



Ref. No. IRDAI/F&A/ORD/TRSH/163/09/2015

## ORDER

The Insurance Regulatory and Development Authority of India (hereinafter referred to as "the Authority") had issued a Certificate of Registration bearing No.121 to Reliance Life Insurance Company Ltd. (hereinafter referred to as "RLIC" on 3<sup>rd</sup> January, 2002 to carry on Life Insurance business in India in terms of Section 3 of the Insurance Act, 1938. In terms thereof the Insurer was subject to the terms and conditions of the Certificate of Registration and was also required to abide by the provisions of the Insurance Act, 1938 (hereinafter referred to as "the Act"), particularly Section 6A of the Act, IRDA (Registration of Indian Insurance Companies) Regulations, 2000 and other directions issued by the Authority from-time-to-time by way of Circulars and/or Guidelines, particularly Circular no. IRDA/F&A/CIR/DRSH/183/08/2011 dated 11<sup>th</sup> August, 2011 issued by the Authority as regards transfer of shares by the Insurers. The Insurer was also required to abide by the Circular No. IRDA/F&A/064/Jan/05 dated 12<sup>th</sup> January, 2005, Circular No. IRDA/CIR/F&A/ 073/Feb-05 dated 22<sup>nd</sup> February, 2005 and Circular No. IRDA/F&A/CIR/100/06/2010 dated 16<sup>th</sup> June, 2010 as regards filing of shareholding pattern in the prescribed format on quarterly basis with the Authority.

RLIC vide its letter dated 3<sup>rd</sup> March, 2014 filed an application in Form A, in terms of Section 6A of the Insurance Act, 1938 and the Circular dated 11<sup>th</sup> August, 2011 seeking approval for

- transfer of 3.004% of its paid up capital, which was held by Viscount Management Services Limited (hereinafter referred to as "VMSL"), in favour of Reliance Capital Limited (hereinafter referred to as "RCL"); and
- transfer of 0.219% of its paid up capital, which was held by Reliance Life Insurance Company Employees' Benefit Trust (hereinafter referred to as "RLICEBT"), in favour of RCL.

Further, RLIC also submitted that the purpose of seeking approval of the above said transfer is to make RCL a Holding Company of the Insurer.

Point no.8 of the proforma of Annexure to be submitted along with application for transfer of shares (Form A) seeks letter of consent from the proposed transferee/shareholder confirming compliance with the stipulations made by the Authority. Further, a self-attested affidavit confirming that the information furnished in Form A is correct and complete and that nothing is concealed or suppressed, is also part of the application.

On a scrutiny of the application filed with the Authority, it was observed that as on the date of application for transfer of shares, RCL was holding 47.777% shares in RLIC. The total transfer of shares under the proposal was 3.223% and on approval of the Authority, RCL would be holding 51% shares in RLIC and thus will become the holding company of RLIC. Further, on examination of the shareholding pattern of RCL as on 31<sup>st</sup> December, 2013, filed with the Authority, it was observed that the promoter and promoter group holding was 54.14% of the capital.

In view of the above, the Authority vide its letter dated 21<sup>st</sup> March, 2014 sought certain other documents from RLIC and also advised to confirm that RCL is not a subsidiary company. RLIC vide its letter dated 24<sup>th</sup> March, 2014 submitted that Reliance Innoventures Private Limited (hereinafter referred to as "RIPL") has indirect shareholding in RCL and that it has been categorized as holding company of RCL, although it holds only 0.23% shares on direct basis. Further, the fact that RIPL has dominant shareholding and control in RCL on an indirect basis, it was not fully and transparently disclosed to the Authority.

The Authority vide its letter dated 28<sup>th</sup> March, 2014 advised RLIC to furnish the following:-

- Complete group shareholding structure of RCL, clearly indicating the direct/indirect shareholding of RIPL in RCL.
- Documentary evidence to the effect that the fact of RCL being majorly held by RIPL, as subsidiary company was informed to the Authority.

RLIC vide e-mail dated 28<sup>th</sup> March, 2014 stated that AAA Enterprises Private Limited and AAA Infrastructure Consulting and Engineers Private Limited are wholly owned subsidiary of RIPL. Further, together with these two wholly owned subsidiaries, RIPL owns 51.69% of shares in RCL and thus RCL is a subsidiary of RIPL. RLIC further contended that the Annexure to the application for transfer of shares made to the

Authority indicates that RIPL was holding company of RCL and the Annual Reports of RCL had indicated RIPL as Holding Company as part of related party disclosures.

