

MINUTES OF THE 50th MEETING OF THE AUTHORITY

held on August 27, 2007 at 11.30 a.m.

in the Office of the IRDA Delhi Office, Jeevan Tara Bulding, New Delhi.

Present:	Chairman	Shri C. S. Rao
	Member	Shri C. R. Muralidharan
	Member	Shri K K Srinivasan
	Member	Shri G Prabhakara
	Member	Dr R Kannan
	Member	Shri Vijay Mahajan
	Member	Dr Sanjiv Misra
	Member	Smt. Ela R Bhatt
Also present:	Executive Director	Shri Prabodh Chander
	Executive Director	Shri K. Subrahmanyam
	Consultant & Special Officer	Shri M M Siddiqui
	Consultant & Special Officer	Shri Kunnel Prem

Chairman extended a warm welcome to all Members who were present. Leave of absence was granted to Shri Sunil Talati, Part-time Member who could not attend because of other international commitments.

Item # 1: Confirmation of Minutes of the 49th Meeting of the Authority held on May 16, 2007.

The meeting then took up for consideration the confirmation of Minutes of the 49th Meeting of the Authority held on May 16, 2007. It was decided to confirm the Minutes as they were in order.

Resolution No: 50:1

Authority resolves to confirm the Minutes of the 49th meeting of the Authority held on May 16, 2007.

Item # 2: Action Taken Report on the Minutes of 49th Meeting of the Authority held on May 16, 2007.

While taking note of the action taken so far on the various items, reference was made to large number of applications received for the notified posts of Assistant Directors and Assistants. The Chairman indicated that in view of the number of applications received, it would be necessary to engage an outside agency to screen the applications, conduct written examination and hold interviews and give the final list of selected candidates to the Authority in respect of these two categories. He indicated that the Authority got in touch with Institute of Banking and Personnel Selection (IBPS), Mumbai which has been conducting similar examinations for recruiting staff and officers for the public sector banks. They expressed interest in taking up this job. Mr. Vijay Mahajan, Part-time Member mentioned that IBPS has a good reputation for conduct of the examination and for making selections on an objective basis. He stated that IRMA has been utilizing their services for recruiting staff and officers. The Authority decided to proceed with the current initiative and get the selection process completed through IBPS for Assistant Directors and Assistants.

Resolution No: 50:2

The Authority resolves to entrust the selection process for Assistant Directors and Assistants to the Institute of Banking and Personnel Selection.

Item # 3: Deputation of Mr. Arup Chatterjee to IAIS, Switzerland – For Information

The proposal to extend the deputation of Mr. Arup Chatterjee, Deputy Director, IRDA by one more year to the International Association of Insurance Supervisors (IAIS) was approved. It was indicated that no further extension would be given as the intention of deputing the officer from IRDA is to ensure

that the deputed officer acquires skills which could be profitably utilized in the Authority. The officer would be suitably advised to return to IRDA after the completion of extended period of deputation of one year.

Resolution No. 50: 3

The proposal to extend the deputation of Mr. Arup Chatterjee, Deputy Director by one more year to International Association of Insurance Supervisors (IAIS), Switzerland with effect from 1st August, 2007 to 31st July, 2008 is noted. It was also resolved that no further extension would be granted.

Item # 4: Deputation of Ms. J Meena Kumari, FSA, Mauritius – For information.

Chairman explained that since the deputation is to another Regulatory body and there are no financial implications involved, a decision was taken by him to depute Ms. J Meena Kumari, Deputy Director to Financial Services Commission, Mauritius for a period of two years. The Members of the Authority expressed happiness that other Regulatory bodies find it advantageous to borrow senior officers from the IRDA.

Resolution No. 50: 4

Deputation of Ms. J Meena Kumari, Deputy Director to Financial Services Commission, Mauritius for a period of two years is noted.

Item # 7 Amendments to provisions of IRDA (Insurance Brokers) Regulations, 2002.

Chairman explained that the need for amendment to the Broker's Regulation arose to remove doubts whether the annual fee is payable when the renewal of the licence is done every three years. The amended version makes it abundantly clear that annual fee is payable based on turnover while a nominal renewal fee is payable at the time of renewal.

Resolution No: 50:7

The amendments to Broker's Regulations as proposed in the agenda note are approved.

Item # 8 – Amendment to provisions of IRDA (Licensing of Insurance Agents) Regulations, 2000 and IRDA (Licensing of Corporate Agents), 2002

Chairman introduced the memorandum and gave a brief background of the proposals, which were also discussed at the Insurance Advisory Committee meeting held on July 9, 2007.

