



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

Ref.No: IRDA/INSP/ORD/ONS/050/03/2015

Order in the matter of M/s Agriculture Insurance Company of India Limited

Based on reply to the Show Cause Notice dated 6th June, 2014 and Submissions made during Personal Hearing taken by Mr.T.S.Vijayan, Chairman, IRDA on 26th August, 2014 at 11:30 am at the office of Insurance Regulatory and Development Authority of India, 3rd Floor, Parishrama Bhavanam, Basheerbagh, Hyderabad.

The Insurance Regulatory and Development Authority of India (hereinafter referred to as "the Authority") carried out an onsite inspection of the Agriculture Insurance Company of India Ltd (hereinafter referred to as "the General Insurer or AIC") from 5th to 14th March, 2012. The Authority forwarded the copy of the Inspection Report to the Insurer seeking comments on the same under the cover letter dated 10th May, 2012. Upon examining the submissions made by the Insurer vide letter dated 11th June, 2012, the Authority issued Show Cause Notice on 6th June, 2014 which was responded to by the Insurer vide letter dated 11th July, 2014. As requested therein, a personal hearing was given to the Insurer on 26th August, 2014. Mr. Joseph Plappallil J, Chairman cum Managing Director, Mr. M.K. Poddar, General Manager and Mr. Rajeev Chaudhary, General Manager were present in the hearing on behalf of the General Insurer. Chairman, IRDAI took the hearing and Mr. M.Ramaprasad, Member (Non life), Dr (Ms) Mamta Suri, the then Sr.JD (Onsite Inspections & Compliance) and Mr. K.Sridhar,AD (I&C) were present during the personal hearing.

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

The findings on the explanations offered by the General Insurer to the issues raised in the Show Cause Notice and the decisions thereon are detailed below.

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1. Charge – 1

The general insurer is collecting 1% of reinsurance premium ceded to reinsurers towards loss assessment expenses. The amount so received is being adjusted to "R&D expenses" and the actual expenses being much lesser than the amounts received from reinsurer, the account is showing a negative amount. This resulted in inappropriate presentation of financial statements.

Violation of Provision 1 under Part 1 of Schedule B and Provision B (1) under Part II of Schedule B of IRDA (Preparation of Financial Statements and Auditor's Report of Insurance Companies) Regulations, 2002.

Submission of the insurer: The general insurer informed that the company incurred claim assessment expenses under weather based schemes and recovered from the reinsurers at a certain percentage of the premium ceded as per the treaty. The general insurer also confirmed that the company has rectified the accounting treatment and is adjusting the loss assessment expenses recoveries under claims account w.e.f FY 2012-13.

Decision:

On examining the annual accounts of three financial years of the general insurer, it was observed that in each of the financial years, the amount received from the reinsurer was accounted under three different heads of accounts. Further, it was also observed that AIC had not disclosed the change in their Accounting Policy on 'loss assessment expenses' in the annual reports, but had only disclosed as a foot note under 'Schedule 3 – commission' in annual report. AIC's method of adopting three different approaches in 3 FYs is against the 'Consistency' assumption which underlies the preparation of financial statements in order to achieve comparability.

Insurer is advised to follow the accounting standards in case of effecting any change to its existing accounting policy. Full disclosure of the significant changes in the accounting treatments should be made in the annual report.

Taking note of the insurer's submissions no charges are being pressed.

2. Charge – 2

The insurer has entered into agreements with Insurance Brokers to market the Rubber Plantation Insurance Policies. As per clause 3 of the agreement,



the broker is allowed to issue premium receipt, cover note/policy on behalf of AIC and also small claims up to the limit of Rs.20,000/-, if required, will be verified by the experienced officers of Broker. For rendering such services, AIC agreed to pay to the Broker an additional amount over and above the eligible brokerage, towards policy servicing charges and survey fees.

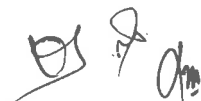
It is also noticed that the Proposal form used for coverage of Rubber Plantation Insurance does not contain the details of intermediary and there was no proof available that the broker has got mandate from the customers / prospects for the said insurance arrangement.

