



Ref. No. IRDAI/F&A/ORD/TRSH/165/09/2015

ORDER

The Insurance Regulatory and Development Authority of India (hereinafter referred to as "the Authority") had issued a Certificate of Registration bearing No.103 to Reliance General Insurance Company Ltd. (hereinafter referred to as "RGIC") on 23rd October, 2000 to carry on General Insurance business in India in terms of Section 3 of the Insurance Act, 1938. In terms thereof the Insurer was subject to the terms and conditions of the Certificate of Registration and was also required to abide by the provisions of the Insurance Act, 1938 (hereinafter referred to as "the Act"), particularly Section 6A of the Act, IRDA (Registration of Indian Insurance Companies) Regulations, 2000 and other directions issued by the Authority from-time-to-time by way of Circulars and/or Guidelines, particularly Circular no. IRDA/F&A/CIR/DRSH/183/08/2011 dated 11th August, 2011 issued by the Authority as regards transfer of shares by the Insurers. The Insurer was also required to abide by the Circular No. IRDA/F&A/064/Jan/05 dated 12th January, 2005, Circular No. IRDA/CIR/F&A/ 073/Feb-05 dated 22nd February, 2005 and Circular No. IRDA/F&A/CIR/100/06/2010 dated 16th June, 2010 as regards filing of shareholding pattern in the prescribed format on quarterly basis with the Authority.

RGIC vide its letter dated 15th April, 2014 filed the shareholding pattern of the company as on 31st March, 2014. On a scrutiny of the same, it was observed that Reliance Capital Limited (hereinafter referred to as "RCL") was holding 96.50% shares in RGIC.

In view of the above, as the promoter(s) are common in both the Reliance Life Insurance Company Limited (hereinafter referred to as "RLIC") and RGIC, the Authority vide its letter dated 21st March, 2014 sought certain other documents from RLIC and also advised to confirm that RCL is not a subsidiary company. RLIC vide its letter dated 24th March, 2014 submitted that Reliance Innoventures Private Limited (hereinafter referred to as "RIPL") has indirect shareholding in RCL and that it has been categorized as holding company of RCL, although it holds only 0.23% shares on direct basis.

The Authority vide its letter dated 28th March, 2014 advised RLIC to furnish the following:-

- Complete group shareholding structure of RCL, clearly indicating the direct/indirect shareholding of RIPL in RCL.
- Documentary evidence to the effect that the fact of RCL being majorly held by RIPL, as subsidiary company was informed to the Authority.

RLIC vide e-mail dated 28th March, 2014 stated that AAA Enterprises Private Limited and AAA Infrastructure Consulting & Engineers Private Limited are wholly owned subsidiaries of RIPL. Further, together with these two wholly owned subsidiaries, RIPL owns 51.69% of shares in RCL and thus RCL is a subsidiary of RIPL. RLIC further contended that the Annexure to the application for transfer of shares made to the Authority indicates that RIPL was holding company of RCL. In the Annual Reports of RCL for the financial years 2010-11, 2011-12 and 2012-13, filed with the Authority, it was observed that in the Related Party Disclosures, RIPL has been shown as the holding company of RCL and hence, by virtue of this, it has been established that RCL was a subsidiary of RIPL.

In this regard, it was observed that the shareholding pattern of RCL furnished by RGIC indicates AAA Enterprises Private Limited and AAA Infrastructure Consulting & Engineers Private Limited as its shareholders. Thus, RGIC violated the provisions of Regulation 2(g)(i) of the IRDA (Registration of Indian Insurance Companies) Regulations, 2000, by virtue of RCL, a subsidiary of RIPL, being a promoter of RGIC.

In view of the above, the Authority vide its letter dated 24th September, 2014 issued a Show-Cause Notice to RGIC seeking response, within 21 days, as to why regulatory action u/s 102 of the Insurance Act, 1938 should not be initiated by the Authority for the following lapses:-

1. Violation of Regulation 2(g)(i) of the IRDA (Registration of Indian Insurance Companies) Regulations, 2000; and
2. Non-disclosure of information regarding status of RCL being a subsidiary company.

