



**बीमा विनियामक और विकास प्राधिकरण**  
**INSURANCE REGULATORY AND  
DEVELOPMENT AUTHORITY**

**Ref: IRDA/LIFE/ORD/MISC/169/08/2013**

**Final Order in the matter of M/s. Bajaj Allianz Life Insurance Company  
Limited**

**Based on Reply to Show Cause Notice Dated 31<sup>st</sup> December, 2012 and Submissions made during Personal Hearing Chaired by Sri T.S.Vijayan, Chairman, IRDA on 24<sup>th</sup> June, 2013 at 2:30PM at the office of Insurance Regulatory and Development Authority, 3<sup>rd</sup> Floor, Parishrama Bhavanam, Basheerbagh, Hyderabad**

The Insurance Regulatory and Development Authority (hereinafter referred to as "the Authority") carried out an onsite inspection of M/s. Bajaj Allianz Life Insurance Company Limited (hereinafter referred to as "the Life Insurer") from 03<sup>rd</sup> August 2011 to 12<sup>th</sup> August, 2011. The Authority forwarded the copy of the Inspection Report to the Insurer vide letter dated 17<sup>th</sup> November, 2011 seeking comments of the Insurer on the same. Upon examining the submissions made by the Insurer vide letter dated 03<sup>rd</sup> January, 2012, the Authority has issued a Show Cause Notice on 31<sup>st</sup> December, 2012 which was responded to by the Insurer vide letter dated 08<sup>th</sup> February, 2013. As requested therein, a personal hearing was given to the Insurer on 24<sup>th</sup> June, 2013. Mr.V.Philip, Managing Director and Chief Executive Officer along with his team were present in the hearing on behalf of the Insurer. On behalf of the Authority, Mr Sudhin Roy Chowdhury, Member (Life), Mr Suresh Mathur, Sr.JD(Intermediaries), Mr M.PullaRao, Sr.JD(Inspections), Mrs J. MeenaKumari, HOD/JD(Actuarial), Mr V.Jayanth Kumar JD(Life), Mr A. Ramana Rao, JD(Investments), Mr R.K.Sharma, DD(F&A-Life), Mr DVS Ramesh, DD (Life-Coordination), and Mr K.Sridhar Rao, AD (Life-Regulatory Actions) were present in the personal hearing.

The submissions made by the Insurer in their written reply to Show Cause Notice as also those made during the course of the personal hearing were taken into account.

The findings on the explanations offered by the Life Insurer to the issues raised in the Show Cause Notice dated 31<sup>st</sup> December, 2012 and the decisions are as follows.

**Charge – 1:** Submission of PAN is required where the annual premium crosses Rs.1 lakh on any policy. However, on examination of the sample of policies it is noticed that the requirement of PAN was not complied. It is also noticed that in all the cases where the company is not the proposer but the premium is paid by the employer under "employee- employer" insurance, PAN of the employer/company is not being obtained

by the insurer. This is in violation of IRDA Circular 021/IRDA/LIFE/PAN/JUL-2009 dated 23.07.2009.

*In response the Life Insurer submitted that appropriate validations are put in place to ensure that no policy of life insurance is issued without PAN where the annual premium is above Rs. 1 Lakh per policy. It was also submitted that the identity of a proprietorship concern is the same as that of its proprietor; hence no separate PAN Card is issued in the name of the proprietorship concern. The Insurer has also submitted that PAN of Proprietor was collected in the cited instances before issuing policy.*

**Decision: The Life Insurer's reply along with evidence submitted has been taken into account and the charges are not pressed.**

**Charge – 2: Fund value in unit account is reduced from the Sum Assured payable while passing provisional accounting entries in respect of ULIP death claims and no differential accounting treatment was considered by the Insurer between (i) ULIPs where death benefit is Sum Assured plus Fund Value and (ii) ULIPs where death benefit is higher of the Sum Assured or the Fund Value. Violation of IRDA Circular No. 054/IRDA/F&A/FEB-07 dated 20.02.2007.**

*The Life Insurer submitted that it has analyzed the method of provisioning followed with respect to cases where the death benefit liability is sum assured plus Fund value and found that the reason for such difference was on account of not capturing the fund value data during the time of claim registration and that the percentage of amount provisioned was short by 0.13% for FY 2009-10 and 0.03% for FY 2010-11 on total death claims settled. The Life Insurer also submitted that corrective steps have been initiated to ensure correct accounting provisions. The Life Insurer also confirmed to the Authority that the payouts made for all the death claims under question are made in accordance to the policy contract.*

**Decision: Considering the Insurer's submission that (a) the percentage of amount short provisioned does not make much significant impact on overall financial statements of the Company, (b) the Life Insurer had a Solvency Ratio of 2.68 (in FY 2009-10) and 2.86 (in FY 2010-11) in the respective years, (c) corrective measures had already been taken for making correct provisions and (d) the death claims were settled as per terms and conditions of the policy; no charges are pressed. However, the Life Insurer is advised to ensure compliance to regulatory instructions issued in this regard.**

**Charge – 3: Only 7 criteria are being monitored by the Insurer for reporting in the Suspicious Transaction Reports as against 27 criteria mentioned in the AML policy of**

the Insurer. Violation of Point no. 3.2 (i) (b) of IRDA's AML Master Circular IRDA/F&I/Cir/AML/158/09/2010 dated 24/09/2010.

*In response the Life Insurer submitted that the seven criteria referred are the ones that could be checked through the system while, monitoring of the remaining criteria was done manually. The Life Insurer further submitted that in the initial stages of implementation of the AML Policy, it was not possible to it to build system checks which were comprehensive enough to cover all 27 criteria on an isolated basis and therefore the Company had to check some criteria manually along with the criteria being run in the system. It is also submitted that they keep updating and revamping their systems on a periodical basis. The Life Insurer further submitted that owing to the changes, it has revised its AML policy in May, 2013 as per which 15 criteria were required to be monitored and all these are being monitored through the systems.*

**Decision: Considering the submissions and assurance of the Insurer that all the criteria mentioned in the AML policy are monitored either through the systems or manually and that currently the procedures are in place to monitor all the criteria through systems, no charges are pressed.**

**Charge – 4: There are a number of urban addresses in the data of rural policies issued during 2010-11. Violation of IRDA (Obligation of Insurers to Rural and Social Sectors) Regulations, 2002 and Clause (6) of Annexure II of Guidelines on Corporate Governance (Circular no. IRDA/F&A/Cir/025/2009-10 dated 05/08/2009).**

*The Life Insurer submitted that the root cause for the lapse was on account of incorrect validation for address in their systems and that the revised figures of the policies procured under the rural obligations, calculated on the basis of rectified system validations, amounts to 20.44% as against stipulated 20% as per the regulations and that the mandatory obligation of 20% has been fulfilled.*

**Decision: On considering the submissions that the error was due to incorrect validation for addresses and that the revised data on rural policy obligations now submitted reveal that the Life Insurer is complying with the Regulations on Rural and Social Sector Obligations, no charges are pressed. However, as the requirement of complying with the Rural Obligations is mandated under Section 32 B of the Insurance Act, 1938 (the Act), it is expected that the Life Insurer would have put in place the foolproof reporting systems so as to validate the business data with no scope for any such errors. Keeping in view the sensitivity of the matter, the Life Insurer is warned for reporting business figures under Rural Sector Obligations with errors.**

