



Ref: IRDAI/E&C/ORD/MISC/103/07/2024

**Order in the matter of Bajaj Finance Ltd. (Corporate Agent)**

**1. Based on the**

- i) Show Cause Notice ("SCN") reference No. IRDA/Enforcement/BF/2024/SCN dated 14<sup>th</sup> March, 2024 issued to M/s Bajaj Finance Ltd. (**Corporate Agent or CA**) in connection with the on-site inspection conducted by the Authority.
- ii) Submissions made by CA vide email dated 3<sup>rd</sup> April, 2024 in response to the aforesaid SCN.
- iii) Submissions made by the CA during the personal hearing held on 20<sup>th</sup> May, 2024 at 2.30 PM, by the panel of Two Whole Time Members of the Authority- Shri B.C Patnaik (Member-Life) and Shri Rajay Kumar Sinha (Member-F&I).
- iv) Further submissions made by CA vide email dated 24<sup>th</sup> May, 2024.

**2. Background**

2.1. The Authority had conducted an on-site inspection of M/s. Bajaj Finance Limited (CA) from 3<sup>rd</sup> to 5<sup>th</sup> March, 2021. The inspection report, inter alia, revealed certain violations of provisions of the Insurance Act, 1938 and Regulations and Guidelines issued thereunder.

2.2. A copy of the inspection report was forwarded to the CA on 30<sup>th</sup> March, 2021 seeking their response and the response was received vide letter dated 16<sup>th</sup> April, 2021.

2.3. On examining the submissions made by the CA, a show cause notice (SCN) was issued on 14<sup>th</sup> March, 2024. The CA replied to the SCN vide letter dated 2<sup>nd</sup> April, 2024. As requested for by the CA, personal hearing was granted to the CA on 20<sup>th</sup> May, 2024.

2.4. On behalf of the CA, Shri Surendra Kumar Kataria, Principal Officer; Shri Sandeep Jain, CFO; Shri Deepak Reddy, President; Shri Neelesh Sarada, Chief Compliance Officer and on behalf of the Authority, Shri Rajay Kumar Sinha (Member-F&I) and Shri B C Patnaik (Member-Life), Shri R K Sharma (CGM), Shri T V Rao (GM) and Shri Sanjay Kr. Verma (GM) attended the hearing.

2.5. The submissions made by the CA in its letter dated 16<sup>th</sup> April, 2021, submission made after SCN vide email dated 2<sup>nd</sup> April, 2024 and submission during the personal hearing on 20<sup>th</sup> May, 2024 and those made vide email dated 24<sup>th</sup> May, 2024 of the CA have been carefully considered by the Authority and are summarized below:

### 3. Charge-1

**Violation of Regulation 31(3) of IRDA (Registration of Corporate Agents) Regulations, 2015.**

#### 3.1. Inspection Observation-2

It was observed that amount of commission received reported under Schedule VI and as shown in 26AS did not match and there are significant differences. The same is given below:

| Name of the Insurer  | Amount in Rupees                           |                    |                                   |                          |
|----------------------|--|--------------------|-----------------------------------|--------------------------|
|                      | As per BFL Ledger balance after adjustment | As per Schedule VI | As per 26AS (U/s 194D-Commission) | Diff. Schedule VI & 26AS |
| Aditya Birla Health  | 248728635                                  | 247946100          | 226626874                         | -21319226                |
| Bajaj-Life           | 1547641232                                 | 1548521862         | 1548521862                        | 0                        |
| Bajaj-General        | 340520879                                  | 330770472          | 342803581                         | 12033109                 |
| Future Generali Life | 16165005                                   | 16178023           | 16866932                          | 688909                   |
| Max Life             | 305056380                                  | 305068011          | 305121807                         | 53796                    |
| Tata AIG             | 4798933                                    | 4805858            | 4778493                           | -27365                   |
| HDFC Life            | 255709413                                  | 255514774          | 320966141                         | 65451367                 |

3.2. From the above, it is evident that the CA has received commission more than what was reported to the Authority in Schedule VIB and VIA. Hence, there was significant under reporting of the commissions to the Authority and Schedule VIB/VIA submitted to the Authority by the CA did not reflect the true and fair view of the commission received.

