



Ref: IRDA/NL/ORD/MISC/148/06/2020

Order in the matter of M/s. Future Generali India Insurance Company Limited

Based on the

- (i) Show Cause Notice ("SCN") reference No. IRDAI/NL/FGIICL/SCN/02/2019-20 dated 20th May, 2019 issued by the Insurance Regulatory and Development Authority of India ("the Authority" or "IRDAI") in connection with the complaint received on offering cash back on Motor Third Party Insurance of educational institution vehicles.
- (ii) M/s. Future Generali India Insurance Company Ltd.'s (hereinafter referred to as 'FGIICL'/'Insurer'/'Company') response dated 18th June, 2019 to the aforesaid SCN.
- (iii) The submissions made by FGIICL during the Personal Hearing held on 7th January, 2020 at 4.30 PM granted by the Chairman of the Authority at its office at Hyderabad.
- (iv) Further submissions/data submitted by the Insurer post personal hearing vide email dated 16th March, 2020.

Background:

1. A complaint was received by the Authority against Future Generali India Insurance Company Ltd, alleging that FGIICL has been offering cash back on Motor Third Party Insurance of educational institution vehicles. A copy of the said complaint was sent to the Insurer for their comments. The Insurer refuted the allegations levelled against them in the complaint and provided the list of motor insurance policies with policy schedules issued for covering buses of educational institutions during April to May, 2018 by Thrissur Branch of FGIICL.
2. Though the complaint was on offering cash back on Motor Third Party Insurance premium, an examination of the policy details revealed that the Insurer offered a high percent of discount on the own damage premium which is outside the range of discount/rates filed by them with the Authority.

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3. In view of the above, SCN was issued on 20th May, 2019, which was responded to by FGIICL vide letter dated 18th June, 2019. As requested for by FGIICL therein, personal hearing was granted to the Insurer on 7th January, 2020.
4. Mr. Anup Rau Velamuri, Managing Director & Chief Executive Officer, Mr. Shreeraj Deshpande, Chief Operating Officer, Mr. Prasad Kulkarni, Head Underwriting & Claims, Mr. Pramod Shelar, VP, Underwriting- Motor & Misc., Mr. Jatin Arora, Appointed Actuary, and Mr. Rajiv Joshi, Chief Compliance Officer were present in the personal hearing on behalf of FGIICL. On behalf of the Authority, Mr. Shyama Prasad Chakraborty, GM (Actuarial), Mr. K. Mahipal Reddy, GM (NL), and Mr. Pradeep Kumar Singh, Manager (NL) were also present.
5. The submissions made by FGIICL in their letter dated 18th June, 2019 and during the personal hearing on 7th January, 2020 as well as information furnished thereafter have been considered by the Authority and on that basis the decision on the charge is given as under:

6. **Charge:**

As per para 17(b) of Guidelines on Product Filing Procedures for General Insurance Products dated 18th February, 2016, (hereinafter referred to as said Guidelines) ``*The Insurers shall quote the rates strictly within the range filed with the Authority. It should be ensured that no premium quotation is given which is outside the range filed with the Authority and a rate which the Appointed Actuary and underwriter did not approve.*``

Further, as per the provisions of Para 21 of the said Guidelines ``*The Insurers offering premium rates outside the range filed with the Authority, discounts in premiums not specified in the filing, discount in the premium without specific approval for the same from the PMC and offer enhanced benefits on the products without charging any premiums shall be considered to be violations of these guidelines.*``

An Insurer violating any of the provisions of these Guidelines shall be subject to regulatory action under Para 21 of said Guidelines in accordance with the provisions thereof in Insurance Act, 1938 and amendments made thereafter.

7. **Summary of Insurer`s submissions**

- 7.1 The Insurer in their response dated 18th June, 2019, submitted that they had allowed discounts towards portfolio, market competition and 10 percent discount was allowed using the discretion of the Chief Underwriting Officer, in addition to discounts



pertaining to anti-theft, light use occupation and closed parking. The copy of the relevant portion of motor product filing showing the index and parameters specified in respect of premium rating, discounts, loading and additional discounts was enclosed with the reply. The Insurer explained that the motor product pricing has been in line with Board approved underwriting policy and competitive pricing practices prevailing in the market.

- 7.2 The Company considered additional 50 percent discount with reference to the removal of controls on the erstwhile tariff pricing of general insurance business effective from 1st January, 2008 where the Insurers were allowed to quote rates in accordance with rate schedules and rating guidelines determined as per the underwriting policy approved by the Board of the company with the condition that the operating ratio should not exceed 100 percent on gross underwriting basis. The Insurer stated that a circular was issued by the Authority after IRDAI Circular No: 048/IRDA/Detariff/Dec/2007 dated 18th December, 2007.
- 7.3 However, FGIICL has confirmed that the rate schedule as filed originally at the time of de-tariffing was not revised by them and also that the terms and conditions were not revised as per their filing under the File and Use guidelines, 2006. Further, the Insurer submitted that the Company did re-file the motor product on 10th September, 2008 along with other products, in which the range of discounts apart from 50 percent discount on erstwhile tariff pricing was mentioned.
- 7.4 FGIICL contended that paragraph 17(b) of Guidelines on Product Filing Procedures for General Insurance Products dated 18th February, 2016 referred in the charge is not required to be applied because those are the actions and decisions taken by earlier F&U guidelines which have not been invalidated by the F&U guidelines of 2016. The application for the para 21 may not be considered a violation under the guidelines retrospectively for the guidelines of 2006 having no such express provision then existing. The Insurer requested unless until necessary clarification and separate regulatory framework are notified by the Authority, the previous guidelines in 2006 are also governed by para 21 of the 2016 guidelines, it may not be enforced upon them.
- 7.5 During the personal hearing, the Insurer admitted that the discounts of ninety percent and above on premium had been given in motor policies insuring school buses, even though in the product approval only twenty percent discount was allowed. The claim experience for the school buses was around thirty-seven percent only. The discount benefit has been given to educational institutions which run the buses in a limited area. It is noted that opportunity to file for revisions in pricing was given by the Authority in 2018. But the company has not filed for revisions in pricing.



