



Ref. IRDA/ENF/ORD/ONS/115/06/2015

Final Order in the matter of M/s. Future Generali India Life Insurance Company Ltd

Based on Reply to Show Cause Notice dated 28th February, 2014 and Submissions made during Personal Hearing chaired by Sri T.S.Vijayan, Chairman, IRDAI on 10th September 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 M/s. Future Generali India Life Insurance Company Limited (hereinafter referred to as "the Life Insurer") from 13th February, 2012 to 18th February, 2012. The Authority forwarded a copy of the Inspection Report to the Life Insurer vide letter dated 15th May, 2012 seeking comments on the same. Upon examining the submissions made vide letter dated 5th July, 2012, the Authority issued a Show Cause Notice on 9th January, 2014 which was responded to by the Life Insurer vide letter dated 28th February, 2014. As requested therein, a personal hearing was given to the Life Insurer on 10th September, 2014. Mr. Munish Sharda, Managing Director and Chief Executive Officer, Mr. Gorakhnath Agarwal, Chief Actuary, Mr. Anup Chandak, Chief Financial Officer & Chief Risk Officer, Mr. Balaram Sarma, Head-Business Excellence, Mr. Madan gopal Jalan, SVP Legal & Compliance and Company Secretary, Mr. Bikash Choudhury, Appointed Actuary and Mr. Amol Apte, General Manager (Legal) were present in the hearing on behalf of the Life Insurer. On behalf of the Authority, Dr (Ms) Mamta Suri, Sr. JD (Inspection & Compliance), Ms. J. Meena Kumari, Sr. JD (Actuarial), Mr. V. Jayanth Kumar, JD (Life) and Mr. K. Sridhar Rao, AD (Inspection-Compliance) were present in the personal hearing.

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

The explanations offered by the Life Insurer to the issues raised in the Show Cause Notice and the decisions thereon are as follows.

Charge 1: Agents' balances should be placed with value zero for solvency purposes if they are not realized within a period of thirty days. However, it is noticed that there are no procedures in place for "ageing of agent's balances" in the systems to ensure the compliance with the same.

This is in violation Para 2 (1) (a) of Sch.-I of IRDA (Assets, Liabilities, and Solvency Margin of Insurers) Regulations, 2000 and Clause 6 of Annexure II of Corporate Governance Guidelines, Ref. No. IRDA/F&A/CIR/025/2009-10 dated 05/08/2009.

Submission by the Life Insurer: The Life Insurer while admitting lack of systems in place to ensure the above mandatory compliance, submitted that they are under the process of building the mechanism for the same in to the system and further confirmed that post observation by the Authority they have re-calculated the solvency and confirmed that even after removing entire amount of Agent's balances (irrespective of ageing), there is no adverse effect on mandatory requirement of solvency margin as on

Page 1 of 26

31.03.2011. Further submitted that as a practice they are now excluding entire amount under agents' balances for solvency calculations since April, 2012.

Decision: Considering the submissions that

- the procedure adopted by the Life Insurer has not adversely affected the mandatory requirement of solvency margin;
- the Life Insurer is in the process of developing suitable systems
- the Life Insurer is not considering the entire agents balances for solvency calculations since April 2012

Charges are not being pressed.

However, the Life Insurer is hereby directed to place suitable systems to consider assets in conformity with the said Regulations for solvency calculations.

Charge 2: In respect of one of non-linked child plans, where in-built waiver of premium benefit (PWB) is included, no mathematical reserves were reported under NLB-1 form of Actuarial Report and Abstract as on 31-03-2011 (under fully paid-up category of the product) but were included in 'reserves for lapse policies'.

This is in violation of IRDA (Assets, Liabilities and Solvency Margin of Insurers) Regulations, 2000.

Submission by the Life Insurer: The Life Insurer submitted that reserves for the referred cases were provided with status as 'death' where no further premium would be payable by policyholders. But the liabilities were shown under Lapse Reserves instead of Fully Paid up section. As the Reserves for Lapsed policies form part of mathematical liabilities there was no impact on total Reserves/solvency. The Life Insurer has further confirmed that liabilities are being correctly reported under "Fully paid up section" in NLB-1 form of Actuarial Report and Abstract (ARA) since 31-03-2012.

Decision: The Authority observes incorrect report in NLB-1 form of ARA. However, considering the following submissions that -

- 1) the reserves for premium waiver benefit is included under the head of lapsed policies while computing mathematical reserves and hence have no impact on solvency and
- 2) reporting is rectified effective from 31st March 2012,

Charges are not being pressed.

Life Insurer is hereby advised to ensure compliance with the reporting requirements under IRDA (Assets, Liabilities and Solvency Margin of Insurers) Regulations, 2000.

Charge 3: A number of Unit Linked Life Insurance policies which were not in conformity with Authority's Circular IRDA/ACT/CIR/ULIP/102/06/2010 dated 28/06/2010 were issued even after cutoff date 01/09/2010.



This is in violation of the circular IRDA/ACT/CIR/ULIP/102/06/2010 dated 28/06/2010 and in violation of Clause 6 of Annexure II of Corporate Governance Guidelines, Ref. No. IRDA/F&A/CIR/025/2009-10 dated 05/08/2009.

Submission by the Life Insurer: *The Life Insurer submitted that in light of the aforesaid circular they have not offered any existing product from the date of deadline and hence no fresh proposals were logged in post the closure date against withdrawn products. The applications receipted/received prior to the closure date after completion of all requirements were issued after the said deadline.*

Decision: The Authority observes violation of the said circular, as the Life Insurer has issued a number of policies after the cutoff date of 1st September 2010. However, considering the submissions that no fresh proposal was logged in post closure date against withdrawn products, **charges are not being pressed.** However, the Life Insurer is warned for the violation and directed to ensure adherence to all the regulatory instructions hereafter.

Charge 4

a) Multiple number of policies were issued to a single policy holder with a premium of Rs.4 Lakh each under the product "Nivesh Preferred (UIN-133L034V01)" while File and Use restricts maximum cap of Rs.4 Lakhs per policy.

This is in violation of File and Use Guidelines.

Submission by the Life Insurer: *The Life Insurer submitted that the product feature imposes a cap of Rs 4 lakh premium per policy level and not at policyholder level and, hence, there is no breach of File and Use. Further submitted that the premium paying capacity of the customer is also verified at the time of any application login to comply with AML. The AML documents pertaining to ID proofs, Address Proofs, Income, Proofs along with photograph (where ever required), were also verified for all these cases. A customer with investable funds can apply for issuance of multiple policies of this plan depending on his affordability. Therefore the company is not in breach of the regulatory protocol.*

Decision: Considering the submissions made by the Life insurer **charges are not being pressed.**

b) In respect of the product 'Future Pension Advantage – SP', interest was paid on accumulated fund at maturity for the period from the date of maturity to the date of commencement of annuity. There is no provision under File & Use for the same.

This is in violation of File and Use Guidelines.

Submission by the Life Insurer: *The Life Insurer submitted that as per the procedures laid down for the product 'Future Pension Advantage – SP', an annuity policy, they are sending advance intimation to the Annuitant at least 30 days before the maturity date to complete the formalities required to start payment of annuity on vesting date. Rigorous follow up is made with the customers for completion of the requirements at the policy holders' end. In this context to the best interests of the policy holders, they are allowing interest on accumulated fund at maturity for the period from the date of maturity to the*

date of commencement of annuity in cases where formalities were not completed. The payment of interest does not cause any loss to the company and/or its policyholders.

Decision: It is observed that the payment of interest on accumulated fund during the period from the vesting date to the date of commencement of the annuity is not part of file and use. However, considering the submission that the payment of interest is in the best interests of the policy holders, no charges are being pressed. The Life Insurer is hereby advised to continuously make every effort to ensure commencement of annuity on vesting date.

Charge 5: One of the lease agreement which is to be classified as 'Finance Lease' was classified as 'operating lease'.

