



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

Ref. IRDA/ENF/MISC/ONS/061/03/2017

Final Order in the matter of M/s. ICICI Prudential Life Insurance Company Limited

Based on reply to Show Cause Notice dated 5th December, 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 31st January, 2017 at 11:00 a.m. at the office of Insurance Regulatory and Development Authority of India, 3rd Floor, Parishrama Bhavanam, Basheerbagh, Hyderabad.

Background

The Insurance Regulatory and Development Authority of India (IRDAI) had conducted an onsite inspection of M/s. ICICI Prudential Life Insurance Company Limited (Hereinafter referred to as "the Life Insurer/Company") during 9th December, 2013 to 18th December, 2013.

The inspection was intended to check the compliance of the Life Insurer to the provisions of Insurance Act, 1938, IRDA Act, 1999, Rules, Regulations, Circulars, Guidelines and other directions issued there under by the Authority. The inspection covered the activities of the Life Insurer for the financial years 2011-12 and 2012-13.

The Authority forwarded a copy of the report to the Life Insurer on 19th February, 2014 and the reply was received at the Authority vide letter dated 6th March, 2014. Post scrutiny of the first compliance, the Authority had raised further queries vide e-mail dated 17th October, 2016 which was responded to vide emails dated 27th October, 2016, 2nd November, 2016 and 7th November, 2016. Upon examining the submissions made by the Life Insurer vide the communications referred herein, the Authority issued a Show Cause Notice on 5th December, 2016 which was responded to by the Life Insurer vide letter dated 2nd January, 2017. As requested therein, a personal hearing was given to the Life Insurer on 31st January, 2017. Mr. Sandeep Bakhshi, MD&CEO, Mr. Sandeep Batra, ED, Mr. Deepak Kinger, Chief Risk & Compliance Officer, Mr. Anand Desai, VP, Compliance and Ms. Ashwini Bondale, GRO were present in the hearing on behalf of the Life Insurer. On behalf of the Authority, Ms. Mamta Suri, CGM (F&A), Mr. V. Jayanth Kumar, GM (Life), Mr. Prabhat Kumar Maiti, GM (Enforcement), Mr. Pankaj Kumar Tewari, DGM (Actuarial) and Mr. K. Sridhar Rao, AGM (Enforcement) were present in the personal hearing.

The submissions made by the Life Insurer in their written reply to Show Cause Notice, the documents submitted by the Life Insurer in evidence of their submissions in reply and also those made during and post personal hearing have been considered by the Authority and accordingly the decisions thereon are detailed below.

Charges, Submissions in reply thereof and Decisions

1. Charge No.1

Free look cancellations were allowed beyond prescribed time period. i.e., beyond 15 days from the date of receipt of policy bond at the policy holder. Further out of the free look cancellation requests for the years 2011-12 and 2012-13, it is noticed that 7.4% of cases, were processed beyond 30 days (out of which some cases were processed even beyond 365 days).

Violation of Regulation 6(2) and Regulation 8 of IRDAI (Protection of Policyholders' Interests, Regulations, 2002.

Submission by the Life insurer

The reasons for allowing free look cancellations beyond prescribed time period (extended free look cancellations) are as below.

- 1) Unavailability of delivery dates (historically India post)*
- 2) Mis-selling is proven and*
- 3) Humanitarian grounds.*

Keeping policyholders' interests in mind, the Company processes the requests thoroughly and evaluates centrally by the Company's grievance Redressal Officer's team and decision is taken based on all the facts of the case. The extended free look data also contains cases which are cancelled due to orders from courts (consumer litigation related) or Insurance Ombudsmen. With regard to unavailability of delivery details of policies (one of the reason for which free look allowed beyond time period) at the policyholders, it is to submit that the Company has been using India Post for locations where courier deliveries may not be satisfactory. The Company has been dispatching through India post from Delhi, Kolkata and Mumbai to these areas. At the point of time, India post had not been sharing the delivery details. Hence, keeping policyholders' interests in mind, the Company extended free look cancellations beyond prescribed period in such cases only. However, as on date Delhi and Kolkata Post offices have started sharing the delivery details. The discussions with Mumbai post offices are already underway. Hence the issue of unavailability of delivery dates will be resolved.

With regard to delays in processing the free look cancellation requests, the dates of refund shared with the Authority at the time of inspection were reprocessing dates of stale cheques/electronic rejections. As per the revised status, basis actual payout dates, only 0.37% and 0.36% of cases were processed beyond prescribed time period of 30 days for the years 2011-12 and 2012-13 respectively. In this regard, it is to submit that the Company makes efforts for resolving the policyholders' grievance and for retaining them before the free look request is processed and such efforts may take time for resolution.

