



IRDA/LIFE/ORD/MISC/ 098 /05/2012

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

Based on Reply to Show Cause Notice Dt 25th November 2011 and Submissions made in Personal Hearing on February 29, 2012 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 Shriram Life Insurance Company Ltd (herein after referred to as "the insurer") between 15/11/2010 and 19/11/2010 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 February 22, 2011 and sought the comments of the insurer to the same. Upon examining the submissions made by the insurer vide letter dated 25/03/2011, the Authority called for further information vide its letter dated 06/05/2011 which was responded to by the insurer vide letter dated 23/05/2011. Finally, the Authority issued notice to show-cause dated 7th October 2011 which was responded to by the insurer vide its letter dated 25th November, 2011. As per the request of the insurer, a personal hearing was given to the insurer by Chairman, IRDA on 29th of February, 2012. Mr. R. Duruvasan, Managing Director of the insurer and his team were present in the hearing. On behalf of IRDA, 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. J. Meena Kumari, HOD(Actl), Mr. V. Jayanth Kumar, JD (Life) and Mr. Gautam Kumar , DD (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/decision on the explanations offered by the Life Insurer to the issues raised in the Show Cause Notice (SCN) dated 7th October 2011 are as follows:

SCN 1 - Inspection Observation No. 1 - The investment pattern of the policy holders' non-linked fund as on 31/3/2010 is a) 19.85% in Central govt category against min 25% b) 44% in G-Sec against 50% c) (Shareholder's fund) Housing & Infra 12% against min 15% d) Non-Linked PH fund at segregated level i.e Par/Non Par not compliant as at 30.06.10 - Violation of section 27 (1) of the IA and Regulation 3 of IRDA Investment Regulations

Decision: *The insurer's submission that the percentages are applicable to the total of the controlled fund and that their investment pattern has been in line with that, is taken into account and the charges are therefore not pressed.*

SCN 2- Inspection Observation No. 3 – Downgraded investments are still shown as Approved Investments – 10.40% M&M Financial Services From AA+ to AA- Violation of provisions of note 5 to Regulation 4 of Investment Regulations

Decision: *The insurer has submitted that the scrip has been shown with the category code namely "OLDB" which represents other investments – Debentures and that there was a clerical error in the labeling it as "approved investments – debentures" only in the description column. Taking into account the submissions of the Insurer, the charges are not pressed.*

SCN 3 – Inspection Observation No. 4 – "Management Committee" instead of 'Investment Committee' of the insurer has delegated the powers in respect of investments - Violation of Regulation 9 of IRDA Investment Regulations

Decision: *The submissions of the Insurer that the company has constituted a Management Committee to facilitate procedural and operating decisions of the company and that the chairman of Investment Committee, MD, CIO are also members of this committee and hence the delegation of the powers in respect of investments by Management Committee, is not appropriate. In view of the corrective action taken by the Insurer with the concurrence of their Board on 5/8/2011, charges are not pressed. However, the insurer is hereby advised to strictly adhere to the provisions of Regulation 9 of IRDA Investment Regulations.*

SCN 4- Inspection Observation No. 6(a) - The insurer is arriving at Appropriation/ Expropriation Price on the basis of fixed transaction costs instead of 'expenses incurred in sale/purchase' of securities. The insurer is still outsourcing partially the activity of NAV computation even though their assets under management have already crossed Rs. 500 crores - Violation of 10.5 of ULIP guidelines 2005 and para 12 of Annexure II of Circular No. INV/CIR/008/2008-09 dated 22nd August 2008.

