



Ref.No: IRDA/ENF/ORD/ONS/086/05 /2016

Final Order in the matter of Royal Sundaram Alliance Insurance Company Limited

Based on reply to the Show Cause Notice dated 7th October, 2015 and submissions made during Personal Hearing on 30th November, 2015, 2015 at 10:30 am taken by Member (F&I) at the office of Insurance Regulatory and Development Authority of India , 3rd Floor, Parishrama Bhavanam, Basheerbagh, Hyderabad.

The Insurance Regulatory and Development Authority of India (hereinafter referred to as "the Authority") carried out an onsite inspection of M/s **Royal Sundaram Alliance Insurance Company Limited** (hereinafter referred to as "the General Insurer") from 04.02.2013 to 13.02.2013. The Authority forwarded the copy of the Inspection Report to the Insurer seeking comments on the same under the cover letter reference IRDAI/Enf./SCN/2014-15/RSA/25 dated 03.09.2015. Upon examining the submissions made by the Insurer vide letter dated 14.09.2013, the Authority issued Show Cause Notice on 07.10.2015 which was responded to by the Insurer vide letter dated 28.10.2015. As requested therein, a personal hearing was given to the Insurer on 30.11.2015. Sh. M. S. Sreedhar, MD, Sh. S. R. Balachandher, Company Secretary & Chief Compliance Officer, Sh. Venkatachalam Sekar, CFO, and Dr. Mohan, Country Head- Rural Business were present in the hearing on behalf of the General Insurer. On behalf of the Authority, Ms. V. R. Iyer, Member (F&I), Sh. Lalit Kumar, FA & HOD (Enforcement), Mr. Prabhat Kumar Maiti, JD (Enforcement), Ms. Jyoti Vaidya, DD (Enforcement) and Sh. P. Sankara Srinivas, OSD (Non-Life) were present during the personal hearing.

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

The findings on the explanations offered by the General Insurer to the Show Cause Notice and the decisions thereon are detailed below.

1. Charge – 1

It was observed that the Directors of Royal Sundaram Alliance Insurance Company Ltd are also holding directorship in some of the Corporate Agent of the Insurer.

Page 1 of 35

Violation of

- a) Regulation 9 (2) (ii) (k) IRDA (Corporate Agents) Regulations 2002 which states that "no corporate agent/corporate insurance executive/specified person shall - become or remain a director of any insurance company".
- b) Clause 3 and 3.4 - (Role of Board) of Guidelines on Corporate Governance for the insurance sector IRDA/F&A/CIR/025/2009-10 dated 05.08.2009 which deals with the role of Board and the potential areas of conflict of interest and obligation of the Directors and the disclosures thereof.

Submission of the insurer:

The insurer submitted that there was no specific bar that the "promoter" of an insurance company could not be a corporate agent. Otherwise, this issue would be common for all promoters who were also acting as corporate agents of insurance companies promoted by them. Sundaram Finance had two roles, one as Promoter of Royal Sundaram and the other as Corporate Agent of Royal Sundaram. As promoters of Royal Sundaram, it was expected of Sundaram Finance to have their Directors on the Board of Royal Sundaram "in their capacity as the nominees of the Promoter" to take care of their interests. Also, none of the Directors stated above were either the Corporate Insurance Executive or Specified persons of the Corporate Agency held by M/s Sundaram Finance Limited and TVS. They were also not holding any agency in their individual capacity.

Decision:

The submissions made by the insurer were taken on record. However, it is observed that having common directors may result in conflict of interest whether he solicits business or not. As per Section 48 (A) of the Insurance Act 1938 as amended recently, no insurance agent or intermediary or insurance intermediary shall be eligible to be or remain a director in insurance company. The act also provides that any director holding office at the commencement of the Insurance Laws (Amendment) Act, 2015 shall not become ineligible to remain a director by reason of this section until the expiry of six months from the date of commencement of the said Act: Further, the Authority may permit an agent or intermediary or insurance intermediary to be on the Board of an insurance company subject to such conditions or restrictions as it may impose to protect the interest of policyholders or to avoid conflict of interest. Accordingly the insurer is directed to address the issue of probable conflict of interest, comply with the provisions of the Insurance Act 1938 as amended by the Insurance Laws (Amendment) Act, 2015 and report to the Authority within a period of 60 days.

2. **Charges: 2, 11 and 14**

Charge - 2:

The insurer engaged T V Sundram Iyengar & Sons Limited which is acting as Corporate Agent for Data processing and policy servicing and paid Rs. 64,012,257/- in 2011-12 and Rs. 30,361,162/- in 2012-13(till Dec 12). Similarly, Sundaram Finance Ltd, the promoter and Corporate Agent has also been engaged for tax advisory services and was paid Rs. 12 lacs each in 2011-12 and 2010-11. The same was not declared under outsourcing activity.

Violation of

- a) IRDA circular 011/IRDA/Brok-Comm./Aug.8 dated 25-08-2008 on limits of payment of commission.
- b) Point 21 of Authority Circular – 017/IRDA/Circular/CA Guidelines/2005 dated 14.07.2005 read along with Section 40 (A) of Insurance Act,1938 wherein any additional payment other than commission to a corporate agent is prohibited.
- c) Violation of 11.2 of Guidelines on outsourcing of activities by insurance companies (IRDA/LIFE/CIR/GLD/013/02/2011 dated 01.02.2011) wherein it is mentioned that all insurers shall file a report in Form A within 45 days from the end of every half year. Clause number 8.4 of guidelines on outsourcing of activities by insurance companies (IRDA/LIFE/CIR/GLD/013/02/2011 dated 01.02.2011) which states that subject to these guidelines ,agents, corporate agents, brokers, TPAs', etc. shall not be contracted to perform any outsourced activity other than those permitted by the respective regulations.

Submission of the insurer:

TVS & Sons Limited: TVS had resolved in the year 2012 itself to surrender their corporate agency license which was given effect to in February 2013. Accordingly, they had surrendered their corporate agency and hence they are no longer a corporate agent

Sundaram Finance Limited (SF): The payment made to SF for tax advisory services is to be treated as payments towards professional services and hence not brought under outsourcing activity. We have a group taxation team at Sundaram Finance which has internal and external tax specialists.

The activities listed by the Authority are being extended by them at an arm's length commercial transaction basis. Sundaram Finance has also been extending tax advisory services, for the Group as a whole, in order to get expert opinion from leading practitioners at reasonable terms. Royal Sundaram has also been benefitted by that approach as some of the advisory services are being obtained by the insurer at competitive rates that too from leading experts.

Since many of these activities have been enlisted by the insurer for many years and have been outsourced to these entities not in their capacity as Corporate Agent but more because of their expertise in these areas, the insurer had not reported them under the outsourcing activities. As a matter of fact, they had already represented to the authority to exclude activities which are ordinarily outsourced by any company" from the purview of the outsourcing guidelines like catering, courier and post, record management etc.

Charge – 11

It is observed from the Form 31B (2) and 26 Q (TDS DATA), there is difference in total payments between two statements which shows that the insurer had given extra payouts to the said C.A. / banks/ Insurance Brokers. This reveals that insurer had paid more than stipulated commission to its intermediaries.

Violation of

Authority circular no. 11/IRDA/Brok-Comm/Aug.08, dated 25-08-2008 to be read with clause no. 21 of Authority circular No. 017/IRDA/Circular/CA Guidelines/2005, dated 14-7-2005 which states that no payment of any kind, including "administration or servicing charges" is permitted to be made to the agent or the broker in respect of the business in respect of which he is paid agency commission or brokerage.

Submission of Insurer:

Insurer submitted that in many cases apart from the process of solicitation and procurement of insurance business by the intermediaries, in view of the nature of insurance services contemplated at those points, inevitably, broker/intermediaries supported them in the form of provision of space, infrastructure as required. It would be difficult for the insurer to open offices in all locations where the intermediaries were situated. For eg: in the case of Sundaram Finance, insurer had posted their people in nearly 20 of Sundaram Finance's branches for which they have been paying them rent and maintenance charges as per market practice (Sec 194 I). These offices were also reported as part of our periodical returns submitted to the Authority.

