilized office space of two banks to service corporate agent clients spread across the country on pan India basis with the presence of more than 4000 bank branches. Without availing the facility of infrastructure of our promoter banks, it would not have been possible to kick start our business. By paying nominal token amount to banks, we had occupied the work station for servicing based on the requirement of the company and have saved on the enormous cost and time. However, over a period of time the



company has expanded the branch network without requiring the work station infrastructure space from our partner banks.

**Decision:**

- a) On incentives to specified persons of corporate agent, Authority takes note of the insurer submission that no incentivisation to any individual has been made by the insurer.
- b) Insurer reply is noted on the reasons for the difference in the payout figures as per Form 31B (2) filed with Authority and form 26Q.
- c) On examining the available documents on infrastructure payouts to corporate agents, it is noted that
  - In the agreements with Allahabad bank and Karnataka Bank, insurer agreed to make payments to banks to use infrastructure for the purpose of canvassing general insurance business for the bank but not for the purpose of rendering pan India service to its policyholders as informed by insurer. In terms of Regulation 9(1) (e) & (f) of the IRDA (Licensing of Corporate Agents) Regulations, 2002, it is obligatory on the part of the corporate agent to provide pre/post sales service to prospects.
  - Though the monthly bills raised by Allahabad bank mentioned the claims as towards infrastructure fees, in the particulars column it was stated as towards providing information of insurer products to prospective customers and for coordinating with insurer for receipt and scrutiny of proposals. However, Authority notes from other available documents that insurer was making the payment towards rent and was also issuing the TDS certificate accordingly.

Authority notes from the insurer submission that both the agreements were terminated (Allahabad bank Dec,12 and Karnataka Bank – May 14). However, payments made to a corporate agent towards infrastructure support are in violation of Clause 21 of the Corporate Agents' Guidelines.

**Further decision is at Point.no.3 of the Order.**

**2. Charge**

From the available documents, it was observed that insurer had floated various contest / incentive schemes and had paid / proposed to pay its intermediaries remuneration ranging from 10% to 46% (for Motor and Non-Motor line of business).



In addition, the insurer also awarded / proposed to award overseas trips, Laptops and Blackberry phones to agents.

**Violation of Authority circular no.11/IRDA/Brok-comm/Aug-08 dated 25<sup>th</sup> Aug, 2008.**

Submission of the insurer:

As part of service facilitation like proposal form pick up, facilitation in filling up proposal form, Infrastructure facilities, data base utilization, Seminar Expenses, Marketing Expenses for man power, Communication Expenses, Stationery Expenses and Travelling Expenses etc., such payments were agreed, however, without linking with the GWP. The scheme was a part of the club and same benefit were allowed to intermediaries as part of the club member as privileged beneficiaries. No foreign trip to any entity was allowed. It is submitted that w.e.f. 1st April 2013 we stopped this practice all together

Decision:

Insurer paid additional payouts to licensed agents over and above commission during the FYs 2010-11 & 2011-12 under the head of IR scheme. The additional payout for motor business was based on discounts offered on erstwhile tariff.

**Decision is at Point.no.3 of the Order.**

**3. Charge**

a) The sample copies of voucher vide which payments made to HSCI and SMC Insurance Broker was examined. It was observed that though SMC brokers were raising its bill for brokerage; the insurer was paying the same under accounting head "Professional Fees" and not under accounting head of "Insurance Commission".

b) It was observed that insurer agreed for payment of more than stipulated commission to its intermediary M/s. Ideal Insurance Brokers, based on discount allowed to customers. Insurer made the payments to broker under head 'Fees for professional or technical services'.

**Violation of circular no.011/IRDA/Brok-comm/Agu-08 dated 25<sup>th</sup> Aug, 2008.**

Submission of insurer:

a) We have made necessary correction in the books as pointed out by the inspection team.



b) The broker provided us various facilities for business development, infra-structure facilities, database utilization, conducting customer education seminars, communication, utilizing their stationary. The payment was released to re-imburse such expenses and it was made only in the FY 2011 2012 and this practice of making payment to this broker has been stopped by the company.

**Decision:**

The Authority takes note of insurer submission on rectifying the wrong accounting of commission as professional fee.

On the additional payout to a broker, insurer submits that it was towards reimbursement of expenses for facilitating various services by broker, whereas as per the available documents, payouts are based on the discounts allowed to customer. The payout is over and above commission and is in violation of the commission circular issued by the Authority.

