



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

Ref: IRDA/INSP/ORD/IONS/215/09/2014

September 12, 2014
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Order of the Insurance Regulatory and Development Authority under section 14 of the Insurance Regulatory and Development Authority Act, 1999 read with regulation 14(1) of the Insurance Regulatory and Development Authority (Insurance Brokers) Regulations, 2002 – in the matter of renewal application dated 15th November, 2010

**of M/s Apoorva Insurance Brokers Private Limited
Direct Broker License No.285**

1. M/s Apoorva Insurance Brokers Pvt. Limited, hereinafter referred to as ' the Broker' having its Registered Office at B-117, Siddhartha Nagar, near Jawahar Circle, Jaipur - 302107, Rajasthan, have been granted license to act as Direct Insurance Broker for both life and general insurance categories vide license No. 285 on 16.12.2004. The license was renewed on 16.12.2007 and the same was valid up to 15.12.2010.

2. The second renewal application was submitted by the broker on 15-11-2010. The Authority had already commenced its onsite inspection of the broker on 6th September, 2010 which went up to 9th September, 2010. The Report of the inspection findings was forwarded to the Principal Officer vide the Authority's letter No. IRDA/DB-271/04 dated 25th February, 2011 seeking comments of the Broker within 15 days of the receipt of the said communication. The Broker responded vide letter dated 5th June, 2011 to the findings of the inspection.

3. The findings of the inspection and the reply submitted by the broker were examined by the Authority. Though there were certain violations, issues of procedural lapses, etc., noticed in relation to the functioning of the broker, the Authority decided that Show Cause Notice be issued in regard to the observed violations. The violations are detailed below:

- (i) **Violation of Regulation 9, clause 3(b) of Code of Conduct under Regulation 21, and Regulation 25 (1) (iv) of IRDA (Insurance Brokers) Regulations, 2002.**

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Service Agreement with Net Ambit infosource & e-Service Pvt. Ltd. & payments to M/s Deloitte, KPMG, Delhi for Advertisement, Business Promotion, and Legal & Professional Charges.

(ii) Violation of Provisions of Regulation 9 of IRDA (Insurance Brokers) Regulations, 2002.

4. Accordingly, a Show Cause Notice was issued to the broker vide Authority's letter No. IRDA/DB-271/04 dated 13th February, 2012. The Broker had replied to the said notice vide their letter dated 5th May, 2012 and sought a personal hearing to put across its views in the matter.

5. The Authority vide letter no. IRDA/DB 271/04 dated 24th June, 2014 advised the broker to attend the personal hearing on 2nd July, 2014. But the broker vide their e-mail dated 7th July, 2014 requested for an alternate date expressing their inability to attend the hearing on 2nd July, 2014 due to ill health of their Principal officer.

6. The Authority, after considering their request, advised the broker to attend the personal hearing on 23rd July, 2014 in the office of the Authority. Accordingly, the personal hearing was held in the office of the Authority on 23rd July, 2014. Mr. Madan Lal Malhotra- Principal Officer was present in the hearing on behalf of the Broker. Mr. M. Rama Prasad, Member (Non- Life), IRDA, took the hearing of the Broker. Also Dr. (Ms) Mamta Suri, Sr. JD (Inspection and Compliance), Mr. Randeep Singh Jagpal Sr. JD (Intermediaries) and Mr. Sanjay Mohan Sharma, Assistant Director (Inspection Compliance) were present at the hearing on behalf of IRDA.

7. The examination of (a) the findings of the inspection (b) the submissions made by the broker to the inspection findings, (c) response of the broker to the Show Cause Notice issued by the Authority and (d) the subsequent submissions made by the broker during the personal hearing reveals the following:

VIOLATION - I

Violation of Regulation 9, clause 3(b) of Code of Conduct under Regulation 21, and Regulation 25 (1) (iv) of IRDA (Insurance Brokers) Regulations, 2002.

Service Agreement with Net Ambit infosource & e-Service Pvt. Ltd. & payments to M/s Deloitte, KPMG, Delhi for Advertisement, Business Promotion, and Legal & Professional Charges.

(a) At the outset, the Broker did not file with the Authority the online returns as required as per Circular No.009/IRDA/BRO/May 06 dated 26.5.2006 which has been issued under Regulation 25 (1) (iv) of IRDA (Insurance Brokers) Regulations, 2002. As per



the provisions of the said regulation, the service arrangements/agreements with service providers need to be disclosed in Form G of on line returns. Thus, by failing to file the said online returns, the broker had violated Regulation 25(1)(iv).