The insurer submitted that payments other than commission were made in respect of activities which were not linked to solicitation and procurement of business. These were made in a different capacity and not in the capacity of corporate agent. In some cases they were sharing the expenses for cobranded collaterals, data processing & policy servicing.

Charge – 14

It is observed that the insurer had floated contests and awards for its distribution channels in the financial years 2011-12 and paid close to Rs.12.50 lakhs for the said campaigns.

It is observed that in most of the cases the other payouts were more than commission amount. The said payments other than commission were between the range of Rs. 0.49 to Rs. 16.09 Lakhs to the individual agents. These payments were made under the accounting head Fees for Profession or Technical Services. The said payouts made to these individual agents are not informed to the Authority as required under Form 31B (2) of Insurance Act, 1938.

Violation of

para 8.4 of Outsourcing guidelines dated 1st Feb,2011 by engaging a licensed agent as vendor. (IRDA/LIFE/CIR/GLD/013/02/2011 dated 01.02.2011)

Submission of insurer:

The payments made to these individual agents, where TDS has been deducted under section 194J, were for outsourcing services provided by these parties to Royal Sundaram as per the agreements entered into with these parties. These individual agents are involved in providing other insurance related services which were not linked to the policies procured and therefore these payments were made to them not in the capacity as agents and also not under the head commission.

However, the payments made to these individual agents other than commission were inadvertently missed out to be reported under Form 31B (2). This is a one-off case and we will ensure that such errors are not repeated in future.

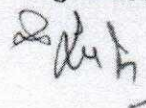
Decision on charge 2 ,11 and 14:

It is observed that the insurer is outsourcing the core activities like "policy servicing "and non core activities like "data processing", " I-tax advisory services" to its corporate agents, banks and brokers. The insurer shall not outsource any of the core activities. Moreover, the insurer failed to report the activities outsourced to the Authority within 45 days from the date of entering into relationship. The insurer is also paying rent to the corporate agent. The insurer has also made heavy payments to such entities in addition to commission. This indicates that the insurer has entered into additional relationship with the Corporate Agent with the intend of making additional payouts.

Making additional payments to Corporate Agents in addition to the commission payments for various activities is violation of Clause 21 of Corporate Agents' Guidelines, 2005, circular 011/IRDA/Brok-Comm./Aug.8 dated 25-08-2008. **The Authority in exercise of powers conferred under Section 102(b) of Insurance Act, imposes a penalty of Rs.5 lakh.**

3. Charge – 3

It was observed that the process for credit rating of securities is being updated manually.



Violation of

Annexure III Para C (3) (Mid Office) of IRDA Investment Guidelines 2008 No. INV/CIR/008/2008-09 dt. 22/08/2008.

Submission of the insurer:

The insurer submitted that there was no deviation from the requirements. Currently, at the point of Security master creation based on the Information Memorandum, the back office enters the rating of the instrument and the mid-office after verification authorises the security master. Deals could be entered into the system only after such authorization by the mid-Office and the maker/checker process is in place. The insurer had subscribed to the Rating Update service of CRISIL, which provided on a daily basis security wise rating changes. If there was any rating change of our securities then the same was updated in our system.

Once a rating change was updated, the Investment System was capable of capturing the movement and maintains all historical ratings. And as such there was no manual updation happening which was carried out by the system and hence it was in line with the IRDAI guidelines.

The Authority has noted the submissions made by the insurer. The insurer is advised to ensure compliance of investment risk management systems and processes as stipulated in Annexure III Para C (3) (Mid Office) of IRDA Investment Guidelines 2008 No. INV/CIR/008/2008-09 dt. 22/08/2008 and the relevant sections of the said guideline as amended from time to time.

4. **Charge – 4 and 20**

Charge- 4

It was observed that the insurer's advertising and publicity expenses for the year 2011-12 was Rs.4.23 crore against Rs.1.52crore of FY 2010-11 which shows a rise of 178%. On further examination of the expenses, it was observed that Rs. 2.28 crore had been booked for distribution of advertisement material and paid to auto dealers and individuals. It was intriguing to note that there was agreement for such kind of arrangement but there was no service charge fixed as well as vouchers were not containing any information on number of items distributed and rates at which payment made. This practice showed that insurer is paying remuneration for procuring business.

Violation of

- a) Clause 8.4 of Guidelines on Outsourcing of Activities by Insurance Companies (IRDA/ LIFE/ CIR/GLD/013/02/2011) dated 01.02.2011 which stipulates that agents, corporate agents and other regulated entities shall not be contracted to perform any outsourced activity other than those permitted by the respective regulations.

b) point 21 of Authority Circular – 017/IRDA/Circular/CA Guidelines/2005 dated 14.07.2005 wherein any additional payment other than commission to a corporate agent is prohibited.

Submission of the insurer:

The insurer submitted that the expenses are incurred towards promotional and branding activities. All the payments under head Advertising & Publicity expenses were made as per the agreement entered into with the parties & the services covered were non-core in nature and within the ambit of the outsourcing Guidelines. The insurer further submitted that they had noted the observation to strengthen the connected documentation.

Charge – 20

It was observed that the insurer had not maintained the specimen copies of advertisements.

Violation of

Regulation 3(1) (iii) of IRDA (Insurance Advertisements and Disclosure) Regulations, 2000 which deals with different aspects to be maintained in an advertising register.

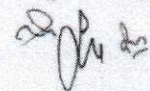
Submission of insurer:

The insurer submitted the Advertisement register file was maintained as per the format requested by IRDA. For few cases, they had maintained the Xerox copy of the advertisement after dispatching the originals to IRDA. In future they would maintain original specimen copies of the advertisements in the file. The insurer further submitted that in case of e-mailers and online advertisements, they would maintain the printout of soft copy.

Decision 4 and 20:

It is observed that the payments to the auto dealers are in the nature of remuneration towards outsourcing of promotional and branding activities as submitted by the insurer. It is observed that such fee are not prescribed as per the agreement but the amount to be paid is based on the business performance of the auto dealers. Although, the contention of the insurer that such activities were outsourced as per the agreement which is in line with relevant guidelines, but simultaneously such relationship violates advertisement Regulations. On examination of the annexure to the observations and the submissions made by the insurer it is observed that Rs.4.23 Crore has been paid to 180 vendors in the name of advertising/publicity. The insurer has not filed any of these advertisements/joint sales advertisements with the Authority. Further, the insurer has not retained vouchers, bills etc which shows lack of internal control, thereby violating clause 6 of the Corporate Governance Guidelines.

The Authority in exercise of powers conferred under Section 102(b) of Insurance Act, imposes a penalty of Rs.5 lakh.



5. **Charge – 5**

The data Processing and outsourcing expenses have increased by 21% in 2011-12 from last financial year. On further examination of the expenses for the year 2011-12, it is observed that the motor dealers are paid Rs.148.22 crore towards data processing and policy servicing, Rs. 11.69 crore towards infra support and services and Rs.7.17 crore towards training and workshop. The basis of payment was not provided.

Violation of

Clause 6 of Guidelines on Corporate Governance for the insurance sector (IRDA /F&A/CIR/025/ 2009-10 dated 05.08.2009) for lack of internal controls.(for not retaining / maintaining bills, vouchers and records, based on which such payments were made.)

Submission of the insurer:

The insurer submitted that all the payments under the head data processing and outsourcing were made as per agreements entered into the parties and the services covered were within the scope of Non-Core activities of outsourcing guidelines.

Decision:

It was also observed that the insurers has not maintained bills, vouchers and records based on which such payments were made. Thus, the insurer failed to exercise the basic internal checks and controls over the outsourced activities to justify the amount of payment towards them.

The insurer is warned for not adhering to control functions as stipulated in Clause 6 of Guidelines on Corporate Governance for the insurance sector (IRDA /F&A/CIR/025/ 2009-10 dated 05.08.2009).

6. **Charge – 6**

It was observed that the insurer did not disclose properly in notes to accounts the bifurcation of expenses under various heads viz., "outsourcing expenses", "marketing expenses" etc., correctly. In the reporting under financial statement for 2011-12 under the head Notes to Accounts under para 27, the amount under outsourcing cost incurred was Rs.204.02 crores as against actual cost of Rs.196.70 crores.

