



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

No. IRDA/ENF/ORD/ONS/38/02/2018

**Final order in the matter of  
M/s. Chartered Insurance Brokers Pvt. Ltd.**

**Based on reply to the Show Cause Notice dated 28<sup>th</sup> November, 2017 and submissions made during the personal hearing held on 10<sup>th</sup> January, 2018 at 2-30 pm, chaired by Member (Non-Life).**

**Background:-**

The Insurance Regulatory and Development Authority of India (hereinafter referred to as "the Authority") carried out an onsite inspection of M/s. Chartered Insurance Brokers Pvt. Ltd. (hereinafter referred to as "the Broker") from 9<sup>th</sup> to 11<sup>th</sup> March, 2016. The Authority forwarded a copy of the Inspection Report to the broker seeking comments and the broker's comments were received vide their letter dated 29<sup>th</sup> August, 2016. Upon examining the submissions made by the broker, the Authority issued Show Cause Notice 28<sup>th</sup> November, 2017 which was responded to by the broker vide letter dated 20<sup>th</sup> December, 2017. As requested therein, a personal hearing was given to the Broker on 10<sup>th</sup> January, 2018. Shri Arjun Kumar Goyal, Principal Officer, and Shri Anoop Harjani, President, attended the personal hearing on behalf of the Broker. On behalf of the Authority, Shri P.J Joseph, Member (Non Life), Shri Randip Singh Jagpal, CGM & HOD (Intermediaries), Shri Prabhat Kumar Maiti, GM (Enforcement), Shri B.Raghavan, DGM (Enforcement), attended the hearing.

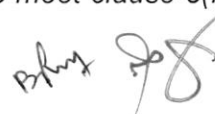
The submissions made by the broker in their written reply to the Show Cause Notice and those made during the course of the personal hearing and the documents submitted by the Broker in evidence of their submissions in the hearing have been considered by the Authority and accordingly the decisions on the charges are detailed below.

**1. Charge No. 1**

It is found that the broker does not have any proper record of the complaints handled by them. This is a Violation of Clause 8(f) of schedule VI-A under section 28 of Insurance Regulatory and Development Authority (insurance brokers) regulations, 2013.

**Submission of Broker:**

*Complaint records were maintained in the form of Excel Datasheet in computer regarding the complaints with all relevant details including the complainant's name, policy Number, insurance company's name, nature of complaint and date of resolution with the remarks column, and the same were shown to the inspection team. They were perused by our officials including our PO and formal follow up was fully maintained. Kindly appreciate that listed functions in the regulations are performed and we have effectively assisted our client and insured to resolve minor complaints which arose out of business we solicited. We undertake that we have started maintaining manual complaint register to meet clause 8(f) of*

 1

*Code of conduct whereas other parts i.e. (a) to (e) of the said clause 8 have already been complied diligently on regular basis. Hence, the charge is not maintainable as no harm to the Policyholder is caused in absence of manual maintenance of complaint register when the overall objective relating to our conduct with regard to complaints is achieved.*

**Decision:**

**Maintenance of records in relation to the complaints filed by the customer is one of the primary responsibilities cast on the broker by Clause 8(f) of the Code of Conduct contained in Schedule VI-A of Insurance Regulatory and Development Authority (insurance brokers) regulations, 2013. But the broker has not demonstrated the presence of systems for recording and monitoring of complaints; neither in soft form nor in manual form. In response to the Show-cause-notice, the broker has mentioned that they maintain the records in Excel Data Sheet. In this connection, it should be noted that the record in this form is fully open to manipulation and hence have the potential to be treated as afterthought. In the absence of any physical records or any software through which the complaints are properly stored and monitored by follow up, the broker's submission that they maintain records is not tenable. The Brokers submission that they have started to maintain the complaints in physical form, is taken note of. However, the Authority while cautioning the broker for non-adherence to the regulatory requirement advises that maintenance of records relating to complaints is an inescapable requirement which they must fulfil so as to comply with Regulation 13(4) and Clause 8 of the Code of Conduct contained in Schedule I – Form H of the IRDA (Insurance Brokers) Regulations, 2018.**

**2. Charge No.2**

There are instances where the broker is advising the insurer to decline the request of customer to cancel the policy issued. The action of the broker is resulting in conflict of interest. It is not for the broker to interfere with the decision of the Insurer by suggesting them not to accept the policyholder's request. Hence by attempting to influence the insurer not to accept the request of the client, they have violated Clause 2(j) of Schedule VI-A under Regulation 28 of the IRDA (Insurance Brokers) Regulations, 2013, which mandates the broker to avoid conflict of interest, read with Clause 1 of the Code of Conduct under Schedule VI-A which mandates a broker to act in the interest of the policyholders