Further, it is to submit that the systems are strengthened that are capable of recording dispatch and delivery status information for policies sent. The dispatch management system records the delivery date of the policy documents. It captures the Airway bill number, the dispatch and delivery dates and mode of dispatch. Screenshots of sample entries submitted to the Authority.

Decision

The reasons quoted for allowing free look cancellations beyond prescribed time period by the Life Insurer are unavailability of delivery dates, mis-selling cases, humanitarian grounds and orders from the courts/ombudsman. The submissions indicating that the free looks were allowed as such, keeping in mind the interests of the policyholders are considered and hence no charges are being pressed. However, the Life Insurer is directed to strive for making the prospects take an informed decision by strengthening the systems at the point of sale to ensure reduction of mis-selling, grievances and litigations. Further they shall strengthen their systems to ensure perfect controls over proof of delivery of the policies at the policyholders thereby to ensure genuine free look cancellations.



2. Charge No.2

For the financial years 2011-12 and 2012-13, it was observed that a considerable number of maturity claims were settled beyond prescribed time period. (59% (3680), 19% (881) of Maturity claims of 2012-13 and 2011-12 respectively were settled beyond prescribed time period)

Violation of Clause 6 of Annexure II of Corporate Governance Guidelines, 2009 and Regulation 8 of IRDA (Protection of Policyholders Interests) Regulations, 2002.

Submission by the Life Insurer

A majority of the cases settled beyond prescribed period pertained to vested annuity policies for which annuitisation requests were not received. In the balance cases the delay was on account of system issues in generating print files, which was resolved subsequently. As on 31/03/2016, it is to confirm that no maturity claim lying unprocessed. With regard to annuity policies, the Company had processed 20858 claims in the past five years and as on 31/03/2016, 7072 cases were outstanding pending the receipt of annuity requests.

It is to submit that as per the Authority's circular No.025/IRDA/Act/F&U Procedure/LP/July-2007 dated 26/07/2007, insurers were prohibited from obtaining options upfront from the proposal forms. Hence the Company has no option but to wait for the policyholders' exercising the option. The company follows a defined process involving proactive engagement with policyholders, sixty days prior to the maturity/vesting date for submission of electronic mandates for maturity payouts and exercise of vesting options. In case of non receipt of mandates, payments are done by issuing cheques. Continuous efforts are made to contact customers through various means. However, post issuance of the Authority's circular IRDA/Life/Misc/140/2015 dated 03/08/2015, (wherein the Authority had permitted insurers to obtain annuity options duly exercised by the proposed at the proposal stage itself), the Company has made requisite changes in processes on obtaining annuity options from the policyholders. Hence this may facilitate reduction of such issues.

Further it is to submit that the Company also enriched its customer contact information by tying up with entities like CIBIL and Experian, that helps in case the customer has not updated his contact information with the Company over the years. Post issuance of the Authority's circular on payment of dues to policyholders and disclosure of unclaimed amount dated 13/02/2014; an electronic payout mandate is taken along with the proposal form. The mandate details are additionally reconfirmed sixty days prior to the maturity. The unclaimed balances are subject to oversight by Policyholder Protection Committee and Board Audit committee of the Board headed by independent directors. The Company's unclaimed amounts as a percentage of investments are favourable as compared to other private insurance companies.

The data of settlement of Maturity claims status of Non-Pensions policies for the financial years 2014- 2015 and 2015-2016 submitted to the Authority, indicates 100% and 99.9% respectively. Further the Company has been taking proactive steps to reduce the outstanding maturities pertaining to annuity policies and it is to confirm that the same is on declining trend as mentioned in first paragraph above.

Decision

The Circular referred by the Life Insurer was issued with respect to Unit Linked Policies. Hence the Life Insurer's submission indicated that they had applied the provisions of these circular to linked and Non-Linked policies. However, there is no



prohibition for Non-Unit Linked policies from obtaining annuity options upfront. Hence the Life Insurer's contention cannot be accepted with regard to Non- Unit Linked Policies. Maturity claim is a company initiated claim hence the happening of event is very well known in advance to the Life insurer. The data of maturity claims brought out by the inspection team of the Authority indicates that there was huge scope for improvement in the systems in place at that point of time. The submissions of having strengthened the systems in this regard are noted and hence no charges are being pressed. However, the Life Insurer has to further strengthen their systems to ensure settlement of annuities/maturity claims on vesting/maturity date.

3. Charge No.3

On examination of sample cases of Surrenders/Partial withdrawals, delays were noticed in processing the same.