Violation of

IRDA Circular No. 067/IRDA/F&A /Mar 08 wherein the insurer is required to disclose by way of disclosing in notes to accounts the bifurcation of expenses under various heads viz., "outsourcing expenses", "marketing expenses" etc., correctly.

Submission of the insurer:

For the disclosure, some of the accounting heads were not considered in Outsourcing Expenses but were considered as Marketing Expenses & vice versa. But, the company was disclosing both Outsourcing & Marketing expenses under "notes to accounts" in the annual report. The insurer further submitted that they had implemented the suggestion of the Inspection team and the same has been regrouped appropriately and disclosed in their Annual accounts for 2012-13.

Decision:

The Authority has noted the insurer's confirmation that a corrective action is taken by the insurer in their annual accounts for 2012-13. The Authority is not pressing any charges. The insurer is advised to comply with Authority Circular No. 067/IRDA/F&A /Mar 08 dated 28.03.2008.

7. **Charge – 7**

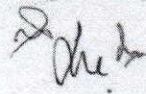
The insurer paid Rs.10.84 Lakh to its related party entity i.e. Sundaram Finance Ltd. The above mentioned payment pertains to the calendar printing cost. The calendar printed belongs to the group in which on the two months' page the insurers name is printed.

Violation of

- a) Authority directions given in circular no. Ref: IRDA/Life/Misc/Cir/154 /07/2012 dated 17th July, 2012 which states that insurers are permitted to issue joint sale advertisement without prior approval of the Authority however all such advertisements shall be filed along with Appointed Actuary certificate within 7 days of release.
- b) point 21 of Authority Circular – 017/IRDA/Circular/CA Guidelines/2005 dated 14.07.2005 wherein any additional payment other than commission to a corporate agent is prohibited.
- c) Insurer has violated IRDA circular 011/IRDA/Brok-Comm./Aug.8 dated 25-08-2008 read along with limits of payment of commission

Submission of the insurer:

The insurer submitted that Sundaram Finance's 12-sheet monthly Calendar for many decades had been the most sought after one and had a wide reach amongst the public. This was a Sundaram Group's branding initiative which practice was followed by many other major Business Groups in the Country. The cost of the calendar printing was shared amongst the group companies participating in this in addition to Royal Sundaram.



Decision:

It is noted that Sundaram Finance is a Corporate Agent of the insurer. Insurer is sharing the calendar printing cost of the Corporate Agent for two pages every year without prior approval of the Authority. Considering that the cost of the calendar for the year of inspection was Rs.10.84 lakh which is not a very large amount, the Authority is not pressing any charges. However the insurer is directed to obtain the prior approval of the Authority in this regard and to comply with all the relevant circulars mentioned above.

8. Charge – 8

It is observed that the insurer had capitalized the expenses incurred on improvements made to the leased property viz., false ceiling, work stations, partition, cabling works, wall painting and interiors etc. The value placed on 'Improvement to leased premises' as at 31-03-2012 was Rs. 3.39 crores (Net Block), which need to be placed with "zero" value for solvency purposes. As a consequence of disallowing Leasehold improvements, Available Solvency Margin (ASM) of the insurer as at 31-03-2012 would be reduced to Rs. 350.16 Crores from the reported Rs. 353.55 Crores.

Violation of

- a) Schedule I (valuation of assets) of IRDA (Assets, Liabilities and Solvency Margin of Insurers) Regulations, 2000 where in it is mentioned that lease hold improvements should be placed with value "zero".
- b) Section 64 V (1) (i) (h) of Insurance Act 1938, where in it is mentioned that such other assets may be specified by the regulation should be placed with value "zero".

Submission of the insurer:

The insurer submitted that as per IRDA (Preparation of Financial Statements and Auditor's Report of Insurance Companies) Regulations 2002, the fixed assets other than that specified in Schedule 10 have to be disclosed under "others" and the nature of the same to be specified. Accordingly, the company had disclosed the improvement to lease premises separately under "others". The Company had classified these under 'Improvement to leased premises' consistently for calculating the Solvency Margin and had submitted the details to the Authority every year.

In the Solvency Regulations zero value was to be assigned only to furniture and fixtures, dead stock and stationery. Leasehold asset is not specifically mentioned anywhere in the Solvency Margin Regulations for being assigned zero value.

Decision:

Considering that assets representing "house hold improvements" are not realizable in nature, the insurer is directed to henceforth place value of "zero" on leasehold improvements while calculating solvency margin and to comply with Para 2(1)(e) of Schedule I of IRDA (Assets, Liabilities and Solvency Margin of Insurers) Regulations, 2000 as amended from time to time to be read with Section 64 V (1) of Insurance Act 1938 at all times.

9. **Charge – 9 and 13**

Charge-9

It was noticed that the insurer had close to 400 motor dealers on its roll and none of these motor dealers hold valid IRDA license to solicit and procure insurance business. The insurer had sourced business through motor dealers and made payouts other than claim payments.

The insurer had provided online access to 46 motor dealers to its insurance administration system for sourcing business. These Motor Dealers are not licensed by the Authority to act as intermediaries for procuring business.

Upon examination of the premium register, it was observed that the insurer had allotted agent / intermediary codes to the motor dealers. As per the premium register, these motor dealers are said to be the agents or other interested party.

Violation of

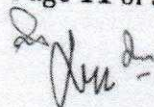
Authority's circular IRDA/CIR/011/2003, dated 27-03-2003, which gives no insurer, shall distribute the product through any person who is not licensed as per provisions of Insurance Act 1938.

Submission of the insurer:

The insurer submitted that the Motor Dealers were used under the outsourcing guidelines only to print and issue the policies to customers. Motor products were pre-underwritten products and the dealer had no power to vary any premium or risk factors in those cases. Moreover, the choice of insurance company was left to the customer to decide at the dealer points. Hence, there was no solicitation made by the dealers to customers.

The insurer further submitted that they had provided necessary facility to those dealers to take a print out of the policy and hand over to the customers. Those come under outsourcing (non-core activities) and hence there was no deviation from the Guidelines issued by IRDAI.

The insurer submitted that the data generated mainly related to their internal tracking mechanism and was not linked to any payments made. Further, the agreements were



entered into with such entities under the outsourcing arrangement. The policies sold were mainly relating to Motor which were pre underwritten products with no room for the dealers to engage in the solicitation or procurement of the business. Further, the creation of codes in the system was mainly for their MIS purposes only.

Decision:

On examining the annexure submitted by the inspection team it is noticed that

- Insurer had created intermediary codes in their policy administration system for unqualified entities.
- Payments are made to them in name of support services which were also not disclosed under outsourcing arrangement to the Authority.
- From the premium register, it was evident that insurer had allotted intermediary codes to motor dealers. They are said to be agents or other interested parties.
- Insurer has also paid payments towards commission to these motor dealers which are evident from the I-tax payment under the Code Number 194 D for the year 2010-11 and 2011-12.

Charge - 13

It was noticed that as per insurers system the license number was mandatory field while generating an agent code. However, it was noted that to generate the agent code, the insurer in few cases used dummy IRDA license number and its expiry date and in other instances, no license number / license period for the purpose of process of generating agent master was mentioned. Thus, the insurer had no proper and adequate controls on the generation of agency master in its system.

The insurer had also sourced the business from unlicensed persons / entities and payouts are made under the accounting head commission and others;

The insurer solicited and procured insurance business through Mr. Rajan Duggal and paid Rs.4.29 lakhs to Mr. Duggal in the financial year 2011-12 towards insurance commission and other payments. It is pertinent to note that Mr. Duggal obtained IRDA license no. 1541824, w.e.f. 03-01-2013.

Violation of

- a) Authority's circular IRDA/CIR/011/2003, dated 27-03-2003 for sourcing of business premium through unlicensed persons / entities).
- b) para 8.4 of Outsourcing guidelines dated 1st Feb,2011 by engaging a licensed agent as vendor. (IRDA/LIFE/CIR/GLD/013/02/2011 dated 01.02.2011)

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Submission of Insurer:

The insurer submitted that in their policy administration system, codes were created for different types of parties and codes starting with prefix OA & Br are used to identify the intermediaries. The codes created with other prefix were for their internal MIS purposes. As for creation of all these codes, few fields were mandatory, the insurer entered default (dummy) details in these fields wherever these details were not applicable.

