



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

Ref.No: IRDA/ENF/ORD/ONS/133/07/2015

Final Order in the matter of M/s L&T General Insurance CO Limited

Based on reply to the Show Cause Notice dated 11th June, 2014 and submissions made during Personal Hearing on 15th October, 2014 at 11:00 am taken by Chairman, IRDA 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 L&T General Insurance Co Ltd (hereinafter referred to as "the General Insurer") from 15th to 24th July, 2013. The Authority forwarded the copy of the Inspection Report to the Insurer seeking comments on the same under the cover letter dated 30th September, 2013. Upon examining the submissions made by the Insurer vide letter dated 31st October, 2013 the Authority issued Show Cause Notice on 11th June, 2014 which was responded to by the Insurer vide letter dated 15th July, 2014. As requested therein, a personal hearing was given to the Insurer on 15th October, 2014. Mr. V.Krishnamoorthy, CFO & Principal Compliance Officer, Mr. Mehul Shah, Appointed Actuary, Mr.R.Narasimhan, Chief Risk Officer and Mr. B.Srinivas Murthy, General Manager-Retail Sales were present in the hearing on behalf of the General Insurer. On behalf of the Authority, Mr. M.Ramaprasad, Member (Non life), Dr (Ms) Mamta Suri, Sr.JD (Onsite Inspections & Compliance), Mr.Suresh Mathur, Sr.JD (Non-life) and Mr. K.Sridhar, AD (I&C) were present during the personal hearing.

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

The findings on the explanations offered by the General Insurer to the issues raised in the Show Cause Notice and the decisions thereon are detailed below.

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1. Charge – 1

On verification of underwriting manuals, it was observed that a new category of underwriting authority (C+) had been created which was not found in the underwriting guidelines filed with the Authority under F&U guidelines. The revised underwriting guidelines were not filed with the Authority as required under F&U Guidelines dated 28.09.2006.

Violation of para 14, 15 (f), 17(1) & 26 of File and Use guidelines circular ref. 021/IRDA/F&U/SEP-06, dated 28.9.2006.

Submission of the insurer: The general insurer informed that the C+ underwriting authority was given only to one employee considering his experience and that too within the overall maximum limit which was earlier approved by the Board of the company. Hence, the Company has not specifically sought for the Board approval. However, taking note of the Authority's inspection observation, we have immediately withdrawn the same.

Decision:

As per the underwriting policy approved by the Board and filed with the Authority, the company was allowed only 4 underwriting levels (A, B, C & D). Insurer informed that the company has withdrawn the newly created underwriting level after the inspection observation.

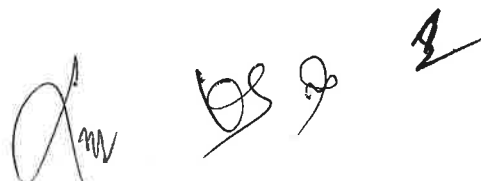
Taking note of the submissions, no charges are pressed. Henceforth, the company is advised to strictly comply with the F&U guidelines issued by the Authority from time to time.

2. Charge – 2

While calculating the premium of 'own damage' coverage of Private Car and Commercial Vehicle Package Policies, the insurer allowed 'IDV Variation' (insured Declared Value) depending on the level of underwriting authority.

Violation of

- i) Provisions of General Regulation 8 of All India Motor Tariff.
- ii) Authority guidelines issued vide circular no.066/IRDA/F&U/Mar-08 dated 26-03-2008, circular no.021/IRDA/F&U/Sep-06 dated 28-09-2006 (para 1, 2, 14, 17.1 & 26), Circular ref.no.048/IRDA/De-tariff/Dec-07 dated 1-12-2007, Circular.no.19/IRDA/NL/F&U/Oct-08 dated 6th Nov, 2008, Circular ref. No.



IRDA/NL/CIR/F&U/073/11/2009, dated 16-11-2009 and Circular ref.no. Ref: IRDA/NL/CIR /F&U/003/01/2011 dated 06-01-2011.

Submission of the insurer: The general insurer informed that due to fast paced developments there is a significant gap between the market accepted depreciation and the depreciation table under the erstwhile GR-8. Hence it was necessary to authorize the underwriters to allow variation up to 40%.

Decision:

The Authority vide various circulars has reiterated that insurers are not permitted to vary the terms and conditions of erstwhile All India Motor tariff. As per General Regulation 8 of erstwhile motor wordings, for vehicles below 5 years of age, IDV should be the manufacturers listed selling price with applicable depreciation. Insurer by allowing its underwriting officers to vary the IDV is against the guidelines of the Authority. In the following sample policy nos 915101001745310000, 915101001657500000, 915105000612750000 and 915101000174450000, the insurer has violated the Authority guidelines in arriving at IDV.

Further, Authority vide circular dated 6th Nov, 2008 has permitted insurers certain relaxations in the terms and conditions of coverage's of erstwhile tariff classes of business in the form of add-on covers, which also includes 'waiver of depreciation', but subject to filing and approval under F&U guidelines dated 28/09/2006. In spite of such relaxations permitted by the Authority, insurer has effected changes to the tariff wordings without filing and taking approval from the Authority under F&U guidelines.

The Authority decision is conveyed at Charge 4 of the Order.

3. Charge – 3

2b. The Authority had approved insurer's motor products subject to condition that only 10% of variation shall be allowed from the rates filed and approved by the Authority. However, it was observed that discount upto 25% had been allowed by 'Head Underwriter'.

2c. On sample examination, it was observed that in 14 cases, discretionary discount had been allowed in excess of approved 10% variation on filed rates.

Violation of

1) Para 3(ix), 11, 17.1 & 26 of File and Use guidelines ref. 021/IRDA/F&U/SEP-06, dt.28.6.2006.



- 2) Circular no. IRDA/NL/Cir/F&U/003/01/2011 dated 6th Jan, 2011.
- 3) Clause 6 under Annexure II of Corporate Governance guidelines issued by Authority vide circular: No. IRDA/F&A/CIR/025/2009-10, dated 5-8-2009.

Submission of the insurer: The general insurer submitted that as per the point 6.1.5 of Form-A of motor policies filed with the Authority for approval, additional 25% discount on the net premium at Head Underwriter level was mentioned in the filed documents, which could be used based on Portfolio Mix in line with Company's Underwriting Policy. Hence the discount of 25% and in some upto 30% was in line with the filed and approved product by the regulator.

Decision:

In the filed documents and the mail correspondence exchanged with the Authority for product approval, the general insurer has requested Authority to consider 25% discretionary discount at Head underwriter level under point 6.1.2 of Form A and again vide mail on 31st August 2010 requested for 15% variation on rates submitted to Authority, based on loss ratio of the vehicles for that segment. Taking note of the filing and requests, the Authority while conveying the product approval has allowed variation of 10% on filed rates.


Further, it is also observed that the insurer (a) has varied the rates upto 30% on the filed rates (b) has not submitted the revised final version of product documents (both hard and soft copies) as advised in the product approval letter, for cross checking whether the revised documents are in line with the Authority approval.

In view of the violations of F&U guidelines observed, the Authority in exercise of the powers vested under Section 102(b) of the Insurance Act, imposes a penalty of Rs.5 Lakh.

