



IRDA/LIFE/ORD/MISC/177/09/2013

Directions under Section 34 of Insurance Act, 1938

In the Matter of M/s. HDFC Standard Life Insurance Company Limited

It has come to the notice of the Authority that M/s. HDFC Standard Life Insurance Company Limited (herein after called "the Life Insurer") has issued policy endorsements assuring additional death benefits which is equivalent to higher of ten times annualized premium or the death benefit as defined in the policy document under two of the Life Insurer's products namely; HDFC Life Sampoon Samriddhi Plan and HDFC Life Classic Assure Plan (herein after called 'the products') to the policies issued on or after 1st April, 2012 under these products. However, as per File and Use of the products under reference, the death benefit payable is the Basic Sum Assured plus attached reversionary bonuses plus interim and terminal bonuses(if any).

The Issuance of the endorsements is in violation of File and Use Guidelines issued vide Circular No. IRDA/ACTL/FUP/VER 2.0/Dec 2001 dated 12th December, 2001. It is also noticed that by issuing the endorsements the Life Insurer did not maintain equity between the same class of the policy holders i.e., policy holders who have purchased the policies prior to and on or after 1st April, 2012 **in terms of death benefit.**

On noticing these violations the Authority has issued a Show Cause Notice vide Ref: IRDA/Life/HDFC/SCN/2012 dated 07th December, 2012. The Life Insurer while submitting its response to the Show Cause Notice vide its letter dated 21st December, 2012 requested the Authority to accord a personal hearing. Accordingly, the personal hearing was given to the Life Insurer on 22nd January, 2013.

On examining the submissions to the Show Cause Notice and during the personal hearing on 22nd January, 2013, the Authority considered that the Life Insurer has discriminated in allowing varied death benefits to different blocks of same class of policy holders (who are paying same premiums), namely those who purchased the policies on or after 1st April, 2012 and those who purchased the policies prior to 1st April, 2012. It is further considered that such discrimination is invidious within the same class of policy holders. Hence, the Authority considered for issuing directions under Section 34 of Insurance Act, 1938 to make the enhanced death benefit applicable to all the policy holders who have purchased the products before 1st April, 2012 also. A notice under Section 34 of Insurance Act, 1938 was served to the Life Insurer vide letter IRDA/Life/HDFC/SCN/12/2012 dated 19th June, 2013 for issuing directions to provide similar death benefits to all the policyholders.

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The Life Insurer while responding to the notice requested the Authority to accord a personal hearing. The personal hearing was accorded and was held on 12th August, 2013.

In response to Show Cause Notice dated 07th December, 2012 and Notice dated 19th June, 2013 issued under Section 34 of the Act and during the personal hearings held on 22nd January, 2013 and on 12th August, 2013 the Life Insurer submitted the following.

- a) The finance bill 2012 modified the then prevailing tax provisions and has increased the limit for availing the benefit under Section 10(10D) of Income Tax Act, 1961 for life insurance policies. As per the modified provisions, the tax benefits can be availed only if the sum assured is at least 10 times of the annualised premium during the tenure of the contract.
- b) As both the products are conventional products the Sum assured is determined upfront and the policy holder does not have the option of choosing higher level of sum assured to ensure that requirements of revised Section 10 (10D) of IT Act, 1961 are met.
- c) Based on feedback/requests from customers and intermediaries, as an interim customer friendly measure it has decided to increase the death benefit to ten times, in order to ensure that the policy holders who purchased the policies on or after 1st April, 2012 are not put to undue disadvantage by the sudden change in the tax rules..
- d) That it was decided to treat the additional death benefits as ex-gratia payment and to debit these payments to Shareholders' Account.
- e) It was submitted that the endorsements are part of insurance contract.
- f) The Life Insurer submitted that the enhanced death benefit need not be offered to the policyholders who bought the policies before 1st April, 2012 as the benefit that is provided to these policy holders is in line with the expectation that was given at the time the policy was sold. That the offering of higher death benefit to the policy holders, who have purchased the products on or after 1st April, 2012 was done purely with an intention of keeping parity amongst policy holders with respect to tax benefits.
- g) There is an informed choice to the two blocks of policyholders that is both prior to 01st April, 2012 and post 01st April, 2012 in terms of the scope of benefits.

- h) The Life Insurer has further submitted that this action is neither detrimental to the policy holders nor prejudicial to its own interests.

The Life Insurer has also requested the Authority to allow them to pay the claims, from policy holders' account of the products if enhanced death benefit is to be made applicable to the policy holders who had purchased the products before 1st April, 2012. On considering the submissions it is reiterated that all the product features including benefits payable under a policy of insurance are approved by the Authority through the File and Use process and the basic features of the policy cannot be altered by the Insurer without prior approval of the Authority, though in the beneficial interests of the policyholders. Further the Insurer has increased the benefit only to a particular section of the policyholders when in fact the same amount of premiums are being charged from all policyholders.

Now, therefore, the Authority, after consultation with the Members of Consultative Committee constituted under Section 110G of the Insurance Act, 1938, hereby directs the Life Insurer to provide similar death benefit to all the policy holders of the products in question, namely HDFC Life Sampoon Samriddhi Plan and HDFC Life Classic Assure Plan. The enhanced death benefit provided by the Life Insurer (as assured in the policy endorsement) to its policy holders with effect from 1st April, 2012 shall be offered to all the policy holders who have opted for the products prior to 1st April, 2012 also and shall be debited from the shareholders' account as and when these additional death benefits are settled.

The cases of death claims since the launch of these products until the issuance of these directions shall be re-opened and the differential amount of death benefit shall be settled within sixty days from the date of issuance of these directions as if the underlying benefits are for the higher death benefit.

The Authority also hereby warns the Life Insurer for violation of File and Use Guidelines i.e., changing the terms and conditions of approved versions of the products without prior approval from the Authority. The Life Insurer is directed to be vigilant in adherence to the File and Use Guidelines henceforth.

The above directions are issued in exercise of the powers vested in the Authority under Section 34 (1) (b) of the Insurance Act, 1938.

Place: Hyderabad

Date: 3rd September, 2013



(T.S.Vijayan)

Chairman