SCN 5- Inspection Observation No. 6 (b) - The insurer is taking the trend of previous week to know whether there is an expansion or a contraction of funds(s) instead of

deciding it on a daily basis - Violation of provision 10.2, 10.3 and 10.4 of the ULIP guidelines

SCN 6- Inspection Observation No. 6(c) - The appropriation / expropriation entries are being passed at the month end and reversed on the first day of the next month - Violation of Circular No 24/IRDA/ACTL/2009-10, dated 5th August, 2009

Decision: *The insurer submitted that the approach taken is in line with the methodology suggested at the Life Insurance Council forum of CFOs and that the calculations provided by HSBC are only being used for crosschecking the NAV being computed in house from 01.04.2009. The Authority has observed that the above procedure was being widely adopted in the insurance industry and was not in compliance with good practices or the Regulations. Taking into account all relevant factors, the Authority had issued directions regarding NAV calculations on 29th July 2011. The insurance company confirms that they have since been following strictly the instructions issued. Considering that there were variant practices across the industry at the point of time of inspection, this charge is not pressed and the insurer is advised to strictly follow the instructions of the IRDA on this matter.*

SCN 7- Inspection Observation No. 7 - Operating expenses increased significantly as at 31/3/2010 compared to last year mainly due to payments to group companies under certain heads for utilization of their manpower for insurer's operations. The payments made to group companies are also not reported in the Annual Report of the insurer. There are no formal agreements between insurer and group companies for such arrangements - Violation of IRDA Preparation of Financial Statements Regulations, 2002 and General Accounting Principles.

Decision: *The Insurer has submitted that the increase in operating expenses was due to expansion in other territories, setting up a Direct Sales Model of distribution in Northern and Western regions during 2009-10. It is also taken into consideration that their expenses of management are within the limits prescribed and the charges are not pressed.*

SCN 8- Inspection Observation No. 7 - The insurer is making payment of referral fees to Shriram Chits, one of its group companies – Referral arrangement with a non banking entity is in violation of Cir. No. IRDA/Cir/004/2003 dated 14.02.2003.

SCN 25 – Inspection Observation No. 34 (f) - It is observed that, apart from the Referral fee, other expenses were incurred by the insurer on the Referral partners. Violation of Cir. No. IRDA/Cir/004/2003 dated 14.02.2003

Decision: *The insurer has submitted that working arrangement was made with Shriram Chits and payments were made in accordance with proviso (ii) of*

Regulation 10 of IRDA (Insurance Advertisements and Disclosure) Regulations, 2000 as obtaining prior to the amendment dt. July 2010. In order to ascertain the matter further, the insurance company was asked to submit the business realized and the referral fee paid in the previous three years and they have submitted as follows:

(in thousands)

Year	SHRIRAM CHITS (Referrals)						
	Business	Referral Fee	Ref. Fee %	Other expenditure	Exp %	Total expenditure	Total expenditure %
2008-09	768251	111754	14.55	177830	23.15	289584	37.69
2009-10	976967	149959	15.35	315210	32.26	465169	47.61
2010-11	436681	35381	8.1	298963	68.46	334344	76.56
Total	2181899	297094	13.62	792003	36.3	1089097	49.92

It is to be observed that the payment made to M/s Shriram Chits (which is a group company) under various heads are all well beyond the scope of Regulation 10 of the IRDA (Advertisement & Disclosures) Regulations as obtaining even prior to amendment of July 2010.

The insurer has submitted the above data under 'Referrals'. Referral arrangements are to be entered only with Banks as per the Circular No. IRDA/Cir/004/2003 dated 14.02.2003. Even if we ignore this serious misapplication, it is noted that the Circular under reference prescribes the payout as referral fee in relation to percentage of business generated through that referral arrangement; the percentages themselves vary according to the volume of business generated by that company as a percentage of total business. It is noted that as a percentage of business, the payments made towards acquisition costs to M/s Shriram Chits varies from 37.69% in 2008-09 to 76.56% in 2010-11. The actual payments made to M/s Shriram Chits is far in excess of what is permissible even under the said Circular; and it should once again be noted that the referred circular applies only to referral arrangements with Banks.

