



Ref: IRDA/NL/ORD/MISC/039/03/2021

**Order in the matter of M/s Chola MS General Insurance Company Ltd**

**Based on the**

- (i) Show Cause Notice ("SCN") reference No. IRDAI/ NL/Chola/SCN/233/2020-21 dated 9<sup>th</sup> October, 2020 in connection with the on-site inspection conducted by the Insurance Regulatory and Development Authority of India ("the Authority" or "IRDAI") from 1<sup>st</sup> to 4<sup>th</sup> May, 2018.
- (ii) Response of M/s. Chola MS General Insurance Company Ltd ("the Company" or "Insurer") dated 28<sup>th</sup> October, 2020 to the aforesaid SCN.
- (iii) The submissions made by the Insurer during the personal hearing through video conference mode held on 17<sup>th</sup> December, 2020 at 12.30 PM, by the Chairman of the Authority.
- (iv) Further submission by the insurer vide email dated 21<sup>st</sup> December, 2020.

**1. Background:**

- 1.1 IRDAI had conducted an onsite inspection of M/s. Chola MS General Insurance Company Ltd from 1<sup>st</sup> to 4<sup>th</sup> May, 2018. The inspection report, inter alia, revealed certain violations of provisions of the Guidelines on Motor Insurance Service Provider (MISPG) issued by the Authority through IRDA/ INT/ GDL/ MISP /202/08/2017 dated 31<sup>st</sup> August, 2017 and circulars thereunder, provisions of Insurance Act, 1938 and Regulations and Guidelines issued thereunder.
- 1.2 A copy of the inspection report was forwarded to the insurer on 27<sup>th</sup> March, 2019 seeking their response. On examining the submissions made by the insurer through their letter dated 6<sup>th</sup> May, 2019, a show cause notice (SCN) was issued on 9<sup>th</sup> October, 2020. The company replied to the SCN vide letter dated 28<sup>th</sup> October, 2020. As requested for by the insurer, personal hearing was granted to the insurer on 17<sup>th</sup> December, 2020.
- 1.3 On behalf of the insurer, Shri V. Suryanarayanan, MD, Shri Vedanarayanan Seshadari, Chief Operating Officer, Shri S Venugopalan, Chief Financial Officer, Shri Suresh Krishnan, Chief Compliance Officer were present during the personal hearing. Shri Randip Singh Jagpal, CGM (Intermediaries), Smt. Yegnapriya Bharath, CGM (Non-Life), Shri K. Mahipal Reddy, GM (NL) and Shri A. Rama Sudheer, Manager (NL) of IRDAI attended the hearing.

- 1.4 The submissions made by the insurer in its letter dated 28<sup>th</sup> October, 2020, submission during the personal hearing on 17<sup>th</sup> December, 2020 and those made vide email dated 21<sup>st</sup> December, 2020 of the insurer have been carefully considered by the Authority and are summarized below:

**2. Charge no.1:**

- 2.1 **Violation of Guideline 2 read with Guideline 15 (5) (d):** The guidelines state that the MISIP or any of its associate company, shall not receive directly or indirectly from the Insurer and the Insurer shall not pay directly or indirectly to the MISIP or any of its associate company any fees, charges, infrastructure, advertising expenses, documentation charges, legal fees, or any other payment by whatever name called except as specified in the said guidelines.

The insurer made indirect payments to MISIP, automotive dealers and designated persons on the name of 'advertisement' and 'professional charges'.

**2.2 Summary of Insurer`s submissions:**

- 2.2.1 The insurer submitted that the company had an arrangement since 2015 for display of marketing materials through the sales outlets of M/s. T V Sundaram Iyengar & Sons Pvt Ltd (TVS), as the insurer found more opportunity to increase its brand visibility and increase insurer's presence in 2 and 3 tier towns by entering into advertisement contracts. The insurer further stated that the company had entered into an agreement with the entity on 1<sup>st</sup> April, 2018 for display of advertising material after the notice of termination of corporate agency by M/s Daimler Financial Services India Pvt Ltd (Daimler). The insurer explained that there was no connection between the arrangement that the company had with TVS for display of advertising material and their MISIP arrangement with Daimler. It was informed that the agreement with the TVS was terminated in December, 2019.

- 2.2.2 The insurer submitted that it had identified potential locations where there were business opportunities and entered into arrangement for advertisement with the auto dealers with a strategy to promote and tap business opportunities which were essential for the growth. Further, it is stated that the company took steps to terminate all the arrangements with the identified dealers as the insurer found them to be MISIPs sponsored by insurance intermediaries.

