



बीमा विनियामक और विकास प्राधिकरण
**INSURANCE REGULATORY AND
DEVELOPMENT AUTHORITY**

Ref: IRDA/LIFE/ORD/MISC/103/04/2014

**Final Order in the matter of M/s. Reliance Life Insurance Company
Limited**

Based on Reply to Show Cause Notice Dated 28th October, 2013 and Submissions made during Personal Hearing Chaired by Sri T.S.Vijayan, Chairman, IRDA on 19th February, 2014 at 03:00 PM at the office of Insurance Regulatory and Development Authority, 3rd Floor, Parishrama Bhavanam, Basheerbagh, Hyderabad

The Insurance Regulatory and Development Authority (hereinafter referred to as "the Authority") carried out an onsite inspection of M/s. Reliance Life Insurance Company Limited (hereinafter referred to as "the Life Insurer") from 18th January, 2012 to 25th January, 2012. The Authority forwarded the copy of the Inspection Report to the Insurer vide letter dated 04th April, 2012 seeking comments of the Insurer on the same. Upon examining the submissions made by the Insurer vide letter dated 07th May, 2012, the Authority has issued a Show Cause Notice on 28th October, 2013 which was responded to by the Insurer vide letter dated 29th November, 2013. As requested therein, a personal hearing was given to the Insurer on 19th February, 2014. Mr. V Anup Rau, Managing Director and Chief Executive Officer along with his team were present in the hearing on behalf of the Insurer. On behalf of the Authority, Mr Sudhin Roy Chowdhury, Member (Life), Mr Randip Singh Jagpal, Sr. JD (Intermediaries), Dr (Ms) Mamta Suri, Sr. JD (Onsite Inspections & Compliance), Mrs J. Meena Kumari, Sr. JD(Actuarial), Mr V. Jayanth Kumar JD(Life), Mr A. Ramana Rao, JD (Investments), Mr T S Naik, JD (Agency Distribution) Mr R.K.Sharma, DD(F&A-Life), Mr DVS Ramesh, DD (Life-Coordination) and Mr K.Sridhar Rao, AD (Life-Regulatory Actions) were present in the personal hearing.

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

The findings on the explanations offered by the Life Insurer to the issues raised in the Show Cause Notice and the decisions are as follows.

1. Charge – 1

On identifying Suspicious Transactions, the time lag in reporting STRs to FIU-IND is more than the prescribed seven days limit.

**Violation of Clause 3.2 (i) (b) of AML Master Circular
IRDA/F&I/CIR/AML/180/11/2010 dated 12th November, 2010.**

The Life Insurer submitted that they have established and implemented policies, procedures, and internal controls in consonance with the AML Master Circular IRDA/F&I/CIR/AML/180/11/2010 dated 12th November, 2010 and all subsequent amendments thereof and that there is a process in place to identify, review and report the potential STRs by an AML Committee on final identification.

Decision: From the Inspection observation it is noticed that there is a significant time gap between the date of transaction, identification and reporting to FIU-IND. While considering the submissions of the Life Insurer that there is an involvement of a committee to review the transactions before their reporting to FIU IND, it is stated that any internal procedure that is laid down shall function within the regulatory framework. Further there are cases where the time lag even after identification as STRs by the said committee exceeds the prescribed limit of Seven (7) days. However, in light of the corrective measures that are now stated to have been put in place, charges are not pressed but the Life Insurer is hereby cautioned to scrupulously observe the prescribed time limits.

2. Charge – 2

Investments made in excess of 3% of Fund Size in Fixed Deposits were categorized as, "Approved Investments" instead of "Other investments" as stipulated in the Investment Policy of the Life insurer.

The above investments made are in violation of Section 27A (9) of Insurance Act, 1938.

In response the Life Insurer submitted that the total Exposure in one of Fixed Deposits was 7.6% of the fund size of Non Par Fund as on Dec 31, 2011, out of which 2.07% of the overall controlled fund is in Approved Investment and thus compliant with Section 27 A (9) of the Insurance Act, 1938 (hereafter referred as 'the Act') and that there are procedures to ensure compliance with the regulatory requirements.

Decision: Though the actual investments made by the insurers are within the statutory norms, the limit that was mentioned in the Investment Policy has exceeded the statutory norms of the Act. As such the Investment Policy is not reflecting the statutory requirements laid down in the Act. The Life Insurer shall note that the Investment Policy laid down shall be within the overall statutory and regulatory framework so as to ensure that there is no scope for any deviations.

As there are a number of other deviations in the Investment Policy of the Life Insurer the regulatory decision is stated under Charge No. 4.



3. Charge – 3

The Investment policy of the Life Insurer excludes "Capital Secured Fund" and "Money Market Fund" from exposure limit of 25% of the fund in Banking & Financial Sector.

Violation of Note 5 of Regulation (5) of IRDA (Investment) Regulations, 2000.

In response the Life Insurer submitted that it has in place the systems to comply with the regulatory limits which are also periodically audited and that in practice they are in compliance with the relevant regulatory norms. It further submitted that there is an omnibus clause in the investment policy requiring the company to follow all IRDA Regulations.

Decision: *The submissions that the actual investments made by the Life Insurer were in compliance with the regulations and that the revised Investment policy is also complying with the applicable provisions of the Act and IRDA norms are taken into consideration. However, designing the Investment Policy in deviation from the regulatory norms is considered as a serious lapse. As there were deviations in the Investment Policy, the regulatory decision is placed under Charge No. 4.*

4. Charge – 4

Investment policy allowed a higher limit of 15% of the individual fund size for equity as well as debt exposure contrary to the limits prescribed under IRDA Investment Regulations 2000.

Violation of Regulation (5) of IRDA (Investments) Regulations, 2000

The Life Insurer submitted that in practice it was in compliance with IRDA Guidelines and that there was an omnibus clause in the investment policy that expects the company to follow all IRDA Regulations. It further submitted that they were always in compliance with the investment norms; the investment limits are part of the system and are periodically audited.

Decision: *While noting that there is an omnibus clause in the investment policy, it is categorically clarified that setting an exposure limit of 15% in the Investment Policy is clear violation of the Regulation 5.*

It is noticed from Charge – 2, Charge – 3 and Charge – 4, the Life Insurer did not scrupulously design the Investment Policy within the regulatory framework. Though, there are no specific deviations, it shall be noted that the Investment Policy which guides investment committee / which shall be implemented by the Investment Committee shall be within the statutory and regulatory framework. An Omnibus provision will offer no regulatory comfort when the granular details / prescriptions are in deviation from the regulatory norms. The approach of the Life Insurer towards one of the critical policies is noticed as very casual. Therefore,



the Authority in exercise of the powers vested in Section 102(b) of the Act, imposes a penalty of Rs 1,00,000 (Rupees One lakh only).

Taking note of the submissions on the revisions carried out in the Policy, the Life Insurer is also advised to pay required attention hereafter while putting in place the Investment Policy.

5. Charge – 5

There is an agreement entered with, "Anil Dhirubhai Ambani Ventures Limited" on 18/11/2009, for usage of its brand for Life Insurer's services and products. As per terms and conditions of the agreement, as a consideration for obtaining the grant of license to use the Brand, the Insurer shall incur certain expenditure from time to time as per the directives and guidance of the authorized representative of the Licensor up to INR 50 Crores. However, no provision for the liability (i.e. consideration for use of brand) has been created in Insurer's books of account.

This is not in compliance with Institute of Chartered Accountants of India, Accounting Standard-29 and in violation of Regulation (3) (1) of IRDA (Preparation of Financial Statements and Auditor's Report of Insurance Companies) Regulations, 2002.

*The Life Insurer in response to the charge submitted that as per AS – 29, for an item to satisfy the condition as **Provision**, it should be first satisfy the condition of a **liability**, which, arises from past events and that the agreement does not give rise to any liability from any **past event**. Currently, there is no such legal case pending or impending that would adversely impact the brand; hence, the item does not satisfy the condition that there is a liability from past events giving rise to Provision and the treatment given by the Company to the terms of the agreement is compliant with the Accounting standard 29 and IRDA (Preparation of Financial Statements and Auditor's Report of Insurance Companies) Regulations, 2002.*

Decision: It is noticed that no payments are made towards this purpose since, 2009-10. As per Para 14 of Accounting Standards 29, a provision should be recognized when; (a) an enterprise has a present obligation as a result of a past event (b) it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and (c) a reliable estimate can be made of the amount of the obligation.

From the agreement it is noticed that one of the clauses satisfies the three conditions to create provisions as per Para 14 of AS-29. Therefore, the Life Insurer is directed to make appropriate provisions from the Financial Year 2014-15 onwards.



6. Charge – 6

As per Sch. 13 (current liabilities) to financial statements, as on 31-03-2011, it was noted that, "Premiums received in Advance account" balance was INR 21 Crores and some of items include Single Premium policies with,"surrender" status amounts lying for a long time. The amounts incorporated under this head are noted to be in the nature of unclaimed amounts by policy holders. And it is further noticed from Schedule 13 to Financial Statements as at 31.03.2011 that the outstanding balances in the account of, "unallocated premiums" were lying since 2007 and there are no efforts to refund / adjust the amounts to respective policyholders. These items are not shown as a separate line item to Schedule 13 of ,"Current Liabilities".

Violation of circular No IRDA/F&I/CIR/CMP/174/11/2010 dated 04.11.2010.

*The Life Insurer submitted that the balance shown under the head "Premium received in Advance" as on 31.03.2011 **only comprises** of policies which were **"IN FORCE"** as on that date and hence, it was appropriately disclosed. It was further submitted that, unclaimed amount, **if any**, lying under Policy status "surrender" were correctly shown under "Unclaimed Amount of Policy Holders" of Schedule 13 and that it is in compliance with the Circular No. IRDA/F&I/CIR/CMP/174/11/2010 dated 04.11.2010.*

The Life Insurer also submitted that continuous efforts were made to follow-up on such matters, contact the respective policyholders and as a result of these efforts, "Unallocated Premiums" account balance of Rs. 66 crores as on 31st March 2011 has been reduced to Rs. 12 crores as on 12th April 2012.

