



Ref: IRDA/F&A/ORD/EMT/126/06/2016

Order

**Expenses of Management (EoM) incurred in excess of the prescribed limits-
contravention of the provisions of Section 40B of Insurance Act, 1938 read with
Rule 17D of the Insurance Rules, 1939**

Ref:

1. EoM Statements submitted to the Authority for the financial year 2012-13 to 2014-15
2. IRDA letter 446/8/F&A/EML/2012-13/185/2013-14 dated 12th December 2013 seeking explanation on non-compliance with the Rule 17D limits
3. Insurer's reply dated 30th January, 2014
4. IRDA letter reference 446/8/F&A/EML/2012-13/237/2014-15 dated 24th March 2014-SCN
5. Insurer's reply to SCN dated 15th April 2014
6. IRDAI letter 446/8&11/F&A/EML/2013-14&2014-15/58/2015-16 dated 29th July, 2015
7. Insurer's reply letter dated 17th August, 2014
8. IRDAI letter 446/F&A/EML/2013-14&14-15/114/2015-16 dated 18th November, 2015 - SCN
9. Insurer's reply to SCN dated 26th December, 2015
10. Personal Hearing held on 12th April, 2016

The Insurance Regulatory and Development Authority of India (herein after referred to as "the Authority") issued a Certificate of registration bearing No.116 to Bajaj Allianz Life Insurance Co. Ltd. (herein after referred to as "the insurer") on 3rd August, 2001 to carry on business of Life Insurance in India in terms of Section 3 of the Insurance Act, 1938. In terms thereof the insurer is subject to the terms and conditions of the certificate of registration and is required to abide by the provisions of the Insurance Act, 1938 (herein after referred to as 'the Act'), the Insurance Regulatory and Development Authority Act, 1999, and other directions issued by the Authority from time to time by way of circulars and/or guidelines.

Charge:

On review of the Expenses of Management (EoM) statements submitted by the insurer with the Authority for the financial year 2012-13 to 2014-15, it was observed that the insurer was non-compliant with EoM limits prescribed under Section 40B of the Insurance Act, 1938 read with Rule 17D of the Insurance Rules, 1939. The insurer reported EoM ratio of 116.27%, 130.65% and 128.70% for the said years respectively.

The Authority communicated the findings to the insurer vide letter dated 12th December 2013 for the year 2012-13 and 29th July 2015 for the years 2013-14 and 2014-15 and sought explanation. The insurer submitted their response vide letter dated 30th January 2014 for the year 2012-13 and 17th August 2015 for the year 2013-14 and 2014-15. The Authority examined the reply of the insurer and issued Show Cause Notice vide letter dated 24th March 2014 for the year 2012-13 and 18th November 2015 for the year 2013-14 and 2014-15. The insurer submitted its reply to the Show Cause Notice vide letter dated 15th April 2014 for the year 2012-13 and 26th December 2015 for the year 2013-14 and 2014-15. As requested by the insurer, a personal hearing was given with Smt. V.R. Iyer Member (F&I) in the chair.

Insurer's submission:

The Gist of submissions of the insurer as regards challenges faced by them were as under:

- i). Lower new business/renewal business premium
- ii). Lower permissible limits post ten years in business
- iii). Change in product Regulations
- iv). Loss of large bancassurance partner

During the personal hearing, the insurer reiterated their submissions. The insurer submitted their business is largely built on cost intensive agency and financial inclusion channels. The insurer further explained the measures taken to improve the compliance position of EoM. The insurer requested the Authority to give time to align to the EOM requirements in a phased manner over the next 2 years (by FY2018).

Decision:

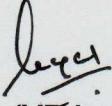
The Authority after considering the various submissions of the insurer is of the following considered view:

1. The Authority vide circular no. IRDAI/F&A/CIR/FA/059/03/2015 dated 31st March, 2015, advised all insurers to comply with the existing circulars and provisions of Rule 17D of the Insurance Rules, 1939 until further orders. The IRDAI (Expenses of Management of Insurers transacting Life Insurance Business) Regulations, 2016 was notified on 9th May 2016 and are applicable for the financial year 2015-16 onwards. As such, stipulations under Section 40B read with Rule 17D are applicable for the life insurer for the period of non-compliance being dealt with in this Order viz., FY 2012-13 to FY 2014-15.
2. The Insurer is non-compliant with EoM limits as per provisions of section 40B of the Insurance Act, 1938 read with Rule 17D of the Insurance Rules, 1939 for the three financial years from 2012-13 to 2014-15.
3. The insurer's submission as regards efforts to control expenses and that the breach of EoM limits has not impacted the participating policyholders have been considered. However, the high EoM ratio observed in the three consecutive years is not acceptable.
4. In view of the above, in exercise of the powers conferred upon the Authority under Section 14 of the IRDA Act, 1999 read with section 64K(2) of the Insurance Act, 1938, the insurer is hereby warned for the contravention of the provisions of section 40B of the Insurance Act, 1938 read with Rule 17D of the Insurance Rules, 1939. The contravention has been taken on record and no further action is being taken against the insurer on the basis of the confirmation provided by the insurer that despite the non compliance with the limits of EoM as provided in the Act, Rules framed thereunder, the insurer has ensured that the interest of the par policyholders are not impacted as only priced expenses are charged to Par asset share.
5. The insurer is further advised to bring the expenditure levels within the prescribed limits as stipulated under the Act and the Regulations framed thereunder. Further, the insurer shall also ensure compliance with product filing at all times and at no time shall the interest of the policyholders be allowed to be adversely affected.



6. The insurer is hereby, directed to bring this warning letter to the Notice of their Board in the next meeting. A copy of note placed before the Board and the duly certified relevant extract of the Board Resolution thereon, shall be filed with the Authority.

Place: Hyderabad
Date: 28th June 2016


(VR Iyer)
Member (F&I)