Further the insurer is also directed to confirm compliance to the rates, terms and conditions approved by the Authority and if any revision in rates is required, may take fresh approval from the Authority under F&U guidelines.

4. Charge – 4

The insurers Hyderabad office had issued policy No. 915101001519680000 for a new car registered in Orissa state (Bhubaneswar) and the location of the policyholder was also in Orissa. As per the insurer's rate guide, the base rate for this



vehicle in Orissa cluster was 1.789% and in Andhra Pradesh cluster it was 1.644%. Insurer had applied base rate of Andhra Pradesh instead of Orissa.

Violation of

- a) General Regulation 10 of erstwhile Indian Motor Tariff wordings.
- b) Guidelines issued by Authority vide circular no.021/IRDA/F&U/Sep.06 dated 28-09-2006 (Para 1, 2, 14, 17.1 & 26), circular ref.no. IRDA/NL/CIR /F&U/003/01/2011 Date: 06-01-2011, circular ref.no.048/IRDA/De-tariff/Dec-07 dated 18th Dec, 2007, Circular .no.19/IRDA/NL/F&U/Oct-08 dated 6th Nov, 2008, Circular 066/IRDA/F&U/Mar-08 dated 26th March, 2008, Circular ref. no. IRDA/NL/CIR/F&U/073/11/2009, dated 16-11-200 and Circular ref.no. IRDA/NL/CIR /F&U/003/01/2011 Date: 06-01-2011.

Submission of the insurer: The general insurer informed that the premium of the vehicle was arrived on the location of its usage rather than on the location of the registering authority, in line with the filed document with the Authority. In this particular case though the vehicle was registered in Orissa with local address of Orissa, it was sourced and was plying in Hyderabad. General regulation 10 of erstwhile Indian Motor Tariff wordings was not applicable to our rating card approved by the regulator.

Decision for 2 & 4:

The general insurer confirmed in Form A of the product document that there would be no deviation from erstwhile tariff wordings/terms /conditions except rates and also nowhere in the product documents filed with the Authority has mentioned that the rating would be based on area of usage and not as per the area of registration as prescribed under General Regulation 10 of erstwhile tariff wordings.

As per General Regulation 10 of the erstwhile Motor Tariff, rating for private car is to be based on the location of the office of the registration of the vehicle concerned and not on the location of usage of the vehicle.

In view of the violations observed at Charge 2 and 4, the Authority in exercise of the powers vested under Section 102(b) of the Insurance Act, imposes a penalty of Rs.5 lakh. Further the insurer is also directed to ensure compliance to erstwhile tariff wordings by all its operating offices. If the Authority notices any similar violations in future, those would be viewed seriously.



5. Charge – 5

In the case of Burglary policies issued on first loss basis by the insurer, it was observed that the appropriate 'First Loss Clause' as prescribed in the Authority's circular ref. IRDA/Cir/012/2003 dated 23/05/2003 was not used in the policy schedule.

Violation of

- a) Authority circular ref. IRDA/Cir/012/2003 dated 23rd May, 2003.
- b) Regulation 7(j & p) & 11 of IRDA (Policyholders' Interests) Regulations, 2002.

Submission of the insurer: The general insurer submitted that the referred circular was applicable to only Householders policy and not to Burglary policy. In the opinion of the company, the first loss limit can be shown either as a percentage of the total sum insured at risk or in terms of actual first loss sum and the company has opted for the later one.

Decision:

Taking note of the submissions of the insurer, no charges are pressed.

6. Charge – 6

In case of Marine Cargo policies, it was observed that certain loadings were applied on the filed base rates depending on the nature of goods, associated risks, destination and other risk factors. But the basis/reasons for such loading and loading percentage were not documented by the insurer.

Violation of

- a) Para 3(ix), 11, 17.1 & 26 of F&U guidelines ref. 021/IRDA/F&U/SEP-06, dt. 28.6.06.
- b) Circular no. IRDA/NL/Cir/F&U/003/01/2011 dated 6th Jan, 2011.

Submission of the insurer: The general insurer submitted that as per the para 6.3 of form A filed with the Authority, the company stated that the product would be experience rated and the rating would be based on various risk factors which are dynamic and not constant to follow fixed loading and discounting factors. Further confirmed that the rating was in line with the approved product.

Decision:

The insurer in their submissions failed to explain why they could not document the reasons for loading. In view of this insurer is directed, henceforth, to record the reasons for any such loading / discount in respect of every insured risk.

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7. Charge – 7

In case of fire Policies, discretionary discounts were allowed on filed rates on different basis/grounds. On examination of 5 samples, it was observed that the discretionary discounts ranged upto 51.35% and a reason for such discount was not documented in three cases.

Violation of

- 1) Para 3(ix), 11, 17.1 & 26 of F&U guidelines ref. 021/IRDA/F&U/SEP-06, dt.28.6.06.
- 2) Circular no. IRDA/NL/Cir/F&U/003/01/2011 dated 6th Jan, 2011.
- 3) Clause 6 under Annexure II of Corporate Governance guidelines issued by Authority vide circular: No. IRDA/F&A/CIR/025/2009-10, dated 5-8-2009.

Submission of the insurer: The general insurer informed that the discretionary discounts were given diligently on merits of the case and are in line with the product approved by the authority.

Decision:

As per the Standard Fire and Special Perils (SFSP) product documents filed with the Authority, discounts are to be allowed only for the risk factors documented in the rating sheet and if the discount for all such risk factors exceeds a particular limit then it should be forwarded to Head underwriter for approval. The filed document nowhere allows discretionary discount upto 50% by Head underwriter. The discounts allowed are not in line with the filed documents and the reasons for such discounts are also not recorded.

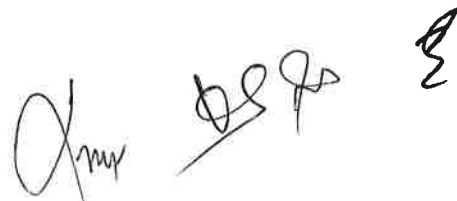
In view of the violations of F&U guidelines observed, the Authority in exercise of the powers vested under Section 102(b) of the Insurance Act, imposes a penalty of Rs.5 Lakh.

8. Charge – 8

In case of SFSP policy no. 911101000504100000 issued for the period 12/11/2011 to 11/11/2012, insurer's maximum liability was Rs.25 Cr and PML was taken as 12.5%. As per the Insurer's reinsurance policy, minimum PML should be 30% for Fire business.

Violation of Regulation 3 (4 & 5) of IRDA (General Insurance – Reinsurance) Regulations, 2000.

Submission of the insurer: The general insurer submitted that the PML estimation of any multi location policy is done based on the location having the highest PML and



not on the total sum insured under the policy. The referred policy was a floater fire policy covering more than 125 locations and the PML is taken at 100% of maximum exposure at any single location.

Decision:

The Authority takes note of the submissions of the insurer and no charges are pressed.

9. Charge – 9

9) While renewing Contractors's All Risk (CAR) policy No. 913102001035930000, additional discount of 22.5% was allowed for the reasons that the pedigree of the contractor was good and another 25% discount for the insured track record and experience in similar projects. The Total discount percentage allowed in this case was 87.5%.

10) In case of CAR policy no. 913102001517720000, discretionary discount of 47.5% of insurer's base rate was allowed without recording the reasons for allowing such huge discount. The total discount allowed was 97.53% of the insurer's base rate.

