



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

**Ref.No: IRDA/INSP/ORD/ONS/083/04/2015**

**Final order in the matter of  
M/s United India Insurance Company Limited**

**Based on reply to the Show Cause Notice dated 6<sup>th</sup> August, 2014 and Submissions made during Personal Hearing taken by Chairman, IRDA on 18<sup>th</sup> November, 2014 at 3.30 PM at the office of Insurance Regulatory and Development Authority of India, 3<sup>rd</sup> 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 United India Insurance Company Limited (hereinafter referred to as "the general Insurer"), having Registered & Head office at 24 Whites Road, Chennai, from 6<sup>th</sup> to 17<sup>th</sup> February, 2012. The Authority forwarded the copy of the Inspection Report to the Insurer seeking comments of the Insurer on the same.

Upon examining the submissions made by the Insurer, the Authority issued Show Cause Notice on 6<sup>th</sup> August, 2014 which was responded to by the Insurer vide letter dated 6<sup>th</sup> September, 2014. As requested therein, a personal hearing was given to the Insurer on 18<sup>th</sup> November, 2014.

Mr. Milind Kharat, Chairman cum Managing Director, Smt Asha Nair, General Manager and Director, Mr.M.Vasantha Krishna, General Manager and Director, Mr.Ch.Narasimha Rao, Deputy General Manager & Chief Compliance Officer, Mr.R.Shiva Kumar, Deputy General Manager, Mr.S.Venkataraman, Chief Manager and Company Secretary, Smt Meena Shenbagaraman, Assistant Manager were present in the hearing on behalf of the general insurer. Chairman, IRDAI took the hearing and Mr.M.Ramaprasad, Member (Non life), Dr (Ms) Mamta Suri, the then Sr.JD(Inspections & Compliance), Mr. Suresh Mathur, Sr.JD(Non-life), Mr.G.R.Surya Kumar, DD and Mr.K.Sridhar, AD (I&C) were present during the personal hearing.

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

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

**1. Charge 1**

**Inspection Observation:**

It was observed that the company has not calculated the percentage of AAA/P1+ rated debt instrument to total rated debt instrument as prescribed at note 7 to Reg. 4 of IRDA (Investment) Regulations 2000 as amended upto 2008. This lead to submission of incorrect information at Point IV-h of Form-4 of quarterly investment returns and non compliance for the quarters ending March, 2011, Sep, 2011 & Dec, 2011.

**Violation of**

- a) Note 7 to Reg. 4 of IRDA (Investment) Regulations 2000 as amended upto 2008.
- b) Submission of incorrect information under Point IV-h of Form-4 prescribed under IRDA (Investment) Regulations, 2000.

**Submission made by the Insurer:** In accordance to Sec 27(B)(3) of the Insurance Act and Note (7) to IRDA Investment Regulation read with Point no.IV(h) of Form 4, the company while furnishing Form 4 exposure requirements has calculated the required percentage on approved debt instruments instead on debt instruments. In view of the company, the process adopted complies with the Act and Regulations.

**Decision:**

It is observed that the company was wrongly interpreting the relevant provisions of the Insurance Act 1938 read along with IRDA(Investments) Regulations 2000 as amended upto 2008 in the context of exposure to AAA/P1+ debt instruments. However, during the submissions made by the insurer at the time of hearing and later on, it was brought to the notice of the Authority that the company has complied with the requirements of the regulations and Act during the 6 quarters ending from June, 2013 to Sep, 2014 and the percentage of AAA/P1+ rated debt instrument to total approved debt instruments has remained above 88%. In this connection it is relevant to mention that the extant regulations pertaining to investment have undergone amendments in the year 2013 which revised the exposure to AAA/P1+ debt instruments to 65% of the total approved debt instruments including Government securities as against the earlier provision of 75% of the approved investment excluding government securities. Since the company is complying with the exposure to rated instruments as per the submissions made, the charge is not pressed.

## 2. Charge 2

### **Inspection Observation:**

It was observed that the rating for the long term debentures was wrongly captured by the insurer while arriving at rating exposure as on 31-12-2011. The insurer has not put in place necessary system to monitor and capture movement in the rating of its investments from time to time and report the same under various periodical returns to the Authority.

### **Violation of**

- a) Point C-3 (a & b) under Annexure-III of Investment Risk Mgmt Systems & Processes prescribed under IRDA (Invst) (Fourth Amendment) Regulations, 2008 issued vide circular ref.no.INV/cir/008/2008-09 dated 2<sup>nd</sup> Aug,2008.
- b) Clause 6 of Corporate Governance guidelines read with point 5(e & f) of Annexure 1 on 'Responsibilities of Board of Directors' of circular no.IRDA/F&A/ Cir/ 025/ 2009-10 dated 05/08/2009.

**Submission made by the Insurer:** Insurer submitted that the downgrades were inadvertently missed out. The company further informed that it is now using 'Cogencis' software through which current ratings of debt instruments are downloaded and automatic reclassification as per IRDA code is also incorporated in the e-Treasury system w.e.f Oct 2013. The company has also submitted that appropriate internal controls have been placed to ensure that downgrading or changes in rating are immediately incorporated.

### **Decision:**

While taking note of the insurer's submission, on using IT applications for automatic reclassification on the basis of current market ratings of investments, the Authority advises the insurer to ensure that all necessary IT systems should be in place at all times which would appropriately provide for checks and balances to produce data with integrity to the satisfaction of the regulatory compliances. The Investment Committee of the Board may be apprised of this observation so as to ensure compliance at all times.

## 3. Charge 3

### **Inspection Observation:**

Many issues with regard to full implementation of mandatory Investment Risk Management Systems and Processes (as per Annexure-III of investment guidelines, 2008) were pending and to this insurer informed that the matter was taken up with service provider.

**Violation of**

- a) Guidelines given under Point A-5, B-2 & C (3a, 4a & 5a) of Annexure 3 of Investment Risk Mgmt Systems & Processes prescribed under IRDA (Invst) (Fourth Amendment) Regulations, 2008 issued vide circular ref.no.INV/cir/008/2008-09 dated 22<sup>nd</sup> Aug, 2008.
- b) Point B (5) of IRDA circular ref.no. INV/CIR/23/2009-10, dated 4-8-2009 on audit of investment risk management systems and process.
- c) Clause 6 of Annexure II of IRDA Guidelines on Corporate Governance Circular no. IRDA/F&A/Cir/025/2009-10 dated 05/08/2009.

**Submission made by the Insurer:** The company submitted that all the issues raised by Investment Risk Management System & Process (IRMSP) auditors and by the Concurrent Auditor are resolved. The DR site is developed and data is transferred on real time basis. The software is being continuously updated as per the requirements of the Regulator and all the IRDA returns are generated through the system and filed on time with IRDA.

**Decision:**

The Authority notes that the company has started an off-site backup data with mirror image on real time basis in a city falling under a different seismic zone, generating all reports through the system and all the other issues raised by auditors being resolved, no charges are pressed.

**4. Charge 4****Inspection Observation:**

On random examination of process followed by the insurer in classifying equity investments among 'approved investments' and 'other investments', it was observed that though the dividend criteria was not met as on 31-12-2011, some of the investments were still categorized as 'approved investments'.

**Violation of**

- a) Procedure prescribed under Sec. 27B (1) (g & h) of Insurance Act, 1938.
- b) Note point 5 given under Regulation 4 of IRDA (Investment) Regulations, 2000.
- c) Point C-3-c under annexure III of circular ref.no.IRDA/Inv/cir/27/2008-09 dated 26-12-2008.
- d) Point IV (g) of 'Form 4 - Exposure and other norms - quarterly compliance certificate', prescribed under IRDA (Investment) Regulations, 2000, by wrong confirmation on classifying of equity investments among 'approved investments' and 'other investments'.



**Submission made by the Insurer:** The Company has taken note of the observation and is now changing the category of investment on a quarterly basis thereby changing from the yearly basis approach followed previously. Also informed that on a corporate action and change in the category will result in automatic modification of the IRDA code for equity into approved/unapproved on quarterly basis.

**Decision:**

Keeping in view the submissions of the insurer regarding putting in place the IT systems for classification of equities and other instruments of investments to enable them to ensure exposure to approved and other than approved investments as per the regulatory framework, the Authority is not pressing this charge.

**5. Charge 5**

**Inspection Observation:**

For estimating IBNR provision in respect of Personal Accident (PA) business, the insurer has excluded 6 (unusual) large claims paid in the financial year 2010-11 totaling to Rs. 40.80 crores. But, no such paid claims were excluded from the estimation process in respect of previous year's data.

As a result ultimate loss ratio estimated for the year 2010-11 was significantly lower than the previous year's experience. Criteria for identifying any unusual or large claims and how they were allowed in estimation of IBNR claims reserve was not appropriately discussed under para 1.7 & 2.4 of Appointed Actuary's report on estimation of IBNR claims reserve as on 31-03-2011.

**Violation of** Authority guideline circular no.11/IRDA/ACTL/IBNR/2005-06 dated 8-6-2005.

**Submission made by the Insurer:** During year 2010-11 company witnessed few abnormal losses. Hence in order to arrive at the correct trend/pattern on the claims development these losses were excluded and the same pattern was followed in 2011-12 also. Although the Actuary has not specifically made any comments on excluding large claims in para 1.7 and 2.4 of IBNR Report 2010-11, mention has been made under section I sub-section 2.3 of Personal Accident section about the abnormal claims relating to Group PA policies.

This could be traced to a few policies issued that had adverse experience and delay in reporting claims but were not renewed and hence are unlikely to have

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impact in future. Due to this reason, this will not contribute anything in future. Going forward this methodology is being followed.

**Decision:**

From the submissions made, it is observed that although the Appointed Actuary has justified ULR estimated for the year 2010-11 but the insurer has not explained as to why the same practice was not followed in earlier years. The Authority is of the view that inclusion of large unusual claims do lead to distortion of the IBNR estimates, however, a uniform consistent practice is to be adopted for treatment of such claims on year to year basis.

