



IRDA/LIFE/ORD/MISC/52/02/2012

Final Order in the matter of

M/s. Sahara Life Insurance Company Ltd.

Based on Reply to Show Cause Notice Dt 11th Aug 2011 and Submissions made in Personal Hearing on December 13, 2011 at 03.00 PM at the office of Insurance Regulatory & Development Authority, 3rd Floor, Parishram Bhavanam, Basheer Bagh, Hyderabad

Chaired by Sri J Hari Narayan, Chairman, IRDA

The Insurance Regulatory and Development Authority (hereinafter referred to as "the Authority") carried out an onsite inspection of M/s Sahara Life Insurance Company Ltd (herein after referred to as "the insurer") between 28/6/2010 and 02/07/2010 which inter-alia revealed violations of the provisions of the Insurance Act, 1938 (the Act), various regulations/ guidelines/circular issued by the Authority.

The Authority forwarded the copy of the inspection report to the insurer under the cover of letter dated August 31, 2010 and sought the comments of the insurer to the same. Upon examining the submissions made by the insurer vide letter dated 24/9/2010, the Authority called for further information vide its letter dated 11th February 2011 which was responded to by the insurer vide letter dated 1st March 2011. Finally, the Authority issued notice to show-cause dated 19th July 2011 which was responded to by the insurer vide replies dated 11th August 2011. As per the request, a personal hearing was given to the insurer by Chairman, IRDA on 13th of December, 2011. Mr. N.P. Bali, CEO of the insurer, The Chief Financial Officer, The Appointed Actuary and The Compliance Officer were present in the hearing. On behalf of IRDA, Mr. M. Ramaprasad, Member (NL), Mr. G. Prabhakara, Member (Life), Mr. Sriram Taranikanti, FA, Mr. Kunnel Prem, CSO(Life), Mr. Suresh Mathur, Sr. JD(Intermediaries), Mr. M. Pulla Rao, Sr. JD (Inspections), Mr. SN Jayasimhan, JD (Investments), Ms. Mamta, JD (F&A), Ms. Meena Kumari, HoD(Actl), and Mr. V. Jayanth Kumar, JD (Life) were present in the personal hearing. The submissions of the insurer in their written reply to Show Cause Notice as also those made during the course of the personal hearing were taken into account.

The findings on the explanations offered by the Life Insurer to the issues raised in the Show Cause Notice dated July 19, 2011 are as follows.

Issue1- Inspection Observation 2b: The insurer is not maintaining separate trust for funding Gratuity, PF, Pension, etc., of employees of Sahara India Life Insurance Co. Ltd. Violation of Prudent Accounting Practices.

Decision: *The insurer's submission that it makes contributions in respect of all of the above on behalf of its employees to the central fund maintained by M/s Sahara India Limited (SIL) and that they have now entered into a formal agreement with SIL for the same are found in order. The charges are therefore not pressed.*

Issue 2- Inspection observation 3: SILIC is not functioning as an independent accounting and legal entity. Stationery of group companies are used. Officials of group companies authorizing payments of SILIC – violation of prudent accounting norms.

Decision: *The insurer has stated that they have now stopped using the old stationery and verification of bills and expenses by the officials of Group Companies. It has also been confirmed that now the insurer's officers themselves are verifying/passing the bills. Taking into account of the fact that the overall expenses are also within the limit of Rule 17D of Insurance Rule, 1939- charge is not pressed. However, the insurer be cautioned to stop all these practices and confirm the same.*

Issue 3-Inspection observation 4: Rent payment to group companies without formal agreements. Other payments such as electricity, courier, and mobile expenses made to group companies – violation of accounting practices.

Decision: *It has been observed that the insurer has submitted all the rent agreements along with compliance to inspection observation. The insurer has also explained that other payments such as courier and mobile expenses are on actual basis with supporting bills and electricity payments on proportionate basis. Considering the reply of the insurer and taking into account the fact that the overall expenses are within the limits set by Rule 17D of Insurance Rules,1939 , charge is not pressed. However the insurer be strictly advised to follow the prudent accounting practices in this regard.*

Issue 4-Inspection observation 5: There was heavy expenditure on publicity in 2008-09. Payments made to vendors through corporate communications department of Sahara group – Violation of prudent accounting practices

Decision: *The reply of the insurer that all the payments to vendors have been approved by the board of Insurer and Sahara India Limited's help was taken only for coordination with the vendors , has been considered. Taking into account also the fact that the overall expenses are within the limits set by Rule 17D of Insurance Rules,1939 , charge is not pressed.*

Issue 5- Inspection observation 7: Expenses on meetings/conferences went up from 0.20 crores in 2008-09 to 1.04 crores in 2009-10. There were monthly payments to

Sahara care on this account while agreement is available with Sahara services Ltd for arranging conferences. Expenses not shown in related party - Violation of prudent accounting norms

Decision: *The insurer has submitted that the payment was only made to M/s Sahara Services Ltd. which is operating with the logo/brand of Sahara Care and that Sahara Services Ltd is not a related party to the Insurer. However it is observed that same fixed amount bills were raised every month for all branches of the Insurer for meetings/conferences and this practice is not found in order and is in violation of prudent accounting practices. After examining the above submission the insurer is hereby warned for the above violation. The insurer is also directed to adhere to the prudent accounting norms.*

Issue 6-Inspection Observation 12: Short falls in NB premium during year end collected from agents – Violation of Section 41 of IA, 1938.