This is in violation of Regulation 2(e) of IRDA (Assets Liabilities and Solvency Margin of Insurers) Regulations, 2000 and Violation of Regulation 3(1) read with Clause 1 of Schedule A (Part 1) of IRDA (Preparation of Financial Statements and Auditor's Report of Insurance Companies) Regulations, 2002 (Accounting Standard 19 prescribed by ICAI).

Submission by the Life Insurer: The Life Insurer submitted that the lease transaction falls under the classification of Operating lease and the assets under these were also not considered for the purpose of "Available solvency Margin". Further submitted that, post Authority's observation, they have recalculated the solvency ratio and confirmed that even after considering the lease as financial lease, there is no impact on mandatory solvency margin requirements. Revised calculation sheet was also submitted to the Authority duly certified by the Appointed Actuary.

Decision: As per the terms and conditions of the lease agreement, the lease shall be considered as a finance lease. Hence the procedure adopted by the Life Insurer will have bearing on the solvency position of the Life Insurer. However, considering that even after taking the lease as financial lease there is no impact on the mandatory solvency requirements, charges are not being pressed. The Life Insurer is hereby directed to adhere to the requirements stipulated in the extant regulatory framework.

Charge 6: Material transactions carried with various group companies, were not disclosed in "Related Party Disclosures".

This is in violation of Regulation 3(1) read with Clause 1 of Schedule A (Part 1) of IRDA (Preparation of Financial Statements and Auditor's Report of Insurance Companies) Regulations, 2002 (Accounting Standard 18 prescribed by Institute of Chartered Accountants of India).

Submission by the Life Insurer: The Life Insurer submitted that the entities were not considered as related parties as they are related parties/associates of JV Partner/Shareholders and that none of the mentioned entities directly or indirectly have any significant influence or control on the working of Future Generali India Life Insurance Company. Further given an undertaking that, as an abundant caution they will start reporting any such transactions under Related Party Transactions with effect from Financial Year 2014-15.



Decision: The submissions by the Life Insurer are considered and hence **no charges are being pressed.**

Charge 7: Appropriate provisions were not made towards contingent liability where "claim rejections/repudiations" being disputed by the policyholders and under litigation.

This is in violation of Regulation 3(1) read with Clause 1 of Schedule A (Part 1) of IRDA (Preparation of Financial Statements and Auditor's Report of Insurance Companies) Regulations, 2002.

Submission by the Life Insurer: *The Life Insurer submitted that post repudiation of the claims, the cases are discussed in Claims Review Committee headed by a Retired Mumbai High Court Judge and that very few claims, so repudiated reach litigation/ombudsman, where also the Company's stand was upheld in most of the cases. However, the company has now adopted a policy, wherein the disputes are analyzed on the basis of the merits of the cases and a specified percentage is placed denoting the probability of incurring of liability, depending on the chances of such liability accruing to the company on the basis of categories 'possible', 'probable' and 'Remote', basis which provisions for the contingent liabilities have been created since the financial year 2013-14.*

Decision: Considering the submissions made by the Life Insurer, **charges are not being pressed.** The Life Insurer is directed to comply with the provisioning requirements in accordance with IRDA (Assets, Liabilities and Solvency Margin of Insurers) Regulations, 2000 with appropriate disclosures under the IRDA (Preparation of Financial Statements and Auditor's Report of Insurance Companies) Regulations, 2002.

Charge No.8: During 2010-11 "Big Bazar Gift Vouchers" worth Rs.23.5 Crores (Accounting "Head "Sales & Marketing Promotions") were purchased from "Future E-Commerce Infrastructure Limited", a group Company and the same were distributed in the name of "Brand Building Activity and Recruitment Drive of Potential Advisors". The expenditure so incurred vis-à-vis total number of individual agents recruited (10487 agents recruited compared with expenditure incurred of Rs.23.5 Crores) is unreasonably high.

This is in violation of Regulation 23 (f) of IRDA (Registration of Insurance Companies) Regulations, 2000.

Submission by the Life Insurer: *The Life Insurer submitted that the distribution of gift vouchers is not limited to the recruited agents, hence it may not be appropriate to link the total number of gift vouchers to the total number of recruited agents. Various campaigns throughout the year including media/mega campaigns were also conducted including an elaborate 'Insurance Week' costing nearly Rs.12 Crores. The campaign was predominantly to propagate the need for and awareness of insurance and also about the Future Generali India Life insurance. All the initiatives fall under the category of general awareness of insurance as well as brand building exercise. This exercise need not bear immediate correlation to the expenses as it is generally accepted principle*

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of life insurance that it is a long term exercise and the expenses incurred in the initial years need not immediately result in tangible business in the same year.

Decision: Purchase of gift vouchers from one of the group companies and distribution of the same to unidentified beneficiaries and the public en masse, not being directly related to the activities of brand building, marketing and publicity may be construed as a camouflaged way of financing the related entity. The gift vouchers once used would benefit the group companies only. The above referred payments are observed to be significant and the manner of making payments appear to be given to the group entity "Future E-Commerce Infrastructure Limited" under the guise of marketing promotions. Further, the expenditure on such activities seems to be unreasonable, despite the fact that the company exceeded the prescribed Management Expense ratio under Section 40B of the Insurance Act 1938 for which exemption was accorded and accordingly the insurer should have exercised due diligence in controlling the expenses of management. Considering the same as a gross violation, the Authority as per the powers vested under Section 102(b) of the Insurance Act, 1938, a penalty of **Rs.5,00,000 (Rupees Five Lakhs only)** is levied on the Life Insurer.

Charge 9: Mandatory provision @ 0.4% of 'standard Assets' is not made in respect of any of the funds being maintained.

This is in violation the circular 32/2/F&A/Circulars/169/Jan/2006-07 dated January 24, 2007.

Submission by the Life Insurer: The life insurer confirmed that they have not made any loans other than loans to policy holders against insurance policies which are excluded for applicability of the circular.

Decision: Considering the submissions made by the Life insurer **charges are not being pressed**

Charge 10: Underwriting policy and changes to the same were not reviewed from time to time by the insurer's board.

This is in violation of point No. 7 (c) of Corporate Governance Guidelines, IRDA/F&A/CIR/025/2009-10,dated05/08/2009.

Submission by the Life Insurer: The Life Insurer submitted that Underwriting policy and changes to the same has been reviewed from time to time by the Company's board as prescribed in Authority's Guidelines. They have also submitted the details of changes made in the Underwriting policy along with the dates of the Board of Directors meeting where it has been reviewed.

Decision: Considering the submissions made by the Life insurer **charges are not being pressed**



Charge 11: Investments made in companies have been classified as 'infrastructure' investments while they do not fall under 'infrastructure facility' as per Regulation 2 (h) of the IRDA (Registration of Indian Insurance Companies) Regulations, 2000.

This is in violation of violation of IRDA (Investments) Regulations, 2000.

Submission by the Life Insurer: *The Life Insurer submitted that, for the sake of convenience they have referred the comparative table on definition of infrastructure provided in the report of Secretariat for Committee on Infrastructure, Planning Commission that summarized the definitions of infrastructure provided by government institutions wherein transport systems, is considered as infrastructure by the RBI, hence accordingly these investments were considered under infrastructure category. The Life Insurer further submitted that the total infrastructure assets reported under Life Fund as on 31st Mar 2011 was 29% of the Life Fund. Further confirmed that even if the said investment is removed from Infrastructure Category the revised infrastructure % for Life Fund would be 26.85% which is above the minimum requirement of 15%. Further submitted that all these investments also fall under "Approved Investments" category.*

Decision: It shall be noted that the investments made in those companies were not considered as infrastructure by the Authority as on 31/03/2011. Hence the Life Insurer has violated the said Regulation as on 31/03/2011. However, considering the submission that even if the said investment is removed from Infrastructure Category the revised investment in infrastructure sector is still above the minimum requirement of 15%, the Life Insurer is **warned** for the violation and directed to be vigilant while classifying the portfolio of investments, hereinafter.

Charge 12: "Free Look" Cancellation requests received from policy holders, who are relatives of agents/employees, are not allowed.

