



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

Ref. IRDA/ENF/MISC/ONS/075/04/2016

**Final Order in the matter of M/s. DHFL Pramerica Life Insurance Company Limited
(Erstwhile DLF Pramerica Life Insurance Company Limited)**

Based on reply to Show Cause Notice dated 25th January, 2016 and submissions made during Personal Hearing chaired by Mrs. V.R.Iyer, Member (F&I), Insurance Regulatory and Development Authority of India (IRDAI) on 30th March, 2016 at 11:30AM 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. DHFL Pramerica Life Insurance Company Limited, Formerly known as DLF Life Insurance Company Limited (hereinafter referred to as "the Life Insurer/Company") from 9th July, 2012 to 18th July, 2012. A copy of the report was forwarded to the Life Insurer on 31st October, 2012 and the reply was received at the Authority vide letter dated 30th November, 2012. Post scrutiny of the first compliance, the Authority had raised further queries vide email dated 23rd November, 2015 which was responded to by the Life Insurer vide email dated 2nd December, 2015. On examining the submissions made by the Life Insurer to the inspection observations, it is observed that the Life Insurer has not complied with the applicable provisions of the Insurance Act, 1938, IRDAI's Regulations, guidelines framed there under. A show cause notice was issued vide letter dated 25th January, 2016 which was responded to by the Life Insurer on 26th February, 2016. As requested by the Life Insurer, in his reply to Show Cause notice, a personal hearing was also held on 30th March, 2016 to hear out the submissions of the Life Insurer in person. Mr. Anoop Pabby, MD & CEO, Mr. Rajesh Sood, Chief Distribution Officer, Mr. Alok Mehrotra, CFO, Mr. Vishal Chopra, Head-Operations, Mr. Varun Gupta, Appointed Actuary and Ms. Sonali Athalye, Chief Compliance Officer were present on behalf of the Life Insurer. On behalf of the Authority, Mr. Lalit Kumar, FA & HoD (Enforcement), Mr. V. Jayanth Kumar, JD (Life), Mr. Prabhat Kumar Maiti, JD (Enforcement) and Mr. K. Sridhar Rao, Sr. Assistant Director (Enforcement) were present in the personal hearing.

The submissions made by the Life Insurer in their written reply dated 30th November, 2012, email dated 2nd December, 2012, response to Show Cause Notice and the submissions made during the course of the personal hearing/further submissions post personal hearing were taken into account.

The findings on the explanations offered by the Life Insurer to the following charges and the decisions are as follows.

Charge No.1

There were no systems and mechanism in place to communicate in writing, the decision of the Life insurer on the proposals received within prescribed time lines.

Violation of Regulation 4(6) of IRDA (Protection of Policyholders' Interests) Regulations, 2002.

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Submission by the Life Insurer

The Company is continuously making substantial efforts to improve its systems to ensure timely processing of proposals. The issues identified by the Authority are from the initial stages of operations and primarily relate to remote areas where facilities were not so developed. The Company has genuinely invested a lot of time, cost and effort in creating robust systems to process and service the proposals within the prescribed timelines. The company's efforts have been aimed at complying with the regulatory stipulated turnaround time lines to the fullest extent and the Company has continued to make significant efforts to improve the systems and processes in this regard such as scanning facility enabled across 40 locations to facilitate timely processing. Further confirmed that the turnaround time for proposals within stipulated time period of 15 days is now 93.43% as on date.

Decision

Considering the submissions made no charges are being pressed. However, the Life Insurer is advised to continuously endeavour to achieve TAT in 100% of proposals.

Charge No.2

On examination of the data pertaining to 2011-12 of rural policies issued, it was noticed that the insurer did not put in place a proper system to classify the proposals as "Rural". i.e., some locations were wrongly classified as Rural, though the addresses pertained to urban locations.

Violation of Regulation 3 of IRDA (Obligations of Insurers to Rural and Social Sectors) Regulations, 2002.