Bajaj Capital Ltd & Bhartiya Samrudhi Investments & Consulting Services Ltd:

All the payments made to these entities are against the outsourcing services provided by these entities to Royal Sundaram and are not for the solicitation of the business (as per the agreement entered into with these parties). In one of the payment made to these entities, TDS has been wrongly deducted under Section 194 D instead of Section 194 J (Bhartiya Samrudhi - Rs. 21.18 lacs and Bajaj Capital -Rs. 6.74 lacs) and we have given a letter to IT department to this effect for TDS correction.

Maruti Insurance Agency Network Ltd: Maruti Insurance Agency Network Ltd. was our corporate agent up to Jun-2010 and the payment made to them up to June-10 was disclosed under the head "Commission" and the TDS has been accordingly deducted under section 194D.

It was further submitted that the payments made to Rajan Duggal prior to him becoming a licensed agent of Royal Sundaram were for the outsourcing services provided and not for the purpose of solicitation on the business. Once he became the licensed agent, he was not involved in any outsourcing related services.

Decision on 9 and 13:

Insurer is procuring insurance business through the entities which are not licensed as per Insurance Act. This amounts a serious violation of Authority's circular IRDA/CIR/011/2003, dated 27-03-2003 on the part of the insurer, the Authority in exercise of powers conferred under Section 102(b) of Insurance Act, imposes a penalty of Rs.5 lakh.

Further, the insurer is directed to adhere to Insurance Act/ Regulations and Guidelines while procuring insurance business.

10. Charge – 10

It was observed from the list of CIEs / SPs of corporate agent that some corporate agent's have only 1-3 CIE/SPs, who were authorized to solicit and procure insurance business. Regardless of the number of CIE/SP available for the C.As, the insurer had allotted multiple online accesses to its policy administration system or enabled sourcing of business through the persons who are not authorized to solicit and procure insurance business.

Further, it was noted from the details of branches of M/s. T V Sundram Iyengar & Sons Ltd duly signed by CIE that it had 94 branches in the state of Tamil Nadu and Kerala.

Violation of

- a) Authority's circular IRDA/CIR/011/2003, dated 27-03-2003 for sourcing of business premium through unlicensed persons / entities).
- b) Provisions of Clauses 2, 8 and 17 of Guidelines on Licensing of Corporate Agents issued on 14.07.2005. (Guidelines No. 017/IRDA/Circular/CA Guidelines/2005, dated 14-7-2005).

Submission of Insurer:

The insurer had submitted that all the products sold were pre-underwritten motor products where the concerned person at the branches was only collating the leads/enquiries and passing on the same to the concerned Specified Person/CIE so that they could speak to the customers and conclude the deal. Necessary facility was provided to those agents who helped them to print policy and handed it over to customers.

Decision:

Keeping in view the inspection findings that the Corporate Agents of the insurer are not having adequate number of CIEs/SPs to handle huge business volumes, the insurer is directed to ensure that the corporate agent has adequate number of specified persons at all times based on their geographical presence, business turnover etc. in order to ensure compliance to regulation 14(v) of IRDA (Registration of Corporate Agents) Regulations 2015.

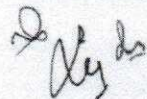
11. Charge – 12

It was observed that the insurer had issued individual agency license to the partnership firm.

The insurer on IRDA licensing portal had uploaded PAN details of Ms. Rupal Patel and not of M/s. Sant Associates, the partnership firm. It is noted that the payment of insurance commission for the business booked under said agency was made to M/s. Sant Associates under PAN No. AAVFS7842R. The payment, therefore, is made to other than the licensed holder.

As per Form IRDA-Agents-VA, for renewal of agency license no. 1838557, the name of license holder is "Sant Associates." But, the renewal license was issued in the name of "Rupal Patel Sant Associates" and thereby changed the license holder for IRDA license no. 1838557. Thus, the Designated Person (DP) of the insurer failed to perform his responsibilities.

As per PAN and photo uploaded on the IRDA licensing portal, the applicant Rupal Patel was a female. Whereas, the insurer in the ID card issued for the IRDA license no. 1838557 as per Form IRDA-Agents-VZ, had mentioned gender of applicant as Male.



The payment of commission against business booked under the said license number was made to "Sant Associates" and not to "Rupal Patel Sant Associates" the entity as per IRDA License.

Though the said license is individual agency license, at the time of renewal insurer had taken corporate agency renewal application forms i.e. Form IRDA Corporate Agents L-1, L-2, A-1, A-2, I-1 etc.

As per data submitted for Form 31B(2) of Insurance Act, 1938, it was pertinent to note that the insurer had submitted the data for the said intermediary under the category "Other than Individual" and "Payments to Individual" in the years 2010-11 and 2011-12 respectively.

It is evident that the license no. 1838557 issued / renewed for the individual / entity "M/s Sant Associates" and / or "Rupal Patel Sant Associates" by the insurer is not as per the provisions of IRDA (Licensing of Insurance Agents) Regulation, 2000.

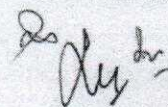
It was noted from the examination of data for Form 26Q (TDS Data) that in addition to payment of insurance commission to M/s. Sant Associates, the insurer had also paid the heavy amounts to the partners of M/s. Sant Associates and its relatives. From Form 26 Q it is evident that the insurer had entered into Service Provider Agreement with above individuals who are partners in M/s. Sant Associates and / or relatives of partners. It was noted that for all the three individuals the address is 13, ground floor, Bhupati Chambers, Mathew Road, Opera House, Mumbai. Further, the date of all the agreements is 28-07-2011. It was evident from the above that all the four individuals are from same family and to accommodate the extra payouts against business sourced / booked under the agency of "Rupal Patel Sant Associates" (IRDA License no. 1838557), the said agreements were entered into.

Violation of

- a) Reg. 2 (e) to be read with Reg. 2 (i) of IRDA (Licensing of Insurance Agents) Regulation, 2000 which defines corporate agent.
- b) Authority circular no. 11/IRDA/Brok-Comm/Aug.08, dated 25-08-2008 which states that no payment of any kind, including "administration or servicing charges" is permitted to be made to the agent or the broker in respect of the business in respect of which he is paid agency commission or brokerage.
- c) Authority's circular IRDA/CIR/011/2003, dated 27-03-2003 for sourcing of business premium through unlicensed persons / entities).

Submission of insurer:

Insurer submitted that the original license was issued as an individual license based on the information then provided that it was a proprietorship firm. However, at the time of renewal,



based on the documentary evidences made available, it was noted that the said entity was a partnership firm. However, at the time of renewal since the concerned DP could not change the constitution of the firm, it was inadvertently renewed as an individual license with a typo error of including a part of the partners' name in the name of the firm. When the PAN details were to be linked to the concerned agent, the error continued and the PAN details of the partner were linked to the Agent.

Since the error had crept in at the renewal stage, the earlier arrangement of making the payments and dealing with Sant Associates, continued as they were the actual license holders. The change in name was only a result of the error made by the concerned person generating the license on behalf of the DP. The error was noted at their end itself and the branch was advised to seek an amendment to the name by approaching IRDA. However, since the person who had issued the license at their end and who was coordinating that activity with the branch had resigned, the rectification could not be carried out.

Decision:

It is noted from the insurer's submission that the error has occurred while granting the renewal license to the said entity. It was brought to the notice of the insurer vide forwarding inspection report to the insurer on 14.09.2013. Till date the insurer is submitting that they have noted the error but they have not taken corrective action as the person co-coordinating the issue has resigned. Much time and many opportunities have been available to the insurer during the last more than two years, still the insurer did not have the inclination to rectify or set right the issue by, hiding behind the reason that the official concerned whose was dealing with and coordinating the matter had resigned from the company. Prima facie the insurer has accepted the lapse, however, they tried to escape from the same under the guise of inadvertent typo error.