Violation of Regulation 8 and 10 of IRDA (Protection of Policyholders' Interests) Regulations, 2002

Submission by the Life Insurer

The Authority's observation was based on sample verification of three cases and it is to submit that the Company strives to ensure timely payouts to its policyholders. During the past four financial years, more than 99% of the payouts were made within prescribed timelines (please refer the table below). This delay of ~1% is mainly due to non-receipt of complete documents from the policyholders. Further the Company continually reviews its processes and controls to strengthen them and address any gaps that may have been identified. We submit below, the trend of such payouts for the past Financial Years.

<i>Trend of timely processing of surrender/ partial surrender request</i>			
<i>Financial Year</i>	<i>No. of Cases</i>	<i>Cases beyond TAT</i>	<i>Percentage of Cases within TAT</i>
<i>FY 2012-13</i>	<i>922,208</i>	<i>8,375</i>	<i>99.1%</i>
<i>FY 2013-14</i>	<i>812,777</i>	<i>6,502</i>	<i>99.2%</i>
<i>FY 2014-15</i>	<i>657,582</i>	<i>5,260</i>	<i>99.2%</i>
<i>FY 2015-16</i>	<i>372,278</i>	<i>2,605</i>	<i>99.3%</i>

Decision

Considering the submissions made, no charges are being pressed. However, the Life Insurer shall ensure payment of penal interest as envisaged under Regulation 8(5) of IRDAI (Protection of Policyholders' Interests) Regulations, 2002 wherever there is a delay on part of them.

4. Charge No.4

The Life insurer had considerable number of outstanding annuities under group policies to be paid, due to the requirement of Existence Verification Certificate (EVC). However, the Life insurer is sending the notices to the group annuity policy holders once in every year in the month of October. In the light of large number of outstanding annuities payments due, enhanced efforts should have been initiated by the insurer to accelerate payment of the outstanding group annuity cases.

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

Submission by the Life Insurer:

The Company strives to ensure that all group annuity payouts are made on a timely basis. However, an annuity payout requires a periodic verification to confirm the existence of an annuitant prior to making such payout. Such requirements are also mandated for Bank, Government Pensioners, failing which, pensions may be stopped. The below is the process in place for conducting an existence verification:

- Existence Verification (EV) is done annually for annuitants opting for "without return of purchase price" annuity option.
- EV is done once in three years for annuitants who have opted for "with return of purchase price" annuity option.
- The Company initiates the EV process in the month of October every year, depending upon the options exercised by the annuitant through the below means:
 - i. SMS on registered number
 - ii. E-mail to registered e-mail Ids
 - iii. Letters at communication address
 - iv. Out-calling annuitants and handholding for completion of the process

Additionally, regular follow-ups are done with annuitants through SMS and emails.

As a result of the above efforts and process in place, the Company has been observing the declining trends on timely payouts as below:

<i>Trend of timely payouts- Group Annuities</i>			
<i>FY</i>	<i>Count of Annuities due for the year</i>	<i>Count of annuities paid in that year</i>	<i>Pending/ Outstanding at the year end</i>
<i>FY 2011-12</i>	<i>103,841</i>	<i>101,285</i>	<i>4,086</i>
<i>FY 2012-13</i>	<i>122,251</i>	<i>117,618</i>	<i>6,611</i>
<i>FY 2013-14</i>	<i>139,691</i>	<i>133,444</i>	<i>7,207</i>
<i>FY 2014-15</i>	<i>150,658</i>	<i>142,720</i>	<i>10,910</i>
<i>FY 2015-16</i>	<i>161,173</i>	<i>148,646</i>	<i>13,284</i>

Further in cases of death of the annuitant, it is to confirm that, on receipt of death claim intimation from the claimant, the Company pays all accrued annuities till the date of death to the claimant, post which the payouts are settled as per the annuity option chosen. Further it is inform that the unpaid amounts form a part of the unclaimed funds, under which due interest is paid out. The Company also tries to enrich customer contact information by trying up with entities like CIBIL, verifying its existing policy base and that the documents evidencing EVC are collected at its and through registered email IDs.

The Company shares the Authority's concerns and have noted its guidance in this matter on evaluating additional means of approaching annuitants. Accordingly, the Company is evaluating other methods for establishing contact with annuitants for completing EV.

Decision

The Existence verification (EV) is mandatory for continuation of annuities. The submission that EV is done annually for annuity option of “without return of purchase price” and the frequency is once in three years, for the option “with return of purchase price” are considered. However, the Life Insurer is advised to further strengthen their systems to enhance the contactability with the annuitants to ensure uninterrupted payments of annuities.

