



**IRDA/ENF/ORD/ONS/123/05/2021**

**Order in the matter of M/s. Shriram General Insurance Company Limited**

Based on the

- a) Show Cause Notice (SCN) Reference No. IRDA/Enforcement/2020/417 dated 3<sup>rd</sup> February, 2021 in connection with the onsite inspection conducted by Insurance Regulatory and Development Authority of India (the Authority/IRDAI) during 02.12.2019 to 06.12.2019
- b) M/s. Shriram General Insurance Company Limited (insurer/company/SGI) letter dated 7<sup>th</sup> March, 2021
- c) Submissions of the Insurer during Personal Hearing held on 20<sup>th</sup> April, 2021

**Background**

The Authority had conducted an onsite inspection of the insurer during 02.12.2019 to 06.12.2019. The inspection report, inter alia, revealed certain violations of provisions of the Insurance Act, 1938, IRDAI's Regulations, Guidelines and various circulars issued there under.

2. A copy of the report was forwarded to the insurer on 20.02.2020 and the reply was received by the Authority vide letters dated 05.03.2020.

3. On examining the submissions made in the above referred letter to each of the inspection observations, it was observed that the insurer has not complied with the applicable provisions of the IRDAI's Regulations, guidelines framed there under, in case of certain observations.

4. Consequently, an SCN was issued by the Authority on 03.02.2021 to the insurer in this regard and the insurer replied to the SCN on 07.03.2021. While replying to the SCN, the Insurer requested for personal hearing and the same was granted. The personal hearing was held on 20.04.2019. On behalf of the insurer, Mr. Anil Kumar Agarwal, MD&CEO, Mr. Ashwani Dhanawat, CIO, Mr. Shashikant Dahuja, Chief Underwriting Officer, Ms. Mona Mathur, Whole Time Director and CFO attended the meeting. On behalf of the Authority, Mr. Prabhat Kumar Maiti, General Manager (Enforcement), Vijayanand Naik Porika, OSD, V Satish, OSD, Rahul Kumar Aggarwal, OSD and Mr. K. Sridhar Rao, AGM (Enforcement) were also present. The charges and the decisions made by the Authority are as under: -

**Charge No.1**

5. Violation of Regulation 15(c) of IRDAI (Outsourcing of Activities by Indian Insurers) Regulations, 2017- "where *it is considered necessary to outsource any activity to the related parties or group entities of the Insurers or related parties or group entities of the*

*Insurance Intermediaries registered with the Authority who are working either with the Insurer who is proposing to outsource or with any other Insurers, there shall be a complete due diligence and the insurer shall be bound by the conflict management policy that is part of its outsourcing policy that ensures maintaining arm's length distance" and Para 3A.1 of Circular No. IRDA/F&A/GDL/CG/100/05/2016 dated 18.05.2016, which requires the insurer to have "Adequate systems, policies and procedures to address potential conflicts of interest .... These include Board level review of key transactions, disclosure of any conflicts of interest to manage and control such issues".*

The insurer has a service agreement dated 23rd May, 2017 with M/s. Shriram Capital Limited (SCL), a related party, for providing certain services including group strategy, new ventures and business development, MIS, synergy, group HR, brand building and corporate communication, taxation, regulatory, secretarial, group IT, external relations, investor relations and policy advocacy. The Insurer paid an aggregate amount of Rs. 3.63 Crores per quarter during year 2018-19; towards such services. The services rendered by SCL were not stated in the invoices raised by them. The due diligence exercise conducted for SCL for 2018-19 didn't look at:

- the comparison of pricing with other entities,
- how arm's length pricing was maintained and,
- that engaging the services of SCL will not lead to any potential conflict of interest.

Further, the Outsourcing policy of the insurer does not contain conflict management policy to ensure arm's length distance with respect to related parties. The insurer has failed to maintain arm's length distance while dealing with their related parties.

#### **Summary of the insurer's submissions:**

6. The insurer submitted that the services are wholly, exclusively and necessarily incurred for the purpose of business and the payment is in the ordinary course of business. Such services are paid for in Group business model which has got its unique features from the rest of Corporate ecosystem. The entire dynamics of group business revolves around shared resources, strategies, action plan etc. and by its very nature it encompasses amplitude of such proportions that it cannot be measured on the specifics of outsourced services, which lend to evaluation on standalone basis. Such services can be tangibles and intangibles not amenable to any price tag, as they are not divisible by metes and bounds, as each component gives value and derives value from the other.

7. The insurer further stated that the services rendered by SCL are not the activities that would normally be undertaken by SGI in its ordinary course of its business and the services can only be provided by the holding company of the promoter group because in order to provide these services, the service provider is accessible to internal sensitive data and information of the respective companies of the Group. Thus, the said services cannot be availed from anyone else other than the promoters and therefore arm's length pricing cannot be ascertained. As the services availed by SGI are not the services which are normally undertaken by SGI in its ordinary course of business and due to sensitivity of the information involved arm's length pricing also cannot be established, the Board of

directors of the Company in compliance with section 188 of the Companies Act 2013 in its meeting held on 8th May 2017 passed a resolution and accorded its approval to enter the agreement with SCL. As the services rendered by SCL to SGI do not exceed 10% of its net worth approval from the shareholders of the Company was not required under Rule 15 of Companies (Meetings of Board & its Powers) Rules, 2014.