Violation of

- a) Authority circular ref.no.011/IRDA/Brok-comm/Aug-08 dated 25/08/2008 & Regulation 19(1) of IRDA (Insurance Brokers) Regulation, 2002
- b) Clause 6 under Annexure II of Corporate Governance guidelines issued by Authority vide circular: No. IRDA/F&A/CIR/025/2009-10, dated 5th August, 2009.
- c) Section 31B(2) of Insurance Act,1938 read with Authority's Circular IRDA/F&I/CIR/DATA/091/06/2010 dated 11th June 2010.

Submission of the insurer: The general insurer submitted that

- a) Rubber plantation product was introduced in December 2007 and the proposal form used at that time did not have a column for writing the details of the intermediary. The error would be rectified in the new proposal forms. The general insurer also informed that the business was procured directly by the brokers who have been instructed to include intermediary details in the proposal form and to obtain necessary mandate from the insured.
- b) The company reimbursed the cost of policy stamp, postage expenses, stationery expenses etc; to the broker on actual basis based on bills with supporting documents. Payments towards survey expenses were reimbursed directly to the individuals of the broking firm who conducted the surveys and not to the broking firm. If the functions entrusted to the broker were done by the general insurer, it would have also incurred the expenses which were reimbursed to the officials of the brokers on actual basis.



Decision:

- 1) The general insurer accepted the lapse of not collecting intermediary details in the proposal form and has rectified the same by instructing the brokers to provide intermediary details in the proposal form and to collect the insured mandate. Taking note of the submissions, no charges are being pressed.
- 2) The general insurer entered into agreements with two brokers for policy servicing and survey of claims of rubber plantation policies. As per clause 3 of the agreement, loss is assessed by the broker/broker's employee. There is possibility of conflict of interest which may be prejudicial to the insurer, since the broker procuring the business is also involved in claim survey job. The general insurer has thus violated the Authority's commission circular ref.no.011/IRDA/Brok-comm/Aug-08 dated 25th August, 2008 and Regulation 19(1) of IRDA (Insurance Brokers) Regulation, 2002 by making additional payouts towards other services over and above commission and also by entering into an agreement with broker for survey job and making payment to the employee of the broker. Further, insurer by continuing the agreements with the brokers, has also violated para 8.5 of Outsourcing guidelines dated 1st February, 2011.

In view of the violations observed, the Authority in exercise of the powers vested under Section 102(b) of the Insurance Act, imposes a penalty of Rs. 5 Lakh for the violations observed at point 2 above. Further the insurer is directed to cancel the agreements entered into with the brokers with immediate effect.

3. Charge – 3

In respect of claim amounts lying in stale cheque account, it was observed that the general insurer has not put in place proper systems to follow-up either with the farmers insured through intermediaries or the Nodal Bank through which the farmers were insured.

Violation of Clause 6 of Annexure II of IRDA Guidelines on Corporate Governance Circular no. IRDA/F&A/Cir/025/2009-10 dated 5th August, 2009.

Submission of the insurer: The general insurer submitted that the claim cheques were sent to the beneficiary by Registered Post only and whenever a



request for revalidation is received, the company re-issues the cheque immediately.

Decision:

The company informed at Charge 6(4) that claims are presently made through RTGS and also bank account is being made mandatory for non loanee farmers too from Khariff 2010. The company further informed that it not only resends the undelivered claim cheques to the address on record but also takes the assistance of brokers to contact the beneficiary farmers of unclaimed amounts. In support of submission, the general insurer submitted two sample follow up letters addressed to claimants by Jaipur RO along with fresh payment details. The Authority takes note of the submissions and directs the insurer to initiate payment of all claims settled and furnish status report within 45 days of the receipt of this order.

4. Charge – 4

From the sample cases it was observed that in respect of cultivators who were holding more than the stipulated land, the company had allowed subsidy in premium allowable for small and marginal farmers.

Violation of Clause 6 of Annexure II of IRDA Guidelines on Corporate Governance Circular no. IRDA/F&A/Cir/025/2009-10 dated 5th August, 2009.