**6. Charge 6**

**Inspection Observation:**

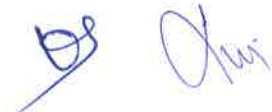
It was observed that 100% premium and claims data was not available in respect of any line of business for the estimation of the IBNR claims reserves as on 31-03-2011. The insurer has allowed for the non-availability of complete data by increasing IBNR estimated with available data.

**Violation of** Rule 39 (2) (iii & vi) of Insurance, Rules 1939, point 2.1 & 5.3 under Chapter 1 given under circular no.11/IRDA/ACTL/IBNR/2005-06 dated 8-6-2005 & Regulation 3(4) (b) (ii) of IRDA (Actuarial Report and Abstract) Regulations, 2000.

**Submission made by the Insurer:** The data systems of the company are decentralized and data of some 'one-man-offices' could not be accessed at the time of IBNR calculation and such data was insignificant. The IBNR figures arrived at from the available data had been grossed up using audited figures. The company is in the process of implementing CORE IT solutions for migrating to centralized software after which 100% data would be available for IBNR calculations. Further, from 89 micro offices connected in 2010-11, the connectivity has gone up to 582 by 2013-14.

**Decision:**

The insurer submitted that due to the decentralized IT systems the capturing of 100% data for IBNR calculations was not possible. However, as the company has started rolling out the Core IT solutions this issue would be addressed. Notwithstanding the above submissions, the Authority directs the insurance company to ensure the quality and completeness of data to be used for the purpose of IBNR estimation. The Appointed Actuary (AA) should apply such checks, as practically possible, to ensure the quality and completeness of data and at the same time ensuring prudence of the reserves made.



7. **Charge 7**

**Inspection Observation:**

Under Motor TP (Excluding commercial vehicle) business, the insurer estimated ultimate loss ratio (ULR) as 55% for the financial year 2010-2011, which is significantly low when compared with previous year's ratio.

**Violation of point 1.5 and 6.2** under chapter I of IBNR circular ref.no.11/IRDA/ACTL/IBNR/2005-06 dated 8/6/2005.

**Submission made by the Insurer:** The Company's underwriting practices and claims management with focus on compromise settlement of claims on a large scale has ensured that the portfolio performs well and improves consistently. The claims settled in 2010-11 increased by 7.8% over 2009-10. The logic in arriving at the IBNR figure was also discussed by Appointed Actuary in the Actuarial report submitted to the Authority wherein it was stated that the sample data of 2 Regional offices considered for the purpose indicated over-provision and hence there would be no need for any safety margin.

**Decision:**

From the information available it is observed that the estimated ultimate loss ratio of 55% for TP non commercial vehicles was unusually low as compared to the experience of the company for the earlier three years when the ratio remained in the range of 70-96%. Further, the insurer submitted that in case of two regional offices there was over provisioning and as a result no need was felt for any safety margin. The AA of the company, however, conceded, in the IBNR report submitted in 2010-11, that although there seems to be over provisioning but the results cannot be considered conclusive and has suggested for keeping a close watch on the claims development in future.

Based on the above the Authority is of the view that the determination of liabilities and calculation of reserves for IBNR was not based on credible assumptions and without any logical explanation available on record to justify sharp decline in ULR in 2010-11. As such, the insurer is directed to scrupulously comply with provisions, specially 1.5 and 6.2 under chapter I of IBNR circular ref.no.11/IRDA/ACTL/IBNR/2005-06 dated 8/6/2005 and accordingly maintain the documentary evidence and justification for variations or sharp fluctuations in ULR besides recording any changes in claim processes and their consequence on ULR.



## 8. Charge 8

### Inspection observation:

On examination of randomly selected claims files at insurer's DO-5-Chennai and LCB-Chennai, it was observed that the insurer is not booking the liability as soon as the intimation is received from the claimants resulting in understatement of liabilities as on 31-03-2011.

### Violation of:

- a) Provision 5 'Claims' under Part I & Provision 5(I) (a) under Part III of Schedule B of IRDA (Preparation of Financial Statements and Auditors report of insurance companies) Regulations, 2002.
- b) Clause 6 of Annexure II of IRDA Guidelines on Corporate Governance Circular no. IRDA/F&A/Cir/025/2009-10 dated 05/08/2009.

**Submission made by the Insurer:** The company submitted that it has advised all its offices to register the claims on time and also internal auditors to check on this aspect. Further, informed that provision has been made in the new software to escalate the matter of late registration, if any and has provided copy of screen shot of escalation matrix.

### Decision:

It is observed that in the sample cases studied by the inspection team there was delay in booking of liabilities in general. It was also observed that although the claims were reported in one financial year but booked in the succeeding financial year consequently reducing the liabilities pertaining to the year in which the claim was reported but not booked. The submission of the insurer that in some cases the provision could not be readily ascertainable and hence not booked is not acceptable. This has significant impact on the preparation of the financial statements. Thus, there is violation of provision 5 'Claims' under Part I and provision 5(I) (a) of Part III of Schedule B of IRDA (Preparation of Financial Statements and Auditors report of insurance companies) Regulations, 2002.

The Authority in exercise of the powers vested under Section 102(b) of the Act, imposes **a penalty of Rs.5 lakh** for violation of provision 5 'Claims' under Part I & provision 5(I) (a) under Part III of Schedule B of IRDA (Preparation of Financial Statements and Auditors report of insurance companies) Regulations, 2002.

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**9. Charge 9**

**Inspection observation:**

It was observed that the company has neither maintained any outstanding claims provision (either on a case to case basis on or at global level) in respect of any of the cases under litigation or arbitration nor disclosed under the contingent liabilities.

**Violation** of Provision 1 & 5 under Part I, Provision A (1) under Part (ii), Provision 5 (1) (a&d) under Part (iii) & Form B-BS on 'Contingent liabilities' of Schedule B of IRDA (Preparation of Financial Statements and Auditors Report of Insurance Companies) Regulations, 2002

**Submission made by the Insurer:** Insurer submitted that when the company prefers to go on appeal, the amount is paid in the court of law as per legal requirements and the need for making provision does not arise.

**Decision:**

It is observed that the company has not made any provision before going on for appeal to Supreme Court against the order of NCDRC in respect of one claim. However, post personal hearing insurer has submitted a copy of circular issued advising all its operating offices on prompt registration of claims and procedure for creating reserve in case an appeal is preferred by insurer against the order of a lower court. Taking note of the submissions, no charge is pressed.

**10. Charge 10**

**Inspection observation:**

Confirmation for the balances receivable was not received from a few reinsurers. In this regard, it was observed that out of an amount of Rs. 190 crore receivable from reinsurers, an amount of Rs. 65 crore was receivable from 4 reinsurers, for which no confirmation of balances were available. Thus, the insurer's net current assets as on 31-03-2011 may not reflect true picture.

**Violation of:**

- a) Guideline under Point 6 of Part IV of Schedule B IRDA (Preparation of financial statements and auditor's report of insurance companies) Regulations, 2002.
- b) Point 2 (i) (1) under Schedule IIB of IRDA (Assets, Liabilities and Solvency Margin of Insurers) Regulations, 2000.



**Submission made by the Insurer:** The company informed that out of four reinsurers referred in observation, one company has gone in for liquidation and out of Rs.57.30 crores balance due from the remaining three reinsurers, confirmations of balances has been obtained for Rs.48.9 crore as on 31/12/2011. Since full reserve for bad and doubtful debts is created also for all the above as on 31/03/2012, the net current assets shows the correct picture. Further, all amounts due for more than 3 months were also not considered for solvency calculation as at 31/03/2011.

**Decision:**

It is noted from the submissions that insurer has provided information of receivables referred in observation as at 31<sup>st</sup> Dec, 2010 and 31<sup>st</sup> March, 2011, whereas the Charge speaks position as at 31<sup>st</sup> March, 2010. However, taking note of the submissions that full reserve was created for doubtful debts and the amount due beyond 3 months not being considered for solvency calculation, no charge is pressed. Further, insurer is advised to adhere to the guidelines of the Authority circular no.12/IRDA/F&A/CIR/May-09, dated 26-5-2009 on reconciliation and confirmation certification on receivables.

**11. Charge 11**

**Inspection observation:**

The insurer has got no mechanism to analyze the ageing of the premiums and the status of reconciliation in respect of premiums receivable from State / Central Governments, under various schemes like RSBY, Universal Health Insurance Schemes etc.,

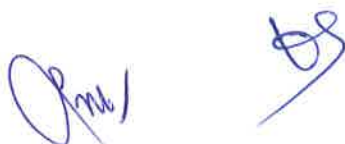
**Violation of:**

- a) Clause 6 of Annexure II of IRDA Guidelines on Corporate Governance Circular no. IRDA/F&A/Cir/025/2009-10 dated 05/08/2009.
- b) Guidelines given under Point 6 under Part IV of Schedule B of IRDA (Preparation of financial statements and auditor's report of insurance companies) Regulations, 2002.

**Submission made by the Insurer:** The details of age-wise analysis of the amounts due are reviewed periodically and follow up action is being taken with Central/State Government for the amounts due. The insurer submitted collection details of the amounts due from Government as on 31/03/2011.

**Decision:**

Taking note of the submissions of the insurer on the available mechanism and collection details of amounts due as on 31/03/2011, no charge is pressed.



**12. Charge 12**

**Inspection observation:**

Premium is receivable from an insured to the extent of Rs. 8.53 crores, which is pending for more than 10 years and is being recognized as "outstanding premiums".

**Violation of** Sec 64VB of Insurance Act, 1938 & clause 2(1) of Schedule 1 of IRDA (Assets, Liabilities and Solvency Margin of insurers) Regulations, 2000.

**Submission made by the Insurer:** *The premium was paid as charged for the subject risk before the inception of the policy. Subsequently, a dispute arose on the premium rate charged on the policy and the premium was made subsequently recoverable. It is reiterated that the financial statement reflects the correct position and there is no violation of solvency regulation. There are outstanding claim payable to this insured and will be able to recover this amount once these claims reach the payment stage. During personal hearing insurer submitted that a proposal to write off would be placed before the Board in the next immediate Board meet.*

**Decision:**

Taking note of the submissions of insurer on collection of premium prior to risk commencement, no charge is pressed.

