



Order No: IRDAI/LIFE/ORD/MISC/184/11/2018

**ORDER in the matter of**  
**Reliance Nippon Life Insurance Company Ltd**

**Based on**

- (i) The Show Cause Notice (SCN) dated 26th October, 2017 issued by the Authority.
- (ii) Replies of M/s. Reliance Nippon Life Insurance Company Ltd (hereinafter referred to as "RNLIC") dated 7<sup>th</sup> December, 2017 and 29<sup>th</sup> January, 2018 and additional response dated 19<sup>th</sup> June, 2018 to the aforesaid Show Cause Notice (SCN) dated 26<sup>th</sup> October, 2017.
- (iii) The Submissions made by RNLIC during the Personal Hearing held on 19<sup>th</sup> June, 2018 at 3.30 PM chaired by Dr. Subhash C Khuntia, Chairman, IRDAI, at the office of Insurance Regulatory and Development Authority of India, Financial District, Nanakramguda, Hyderabad.
- (iv) Further submissions/data submitted by RNLIC post personal hearing vide letters dated 2<sup>nd</sup> July 2018 and 17<sup>th</sup> July 2018.

2. During routine examination of the reports filed by the Reliance Nippon Life Insurance Co. Ltd., (hereinafter referred to as "RNLIC") in 'Form - A' for the half year ended March, 2013 in compliance to the provisions stipulated under 'Guidelines on Outsourcing of Activities by Insurance Companies' bearing Ref. No. IRDA/Life/CIR/GLD/013/02/2011 dated 01<sup>st</sup> February, 2011 (hereafter referred to as "Outsourcing Guidelines"), the Insurance Regulatory and Development Authority of India (hereinafter referred to as "the Authority/IRDAI") observed that RNLIC is paying huge amounts to the outsourced entities (third parties) under the head "Customer Contactability Expenses".

3. Based on this observation, a team of officials of the Authority carried out an onsite inspection of Corporate Office of RNLIC during May 6, 2014 to May 9, 2014 to examine the payments made by RNLIC under the head "Customer Contactability Expenses" and the procedures in place to comply with the Outsourcing Guidelines issued by the Authority. During the onsite inspection, the inspection team also visited a few offices of the outsourced entities of RNLIC.

4. On completion of this inspection, the Authority forwarded a copy of the Inspection Report to RNLIC vide letter dated 2<sup>nd</sup> July, 2014 seeking their comments. On examining the submissions made by RNLIC in its letter dated 18<sup>th</sup> July, 2014, the Authority issued a Show Cause Notice (SCN) on 18<sup>th</sup> February, 2015 which was responded to by RNLIC vide letter dated 19<sup>th</sup> March, 2015. As requested therein, a personal hearing was given to RNLIC on 23<sup>rd</sup> June, 2015 and an Order bearing No. IRDA/LIFE/ORD/MISC/143/08/2015 dated 6<sup>th</sup> August, 2015 was issued.

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5. RNLIC preferred an appeal before Securities Appellate Tribunal (SAT) against the said Order dated 6<sup>th</sup> August, 2015 of the Authority as per the provisions stipulated under Section 110 of the Insurance Act, 1938.

6. After hearing the matter, SAT in its Order dated 3<sup>rd</sup> October, 2017 stated as follows:

“by consent, the impugned order dated 6<sup>th</sup> August, 2015 is quashed and set aside and the matter is restored to the file of IRDAI for passing fresh order on merits and in accordance with law”.

7. Further to the said order of SAT, a fresh SCN dated October 26, 2017 was issued to RNLIC by the Authority. RNLIC submitted its response on December 7, 2017 and sought inspection of some of the documents. RNLIC officials were allowed to inspect the documents/material related to the SCN. Accordingly Mr. Sunder Krishnan, Chief Risk Officer of RNLIC and Mr. Rajesh Kumavat, Sr. Manager Compliance of RNLIC visited the office of the Authority on 11<sup>th</sup> January, 2018 and inspected the documents. On their request, copies of the documents were also provided to RNLIC. Thereafter, RNLIC submitted its second response to the said SCN on 29<sup>th</sup> January, 2018 raising certain legal issues. RNLIC also requested for a personal hearing in the matter which was granted. The personal hearing was done on 19<sup>th</sup> June, 2018 by the undersigned. RNLIC also submitted additional written response to the SCN on the same day. During the personal hearing, RNLIC was asked to submit certain clarifications on some of the relevant matters for which RNLIC submitted the details on 2<sup>nd</sup> July, 2018 and 17<sup>th</sup> July, 2018.

8. Mr. Ashish Vohra, ED & Chief Executive Officer, Mr. Srinivas Iyengar, COO, Ms. Poornima Subramanian, CFO, Mr. S.V. Sunder Krishnan, CRO, Mr. KastuhiaKumasako, Head-Nippon Life Insurance and Mr. Ashish Sarma, CCO & CS were present in the personal hearing on behalf of RNLIC. On behalf of the Authority, Mr. V. Jayanth Kumar, CGM (Life), Mr. G.R. Surya Kumar, GM (EA to Chairman), Mr. Gautam Kumar, DGM (Life- Coordination) and Ms. B. Aruna, Manager (Life-RA) were present.

9. The legal issues raised by RNLIC are dealt with as under:

**RNLIC's Submission (A)**

- (i) *Under the statutory scheme of things as laid down under the Insurance Act, 1938 and IRDA Act, 1999, regulation of insurance activities of insurers by way of circulars and 'guidelines' are not envisaged, and as such, the 'guidelines' cannot be equated with statutory rules and regulations, and 'regulations' cannot be treated on par with statutory 'rules' and 'regulations'. Therefore, it is not appropriate for a Regulator to proceed against regulated entities for any alleged breach of 'guidelines'. Hence, penalty proceedings cannot be set in motion as matter of routine, and it requires a lot of introspection, circumspection and statutory protocols. It requires no reiteration that 'guidelines' are neither 'rules' nor 'regulations'. The guidelines must be construed as persuasive, and these cannot be all pervasive and pervading. The position would not get altered simply*



*because under the said 'guidelines' action against breach is envisaged. Even for statutory 'rules' and 'regulations', unless authorized by the parent Act, any penal provision for breach of 'rules', or 'regulations if any contained therein would be struck down by the Court of Law as 'vice of excessive delegation'. Hence, it is settled law that penal powers cannot be presumed or assumed.*

The above contention that 'Guidelines' have only persuasive value is not correct. When statutory provisions on a particular issue are silent, the same may be covered by way of Guidelines or Executive Orders. Guidelines issued under specific provisions of law supplement the avowed objectives of the said law. Section 14 (2) of IRDA Act, 1999 empowers the Authority to issue directions for promoting efficiency in the conduct of insurance business and in pursuance of the said power, IRDAI issued "Outsourcing Guidelines" which are binding and enforceable. RNLIC's contention implies that it is seeking immunity from conforming to guidelines which is not in the interest of the insurance sector at all.

- (ii) *It is also settled law that the penal provisions are to be construed strictly and not liberally and arbitrarily. Section 102 of the Insurance Act is clearly worded and guarded. Penal consequences under that section 102 shall only ensue for proven violation of the Act or Rules or Regulations made there under, and that too after considering all attendant aspects and extenuating and mitigating circumstances, and not merely based on allegations or perceptions. Therefore, penal consequences of Section 102 of this Act cannot be invoked for any alleged omission to follow 'guidelines'. Further, it is also being noted that under the scheme of the Insurance Act who has got the power to impose penalty under Section 102. It is also to be noted for any alleged violation of the provisions of the IRDA Act, 1999, the penal provisions of Section 102 of Insurance Act, 1938 cannot be resorted to.*

There is no doubt that Section 102 of Insurance Act, 1938 is clearly worded and guarded. However, IRDA Act, 1999 and Insurance Act, 1938 cannot be read in isolation and have to be harmoniously construed in order to give purposive interpretation to the provisions of both the Statutes. Therefore, violation of 'Guidelines' which is in the nature of direction to insurers issued under Section 14(2) of IRDA Act, 1999 is well covered under Section 102 of Insurance Act, 1938. It may be noted that the definition of the expression "Authority" is common under both the statutes.