Submission of the insurer: The general insurer informed that quite often the nodal banks report 'Acres' as 'Hectares' without applying conversion factor. In the instant cases, the company has submitted clarifications received from the concerned banks.

Decision:

On examining the documents provided by the general insurer on clarifications received from banks, no charges are pressed.

5 Charge – 5

Para 12 of AIC's Pilot Weather Based Crop Insurance Scheme (hereinafter would be referred as 'WBCIS') states that "Actuarial Premium rates for each season for each notified crop and each notified Reference Unit Area shall be calculated using standard Premium Rating methodology". However, it is noticed that though the company is arriving at actuarial premium rates for

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each notified crop and each notified reference unit area, the actual charged premiums are different from those arrived at actuarially.

Violation of point 3 (vi), 8 & 11 of F&U guidelines dated 28th September, 2006 and para 3 of Form C dated 6th June, 2007 filed with Authority under the referred F&U guidelines.

Submission of the insurer: The general insurer informed that the ultimate premium rates are set at district level for all the 'area approach based schemes' i.e NAIS, WBCIS & MNAIS.

The reason that the implementing States find it more equitable and convenient to treat all the farmers in a district uniformly as far as premium rate is concerned. Thus under WBCIS, State Government being implementing the scheme and because of demand from the government, the company notifies uniform premium rate at district level. As such, the company moved from 'stand-alone' pricing to 'portfolio' pricing after approval of actuary and the Board.

Decision:

The Authority takes note of the submissions of the general insurer and no charges are pressed.

6 Charge - 6(i)

It was observed from the system generated acknowledgement register that receipt no.10006 was issued in favour of a broker on 30th September, 2010 for Rs.9,42,816 for the proposals procured during June 2010. Similarly, receipt No. 10012, dated 30th March, 2011 was issued in favour of another broker for Rs. 2.70 lakh towards insurance premiums pertaining to Kharif 2010 season.

Violation of Section 64VB of Insurance Act, 1938

Submission of the insurer: The general insurer submitted that brokers collect premium from remote places and sometime they submit declarations and premium DDs in a lot. The insurer has submitted the details of DDs received from the brokers.

Decision:

The Authority decision is conveyed at charge 8 of the Order.

7 Charge – 6(ii)

The insurer had not ensured insurable interest of the insured by obtaining the relevant documents as specified in the WBCIS scheme and also in compliance to the insurer HO circular dated 16th June, 2010. It was also observed that in good number of proposals, the vital fields viz., address of the proposer, bank details of the proposer, signature of the proposer, signature of the insurance intermediary were not available.

Charge – 6 (iii)

It was noticed that the insurer is not in practice of issuing any cover notes on assumption of risk, but the same are being issued at the time of payment of claim before obtaining a discharge voucher for payment of claim amounts.

Charge 7

On examination of eight Certificates of Insurance and 36 proposals, it was observed that many proposals either do not have date or insured signature or bank details or risk details required for underwriting the proposal. Further, the company has not issued to the insured/s any premium receipt, cover note, policy / Certificate of insurance for the proposals referred in inspection observation.

Violation of

- i) Regulation 7 of IRDA (Protection of Policyholders' Interests) Regulations, 2002.
- ii) Clause 6 of Annexure II of IRDA Guidelines on Corporate Governance Circular no. IRDA/F&A/Cir/025/2009-10 dated 5th August, 2009.

Submission of the insurer:

Reply to charge 6(ii) - The general insurer replied that the index insurance products are implemented on Area basis approach and neither the scheme nor the operational modalities of the State Govt. notification mandate for collection of documentary evidence for each individual insured. Further, tenant farmers and share croppers are also eligible farmers to avail the benefit of the scheme. The general insurer has also clarified that the three incomplete proposals identified by the inspection team were actually not accepted by the company as they did not bear the signature of the insured/broker.



Reply to charge 6(iii) - The general insurer replied that the cover notes are issued subject to satisfaction of all the terms and conditions and during the period under review cover notes were being prepared manually leading to delay in issue. The company has started issuing cover notes from its system enabled Business Operation system since 2012-13.