Decision: *On considering the submissions, it is noticed that there are instances, where the policies that were having 'surrender' status and also the Single Premium policies are part of the 'Premiums received in Advance account'. Therefore, when payments are 'due to the policyholders', the same shall be shown as a separate line item as unclaimed amount of policyholders instead of showing it as premium received in advance.*

Therefore, the procedure followed is in contravention of the provisions of circular No IRDA/F&I/CIR/CMP/174/11/2010 dated 04.11.2010. Considering the submissions regarding substantial reductions of the outstanding dues of this account, the Life Insurer is advised to ensure compliance with the circular under reference so as to enhance the quality of the disclosures.

7. Charge – 7

On examination of internal audit reports it was noticed that the activity of reconciliation of bank accounts pertaining to commission pay outs was outsourced.

Violation of Guidelines on Outsourcing of Activities by Insurance Companies Circular No. IRDA/Life/CIR/ GLD/ 013/02/201 1 dated 01.02.2011.



The Life Insurer submitted that all the outsourcing agreements which are not in line with the "Guidelines on Outsourcing of Activities by Insurance Companies" were terminated by 30th June 2011 and they are complying with the Authority's Circular No. IRDA/Life/CIR/ GLD/ 013/02/201 1 dated 01.02.2011.

Decision: Taking into consideration the submission of the Life insurer the charges are not pressed.

8. Charge – 8

Under Employees Stock Option (ESOP) 2007, options to the tune of 26,24,900 were granted and "Reliance Life Insurance Employees Benefit Trust (RLIEBT)" had subscribed to these shares @INR 108 per share amounting to INR 28.35 Crores. No prior approval from the Authority for transfer of these shares was obtained. An amount of Rs 28.35 Crores granted as an unsecured loan to RLIEBT from the shareholders fund was considered for arriving at "available assets" for the purpose of arriving the Available Solvency Margin and Solvency Ratio. No terms of loan like security to be obtained, rate of interest chargeable, and the tenure of the loan etc. were part of the terms and conditions governing the loan. Though the due date for exercise of option by employees is over, none of the employees had exercised the option. Unless the employees exercise the option, there is no possibility of mobilization of funds by the trust and re payment of the loan. Hence, the tenure of the loan is uncertain. The confirmation towards outstanding loan for the years ending March 2010 and March 2011 was submitted by two different group trusts revealing ineffective internal controls.

Above are in violation of IRDA (Assets Liabilities and Solvency Margin) Regulations, 2000 and also Violation to Clause (6) of IRDA Guidelines on Corporate Governance

The Life Insurer submitted that as the present transfer of shares is less than 1% (0.219%) prior approval was not sought and that the loan is advanced to the known entities. It was also submitted that the option is available to employee on the completion of lock-in period of 3 years. If no employee opts for stock, the option would go back to the Trust pool and the monies come back to company after 7 years. The recovery of loan is certain and is realizable, hence considered for solvency margin. Further, it was submitted that the loan is given pursuant to the provisions of Section 77(2) (b) of the Companies Act, 1956.

Decision: On examining the submissions it is noticed that the loan extended to the Trust may not be considered as a readily realizable asset to form part of the assets under Available Solvency Margin (ASM). Considering the loan towards solvency margin is in violation of IRDA (Assets Liabilities and Solvency Margin) Regulations, 2000. Therefore, under powers vested in Section 102(b) of the Act,

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the Authority imposes a penalty of Rs 5, 00,000 (Rupees five lakhs only) and the Life Insurer is hereby directed to disallow the loan as the asset.

9. Charge – 9

A payment of INR 1.45 Crores was made to M/s. Reliance Mutual Fund, a Group policy holder towards "profit sharing" on its group policy by debiting, "Other Miscellaneous Expenses" and a proposal deposit was created.

Violation of C-2 and Clause C-4 of Group Guidelines Circular O15/IRDA/Life/Circular/GI Guidelines/2005 dated 14/7/2005.

In response it was submitted that Reliance Mutual Fund had contributed the entire group premium to insure its customers. The contract is an annually renewable contract. As per profit sharing agreement with the policyholder, experience refunds (i.e. profit sharing) are in line with the Authority's Circular No IRDA/ACTL/FUP/Ver.A/Aug 2003 dated 2 Sep 2003 on profit sharing under Group Insurance schemes.

Decision: Considering the submissions that the entire group premium is borne by the master policy holders and that the profit sharing payment is made as per the terms and conditions of the scheme and in line with the Authority's circular, no charges are pressed.

10. Charge - 10

During 2010-11, huge payments of Rs 1282.14 lacs were made towards "Referral Fees –Contests" against referral fee of Rs 126.72 lacs.

Violation of provisions of Circular Ref. IRDA/Cir/004/2003 dated 14/02/2003 and IRDA (Sharing of Database for Distribution of insurance Products) Regulations, 2010.

The Life Insurer submitted that the contests are gratuitous expenses incurred to bestow awards or rewards to employees or lead generators who have excelled in servicing the customers and are not linked with or based upon the solicitation and procurement of insurance business by the distributors. It was also clarified that the head of account "Referral Fees – Contests" referred above are in the nature of lead generation expenses. During the course of the personal hearing it was submitted that the Authority vide its order dated 12th August, 2010 has taken cognizance of the matter and that since, July 2010, all lead generation / referral arrangements were discontinued.

Decision: The specific charge here is about payments to Referral entities under contests and the personal hearing order of the Authority referred by the Insurer dealt with engaging the entities as Referral entities. Therefore the submissions of Insurer are not accepted. It is observed that the Insurer has made these payments to referral entities under contests in violation of provisions of Circular Ref. IRDA/Cir/004/2003 dated 14/02/2003 and therefore a penalty of Rs 5,00,000



(Rupees Five Lakhs only) is hereby imposed under Section 102(b) of insurance Act, 1938.

However, on payments made towards 'Lead Generators' the regulatory decision is stated in the subsequent Paras.

11. Charge – 11

An amount of Rs. 45.09 crores which pertain to, "Full Surrender Fee" has been reported in the Revenue Account as part of Miscellaneous Income for the year ended 31-03-2011 and this amount was not shown in schedule UL-1 under the head, "surrender charges".

Violation of circular no 054/IRDA/FA/FEB-07, dated. 20/02/07

The Life Insurer submitted that the surrender charges are to be disclosed in UL1, only if surrenders are shown net of charges, which will represent lower surrender claims than actual and thus not give the true picture and hence, they are in compliance with the circular no 054/IRDA/FA/FEB-07, dated. 20/02/07

Decision: On examining the submissions, it is to state that in order to reflect true picture, the Surrender charges should have been included in the UL-1 Schedule and from there to be transferred to Miscellaneous Income. Therefore, the Life Insurer is advised to comply with the provisions of Circular mentioned hereafter.

12. Charge – 12

All transactions with Reliance Capital Company, the promoter, were not disclosed under Related Party Transactions.

Violation of institute of Chartered Accountants of India's Accounting Standards-18 and Regulation (3) (1) of IRDA (Preparation of Financial Statements and Auditor's Report of Insurance Companies) Regulations, 2002.

The Life Insurer submitted that AS 18 establishes requirements for the disclosure of related party relationships and transactions between a reporting enterprise and its related parties. As per the provisions of AS 18, RCL and RLIC were not related parties; therefore the reporting and other requirements in relation to related parties do not apply. It was further submitted that post acquisition of shares of viscount and alpha – the erstwhile shareholders of Reliance Life Insurance –Reliance Life Insurance Company Limited has become an Associate of Reliance Capital Limited. Post this change, Reliance Life Insurance is disclosing the required facts and figures as per Accounting Standard 18.

Decision: On examining the submissions it stated that by virtue of Clause (C) and (D) of AS – 18, the transactions with Reliance Capital should have been disclosed. However, on reviewing the matter that the Insurer is now disclosing the

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transactions as per A S – 18, charges are not pressed and the Life Insurer is advised to comply with the provisions of the applicable Accounting Standards.

13. Charge - 13

As per accounting policy “listed equities are measured at fair value, being the last quoted closing prices on the national stock exchange(in case it is not traded on the National stock exchange then last quoted closing price on the BSE is used) at the balance sheet date”. However, lower of the NSE or BSE price shall be considered for valuation.

Violation of Reg.6(c) of IRDA (Preparation of Financial statements and auditor’s report of insurance companies) regulations, 2002 read with Authority’s circular IRDA/FA/01/10/2003-04 dated 29-10-2003.

The Life Insurer submitted that the said valuation policy was adopted taking into purview of higher trading volumes and liquidity at NSE as compared to BSE.

Decision: While noting the submissions and taking into consideration, the circular dated 30/10/2013 issued by IRDA, no charges are pressed.

14. Charge – 14

The data submitted in fulfillment of the social sector obligations for the years 2009-10, 2010-11 and 2011-12, is erroneous as some of the policies have occupations which do not fall under the prescribed category and wrong classification of policies under the defined occupation categories. The number submitted to the authority for the respective years is not matching with the list provided for inspection. **Many duplicate policies on a single life were also observed in the list of policies under Rural and Social Sector obligations.**

Violation of IRDA (Obligations of Insurers to Rural and Social Sectors) Regulations, 2002.

In response, the Life Insurer submitted, that it has automated the process of tagging occupations. Further, the company has initiated the process of manually verifying all the social policies received and tagged during the month with the defined parameters as defined in the said regulations and that, during the period under inspection and beyond, the Company has been fulfilling the social sector norms as per the following.

Financial year	Number of lives reported	Regulatory Norms
2009 - 10	59,348	45000
2010 - 11	147,476	55000
2011 - 12	856,929	55000
2012 - 13	368,508	55000



Decision: While noting the submissions it is noticed that there are instances where the policies did not comply with the social sector norms. The following are the sample instances of the policies categorized under Social Sector business.