***Life Insurer is also hereby directed to put in place the measures for validating in a foolproof manner the business data under IRDA (Obligations of Insurers to Rural or Social Sectors) Regulations, 2002 before reporting the same to the Authority.***

**Charge – 5:** Premiums which have not been received during the auto-cover period, in respect of non-linked participating products that have auto-cover feature, are considered as Outstanding Premiums and recognized as 'Gross Premium written' for the year 2010-11. **Violation of Regulation 2(1) of IRDA (Assets, Liabilities and Solvency Margin of Insurers) Regulations, 2000.**

*The Life Insurer submitted that it has considered the auto-cover as a natural extension of grace period in order to facilitate easy and correct functioning of the policy administration, claims, accounting and actuarial systems and has post inspection developed its systems to de-recognize the premiums beyond grace period and reversed all such dues beyond the grace period in the FY 2011-12. It further submitted that as per its policy, such asset is not an admissible asset for the available solvency margin.*

**Decision:** ***As per Regulation 2(1) of IRDA (Assets, Liabilities and Solvency Margin of Insurers) Regulations, 2000, the outstanding premiums in India to the extent they are not realized within a period of thirty days should be placed with value zero in the balance sheet. The accounting treatment adopted by the Company is not in accordance to these regulations. However, taking into consideration the submissions of the Life Insurers that (i) such an asset is not considered as an admissible asset for computing the available solvency margin and (ii) it has rectified their systems to de-recognize such premiums beyond 30 days and reversed all such dues in the year 2011-12 no charges are pressed. Insurer is advised to ensure compliance with IRDA (Assets, Liabilities and Solvency Margin of Insurers) Regulations, 2000.***

**Charge – 6:** Investment pattern adopted by the Insurer with respect to ULIP Max-Gain, one of the Life Insurance Products, is different from the method (CPPI-'Constant Proportion Portfolio Insurance') supposed to be adopted as per File & Use and also not in line with the statement made by the Insurer in the sales literature. It was observed that the exposure to the equities and investment pattern is at the complete discretion of the Investment Manager. **Violation of File & Use guidelines.**

*The Insurer submitted that as per File and Use, CPPI method was not mentioned to be used and that the model that was used has the scope for application of judgment by the experienced fund managers. The Life Insurer further assured that customer's interest has always been and shall remain to be a primary goal for them.*

**Decision:** *Considering the Life Insurer's submissions that the fund manager acted in the interest of policyholders consistent with the File and Use provisions of the underlying product filing, no charges are pressed.*

*However, the statement made in the Sales Literature (ARN No. BJAZ-B-0151/15-Dec-2009) is considered as an exaggerated statement attracting the provisions of Advertisement Regulations / Guidelines. Therefore, the Life Insurer is warned for using such exaggerated statements in the sales literature and is hereby advised to comply with all Regulations / Guidelines relating to Advertisements.*

**Charge - 7&8:** With regard to Group Unit Gain Product (116L079V01) which was withdrawn w.e.f. 31/08/2010, it is observed that; (i) 238 master Policies were issued with zero membership (ii) 152 master policies were issued with less than minimum membership of 50 (iii) instances were noticed where top-up premium was allocated at 90% as against 98% as approved in the File and Use.

It is also observed that new business single premium allocation rate in respect of one of the group policies was mentioned as 10% instead of 90%. **Violation of File & Use guidelines.**

*It was submitted by the Life Insurer that master policies with zero membership have become infructuous as new enrolment has been stopped and no fresh members are enrolled into the group insurance scheme. For master policies issued with less than prescribed minimum membership of 50, it was submitted that it is their understanding that such minimum number of members could be achieved in due course of time and was not a condition precedent for issuance of master policy. On instances of wrong allocation rates for top-up premiums, the Life Insurer submits that the allocation charges for top-up premiums were made in accordance with File and Use of the product.*

*Regarding wrong mentioning of single premium allocation rates the Life Insurer submitted that it was a display error and in fact allocation rates were in accordance to the File and Use in unit statements.*

**Decision:** *The Life Insurer admitted having issued some Master policies with zero membership; some with less than prescribed minimum membership of 50. The understanding of the life insurer to issue the Master Policies with less than the minimum number of members, so as to reach the minimum membership over a period of time after issuance is not acceptable. The attention of the Life Insurer is drawn to the provisions of Section 4 (2) of the Act which prescribes the minimum membership for Group Insurance Policies and the Life Insurers are not expected to issue the policies with zero membership or with the lesser number than the minimum mentioned in the File and Use.*

**Issuance of Master Policies with zero membership, also potentially leads to scouting for the members after the issuance of the policy, thereby, defeating the basic tenets of Group Insurance. The understanding of the Life Insurer has led to the violation of Insurance Act, 1938 as also the File and Use of the Group Insurance Products in question. Hence, under the powers vested under Section 102 (b) of the Act, a penalty of Rs 5,00,000 (Rupees Five Lakhs only) is levied. The Life Insurer is hereby directed to ensure the compliance to the File and Use norms while issuing the Master Policies under Group Insurance.**

**Regarding mentioning the premium allocation rates under Single Premiums and Top up premiums the Master Policies, taking into consideration the submission of the Life Insurer, no charges are pressed. However, the Life Insurer is advised to put in place the effective systems so as to ensure correct display of data fields.**

**Charge – 9: Instances are noticed where policies were issued over and above the allowable maximum sum assured of the File and Use in respect of one of the products. Violation of File and Use guidelines.**

*The Life Insurer submitted that the instances highlighted in the observations were purely on account of an interpretation of File and Use. It also submitted that there were 27 instances where in the 'per person' sum assured limit was breached and confirmed to the Authority that proper validations are in place to ensure that the total sum assured per person does not exceed the File and Use limits.*

**Decision: The issuance of policies with sum assured higher than the limits set in F&U filing is in violation of the File and Use provisions. However, taking into consideration the number of instances of breach and the confirmation of having put in place the system validations, no charges are pressed but the Insurer is advised to scrupulously follow the F&U provisions.**

**Charge - 10: Instances are observed where mortality charges were deducted against the terms and conditions of the policy contract, when future premiums are funded by the Life Insurer after the admission of death claims. Violation of F&U Guidelines and Clause 6 of Annexure II of Corporate Governance Guidelines, 05.08.2009.**

*The Life Insurer submitted that the deduction of Mortality Charges after admission of death claim was a gap in the systems and further submitted that necessary corrections were carried out to prevent recurrence of such instances. Further, the Life Insurer confirmed that in respect of 133 cases where mortality charges were deducted after approval of death claim, were reopened and the amount was infused in the respective policy accounts.*

***Decision:*** On considering the corrective action initiated by the Life Insurer it is noticed that the Life Insurer did not put in place effective operational procedures so as to protect the financial interests of the policyholders. The procedures are also in violation of Clause 6 of Annexure II of Circular No. IRDA/F&A/CIR/025/2009-10 dated 05/08/2009. The Life Insurer is hereby warned for gaps in operational procedures and directed to ensure that such type of lapses do not recur in future.