Submission by the Life Insurer

The Life Insurer submitted that there is no intentional incorrect classification of rural business. Rural business achievement data for the last five financial years (Rural business of 67%, 48% and 28% during 2012-13, 2013-14 and 2014-15 respectively) is submitted to demonstrate that the actual achievement is far more than minimum regulatory requirement. Certain inadvertent discrepancies in the classification of proposals for reasons like city/village names appear in more than one state, pin codes are not available for all locations in the census data base etc. have occurred as pointed out by the Authority, but it is to submit that these errors are exceptions and are not due to a lack of robust internal systems. Further the data of achievement provided to the Authority in terms of rural business are authentic and, even taking into account the minor discrepancies, far surpass the regulatory requirements. Further, the company is in the process of procuring latest census database and also the evaluation of automation is in progress to avoid any manual errors.

Decision

On scrutiny of the observation, it was found that prominent cities which can be easily noted as urban areas were also classified as rural areas. This indicates the lack of proper systems in classification of the business. Hence such observations will give scope to infer that some portion of rural business achievement is unauthentic. The submissions that even taking into account the discrepancies, there is no impact on regulatory requirements, the confirmation that systems being strengthened to ensure



non-recurrence of such errors, are taken on record and hence no charges are being pressed. The Life Insurer is advised to continuously ensure compliance of IRDAI (Obligation of Insurers to Rural and Social Sectors) Regulations, 2015 by placing proper systems and controls.

Charge No.3

There is considerable delay in settlement of Free Look Cancellations (FLC) requests as seen from some of the samples. Lack of systems of recording the dates of despatch of policy bonds and controls on date of receipt at policy holder lead to delay in payments.

Violation of Regulation 8 (5) of IRDA (Protection of Policyholders' Interests) Regulations, 2002 and Clause 6 of Annexure II of Corporate Governance Guidelines, IRDA/F&A/CIR/025/2009-10 dated 05/08/2009.

Submission by the Life Insurer

On determination of Free Look Cancellation to be genuine, the company makes efforts to sort out the customer's objections and to retain the customer in his interest of continuity of insurance cover. In some instances the customer requests further time to consider matters for the discussions with the customer may extend the time frame. With regard to the Authority's point that "lack of systems lead to delay in payments", it is to submit that the company has further strengthened systems to ensure perfect controls over despatch of policy bonds and date of receipt at the policy holder. The Company has effective system in place for recording the dates of despatch through Mail Room Operations software. Further, the digital proof of receipts issued by courier services and India post are uploaded into Policy Administration System for record purpose. The Company also initiated welcome call to customers on recorded lines to confirm receipt of policy bonds. Owing to these initiatives, Turnaround time (TAT) is now improved and for only 2% (38 cases) of total FLC requests, timelines were exceeded (in 2015).

Decision

Proper systems of recording the dates of dispatch of policy bonds and controls on date of receipt of the same at the policy holders, will give no scope for any sort of delays. The Life Insurer's submissions of having taken proper initiatives in reducing the TATs in processing the FLCs are taken on record and hence no charges are being pressed. The Life Insurer is advised to continuously ensure compliance of the said Regulations and Guidelines.

Charge No.4

On verification of cancelled policies under Free Look Cancellations (FLCs), it was found that Cancellations were allowed beyond permissible time limits and the grounds for the cancellations were also other than permissible reasons. Circumstantial compulsions were the basis for FLCs under some policies.

Violation of Regulation 6(2) of IRDA (Protection of Policyholders' Interests) Regulations, 2002 and Clause 6 of Annexure II of Corporate Governance Guidelines.



Submission by the Life Insurer

FLC requests are considered based upon the facts available at the time of receipt of the request and there is no intent to breach the regulatory norms. FLCs are carried out for permissible reasons and not otherwise. Free Look Cancellations also sometimes require detailed investigations to be done by an independent Fraud Control Team of the Company for alleged cases of mis selling which sometimes may be received beyond stipulated timeframe of FLC. The company looks into every complaint of mis-selling seriously and takes stringent disciplinary action against errant agent/employee. Further, awards/orders received from Honourable Court/Ombudsman/Other Grievance Redressal Forums sometimes requires us to cancel and refund the premium in certain cases beyond stipulated timeframe of FLC which the Company is bound to comply with. Further the policy admin system had a system limitation that any changes to the policy needed to be carried out through a cancellation. This limitation in the systems has been addressed and system now is able to distinguish between FLCs and other cancellations. Screenshots establishing the same are also submitted.