S.No.	Annual Premium (INR)	Annual Income (INR)	Occupation as per proposal form
1	26 Lakhs	30 Lakhs	Agriculture
2	10 Lakhs	5 Lakhs	Agriculture
3	20 Lakhs	80 Lakhs	Business
4	20 Lakhs	80 Lakhs	Business

While considering the submissions that the norms fulfilled are above the prescribed limits, the Life Insurer shall note that the absence of procedures to appropriately categorize the policies may give an ample scope for giving the distorted picture. Based on the instances of deviations noticed, it may be concluded that the authenticity of figures shown under Social Sector Business is questionable and the life insurer did not have in place the procedures for capturing and reporting the correct data towards fulfilling the obligations on rural and social sector. In light of these gaps, the Life Insurer is warned for not putting in place the effective systems to ensure the submission of the accurate data. The Life Insurer is also directed to put in place effective systems for capturing/reporting accurate data hereinafter.

15. Charge - 15

- i) Fund Not Representing Solvency Margin (NRSM) of INR 54 Crores as on 31st March, 2011 was considered for solvency calculations.
- ii) As per Sch.1 of IRDA (Assets, Liabilities and Solvency Margin of Insurers) Regulations, 2000, 'assets should be placed with value zero for reinsurance balance outstanding for more than three months'. However, the ageing of outstanding reinsurance balances receivable was not considered for valuation of assets for solvency calculations.
- iii) No accounting provisions were created in the financials for Premium Waiver Benefit (PWB) which is feature under Life Insurer's products 'Reliance Secure Child Plan' and 'Reliance Child Plan' and provisions were also not made in Mathematical Reserves.
- iv) IBNR (Incurred But Not Reported) reserve is provided as 5% of claims paid for all lines of business for past few years for which no working notes or claims reporting pattern was available with the Insurer.
- v) For quarterly valuation as on 30-06-2011 while calculating reserves future bonus assumption was reduced by 10% from the previous valuation as on 31-03-2011. Further, share holders' share of 10% of surplus was not taken into account while calculating reserves for valuation as on 30-09-2011.

All the above are in violation of IRDA (Assets, Liabilities and Solvency Margin of Insurers) Regulations, 2000.

- (i) In response the Life Insurer submitted that the sum of Rs 54 Crores is actually free assets, which can be counted for solvency calculations as per the regulations and that the free fund (i.e. shareholders' funds over and above the funds representing the solvency margin) has been invested only in the assets classified as admissible assets for the solvency purpose in terms of IRDA (Assets, Liabilities and Solvency Margin of Insurers) Regulations, 2000.

Decision: The submissions of the Life Insurer with regard to compliance to IRDA (ALSM) Regulations are considered. However, under 'Form - 3A', Statement of Investment Assets' of public disclosure, it was disclosed that 'Fund Not Representing Solvency Margin (NRSM)' as on 31-03-2011 was around Rs. 54 crores. However, these funds were considered while arriving at the 'Available Assets for solvency purposes' on the grounds that the same was invested only in the assets classified as admissible assets for the solvency purpose in terms of IRDA (Assets, Liabilities and Solvency Margin of Insurers) Regulations, 2000. Thus the fund classified as 'NRSM' was indeed the 'fund representing solvency margin 'FRSM'. Thus, there is a wrong representation in the public disclosures. The Life Insurer is directed to make the correct disclosures.

- (ii) In response it was submitted that as per the treaty, the amount is due only after the invoice is raised by the reinsurer and that the outstanding balances were with duration of less than 90 days from the date of invoice from the reinsurer. Therefore, it was submitted that they are in compliance with the IRDA (Assets, Liabilities and Solvency Margin of Insurers) Regulations, 2000.

Decision: The Life Insurer in the first compliance submitted that the balance outstanding for more than 3 months was not excluded as it was received before the preparation of solvency report and further viewed that the aforesaid amount is not material in the overall financial context of their company. Considering the submissions of the Insurer it is stated that irrespective of the materiality of the quantum of amounts involved, the matter of concern is the need for putting in place the effective systems to ensure compliance with the norms in case of such assets. Therefore, the Life Insurer is advised to put in place effective systems and comply with IRDA (Assets, Liabilities and Solvency Margin of Insurers) Regulations, 2000.

- (iii) The Life Insurer submitted that the amount in question is less than 0.02% of the total reserves and the reserves were not explicitly held but provided implicitly through Margin for Adverse Deviation (MAD), which was an omission and that the overall reserve held for the product is higher than the gross premium reserve including premium waiver benefit using minimum MAD as per APS - 7.



Decision: The valuation method shall take into account all prospective contingencies under which any premiums (by the policy holders) or benefits (to the policy holder) may be payable under the policy. Further as required under Regulation 3(4) a & b of IRDA (Actuarial Report and Abstract) Regulations, 2000, Principal Officer and Appointed Actuary give certificate with respect to accuracy and completeness of the policy data. Thus, though the corresponding liability is very small, not including the said policies for valuation is considered as a serious violation. Therefore, under the powers vested in Section 102(b) of the Act a penalty of Rs 5,00,000 (Rupees five lakhs only) is imposed on the Life Insurer. The Life Insurer is also directed to ensure compliance with the provisions of IRDA (Assets, Liabilities and Solvency Margin of Insurers) Regulations, 2000.

- iv) In response the Life Insurer submitted that the Provision of 5% of claims is a conservative provision over and above all the reserves required under the Regulations and that this is over and above the mandatory requirement of MAD as per APS 7. 5% is the additional MAD which is as per AA's view is adequate.

Decision: The submissions of the Life Insurer that it is complying with the guidance notes issued by the Institute of Actuaries of India (APS2 and APS7) and that the reserves provided is over and above the mandatory requirement of MAD are considered. However, it is clarified that any reserve that is created, shall be based on the nature of the product and can't be dependent on other margins included. For the policies where the contingency had occurred but not reported and the policy was in-force as on the date of valuation, IBNR may be provided based on the past experience of the insurer. As the life insurer, being in the life insurance business for a decade, it is expected that there shall be a reasonable level of past data to determine the IBNR. Therefore, where IBNR is provided, the Life Insurer is advised to ensure that the same duly considers the past claims experience and is consistent with the same.

- v) The Life Insurer submitted that, keeping the above regulations in view, it has deemed it necessary to reduce the future supportable bonus rates by 10% to be consistent with bonus rates supportable at valuation interest rate and that the Board agreed to waive the shareholder right to 10% of the distributed surplus for the benefit of participating policyholders.

Decision: On considering the submissions, it is clarified that any change in valuation assumptions are expected to be disclosed. Further the procedure adopted is not in line with the Schedule II A 2(8) of IRDA (ALSM) regulations which require that "the assumptions for the valuation parameters shall not be subject to arbitrary discontinuities from one year to the next". It is further noticed that factual disclosures are not made in the public disclosures on the issue of shareholders' transfer on Participating business. Therefore, the Life Insurer is



advised to inform hereafter, the Authority regarding any changes in assumption made.

16. Charge – 16

In respect of all funds a reserve of @0.40% of 'standard assets', has not been created as mandated under Authority's circular dated 24-01-2007

Violation circular No 32/2/F&A/Circulars/169/Jan/2006-07 dated 24/01/2007.

In response the Life Insurer submitted, that the provision is not a material amount. However, on raising the issue, that it has started providing the same from quarter ended June 2012.

Decision: Considering the submissions and based on the materiality of the issue under reference, charges are not pressed.

17. Charge – 17

Policies have been issued despite shortfall in initial premium to the extent of INR 500. There is also a waiver of additional extra premium charged up to INR 250/- in the first policy year, over and above INR 500/- allowed on regular premium. Similarly, a shortfall up to Rs.10/- or 1% of the premium whichever is lower has also been allowed in case of acceptance of renewal premiums.

Violation of Section 41 and Section 64VB of Insurance Act, 1938.

In response the Life Insurer submitted that the premium differences that are not material have been waived and that the inconvenience caused to the policyholders and costs of collecting such premium would far outweigh the value of premium to be collected.

Decision: The life insurer vide its letter dated 07th May, 2012 submitted that the amount of short fall is funded from the Shareholder's fund. From some of the instances it is noticed that policies were issued with a short fall of Rs.10000/- and with a short fall of Rs.7500/-. While considering the submissions of the insurer that allowing the shortfalls is with the objective of avoiding inconvenience to the policyholders, it is to state that such practices of funding the short fall may potentially lead to misappropriations. It is further stated that meeting the substantial shortfall is also in violation of Section 64 VB of the Act. Therefore, the life insurer is cautioned and directed to discontinue the practice and is advised to comply with the provisions of Section 64 VB of the Act.

18. Charge – 18

During the financial year 2010-11, differences are observed between the actual payments made to the distribution channel partners under, "other payouts" and amounts disclosed to IRDA under the returns filed as per IRDA Circular dated 13/03/2009.

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Further, it is observed that the payments were made to the related parties of various distribution channel partners in addition to the eligible commission payable under the respective File and Use.

Violations of Clause 21 of Corporate Agency Guidelines issued vide Circular No.017/IRDA/Circular/CA Guidelines 2005 dated 14/07/2005.

In response the Life Insurer submitted that the amounts paid were on "Paid Basis", whereas the amounts reported were on 'Accrual Basis', hence the difference.

On the payments made to the related parties of the insurance intermediaries, the Life Insurer submitted that it sought confirmations from the concerned agents, who clarified that none of the parties are related to them as per Accounting Standard 18.

On the payments made to entities under the head 'marketing & publicity', the Life Insurer submitted that the payments made are for accessing the advertising space in the premises of these third party entities and/or for the third party distributing publicity material.

Decision: The submissions of the Life insurer on the differences observed between the actual payments made to the distribution channel partners and amounts reported to IRDA in the returns filed are considered.