Violation of

- 1) Para 3(ix), 11, 17.1 & 26 of File and Use guidelines ref. 021/IRDA/F&U/SEP-06, dt.28.6.2006.
- 2) Circular no. IRDA/NL/Cir/F&U/003/01/2011 dated 6th Jan, 2011.
- 3) Clause 6 under Annexure II of Corporate Governance guidelines issued by Authority vide circular: No. IRDA/F&A/CIR/025/2009-10, dated 5-8-2009.

Submission of the insurer: The general insurer submitted that Head underwriter was authorized to allow discretionary discount in exceptional cases on case to case basis considering the risk factors. Further informed that as per approved product, the Head underwriter can quote rates which will not enjoy a rate below 7.5% of the tariff under any circumstances. It would be pertinent to point out that in addition to the rate that is arrived at after providing discount, the company charges AOG rate over and above the discounted rate. In our filing all rates include AOG rate and the same is not shown separately. Hence the discounting after adding the AOG rate for policy no. 913102001063820000 works out to only 62% of the filed rate. In the policies referred in observation, the rate has not gone below 7.5% of the erstwhile tariff.



Decision:

The discretionary discount by Head underwriter upto 47.5% in CAR product was not mentioned in the documents filed with the Authority under F&U guidelines, but the document only speaks of maximum discount allowable for all the good risk factors listed in the rating sheet.

As per coverage, exclusions and memo 8 to Section 1-material damage of erstwhile CAR policy wordings, coverage towards AOG perils is an inbuilt cover and rate charged for CAR cover to include the coverage for AOG perils risk. The general insurer has also not shown any bifurcation of rate in the rate filed with the Authority towards base rate and rate for AOG perils. Whereas in the quotations/policy schedule issued to prospect/insured, insurer has bifurcated the rate into base rate for CAR cover and rate for AOG perils and has allowed discount on base rate only. By this, the prospect was misled and given impression as if he was given a discount of upto 97.5% though not the case. The business practice adopted by the insurer by showing an inbuilt cover as an additional cover misleads the prospects, further it is also in deviation of the F&U guidelines by deviating from the rating guide filed with Authority.

In view of the violations of F&U guidelines observed, the Authority in exercise of the powers vested under Section 102(b) of the Insurance Act, imposes a penalty of Rs.5 Lakh.

10. Charge – 10

On examination of the Technical Audit Reports, it was observed that the insurer does not have effective systems in place for conducting Technical Audit as envisaged in the insurer's board underwriting policy.

Violation of Clause 6 under Annexure II of Corporate Governance guidelines issued by Authority vide circular: No. IRDA/F&A/CIR/025/2009-10 dated 5-8-2009.

Submission of the insurer: The general insurer submitted that the company had not deviated from the filed rates and informed that the technical audit report submitted to the Board of the company and to the Authority was neither misleading nor presented any wrong facts.

Decision:

The technical audit reports of the insurer have stated that no instance of the company deviating from the filed rates was observed. Whereas, in the sample

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records examined, it was observed that insurer has deviated from the rating guide of motor, fire and engineering products approved by Authority. The report was not giving a true picture. Insurer is advised to present true picture to the Board.

11. Charge – 11

19. In case of corporate policy contracts, proposal forms were not used for the purpose of effecting insurance. In few cases where the insurance was sold through brokers, only the RFQ (Request for Quotation) was obtained. Sample renewal policies were examined and it was observed that on renewal cases, the company does not has the practice of collecting and processing fresh proposal forms from the customer. Further insurer allowed sales team to vary the rates, accepted risk under policy no 911101000449630000 inspite of the proposal form not being signed by the insured and issued unsigned Policy document – Policy no. 711101000030980000

20. On examining the documents provided by the insurer for Policy no. 611103000000150000, it was observed that proposal form was not collected by insurer.

Violation of

- 1) Violation of 4(1) & 4(4) of IRDA PPHI Regulations for not collecting the proposal form.
- 2) Violation of point 3(ix) of F&U circular dated 28/09/2006.
- 3) Violation of Clause 6 of corporate governance guidelines.

Submission of the insurer: The general insurer submitted that

- a) The company collects Requests for Quote in case of corporate policies and in case of individual customers proposal forms are normally collected. Further the company assured that all steps to procure details as per the standardized proposal would be taken where ever feasible.
- b) The additional discount of 5% allowed was more to match the competitors quote and sales team takes approval over phone to allow such discounts.
- c) In case of unsigned proposal, the business was sourced through broker and after brokers confirmation, risk was accepted reflecting all the details in the policy issued to the insured.
- d) The Policy document No &11101000030980000 was duly signed by the underwriter.

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Decision:

- a) The Authority takes note of the submissions of the insurer on underwriting of risks of corporate clients coming through broker on the basis of RFQ. However, underwriting of risks in respect of individual policies without proposal form is violation of provision 4(1 & 4) of IRDA PPHI Regulations.
- b) In respect of sales team varying the rate quoted by underwriter to meet competitors quote, insurer violated point 3(ix) of F&U guidelines dated 28/09/2006.
- c) On the unsigned proposal routed through broker, the Authority take note of the submission that the risk was accepted after confirmation of risk details from broker.
- d) The general insurer submission of signed policy document copy is taken on record.

In view of the violations of F&U guidelines, the Authority in exercise of the powers vested under Section 102(b) of the Insurance Act, imposes a penalty of Rs.5 lakh.

Decision on underwriting of risk without proposal form is given at charge 30.

12. Charge – 12

On examination of sample policy contracts, it was observed that the policy schedules provided to the insured does not contain the details of the coverage, terms and conditions of the policy.

Violation of Regulation 7 (j) of IRDA PPHI Regulations 2002 by not providing the coverage, terms and conditions of policy to insured along with the policy schedule

Submission of the insurer: The general insurer confirmed that the policy wordings were pre printed documents and were sent to insured along with policy schedule.

Decision:

The Authority takes note of the submissions of the insurer and no charges are pressed.

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13. Charge – 13

On examination of policy nos. 916201001534320000/ 616108000010130000 / 616108000010070000 / 916201001534320000, it was observed that the policy schedules provided to the insured does not contain the details of the Ombudsman.

Violation of provision 5 of IRDA PPHI Regulations 2002 by not incorporating Ombudsman contact details in the policy documents

Submission of the insurer: The general insurer submitted that in the initial phase of operations, some manually issued policies have missed the details of Ombudsman. Informed that the issue is now corrected and ensures that all documents are now issued with Ombudsman contact details.

Decision:

Taking note of the submissions and confirmation of the general insurer, no charges are pressed as of now.

14. Charge – 14 & 16

Risk on Policy nos. 711101000031040000 &. 611102000000018000 were accepted after receipt of all requirements and the risk commencement date was dated back to the date of receipt of premium. Such back dating of risk may lead the insurer to potential exposure to various legal and operational risks.

Violation of

- a) Clause 6 under Annexure II of Corporate Governance guidelines issued by Authority vide circular: No. IRDA/F&A/CIR/025/2009-10, dated 5-8-2009.
- b) Section 64VB of Insurance Act, 1938.

Submission of the insurer: The general insurer replied that risk was assumed from the date on which premium was received by the Company and only after receipt of all requirements from the insured.