5. Charge No.5

Payouts are made to Group Master Policy holders (MPH) in the name of Marketing support fee for display of their products in their premises.

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

Submission by the Life insurer

The agreements are distinct in nature and not related to the administration of the group policy. Payouts for these services under the arrangements are therefore distinct from the payouts envisaged in Guidelines on Group insurance policies. The Company had engaged these financial institutions considering their presence, vast outreach and infrastructure in all parts of India, including smaller cities and towns. Hence these entities instinctively tend to serve as efficient partners for meeting the objective of promoting insurance. They help drive promotion and awareness to a targeted segment. It is to further submit that the agreements entered into with the entities are independent of the fact that these entities also happen to be the Master Policyholders of the Company's Group insurance product. Hence these arrangements should not be construed as a violation of the Group Guidelines. Further it is to submit that the said arrangements/payments with/to these entities had been discontinued.

Decision

On scrutiny of the service level agreements entered into by the Life Insurer with the entities, it is noted that the activities to be performed by the vendor include, designing and developing customer awareness campaigns, market research, research on market performance, designing and developing campaigns for collecting customer feedback etc. The Life insurer's submission that all these agreements were entered with the Master Policy Holders are independent is not acceptable. It is noticed that there is no correlation to the activities referred herein and that of administration of group schemes and in light of Clause C (4) of Group Insurance Guidelines, these cannot be looked into in isolation as the MPH concerned are not in the business of offering such services in general to all. It is noticed that the Life Insurer made various payments under the agreements to these entities during 2011-12 and 2012-13.

All the referred payments made are in violation of Clause C (4) of Group Insurance Guidelines. Hence, as per the powers vested on the Authority under Section 102 (b) of Insurance Act, 1938 a penalty of Rs.5,00,000 (Rupees Five Lakhs only) is levied. As the Life Insurer already confirmed that the payouts and arrangements were discontinued, no further directions are being given in this regard. However, the Life Insurer is directed to comply with all the relevant provisions of the

Act/Regulations/Circulars/Guidelines etc. while entering into such agreements hereinafter.

6. Charge No.6

i. Various sales campaigns were floated under rewards and recognition programme wherein foreign trips were arranged and gifts cards were distributed to the employees of the Corporate Agents directly.

ii. The Life insurer had entered into agreement with corporate agents and made considerable payouts for display of publicity material of Life insurer at their branches and website user agreement for providing a link on their website for disseminating the requisite information in respect of the Life insurer's products.

Violation of Clause 21 of Guidelines on Licensing of Corporate Agents No.017/IRDA/Circular/GI Guideline/2005 dated 14/07/2005.

Submission by the Life insurer for (i)

Rewards and Recognition (R&R) programs for all intermediaries have always existed in the insurance industry in order to boost the morale and to recognize performers. These programs help insurers in garnering business efficiently, as they are designed to provide rewards to good performers. The Payment of Commission/ Remuneration/ Reward to insurance agents and insurance intermediaries Regulations, 2016; the Authority has taken cognizance of the fact of the lack of clarity which existed regarding payouts in the form of gifts/ rewards. Hence, the Regulation now defines and allows payment of rewards and specifies the circumstances where such rewards cannot be given. Given the above context, the Company arranges conferences/ training programmes/ promotional events for the purpose of enabling discussions on market experience, insurance industry, right selling etc., and to educate and keep the intermediary partners motivated and updated about the Company's products, processes, services and digitalization. While trips pertaining to business review performances are attended by a limited group, product launches and training and awareness sessions are attended by a larger group and include persons nominated by the Corporate Agent (CA). Hence, Specified Persons, their managers, prospective Specified Persons, etc. form part of the group that attends these activities.

Considering that the employees of the CAs support and form part of the sales team of the CA, the Company gave gifts to them as part of such initiatives. Such gifts were directly given to these individuals for their personal consumption in kind or as gift cards and were not in the manner of providing extra payouts to the CAs. Such contests were held by the Company for appreciating specific teams and to help boost their morale. It is to submit that these payouts are merely tokens of appreciation given to the team for its collective support and request the Authority not to consider these as extra payouts to the CA. It is to further submit that an explicit restriction against rewards and recognition programmes for employees of Corporate Agents was introduced only in the Corporate Agents Regulations, 2015, and accordingly, such contest and reward initiatives pertaining to Corporate Agents were discontinued.