**Submissions of Broker:**

*Kindly appreciate that we have in effect followed clause 1 of the code of conduct and not conflicted and influenced decision of the insurer/insured in any material sense. We have only complied with our listed functions i.e. (i) explained underwriting information to insurer, (ii) render/advise to policy holder (iii) recommended to insurer what we felt is fair and in the interest of policyholder to continue the protection imbued in the contract of insurance. In absence or by discontinuing insurance, the policyholder would not have the benefit of insurance if the risk insured was to operate upon , (iv) rendering service to the policyholder.*

*We reiterate that the most essential facts about the underwriting of the risks were presented to the insurer to enable them to take the right decision in the right perspective. Nowhere we have asked/forced the insurer to take a particular decision which anyway they would take in conformity with their rules and regulations . It is therefore not correct to interpret that we had forced the insurers to take a particular decision and consequently no conflict of interest is involved.*



**Decision:**

Clause 2(j) of the Code of Conduct contained in Schedule VI-A under Regulation 28 of the Insurance Regulatory and Development Authority (insurance brokers) regulations, 2013, mandates the broker to avoid conflict of interest. Simultaneously, Clause 1 of the same Code of Conduct expects a broker to act in the interest of the policyholders. These two provisions clearly indicate that the broker is not only a representative of the policyholder (and not of the insurer) but it equally casts a responsibility on the broker to act in best interests of the policyholders. In this connection, the broker should note that it is one thing to place the facts before the insurer to enable the insurer to take a decision and it is totally a different proposition to advise the insurer not to accept insured's request for cancellation of the policy. In this background, the action of the broker advising the insurer not to accept the insured's request for cancellation of his policy not only occasioned conflict of interest but it also indicates that the broker did not act in the interest of the policyholder. For this action, the broker is cautioned and is directed not to repeat such type of actions affecting the interests of the policyholders and is further directed to comply with Clause 1 and Clause 2(j) of code of conduct contained in Schedule I – Form H of the IRDA (Insurance Brokers) Regulations, 2018.

**3. Charge No.3 (Covering two observations):**

**Observation:**

It is observed in copies of sample mail that the employees of the broker is using the mail ID of the "bpopioneer" [insurance@bpopioneers.com](mailto:insurance@bpopioneers.com) as their email ID while corresponding with insurers for resolving the complaint. Based on above observation, broker was asked for providing its comment on aforesaid issue but no submission was given by them to the Inspection team.

It is clear that e-mail id (with extension @bpopioneers) for the persons who are engaged in solicitation are the employees of M/S Pioneer. This indicates that (i) Broker has engaged canvasser through M/S Pioneer. (ii) Broker does not have necessary infrastructure and is fully dependent on M/S Pioneer

**Submissions of broker:**

*In such cases, the prospective client has sent the mail at the personal mail id and by virtue of personal touch/relationship with the prospective client, the reply had been sent to the client at the same mail id. Hence, no violation. Moreover, we act in whatever manner, it is possible to bring justice to the merits of complaint and it requires a complete co-ordination with insurer's team. We hereby undertake that if it is taken to be against any particular contents of IRDAI's regulations, we shall not do so in the future. We therefore request your good self to drop this observation.*

**Observation:**

It was observed that the Brokers had spent Rs 17.98 Lacs during FY 2012-13, Rs 5.46 Lacs during FY 2013-14 & Rs 2.90 Lacs during FY 2014-15 as Rent. While perusing a copy of ledger account – Rent for the year FY 2012-13, it was observed that out of 17.98 Lacs during the FY 2012-13, Rs 12.00 Lacs has been paid to M/s Pioneer Facor IT Infra developers Pvt Ltd (M/s Pioneer) for a premises situated in NOIDA, Uttar Pradesh. While the Broker was advised to furnish a copy of rent agreement and other related documents in respect of the above premises, the Broker merely furnished a copy of an invoice dated 28.03.2013 stated to be raised by M/s Pioneer upon the Broker for an amount of Rs 12.00

 3

Lacs. Since, the broker could not provide a copy of rent agreement entered to this effect, if any; the details of size of the premises could not be ascertained. Further, M/s Pioneer is one of the entities in which one of the promoters holding 52.68% stake in the Broker. Hence, the Broker did not have enough control systems while making payments to its group concerns and hence, it is inferred that its internal control and system are not adequate for the size, nature and complexity of its business in terms of Regulation 31 of the Insurance Regulatory and Development Authority (insurance brokers) regulations, 2013.