Decision:

The Authority takes note of the submissions of insurer and no charges are pressed.

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15. Charge – 15

In respect of package policy No. 61470200000053000 covering public liability section, it was observed that after acceptance of risk, information on sales turnover has been sought by the insurer from the insured.

Violation of Clause 6 under Annexure II of Corporate Governance guidelines issued by Authority vide circular: No. IRDA/F&A/CIR/025/2009-10, dated 5-8-2009.

Submission of the insurer: The general insurer submitted that referred policy was a pre underwritten SME product where sum insured for public liability section is predetermined based on the sum insured for fire section. Risk of the policy commenced only after oral confirmation by the client on sales turnover information over phone and subsequently formal mail was received from client for our records. The sales turnover information is taken as matter of record and has no bearing on either the sum insured or the rating of the risk since this is a pre-underwritten product.

Decision:

Taking note of the submissions of the insurer, no charges are pressed. However, from the available records, it is also observed that the insurer took 40 days to underwrite a pre underwritten product which is not in line with Regulation 4(5) of IRDA PPI Regulations, 2002. The insurer is directed to comply with the relevant provisions of the PPHI Regulations.

16. Charge – 17

On examining the Policy Tracking system of the insurer, delay in dispatch of policies was observed. Policy no. 915101001657500000 was issued on 01/03/2013, whereas it was dispatched on 15/05/2013 resulting into a delay of more than 2 months.

Violation of Regulation 4(6) of IRDA (Protection of Policyholders' Interests) Regulations, 2002 which prescribes a time limit of 15 days for issuing policies

Submission of the insurer: The general insurer submitted that the policy under reference was issued on the basis of the scan image of the original proposal documents collected. Since there was no real time proposal forms upload which had happened, it resulted in the delay in policy pack creation and dispatch.

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Decision:

Keeping in view the inspection report observation regarding delay in despatch of policy documents and inadequate explanation furnished by the insurer, the Authority directs the insurer to strictly comply with provisions of the IRDA (Protection of Policyholders' Interests) Regulations, 2002 and any such delays in despatch of policy documents, hereafter, would be viewed seriously.

17. Charge – 18 & 21

18. On examination of the group insurance policies issued to non employer-employee groups viz., Destimoney Securities Pvt. Ltd., Chemmannur Consultancy and Management Services, Sahaj E Village Ltd., etc., it was noticed that the insurer did not ensure the no of members in existence in the group before issuing the group policy. In such non employer-employee groups, there is every possibility that the insured may obtain the membership of the group just to avail the insurance benefit, which would result in anti-selection of lives.

21. The insurer had not put in place any mechanism to carry out surprise inspection of master policyholders to ensure that the master policyholders are not charging premium to the members higher than what is being paid to the insurer towards the coverage.

Violation of

- a) Clause 6 under Annexure II of Corporate Governance guidelines issued by Authority vide circular: No. IRDA/F&A/CIR/025/2009-10, dated 5-8-2009.
- b) Point A (2 & 4) & C (11) of Authority Group Guidelines dated 14-07-2005.

Submission of the insurer:The general insurer submitted that group policies are issued to groups complying with the definition 'group' prescribed under Authority circular Ref:015/IRDA/Life/Circular/GI Guidelines/2005 issued by IRDA. All the three groups referred in the observation are in different businesses other than Insurance. It was informed that the Company and the Group policyholder have agreed to ensure that the individual members covered under the Group Policy are in an existing relationship with the Master policyholder.

On the annual inspection issue, insurer submitted that being the volume of business very low, the company has not carried out any inspection and taking note of the Authority observations the company would ensure compliance in future.

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Decision:

On examining the reply and available documents, it is observed that

- a) Insurer has not collected the list of members existing in all the three groups before the risk commencement and on seeking clarification insurer has neither replied nor provided any documentary evidence on the members existing in the group before to the commencement of policy. Insurer has quoted terms without knowing the size of the group. Further, most of the fields in the proposal form required for underwriting the risk were left blank and to this insurer submits that the information was collected orally.
- b) Insurer has not provided any evidence on the policy terms allowing entry of new members in to the group as prescribed under A4 of Group guidelines circular dated 14-07-2005.
- c) Insurer has not undertaken surprise inspection of the books and records of the group organizers nor collected a certificate of compliance from auditors of group organizer atleast once in a year for all the three groups.

In view of the above the insurer is directed to ensure compliance of above referred guidelines scrupulously.

18. Charge – 19

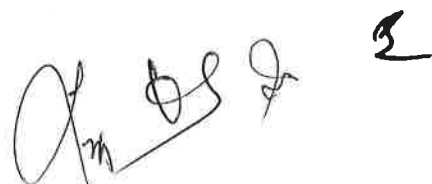
On examination of the premium quotations issued to non employer-employee groups, it was noticed that the base premium rates and loadings offered by insurer were not in line with the rates filed under F&U guidelines. Further, it was noticed that the burning cost arrived at for age 25 was being charged to the insured in the age band of 0-35 years of age.

Violation of point 8, 11, 26 & 27 of F&U guidelines dated 28/09/2006.

Submission of the insurer: The general insurer submitted that base rates were available across different sum insured and individual age points. However, for administrative ease, the premium charts were prepared on the basis of age bands rather than individual age points since in a non employer-employee policy; age of the customer is not known in advance, just like a retail product.

Decision:

The insurer did not adhere to the rating and pricing procedure as mentioned in the product F&U nor the premium quotations approved by the appointed Actuary or any other authorized person. From the response of the insurer it is

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observed that the rating procedure was tweaked for administrative ease rather than following the guidelines in this regard. Therefore, in view of the violations of F&U guidelines, the Authority in exercise of the powers vested under Section 102(b) of the Insurance Act, 1938 imposes a penalty of Rs.5 Lakh.

19. Charge – 20

Insurer has not ensured that the premium was received prior to issuance of policy in respect of new member enrolments in non employer-employee group health policies.

Violation of Sec.64VB (1) of Insurance Act, 1938.

Submission of the insurer: The general insurer submitted that premium amount was collected by way of cheque from customers in favour of L&T Insurance and in all cases, cheque date was prior to risk start date. In few cases, cheque receipts were inadvertently shown as cash receipts.

Decision:

Taking note of the confirmation of the insurer that all the cheques were dated prior to risk commencement date, no charges are pressed.

20. Charge – 22 & 23

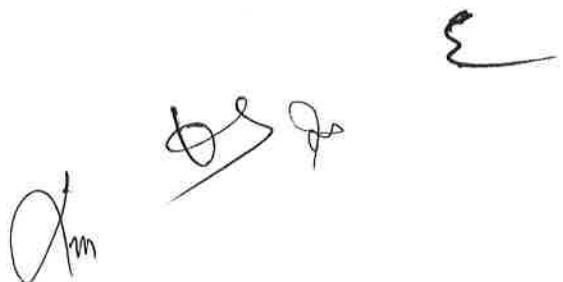
Prior to issuance of NOC to agents applying for transfer of agency license, insurer needs to communicate to the policyholders on the alternate arrangements made to service them. Further, the insurer had also not filed the quarterly statement prescribed by the Authority in this regard.

Violation of point 4 & 8 of circular no.31/IRDA/CA/CIR/Sep-09 dated 2nd Sep, 2009.