***Further the Life Insurer is directed to reopen each of 133 cases and ensure that the number of units which were reduced due to wrong deduction of mortality charges is restored to the respective policy accounts of the affected policy holders. The action taken report shall be submitted within 30 days from the date of issuance of this order.***

***Charge - 11:*** Discrepancies are observed in Certificates of Insurance (COI) issued under Group Insurance policies, that is; certificates do not contain (i) Name of the Master policy holder and the full address of the office of the insurer where the claims should be registered, premium, terms and conditions and claims procedure etc. (ii) Unique identification number of the product (iii) Allocation rate at which top up premiums will be allocated.

It was also observed that the certificates are issued by the Master Policy Holder without authorization by the Life Insurer.

***Violation of Clause C (7) and Clause C (8) of Group Insurance Guidelines No.015/IRDA/Life/Circular/GI Guidelines/2005 dated 14/07/2005. Not mentioning of UIN of the product is also in violation of IRDA circular 47/IRDA/ACTL/FUP/VER 4.0/JAN 2007 dated 31.01.2007.***

*The Life Insurer submitted that the name of the Master Policyholder and UIN of the product were inadvertently missed and that the letter head of the COI contains the address of the insurance company. It also submitted that necessary modifications are now carried out so that all the details are being mentioned in the COI's.*

*On allocation rate for top-up premiums, Insurer submitted that the deficiency was observed in respect of a product which was withdrawn and that top-up allocation rate is mentioned in the COI of the existing unit linked group insurance product.*

*On issuance of COIs by Master Policyholder (MPH) without authorization Life Insurer submitted that it has issued a warning letter dated 28th August 2011 to the said MPH and instructed them to stop circulation of such communication with immediate effect. The Life Insurer informed that it has also issued the Certificate of insurance in addition to the COIs issued by the Master Policy Holder.*

***Decision:*** On considering the submissions of the Insurer regarding the contents of COI the charges are not pressed. However, regarding issuance of COI by one of Master Policy Holders, the submissions of the Insurer are not acceptable. The Life Insurer cannot make light of the activities of the Master Policy Holders on such important issue of COIs. The Life Insurer is hereby warned for not exercising adequate control over the unauthorized activities of the Master Policy Holder and hereby directed to take all such measures as required to ensure that COIs are issued only with due authorization.

***Charge – 12:*** Instances are observed where units are repurchased on arbitrary dates while settling maturity claims affecting the underlying principle of the NAV calculation. Violation of Point no.10.6.2 of ULIP guidelines 32/IRDA/ACTL/Dec, 2005 dated 21.12.2005 and also violation of clause 6 of Annexure II of Corporate Governance Guidelines dated 05.08.2009.

*The Life Insurer admitted that these instances are on account of incorrect system validations built in the process adopted for NAV application and further submitted that that policyholders are not at loss since the difference in value was refunded as ex gratia in cases where the customer had incurred a loss of NAV and the benefit of gain in NAV was passed on to the customer. The Life Insurer also highlighted non receipt of customer complaints in this regard. The Life Insurer informed having identified 898 cases wherein NAV as on the date of payment is different from the NAV as on the date of Maturity and initiated the process to make ex gratia payment of the differential amount in all cases where the policyholders incurred loss.*

***Decision:*** The submission of the Life Insurer that no customer complaints were received on the above issue is not tenable. The corrective actions taken by the Insurer are post inspection. The Insurer did not have in place operational procedures to ensure compliance to Point no.10.6.2 of ULIP guidelines 32/IRDA/ACTL/Dec, 2005 dated 21.12.2005 and the lapse is also in violation of Clause 6 of Annexure II of Corporate Governance Guidelines dated 05.08.2009. The defective operational procedures may potentially cause financial loss to policyholders.

***The regulatory decision on defective operational procedures is further addressed in succeeding charges hereunder.***

***Charge – 13:***(i) Double unitization was observed while settling the death claims and; (ii) Fund switches were not carried out correctly in the system in cases where the policy holder opted for systematic switching option (SSO) (iii) where top up premium is received in one of its products, mortality charges for top up Sum Assured is deducted



for full top up sum assured only for first month. In subsequent months, mortality charges are deducted for top up Sum Assured minus top up fund value while additional death benefit equal to Top up Sum assured plus top up fund value is payable along with basic Sum Assured plus regular premium fund value (iv) There is excess/short recovery of charges in unit statements owing to which policies treated as lapsed in advance effecting death claims, valuation of liabilities, reserves for lapsed policies and claims liabilities etc. (v) First year allocation was wrongly done under one of its products which was subsequently rectified.

**Violation File and Use guidelines and Clause 6 of Annexure II of Corporate Governance Guidelines No. IRDA/F&A/CIR/025/2009-10 dated 05.08.2009.**

*The Life Insurer submitted that most of the inconsistencies noted were on account of IT/system related issues which have been corrected over a period of time. As internal audit procedures are in vogue, the Life Insurer opines that there is no violation to the provisions of Corporate Governance Guidelines and that the root cause for issues raised has been identified and steps towards resolving these issues have been initiated.*

***Decision: (i) It is noticed that the submissions of the Life Insurer on double unitization are not consistent. (ii) On switching options the submissions that opting for the liquid fund is a prerequisite for executing Systematic Switching Option, are untenable as these requisites shall be fixed at the inception of the contract. The Insurer grossly failed to put in place systems so as to protect the interests of policyholders.(iii) The submissions of the Insurer that there was no loss caused to the policyholders due to non-deduction of mortality charges is not acceptable. Non recovery of the mortality charges as per the File and Use affects equity amongst the same class of policyholders and may lead to potential cross subsidization.(iv) On excess / short recovery of charges the submissions of the insurer are not consistent. (v) The Submissions of the Insurer with regard to wrong allocation rate applied in case of one of its products is owing to issuing a wrong product than the one that is opted by the policyholder is serious in nature and are not acceptable.***

***From the above submissions it is evident that the system requirements for servicing ULIPs are far from being adequate and satisfactory. This is also in violation of ULIP Guidelines, 2005. The process in place is not effective in complying with File and Use Guidelines, as also ULIP Guidelines.***

***The above operational procedures as also the procedures referred under Charge – 12 speak of the prevalent gaps in the Operational Systems of the Life Insurer. Hence, under powers vested in Section 14 (2) (h) of IRDA Act, 1999 I direct the***

***Life Insurer to cause an audit of entire ULIP policies' transactions affected by this defective Policy Administrative System and submit the Authority a certification regarding the accuracy of the Operational Systems of Policies soon after the completion of the audit referred herein. The Chartered Accountant firm chosen by the Life Insurer shall have a standing service of 10 years in conducting audit of reputed firms of Financial Services and the particulars of the audit firm shall be notified to the Authority soon after its appointment, but within 30 days from the date of issue of this order. The audit referred herein shall be completed within 180 days from the date of appointment.***

***Notwithstanding the requirement referred herein I also consider the critical gaps in the policy admin system as a serious violation impacting the financial interests of policy holders and under powers vested in the provisions of Section 102 (b) of the Act a penalty of Rs.25 Lakhs (Rupees Twenty Five Lakhs only) is imposed for this violation.***

**Charge – 14:** Some of the policies have the date of commencement in the previous years, as old as 2002, in the list of policies issued during 2009-10, 2010-11 and 2011-12. Violation of Clause 6 of Annexure II of Corporate Governance Guidelines No. IRDA/F&A/CIR/025/2009-10, dated 05.08.2009.