#### **RNLIC's Submission (B):**

*Under the Rule of Law, as eminently amplified, eloquently demonstrated, and illustrated by the Courts of Law, that imposition of penalty by a statutory authority cannot be resorted to as a matter of course or routine, without paying due heed to the extant statutory framework and that imposition of penalty, which is punitive in nature should not be resorted to by glossing over mitigating circumstances. Further,*

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*it is the legitimate expectation of the Company that statutory Regulator would not act contrary to the express statutory mandate in levying penalty.*

It is a legitimate expectation of the Authority that the regulated entities would strive to conform to the regulations and guidelines issued by the Authority. The Authority does not levy penalties as a matter of routine but after evaluating the extent of violations committed by the insurer. The law on levy of penalty is very clear and has found expression in Hon'ble Supreme Court's Judgment in *The Chairman, SEBI Vs Shriram Mutual Fund &Anr 2003 46 SCL 571 SAT* as follows:

*"In our considered opinion, penalty is attracted as soon as the contravention of the statutory obligation as contemplated by the Act and the Regulation is established and hence the intention of the parties committing such violation becomes wholly irrelevant. A breach of civil obligation which attracts penalty in the nature of fine under the provisions of the Act and the Regulations would immediately attract the levy of penalty irrespective of the fact whether contravention must made by the defaulter with guilty intention or not..... "*

**RNLIC's Submission (C):**

*The doctrine of legitimate expectation is a creation of decisional law. It forms part of a judicial strategy to exclude the possibility of arbitrary administrative actions. In its substantive sense, it is another parameter for judging the validity of exercise of administrative discretion, it's the reasonableness which shall be examined with reference to the detriment caused by the non-fulfillment of legitimate expectation. The doctrine of legitimate expectation is based on the principle that good administration demands observance of reasonableness and legitimacy.*

**RNLIC's Submission (D):**

*Errors of law on the part of a tribunal or statutory authority would include misinterpretation of a statute or any other legal document or a rule of common law; asking oneself and answering the wrong question, taking irrelevant considerations into account or failing to take relevant considerations into account when purporting to apply the law to the facts; admitting inadmissible evidence or rejecting admissible and relevant evidence; exercising a discretion on the basis of incorrect legal principles; giving reasons which disclose faulty legal reasoning or which are inadequate to fulfill an express duty to give reasons, and misdirecting oneself as to the burden of proof.*

There is no need to comment on these contentions as it is the bounden duty of the Authority to exercise its authority judiciously.

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**RNLIC's Submission (E):**

*It is to be noted that the penal provisions in every statute require to be construed strictly and that the exercise of powers under such provisions shall be strictly in conformity with the express provisions regarding cognizance of offences under the enactment concerned.*

With regard to submission ( E), it is stated that the same has already been dealt with in our comments with regard to penalty provisions and Section 102 of Insurance Act, 1938.

10. The findings on the written response and explanations offered by RNLIC to the charges raised in the SCN dated 26<sup>th</sup> October, 2017 and the decisions are as follows:

11. **Charge No.1:**

**RNLIC is charged for Violation of provisions of Clauses 10, 10.1, 9.3 and 9.6 of Outsourcing Guidelines.**

“Reliance Nippon Life Insurance Co. Ltd (hereinafter referred to as “RNLIC”) has entered into an agreement with Premier Training Pvt Ltd. (hereinafter referred to as “PTPL”) vide agreement dated 1<sup>st</sup> December, 2011 for call center (Inbound – outbound call management) services, whereas RNLIC has made payments to PTPL towards Customer Contactability Activity.

Onsite inspection of PTPL dated 8<sup>th</sup> May, 2014 revealed that this entity is not engaged in any activities for which RNLIC has entered into Outsourcing Agreement. PTPL is engaged in Computer training, Education while RNLIC has entered into agreement with PTPL for call center (Inbound – outbound call management) and payments made towards Customer Contactability. It was also observed that PTPL was passing on the amount received from RNLIC to ‘India Infoline Media and Research Services Ltd.’ (hereinafter referred to as “IIMRSL”), Mumbai, a wholly owned subsidiary of India Infoline Ltd., which also owns India Infoline Insurance Services Ltd., and India Infoline Insurance Brokers Ltd. RNLIC in its reply dated 18<sup>th</sup> July, 2014 to the inspection observation 2.1 stated that PTPL had sub contracted some of the activities to IIMRSL which has been in the business of rendering support services. As per Clause 16.2 of the Agreement dated 1<sup>st</sup> December, 2011, “neither party shall assign or sub contract this agreement or the rights or obligations hereunder to any third party without the prior written consent of the other party....”. This act points out that RNLIC passed on payments to Insurance Intermediaries above the permissible limits under the garb of outsourcing. The following are the details of amount passed on by the PTPL:

Financial Year	(Rs. in Crore)
2011-12	41.35
2012-13	71.19
2013-14	22.29
<b>Total</b>	<b>134.83</b>





It is also observed that **Vans Medicare and Biotechnology Ltd** deals with manufacture of medical appliances and instruments and appliances for measuring, checking, testing, navigating and other purposes except optical instruments. RNLIC has entered into an agreement with this entity dated 11<sup>th</sup> March, 2013 for (a) Marketing Activities and (b) Dissemination of Information and paid an amount of Rs.20,07,44,708/- during the year 2013-14 for the activity of "Building awareness and distribution of promotional material".

RNLIC has not carried out due diligence as required under Clause 10 and 10.1 of Outsourcing Guidelines and no yearly appraisal of performance as required under Clause 9.3 of "Guidelines on Outsourcing of Activities by Insurance Companies" dated 1/2/2011 (hereinafter referred to as "Outsourcing Guidelines"). RNLIC has also not considered the materiality factors as required under Clause 9.6 of the Outsourcing Guidelines while entering into agreements with PTPL and Vans Medicare and Biotechnology Ltd., as well as making payments to these entities".

## 12. RNLIC's submissions on Charge No.1:

- i. RNLIC submitted that towards vendor due diligence, they have obtained the Memorandum of Association, Company registration certificate and financials etc., during the selection process/identification of PTPL. It is also submitted that the due diligence process involves verification of the same including interviewing the service provider and physical inspection of vendor premises. RNLIC's representatives met with personnel from PTPL and were impressed with profile of such personnel. It was found suitable from the profile and the experience of the team at PTPL that was capable and equipped enough to carry out the services envisaged in the Agreement with PTPL.
- ii. RNLIC engaged the services of PTPL for customer contactability through their call center (inbound and outbound call management).
- iii. RNLIC availed services from PTPL as per agreement dated 01/02/2012 as authorised in MOA and AOA and not for computer training, education.
- iv. PTPL had sub-contracted some of the activities to India Infoline Media and Research Services Ltd., which has been in the business of rendering support services such as research, training, administration and providing manpower support, data entry and processing, etc. to various companies in the financial services in general such as Mutual Funds, Finance companies, etc.
- v. The Company was not privy to and has no reason to check the business dealings of PTPL (with any entity including IIMSL) if PTPL complies with the terms of its contract with the Company. Further, it is only an entity that is involved in an activity that can sub-contract part of its functions to another party. The sub-contracting by PTPL is and was not of any concern to RNLIC if PTPL complied with the terms of its agreement with the Company.