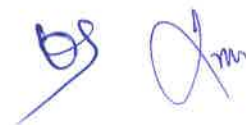
**13. Charge 13**

**Inspection observation:**

The entire 'sundry debtors' amount of Rs. 185.58 crore was taken to "Available Assets" for computation of ASM, without any disallowance of amounts deposited in courts and un-reconciled amounts under various heads. From the "Internal Audit Manual" of the insurer, it was also observed that the un-reconciled amounts are taken to "sundry debtors" account by the Branches /Divisions of the insurer.

**Violation of:**

- a) Clause 2(1) of Schedule 1 of IRDA (Assets, Liabilities and Solvency Margin of insurers) Regulations, 2000.
- b) Guidelines under Point 6 under Part IV of Schedule B of IRDA (Preparation of financial statements and auditor's report of insurance companies) Regulations, 2002.
- c) Circular no.12/IRDA/F&A/cir/ay-09 dated 26/05/2009.



**Submission made by the Insurer:** Insurer submitted that sufficient provision for bad and doubtful debts has been made for amounts not recoverable and were also not considered while calculating solvency. The internal audit manual of the company is prepared based on the past experience to enable the visiting internal auditors to verify this aspect and does not imply that unreconciled balances are lying in Sundry Debtors a/c.

**Decision:**

The Authority notes from the submissions that the insurer has not considered the unreconciled amounts for solvency calculations and no charge is pressed.

**14. Charge 14**

**Inspection observation:**

It was observed that an amount of Rs. 20.52 crores was lying in "excess premium collected / refund due" account and Rs. 63.46 crores in "cheques issued but not encashed" account. Despite having huge amounts under the accounts, it was observed that the insurer has not put in place any documented procedure to be followed to ensure minimum possible balances under the accounts.

**Violation of** Clause 6 of Annexure II of IRDA Guidelines on Corporate Governance Circular no. IRDA/F&A/Cir/025/2009-10 dated 05/08/2009.

**Submission made by the Insurer:** The Company has introduced settlement of balances electronically during 2011-12, however for certain payments settlement through electronic mode is not accepted particularly in case of claims settled through Motor Accident Claims Tribunal (MACT). On analysis of "Cheques issued but not encashed account" of Hubli RO on sample basis, it is observed that most of the items pertain to cheques deposited with MACT. As regards stale cheques, the company is following up with claimants of stale cheques.

**Decision:**

The Authority takes note of the submissions of insurer on settlement of all claims through electronic mode from 2011-12 onwards and no charge is pressed.

**15. Charge 15**

**Inspection observation:**



Special Audit Report of Ahmedabad DO-6 stated that the divisional office was granting No Claim Bonus (NCB) to the extent of 50% on new vehicles, in lieu of de-tariff discount, under Motor OD Business. The Divisional Manager in his reply to the audit observation had stated that the discounts were offered in the name of NCB, as there was no provision in the policy administration system of the insurer, to allow the discounts.

**Violation of:**

- a) Point 1, 3(ix), 8, 11, 17.1 & 26 of F&U guidelines dated 28/09/2006, Circular no. IRDA/NL/Cir/F&U/003/01/2011 dated 6<sup>th</sup> Jan, 2011, Circular ref. No. IRDA/ NL/CIR/F&U/073/11/2009, dated 16-11-2009, circular 066/IRDA/F&U/Mar-08 dated 26<sup>th</sup> March, 2008, Point 8 of circular ref.no.048/IRDA/De-tariff/Dec-07 dated 18<sup>th</sup> Dec, 2007 and cir.no.19/IRDA/NL/F&U/Oct-08 dated 6<sup>th</sup> Nov, 2008
- b) Provisions of General Regulation 27 on 'NCB' of erstwhile motor tariff wordings.

**Submission made by the Insurer:** Insurer informed that the company has issued standing instructions to all its operating offices to obtain documentary evidence before granting NCB and also the internal auditor will verify this aspect during the regular audit.

Further informed that FIR No RC0292012A007 Dated 06/02/2012 was registered by CBI, Gandhinagar in the said irregularities and Final Investigation Report has been filed by CBI in the Hon'ble CBI Court.

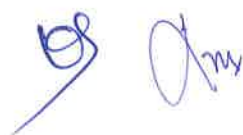
**Decision:**

In view of the submissions made, the insurer is advised to take preventive steps to avoid any such future instances and to upgrade their existing IT systems to have inbuilt checks and controls on the allowable discounts. Authority further notes an FIR has been registered with CBI on the same issue and the matter was still under investigation. No charge is pressed.

**16. Charge 16**

**Inspection observation:**

Brokerage was paid by Ahmedabad DO-6 on various policies issued to GIF, Gujarat State, though the Directorate of Insurance, Government of Gujarat had categorically stated in its tender document No. DI/GIF/GPA-09-10/Unit-1/4797 to 4810 dated 25-05-2009, that premium received for this purpose should never be credited to any of the brokers / agent. The amount of brokerage paid to the broker during the year 2009-10 was to the tune of Rs. 1.61 crores and Rs.1.30 cr during 2008-09.



**Violation of:**

- a) Provision 2(h) under Schedule III of Code of Conduct of IRDA (Insurance Brokers) Regulations, 2002.
- b) Point 1(i) of IRDA circular NO.020/NL/IRDA/06 dated 15/9/2006 on guidelines of insuring general insurance risks.

**Submission made by the Insurer:** FIR No. RC0292012A006 dated 06/02/2012 was registered by CBI, Gandhinagar in the said irregularities. The matter has already been investigated and charge-sheet has been filed by CBI in the Hon'ble CBI court. The company further informed that case being with CBI, no amount has been recovered.

**Decision:**

Inspite of specific instruction from client, insurer's office has booked the business under broker account and has paid commission. This in violation of the IRDA circular NO.020/NL/IRDA/06 dated 15/9/2006 as referred above vide which the insurer shall quote the terms directly without any broker when the client approaches the insurer directly. **In view of the violations observed above, the Authority in exercise of the powers vested under Section 102(b) of the Act, imposes a penalty of Rs. 5 lakh.**

**17. Charge 17**

**Inspection observation:**

Cover notes were issued by Motor Dealers, Insurance Brokers etc., and further noted that there was a difference in premium mentioned on the cover note and actual receipts.

**Violation of**

- a) Sec.64VB of Insurance Act, 1938.
- b) Clause (6) of Annexure II of IRDA Guidelines on Corporate Governance issued vide Circular no. IRDA/F&A/Cir/025/2009-10 dated 05/08/2009.

**Submission made by the Insurer:** The matter is referred to CBI and Rs.10,52,652/- has been recovered from the motor dealer. Further informed that, policies are now issued by motor dealer through portal and is no longer required to issue cover notes and also corrective measures are implemented to avoid such instances.

**Decision:**

The Authority notes from the insurer submission that insurer has recovered the amount from the motor dealer immediately after the internal audit

observation and the matter is under examination with CBI. No charge is pressed.

## **18. Charge 18 and 49**

### **Inspection observation**

Charge 18: It was also reported that there was a huge delay in appointment of surveyors and submission of survey reports ranging up to one year at insurer's office of LCB Mumbai during 1.4.2010 to 31.03.2011.

Charge 49: On examination of the claim file 010503/31/10/01/90000359, it was observed that

- The insurer had not appointed the surveyor within 72 hours of the claim intimation.
- The surveyor took over 8 months to submit the report. Further, from the claim file scrutinized, no evidence of the surveyor requesting for an extension or the insurer acceding to the surveyor's request for extension were available.
- From the date of the survey report, the insurer took 5 months in settlement of the claim. From the claim file, no evidence of a pending requirement was noticed during the period from the survey report till the date of claim payment.

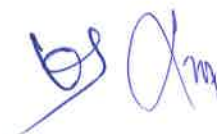
**Violation of Regulation 9(1, 2 & 5) & 5 of IRDA (Protection of Policyholders' interests) Regulations, 2002.**

**Submission made by the Insurer(Charge 18):** The company submits information of all 10 cases referred in inspection observation and from the information it can be observed that in all cases the surveyor has been appointed within 72 hours of intimation of claim. The delay is only in claim intimation and not in surveyor appointment as most of these cases pertain to marine cum erection claims. The operating offices follow for submission of survey reports on regular basis.

### **Submission made by the Insurer(Charge 49):**

1. The claim intimation was received on 17/12/2009 and on receipt of estimate, surveyor was appointed on 07/01/2010.
2. The delay in submission of report by surveyor was due to delay in submission of legal heir certificate by the claimant and with this note the surveyor had released his report on 26/09/2010.
3. Underwriting office vide their letter dated 29/12/2010 & 31/01/2011 has requested the claimant for submission of original documents and the





same were submitted by the claimant only on 3/02/2011. The claim was settled on 25/02/2011. Hence the delay was due to late submission of documents by the claimant.

**Decision:**

The Authority takes note of the submissions of the insurer as far as appointment of the surveyors, however, there is no response of the insurer with respect to the observation regarding delay in submission of surveyor's reports. It is observed that there was delay of 300 to 427 days. However, as per the provisions of IRDA (Policyholders' Interest) Regulations, 2002 the upper limit for submission of the surveyors report is six months. Thus, the insurer has violated the directions of the Authority as per the provisions of the above referred regulations, and hence **the Authority in exercise of the powers vested under Section 102(b) of the Act, imposes a penalty of Rs. 5 lakh.**

**19. Charge 19**

**Inspection observation:**

It was noted that one dealer attached to DO V, Bangalore of insurer was being paid infrastructure expenses as a percentage of motor OD Premium and the motor dealer is also allowing discounts on policies ranging from 30% to 60%.

**Violation of**

- a) Section 40(1) and 42D (8) of the Insurance Act, 1938 and IRDA/CIR/011/2003, dated 27-03-2003.
- b) Clause 6 of Annexure II of IRDA Guidelines on Corporate Governance (Circular no. IRDA/F&A/Cir/025/2009-10 dated 05/08/2009).
- c) Point 1, 3(ix), 8 & 11 of F&U guidelines dated 28/09/2006, Circular no. IRDA/NL/Cir/F&U/003/01/2011 dated 6<sup>th</sup> Jan, 2011 and circular ref.no.11/IRDA/Brok-Comm/Aug-08 dated 25-08-2008.

