



Ref. IRDA/ENF/MISC/ONS/052/03/2016

Final Order in the matter of M/s. Star Union Dai-ichi Life Insurance Company Limited

Based on reply to Show Cause Notice dated 22nd December, 2015 and submissions made during Personal Hearing chaired by Mrs. V.R.Iyer, Member (F&I), Insurance Regulatory and Development Authority of India (IRDAI) on 9th February, 2016 at 11:00AM at the office of Insurance Regulatory and Development Authority of India, 3rd Floor, Parishrama Bhavanam, Basheerbagh, Hyderabad.

The Insurance Regulatory and Development Authority of India (hereinafter referred to as "the Authority") carried out an onsite inspection of M/s. Star Union Dai-ichi Life Insurance Company Limited (hereinafter referred to as "the Life Insurer/Company") from 31st July, 2012 to 9th August, 2012. The Authority forwarded the copy of the Inspection Report to the Life Insurer vide letter dated 30th October, 2012 seeking comments on the same. Upon examining the submissions made by the Life Insurer vide letters dated 6th December, 2012, the Authority issued Show Cause Notice on 22nd December, 2015 which was responded to by the Life Insurer vide letter dated 11th January, 2016. As requested therein, a personal hearing was given to the Life Insurer on 9th February, 2016. Mr. Girish Kulkarni, MD&CEO, Mr. Hitoshi Yamaguchi, Dy.CEO & CFO, Mr. Abhay Tewari, Appointed Actuary, Mr. Y. Venkat Rao, CIO, Mr.G.Sai Kumar, Sr.Vice President & Financial Controller and Mrs. Sreemaya Athikkat, Head Legal & Chief Compliance Officer were present in the hearing on behalf of the Life Insurer. On behalf of the Authority, Mr.Lalit Kumar, FA & HoD(Enforcement), Mr.Prabhat Kumar Maiti, JD(Enforcement), Mr. K.Sridhar Rao, Sr. Assistant Director (Enforcement), Mrs. B.Aruna, Assistant Director (Life-Regulatory Actions) and Mr. Chandan Singh, Assistant(Enforcement) were present in the personal hearing.

The submissions made by the Life 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 following charges and the decisions are as follows.

Charge No. 1

Risks were covered without having collected adequate insurance premium from the policy holders. Shortage in premium of more than Rs.1000/- was allowed by debiting Operating expenses under several policies issued. It was also observed that a shortage to the extent of Rs.1.54 Lakh under a policy was allowed.

This is in violation of Section 41 and 64VB (1) of Insurance Act, 1938.

Submission by the Life Insurer

The life insurer submitted that

- *In most of the cases, the shortage is due to service tax fluctuations and the amount of shortfall is so low that the cost of recovering the same from the customer would be*

more than the shortage amount. At times some unique situations do arise while transacting the business which results in such decisions.

- All such decisions are driven by the well documented process.
- The shortage of premium waived was Rs.1.7 Lakhs against this already Rs.1.01 Lakhs was recovered and remaining amount will be recovered from each of the policy holders during the subsequent renewal premium payment or any further policy payments to be made in future.

Further submitted a copy of renewal notice in support of their submission which indicates that the shortage of premium allowed is going to be recovered along with next renewal premium. With regard to waiver of Rs.1.54 Lakhs under an annuity policy issued to an NRI, the Life Insurer submitted that at the time of signing the proposal there was no service tax on annuity policies. The service tax was made applicable to annuity policies subsequent to signing of the proposal. The customer insisted that the policy shall be issued as per the terms and conditions as canvassed at the time of signing the proposal hence as a very exceptional case, the service tax was absorbed by the Company and policy issued.

Decision

Considering the above submission that the shortage waived is recoverable on next renewal or any payouts to be made to the policy holders and the submissions with regard waiver of service tax are considered and hence **no charges are being pressed.** However, the Life Insurer is advised to ensure strict compliance of the extant regulatory norms relating to premium payments.

Charge No.2

There is a delay in application of NAV for the Top up premiums received i.e., the Life Insurer has been taking the date of receipt of the request instead of date of receipt of premium.