Submission of the insurer: The general insurer submitted that all policyholders pertaining to agent applying for NOC for transfer of agency were informed through post and had in place process for making alternate arrangements to service such policyholders. The insurer had also submitted copy of quarterly statements filed with the Authority on NOCs issued to agents.

Decision:

On examining the documents submitted by the insurer, it is noted that the insurer had submitted quarterly statements and has also communicated to policyholders on

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alternate arrangements made. Taking note of the submissions of insurer, no charges are pressed.

21. Charge – 24

The insurer has not set the minimum business requirements to its Corporate Agents.

Violation of Authority's Cir. Ref. No. IRDA/CAD/ GDL/AGN/ 016/02/2011 dated 11-02-2011.

Submission of the insurer: The general insurer submitted that being a startup Company and having only 3 corporate agents, the targets were set orally and reviewed at regular intervals. Henceforth, the targets would be set and will be documented.

Decision:

Taking note of the insurer submissions, no charges are pressed. However, within 30 days of the Order, insurer is advised to submit the document setting the targets to corporate agents.

22. Charge – 25

The insurer has not provided the details pertaining to training of individual Agents / Specified Persons of Corporate Agents on the matters relating to Anti Money Laundering.

Violation of guidelines prescribed under point v.3 of Chapter-III of Authority's master circular on AML matters dated 24.09.2010.

Submission of the insurer: The general insurer has submitted details of three agents meetings held on AML matters.

Decision:

The Authority takes note of the documentary submissions of insurer on training to agents on AML matters, no charges are pressed.

23. Charge – 26

From the product brochures / leaflets provided to the inspection team, it was noticed that the insurer was not filing the various promotional materials printed in the form of

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leaflets / brochures and were also not appearing in the insurer's advertisement register maintained for the year 2012-13.

Violation of provisions of Reg. 3 (1) (ii), (iii) and (v) of IRDA (Insurance Advertisements) Regulations, 2000.

Submission of the insurer: The general insurer submitted that four advertisements referred in the inspection observation were ready to be issued but were not released. The four advertisements were issued on 19th July and filed with the Authority on 26th July, 2013. Other three advertisements referred in the observation were released and filed with the Authority as per the advertisement guidelines but inadvertently not entered in the advertisement register.

Decision:

Taking note of the submissions of the insurer, no charges are pressed. However, insurer is instructed to keep the advertisement register upto date without giving scope for any omissions in the register, which otherwise would be viewed seriously.

24. Charge – 27

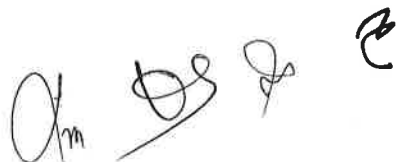
For marketing of products under distance marketing mode, Insurer had engaged M/s. Andromeda Marketing Pvt. Ltd., on 22.08.2011. As per the Authority guidelines, for any product to be sold on distance marketing mode, insurer should file 'Standardized product scripts' under Use & File within 15 days. On examination, it is observed that the insurer had not filed "standardized product scripts" immediately on entering into agreement but had only filed on 29.06.2012 and 18.01.2013.

Violation of provisions of Para 9.1 of Authority's Guidelines on Distance Marketing, dated 05.04.2011.

Submission of the insurer: The insurer accepted that there was delay in filing the scripts with the Authority which got missed out inadvertently and requested to kindly condone the delay. Going forward the Company ensures to comply with the said requirements from time to time.

Decision:

The distance marketing guidelines issued by the Authority were effective from 1/10/2011. In view of the violations of distance marketing guidelines, the Authority in exercise of the powers vested under Section 102(b) of the Insurance Act, 1938 imposes a penalty of Rs.5 Lakh.



25. Charge – 28 & 29

28. The insurer had not maintained the records pertaining to the details of tele-callers, their training details, the details of clearing the test, the details of Authorized verifiers and business procured through various outsourced telemarketers.

29. The insurer could not provide list of policies procured through distance marketing mode and the call recordings of sample policies for examination by the inspection team.

Violation of clause 8 (I, ii, iv & v) & 9 of the “Guidelines on Distance Marketing of insurance products” circular ref.no.IRDA/ADMN/GDL/MISC/059/04/2011 Dt. 05/04/2011.

Submission of the insurer: The general insurer informed that the company engages only qualified people as tele-callers /authorized verifiers and insurer in support of his submission has provided training and certification details of the Tele-callers, list of Authorized Verifiers, list of policies procured through distance marketing mode and further confirmed that call recordings are available for verification by Authority

Decision:

On examining the documents submitted by the insurer, the Authority takes note of the submissions and no charges are pressed.

26. Charge – 30

From the cover notes issued, it was observed that the premiums were adjusted from the consolidated cheques / bank guarantee issued by M/s. L&T, where L&T was neither the policyholder/financier/intermediary in all such policies. The insurer did not obtain a proposal form in all such policies and was logged under “Direct Business”. Similarly, M/s. L&T Finance Ltd. is maintaining a “Premium Deposit” account with the insurer, and the premium pertaining to various insured persons is adjusted out of the “premium deposit” maintained with the insurer. The policy schedule of such policies does not contain the name of the sales person and their contact details.

Violation of

- a) Section 40(1) and 42D (8) of the Insurance Act, 1938 and IRDA/CIR/011/2003 dated 27-03-2003.
- b) Regulation 4 (1) of IRDA (Protection of Policyholders' Interests) Regulation by accepting risk without proposal form (around 2600 policies).



c) Point 3.1-1(vi) of AML circular ref. IRDA/SDD/GDL/CIR/020/02/ 2013 dt.8.2.2013, by accepting premium from third party having no insurable interest.

Submission of the insurer: The general insurer submitted that Larsen & Toubro Ltd. (L&T) was a principal selling agent for L&T Komatsu Ltd. (LTK) and offered free insurance for the equipment sold for a given period of time to its customers. In case of L&T finance, they were the financiers of the asset. Further, proposal form is mandatory without which the company does not issue policies

Decision – Charge 11 & 30:

The general insurer reply is silent on not collecting proposal forms from L&T with reference to 2600 policies and submission is contradictory with the observation, wherein insurer confirmed that 'proposal form is mandatory without which the company does not issue policy'. **In view of the violations noticed above, the Authority in exercise of the powers vested under Section 102(b) of the Insurance Act, 1938 imposes a penalty of Rs. 5 Lakh.**

27. Charge – 31

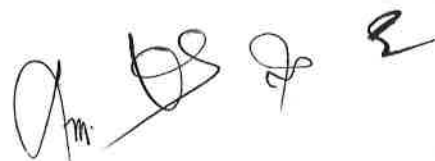
On sample examination, it was observed that unlicensed entities were soliciting insurance business on behalf of the insurer. Instances observed: 1. Pol. No. 817705000019460000- Cash @Hospital Micro Insurance –was solicited by M/s. VAX Assurance and Services – Intermediary Code: 999700129. 2. Policy No. 716201000020830000 – Individual PA Policy –was solicited by M/s. Bartronics.

Violation of Section 40(1) and 42D (8) of the Insurance Act, 1938 and IRDA/CIR/011/2003 dated 27-03-2003 by procuring the business through unlicensed entities.