The following table also reveals that the insurer has paid huge amounts to their referral partners comprising of fee and other expenses totaling to 38.20% in the year 2008-09 and 49.97% in the year 2009-10.

Financial year	Gross / Total Premium written as per Form L4 Prem Schedule of the company	Total business done by Referral Entities	% of referral business to total business	Ref. fee Paid	% of referral fee to total referral business	Other expenses paid to referrals	% of other expenses to total referral business	Total expenses (ref fee + other exp)	Total payout as a % of total referral business	Allowable % as per circular dt 14/2/ 2003
2008-09	4361727	886255	20.32	143,339	16.17	195,254	22.03	338,593	38.20	11
2009-10	6112713	1128982	18.47	187129	16.58	376975	33.39	564104	49.97	5.50

Considering that M/s. Shriram Chits is a group company, the IRDA observes that the payments made by the insurance company are grossly in excess of what has been permitted. As such the IRDA concludes that the action of M/s. Shriram Life Insurance Company Limited is in violation of Regulations, propriety and the letter of the Regulations and hence, as a deterrent action, the Authority imposes a fine of Rs. Five lakhs for violations in the year 2008-09 and a further sum of Rs. Five lakh for violations in the year 2009-10. The charges for the year 2010-11 are not pressed since the insurer has confirmed having terminated all referral agreements inconsistent with IRDA (Sharing of Database for Distribution of Insurance Products) Regulations 2010. A further penalty of Rs. One lakh is imposed for having wrongfully applied an inapplicable circular, totaling Rs. Eleven (11) lakhs, under Section 102(b) of Insurance Act, 1938.

SCN 9 – Inspection Observation Nos. 9, 10, and 11 - Payment to group companies under different heads without any proper agreements. Not adhered to arm's length transaction principle in various agreements/ arrangements/payouts

Decision: The insurer has submitted that one of the important drivers of the viability of Shriram Group's Life Insurance foray was to leverage the strengths of the Shriram Group – its customer base, distribution network and opportunity for low cost operations. They also submitted that they have followed all principles of fiscal prudence and cost optimization in their operations. They submitted that the arrangement with SMC Capital was Advisory in nature with regard to Restructuring of groups' activities. Further to personal hearing, the Insurer submitted a copy of agreements entered in the last 3 years. On examination of the same it is observed that the agreements with group companies are in letter form and do not contain the specific details normally expected in such agreements including fixed payment criterion. The Insurer has also submitted data on the business procured by leveraging on the group entities goodwill. A new business premium of 318 crores and 407 crores was procured through the group companies customer segment (80% of the total business) in the years 2009-10 and 2010-11 respectively and an expenditure of Rs. 79 crores and Rs.63 crores were incurred towards

commission/fee/marketing infrastructure during the referred years. The above payments constitute 23% and 14% of the new business procured in the said two financial years respectively through group companies. Considering the fact that the insurer has reduced the percentage of other payments to 14% as well as recognizing that these payments are much lower than what is paid to non group companies, the charges are not pressed.

SCN 10 – Inspection Observation No. 12 - NAV of 31st December 2009 is used for 15 days until 15th January 2010 - Violation of provision 10.5 of ULIP guidelines dated 21/12/2005.

***Decision:** The insurer's submission that the present instance referred to pertains to ULIP plans that were withdrawn w.e.f. 31.12.2009 only and that the same has been permitted by the Regulator. The submissions are accepted and charges are not pressed.*

SCN 11 – Inspection Observation No. 7, 13 and 34 (e) – Additional payments made to their corporate agents - Violation of Clause 21 of Corporate Agents Guidelines