**In view of the violation of the Authority circulars on additional payouts to licensed entities noticed at point 1, 2 & 3 above, the Authority in exercise of the powers vested in Section 102 (b) of the Act imposes a penalty of Rs.5 lakhs.**

Further, hereinafter, the insurer is advised not to make any additional payment over and above commission and also not to enter into any additional relationships with any of the licensed entities in violation of the Authority guidelines. Also insurer is advised to furnish a compliance certificate duly certified by Chief compliance officer stating that the company has no other agreements in force with any of the licensed entities.

**4. Charge**

i) As per the data furnished by the insurer, the company has 15 referral arrangements with the banks during the year FY 2011-12. On examining the referral agreements of the insurer, it is noted that

- a) Insurer entered into few referral agreements after 1<sup>st</sup> July 2010, i.e. later to notification of IRDA (Sharing of Database for Distribution of Insurance Products) such as Janata Sahakari Bank Ltd., Madhya Pradesh Rajya Sahakari Bank Ltd. and Jhalawar Sahakari Bhommi Vikas Bank Ltd. are referred as referral agents.
- b) The heading of all the agreements is "Referral Agency Agreement" but first line of the agreement is reproduced as "*This Corporate Agent Agreement ("Agreement") entered into on this \_\_\_ day of \_\_\_ BY and BETWEEN.*"



- c) As per para 3 "Fees and Commission" of the agreements, insurer agreed to remunerate these entities with commission as stipulated in Authority circular no. 11/IRDA/Brok-Comm/Aug-08 dated 25-08-2008.
  - d) On examining, sample commission payment sheets, it is observed that the insurer was paying stipulated commission to the referral entities.
  - e) In addition to stipulated commission, insurer was also paying other payments, viz, Infrastructure fees to the referral entities under accounting head "Rent".
- ii) The payments made to three individual agents were examined on sample basis. It was observed that there was a difference between submission as per Form 31B2 and actual payouts.

#### **Violation of**

- a) Violation of Reg. 11 (7-12 & 14) of IRDA (Sharing of Database for Distribution of Insurance Products) Regulations, 2010 read with Authority circulars nos. IRDA/Life/Misc./Cir./125/08/2010, dated 5-8-2010 and IRDA/Life/Cir/Misc/126/08/2010, dated 9-8-2010.
- b) Violation of Authority circular no.11/IRDA/Brok-comm/Aug-08 dated 25<sup>th</sup> Aug, 2008, IRDA circular ref. IRDA/Cir/011/2003, dated 27.03.2003 and point 10 of the circular ref.no.IRDA/cir/003/2003 dated 30<sup>th</sup> January, 2003.

#### Submission of the insurer:

- a) Requests for referral agreements have been put on the IRDA portal during June 2011 to July 2012 seeking approval for referral agency who are cooperative banks. Now corrective action has been taken by the company and referral agents have been discontinued & stopped with referred banks as pointed out in the inspection report.
- b) There was a typographical error while preparing the documents, however, the contents of the agreement are as per the referral agency agreement and is legally vetted by our solicitor. All such agreements are being retyped. The company has been paying referral fees based on the data base and work stations provided by the Banks to cater customers of the banks. Codes allotted were only for internal tracking.
- c) The company has been arranging various training sessions to bank employees on insurance products and obtained few work stations to cater the services to Bank Customers at nominal cost. These charges have been accounted as the payment towards rent.
- d) The entities joined as service providers and after pursuance from the company have been converted into IRDA licensed agents. Payments have been made to

individuals as Service providers and later on as IRDA licensed agents. Further insurer submitted the bifurcation of payments.

**Decision:**

1) Insurer by continuing the referral agreements even after 1/7/2010 has violated the Sharing of Database Regulations. On examining the available documents and insurer submissions to inspection report and post personal hearing submissions dated 16/10/2015, it is noted that

a) Few **agreements were entered by insurer even after** notification of the Sharing of Database Regulations by the Authority. These agreements were filed with Authority for approval after a long gap that too during inspection period, only after observation by team and payments were made to referral partners even before approval from Authority. As such, insurer submission of filing the agreements with Authority for approval is not acceptable.

		Date of agreement	Uploaded on IRDA website for permission	Date of termination	Remarks
1	Arvind Sahakari Bank	29/09/2010	10/07/2012	01/04/2013	Inspection period is 9 <sup>th</sup> to 18 <sup>th</sup> July, 2012 and Sharing of Database Regulations were issued on 1/7/2010
2	Chitnavisapura Sahakari Bank	07/07/2011	10/07/2012	Details not available	
3	Janata Sahakari Bank	25/02/2011	24/01/2012	01/04/2013	

b) **Referral agreements were entered by insurer prior** to inspection, but were filed with Authority for approval after a long gap and that too only during inspection period after observation of inspection team.