Submission of the insurer: The general insurer submitted that the company does not source business from unlicensed entities. It is only by error of omission and would take necessary steps to ensure that such cases would not repeat in future. Further submitted that proposal form is mandatory without which the company does not issue policies and all proposal forms are available in the repository and can be taken out as per need basis.

Decision:

Though insurer admitted his mistake in the two sample cases referred in the charge, procuring business from unlicensed entities is violation of the provisions of Insurance Act.



In view of the violations noticed above, the Authority in exercise of the powers vested under Section 102(b) of the Insurance Act, 1938 imposes a penalty of Rs. 5 Lakh.

28. Charge – 32

The insurer did not put in place any documented SOP for recruitment, licensing, transfer and issue of NOCs and operations of distribution channel partners i.e., Agents, Corporate Agents etc. The insurer had also not put in place any internal audit mechanism to ensure the internal controls and adherence to regulatory provisions wherever required.

Violation of Clause 6 under Annexure II of Corporate Governance guidelines issued by Authority vide circular: No. IRDA/F&A/CIR/025/2009-10, dated 5-8-2009.

Submission of the insurer: The general insurer informed that the company is in the process of finalizing internal audit manual and has submitted copy of SOP related to recruitment, licensing, transfer and issue of NOCs and operations of distribution channel partners.

Decision:

The Authority takes note of the submission of the copy of SOP and insurer confirmation on initiating the process of finalizing internal audit manual, no charges are pressed.

29. Charge – 33

The insurer had not set any limits to various categories of Surveyors viz., A, B & C. The insurer has not provided any documented policy specifying the internal limits and also the evidence of circulating the same to all its operating offices. The issue was also discussed in the Audit Committee meeting of the insurer on 11.05.2012.

Violation of cir. No. 26/IRDA/SUR/CIR/DEC-08, dated 22.12.2008.

Submission of the insurer: The insurer submitted that the circular was not implemented inadvertently and is in the process of fixing limits to various categories of surveyors. After approval of the Board, the limits would be filed with the regulator and would also be hosted on the company web site. Insurer further submitted that the company followed erstwhile limits for surveyors as set by the Regulator.



Decision:

Taking note of the submissions of the insurer that the limits for surveyors would be placed before Board for approval and after approval would be filed with the Authority besides hosting the same on their website, no charges are pressed. **However, a compliance report be furnished to the Authority within 30 days of issuance of this order.**

30. Charge – 34

On examining the insurers Policy Administration system, it is observed that the system doesn't capture the date of appointment of surveyor, delay observed in appointment of surveyor and also in submission of survey reports by the surveyors.

Violation of

- a) Regulation 9(2) of IRDA Protection of Policyholders' Interests) Regulations, 2002
- b) Provision 13(3) under Chapter IV of Insurance Surveyors & Loss Assessors Regulations, 2000.

Submission of the insurer: The general insurer submitted that

- a) Date of surveyor appointment is being recorded in the system and submission of final survey report is recorded in an excel file.
- b) First survey carried out within 72 hrs of the intimation date.
- c) The submission of the final survey report is dependent on the insured submitting the necessary documents / final repair being carried out and inspection by the surveyor. The company closely follows up with the surveyors for the submission of the report expeditiously and process the claim for final decision.

Decision:

In the sample claim files examined, delay is observed in appointment of final surveyor by 99 days in policy no. 93510500002340 and by 53 days in policy no.93510500010076. However, taking note of the submissions of insurer that delay in appointment of final surveyor was due to the damaged vehicle not being shifted to the workshop, no charges are pressed.

Further insurer is advised to capture in its system, the date of last document received from insured and also date of submission of final surveyor report.

31. Charge – 35

It was observed that there has been a delay of more than 30 days in offering settlement of claims even after receipt of survey report.

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Violation of

- a) IRDA PPHI Regulations – 9(5)
- b) Clause 6 on 'Control functions' under annexure II read with point 5(e) of annexure I on 'Responsibilities of Board of Directors' of IRDA corporate Governance circular.
- c) Provision 13(3) under Chapter IV of Insurance Surveyors & Loss Assessors Regulations, 2000.
- d) Reg. 9(2) of IRDA (Protection of Policyholders' Interests) Regulations, 2002

Submission of the insurer: The general insurer submitted that in claim no. 93510500002125, since the financier letter did not have the inward date, it is construed that the letter was received on 12/03/2012 and settled claim on 20/04/2012. In respect of claim no. 93510500002340, post receipt of the final assessment from the surveyor on 12/10/2012, no offer was made to the insured as the approval for the labour charges and parts were already agreed upon. The loss was settled on 28/11/2012. Subsequently the insured had represented that certain parts which were originally approved by the surveyor and have not been considered in the final repairs bills. On reviewing it was found that the surveyor had missed out on some of the parts. Hence the case was reopened on 8/ 1/2013 and difference of Rs54270/- was settled to the insured.

Decision:

In view of the submissions made by the insurer the charges are not pressed.

32. Charge – 36

The insurer's claims handling manuals are not comprehensive and were not covering aspects such as viz., claim closures, on account payments, motor OD theft claims etc. The insurer also did not put in place a system to inward the documents and record the date of receipt of the documents. In the absence of the same, the time lags could not be examined in settlement of claims.

Violation of Clause 6 under Annexure II of Corporate Governance guidelines issued by Authority vide circular: No. IRDA/F&A/CIR/025/2009-10, dated 5-8-2009.

Submission of the insurer: The general insurer accepted to the observation and has submitted Board approved comprehensive claims manual for all LOBs with the Authority on 1/12/2014.

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Decision:

The Authority takes note of the submission of insurer on submission of comprehensive claims manual of all LOBs, no charges are pressed.

33. Charge – 37

Claim no's 93510500002522 & 93510500003530 were negotiated for a reduction in claim amount.

Violation of provisions of G.R. 8 of erstwhile Motor Tariff.

Submission of the insurer: The general insurer informed that insured has submitted only one set of key in one claim and in another claim no keys were submitted. The company applied the IDV as the claim payable and deducted amount after seeking the insured's consent for non submission of the keys. In theft claim, keys as provided by the manufacturer are called for and in the absence of the keys claim amount is negotiated.

Decision:

Taking note of the confirmation of the insurer that in both the theft claims, insured had not submitted the original keys and only after insured consent deduction was applied on IDV, no charges are pressed.

34. Charge – 38

From the sample cases, it was observed that the TPAs empanelled by the insurer were applying deductions on health insurance claims which were not consistent with the approved policy terms and conditions. Deductions were applied on amounts claimed towards consultations, surgeon charges, pharmacy, investigations etc., in proportion to the eligibility of the room rent.

Violation of point 1, 8 & 11 of F&U guidelines dated 28/09/2006.

Submission of the insurer: The general insurer submitted that the deductions were applied on nursing charges, Doctor's charges & medical investigation, as per the policy condition, which says "expenses" shall be reduced in the same proportion as such actual cost bears to the eligible limit of hospital stay charge.

