



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

Ref.No: IRDA/INSP/ORD/ONS/051/03/2015

Order in the matter of M/s Apollo Munich Health Insurance Company Limited

Based on reply to the Show Cause Notice dated 19th May, 2014 and Submissions made during Personal Hearing taken by Chairman, IRDA on 8th September, 2014 at 11:00 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 M/s Apollo Munich Health Insurance Company Limited (hereinafter referred to as "the health Insurer") from 31st January to 4th February, 2011. The Authority forwarded the copy of the Inspection Report to the Insurer seeking comments of the Insurer on the same. Upon examining the submissions made by the Insurer, the Authority issued Show Cause Notice on 19th May, 2014 which was responded to by the Insurer vide letter dated 9th June, 2014. As requested therein, a personal hearing was given to the Insurer on 8th September, 2014. Mr. Antony Jacob, Chief Executive Officer, Mr.R.Krishnan, Deputy Chief Executive Officer, Mr.K.Srikanth, CFO and Mr. Sameer Bhatnagar, Head (Legal & Compliance) were present in the hearing on behalf of the health insurer. Chairman, IRDAI took the hearing and Mr.M.Ramaprasad, Member (Non life), Dr (Ms) Mamta Suri, the then Sr.JD (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 health insurer to the issues raised in the Show Cause Notice and the decisions thereon are detailed below.

1. Charge – 1

The health insurer has accepted premium of Rs.51.21 lakh from agents after expiry of their license. It is also observed that in respect of 11 agents from whom business was solicited after license expiry, neither the license date nor the expiry date was captured into the policy administration system of the health insurer. Further, on examination of the TDS returns, it is observed that the health insurer had paid Rs.1,183 under commission account to Mr. Jasbir Singh Bagga who is not licensed to solicit business.

Violation of Section 42(D)(8), 40(1) of Insurance Act, 1938 and IRDA circular ref. IRDA/Cir/010/2003, dated 27.03.2003 and clause 5 'e' of Annexure I read with clause 6 under Annexure II of Corporate Governance guidelines issued by Authority vide circular: No. IRDA/F&A/CIR/025/2009-10, dated 5-8-2009.

Insurer's submission: The health insurer informed that the period of inspection was in its second year of operations and the insurer was having teething problems. The health insurer also submitted that post implementation of agent's portal, auto termination has been built into the system and agents are automatically terminated on license expiry. The health insurer confirmed that all the agents present in its system as on date of reply are carrying a valid license and requested the Authority to condone the deviation.

With respect to payment accounted under commission account, the health insurer informed that all the payments were in the nature of professional services and one single payment was inadvertently captured in the commission account due to process error. In support of submission, insurer has also submitted the copy of the service agreement entered with Mr.Jasbir Singh.

Decision:

Solicitation of insurance business after expiry of license is a serious violation and looking at the seriousness of the violation, **the Authority in exercise of the powers vested in Section 102(b) of the Act imposes a penalty of Rs. 5 lakh for violation of the provisions of Insurance Act, 1938 and Authority guidelines.**

2. Charge – 3

The company has not provided the reserve (either at individual policy level or at portfolio level) for the claims under litigation. There were 46 claims outstanding as at 31-03-2010 under litigation with courts/forums/ombudsmen for which no claims reserve was provided.

Violation of

- a) Regulation 4 read with Point 2 (ii) (b - I & II) under Schedule II-B of IRDA (Assets, Liabilities & Solvency margin of insurers) Regulations, 2000.
- b) Point 1 under Part I of Schedule B and Point 5 (a & d) under Part III of Schedule B read with Regulation 3(2) of IRDA (Preparation of Financial statements and Auditor's report of Insurance Companies) Regulations, 2002.

Insurer's submission: The health insurer submitted that the overall claims reserves were estimated at the portfolio level during 2009-10 and include claims under litigation. Hence, there is an adequate safety margin for claims under litigation. However, taking note of the Authority feedback, the company has agreed to carve out reserve for all claims under litigation from the overall reserve estimate.