***Decision:** The Insurer submitted that payments were made to Shriram Fortune Solutions (SFS) much before the arrangement of corporate agent and the payments are reimbursement of actual expenses incurred for the manpower provided to the insurer and that it is not towards business procured. However it is observed that these agreements were continued even after SFS becoming corporate agent and payments were made which is in violation of Clause 21 of CA guidelines .On analyzing the data on new business done and payouts made to Shriram Fortune Solutions, it is noticed that out of the total business secured by all corporate agents, SFS has contributed on an average 90% of the total business secured by Corporate Agents. While the commission payment (as a percentage to the new business) made to SFS has come down from 20.8 % in 2008-09 to 4.55% in 2010-11, payments other than commission to SFS decreased to 7.21% in 2009-10 as compared to 16.67% in 2008-09. There was no payment made other than commission in the year 2010-11 to SFS. From the submissions made, it is apparent that the above referred payments are broadly in order with the provisions of Clause 21. It is also seen that such payments were not made at all in 2010-11. Considering all the above facts, the charges are not pressed.*

SCN 12 – Inspection Observation No. 14 – Insurer's Group company officials are operating insurance companies bank accounts. Permitting remittances into an account which is jointly held with employees of the group company and not solely in the name of insurer is against generally accepted prudent accounting practices.

Decision: *The insurer submitted that these accounts are in the name of the life insurance company only and they are opened exclusively for the transactions of transfer of funds from this account by way of DD favouring SLIC Ltd and no cash withdrawal facilities are permitted. They also submitted that such arrangements are intended for quick realization of funds. Taking into account the submissions made and after examining the certificates issued by the concerned bank, the charges are not pressed.*

SCN 13 – Inspection Observation No. 18 - The insurer while preparing the Form IRDA-Assets-AA for the purposes of arriving at ASM and Solvency ratio has not adhered to the provisions of Reg.2 of IRDA (ALSM) Regulation, 2000, and the book value of “Furniture & Fixtures” and “Computer Software” are taken in full for the purpose of calculation of ASM - Violation of Regulation 2 of IRDA (ALSM) Regulations, 2000

Decision: *The insurer has submitted that the inaccuracy has been detected and corrected by Shriram Life prior to the inspection. The quarterly solvency statements have been correctly prepared since June 2010, which is prior to the IRDA's inspection. As the insurer has taken corrective action prior to inspection the charges are not pressed. However the Insurer is advised to strictly adhere to the provisions of Regulation 2 of IRDA (ALSM) Regulations.*

SCN 14 – Inspection Observation No. 19 - No board approved underwriting policy – Violation of Para 2 (b) of Annexure 1 (mentioned in section 5.2) of Authority's Corporate Governance guidelines dated 05/8/2009.

Decision: *The insurer has stated that first underwriting policy of the company was approved by the Board in its meeting held on 25/11/2005 and submitted copy of board resolution to that effect. After the Corporate Governance Guidelines issued, matters pertaining to the underwriting policy were discussed by the Board at their meetings. Considering the criticality of the subject, the Board wanted certain refinements to the policy; and the matter was referred back for necessary modification at various board meetings. After due consideration and refinements, the Board approved the Underwriting policy in May 2011. The submissions made by the insurer are taken into account and the charges are not pressed.*

SCN 15 – Inspection Observation No. 20 - The mortality charge table does not form part of the policy document of Insurer's latest ULIP products . For e.g. Policy documents of 'Ujjwal Plus' - Violation of ULIP Guidelines of 21/12/2005 (Annexure II item No. 6.2)

Decision: *The insurer has submitted that constant mortality charge has been disclosed in the benefit illustrations, which forms part of the policy document. And*

further to IRDA Inspection the mortality charge table is included in the policy document for all new policy issues. Taking this submission into account, the charges are not pressed, however the Insurer is advised to strictly follow the ULIP Guidelines of 21/12/2005.

SCN 16 – Inspection Observation No. 21 - Under 'Shri Life Plus plan' risk cover starts six months after the date of issue of the policy. But the insurer is levying mortality charges from the inception of the policy there by violating the submission made under para 8.5 (c) of respective File & Use Application - Violation of File and Use procedure.