- vi. RNLIC has not given any instruction to the third party to pay to the holding company of the Broker
- vii. RNLIC on its own had already terminated its services at least two months before the inspection, during the month of May 2014. This was because PTPL was unable to retain its staff and infrastructure to render the required services effectively to RNLIC.
- viii. Vans has presence across Pan India. The Company caters to a niche client base from medical backgrounds which could help RNLIC increase insurance awareness to the potential customers.
- ix. Being into field of Medicare and biotechnology the vendor can effectively create insurance awareness through mass communication and dissemination of information.
- x. MOA of the Company has authorised this company to undertake marketing and dissemination of information.
- xi. With regard to Clause 9.6 of Outsourcing Guidelines, RNLIC stated that it is not dependent upon any of the above vendors for the activities outsourced from them. Any failure of the service provider would not impact financial, reputational and operational aspects of RNLIC
- xii. RNLIC leveraged the reach of both the vendor and their wide reach and infrastructure. It would not be possible for RNLIC to replicate the above network internally. The costs saved would contribute in business growth.
- xiii. RNLIC, however, takes the Authority's point as guidance for future to enhance our level of due diligence throughout the period of SLA, though, the Outsourcing 'Guidelines' are not applicable in the areas covered in above observations.
- xiv. In the light of the above contentions, it is reiterated that RNLIC follows the Clauses 9.3, 9.6, 10.1 and 10 of Outsourcing Guidelines, IRDA/ LIFE/ CIR/GLD/ 013/02/2011 dated 01/02/2011, even though Outsourcing 'Guidelines', in letter, do not apply.

13. **Decision on Charge No.1:**

Customer contactability is an integral part of Insurance Business and to be undertaken by Insurers on a continuous basis. Clause 7 of Outsourcing Guidelines allows outsourcing some of the components of policy servicing and related activities.

*As per the Outsourcing Guidelines, 'Outsourcing' is defined as "Insurer's use of a third party (either an affiliated entity within a corporate group or an entity that is external to the corporate group) to perform activities on a continuing basis that would normally be undertaken by the Insurer itself, now or in the future".*



## Due Diligence:

Provisions of Clauses 10, 10.1 of Outsourcing Guidelines are as follows:

### Clause 10

*Evaluating the Capability of the Service Provider: In considering or renewing an outsourcing arrangement, appropriate due diligence should be performed to assess the capability of the service provider to comply with obligations in the outsourcing agreement. Due diligence should take into consideration qualitative and quantitative, financial, operational and reputational factors. Insurers should consider whether the service providers' systems are compatible with their own and also whether their standards of performance including in the area of policyholder service are acceptable to it. Where possible, the Insurer should obtain independent reviews and market feedback on the service provider to supplement its own findings.*

### Clause 10.1

*Due diligence should involve an evaluation of all available information about the service provider, including but not limited to:*

- i. Past experience and competence to implement and support the proposed activity over the contracted period;*
- ii. Financial soundness and ability to service commitments even under adverse conditions*
- iii. Business reputation and culture, compliance, complaints and outstanding or potential litigation*
- iv. Security and internal control, audit coverage, reporting and monitoring environment, business continuity management*
- v. External factors like political, economic, social and legal environment of the jurisdiction in which the service provider operates and other events that may impact service performance.*
- vi. Ensuring due diligence by service provider of its employees.*

Inspection team of IRDAI visited the office of Premier Training Pvt Ltd (PTPL) on 8<sup>th</sup> May 2014 and reported that the entity is owned by a Chartered Accountant who was also the Director of the Company. The address of the entity is the office of the CA firm. It is observed that PTPL is incorporated on 14-11-2011 and within a period of 15 days from the incorporation i.e. on 29/11/2011 a Due Diligence Certificate is prepared by RNLIC which states that it is impressed with PTPL Profile and business and the Company is a customised business solution provider of repute.

In the Due Diligence Form, the first query under template to review the capability of third party service provider is as follows:





*“Are we confident that the service provider has the experience and competency to implement and support the proposed activity? Please mention details relating to number of years the service provider has been in business/operations in remarks (apart from other remarks)”*

To the above query, the answer was just “YES” leaving the Remarks column blank without stating anything about the number of years the service provider has been in the business or the infrastructure and facilities available for carrying out the activity outsourced.

It is also observed that the Due Diligence Form of PTPL submitted to the Authority in response to the SCN dated 26/10/2017 by RNLIC is dated 29/11/2011 whereas the Due Diligence Form submitted to SAT in its appeal is dated 28/11/2011 (Exhibit-K to the Appeal). It is also observed that these two forms vary in their formats and content when compared to the Due diligence form dated 30/12/2011 collected during the Inspection of RNLIC by IRDAI inspection team.

It is further observed that the customer contactability activity with RNLIC is actually terminated by PTPL vide its letter dated 1<sup>st</sup> March, 2014 wherein PTPL temporarily suspended the agreement dated 1<sup>st</sup> December 2011 and it is not RNLIC which terminated this arrangement, whereas RNLIC in its letter dated 29/1/2018 has mentioned that the contract was terminated by RNLIC.

On examination of PTPL financials of FY 2012-13, it is found that a revenue of Rs. 76.20 crores is generated from operations as on 31/3/2013 and expenses towards direct cost is shown as Rs. 72.16 Crs. It is found that during the year 2012-13, PTPL paid an amount of Rs. 70.19 crores towards Marketing Support Expenses out of this Direct Cost expenditure of Rs. 72.16 crores (which is 92% to total revenue of PTPL) to India Infoline Media & Research Services Ltd.(IIMRSL), which is a related party of India Infoline Insurance Brokers which has a Broking arrangement with RNLIC.

On examination of PTPL financials of FY 2011-12, it is found that a revenue of Rs. 42.42 crores is generated from operations as on 31/3/2012 and the amount under “Other Administrative Expenses” is shown as Rs. 41.36 crores. It is also observed that PTPL paid an amount of Rs. 41.36 crores towards Marketing Support Expenses (which is 97% to total revenue) to both India Infoline Marketing Services Ltd.(IIMSL), and India Infoline Media & Research Services Ltd. (IIMRSL).

From the above payments by PTPL i.e. 92% of total revenue to IIMRSL in the FY 2012-13 and 97% of total revenue to IIMSL and IIMRSL towards Marketing Support Expenses in the FY 2011-12, it can be observed that PTPL is not engaged in the business of providing services outsourced to it by RNLIC and is acting as an Agent of other vendors and contracted with RNLIC for name sake thus acting as conduit to transfer payments to IIMRSL & IIMSL.

From the above, it is clear that PTPL did not have any expertise in the activities entrusted to it by RNLIC and has fully sub-contracted the activities to two other entities, which between them are related parties. RNLIC has created the Due Diligence forms only on paper in respect of PTPL and created a record to award the contract to PTPL and has not exercised



proper due diligence to ascertain the capabilities of PTPL to perform the services outsourced to it by RNLIC while outsourcing the activities to PTPL as required under Clause 10 and Clause 10.1 of Outsourcing Guidelines. Thus it is held that RNLIC has violated the said provisions of referred guidelines.

As regards outsourcing to **Vans Medicare & Biotechnology Private Ltd.**, it is found that this firm deals with manufacture of medical appliances and instruments and appliances for measuring, checking, testing, navigating and other purposes but has entered into agreement with RNLIC for carrying out Marketing Activity and Dissemination of Information on behalf of RNLIC.

With regard to the response of RNLIC that 'MOA of the Company has authorised this company to undertake marketing and dissemination of information', it is found that main objective of the Vans Medicare & Biotechnology Pvt Ltd is to carry on 'the business of healthcare and Medical Services' and other objects incidental and ancillary to the attainment and to support the main objects and no other specific document containing such authorisation has been submitted by RNLIC to act as service provider to undertake marketing and dissemination of information on behalf of other companies that too for an unrelated field such as Insurance. The due diligence form states that "Being in the field of medicare and biotechnology, the vendor can effectively create insurance awareness through mass communication and dissemination of information". This explanation appears far-fetched. No other details of relevant experience or expertise are mentioned.

Hence, RNLIC has failed to exercise appropriate due diligence while outsourcing the activity to Vans Medicare & Biotechnology Pvt Ltd., as required under Clause 10,10.1 of Outsourcing Guidelines and thus violated the said provisions.

### **Performance Review of Outsourcing Vendors**

With regard to the response of RNLIC that "the Company was not privy to and has no reason to check the business dealings of PTPL (with any entity including IIMSL) if PTPL complies with the terms of its contract with the Company and sub-contracting by PTPL is and was not of any concern to RNLIC if PTPL complied with the terms of its agreement with the Company, it is observed that the Agreement between RNLIC and PTPL dated 1/12/2011 contains a clause (16.2) which says that "neither party shall assign or sub contract this Agreement or the rights or obligations hereunder to any third party without the prior written consent of the other party, which consent shall not be unreasonably withheld or delayed. Provided however that either party may assign this Agreement to any of its own group companies, without the prior written consent of the other party.....". Thus RNLIC should have been aware of PTPL subcontracting the job to a third party and its implications in terms of various risks it may pose. Response of RNLIC in not enforcing the terms of the contract by stating it has no reason to check the business dealings of PTPL is not acceptable and clearly indicates poor diligence and risk management on the part of RNLIC.