### 3.3. Summary of CA's Submissions:

3.3.1. The CA submitted that there is fundamental difference in accounting methodologies between 26AS, prepared on a cash basis and Schedule-VIA and VIB, which adhere to an accrual basis. Consequently, it is expected that discrepancies may arise between figures reported in 26AS and those in Schedule-VIA & VIB.

3.3.2. The CA submitted the reconciliation statement of the commission received under Form 26AS and Schedule VIA premium. The CA also submitted that they have engaged with the respective insurance companies to align reporting methodology and prepared an internal SOP note for reconciliation as well as preventive and corrective measures to ensure non-recurrence of the same in future. They also submitted the process note including the basis for their accrual process.

## 4. Charge-2

**Violation** of Regulation 23(g) to IRDA (Registration of Corporate Agents) Regulations, 2015.

### 4.1. Inspection Observation-3

On examination of the Form-26AS of the Income tax, it was observed that the CA received professional fees from Bajaj Allianz General Insurance Company (BAGIC) for the years 2018-19 and 2019-20. The CA failed to explain the details of professional income received, why ledger submitted was not tallied with the

professional income and why agreement copy did not include the payment terms and condition of professional income.

#### **4.2. Summary of CA's Submissions:**

4.2.1. The CA submitted that the agreement was first executed in the year 2012 whereas the aforesaid merchant agreement was executed with the BAGIC in the year 2017 under a separate service arrangement. Hence, the said professional fees received by them are not in the nature of signage fee or such other charges received towards the CA's tie-up with BAGIC in the capacity of a CA.

4.2.2. The CA explained that the additional amount received from insurance company was toward payment facility provided by CA to customers/policyholders under merchant agreement similar to other payment service providers such as banks and credit card issuers.

4.2.3. The CA also submitted that agreement with BAGIC is no longer in force and the same has been discontinued effective 21st July 2023. The CA further provided the breakup between merchant fee and insurance business commission received in FY'19 and FY'20.

#### **5. Decisions on Charges-1 & 2**

**With regard to Charge-1 (observation No.2),** the following is noted:

5.1. The CA has stated that difference in remuneration appearing in 26AS and that shown in books of account is on account of "Accrual Basis" of accounting method followed by the CA. The argument put forth by the CA is not tenable as the Insurers are also required to follow "accrual basis" of accounting.

5.2. In case of FGLI and HDFC Life, the cancellation / reversal of commission amounting to Rs. 6.89 lakh and Rs.6.54 crore respectively has been shown. The cancellation of commission in case of HDFC Life works out to 20.38 percent. However, no reasons or documentary proof for such cancellation / reversed has been provided.

5.3. The CA is required to report the commission / remuneration received from the insurers in Schedule VI and submit the same to the Authority. However, it is noted that the figures reported in Schedule VI did not match with the books of accounts. Further, CA failed to give reasons for the same. This raises concern on the authenticity on amount of remunerations/ commission received from the Insurers and reported to the Authority.

5.4. The matter under consideration was difference in remuneration received from Max Life Insurance Co Ltd. However, the CA, post personal hearing, has provided the reconciliation of commission / remuneration of Max Bupa Health Insurance Co. Ltd (Now Known as Niva Bupa health Insurance Co. Ltd).

5.5. Basis the above, it is concluded that CA does not have required system in place to recognize the commission / remuneration received from the insurers in its books of account. Further, apparently, the CA has not made any attempt to reconcile the same with the insurers.

**With regard to Charge-2 (Observation No.3)**, the Authority has noted the following issues:

5.6. The CA filed the agreement only after issuance of SCN. However, the agreement was gone through and the following are the observations:

- The agreement was not dated. However, Stamp Paper is dated 09.01.2017;
- The agreement did not contain the details of the remuneration payable to the CA by the Bajaj Allianz General Insurance Co. Ltd.