**Submission made by the Insurer:** The company submitted that motor dealers facilitate issue of policies by providing the infrastructure facilities and are not involved in soliciting or underwriting of business. Infrastructure expenses are reimbursed to the motor dealers in accordance with the outsourcing guidelines. After the Internal auditors' report, DO-V Bangalore office recovered Rs.1,33,483/- on 14.10.2011 and further informed that tie up with the broker is continuing.





**Decision:**

On examining the insurer's HO letter ref.no.HO:IAI:337:2011-12 dated 17.11.2011, it is noticed that insurer is allowing infrastructure charges as a percentage to premium for the services rendered by the motor dealer and motor dealer was also allowing discount on OD premium without the notice of the insurer's office. Thus vendor has rated the risk and was also allowed payment as a prescribed percentage to premium. This was brought to the notice of the insurer by their internal auditors. Insurer submitted that the amount was recovered prior to inspection observation but has not informed whether necessary checks and balances have been introduced to ensure that such deviations are detected timely and appropriate action taken. In this context the insurer is directed to exercise enhanced supervision over their tie-up business so as to ensure that there are no regulatory violations.

**20. Charge 20**

**Inspection observation:**

The insurer had outsourced certain activities like support in systems management (IT), Renewals and claims services for the customers etc., However, the insurer did not submit the mandatory return in "Form-A", as required under the "outsourcing guidelines" issued by the Authority.

**Violation** of Para 11.2 of outsourcing guidelines circular ref.no. IRDA/Life/CIR /GLD/013/02/2011 dated 1<sup>st</sup> Feb, 2011.

**Submission made by the Insurer:** Reporting in 'Form A' on outsourcing activities has been submitted in the prescribed format for the entire year 2011-12 and was filed in 2012. For the subsequent years we have been submitting the reports on half yearly basis.

**Decision:**

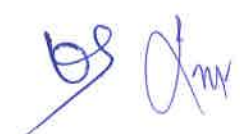
The Authority takes note of the submissions of the insurer on streamlining the process and filing the outsourcing returns in time, no charge is pressed.

**21. Charge 21**

**Inspection observation:**

It was observed that the meetings of the Risk Management Committee & Policyholders' Protection Committee are not being held at frequent intervals during the year 2010-11.

**Violation** of point 5 and point 7 of circular ref.no.IRDA/F&I/cir/F&A/014/01/2010 dated 29-01-2010 read with point 7.3 & 7.5 of annexure II of the



Corporate Governance guidelines circular ref.no.IRDA/F&A/Cir/025/ 2009-10 dated 5<sup>th</sup> August, 2009.

**Submission made by the Insurer:** The Corporate Governance Guidelines were effective from 1<sup>st</sup> April 2010 onwards and it was the first year of compliance. The company has since streamlined convening of meetings and ensured that the meetings are held once in every quarter and four month period does not lapse between two meetings.

**Decision:**

Taking note of the confirmation of the insurer on compliance to Corporate Governance guidelines, no charge is pressed.

**22. Charge 22**

**Inspection observation:**

From sample motor claim files verified, it is observed that the insurer had failed to comply with the KYC norms at claim settlement stage in respect of payment of Rs.1,29,500 of claim no. 010503/31/10/01/90000359 / policy no. 010503/31/09/00011786 to Mr.S. Mustafa Kamal.

**Violation** of point 3.1-2(i) (a) of Authority circular no.IRDA/F&I/Cir/AML/159 /09/ 2010 dated 24<sup>th</sup> Sep, 2010.

**Submission made by the Insurer:** Verification of ration card of claimant was done by the underwriting office before settlement of claim.

**Decision:**

The submissions made by the insurer are taken on record and hence the charge is not pressed further. As such, the company is advised to comply with AML guidelines issued by the Authority from time to time and accordingly reiterate instructions to all its operating offices to meticulously comply with these AML/KYC guidelines while settling claims.

**23. Charge 23**

**Inspection observation:**

Under an agreement, Motor dealers issue insurance policies on behalf of the insurer. In respect of the policies issued by the dealers, the insurer does not maintain any supporting papers (proposal, vehicle documents, etc.). The agreements do not make any reference to the manner in which the AML compliance will be ensured. In 14 sample cases, where the premium exceeded Rs.50000/- the insurer could not produce any evidence with regard to mode



of the receipt (cash or other mode) of premium by the Motor Dealers while issuing the policies.

**Violation of**

- a) Circular ref.no.IRDA/F&I/cir/AML/231/10/2011 dated 5<sup>th</sup> Oct, 2011.
- b) Clause (6) of Annexure II of IRDA Guidelines on Corporate Governance Circular no. IRDA/F&A/Cir/025/2009-10 dated 05/08/2009.
- c) Violation of point 2(i)(xi) of Outsourcing guidelines dated 1<sup>st</sup> Feb, 2011.

**Submission made by the Insurer:** Motor dealers ensure compliance of KYC norms at the time of Registration of vehicles. AML/KYC compliance guidelines are being incorporated in the fresh/renewal MOUs with Motor Dealers/Manufacturers and the operating offices monitor the same by collecting the relevant underwriting documents along with the required KYC documents. Further, the insurer submitted that the premium is received by cheque either directly from the customers or dealers.

**Decision:**

The submissions made by the insurer are taken on record. However, the company is advised to comply with AML guidelines issued by the Authority from time to time and accordingly reiterate instructions to all its operating offices to meticulously comply with these AML/KYC guidelines while settling claims.

**24. Charge 24**

**Inspection observation:**

It was observed that the insurer has not published details of Corporate Agents on its website, which is in violation of circular no. 59/IRDA/AGENCY/MAR2007 dated 22-03-2007.

**Violation** of circular no. 59/IRDA /AGENCY /MAR2007 dated 22-03-2007.

**Submission made by the Insurer:** The details have been put up on the website of the company.

**Decision:**

The Authority notes that the insurer has hosted the details of corporate agents on its website and no charge is pressed.



**25. Charge 25**

**Inspection observation:**

The insurer could not furnish details in respect of individual agent's being engaged by them namely, name, address, license number, license expiry date, premium procured, commission paid during 2010-11.

**Violation of** Sec. 43 of the Insurance Act, 1938 read with Rule 39 (3) (i & ii) of Insurance Rules, 1939.

**Submission made by the Insurer:** The information of agents earlier was in a decentralized system. Subsequently with roll out of CORE software, the information is available in the centralized data base.

**Decision:**

The Authority takes note of the installation of new software by insurer enabling centralized access of details of all agents, hence the charge is not pressed.

**26. Charge 26 and 27**

**Inspection observation:**


Charge 26: On random examination of the business procured through various distribution channels at LCB-Chennai and DO-27-Chennai and top 10 individual agents of the insurer, it was observed that insurer is procuring business from individual agents who are associated with other insurers and also remunerating.

**Violation of** Regulation 3(2) of IRDA (Licensing of Insurance Agents) Regulations, 2000 by procuring business by engaging agents of other insurers.

Charge 27: It was observed that LCB-Chennai office of the insurer is booking insurance business under the account of an unlicensed person with 'agent code' and 'license number' as 101. From the insurer system Genisys, it was observed that coinsurance policies were booked under this agency.

**Violation of** Authority circular ref.no.IRDA/CIR/011/2003 dated 27-03-2003 and 42D (8) of Insurance Act, 1938 by procuring business through unlicensed entity.

**Submission made by the Insurer:** Of the total 4 agents referred in observation, in respect of two agents we have obtained NOC and details of



other two agents has been deleted from the Agents Master. In case of procuring Co-Insurance business through agent the insurer submitted that only coinsurance business was booked inadvertently under the agency code, no commission was released and thereafter it has been deactivated.

**Decision:**

In case of the coinsurance business observation the submission made by the company was accepted and the charge is not pressed further.

In respect of all the four agents of other insurers referred in inspection observation, it is noticed that insurer has procured business either without obtaining or before obtaining the NOC.

In view of the violations of the provisions of IRDA (Licensing of Insurance Agents) Regulations, 2000, **the Authority in exercise of the powers vested under Section 102(b) of the Act imposes a penalty of Rs. 5 lakh.**

**27. Charge 28**

**Inspection observation:**

On examination of the sample payments made to bancassurance partners, it was observed that payments were made on account of 'publicity expenses'. In this regard, it is observed that the publicity expenses paid to a corporate agent are around 80% of the commission paid (Rs. 6 crores) during FY 2010-11.

- b. No details of the 'publicity' activities carried by the banks during 2010-11 were available with the insurer. Also, no prior agreements or similar documents, wherein role of the banks with respect to 'publicity' activities was elaborated, were available with the insurer.
- c. No co-branded advertisements with the above referred bank corporate agents were filed with Authority.
- d. It was noted that the payment of Rs. 2.45 crores was approved to the corporate agent towards sharing of cobranded publicity expenses @10% of the premium for the period April 2010 to October, 2010. In this regard, following issues were unclear:
  - i) Basis for payment for a particular period;
  - ii) As to why the expenses are paid as a proportion of premium and not based on the actual or agreed expenses for the advertisement/publicity activities.

**Violation of**

- a) Para 3.7-1 of Circular No. 007/IRDA/CIR/ADV/MAY-07, dated 14-5-2007 on filing of joint sale advertisements and guidelines of Authority on advertisements.
- b) Circular no. 011/IRDA/Brok-Comm./Aug-08, dated 25-08-2008, Section 40A(3) of Insurance Act,1938 & clause 21 of corporate agents guidelines circular ref.no.017/IRDA/Circular/CA guidelines/2005 dated 14-07-2005.
- c) Section 31 B(2) of Insurance Act, 1938 read with Authority circular ref.no.IRDA/F&I/Cir/Data /091/06/2010 dated 11/06/2010.
- d) Clause 6 of Corporate Governance guidelines circular.