Submission by the Life Insurer for ii)

The Corporate agents referred by the Authority have a wide reach through their strong distribution networks. The entities are pioneers and leaders in their own field. Additionally, both the entities offer their services through online platforms and have sizeable traffic on their websites. Such arrangements combine the insurer's and such entities' competitive positioning by driving insurance products through their vast retail networks. Publicity campaigns and face to face interaction between the customer and the relationship manager

help to establish an effective communication system. This gives customers an access to comprehensive information about the insurer's product and creates awareness among the existing and potential customers, thus enabling them to make confident and well-informed purchases. The growth and success rates observed as a result of such convergence have demonstrated the retail customers' preference for convenience in availing financial services, which can be suitably addressed by use of such customer-facing networks.

Given the above, it is to confirm that such payouts are not for services rendered but are only for display of publicity materials, whereby the Company's advertising and awareness communications are exhibited at these entities' premises. Additionally, with growing popularity of e-media, online publicity campaigns have also been one of the thrust areas of the Company's communication strategy. The Company displays its advertising and awareness materials on these websites, which also serves as a touch point for the Company to ensure timely customer feedback.

Clause 21 of the Corporate Agency guidelines, 2005 states that, the insurers shall not pay any amount other than the permitted agency commission, whether as administration charge or reimbursement of expenses or profit commission or in any other form to the corporate agent. The guidelines further state that the insurers shall not also enter into additional relationships with the corporate agent with payment of remuneration such as risk management fees or risk inspection charge or loss minimization expenses.

It is to submit that the above payouts to these entities are neither in the form of an administration charge nor any reimbursement of expenses or commission. Thus, these arrangements are distinct and the expenses made in this regard are not towards procuring insurance business.

It is to submit that such arrangements would also not fall under the purview of an additional relationship with Corporate Agents as they are not in the nature of services availed from the Corporate Agents. Further it is to confirm that all such payouts made to these entities were at arm's length.

Further, the payouts made to these Corporate Agents are within the limits prescribed under Section 40A of Insurance Act, 1938. The calculations of the total and first year premiums allowable as per Section 40A of Insurance Act, 1938 as compared to the amounts paid is submitted to the Authority. It is to further inform that all the payouts referred herein were submitted to the Authority under reporting requirements of Section 31(B)(2) of Insurance Act, 1938. Further the Authority had earlier sent a queries on the said payouts on 6/08/2013 and the Company had submitted response for the queries on 27/08/2013.

Decision

i. On examination of inspection observations, submissions by the Life Insurer and documentary evidence available, it is noted that the Life insurer had floated various sales campaigns under their rewards and recognition programme to the employees other than specified persons of corporate agents also. Apart from the contests mentioned above, the Life Insurer had arranged foreign trips to the employees of the corporate agents and incurred huge amounts towards the said trips. The participants were the employees (even other than specified persons) of the corporate agents. It shall be noted that arranging foreign trips and distribution of gift cards to the employees of corporate agents directly by the Life insurer amounts to offering incentives to the corporate agents and the same is in gross violation of Clause 21 of Guidelines on Licensing of corporate agents, 2005. Further as per the documentary evidence on record, the criteria for the selection of candidates for incentives are based on specific volume of business procured. Hence, as the employees other

specified persons were also beneficiaries of the contests, it is construed that these individuals (employees other than specified persons) were also utilized for solicitation of the business.

In light of the same, the Authority as per the powers vested on it under 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 confirmations that such incentives were discontinued as on date are noted and hence no further directions are given in this regard.

ii. The Life Insurer submitted that the payouts made to Corporate Agents (commission + payout made through agreements) are well within limits prescribed under Section 40A of Insurance Act, 1938 on the premium brought out by them. It shall be noted that the limits referred under Section 40A of Insurance Act, 1938 refer to the commission and any remuneration relating to solicitation of business subject to respective products' File and Use conditions. However, the bases for the payouts referred herein under the charge are the service provider agreements. Hence the contention that the payouts are within over all limits of Section 40A cannot be accepted.

The scope of services (as per the agreements) to be provided by the corporate agents under the service level agreements include –

- a) Display of publicity materials at the locations of Corporate Agents offices
 - i) Providing space for display of publicity material to be provided by the Life Insurer's staff or its authorized personnel
 - ii) The Life Insurer's staff shall be provided access to the branch for managing the material
- b) Customer Awareness Initiatives –
 - i) To undertake customer awareness initiatives
 - ii) Identify and select audience for conducting such campaigns on various initiatives
 - iii) Make appropriate arrangements for conducting these initiatives
- c) Activities for collecting customer feedback
 - i) Gather customer feedback based on the objectives given by the Life Insurer
 - ii) Collate and share the feedback

The ultimate beneficiary for the activities under a) is Corporate agent himself as the publicity would reach only to the customers of the Corporate agent. The Corporate agents entitled to commission on the business being procured and payment is being made for meeting such publicity expenses also. Hence the additional payouts made under the guise of display of publicity material shall be considered as payout other than commission.