Decision: *Taking into account the insurer's submission that the incidence happened only in the year-end and that the amount involved is insignificant compared to total premium income and also that the amounts in question are actually collected from the policyholders through agent , charge is not pressed.*

Issue 7-Inspection observation 13: Issuance of premium receipts based on oral information without actual receipt of premium by company – Violation of Section 64 VB of IA, 1938

Decision: *The insurer's submission along with the supporting banker's confirmation that the incidence happened due to failure in banker's server, is a one-off incidence has been considered and the charge is not pressed.*

Issue 8-Inspection observation 15: Original minutes of Board Meetings, Audit and Investment Committee meetings were not submitted in Inspection period. Submitted later – Violation of Section 33 (3) of Insurance Act, 1938

Decision: *The insurer's submission that the minutes book was sent to the Chairman at the time of inspection as the board meeting was preponed due to inspection has been considered . It is also observed that the same are submitted subsequently . The charge therefore is not pressed.*

Issue 9-Inspection observation 17 (2): Wrong categorization of securities (below AA rating) as Government securities – Violation of Schedule I of IRDA (Investments) Regulations, 2000

Decision: *The insurer's submission that Securities below AA rating categorized as other approved securities as they are guaranteed by the State Governments is considered and charge is not pressed.*

Issue 10-Inspection observation 19: The investment in debenture issued against the security of negative line on the assets and mortgage property of the company, without financial analysis and risk analysis – violation of IRDA (Investments) Regulations, 2000

Decision: *The insurer's submission that financial and risk analysis is done on portfolio level periodically is considered and charge is not pressed.*

Issue 11-Inspection observation 20: Substantial investment exposure in a single mutual fund exceeding the stipulated maximum exposure of ULIP fund – Violation of IRDA (Investments) Regulations, 2000

Decision: *The Insurer submitted that their present system is not able to classify mutual funds into Approved Investments and other Investments automatically which led to only categorization error and confirmed that the exposure limits as specified in Regulations are not breached. The charge is therefore not pressed. The Insurer is advised to put in place the required systems as mandated and confirm.*

Issue 12-Inspection observation 22: Not having proper systems to control and value the investments. Being done manually in excel sheets – violation of IRDA (Investments) Regulations, 2000

Decision: *The insurer's submission that it has already implemented Treasury Management Software and that their Investments are operated from Mumbai, hence the software could not be shown to Inspection team which visited Lucknow office is considered. The charge is not pressed.*

Issue 13-Observation 23: NAV declared deviates from what is defined in ULIP guidelines as expenses incurred in purchase/sale of securities on a specific day not being included – Violation of Clause 10.5 of ULIP Guidelines 32/IRDA/Act/Dec-2005 Dated: 21/12/05

Decision: *The insurer has submitted that the expenses incurred in purchase/sale of securities are included as appropriation and expropriation charges on any day when such transactions are there. NAV calculation is fully automated system. It has also submitted that in many types of transactions no transaction charges are applicable such as mutual funds, FDs and even some debt deals. The submissions of the insurer are accepted and the charges are not pressed.*

Issue 14-Observation 10 & 25(1): Grace period of 90 days allowed in case of policies with group billing instead of 30 days as per “File & Use” application- Violation of “File & Use” procedure

Decision: *The insurer while admitting the mistake, submitted that, they have done this to ease the administrative issues and remittance delays in policies with group billing and in no way adversely affected policy holder. They have confirmed that the practice has now been modified to be in consonance with approved F&U provisions. Violation of F&U is proved. After examining the above submission the insurer is hereby warned for the above violation. The insurer is also directed to strictly adhere to the file and use procedure.*

Issue 15-Inspection Observation 25(2): Declaration of good health not collected under a group product – Sahara Jamakarta Samooh Bima – Violation of “File & Use” procedure

Decision: *The insurer’s confirmation that the DGH is collected as it is part of the membership form of the Group Policy Holder is considered and charge is not pressed.*

Issue 16-Observation 27: Premium quotations in group schemes are not seen/approved by Appointed Actuary – Violation of “File & Use” procedure.