Reply to charge 7 - The general insurer agreed that some of the columns in the proposals were incomplete. However, insurer clarified that the broker also submits an electronic copy of MIS along with proposals, which has all the necessary details and it was also ensured that only genuine farmers were covered by calling copy of revenue record. The general insurer further submitted that due to huge volume of proposals the underwriting has been largely based on MIS and submitted that henceforth the company will diligently follow the appraisal of proposal forms at the time of underwriting itself.

Decision for charge 6(ii & iii) & 7:

The insurer has accepted risks inspite of the proposal forms being incomplete. The risks were underwritten with incomplete risk details and thereby not complying with the guidelines of the insurers Head office Circular no.AIC/R&D/05/2009-10 dated 18th November, 2009, Circular no.AIC/R&D/05/2008-09 dated 20th June, 2008 and circular no.AIC/R&D/07/2008-09 dated 10th December, 2008.

Further, as per insurer circular no.AIC/R&D/07/2008-09 dated 10th December, 2008 and circular no.AIC/R&D/05/2008-09 dated 20th June, 2008 a cover note need to be issued to all individual non-loanee farmers, as soon as the risk is assumed. Though Insurer has provided few copies of system generated cover notes vide letter dated 9/09/2014, informing the improvement in the process, none of the cover note copies provided were dated and it could not be established that insurer has brought down the time lags in the issue of cover notes.

All above show lack of control mechanism at insurers office in complying with its own internal guidelines. However, taking note of the submission that the company will ensure collection of full information in the proposal form prior to underwriting the risks, no charges are pressed. Further, henceforth the company is advised to

ensure systems in place to issue cover notes immediately on acceptance of risk.

8 Charge – 6 (iv)

As per the scheme provisions, claim amounts are to be directly credited to the farmers' individual bank accounts, whereas, the insurer is in practice of sending a physical cheque in the name of the insured. Further it is also noticed that many cheques were returned undelivered with the reason, "no such addressee found".

Violation of Clause 6 of Annexure II of IRDA Guidelines on Corporate Governance guidelines circular no. IRDA/F&A/Cir/025/2009-10 dated 5th August, 2009.

Submission of the insurer: The general insurer submitted that the scheme is implemented as per scheme guidelines and notifications issued by the concerned state government. Considering low level of financial literacy/inclusion among rural farmers, mention of bank account in proposal was not compulsory till Rabi 2009-10 season and was mandated at proposal stage only from Khariff 2010 season. Further, the general insurer informed that the claims cheques were issued only to the non loanee farmers insured through intermediaries and for all others the claim would be remitted to nodal banks. Insurer also stated that, farmers sometimes mention the location of the farm land as address rather than their actual residential address leading to cheques being undelivered.

Decision:

Taking note of the submissions of the insurer that the proposal requirements were based on the Government notifications, no charges are pressed. Further, as per insurer submission, bank account being made mandatory for non loanee farmers too from Khariff 2010, no charges are pressed.

9 Charge – 6 (v)

On examination of the outstanding claims of Kharif 2010 season pertaining to non-loanee farmers, it was observed that 34 claims pertaining to Bharatpur district of Rajasthan State amounting to Rs.2.50 lakh were not settled as on date of inspection and the reason stated as non-receipt of discharge Voucher.



Violation of Clause 6 of Annexure II of IRDA Guidelines on Corporate Governance guidelines circular no. IRDA/F&A/Cir/025/2009-10 dated 5th August, 2009.

Submission of the insurer: The general insurer informed that letters addressed by the company got returned undelivered. In support of submission, insurer has provided copy of two letters addressed in September, 2012 & 2013 to one of the farmers and also informed that the company is in the process of verifying the insured through personal inspection for releasing the claims.

Decision:

On examining few sample proposal forms of the 34 outstanding claims, it is observed that the bank details are collected from farmers at proposal stage. Insurer in its reply at point 8 above replied that bank a/c is mandated for non loanee farmers from Khariff 2010 for direct credit of claim payment to insured account. However, in the claims under reference, insurer has kept the claims pending for four years informing the reasons as 'non receipt of discharge voucher' from claimants, whereas the weather index based crop insurance claims should have been directly credited to claimants bank account.