Decision:

Taking note of the insurer's submission to create a separate reserve for claims under litigation, **no charges are being pressed.**

3. Charge - 4

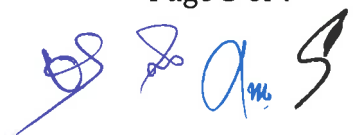
The health insurer entered into an agreement with Makemytrip.com (MMT) to market its travel insurance products through MMT web site and for other support services. MMT is remitting the premium collected through its website on a periodical basis to the insurer. MMT is not a licensed insurance intermediary to solicit and procure insurance business. The invoices raised by MMT in this regard only show it as advertisement expenses and there is no specific quotation/agreement for these payments.

Violation of

- A) Section 40(1) & 42D(8) of Insurance Act, 1938 and circular no: IRDA/CIR/010/2003, dated 27-3-2003.
- B) Section 64VB of Insurance Act, 1938.
- C) Clause 6 of Corporate Governance guidelines issued by Authority vide circular: No. IRDA/F&A/CIR/025/2009-10, dated 5-8-2009.

Insurer's submission:

The health insurer submitted that the company, under an arrangement with MMT uses the MMT website as per its media plan and pays as per the rate grid agreed from time to time for all branding and advertising activities, which is at par with the market competitive rates. The activities are geared towards using the digital infrastructure of MMT with a view to



Build Company's brand in the travel insurance space and to use MMT website exclusively for offering traveling insurance products. Customers who buy tickets on MMT have the option of purchasing travel insurance and on customer opting for insurance the company system is alerted about purchase and an insurance certificate and policy is sent to customer via e-mail. MMT is leasing the digital infrastructure for specified time period and this cannot be construed as solicitation of insurance business by MMT. In support of submission, the company submits the copy of invoices, rate grid, TDS certificates issued to MMT and informed that the business was booked under direct channel.

The company has also submitted copy of group policy no.900001/35001/A0000000005 issued to MMT on 29/07/2008 along with prospectus and Authority letter dated 16/07/2008 taking note of the group product filed under F&U guidelines.

Decision:

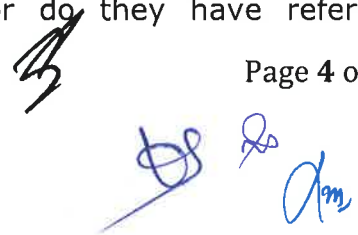
In respect of charge on procurement of business with MMT, the Authority on examining the available documents such as agreement copy, TDS certificates issued to MMT, rate grid, invoices and based on the submissions of insurer that the business is procured directly and payments by insurer to MMT were for leasing/using the digital infrastructure, no charge is pressed.

On the basis of the documents on record, it is observed that the health insurer has accepted risks prior to receipt of premium from MMT. It was further observed that the premium dues from MMT for the risks accepted were in the range of Rs. 16 - 41 lakh per month during 2009-10. Acceptance of risk prior to receipt of premium amounts to violation of section 64VB of Insurance Act, 1938. It is further noted from that the health insurer collected advance deposit premium of Rs.25 lakh MMT only after the inspection observation i.e. on 28/01/2011. It is pertinent to note that agreement with MMT was entered into on 30th April, 2008.

In view of the violation of Section 64VB of Insurance Act, 1938, observed at above, the Authority in exercise of the powers vested in Section 102 (b) of the Insurance Act, 1938 **imposes a penalty of Rs.5 lakh for each year of violation from FY 2008-09 to 2010-11 (total Rs.15 lakh).**

4. Charge – 5

It was observed that payments were made on the basis of 'per lead' under the 'Advertising – Internet/Web relate' account to various service providers towards 'lead generation'. The company neither has any agreements with these service providers nor do they have referral



arrangements. All these service providers are routing their invoices through M/s Quasar Media Pvt. Ltd. with which the company has an agreement.

Violation of Regulation 11 (14) & 12(c) of IRDA (Sharing of Database for Distribution of Insurance Products) Regulations, 2010 and IRDA circular no.IRDA/cir/004/2003 dated 14/02/2003.