Decision: *While the insurer submitted that premium quotations in group schemes are as per approved premium rates of the Authority under “File & Use” , it is clear that the premium quotations were not being approved by appointed actuary as required under the provisions of F&U approval which is a violation of F&U. After examining the above submission the insurer is hereby warned for the above violation. The insurer is also directed to strictly adhere to the file and use procedure.*

Issue 17-Observation 32 (2): Delay in death claim payments and settling the delayed claims without penal interest – Violation of Regulation 8(5) of IRDA (Protection of Policyholders Interest) Regulations, 2002

Decision: *The insurer’s submission that they have made special efforts to review pending claims and have paid penal interest in all delayed cases has been considered. It is noticed that 41 of the 220 outstanding claims are pending beyond six months. Insurer’s submission that claim forms have not been received in 11 of the 41 cases has been also considered. However, the fact that 30 claims still remain pending beyond six months is established. This is a persistent non compliance and hence a serious view is being taken of violation of provision of Regulation 8(5) of Protection of Policyholders’ Interests Regulations, 2002. The Authority hereby imposes a penalty of Rupees Two Lakhs for this violation under Section 102(b) of the Insurance Act, 1938.*

Issue 18-Inspection observation 33, 34 (2): Delay in delivery of policy documents to customers – Violation of Regulation 4 (6) of IRDA (Protection of Policyholders' Interest) Regulations, 2002.

Decision: *The insurer's submission that they have a sound system of delivering policies through its branch office in lieu of through courier/post is a generalized response, not specific to the instant cases observed by the inspection team. The observed cases clearly reveal the negligence of the insurer in delivery of the policy that violates provision of IRDA (Protection of Policyholders' Interest) Regulations, 2002. After examining the above submission the insurer is hereby warned for the above violation. The insurer is also directed to adhere strictly to the Protection of Policyholders' Regulations.*

Issue 19-Observation 35 (1): Allowing unlicensed entities to solicit business through dummy codes and paying commission to them – Violation of Section 42 of Insurance Act, 1938 and violation of Circular No. IRDA/CIR/010/2003 dated 27/03/2003

Decision: *The Insurers submission that the cases cited are for the intervening period of licence expiry and renewal of licensed agents and Dummy code (not dummy agents) was used only to register business in stray cases is not acceptable since it has been observed that this deviation has occurred in the case of 185 agents. This is a clear violation of Circular No. IRDA/CIR/010/2003 dated 27.3.2003 and violation of section 42 of the Insurance Act, 1938. Taking into account, the seriousness of the violation a penalty of Rupees Five Lakhs is imposed on the insurer under Section 102(b) of the Insurance Act, 1938.*

Issue 20-Inspection observation 35(4): Payment other than commission to corporate agent – Violation of Clause 21 of Corporate Agency Guidelines 2005

Decision: *The insurer's submission that this was payment for publicity expenses on behalf of the insurer and a one-off instance is considered and charge is not pressed.*

Issue 21-Inspection observation 35 (6): The insurer allowed Sahara group companies to sell insurance without license – Violation of Section 42 of Insurance Act, 1938 and violation of Circular No. IRDA/CIR/010/2003 dated 27/03/2003

Decision: *The insurer's submission that the specified person of corporate agent Sahara India Limited only is selling the policies and CMSD, the group company just helps them to find the prospective clients is considered and the charge is not pressed.*

Issue 22-Observation 35 (7): 1. The insurer allowed ineligible person to act as specified person. 2. The insurer is licensing ineligible entities as corporate agent. 3. The insurer procures business through persons other than specified persons of the corporate agent -

Violation of Clause 2 of corporate agency guidelines vide Circular No. 017/IRDA/Circular/CA Guidelines/2005 dated 14/07/2005

Decision: *It is observed that the corporate agent M/s DK Associates has solicited business through unlicensed persons as evident from the six sample proposal forms obtained during the course of inspection. The submission of the insurer in this case has been taken into account but is not considered satisfactory and the violation of clause 2 of corporate agency guidelines vide circular no.017/IRDA/Circular/CA Guidelines/2005 dated 14th July 2005 is proved. Taking into account the seriousness of the violation, a penalty of Rupees Five Lakhs is imposed on the insurer for this violation under Section 102 (b) of the Insurance Act, 1938*

Issue 23-Inspection observation 37 (2): Delay in calling for requirements in new business proposals – Violation of Regulation 4(6) IRDA (Protection of policyholders Interest) Regulations 2002

Decision: *Taking into account the fact that it is an isolated instance, a lenient view is taken and the charge is not pressed.*

Accordingly, in exercise of the powers conferred upon me under the provisions of the Insurance Act, 1938, I hereby direct the insurer to remit the penalty of Rs Twelve lakhs (Rs. 12 lakhs) within a period of 15 days from the date of receipt of this Order through a cross demand draft drawn in favour of Insurance Regulatory and Development Authority and payable at Hyderabad which may be sent to Mr. Kunnel Prem, Consultant & Special Officer (Life) at the Insurance Regulatory and Development Authority, 3rd Floor, Parisrama Bhavan, Basheer Bagh, Hyderabad 500 004.

Place: Hyderabad

Date: 27th February 2012


(J Hari Narayan)
Chairman