It is also noted that the insurer has made heavy payments to the relatives of the Sant Associates of amount of Rs. 49 lakh for the year 2010-11 and Rs. 136 lakh for the year 2011-12. The agreements with these individuals are in contravention to the Authority circular no. 11/IRDA/Brok-Comm/Aug.08, dated 25-08-2008.

The Authority in exercise of powers conferred under Section 102(b) of Insurance Act, imposes a penalty of Rs.5 lakh.

The insurer is directed not to make any additional payment over and above commission and not to enter into any additional relationships with any of the licensed entities in violation of Authority's guidelines. The insurer is advised to furnish a compliance certificate duly certified by Chief Compliance Officer stating that the company has no other arrangements in force with any of the licensed entities.

D. K. H.

12. Charge – 15

It was observed that the insurer allowed discounts up to 90% under Engineering and Fire segments on the base rates filed as observed from the sample policies examined, even though the maximum allowed discount is 60%.

Violation of

- Circular No. 021/IRDA/F&U/Sep. 06, dated 28-9-2006 for allowing higher discounts in premium than approved by the Authority under "F&U" guidelines.
- Circular No. IRDA/NL/Cir/F&U/003/01/2011 dated 6th Jan, 2011 which stipulates that no premium quotation is given which is outside the range filed with IRDA

Submission of insurer:

The insurer submitted that the product was re-filed in July 2007 vide letter dated 31st July 2007, where discounts/loading were based on the different risk rating factors, and the limitation on maximum allowed discount of 60% was removed.

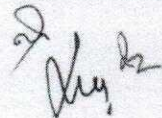
Decision:

It was noticed that the insurer has submitted the letter dated 31.07.2007 written to the Authority for refilling of Fire policies. The annexure to the said letter states the loading / discount on base rates are explained as per tables- A, B, C and D. But the annexure is incomplete where the table rates are not given. The corporate underwriters are authorized to modify the base rates but the percentage of modification and basis of modification is not defined. The insurer has not submitted approval letter of this refilling of fire policy.

The company has deviated from the discount structure approved by the Authority under F&U guidelines for its fire and engineering policies. 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.

13. Charge - 16

It was observed from the data of free look cancellations examined about 11,449 policies (Health & P.A.) were cancelled under free look cancellations and an amount of Rs.9.88 cr. was refunded. The average time taken for refund is 9 days with a minimum of 1 day to maximum of 162 days.



Violation of

clause 6 of Guidelines on Corporate Governance for the insurance sector. (IRDA /F&A/CIR/025/ 2009-10 dated 05.08.2009) which deals with internal controls of the organisation.

Submission of insurer:

The insurer submitted that the refund was processed only on realization of premium cheque and a request received from the customer. They always adhered to TAT, in few cases which were beyond the control, there had been a delay.

Decision:

Authority takes note of the submissions of insurer and **no charge is pressed**. The insurer is further directed to strengthen adequate systems and controls to process free look cancellations and refund of premiums efficiently to customers.

14. Charge - 17

It was observed that the instances of missing cover notes were reported by internal auditors. The police certificate on missing cover notes indicated that the cover notes are placed with agents.

Violation of

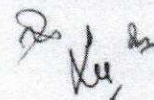
Clause 6 of Guidelines on Corporate Governance for the insurance sector. (IRDA /F&A/CIR/025/ 2009-10 dated 05.08.2009) which deals with internal controls of the organization.

Submission of insurer:

The insurer submitted that it was a perennial problem in the market and they had been constantly monitoring and tightening the process of issuance of cover notes. The insurer further submitted that they had brought down the usage of cover notes and had provided the agents with e-motor facility which helps to provide policy copy to the customers.

Decision:

The Authority has examined the submission of the insurer and is not pressing any charges. The insurer is directed to strengthen the internal controls while carrying out the operations and processes at their end. The insurer is further directed to ensure that there is a link between the cover note number, cover note book reference and the cover note number as indicated in the policy records.



15. Charge - 18

It was observed that the insurer is not maintaining the date of approval / rejection of the proposal. It was not clear from the data whether Proposals are processed by the insurer and decisions communicated by it in writing within 15 days from the receipt of proposals.

Violation of

Regulation 4(6) of IRDA (Protection of Policyholders' Interest Regulations), 2002 which stipulates communication of decisions of proposals within a period not exceeding 15 days from the date of receipt of proposal.

Submission of insurer:

Insurer submitted that TAT for policy issuance is constantly monitored and improved to ensure that proposals are not kept pending for processing. They had so far not received any complaints from any customer regarding any delayed rejection of any proposal so far. The company had been fully complying with this guideline and mere non recording of the date of communication to the customer should not be construed as non-compliance.

Decision:

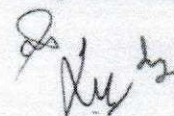
The Authority has examined the submission made by the insurer and further state that the insurer's statement "mere non recording of the date of communication to the customer should not be construed as non-compliance" is not acceptable. **Insurer is directed to comply with the Regulation 4(6) of IRDA (Protection of Policyholders' Interest Regulations), 2002. Insurer is further directed to keep all records in proper formats to capture date of approval / rejection of proposal to comply with the Regulation.**

16. Charge - 19

It was observed that the insurer was recording the information obtained orally or in writing. However, no confirmation or communication of the same was given to policyholder within a period of 15 days thereof with the proposer though such information is incorporated in the policy.

Violation of

Regulation 4(4) of IRDA (Protection of Policyholders' Interest Regulations), 2002 which stipulates that where proposal form is not used the insurer should confirm the recorded information to proposer within a period of 15 days.



Submission of insurer:

It was submitted that a debit confirmation for the premium charged was sent to the customer along with the details of the cover opted. Customers were also informed at the time of the call that they were entitled to receive a copy of the voice log if he so desired and the insurer had been providing the same as and when a request was received.

Decision:

The Authority has examined the submissions made by the insurer. The Authority is not pressing any charges. However, the insurer is directed to comply with Regulation 4(4) of IRDA (Protection of Policyholders' Interest Regulations), 2002.

17. **Charge – 21 and 32**

Charge 21:

It was observed that the insurer had entered into agreements with M/s. Tata Motors Ltd, M/s. Ford India Pvt. Ltd. and M/s. Honda Cars India Ltd. The Tata Motors Ltd was the tripartite agreement between the insurer, Tata Motors Ltd. (TML) and M/s. Tata Motors Business Support Services Ltd. (TBSS). From the provisions of the agreement it is evident that the Insurer has outsourced core activities like allowing third parties for deciding premium rates, to do survey and assess loss etc.

Violation of

- a) Para 2(1) (i) read with para 2(1) (xii) & 2.3 of Outsourcing Guidelines (IRDA/LIFE/CIR/GLD/013/02/2011) dated 1st Feb, 2011 by allowing a third party to decide the renewal / new premium.
- b) Regulation 9(1) of IRDA (Protection of Policyholder's Interest) Regulations, 2002 & para 2(1) (x) read with para 2(1)(xii) & 2.3 of Outsourcing Guidelines (IRDA/LIFE/CIR/GLD/013/02/2011) dated 1st Feb, 2011 by allowing a third party to do the survey & assess loss.
- c) Para 9.12 & para 2(1)(v) & 2.2 read with para 2(1)(xii) & 2.3 of Outsourcing Guidelines (IRDA/LIFE/CIR/GLD/013/02/2011) dated 1st Feb, 2011 by allowing dealer to collect claim requisite documents and to register claim.

Submission of insurer:

Claims are registered by the insurer in their own system and registrations in the manufacturers' system were not done by the insurer.

Original documents collected by the dealer were being verified by insurer's personnel and copies of these documents were taken by them for the claim files. The insurer confirmed that verification process had not been delegated or outsourced to the dealers.

In Royal Sundaram, no survey is waived and all claims were surveyed either by an in house surveyor or by an independent panel surveyor. The verification of the claim files would have revealed the actual practice by the insurer.

Charge – 32

It was noticed that the insurer The BASIX was a corporate agent of the insurer. BASIX and KBSLAB were the policy holders and group organizers for GAR policies. The GAR product was sold to the customers who avail loans from BASIX / KBSLAB. The entities i.e. BASIX, KBSLAB and BASIX were the sister concern / group companies. Thus, the insurer had entered into agreement / outsourced the servicing of claims etc. with the sister concern / group organizers of the insurance policies.

