



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

Ref: IRDAI/F&A/EoM/ORD/205/03/2016

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 year 2012-13 to 2014-15
2. IRDAI letter 446/8/F&A/EML/2012-13/186/2013-14 dated 12th December, 2013
3. Insurer's reply letter reference FGLIC/IRDA/Actuarial/Valuation/008/2013-14 dated 24th December, 2013.
4. IRDAI Show Cause Notice 446/8/F&A/EML/2012-13/238/2014-15 dated 24th March, 2014.
5. IRDAI letter 446/9&11/F&A/EML/2013-14&14-15/59/2015-16 dated 29th July, 2015
6. Insurer's reply letter reference FGLIC/073/IRDA/2015-16 dated 21st August, 2015.
7. IRDAI Show Cause Notice 446/8/F&A/EML/2013-14&14-15/111/2015-16 dated 18th November, 2015.
8. Insurer's reply letter reference FGLIC/134/IRDA/2015-16 dated 14th December, 2015.
9. Personal Hearing held on 11th February, 2016

The Insurance Regulatory and Development Authority of India (herein after referred to as "the Authority") issued a certificate of registration bearing No.133 to Future Generali India Life Insurance Co. Ltd. (herein after referred to as "the insurer") on 4th September 2007 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

Page 1 of 4

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 2013-14 and 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 EoM ratio of the insurer was 137.05% and 157.15% for the said years respectively.

The Authority communicated the findings to the insurer vide letter dated 12th December, 2013 and 29th July, 2014 and sought explanation. The insurer submitted its response vide letter dated 24th December, 2013 and 21st August, 2015. The Authority examined the reply of the insurer and issued Show Cause Notice vide letter dated 18th November, 2015. The insurer submitted its reply to the Show Cause Notice vide letter dated 14th 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 were:

- i). Improvement in new business premium
- ii). Persistency has been improved
- iii). Company has closed 16 branches

The insurer also submitted that initiatives taken by the company will take some time to show results. However, the same will help the company in achieving better efficiency and control over EoM in the long run

During the personal hearing, the insurer reiterated their submissions and explained the measures taken to improve persistency of business. They also explained the steps taken to cut costs. Insurer further submitted that they have ensured expense overrun does not impact par-policyholders.

Insurer has further indicated that they expect to be compliant with the EoM limits by the financial year 2017-18.

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

Decision:

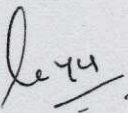
The Authority after considering various submissions of the insurer is of the following view:

1. The Authority vide circular No. IRDAI/F&A/CIR/FA/059/03/2015 dated 31st March, 2015, advised all the insurers to comply with the existing circulars and provisions of Rule 17D of the Insurance Rules, 1939 until further orders.
2. Based on the facts on record 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 two financial years from 2013-14 and 2014-15.
3. Insurer's submissions that there is no impact on the par policyholders despite the expense overrun have been considered.
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 of the contravention with the provisions of section 40B of the Insurance Act, 1938. The contravention has been taken on record and no further action is being taken against the insurance company 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 during the year 2014-15, the interest of the par policyholders are not impacted, compliance with the product filing has been ensured and at no time interest of the policyholders have been adversely affected.
5. The insurer is advised to bring the expenditure levels within the prescribed limits as stipulated under the Insurance Act, 1938 and the Regulations framed thereunder. Further, the insurer shall 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 occurrence of this nature resulting in non-compliance of the provisions of Insurance Act, 1938, the IRDA Act, 1999 and the Rules and Regulations issued thereunder, as also the various

directions issued by the Authority shall be viewed seriously and visited with appropriate action by the Authority.

7. The insurer is hereby, directed to bring this warning letter to the Notice of their Board in its 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.
8. The insurer is further directed to strictly adhere to the Act, Regulations made there under, Guidelines and Circulars issued in this regard from time to time.

Place: Hyderabad
Date: 9th March, 2016


(VR Iyer)
Member (F&I)