This is in violation of Point 10.6.1 of ULIP Guidelines, 32/IRDA/ACTL/Dec-2005 dated 21.12.2005

Submission by the Life Insurer

The Life Insurer submitted that this transactional challenge was occurred when there is a delay in submission of top-up forms signed by the customer. In all the cases referred by the Authority, though the top up amount was received earlier, the request for top-up was received at a later date and the date of application of NAV is the date of receiving the request. In the absence of top-up forms, the company was unable to identify the amounts as top-up. Only on receipt of request, the Company could categorise the premium as top-up.

Further, submitted that, now the process is changed that the NAV is applied only on the date of receipt of premium and confirmed that they have examined all the top up requests received till date. They identified that in 50 cases there was loss to the policy holders aggregating to an amount of Rs.62139. For all existing policy holders, they have infused additional units and for other policy holders who had exited, the differential amount was paid directly to them by debiting shareholders' fund.



Decision

It shall be noted that there will not be any transactional challenge for applying NAV of the date of receipt, though the request of top-up received at a later date. Further the Life Insurer shall have systems in place to ascertain the purpose before accepting any premium/deposit from the policy holders. Hence the life insurer is hereby cautioned for not ensuring the same. However, in light of the corrective action taken as enunciated above, **no charges are being pressed.**

Charge No.3

Under a group policy issued commencement of risk is prior to the date of receipt of full premium.

This is in violation of Section 64VB (1) of Insurance Act, 1938.

Submission of the Life Insurer

The Life Insurer submitted that the Group policy holder agreed to transfer their existing group term insurance with earlier life insurer to cover the members. As on date of issue, the company has collected the full premium. However, the policy was backdated on the request of the master policy holder to maintain the continuity of the scheme. The company informed the master policy holder that the risk cover under the scheme is only from the date on which the full premium is received and accordingly the premium amount pertaining to date of commencement of risk to date of receipt of full premium is refunded. Further the master policy document was modified to incorporate the master policy commencement date as well as the risk commencement date. Further the Life Insurer submitted copies of documents in support of their submissions.

Decision

Considering the submissions (along with documentary proof) by the Life insurer that they have covered the risk under the group policy only on receipt of full premium, **no charges are being pressed.** The Life Insurer is advised to ensure compliance of the provisions of the said section incessantly.

Charge No.4

Payouts are made to Master Policyholders (MPH), in the name of reimbursement of the expenses for publicity activities.

The above is in violation of Clause C-4 of Group Insurance Guidelines 015/IRDA/Life/Circular/GI Guidelines/2005 dated 14/07/2005.

Submission by the Life Insurer

The Life Insurer submitted that, in order to increase their brand's acceptability during early years of operation, in a relatively less aware and hence underpenetrated customer segments like medium to low income groups, company had to undertake extensive campaigns to create customer awareness and use the expertise of such entities to reach out to this strata of the society forming part of the group credit portfolio. The master policy taken out by the MPH insures the lives of their home loan borrowers as a group. As insurance is not mandatory for the borrowers, there is a need to undertake extensive awareness campaigns and co-branding activities in the entire network of their branches. The referred master policy holder well

recognized brand with established track record focusing on relatively under penetrated markets. The activities included banners, pamphlets, hoarding, standees etc. The Life insurer confirmed that only limited payments to the extent of Rs.4.32 Lakhs was paid to MPH for insurance awareness activities and no further payments to were made to the MPH.

Decision

It shall be noted that the referred guidelines were already in place when the Life Insurer started their operations. Hence as committed under relevant Registration applications with the Authority, the Life Insurer is supposed to put all systems in place to ensure compliance with provisions of the Insurance Act,1938, Regulations, Guidelines and Circulars issued by the Authority from time to time. Hence the Life Insurer has grossly violated the said guidelines, by making such payouts. The Life Insurer's submission that the Master policy is discontinued as on date and no payouts other than the above were made to the MPH is taken on record. Hence the Life Insurer is **warned** for the violation. The Life Insurer is directed to ensure continuous compliance of the said guidelines hereinafter. Recurrence of such lapses will be viewed seriously.