		Date of agreement	Uploaded on IRDA website for permission	Date of termination
1	Zila Sahakari Bank Ltd	Details not available	17/07/2012	01/04/2013
2	Mahatma Pule Dist UCB Ltd		10/07/2012	01/04/2013
3	Dr.Ambedkar UCB Ltd		10/07/2012	01/04/2013

4	The Textile Co-op BOS Ltd		10/07/2012	01/04/2013
5	Kota Bhoomi Vikas SB Ltd		10/07/2012	01/04/2013

- c) Agreements were entered prior to issue of Sharing of Database Regulations **but were not discontinued** after notification of the Regulation effective from 1/7/2010.

		Date of agreement	Date of termination
1	Jhalwar Sahakari Bhoomi Vikas Bank Ltd	21-06-2010	01/04/2013
2	Madhya Pradesh Rajya Sahakari Bank	15-01-2010	Details not available

- d) Insurer post personal hearing reply dated 16<sup>th</sup> October, 2015 is silent on the clarification sought by the Authority, wherein insurer was asked to inform whether the referral fee paid to the entities during the FYs 2009-2012 was as per the agreement which refers to agency commission or otherwise. By maintaining silence insurer has accepted the Authority charges on payouts to referral entities.

As such, insurer by continuing the old referral agreements after the issue of the Sharing of Database Regulation and payments to entities by entering into fresh agreements even before approval from Authority, has violated the various provisions of the IRDA (Sharing of Database for Distribution of Insurance Products) Regulations, 2010. Insurer is advised to terminate all referral agreements, if any, still continuing without the approval of Authority.

**Further decision on above sub-points 'a to d' is at point 7 of the Order.**

- e) Though insurer submitted that the referral agreements were vetted by its solicitor, codes allotted only for internal tracking and a typographical error occurred while preparing the documents, it is noted that in all sample referral agreements verified, the content of agreement is of corporate agency agreement (having terms referring to compliance to Corporate Agency guidelines, commission payable as a percentage to premium, promoting of insurer products but not sharing of database). Further insurer has allotted intermediary codes and commission bills were generated to referrals w.r.t Jhalwar Sahakari Bhoomi Vikas Bank Ltd, Madhya Pradesh Rajya Sahakari Bank & Janata Sahakari Bank Ltd. Authority takes a



serious note of a very casual approach while entering into such agreements and observes lack of control mechanism in monitoring such lapses at operational level. However taking note of the insurer submission on rectifying / terminating the agreements, no charge is pressed.

- 2) Insurer submission is noted on reasons for difference in figures amongst Form 31B2 statement filed with Authority and form 26Q. No charge is pressed.

## 5. Charge

The details of Specified Persons (SPs), viz names, SP Certificates, were called for examination and the same were not submitted by the insurer. It was observed from Authority licensing portal that SPs available for corporate agents are qualified for solicitation and procurement of life insurance business only.

**Violation of Regulation 3, 4, 5 & 6 of IRDA (Licensing of Corporate Agent) Regulation, 2002 and IRDA circular ref. IRDA/Cir/011/2003, dated 27.03.2003.**


### Submission of the insurer:

The updated details of all the Specified persons who have been put to the training and have cleared the exam have been hosted on the portal. SP certificates at the time of inspection were there with respective SP's and now have been called for and available bank wise. Initially 3 banks were corporate agents of other insurers and had only one SP. With the continuous efforts of the company, we now have 112 SPs for Allahabad bank, 455 for IOB and 7 for Karnataka Bank with 154 under training.

### Decision:

It is observed that the general insurer procured business for some period from corporate agents' inspite of not having a single specified person licensed to solicit general insurance business. The insurer is advised to mandate the corporate agent to provide details of specified person involved in soliciting the business in the proposal form and also to capture the details of the specified person involved in soliciting the business in the insurer's database.

**Further decision is at point 7 of the Order.**



**6. Charge**

On examining sample motor policies, it was observed that insurer is booking the business under the code of other than licensed entities. In addition, it is noted from agency Incentive Scheme dated 08-08-2011 that insurer is accepting insurance business from individual referral agents who do not hold valid license to solicit and procure insurance business.