The claims being due by more than four years, insurer is advised to investigate the genuineness of claims and to submit action taken report within 45 days of receipt of the order.

10 Charge – 8

- a) It was informed by the company that on receipt of the premium, the company is issuing acknowledgement – cum – receipt to the intermediary and not to policy holder.
- b) An acknowledgement – cum – receipt dated 1st October, 2010 was issued to a broker for Rs.1,02,42,578, whereas 13 receipts forming part of this total amount were dated during the period 7th Oct to 29th Nov, 2010. Similarly another receipt amounting to Rs.14,08,032 dated 14th February, 2011 was issued to same broker and the dates of receipts forming part of this total amount were dated during the period 25th to 29th March, 2011. It was observed that the receipts were issued in advance i.e even before receiving the premium by the company and also the receipt amount differs from the actual premium received.



Violation of Clause 6 of Annexure II of IRDA Guidelines on Corporate Governance Circular no. IRDA/F&A/Cir/025/2009-10 dated 5th August, 2009.

Submission of the insurer: The general insurer informed that

- a) Due to large volume of proposals cover notes could not be issued, as there was some delay in underwriting, and this happened only in Hyderabad RO where pilot WBCIS was implemented for the first time in 2010-11 involving insurance brokers.
- b) The acknowledgement cum receipt is issued provisionally to broker on receipt of proposals of insured farmers and demand drafts, since the broker needs a proof of submission of records and instruments at the insurance office.
- c) The amount of Rs.14,27,877/- includes the premium of Rs.19,845 received from three non-loanee farmers whose proposals were received directly and not through the broker. The acknowledgement-cum-receipt in favor of the broker is issued only for the business procured through the broker.

Decision for charge 6 (i):

On examining the details of DDs and receipt no's provided by the general insurer vide mail on 24/12/2014 w.r.t receipt no.10012; it is observed that the reply is silent on the delay in receipt of premium of Rs.2.70 lakh from the broker. By not replying, insurer has accepted to the charge of the Authority and by this insurer has violated the provisions of Section 64VB of Insurance Act, 1938.

Decision for charge 8:

- a) On the cover notes issue, the Authority decision is conveyed at point 7 /charge 6(iii) above.
- b) Insurer has not submitted DD no's nor any documentary evidence on receipt of amounts from broker prior to issue of acknowledgement cum receipt nor informed the reasons for delay in accounting by 10 to 50 days after receipt from broker. The insurer's office had deviated from the Head office guidelines given vide circular no.AIC/R&D/04/2007-08 dated 23rd November, 2007(point 3), circular no.NIL dated 15th April, 2008 & Circular no.AIC/R&D/05/2008-09 dated 20th June, 2008 (point 1).
- c) Further, inspite of specific instruction in the show cause notice, insurer has not provided any documentary evidence on the receipts of 3 non loanee farmers referred in its reply.



In view of the violations observed, the Authority in exercise of the powers vested under Section 102(b) of the Insurance Act imposes a penalty of Rs.5 Lakh.

11 Charge – 9

The Bengal gram crop claims of Kurnool district, AP were to the tune of Rs.2.63 crores. It was observed that R.O. Hyderabad of the insurer has not settled these claims with the nodal banks, stating the claims to be on higher side compared to the previous season.

Violation of Regulation 9(5) of IRDA (Protection of Policyholders' Interests) Regulations, 2002.

Submission of the insurer: The general insurer informed that claims amounting to Rs.2.547 crore were approved after verification and disbursed to 2052 farmers on 7th December 2012 and 8th February, 2013.

Decision:

Taking note of the submissions of insurer on claim settlement, no charges are pressed.

12 Charge – 10

- a) No formal mechanism is in place to ensure the authenticity and correctness of the declarations submitted by the nodal banks, which form the basis for settlement and disbursement of claims to farmers. Three instances were referred in the observation where refund was sought from the banks after claim payment.
- b) In the light of the instances of wrong mentioning of crops, acreage, reference weather stations, and reference unit areas by the banks while sending the declaration forms, the insurer's office had not placed any mechanism to investigate into heavy claim ratios.