*The Life Insurer submitted that the cases identified by the Authority do not pertain to fresh issuance of life insurance policies, but they are validly issued policies cancelled mistakenly for reasons like forged death claim or wrong Cheque Dishonour Action (CDA) though amount was realized. As policies were cancelled for no fault on the part of policyholders, they were restored to their original state as if there was no cancellation to redress the grievances of the concerned customers. There were a total of 47 policies which were re-instated on account of wrong CDA since FY 2009-10 till date and it amounted to 0.0009% vis-à-vis total number of individual policies issued during the same period.*

**Decision:** *Submissions of the insurer that the initial cancellations were owing to forged death claims, wrong CDAs speak of the inadequate operational procedures and controls which is a matter of concern. Considering the regulatory direction issued under Charge – 13, which also expected to address the issues raised here, no charges are pressed.*

**Charge – 15:** It is observed that some of the ULIP policies issued from 01/September/2010 did not comply with the prescribed criteria. (i) Old version of ULIPs continued to be issued even after September, 2010 and up to March 2011 (ii) Fresh proposal deposits accepted in full after 01.09.2010 in respect of the products that were

withdrawn. Violation of IRDA Circular No. IRDA/Act/CIR/ULIP/102/ 06/2010 dated 28/06/2010.

*The Life Insurer submitted that subsequent to the issuance of Circular it had sensitized their internal teams for not accepting fresh proposals for any of the ULIP's not offered for sale from 1<sup>st</sup> September 2010. In respect of some proposals as forms and premiums were collected prior to the effective date, the completion was stretched beyond the said date in the interest of the customers.*

***Decision:*** While noting the submissions of the Life Insurer it is stated that the Authority issued the above circular in the interest of the policy holders. When the Circular was issued on 28/06/2010 it is the responsibility of the Life Insurer to place the systems so as to ensure completion of proposals before 01/09/2010. Hence there is a clear violation of the circular mentioned herein. Considering the submissions of the Life Insurer, no charges are pressed. However the Life Insurer is warned for the violation and directed to ensure adherence to all the regulatory instructions hereafter.

**Charge – 16:** The Insurer has not initiated measures to strengthen the mortality assumption for valuation as at 31/03/2011 for the non-linked products whose mortality experience was worse than their assumptions. **Violation of Schedule IIA (5) of IRDA (Assets, Liabilities and Solvency Margin of Insurers) Regulations, 2000.**

*The Life Insurer submitted that mortality assumptions for Valuation are set on the basis of the experience of each line of business as a whole for getting more stable and reliable results to estimate the long term mortality rates. It further submitted that high mortality experience was found due to high early claim experience and smaller portfolio size and that they have modified model to incorporate the duration specific mortality rates to strengthen the mortality assumptions.*

***Decision:*** Based on the submission that the portfolio is small, the submissions of the Insurer are considered and no charges pressed.

**Charge – 17:** Investments were made in a debt instrument of a Private Company in respect of one of its ULIP funds. **Violation of Section 27A (5) of the Insurance Act, 1938.**

*The Life Insurer has submitted that the Regulation 3(1) of the IRDA (Investments)(4<sup>th</sup> Amendment) Regulations, 2008 lays down that in terms of explanation to Section 27A that all categories of Unit Linked business shall not form part of the Controlled Fund and therefore Section 27A is not applicable for unit linked business.*

**Decision:** *On examining the submissions of the insurer I am of the considered opinion that the insurer has violated provisions of Section 27A (5) of Insurance Act. It is to state that Regulation 3(1) referred above excludes the ULIPs from the definition of controlled fund only for the purpose of "Pattern of Investment". Hence the Authority hereby imposes a penalty of Rs. 1 Lakh (Rupees One Lakh only) under the provisions of Section 102 (b) of the Insurance Act, 1938.*

*Company is hereby directed to comply with the provisions of Section 27A of the Act and submit the compliance within 30 days from the date of issuance of the order.*

**Charge – 18:** *It was observed that in respect of some of the ULIPs, advertisements were issued in violation of ULIP Guidelines, 2005. Violation of Part IV Para 1.4 of Authority's Circular No.032/IRDA/Act/Dec-2005 dated 21/12/2005.*

*The Life Insurer submitted that some of the Advertisements referred were not issued / published by the Company while some are for online sales and bears the relevant ULIP disclaimers required under the Unit Linked Guidelines.*

**Decision:** *On examining the submissions, it is to state that one of the Advertisements has a mention of "170% minimum Guaranteed" without mentioning the underlying conditions, violates Advertisement Regulations / Guidelines. Similarly, absence of all the requisite disclosures will impair the informed choice of the prospects. Taking into consideration the submissions of the Life Insurer, no charges are pressed. However, the Life Insurer is hereby warned to put in place procedures to ensure strict adherence to all relevant regulations / guidelines / circulars of the Authority.*

**Charge – 19:** *Referral arrangements were entered into with some entities for the sale of group insurance products and referral fee payments were made. Violation of Clause B (2) of Group Insurance Guidelines No. IRDA/Life/Circular/GI Guidelines/2005, dated 14/07/2005.*

*The Life Insurer submitted that it had entered into Referral Arrangements with certain Banks, who were not licensed by the Authority to act as corporate agents or insurance intermediaries as per IRDA's circular no. IRDA Cir./004/2003, dated 14.02.2003 and that the Group Guidelines Ref No. IRDA/Life/Circular/GI Guidelines/2005 dated 14/07/2005 did not supersede the Referral Circular referred herein. It further submitted that the payments made to the Bank under a referral arrangement are not in violation of Clause B (2) of IRDA's Guidelines on Group Insurance Policies.*

**Decision:** *On considering the submissions of the Life Insurer it is to state that Clause B-2 of Group Insurance Guidelines, 2005 explicitly specified that "Any*

**existing arrangement that is not in compliance with these guidelines should be terminated forthwith” which in essence prohibits referral arrangements with the Master Policy Holders under Group Insurance. The Group Guidelines issued under Section 34 of Insurance Act, 1938 on 14/07/2005 will take precedence over earlier circulars. Therefore the submissions of the Life Insurer are not acceptable.**

**From the submissions it is noticed that the Life Insurer paid Rs 12.75 Crores referral fee on a group insurance premium of Rs 69.43 Crores, that is, 18.37% during 2009-10 to 46 Master Policyholders and Rs 2.75 Crores referral fee on a group insurance premium of Rs 36.91 Crores, that is, 7.47% to 24 Master Policyholders during 2010-11.**

**By entering into referral agreements and making payments to Group policy holders, the Insurer has grossly violated Clause B-2 of Group Guidelines dated 14/07/2005. Further, it is also to state that Clause C – 4 of Group Guidelines dated 14/07/2005 also prohibit making of any payments to the Master Policy Holders. Therefore, under powers vested in Section 102 (b) of the Act, a penalty of Rs 70 Lakhs (Rupees Seventy Lakhs only) is levied on the Life Insurer. Life Insurer is hereby directed to strictly abide by IRDA (Sharing of Data Base for Distribution of Insurance Products) Regulations, 2010 while entering into referral arrangements with any of the companies.**