**Submission made by the Insurer:** The arrangements with the banks work on a decentralized manner at Regional /Operating office levels, hence the literature on co-branded products was not readily available at HO. Since the literature was of the nature of handbills/leaflets etc., and not by way of advertisements in recognized marketing media, we have not filed them with the Authority. The payments were made on the basis of claims from the banks by way of sharing of expenses and subject to a limit of 10%. As an abundant precaution not to exceed the amount we have limited this payment of co-branded publicity expenses to a maximum of 10% of the premium. Hence we have not been remunerating the bancassurance partners more than the prescribed limit.

**Decision:**

The company has not filed the co-branded advertisements referred in submission and the payments to the corporate agent were paid as a percentage to premium. Further, Insurer has also not provided copy of the claim requests received from licensed entity towards co-branded publicity expenses and also TDS certificates issued to on additional payouts as sought during personal hearing. Also on examining the commission income in the annual report of the corporate agent, amount shown under this head was almost equal to commission plus publicity expenses paid by the insurer to the bank.

**In view of the violations of the Authority guidelines on advertisements and payouts to licensed entities, the Authority in exercise of the powers vested under Section 102(b) of the Act imposes a penalty of Rs. 5 lakh.**



**28. Charge 29**

**Inspection observation:**

Authority vide Circular no. IRDA/F&I/CIR/100/06/2010, dated 16-06-2010 had directed all insurers to furnish information in a prescribed format, as per Sec. 31 B (2) of Insurance Act, 1938. Insurer has not furnished the details of payments made on account of 'publicity expenses' to its bancassurance partners under 'Any other payments' column. Thus, insurer has submitted incorrect information to the Authority during 2010-11 with respect to payments other than insurance commission made to its bancassurance partners.

**Violation of** Circular no. IRDA/F&I/CIR/100/06/2010 dated 16-06-2010 read with Sec.31 B (2) of Insurance Act, 1938.

**Submission made by the Insurer:** Due to inadvertent errors in the information supplied earlier, revised statement giving details of publicity expenses to our bancassurance partners was filed with the Authority.

**Decision:**

Post personal hearing the company has submitted copy of the revised 31B(2) statement filed with the Authority on 16/03/2012 w.r.t payments to bancassurance partners. Taking note of the submissions, the charge is not pressed.

**29. Charge 30**

**Inspection observation:**

Insurer has floated prize scheme for its UMEX agents procuring private car package policies. During year 2010-11, insurer has paid to its UMEX agents an amount of Rs. 3.92 crores.

**Violation of** guidelines of Authority circular ref.no.011/IRDA/Brok-Comm/Aug-08 dated 25<sup>th</sup> Aug, 2008.

**Submission made by the Insurer:** The company incurs expenses in recruitment, training, conducting regular refresher classes for the agents and conveyance expense for our employees who act as agency managers. The amount indicated in the statement represents these expenses.

The prize scheme is basically recognition in the form of medals/trophies to those agents who have done well during specific campaign periods and the



amount involved is negligible and nothing was paid over and above commission.

**Decision:**

The Authority notes from the submissions of the insurer that major part of the amount referred in the inspection observation was towards expenses of the marketing staff and no charge is pressed.

**30. Charge 31**

**Inspection observation:**

It was observed that the insurer's operating offices have not discontinued referral arrangements inspite of insurer instructions.

- a. From the Public Disclosure form NL-40 (Business acquisition from different channels); it was observed that insurer has sourced business through its referral channel during 4<sup>th</sup> quarter of 2010-11.
- b. Regional Office Patna & Coimbatore of the insurer vide e-mails dated 16-02-2012 & 31-03-2011 have confirmed that referral fees was paid during the period 01-01-2011 to 31-03-2011.

**Violation of**

- a) Reg. 11(14) of IRDA (Sharing of Database for Distribution of Insurance Products) Regulations, 2010 read with Authority's circular ref.no.IRDA/Life/Misc/Cir /125/08/2010 dated 5<sup>th</sup> Aug, 2010.
- b) Clause 6 of Annexure II of IRDA Guidelines on Corporate Governance Circular no. IRDA/F&A/Cir/025/2009-10 dated 05/08/2009.

**Submission made by the Insurer:** It is submitted that due to communication gaps a few of the offices have continued the arrangements beyond the permitted period. It has also been found that many of the offices have not released the referral fees since it was wrongly booked. On further analysis, we found that some offices have wrongly accounted infrastructure expenses as referral fees. It was unintentional and we confirm that we have since blocked the provision for payment of referral fees.

**Decision:**

The IRDA (Sharing of Database for Distribution of Insurance Products) Regulations, 2010 were notified on 1/07/2010 and with regard to referral arrangements not confirming with the regulations, insurers were instructed to terminate within 6 months from the date of notification. By continuing the arrangements even after 1/1/2011, insurer's operating offices have not





complied with the directions from insurer's Head office. The Authority notes from the insurer's submission that all its offices were directed vide email dated 12<sup>th</sup> Aug, 2010 to discontinue the referral agreements and only few offices continued the arrangement due to communication gap. Taking note of the submissions, no charge is pressed.

**31. Charge 32**

**Inspection observation:**

The insurer had conducted various joint publicity campaigns for promoting Motor business and the advertisements were not filed with the Authority.

**Violation of**

- Section 40(1) and 42D (8) of the Insurance Act, 1938 and IRDA/CIR/011/2003, dated 27-03-2003.
- Clause 6 of Annexure II of IRDA Guidelines on Corporate Governance Circular no. IRDA/F&A/Cir/025/2009-10 dated 05/08/2009.

**Submission made by the Insurer:** The publicity campaigns with motor dealers were only by display of banners / distribution of pamphlets on festival seasons or special occasions. The payment has no relationship to the premium procurement and it is decided on case to case basis.

**Decision:**

The Authority takes note of the submissions of insurer and directs the insurer to strictly comply with the provisions of regulations relating to the joint publicity campaigns under IRDA (Insurance Advertisements and Disclosures) Regulations and guidelines issued from time to time.

**32. Charge 33 and 51**

**Inspection observation:**

**Charge 33:** Insurer's board approved underwriting policy (UP) dated 24-09-2007 for Fire & Engineering lines of business has been examined. As per Underwriting policy of the insurer, various operating offices were given permission to offer a 'technical discount' on the applicable internal guide rate up to a limit of 50% and 10% for individual rated and class rated risks respectively. However, on examining few policies, it was observed that discount is offered upto 86% on filed rates.



**Violation of** Para 1, 3(ix), 6, 11, 14, 17(1), 19(A) & 26 of F&U guidelines and circular ref.no.IRDA/NL/Cir/F&U / 003.01/2011 dated 6<sup>th</sup> Jan, 2011 by offering discounts without filing and taking approval from Authority.

**Charge 51:** As per insurer's circular Ref. HO: MISC:196:2009-10, dated 02-11-2009, discount of 5-15% on the internal guide premium rate may be allowed based on group size. However, it was observed that the insurer is allowing higher discounts upto 71.5%. Insurer has not filed the revised discounting structure with the Authority as required under, file & use guidelines issued by the Authority.

**Violation of** para 3 ( vi, viii & ix), 6, 11 & 26 of circular no. 021/IRDA/F&U/SEP-06 dated 28-09-2006 of F&U guidelines dated 28/09/2006 and circular ref.no.IRDA/NL/Cir/ F&U/003/01/2011 dated 6<sup>th</sup> Jan, 2011.

**Submission made by the Insurer:** Due to intense competition in the market the discount rate had to be increased on case to case basis by Head Office on the recommendations of RO, so as not to lose our renewals and also to get good profitable business.

The incurred Claims Ratio of the company for the Personal Accident Portfolio has been consistently improving over the past three years. On considering the other profitable premium from the Insured, higher discounts were allowed at HO level to retain our renewals or on the basis of risk features.

**Decision:**

The company has deviated from the discount structure approved by the Authority under F&U guidelines by offering discounts beyond as provided by under the UP. **In view of the violations observed, the Authority in exercise of powers conferred under Section 102(b) of Insurance Act, imposes a penalty of Rs.5 lakh.**

**33. Charge 34**

**Inspection observation:**

Business Interruption cover issued under renewal of Offshore Assets for 31-12-2011 to 30-12-2012 was subject to 30 days deductible when the Reinsurance quote was for 45 days resulting in retention of proportional risk of Rs.106 cr. by the insurer in their books towards the difference of 15 days deductible. On the issue insurer has informed that the lead Insurer was New India.



**Violation of** Para (X)(b) of IRDA circular no. IRDA/20/F&U/07-08 dated 25/06/07 and para 10 of IRDA cir no. IRDA/30/F&U/07-8 dated 13/8/07.

**Submission made by the Insurer:** It was a co-insurance policy with 15% share. For the additional retention of 15 days deductible, premium was collected by leader and was shared by the Insurers according to their share of participation. We being co-insurers, have to go by the Leader's terms.

**Decision:**

Insurer cannot offer a wider cover other than the one offered by reinsurer. However, taking note of the submissions that the proportionate premium for additional risk was collected by the insurer and the matter was placed before the Board for information, no charge is pressed. Notwithstanding the above observations, the insurer is advised to strictly comply with the provisions of the above referred circulars.

**34. Charge 35**

**Inspection observation:**

- a) Insurer has informed that they have five national level tie-ups with motor manufacturers/motor financiers and has procured a premium of around Rs. 66 crores through these tie-ups during the year 2010-11.
- b) In addition to stipulated rate of commission for insurance business, insurer is paying support service charges / infrastructure expenses to motor manufacturer / dealers with or without any national level arrangements. Such charges amount to Rs. 38.51 crores to various dealers during 2010-11.
- c) Insurer has an agreement with M/s. Tata Motors Ltd. (TML) and M/s. Tata Business Support Services Ltd. (TBSS). As per para 5 of the agreement insurer agreed to pay consideration (service charges) to TBSS on the basis of policy issued through dealerships. In contrast, insurer is paying service charges @ 10% of Own Damage (OD) premium.