- 2.2.3 As regards the payments made to the designated persons of MISIPs as mentioned in SCN under professional charges, the insurer submitted that the payments pertain to transactions for a period before the implementation of MISIP Guidelines.



### 2.3 Decision on Charge no.1:

2.3.1 The insurer has stated that it had arrangements (without any formal agreement) with TVS for display of advertisement material since 2015. TVS is an MISP sponsored by Daimler from 12<sup>th</sup> November, 2017. The insurer had a corporate agency arrangement with Daimler between December, 2016 to 30<sup>th</sup> April, 2018.

2.3.2 The insurer entered into an agreement with TVS for display of advertisement material for a period of three years with effect from 1<sup>st</sup> April, 2018. Thus the insurer had continued the arrangement for display of advertisement material with TVS during the period from 12<sup>th</sup> November, 2017 to 30<sup>th</sup> April, 2018 though TVS was an MISP sponsored by Daimler during the said period.

2.3.3 In addition to sponsorship through Daimler, TVS is also sponsored as MISP by the following intermediaries owing to different Manufacturer Dealerships, as revealed from the Insurance Information Bureau of India (IIBI) database.

| S. No | Sponsored by  | OEM name              | From Date                       | To Date   |
|-------|---|-----------------------|---------------------------------|-----------|
| 1     | TVS Insurance Broking Ltd.                              | M & M                 | 2 <sup>nd</sup> November, 2017  | Till date |
| 2     | SMC Insurance Brokers Pvt Ltd.                          | Honda                 | 3 <sup>rd</sup> November, 2017  |           |
| 3     | Aditya Birla Insurance Brokers Ltd.                     | AL Nissan             | 6 <sup>th</sup> November, 2017  |           |
| 4     | TVS Insurance Broking Ltd.                              | Ashok Leyland Limited | 29 <sup>th</sup> November, 2017 |           |
| 5     | Nissan Renault Financial Services India Private Limited | Renault               | 31 <sup>st</sup> May, 2019      |           |
| 6     | Volkswagen Finance Pvt. Ltd.                            | Volkswagen            | 25 <sup>th</sup> June, 2019     |           |
| 7     | Indian Insurance Broking Service                        | Honda                 | 29 <sup>th</sup> June, 2018     |           |
| 8     | Indian Insurance Broking Service                        | Chevrolet             | 29 <sup>th</sup> June, 2018     |           |
| 9     | Indian Insurance Broking Service                        | MERCEDES-BENZ         | 29 <sup>th</sup> June, 2018     |           |
| 10    | TVS Insurance Broking Ltd.                              | Escort                | 1 <sup>st</sup> July, 2019      |           |

In view of the above, it is observed that the insurer continued its engagement with TVS for display of advertisement material, disregarding the status of TVS as MISP with effect from 2<sup>nd</sup> November, 2017.

- 2.3.4** Para 15 (5) of MISP Guidelines clearly stipulates the maximum distribution fees payable to MISPs and specifically mention that neither the insurer shall pay directly or indirectly to the MISP other payments including the *advertising expenses* nor the MISP shall receive such payments from insurers.
- 2.3.5** Considering the above, the insurer's submission that there was no connection between the engagement the insurer had with TVS for display of advertising material and TVS acting as a MISP is not tenable. Therefore, the engagement with and corresponding payments in the name of 'display of advertisement material' to TVS which was an MISP from 2<sup>nd</sup> November, 2017 till 31<sup>st</sup> December, 2019 are in violation of para 15 (5) (d) of MISP Guidelines.
- 2.3.6** The insurer had engaged four automotive dealers namely Indus Motors Co., Pvt. Ltd., (Indus) A M Motors, ERAM Motors Pvt. Ltd., (ERAM) and Nippon Motor Corporation Private Ltd (Nippon) for display of advertisement material. As per IIBI database, it is noted that Nippon is an MISP sponsored by Toyota Tsusho Insurance Broker India Pvt Ltd since 22<sup>nd</sup> November, 2017, A M Motors and Indus have been MISPs sponsored by Maruti Insurance Broking Pvt Ltd since 22<sup>nd</sup> November, 2017 and 23<sup>rd</sup> November, 2017 respectively and ERAM has been an MISP sponsored by The Oriental Insurance Co., Ltd, since 30<sup>th</sup> November, 2017.
- 2.3.7** The payments to the above referred four MISPs continued as detailed below:

| S. No. | Name of MISP                  | Last payment made            |
|--------|-------------------------------|------------------------------|
| 1      | Indus Motors Co., Pvt., Ltd., | 18 <sup>th</sup> July, 2018  |
| 2      | AM Motors                     | 21 <sup>st</sup> May, 2018   |
| 3      | ERAM Motors Pvt., Ltd         | 23 <sup>rd</sup> March, 2018 |
| 4      | Nippon Motor Corp Pvt Ltd     | 11 <sup>th</sup> April, 2018 |

Therefore, the engagement with and the corresponding payments in the name of 'display of advertisement material' to the four MISPs during the period between 22<sup>nd</sup> November, 2017 to 18<sup>th</sup> July, 2018 are in violation of para 15 (5) (d) of MISP Guidelines.