5.7. The CA, on being pointed out in the personal hearing, has filed the addendum to the agreement as an afterthought. While going through the addendum to agreement, it is observed that the said addendum is not on stamp paper but on the letter head of the CA which casts serious doubts on the authenticity of such documents.

5.8. The CA charged 4 percent of the premium as interest / subvention for offering deferred payment option to customers of BAGIC which was not agreed upon between the parties explicitly in the original agreement of January, 2017. The CA has failed to establish any basis for such payment. As per Annexure 2B submitted by the CA, it earned approximately Rs. 10,01,79,174 as interest subsidy/merchant fee during the financial years 2018-19 & 2019-20.

5.9 It may be noted that the amount of interest / subvention charges, as per the books of account of the CA for two years were Rs. 11.20 crore whereas, as per the submission made by the CA, post personal hearing, the charges were Rs.10.01 crore. Thus, there is a difference of Rs. 1.19 crore for which the CA has failed to give reasons.

5.10 For the reasons mentioned above, it is concluded that there are serious gaps in the payments received from the BAGIC by the CA and the payments received by the CA are in violation of the Regulations mentioned above.

**5.11. In view of the above, in exercise of the powers vested under Section 102(b) of the Insurance Act, 1938, the Authority hereby imposes a penalty of Rs.1 crore (one crore) for the violations of Regulations-31(3) and 23(g) of IRDA (Registration of Corporate Agents) Regulations, 2015, as the violation has continued for over two financial years.**

**5.12. The Authority under Section-14(2)(h) of IRDA Act, 1999 directs the CA as under:**

- **To cause an audit of accounting procedures so far it relates to the accounting of insurance revenue. Such Audit shall be carried out by a Chartered Accountant Firm (CA Firm) complying with the eligibility criteria specified by the Authority for appointment of the Auditor.**

- **The audit referred herein shall be completed within 180 days from the date of receipt of this Order.**
- **Basis the report, the CA shall take necessary remedial action and file a certificate regarding the accuracy of the Accounting Systems in complying with Regulatory prescriptions.**

### **6. Charge-3**

**Violation of** Regulations-5 (e) of IRDAI (Payment of commission or remuneration or reward to insurance agents and insurance intermediaries) (Second Amendment) Regulations 2017 and Regulation-18(1) of IRDA (Registration of Corporate Agents) Regulations, 2015.

#### **6.1. Inspection Observation-4**

It was observed that the commission paid on package motor policies by Bajaj Allianz General Insurance Co. Ltd., and TATA AIG General Insurance was more than what was specified in the Regulations.

#### **6.2. Summary of CA's Submissions:**

6.2.1. The CA submitted that difference in derived commission pay-outs percentage was only an impact of fractional rupee rounding off, upwards or downwards, which is the practice followed by the insurers, at their end, for ease of computation.

6.2.2. The CA reiterated that the difference in commission amount at policy level is due to rounding off of commission amount to nearest Rupee. The CA submitted the month-wise details of the premium, commission received and the rounding off impact of commission. The CA submitted that they have the provision in the solicitation journey to capture the vehicle details like registration number,

registration date, vehicle age, vehicle make, model and other relevant details of the vehicle on its website.

### **6.3. Decision on Charge-3:**

**The submissions of the insurer were taken on record and the charge is not pressed.**

### **7. Charge-4**

**Violation of Regulation-25 (2) (ix) and Para-I (4) of Schedule-VII of Regulation-25 (1) of IRDAI (Registration of Corporate Agents) Regulations, 2015.**

#### **7.1. Inspection Observation-5**

On examining the agreements entered into by the Corporate Agent (CA) with the telemarketers TCS and Altruist (earlier HGS), it was observed that the agreements did not incorporate the stipulated clauses related to the following:

- a. maintenance/preserving of recordings of all the calls,
- b. maintenance of records of authorized verifiers including their training & assessment particulars,
- c. availability of the records for inspection by the Authority,
- d. action to be taken in case of violation of act, regulations, code of conduct of authorized verifiers issued by the Authority.