This is in violation of Regulation 6(2) of IRDA (Protection of Policy holders' Interests) Regulations, 2002.

Submission by the Life Insurer: *The Life Insurer submitted that as per their internal policy an employee or his immediate relatives to whom the employee sells is expected to know the terms and conditions of the policies being sold by him/her. All these cases of immediate relatives are issued under staff discount and such sale accrue towards sales targets completion of the said employees. Hence in such case the trigger for Free Look Cancellation is the employee's separation from the company and so the same were not entertained.*

Decision: The procedure adopted by the Life Insurer is against the spirit of free look cancellation provision. The above section of policy holders are deprived of the facility provided under the Regulation 6(2) of IRDA (Protection of Policyholders' Interests) Regulations, 2002 thereby grossly violated the same. Hence the Life Insurer is **warned** for the violation and hereby directed to be impartial in allowing free look cancellations, as per the extant regulatory provisions across all sections of the policy holders.

Charge 13: Inordinate delay was observed in processing the "Free Look" Cancellation requests.



This is in violation of Regulation 8 of the IRDA (Protection of Policy holders' Interests) Regulations, 2002.

Submission by the Life Insurer: *The Life Insurer submitted that adequate systems are now in place to avoid any delay in processing free look cancellation requests and furnished the data pertaining to financial year 2013-14 wherein they depicted that majority of the requests for free look cancellations are processed within stipulated time frame (96% of cases were processed within stipulated time). It is also confirmed that they have further improved during 2014-15 where in they have processed the free look cases under 99.3% of cases within stipulated time lines.*

Decision: Considering the submissions made by the Life insurer **charges are not being pressed.** The Life Insurer is hereby advised to ensure continued compliance with the claims processing procedures laid down in respect of life insurance policies under Regulation 8 of IRDA (Protection of Policyholders' Interests) Regulations, 2002.

Charge 14: While processing Free Look Cancellations under ULIPs, NAV of the date of processing the request is considered for calculating the amount payable, instead of date of request.

This is in violation of Clause 10.6.2 (Part I) of ULIP Guidelines 032/IRDA/ACTL/DEC-2005 dated 21/12/2005.

Submission by the Life Insurer: *The Life Insurer submitted that effective from July, 2013, Free Look Cancellation (FLC) process has been strengthened and refund under FLC will now be made at the NAV of the date of free look request. Necessary changes were initiated whereby necessary entries will be made on the date of request for processing the free look request.*

Decision: It is necessary that the Life Insurer should have in place the systems to comply with the guidelines with respect to applicability of NAV in settlement of Free Look cancellations. However considering the submissions made, the Life Insurer is **warned** for these deviations and directed to be vigilant hereinafter.

Charge 15: Subsequent to recording the surrenders in the system, in case if a policy holder withdraws the surrender request, the initial entry reversed. This procedure affects the policyholders that are continuing the policies.

This is in violation of ULIP guidelines-Circular No.032/IRDA/ACTL/Dec-2005 dated 21.12.2005 for not ensuring the equity amongst all the policyholders and also for violating 10.5 of the said guidelines with relevance to the NAV Calculation.

Submission by the Life Insurer: *The Life Insurer submitted that they have initiated the process change whereby on receipt of a surrender request, the fund shall be moved to a separate account. In cases where the customer agrees to withdraw the surrender request and wants to continue with the policy, the reversal of request will be done on the basis of NAV of the date on which the request is reversed after taking consent from the policyholder. The said process was put in place with effect from July 2013. Further submitted that the thrust of the company so far has been on the customer retention and*

hence they used to approach the policyholder to ascertain the difficulties and reasons for the surrender from the client. If the client insists for surrender then surrender value as per NAV on the date of request was paid which is as per Rules/Regulations/Guidelines.

Decision: It is noticed from the relevant documents that the time gap between the date of surrender request processed and the date on which the reversal entry was made is quite significant which may impact the NAV for the continuing policy holders. However, considering that the retention of policies ultimately benefits all the underlying class of policyholders in the long run and also considering the submission that they have revised the process to protect the continuing policyholders' interests, charges are not pressed.

Charge 16: The following observations were made with respect to compliance to Anti Money Laundering guidelines issued by the Authority.

- a) In one of the policies issued where annual income of the policy holder is inconsistent with the premium paid, no due diligence exercised while underwriting the policy and checking the credentials of the customer. It is noticed that Multiple Demand Drafts obtained from a bank which is different from the one submitted for proof of income. The transaction is fit to be reviewed for reporting as an STR to FIU.
- b) Under one of the policies issued, the policy was completed without calling for basic requirements such as PAN, income details, occupation details, residential proof, identity proof etc. for establishing KYC norms.
- c) Under two of the policies issued, no documentary evidence obtained either for source of income or the occupation. High value policy issued on the basis of declaration by the proposers. Address proof through a certification by the staff of the Life Insurer was accepted.

The above are in violation of a) Point No.3.1.1 (ix) b) point No.3.1.1 (iv) and c) Violation of 3.1.5, 3.1.1 (iv) and 3.1.1(ix) of AML Guidelines IRDA/F&I/CIR/AML/158/09/2010 dated 24/09/2010.

Submission by the Life Insurer:

The Life insurer for a) submitted that they have verified PAN, regular cash transactions in the Savings Bank Account with customer's Bank and the policy was issued based on income flow observed in the Bank statements provided by the proposer. With regard to accepting Demand Drafts obtained from Bank which is different from the one submitted for proof of income, Life Insurer's contention is that they might have been issued on the basis of submission of PAN only. In addition, they confirmed that they had raised an STR on 12/07/2011.

With regard to (b), submitted that the income details of the proposer are publically available. News paper cutting pertaining to the same was obtained. The identity proof in the form of PAN card copy and the address proof in the form of Passport copy were collected at the time of issuance of policy, but all the same were not uploaded in the system due to oversight.

With regard to (c) submitted that the company had collected the financial questionnaire for ascertaining the sources of funds and also collected copy of Bank statement, which showed the appropriate balances in customer's account for determining the



reasonableness of the purchase. Further submitted that the customer has paid the proposal deposit through a cheque drawn on a Nationalized Bank issued by Life Assured's father. Since the proceeds in question have originated from proposer's bank account with a nationalized bank, the AML requirements pertaining to source of funds were not called for.

Finally the Life Insurer pleaded that the incident was a transactional oversight and necessary internal checks have been put in place to avoid repetition of any such incident in future. They also submitted that an internal process note intended for underwriters was circulated.

Decision

- a) Submissions of the Life Insurer does not indicate compliance with the requirement of carrying out due diligence on the specific case pointed out by the inspection team. Further, Life Insurer in his first compliance dated 5th July, 2012, submitted that they were in the process of raising STR. But in reply to Show Cause notice, submitted that they have already raised the same on 12th July, 2011 i.e., prior to inspection. The Life Insurer is directed to ensure that such instances should not recur. The Life insurer has grossly violated the provisions of guidelines mentioned herein.
- b) It is observed that policy is issued without basic underwriting requirement which is a violation of AML/CFT guidelines. The Life Insurer's submission that they were not uploaded into the system by oversight is not acceptable. Hence, the Life Insurer has grossly violated the provisions of guidelines mentioned herein.
- c) As seen from the instance pointed out at (b) above, the AML/CFT compliance framework and implementation of underwriting requirements with the Life Insurer are inadequate. Hence the Life Insurer's contentions that the inspection observations were a transactional failure are not acceptable.

In light of the violations as above, it is evident that there is lack of internal controls and mechanism to ensure scrupulous compliance with the Authority's AML/CFT Guidelines. Hence the Life Insurer is warned for the violation and hereby directed to strengthen their internal control systems/processes to ensure scrupulous compliance with the requirements under AML/CFT guidelines.

Charge 17

i) Under general Guidelines for "Simplified Applications", (which is made applicable to only for proposal sourced by four corporate agents) consent from the proposer, while submitting proposal itself, is taken to reduce sum assured in case of premium shortage, thereby not giving an opportunity to the proposers to remit the balance of premium for sum assured chosen.