- 2.3.8** With regard to payments to designated persons listed in SCN, the insurer has provided copies of extracts of ledger showing that these payments were made for activities undertaken for the period prior to 1<sup>st</sup> November 2017, when MISP Guidelines came into force. There cannot be any objection to receiving payment for a period prior to the MISP Guidelines.

**2.3.9** It may be appreciated that the objective of MISP Guidelines is to recognize the role of motor dealers in distributing and servicing motor insurance policies so as to effectively monitor dealer's activities connected to insurance. More importantly, the guidelines are brought out to check undesirable practices in the market like payouts to motor dealers made by insurers at the expense of policyholders under different heads of management expenses.

**2.3.10** It is found that the engagement with and payments for 'display of advertisement material' made by the insurer to TVS, A M Motors, Indus, ERAM and Nippon during the period from 2<sup>nd</sup> November, 2017 to 31<sup>st</sup> December, 2019 are in contravention of para 15 (5) (d) of the MISP Guidelines. The violation has continued for a period of more than 2 years. Therefore, the Authority in exercise of the powers vested under Section 102(b) of the Insurance Act, 1938 imposes a penalty of **Rs.1,00,00,000 /-** (Rupees one crore only/-). Further, the insurer is directed to ensure in future that any engagement with automotive dealers is strictly in compliance with MISP Guidelines.

### **3. Charge no.2:**

**3.1 Violation of para 9 (d) of MISP Guidelines and Section 14 (2) (h) of IRDA Act, 1999.** As per Section 14 (2) (h) of IRDA Act, 1999, the Insurer has to produce all such books of account, registers and other documents in its custody and furnish statements, information within such time as specified.

The insurer has provided partial data, documents and information to the Authority.

### **3.2 Summary of Insurer's submissions:**

The insurer submitted that the company faced certain difficulties in submission of the information as requisitioned data was not readily available. The insurer further stated that they were under impression that some of the entities whose details were required were not connected with MISP Guidelines and, hence, the details were not submitted. However, during personal hearing, the insurer admitted that it was a misunderstanding on their part and volunteered to submit the details. Subsequently, the details were submitted by the insurer vide email dated 21<sup>st</sup> December, 2020, though the details were earlier sought to enable the inspection team to examine the same and incorporate appropriate content in the inspection report.

### **3.3 Decision on Charge no.2:**

The non-submission of the documents by the insurer to enable proper inspection is viewed seriously and the insurer is hereby directed to ensure prompt submission of information/documents during the course of future inspections.

#### **4 Summary of Decisions:**

| <b>Charge No.</b> | <b>Violation of Provisions</b>                                    | <b>Decision</b>             |
|-------------------|---|-----------------------------|
| 1                 | Guideline 15 (5) (d) of MISPG                                     | Penalty of Rs. 1 crore only |
| 2                 | Guideline 9 (d) of MISPG and Section 14 (2) (h) of IRDA Act, 1999 | Direction                   |

The penalty amount of **Rs.1,00,00,000/-** (Rupees one crore only) shall be remitted by the insurer by debiting the shareholders' account within a period of forty-five days from the date of receipt of this order through NEFT/RTGS (details for which will be communicated separately). An intimation of remittance may be sent to Mrs. Yegnapriya Bharath, Chief General Manager (Non-Life) at the Insurance Regulatory and Development Authority of India, Survey No.115/1, Financial District, Nanakramguda, Hyderabad 500032, email id - [ypriyab@irdai.gov.in](mailto:ypriyab@irdai.gov.in).

Further,

- i. The Order shall be placed before the Board of the General Insurer in the upcoming Board Meeting and the General Insurer shall provide a copy of the minutes of the discussion.
- ii. The General Insurer shall submit an Action Taken Report to the Authority on direction given within 90 days from the date of this Order.

**5** If the insurer 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: 08.03.2021

Sd/-  
(Dr. Subhash C. Khuntia)  
Chairman