**Violation of**

- Clause 6 of Annexure II of IRDA Guidelines on Corporate Governance Circular no. IRDA/F&A/Cir/025/2009-10 dated 05/08/2009.
- Section 40(1) and 42D (8) of the Insurance Act, 1938 and IRDA/CIR/011/2003, dated 27-03-2003.

**Submission made by the Insurer:** Infrastructure expenses reimbursement has been made to the dealers/ manufacturers, depending upon the services / infrastructure facilities provided by them. Commission is paid only to the licensed agent/broker and not to motor dealers/manufacturers. The expenses



claimed by the service providers were much more than the agreed limit and as a measure of abundant caution we have insisted on the upper cap of 10%.

**Decision:**

The Authority decision is conveyed at charge 39.

**35. Charge 36**

**Inspection observation:**

Issues observed in the agreement with M/s. Tata Motors Ltd. (TML) and M/s. Tata Business Support Services Ltd. (TBSS).

- iii. As per para I (8) of Annexure-A - renewal intimation, the insurer as far as possible avoid quoting the premium amount payable in renewal notice as the same would be handled by Dealer/TBSS.
- iv. As per para II (1) of Annexure-A, the insurer should fix premium rate in mutual consultation with TML.
- v. As per para 6 of Annexure-B, In case of accident repair claim, dealership shall collect required documents from customers.

**Violation of**

- a) Point 2.1 (I & xii), 2.3 & 19 of Outsourcing guidelines dated 1<sup>st</sup> Feb, 2011.
- b) Clause 6 of Corporate Governance guidelines for lack of internal control mechanism.

**Submission made by the Insurer:** Condition at para I (8) of Annexure-A on renewal intimation has been removed from the agreement. Motor dealer will not decide the rating and it will be decided by us based on the risk features and guided rates. The rates are not displayed in the renewal notices so that the competitors do not become aware of our renewal terms. The CORE activity of underwriting / claims settlement has been done by the Insurer only and dealer only facilitate collection of documents from the customers whenever the accident vehicle is kept for repair at their workshops. This ensures a hassle free service to the customer at a single point and also avoids delay in repair process.

**Decision:** The Authority decision is conveyed at charge 39.



**36. Charge 37**

**Inspection observation:**

It is also observed from the agreement with M/s. Tata Motors Ltd. (TML) and M/s. Tata Business Support Services Ltd. (TBSS) that as per para II (7) (c) of Annexure-A, the refund of premium should be made to dealer where the payment towards premium has been received from dealer.

**Violation of Sec.64VB (3) of Insurance Act, 1938.**

**Submission made by the Insurer:** In case of cancellation of policy and refund to be paid to the Insured, we have asked our operating office to revise the agreement.

**Decision:**

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

**37. Charge 38**

**Inspection observation:**

Issues observed in the agreement with M/s. Tata Motors Ltd. (TML) and M/s. Tata Business Support Services Ltd. (TBSS).

- As per para 1 of Annexure-B, All claims shall be registered at dealership in the system.
- As per para 9 (d) of Annexure-B, TBSS/system shall appoint eligible surveyor.

**Violation of**

- Regulation 9(1) of IRDA (PPH) Regulations, 2002 & para 2(1) (x) read with para 2(1) (xii) & 2.3 of Outsourcing guidelines dated 1<sup>st</sup> Feb, 2011 by outsourcing the activity of appointment of surveyor
- Clause 6 of Corporate Governance guidelines.

**Submission made by the Insurer:** Claims are individually entered in our books in normal course. TBSS is provided with a shortlist of selected surveyors and are appointed on rotation basis within 72 hours of the intimation of the loss.

**Decision:** The Authority decision is conveyed at charge 39.



**38. Charge 39**

**Inspection observation:**

As per para 15 (i) of Annexure-B of agreement with Tata Motors, all electric parts like ECM, various sensors, motors, actuators, wiring harness, headlight assembly etc. are to be treated as "other parts" where the depreciation depends upon the age of the vehicle. In this regard, it is pertinent to note that in major vehicles the 'headlight assembly' is manufactured by using of plastic material and in case of partial loss will attract 50% depreciation.

**Violation of**

- General Regulation 9 on 'depreciation' of Indian Motor Tariff wordings.
- Point 1, 2 & 28 of F&U guidelines dated 28/09/2006 & Circular no. IRDA/NL/ Cir/F&U/003/01/2011 dated 6<sup>th</sup> Jan, 2011, Authority Circular ref. No. IRDA/NL/CIR/F&U/073/11/200 dated 16-11-2009, Authority circular 066/IRDA/F&U/Mar-08 dated 26<sup>th</sup> March, 2008, Point 8 of Authority circular ref.no.048/IRDA/De-tariff/Dec-07 dated 18<sup>th</sup> Dec, 2007 and Authority cir.no.19/IRDA/NL/F&U/Oct-08 dated 6<sup>th</sup> Nov, 2008 for changing the erstwhile tariff wordings.

**Submission made by the Insurer:** As the head light assembly is manufactured by using different proportion of metallic and plastic parts, and these head lights will vary from vehicle to vehicle, and after due evaluation, it has been agreed for the depreciation schedule as metallic parts under this tie up with a common approach along with all other preferred Insurers in the scheme. We have not changed the erstwhile tariff wordings except depreciation aspect considering the rapid changes in the automobile technology.

**Decision:**

**Charge 35, 36 and 38:** The agreement entered into by the insurer with TBSS provides for services which are required to be either performed by a licensed intermediary or by the insurer and are not permitted to be outsourced, as those were core activities.

In view of the violations observed, the Authority in exercise of the powers vested in Section 102 (b) of the Act imposes a penalty of **Rs. 5 lakh** The Insurer is also hereby directed to ensure compliance with the Outsourcing Guidelines issued by the Authority vide circular dated 1<sup>st</sup> February, 2011, on the services outsourced and terms of payment.

**Charge 39:** Condition 15(i) of annexure B of the agreement with TBSS states that 'headlight assembly' will be treated as 'other parts' where depreciation depends upon the age of the vehicle. This is in violation of General Regulation



9 of India Motor Tariff, 2002, and circular no.066/IRDA/F&U/Mar-08 dated 26<sup>th</sup> March, 2008, circular ref.no.048/IRDA/De-tariff/Dec-07 dated 18<sup>th</sup> Dec, 2007, Circular.no.19/IRDA/ NL/ F&U/Oct-08 dated 6<sup>th</sup> Nov, 2008 and Circular ref. No. IRDA/NL/CIR/ F&U/ 073/ 11/ 2009, dated 16-11-2009, which provide that terms and conditions of erstwhile motor tariff should not be varied without the Authority's express approval.

In view of the violations observed, the Authority in exercise of the powers vested in Section 102 (b) of the Act imposes a penalty of **Rs. 5 lakh**. The Insurer is also hereby directed to ensure compliance with the F&U guidelines as issued from time to time.

**39. Charge 40**

**Inspection observation:**

The insurer Board has approved maximum of 40% outgo in case of Motor Own Damage (OD) (Private car & Commercial vehicle) premium procured by its operating offices, which include discount on erstwhile IMT and reimbursement of infrastructure expense. The insurer Board also granted power to Head Office to allow discount above 40% and on examining sample 13 cases it was noted that the insurer Head Office allowed discount between 50 to 61 percent on erstwhile tariff rates for motor OD business.

**Violation of** Para 1, 3(ix), 6, 11 & 19(A) of F&U guidelines dated 28/09/2006.

**Submission made by the Insurer:** Higher discounts are offered on selected cases due to competition, based on the ICR / track record of the client and such decisions are taken by the corporate top management as per Board approval and such cases are very few considering the large volume of policies issued by the Company.

**Decision:**

Decision of the Authority is conveyed at charge 43.

**40. Charge 41**

**Inspection observation:**

Insurer communicated to its various operating offices that maximum **outgo** (discount + infrastructure expenses) can be approved up to 40% of motor OD premium, subject to the 3-year average incurred claim ratio (ICR) being below 50%. 'Controlling' offices of the insurer have their own local tie-ups with the motor dealers.



- a) Total outgo in respect of commission paid, OD discount allowed and infrastructure expenses paid is around 60% more, than the stipulation of 40% made in above mentioned board note and circular on the same.
- b) Incurred claim ratio is above 50% w.r.t claims paid in relation to the net premium available to the insurer after allowing discount and payment of commission & infrastructure expenses.

**Violation of**

- Point 21 of corporate agent's circular ref.no.17/IRDA/circular/CA guidelines/2005 dated 14/7/2005 & circular no.11/IRDA/Brok-comm/Aug-08 dated 25<sup>th</sup> Aug, 2008.
- Para 8.5 read with para 9.12 & 19 of the Outsourcing guidelines dated 1/2/2011.
- Para 1, 3(ix), 6, 11 & 19(A) of F&U guidelines dated 28/09/2006 and circular no.IRDA/NL/cir/F&U/003/01/2011 dated 6<sup>th</sup> Jan,2011.
- Clause 6 of corporate governance guidelines.
- Section 40(1) and 42D (8) of the Insurance Act, 1938 and IRDA/CIR/011/2003, dated 27-03-2003.

**Submission made by the Insurer:**

- a) In all the referred cases our operating offices have not paid more than the approved limits.
- b) The Corporate policy does not specify about the ICR. We have ensured that the agents are not allowed commission above the limit prescribed by IRDA. Infrastructure expenses are paid to entities for providing administrative services relating to Insurance and outsourcing activities are not entrusted to the agents and they are not paid any such expenses. Motor dealers are not selling the policies and they are only facilitating the process and commission is paid only to the licensed agents.

**Decision:**

Decision of the Authority is conveyed at charge 43.

**41. Charge 42**

**Inspection observation:**

On examination of the documents, it was observed that though the arrangements are with M/s. Sundaram Finance Ltd. and M/s. Sundaram Motors, the payment of infrastructure expenses is made to Infreight Logistics Ltd. and TVS Sundaram Iyengar & Sons, respectively. Insurer could not





furnish any specific approval note/arrangement in respect of these payments to the entities.