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Decision:

As per the policy terms and conditions of the health product filed with and approved by the Authority, insurer can limit reimbursement of expenses towards room rent/Boarding & nursing to 1% of the sum insured and 2% in case of expenses in ICU. Whereas, on insured incurring higher than the policy limits on room rent/ICU Boarding & nursing, insurer reduced the other hospitalization expenses such as lab charges, pharmacy, surgeon fees, consultant fees etc., in the same proportion as such actual room rent costs bears to the eligible limits in the policy. It is incorrect to make any proportionate deduction other than for Room Rent/Boarding & Nursing without approval under F&U guidelines. Hence insurer settled lesser claim than eligible.

Further, insurer states that by mentioning limitation on room rent/nursing charges in the policy wordings, the company intention was to apply to all Hospitalization expenses, which is totally illogical and against the terms and conditions of the filed product.

Looking at the seriousness of the violation of F&U guidelines, the Authority in exercise of the powers vested under Section 102(b) of the Insurance Act, 1938 imposes a penalty of Rs. 5 lakh.

Further, insurer is directed to examine all the claims settled till date of Health Medisure Classic Insurance (Individual & Floater) and to identify claims not settled in accordance to the terms and conditions of the policy. Insurer to refund the excess claim deductions applied on all "other hospitalization expenses" along with interest as prescribed under Regulation 9(6) of IRDA (Policyholders' Interests) Regulations, 2002 to all such policyholders. This exercise shall be completed within 3 months from the date of order. Further, Insurer is directed to submit a monthly action taken report on compliance to these directions duly certified by the compliance officer of the company.

35. Charge – 39

The insurer had issued policy with a condition of 10% of co-pay on delayed intimation of claims.

Violation of Authority's Cir.Ref.No.IRDA/HLTH/MISC/CIR/216/09/2011, dated 20.09.2011.

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Submission of the insurer: The general insurer submitted that the policy was a rollover Policy of another general insurer and Insured had insisted on carrying forward the same terms as of last year due to which this condition formed part of policy issued by them. This clause was aimed to develop the mechanism for timely intimation of claim and submission of the documents post discharge.

The company has noted the observation of regulator and shall refrain from applying such conditions in future Policies.

Decision:

In view of the submissions by the insurer, the charge is not pressed further.

36. Charge – 40

The insurer deleted the loss provisions from claims liability on closure of claim, for which there was no documented procedure. Similarly, the insurer did not create the loss provisions based on the surveyor's spot survey report, resulting in short provisioning for claims liability.

Violation of Provision 2(ii) (b) under Schedule II-B of IRDA (Assets, Liabilities and Solvency Margin of Insurers) Regulations, 2000 and clause 6 under Annexure II of Corporate Governance guidelines issued by Authority vide circular: No. IRDA/F&A/CIR/025/2009-10, dated 5-8-2009.

Submission of the insurer:The general insurer while submitting claim wise information to the claims referred in inspection observation has also submitted that while registering a claim the system automatically provides for default loss reserve and on receipt of the survey report the default loss reserve is changed based on surveyors recommendation. On closure without payment the reserve would automatically revert to zero unless the same is reopened at a later date when the provision is to be entered again.

Decision: Taking note of the claim wise submissions of the insurer on reserving, no charges are pressed.

37. Charge – 41

With regard to Policy No. 911101000881820000 of sum insured Rs.81 crore issued by the insurer, the risk commenced on 01.04.2012 and a loss happened on 07.04.2012 for an amount of Rs. 4.12 crore which was settled by the insurer.



However, it was observed that the premium instrument was received on 4th April, 2012 and was banked on 07th April 2012.

Violation of

- a) Section 64VB of Insurance Act, 1938.
- b) Clause 6 under Annexure II of Corporate Governance guidelines issued by Authority vide circular: No. IRDA/F&A/CIR/025/2009-10, dated 5-8-2009.
- c) Para 3(ix), 11, 17.1 & 26 of File and Use guidelines ref. 021/IRDA/F&U/SEP-06, dt.28.6.2006 for allowing discretionary discount of 25.5%.

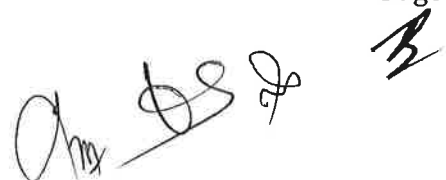
Submission of the insurer: The general insurer submitted that the premium cheque was collected by the company from Howden brokers before to the risk commencement date i.e. on 31st March, 2012. The risk has been assumed only after the premium cheque was received but due to the intervening holidays there was a delay in the banking the cheque. The discretionary discount was in line to match market competition and in no way intended to undercut the rate.

Decision:

The insurer has submitted that the risk has been assumed by them only after the premium cheque was received but they could not provide any documentary proof on the receipt of the cheque prior to risk commencement. Although it is generally acceptable practice to assume the risk on receipt of the cheque but such assumption of risk is subject to encashment of the cheque. Normally banks take couple of days to confirm acceptance or rejection of the cheque. In the instant case based on the submissions of the insurer it is observed that by the time the cheque was encashed the fire accident took place and the company has assumed the liability and honoured the same. This is a case of early claim and the insurer must have a policy for investigating such early claims from the point of view of fraudulent act or intent. In the absence of any details in this regard submitted by the insurer it is difficult to ascertain whether proper investigation was conducted in the instant case before making claim payment. In view of these observations, the Authority directs the insurer to furnish a status report within 15 days from the date of receipt of this order.

38. Charge – 42

It was observed that few outsourcing arrangements were not discussed in any of the board meetings such as IBEXI SOLUTIONS PRIVATE LIMITED and C-SAM SOLUTIONS PRIVATE LIMITED.

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Violation of point 9.3 of Outsourcing guidelines dated 1st Feb, 2011.

Submission of the insurer: The general insurer submitted that the two IT service providers were approved by the Board as a part of the overall IT project plan for the Company. However, it may be noted that the Board and the management is well seized of the importance and criticality of these projects and consequently is being monitored regularly.

Decision:

The issue is not on the approval of the project and its monitoring by insurer, but about annual review of the performance of the service providers on an annual basis. The company is advised to review the performance of the service vendors in compliance with para 9.3 of the Outsourcing guidelines dated 1st February, 2011.

39. Charge – 43

Sub lease agreement was entered by the insurer with the L&T Fin Corp Ltd. for the premises at Mumbai, which provides for direct payment of lease rentals to lessor i.e., Kalamboli structural and Roofing Pvt Ltd. The insurer deviated from the agreement terms by paying rent amount directly to L&T FinCorp Ltd, which is its group company.

Violation of Clause 6 under Annexure II of Corporate Governance guidelines issued by Authority vide circular: No. IRDA/F&A/CIR/025/2009-10, dated 5-8-2009.

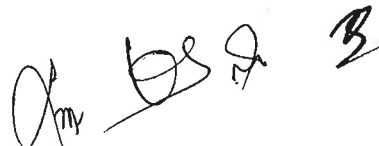
Submission of the insurer: The general insurer submitted that the rent payment is strictly in line with the commercial understanding and the payment is made to L&T Fincorp (lessee) which in turn makes the full rent payment to the main lesser. The Company will examine the matter further in view of the Authority's observation and take suitable steps to reflect the understanding both in letter and spirit

Decision:

The Authority takes note of the submission of insurer and no charges are pressed.

