IRDA/LIFE/ORD/MISC/177/10/2015

FINAL ORDER in the matter of
M/s. ICICI Life Insurance Company Ltd.

Based on the Reply of M/s ICICI Life Insurance Co Ltd dated 13th August 2015 to the Show Cause Notice Dated 23rd July, 2015 andSubmissions made by them during Personal Hearing on 21st September, 2015, Chaired by Sri Nilesh Sathe, Member (Life), IRDAI, at the office of Insurance Regulatory and Development Authority of India, 3rd Floor, Parishrama Bhavanam, Basheer Bagh, Hyderabad.

On examination of the Form A (Outsourcing Report) for the half year ended 31st March, 2014 filed by ICICI Life Insurance Co. Ltd., (hereinafter referred to as "the Life Insurer"), the Insurance Regulatory and Development Authority of India (hereinafter referred to as "the Authority") has noticed certain discrepancies and clarifications were sought from the Life Insurer. After examining the responses received from the Life Insurer, the Authority has issued a Show Cause Notice dated 23rd July, 2015 to the Life Insurer for certain violations of Guidelines on Outsourcing of Activities by Insurance Companies dated 1/2/2011 (hereinafter referred as Outsourcing Guidelines) for which the Life Insurer has submitted its response vide letter dated 13th August, 2015. As requested therein, a personal hearing was given to the Life Insurer on 21st September, 2015.

Mr. Sandeep Bakhshi, MD & CEO, Mr. Sandeep Batra, ED and Mr. Deepak Kinger, Chief Compliance Officer were present in the personal hearing on behalf of the Life Insurer. On behalf of the Authority, Mr. V. Jayanth Kumar, Joint Director (Life) and Ms. B. Aruna, AD (Life-Regulatory Actions) were present.

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

The findings on the explanations offered by the Life Insurer to the issues raised in the Show Cause Notice dated 23rd July, 2015 and the decisions are as follows.

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<u>Charge (a):</u> Your Company has entered into an outsourcing agreement with M/s. Astute Corporate Services Pvt. Ltd., for the activity of "Cheque Pickup and Banking". This entity's net worth is below Rs. 10 crores and not meeting the eligibility criteria mentioned under Clause 5.1 of the Outsourcing Guidelines Ref No. IRDA/LIFE/CIR/GDL/013/02/2011 dated 1/2/2011 to carry out the said activity and made total payment of Rs. 11,22,341/- during the Financial Years 2012-13, 2013-14 and 2014-15.

Violation of Clause 5.1 of the Outsourcing Guidelines Ref No. IRDA/LIFE/CIR/GDL/013/02/2011 dated 1/2/2011.

In response to the above charge, the Life Insurer submitted that this has happened due to oversight and human error. The Life Insurer stated that they have allowed M/s. Astute to collect only cheques and no cash collection was allowed under this agreement.

The Life Insurer represented that improving persistency has been a key focus area and various initiatives taken by the Company have helped in improving persistency metrics. The arrangement for picking up renewal premium cheques is an additional service provided to customers. The Life Insurer also stated that Astute group has presence across the country and they provide services such as, debt collection, risk investigation, KYC checks, cheque pickup to various entities in financial services, including banks. They have a pan India presence with around 100 offices represented by more than 2,500 employees. Given this background, the Life Insurer represented that in spirit they had duly ensured that risks associated with such outsourcing were mitigated, though the requirement of Rs. 10 crore net worth was not complied with. The Company also reiterated that this cheque pickup arrangement was immediately stopped after Authority's observation.

The Life Insurer also stated that they have enhanced the systems now and before selecting a vendor, the process is automated. The system runs checklists to ensure compliance to the outsourcing guidelines. Detailed screenshots of the revised system workflow were provided as evidence.

<u>Decision:</u> Though the Life Insurer has terminated the cheque pick up tie up with this entity after Authority's observation, the Life Insurer has failed to comply with the provisions of Clause 5.1 of Outsourcing Guidelines at the time of entering into such agreement. The Authority therefore CAUTIONS the Life Insurer for violating the Clause 5.1 of Outsourcing Guidelines. The Authority also directs the Life Insurer to review all the existing Outsourcing Agreements to ensure adherence to the Outsourcing Guidelines and confirm compliance.

Charge (b): Your Company has reported an amount of Rs. 82,94,252/- under "Call Center – Inbound and Outbound activity" and an amount of Rs. 3,64,270/- under "Postage and Courier activity" paid to ICICI Bank in the said Form A. When the Authority sought information of granular particulars of the services that are rendered by the ICICI Bank towards these activities, your Company has stated that out of Rs. 82,94,252/- an amount of Rs. 58,17,262/- has been incorrectly classified and reported under this head instead of under "Network, Data Center and other IT Support" to which they pertain and the balance amount of Rs. 24,76,990/- has been paid for procurement of Gift Cards from ICICI Bank for contests held for outbound call centre staff, which is not an outsourced activity and has been erroneously reported as part of the outsourcing report.