Charge No.5

Under Non-Employer-Employee Group policy, Death claims are settled in favour of Group Master Policy Holder (MPH).

The above is in violation of Clause C-7 of Group Insurance Guidelines, 015/ IRDA / Life / Circular / GI Guidelines/2005 dated 14/07/2005.

Submission by the Life Insurer

The Life Insurer submitted that the members covered under various groups were spread across the country and many of them belonged to the economically weaker sections of the society who did not have even Bank account. In order to facilitate faster processing of claim and to avoid any inconvenience to the beneficiaries, in mentioned cases, claims were settled in favour of MPH. In all sample cases examined, the MPH were either banks or microfinance institutions who had granted loans to members and insurance payouts were used to close the loan outstanding and balance were paid to the nominees/beneficiaries. In all such cases confirmations have also been taken from the MPH that claim amounts have been paid to the nominees/beneficiaries. The Life Insurer confirmed that they have implemented the revised group guidelines dated 29/12/2014. The Life Insurer also confirmed that, in case of MPHs who are not covered under the group guidelines, 29/12/2014, the claims are now being settled in favour of beneficiary/nominee only.

The above is in violation of Clause C-7 of Group Insurance Guidelines, 015/IRDA/Life/Circular/GI Guidelines/2005 dated 14/07/2005.



Decision

The Life Insurer shall note that the MPH under non-employer-employee groups shall only be a facilitator in claims settlement. Settlement shall be in favour of nominee/beneficiary only. The Life Insurer's submissions of having taken corrective actions as mentioned above are taken on record. However, the Authority as per the powers vested on it vide section 102(b) of Insurance Act, 1938, levies a penalty of Rs.1,00,000 (Rupees One Lakh only) for the violation mentioned herein.

Charge No.6

Agreements with various Corporate Agents (Bank) were entered and considerable payouts are made to the Corporate Agents in the name of "Co-branding expenses during 2010-11 and 2011-12 respectively.

This is in violation of Clause 21 of Corporate Agency Guidelines, 017/IRDA/Circular/CA Guidelines/2005 dated 14/07/2005.

Submission by the Life Insurer

The Life Insurer submitted that they mainly operate through 11000 branches of their promoter banks viz., Bank of India and Union Bank of India to distribute products across length and breadth of the country. Owing to the reason that the company has limited number offices, almost all publicity activities are directed at making the bank customers aware of Company's brand and products. The Life Insurer further submitted that there was no linkage between the co-branding expenses payment and the total premium received, but are limited to the number of branches involved in co-branding activities during the relevant period.

As regard, Clause 21 of the said guidelines, the Life Insurer submitted that the expenses are under the purview of permissible expense reimbursement heads as stated in the relevant extract of the guidelines. The payouts referred was about 1% of total premium procured during 2010-11 and 2011-12, from which the reasonableness of payouts can be observed.

The payouts are made towards advertisements, publicity costs and co-branded activities. The Life insurer further added that undertaking advertising activity through this route has benefitted in lowering other advertisement expenses and operating expenses thereby ensuring compliance to Rule 17D of the Insurance Rules, 1939 even within initial five years of operation.

The Life Insurer further confirmed that they have terminated all such co-branding agreement with all the Corporate Agents and discontinued such payouts w.e.f. 31st December, 2015.

Decision

The clause referred does not prevent sharing of expenses of co-branding sales literature with the Corporate Agents. As per the relevant documents pertaining to observation, it is noticed that the amounts paid were not in line with the said clause of Corporate Agency Guidelines. Hence the Life Insurer has violated the referred guidelines. In view of the same, the Life Insurer is hereby warned and directed to be vigilant in complying with the said guidelines in true spirit hereinafter.

Charge No.7

Some Banks were "Referral provides", whose services were terminated and the corporate agency license was yet to be granted during certain transition period. However, the Life Insurer issued some advertisements that indicated that the products of the company are available through branches of these Banks. Hence the Life Insurer projected these banks as intermediaries through they are not licensed to solicit insurance business.

This is in violation of Circular No. IRDA/CIR/010/2003 dated 27.03.2003.