(b) As per the service agreement with Net Ambit Infosource & e-services Pvt. Ltd, the scope of services includes introduction activities, customer awareness calls, customer welcome calls, customers satisfaction calls etc. through its dedicated Telemarketing Workstations. The Broker agreed to pay the service provider at the rate of ~~Rs~~ 30,000/- per Telecalling workstation. On examining the operations of the Broking company, it was established that Net Ambit infosource & e- Service Pvt. Ltd., were procuring the business for the broking company and were being remunerated for the same. The amount paid by the Broker to Net Ambit Infosource & e-services Pvt. Ltd. was around 35 per cent of the total revenue of the Broker during the financial year 2009-10. These arrangements and the payments made thereunder are in violation of the provisions of clause 3 (b) of code of conduct under Regulation 21 which stipulates that Insurance broker shall not employ agents or canvassers to bring in business and also attract the provisions of Regulation 34(1)(g).

(c) The percentage of lead conversion was about 8 to 9.5 percent.

(d) The details of invoices raised by M/s Net Ambit Infosource & e- Services Pvt. Ltd on Apoorva Insurance Brokers Pvt. Ltd had shown that the amount was Rs.2.85 crore, from October 2009 to March 2010 and Rs.1.95 crore from April 2010 to September 2010.

(e) Apart from the agreement with Net Ambit Infosource & e-Services Pvt. Ltd, the Broker also entered into agreements with M/s Deloitte, it was claimed, for studying customer satisfaction and with KPMG for analysis of product of insurance companies, identify customer needs, etc. The Broker, while responding to the show cause notice submitted that (i) the agreement with Deloitte was for the assignment under which M/s Deloitte were to suggest ways to improve distribution and to measure the satisfaction of the customers; (ii) the assignment was however called off due to a misunderstanding about the scope of the work; and (iii) M/s Deloitte were paid only an initial fee of Rs.3.5 lakhs and no further payment was made to them. In regard to payment made by them to M/s KPMG, the Broker submitted that (i) the payment was made to M/s KPMG on behalf of M/s Net Ambit Infosource & e-Services Pvt. Ltd. as per their (M/s. Net Ambit's) instructions; and (ii) the study into consumer satisfaction and a host of allied subjects by M/s KPMG was commissioned by M/s. Net Ambit Infosource & e-Services Pvt. Ltd. for their own purpose and the payments made to M/s KPMG by the broker were subsequently debited to the running account of Net ambit Infosource & e-Services Pvt. Ltd.

(f) Whereas the broker was required to have in place necessary infrastructure such as adequate office space, equipment and trained manpower, qualified persons with

experience to conduct the business of insurance broker, as stipulated under Regulations 9 of the IRDA (Insurance Brokers) Regulations, 2002, on examining the various agreements entered into with the above named entities as detailed at para 7(e), it is established that the said agreements were entered into with the objective of serving their clients and/or to put in place sub-broking arrangements.

(g) On perusal of the Agreements by the IRDA, and the submissions made by the broker, it is observed that the service agreements as detailed in paras 7(b) and 7(e), entered into by the Broker were not permitted by IRDA (Insurance Brokers) Regulations, 2002. It is, thus, established that the Broker has violated, as detailed in para 7(f) above, the provisions of Regulations 9 of the IRDA (Insurance Brokers) Regulations, 2002

VIOLATION - II

Violation of Regulation 9 of IRDA (Insurance Brokers) Regulations, 2002

(h) A Group Master Policy bearing no. MUM/TR/2010/2009 was obtained by the Broking Company from M/s Kotak Mahindra Old Mutual Life Insurance Limited covering risk on the lives of broker's employees. The Proposal Form was signed by one Mr. S. B. Lal in the capacity of Authorized person and the contact person for the Group Policy was Ms. Shweta Saini, Assistant Manager (HR-Ops) with mail ID sheachawla@netambit.in.

(i) The Broker has submitted that (a) the group policy purchased from M/s Kotak Mahindra Old Mutual Life Insurance Limited does not state the names of employees covered under the policy; (b) the confusion was probably caused due to the presence of the Broker's supervisors at the premises of M/s Net Ambit Infosource & e- Services Private Limited in Noida to oversee the tele calling operations; and (c) in case the name of proposer mentioned is different in the proposal form it must have been inadvertently caused due to the presence of other entities operating from the same premises.