Further your Company also stated that the amounts paid to ICICI Bank and reported under "Postage and Courier Activity" are for procurement of Gift Cards from ICICI Bank for contests held for outbound call centre staff, which is not an outsourced activity and has been erroneously reported as part of the Outsourcing Report.

That means, the payments reported under the activity "Call Center – Inbound and Outbound activity" and "Postage and Courier" to ICICI Bank are not the payments pertaining to this activity at all. This leads to wrong classifications of payments and wrong reporting to the Authority.

An amount of Rs. 28,41,260/- (i.e. Rs. 24,76,990 + Rs. 3,64,270) was paid in the form of Gift Cards to the individual tele-callers (employees of outsourced entities engaged in outbound calling activities) for the half year ended 31st March, 2014 and as confirmed by your Company these payments are over and above the outsourced agreements entered with the outsourced call centres. By paying the staff of service provider directly by way of gift cards over and above the agreed consideration amount, your Company has violated the provisions of Clause 9.5 and 9.6 (ii) of the Outsourcing Guidelines dated 1/2/2011.

Violation of Clause 9.5 and Clause 9.6 (ii) of the Outsourcing Guidelines Ref No. IRDA/LIFE/CIR/GDL/013/02/2011 dated 1/2/2011.

In response, the Life Insurer submitted the following:

With regard to payments made to the employees of outsourced entity over and above the agreed payouts in the agreement, the Life Insurer stated that they are making such payments, by way of incentive, to encourage these employees to meet the target of the service providers and these payouts constitute only 4 % of total payouts made to the outsourced entity. And because of this practice, they have collected 78% of their renewal premiums. The Life Insurer also stated that they are continuing with the practice of these payouts and requested the guidance of the Authority in this matter.

The Life Insurer further stated that these call center arrangements are for renewal payment reminder calling to customers and not for new business. Such calling activity is in the interest of customers and has helped the Company improve its persistency. The overall cost of such calling activity, inclusive of such rewards, amounts to Rs. 6.98 crs as compared to the total premiums collected due to such effort amounting to Rs 934 crs (cost /benefit ratio of 0.7%). The cost of rewards is Rs. 28 lacs, which is just 4% of the total cost of this activity. The calls are duly monitored for quality and calling scripts are pre-approved by compliance. The Life Insurer represented that given the facts enumerated, they believe that this arrangement was not violation of clause 9.5 and 9.6 (ii) of the Outsourcing guidelines.

The Life Insurer agreed to the wrong classification and wrong reporting to the Authority with regard to the payments reported under the activity "Call Center – Inbound and Outbound activity" and "Postage and Courier" and informed that they have now modified their systems to ensure that their Expense Heads are mapped to activities listed in the Outsourcing guidelines to minimise future errors.

Decision:

a. There is no contractual relationship between the Life Insurer and the employees of Service Providers and the agreements entered with these Service Providers also do not have such provisions of making extra payouts to employees of service providers. Moreover, all the payments need to be paid to the service provider by the Life Insurer as per the terms and conditions of the agreement. But, the payouts paid to the employees of service providers are over and above the payments to the service providers under the outsourced agreements.

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b. The Life Insurer has taken the services of service providers for calling its customers for reminders on renewal premium collections and other service calling activities for which payments as agreed are paid. If the Life Insurer is directly monitoring the tele-callers individually to ensure adherence to the benchmarks of these service providers, the very purpose of outsourcing the activity will be defeated.

c. The Life Insurer is paying twice for single activity i.e. to the service providers and also to the employees of service providers over and above the payments agreed as per the terms of the agreement without any cost-benefit analysis. Hence, violated the said provisions of Outsourcing Guidelines.

The Authority, therefore, by exercising the powers vested under Section 102(b) of Insurance Act, 1938 imposes a penalty of Rs. 5,00,000/- for violating provisions of Clause 9.5 and 9.6(ii) of Outsourcing Guidelines and making payments directly to the employees of the outsourced entity over and above the agreed contract terms & conditions. The Authority also directs the Life Insurer to discontinue the practice of payments to the employees of outsourced entities directly when there is no contractual relationship and any payments to the outsourced entities/employees of outsourced entities should be strictly as per the terms and conditions of the agreements entered and as per their Board approved Outsourcing Policy.

The Authority also WARNS the Life Insurer for wrong classification of the activities outsourced and wrong reporting to the Authority and advises the Life Insurer to ensure correct reporting to the Authority in future.

The penalty amount of Rs. 5,00,000 (Five lakhs only) shall be remitted by the Life Insurer by debiting the Shareholders' Account within a period of 45 days from the date of issuance of this Order through NEFT/RTGS(details for which will be communicated separately). An intimation of remittance may be sent to Mr. V. Jayanth Kumar, Joint Director (Life) at the Insurance Regulatory and Development Authority of India, 5th Floor, ParishramBhavan, BasheerBagh, Hyderabad 500004, email id life@irda.gov.in.

Further, 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 the provisions stipulated under Section 110 of the Insurance Act, 1938.

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Place : Hyderabad
Date : 09 October, 2015

(Nilesh Sathe)
MEMBER (Life)