Submission by the Life Insurer

The Life Insurer submitted that the Banks referred were Regional Rural Banks (RRBs) and confirmed that none of the RRBs had solicited any business till the time they became corporate agents and during the referral arrangement period, they had only provided the leads and the same were closed by employees of the Company only. The Life Insurer further confirmed that the referred advertisements were printed in the intervening period during the transitioning (Referral to Corporate Agency) and the same were supplied and displayed at the RRBs only after they became corporate agents. Further the Life Insurer given a certification that during the period of transition they paid only referral fee prescribed under the relevant circulars, but not paid any commission to the referral partners and all the referral providers had provided only leads and the sale was closed by their employees only.

Decision

The Life Insurer's confirmations regarding solicitation of business are considered. However, in regard to advertisements indicating that the products of the company are available through these referral entities, it shall be noted that at that point of time, co-branded sales literature used to be under file and use mode. Hence printing the advertisements during transition period even before the entities becoming corporate agent indicate casual approach of the Life Insurer towards complying with the advertisement guidelines. The Life Insurer is hereby warned for the same and directed to be vigilant while issuing advertisements thereby to comply with the extant guidelines on advertisements. The Life Insurer is also advised to ensure that no advertisement issued will mislead the general public.

Charge No.8

One of the Corporate Agent (CA) has not ensured that the deposit received from the policy holder is remitted to the Life Insurer within 24 hours under a sample case. It was also found that there was a delay of four months in processing the proposal form. Even after four months, the Life Insurer has raised some requirements.

This is in violation of Section 64VB (4) of Insurance Act, 1938 and Regulation 4 (6) of IRDA (Protection of Policyholders' Interests) Regulations, 2002 (PPI Regulations).

Submission by the Life Insurer

The Life Insurer submitted that during early years of operation, the process was not fully seamless. The company's distribution tie ups being largely through banc assurance, mostly premium transactions are through account to account transfer and the instance referred by the Authority is a very rare scenario. Reconciliation of payments received from CAs is done on



daily basis with the proposal details. Now, the company also enabled premium acknowledgement application for other distribution channels wherein payments collected from customers are captured immediately on the application and the same is uploaded to the company's central server on real time basis and also acknowledgements are issued to the customers. To increase operational efficiencies and to ensure prescribed TATs the company has decentralised many of operational activities like proposal data entry, QC check etc. The Life Insurer confirmed that the TAT requirements are improved to ensure compliance with the said regulation of PPI Regulations.

Further confirmed that the observation made by the Authority was one-off instance where cheque was collected and pay order was prepared and there was a delay in deposit of premium into company's account.

Decision

Considering the submission made by the Life Insurer, no charges are pressed. However, the Life Insurer is hereby cautioned and directed to be vigilant in relation to such operational activities which will directly have a bearing on protection of policy holders' interests.

Charge No. 9

1. Valuation of products with monthly income benefits revealed that the valuation software not allowed for any future expenses associated with the payment of monthly benefits, however the pricing of the products factored such expenses.

2. Actuarial Valuation mechanism revealed that **a)** The valuation program was run with valuation bases without Margin for Adverse Deviation (MAD) for determining negative reserves, surrenders value deficiency reserves and paid up value minimum reserves. **b)** No assumptions were made on premium related expenses with respect of valuation of linked and non linked products **c)** Linked contracts were valued without taking into account MADs

This is in violation of IRDA (ALSM) Regulations, 2000 and Regulation 4-3-(d) of IRDA (Actuarial Report and Abstract) Regulations, 2000

Submission by the Life Insurer

1. The Life Insurer submitted that the claim expenses of 2% of monthly income benefit is applicable only for Defined Benefit Endowment product. As per the product File and Use there is no such expense attached with monthly income benefits falling under the referred products. The claims related expenses in Defined Benefit Endowment product are coded in the actuarial software prophet. The GPV reserves are now being calculated after taking into consideration these claims related expenses as per File and Use. Screenshot also submitted. Further submitted they hold higher of GPV reserves and Paid up reserves in order to be prudent. Further the Life Insurer submitted that they had set aside paid up reserves of Rs.4.54 Crores. This is higher than the GPV reserves of Rs.3.35 Crore calculated after incorporating the 2% expenses associated with the monthly income payments. The Solvency Capital (RSM) which is



a function of Reserves and SAR had been calculated based on the higher reserves and hence there was no impact on solvency margin.