The observation and the reply of the broker show their disinclination towards complying with regulatory requirements. The broker's failure to produce on time to the inspection the documents like rent agreement for the NOIDA premises and then furnishing cooked up reasons like they used the premises for educating the customers on insurance products and the need for insurance protection etc., and further explaining various details about routine arrangements available with them to say that they have internal control and system clearly show that the broker lacks proper internal control and systems adequate for the size, nature and complexity of its business.

#### **Submission of Broker::**

*Since our group company has a strong presence in the market, using their domain for the purposes of enhancing our prospects would not contravene any rule. Moreover we had on record own set of employees doing this job and did not engage/or employed any employee of group company for canvassing. Kindly appreciate that using Broker's email id in the context explained earlier is not for solicitation of business but for effectively resolving the grievance of the client from the insurer.*

*However as confirmed to the inspection team for manpower and infrastructure, the company hired fully functional office space of app 3500 sq ft at a very nominal rent of Rs. 1.50 lacs per month from the Company Pioneer Facor IT Infra developers Pvt. Ltd. for which a formal rent agreement was executed and the same was later submitted to IRDA. The rent of Rs.1.50 lakh per month for such a large office of 3500 sq.ft. taken to accommodate approx. 50 employees at that point of time was very reasonable. As such, as already stated, we categorically maintain that BPO Pioneer has not done any canvassing for us. The company has its own professional manpower and physical infrastructure. After the IRDA inspection, company has appointed a very senior PSU retired person to give effect to service to our customers.*

**Decision:** Though the broker has argued that they have an agreement with M/s. Pioneer Facor IT Infra developers Pvt. Ltd. for hiring of premises from that company and are using their fully functional office consisting of manpower and infrastructure, the use of that company's e-mail id by their employees for interacting with the broker's clients etc. indicates that the employees of that company have been engaged by the broker for solicitation of business. This is tantamount to using canvasser for procuring business. This is violation of Clause 3(b) of the Code of Conduct contained in Sechedule VI-A under Regulation 28 of the Insurance Regulatory and Development Authority (insurance brokers) regulations, 2013.

Also it is noted that the Broker has paid majority of expenses to M/s Pioneer Facor IT Infra developers Pvt. Ltd. Though the purpose of these payments could be towards the alleged procurement of business by the said company, the broker has argued that those payments were towards charges for availing manpower and infrastructure for which they have an agreement with that company. Even while saying so, the broker did not make available to the inspection's perusal the agreement which they claimed to possess. These facts show that the broker does not have proper internal control or

 4

system adequate for the size, nature and complexity of its business - which is a requirement of the regulations. The broker is warned for the above violations and is directed ensure compliance to clause 3(b) of the Code of conduct contained in Schedule I-Form H and Regulation 31 of the IRDA (Insurance Brokers) Regulations, 2018 by putting in place proper internal control system.

#### 4. Charge No. 4

The net worth of M/s Chartered Insurance Brokers Pvt Ltd. is Rs 74.92 lacs , Rs 53.85 lacs and 34.99 lacs as on 31.03.2013 , 31.03.2014 and 31.03.2015 respectively.

Upon a perusal of audited annual financial statements of the Broker for the FY 2014-15 ; it was observed that following was the Net Worth of the Broker as on 31.03.15:

	Fully Paid Up Share Capital	Rs 56,00,000.00
Add	Accumulated Losses	(Rs 20,66,935.13)
Add	Deferred /Misc Expenditure (Not Written off)	(Rs 33,771.00)
	Net Worth	Rs 34,99,293.87

In view of the above, the Broker did not maintain net worth of a minimum of Rs 50 Lacs during the FY 2014-15; which is a violation of Regulation 11 of the Brokers Regulations.

#### Submission of Broker:

*Net worth for the FY 2014-15 is Rs. 34.99 lakhs. We assure you that such situation won't arise in the future. Such a situation has arisen due to losses in the said Financial Year which is already matter of concern to the broking company. The short fall on the net worth as on 31/03/2015, was enhanced to the required level and the same was informed to the IRDA vide our letter dated 01/07/2017. Latest net worth certificate is attached for ready reference in this regard which indicates the steps taken by the company/shareholders to restore the net worth to 100% of the minimum capital.*

**Decision:** While taking note of the submission made by the broker in regard to the remedial action taken by them, the Authority directs the broker to ensure at all times that their Net Worth does not fall below the level prescribed in Regulation 22 of Insurance Regulatory and Development Authority (Insurance Brokers) Regulations, 2018.

