



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

18/08/2017
No. IRDA/ENF/ORD/ONS/18/08/2017

Final Order in the matter of
M/s. Regal Insurance Brokers & RMS Pvt. Ltd.

Based on reply to the Show Cause Notice dated 18th May 2017 and submissions made during Hearing held on 28th June, 2017 at 03-00 p.m. through video conference taken by Member (Non Life) at the office of Insurance Regulatory and Development Authority of India, 3rd Floor, Parishrama Bhavana, Basheerbagh, Hyderabad.

Background:-

The Insurance Regulatory and Development Authority of India (hereinafter referred to as "the Authority") carried out an onsite inspection of M/s. Regal Insurance Brokers & Risk Management Services Pvt Ltd (hereinafter referred to as "the broker") during 16-11-2015 to 18-11-2015. The Authority forwarded a copy of the Inspection Report to the broker seeking comments and the broker's comments were received vide their letter dated 21-03-16. Upon examining the submissions made by the broker, the Authority issued Show Cause Notice on 18-05-17 which was responded to by the broker vide letter dated 03-06-2017 & 13-06-2017. As requested therein, a hearing through Video Conferencing was given to the Broker on 28th June 2017. Shri Ramesh Peer, Principal Officer, and Shri JL Pandita, Head-Operations, were present in the hearing on behalf of the Broker. On behalf of the Authority, Mr. PJ Joseph, Member (Non Life), Shri Randip Singh Jagpal, HOD (Intermediaries), Shri Prabhat Kumar Maiti, GM (Enforcement), Shri B.Raghavan, DGM (Enforcement), and Shri Udit Malhotra, Assistant (Enforcement) were present during the hearing.

The submissions made by the broker in their written reply to the Show Cause Notice and those made during the course of the hearing and the documents submitted by the Broker in evidence of their submissions in Hearing have been considered by the Authority and accordingly the decision on the charge is detailed below.

Charge:-

The Inspection Team while perusing Form 26Q (under Income Tax Act, 1961), observed that the Broker had paid Rs. 8,48,906/- to M/s Vishvdeva Leasing & Investment Pvt. Ltd. (M/s Vishvdeva) in the FY 2012-13. Upon enquiring further, it was informed that the Broker had entered into an agreement dated 10.04.12 with M/s Vishvdeva for providing certain services to its clients on its behalf. The services agreed to be provided by M/s Vishvdeva, amongst others, included the following:

- (i) Collect the proposal form received from the Company's (read the Broker) direct clients.
- (ii) Collect premium as per rates finalized by the sales team of the Company (read the Broker) by way of account payee cheque and or demand draft in the name of insurance company and deposit the same in Company's (read the Broker) office.
- (iii) Collect policies, publicity and information material from the office (read the Broker) and dispatch and deliver the same to designated clients.
- (iv) Co-ordinate at the time of claims in obtaining necessary documents from the clients.
- (v) Provide assistance to the Company (read the Broker) and customers for compliance of Section 64VB of the Insurance Act, 1938.
- (vi) Carry out verification of credential/declaration of the clients to the Company (read the Broker).

Although, the said agreement did not specify the remuneration to be paid to M/s Vishvdeva; from a perusal of three invoices raised by M/s Vishvdeva, it was observed that the Broker paid to M/s Vishvdeva @ 25% of "net commission received" (read the brokerage) by the Broker.

As per the list of services in the agreement between the Broker and M/s Vishvdeva, all the functions of the Broker are being performed by M/s Vishvdeva, except that the premium is finalized by the Broker. Hence it is clear that M/s Vishvdeva is engaged as a canvasser to bring in business, which is a violation of Clause 3(b) of Schedule VIA of Regulation 28 of IRDA (Brokers) Regulations 2013 where Insurance Broker is prohibited to employ agents or canvassers to bring in business.

By providing the client information to a third party, breach of confidentiality of client information has also taken place leading to the violation of Clause 2(d) and 2(e) of the code of conduct contained in Schedule VIA under Regulation 28 of IRDA (Brokers) Regulations 2013.

Submissions of Broker:-

The Broker has submitted that neither has it delegated any core functions of the Broker to any third entity nor has it shared any commission with any third party.

It has always paid lump sum amount to Vishavdeva Leasing and Investments Private Limited for providing ancillary and support services to the Broker and not as a percentage of commission. The Agreement between Broker and aforesaid entity did not mention any specific amount to be paid by the Broker to Vishavdeva Leasing and Investments Private Limited.

The broker has also submitted that the Agreement with the said entity ended in 2012 and it was never renewed and w.e.f. 01/01/2013, the broker does not have any agreement with any such Service Provider. The Broker also submitted that it has maintained the sanctity and confidentiality of customer's data.

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Decision:-

From the documents (invoices raised by M/s Vishvdeva) supporting the charges, it is evident that the service provider demanded payment as a percentage of commission and the broker also agreed for the same and made the payment to the service provider accordingly. The broker has also confirmed during the video conference hearing that the said amount was indeed paid by the broker. Hence Broker's submission that they have paid lump sum amount for the services provided by the service provider is not acceptable. Any amount of remuneration calculated as a percentage of commission, depends on the premium collection and hence on the amount of business procured. Hence, It is logically concluded that the service provider is employed to solicit business under the guise of support services. This is a violation of Clause 3(b) of Schedule VIA of Regulation 28 of IRDA (Brokers) Regulations 2013 which prohibits employing canvassers for procuring business on behalf of the broker. . The Broker is warned for the same.

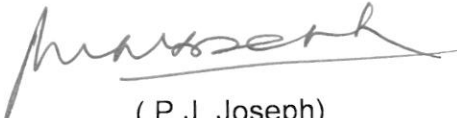
However taking note of the submission that they have terminated the service agreement with M/s Vishvdeva and currently no such service agreement is in existence, the Authority advises the Broker to adhere to Clause 3(b) of Schedule VIA of Regulation 28 of IRDA (Brokers) Regulations 2013.

The Broker is further advised to ensure that clients' information should be kept confidential and should not be shared with any third party/ agency so as to ensure compliance to Clause 2(d) and 2(e) of Code of Conduct contained in Schedule VIA under Regulation 28 of IRDA (Brokers) Regulations 2013.

The Broker should also ensure that the promoters and Board is apprised of the current position and steps taken by Broker to comply with the Regulation. The minutes of meeting with Promoters and Board members regarding the aforesaid purpose should be communicated to the Authority.

The Broker shall confirm compliance in respect of the directions referred to in this order, within 21 days from the date of receipt of this order. Timelines, if any, as applicable shall also be communicated to the Authority.

Place: Hyderabad
Date: 07-08-2017



(P.J. Joseph)
Member(Non-Life)