The Advisory Committee had endorsed the proposal for reducing pre-licensing training from 100 hours to 50 hours for life and non-life agents and 75 hours for composite agents. As per the requirement, the amendments to the existing Regulations require the approval of the Authority before they can be notified. In this context, the Chairman also explained the constraints faced currently by the insurance companies in complying with this requirement. The Life Insurance Council had submitted a memorandum for consideration of IRDA, which was examined. There was merit in looking at this requirement to set apart atleast 18 working days by those who desired to take up the intermediary profession for undergoing the training, particularly considering the various uncertainties

involved in making success of the agency career. Various undesirable practices are also consequently being resorted to by the marketing personnel.

The proposed reduction of training duration by half would atleast address some of the issues in the process of licensing of agents since the other problems associated with the conduct of examinations etc., were more complex. Ideally, a tough examination system conducted under credible arrangements was necessary to produce good financial advisors. The achievement of the objective will take quite some time. This effort was an intermediate solution and would help in reducing the cost as well as in augmenting supply of intermediaries to the fast expanding insurance sector. Concurrently, it was also proposed to spread the 50 hours training over one to two weeks. As a consequence of the reduction in training to 50 hours, any applicant who possesses a professional qualification in marketing will have to complete only 25 hours practical training from an approved institution.

Shri Mahajan was of the view that the extant prescription by IRDA of 100 hours training for agents was a conscious departure from the earlier system and was expected to bring in greater professionalism in the insurance intermediation. There was considerable criticism and apprehensions on mis-sales etc., by agents (in case of ULIP etc.) even under the existing arrangements. The proposed reduction in duration should not be perceived adversely by the investor public and other stakeholders. He therefore desired a further review before taking a decision in this regard.

Responding to the above observations, Chairman clarified that there were number of related issues on the training and licensing of agents which were perceived as somewhat prescriptive and require a detailed examination. The duration of the training programme as currently mandated by IRDA was also one such critical component. Hence, the consensus was that a well directed training programme of 50 hours could prove an adequate base for the agents,

since companies would anyway provide them additional training to market their specific products. The complaints against mis-sales were also being separately examined for further action. There is already an additional requirement of training of 25 hours for selling ULIP products. Hence, there should be no concern on dilution of the quality of intermediaries on account of the reduction in the training duration. It was in this background that the Advisory Committee had concurred with the proposal.

In the light of the above, the proposal was approved.

Resolution No: 50:8

IRDA resolves that the proposal for reducing pre-licensing training requirement from 100 hours to 50 hours, as decided at the Insurance Advisory Committee meeting, be approved and necessary modifications be carried out in the respective Regulations.

Item # 9 - Any Other Item with the permission of Chair

a) *Rural and Social Sector Obligations*

A reference is invited to the constraint experienced by insurers commencing business during the year in the fulfillment of rural and social sector obligations (Agenda Item No.6).

Chairman submitted that currently the targets for rural & social sector obligations are reckoned in proportion of their annual targets. It is a fact that the companies need some time to develop a shelf of approved products and also to train the staff to market them and hence, it becomes difficult if the targets in this regard are made proportionate to the number of months they are in operation before the closure of the first financial year. Instead, it would be more practical to take a stand that (i) where the insurance companies are set-up in the latter half of the year and are in operation for less than six months at

the time of closure of annual accounts, no obligations need be imposed for that period, and (ii) the annual obligations as indicated in our Regulations may be reckoned from the next financial year deeming that to be first year of operation, instead of allocating the targets on a proportionate basis as hitherto. In respect of companies licensed in the first half of the financial year, the target for the first year may be treated as 50% of the annual target of the first year prescribed in the Regulations.

The Chairman's proposal was approved.

b) Use of the word "Insurance" in the name of the Companies

At present no company is permitted to be registered with the word "Bank", "Banker" or "Banking" without the company having received an in-principle clearance from RBI. There is also a statutory provision in the BR Act prohibiting companies from using the above words. However, a similar provision is not available in the Insurance Act, 1938. In the absence of any statutory powers, even companies having intermediary functions like broking or agency arrangements, were using the term "Insurance" in their name and this has proved to be misleading.

Chairman therefore brought to the attention of the Authority the need to put in place arrangements to restrict registration of companies with the word "Insurance" to check any misuse. It was proposed to take up this issue further with the Government so that Registrar of Companies could be requested to refrain from registering any company with the word "Insurance" in their name without the prior clearance of IRDA on the analogy of the restriction on the use of word "Banking". The above suggestion was approved.

Resolution No: 50:9

IRDA resolves that proposals for

- a) reckoning rural and social sector obligations for companies that start operations during the year;*
- b) for measures to restrict registration of companies with the word "insurance".*

(C S Rao)
Chairman