40. Charge – 44

On examination it was observed that the insurer had paid Rs.41 lakhs to Caltec services Pvt Ltd (Earlier known as Sundaram Business Services -Vendor Code 6000001201), towards outsourcing of call centre services. Insurer had not disclosed

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the payments to the Authority in the statement of outsourcing activities (Form- A) for the half year period ended 31.03.2013.

Violation of point 11 of Authority's circular ref. IRDA /Life/ CIR/GLD/013/02/2011 dt.1.2.2011 on outsourcing guidelines

Submission of the insurer: The general insurer submitted that the information was erroneously not filed in the statement filed with the Authority.

Decision:

The insurer replied to inspection observation on 30th October, 2013 informing error of omission. However, insurer has submitted only partial information in the September, 2013 half yearly outsourcing statement filed with the Authority on 26/11/2013. The insurer is directed to strictly comply with the Authority circular on Outsourcing guidelines dated 1st February, 2011 and any violation hereafter would be considered non-compliance.

41. Charge – 45

The insurer had made additional payment of Rs. 3,00,000 to a broker in the name of sponsorship. On examination of invoice with supporting trailing mail related to event sponsorship, it was observed that such payments were made in respect of business from the insurance broker.

Violation of Circular No 011/IRDA/Brok-Comm/Aug-08, dated 25th August, 2008.

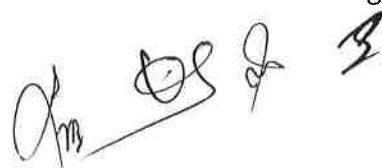
Submission of the insurer: The general insurer submitted that the payment made was towards sponsorship of a Techno Commercial Conference organized by broker and has no relationship to the premium sourced through the brokers.

Decision: The Authority takes note of the submissions of the insurer and no charges are pressed.

42. Charge – 46

On examination of sample paid claims in respect of Policy Nos. 93510500005164, 93510500005086, 93510500002918 and 93510500006921, it was observed that the insurer had paid claims in excess of Rs. 1,00,000 without obtaining the KYC documents.

Violation of Para 3.1.2(i) of Master circular on Anti-Money Laundering/Counter-financing of Terrorism (AML/CFT) guidelines.



Submission of the insurer: The general insurer informed that the company has a strict monitoring procedure in place and as a rule it settles claims in excess of Rs. 1 Lakh only after obtaining the necessary KYC documents. Further, insurer has provided documentary evidence of KYC collected in respect of all the claims referred in the inspection observation.

Decision:

Taking note of the documentary evidence on KYC being submitted by the general insurer with respect to all sample paid claims referred in the inspection observation, no charges are pressed.

43. Charge – 47

While determining the IBNR reserves, credit for negative reserves was taken by the insurer.

Violation of

- a) Para 1.7 under chapter I of Guidelines on 'Estimation of IBNR Claims Provision' issued vide circular ref.no.11/IRDA/ACTL/IBNR/2005-06 dated 8-06-2005.
- b) Regulation 4 read with point 2 (c) under Schedule IIB on 'Valuation of Liabilities in General Insurance Business' of IRDA (Assets, Liabilities and Solvency Margin of Insurers) Regulations, 2000.

Submission of the insurer: The general insurer submitted that the company has adopted a more prudent approach than that set out in the guidelines and informed that the final estimated IBNR amount is positive. The company further submitted that on an analysis of estimated versus actual IBNR emerged, it is observed that the extent of release is in excess of 250% exhibiting highly prudent approach of the company in the estimates of IBNR. However, taking note of the concerns of the Regulator the company confirms that from next financial year negative IBNR would be ignored by the company.

Decision: Taking note of the submissions of the insurer that negative credits will be ignored while arriving at IBNR from next financial year, no charges are pressed.

44. Charge – 48

It was observed from the Financial Condition report of FY 2011-12 that the insurer had increased its retention capacity in Fire surplus treaty. However, necessary

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adjustment was not noticed in the claims data taken for determination of IBNR reserve.

Violation of

- a) Para 3.8 of 'Claims handling practices' under chapter I of Guidelines on 'Estimation of IBNR Claims Provision' issued vide circular ref.no.11/IRDA/ACTL/IBNR/2005-06 dated 8-06-2005.
- b) Regulation 4 read with point 2 (c) under Schedule IIB on 'Valuation of Liabilities in General Insurance Business' of IRDA (Assets, Liabilities and Solvency Margin of Insurers) Regulations, 2000.

Submission of the insurer: The general insurer submitted that the company had increased its retention only for large risks which contribute 4% of net premium and looking at its insignificant value it was believed that there was no need for specific adjustment for change in the retention limits. Further, the estimated IBNR as at 31st March 2013 for Fire LoB was positive and the company had overprovided by 223%, which is a very prudent level of provisioning.

Decision:

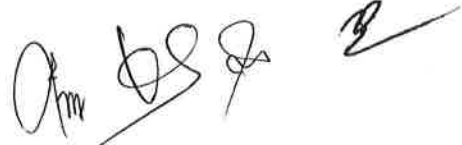
Taking note of the submissions of the insurer that the IBNR experience for year 2012-13 for fire line of business being positive, no charges are pressed. Henceforth, the AA is advised to bring out the facts for any such reason/assumption in the Financial condition report.

45. Charge – 49

On comparison of the claims data used for IBNR calculation with the operational data, few inconsistencies were noticed. The data available with the actuarial department in this regard was observed to be inconsistent with those from operational and accounts section of the insurer.

Violation of

- a) Para 2.1 under chapter I & second paragraph in chapter 4 of Guidelines on 'Estimation of IBNR Claims Provision' issued vide circular ref.no.11/IRDA/ACTL/IBNR/2005-06 dated 8-06-2005.
- b) Regulation 4 read with point 2 (c) under Schedule IIB on 'Valuation of Liabilities in General Insurance Business' of IRDA (Assets, Liabilities and Solvency Margin of Insurers) Regulations, 2000.



Submission of the insurer:The general insurer submitted that the the differences pointed out do not materially impact on the IBNR computation as the total difference is only Rs. 1,35,000/-, which is just 0.02% of claims incurred of FY 2011-12. Further, the company submitted that the Appointed Actuary has also performed all the reasonableness checks that are required to ensure the quality and completeness of the data.

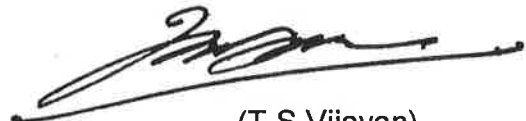
Decision: The Authority notes that insurer has taken note of the concerns of the Authority in the matter, as such, no charges are pressed.

In conclusion, as directed under the respective charges, the penalty of Rs.50 lakh (Rupees Fifty Lakh only) shall be debited to the shareholders' account of the general insurer and the amount shall be remitted to Insurance Regulatory and Development Authority of India within a period of 15 days from the date of receipt of this Order. The penalty shall be remitted through the NEFT as per details being intimated to the insurer as per a separate e-mail. The transfer shall be made under intimation to Mr.Lalit Kumar, FA & HOD-Enforcement.

Further,

- a) The General Insurer shall confirm compliance in respect of all the directions referred to in this Order, within 15 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 general insurer feels aggrieved by any of the decisions in this order, an appeal may be preferred to Securities Appellate Tribunal as per Section.110 of the Insurance Act, 1938.

Place: Hyderabad
Date: 30-7-2015



(T.S.Vijayan)
Chairman