2-a Currently appropriate MAD in the valuation assumptions in line with APS 7 was included. Documentary proof submitted. It is also confirmed that the reserves are higher of GPV or Guaranteed Surrender Value or Special Surrender Value and hence the methodology complies with the Relevant Regulations.

2-b: The Company has updated its expense allocation methodology. The acquisition expenses are demarcated in to premium related, per policy and sum assured related expenses. However, the maintenance expenses are allocated as per policy expenses as they do not have direct correlation with premium or sum assured. For ULIPs there are additional investment related expenses and hence part of maintenance expenses are also classified as fund related expenses. Further confirmed that they had recalculated the reserves after incorporating MAD and was observed that the reserves were still negative and were zeroed even in the revised calculations and hence there was no impact on the solvency requirements.

2-c : Currently the non-unit reserves of linked policies have appropriate MAD incorporated in all assumptions. Current best estimate and valuation assumptions are submitted now. The Life Insurer confirmed that they had reserved for 100% of discounted value of loyalty additions. Thus the non-unit reserves held were more prudent than the requirements under GPV approach even after revising the same for MAD. Hence there was no impact on the solvency position.

Decision

In light of the confirmations and corrective actions taken, **no charges are being pressed.** However, the Life Insurer is advised to ensure compliance with Regulatory norms relating to valuation methods.

Charge No.10

Though the Corporate Agents (Banks') branches are more than a few hundreds, they have only one/two specified persons and huge volume of business was solicited. This inconsistency (no. of specified persons vis-a-vis volume of business) indicate that the CAs are soliciting business in the absence of specified persons

This is in violation of Regulation 9(ii)(a) of IRDA (Licensing of Corporate Agents), Regulations, 2002 and IRDAI Circular No. IRDA/CIR/010/2003 dated 27.03.2003.

Submission by the Life Insurer

The Life Insurer submitted that customer meets and awareness campaigns are organised by these banks largely at their bank branches wherein the insurance products are solicited by the specified persons. Specified persons are attached to cluster of branches where they carry out such activities which enable them to mobilise large numbers. The Life Insurer submitted that they constantly endeavoured to increase the number of specified persons across the corporate agents including the referred Banks. The specified persons of these RRBs have increased considerably over a period of time. The data of specified persons is submitted supporting this confirmation.



Decision

The submissions that the said total volume of business was solicited by specified persons only are considered. Hence no charges are being pressed for the same. However, the Life Insurer is hereby directed to ensure continuous compliance of Regulation 14 IRDAI (Registration of Corporate Agents) Regulations, 2015 and any other relevant regulatory prescriptions hereinafter.

Summary:

In conclusion, as directed under the respective charges, the penalty of Rs.1,00,000 (Rupees One Lakh only) shall be remitted by the Life Insurer by debiting shareholders' account within a period of 15 days from the date of receipt of this Order through NEFT/ RTGS (details for which will be communicated separately). An intimation of remittance may be sent to Mr. Lalit Kumar, F.A. & HoD (Enforcement) at the Insurance Regulatory and Development Authority, 3rd Floor, Parishrama Bhavanam, Basheerbagh, Hyderabad-500 004.

Further

- a) The Life Insurer shall confirm compliance in respect of all the directions referred to in this Order, within 21 days from the date of issuance of this order. Timelines, if any as applicable shall also be communicated to the Authority.
- b) The Order shall be placed before the Audit committee of the Life Insurer and also in the next immediate Board meeting and to provide a copy of the minutes of the discussion.
- c) If the Life Insurer feels aggrieved by any of the decisions in this order, an appeal may be preferred to the Securities Appellate Tribunal as per Section 110 of the Insurance Act, 1938.

Place: Hyderabad

Date: 21st March, 2016



(V R Iyer)

Member (F&I)