Decision: *The insurer has stated that it is as per the approved file and use. They further submitted that on the advice of IRDA, the charges recovered before the commencement of the risk under these policies have been credited back to their respective unit accounts of the Policyholders. Taking into account the submissions/corrective steps taken, charges are not pressed.*

SCN 17 – Inspection Observation No. 22 - Wrong calculation of mortality charge under 'Shri Vidya plus'. Annual Mortality charges are recovered in 12 equal monthly installments instead of monthly charges resulting in levy of excess mortality charge - Violation of File and Use procedure

Decision: *The insurer has submitted that it is as per the approved file and use. However, corrective action has been taken after the inspection observation and charges recovered in excess have also been credit back to the respective unit accounts of the Policyholders. The Charges are therefore not pressed.*

SCN 18 – Inspection Observation No. 23 - Insurer is not adhering to its financial underwriting norms. Verification of sources of income and adequacy of income to pay premium, underwriting requirements with regard to benefit illustration, PAN card, etc. are not observed - Violation of KYC norms of AML Guidelines.

Decision: *The insurer submitted that in the cited cases requirements have been complied with. The insurer's submission that they have given their financial underwriting guidelines through internal circulars to all the places of business which are being scrupulously followed in case of all high value policies, is taken into account and charges are not pressed. The Insurer is however advised strictly to follow the financial underwriting norms as per their company policy and also comply with KYC/AML guidelines.*

SCN 19- Inspection Observation No. 25 - There is undue delay in completing the proposals for insurance, including ULIPs, even under non medical cases - Violation of

Regulation 4(6) of IRDA (Protection of Policyholders' Interest) Regulations, 2002, provision 10.6.1.4 of ULIP guidelines dt 21.12.2005 and violation of AML guidelines.

Decision: *The insurer's submission that delay is due to non receipt of documents including KYC necessary for issuing the policy is not acceptable. However it is noticed that there was a delay beyond 15 days in only 2 out of the 8 samples observed during the inspection. The charges are hence not pressed. However, the insurer is hereby advised to ensure strict adherence to regulation 4(6) of IRDA (PPHI) Regulations.*

SCN 20 – Inspection Observation No. 26 -Rural policies data provided by the insurer contains some urban addresses and even foreign countries. Few policies do not even contain address field. Violation of Section 2 (c) of IRDA (Obligations of Insurers to Rural or Social Sectors) Regulations, 2002. Absence of addresses violates KYC norms as prescribed under section 3.1 of the AML Master Circular dated 12th November 2010.

Decision: *The insurer's submission that as the process is manual, there may be few clerical errors and since December 2010, they have started a two stage monitoring mechanism of both pre and post policy issue for rectifying errors, if any. Also even after corrections are made the Insurer has complied with Rural obligations as prescribed. After examining the submissions of the Insurer it is clear that violations have occurred. However in view of corrective actions enunciated by the Insurer the charges are not pressed. The Insurer is also advised to strictly ensure correctness of the data in respect of Rural policies.*

SCN 21 – Inspection Observation No. 27,28,and 30 – No reporting system of suspicious transactions and hence no CTR/STR is filed with FIU-IND.

Not verifying on a regular basis whether banned individuals /entities are holding any contracts of insurance with the insurer, as required under AML guidelines issued on 30.10.2009.

Insurer is accepting cash remittance of more than Rs 50,000/- per person per day under multiple transactions

These are in violation of AML Guidelines

Decision: *The Insurer submitted that they are filing NIL CTR/STR in case no suspicious transactions are observed. The Insurer has submitted that the verification of banned entities is now hosted in the IT system. The insurer has also submitted that the rejection of multiple cash remittances in excess of Rs. 49,999/- from the same customer per month is taking place only after customer-ID is generated and now their service center at the time of underwriting, checking for previous policies under the same customer ID and look into the receipt history. Apart from this, the data is also scrutinized by the compliance officer regularly and*

when they detect such cases, amount is refunded to the customer. The submissions of the insurer that they have now incorporated proper IT system and 2 layer manual checking is taken into account and the charges are not pressed. However, the Insurer is advised strictly to adhere to AML guidelines.