Decision

There shall be systems to ensure that Free Look Cancellations and other cancellations are properly differentiated. Considering the submissions above and confirmations of having initiated the systems to ensure differentiation of various cancellations, no charges are being pressed. However, the Life Insurer shall endeavour to reduce the mis-selling cases to ensure reduction of FLCs on these grounds.

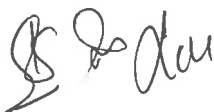
Charge No.5

Claims are repudiated based on unauthenticated documentation. A communication is being sent to the claimant informing the closure of the claim under "inadequate documentation" without obtaining conclusive evidence to back up the repudiated decision. However a tag line is added to the communication that the same would be reopened as and when the "called for" documents are submitted. It was also observed that Good number of claims is outstanding with the Life Insurer ageing above 180 days from the date of intimation by the claimant.

Violation of Regulation 8 of IRDA (Protection of Policyholders' Interests) Regulations, 2002.

Submission by the Life Insurer

The Company does not deny claims or puts claims on hold by relying on technicalities. If the documentation submitted is not complete, but is sufficient for the Company to establish that the claim is payable, payment is made in accordance with the policy terms and do not insist that the complete documentation be submitted as a pre-requisite to the claim being paid, If, however, the documentation submitted is insufficient for the Company to establish its liability or based on the circumstances and if the documentation information given to the Company at the claims stage, there is a reasonable apprehension of fraud or material non-disclosure either at pre-issuance or at the point of claim, then the Company puts the claim on hold until the complete documentation is submitted so that the Company can properly establish its liability to pay or reject the claim on a sound basis.



The claims referred by the Authority are with reference to two policies issued to one policy holder. In the claims intimation the claimant specified that the Life Assured had cancer, but was unable to provide any hospital or treatment records on the basis that all such records had been burnt during the funeral rites. The Company had a reasonable apprehension that there had been a material non-disclosure of a pre-existing disease at the proposal stage and therefore put the claim on hold until such time as the claimant could submit documentation to the effect that the cancer was not pre-existing. The Authority will appreciate if a pre-existing disease such as cancer was disclosed at the proposal stage, then the risk would have been accepted only on the application of an appropriate loading. However, as the claimant has continued to approach on the basis that the cancer was not pre-existing and that it is a custom in their community to burn all medical records during the funeral rites, the company decided to re-consider the claim based on the material available and unique circumstances of the claim and settled in favour of the claimant. It is to confirm that until recent financial year, this was the only case where such decision of holding back the claim was taken and later on settled the claim.

To clarify further to the Authority, in the present financial year, only one claim has been rejected where claimant is not responding and not willing to provide any past medical records and the Company has established a history of adverse medical conditions.

It is to certify that the two cases referred were the only cases wherein decision of repudiation was taken on the basis of unauthenticated documents. As submitted earlier, these cases were reconsidered and settled subsequently. It is further certified that there were no other cases where such decision was taken, except one case referred in previous paragraph wherein the company could establish a history of adverse medical conditions. It is further to certify that as on December, 2015 there were no claims (which warrant investigation) pending beyond 180 days and all other death claims which do not warrant investigation are being settled within prescribed timelines.

Decision

The claims may be repudiated only on the basis of concrete conclusive evidence of non-disclosure of material information at the time of taking out the policy subject to the provisions of Section 45 of Insurance Act, 1938. The claims repudiated on the basis of 'unauthenticated documentation/documentation not submitted' are not acceptable. The claims shall be kept open until settlement and for requirements if any, the Life Insurer shall constantly follow up till the settlement. Hence there is a need for the life insurer to review such practices. However, considering the submissions as enumerated above, **no charges are being pressed.**

Charge No.6

Agreement was entered with Group Master Policyholder (MPH) for data processing services and payouts are made.

Violation of Clause B-2 and C-4 of Guidelines on Group Insurance Circular No.015/IRDA/Life/Circular/GI Guidelines/2005 dated 14/07/2005.