The activities under b) and c) come under the purview of the outsourcing activities. Corporate agents 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. Further the entities mentioned herein are not in the business of offering the said services in general to all.

Further, Clause 21 of Corporate Agency Guidelines No.017/IRDA/Circular/CA Guidelines/2005 dated 14/07/2005 also prohibits the Life Insurer from making any payouts other than prescribed commissions and from making any additional relationships with the Corporate Agents. A similar view was taken by the Authority in the final order in respect of onsite inspection report of the Life Insurer (inspection

conducted during 29/11/2010 to 03/12/2010) issued vide no. IRDA/ Life/ ORD/ MISC/123/05/2012 dated 24/05/2012.

To conclude, entering into agreements with corporate agents and making the payouts for the activities is considered to be a gross violation of the provisions of Clause 21 of referred guidelines. Hence, the Authority, as per the powers vested on it under Section 102(b) of Insurance Act, 1938 levies a penalty of Rs.5,00,000/- (Rupees Five Lakhs only) on the Life Insurer.

The Life Insurer is directed to discontinue all such agreements/payouts immediately under intimation to the Authority.

7. Charge No.7

Contests were floated to the employees of the brokers and remunerated them with gift cards; Sodexo vouchers etc., and also arranged foreign tours to the employees of the Brokers based on the rewards and recognition programmes.

Violation of Regulation 19 of IRDA (Insurance Brokers) Regulations, 2002.

Submission by the Life Insurer

It is to submit that the products offered by life insurance companies are evolving and changing over time due to regulatory and other changes. Hence, it becomes necessary to keep the intermediary/brokers updated on such changes. In view of this, the Company periodically held product launches and training sessions for brokers. The Company also held review meets and similar programmes for recognizing the contribution made by the broker.

The Company values the Authority's concern and submits that such initiatives were not with an intention to influence the brokers but were rather aimed to equip them with the necessary know-how to solicit insurance and thereby reduce the possibility of mis-selling. The review sessions, programmes and gift tokens were the means to express our gratitude to the broker's team and were not meant to defeat the objective of the Authority's insurance broking model.

It is to further confirm that based on the Authority's observation in the inspection report, the company has discontinued such initiatives since the past 3 years.

Decision

Insurance Broker is a person registered with the Authority, who for remuneration arranges insurance contracts with insurance companies and/or reinsurance companies on behalf of the clients. The functions of broker include maintaining of detailed knowledge of available insurance markets as may be applicable.

An insurance broker is the representative of a client and broker has no role to play in influencing the prospects in getting insurance with particular insurance company. Certainly, the foreign trips to the employees of the brokers and gifts influence the brokers to sell the products of a particular insurance company by acting as a defacto-agent thereby defeating the objective of insurance broking model.

Hence treating this is as a violation of Regulation mentioned under the charge, the Authority as per the powers vested under Section 102(b) of Insurance Act, 1938,



levies a penalty of Rs.5,00,000 (Rupees Five Lakhs only) on the Life Insurer. As the Life insurer confirmed that they had already discontinued such initiatives since the past three years, no further directions are being given in this regard.

8. Charge No.8

On examination of premium collection procedure adopted by the Life Insurer it was observed that the premium collected in respect of Non Linked policy holders during any day was pooled in shareholders account. Only at the end of each month, after receipt of actuarial liability requirements and in case of deficit only, funds are transferred from shareholders' fund to respective policy holders' fund. Thus, any income derived on such premium receipts during any calendar month are credited to the shareholders' without any part of the same being allocated to policyholders.

Violation of Section 1) (2) and (3) and Section 11(1), 1(A) and 1(B) of the Insurance Act, 1938 and IRDA (Preparation of Financial Statements and Auditor's Report of Insurance Companies) Regulations, 2002.

Submissions by the Life Insurer

It is to submit that, the Company had followed a documented process to transfer the premium income net off operating expenses and claims on a monthly basis from the Shareholders' Funds to the Policyholders' Funds.

Further to submit that, the Company has complied with the requirements prescribed by the Insurance Act and the regulations and in the absence of any laid down precedent on the same, had parked these funds in the Shareholders' account, till the month-end as per the defined process. This was only followed to ease the Company's operational process and the policyholder's investments were duly segregated and not held as a part of shareholders investments. The Financial Statements of the Company has been made in compliance to the extant requirements under the Act and Regulations.