In this regard, it was observed that the shareholding pattern of RCL, furnished by RLIC, indicates AAA Enterprises Private Limited and AAA Infrastructure Consulting & Engineers Private Limited as its shareholders and nowhere in the application, it had been indicated that the said two companies are wholly owned by RIPL. Thus, RLIC violated the provisions of Regulation 2(g)(i) of the IRDA (Registration of Indian Insurance Companies) Regulations, 2000, by virtue of RCL, a subsidiary of RIPL, being a promoter of RLIC.

In view of the above, the Authority vide its letter dated 24<sup>th</sup> September, 2014 issued a Show-Cause Notice to RLIC seeking response, within 21 days, as to why regulatory action u/s 102 of the Insurance Act, 1938 should not be initiated by the Authority for the following lapses:-

1. Violation of Regulation 2(g)(i) of the IRDA (Registration of Indian Insurance Companies) Regulations, 2000; and
2. Non-disclosure of information regarding status of RCL being a subsidiary company.

On the request of RLIC, the time limit for responding to the Show Cause Notice was further extended by 21 days i.e. upto 7<sup>th</sup> November, 2014.

RLIC vide its letter dated 6<sup>th</sup> November, 2014 responded that all the details in relation to the entire shareholding of RCL were intimated to the Authority at the time of Nippon Life Insurance Company Ltd., Japan buying a stake in RLIC in the year 2011. RLIC further sought to differentiate between (i) the promoters at the time of seeking registration and those thereafter, and contended that the shareholders of a continuing Insurer cannot be termed as 'Promoters' and (ii) the obligations for disclosure and reporting at the time of registration and thereafter on an ongoing basis.

In response to the Authority's show cause notice dated 24<sup>th</sup> September, 2014, RLIC vide its letter dated 6<sup>th</sup> November, 2014 furnished a copy of the letter from RCL indicating that the shareholding of RCL would be restructured, within a period of 12 months from the date of the letter, and accordingly, RCL will cease to be a subsidiary of any other company. Further, RLIC vide its e-mail dated 26<sup>th</sup> March, 2015 submitted that the process of de-subsidization of RCL has commenced and would be expected to complete by 30<sup>th</sup> March, 2015.

The documents were examined by the Authority and it was observed that RLIC had not submitted convincing evidence that it had transparently disclosed to the Authority that RCL was a subsidiary company, in its application for transfer of shares to Nippon Life Insurance Company Limited, Japan and tried to misrepresent the facts to the Authority. However, the Authority vide its letter dated 10<sup>th</sup> December, 2014 sought additional documents from the Insurer in support of their response.

RLIC vide its e-mail dated 16<sup>th</sup> April, 2015 submitted that w.e.f. 27<sup>th</sup> March, 2015, RCL has ceased to be a subsidiary of the RIPL and that RCL is not a subsidiary of any other company and submitted a certificate from an Independent Chartered Accountant to this effect. By virtue of this, it is concluded that the submission of RLIC that RCL is no longer a subsidiary company, is tantamount to acceptance that it was a subsidiary as on the date of issue of show-cause notice by the Authority and prior to that date too. Thus, the violation of Regulation 2(g)(i) of the IRDA (Registration of Indian Insurance Companies) Regulations, 2000 by the insurer has been established.

Further, the contention of RLIC to differentiate between the promoters at the time of registration and shareholders of continuing insurer not be termed as "Promoter" is not acceptable, as the Authority vide its letter dated 1<sup>st</sup> February, 2006 categorically communicated to RLIC that the group company and its shareholders shall be treated as joint promoters of RLIC and shall be responsible for all compliances under the Insurance Act, 1938 and Regulations made thereunder.


RLIC was informed on 7<sup>th</sup> July, 2015 regarding the grant of an opportunity for personal hearing on the above said matter on a mutually convenient date. RLIC vide its letter dated 8<sup>th</sup> July, 2015 requested the Authority to dispense with the grant of personal hearing on the above said matter.

In view of the above, it is established that RLIC has violated the provisions of Regulation 2(g)(i) of the IRDA (Registration of Indian Insurance Companies) Regulations, 2000. The Authority by exercising the powers vested under Section 102(b) of the Insurance Act, 1938 imposes a penalty of Rs.5.00 Lakhs (Rupees Five Lakhs only) on the RLIC for the violation.

The penalty amount of Rs.5.00 Lakhs (Rupees Five Lakhs only) shall be remitted by the Insurer by debiting the Shareholders' Account within a period of 45 days from the date of

issuance of this Order through NEFT/RTGS (details for which will be communicated separately). An intimation of remittance may be sent to Dr. (Ms.) Mamta Suri, Sr. Joint Director (F&A) at the Insurance Regulatory and Development Authority of India, 3<sup>rd</sup> Floor, Parishram Bhavan, Basheer Bagh, Hyderabad 500004.

Place : Hyderabad  
Date : 10<sup>th</sup> September, 2015

  
(V. R. Iyer)  
Member (F&I)