**Violation of**

- Section 40(1) and 42D (8) of the Insurance Act, 1938 and IRDA/CIR/011/2003, dated 27-03-2003.
- Regulation 3(2) of IRDA (Licensing of Corporate Agents) Regulations, 2002.
- Clause 6 of Annexure II of IRDA Guidelines on Corporate Governance Circular no. IRDA/F&A/Cir/025/2009-10 dated 05/08/2009.

**Submission made by the Insurer:** Infreight Logistics Ltd is the service provider and hence the payment was made to them with the approval of HO. Sundaram Motors is a division of TVSundram Iyengar & Sons and hence the payments released were in order.

**Decision:**

Decision of the Authority is conveyed at charge 43.

**42. Charge 43**

**Inspection observation:**

As per the agreements entered with M/s. Hyundai Motor India Ltd. (HMIL) and M/s Sundaram Finance Ltd "No Commission is payable". However, as per insurer's letters dated 02-11-2010 and 09-06-2011 on reimbursement of infrastructure and Administrative expenses, commission of 10% was allowed to M/s. Hyundai Motor Plaza – Chennai.

It was observed that Insurer has recognized the two entities as referral partners in GENISYS and paying referral fee / commission to them. Business sourced through Sundaram Finance Ltd. is booked under code of M/s. Infreight Logistics Ltd.

**Violation of**

- a) Section 40(1) and 42D (8) of the Insurance Act, 1938 and IRDA/CIR/011/2003, dated 27-03-2003.
- b) Reg. 11(14) of IRDA (Sharing of Database for Distribution of Insurance Products) Regulations, 2010 read with Authority's circulars dated 5<sup>th</sup> & 9<sup>th</sup> August, 2010.



- c) Clause 6 of Annexure II of IRDA Guidelines on Corporate Governance Circular no. IRDA/F&A/Cir/025/2009-10 dated 05/08/2009.

**Submission made by the Insurer:** We submit that the booking of premium under referral was an inadvertent error by our operating offices. We confirm that Hyundai Motors India Ltd, Hyundai motors plaza & Sundaram Finance Ltd were not paid any commission. However, in some policies the agent code and their name appeared wrongly.

**Decision for charges 40, 41, 42 & 43:**

- a) The insurer has deviated from the discount structure filed with Authority under F&U guidelines dated 28/09/2006 on rating of motor risks by allowing discounts in the range of 50% to 61% in the observed 13 sample cases.
- b) On examining the insurer's motor department letters with ref.no.MRO :MOT:060:10-11 CHENNAI, dated 02/11/10, ref.no.:MRO:MOT:029:11-12 CHENNAI dated 09/06/2011 and ref.no.MOT 105:2010-11 dated 8/12/2010, it is observed that the company has linked reimbursement of expenses to motor dealers with the discount allowed to customer thereby violating the outsourcing guidelines and also File & Use guidelines of the Authority.
- c) Commission payout over and above infrastructure expenses was allowed by the insurer to unlicensed entities in the insurer letters referred at point 'b' above, which indicate that business was solicited through unlicensed entities. Though insurer replied that no commission was paid to the two entities referred in its letter, its reply is silent on the intention of mentioning the commission percentage in the letter specific to those dealers, allotting dummy agency nos in agency master to M/s Hyundai Motor India Ltd with license no.99999 and M/s Infreight Logistics, Chennai (of Sundaram Finance) with license no.1234567, generating commission statement of period 1/4/2010 to 31/03/2011 of Hyundai Motor Ltd & M/s Infreight Logistics Ltd with license no.90111111 & 90199999 and also agent name was mentioned as Hyundai Motor Ltd in the policy documents 012700/31/10/01/00003933, 012700/31/10/01/00003790 & 012700/31/10/01/60000023 .
- d) It is also observed from the insurer's motor department letter ref.no.NIL dated 6/7/2009 that the company was procuring business from M/s Sundaram Finance who is a tied agent of another general insurer.

In view of the violations observed at points a,b,c & d above, and keeping in view the fact that the insurer has already been charged for F&U guidelines



violations the Authority in exercise of the powers vested in Section 102 (b) of the Act imposes a penalty of **Rs. 5 lakh.**

Further the company is also directed to review its outsourcing agreements on payment terms, cancel agreements with licensed entities and to stop soliciting business through tied agents of other general insurers.

**43. Charge 44**

**Inspection observation:**

- a) On examination of the claims settlement process adopted by the centralized (for Chennai city) motor own damage claim processing office, Chennai-SVC, it was observed that the date of actual receipt of intimation as per policy records is not consistent with the Date of registration of claim in GENISYS.
- b) On examination of sample 7 claims paid in the month of April 2011, it was observed that though the loss was intimated during financial year 2010-11 itself, the claims were registered and paid in April 2011.

**Violation of** Regulation 9(1) & 5 of IRDA (Protection of Policyholders' Interests) Regulations, 2002 and Regulation 2(ii) (b) under Schedule II-B of IRDA (Assets, Liabilities and Solvency Margin of Insurers) Regulations, 2000.

**Submission made by the Insurer:** Service hub started functioning since 2010 and teething problems were there during the initial stage, which were identified and rectified immediately. At present the motor hub is registering claims on day to day basis and registration work allotted exclusively to two persons in the Hub. The delay was only in registration of claims and there was no delay in appointment of surveyor.

**Decision:**

The Authority takes note of the submissions of the insurer on resolving the issue of delay in registrations at motor hub by appointing two persons exclusively for the job. No charge is pressed.

**44. Charge 45**

**Inspection observation:**

Claim no: 01030031100190000206 under Motor Trade Policy was approved subject to submission of duly notarized affidavit by insured. In this regard, it is observed that insurer paid claim on 11-03-2011 without collecting notarized affidavit.



**Violation of** Clause 6 of corporate governance guidelines for lack of internal control mechanism.

**Submission made by the Insurer:** Though the claim cheque was prepared in anticipation of completion of the requirement, it was not released as the required document to be obtained from insured was pending during the time of inspection by IRDA.

**Decision:**

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

**45. Charge 46**

**Inspection observation:**

On random examination of claims under process during the period of inspection, it was observed that three claim cases were not registered and no provision was created.

**Violation of**

- Provision 2(ii) (b) under Schedule II-B of IRDA (Assets, Liabilities and Solvency Margin of Insurers) Regulations, 2000.
- Clause 6 of Annexure II of IRDA Guidelines on Corporate Governance Circular no. IRDA/F&A/Cir/025/2009-10 dated 05/08/2009.

**Submission made by the Insurer:** In the referred cases the company received only the summons and provision has been made as soon as the petitions were received. Summons would not contain details of either policy numbers or claim amount and it would not be possible to make any provision in such cases where only summons are served on us.

**Decision:**

In 2 of the 3 cases referred in inspection observation, insurer's Regional Office while appointing investigator has advised its operating office to register and create provision of two & three lakhs and has also provided details of vehicle no, policy no, insured name & MACT claim no. In spite of such specific advise by RO, claim was not registered and provision was not created. Further, insurer's reply differs from point 2.2, 3.1, 4 and 7.2 of insurer's processing guidelines to operating offices on 'motor TP claims processing'. Insurer's operating office has not complied with the processing guidelines issued by insurer and also with the provisions of the Regulation. In view of the violations observed, the Authority in exercise of the powers vested in Section 102 (b) of the Act imposes a penalty of **Rs. 5 lakh**.



**46. Charge 47**

**Inspection observation:**

It was observed that Chennai-TP HUB is following practice of provisioning of approximately 50% of amount claimed in the petition, which is in deviation of para 4.1 of the Motor TP claims processing guidelines of the insurer. From the sample cases examined, it was observed that income details of the deceased / injured were not available and investigator was not appointed in 5 claims and in few claims appointed with a delay.

**Violation of** Clause 6 of Corporate Governance guidelines for lack of internal control mechanism in monitoring the operating offices compliance to para 2, 4 & 7.2 of insurer's motor TP claims processing manual.

**Submission made by the Insurer:** Generally on receipt of the summons and petitions, based on the details available considering the age, income, dependency, death or injury, provisions are made. Where these details are not available, provision is made at approximately 50% of the claimed amount. The provisions are revised as the case develops. Investigators have been appointed in these cases and reports are available

**Decision:**

The Authority takes note of the submissions of insurer on provisioning and appointment of investigator and no charges are pressed.

**47. Charge 48**

**Inspection observation:**

On examination of few policies issued by the insurer's DO-27, Chennai of FY 2010-11 with Premium in the range of Rs.50000 to Rs.1 lakh, it was observed that, proposal form, vehicle invoice etc were not available. In this regard, insurer submitted that the policies have been issued at dealers point through web portal and hence the basic documents like proposal form were not available with their office.

**Violation of** Reg. 4 (1) of IRDA (Policy Holders' Interest) Regulation, 2002 read with Authority's Circular: No. 054/IRDA/F&U/NOT/FEB-08, dated 14-2-2008.

**Submission made by the Insurer:** The insurer has submitted that the dealer collects the basic information required for issuance of policy at the time of sale of vehicle along with all other documents. In the observed cases, the policies were issued on the basis of the information supplied by the Insured.

We have advised our offices to invariably collect duly signed proposal forms and other documents from the dealers.

**Decision:**

By not collecting proposal forms, insurer has violated IRDA (Protection of Policyholders' Interests) Regulations, 2002. Keeping in view the submissions made and the assurance given by the insurer the charge is not pressed.

**48. Charge 50:**

**Inspection observation:**

On examination of the claim file #012700/31/10/01/9000529, it was observed that the insurer had settled the claim after 80 days from the date of receipt of the final requirement from the policyholder.

**Violation of Regulation 9 (5) of the IRDA (Protection of Policyholders' interests Regulations) 2002.**

**Insurer reply:**

The office had asked for discharge voucher vide letter dated 01/11/2010. The documents for KYC was asked for verbally and on receipt of the same the claim was settled on 14/01/2011. Since the KYC documents do not bear receipt date stamp, we have ascertained from the operating office and they have informed that immediately after receipt of KYC documents payment was released.

**Decision:**

The Authority takes note of the insurer's submission on settlement of claim and receipt of documents and no charges are pressed. However, the company is directed to ensure that all documents are properly inwards and date of receipt is duly recorded on all documents.