This is in violation of Provisions of Regulation 3(2) and Regulation 11(1) of IRDA (Protection of Policyholders' Interests) Regulations, 2002.

ii) Age at entry, premium/policy term, and sum assured limits are different from the File and Use of products which are applicable to two Corporate Agents.

This is in violation of File and Use Guidelines.

Submission by the Life Insurer:

For i) the Life Insurer submitted that, in respect of proposals procured from rural and semi-urban areas, there occurs delay in complying with the requirements, if they arise at the underwriting stage. As part of the administrative guidelines in such rural/semi urban cases, to ensure that the number of iterations is kept to the minimum, consent from the policy owner is collected for cases wherein there might occur a reduction in Sum Assured on account of shortage in premium. Such consent is collected only where the customer agrees for reduction of sum assured and does not want to pay additional premium.

For ii) submitted that the policy administration system set up is based on product features submitted in the File and Use. Therefore all the cases should have been issued complying with the features of the product as per file and use.

Decision

(i) At the outset, any simplified underwriting procedure shall be uniformly made applicable across all Distribution Channels. With regard to obtaining consent from the proposer upfront, the Life Insurer is not giving opportunity to the proposers to remit the balance of premium for the sum assured chosen. This method adopted do not testify the submission that such consent is collected only where the customer agrees for reduction of sum assured and does not want to pay additional premium. Hence, the practice of the Life Insurer is considered as in violation the provisions of Regulation 3 (2) and Regulation (11) (1) of IRDA (Protection of Policyholders' Interests) Regulation, 2002. The Life Insurer is hereby warned about the violation and directed to cease the practice with immediate effect.

(ii) The Life Insurer's submissions are not acceptable in view of the fact that prospects are deprived of other options of age at entry, Premium / Policy Term, and sum assured etc though the features applicable were set up, based on the product features. Hence, this is a clear violation of F&U guidelines. The Life Insurer is hereby warned for not abiding by the File and Use Guidelines and directed to discontinue this practice with immediate effect.

Charge 18: New policies were issued based on proofs of identity and residence, certified through an annexure (FG-Annexure), by the staff members against extant KYC norms. Huge number of complaints (90%) of non-receipt of policy bonds issued with this FG Annexure.

This is in violation of Clause 3.1.1 (iv) of AML Guidelines IRDA/F&I/ CIR/AML/158/09/2010 dated 24/09/2010.

Submission by the Life Insurer: The Life Insurer submitted that the sales persons used to authenticate the identity and address of the person by visiting the site and thereby give a confirmation by putting his signature on the annexure to enable the



processing of the case where the customer was unable to provide a valid proof of identity and address. Further confirmed that the usage of annexure has been abolished in the business being sourced from agency channel since May, 2012 and further confirmed that they have stopped usage of the annexure as address proof for all its channels.

Decision: On verification of pertinent details, it is found that huge number of complaints (90%) of non-receipt of policy bonds was in respect of policies issued with the FG Annexure. The procedure adopted for complying KYC norms is not as per AML Guidelines. Hence the Life Insurer has violated Clause 3.1.1 (iv) of the under Master Circular on AML, 2010. However, considering the submissions that they have abolished the usage of the said annexure for agency channel and stopped usage of the same as address proof, the life insurer is hereby warned and advised to be vigilant hereinafter. The Life Insurer is also directed to verify the authenticity of the details of all the policies issued with "FG Annexure" and compliance thereof with the requirements of AML/CFT guidelines which shall be completed within a period of 3 months from the date of receipt of this order under intimation to the Authority.

Charge 19: In respect of many rural policies issued, the policy holders' addresses are falling under areas not being classified as "Rural". Hence the data submitted with respect to the compliance of rural Sector obligations for the year 2010-11 is not reflecting true picture. And from the data submitted for the year 2010-11 with respect to Social Sector Policies under IRDA (Rural and Social Sector Obligations) Regulations, it is observed that (i) Occupation details are not captured (ii) Multiple policies issued to same individual is considered as separate lives (iii) Necessary systems are not in place to identify 'New Lives' insured.

This is in violation of IRDA (Obligations of Insurers to Rural and Social Sector) Regulations, 2002 and Violation of 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:

In respect of rural policies the Life Insurer submitted that, as the census data classify rural and urban on the basis of Tehsil and zone, and the company has to rely on pin code as identifier, the errors have occurred in classification. However, post observation by the Authority, the master data pertaining to criteria of classification is reexamined and they have engaged a third party vendor to re-assess the policies issued by the Company during the said period for rural/urban classification as per latest census data. They have submitted that the entire data has been reclassified and confirmed that they are still in compliant with (22% issued as against mandated 12%) Rural sector obligation of the Life Insurer for the year 2010-11. Further confirmed that they have strengthened their systems to ensure correct classification of rural/urban areas.

With respect to Social Sector Business, submitted that they had been following an automated process of marking a particular policy under Social Sector obligations based on the occupation codes of the life assured. However due to an error in the policy admin system, the classification of the same was done erroneously. After this issue was highlighted by the Authority, necessary corrections were made in the policy



administration system and now the occupations are correctly captured and classified under Social sector policies.

Further submitted that, for the Financial year 2010-11, the total number of lives covered under Social Sector are 1322 under individual lives (1,402 Policies) and 3,50,326 lives under Group business totaling to 3,51,648 lives which comply with the Social Sector obligation requirement. Further confirmed that the error identified in the policy administration system has since been rectified and from the FY 2011-12 disclosures regarding both the number of lives and policies under social sector are being made in the financials.

Decision: There shall always be proper systems and mechanisms required for correct classification of the business under Rural and Social Sector segment. However, considering the submissions that they are still in compliant with the mandatory rural sector business and social sector obligations even after re-assessment of the data, and that they have rectified and placed systems to ensure the authenticity of the classification of the business, the Life Insurer is hereby **warned** for the violations and directed to be vigilant in ensuring the accuracy of the business figures furnished with respect to Rural and Sector henceforth.

Charge 20: No controls in the system to ensure non-issuance of policies to the persons whose identity matches with persons having criminal background or with banned entities and those reported to have links with the terrorists or terrorist organizations.

This is in violation of 3.1.1(xi) of AML Master Circular No. IRDA / F&I/ CIR / AML / 158 / 09/ 2010 dated 24/09/2010.

Submission by the Life Insurer: The Life Insurer submitted that the said check is provided in the AML system where any hits are appropriately escalated. The AML check is carried out to find out the prospects, if any, falling into the list of persons with criminal background. Without AML check no policy is issued. Per se the FG Connect system did not separately have the facility to trace persons with criminal background or with banned entities and those reported to have links with terrorists or terrorist organizations. Further the Life Insurer confirmed that till date they have not entered into contract with any person/entity matching with the persons with criminal background or with banned entities and those reported to have links with terrorists or terrorist organizations.

The Life Insurer confirmed that with effect from 01-Apr-2013, the system has been put in place to the check for criminal background and banned entities at the underwriting stage.

Decision: The intent of the guidelines is to place controls in the system which is used for processing of the policy applications to ensure non-issuance of policies to the persons whose identity matches with persons having criminal background or with banned entities and those reported to have links with the terrorists or terrorist organizations. However, considering the confirmation that the Life Insurer has not entered into any contract with such persons/entities and that now the systems are in place to ensure the checking at underwriting stage, **charges are not being pressed**. The Life Insurer is advised to strengthen their mechanism of ensuring compliance with 3.1.1(xi) of AML Master Circular in particular and AML/CFT Guidelines in general.



Charge 21: Adequate notice of a minimum of 2 months on the proposed relocation/closure of offices is not given to policy holders serviced by those offices that were closed / relocated in accordance to Authority's circular.

This is in violation of Circular No.041/IRDA/BOO/Dec-06 dated 28/12/2006.