On the request of RGIC, the time limit for responding to the Show Cause Notice was further extended by 21 days i.e. upto 7th November, 2014.

RGIC vide its letter dated 6th November, 2014 responded that all the details in relation to the entire shareholding of RCL were intimated to the Authority from-time-to-time. RGIC further sought to differentiate between (i) the promoters at the time of seeking registration and those thereafter, and contended that the shareholders of a continuing Insurer cannot be termed as 'Promoters' and (ii) the obligations for disclosure and reporting at the time of registration and thereafter on an ongoing basis.

The reply and the relevant documents filed by RGIC were examined by the Authority. The contention of RGIC to differentiate between the promoters at the time of registration and shareholders of continuing insurer not be termed as "Promoter" is not tenable, as the IRDA (Registration of Indian Insurance Companies) Regulations, 2000, does not provide for such differentiation and RCL shall be responsible for all compliances under the Insurance Act, 1938 and Regulations made thereunder.

It was observed that RGIC had not submitted convincing evidence that it had transparently disclosed to the Authority that RCL was a subsidiary company and tried to misrepresent the facts to the Authority.

RGIC vide its letter dated 6th November, 2014 further intimated the Authority that RGIC has received an undertaking from RCL indicating that the shareholding of RCL would be restructured, within a period of 12 months from the date of the letter, and accordingly, RCL will cease to be a subsidiary of any other company.

RGIC vide its letter dated 8th April, 2015 submitted that w.e.f. 27th March, 2015, RCL has ceased to be a subsidiary of the RIPL and that RCL is not a subsidiary of any other company. By virtue of this, it is concluded that the submission of RGIC that RCL is no longer a subsidiary company, is tantamount to acceptance that it was a subsidiary as on the date of issue of show-cause notice by the Authority and prior to that date too. Thus, the violation of Regulation 2(g)(i) of the IRDA (Registration of Indian Insurance Companies) Regulations, 2000 by the insurer has been established.

The Authority vide its letter dated 8th May, 2015 directed RGIC to furnish the documentary evidence, including certificates of independent professionals, in support of their claim that RCL is not a subsidiary company as on 31st March, 2015 and advised the company to inform its Board about the de-subsidiarization of RCL.

RGIC vide its letter dated 30th May, 2015 submitted a certificate from an Independent Chartered Accountant that RCL has ceased to be a subsidiary of the RIPL and that RCL is not a subsidiary of any other company as on 31st March, 2015. Further, the company submitted that the issue pertaining to show-cause notice was placed before the Audit Committee and the issue of de-subsidiarization was placed before its Board and the minutes have been submitted to the Authority.

RGIC was informed on 7th July, 2015 regarding the grant of an opportunity for personal hearing on the above said matter on a mutually convenient date. RGIC vide its letter dated 13th July, 2015 requested the Authority to dispense with the grant of personal hearing on the above said matter.

In view of the above, it is established that RGIC has violated the provisions of Regulation 2(g)(i) of the IRDA (Registration of Indian Insurance Companies) Regulations, 2000. The Authority by exercising the powers vested under Section 102(b) of the Insurance Act, 1938 imposes a penalty of Rs.5.00 Lakhs (Rupees Five Lakhs only) on the RGIC for the violation.

The penalty amount of Rs.5.00 Lakhs (Rupees Five Lakhs only) shall be remitted by the Insurer by debiting the Shareholders' Account within a period of 45 days from the date of issuance of this Order through NEFT/RTGS (details for which will be communicated separately). An intimation of remittance may be sent to Dr. (Ms.) Mamta Suri, Sr. Joint Director (F&A) at the Insurance Regulatory and Development Authority of India, 3rd Floor, Parishram Bhavan, Basheer Bagh, Hyderabad 500004.

Place : Hyderabad
Date : 10th September, 2015


(V. R. Iyer)
Member (F&I)