From the above, it is observed that by turning a blind eye to the sub-contracting and payments made by PTPL to group companies of Insurance brokers such as IIMRSL, RNLIC has not only failed to exercise proper diligence but also not adhered to their own contract



agreement clause 16.2. Provisions of Clause 9.3 of Outsourcing Guidelines prescribe that “the Board of Directors of Insurer shall review the performance of all third party service providers every year with respect to compliance with provisions of Insurance Act, 1938, Regulations, Rules or any other order issued thereunder”. In this case RNLIC and PTPL have not adhered to the contract agreement clauses.

**Provisions of Clause 9.6 of Outsourcing Guidelines are as follows:**

*While stating that the Insurer shall establish a comprehensive outsourcing risk management programme, Clause 9.6 of Outsourcing Guidelines stipulates “some factors that could help in considering materiality in a risk management programme include the following*

- i. The financial, reputational and operational impact on the insurance company of the failure of a service provider to adequately perform the activity*
- ii. Cost Benefit Analysis*
- iii. Potential losses to the policyholders and their counterparts in the event of a service provider failure*
- iv. Consequences of outsourcing the activity on the ability and capacity of the insurer to conform with regulatory requirements and changes in requirements.*
- v. Interrelationship of the outsourced activity with other activities within the Insurance Company.*
- vi. Affiliation or other relationship between the Insurer and the service provider*
- vii. Regulatory status of the service provider*
- viii. Degree of difficulty and time required to select an alternative service provider or to bring the business activity in-house, if necessary and*
- ix. Complexity of the outsourcing arrangement. For example, the ability to control the risk where more than one service provider collaborates to deliver an end-to-end outsourcing solution”.*

With regard to clause 9.6 of Outsourcing Guidelines which gives the various factors that help determine the materiality in risk management programme, RNLIC stated that it is not dependent upon any of the above vendors for the activities outsourced from them. Any failure of the service provider would not impact financial, reputational and operational aspects of RNLIC.

Further it stated that RNLIC leveraged the wide reach and infrastructure of both vendors and it would not be possible for RNLIC to replicate the above network internally and the cost saved would contribute in business growth. RNLIC has not submitted any documentary evidence of the wide reach and network of these two companies.

Failure of the service provider to deliver contracted services has the implication of sizeable expenditure of RNLIC becoming wasteful, if these service providers fail to carry out the assigned tasks.

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Clause 9.6 of the Outsourcing Guidelines broadly mentions the factors that could help in considering materiality in a risk management programme and RNLIC has failed to adopt a proper risk management programme on a continuous basis and failed to ensure the performance of task by the service provider.

In view of the above, penalty of Rs 5 lakhs each in respect of two entities engaged i.e. Premier Training Private Ltd and Vans Medicare and Biotechnology Private Ltd , i.e a total of Rs 10 lakhs is imposed on RNLIC in exercise of the powers vested under Section 102 (b) of the Insurance Act,1938 for failure to conduct appropriate and meaningful due diligence as required under Clauses 10 and 10.1 of the “Outsourcing Guidelines”.

**14. Charge No.2:**

**RNLIC is charged for Violation of Clause 9.6 (ii) of Outsourcing Guidelines.**

“RNLIC has also engaged CRP Technologies (India) Ltd., (hereinafter referred to as “CRP”) vide agreement dated 19<sup>th</sup> June, 2013 and outsourced the activities of ‘Improving contactability of existing policyholders’, ‘Risk check on RTO’ (Return to Origin) Policies and ‘Revival of Lapsed Policies’. The agreement is however said to be effective from 1<sup>st</sup> April, 2013 as per clause 2.1 of the said agreement.

Though the necessary contact details of the policyholders are required to be collected through valid KYC Documents and other details in the Proposal Form at the inception itself (a sample proposal form of RNLIC attached. RNLIC has paid the following amounts to PTPL and CRP towards Customer Contactability.

(Rs. in crores)				
Sl no	Name of the outsourced Entity	2011-12	2012-13	2013-14
1	PTPL	18.17	31.04	14.71
2	CRP	24.53	41.34	65.05
	<b>Total</b>	<b>42.70</b>	<b>72.38</b>	<b>79.76</b>

The need for such activity and outsourcing the same to third party service providers especially to collect the contact details of the existing policy holders is not justified by RNLIC, where the Agents who solicited these policies are expected to and can easily contact and provide the contact details, if any, of their policyholders, in terms of cost benefit analysis as required under provisions of Clause 9.6 (ii) of Outsourcing Guidelines”.

**15. Response of RNLIC on Charge No.2**

- (i) RNLIC is amongst few life insurance players who are largely agency driven businesses. Due to continual advisor attrition over the last several years, RNLIC sought services of vendors such as PTPL, CRP Technologies, etc to service the orphan customers by re-establishing contact with him/her.



- (ii) RNLIC has always made concerted efforts to improve its customer contactability. To further these, RNLIC had evaluated the options to carry out the activity in-house vis-a-vis engaging third parties having expertise in the said field. Based on the internal assessment (Exhibit 21- Internal Memo for Customer Contactability dated 28/2/2011), it was found appropriate to appoint third party vendors as a measure to improve customer contactability as a cost effective alternative to in-house option.
- (iii) The Customer contactability includes customer visit and includes collection of contactability proofs, neighbour checks, postage cost, etc. Generally, RNLIC has engaged a vendor to perform the activity to contact the customer residing in the remote area where it is beneficial for the Company to engage a vendor instead of using its own resources which could be more expensive than the alternate option. Taking this in mind Company has engaged the services of the referred entities and paid the moderate amount of Rs. 500 simply by transaction volume. Overhead costs of performing a function in-house are high considering those functions the cost involved in engaging a vendor as depicted below:

S. No.	Activity	Description of activity	Indicative rate
1	Customer visit(Per visit)	Verifying customer availability at the mentioned address, neighbour check etc.	350/-
2	Collecting contactability proof	Collection of proof of contactability of customer i.e. voter Id, BSNL/MTNL bill etc.	50/-
3	Postage cost	Proof of contactability	100/-
4	Telephone number verification	Registered owner details such as name and address from the service provider	200/-
Total Cost Involved			700

- (iv) Further since FY 2012-13 RNLIC has started the practice of collecting two mobile phone numbers of its customers to improve the customer contactability to service them, and as on date for about 68% of the new customers in FY 18, which represents a significant improvement in contactability.
- (v) Several contactability measures taken by the Company resulted in significant improvement and traction in the customer contactability since 2014.

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- (vi) It is pertinent to note that the above initiatives were undertaken by the RNLIC's additional measures with a view to ensuring maximum compliance. It is submitted that because of initiatives taken by the RNLIC:
- a. Between September 2014 and March 2015, the policyholder unclaimed amount has reduced by 48% from Rs. 1,532 crores to Rs. 801 crores.
  - b. The claims outstanding amount has also reduced by 88% from Rs. 251 crores as of September 2014 to Rs. 31 crores as of March 2015.
  - c. Between September 2014 and June 2015, an amount of Rs. 1,341 Cr has been paid to policyholders of which Rs. 981 crores are via encashed cheques while another Rs. 360 crores are via direct account transfer.

Despite such efforts, if the policyholder would not respond, RNLIC as a proactive measure, hired a verification agency specifically to visit the customer's address, verify it and get confirmation so that the amounts can be dispatched. It is submitted that all these steps were taken with a *bona fide* intention of ensuring that the interest of the policyholder is not affected in any manner despite there being no fault on part of the Company.

16. **Decision on Charge No.2:**

During the personal hearing of 19/6/2018 RNLIC stated that many of their policyholders could not be contacted on phone or in their address mentioned in the proposal form and their customer contactability issue percentage is nearly 45%.