## **Decision**

8. On scrutiny of the agreement between SGI and SCL, it is noted that the services being provided include New Ventures and Business Development, Taxation, Secretarial, Investor Relations, Regulatory, Brand Building and Corporate Communication, MIS etc. It was also observed that quarterly payment as per agreement, was made without any reference to the specific support/ services availed from SCL during the quarter.

SCL being the major shareholder (76.63%) and promoter, has responsibility to ensure proper governance of the insurer and the support provided by them is part of their duty as promoter for which no payments other than in form of dividend is warranted. However, there is a possibility of sharing common facilities/resources like building, IT systems, human resources which is expected to be handled in a transparent manner with appropriate cost sharing methods. It is noted that the current approach lacks transparency as to the support/services availed and to assess whether payment made is on arm's length basis.

In view of the above, the Insurer is directed to discontinue the current practice within a period of three months and adopt a transparent approach to avail of support/services, if needed, from their group company on arm's length basis and to ensure compliance of the provisions of Circular No. IRDA/F&A/GDL/CG/100/05/2016 dated 18.05.2016 and other applicable norms.

## **Charge No.2**

9. Violation of of the provision of Para 3A.1 of Circular No. IRDA/F&A/GDL/CG/100/05 /2016 dated 18th May 2016; "... In the case of insurance cover given by the insurance company to the group companies, price / premium quoted by the companies under F&U guidelines should be considered as arm's length. ...." and provisions of Circular No. IRDAI/NL/GDL/F&U/030/02/2016 dated 18th February 2016 on procedure of product filing.

The insurer has not adhered to the Board approved underwriting guidelines and has not followed the rate allowed under product filing for the group policies issued.

## **Summary of the submission by the insurer**

10. The insurer submitted that as per IRDAI Circular IRDA/NL/MISC/246/11/2014 dated 12th November 2014, the insurance company before giving any insurance cover can accept the proposal / risk either on IIB rates or insurer's own burning cost.

## Decision

11. The 2014 circular provides some guiding principles for product design and pricing. Once a product is filed and approved, the insurer needs to adhere to the Terms and Underwriting guidelines approved under product filing. If any change is needed, the insurer needs to file for product modification, if modification is warranted due to emerging experience. In the following sample cases, the insurer has deviated from the limits of discounts allowed under the product filing.

S. No.	Policy No.	Type of Policy issued	Date of Issuance of Cover Note	Maximum Discount allowed under Product filing	Discount extended
1	421010/48/19/019048	Other Miscellaneous: Burglary	28/09/2018	40%	71.07%
2	421010/48/19/002028	Other Liability covers: Professional Indemnity	27/04/2018	20%	91.83%
3	421010/48/19/001902	Other Liability covers: Professional Indemnity	24/04/2018	20%	93.90%
4	421010/48/19/019046	Other Miscellaneous: Burglary	28/09/2018	40%	71.07%
5	421010/48/19/019049	Other Miscellaneous: Burglary	28/09/2018	40%	71.07%
6	421010/44/19/000164	Engineering	27/11/2018	40%	42%

12. Considering the violations noticed in case of 6 sample cases detailed above, as per Section 102(b) of Insurance Act, 1938; the Authority levies a **penalty of Rs.6,00,000 (Rs. Six Lakh)**. The Authority also directs the insurer to ensure continuous compliance with applicable product filing procedure.

### 13. Summary of Decisions:

Charge No.	Violation of Provisions	Decision
1	Violation of • Regulation 15(c) of IRDAI (Outsourcing of Activities by Indian Insurers) Regulations, 2017 • Para 3A.1 of Circular No. IRDA/F&A/GDL/CG/100/05/2016 dated 18.05.2016	Charge not pressed and direction
2	Violation of: • Para 3A.1 of Circular No. IRDA/F&A/GDL/CG/100/05/2016 dated 18th May 2016 • F&U Circular No. IRDAI/NL/GDL/F&U/030/02/2016 dated 18th February 2016	Penalty of Rs.6,00,000 and direction

### 14. Summary:

In conclusion, as directed under the respective charges, the penalty of Rs.6,00,000 (Rupees six Lakhs only) should be remitted by the insurer by debiting shareholders' account within a period of 45 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 Mr. Prabhat Kumar Maiti, General Manager (Enforcement) at the Insurance Regulatory and Development Authority of India, Hyderabad.

#### Further

- The insurer shall confirm compliance in respect of all the directions referred to in this Order, within 21 days from the date of issuance of this order.
- The Order shall be placed before the Audit committee of the Insurer and also in the next immediate Board meeting and to provide a copy of the minutes of the discussion.
- If the insurer feels aggrieved by any of the decisions in this order, an appeal may be preferred to the Securities Appellate Tribunal as per Section 110 of the Insurance Act, 1938.

Place: Hyderabad  
Date: 4<sup>th</sup> May, 2021

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