Submissions by the Life Insurer

The company had entered into an arrangement with the concerned entity in March, 2009 for data processing services primarily relating to individual insurance proposals in East India. The agreement expressly prohibited the entity in soliciting insurance business. Subsequently, The Company had issued a group insurance policy on 30.3.2010. This policy term was for a period of 1 year and was not renewed by them on 30.3.2011 or thereafter.



The Company has not made any payments to the MPH as management or documentation expenses or profit commission or otherwise for or in relation to any functions the MPH performed as a group policyholder. The data processing services are not in relation to any group policy in which the entity is the group policyholder. In the financial year 2011-12, a gross payment of Rs.16.29 lakhs to entity for data processing services with the terms of the agreement and during the one year period when the group insurance policy was in force the company received a premium at the half-yearly premium rate of Rs.1.03 Lakhs which indicates that there is no correlation between the premium amount received, or the amounts the Company has paid to the entity. Further it is to certify that the agreement was terminated in March, 2013 and was not renewed thereafter. The payouts were also furnished in the outsourcing returns filed with the Authority.

Decision

It shall be noted that there shall not be any agreement with MPH as per the referred guidelines. Hence the Life Insurer should have terminated the agreement immediately on issuing the Master policy. Hence the Life Insurer is ***warned*** for the violation. While taking the submissions made on record, the life insurer is hereby advised not to repeat such violations.

Charge No.7

a) It was noticed that the Life insurer is engaging the services of unlicensed entities in soliciting / procuring insurance business. On examination of sample cases, it was found that the proposals contain the names of various entities as "Sales Person / Channel Partner". And in all these cases, the Agent/ Sales Person's Report was signed by the employees of the insurer. In some cases, the identity of signatory to Sales Person's Report was not mentioned.

b) Huge number of proposals stated to be solicited by each of the sales employees from all the corners of the country, indicates that the proposals are solicited by unlicensed individuals/entities.

c) It was observed that business was solicited/procured through an entity's Village Level Entrepreneurs and remunerating them as well. This was evidenced from newsletters issued by the entity.

d) On sample verification of policies procured by a Corporate Agent, it is found that the insurance business was not solicited by the Specified Persons (SPs) of Corporate Agent. This was evidenced from the Agent's/ Sales Person's Report. It was also observed that the proposals were solicited by the Specified persons whose license was expired.

e) Different codes for different locations of operation of Corporate Agents were allotted. Though the Corporate Agent has 69 SPs, the Corporate Agent is operating from 508 locations spread across a few states. From the sample proposals it was noticed that only one SP is signing all the SP Reports. One Corporate agent has only one SP, even this SPs license was expired in 2010. Another Corporate agent has no licensed SP on its rolls.

f) On verification of proposals procured by a Corporate Agent it was noticed that in all the proposals, the Sales Person's Report was given by only one Specified Person of the Corporate Agent, irrespective of the location of the proponent / location of the Corporate Agent's Branch. The signatures of the Specified Person are varying in all the proposals. It was further observed that good number of proposals contain a unique code number on the proposal forms, which indicate that the Corporate Agent is indulging either in employing sub-agents, finders or following a chain marketing system.



Violation of Section 40(1) of Insurance Act, 1938, IRDA Circular No. IRDA/ CIR/ 010/2003 dated 27/03/2003, IRDA/CAGTS/CIR/LCE/082/05/2010 dated 07/05/2010 and also violation of Regulation 9(2)(ii)(a) of the IRDA (Corporate Agency) Regulations, 2002.

Submission by the Life Insurer

It is to confirm that the Company uses only qualified and trained employees, licensed insurance agents and insurance intermediaries to solicit the business. The Company has not authorised any third parties to solicit business and the agreements with them prohibit those persons from soliciting business. Point wise responses are as below.