**Violation of IRDA** circular ref. IRDA/Cir/011/2003, dated 27.03.2003.

Submission of the insurer :

The business was sourced through the direct business team members of USGICL and the ancillary non-core services have been provided by various individuals. The scheme note was prepared for the record of tracking the business and is not linked to GWP collection but is linked to the number of proposals and other activities and also no agency commission bills were generated to these codes.

Four instances have been quoted in the inspection observation for booking the business under the code of other than licensed entities; out of these four; three cases pertain to OFF ROLL Marketing Associates (MA) and motor dealers. Marketing associates are employed by the company on off roll basis for channeling direct premium & system codes were allotted to track the business performance of each individual and these system codes wrongly mentioned as an intermediary code in the policy. This was a clerical mistake. We have done away with this MA channel and we do not have any more MA by 31.03.2015 and also have stopped the practice of allocating IMD code to motor dealers.

In respect of fourth case observed, insurer submitted the license details of the observed individual and informed that license details in its system have been rectified.

Decision:

On examining the available documents and insurer submission it is noted that, motor dealers and other individuals were allotted IMD codes, were issuing cover notes, named as intermediary in the policy document/proposal forms/receipts and were also corresponding with insurer on underwriting/discount on proposals. As per the documents verified, referral channel of the insurer includes motor dealers and tied corporate agent of other insurer who were paid incentive based on their business performance. However, Authority notes from the submission that insurer has stopped using the services of off-site channel.

**Further decision of Authority is at point 7 of the Order.**



## 7. Charge

The insurer had entered in to agreement with 339 motor dealers including HSCI dealers. On examination of the above agreements and payment vouchers the following issues were observed.

- a. On examining the agreement entered into with Automotive Manufacturers Pvt. Ltd. (AMPL), it was observed that the agreement is a tripartite one, but the agreement was signed only by two parties.
- b. In all the agreements entered into with motor dealers the definition of Gross Written Premium (GWP) was given. The insurer had not furnished plausible answer as to why this definition was part of the agreement with motor dealer.
- c. Insurer apart from making commission payments to the intermediaries was also making payments in the form of Fees for Professional or Technical Services to representative of dealers as a percentage of Gross Direct Premium. It was observed that for each dealer the payments are made to two or three of their representatives.
- e. It was noted that the insurer is paying to the motor dealers under three different account heads namely Payment of Contractors & sub-contractors, Fees for Professional or Technical Services and Insurance Commission.

**Violation of** IRDA/CIR/011/2003, dated 27-03-2003 and Para 8.4 of Outsourcing guidelines dated 1<sup>st</sup> Feb, 2011 by outsourcing insurance activities to licensed entities.

### Insurer submission:

The motor dealer is providing various facilities for business development it was agreed to make payment of service charges for such facilities which Insurer otherwise would have incurred and brokerage is being paid to the broker. Thus the payment to dealers has no linkage with the procurement and quantum of business. The services are provided by more than one individual at dealer's point and thus the payment to two to three entities for their services was remunerated.

These vendors who joined us as service providers and after our pursuance have been converted into IRDA licensed agents. We have made payments to such individuals as service providers till such time they obtained IRDA agency license and later on as IRDA licensed agents.

### Decision:

On examining the documents/submissions, it is noted that the motor dealer was claiming consolidated amount and the same was shown by insurer as towards different services, motor dealer was referred as intermediary in the policy document



issued to insured, additional payouts were made to licensed entities in the name of professional fee, payments were made to TV Sundaram Iyengar & Sons towards insurance related services who is a tied corporate agent of another insurer.

**In view of the violation of the Authority circulars/guidelines on soliciting of business through licensed entities at point 4,5,6, & 7 above and Sharing of Database Regulations at point 4 above, the Authority in exercise of the powers vested under Section 102 (b) of the Act imposes a penalty of Rs.5 lakhs.**

## 8. Charge

The insurer had informed that they have two national level tie-ups with motor manufacturers namely, Honda SIEL Car India Ltd (HSCI) and Nissan Motor India Pvt. Ltd. On examining, both the agreements following issues were observed:

- i. Insurer was sourcing HSCI premium through its 49 dealers.
- ii. As per the agreement with HSCI, insurer had to provide pre printed stationery (letterhead + Schedule Kit) at HSCI approved dealerships. It was observed that insurer is not providing pre-printed stationery and instead of it making payment for these stationery charges as per bill raised by HSCI.
- iii. As per Agreement, *"No salvage value will be deducted from the claim amount. However, the insurer reserves the right to collect the salvage within 7 days of claim settlement."* It is noted that insurer does not maintain salvage register and details of salvage collected against settlement of HSCI claims could not be ascertained. From the sample claims examined, it is noted that the insurer neither deducted the salvage amount from admissible claim nor took possession of salvage from HSCI dealers, thereby facilitating the dealers undue benefit in addition to the payments.
- iv. As per agreement, all electric parts like ECM, various sensors, motors, actuators, wiring harness, *headlight assembly* etc. are to be treated as "other parts" where the depreciation depends upon the age of the vehicle. In this regard, it is pertinent to note that in major vehicles the 'headlight assembly' is manufactured by using of plastic material and in case of partial loss will attract 50% depreciation. The insurer had provided this arrangement only for the policies sourced through the dealers of HSCI.

## Violation of

- i) Para 9 of the F&U guidelines dated 28/09/2006 by agreeing to issue motor policies under the product name 'Honda Assure' and 'Nissan motor insurance policies' as per agreement terms.



- ii) General Regulation 9 on 'depreciation' of Indian Motor Tariff wordings, Point 1, 2 & 28 of F&U guidelines dated 28/09/2006 & Circular no. IRDA/NL/Cir/F&U/003/01/2011 dated 6<sup>th</sup> Jan, 201, Authority Circular ref. No. IRDA/NL/CIR/F&U/073/11/200 dated 16-11-2009, Authority circular 066/IRDA/F&U/Mar-08 dated 26<sup>th</sup> March, 2008, Point 8 of Authority circular ref.no.048/IRDA/De-tariff/Dec-07 dated 18<sup>th</sup> Dec, 2007 and Authority cir.no.19/IRDA /NL/F&U/Oct-08 dated 6<sup>th</sup> Nov, 2008 for changing the erstwhile tariff wordings on plastic parts.
- iii) Para 2, 9.8, & 11.2 of Outsourcing guidelines dated 1<sup>st</sup> February, 2011 by outsourcing of core jobs to motor dealers.
- iv) Clause 6 of corporate governance guidelines of Annexure II of circular no. IRDA/F&A/Cir/0205/2009-10 dated 5<sup>th</sup> Aug, 2009.
- v) Violation of Reg. 11 (7-12 & 14) of IRDA (Sharing of Database for Distribution of Insurance Products) Regulations, 2010 read with Authority circulars nos. IRDA/Life/Misc./Cir./125/08/2010, dated 5-8-2010 and IRDA/Life/Cir/Misc/126/08/2010, dated 9-8-2010 by making payment to dealer for database.

Submission of insurer:

- a) Initially for the purpose of standardization HSCI was asked to arrange the stationary printing on our behalf and cost of stationary being reimbursed. Now we are providing stationary to them.
- b) Standard Motor Private Car policies were issued to cover Honda Vehicle under Honda Assure and in Nissan policies only the respective dealer name was mentioned as Nissan. Policy Conditions of these policies are as per the filed & approved product except that the policy schedules were printed on the stationary where "Honda Assure" was printed and on the coverage page these Honda Assure & Nissan were there.
- c) Company is not maintaining salvage register since company is not collecting any salvage. Salvage in case of motor policies other than Honda assure is deducted from the claim amount. In case of Honda assure policies, though we reserve the rights to collect salvage, it is neither logistically possible nor financially viable to collect, store and then dispose of the salvage / scrap of spare parts from various dealers across the country. Hence such salvage is generally treated as Constructive Total Loss (CTL) and destroyed by the Surveyor rendering the replaced parts as useless. Hence, there is no favoring or providing of undue benefit to the HSCI dealers. However salvage register for even such damaged parts is also being maintained now.
- d) Indian Motor tariff has not defined the parts of the motor vehicle for the purpose of depreciation and the parts are considered as Plastic, Fibre, Glass, etc. based on the significant use of the material and varies in different make and model.

Handwritten signature and initials, possibly 'A. S.' and 'D.' with a checkmark.

Agreement term restricts to "Headlamp" among other "electrical parts" and does not refer to "tail lamp". Since named parts mentioned above are mix of metal, glass and other components in varying degree, these parts have been specifically mentioned and stated as "other parts". Headlights are motorized headlights containing motor and having metallic material and hence considered as other parts.

- e) There is no violation of outsourcing guidelines dated 1st Feb. 2011 as the company has not outsourced any core activity to the dealer. Dealer only facilitate the services which are performed by the employees of the company. The Claims are processed completely by the company, dealer only facilitate in claim processing by collection of the documents and places request only for modification endorsement along with necessary documents.