**Charge – 20: Fund value lying in the individual’s policy account is not settled to claimants in case of repudiations of death claims. However, no such condition is mentioned in any of Master Policy contract or Certificate of Insurance. Violation of Regulation 6 of IRDA (Protection of Policyholders’ Interests), Regulations, 2002 for not mentioning in the terms and conditions and also a violation of File and Use Guidelines.**

*The Life Insurer submitted that all the cases were repudiated on the grounds of fraud or non disclosure of material facts and based on the principles of utmost good faith. Hence, benefits under the contract were forfeited. The Life Insurer further confirmed that since November, 2011 as a process they have started refunding the account value to the nominees for all such repudiated cases. The Life Insurer also informed having reopened all the previously repudiated cases, numbering 301, where the benefits were forfeited earlier and refunded the amounts.*

**Decision: While noting the submissions, it is to state that as per Regulation 6(j) of IRDA (Protection of Policy Holders’ Interests) Regulations, 2002 “Contingencies excluded from the scope of the cover both in respect of the main policy and the riders” should be stated in the policy document. As the Insurer has not mentioned the conditions under which no amounts are payable, the**

**procedures are in violation of the Regulations mentioned herein. However, since, the Life Insurer informed that it has reopened all the cases and refunded amounts and stopped the practice from November, 2011 no charges are pressed. The Life Insurer is hereby directed to ensure compliance to IRDA (Protection of Policyholders' Interests) Regulations, 2002.**

**Charge – 21: Claim payments under Group policies pertaining to Non-Employer-Employee group policies are made in the name of Group Master Policyholder but not in the name of beneficiary/claimant. Violation of Clause C (7) of Group Insurance Guidelines, 2005**

*The Life Insurer submitted that the most of the members comprise of economically weaker section of the society with no access to banking or other such amenities, payments were thus made to the Master Policyholder based on the authorization received from the beneficiary to collect the claim amount.*

**Decision: Settlement of death claim in favour of Master Policy holder is in violation of Clause C-7 of Guidelines on Group Insurance Policies, 2005. Hence, under powers vested under section 102(b) of the Act, a penalty of Rs.1 Lakh (Rupees One Lakh only) is imposed. The Insurer is hereby directed to ensure compliance to Clause C-7 of Group Insurance Guidelines dated 14<sup>th</sup> July, 2005/Regulation 34 (e) of IRDA (Non Linked Insurance Products) Regulations, 2013.**

**Charge – 22: Service level outsourcing agreements were continued with various individuals even after the outsourcing guidelines came into effect and significant amounts were paid to these entities during 2010-11 under the head "Renewal procurement charges". Individuals were also engaged as "Distribution and collection services". Violation of Point No. 5 of Outsourcing guidelines no. IRDA/Life/CIR/GLD/013/02/2011 dated 01/02/2011**

*In response, the Life Insurer submitted that the arrangements were executed with the vendors for the benefit and convenience of the policyholders and that the distribution / collection services provided in the agreement entitles for collection of documents/forms/premium from clients, meeting, providing clients the product brochures/pamphlets etc. The Life Insurer further submitted that all these arrangements had either expired with passage of time or were terminated prior to 30-June-2011. The said payments were made relating to services rendered prior to coming into force of Outsourcing Guidelines, 2011 and were not made for solicitation of any insurance business.*

**Decision:** Based on submissions that agreements were executed prior to outsourcing guidelines and were terminated by 30<sup>th</sup> June, 2011 no charges are pressed.

**Charge – 23:** Insurer has continued lead generator arrangements that were asked by IRDA to discontinue immediately vide personal hearing order dated 12-Aug-2010 and payments were disbursed. Violation of directions given in the personal hearing order mentioned herein.

*The Life Insurer submitted that subsequent to the Authority's order all Lead Generator Agreements were withdrawn from 31-Aug-2010 and that some leads have been generated prior to 31-Aug-2010 for which payment was validly made during April, 2011 to July, 2011.*

**Decision:** Taking into account the submissions of the Insurer that the arrangements were withdrawn from 31<sup>st</sup> Aug 2010 and that the payments pertain to the leads generated prior to 31<sup>st</sup> Aug 2010, the charges are not pressed.

**Charge – 24:** Certain early death claims were rejected as “un-concluded contracts” where life assured died after the date of commencement of risk under the policy but before receiving the policy document. Violation of File and Use Guidelines and Regulation 8 of IRDA (Protection of Policyholders' Interests) Regulations, 2002

*The Life Insurer submitted that the communication with regard to acceptance of the risk, i.e., the policy bond, has not been received by the policy holder before the death, hence the contract is un-concluded. It further submitted that the Company had stopped the practice of repudiating solely on the grounds of un-concluded contract since February 2011 and that it has been decided to re-open the cases prior to the said date which were repudiated on the grounds of un-concluded contracts. Thus, where death of the life assured has occurred after the date of underwriting/issuance of the First Premium Receipt, the claim for death benefits under the policy shall be considered on merits and all the prior claims which have been rejected on the ground of “Un-concluded Contract” in respect of deaths occurring before receipt of policy bond by life assured, shall be reopened.*

**Decision:** The contentions of the Life Insurer for repudiating certain contracts as un-concluded contracts are untenable. The contract of insurance is complete when the offer made by the proposer is accepted by the Insurer (Adjustment of premium / issue of policy bond). The Life Insurer repudiated those cases where the DOC is well before the date of death and date of dispatch of the policy document is also well before the date of death. As per Section 4 of the Contract Act, the communication of an acceptance is complete against the proposer (here

**Life Assured) when it is put in course of transmission which is out of the power of acceptor (here Life Insurer). The Life Insurer repudiated 78 cases during 2010-11 on grounds of un-concluded contracts. While noting the submissions that the Life Insurer has decided to re-open all the repudiated cases on grounds of un-concluded contracts and also discontinued the said practice, it is considered that the actions of the Life Insurer are not fair and against the interests of the policyholders and in violation of Regulation (8) of IRDA (Protection of Policy Holders' Interests) Regulations, 2002. Hence, under the powers vested in Section 102 (b) of Insurance Act, 1938 a penalty of Rs.78 Lakhs (Rupees Seventy Eight Lakhs only) is levied. The Life Insurer is warned for the wrongful claim practices and directed to ensure the settlement of claims in fairness both as per terms and conditions of the policy contract as also as per the regulations referred herein.**

**The action regarding the settlement of 78 claims as submitted above shall be completed within 180 days from the date of issuance of the order along with interest in accordance to the provisions of Regulation (8) of IRDA (Protection of Policyholders' Interests) Regulations, 2002 and final report be submitted thereafter within 15 days to the Authority.**

**Charge – 25:** In case of death claims under ULIPs, where fund value is also payable along with Sum assured as death benefit, only some assured was paid. **Violation of Regulation (8) of IRDA (Protection of Policyholders' Interests) Regulations, 2002, Violation of F&U and Clause 6 of Annexure II of Corporate Governance Guidelines dated 05.08.2009.**

*The Life Insurer submitted that the omission of payment of fund value was on account of system bugs which have been rectified. The systems have thus been made robust to eliminate any such omissions. Further it submitted that, all claims were checked and 43 cases have been identified with such error, re-opened and payments made towards Fund Value along with penal interest, as applicable.*

**Decision:** While noting the submissions that the corrective action was initiated and differential amounts paid to the affected claimant, it is considered that the systemic gaps in operational procedures adversely affecting the financial interests of the policyholders are serious in nature. I am constrained to warn the Insurer for defective procedural systems. The Regulatory direction issued under Charge – 13 shall also cover the operational procedures of this matter. Hence, charges are not pressed.