Submission by the Life Insurer: *The Life Insurer submitted that now they have strengthened the internal processes for due intimation of relocation/closure of the branches to avoid any delays in such communications.*

Decision: It is evident from the charge and submission of the Life Insurer that, minimum of 2 months notice has not been given to all policyholders serviced by that office closure/relocation. Hence the Life Insurer has not complied with the requirement mandated in para-2 of Authority's circular dated 28-12-2006. However, taking into consideration the confirmation that they have now strengthened internal processes for due intimation of relocation/closure to ensure compliance with the said circular, **charges are not being pressed.** The Life Insurer is advised to strengthen their systems and processes for ensuring compliance of relevant guidelines with respect to closure/relocation of offices.

Charge 22: On sample examination of a number of forms sourced by two corporate agents, huge delays were observed in processing the issuance of the policies.

This is in violation of Regulation 4(6) of IRDA (Protection of Policyholders' Interests) Regulations, 2002.

Submission by the Life Insurer: *The Life insurer submitted that the corporate agents for control purposes have been undertaking scrutiny and quality checks of forms at their head office. Thereafter, the forms are submitted to Life Insurer's Chennai processing Hub. It was submitted that timelines were always ensured and the observation of the Authority is with respect to some of exceptions for the month of December 2011 which is just 2% of the total number of policies issued for the said month. The Life Insurer further confirmed that the company has taken policyholder's interests into consideration and has made payment of claims in genuine cases where the claim events have taken place prior to issuance of policy.*

Decision: It is noticed that the Life Insurer did not put in place procedures to monitor the activities of the Corporate Agents. The Insurer shall ensure that the processes of the Corporate Agents shall comply with the requirements of Insurance Act and Regulations notified there under. As the Corporate Agents are consolidating the proposals at their head quarters, there is a delay as submitted by the Life Insurer. Hence, the Life Insurer's submissions have not disproved the violation of the Regulation aforementioned. The Life Insurer is hereby **warned** for the same and directed to continuously strive to comply with the timelines in processing the policy application forms.

Charge 23: An outsourcing arrangement made with "verb Hub" for issuance of the premium receipts was not reported to the authority.

This is in violation of Clause 11 of Outsourcing Guidelines IRDA/ LIFE/ CIR/GLD/ 013/02/2011 dated 01/02/2011.



Submission by the Life Insurer: *The Life Insurer submitted that the entity name was reported as "M/s. Verve Communications" in the said report and confirmed that both the entities are same.*

Decision: **The Life Insurer's submissions are considered and hence, charges are not being pressed.** The Life Insurer is advised to ensure correct reporting.

Charge 24: On sample examination of Demand Drafts received at Chennai Hub Office, it is noticed that unlicensed individuals/entities of an entity are involved in solicitation of business for one of top Corporate Agent of the Life Insurer. Further no measures are in place to monitor the activities of the outsourced entity on collection of Demand Drafts.

This is in violation of Clause 8.2 of Outsourcing Guidelines, 2011 and violation of IRDA circular IRDA/CIR/010/2003 dated 27.03.2003.

Submission by the Life Insurer: *The Life Insurer submitted that the business was in fact received through licensed intermediary and submitted that they were not aware of the any relationship between intermediary and the entity. In addition, they submitted that they have not validated the details mentioned at the back of demand drafts and those details bear no connection to them and they fail to establish any connection of the said code with the Corporate Agent or any other entity. Further submitted that the said proposals were indeed received through corporate agent only and they were processed accordingly.*

Decision: **The Life Insurer should have exercised due diligence while accepting the premiums (Demand Drafts). It is evident from pertinent documents and from the Life Insurer's response that they have failed to establish any connection of the details mentioned at the back of demand drafts, that some unlicensed individuals/entities might have involved in solicitation of business in violation of the provisions of guidelines and circular mentioned herein. It shall be the duty of the Life Insurer to put in place procedures for monitoring the activities of its Corporate Agents. However, considering the confirmation that the business was received through the said corporate agent only, charges are not being pressed.** The Life Insurer is advised to strengthen the systems in monitoring the activities of Corporate Agent.

Charge 25

- a) ACRs under proposals sourced through one of the corporate agents (CA) were given by specified person of another Corporate Agent which tantamount to permitting the insurance solicitation by unlicensed entity/individual. Similarly policy sourced by unlicensed entity was logged under the code number of the Corporate Agent, Future Capital.
- b) The Great Empire Fin-Insurance Corporation whose corporate agency was not renewed after 19-01-2012 was active in the policy administration system of the Life Insurer and the business was continued to be sourced even after expiry of 3 years from the date of issue of license.
- c) "V Care Multi Trade" which is a third party service provider for "Marketing Support Arrangement" which is also a Channel Development Associate of



another Life Insurance Company procuring the business and is logging in the business in three to four individual agency codes.

- d) The proposal deposit receipts issued by one of the entities "V Care" were booked under the Corporate Agent "The Great Empire Fin-Insurance Corporation".
- e) Under a sample of application one Agent's confidential report was given by person who is not a specified person with the corporate agent "The Great Empire Fin-Insurance Corporation". Thus, business is solicited through unlicensed individuals and commission was paid on such policies. On verification of bank account of the corporate agent it was found that V-Care Multi trade is using license of this Corporate Agent and getting huge money through Marketing Support Activities.
- f) On examination of records of policy number 00868214, it was observed that the Broker "Vignaharta Direct Insurance Broker" is sourcing business in MLM model through unlicensed entities.

The above are in violation of Section 40 (1), Section 42 (7) of the Insurance Act, 1938 and IRDA Circular IRDA/CIR/010/2003 dated 27.03.2003.

Submission by the Life Insurer:

- a) *There was an error at the Underwriting stage due to which Specified Person's signature matching was missed. Process to avoid such errors now strengthened and the effective system has been put in place with effect from 17.10.2012.*
- b) *The application for renewal of Corporate Agency for Great Empire-Fin Insurance was filed with the Authority on 7.12.2011. While the application was under process at the office of the Authority and since rejection of the application was not received within 7 days of application, the said arrangement with the CA was not terminated in the hope that the license would be renewed (In view of authority's Circular bearing number IRDA/CAGTS/GTL/LCE/106/06/2010, Clause 5). However during the inspection it was informed by the IRDA inspection team that the code needs to be terminated on expiry of the license even if the application for renewal is pending with the Authority and hence the same was terminated immediately. It is to confirm that the company has put a system in place wherein such cases are now terminated with immediate effect.*
- c) *Submitted that the Company is not aware of any relationship that the said V-Care Multi Trade might have with any other insurer. The Company had only an arrangement of marketing support with V-care Multitrade which stands terminated with effect from February 2012. Further submitted that though the company was in the discussion with V Care Multi Trade for a corporate Agency relationship but the same fell through and hence no business has been sourced for the Company by the said vendor.*
- d) *Submitted that the Company was in discussion for a CA arrangement with V-care. During the course of the said discussion a system was set up for V-Care*



and the codes were generated. However, the discussions fell through and the same codes generated in the system were allocated to Great Empire Fin-Insurance and hence name of V-Care was mentioned instead of Great Empire Fin-Insurance. The mistake was noted and rectified later on.

- e) Submitted that the said policy was indeed sourced through the said Corporate Agent. At the underwriting stage the code of the corporate agent was verified but the name on the ACR was missed out inadvertently. Further submitted that they have strengthened its process of validating the Specified Agents codes at the time of underwriting with effect from 17.10.2012. It is to confirm that there is no connection between the payments being made to V Care Multi Trade on account of the services rendered by them and the signing of ACR by said person.
- f) The Life Insurer submitted that they have accepted Life Insurance business with the broker purely on the basis of the fact that the entity is a registered and licensed broker with the Authority and they are not aware of MLM activities carried out by the said broker. They have made payments to the said Broker duly in accordance with the relevant provisions and no payment has been released to any unlicensed entity sourcing business for the said broker. The broker is neither an agent nor a corporate agent of the Company and further the Company has not allowed the said broker to appoint any unlicensed entity for sourcing business on its behalf.