On the submissions of the Life Insurer that service providers were not the related parties of the insurance intermediaries, it is to state that from the agreement entered with BMA Commodities Pvt. Ltd. it is observed that one of partners of A B Capital, the Corporate Agent of Reliance Life Insurance Co. Ltd., Mr Raj Kumar Bhattar is the signatory to the agreement that was entered with BMA Commodities Pvt. Ltd.

From the agreement entered with Mass Value Insurance Consultancy Pvt. Ltd. (the Service Provider) and the agreement entered with Mass Value Insurance Agency India Pvt. Ltd., (the Corporate Agent of the Life Insurer) it is noticed that the addresses of the both the entities are having same address as "36-38, NGR Street, Pappanaicken Palayam, Coimbatore – 641037"and Mass Value Insurance Consultancy Pvt. Ltd.(service provider) was assigned the activity of 'Dissemination of Information' in consideration of Rs 100 per unit.

Another Service Provider, the entity Sisan Multi Services (a partnership firm) having its address 'GA/12, Sec. 4, City Cantre, Bokaro, Jharkhand' and that the Life Insurer's Corporate Agent Sisan Financial Services is having its address as 'GA – 13, City Centre, Bokaro, Jharkhand– 827004'. Ms. Sikha Guha one of the partners of Sisan Financial Services, (the Corporate Agent), is the signatory to the agreement that the life insurer had with Sisan Multi Services (service provider).Based on the documentary evidence, it is stated that the submissions of the life insurer that the entities referred herein are not the related parties to each other are questionable.



From the above instances, it is stated, that the Life Insurer is supposed to carry out the due diligence before engaging the service providers, by not merely relying on the declarations of the parties and as a prudent norm may avoid engaging the service providers which may result in potential conflict of interests.

On payouts made to some of the service providers, on examination of the agreements entered with Jeevan Suraksha Medicare Services Ltd., BMA Commodities Pvt. Ltd. And Sisan Multi Services it is noticed that the service provider was contracted for the activity of 'Lead Generation'. The regulatory decision on the payments made to the third parties towards 'Lead Generation' activity is pronounced in subsequent Paras.

From the submissions of the Life Insurer, it is noticed that the following other payments were made during 2009-10 stated to have been towards Contests / Rewards and recognitions to various Corporate Agents.

Rs Lacs

Sr No	Financial Year	Name of the Intermediary	Type	Premium Procured	Payment Other than Approved Commission INR	Purpose for which amount paid (Contest, others, specity)	% of other payouts on the premium
1	09-10	VAM INTEGRATED SERVICES	CA	3.84	8.29	Contest / R&R etc.	215.84
2	09-10	BRILLIANT SECURE ADVISORY SERVICES LTD	CA	41.49	10.25	Contest / R&R etc.	24.71
3	09-10	MAGPIE INVESTMENTS & FINANCIAL	CA	34.35	4.82	Contest / R&R etc.	14.03
4	09-10	RADIANCE ASSOCIATES	CA	11.16	1.44	Contest / R&R etc.	12.95
5	09-10	FUTURE LIFE E SOLUTION PVT LTD	CA	171.85	17.89	Contest / R&R etc.	10.41

Noting that the payments made are disproportionate to the premium procured, it is considered that the payments are in violation of Clause 21 of Corporate Agency Guidelines issued vide Circular No.017/IRDA/Circular/CA Guidelines 2005 dated 14/07/2005 and the Life Insurer is warned for making these payments under the pretext of contest/R&R etc. The Life Insurer is also directed to discontinue these other payments.

19. Charge – 19

On scrutiny of Premium Collection Report dated 17.01.2012 sent by one of the Banks, an outsourced entity for premium collections, it was observed that though the Bank has collected the premiums the remittances to the Life Insurer were not made in time.



Violation of provisions of Section 64 VB of the Act and Violation of IRDA Circular 032/IRDA/ACTL/Dec2005 dated 27-12-2005 and Circular No. IRDA/F&I/CIR/INVO/173/08/2011 dated 29-07-2011.

In response the Life Insurer submitted that it has engaged banks who are authorized to collect insurance premium and that it continuously monitors the turnaround time.

Decision: *On taking into consideration the submissions, the Life Insurer is directed to closely examine / review the Turn Around Time (TAT) of remittance of premiums received in respect of all the collecting bankers in the Financial Year 2013-14 to till date and submit a report on the compliance to the provisions of Section 64VB of the Act within 60 days from the date of this order.*

20. Charge – 20

Various ULIP plans have been issued up to December, 2010 even after cutoff date of 31/08/2010 mandated by IRDA vide circular No. IRDA/Act/CIR/ULIP/102/06/2010 dated 28/06/2010.

Violation of circular IRDA/Act/CIR/ULIP/102/06/2010 dated 28/06/2010 and also Clause 6, Annexure II of Corporate Governance Guidelines, 2009.

In response the Life Insurer submitted that they did not offer any product for sale that is not in consonance with the extant circular from 1 September 2010 and that policies that were logged in prior to the cut-off date have been issued subsequent to 1 September 2010 after due evaluation by the underwriting team. And it also submitted that in each of the instances, care was taken to ensure that the premium cheque was received prior to the last date.

Decision: *On examining the inspection observation it is noticed that the Life Insurer has issued a number of policies after the cutoff date of 01.09.2010. However based on the confirmation that no fresh sale is made after the cutoff date the submissions are considered and no charges are pressed.*

21. Charge – 21

i) The modified clause of "Reliance Market Return Plan" (UIN 121L016V01) which is to be applied only prospectively was applied to one of the existing policies retrospectively.

ii) Fund statements with features other than that approved under File and Use of Group products (Reliance Jan Samridhi Plan (UIN-121N044V01)) were mentioned.

iii) As per File & Use of Jan Samridhi Plan (UIN-121N044V01), the minimum size of the Group required to issue a Group Policy is 5,000. However, many Group policies were issued with groups much below the minimum group size.

iv) Age admission clause inserted in policy terms and conditions of Child Plans and Whole life plans, seeking to make the policy void and forfeit all monies paid, if the



proved age adversely affects the original terms of acceptance of the contract, is in violation of File and Use of respective products.

v) Surrender requests / foreclosure actions under one of Plans were processed in contravention to original policy conditions

All the above are in violation of File and Use norms.

In response to (i) the Life Insurer submitted that this was an isolated and one off error which was suitably addressed.

Decision: Taking into consideration the submissions of the Life Insurer that the instance referred in the Inspection Observation is a one off error and that the corrective action was already taken, no charges are pressed. The Life Insurer is advised to put in place effective procedures to prevent such type of errors.

On (ii) the Life Insurer submitted that certain typographical errors crept in and that the mistake was a one off event and was immediately rectified. It further submitted that the relevant customers have been contacted and their concerns, if any, have been resolved.

Decision: The submission of the Life Insurer that the errors that crept in were one off is not acceptable. The Life Insurer shall exercise utmost care while issuing such important statements. While noting the corrective actions in the case referred, the Life Insurer is cautioned for this lapse and is directed to put in place effective systems and confirm the compliance.

In response to (iii), the Life Insurer submitted that group policies with size below the minimum size were approved by the CEO, Compliance Officer and the Appointed Actuary keeping in view the interests of the policyholders and the company.

Decision: The submissions of the Life Insurer on the approach adopted in taking the internal approvals are in violation of File and Use and therefore are not acceptable. The Life Insurer is warned for violation of File and Use and is directed to ensure that the group policies issued are in accordance to the File and Use norms of the respective group insurance products.

On (iv) the Life Insurer in response submitted that it has never forfeited any amount under the said forfeiture clause and further confirmed that the said clause is not part of the policy document for any of the policies being sold currently.

Decision: On considering the submissions, the Life Insurer is directed to note that the settlement of the claims shall be in accordance to the applicable provisions of the Act and terms and conditions of the policy document. The Life Insurer is also directed to ensure that the terms and conditions of the policy contract shall be as per the approved File and Use features of the concerned product. In respect of all the existing policy contracts where the said clause was



in existence, measures shall be initiated in accordance to the provisions of Regulation 6(4) of IRDA(Protection of Policyholders' Interests Regulations), 2002. It is also further clarified that in the interests of the policy holders, the Life Insurer shall ensure that the age is admitted as far as possible before issuance of the policy document and that in cases where age has not been admitted by the time the policy is issued, the insurer shall make efforts to obtain proof of age and admit the same as soon as possible as envisaged under Regulation 6 (4) of IRDA (Protection of Policyholders' Interests) Regulations, 2002.

The Life Insurer is also directed to adhere to File and Use and comply with Regulation 6 (4) of IRDA (Protection of Policyholders' Interests) Regulations, 2002.

In response to (v) the Life Insurer submitted that the instance was a one off operational error due to the manual process of foreclosing the policies and sending communication to the customer. The Life Insurer also submitted that the customer is not contactable despite the best efforts of the company for completing the foreclosure action.

Decision: *On examining the submissions it is noticed that there was delay in completing the foreclosure action resulting in a financial loss to the policy holder. The Life Insurer is directed to also refund the monetary loss to the policyholder owing to the time gap in completing the foreclosure action referred in the observation and submit the action taken report within 15 days from the date of this order.*

22. Charge – 22

Internal Audit report on quarterly review dated 24-10-2011 revealed that the shortfall premium is increasing in respect of Group Business. No. further details are provided for examination.

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

In response, the Life Insurer submitted that there could be a shortfall in the premium collection, for highly exceptional instances, for the net additional members on a monthly basis for subsequent additions in the member data which are being followed up. The Life Insurer further submitted that it has implemented system controls in place for all group products where the system will not allow any additions to the group policies without collecting due premiums, in advance.

Decision: *The Life Insurer's submissions are not acceptable. The Life Insurer shall note that covering the lives under group insurance is subject to significant risks and that the Life Insurer shall not take any chance by covering the risks without receiving the premiums in advance as prescribed in Section 64 VB of the Act. The Life Insurer is warned for the violations and also directed to immediately comply with the provisions of Section 64 VB of the Act while doing the group insurance business.*

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23. Charge – 23

The premium rates in respect of Group Products have not been displayed in the official website.