Since December 3, 2014, the Company has refined this process and transfers the premium received from non-linked policyholders net off expenses, to the Policyholders' funds, on a daily basis. Sample data demonstrating that the said process has been revised is submitted.

Decision

It shall be noted that the premium collections are belonging to policyholders hence timely transfer of funds from the account to respective policyholders' funds shall be ensured. Considering the confirmation of having corrected their process with demonstration, no charges are being pressed. However, the Life Insurer is advised to ensure compliance with the provisions of Regulations mentioned under the charge continuously.

9. Charge No.9

A lease agreement with Rent works India Private Limited for leasing Furniture and Fittings was considered as operating lease instead of finance lease (as per terms and conditions of the agreement).

Violation of point no.1 of Schedule A (Regulation3) of IRDAI (Preparation of Financial Statements and Auditor's Report) Regulations, 2002 and violation of Regulation 2 of IRDA (ALSM) Regulations, 2000.



Submissions by the Life Insurer

Accounting Standard 19 Para 9(a) states that a lease can be classified as a financial lease if the lessee can cancel the Agreement. However, agreement with Rent Works (Lessor) gives the option to cancel the lease only to the Lessor, hence the lease is classified as an operational lease.

However, revised solvency computations submitted to the Authority, considering the lease as financial lease, demonstrates that even then the solvency margin was above the required solvency margin. It is to further to submit that the value of the lease as on 31/03/2016 was NIL.

Decision

As per the termination clause 11 of the lease agreement as observed in the inspection observation, if either party cancels the lease the Life insurer is required to pay all losses associated with termination of lease agreement including liquidated damages equal to the aggregate amount of the present value of all future rentals payable under the agreement. This clause renders the lease as finance lease and the accounting of the same should be in accordance with Accounting Standard 19. However, considering the demonstration given by the Life Insurer, no charges are being pressed. The Life Insurer is advised to ensure continuous compliance with the regulatory prescriptions mentioned herein while classifying such lease agreements.

10. Charge No.10

Under a policy issued under product Guaranteed Savings Insurance Plan, It was observed that Advance premium of 7 years after allowing a discount on the original premium (total Original premium Rs.350000 and collected premium Rs. 294507) was collected. However, there is no provision of advance premium payment option in the product's terms and conditions.

Violation of File and Use guidelines.

Submission by the Life Insurer

Advance premium option was provided as a service feature and in the interest of the policy holders. It is to further submit to the Authority that collection of premiums in advance, offers the following benefits to the policyholders:

- *The policy remains in-force and the policyholder continues to enjoy the policy benefits.*
- *The benefit of time value of money is passed on to the policyholder.*

The Company while discounting the present value of advance premium payments had provided interest rates comparable to rates under 10 year Government securities. The premiums were adjusted only on renewal due date and commissions on these premiums were paid only when they were due and not at the inception. It is further to submit that after the introduction of Regulations 52 and 36 of IRDA (Linked insurance Products) Regulations, 2013 and IRDA (Non-Linked insurance Products) Regulations, 2013 respectively, on advance premium, and subsequent clarification dated June 20, 2013, this feature has been discontinued. Sample copies of proposal forms/communications submitted to establish that the advance premium option was at the request of the policyholders.



Decision

Considering the submissions made by the Life Insurer, **no charges are being pressed.**

11. Charge No.11

The Life insurer was considering the group gratuity and group leave encashment as a regular premium. However, Group insurance policies without any premium term shall be considered as single premiums and allowance should be taken accordingly. If the same had been taken as single premium, the %age of actual expenses to expenses allowed under 17D would have been 105.62% and 107.63% for the year 2012-13 and 2011-12 respectively.

Violation from Para 3(ii) (c) of Circular No. IRDA/F&I/CIR/EMT/085/04/2012 dated 12th April, 2012 (Also see Clause 2.9.7 of IRDAI Circular No. IRDA/F&A/Cir/232/12/13 dated 11/12/2013)

Submission by the Life insurer:

It is to submit that group gratuity, superannuation and leave encashment products do not have a defined/definite premium paying term but are perpetual in nature akin to whole-life contracts. Severance/discontinuance of such contracts can only be by way of policy surrender. Hence it is believed that considering these products as Single Premium solely due to lack of a pre-determined term, would not be appropriate given that the extent of effort required, in getting the premiums on a yearly basis as well as servicing these group products, is similar to that of any regular premium paying product given the extent of effort on adding/modifying lives, managing additional contributions, etc. In this context, it to confirm that even if the Company treats the group business as advised, the Expense of Management are within the prescribed limits 93.6% and 99.1% for the years 2012-13 and 2011-12 respectively. Calculation sheet demonstrating the same is submitted to the Authority.