7.6 The Insurer agreed that they should have first filed for revisions on the motor product discounts range based on experience of the recent years and marketed it only if approved by the Authority. FGIICL has assured the Authority that they will file the revisions in pricing and going forward they will scrupulously adhere to the 'File & Use' guidelines and would always take prior product approvals from the Authority.

8. Decision:

On examination of the Insurer's response to the Show Cause Notice and submissions made during Personal Hearing, the following is observed.

8.1 As per the material available on record in the filing of rates under Future Secure Motor Insurance dated 28th December, 2007, the Insurer filed 20 percent variation in rates of four wheeled vehicles with carrying capacity exceeding 6 passengers from erstwhile IMT rates and discounts of 2.5 percent each on anti-theft, light use occupation and closed parking. The certified copy produced by the Insurer showing discounts in premiums such as 25 percent on portfolio, 10 percent on Market competition and 10 percent by Chief Underwriting Officer is not part of documents filed by Insurer in 2007. Hence, the Insurer's request to take note of discounts offered towards portfolio, market competition and discounts allowed to be offered using the discretion of Chief Underwriting Officer cannot be accepted.

8.2 The Insurers reply that they considered additional 50 percent discount with reference to the removal of controls on the erstwhile tariff pricing of general insurance business effective from 1st January, 2008 is without any basis and documentary proof of filing with the Authority. The Insurer did not submit documents to substantiate the purported filing on 10th September, 2008 in which the range of discounts apart from 50 percent discount on erstwhile tariff pricing were mentioned. Further, the Insurer accepts that they are unable to produce specific circular issued by the Authority in the above matter. As per the Insurer, the rate schedule as filed originally at the time of de-tariffing has not been revised. Moreover, the Insurer admitted that they should have first filed for revisions on the motor product discounts range based on experience in recent years and then marketed only after prior approval by the Authority.

8.3 FGIICL's contention that paragraph 17(b) of Guidelines on Product Filing Procedures for General Insurance Products dated 18th February, 2016 referred in the charge is not required to be applied and the application for the para 21 may not be considered a violation under the guidelines retrospectively for the guidelines of 2006 cannot be accepted. It may be noted that the said Guidelines in 2016 clearly mention that these guidelines replace the earlier guidelines on filing of General Insurance Products and all circulars relating to filing of general insurance products shall stand repealed from the effective date of commencement of the guidelines issued in 2016.



8.4 On a perusal of the motor policies underwritten by the Insurer at its Thrissur Branch during the financial year 2018-19 and in 2019-20 i.e., till January, 2020, it is noted that FGIICL offered discounts outside the range of premium rates filed with the Authority without utilizing the provision of filing pricing flexibility as set out in the said guidelines and also specific opportunity accorded to general Insurers in terms of Authority's communication dated 8th February, 2018 on pricing flexibility in Motor OD Products/Add-ons. It is noted that FGIICL has filed flexibility in determining discounts in Motor OD pricing for the "Future Secure Commercial Vehicle Package Policy" product on 29th February, 2020. i.e. after issuance of show cause notice and granting personal hearing opportunity.

8.5 Considering the facts stated hereinabove, it is established that FGIICL offered ninety percent and above discount on the motor own damage premium which is outside the range of discount/rates filed by the company with the Authority for covering School/Educational Institutions buses during 2018-19 and 2019-20 in violation of the provisions of Para 17(b) and 21 of said Guidelines. Further, the period of insurance in motor policies reveals that the Insurer continued to offer these discounts even after issuance of show cause notice in May, 2019 and personal hearing in January, 2020 and the number of days such failure continued by the Insurer during the above period had exceeded hundred days.

8.6 In view of the gravity of violation of product filing guidelines in terms of giving discounts outside the range of rates filed, unprincipled rate cutting without filing of pricing revisions in the said product and number of days such failure continued by FGIICL, in exercise of powers vested in the Authority under section 102 of Insurance Act, 1938 and amendments made thereto, a penalty of Rs. 1,00,00,000/- (Rupees One Crore Only) is imposed on the Insurer.

9. Further, the Insurer is hereby directed to underwrite motor insurance policies with premium rate on the own damage premium which is strictly within the range of rates filed with the Authority.

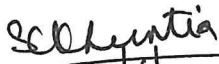
10. The penalty of Rs. 1,00,00,000/- (Rupees One Crore Only) shall be remitted by the Insurer within a period of forty-five days from receipt of this Order through NEFT/RTGS (details of which will be communicated separately). An intimation of remittance may be sent to Ms. Yegnapriya Bharath, Chief General Manager (Non-Life) at Insurance Regulatory and Development Authority of India, Sy. No. 115/1, Financial District, Nanakramguda, Gachibowli, Hyderabad-500032.

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 and steps taken to improve compliance.



11. If FGIICL 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: 10th June, 2020


10/6/20
(Dr. Subhash C. Khuntia)
Chairman