As per para 1.2.3 of the agreement between the insurer and the BASIX, it was evident that BASIX was supposed to provide the Claim Servicing in Health Insurance.

It was observed that the BASIX the C.A. and the group organizer is processing the claims GAR policies and forwarding the same to the insurer for payments. The insurer settles these claims viz. Hospital Cash, Permanent Total Disablement, Live Stock, GAR Accidental Expenses, Micro Enterprises etc. in favour of the C.A. / Group Organizer i.e. M/s. BASIX or M/s. KBSLAB.

Violation of

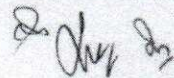
para 9.12 to be read with para 8.4 of Authority circular no. IRDA/LIFE/CIR/GLD/013/02/2011 dated 01-02-2011 (Guidelines on outsourcing of activities by insurance companies) which states that the insurer should ensure that the third party service provider did not have any conflict of interest.

Submission of insurer:

The insurer submitted that spot checking and assessing the genuineness of the claim were the two critical services required under the 'mass coverage' policies. SMART Facilitator deployed by BASIX was totally independent of the group organizer (BSFL/KBSLAB) and their engagement was only to support the claims process. They were fully trained by them. No authority was vested with them either for settlement or repudiation of the claims.

The insurer further submitted that considering the quality of Customer profile, high volume and low premium size, processing and service delivery was a challenge to the insurer's own team. These Products required exclusive service back-up without which Insurer won't be able to implement.

Bharatiya Samruddhi Investments and consulting services had a huge net work and IT infrastructure which suits best for out-sourcing these services. Hiring of services was done on the basis of resources utilized, workstation engaged and cost of travel engagements.



The insurer further submitted that facilitating of claim services was documented, all resources hired for this were trained properly and delivery of service standard was monitored through teams on either side. BASIX have been engaged only for spot verification to rule out any fraudulent claim. Their role is more of investigative nature. They have no role either in the admission or settlement of the claim.

Decision on 21 and 32:

The Authority has noted that in the agreement with the above mentioned dealers, they have given authority to issue new and renewal policies at their end. The insurer is issuing policy stationary, policy stamps, revenue stamps, etc at the dealership. The rate of the premium would be fixed or periodically revised by insurer in consultation with the dealer. In the claim process as described in the agreement, all claims would be registered by the dealer in the system. The insurer has also outsourced functions of surveyors depending on claims amount to dealers. All these points of an agreement show that the insurer is outsourcing the core activities to dealer. This amounts to a major violation of Circular Guidelines on Outsourcing of activities by insurance company.

The observations and submission shows that the insurer is outsourcing the core activities to its Corporate Agent. This amounts to a major violation of Circular Guidelines on Outsourcing of activities by insurance company

The Authority in exercise of powers conferred under Section 102(b) of Insurance Act, imposes a penalty of Rs.5 lakh.

The insurer is further advised to revise the clauses of agreements to comply with the all clauses of Guidelines on Outsourcing of activities by insurance company (Circular number IRDA/LIFE/CIR/GLD/013/02/2011)dated 1st Feb,2011).

18. Charge – 22

In one of the provision / clause of the agreement with TML/TBSS and HSCIL, it is mentioned that the refund of the premium will be made in favour of the Dealer where the payment towards premium has been received from the Dealer and in other cases to the Customer.

Violation of

- a) Sec. 64VB (3) of Insurance Act, 1938 by refunding difference of premium to motor dealer and not to the ultimate customer.
- b) Clause 6 of Corporate Governance guidelines for lack of internal control mechanism. (IRDA/F&A/CIR/025/2009-10 dated 05.08.2009).

Submission of insurer:

The insurer submitted that whenever any amendment was made under the policy, necessitating refund of premium, such refund also was to be effected in favour of customer only, regardless of whether the premium payment had been made by the customer or the dealer. In instances, where the customer made payment to the dealer on a bundled basis for all charges like registration, road tax, accessories, etc and included the insurance premium also, for all such cases, the insurer got the premium from the dealer. The money was also credited to their account from the dealer's account. Hence refund was made to the dealer from whom insurer had received the payment and however this refund was restricted only to excess amount collected or double payment received for the same policy.

Decision:

The Authority has noted the submission made by the insurer. However, the Insurer is directed to ensure compliance of Sec. 64VB (3) of Insurance Act, 1938 scrupulously.

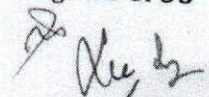
19. Charge – 23

In one of the provision / clause of the agreement with TML/TBSS and HSCIL, it was mentioned that "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

- a) General Regulation 9 on 'depreciation' of Indian Motor Tariff wordings.
- b) Point 1, 2 & 28 of F&U guidelines dated 28/09/2006 & Circular no. IRDA/NL/Cir/F&U/003/01/2011 dated 6th Jan, 2011, by changing the erstwhile tariff wordings. Authority Circular ref. No. IRDA/NL/CIR/F&U/073/11/2009, dated 16-11-2009.
- c) Authority circular 066/IRDA/F&U/Mar-08 dated 26th March, 2008.
- d) Point 8 of Authority circular ref.no.048/IRDA/De-tariff/Dec-07 dated 18th Dec, 2007 for changing the policy coverage & wordings.
- e) Authoritycir.no.19/IRDA/NL/F&U/Oct-08 dated 6th Nov, 2008 for changing the erstwhile tariff wordings, other than the allowed variations by Authority.



Submission of insurer:

Insurer submitted that a few assemblies / parts cannot be straight away categorized either as "plastic" or "metal" as the same would be constituted with combination of materials like metal, nylon, plastic and even rubber.

In 2009, the insurer had reviewed and restricted the same to a few customer segments linked to portfolio performance and mix of business. The application of appropriate depreciation is part of the claim settlement philosophy

Decision:

It is observed from the agreements of Tata Motors and Honda Sael Cars Pvt Ltd with insurer that the insurer has categorized all rubber / nylon and plastic parts as "other items" and applied depreciation based on age of vehicle. This is in contravention to provisions of GR 9 of Indian Motor Tariff wordings which provides a depreciation of 50% to these items. This has led to inconsistent payment towards claims on partial loss to different customers.

The Authority in exercise of powers conferred under Section 102(b) of Insurance Act imposes a penalty of Rs.5 lakh.

The insurer is further advised to revise the clauses of agreements to comply with the above mentioned circulars issued by the Authority.

20. Charge – 24

It was observed that insurer was offering additional discounts than allowed under applicable underwriting norms. In the absence of any limit applicable for such additional discounts and without any mechanism for monitoring the experience in the cases where significantly higher additional discounts were offered, the underwriting policy of the insurer was not updated.

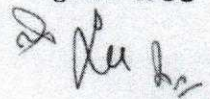
The insurer had not undertaken effective underwriting measures to improve the performance of the business despite suffering huge underwriting losses during 2009-10 to 2011-12. The insurer continued to allow underwriting discounts even after losses.

Violation of

Para 6 of the Authority's circular Ref: 048/IRDA/Detariff/Dec-07 dated 18-12-2007

Submission of insurer:

The insurer stated that they had undertaken rigorous review of their book periodically and the performance of the high end segment was also a part of that review. They offered differential discounts based on the performance of various model classes and geography was also a differentiator. Not all high end models enjoyed the same high level of discounts. The insurer further submitted that they had a robust 'pricing' and 'review' mechanism with Actuarial inputs.



As said elsewhere, pricing and offer of discounts were based on extensive analysis of past claims experience and trends by make, model, business type, age and geography. They were also subject to rigorous and robust review periodically to adjust upward or downward the discounts that were being offered initially.

They had 'Plan and Targeted Loss Ratio and Combined Ratio' and actual trends were tracked and monitored on a monthly basis and corrective action undertaken.

The insurer submitted that they had a robust 'pricing' and 'review' mechanism with Actuarial inputs. The declining loss ratios and the constant OD discount was an indication of the steps they had been continually taking to improve the loss ratios. The insurer varied offering of higher discounts on loss making makes/models and have a differential pricing based on make/model.