In the response dated 29/1/2018 to the SCN, RNLIC had stated that they have availed services from PTPL only as per agreement dated 01/02/2012 whereas the charge was framed taking into account the agreement dated 01/12/2011. RNLIC was asked to submit complete details on both these agreements during personal hearing on 19<sup>th</sup> June 2018. RNLIC, vide its response dated 2/7/2018 submitted a copy of the Agreement dated 01/02/2012 stating that this is an Addendum to Agreement dated 01/12/2011 to provide behavioural training solutions to RNLIC management, employees and business associates includes Marketing, Planning, negotiating skills, etc.

From the above submissions of RNLIC, it is noted that for the first time this copy of addendum was submitted by RNLIC to the Authority and this was not even a part of its appeal to SAT. The agreement dated 01/02/2012 pertaining to "Merchandising of branches" (reference para 5.20 of SAT appeal) was submitted to SAT but not to the Authority. Even considering this addendum agreement now submitted by RNLIC which is meant for behavioural training solution, it is observed that all the invoices submitted by RNLIC as Exhibit 6 and all the Activity Reports as Exhibit 5 to their response dated 19/6/2018 pertaining to PTPL are related to Customer Contactability Activity and not related to behavioural training solution, for which it was contracted.



Moreover, the PTPL agreement dated 1/12/2011 is with regard to Inbound and Outbound Call management and as stated by RNLIC that the services availed by RNLIC are as per addendum agreement dated 1/2/2012 which is towards behaviour training solutions and the invoices are related to Customer Contactability activity. Thus, there is a mis-match between the services for which agreements were entered into and the services for which payments were made. Hence, the submission of RNLIC that they have availed services from PTPL only as per agreement dated 01/02/2012 is not found to be correct. There is inconsistency in the submission of RNLIC before different Authorities at various points of time.

The submissions of RNLIC with regard to reduction of unclaimed amount, reduction of claims outstanding and payouts to policyholders pertain to the period from September 2014 to March/June 2015 whereas the inspection observations pertain to payouts during FYs 2011-12, 2012-13 and 2013-14. Moreover these reductions cannot be directly linked to the activity of only Customer contactability until and unless the reduction of unclaimed amount figure and claims outstanding amount and other payouts to policyholders are matched to the policies where customer contactability activity was undertaken. The payments towards outsourcing are from policyholder funds and during the years 2011-12, 2012-13 and 2013-14, the Expenses of Management of RNLIC exceeded the prescribed limits by 6.51%, 43.39% and 43.43% respectively. This shows lack of rigorous cost benefit analysis by the Insurer before the activity was outsourced.

Prudence demands that cost benefit analysis as a risk management activity should not only be limited to the point of time before awarding the contract but also while releasing the payments to the service providers based on the level of activity actually performed.

During the personal hearing of 19/6/2018 clarification was sought from RNLIC as to whether the average of Rs. 250/- per customer is the same for contacting customers whether the contact is made over phone or through field visit. RNLIC vide its letter dated 2/7/2018 has submitted the following:

*“Rs. 250/- was blended rate for customer calling, online database check and field verification. Telephonic verification costs only upto INR 25 rupees per call. The average cost of telephonic investigation varies between INR 10 to INR 25 rupees. This is also a blended rate considering that only post number of calls a customer is physically contacted. For the purposes of the above rate of INR 250 that was paid envisaging not only calling the customer – but fixing an appointment and then collection of KYC documents to prove that customer was indeed contacted”.*

While examining the above response of RNLIC with regard to the copies of the invoices and the Activity Reports submitted by RNLIC pertaining to PTPL, it is observed that the invoices and Activity Reports show clear bifurcation with regard to policies that were contacted over phone, database checks and through field visit and the related percentages to the total policies whereas only one fixed rate of Rs. 250/- was paid by RNLIC in all cases. It would have been prudent for RNLIC to fix different rates for these two activities and pay according to the actual number contacted by each method.



The sample copies of invoices pertaining to CRP Technologies also show clear bifurcation of customers contacted through tele-calling numbers, database checks and physical verification and the rate of Rs. 500/- is fixed for each case.

It is also observed that the Agreements of CRP technologies entered with RNLIC for the activity of Customer Contactability during the FY 2011-12 and FY 2012-13 shows the cost per policy as Rs. 250/-. During the FY 2013-14, this cost is Rs. 500/- per policy as per their Agreement dated 19/6/2013. This sudden doubling of the rate has not been substantiated.

The internal Memo for Customer Contactability of 28/2/2011 of RNLIC proposed Rs. 500 (plus service tax as applicable) for urban and rural cities (both combined) & Rs. 250/- for urban cities only, per case. Whereas this cost of Rs. 250/- or Rs. 500/- mentioned in the Agreements with CRP Technologies was applicable to Tier A, B, C classification of cities where Tier A is metro cities, Tier B is all State Capitals and Tier C is all other cities/towns excluding the above. There is no clear bifurcation of payments with regard to urban and rural areas as proposed in their own internal Memo in the Agreements entered with PTPL and CRP.

From the above, it is observed that RNLIC paid at a fixed rate of Rs 250/- or Rs 500/- in all the cases irrespective of the level of activity needed or performed such as contacting them over phone, database checks or field visits. Calling for competitive quotes or bids from interested parties would have made it a transparent exercise but that was not done, but direct single sourcing was used. For the same activity of customer contactability in the year 2013-14, the agreed/paid rate for PTPL was Rs 250/- per policy whereas it was Rs 500/- per policy for CRP. This is not justifiable. While the fact remains that the customer contactability details are already collected initially in the proposal forms by RNLIC through the agents/intermediaries who also have an obligation to keep them up to date, an expenditure of Rs 194.84 Crs was incurred from policyholders' funds by way of payments to two entities PTPL and CRP in three years 2011-12, 2012-13, 2013-14.

Thus it is found that RNLIC has failed to comply with the requirement of conducting effective and meaningful cost benefit analysis. In exercise of the power vested under Section 102 (b) of the Insurance Act, 1938, a penalty of Rs 5 lakhs in each case in respect of payments to PTPL and CRP, i.e a total of Rs 10 lakhs is imposed on RNLIC for violation of 9.6(ii) of Outsourcing Guidelines.

17. **Charge No.3:**

**RNLIC is charged for Violation of provisions of Clauses 8.2, 9.8 and 9.9 (ii), (iii) of Outsourcing Guidelines read with Section 14 (2) (h) of IRDA Act.**

"On-site inspection of CRP Technologies was also carried out. On examination of the financial statements of the entity, it was observed that CRP has paid Rs. 54.85 crore in the financial year 2012-13 as vendor charges to various entities. Despite the provisions of Clause 13 of the agreement of RNLIC with the outsourced entity which provides audit rights to RNLIC, CRP Technologies has refused to share complete information about the payments to



various vendors with IRDAI Inspection team. The Insurer is responsible for all acts of omission and commission of its third party service providers as per the provisions of Clause 8.2 of Outsourcing Guidelines and RNLIC failed to ensure that CRP submitted the desired information thus impeding the regulatory process”.

18. **Response of RNLIC on Charge No.3**

- (i) A complete walkthrough of the activities performed were completed by the IRDA Inspection team. The service provider furnished the audited financial statements for the last two financial years.
- (ii) A service provider with a unique selling proposition would not divulge its costing and supplier details to its customers. Therefore, when Authority requested the break-up of the “operation expenses” from us, we communicated the same to the service provider. The service provider was reluctant to furnish the details to us as it would mean divulgence of their trade secrets / costing. Therefore, we requested the service provider to directly submit the details to the Authority. Service provider assured us that the response would be directly submitted to the Authority. On 3<sup>rd</sup> June 2014, when we followed up with the vendor, we were assured by the vendor that the required information i.e. breaks up of operation & other expenses in the profit and loss account has been furnished to the Authority, on a confidential basis.
- (iii) Further, as demonstrated above there has been never a refusal on the part of the vendor to share appropriate information. However, a customer of a service cannot seek information related to costing of a service from a vendor.
- (iv) During the personal hearing of 19/6/2018, RNLIC has stated that they provide all possible assistance themselves and through CRP technologies to the extent they could in a bona-fide manner and are not aware that CRP technologies Ltd has not submitted the vendor wise payment details and had they known it at that time i.e. during the time of inspection report, they would have made efforts to get CRP to submit the details. It was clarified that inspection report forwarded to RNLIC contains the observation which speaks about non-sharing of vendor wise payment details by CRP. RNLIC was therefore told to ask CRP and submit these details now for the three financial years in question.

