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सदस्य (वित्त एवं निवेश)

V.R. Iyer
Member (F&I)



भारतीय बीमा विनियामक और विकास प्राधिकरण
INSURANCE REGULATORY AND
DEVELOPMENT AUTHORITY OF INDIA

Ref: IRDAI/F&A/EoM/ORD/14/2016

Order

Expenses of Management (EoM) incurred in excess of the prescribed limits-
contravention of the provisions of Sec 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 years 2012-13 to 2014-15
2. IRDAI letter 446/6/F&A/EML/2012-13/216/2013-14 dated 12th February, 2014
3. Insurer's reply letter reference BAL/2014/IRDA/Comp/659 dated 3rd March, 2014.
4. IRDA Show Cause Notice 446/6/F&A/EML/2012-13/24/April2014 dated 24th April, 2015.
5. Insurer's reply letter reference BAL/2014/IRDA/Comp/688 dated 20th May, 2014.
6. IRDAI letter 446/10&11/F&A/EML/2013-14&14-15/60/2015-16 dated 29th July, 2015
7. Insurer's reply letter reference BAL/2015/IRDAI/Comp/840 dated 12th August, 2015.
8. IRDAI Show Cause Notice 446/8/F&A/EML/2013-14&14-15/113/2015-16 dated 18th November, 2015.
9. Insurer's reply letter reference BAL/2015/IRDAI/Comp/890 dated 4th December, 2015.
10. Personal Hearing held on 23rd March, 2016

The Insurance Regulatory and Development Authority of India (herein after referred to as "the Authority") issued the certificate of registration bearing No.130 to Bharti AXA Life Insurance Co. Ltd. (herein after referred to as "the insurer") on 14th July 2006 to carry on the 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, Regulations 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 years 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 185.75%, 184.88% and 181.59% for the said years respectively.

The Authority communicated the findings to the insurer for the years 2012-13 and 2013-14 to 2014-15 vide letter dated 12th February, 2014 and 29th July, 2015 respectively and sought explanation thereof. The insurer submitted its response vide letters dated 3rd March, 2014 and 12th August, 2015 respectively. The Authority examined the reply of the insurer and issued Show Cause Notices vide letters dated 24th April, 2014 and 18th November, 2015. The insurer submitted its reply to the Show Cause Notices vide letters dated 20th May, 2014 and 4th December, 2015. 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 in ensuring compliance with the extant stipulations as under:

- i). Absence of banking partner
- ii). High fixed and recurring overheads
- iii). Change in product Regulations

The insurer also submitted that lower persistency levels and lower renewal premium income is impacting the available allowance for calculation of prescribed limits. Further, the company has indicated that as per the business plan of the company, the EoM ratio of participating business segment is expected to improve to 113% by end of the financial year 2015-16 and further expected to improve by the end of the financial year 2016-17.

During the personal hearing, the insurer reiterated its submissions. The insurer further explained the measures taken to improve the compliance position of EoM and submitted that they expect to be compliant with the EoM limits by the financial year 2017-18.

The insurer has requested the Authority to condone non-compliance.

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. Accordingly, the stipulations under Section 40B read with Rule 17D are applicable for the life insurers on date.
2. Based on the facts on record, 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 have been considered. However, the high EoM ratio observed in the three consecutive years are not acceptable. Further, insurer's submissions in response to show cause notice vide their letter dated 4th December 2015 that 'Participating' segment of policyholders has been impacted by the non-compliance (though claimed to be significantly lower than the overall impact on the Company) raises regulatory concern.
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.
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 further advised to note that any future reoccurrence of non-compliance of EoM limits, as also the various directions issued by the Authority shall be viewed seriously.
7. 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.



(VR Iyer)
Member (F&I)

Place: Hyderabad
Date: 02nd May, 2016