**Charge – 26:** Delay is observed in settling surrender/Partial withdrawal payments under ULIPs. **Violation of Regulation 8 of IRDA (Protection of Policyholders' Interests) Regulations, 2002.**



*The Life Insurer submitted that the delay in settlement of the stated claims was on account of delay by the policy holder in submission of the necessary documentations, including the KYC documents and that if the said delay is accounted for, then the claims were settled within a period of 30 days as specified in Regulations.*

***Decision:*** While noting the submissions, the Life Insurer is advised to place the systems in such a manner so as to ensure the settlement of claims as per Regulation 8(3) of IRDA (Protection of Policyholders' Interests) Regulations, 2002 and charges are not pressed.

***Charge – 27:*** Products other than term insurance have been issued under Partnership Insurance. Violation of IRDA Circular no.036/IRDA/Life/Jan-06 dated 30.01.2006.

*The Life Insurer submitted that those necessary systems have been put in place to ensure compliance in future.*

***Decision:*** Noting the submissions and the fact that they have issued only two non-term insurance policies under Partnership Insurance, charges are not pressed. The Life Insurer is directed to comply with the provisions of Circular No.036/IRDA/Life/Jan-06 dated 30.01.2006.

***Charge – 28:*** While projecting the maturity benefits, stipulations laid down in Life Council Circular dated 03.02.2004 were not adhered to. Violation of Regulation 3 (5-ii) of IRDA (Protection of policyholders' interests) Regulations, 2002

*The Life Insurer submitted that the Circular mentioned is applicable to ULIPs and the product in question is a Non ULIP. Hence there is no violation.*

***Decision:*** At the outset it is clarified that it is not specified that the Circular No. LC/SP/SI/Ver 1.0 dated 03<sup>rd</sup> February, 2004 is applicable to ULIPs alone. It is further noticed that the Life Insurer provided benefit illustration without adhering to the norms specified in the circular. Hence, same is in violation of not only the circular referred herein, but also, the above referred Regulations. The Life Insurer is hereby warned for the violations and directed to strictly adhere to all applicable norms in all the sales / benefit illustrations. No charges are pressed.

***Charge – 29:*** In some of the advertisements issued the approved brand names are not used. Violation of 3.3.1.3 of Advertisement Guidelines, dated 14/05/2007

*The Life Insurer submitted that the group products are customized to the needs of the particular group and same is tagged with a unique name for a better identification and administration. Further the name of the approved group insurance product was also appropriately highlighted in the sales material.*

**Decision:** Considering the submissions of the Life Insurer, the charges are not pressed. However, it is stated that mentioning the unique name for a particular group along with Group Scheme confuses the insuring public, hence directed to discontinue the practice and adhere to the Advertisement Guidelines dated 14/May/2007.

**Charge – 30:** Extra payouts were made to the related parties of some of the Individual Agents and Corporate Agents under the head “Dissemination of information” during 2010-2011. Violation of Section 40(1) of Insurance Act, 1938.

The Life Insurer submitted that it has entered into agreements for “Dissemination of Information” with legal entities which are distinct and different from the legal entity of an insurance agent (individual & corporate) and that the agreement was entered into by BALIC on Principal to Principal basis. It is also submitted that no solicitation or procurement of insurance business is done under “Dissemination of Information” Agreement and that the agreements / payment of fee made there under was in accordance with the IRDA (Insurance Advertisement & Disclosures) Regulations, 2000. Further, it was submitted that none of the parties had ever confirmed to it about their relation or association with any of its agents or intermediaries.

**Decision:** While noting the submissions, it is observed that some of the vendors were the related parties to the insurance agents of the Life Insurer. Insurer has paid an amount of Rs.147.88 Crores during 2009-10 (to 426 entities), Rs. 150.55 Crores during 2010-11 (767 entities), Rs.54 Crores during 2011-12 (584 entities), and Rs.7.68 Crores during 2012-13 (Up to December, 2012) (to 10 entities) under these agreements. On submissions of the Insurer that the agreements were for “Dissemination of Information” and payment of fee was under IRDA (Insurance Advertisement & Disclosures) Regulations, 2000, it is to state that Regulations only provide for third party or group or association to provide an insurance company information about its membership/clientele and not for dissemination of Insurer’s (Products) information. It is further clarified, that the enabling provision of “Second Proviso to Regulation 10 (1) (vi) of IRDA (Insurance Advertisement and Disclosures) Regulations, 2000 was deleted w.e.f 01/07/2010 and all Insurers vide IRDA Circular Ref: IRDA/Life/Misc/Cir/125/08/2010 dated 05/08/2010 were directed to terminate all the existing agreements. The Insurer grossly violated the provisions of this circular which was issued under section 14 of IRDA Act, 1999 and continued payments even in the current Financial Year. This has also resulted in violation of Section 40(1) of the Act.

In light of the serious violations to IRDA (Insurance Advertisement and Disclosures) Regulations, 2000 and IRDA Circular Ref: IRDA/Life/Misc/Cir/125/08/2010 dated 05/08/2010, which are having serious market

**conduct repercussions a penalty of Rs.15 Lakhs (Rupees Fifteen Lakhs only) is levied as per the provisions of Section 102(b) of the Act.**

**The Life Insurer is hereby directed to terminate all the agreements that are not in conformity with the within referred circular dated 05/08/2010 and outsourcing guidelines dated 01/02/2011.**

**Charge – 31:** The following extra pay-outs were made to the corporate agents towards Advertisement & Publicity, Marketing Expenses (Infrastructure expenses, Business co-operation expenses) during 2010-11.

Sl. No.	Name of the Corporate Agent	Amount paid in Rs. Lakhs	Nature of Payment / Payment towards	Head of Account from which the amount paid
1	SKS Microfinance Private Ltd.	412	Advertisement & Publicity	Advertising Expenses – Outdoor
2	The ShamraoVithal Co-operative Bank Limited	7	Marketing Expenses(Infrastructure Expenses)	Infrastructure Support charges
3	Bajaj Finance Limited	1263	Marketing Expenses(Infrastructure Expense)	Infrastructure Support charges
4	Bajaj Finance Limited	462	Advertisement & Publicity	Advertising Expenses – Outdoor
5	Bajaj Finance Limited	66	Advance paid towards Marketing, Advertisement & Publicity	Bajaj Finance Ltd
6	The Dhanalakshmi Bank Limited	689	Marketing Expenses(Infrastructure Expenses)	Infrastructure Support charges
7	The Dhanalakshmi	3000	Marketing Expenses (	Business

	Bank Limited		Business Co-operation Fees)	Development Expenses
8	Standard Chartered Bank	5000	Marketing Expenses (Business Co-operation Fees)	Business Development Expenses
9	Future fortune group	5	Advance towards Advertisement	FUTURE FORTUNE GROUP
10	Team Life Care Company India Pvt Ltd	1583	Marketing Expenses (Infrastructure Expenses)	Infrastructure Support charges
11	Team Life Care Company India Pvt Ltd	784	Advertisement & Publicity	Advertising Expenses – Outdoor
12	Team Life Care Company India Pvt Ltd	182	Advance for Infrastructure & Advertisement	Team Life Care Company India Pvt Ltd