- a) While sourcing the insurance business the company relies either on its sales employees or IRDAI licensed insurance agents. All sales are closed by the sales employees who are appropriately qualified, adequately trained and passed the IRDAI examination for agents even though this is not a requisite for the in-house sales force. The Authority's observation on recording processes, the company assures the Authority that it has rectified recording processes and will ensure that only the names of actual sales employee will be captured in the "Sales Person/Channel Partner" field.*
- b) While large amounts of business have been logged in the names of Regional Manager, actual sales have been concluded by a much larger team of sales employees. The majority of the persons names in the observation are Regional Managers and the details of business solicited against the Regional Manager's name reflect the sales achieved collectively by the employees in the team of that Regional Manager.*
- c) The referred entity provides strong infrastructure, data processing, servicing, premium collection support to the company. This support may be provided in part through their Village Level Entrepreneurs (VLEs) who would assist particularly as "Feet on street" in collection of premium or other documentation. However, as it is apparent from services agreement with the entity that, the VLEs are prohibited to solicit or procure insurance business. However, given the nature of interaction with the prospects/policyholders, it may have led to some inappropriate references being made in some of the newsletters which do not capture the true essence of the arrangement.*

Further with regard to a), b) and c) above, it is to categorically certify that the business is solicited by the sales employees of the company only.

With regard to Corporate Agents' issues, it is to submit that the corporate agency agreements entered into by the company mandate that the corporate agents undertake to abide by the code of conduct specified by Clause 9 of IRDA (Licensing of Corporate Agents) Regulations, 2002 and all applicable laws. Specific replies for d),e) and f) are as below.

- d) It is admitted that proposals were signed by non-specified persons and that they were inadvertently processed by the Company. Further confirmed that the process of checking specified persons signatures has been strengthened at proposal login stage through Operational personnel to prevent recurrence of such instances.*



- e) *The codes in the Company's system are created to support MIS needs of partners and are not in all cases reflective of locations/geographies. The company has taken a serious note of the observation and now monitoring the business done by Corporate agents on a quarterly basis and as required are advising Corporate Agents to increase the number of specified persons as and when the company believes that the amount or spread of business is disproportionate to the number of SPs. The Company has been communicating with Corporate agents on regular basis on deployment of adequate specified persons at all time and this is covered within the scope of annual corporate agency inspection carried out by independent Chartered Accountants firm.*
- f) *The company has taken note of the issue regarding Sales person report and specified person's signatures on a monthly basis by the operations team so that any proposal form not signed by the authorised specified person can be rejected and necessary feedback can be provided to the Corporate Agent. Further the company has trained and certified 72 specified persons of referred corporate agent as on 31.10.2012 and to the best of company's knowledge; such sales are conducted only through Authorised sales persons.*

Further the company has taken the following initiatives to ensure solicitation of business only through licensed individuals/entities.

- i) *Quarterly training and workshops are conducted for sales team and front end operations to educate them on Regulatory Requirements.*
- ii) *An independent team in the corporate office performs random checks on application forms every month to check adherence to laid down process*
- iii) *As per regulatory requirements, inspection of corporate agents is done by an independent Chartered Accountant Firm annually. It is also to certify that there were no reportable issues in the last corporate agency inspection. Copies of the reports are submitted for reference.*
- iv) *Robust process is put in place for verification of signature of SPs of the Corporate Agent. The signatures are scanned and updated information is shared with branch operations team. These signatures are verified on random sampling basis by an independent team.*

In addition to the above, the company categorically certifies that the business referred in d), e) and f) is solicited by specified persons only.

Decision

With regard to a), b) and c), the submissions of the Life Insurer are considered. However, the Life Insurer is hereby cautioned for these observations made and advised to be vigilant hereinafter.

With regard to d), e) and f), it is to be noted that, it is a primary duty of the Life Insurer to suitably regulate its Corporate Agents in compliance with the Insurance Act, 1938 and the Regulations under which the insurance business can be conducted in India. On examining the documentary evidences relevant to d), e) and f) it is noticed that, the Life Insurer has not ensured the same. The remedial actions taken as enunciated



above were also post inspection by the Authority. The Regulatory action for the lapses on the part of Life Insurer in this regard, is mentioned under charge No.13.

Charge No.8

Outsourcing Agreements were entered with entities owned/related to individual agents and extra payouts were made under this guise.

Violation of Section 40A (1) of Insurance Act, 1938 and Clause 8.5 of Outsourcing Guidelines, IRDA/LIFE/CIR/GLD/013/02/2011 dated 01/2/2011.