Decision

The submissions that even if the Company treats the groups as advised by the Authority, the Expenses of Management are within the prescribed limits has been verified and considered, hence **no charges are being pressed.** However, the Life Insurer shall continuously comply with provisions of Circulars referred herein and any other Regulatory prescriptions issued by the Authority from time to time in respect of calculation of Expenses of Management.

Summary of Decisions

The following is the summary of decisions in this order

Charge No.	Brief Title of Charge and the provisions violated	Decision
1	Charge: Free Look Cancellations observed to be not in line with Regulation 6(2) and Regulation 8 of IRDAI (Protection of Policyholders' Interests) Regulations, 2002	Advisory to strengthen the systems at the point of sale.
2	Charge: Maturity claims were not settled within prescribed time period, huge number of claims outstanding in violation of Regulation 8 of IRDAI (Protection of	Advisory to strengthen their systems to ensure timely settlement of maturity claims

	Policyholders' interests) Regulations, 2002.	
3	Charge: Delay in processing observed in surrenders/partial withdrawals in violation of Regulation 8 and Regulation 10 of IRDAI (Protection of Policyholders' Interests) Regulations, 2002	While dropping the charge considering the submissions, directed to ensure payment of penal interest
4	Charge: Considerable number of annuities outstanding for want of existence verification certificate – Violation of Regulation 8 of IRDAI (Protection of Policyholders' Interests) Regulations, 2002.	Direction to strengthen the systems to enhance the contactability to ensure uninterrupted annuity payments.
5	Charge: Entered agreements with Group Master Policy holders and making payouts in violation of Clause B-2 and Clause C-4 of Group Insurance Guidelines No.015/IRDA/Life/Circular/GI Guidelines/2005 dated 14/07/2005	<u>Penalty of *Rs.5,00,000</u> and direction to comply with all the relevant regulatory provisions issued in this regard.
6	Charge: i) Gift cards, foreign trips arranged to employees of Corporate agents through various sales campaigns ii)Entered service level agreements with Corporate agents and made payouts Violation of Clause 21 of Guidelines on Licensing of Corporate Agents No.017/IRDA/Circular/GI Guidelines/2005 dated 14/07/2005.	i) <u>Penalty of *Rs.5,00,000</u> ii) <u>Penalty of *Rs.5,00,000</u>
7	Charge: Contests floated for employees of the Brokers and remunerated them with gifts,foreign trips Violation of Regulation 19 of IRDAI (Insurance Brokers) Regulations, 2002	<u>Penalty of Rs.*5,00,000</u>
8	Charge: Premium collected in respect of non-linked policyholders were pooled in shareholders account and only at the end of month after receipt of actuarial liability and in case of deficit only funds are transferred to policyholders fund. -Violation of Section 1) (2) and (3) and Section 11(1), 1(A) and 1(B) of the Insurance Act, 1938 and IRDA (Preparation of Financial Statements and Auditor's Report of Insurance Companies) Regulations, 2002.	Dropped and advised to ensure compliance with the provisions of Regulations mentioned under the charge.
9	Charge: A lease agreement was classified as operational lease instead of financial lease. - Violation of point no.1 of Schedule A (Regulation3) of IRDAI (Preparation of Financial Statements and Auditor's Report) Regulations, 2002 and violation of Regulation 2 of IRDA (ALSM) Regulations, 2000.	Dropped and advised to ensure continuous compliance with regulatory prescriptions mentioned under the charge.
10	Charge: Under a product advance premium	Dropped

	was collected-Violation of File and Use Guidelines.	
11	Charge: Group Gratuity and Group Leave Encashment treated as regular premium instead of single premium in calculation of Expenses of Management - <i>Violation from Para 3(ii) (c) of Circular No. IRDA/F&I/CIR/EMT/085/04/2012 dated 12th April, 2012 (Also see Clause 2.9.7 of IRDAI Circular No. IRDA/F&A/Cir/232/12/13 dated 11/12/2013)</i>	Dropped and advised to continuously comply with provisions of the circulars referred herein and any other regulatory prescriptions in this regard issued by the Authority from time to time.

Conclusion

i)As directed under the respective charges, the penalty of Rs.20,00,000 (Rupees Twenty 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.Prabhat Kumar Maiti, General Manager (Enforcement) at the Insurance Regulatory and Development Authority of India, 3rd Floor, Parishrama Bhavanam, Basheerbagh, Hyderabad-500 004.

ii) 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.

iii) 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.

iv) 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: 27th March, 2017



(V R Iyer)

Member (F&I)