19. **Decision on Charge No.3:**

RNLIC vide letter dated 2/7/2018 (Annexure-5) has submitted a copy of the letter dated 29<sup>th</sup> June, 2018 of CRP Technologies showing vendor wise payments for the FY 2011-12, 2012-13 and 2013-14 related to RNLIC. Examination of the content reveals that the following amounts have been paid by CRP to Golden Trust Financial Services (GTFS) during the years 2011-12, 2012-13 and 2013-14.

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FY	Total amount received from RNLIC (Rs)	Out of column 2, payments made to outside vendors by CRP (Rs)	Out of column 3, payments made to GTFS by CRP (Rs)	Percentage further outsourced by CRP
1	2	3	4	5(3/2*100)
2011-12	27,07,95,878	20,57,63,095	18,94,43,600	76%
2012-13	45,10,32,231	26,82,05,629	24,16,50,802	59%
2013-14	56,68,88,434	15,36,81,451	07,21,19,200	27%
Total	128,87,16,543	62,76,50,175	50,32,13,602	48.83%

CRP has passed on large amounts to other vendors. This shows that CRP did not have adequate capacity to carry out on its own the activity outsourced by RNLIC and was working as a conduit between RNLIC and GTFS and other vendors. This is further established from the copy of the agreement entered between CRP and GTFS. On 17/7/2018, RNLIC forwarded a copy of the agreement dated 16<sup>th</sup> November, 2011 entered into by CRP Technologies (India) Ltd., and GTFS towards (i) Field Address Check and (ii) Tele calling activities. From this agreement, it is seen CRP has sub-contracted the field address check and tele calling activities to GTFS. This gives a clear indication that the required Risk Management Principles as envisaged in Clause 9 of Outsourcing Guidelines and necessary evaluation of the capability of the Service provider CRP was not carried out diligently by RNLIC. It is also seen that GTFS was a licensed Corporate Agent till 5/10/2009.

It is thus observed that RNLIC has failed to exercise due diligence while entrusting the activities of Customer Contactability to CRP Technologies.

**The provisions of the Outsourcing Guidelines related to the Charge are as under:**

**Clause 8.2 of Outsourcing Guidelines prescribes the following:**

*"The third party service providers engaged by insurers are subject to the various provisions of Insurance Act, 1938, IRDA Act, 1999, Rules, Regulations or any other orders issued there under. The third party service provider shall comply with provisions of Regulations, Guidelines and any other law under force and the insurer shall be responsible for all acts of omission and commission of its third party service providers in this regard."*

**Clause 9.8 of Outsourcing Guidelines prescribes the following:**

*"Insurer shall ensure that outsourcing arrangements neither diminish its ability to fulfill its obligations to policyholders and regulators, nor impede effective supervision by regulators".*

*sdh*



Clause 9.9 (ii) of Outsourcing Guidelines prescribes the following

*“The contract shall neither prevent nor impede Insurer from meeting its respective regulatory obligations, nor the regulator from exercising its regulatory powers of conducting inspection, investigation, obtaining information from either the insurer or the third party service provider”.*

Clause 9.9 (iii) of Outsourcing Guidelines prescribes the following

*Insurer must ensure it has the right to access all books, records and information relevant to the outsourced activity in the third party service provider*

CRP Technologies has refused to share with IRDAI inspection team the complete information about the payments to various vendors. RNLIC has not been able to facilitate availability of details as sought by inspection team in a timely manner. This has impeded the conduct of investigations by IRDAI. Thus RNLIC has violated the provisions of Clause 9.8 of Outsourcing Guidelines.

RNLIC has afterwards obtained details from CRP and submitted the vendor wise payment details on 02/07/2018 to IRDAI. But the failure to ensure timely submission of information called for at the time of regulatory inspection impeded the prompt regulatory processes and is a serious violation. For the violation of provisions of 9.8 of Outsourcing Guidelines, a penalty of Rs 5 lakhs is imposed on RNLIC in exercise of the powers vested under Section 102 (b) of the Insurance Act, 1938.

**20. Charge No.4:**

**RNLIC is charged for violation of Clause 11 and Clause 9.6 of Outsourcing Guidelines**

“Certain activities outsourced such as Building Awareness and Distribution of Promotional Material for RNLIC as given below are not reported in Form A as required under Clause 11 of Outsourcing Guidelines. Further, RNLIC made the following payments without considering the materiality factors as required under Clause 9.6 of Outsourcing Guidelines.

<b>Name of the Third Party</b>	<b>Amount paid in 2013-14 (in</b>
SaketCommodeal Pvt Ltd. Agreement dated 1 <sup>st</sup> June 2012 for the services of Marketing Activities and Dissemination of Information	18,87,74,835

*scf*

Vans Medicare & Biotechnology Pvt. Ltd. Agreement dated 11 <sup>th</sup> March, 2013 for the services of Marketing Activities and Dissemination of Information	20,07,44,708
Reliance Money Infrastructure Ltd. Agreement dated 16 <sup>th</sup> Sep 2011 for Marketing Activities namely Venue Marketing and Dissemination of Information	25,65,00,583
B2b Labyrinth Solutions Pvt. Ltd. Agreement dated October 9, 2012 for various services as mentioned in the agreement including Marketing and dissemination of information	22,49,12,572
<b>Total</b>	<b>87,09,32,698</b>

”

**21. Response of RNLIC on Charge No.4**

- (i) ‘Dissemination of insurance information’ is aimed at creating insurance awareness to public and cannot be directly related to sales of an insurance company.
- (ii) The activities such as dissemination of product information are permitted to be procured from third party resources and are not covered by Outsourcing Guidelines. However, guided by the Authority’s strong views, RNLIC has started reporting these arrangements in the submission of the information for the first half year of FY 2014-15, as a matter of abundant caution and therefore follow clause 11 of Outsourcing Guidelines.
- (iii) During the financial years FY07, FY08, RNLIC had spent considerable amount towards advertisement in television, media, hoarding, etc. However, when it internally reviewed the benefits of such considerable expenditure incurred on such activities, the benefits were not tangibly visible. It also realized that this form of advertising was not addressing broader issues such as creating awareness and knowledge on the need for, and importance of insurance protection. Hence, in the interest of the policyholders RNLIC changed its marketing strategy and decided to engage in marketing activities through various vendors and consultants across the country in various decentralized locations.
- (iv) The vendors were strictly prohibited from engaging in any solicitation activities as these vendors were not licensed to sell. As the programs organized were on a mass attendance basis, the amount spent on these activities may appear to be on the higher side.
- (v) The previous advertising campaigns over the television and mass media have been reduced considerably and there is considerable saving on that account.

scb

- (vi) Amongst the other budgeted expenses, the F&U of the products also permitted certain percentage of expense towards sales related expense, over and above the Commission, for branch promotion, marketing and promoting insurance Products. Hence, the expenses on branding, marketing and dissemination are permissible for the Company for its filed products.
- (vii) Since the Order of 11<sup>th</sup> April, 2014, the Company has stopped all new activities of marketing and dissemination activities in compliance of the IRDAI directive.
- (viii) RNLIC also submitted a copy of the Internal Memo for Marketing and Dissemination of Information dated 28/2/2011 proposing to pay a standardized rate of Rs. 100/- per person for the said activity to specialized agencies.