Violation of Clause 6 of Annexure II of IRDA Guidelines on Corporate Governance Circular no. IRDA/F&A/Cir/025/2009-10 dated 5th August, 2009.



Submission of the insurer: The general insurer submitted that WBCIS being multi agency scheme, the roles of different agencies have been defined in the scheme. Owing to the multi-agency nature of the programme, the company does not have complete control over the processes and need to depend on other stakeholders. Either during the season or before claim settlement, the company would undertake verification of bank records on random basis.

Decision:

The Authority takes note of the submissions of the insurer and no charges are pressed.

13 Charge – 11

The company has paid Rs. 200 crores to the Government of India, out of retained profits/surplus generated over six years from National Agricultural Insurance Scheme (NAIS) as its share of profits. This payment was shown an 'ad hoc payment' under 'Advances and Other assets' under schedule 12.

- (a) The amount paid is in the nature of appropriation of profits and the same does not qualify to be recognized as asset.
- (b) In arriving at 'Available Assets' for solvency purposes as at 31st March, 2011, it was observed that full amount Rs. 200 Crores was considered for solvency purposes.

Violation of

- a) Section 64V of Insurance Act, 1938.
- b) Provision 2 given under 'Schedule I – Valuation of Assets' of IRDA (Assets, Liabilities and Solvency Margin of Insurers) Regulations, 2000.
- c) Provision 1 under Part I of Schedule-B of IRDA (Preparation of financial statements and Auditor's report) Regulations 2002 by not adhering to Para 49 (a) of ICAI's Framework for the preparation and presentation of financial statements read with Para (6) of AS-26.

Submission of the insurer: The general insurer informed that the said accounting treatment was with due approval of the Board. Further submitted that taking note of the inspection observation, the said advance of Rs. 200 crore was not considered by the company for the purpose of calculation of solvency margin from the financial year 2011-12 onwards.





Decision:

The Authority observes that the solvency ratio of insurer after excluding the asset for year 2010-11 is 3.04 and further insurer has not considered the asset for solvency from year 2011-12 onwards. The Authority takes note of the insurer's submission and no charges are pressed.

14 Charge – 12

It was observed that under Weather Based Crop Insurance Scheme (WBCIS) of Kharif season 2011-12, the insurer has placed 12.75% quota share and further 17.25% of stop loss arrangement with the foreign reinsurer Swiss Re. In this regard, the company has not produced any specific approval from the Authority for exceeding the reinsurance limit with the foreign reinsurer.

Violation of Regulation 3(9) of IRDA (General Insurance–Reinsurance) Regulations, 2000.

Submission of the insurer: The general insurer informed that not many reinsurers are providing capacity for crop insurance and had no choice but to place more than the stipulated share to Swiss Re. The company after completion of placements has duly submitted the details to the Board and to the Authority.

Decision:

The Authority takes note of the submissions of insurer and no charges are pressed.

In conclusion, as directed under the respective charges, the penalty of Rs.10 lakh (Rupees Ten Lakh only) shall be debited to the shareholders' account of the general insurer and the amount shall be remitted to Insurance Regulatory and Development Authority of India within a period of 15 days from the date of receipt of this Order. The penalty shall be remitted through the NEFT as per details being intimated to the insurer as per a separate e-mail. The transfer shall be made under intimation to Mr.Lalit Kumar, FA & HOD-Enforcement.

Further,

- a) The said penalty amount shall be debited to the shareholders' account of the General Insurer.



- b) The General Insurer shall confirm compliance in respect of all the directions referred to in this Order, within 45 days from the date of issuance of this order. Timelines, if any as applicable shall also be communicated to the Authority.
- c) The Order shall be placed before the Audit committee of the insurer and also in the next immediate Board meeting and to provide a copy of the minutes of the discussion.



(T.S.Vijayan)

Chairman

Place: Hyderabad

Date: 19/03/2015