#### **7.2. Summary of CA's Submissions:**

7.2.1. The CA submitted that the agreement with two telemarketers predated the insurance telemarketing guidelines. The CA also submitted that, based on the guidelines and guidance received from the inspection team, they amended the ATPL telemarketing agreement with relevant mandatory clauses in October 2021. The CA terminated its agreement with TCS effective 13<sup>th</sup> April, 2021.



7.2.2. The CA submitted that post inspection, they had taken immediate corrective action as guided by the Authority's Inspecting officials and duly incorporated an addendum to the master agreement with Altruist Technologies (ATPL) on 6<sup>th</sup> October, 2021 covering relevant clauses more explicitly. The copy of the addendum agreement was submitted.

7.2.3. The CA also submitted that they had initiated the termination request with the Authority for the TCS telemarketer vide mail dated 13th April 2021, copy of the e-mail was provided. Further, CA informed that they have only one telemarketer arrangement in force with ATPL at IRDAI agency portal (<https://agencyportal.irdai.gov.in>), screenshot of the portal was provided. As a standard process going forward, they submitted that they will ensure the due adherence to the Authority's guidelines in case of changing/ appointing any new Telemarketing Agency(s).

## 8. Charge-5

**Violation of Regulation-30 (ii) of IRDAI (Registration of Corporate Agents) Regulations, 2015.**

### 8.1. Inspection Observation-6

On seeking copy of proposal forms of sample policies, the CA informed that it would share the details with the respective insurers to get the details such as proposal forms / application forms, & the certificate of insurances. Thus, The CA did not maintain the copies of proposal forms / application forms duly signed by the client and submitted to the Insurer, certificates of insurances with it.

### 8.2. Summary of CA's Submissions:

8.2.1. The CA submitted that all the relevant information submitted to insurance companies for digitally sourced business is not presently maintained in their database. With regard to copies of the proposal forms for insurance sourced physically, CA has initiated a process of seeking reverse feed of insurance proposal forms from insurance companies.

8.2.2. The CA further submitted that they would work with the respective partner companies to retrieve copies of the proposal forms and forward the evidence to the effect that data underlying proposal forms and consent are retained in the systems of the CA for further servicing.

8.2.3. The CA submitted that they have already initiated as a corrective measure the retrieval of insurance proposal forms (from respective insurance companies) and storage of the same. The CA also enclosed a process note for retrieving and storage of proposal forms as a preventive and corrective measure.

## 9. Charge-8

**Violation of** Regulation-8(1) of IRDA (Protection of Policyholders' Interests) Regulation, 2017 and also violation of sub-class 3(b),3 (d) of Clause-I of Schedule III to be read with Regulation 26 of IRDA (Corporate Agents') Regulations 2015.

### 9.1. Inspection Observation-14

On examination of the complaint register of the CA, it is noted that there are number of complaints wherein the policyholders were not aware of the insurance policies taken along with loan which was not disclosed by sales team at time of loan. Further, in such case, no proposal form was obtained from the policyholders. From the sample of 40 complaints, it was observed that the complainants did not apply for any insurance cover but the same was provided to them without obtaining their consent which amounts to mis-selling.

### 9.2. Summary of CA's Submissions:

9.2.1. The CA submitted that they received total 39 complaints (out of 1.3 crore policies sourced) during the period FY18-FY20. CA explained multiple communications to make customer aware of the insurance product purchase and various options for customers to opt out of the insurance policy.

9.2.2. The CA submitted that as a corrective measure, they had appropriately resolved all mentioned 39 complaints. The details of complaint-wise resolution provided in support of their submissions.

9.2.3. Further, CA submitted that the link of the IRDAI home page is already available under their Grievance Redressal Mechanism section on website from where customer can reach to the link of Bima Bharosa.