(j) The submissions of the Broker were examined by the Authority and it is the IRDA's considered view that the reply given by the Broker that *due to oversight and inadvertently the names mentioned are different because of the presence of other entities operating from the same premises* is vague and untenable. The facts of the case indicate that more than one company was operating from the same premises and /or the employees were common amongst these companies. The absence of infrastructure is a serious violation which attracts the provisions of Regulation 9(2)(B) of the IRDA (Insurance Brokers) Regulations, 2002 which lays down the minimum infrastructure and qualified staff to be deployed by a registered insurance broker at all times. It is pertinent, in this context, to make a reference to an extract of the order No. No.IRDA/BRK/ORD/LC/200/10/2013 dated 03rd October, 2013, by which the application for renewal of the Broking licence issued to M/s. Net Ambit Insurance

Broking India Limited was rejected. Para No.16(iii) of the said order is reproduced below verbatim:

Para 16(iii): Whereas, it was further charged in the Notice that the Authority while conducting the inspection of M/s. Kotak Mahindra Old Mutual Life Insurance Co. Ltd from 24th-29th January, 2011 observed that M/s. Net Ambit Infosource and E-Services Pvt Ltd, M/s. Net Ambit Value First Services Ltd, M/s. Futuresafe Service Ltd and M/s. Apoorva Insurance Broking Co. Ltd have taken a Group Term Insurance Policies covering the lives of their employees from the insurer. It was further observed that the same person Mr. S.B. Lal has signed on behalf of all the four entities.

This clearly shows that all the entities mentioned in the preceding para 16(iii) are closely related to each other and run by the same group and there is a clear coordination at every level amongst these entities. Hence it is clear that the employees of the broker are working for other entities operating at the same premises. It also proves that the service arrangements and the payments made as detailed in para 7(b) to 7(e) above are only a ruse to siphon off the funds of M/s. Apoorva in favour of other entities of the group.

(8) During the course of the personal hearing on 23rd July, 2014, the Principal Officer admitted to the inspection findings and accepted that lapses had occurred during the operations of the broking firm. The Principal Officer accepted that gross violations of the IRDA (Insurance Brokers) Regulations, 2002 had occurred during the conduct of the business by the broking company.

(9) Further, the Principal Officer submitted that the company presently neither has qualified employees nor necessary infrastructure to procure and solicit the insurance business. It was submitted that besides the Principal Officer, the company has only one sub-staff on its rolls. It was also accepted by him that the broking firm had shifted out of the premises where, as per the records of the Authority, the operations of the broking company were being conducted.

Critical points of the case:

(10) While examining the submissions made by the Broker, the IRDA is conscious of the fact that at the time of the on-site inspection, i.e., September 2010, the Broker's license was valid till December 15, 2010. While the Broker has applied for renewal of license twice, i.e., in November 15, 2010 and January 14, 2014, the said requests were kept in abeyance pending closure of this proceedings. Hence, the Broker did not hold a valid license both at the time of issue of Show Cause Notice and at the time of personal hearing. Hence though provisions of Regulation 34(1)(g) are attracted in this case as mentioned in para 7(b) above, in the background of the Broker not possessing a valid

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licence beyond 15th December, 2010, action in this case is initiated by invoking the powers vested in the Authority under Section 14(1) of the IRDA Act, 1999 and Regulation 14(1) of the IRDA (Insurance Brokers) Regulations, 2002.

ORDER

(11) Keeping in view the violations as indicated in the preceding paragraphs which have also been admitted and accepted by the Principal Officer in the Personal hearing on 23rd July, 2014, and the submissions made by the Principal Officer in the Personal hearing accepting the absence of infrastructure and staff strength, the Authority, by virtue of the powers vested in it under the provisions of Section 14(1) of the Insurance Regulatory and Development Authority Act, 1999 and Regulation 14(1) of IRDA (Insurance Brokers) Regulations 2002, hereby orders as under:

(a) That in view of the facts and circumstances as stated in the above paragraphs and having taken into account that the Broker had not carried out its functions in the interests of policyholders and the facts in regard to the untenable activities as outlined in para 7(j) above, and also the fact that the Broker had violated the provisions of Regulations 9(1), 9(2), 25(1)(iv) of IRDA(Insurance Brokers) Regulations, 2002, and the circulars issued there under, which are serious in nature, as relevant to the carrying out of the functions by the insurance broker, the Authority is of the firm view that it is not "fit and proper" for the Broker to continue operations as insurance broker and the Authority is of the opinion that the grant of licence is not in the interest of the policyholders and hence the application dated 15th November, 2010, for renewal of license no.285 issued to M/s. Apoorva Insurance Brokers Pvt. Ltd to act as a Direct Broker is hereby rejected.

(b) M/s. Apoorva Insurance Brokers Pvt. Ltd shall immediately cease to act as an insurance broker. The broker however, shall continue to be liable to provide services in respect of contracts already entered into through them by virtue of Regulation 15 of IRDA(Insurance Brokers) Regulations, 2002 up to the period of expiry of those current contracts, details of which shall be disclosed to the Authority on receipt of this Order.

(c) The broker, if aggrieved by the decision of the Authority, may apply within a period of thirty days from the date of receipt of this order, to the Chairman of the Authority for a reconsideration of its decision.



(M. Ramaprasad)
Member (Non-Life)