22. Decision on Charge No.4

***Clause 11 of Outsourcing Guidelines states the following:***

*Clause 11.1 : The activities outsourced vide point no.4.1 of these guidelines shall be reported to IRDA within 45 days from the date of entering into outsourcing agreement.*

*Clause 11.2 : With respect to each of the other outsourced activities all insurers shall file a report in Form A (attached as Annexure-II) within 45 days from the end of every half year.*

Prior to sale of insurance products, the information about the products need to be disseminated through the field functionaries using various means and hence marketing and dissemination of information activities pertaining to insurance products is a part of insurance business normally to be undertaken by Insurers. The dissemination of information pertaining to insurance products and enhancement of brand image of Insurers is a continuous process and is an essential activity of Insurers and if the same is outsourced, then it falls within the definition of Outsourcing. As per Clause 11.2, each of the outsourced activities needs to be reported and the activity of 'marketing and dissemination of information' is not an exception.

The response of RNLIC that the expenses on branding, marketing and dissemination are permissible for the Company for its filed products does not explain why "Outsourcing Guidelines" were not followed. Here, the charge is on non-compliance to reporting requirements as per clause 11.2 of Outsourcing Guidelines.

The payments were made at the rate of Rs 100/- per person covered for dissemination of information as per RNLIC's internal memo. To support and justify this rate of payment, a cost benefit analysis was also submitted which calculated the cost of this activity (dissemination of insurance awareness) per person, if performed internally, as Rs 920/- per person. Thus it was concluded that engaging external agencies at the rate of Rs 100/- to



150/- per person is cost effective. There was no reference to the benefit that will be derived out of this expenditure which amounted to Rs 87 Crs in 2013-14 of which Rs 20 Cr went to Vans Medicare and Biotechnology Pvt Limited whose network and insurance credentials are questionable and Rs 25 Cr went to Reliance Money infrastructure Ltd which is a group company of RNLIC.

To verify whether the risk management programme of RNLIC in this regard complies with Clause 9.6 of the Guidelines, the invoices raised by Vans Medicare and RMIL and Audit Reports by CRP Technologies were examined on sample basis and the following were observed:

- (i) Dissemination of information was scheduled by Vans Medicare and Bio Technologies in H.No. 208, Holabi Kalam Narela Delhi 110082 on 4/3/2014.
- (ii) RNLIC vide its letter dt 24/2/2014 hired the services of CRP Technologies for conducting a site audit of the same.
- (iii) CRP Technologies submitted its Audit Report dated 4/3/2014, where it is mentioned that they spent time at the venue from 3.15 pm to 4.15 pm and the approximate headcount of persons during that period at the venue was about 6000.

The other sample Audit Report submitted by CRP Technologies for the site visit on 13/3/2014 at Shop No. SB160/SB161/SB152, 2<sup>nd</sup> Floor, High Street Cum Highland Corporate Centre, Majiwada, Thane (pertaining to disseminating activities of RMIL, which is a group company of RNLIC) mentions that the approximate headcount of persons assembled during the time spent at the venue (11.30 am to 2.30 pm i.e. 3 hours) was 16,200. It is extremely doubtful as to how such a large number of persons (16200) could be accommodated in the premises and whether the expenditure of Rs. 100 per person is actually genuine.

From the above two sample cases and the invoices raised for these activities, it is observed that considerable payments have been made by RNLIC without scrutiny as to the actual performance of task or feasibility of the volume of activity claimed to have been performed in the invoices without applying general business prudence and the required 'Risk Management Principles'. Though they have an internal memo on Dissemination of Information which proposed payment of Rs. 100 per person, it does not mean that the Insurer could make payments on that basis without ensuring whether the service provider has actually performed the job or not as any disproportionate payouts and expenditure from the policyholders fund would negatively impact the interests of the policyholders. There is no justification provided for this rate of payments. This is therefore in violation of provisions of Clause 9.6 of Outsourcing Guidelines.

In view of the above, in exercise of the powers vested under Section 102 (b) of the Insurance Act, 1938, a penalty of Rs. 5 lakhs each in respect of two entities i.e RMIL and Vans Medicare, totalling Rs. 10 lakhs, is imposed on RNLIC for violation of provisions of Clause 9.6 of Outsourcing Guidelines.

With regard to non-reporting of activities after taking into consideration the fact that the Insurer has started reporting these activities from FY 2014-15, a penalty of Rs 2 lakhs is



imposed on RNLIC in exercise of the powers vested under Section 102 (b) of the Insurance Act, 1938 for violation of Clause 11.2 of Outsourcing Guidelines.

**23. Charge No.5**

RNLIC is charged for

- (i) Non-adherence to the directions, to discontinue the payments to third party entities towards lead generation and dissemination of information, issued by the Authority vide Final Order dated 11/4/2014.
- (ii) Violation of Regulation 3 and Regulation 14 of the IRDA (Sharing of Database for Distribution of Insurance Products) Regulations, 2010
- (iii) Violation of Clause 2(a) and Clause 3(a) and Clause 7 (a) of Annexure – 1 (Responsibilities of the Board of Directors) of Corporate Governance Guidelines, 2009.

“Reliance Money Infrastructure Ltd (hereinafter referred to as “RMIL”) has been inspected. It is informed by RMIL that they receive amounts for referring customers to RNLIC while it is observed that it is not a referral partner registered with the Authority under IRDA (Sharing of Database for Distribution of Insurance Products) Regulations, 2010 (hereinafter referred to as “Sharing of Database Regulations”).

It was also observed from the details of the payments made by **RMIL** to various entities that a major part of them are paid to various Group Companies of different Insurance Brokers as reported hereunder and most of group companies referred in column 1 and 3 of the following table have Common Directors. This could potentially be a compensation paid to the Insurance Brokers beyond the permissible limits indirectly.

Name	Grand Total (Amt. in INR )	Name of the Insurance Broking Arm
(1)	(2)	(3)
Bluechip Corporate Investment	3,76,24,500	Bluechip Insurance Broking Pvt Ltd
Religare Macquarie Wealth	1,38,27,865	Religare Ins. Broking Ltd.
AnandRathi Shares & Stock	66,20,532	AnandRathi Insurance Brokers Ltd
MotilalOswal Wealth	19,87,500	MotilalOswal Insurance Brokers Pvt. Ltd.
Reliable India Financial Advisor	11,81,743	Reliable Ins. Brokers Pvt. Ltd.

RNLIC’s response dated 18<sup>th</sup> July, 2014 to the inspection observation 11 that the Marketing activities, referral and other activities alluded during the conversation with the inspection team refers to non life insurance business is also examined and found that this entity RMIL is not a registered entity with the Authority as per Regulation 3 of Sharing of Database Regulations.

*scd*



The Authority in its Final Order bearing No. IRDA/LIFE/ORD/MISC/103/04/2014 dated 11/4/2014, (decision mentioned under Charge No. 37), directed RNLIC to *discontinue the payments to third party entities towards "lead generation" and "dissemination of information"*.

From the agreements mentioned under Charge No.4 also it is clear that RNLIC has not terminated dissemination of information agreements and not reported such activities to the Authority.

Non-termination of agreements entered towards dissemination of information is a non compliance to the directions issued by the Authority vide Order dated 11/4/2014 (under Charge No. 37).

Responsibilities of the Board of Directors of Insurers are prescribed in Annexure – 1 of Corporate Governance Guidelines for Insurance Companies dated 5/8/2009 (Corporate Governance Guidelines). The above actions of RNLIC attract the provisions of Clause 2 (a), Clause 3(a) and Clause 7 (a) of Annexure -1 of Corporate Governance Guidelines".

#### 24. RNLIC's submissions on Charge No.5:

Reliance Money Infrastructure Ltd (RMIL) is into businesses other than life insurance. The company enjoys wide reach and distribution work. RNLIC paid amounts to Reliance Money Infrastructure Ltd to tap the network so that the brochures, leaflets, and pamphlets could be marketed by Reliance Money Infrastructure Limited. This is a marketing activity and not a lead generation activity. The services engaged with RMIL by the Company do not cover referral activities or sharing of database.

The company is involved in marketing and road shows with respect to share broking and other businesses, but not life insurance. The marketing, referral and other activities refers to non-life insurance businesses of RMIL and not RNLIC.

Reliance Money vide its letter dated July 11, 2014 had stated that it had incurred dissemination expenses paid to the retail vendors (as highlighted by the Authority in the observation) for distribution of the marketing material using the infrastructure and market reach of these vendors. These expenses were not incurred to generate leads for RNLIC. They also stated that they were engaged in a host of other activities across another financial sector both within and outside the group.