Violation of Circular Ref: IRDA/ACTL/FUP/VER 2.0/ DEC 2001, dated 12-12-2001 and Circular dated 04th July, 2003 issued by the Authority on display of Premium rates on websites.

In response the Life Insurer submitted that the complete information on the product including a detailed product brochure is available on its website and that Group quotations are non-standardized, vary depending upon the characteristics of the Group and therefore the requirement of a standard premium table does not apply to Group products.

Decision: Not displaying the premium rates in respect of Group Insurance products in the Life Insurer's web site is a violation of the Circular dated 04th July, 2003 and the Life Insurer is advised to display the premiums / rates of all the Group Insurance products in its website immediately and submit the action taken report within 15 days from the date of this order.

24. Charge – 24

The advertisements bearing numbers Mktg/RTSIAP - Brochure/version1.0/November 2009, Mktg/RTSIAP-Brochure/version 1.1/April 2010 were not filed with the authority and are also not appearing in the advertisement register.

Violation of Regulation 3 (V) of IRDA (Insurance Advertisements and Disclosure) Regulations, 2000.

In response the Life Insurer submitted that the Regulatory requirement of Sales Brochure, File & Use requirement and Policy document were always complied and that all these documents were filed with IRDA. A banner was prepared in March, 2010 for the purpose of display in the branches and was filed with the Authority which is exactly similar to the one referred to by the inspection.

Decision: The submissions of the Life Insurer that the banner filed is exactly similar to the one referred to in the observation is not acceptable. The Life Insurer shall not take such exceptions as the reasons for not filing the Ads as prescribed in the Advertisement Regulations. The Life Insurer is directed to put in place effective internal controls hereafter so as to ensure compliance with the Advt regulations and guidelines issued by IRDA.



25. Charge – 25

In respect of product Reliance Premier Life, instances (Unique Ad id No: Mktg/sales pitch/version 1.0/August 2009, Mktg/poster/version 1.0/August 2009 and Mktg/hoarding/version 1.0/August 2009) were found where Advertisements filed with IRDA are different from that were issued to the public.

Violation of Regulation 3 (V) and Regulation 4 of IRDA (Insurance Advertisements and Disclosures) Regulations, 2000.

In response the Life Insurer submitted that there was only one difference in the filing with the authority and display was to point out the “date of withdrawal of the product” to let the field force know about the product withdrawn and that the advertisements were meant for internal purposes.

Decision: From the observations, it is noticed that the Ads filed with the Authority are not the ones that are released and it is further clarified that any modification is to be considered as a new advertisement and shall be filed with the Authority. Further the submissions of the Life Insurer that the Advertisements are meant for internal circulation are not acceptable. Hence, it is considered that the Life Insurer violated the provisions of IRDA (Insurance Advertisements and Disclosures) Regulations, 2002. The Life Insurer is warned for these violations and is directed to ensure compliance hereafter to the regulations referred herein without fail.

26. Charge – 26

Records in support of having complied with the directions of the Authority vide letter dt. 25-01-2011 for withdrawing certain advertisements were not available to ascertain compliance to Authority's instruction.

Non-compliance to Authority's directions vide Circular No. IRDA/LIFE/MISC/CIR/129/08/2010 dated 16/08/2010.

In response it was submitted that as a process, the intimation of product withdrawal is communicated to all its offices through formal mail communication along with withdrawal of marketing material.

Decision: The submissions of the Life Insurer are not acceptable. However, taking into consideration the seriousness of the matter the Life Insurer is directed to put in place procedures for initiating corrective measures of withdrawal instructions of the Authority from time to time.



The Life insurer is also directed to submit an action taken report in respect of decisions issued under Charge – 24, Charge – 25 and Charge – 26 within 15 days from the date of the order.

27. Charge – 27

Instances were noticed where policies were issued inconsistent with the customer profiles and internal underwriting policy.

Violation of Point no. 3.2 (i) read with 3.1.5 (i) of AML Circular No. IRDA/F&I/Cir/AML/158/09/2010 dated 24/09/2010 and Guidelines issued by Life Council in October, 2007 an Employer- Employee Policies.

In response the Life Insurer submitted that it has in place policies, procedures and internal controls to ensure proper identification of customers in complying with AML Policy and that all KYC documents are collected as per prescribed norms of the AML Circular. In the event the profile of the customer is inconsistent with the premium paid, then a Suspicious Transaction Report (STR) is filed with FIU. In case of Employer – Employee Policies, in general, the company has not issued any policies to employees with shareholding of more than 5%, but for exceptions to qualified employees based on declarations.

Decision: On examining the submissions it is noticed that the review of the transactions was not carried out in time, STRs were not filed within the timelines and enhanced due diligence deserves to be strengthened as envisaged in the AML circular. Hence, the Life Insurer is directed to strengthen the internal norms in these areas. On reviewing the submissions on the employer – employee policies, the Life Insurer is directed to apply diligence and financial underwriting norms while underwriting the Employer – Employee policies.

28. Charge - 28

i) While settling the death claims under 'Highest NAV Advantage Plan' (UIN121L077V01), only Sum Assured is paid where as death benefit payable is equal to Sum Assured Plus accumulated fund value.

ii) In respect of 'Classic Plan' (UIN 121LO80V01), where accumulated fund value also is payable along with Sum Assured on death of the life assured, Sum Assured was settled first and fund value is settled at a later date, due to delay in customization of their claims administration system. Interest for this undue delay is not paid.

iii) Policy documents which were returned undelivered are being re dispatched to the offices of the Corporate Agent. However, there is no mechanism to track if the Corporate Agent has handed over the policy documents to the policy holders concerned.

The above are in violation of Clause 6 of Annexure II of Corporate Governance Guidelines, 05.08.2009.

In response to (i) the Life Insurer submitted that the instances pointed out were exceptional and already known issues wherein the Company settled the claims by paying the death benefit equal to Sum Assured plus accumulated fund value, manually. In the instances, where there was a delay, interest was paid as per IRDA (Protection of Policyholders' Interests) Regulations, 2002. The Company has examined the portfolio to rule out any other instances in the past. The Life Insurer further submitted that a claims process was devised wherein the fund value is paid within three days of registering the death claims in case of ULIP policies and that it has also customized the claims module in Life Asia system to settle sum assured plus fund value for all later cases received.

On (ii) the Life Insurer submitted that Interest was paid for delays and that it has customized the claims module in Life Asia for payment of Sum Assured plus Fund Value as per policy conditions.

On (iii) it was submitted that considering high level of customer engagement model practiced by the sourcing agent, the only reliable, feasible and decisive option to get such documents delivered to the policy holders is to hand them over to the sourcing agent and track the acknowledgement of receipt of documents at corporate agent's offices. The Life Insurer further submitted during the course of personal hearing that the process of sending the undelivered policies through Corporate Agents has been done away with and that it has devised calling customers centrally for all instances where policies have been returned undelivered to reconfirm the address and re-dispatch the policy directly to the customers.

Decision: From the submissions of the life insurer on (i) and (ii) it is noticed that the gap in the claim settlement continued during Financial Years 2010-11 to 2012-13. Despite having known the prevailing gap in the systems, continuation of such gaps for such significant period of time is regarded as a serious lapse in the operational procedures of the company. The Life Insurer shall note that payment of interest shall not be considered as recourse to the violation committed and that the interests on delayed payments shall not be considered as the compensation to the beneficiaries as the time value of money may outweigh the compensations. It is also noticed that in some of the instances, *the Life Insurer paid the interest for delay subsequent to the onsite inspection of the Authority. The Life Insurer is warned for these lapses and directed to ensure effective systems to settle the claims as per the terms and conditions of the contract and the applicable provisions of the Act and Regulations.*

The operational procedures that were in place in respect of Unit Linked Products offer no regulatory comfort. As similar gaps are noticed in subsequent observations, the regulatory decision on the corrective action to be taken by the life insurer is directed in the subsequent decisions under Charge - 31.



On (iii) the submission of the Life Insurer that it has placed effective systems to ensure that the policy documents reach the policy holders are considered and no charges are pressed.

29. Charge – 29 Under Group Insurance policies death claims are settled in favour of Master Policy Holder (MPH) as against to the beneficiaries/insured.

Violation of Clause C-7 of IRDA Guidelines on Group Insurance Vide Circularno.015/IRDA/Life/Circular/GI Guidelines/2005 dated 14/07/2005.

In response, it was submitted by the Life Insurer that this Group Policy was taken out by Reliance Mutual Fund to offer protection to its customers, to the extent of the outstanding dues (remaining installments) payable by the Unit Holders, on the remaining portion of their installments and that apart from the proposal form, the customer also sign a specific instruction to instruct the insurance company to pay the claim dues, if any towards the installments unpaid by the customer to Reliance Mutual Fund and that the claim amount is converted into units, later on paid to the legal nominee by the Master Policy Holder (MPH) on closure of the scheme or on request for early closure from the legal nominee. Therefore, these processes tantamount to the payments being effected in favor of the customers.

Decision: From the observation it is noticed that the sum assured is defined as the amount equivalent to unpaid installments of the mutual fund scheme. In the instructions of the application form, there is a declaration that the proceeds of death claim be utilized for investing in the same mutual fund scheme in the name of the nominee and that the amounts redeemed by the nominee from the mutual fund scheme are subject to the exit load of 2%. In this regard, it is clarified that the features of any group insurance scheme shall be within the statutory norms governing the Life Insurance business and the overall regulatory architecture of the IRDA. Therefore, drawing the claims cheque in favour of the Master Policy Holder for purchasing the mutual funds in the name of the nominee is beyond the definition of the Life Insurance Business. Under Group Insurance the Life Insurer shall ensure that the assured death claim proceeds in cash/cheque reach the beneficiary/member, but not by means of any 'in kind' settlements. The exit load of 2% levied by the Mutual Fund Scheme when the nominee / beneficiary of the deceased group member withdrawing the claim proceeds is an avoidable cost which would have not been there had the claim been settled by drawing a cheque in favour of the nominee / beneficiary of the deceased group member. From the submissions of the Life Insurer it is noticed that following number of claims were settled in favour of Master Policy Holder.