Decision:

The Authority has noted insurer's submission. In this regard, the Authority is not pressing any charges but advises the insurer to comply with Para 6 of Authority's circular Ref: 048/IRDA/Detariff /Dec-07 dated 18-12-2007.

21. Charge – 25

It was observed in 15 policies out of a sample of 20 (75% of the policies) though the business was sourced through an intermediary / producer, the name of that intermediary / producer was not appearing on the policy documents. It is evident from the underwriting base documents viz. proposal form / cover note / receipt that the said policy was sourced from an unlicensed entity and booked under code as per policy document.

It was further noted that the insurer is issuing two different versions of the policies, one was with intermediary code ONLY printed on the policy and one was without intermediary code printed on the policy.

Violation of

Authority's circular no. IRDA/CAD/CIR/AGN/ 137/08/2010, dt.25.8.2010 which stipulates that the agency code, agent's name, and other contact details to be displayed on the first page of the policy.

Submission of insurer:

The insurer submitted that in respect of all licensed Agents, the policy printout would show the required details on the face of the policy itself.

The insurer had verified their system and had done a sample check and based on the same confirmed that they did not have two versions for such policies. All policies put through by

Agents carry the name of the intermediary and all policies that were sourced directly did not carry any names other than the contact details of the company.

Decision:

The Authority has noted the submission made by the insurer. The Authority is not pressing any charge. The insurer is directed to comply with Authority's circular no. IRDA/CAD/CIR/AGN/ 137/08/2010, dated.25.8.2010.

22. Charge – 26

It is also observed that from top 10 claims paid, that there was no adequate and sufficient claim amount provisioning for six claims out of ten.

Violation of

IRDA (Asset Liability Solvency Margin), Regulations, 2000.

Submission of insurer:

The insurer submitted that all the cases pointed out by the inspection team were decided by the Tribunal. The insurer further stated that there had been no under reserving in any of the cases. The final compensation would be determined only after the Court judgement was received. In all the cases the factors determining the level of compensation being external on which the company had literally no control, it would be impossible to provide for the reserves ab initio.

Decision:

The Authority has noted submissions of the insurer and no charges are pressed. However, the insurer is advised to adhere to all relevant regulations while setting aside reserves for outstanding claims.

23. Charge – 27, 28 and 29

Charge-27

It was observed that the unnamed policy was issued covering members of insured for the period of one year from 27-05-2011.(GPA Policy No. PASUR00001: Insured M/s. Suraksha 4U Services).

The following issues were observed in the underwriting of this policy:

- As per schedule, the policy was 'Subject to Group Personal Accident Insurance Policy.'

- Though the policy was as per GPA, the risk coverage allowed to insured / members of insured were 1. Accidental Death and 2. Hospitalization Cover. Though the premium was charged for Hospitalization cover, the policy wording did not contain terms and conditions with respect to the Hospitalization Cover.
- The consolidated rate charged for both the covers is Rs.200/- per person. It was pertinent to note that as per above mentioned revised GPA rating, the rate of Re.0.80 per mille for group 4, death only cover was filed with the Authority and the basis of premium rate charged for Hospitalization cover could not be ascertained. Moreover, the rate charged was not as per the file and use version filed with the Authority.

Violation of

- a) Regulation 7 (j), (m) & (p) of IRDA (Protection of Policy Holders Interest Regulations), 2002 which states that the general insurance policy should state policy terms, conditions, warranties, any special conditions and details of the riders attaching to main policy.
- b) Para 11 of IRDA circular reference 021/IRDA/F&U/Sep.06 dated 28.09.2006 which deals with files and use requirements of a product to be filed with the Authority.

Submission of insurer.

The insurer submitted that they had an approved product named "Rural Accident Insurance Policy vide Authority's letter dated 9th March 2001" which covered both Accidental Death and Hospitalization Cover arising out of accidents. Their intention was to offer the above product to the customer. While preparing the policy schedule, the name of the product was not updated correctly and by oversight "Group Personal accident Insurance Policy" was mentioned though "Rural Accident Insurance Policy" terms & conditions were actually issued. The wrong mention of GPA in the schedule had given an impression that there was a deviation from the filed wording vis-a-vis coverage offered. This was a clerical error and there was no intention to deviate from the filed wording.

Charge – 28

It was also observed the insurer had issued GPA policies to primary card holders of Citibank N.A. The policy nos. was PACIT10014000105, PACIT10013000105 and PACIT10007000108. The title of policy was "GPA policy schedule, Accidental Death and Disablement Only". The said cover granted was not as per filed version of the product.

Violation of

Para 11 of IRDA circular reference 021/IRDA/F&U/Sep.06 dated 28.09.2006 which deals with file and use requirements of a product to be filed with the Authority

[Handwritten Signature]

Submission of insurer:

The insurer submitted that the policies were issued for covering Citibank Card Holders. The product used was "Suraksha Personal Accident Insurance" which was an approved product of the Authority vide letter dated 03.10.2005 and 01.07.2013. This was a plan created under Group Personal Accident for Citibank Customers only. Hence the schedule of these policies carried a mention of Group Personal Accident Insurance with a clear mention of 'for customers who have opted for Citibank – Suraksha Personal Accident Insurance'.

This tailor made approved plan apart from Death & Disability also covered medical expenses due to accident hospitalisation. Hence the extension of accident hospitalisation coverage was well within the scope of the approved product.

Charge – 29

It was observed that underwriting of GPA Policy No. PASF000001, insured M/s. Sundaram Finance Ltd, that the GPA cover was granted to loan account holder of M/s. Sundaram Finance Ltd. who had opted for Sundaram Credit Protect. The issues observed in this regard are as under:

- a) The title of the policy is "Sundaram Credit Protect", which was not filed with the Authority as per file and use guidelines.
- b) The policy issued was for five years, provision for issuance of long term policy was not mentioned in the product filed with the Authority under File & Use guidelines.
- c) Upon examination of the endorsement of the policy, it was noted that the cover of insurance is granted as per loan term of the loan applicant / proposer.
- d) The cover was granted as per date of loan agreement as declared by policy holder i.e. M/s. Sundaram Finance Ltd.

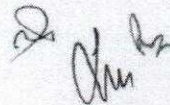
The premium payable per member covered was not mentioned on the schedule / endorsement of the policy.

Violation of

- Regulation 7 (i) of IRDA (Protection of Policy Holders Interest Regulations), 2002 which states that the general insurance policy should state premium payable and where the premium is provisional subject to adjustment, the basis of adjustment of premium to be stated.
- Para 11 of IRDA circular reference 021/IRDA/F&U/Sep.06 dated 28.09.2006 which deals with file and use requirements of a product to be filed with the Authority.

Submission of insurer:

The insurer submitted that Sundaram Credit Protect was a campaign name mentioned on top of the policy schedule, to help them to track the performance of such group of products separately. The name of the product had been mentioned in the policy schedule as Group Personal Accident Insurance Policy.



Long term cover up to 15 years had been filed with the authority vide application dated 09.08.01, under the title 'Long Term Personal Accident Policy' Product code 001-APL, which was deemed approved. The Long Term Plan was applicable for Group Policies only.

The long term plan allowed varying duration of cover up to 15 years and hence we had coverage under the policy assigned to the loan duration. The insurer further submitted that the sum insured under the policy was fixed in nature and did not diminish in line with the outstanding loan. Further the term indicated was 12-60 months which was erroneously mentioned as years.

The policy was issued in 2009. In view of the different sum insured and tenure the premium table was not incorporated in the policy then. The rate card was shared with the Group Manager for computing the premium.

In view of the observation, the insurer had also rectified the policy by passing an endorsement.

Decision on 27,28 and 29:

The insurer's submission that it was a typo error and the correct terms and conditions of "Rural Accident Insurance Policy" was issued is not acceptable. Because-

- The policy schedule mentions the benefit of "hospitalization" but the relevant terms & conditions of this benefit are included in the policy schedule.
- The premium of Rs. 200/- was charged from the client but the basis of charging premium is not shared by the insurer either to inspection team / in any of the replies given by the insurer.
- The premium rate charged to the customer is not as per "F & U" of "GPA" policy

The insurer has not mentioned all benefits payable under the policy in the policy schedule. The insurer has deviated from the filed version of the product while issuing the GPA policy to the insured M/s. Suraksha 4U Services. The insurer has violated F&U Guidelines.