With regard to payments made by RMIL to various entities, RNLIC submitted that none of these payments had any direct or indirect linkage with the premium procured by any insurance intermediary. RNLIC did not have any direct or indirect business linkage with other insurance intermediaries listed in column 3 of the above except Bluechip Insurance Broking Pvt Ltd.

scd

RNLIC had indeed discontinued fresh / new payments to third parties towards dissemination of information as advised by the Authority. Payments to third parties towards lead generation were discontinued during FY 11.

The arrangement between RNLIC and RMIL was of 'dissemination of insurance information' and not lead generation and therefore there was no breach of IRDA (Sharing of Database) Regulations, 2010. Payments towards dissemination of information was stopped during the year 2014-15 post payments of all committed arrangements as at 31<sup>st</sup> March 2014.

*Annexure 1 - Clause 2(a) and Clause 3(a) (Responsibilities of the Board of Directors) of Corporate Governance Guidelines, 2009 and RNLIC Compliance Status –*

*Clause 2(a) – The Board shall define and periodically review the corporate business policy.*

RNLIC has a defined mechanism wherein the Board of Directors of the Company review all the corporate business policies annually or as and when required. More specifically, the comprehensive Outsourcing Policy of the Company was last reviewed by the Board Risk Management and Asset Liability Management Committee on 29<sup>th</sup> April 2014. Further, the Board of Directors review this policy annually. All important regulatory communications between the Company and the Authority are placed before the Board. The Board reviews the same and directs the company to comply with the directions of the Authority, Law, Regulations and Guidelines in letter and spirit.

*Clause 3(a) – The Board should define the standards of business conduct and ethical behavior for directors and senior management.*

RNLIC has defined the same in its Board Approved Code of Conduct policy for all employees including senior management. Additionally, we obtain "Fit and Proper" criteria from all the Directors and place before the Board for their review.

As a part of Corporate Governance and ERM principles and framework the Board Reviews all business policies including the ethical system of the Company. All-important regulatory communications between the Company and the Authority are placed before the Board. The Board reviews the same and directs the company to comply with the directions of the Authority, Law, Regulations and Guidelines in letter and spirit.

*Clause 7(a) - The Board should ensure that the insurer is compliant with its directions and all statutory provisions and regulations framed thereunder through: A sound system of internal controls and audit in respect of all aspects of the insurer's activities and accounts, including financial, operational and compliance controls and such systems should be annually reviewed by the Board for their effectiveness.*

The Board is made aware of the regulatory changes, compliance requirements, directions of the Authority, internal audit reports, statutory audit reports, management presentation on performance, ethical conduct and all the related aspects. The board reviews compliance with policies based on presentation of the actions taken by Management to meet the



requirements of the law, ethical conduct, audit reports and various other directions of the Authority in letter and spirit.

All the above is governed by the Corporate Governance and Enterprise Wide Risk Management Framework of the Company. The same is independently reviewed by several auditors – statutory, internal, concurrent, secretarial compliance audit, compliance review and other specialized auditors. The framework is also reviewed by the external Risk Rating Agencies. The Company has been awarded Triple AAA rating for its Enterprise Wide Risk Management framework.

**25. Decision on Charge No.5:**

RNLIC has spent Rs 25.65 crores in FY 2013-14 as payment to its group company Reliance Money Infrastructure Ltd (RMIL) under the head of “Building awareness and distribution of promotional material of RNLIC” whereas the inspection team of IRDA has observed that RMIL is receiving the amount towards referring customers to RNLIC.

Initial response of the RNLIC was to say that the referral arrangement pertained to Non-Life entity which on verification was found to be incorrect as there was no approval given to RMIL to be a referral entity under Regulation 3 of IRDA (Sharing of data base) Regulations, 2010 either for Non-life business or for Life business. During the personal hearing dated 23<sup>rd</sup> June 2015 RNLIC had submitted that they had stopped referral business with RMIL. During the personal hearing dated 19<sup>th</sup> June 2018 RNLIC stated that term referral was used loosely but it was always meant to refer to dissemination agreement.

Thus the submission of RNLIC appears to be continuously shifting and inconsistent. Further taking into account the fact that these payments were not reported under “outsourcing activities”, it is held that RNLIC had a referral arrangement with RMIL without taking approval of IRDAI thus violating Regulation 3 of IRDA (Sharing of Database for Distribution of Insurance Products) Regulations, 2010. Therefore in exercise of the powers vested under Section 102 (b) of the Insurance Act, 1938, a penalty of Rs 3 Lakhs is imposed on RNLIC.

The submission of RNLIC that they have discontinued the payments to third parties towards lead generation and dissemination of information and also the confirmation of RNLIC that they have complied with the Order of the Authority dated 11/4/2014 and that post FY 2014-15, no new payments were made towards dissemination of information and outstanding provisions for payments as at 31/3/2014 were only paid is considered and the related charges are not pressed.

However, the payouts by RMIL listed in Charge No.5 to various group entities of licensed insurance brokers and the payouts listed in other charges which are routed to group entities of licensed insurance intermediaries do not appear to be what they are made out for and do not give any regulatory comfort and deserve to be probed further.

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**Therefore, the following directions are issued to RNLIC:**

- i. RNLIC shall place this Order containing Authority's observations before their Board in the upcoming Board Meeting along with details of the total payouts towards Dissemination of Information and Customer Contactability in the years 2011-12, 2012-13 and 2013-14 showing amounts spent and benefits derived from these activities.
- ii. The Board should also look into the lack of due diligence before selecting outsourcing service providers who are often not in the primary business of providing the services contracted for.
- iii. The Board should look into the procedure followed in selecting outsourcing service providers such as PTPL, CRP, RMIL and various group companies of Insurance Brokers, and should enquire into appropriateness of quantum of payment made vis-a-vis benefits derived.
- iv. RNLIC shall submit an Action Taken Report on point No. (i),(ii) and (iii) above to the Authority within 90 days from the date of this Order.

**26. Summary of Decisions:**

**Penalties imposed for the following violations:**

<b>Charge No.</b>	<b>Violation of Provisions</b>	<b>Penalties</b>
1	Clauses 10 and 10.1 of Outsourcing Guidelines.	Penalty of Rs.10 lakhs.
2	Clause 9.6 (ii) of Outsourcing Guidelines.	Penalty of Rs.10 lakhs.
3	Clauses 9.8 of Outsourcing Guidelines	Penalty of Rs. 5 lakhs.
4	Clause 11 and Clause 9.6 of Outsourcing Guidelines	Penalty of Rs.10 lakhs for Clause 9.6 violations.  Penalty of Rs. 2 lakhs for Clause 11.2 violations.
5	IRDA (Sharing of Database for Distribution of Insurance Products) Regulations, 2010.	Penalty of Rs. 3 lakhs for violation of Regulation 3 of IRDA (Sharing of Database for Distribution of Insurance Products) Regulations, 2010.



**Directions issued:**

<b>Provision of Outsourcing Guidelines</b>	<b>Directions</b>
<b>Clause 9.6, Clause 10</b>	Directions to RNLIC to place this Order containing Authority's observations before the Board and submit an Action Taken Report thereafter within 90 days from the date of this Order.

27. The total penalty amount of Rs. 40 lakh shall be remitted by RNLIC through NEFT/RTGS within a period of 45 days from the date of issuance of this order. An intimation of remittance may be sent to Mr. V. Jayanth Kumar, Chief General Manager (Life) at the Insurance Regulatory and Development Authority of India, Survey No.115/1, Financial District, Nanakramguda, Hyderabad 500032, email id [life@irda.gov.in](mailto:life@irda.gov.in).

28. If RNLIC feels aggrieved by this Order, an appeal may be preferred to the Securities Appellate Tribunal as per the provisions of Section 110 of the Insurance Act, 1938.

Place: Hyderabad  
Date: 13<sup>th</sup> November, 2018

  
13/11/18  
(Dr. Subhash C. Khuntia)  
Chairman