Year	No of claims settled in favour of MPH
2009-10	1484
2010-11	817
2011-12	2187
2012-13	4114
2013-14	700

The procedure of issuing the cheques for purchasing the units of mutual fund schemes favouring the beneficiaries is a serious violation. As 2% exit load is involved in the respective mutual fund the claim settlement procedure also affects financial interests of the beneficiaries.

The procedure adopted in issuing the cheques favouring the Master Policy Holder is in violation of group insurance guidelines issued by IRDA. It is noticed that the Life Insurer committed this violation every year from 2009-10 onwards. Hence, under powers vested in Section 102(b) of the Act, a penalty of Rs 25,00,000 (Rupees Twenty Five Lakhs Only) is imposed. The Life Insurer is also directed to issue the death claims cheques directly in favour of the nominee / beneficiary of the deceased member of the Group Insurance Scheme. The Life Insurer is further directed that in respect of any group insurance the death claim proceeds shall be only settled in monetary value and claim settlements shall be in accordance to the applicable Regulations notified by IRDA. The Life Insurer is also directed to correct the terms and conditions of the Master Policy of the concerned group scheme and issue rectified endorsements, as an adjunct to the Certificates of Insurance, to all the members of the group insurance scheme. The process defined herein shall be completed within 90 days from the date of this order and an action taken report thereon shall be submitted to the Authority within fifteen days thereafter.

30. Charge – 30 While processing the surrender requests under ULIPs, instances were noticed where cut off timing requirements for applicability of NAV were not adhered to.

Violation of point no.10.6.2 of ULIP Guidelines 032/IRDA/ACTL/Dec, 2005 dated 21.12.2005

In response the Life Insurer submitted that it has put in place processes for settlement of surrenders etc. on ULIP policies and that the instances pointed out were exceptions and one off incidents. System controls have since been strengthened and operational personnel now are adequately trained.

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Decisions: Though the Life Insurer has submitted that the instances pointed out were one off incidents, it is clarified that the Insurer should have in place the systems to comply with the guidelines with respect to applicability of NAV and settlement of claims. Hence, the Life Insurer is warned for these deviations.

The operational procedures of the Life Insurer in settlement of surrenders in respect of ULIPs and its submissions deserve to be examined. The Authority considers that there is need for the Life Insurer to initiate the corrective actions, the directions of which are detailed in the decision to Charge - 31.

31. Charge – 31 In some of the instances delays were observed while processing the requests for partial withdrawals under ULIPs.

Violation of Regulation 8(2) of IRDA (Protection of Policyholders Interests), Regulations, 2002.

In response it was submitted that there may be a few aberrations purely an account of inadvertent operational oversight and such instances, if any will be miniscule.

Decision: The submissions that the aberrations were on account of inadvertent operational oversight are not acceptable. The Life Insurer shall note that the settlement of the partial withdrawal shall be given due importance akin to the settlement of claims. The procedures that are in place for settlement of the partial withdrawals are considered as violation of Regulation (8) of IRDA (Protection of Policyholders Interest) Regulations affecting adversely the financial interests of policyholders. Hence, under powers vested in Section 102(b) of the Act, the Authority also levies a penalty of Rs 1,00,000 (Rupees one lakh only) for this violation.

The operational procedures of the Life Insurer in settlement of partial withdrawals, as also those referred under Charge – 28 and Charge - 30 deserve corrective actions. Hence, under powers vested in Section 14 (2) (h) of IRDA Act, 1999 I direct the Life Insurer to cause an audit of entire operational procedures in respect of ULIP policies' transactions and submit to the Authority a certification regarding the accuracy of the Operational Systems in complying with Regulatory prescriptions soon after the completion of the audit referred herein. The Chartered Accountant firm chosen by the Life Insurer shall have a standing service of 10 years in conducting audit of reputed firms of Financial Services and the particulars of the audit firm shall be notified to the Authority soon after its appointment, but within 30 days from the date of issue of this order. The audit referred herein shall be completed within 180 days from the date of appointment.

32. Charge – 32

Delays were noticed in issuing the policies from the date of collection of money to the issuance of policy under proposals sourced by the Corporate Agents.



Violation of Regulation 4 (6) of IRDA (Protection of Policyholders Interests) Regulations, 2002.

In response it was submitted that there was outstanding improvement in the policy issuance TATs and complaints on account of inefficient issuance of policies. The delays were owing to certain extraneous factors like local Bandh or strike.

Decision: *From the inspection observation it is noticed that there are delays in issuing the policies from the date of collection of monies. It is observed that there is delay from the application inward date to Risk commencement date, which deserves to be improved in order to comply with the provisions of Regulation (4) (6) IRDA (Protection of Policyholders' Interest) Regulations, 2002. The Life Insurer is warned for the delays and is directed to ensure completing the proposals with speed and efficiency as envisaged in the within referred regulations.*

33. Charge – 33

Underwriting requirements like income proof, Medical reports etc were selectively waived to the proposals sourced by some of the Corporate Agents.

Violation of Point no. 3.1.5 of the AML Guidelines Circular No. IRDA/F&I/CIR/ AML/ 158/ 09/ 2010 dated 24/09/2010.

In response it was submitted that all exceptions and waivers, if any, are as per standard matrix, approved by the Appointed Actuary and Re-insurer and that no product file and use deviation is permitted.

Decision: *Selectively waiving certain requirements only to the business sourced through some corporate agents is not a sound underwriting policy. While noting the submissions, the life insurer is advised to put in place a well laid down underwriting policy so as to avoid selective discretions.*

34. Charge – 34

Expenses were reimbursed to one of the Group Master Policy Holder towards Marketing & Advertising expenses.

Violation of C-4 of Group Insurance Guidelines issued vide Circular No. 015/IRDA/ Life/Circular/ GI Guidelines/2005 dated 14-07-2005.

The Life Insurer submitted that the solitary instance of payment was made on account of a contract between AMP Sanmar and Tamil Nadu Mercantile Bank Limited and that the Authority had directed Reliance Life Insurance management to honour all contracts that AMP Sanmar had entered into while granting permission to Reliance Life Insurance Company Limited. Clarity in this area was brought about by the Authority vide circular IRDA/LIFE/CIR/MISC/001/01/2011 dated 4th January 2011 specifically disallowing any payment to the Master Policy Holders of Group Policies with effect from 1st April 2011.

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Based upon this circular, SINCE THEN the payments were discontinued under the mentioned arrangement.

Decision: It is noticed that the payments are continued for a longer period of time even after issuance of the guidelines. The submissions that the agreement was honored on account of the directions of the Authority on taking over life insurance business of erstwhile AMP Sanmar Life Insurance Co. Ltd is not acceptable. It is also stated that the clarification circular referred is with regard to collection of amount from the Group members other than insurance premium and has no relevance to the reimbursement of expenses by insurers to Group policy holders. It is observed that the Life Insurer made the following payments.

SI No.	FY	Name of MPH	Premium	Other payments	% on premium	Remarks
1	2010-11	Tamil Nadu Mercantile Bank Limited	23.38 lacs	11.38 lacs	49%	Marketing and Advertisement

The payments made to the above Master Policy Holder are in violation of Clause C-4 of circular. 015/IRDA/Life/Circular/GI Guidelines/2005 dated 14-07-2005. Hence, under powers vested in Section 102(b) of the Act, a penalty of Rs 5,00,000 (Rupees Five lakhs only) is levied on the Life Insurer. The Life Insurer is also directed to comply with the applicable regulations and guidelines while doing the group insurance business.

35. Charge – 35

Arrangements with Group Master Policy holders for sale of insurance products were entered into and referral payments were made for the same.

Violation of Clause B (2) of Guidelines on Group Insurance Circular No. 015/IRDA/Life/ Circular/GI Guidelines/2005 dated 14-07-2005.

The Life Insurer submitted that the parties referred are service providers who distribute leaflet, pamphlet and brochures.

Decision: On taking into consideration the submissions, charges are not pressed.

36. Charge – 36

Certificates of Insurance issued to members under some Group Master Policies did not contain the important terms and conditions of the insurance contract.

Violation of Clause C-7 of Guidelines on Group Insurance Circular No. 015/IRDA/Life/ Circular/GI Guidelines/2005 dated 14-07-2005 and Clause 6 of Annexure II of Corporate Governance Guidelines, 2009.

In response it was submitted that in respect of some policies due to a software bug, a different version of the COI was printed and that this has since been rectified.

Decision: *Taking into consideration the submissions, the Life Insurer is directed to issue the rectified Certificates of Insurance in respect of those instances where appropriate COIs are not issued. Life Insurer is also hereby directed to put in place procedures for issuing COIs with all important terms and conditions of the insurance contract.*

37. Charge – 37

An amount of Rs 168.70 Crores during 2010-11 and Rs 45.21 Crores during 2011- 12 (up to Dec 2011) were paid to various entities towards Marketing and Publicity. Significant amounts were paid to various entities towards "Marketing Activities", "Dissemination of information" and "Generation of Leads". during the years 2010-11 and 2011-12.

Dissemination charges of Rs 74.89 Crores were paid to about 641 entities during 2010-11 and Rs 35.31 Crores to about 131 entities during 2011-12 (up to December 2011).

Service Agreements entered revealed that these entities were engaged for lead generation and dissemination of information.

Violation of IRDA (Sharing of Database for Distribution of Insurance Products) Regulations, 2010 and circular IRDA/Life/Misc./126/08/2010 dated 09/08/2010.