## 10. Decisions of Charges-4, 5 & 8

### With regard to Charge-4,

10.1. The CA has stated that all records for those customers who have purchased a policy are preserved by the Telemarketer and these calls records have been forwarded to the insurance company. However, it may be noted that no documentary evidence has been submitted to substantiate that the call records are preserved by the tele-marketer and these calls records were forwarded to the insurer.

10.2. The CA and the Telemarketer have entered into an agreement wherein it was mentioned that the recording of calls shall be forwarded to the CA within six months. However, it is noted that the time period for forwarding the calls to CA is on higher side as it will defeat the purpose of verification of the calls which is one of the requirement.

10.3. Moreover, the agreement does not address the scenario of verification of calls.

### With regard to Charge-5,

10.4. The CA failed to submit evidence for sharing the proposal forms with the insurers and retaining copies of the same with itself.

10.5. In the process note, the CA didn't provide the cut-off date for integration of its own database with the insurers' database.

10.6. In absence of proposal form, it is not possible to verify whether the proposal form was duly explained to the prospect at the time of purchase.

**With regard to Charge-8,**

10.7. The CA, during the personal hearing, was specifically advised to submit the details of the resolution provided to the complainants. The CA has submitted only a summary of the resolution provided. The date, and the detail of the resolution provided, amount of refund, consent letter of the retaining polices, wherever no refund was made to the policyholders etc. were not provided.

**10.8. Accordingly, in exercise of the powers vested under Section 102(b) of the Insurance Act, 1938, the Authority hereby imposes a penalty of Rs.1 crore (one crore) for the violations of Regulations-25 (2) (ix) and Para-I (4) of Schedule-VII of Regulations-25 (1), Regulations-26 (1) and Regulations-30 (ii) of IRDAI (Registration of Corporate Agents) Regulations, 2015 which has continued to occur from FY 2018 to 2020 for more than two years.**

**10.9. Further in terms of Section 14(2) of IRDA Act, the CA is directed to file a certificate with the Authority confirming the following:**

- a) the due adherence of Authority's regulations/guidelines on the agreements entered into by the CA.
- b) maintenance / preserving of recordings of all the calls, maintenance of records of authorized verifiers including their training & assessment particulars.
- c) that the data underlying proposal forms and consent are retained in the systems of CA for further servicing to protect the interests of policyholders.
- d) the CA streamline its Grievance Redressal Mechanism to protect the interests of policyholders.
- e) the due adherence of their Grievance Redressal Systems with the extant instructions on code of conduct applicable to the CA.

**This certification shall reach the Authority within 90 days from the date of this Order.**

## 11. Charge-6

**Violations of Regulations-6 (4) of IRDAI (Protection of Policyholders' Interests) Regulation, 2017, Regulations 30(ii) of IRDAI (Registration of Corporate Agents) Regulations, 2015 and Clause 6 of Guidelines on Corporate Governance.**

### 11.1. Inspection Observation-10

On examining samples of available membership enrolment forms of group policies, it was observed that in case if the member signed the form in vernacular language, there was no declaration signature on explaining the contents of the form to the member.

### 11.2. Summary of CA's Submissions:

11.2.1. The CA acknowledged the lapse of vernacular declaration for customers signing in vernacular language. Further, CA explained that it has now gone-live with 20 vernacular languages for loan and insurance proposal form.

11.2.2. The CA submitted that they have proceed with 20 vernacular languages for the loan and insurance enrolment form, the sample copies of the same are attached for consideration of the Authority.

11.2.3. The CA also submitted the screenshots of system capturing the details of the authorized representative who explained the details of the products to the customer.

11.2.4. Further, the CA submitted that they would enhance their communication and training for their sales team and operations team to ensure due care. They will also benchmark practices of some leading distributors to continuously improves their processes.

### 11.3. Decision

**The submissions of the insurer are taken on record and the charge is not pressed.**



## 12. Charge-7

**Violation of** sub-clause-2(e) under Clause-I and sub-clause 3(b) under Clause II of Schedule III to be read with Regulation 26 of IRDAI (Corporate Agents') Regulations, 2015.