SCN 22 – Inspection Observation No. 32 -Insurer is in practice of collection of premiums at all its 940 Agent locations (there are only 159 locations approved and all other unapproved locations are located in the premises of the Shriram Group Companies viz., Chit Offices, Truck Finance Offices, Corporate Agent Offices etc.).

The Insurer is giving credit of premium to policyholders only from the date of realization of amount at the Service Centre. Violation of 64VB (4) and ULIP guidelines 10.6.1.1 and 10.6.1.4.

Decision: *The insurer has submitted that whenever premium is collected in agents' locations, the same is either deposited in HDFC bank account [Cash Management Facility (CMS)] or where the CMS facility of HDFC Bank is not available, it is deposited in a local bank account opened by the company. From such local accounts(based at remote locations), the funds are dispatched to the servicing branch through a DD intended to ensure quick realization of funds - so that cheques need not be sent for outstation clearance and avoid delay and unnecessary cost to the policy holder. This practice is happening where CMS facility is not available. The Insurer's submissions have not indicated any systems to ensure compliance to both the 64 VB time frames and ULIP guidelines. Only when the online receipting system is fully introduced in all collection centres (which as per insurer will take another six months) the 64VB compliance would be ensured. Hence the Insurer is giving credit of premium to policyholders (who deposit renewal premium in cash) only from the date of receipt of amount at the Service Centre and violating the regulation 64VB (4) of the Insurance Act, 1938, provisions 10.6.1.1 and 10.6.1.4 of ULIP Guidelines dated 21st December 2005. Therefore, a penalty of Rupees One Lakh is imposed on the Insurer under Section 102(b) of Insurance Act, 1938.*

SCN 23 – Inspection Observation No. 33 – Insurer has released advertisements in electronic mode but not filed the same with the Authority and not revealed this at the time of issue of show cause notice (offsite monitoring) by the Authority. Violation of Regulation 3 (1) (v) of IRDA (Insurance Advertisements) Regulations, 2000

Decision: *The insurer's submission that the information / material communicated through the website was meant for internal use only is not acceptable because the information placed on the website cannot be claimed for internal use. The Insurer has also provided false information to the Authority in their letter dated 24.6.2010 by stating that they have not issued any advertisement in print or electronic media. They have not only violated the above referred regulations but also misled the*

authority. Hence, a penalty of Rs. Five Lakhs is imposed on the insurer for violation of the said Regulations under Section 102(b) of Insurance Act, 1938.

SCN 24 – Inspection Observation No. 34 (a) to (d) -

- a. Payments made to group companies in violation of Section 40(2A)
- b. Shriram Fortune Solutions procured business even when the license is not in force.
- c. Unlicensed entities are procuring business for the Insurer.
- d. Business procured by Shriram Chit Fund company personnel is being logged in the name of 'Richard Strauss Insurance Broker' and the commission is being paid to the Broker.

Violation of Section 40 (2A) of Insurance Act, 1938 and also procuring insurance business by the unlicensed entities is a violation of IRDA/CIR/010/2003 dated 27/3/2003.

Decision: Point no .a, c & d : The Insurer submitted that their main focus was on group company customers and once the referral arrangements with them were terminated, the group entities have guided their customers to licensed intermediaries enrolled with the company. But the practice of noting down the details of origination continued.

Point No. b: The insurer also submitted that SFS license could not be renewed in time and the business in pipeline which was substantial was accepted as referral business. After examining the submissions of the Insurer it is clear that the insurer has engaged persons other than licensed persons in soliciting and procuring insurance business in violation of Circular -IRDA/CIR/010/2003 dated 27/3/2003 and made payments violating Section 40(2A) of Insurance Act, 1938.