Submissions by the Life Insurer

The company had outsourcing arrangements for data processing and promotional material dissemination activity with the entities. These entities were selected to perform services based on their ability to perform these services and availability of necessary infrastructure. The rates paid to these entities were standard commercial rates. The payments were made only on receipt of services and satisfactory performance. The same was duly reported to the Authority in accordance with the Outsourcing Guidelines, 2011. These arrangements are separate and distinct from the insurance agency arrangements. The type of service and service fee agreed to with these third party service providers are set forth in their respective service agreements. The company hereby certifies that the two agreements are not in existence anymore and they were not renewed thereafter.

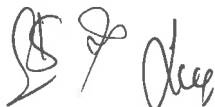
Decision

The documents submitted by the Inspection team, clearly establish the referred agents' association with the entities mentioned herein. The agents in question are top two performers of the company. The payouts made were also on a higher side. Further Outsourcing Guidelines, 2011 states that "Subject to these Guidelines, Agents, Corporate Agents, Brokers, TPA's and Surveyors and other regulated entities shall not be contracted to perform any outsourced activity other than those permitted by the respective regulations/instructions governing their licensing and functioning". From the data and agreements available on record, it can be safely construed that the extra payouts were channelized under the guise of the service level agreements, to circumvent remuneration limits prescribed under Section 40A (1) of Insurance Act, 1938. The Authority as per the powers vested on it vide Section 102(b) of Insurance Act, 1938, levies a penalty of Rs.5,00,000 (Rupees Five Lakhs only) for the violation. While taking note the submissions that the said agreements were terminated, the Life Insurer is advised to be vigilant hereinafter and not to enter into such agreements.

Charge No.9

The Life Insurer entered into agreements with the related parties of the Corporate Agents for obtaining services and making payment to those entities. It is evident from the schedules of the agreements that the scopes of services to be rendered by the service provider are those to be discharged by the Corporate Agents.

Violation of Clause 21 of Corporate Agency Guidelines, No.17/IRDA/Circular/CA Guidelines/2005 dated 14/07/2005 and also violation of Clause 8.5 of Outsourcing Guidelines, IRDA/LIFE/CIR/GLD/013/02/2011 dated 01/2/2011.



Submissions by the Life Insurer

The arrangements for services entered into with the entities mentioned in the observation were separate and distinct from the responsibilities of the Corporate Agents. These entities were selected to perform services based on their ability to perform these services and availability of necessary infrastructure. The choice of these entities was based on their experience and geographical presence in the markets where the Company was operating and keeping in mind future expansion plans. The rates paid to these entities were standard commercial rates. The payments were made only on receipt of services and satisfactory performance. The same was duly reported to the Authority in accordance with the Outsourcing Guidelines, 2011. The fees paid to such entities for services had no co-relation with services discharged by the Corporate Agents and were purely in line with agreements entered into with the entities. It is to further certify that the said agreements referred are not in existence anymore and they were not renewed thereafter.

Decision

Entering into additional relationships with Corporate Agents is in violation of extant guidelines in respect of licensing of Corporate Agents. Further Outsourcing Guidelines, 2011 states that "Subject to these Guidelines, Agents, Corporate Agents, Brokers, TPA's and Surveyors and other regulated entities shall not be contracted to perform any outsourced activity other than those permitted by the respective regulations/instructions governing their licensing and functioning". Hence entering into relationship with related entities of Corporate Agents shall also be construed as violation of the referred guidelines. Further the payouts made were also not reasonable and services availed were also outside the scope of the said guidelines. The Authority as per the powers vested on it vide Section 102(b) of Insurance Act, 1938, levies a penalty of Rs.5,00,000 (Rupees Five Lakhs only) for the violation. Further, while taking note the submissions that the agreements were terminated as on date, the Life Insurer is advised to be vigilant hereinafter and not to enter into such agreements.

Charge No.10

The Life insurer has filed a product advertisement for product "Dhan Suraksha" in (8) languages, which illustrate the product features of the said product, also mentioned an entity's name (an outsourced entity) indicating it as an intermediary by the statement "For further details on the product please consult the entity....."

Violation of Regulation 2(d) of IRDA (Insurance Advertisements and Disclosures) Regulations, 2000.