### 12.1. Inspection Observation-12

The CA was having tie-up with three life insurers. However, they were displaying and offering only one term insurance product 'Click to protect' belonging to HDFC Life Insurance Company. The brochure of this plan is only displayed and there is no display or offer of other term insurance products on the website of the CA. The CA failed to advise the prospects on the available range of products of various insurers with whom the it had tied up.

### 12.2. Summary of CA's Submissions:

12.2.1. The CA submitted that their website was under development at the time of the inspection in 2020-21. And, presently they have details of all the three life insurance partners on its website.

12.2.2. The CA submitted that presently they have an Insurance dedicated section, within their website, that is offering multiple products of varied partners - across lines of business, including motor, health and life insurance. Within Life insurance, they are offering Life Insurance Plans of HDFC Life Insurance Co. Ltd., Bajaj Allianz Life Insurance Co. Ltd. and Future Generali Life Insurance Co. Ltd. with whom they have arrangements. The CA also submitted the screenshots of the website in support of their submission.

### 12.3. Decision

**The submissions of the CA are taken on record and the charges are not pressed.**

### 13. Summary of Decisions:

| Charge. No. | Violation of Provisions   | Decision                            |
|-------------|---|-------------------------------------|
| 1           | Regulations-31(3) of IRDAI (Registration of Corporate Agents) Regulations, 2015   | Penalty of Rs.1 crore and Direction |
| 2           | Regulation-23 of IRDAI (Registration of Corporate Agents) Regulations, 2015   |                                     |
| 3           | Regulations-5(e) of IRDAI (Payment of commission or remuneration or reward to insurance agents and insurance intermediaries) (Second Amendment) Regulations 2017 and Regulation-18(1) of IRDAI (Registration of Corporate Agents) Regulations, 2015.                    | Charge is not pressed               |
| 4           | Regulations-25 (2) (ix) and Para-I (4) of Schedule-VII of Regulations-25 (1) of IRDAI (Registration of Corporate Agents) Regulations, 2015  | Penalty of Rs.1 crore and Direction |
| 5           | Regulation-30 (ii) of IRDAI (Registration of Corporate Agents) Regulations, 2015  |                                     |
| 6           | Regulation 8 (1) of IRDA (Protection of Policyholders' Interests) Regulation, 2017 and also violation of sub-clause-3(b), 3(d) of Clause-II of Schedule-III to be read with Regulation-26 (1) of IRDA (Corporate Agents') Regulations 2015                              |                                     |
| 7           | Regulations-30 (ii) of IRDAI (Registration of Corporate Agents) Regulations, 2015, Regulations 6 (4) of IRDAI (Protection of Policyholders' Interests) Regulation, 2017 and Clause 6 of Guidelines on Corporate Governance (IRDA/F&A/GDL/CG/100/05/2016) 18th May, 2016 | Charges are not pressed             |
| 8           | Para-2(e) under Clause-I and sub-clause 3(b) under Clause-II of Schedule-III to be read with Regulation   |                                     |

| Charge. No. | Violation of Provisions                               | Decision |
|-------------|---|----------|
|             | 26 (1) of IRDAI (Corporate Agents') Regulations 2015. |          |


14. The penalty amount of Rs.2 Crore (Rs. Two crore) shall be remitted by the CA 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 Shri T Venkateshwara Rao, General Manager (Enforcement & Compliance) at the Insurance Regulatory and Development Authority of India, Survey No. 115/1, Financial District, Nanakramguda, Hyderabad 500032, email id [enforcemnt@irdai.gov.in](mailto:enforcemnt@irdai.gov.in)

15. **Further,**

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

16. If the CA 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.

  
Rajay Kumar Sinha  
Member (F&I)

  
B.C. Patnaik  
Member (Life)

Place: Hyderabad

Date: 15<sup>th</sup> July, 2024