Decision

- a) **The Life Insurer's contention is unacceptable. The observations clearly indicate that the policies were sourced through unlicensed entities/individuals. Hence the Authority as per the powers under Section 102(b) of the Act, vested on it, imposes a penalty of Rs. 5,00,000 (Rupees Five Lakhs only) on the Life Insurer. The Life Insurer is hereby advised to scrupulously comply with the provisions of the Act/ Regulations/ Guidelines/Circulars issued by the Authority with respect to solicitation of insurance business.**
- b) **Non-receipt of approval of renewal of the corporate agency within 7 days shall not be considered as approval by the Authority. As the business was sourced through an entity without corporate agency license this tantamount to solicitation of insurance business through an unlicensed entity. The Authority as per the powers under Section 102(b) of the Act, vested on it, imposes a penalty of Rs.5,00,000 (Rupees Five Lakhs only) on the Life Insurer. The Life Insurer is also directed to be cautious in this regard.**
- c) **On scrutiny of the pertinent documents it is observed that an entity by name V care is soliciting insurance business for another Life Insurer. The said entity is not holding any license issued by the Authority. The involvement of V Care in solicitation of business on behalf of the Life Insurer is established under Para (d) of the charge. Regulatory action on the violation is mentioned in the below paragraph (e).**
- d) **The Life Insurer's contentions are not acceptable, based on the documentary evidences on file, it is clearly indicative that the Third party**



vendor M/s. V Care an unlicensed entity was involved in sourcing the business on behalf of Corporate Agent M/s. The Great Empire Fin-Insurance Corporation". It depicts that the Life Insurer has engaged M/s. V Care for solicitation of insurance business under the guise of marketing arrangement. Regulatory action on the violation is mentioned in the below paragraph (e).

- e) From the relevant documents, it is noted that the Life Insurer has entered into an agreement with the said person who has signed ACRs for supply of marketing material and paid an amount of Rs.63.37 lakhs in 2010-11 and Rs.15 lakhs in 2011-12 (till December-2011) which clearly depicts solicitation of business through unlicensed individuals/entities and payouts made under the guise of marketing arrangement. Hence the Authority as per the powers under Section 102(b) of the Act, vested on it, imposes a penalty of Rs.5,00,000 (Rupees Five Lakhs only) on the Life Insurer. Various inspection observations indicate inadequate internal control processes with the Life insurer as regards insurance agents/corporate agents. The Life Insurer is hereby directed to rectify and strengthen their systems to ensure strict compliance with the stipulations on a continued basis.
- f) The Life Insurer's contentions are considered and hence, charges are not being pressed.

Charge 26: Leads are generated and business is sourced through unlicensed entities / individuals (Total 19 in number) and agreements are entered in the name of printing and distributions of marketing material and payouts are made.

This is in violation of Section 42 (7) of the Insurance Act, 1938, Regulation 11 (1) and 11(4) of IRDA (Sharing of Database for Distribution of Insurance Products) Regulations, 2010, IRDA Circular No. IRDA/CIR/010/2003 dated 27.03.2003, Circular No. IRDA/Life/CIR/MISC/110/07/2010 dated 12th July, 2010, Circular No. IRDA/Life/Misc/Cir/125/08/2010 dated 05th August, 2010.

Submission by the Life Insurer: *The Life Insurer submitted that the company had entered into marketing support arrangements with the entities and the payments have been made in accordance with the said arrangements. Further confirmed that in light of observations made they have terminated the relationships with the above mentioned entities and no further payouts have taken place.*

Decision:

Solicitation through un-licensed entities:

It is noticed from the websites of the most of the entities that they are engaged in solicitation of insurance business through multilevel marketing model. The involvement of un-licensed entities in insurance solicitation by resorting to the unauthorized business models known as Multi level Marketing is objectionable. It is understood that all the agreements entered into by the Life Insurer with the entities was with the intention of providing payments under the guise of printing and distribution of marketing material. It is a clear violation of IRDA Circulars No.

IRDA/CIR/010/2003 dated 27.03.2003. However, the Authority has already penalized the Life Insurer for similar violations vide order no IRDA/Life/ORD/MISC/016/01/2012 dated 9th January 2012. Hence no further regulatory action is taken. But the Life Insurer is hereby warned for the violation.

Non-Compliance with circulars issued post IRDA (Sharing of Database for Distribution of Insurance Product) Regulation 2010:

Amongst services to be rendered, as per the agreements entered into with 19 entities, they need to provide membership database of the entities to the Life Insurer for the purpose of distribution of the Life Insurer's products. Hence the agreements are also in the nature of referral tie up.

It is also noticed that the agreements were continued even after withdrawal of referral/lead generation circulars and the issuance of IRDA (Sharing of Database for Distribution of Insurance Products) Regulations, 2010. Treating this as a gross violation of circulars mentioned under the charge, the Authority, as per the powers vested on it vide Section 102(b) of Insurance Act, 1938, a penalty of Rs.5,00,000 (Rupees Five Lakhs only) is levied. As the Life Insurer confirmed that as on date all the agreements were terminated, no further directions are being issued. However, the Life Insurer is directed to ensure compliance with Regulations mentioned herein.

Charge 27

Patroun Group, the promoters of Suraksha Consultancy, a corporate agent of the Life insurer claims through its website that it is procuring insurance business by adopting multilevel marketing model. This website also misleading general public that they have an insurance broking arm registered as "Privilege Insurance Brokers Ltd., under IRDA". However, it was noted that no such insurance broker is registered with the Authority.

An amount of Rs.1.27 Crores was paid by the Life Insurer, during October, 2010 to December, 2011 under an arrangement to one of the entities knows as "Om Patron Associate", Vishramabag, Sangli, who has the same address as that of the above referred Corporate Agent.

This is in violation of Section 42 (7) of the Insurance Act, 1938, Regulation 3 (2) of IRDA (Licensing of Corporate Agents) Regulations, 2002 and IRDA Circular IRDA/CIR/010/2003 dated 27.03.2003.

Submission by the Life Insurer: *The Life Insurer submitted that the corporate agency of the Life Insurer was given to the Suraksha Consultancy on the basis of the documents provided by the said Corporate Agent after exercising requisite due diligence. The Life Insurer further confirmed that they are not aware of any relationship that the said Corporate Agent or its associates may have with Patroun Group and/ or any other such entity or broking firm. With regard to payouts made to 'Om Patroun Associate', the Life Insurer submitted that they had a separate marketing arrangement support with the entity and the payments have been made to them for the work done in accordance with the said arrangement.*

Decision: The submissions of the Life Insurer are considered and hence, **charges are not being pressed.**

Charge 28: On sample verification of policies cancelled under Free look, the policy holders claim that they have obtained the policies through a Corporate Agent whereas the policies were actually sourced by another Corporate Agent.

This is in violation of Section 42(7) of the Insurance Act, 1938, IRDA circular IRDA/CIR/010/2003 dated 27.03.2003.

Submission by the Life Insurer: *The Life Insurer submitted that the name of the Corporate Agent was not mentioned in the policy document but in the internal note on Free Look Cancellation prepared by the staff, the name of the corporate agent was wrongly mentioned which was captured from the letter of the policyholder. In some of the locations, both the corporate agents might be operating from similar address and that would have caused the confusion when customer raised the free look request. Further contended that both are their corporate agents hence no breach of section 42(7) is caused.*

Decision: The Life Insurer submission with regard to solicitation of insurance through unlicensed entities is considered. However, It is clearly evident from the Life Insurer's submission that there is no proper control over systems and procedures to record correct details regarding sourcing of the policies which is in violation of Clause 6 of Annexure II of Corporate Governance Guidelines, 2009. This lapse of the Life Insurer will have serious consequences on servicing of policy holders. Non inclusion of Corporate Agents details on the policy documents is also in violation of Authority's Circular No. IRDA/CAD/CIR/AGN/137/08 dated 25/08/2010. Hence the Life Insurer is hereby **warned** for the violations and directed to scrupulously ensure compliance with the provisions of the Circulars mentioned herein.