#### 5. Charge No.5

While enquiring about submission of half yearly results in terms of Regulation 30 of the Brokers Regulations; the Broker informed that it did not file any half yearly returns to the Authority. The Broker also furnished a declaration stating that it did not file any half yearly return during the FY 2013-14 & 2014-15. This is a violation of Regulation 30 of the Insurance Regulatory and Development Authority (insurance brokers) regulations, 2013.

#### Submission of Broker:

*We admit our mistake and undertake that this mistake shall not be repeated.*

**Decision:** Taking note of the undertaking given by the broker that the non-compliance pointed out shall not be repeated, the Authority advises the broker to ensure that they submit the returns periodically as prescribed in the Regulation 39 of the IRDA (Insurance Brokers) Regulations, 2018.



**6. Charge No.6**

It was necessary that the issue of making payment of rent to M/s Pioneer is looked into detail. Keeping in view the same, in addition to verbal requests, emails were sent to broker advising to furnish details of offices that remained active since 01.04.12 till date and a copy of related rent agreements and other documents substantiating that the premises was taken on rent by the Broker and further substantiating calculation of rent paid by it. While the information should be readily available with the Broker; the same was furnished . a few hours before the closure of inspection and after passing of almost two days after being reminded for the first time. This left little room for the inspection officials to further go through the information furnished and raise further questions, if any. In the above manner, the Broker did not co-operate with the inspecting officers attracting action under Clause 1 (f) of Schedule VII under Regulation 39 of the Insurance Regulatory and Development Authority (insurance brokers) regulations, 2013.

**Submission of Broker:**

*We did our best to co-operate fully with the inspection team. However we could only furnish the rent agreement on the last day of the inspection. The other document/information was supplied within the tenure of the inspection as per the demand of the inspection team. We request the Authority to condone delay in submission of information due to genuine difficulty explained during the inspection and also in writing. We confirm that no such delay shall occur in any forthcoming inspection but we request that we should not be charged with intentional non-cooperation to the inspection team as we can never think about it.*

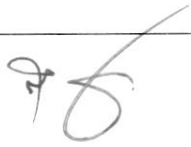
*We firmly hold the view that the rent agreement having been untraceable on the first day of inspection was subsequently shown on the last day of inspection to the Inspection team. There was no mala fide intention/non cooperation by our company in holding back documents /information from the Authority and therefore the charge of non-cooperation deliberately done should be dropped.*

**Decision:**

**Clause 1 (c) to 1(e) of Schedule VII under Regulation 39 of the Brokers Regulations mandate a broker to cooperate with the inspection team for smooth conduct of the inspection. This requires the broker to keep all documents ready and handy so that the same can be accessed by the inspection team with ease. In this case, the broker had to be constantly reminded to make available the documents required by the inspection. Still the documents were not forthcoming. Failure to produce the documents in a timely manner results in hampering the process of inspection. After failing to make available the documents, the broker has attempted to explain that the delay in producing the documents before the inspection was not intentional or with ulterior motives. The broker is warned for the above and is directed to ensure strict compliance to Regulation 34(4) and Clauses 1(c) to 1(e) of Schedule II- Form Z of the IRDA (Insurance Brokers) Regulations, 2018.**

**7. Summary of Decisions:**

Charge No.	Brief title and Provisions violated	Decision
1	Absence of proper records in regard to complaints. Clause 8(f) of the Code of Conduct in Schedule	Caution and Direction

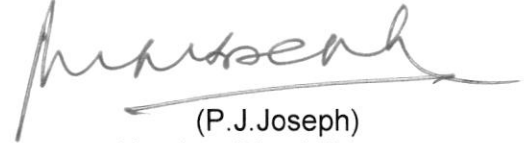
*Prima* *of* 

6

	VI-A	
2	Acting in conflict of interest. Clause 2(j) of the Code of Conduct in Schedule VI-A	Caution and Direction
3	Employing Canvassers Absence of internal control in regard to payments. Clause 3(b) of the Code of Conduct in Schedule VI-A (Regulation 31 )	Warning and direction
4	Failure to maintain minimum Net Worth (Regulation 11)	Direction
5	Failure to submit Half yearly returns (Regulation 30)	Advisory
6	Failure to cooperate with the Inspecting Officer. Clause 1(c) to 1(e) of the Code of Conduct in Schedule VI-A	Warning and Direction

8. The broker shall confirm compliance in respect of all the directions referred to in this order, within 21 days from the date of receipt of this order.

9. In the broker is aggrieved by any of the decisions in this order, an appeal may be preferred to the Securities Appellate Tribunal as per Section 110 of the Insurance Act, 1938.



(P.J. Joseph)  
Member (Non Life)

Date: 15<sup>th</sup> February, 2018  
Place : Hyderabad.