Submission by the Life Insurer

The Company entered into an agreement with the referred entity to provide services which included access to infrastructure, in July 2009, which was an active arrangement at the time of release of the advertisement. The agreement prohibits the entity to solicit the business. As sales employees were soliciting and selling policies utilizing the facilities of the service provider, the Company has not made any misleading statements in the said advertisement and further, the same was informed to the Authority. Subsequently, the advertisement was withdrawn and revised advertisement was filed with the Authority to be in line with the Advertisements' Regulations.



Decision

The provider of infrastructure cannot be consulted for further details on the product because he is neither the branch office/regional office of the Life Insurer nor an insurance intermediary. This gives scope for general public to infer that the entity is intermediary, of the Life Insurer. The advertisements mislead the prospects. Hence the Life Insurer is warned for the same. Further, while taking note of the corrective actions taken, the Life Insurer is advised to ensure non-recurrence of such lapses and to ensure that no advertisement shall mislead the general public.

Charge No.11

There is no mechanism put in place to ensure adherence to Section 64VB (4) of Insurance Act, 1938 with regard to premium collection by Corporate Agents/Brokers/Direct Sales Employees. The Corporate Agents / Brokers / Direct Employees are collecting the proposal deposits and signed proposals from the customers, and are in practice of remitting the same to the Life insurer, by way of depositing in Life insurer's designated bank account, depositing with CMS Agent or by depositing in the Life Insurer's branch office.

Violation of Section 64VB (4) of Insurance Act, 1938.

Submissions by the Life Insurer

At the stage of the inspection team's observations, most of these areas were not serviced by even the large public sector banks through CMS and in many locations the local branches of the banks had a mandate not to accept cash in excess of certain limits. As a result of these factors, there were several hindrances in completing deposit of premium by the given dates, despite the best efforts of company's agents. In order to ensure that policy holders were not impacted, the company has issued the receipt to customers acknowledging that the premium payment has been made at the time receiving the money by agent. The Company also carried out a number of internal checks to comply with the provisions of Section 64VB. In addition, the agreements with agents and corporate agents also required them to strictly adhere to the same. Quarterly declaration by the Corporate agents is also being taken on adherence to Section 64VB. Further regular trainings and workshops are conducted for sales team and front end operations team on the regulatory requirements. Further it is to certify that there have been no complaints or litigations against the company with respect to delay in deposit of premium as stipulated in Section 64VB of Insurance Act, 1938. It is further to certify that systems are now in place to ensure continuous compliance of the same.

Decision

Considering the submissions made, **no charges are being pressed**. However, the Life Insurer is advised to put in place mechanism to ensure the continuous compliance of Section 64 VB (4) of Insurance Act, 1938.

Charge No.12

The Life Insurer is not in practice of collecting the license fee of Rs. 250/- from the individuals who made applications for grant of license to act as an individual agent. However, the amount of license fee is funded by the Life Insurer, by debiting the operating



expenses, though the applicant is making a declaration in application Form –VA, stating that he had remitted the required license fee.

Violation of Regulation 3 (1) (b) 7 of IRDA (Licensing of Insurance Agents) Regulations, 2000.

Submissions by the Life Insurer

As a new entrant in the industry one of foremost challenges has been identifying and licensing competent and worthy individuals as the Company's insurance agents. Further, as the Company's core business strategy and priority is to provide insurance coverage in rural and Tier 2 and 3 towns of India, it is vital to identify good quality agents. Thus, the Company's intention was to build a high quality agency force and to incentivize good quality agents to join the Company vis-à-vis other more established life insurance companies. The Company was of the view that absorbing the cost of the training, examination and licensing was a means to make the proposition of joining the Company more attractive. As per the company's understanding, the IRDA (Licensing of Individual Agents) Regulations, 2000 require that a licensing fee be paid in respect of each application for a license but do not expressly prohibit this payment from being made by any third party. Further the amount involved is only Rs.5.47 Lakhs. It is further to submit that the company is committed to adhere to requirements of Authority's guidelines issued in April, 2015 on appointment of Insurance Agents.