In view of the above violations, a penalty of Rs. Five lakhs is imposed on the insurer under Section 102(b) of Insurance Act, 1938.

The penalty referred herein is to be paid by insurer without prejudice to the action which the AUTHORITY would take against the Corporate Agents who have also violated the regulatory provisions

SCN 26 – Inspection Observation No. 34 (g) - It is observed that the insurer has paid Rs 2.30 lakhs (during 2009-10) to the 'SMC Insurance Brokers' towards Training Expenses in addition to the Brokerage paid. The payment of Training Expenses is in violation of Regulation 19 of IRDA (Insurance Brokers) Regulations, 2002.

Decision: The insurer's submission that the said Regulation prohibits payment of additional remuneration for business and that this regulations does not deal with other services which the entity may provide on a payment basis is not acceptable. Broker essentially should represent client and the Insurer cannot justify any other

payment to them other than permitted brokerage. Moreover, from the data submitted by the insurance company, it is noticed that an amount of Rs.45.45 lakhs has also been paid as an additional remuneration during the year 2010-11. Hence it is a clear violation of Regulation 19 of IRDA (Insurance Brokers) Regulations, 2002. Taking into account the seriousness of the violation, a penalty of Rupees Five lakhs is imposed on the insurer under Section 102(b) of Insurance Act, 1938.

The penalty referred herein is to be paid by insurer without prejudice to the action which the AUTHORITY would take against the Brokers who have also violated the regulatory provisions

SCN 27 – Inspection Observation No. 34 (h) - The Insurer is paying commission to the agents on the own life policies brought in by them without verifying whether they fall under the definition of “bonafide’ insurance agent as defined under Rule 16 (B) of Insurance Rules, 1939. This is a violation of proviso to Section 41 (1) of the Insurance Act, 1938.

Decision: *The insurer has accepted that they are paying commission to the agents on the own life policies without verifying whether they fall under the definition of bonafide insurance agent. However taking into cognizance that the violations are not severe and do not have a significant impact on the financials, the charges are not pressed. However the company is advised to correct their systems to ensure compliance with the referred provisions and confirm the same to the Authority.*

SCN 28 – Inspection Observation No. 35 (a) - On settlement of the Death claims under Non-employer employee Group policies, the insurer is sending the cheque drawn in favour of the Master Policyholder to the Master policyholder. This is in violation of Clause C (7) of Group Insurance Guidelines dated 14.07.05

SCN 30 – Inspection Observation No. 35 (c) - The premium charged, the procedure to be followed to register a claim with the insurer including the full address of the office of the insurer where the claim should be registered is not mentioned in the certificate issued by the insurer in Non-employer group. This is a violation of Clause C-7 of Group Insurance Guidelines date 14.07.05.

Decision for SCN 28 and 30: *From the Insurer’s submission to SCN 28, it is clear that death Claim payment cheques are made in the name of the Master Policy Holders, which is a clear violation of the said regulations. The Insurer has also submitted that they are verifying and getting confirmation from the Master Policy holder that the claim proceeds in excess of outstanding loan amount are paid to beneficiaries.*

The insurer has submitted to SCN 30 that “Non-Employer-Employee” Schemes relate to cover on loans (similar to mortgage redemption insurance). As cover is linked to the outstanding loan, claim notifications are initiated by the master

policyholder rather than the member. Since group insurance is managed entirely through the company's head office and the head office address is printed on certificate of covers, every group organizer knows to contact the company's head office for all group insurance related matters. The Insurer's submissions are not acceptable as they do not indicate anything about premium charged and the claim procedure etc. Violation of C-7 of Group Guidelines is proved.

Taking a comprehensive view of the above violations, a penalty of Rs. One lakh is imposed on the insurer for the said violation under Section 102(b) of Insurance Act, 1938.