**Violation Clause 21 of Corporate Agents' guidelines No.017/IRDA/Life/Circular/CA Guidelines/2005 dated 14/07/2005.**

**Charge – 32:** For the financial year 2010-11, payments were made to Corporate Agents, Master Policy Holders and also related parties of licensed insurance intermediaries towards services like Infrastructure facility arrangement, logo agreement, advertising servicing agreement etc. Lump sum amounts over and above commission are also paid to the various corporate agents towards "business cooperation charges" some of whom are also the Master Policy Holders under the Group Insurance Schemes. Two agreements were entered with M/s. Team Life Care Pvt. Ltd (Corporate Agent) for same type of services i.e., Infrastructure Facilities on two different dates 04.01.2011 and 01.04.2011 and also entered into agreement for general advertisement and logo display for which amounts were noticed to have been paid. **Violation of Clause C (4) of Group Insurance Guidelines, 2005 and Clause 21 of Corporate Agency Guidelines, No.017/IRDA/Life/Circular/CA Guidelines/2005 dated 14/07/2005.**

**Charge – 33:** Payments were made to the entities which were related parties of Corporate Agent Team Life Care Company India Pvt. Ltd (Team Life Care). Payments

were also made to Master Policy holders under the heads 'dissemination expenses', 'database amounts' etc. Instances were noticed where both Database Access charges and Dissemination expenses were paid to the same entity. Significant amounts were also paid prior to July, 2010 towards "Database access charges" linking the compensation to 'data' shared. **Violation of Clause C (4) of Group Guidelines, Clause 21 of Corporate Agency Guidelines No.017/IRDA/Life/Circular/CA Guidelines/2005 dated 14/07/2005 and also Proviso ii of Regulation 10(1)(vi) of IRDA (Insurance Advertisements and Disclosure) Regulations, 2000.**

**Charge – 34:** It was observed that payments were made to Group Master Policyholders towards reimbursement of expenses of training, facilitation fee, infrastructure facility fee, fee for display of Logo/Banners, fee for using web space for display of logo of insurer etc. to the Group Master Policy holders. It was also observed that service level agreements were entered with various Master policy holders. **Violation of Clause C (4) of IRDA's guidelines on group insurance policies, 2005.**

*The Life Insurer submitted the following composite response to Charges 31 to 34:*

*The Life Insurer submitted that the agreements for infrastructure arrangements, space for display of advertisements, web space for display of logo, training etc. were entered into with Corporate Agents, Master Policy Holders etc. on principal to principal basis and these services were distinct and different from the solicitation and procurement of insurance business, hence not to be regarded as additional payments towards solicitation and procurement of insurance business. As such, the payments were in accordance to these agreements. It also submitted that insurers are not prohibited from entering into a business arrangement on a principal to principal basis and that a payment made for any other distinct and different activity carried out by the legal entity that is also a corporate agent where the activity is not related to insurance solicitation or procurement, cannot be deemed to be a commission payment.*

*On payments to Master Policy Holders of Group Insurance Schemes, the Life Insurer submitted that payments were made on principal to principal basis, which has no correlation with the activity of administration of group insurance scheme.*

*On payments towards Business Co-operation agreements, the Life Insurer submitted that it entered into a business co-operation arrangement with a fixed term of 3 years to pay a pre-determined amount as 'business co-operation fee' at pre-determined intervals in return for which the partner would continue to be its corporate agent even if the law changed allowing for multiple-agency tie-up with other Life Insurers.*

*On violations to the second proviso to Regulation 10(1) VI of the IRDA (Insurance Advertisement and Disclosure) Regulations 2000, it is submitted that it envisaged arrangements towards database sharing with entities who possessed and could validly*

share their database of clients/members. However, these agreements were stated to have been terminated post issuance of IRDA (Insurance Advertisement and Disclosures) (Modification) Regulations, 2010. (Deletion of the second proviso to Regulation 10(1) (VI))

On entering into two agreements, that is, one on data base sharing arrangements and the other on dissemination of information with the same entity, it was submitted that these were two distinct arrangements with distinct scope and ambit and that there is no express prohibition in the Advertisement Regulations or elsewhere prohibiting an insurance company from entering into both these arrangements with the same entity.

On charges of misleading the Authority by not providing correct information while forwarding the response to the Authority's letter IRDA/Life/BALIC/Misc dated 12.11.2010 on payments made to Master Policy Holders towards reimbursement of expenses, the life insurer submitted that it is under a bona fide belief that payment made to master policyholder does not amount to payment made under Clause C (4) of the Group Guidelines and hence Nil report was sent to the Authority.

**Decision on Charge 31:** The submissions that the agreements entered are on principal to principal basis is not acceptable as the corporate agents, to whom payments were made towards the stated activities, are not engaged in the primary business of offering the said activities, hence the payments made are not to be regarded as payments made for other extraneous purposes not connected to the business of insurance solicitation to which the Corporate Agent is appointed. It is noticed that the Life Insurer paid Rs81.07 Crores in FY 2009-10, Rs118.50Crores in FY 2010-11, Rs 55.94 Crores in FY 2011-12 and Rs14.07Crores in FY 2012-13 to various Corporate Agents towards Advertisements, Marketing, and infrastructure expenses etc. Substantial payments made towards Business Development / cooperation expenses to some of the Corporate Agents and Payments made under various heads of account to one of the Corporate Agents M/s Team Life Care are separately addressed in the succeeding paras under Charge - 32. The volume of payments to various corporate agents is substantial and by any standard cannot be regarded as reasonable. The payments made towards Advertisement, Marketing and infrastructure support etc. are therefore in clear violation of Clause 21 of corporate agents' guidelines. Hence, under powers vested under Section 102 (b) of the Act, a penalty of **Rs.20 Lakhs (Rupees Twenty Lakhs only)** is levied. The Life Insurer is hereby directed to discontinue these payments to any of the Corporate Agents immediately.

**The penalty referred herein is to be paid by insurer without prejudice to the action which the AUTHORITY would take against the Corporate Agents who have by**

receiving such payments also violated the regulatory instructions, the onus of which would equally lie on insurer.

**Decision on Charge 32:** The insurer submitted that all the agreements with various individuals and entities including with some of Corporate Agents / Master Policy Holders / Insurance Brokers are on principal to principal basis and nothing to do with the insurance business. These submissions are similar to the submissions referred above under Charge 31. From the information submitted it is noticed that the Life Insurer has made payments of Rs 34.21 Crores (to 46 Individuals / entities) during FY 2009-10, Rs 42.12 Crores (34) during FY 2010-11, Rs 71.33 Crores (156) during 2011-12 and Rs 28.25 Crores (97) during 2012-13 towards infrastructure support charges to various individuals / entities. Of this, it is noticed that the following payments are made to various intermediaries / Master Policy Holders (MPH) / Insurance Brokers during the periods mentioned hereunder.