Charge 29: The designated person did not obtain/cease the certificates issued to Specified Persons (SP) in cases of resignations and there are no systems in place to comply with the same.

This is violation of 10(6) of IRDA (Licensing of Corporate Agents) Regulations, 2002.

Submission by the Life Insurer: *The Life Insurer submitted that as per Regulation mentioned herein, the responsibility to surrender the license will be on the specified persons and not on the designated person. The certificates are sent to the SPs online in the form of a soft copy and hence collection of the same at the time of resignation would only be a symbolic activity. Thus, they contend that they have not violated the said Regulation.*

Decision: Specified person is a full time employee of the Corporate Agent (CA) hence at the time of resignation the CA shall cease all the identification documents at the time of SP's relief. It is expected that the Life Insurer shall maintain a record of specified persons of each of the Corporate Agents and continuously monitor and reconcile the list on ongoing basis to ensure only

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licensed specified persons are soliciting the business on behalf of the licensed CA. It is evident that the Life Insurer has not monitored the activities of the CA in ensuring that the license copies of specified persons are surrendered. While warning the Life Insurer for the lapse on his part, the Life Insurer is directed to ensure that the certificates issued to specified persons are surrendered on their ceasing to be employees of Corporate Agent.

Charge 30: Advance commissions are paid to one of the Corporate Agents (CAs).

This is in violation of Clause 21 of Guidelines on Licensing of Corporate Agents No.017/IRDA/Circular/CA Guidelines/2005, dated 14/07/2005.

Submission by the Life Insurer: The Life Insurer submitted that payment of commission was made only on the basis of the business logged in and issued. The arrangement with the CA was to settle the commission on weekly basis. However, on account of systemic limitations the processing was happening on 15 day cycle basis and, therefore, the payment of commission made, was actually due to the CA. The nomenclature used was advance commission. The account reconciliation on the basis of the same is done in a routine cycle which was on 15 days basis. Further submitted that as on 31.03.2012 there was an amount of Rs.393238/- has to be recovered from the said corporate agent and this entire amount of Rs. 393238/- was recoverable on account of free-look cancellations. However, the said arrangement was a one off arrangement with the CA and the Company has done away with the process of such advance payments.

Decision: Considering the submissions that the commission referred was actually payable for the business already procured by the Corporate Agent, charges are not being pressed.

ii) A separate marketing support arrangement was entered with Corporate Agent M/s. Reach Life Care strategies and during 2010-11 and 2011-12 an amount of Rs.39.82 Lakhs was paid towards marketing material cost.

This is in violation of Clause 21 of Guidelines on Licensing of Corporate Agents No.017/IRDA/Circular/CA Guidelines/2005, dated 14/07/2005.

Submission by the Life Insurer: The Life Insurer submitted that they have only Corporate Agency arrangement with M/s.Reach Life Care Strategies Pvt. Ltd., and marketing support arrangement with M/s.Reach Enterprises Limited. Both the entities are not the related parties to each other. The amount mentioned herein was paid to M/s. Reach Enterprises Limited for the services rendered by them. They also submitted that the Authority had earlier reviewed the said arrangements of the company and had levied a penalty of Rs.2 Lakhs. The company now terminated the relationship with M/s. Reach Enterprises India Private Limited.

Decision: It is noticed from the relevant documents that the payouts are made in the name of to Corporate Agent M/s. Reach Life Care. Hence the Life Insurer submission that the payouts are made to M/s. Reach Enterprises Limited for marketing support arrangement is not acceptable. The Life Insurer is hereby warned for the wrong submissions. It is to be noted that the penalty order referred to by the Life Insurer is not pertaining to the said Corporate Agent. It is



clearly established, that the Life Insurer has made extra payouts to the Corporate Agent M/s. Reach Life Care in the name of marketing expenses which is to be treated as a gross violation of the provisions of guidelines mentioned herein. Hence as per the powers vested vide Section 102(b) of Insurance Act, 1938, a penalty of Rs.5,00,000 (Rupees Five Lakhs only) is levied on the Life Insurer. The Life Insurer is directed to discontinue all such agreements and payouts immediately. The regulatory action is without prejudice to the action to be initiated against the referred corporate agent. The Life Insurer is hereby directed to terminate all such agreements, if any, to be in compliant with the said guidelines, under confirmation to the Authority.

Charge 31 The Life Insurer has conducted Dubai Convention during August, 2011. The participants, inter-alia, were from the representatives of a Corporate Agent of the Life insurer. One individual agent of another Life insurer also attended this convention as being a representative of the corporate agent tied up with the life insurer. It is also observed that the said person also represented the M/s.Pioneer Enterprises' which had an agreement with the Life Insurer for supply and distribution of marketing material. An amount of Rs.2.55 Crores were paid to the M/s. Pioneer Enterprises during April-2011 to Dec-2011. Thus, this individual who was neither tied up as agent nor appointed as a specified person by any of the Corporate Agents of the Life insurer was benefitted from the foreign tour.

This is violation of Section 40(1) of Insurance Act, 1938 and also for violation of IRDA Circular IRDA/CIR/010/2003, dated 27/03/2003.

Submission by the Life Insurer: *With regard to participation of the said person in the convention, the Life insurer submitted that, as per the convention norms the Corporate Agent get a prescribed number of seats in the convention on the basis of the business sourced by them. The decision to nominate the representatives for the convention was left to the discretion of the corporate agent. With regard to payouts of Rs.2.55 Crores paid to M/s.Pioneer Enterprises, the Life Insurer submitted that the payouts made were duly in accordance with a separate arrangement and contract for the work done by M/s.Pioneer Enterprises, whose proprietor is the person referred herein.*

Decision: On verification of the relevant documents, it is noticed that the person referred herein who is representative of a third party service provider in the capacity of proprietor to M/s.Pioneer Enterprises has attended Dubai convention conducted by the insurer during August-2011, as a representative of the Corporate Agent.

The life insurer failed to provide any evidence about the manner of nomination of the person referred in the charge. From the submissions it may be construed that the eligibility was the quantum of business procured by the Corporate Agent. Such business is procured as per regulations through the specified persons appointed for the purpose by the corporate agent. It is not clear as to why a service provider to the life insurer who has no linkages with the Corporate agent was nominated for the conclave. Thus, it may be safely concluded that the person who had no role in procuring business for the Corporate Agent was remunerated in kind by way of a ticket to a foreign trip. This tantamount to violation of the provisions of the Act and circular referred herein. Hence under the powers vested as per the Section 102(b) of the Act, a penalty of Rs.5,00,000 (Rupees Five Lakhs only) is levied on the Life Insurer.



Charge 32: Death claim of a member under Group policy was repudiated on the grounds of “non-disclosure” of medical history. However, it was observed that the Member joining / application form is in English language and the member signed in vernacular and no person has explained the contents of the form.

This is in violation of Regulation 4(2) of IRDA (Protection of Policyholders’ Interests) Regulations, 2002.

Submission by the Life Insurer: *The Life Insurer submitted that indeed there was a non disclosure of material fact, but given the fact as pointed out they have reexamined the matter and have referred the matter to their Claims Review Committee (headed by a retired Bombay High Court Judge) for their review and further directions wherein they, looking at peculiarity of the facts of the case, decided to settle the claim under the said policy and had sent various communications to the nominee under the policy but to no avail. The Life insurer expressed their willingness to settle the claim as soon it receives response from the nominee under the policy. Further the Life Insurer submitted that Regulation 4(2) of the IRDA (Protection of Policyholders’ Interests) Regulations, 2002 provide for availability of proposal form and such other documents in the languages recognized by the constitution of India and hence the same have not been breached.*

Decision: From the pertinent membership form it is noticed that though there is a provision to obtain a certificate from a third party, if the member is signing in vernacular language, that the contents of the form and documents were fully explained to the member that he fully understood, the significance of the same for the proposed contract, the Life Insurer has not ensured to obtain the same. Hence it lead to violation of Regulation 3(4) of IRDA (Protection of Policyholders’ interests) Regulations, 2002 also. The contention of the Life Insurer with regard to Regulation 4(2) of IRDA (Protection of Policyholders Interests) Regulations, 2002 is not acceptable because the said Regulation clearly stipulates that “depending on the circumstances of the case” the forms and documents shall be made available in languages recognized under the Constitution of India. Hence the Life Insurer is directed to abide by Regulation 3(4) and Regulation 4(2) of IRDA (PPI) Regulations, 2002 while obtaining the membership form/application forms hereinafter.