The agreement terms are for better services to the customers. As regards to the payment to Honda Dealers are concerned the same has been paid against their invoices which we have received through Honda System which specify the provisions for infrastructure services like space / employees etc ..

**Decision:**

- 1) Insurer submission is noted on reimbursing the cost of stationery to dealers in the initial period of agreement and now providing the stationery by the company itself.
- 2) Authority takes note of the insurer submission that the motor product name was properly mentioned on the policy schedules and only had the words "Honda Assure" on the policy schedule issued to Honda vehicles and name of Nissan n on the policy wording booklet issued to Nissan vehicles. Taking note of the insurer submission, no charge is pressed. However, mention of vehicle manufacturers logo, name, motor dealer contact details for renewal, or any other detail may misguide the insured/prospect in approaching the insurer on any service request, hence insurer is advised to mention only the company details along with the matters as stated at Regulation 7 of IRDA (Protection of Policyholders' Interests) Regulations, 2002. In case insurer wants to market an approved product with any trade name, it may seek approval from Authority under para 9 of F&U guidelines dated 28/09/2006.
- 3) The agreement entered into by the insurer provides for services such as processing of claims, modifying by way of endorsements and other services which are required to be either performed by a licensed intermediary or by the insurer and are not permitted to be outsourced, as those are core activities. However, taking note of the insurer submission that though the services referred by the



Authority are part of the agreement, submitted that those services are never performed by a dealer but only facilitate collection of documents. Taking note of the submissions, insurer is directed to revise the agreement terms to ensure compliance with the Outsourcing Guidelines issued by the Authority vide circular dated 1<sup>st</sup> February, 2011. Insurer to inform the compliance to the Authority directions through an action taken report within 3 months of the Order.

- 4) Authority notes the insurer submission on agreeing to maintain salvage register for damaged parts and is also advised to re-examine the Honda agreement terms on non recovery of salvage value from the claim amount in order to maintain uniformity in claim payments amongst Honda vehicles solicited through various channels.
- 5) Clause 14.7 of annexure B of the agreement with HSCI states that 'headlight assembly' will be treated as 'other parts' where depreciation depends upon the age of the vehicle. General Regulation 9 of India Motor Tariff, 2002 clearly states how depreciation is to be arrived in case of partial loss claims on various parts. Insurer allowed depreciation percentage applicable for 'other parts' on 'head light assembly' instead of 'plastic parts', for the business sourced under the agreement. Thus insurer has given differential treatment for the same class of risk sourced through motor dealer tie ups and other channels. Thus insurer has violated GR 9 of erstwhile tariff wordings and other circulars including the 16<sup>th</sup> November, 2009 circular referred in the charge which provides that terms and conditions of erstwhile motor tariff should not be varied without the Authority's express approval.

As such, in view of the violations of the F&U guidelines, the Authority in exercise of the powers vested in Section 102 (b) of the Act imposes a **penalty of Rs. 5 lakh**. The Insurer is also hereby directed to ensure compliance with the F&U guidelines as issued from time to time.

- 6) On having the sharing of database' clause in the motor dealer agreements, insurer submitted that though the agreement has such clause, no payments were offered to the dealers towards database. As such, no penalty is pressed. However, insurer is advised to revise the terms of all such agreements wherever reference to sharing of database was part of the agreement terms with all such entities to which Authority approval for referral agreement is not received by insurer.

**In conclusion, as directed under the respective charges, the penalty of Rs.15 lakh (Rupees Fifteen Lakh only) shall be debited to the shareholders' account of the general insurer and the amount shall be remitted to Insurance Regulatory**



and Development Authority of India within a period of 15 days from the date of receipt of this Order. The penalty shall be remitted through the NEFT as per details being intimated to the insurer as per a separate e-mail. The transfer shall be made under intimation to Mr.Lalit Kumar, FA & HOD-Enforcement.

Further,

- a) The General Insurer shall confirm compliance in respect of all the directions referred to in this Order, within 15 days from the date of issuance of this order. Timelines, if any as applicable shall also be communicated to the Authority.
- b) The Order shall be placed before the Audit committee of the insurer and also in the next immediate Board meeting and to provide a copy of the minutes of the discussion.
- c) If the general insurer feels aggrieved by any of the decisions in this order, an appeal may be preferred to Securities Appellate Tribunal as per Section.110 of the Insurance Act, 1938.

Place: Hyderabad  
Date: 07/01/2016

  
(V R IYER)  
Member (F&I)