Type of entity	2009-10	2010-11	2011-12	2012-13 (till Dec)
Corp Agents	-	-	Rs 6.24 Cr (28)	0.54 Cr (17)
MPH cum CA	Rs 21.56 Cr (4)	Rs 13.02 Cr (3)	Rs27.42 Cr (4)	Rs 9.76 Cr (2)
Only MPHs	Rs2.70 Cr (2)	Rs4.91 (4)	Rs28.26 (71)	Rs 16.93 (62)
Ins Brokers	-	-	Rs0.05 (5)	Rs0.14 (3)

All the above entities are not engaged in the primary business of offering infrastructure arrangements and payments made cannot be considered as independent and distinct. Hence, the payments made to Corporate Agents are in violation of Clause 21 of Corporate Agents' Guidelines and payments made to MPH are in violation of Clause C 4 of Group Insurance Guidelines. Payments made to the Insurance Brokers are in violation of Regulation (19) of IRDA (Insurance Brokers) Regulations, 2002. As the Regulatory Decision on pay-outs made to Corporate Agents is already addressed under Charge – 31 above, the issue is not taken up here again. Regarding payments made to Insurance Brokers, the Life Insurer is warned for violating the within referred Regulations. Regarding payments made to various other third parties, the Life Insurer is directed to ensure compliance to Guidelines on Outsourcing of Activities by Insurance Companies Circular No. IRDA/Life/CIR/GLD/013/02/2011 dated 01/02/2011. The Life Insurer is directed to discontinue these payments to Corporate Agents and Insurance Brokers with immediate effect.

The Life Insurer further submitted that it has paid the following to various corporate agents towards 'business development / cooperation expenses'.

S.No	Name of the Corporate Agent	Amounts paid (In INR Crores)			
		2009-10	2010-11	2011-12	2012-13(till December, 2012)
1	Standard Chartered STCI Capital	5	-	-	-
2	Dhana Laxmi Bank	-	30*	-	-
3	Standard Chartered Bank (CA since 2010)		50*	50	25
4	Bajaj Auto Finance Ltd			45.70	12.5
5	Team Life Care India Ltd			40	14.75

(\*Already referred under Charge – 31.)

The above are also in violation of Clause 21 of the Corporate Agents guidelines.

On submissions that these payments are meant to restrict the Corporate Agents (being Banks) to continue tie-ups only with it, should there be any regulatory changes in future permitting multiple tie ups are untenable. The submissions are on a hypothetical situation based on possible future regulatory changes, which are to be allowed by the market players to evolve with no pre-emptive actions. Hence, the procedure adopted by the Life Insurer is not in the interests of developing fair market conduct practices. These payments are in violation of Clause 21 of the Corporate Agents guidelines. However, the payments made to M/s Team Life Care are separately addressed in the succeeding Para. Hence, under powers vested under Section 102 (b) of Insurance Act, 1938 a penalty of Rs. 35 Lakhs (Rupees Thirty Five Lakhs only) is levied for making the payments to various Corporate Agents (Other than M/s Team Life Care).

The Life Insurer is hereby directed to discontinue these payments immediately under intimation to IRDA. The Life Insurer is also cautioned not to make any such pre-emptive payments hereafter so as to adopt the best business practices.

The Insurer did not submit the reasons and the objective of entering into two agreements on two different dates with Team Life Care Pvt Ltd (Corp Agent) for same type of services, that is, Infrastructure Facilities.

It is noticed that the following are various payments made to Team Life Care Pvt Ltd.

S.No	Head of Account	Amounts paid (INR)			
		2009-10	2010-11	2011-12	2012-13 (Up to December, 2012)
1	Infrastructure	7,63,36,835	15,83,28,364*	8,66,71,603	-



	<b>Support Charges</b>				
<b>2</b>	<b>Advertisement Expenses</b>	<b>7,47,95,990</b>	<b>7,84,79,771*</b>	<b>65,20,225</b>	<b>-</b>
<b>3</b>	<b>Business Development Expenses</b>	<b>-</b>	<b>-</b>	<b>47,50,00,000**</b>	<b>14,75,00,000**</b>

(\*Payments are also referred under Charge – 31. \*\* Payments are also referred under Decision - 32)

**All the above payments towards stated expenses are in violation of Clause 21 of Corporate Agents' Guidelines. The above referred payments are considered significant and the manner of making various payments through different heads of account lead to substantial pay-outs to M/s.Team Life Care (Pvt) Limited beyond the reasonableness by any standards.**

**In light of the above violations, under powers vested under Section 102 (b) of the Act, a penalty of Rs 40 Lakhs (Rupees Forty Lakhs only) is levied. The Life Insurer is hereby directed to discontinue making the extra payouts to the Corporate Agent.**

**The penalty referred herein is to be paid by insurer without prejudice to the action which the AUTHORITY would take against the Corporate Agents who have by receiving the above payments also violated the regulatory instructions, the onus of which would equally lie on insurer.**

**Decision on Charge 33:On proviso to Regulation10 (1)(VI),it is clarified that these regulations are intended to guide the activities of a third party / group / association etc and do not envisage the life insurers to enter into the dissemination agreements with third parties and make payments. By entering into dissemination agreements with various third parties Insurer violated provisions of Regulation10 (1)(VI) of Insurance Advertisement Regulations, 2000. Considering the submissions as also the regulatory actions initiated under Charge No. 31 and Charge No. 32, charges are not pressed here again. The Life Insurer is hereby directed to ensure the compliance to IRDA (Sharing of Database for Distribution of Insurance Products) Regulations, 2010.**

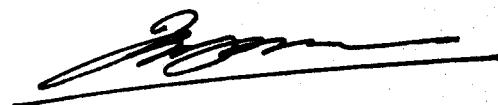
**Decision on Charge 34: On payments to Master Policy Holders (MPH) towards reimbursement of expenses of training, facilitation fee, infrastructure facility fee, fee for display of logo / banners, fee for using web space for display of logo of insurer; the life insurers submission that all these agreements were entered with the Master Policy Holders on a principal to principal basis are not acceptable. It is noticed that there is no correlation to the activities referred herein and that of**

**administration of group schemes and in light of Clause C (4) of Group Insurance Guidelines, these cannot be looked into in isolation as the MPH concerned are not in the business of offering such services in general to all . It is noticed that the Life Insurer made various payments to 28 MPHs in 2009-10, 46 MPHs in 2010-11, 160 MPHs in 2011-12 and 70 MPHs in 2012-13.**

**All the above payments made are in violation of Clause C (4) of Group Insurance Guidelines. Hence, in powers vested under Section 102 (b) of Insurance Act, 1938 a penalty of Rs.20 Lakhs (Rupees Twenty Lakhs only) is levied. The Life Insurer is directed to comply with all the relevant provisions of the Act/Regulations.**

**Hence, as directed under the respective charges, the penalty of Rs. 3.10 Crores (Rupees Three Crores and Ten Lakhs Only) shall be remitted by the Life Insurer by debiting shareholders' account within a period of 15 days from the date of issuance of this Order through a crossed demand draft drawn in favour of Insurance Regulatory and Development Authority and payable at Hyderabad which may be sent to Mr. V Jayanth Kumar, Joint Director (Life) at the Insurance Regulatory and Development Authority, 3rd Floor, Parisrama Bhavanam, Basheerbagh, Hyderabad 500 004.**

**Insurer is also advised to confirm the compliance in respect of all other directions referred in this order within 15 days from the date of issuance of this order.**



**(T S Vijayan)  
CHAIRMAN**

**Place: Hyderabad**

**Date: 21<sup>st</sup> August, 2013**