With regard to claims, the Life Insurer’s submissions that based on the circumstances of the case is willing to honour the claim and they are following up with the beneficiary for settlement of the same are considered and hence **no charges being pressed.**

Charge 33: Huge numbers of claims are not settled in respect of Group Insurance Schemes.

This is in violation of Regulation 8 of IRDA (Protection of Policyholders’ Interests) Regulations, 2002.

Submission by the Life Insurer:

The Life Insurer submitted that the death claims referred are under Group policies issued to two Master policy holders, M/s.BSS Micro Finance and M/s. Share Micro Finance. The Authority in a focused onsite inspection pointed out that the claims under



Group policies were settled in favour of Group Master Policy Holder and subsequently a direction vide letter dated 15/10/2010 was issued to discontinue the practice and settle the claims in favour of beneficiaries only. Accordingly, in order to comply with the directions made by the Authority, they had decided to settle the claim in favour of beneficiaries and the matter was also taken up with the master policyholders. However, the Group policyholders have been repeatedly demanding for payment of claims in their favour. Submitted that the Group Policyholders have already settled the claims in favour of the beneficiaries. As the matter has not been resolved, there has been delay in settling claims. Further these policies covered a lot of members (716,670 members were covered under BSS policy and 4,085,077 members were covered in case of SMF policy) hence huge number of claims have remained pending for such a long time.

Further submitted that on a preliminary enquiry of the claims they found that the genuineness of the claims lodged by these group policy holders are questionable. They found that huge number of claims have been intimated after the policies were terminated/on expiry of the term of policies; There have been instances, where claims in bulk have been reported to the Company and the same appear to be in pattern in as much as the same date of death has been reported for a number of members and such instances are quite high. Instances have also been noted where death of large number of members had occurred before the enrolment of the members under the said group insurance plan and hence they have a strong suspicion about the genuineness of the claims lodged by the Group Policyholders. However, the Life Insurer submitted that despite the aforementioned facts they have settled various claims raised by the policyholders on the basis of principle of good faith.

The Life Insurer informed that amongst the Master policy holders M/s.BSS Micro Finance has approached State Consumer Dispute Redressal Commission, Bengaluru for settlement of claims and with regard to claims under M/s. Share Micro Finance, they have been constantly following up for submission of requirements. The Life Insurer submitted that the company initiated investigation into a sample base of 110 claims submitted by the M/s.Share Microfinance through a third party entity to check the genuineness of the death certificate (only document submitted by the Group policy holder) and check the cause of death and profile of the nominee/beneficiary etc. Further the Life Insurer submitted that meanwhile, the master policy holder M/s.Share Micro Finance has also approached Bombay High Court for settlement of all the death claims in their favour.

Decision: On examination of the observation vis-à-vis the submissions of the Life Insurer, the following observations are made.

- a) The Life Insurer has no proper systems for administration of group policies.
- b) It is indicative that whatever observations made by the Life Insurer with regard to genuineness of claims is only post focused inspection of the Authority referred herein.
- c) In respect of settlement of Group Death claims under the master policies issued, the claim amounts were paid in advance to claimant / nominee by the Master Policy Holder and the said amounts were reimbursed by the Life Insurer thereby the Master Policy Holder acted as de facto Life Insurer and the process in place had not allowed any scope for the Life insurer to review the claim to decide whether to honor a claim or otherwise. As the



death claims were paid in favour of Master Policy holder, the Life Insurer has violated Clause C-7 of Guidelines on Group Insurance policies, 2005.

- d) There is no mechanism to maintain a complete list of the persons insured attached to each group insurance policy, if not a system of a clear reference to a list maintained in the books of the group organizer or manager that cannot be subsequently manipulated, as being the list of persons insured because of which the Life Insurer could not identify the beneficiaries.
- e) It is presumed that there is no system of issuance of certificate of insurance to the members of the group which would have facilitated easy claim settlement.

In light of the above, it is clearly evident that the Life Insurer has a casual approach towards settlement of the claims. Hence the Authority as per the powers vested on it vide section 102(b) of Insurance Act 1938, a penalty of Rs.5,00,000 (Rupees Five Lakhs only) is levied for the violation of Regulation mentioned herein.

Besides the Life Insurer has no proper mechanism in place to administer the group insurance schemes as enumerated above. They failed to take steps to abide by the Authority's direction dated 15th December, 2010, to pay death claim in favour of the claimant/beneficiary due to which huge number of claims remained un-settled. This is a gross violation of Clause 6 of Annexure II of Corporate Governance Guidelines, 2009, Hence the Authority as per the powers vested on it vide section 102(b) of Insurance Act 1938, a penalty of Rs 5,00,000 (Rs. Five Lakhs) is levied.

Charge 34: An agreement for "Market Support Activities" was entered with Seashore Consultancy (another arm of the group of Corporate Agent, "Seashore Securities"). From the website of 'Seashore Group' it is noticed that the insurance business is procured by the Corporate Agent through Multi Level Marketing. The Life Insurer has also made payouts to the Corporate Agent "Seashore Securities" in the name of marketing expenses, marketing fees etc.

This is in violation of Circular No. IRDA/Cir/004/2003 dated 14.02.2003 and Clause No. 21 of Corporate Agency Guidelines, 017/IRDA/Circular/CA Guidelines/2005 dated 14/07/2005.

Submission by the Life Insurer: The Life Insurer submitted that the company has a relationship with Seashore Consultancy Pvt. Limited for marketing support since the said organization has a deep network in the eastern part of India especially in Orissa. Further submitted that the said contractual relationship has no connection with the corporate agency relationship that the company has with M/s. Seashore Securities. The payouts made to Seashore Consultancy Pvt. Ltd duly in accordance with the marketing support arrangement that they have with them. It is further submitted that CA license of Seashore Securities has since expired w.e.f. 20.01.2012.

Decision: It is noticed that the Director of the corporate agent, M/s. Seashore securities has also promoted M/s. Seashore Consultancy. Hence it is evident that the Life Insurer has entered into agreement with related party of the Corporate Agent and made payouts under the guise of marketing support arrangement. It is



also noticed from the website content of the Seashore Group that the business model adopted by them is Multi Level marketing model.

On examination of pertinent documents, it is clearly indicated that an amount of Rs.4.09 Lakhs (during April, 2010 to December, 2010) was paid to M/s. Sea Shore Securities, Corporate Agent of the Life Insurer. Hence the Life Insurer's submissions are contradictory. The Life Insurer has also violated the provisions of Clause 21 of Corporate Agency Guidelines, 017/IRDA/Circular/CA Guidelines/2005 dated 14/07/2005.

In light of the violation noticed, the Authority as per the powers vested on it under Section 102(b) of the Act, imposes a penalty Rs.5,00,000 (Rupees Five Lakhs only) on the Life Insurer.

The regulatory action is without prejudice to the action to be initiated against the referred corporate agent. The Life Insurer is hereby directed to terminate all such agreements, if any, to be in compliant with the said guidelines, under confirmation to the Authority.

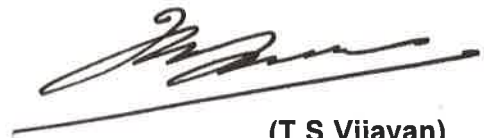
Summary:

In conclusion, as directed under the respective charges, the penalty of Rs.50,00,000 (Rupees Fifty 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, 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 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: 10th June, 2015


(T S Vijayan)
CHAIRMAN