In response it was submitted that it has decided to engage in marketing activities through various vendors and consultants across the country in various decentralized locations and that these vendors and consultants assisted in organizing and conducting awareness campaigns, road shows and marketing activities. As the programs organized were on a mass attendance basis and organized in such a manner, the sums dispensed through these activities appear to be on the higher side. It further submitted that all lead generation activities have been withdrawn and all agreements with lead generators have been terminated with effect from 12th July 2010 as advised in the IRDA circular ref IRDA/LIFE/CIR/MISC/110/07/ 2010. The agreement with one of the vendors has a provisional clause of Lead generation only to take care of the contingent event of its endeavor to register with IRDA under the provisions of IRDA (Sharing the database) regulations. On the expenses incurred for dissemination of information the life insurer submitted that various internal checks and audits have been performed by its employees.

Decision: *The submissions that the provisional clause of lead generation is only for a contingent event is not acceptable. On examination of service agreements*



entered with various entities it is found that the entities are also engaged for providing services of lead generation and dissemination of information. Entering into service level agreements and making payments for lead generation and dissemination of information is not permitted even before IRDA (Sharing of Database) Regulations, 2010. Only Banks were allowed to be entered into referral agreements. It is clarified that even vide the proviso to Regulation 10 (1)(VI) of Advertisement Regulations, 2000 which was prevailing then, the payments shall be on conversion of sale. These Regulations were intended for the third parties / groups and that these regulations do not envisage the life insurers to enter into the dissemination and lead generation agreements with third parties and make payments. Therefore by entering into dissemination and lead generation agreements with various third parties Insurer has violated the provisions of Regulation 10 (1)(VI) of Insurance Advertisement Regulations, 2000 too. Further, payment of significant monies for an unskilled job of distribution of publicity material under the guise of 'Dissemination of Information' is questionable. The payouts under "Lead Generation" and "Dissemination of Information" are therefore in violation of Regulation 10 (1)(VI) of Advertisement Regulations, 2000. From this charge, as also from the Charge 18, it is noticed that there are eleven instances of payments to ten entities during 2010-11 and 2011-12 (Apr – Dec), apart from the payments made to 641 entities during 2010-11 and to about 131 entities during 2011-12 (up to December 2011). As the issue of payments made to Tamilnadu Mercantile Bank was already addressed under Charge – 34 the payments made to this entity are not taken into consideration under this charge. Therefore, under powers vested in Section 102(b) of the Act, the Authority imposes a penalty of Rs 50,00,0000 (Rupees Fifty lakhs only) on the life insurer for these violations. The Life Insurer is also directed to immediately discontinue the payments to third party entities towards lead generation and dissemination of information.

38. Charge – 38

Height Insurance Services Limited (License No. 4544650), one of the corporate agents of the insurer has been collecting premiums, including in cash, from prospects, policyholders, and issuing premium receipts on the insurer's logo with insurer's registered office address. However, there is no formal agreement / MOU etc. as required under IRDA's Outsourcing Guidelines.

Violation of clause 9.9 of Outsourcing Guidelines IRDA/LIFE/CIR/GLD/013/02/2011 Dated 01/02/2011.

In response it was submitted that the collection of premium process developed in such a manner that the branches of HISL could capture the data on an offline system and issue a premium acknowledgement receipt to the customer which is monitored on a daily basis. The Life Insurer further confirmed that that the premium being collected by HISL only pertains to those policies which were solicited and sold by HISL and that HISL does not collect premiums for any other policyholders.

A2

Decision: Taking into consideration the submissions of the Life Insurer, the charges are not pressed.

39. Charge – 39

The “designated person” did not collect the certificates issued to SPs on their ceasing to be an employee of the Corporate Agents.

Violation of Regulation 10(6) of IRDA (Licensing of Corporate Agents) Regulations, 2002.

It was submitted that there was a process of maintaining SPs register at the office of the Corporate Agent and this has been audited in the annual compliance audits for the last two years by independent audit firms.

Decision: While considering the submissions it is stated that the responsibility rests with the designated person to ensure that the certificates are collected on resignation of SPs and the Life Insurer is advised to strengthen the systems to comply with the provisions of the Regulations mentioned herein.

40. Charge – 40

One of the directors of Height Insurance Service Ltd (HICL), Corporate Agent of the Life Insurer, Mr. Subrata Majumder is also a director of another corporate agent entity named M/s. Abira Insurance Services Ltd. (AISL) (IRDA License No. 2498927), working with Max New York Life Insurance Company. Two of the directors, Ms Mausumi Mandal and Ms Munmun Mandal are common directors of Height Insurance Service Ltd and Sreema Insurance Consultancy Ltd.,(SICL) (which is a corporate agent of another Life Insurance Co.) A number of branches of HICL and SICL have same addresses.

Violation of Regulation 9(2) (iv) of IRDA {Licensing of Corporate Agents) Regulations, 2002.

In response it was submitted that HISL got its Corporate Agency license on 29th Aug 2008 and before applying for the license it had procured individual certifications from the HISL directors that they were following the provisions under Regulation 9 (2) (iv) of IRDA Regulation 2002. The same exercise was also followed while applying for the renewal license in August 2011. On the addresses of the Branches it was submitted that they are rented premises and that it is possible that other Companies may be operating out of those premises.

Decision: On the charges of the common directors, the submissions of the Life Insurer are taken on record and the Life Insurer is directed to ensure compliance to Regulation 9 (2) of IRDA (Licensing of Corporate Agents) Regulations, 2002.

On branch office of two corporate agents having same addresses the submissions of the life insurer that it is possible that other companies may be

operating out of those premises is not acceptable. It is noticed from the observation that the following companies / firms are having same address (observed from the website Govt of Delhi) as "17a/53 W E A Karol Bagh, Gurudwara Road, 2nd Floor, New Delhi-110005" under the nature of business as "Insurance" and applied for registration on the same day (4/6/2010).

Height Insurance Services Ltd., (HISL)

Sreema Insurance Consultancy Ltd.

It was also observed that above entities are working pan India through their Branch Network of around 284 locations. From the address of the various locations of the SICL and HISL, it is evident that these entities are operating from the same addresses. In light of these observations, the Life Insurer is directed to investigate into the ownership and control of these corporate agents and submit a report to the Authority within 45 days from the date of this order.

41. Charge – 41

It was observed that the business procured by various advisors was mapped to the Channel Development Associate, M/S V Care Life (F39825) and the business is logged in the code numbers of 3 or 4 Agents. The business model adopted by M/s V Care Life is multilevel marketing model as evidenced from its website.

Violation of Section 40 (1) of Insurance Act, 1938, Regulation 9(2)(ii)(a) of IRDA (Licensing of corporate agents) regulations,2002, Clauses 2,8,17 of Guidelines issued on licensing of corporate agents dated 14.07.2005 and IRDA Circular No. IRDA/CIR/010/2003 dated 27/03/2003.

In response it was submitted that the CDA structure is a variable pay sales management (non-solicitation) model where the CDAs are required to recruit, train, monitor and motivate agents attached to them. These activities are remunerated based on the performance of his whole team of licensed advisors. The licensed agents that these service providers are required to hire are the only personnel who are allowed to sell. As a general systemic process, regular checks on websites are carried out to check unfair market conduct practices and suitable actions are taken against the erring parties. During one such subsequent inspection V care was seen to be indulging in activities not compliant with the values and hence the services of this entity were terminated.

Decision: From the observation, it is noticed that the Life Insurer is associated with V-Care Life, CDA and that the CDA (V care) is getting business logged in the name of some of the agents. On examining the submissions of the Life Insurer that it noticed the CDA indulging in activities not compliant with the values vis-à-vis the inspection observation, it is concluded that the business practices adopted by the CDA are questionable. As there are other charges on the similar practices the regulatory decision is stated in subsequent paras.



42. Charge - 42

It was also observed that some of the Channel Development Associates (CDAs) are indulging in multi level marketing through the agents mapped to them and no systems are in place to verify the details of Agents that sourced the proposals. From the website of One of the CDA, M/s Mutyala Getwin Online Marketing Private Limited (with code No.F18835) it is noticed that the entity is doing insurance business in multilevel marketing model.

In response the Life Insurer submitted that as a policy and process, it has banned dealings with MLM distributors, service providers and associates of MLM entities and that the background checks have been instituted to check antecedents of all distributors, associates, service providers with whom it has a material level of dealings. It further submitted that there are primarily data entry errors during the generation of Lab Test forms / Web Token receipt – wherein the advisor codes were erroneously entered.

Decision: The submissions of the Life Insurer that owing to the data entry errors advisor codes were erroneously entered are not acceptable. It is noticed that there are inconsistencies between the person who is stated as the advisor and the person that signed the proposal in his capacity as the advisor. The inconsistencies noticed are;

- (i) Application No.D0258126 was logged under the code No. of Mr. Harbans Singh (Ag. Code No.21054119) whereas Lab request form (Medical report) is in the name of Mr. Gurjit Singh (Ag.Code No.20937549)***
- (ii) Application Nos.D1970826 was logged under the agency code 21054119 (Mr. Harbans Singh) whereas the Agent's confidential report was given by Mr. Manjit (Ag.Code No.21059059)***
- (iii) Under Application forms C7082825, D1302181 the Agents' confidential reports are signed by some unlicensed entities.***

Based on the above inconsistencies it is noticed that the Life Insurer violated the Provisions of Section 42 (7) of Insurance Act, 1938 and Authority's circular IRDA/CIR/010/2003 dated 27-03-2003. The Life Insurer is warned for these violations and directed to ensure that the insurance business is solicited by the licensed insurance intermediaries only.

Notwithstanding the above decision, the Authority reserves the right to cause an investigation in accordance to the provisions of Section 33 of the Insurance Act, 1938 and Section 14 (2) (h) of IRDA Act, 1999 with regard to observations contained in Charges 41 and 42.

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43. Charge – 43

Leads obtained and payments are made to the various Corporate firms /entities based on agreements and in the process unlicensed entities solicited insurance business, the business sourced through such entities was logged into various code numbers of 'Reliance Third Party Distribution Channel' one of the new business verticals of the insurer.