SCN 29 – Inspection Observation No. 35 (b) - The Company is not supplying forms of certificates of insurance with inbuilt security features and in pre numbered lots to some of the group organizers. The company has no control over the issuance of Certificates of Insurance by the group policy holder. This is in violation of clause C-8 of Group Insurance Guidelines dated 14.07.05.

Decision: *As the insurer has confirmed that they have started issuing certificate of insurance on its own, the charges are not pressed.*

SCN 31 – Inspection Observation No. 36 - Insurer is not paying any interest on claim amount where delay of more than 30 days occurs from the date of claim admission to date of settlement. This is in violation of Regulation 8 (4) of IRDA (Protection of Policyholders' Interest) Regulations, 2002.

Decision: *The insurer has confirmed that they have paid interest on all the 67 cases @8% p.a after receipt of inspection report. In view of the corrective action taken by the insurer, the charges are not pressed. However, the insurer is hereby advised to strictly adhere to the Regulation 8 of PPHI Regulations.*

SCN 32 – Inspection Observation No. 37 - Under family income benefit (FIB) rider claim, insurer has paid discounted value which is not allowed either under the policy condition or claim procedure manual of the insurer - Violation of File and Use.

Decision: *The insurer has submitted that one time payments in lieu of FIB payments were made in 12 cases on receipt of request from the claimants to meet their immediate expenditure exigency. In view of the explanation submitted by the insurer charges are not pressed. However, insurer is advised to strictly adhere to file and use.*

SCN 33 – Inspection Observation No. 38 - Insurer has repudiated death claims for non submission of claim requirements without allowing sufficient time to claimant to

comply with the requirements.(For e.g. LN070700100193-) Violation of Regulation 8(3) of IRDA (Protection of Policyholders' Interest) Regulations, 2002.

Decision: *Insurer has confirmed that in deference to the observation made during the inspection they have, since Nov 2010, stopped repudiating the claims for non receipt of requirements and treating them as pending. In view of the confirmation by the insurer that they have stopped the practice, charges are not pressed. However, insurer is hereby advised to examine the 213 pending cases (which were repudiated without allowing sufficient time for requirements) and actively follow up for submission of requirements. Present status as at 31st March 2012 on these 213 claims may be furnished to the Authority immediately on receipt of this order. Insurer is further advised to strictly adhere to the Regulation 8 of IRDA (Protection of Policyholders' Interest) Regulations, 2002.*

SCN 34 – Inspection Observation No. 42 - Free Look clause in the policy document does not specify “the amount payable to the policy holder in case he opts for free look cancellation”. Further, the insurer is recovering proportionate policy administration charge plus a fixed document charges of Rs 450/- in addition to allowable deductions like Medical fee, stamp fee and mortality charges from the refunds under free look cancellations. For e.g. LN081000115266 & LN1000105192. This is in violation of Section 6(2) of IRDA (Protection of Policy holders' interest) Regulations 2002

Decision: *The insurer has agreed that they have charged a fixed amount of Rs. 450/- towards documentation charges and expenses incurred in the issuance of a policy. These charges were subsequently discontinued since December 2010. Charges are not pressed in view of the insurer's confirmation that they have discontinued the practice. The insurer is however advised to reopen all such cases and refund the excess deducted amount after deduction of allowable charges only. This may be completed within a time frame of 3 months from the date of receipt of this order under confirmation to the Authority.*

SCN 35 – Inspection Observation No. 43 - Insurer has not carried out KYC checks where a policy is assigned to third party individuals, even in cases with annual premium exceeding Rs One Lakh. Violation of provisions 3.1.6 (iii) of AML Master Circular dated 12/11/2010

Decision: *The insurer's submission that they are taking adequate checks in all high value cases of assignments and the policies noted in the inspection observations were assigned to close relatives of policyholders is found in order. Hence, charges are 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 **Rupees Twenty eight lakhs (Rs. 28 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 500004.

Place: Hyderabad
Date: May 3, 2012


(J Hari Narayan)
Chairman