**49. Charge 52**

**Inspection observation:**

P.A. claim no. 42/10/01/90000004 on policy no. 011502/42/09/01/00000199: The insurer has settled the death claim for Rs. 5 lakhs only when the capital sum insured was Rs. 6 lakhs (Rs. 5 lakhs + Rs. 1 lakh Cumulative bonus amount). Further, the claim amount of Rs. 5 lakhs was settled without obtaining KYC documents at the time of settlement of claim.

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**Violation of**

- a) Regulation 9 (5 & 6) of IRDA (Protection of Policyholders' Interests) Regulations, 2002.
- b) Point 3.1-2(i) (a) of Authority circular no. IRDA/F&I/Cir/AML/159/09/2010 dated 24<sup>th</sup> Sep, 2010.
- c) Clause 6 of Annexure II of IRDA Guidelines on Corporate Governance Circular no. IRDA/F&A/Cir/025/2009-10 dated 05/08/2009.

**Submission made by the Insurer:** In the submissions post personal hearing insurer informed that balance claim amount was paid through NEFT along with penal interest on 15/09/2014.

**Decision:**

The Authority takes note of the submissions of insurer on balance claim settlement along with penal interest through NEFT transfer, no charges are pressed. However, the insurer is advised compliance to KYC guidelines issued from time to time.

**50. Charge 53**

**Inspection observation:**

Claim # 500200/42/10/05/90000010 - Date of Accident - 14-12-2009 / Date of Appointment of Investigator - 22-05-2010 / Date of Investigator's Report - 16-06-2010 / Date of Settlement of Claim - 28-02-2011 / Letter forwarding the cheque - 26/04/2011.



On examination of the claim file, following were the observations.

- i. On 10-08-2010 i.e. nearly two months after the date of investigation report, the insurer had raised the requirement of a "Final Investigation Report" in respect of the claim.
- ii. On 28-02-2011, the insurer had settled the claim even though the "Final Investigation Report" was not submitted. The Claim note of the insurer neither states that the Final investigation report is received nor mentions waiver of this requirement to settle the claim.

**Violation of Regulation 9(5) of IRDA (PPH) Regulations, 2002 by not processing the claim within 30 days.**

**Submission made by the Insurer:** The insured has been asked for submission of final investigation report orally. The final investigation report was issued by IIC Lanjigarh PS, Kalahandi on 13/01/2011 which was received



at our office subsequently. Unfortunately, date of receipt of the report was not mentioned. The claim was processed and settled on 28/02/2011.

**Decision:**

Delay in service has been observed at every process point. Insurer sought fresh requirement of "Final Investigation Report" after two months of receipt of investigators report, delay in preparation of cheque after receipt of final requirement and delay of 2 months in forwarding the cheque to claimant.

The Authority decision is conveyed at charge 55.

**51. Charge 54**

**Inspection observation:**

The company is offering group tailor made health insurance policies for various non employer-employee groups These products offer different features with no specific rating methodology and were note filed under F&U guidelines.

However, the insurer was not calculating the actual outgo as envisaged in their internal circulars and proper rating factors were not applied. In all the observed schemes, the renewals were done with a maximum increase of 10% in premium, though in all the cases the ICR (excluding IBNR, commission, expenses) is more than 100%. The insurer has not adopted a scientific basis in underwriting group tailor made health schemes.

**Violation of** Para 26 of F&U guidelines dated 28/09/2006 and Para 6 of the Authority's circular ref.no.048/IRDA/De-Tariff/Dec-07 dated 18-12-2007.

**Submission made by the Insurer:** The non employer employee group health covers are tailor-made according to the requirements of the customer and rating varies based on experience and the covers requested. Renewal premiums are based on experience of each year, worked out on the burning cost method.

**Decision:**

As envisaged in the F&U guidelines, insurer is directed to rate risks on sound and prudent underwriting principles. Further, Insurer is advised to review/monitor performance of loss making group health products by highest level at regular intervals and based on the review to consider renewal terms besides complying with F&U guidelines issued by Authority from time to time.





In this regard, insurer is also advised to have adequate checks and balances to ensure that ICR is maintained within sustainable range.

**52. Charge 55**

**Inspection observation:**

From claim file no. 010500/48/10/41/9000657, it was observed that the investigator's report was received after 8 months from the date of intimation. The insurer took over 8 months more from the date of the investigator's report to settle the claim. No evidence of any pending requirement from the beneficiary was noticed from the claim file.

**Violation of Regulation 9(1, 2, 5 & 6), 5, 7(2) & 10(h) of IRDA (Protection of policyholders' interests) Regulations, 2002.**

**Submission made by the Insurer:** The intimation for the PA claim was received with substantial delay and the documents submitted were in Gujarati, which required translation in English. Although claim note was approved on 15/04/2011, certain documents were pending from bank and TPA. Letter dated 19/04/2011 calling for those documents was sent to the TPA. After receipt of all the requirements on 24/09/2011, claim cheque was released on 28/09/2011.

**Decision for charge 53 & 55:**

Though insurer issued a single policy covering medical expenses reimbursement and Personal accident cover, the claimant was not properly guided by insurer on PA claim either at claim intimation or during settlement of reimbursement of hospital expenses. Only after claimant approaching subsequently, insurer initiated the process. The PA claim was approved by insurer on 15<sup>th</sup> April, 2011 and was settled on 28/09/2011 without recording reasons for delay in settlement. In response for delay, insurer submitted that further requirements were sought vide letter dated 19/04/2011 and in this regard no documentary evidence was submitted, further claim approval note is also quiet on requirement of additional documents.

Claim note recommending payment was approved on 15<sup>th</sup> April, 2011 and payment was made vide cheque dated 28/09/2011 i.e after 166 days of approval.

**In view of the violation of the provisions of IRDA (Protection of Policholders' Regulations) 2002 and clause 6 of Corporate governance guidelines, the Authority in exercise of the powers vested under Section 102(b) of the Act imposes a penalty of Rs.5 lakh.**



The company is also advised to pay penal interest for the delay in settlement of claim as per provision 9(6) of the IRDA (Protection of Policyholders' Regulations) 2002.

**53. Charge 56**

**Inspection observation:**

The Insurer had issued Indian Bank Arogya Raksha group policy to account holders of Indian Bank. The bank is debiting premium amount to its account holders who wish to purchase the health policy and remit the same to insurer. In this regard, it was observed that there was huge delay in receipt of premium by the insurer.

**Violation of Section 64VB (1 & 4) of the Insurance Act, 1938.**

**Submission made by the Insurer:** The premium is debited to the account of account holders before the inception of the risk and passed on to us by Indian Bank who is our corporate agent. The Bank is also maintaining a deposit premium with us. Delay happened only in exceptional cases and is only at the corporate agent end who is our representative/intermediary.

This has also been now streamlined through issuance of policies through web portal, wherein seamless premium payment happens through Bank's Core Banking system and premium payment confirmation takes place instantaneously.

**Decision:**

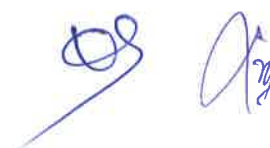
In few cases it is observed that premium is received by insurer after 25 days of risk commencement. Although insurer has a deposit of Rs.50000, but the amount of premium not remitted was more than the deposit amount, which implies non compliance to Sec.64VB of Insurance Act, 1938.

**In view of the violation of the provisions of the Act, the Authority in exercise of the powers vested under Section 102(b) of the Act imposes a penalty of Rs. 5 lakh.**

**54. Charge 57**

**Inspection observation:**

On examining the audit report of M/s Paramount TPA, it was observed that the insurer audit team was provided only 5 claim files by the TPA for verification, out of 960 outstanding claim files.



**Violation of** Clause 6 of Annexure II of IRDA Guidelines on Corporate Governance Circular no. IRDA/F&A/Cir/025/2009-10 dated 05/08/2009.

**Submission made by the Insurer:** We carry out audits throughout the year across TPAs. If files called for are not provided during a particular audit, the same is once again taken up in the next round of audit and it is ensured that the files are scrutinized. Further, we have focused audits on the TAT for various service parameters such as issuance of ID cards, issuance of pre-authorizations, and settlement of claims. Post personal hearing insurer also submitted that the files of Paramount TPA audited by the company during 2011-12 were 2377, in 2012-13 it is 1751 and for 2013-14 it is 1523 files.

**Decision:**

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

**55. Charge 58**

**Inspection observation:**

It was noted from the insurer's Board note dated 04-11-2011 that insurer had placed business with 4 reinsurers who are rated below BBB.

**Violation** of Regulation 3(7) of IRDA (General Insurance - Reinsurance) Regulation, 2000.

**Submission made by the Insurer:** Though the reinsurers referred are below BBB rating, the experience with these companies in reinsurance matters is good. The matter was placed before the Board and had sought IRDA approval vide letter dated 29/04/2011. We would also like to state that there is no pending recovery from these securities as on 31.03.2013.

**Decision:**

The Authority takes note of the submissions of the insurer on intimation to Authority and submission of copy of letter addressed to the Authority, hence no charges are pressed.

**Summary:**

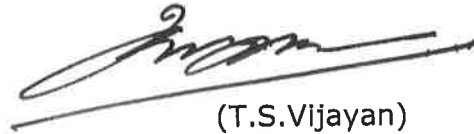
**In conclusion, as directed under the respective charges, the penalty of Rs. 60 lakh (Rupees Sixty Lakh only) shall be remitted to Insurance Regulatory and Development Authority of India within a period of 15**



**days from the date of receipt of this Order. The penalty shall be remitted through the NEFT as per details being intimated to the insurer as per a separate e-mail. The transfer shall be made under intimation to Mr.Lalit Kumar, FA & HOD-Enforcement.**

Further,

- a) The said penalty amount shall be debited to the shareholders' account of the General Insurer.
- b) The General 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.
- c) The Order shall be placed before the Audit committee of the insurer and also in the next immediate Board meeting and to provide a copy of the minutes of the discussion.



(T.S.Vijayan)  
Chairman

Place: Hyderabad  
Date: 22/04/2015