Violation of Provisions of Section 42 (7) of Insurance Act, 1938; Authority's circular IRDA/CIR/010/2003 dated 27-03-2003 and IRDA (Sharing of Database for Distribution of Insurance Products) Regulations, 2010.

In response it was submitted by the Life Insurer that Venue Marketing is not a lead generation activity but entails distribution of leaflets and pamphlets. Agents are present at the venues to explain product features and that in the instances pointed out by the Authority, Names have been provided on the forms only for MIS purposes. The payment to third party service providers as detailed above are for purposes other than solicitation and Lead Generation activities, based upon agreements with them.

Decision: On examining the matter it is noticed that the Life Insurer has sourced business through unlicensed entities and is obtaining leads from many Corporate / firms and payments are made to these entities (as referred above) based on agreements entered. The business sourced through such entities is logged in various code numbers of 'Reliance Third Party Distribution Channel', which is one of the new business verticals of the insurer. The procedure adopted is in violation of Section 42 (7) of Insurance Act, 1938; Authority's circular IRDA/CIR/010/2003 dated 27-03-2003. On examining the matter the Authority levies a penalty of Rs 5,00,000 (Rupees five lakhs only) for violating the circular dated 27/03/2003 by accepting the insurance business through unlicensed individuals / entities.

The above payments made are also in violation of Proviso to Regulation (10) (iv) of IRDA (Insurance Advertisements and Disclosures) Regulations, 2000, IRDA (Sharing of Database for Distribution of Insurance Products) Regulations, 2010. It is noticed that there are twelve instances of payments made to the seven entities. Hence, under powers vested in Section 102(b) of the Act, a penalty of Rs 60, 00,000 (Rupees Sixty lakhs only) is levied on the Life Insurer. The Life Insurer is directed to immediately discontinue these payments under intimation to the Authority.

44. Charge - 44

i) Instances are noticed where payments other than eligible commission/brokerage were made to Corporate Agents and brokers in the name of Contests and other related activities.



Further expenses towards foreign tour packages were also incurred, Rs 71 lacs during 2010-11 and Rs103 lacs during 2011-12, on some of the Brokers and Corporate Agents.

Violation of Clause 21 of Guidelines on Licensing of Corporate Agents' Circular No.017/IRDA/Circular/CA Guidelines/2005 dated 14/7/2005 and Regulation 19 of IRDA (Insurance Brokers) Regulations, 2002

In response it was submitted that there are system controls in place in the company for commission payouts. All commission rates on products are in accordance with File & Use pertaining to product (as filed with IRDA) and within limits specified under Section 40A of Insurance Act, 1938/ Regulation 19(1) of IRDA (Insurance Brokers) Regulations. The payments are towards contests / gratuitous rewards to distributors and are based upon predefined performance criteria.

Decision: It is observed that the payments towards contests / Rewards & Recognitions to the Insurance Brokers will attract the provisions of Regulation – 19 of IRDA (Insurance Brokers) Regulations, 2002 has already been examined separately on 11/12/2013, the Life Insurer is directed to comply with the regulations. Regarding payments made to Corporate Agents towards contests considering the amounts, charges are not pressed.

45. Charge – 45 The extra payouts are made towards contests, apart from commission, to some Individual Agents.

Violation of Section 40(A) of Insurance Act, 1938.

In response, it was submitted that there are system controls in place in our company for commission payouts. All commission rates on products are in accordance with File & Use pertaining to product (as filed with IRDA) and within limits specified under Section 40A of Insurance Act, 1938/ Regulation 19(1) of IRDA (Insurance Brokers) Regulations. The Life Insurer further submitted that the contests are gratuitous rewards given to distributors and is based upon predefined performance criteria.

Decision: On considering the submissions no charges are pressed.

46. Charge – 46 Some of licensing documents relating to individual agents and corporate agents which were called for not made available to the team of inspection Officials.

Violation of Section 33 (3) of insurance Act, 1938, Regulation 23 (b) and 23 (d) of IRDA (Registration of Indian insurance Companies) Regulation, 2000 (Non-submissions of records to the officers of IRDA during the course of onsite inspection)



In response it was submitted that during the inspection, hard copies were not available as these were pertaining to the period prior to May 2009 when these were not saved electronically.

Decision: The Life Insurer shall have all the records available for producing to the officials of the Authority as and when called for during the course of inspection. Hence the Life insurer's submissions are not acceptable. The Life Insurer is warned for not making available the required documents and also directed to ensure supply of the material as and when called for by the Authority.

47. Charge - 47

(i) Instances are noticed where the business is sourced from unlicensed entities through Multi Level Marketing and was logged into the code of licensed entities. Business was procured by forged signatures / without signatures at the space specified in the Agents confidential report column.

Violation of the provisions of Section 42 (7) of the Act and IRDA Circular No. IRDA/CIR/010/2003 dated 27-03-2003.

The Life Insurer submitted that a confirmation was obtained from all the advisors in respect of the instances / policies referred and that the proposal form was logged by them. It was also submitted that it has strong practices toward curbing unauthorized selling practices through pre and post call verification process, ensuring that customers have understood the product terms and conditions, website checks and internal audits.

Decision: On examination of the submissions and the observation it is noticed that the policies are sourced by unlicensed individuals/entities in violation of IRDA circular dated 27/03/2003. Therefore, under powers vested in Section 102(b) of the Act, the Authority levies a penalty of Rs 5,00,000 (Rupees Five lakhs only) for the violation. The Life Insurer is also directed to put in place procedures to accept the business only through the licensed insurance intermediaries.

ii) Instances are noticed where business is sourced through unlicensed entities but booked under broker code of Net ambit Insurance Broking India Ltd., code no. 21204687.

Violation of the provisions of Section 42 (7) of the Act and IRDA Circular No. IRDA/CIR/010/2003 dated 27-03-2003.

In response the Life Insurer submitted that these policies have been sourced by Net ambit Insurance Broking Ltd. For all policies sourced by corporate agents and brokers it has instituted a verification process wherein an investigation is now undertaken to ensure existence of customer and check contact details.

Decision: On examination of the observation and submissions it is noticed that the Life Insurer did not have in place procedures to ensure sourcing the business



only by the authorized employees of the insurance broker. It is observed that the business is sourced by unlicensed individuals / entities in violation of IRDA Circular dated 27/03/2003. Therefore, under powers vested in Section 102(b) of the Act, the Authority levies a penalty of Rs 5,00,000 (Rupees Five lakhs only) for the violation. The Life Insurer is also directed to put in place procedures to accept the business only through the licensed insurance intermediaries.

It is clarified to the Life Insurer that the onus of ensuring that the business accepted by it is sourced by licensed intermediaries also rests with the life insurer.

iii) In respect of the some instances signature of IRDA Licensed Advisor specified persons is either forged or not available.

Violation of the provisions of Section 42 (7) of the Act and IRDA Circular No. IRDA/CIR/010/2003 dated 27-O3-2003.

In response it was submitted that it has got confirmation from the relevant licensed advisors that they have sourced these policies. For all policies sourced by corporate agents and brokers it has instituted a verification process wherein an investigation is now undertaken to ensure existence of customer and check contact details.

Decision: From the submissions and the observation it is noticed that the Life Insurer has procured business from unlicensed individuals/entities in violation of IRDA Circular dated 27/03/2003. Therefore, under powers vested in Section 102(b) of the Act, the Authority levies a penalty of Rs 5,00,000 (Rupees Five lakhs only) for the violation. The Life Insurer is also directed to put in place procedures to accept the business only through the licensed insurance intermediaries.

iv) From the website www.rajatverma.com it is noticed that the Corporate Agent M/s. Pinnacle Insurance Agency, IRDA license no. 4693258 is engaged in multi level marketing activities. The said CA is offering high value gifts to its distributors and the criteria for award winning are also published on the above mentioned website.

Violation of the provisions of Section 42 (7) of the Act and IRDA Circular No. IRDA/CIR/010/2003 dated 27-O3-2003.

The Life Insurer submitted that it has issued a show cause notice to M/s. Pinnacle Insurance Agency and that they now received a response from Pinnacle informing us that they have taken appropriate action against their employees. For all policies sourced by corporate agents and brokers it has instituted a verification process wherein an investigation is now undertaken to ensure existence of customer and check contact details.

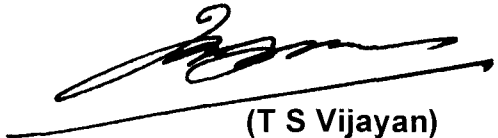
Decision: The action initiated by the Life Insurer is only post inspection. Further from the response of the corporate agent (submitted to the life insurer subsequent to issuance of the show cause notice) it is noticed that the corporate

agent admitted to involvement of two of its employees in the multi level marketing activities. Therefore, the submissions of the Life Insurer are not acceptable, and it is observed that the Life Insurer has failed to monitor the activities of the corporate agent. This is considered as a serious lapse and the Life Insurer is warned for the same. The Life Insurer is also directed to investigate into the manner in which the said corporate agent is soliciting the insurance business and submit actions initiated within 30 days from the date of the order.

Hence, as directed under the respective charges, the penalty of Rs. 1.77 Crores (Rupees One Crore and Seventy Seven Lakhs only) shall be remitted by the Life Insurer by debiting shareholders' account within a period of 15 days from the date of issuance of this Order through a crossed demand draft drawn in favour of Insurance Regulatory and Development Authority and payable at Hyderabad which may be sent to Mr. V Jayanth Kumar, Joint Director (Life) at the Insurance Regulatory and Development Authority, 3rd Floor, Parisrama Bhavanam, Basheerbagh, Hyderabad 500 004.

Insurer is also advised to confirm the compliance in respect of all other directions referred in this order within 15 days from the date of issuance of this order.

**Place: Hyderabad
Date: 11/04/2014**


**(T S Vijayan)
CHAIRMAN**