Decision

As per Regulation 3(1) (a) and (b) and Regulation 7 of IRDA (Licensing of individual agents) Regulations, 2000, it is clear that the fee for obtaining license is to be paid by the applicant. The Life Insurer's contention, which states that regulations governing licensing of insurance agents do not expressly prohibit insurers from license fee, is purely mis-conceived and incorrect. The Life Insurer also broadly accepted the lapse on their part hence the Life Insurer is warned for the same. The Life Insurer is advised to ensure compliance of guidelines on appointment of insurance agents issued by the Authority from time to time.

Charge No.13

It was noticed that the Life Insurer had named an individual (holding a license as individual agent) as Corporate Insurance Executive (CIE) of a Corporate Agent of the Life Insurer without issuing any certificate to act as CIE on behalf of the Corporate Agent at the time of grant of license to the Corporate Agent, on his transfer from an individual agent to CIE of Corporate Agent. Even after expiry of license of the individual agent, the Life Insurer has failed to get fresh certificate as CIE. Since then, the referred Corporate Agent is operating without a Corporate Insurance Executive on its rolls. Even the corporate agent did not have any other Specified Person to solicit insurance business. Similarly in case of another Corporate Agent, the certificate granted to an individual as CIE, got expired on 29.07.2010. A new CIE was appointed and a certificate was granted to another individual on 27.04.2012. It was noticed that the Corporate Agent was operating without a CIE during the period 29.07.2010 to 27.04.2012. The business was solicited by the Corporate Agent during the period even without a single Specified Person.

Violation of Regulation 9(2)(ii)(a) as CIE in extant case is not holding valid certificate issued in accordance with Form IRDA-Corporate Agents-L-2 prescribed under IRDA (Licensing of Corporate Agents) Regulations.



Submission by the Life Insurer

At the time of license issuance, the CIE in both cases already held an individual agent license which was issued in 2007. The reason for not issuing a CIE certificate was on account of the fact that these transfers took place in 2009 prior to issuance of Authority's circular IRDA/CAGTS/CIR/LCE/082/05/2010 and pursuant introduction of the IRDA portal. Our understanding was that the Circular applied to prospective CA license issuances. It is to submit that this was inadvertent error for 2 corporate agents, out of 10-12 Corporate Agents. Further the company in order to ensure that these instances do not occur, several initiative have been taken as mentioned under charge no.7.

Decision

An individual agency license and a certificate to act as CIE are distinct from each other. If an agent wants to become CIE of an insurer he shall surrender his individual agency license and obtain a CIE certificate. Though pre-requisites for obtaining agency license/CIE certificate are same, the formats of the same are different in terms of their respective regulations. The fee charged for agency license was Rs.250 whereas fee for grant/renewal of CIE certificate was Rs.500/- The agency license entitles the holder of the license to receive commission directly from insurer by placing insurance policies, whereas CIE certificate cannot entitle holder to claim commission directly from the insurer. Therefore, the contention of insurer which states that there was no regulatory mechanism prior to 2009 which differentiates CIE and agency license is not tenable.

The Authority as per the powers vested on it vide Section 102(b) of Insurance Act, 1938, for the lapses referred in Charge no.7 and also under this charge, levies a penalty of Rs.5,00,000 (Rupees Five Lakhs only) on the Life Insurer.

Further Life Insurer is hereby directed to ensure continuous compliance IRDAI (Registration of Corporate Agents) Regulations, 2015 and specifically Regulation 14 of the Regulations with respect specified persons and also any other relevant regulatory prescriptions hereinafter.

Summary:

In conclusion, as directed under the respective charges, the penalty of Rs.15,00,000 (Rupees Fifteen Lakhs only) shall be remitted by the Life Insurer by debiting shareholders' account within a period of 15 days from the date of receipt of this Order through NEFT/ RTGS (details for which will be communicated separately). An intimation of remittance may be sent to Mr. Lalit Kumar, F.A. & HoD (Enforcement) at the Insurance Regulatory and Development Authority of India, 3rd Floor, Parishrama Bhavanam, Basheerbagh, Hyderabad-500 004.

Further

- a) The Life 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.



- b) The Order shall be placed before the Audit committee of the Life Insurer and also in the next immediate Board meeting and to provide a copy of the minutes of the discussion.
- c) If the Life Insurer feels 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.

Place: Hyderabad

Date: 13th April, 2016



(V R Iyer)

Member (F&I)