Insurer's submission: The health insurer submitted that the company advertises on various websites. Payments are made to media owners on Cost per Lead (CPL) basis. In the CPL model, a person clicks on an advertisement and voluntarily supplies some information (usually an email id). The advertiser pays for each such 'lead'. However, no database is shared. The health insurer submitted that Quasar Media Pvt Limited facilitated the insurer in procuring media space at a competitive price on various websites.

Decision:

The Authority notes that the payments referred to in the inspection observation pertain to financial year 2009-10 towards advertising expenses. In view of the submissions made, the charges are not being pressed.

5. Charge – 7

On examination of the Available Assets considered for the purpose of arriving at the available solvency margin as at March 31, 2010, it was observed that a short term deposit of Rs.0.13 crore was considered for solvency margin calculation despite being under lien for taking bank guarantee.

Violation of provision 2(3) under Schedule I of IRDA (Assets, Liabilities & solvency margin of insurers) Regulations, 2000.

Insurer's submission: The health insurer submitted that the term deposit under lien was inadvertently included in the solvency ratio calculation and requested to condone the process error.

Decision:

Taking note of the insurer's submission and also that the solvency limits are not being breached, **no charges are being pressed.** However insurer is advised to have an effective control mechanism to comply with all applicable Regulations and guidelines of the Authority.



6. Charge – 2

- i. There is no seamless flow of claims data from TPA system to Insurer's system. There are manual interventions at different stages leaving scope for errors / frauds / duplicate payments / accounting of claims.
- ii. As the paid claims are updated once in 15 days, there is a delay in recording initial claims paid in to the system.

Charge – 6

It was observed that the health insurer maintains the outstanding claims data separately from the policy administration system (elixir). The outstanding claims data is received from the TPA's on a monthly basis. The absence of integration of the outstanding claims data with the policy administration system of the company restricts the capability of insurer to effectively monitor and analyze the claims settlement procedures.

Charge – 8

On receiving details of the claims approved by TPA's, the data is uploaded on to the policy administration system (ELIXIR) on a fortnightly basis. As ELIXIR is not being used to validate data received from TPA and payment processing, there is scope for reconciliation issues, data integration issues etc.

Violation of 5 'e' of Annexure I read with clause 6 under Annexure II of Corporate Governance guidelines issued by Authority vide circular: No. IRDA/F&A/CIR/025/2009-10, dated 5-8-2009 and Regulation 4 read with Point 2 (ii) (b – I & II) under Schedule II-B of IRDA (Assets, Liabilities & Solvency margin of insurers) Regulations, 2000.

Insurer's submission: The health insurer informed that the data flow is safe and secure with multiple checks and balances and reconciliation is done on a monthly basis with all TPAs. The Company has subsequently built a data cleansing application through which claims data received from TPA's is checked to ensure adequate quality and consistency with policy member data. Each and every data element is scrutinized by the company, using automation tools, before making any payments. The outstanding claim details are received from TPAs on a weekly basis and the same is operational since December, 2011.

The health insurer further submitted that Elixir is the core policy issuance and administration system and the company works on multiple systems. Outstanding claims data is always available in a separate system and the data is matched against policy member data to ensure accuracy. This activity is performed outside Elixir as it is a policy administration system.

The company has multiple check points for managing claims and is also examined during internal audit, statutory audit, Munich Re audit and ISO audit and no control issues were noted till date

Decision for charges 2, 6 & 8:

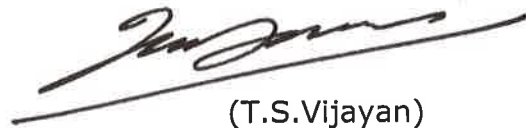
The Authority takes note of the insurer's submission, that the claims validation process is part of various audits of the health insurer. The Authority has also observed that post inspection observation; the company has started uploading of approved claims data into policy administration system and collection of outstanding claims data from TPAs on a weekly basis.

The health insurer is advised to examine on having seamless flow of data from TPAs.

In conclusion, as directed under the respective charges, the penalty of Rs.20 lakh (Rupees Twenty 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 21 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