It is evident that the insurer has not taken approval from the Authority for the name "Sundaram Credit Product". It is also noted that the term of the policy was linked to loan period of the customer which was beyond five years. The insurer had not mentioned amount of premium payable in the policy schedule. There are certain conditions mentioned in the policy schedule like "free cover" for transportation of dead body are serious in nature. The insurer has referred to a deemed approved long term GPA product in their reply. This product is not relevant for "Sundaram Credit Protect" as there are various clauses such as adjustment of the claim amount against the outstanding balance of the loan and payment of remaining amount to the nominee, the date of commencement of the policy is same as date of loan agreement with the Sundaram Finance Limited.

Though the inspection observations were highlighted the issues in the year 2013 but the insurer has not taken remedial steps such as approval of the name of the product from the Authority. The insurer has grossly violated "F&U" guidelines / circulars of the Authority.

The Authority in exercise of powers conferred under Section 102(b) of Insurance Act imposes a penalty of Rs.5 lakh.

The insurer is further directed to comply with all provisions of F & U Guidelines / circulars which are issued by the Authority from time to time.

24. Charge – 30

It was observed that the insurer had not mentioned the premium amount charged on these certificates of insurance which were issued to policy holders of a group policy.

Violation of

Clause no. 7 of Authority circular no. 015/IRDA/Life/Circular/GI Guidelines/2005, dated 14-7-2005 which states that the certificate of insurance should state schedule of benefits, premium charged and important terms & conditions of the policy.

Submission of insurer:

The insurer submitted that the policy document mentioned the premium per member. The Insurance coverage was offered as a free benefit to the members of this group offered by the Group Manager on a complimentary basis and the premium was borne by the Group Manager. Hence we have not shown the premium per member in the certificate since there is no premium payable by the customer. A sample copy of the proposal form containing the details of the premium paid by the Group Manager, viz., Suraksha4U services has already been filed with Authority.

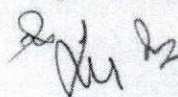
Decision:

It was observed that the group is non-employer employee group. The individual group members should be treated as the insured beneficiary and the group manager should be the holder of master policy. In such cases every care should be taken by the insurer in the matter of issue of certificate of insurance to the members of the group who are truly the insured. It is necessary that such certificate should contain the information on the schedule of benefits, the premium charged and the important terms & conditions of the insurance contract.

It is noted that the insurer is not providing the required information to the insured in the certificate of insurance as the members should be aware about the premium and benefits payable under the scheme. Therefore, the insurer is directed to ensure compliance of circular no. 015/IRDA/Life/Circular/GI Guidelines/2005, dated 14-7-2005.

25. Charge – 31

It was observed that the insurer has designed a plan **Gramin Arogya Raksha (GAR) Policy** to the customers availing loan from Bharatiya Samrudhi Finance Ltd. (BASIX) who



was also a Corporate Agent (CA) of the insurer with the IRDA C.A. license no. 1524864. As per letter dated 18-07-2005, the insurer had filed this one-off plan named "Gramin Arogya Raksha" with the Authority. The approval for the said filing was not made available by the insurer for examination.

"The enhancement of the packages since beginning had been done without any additional cost to the insured person considering the favorable claims experience."

It was noticed from the above data that insurer had made several changes in the coverage, terms and conditions, wordings, etc. for the product in subject.

As per the insurer letter dated 18-07-2005 filing the GAR product and as per underwriters signoff, the said 'GAR' product was filed as one-off product to be issued to the customers availing loan from BASIX. As per underwriters signoff the product was to be marketed only for BASIX. It was noted from policy no. RGAR000019000100 that the GAR policy was sold to other than BASIX i.e. to M/s. Krishna Bhima Samruddhi Local Area Bank Ltd. (KBSLAB). The insurer had also made changes in the coverage, terms and conditions, wordings, etc. of the policy for KBSLAB;

Violation of

- Para 11 of IRDA circular reference 021/IRDA/F&U/Sep.06 dated 28.09.2006 which deals with file and use requirements of a product to be filed with the Authority.
- Para (3) (vi) of IRDA circular reference 021/IRDA/F&U/Sep.06 dated 28.09.2006 which deals pricing of the product should be based on appropriate data and technical justification.

Submission of insurer:

The insurer has submitted that Gramin Arogya Raksha (GAR) was a tailor made Group insurance cover specially designed for Basix customers. Since the claim experience was favorable, the insurer had continuously upgraded the benefit plan (Coverage) only to enhance the benefit to the customers within the filed rate. The additional benefits were offered without charging premium.

Changes in the wording of Section II Hospital cash benefits, Hospital cash exclusions and general condition were only to improve the coverage and bring more clarity to the customers.

Decision:

The Authority has noted that the insurer had marketed the tailor made policy to the customers other than Basix which was not as per underwriter's sign off for this product. Moreover, the insurer had also made changes in the coverage, terms and conditions, wordings, etc. of the policy for the customers other than Basix. It is also evident that the insurer has also made changes in the coverage, terms, conditions and wordings of the product from time to time without approval of the Authority. This shows that the insurer had not complied with "F&U" Guidelines, circulars of the Authority in true spirit.

The Authority is not pressing a separate charge for this violation as the similar violation is charged in the Charge Number 29. However the Authority directs the insurer to market the products which are duly approved by the Authority under relevant Regulations/ Guidelines / Circulars. The Compliance Officer is directed to certify that all the insurance products marketed by the insurer are in compliant with "F &U" Guidelines/ Circulars.

26. Charge – 33

It was observed that the C.A. / Policy Holder / Group Organizer is settling the insurance claim in cash. In the year 2005-06 till 2012-13 (upto Dec. 12) the claims amounting to Rs. 2712.04 Lakhs were settled in cash through M/s. BASIX, the C.A. of the insurer. The claim amount was settled in favour of C.A. / Policy Holder / Group Organizer i.e. M/s. BASIX or M/s. KBSLAB; in turn group organizer is settling the claim in cash.

Violation of

- Clause no. 22 of Authority circular no. 017/IRDA/Circular/CA Guidelines/2002 dated 14-07-2005 which states that agent shall not be given authority to settle claims.
- para 9.12 to be read with para 8.4 of Authority circular no. IRDA/LIFE/CIR/GLD/013/02/2011 dated 01-02-2011 (Guidelines on outsourcing of activities by insurance companies) which states that the insurer should ensure that the third party service provider did not have any conflict of interest
- Clause no. C (7) of the Authority circular No. 015/IRDA/Life/Circular/GI Guidelines/2005, dated 14-7-2005 which states that insurer is responsible for settlement of claim in favour of an insured person.

Submission of insurer:

The insurer submitted that no authority was given to Corporate Agent/policy holder/ group organizer for settling any claim. They only disbursed the settled claim. The insured customers being the rural household, they did not have any formal access to any bank and encashing the claim cheque through the banking channel was not possible till 'financial inclusion'. Sensing the need for prompt payment of claim benefit this arrangement had been put in place. The insurer further submitted that they conducted regular audit on the payment made to Basix and the amount released to the beneficiary and ensured that all claim payments were disbursed to the respective claimants.

The insured members being from rural household did not have a formal access to bank payment through cheque mode. Sensing the need for prompt payment of claim benefit, BASIX had taken the responsibility of collecting the claim amount from the Insurer and disbursing the same to the insured. There was a formal cash payment voucher. This method ensured that the claim amount reached the end beneficiary in a proper manner.

Recently, under the financial inclusion plan, Basix had succeeded in getting a formal bank account for their customers and they were now effecting payment by cheque in the name of insured directly.

Decision:

The Authority noted that the insurer has paid the claims amounting to nearly Rs. 27.12 crore in cash to the Corporate Agent and Group Organizer M/s. BASIX or M/s. KBSLAB. In support to reply the insurer has submitted the cash payment vouchers to the Authority. It was noted that in many cases the claim payment was signed by the insured in "English". This shows that the insurer's submission about the customers have no access to bank is not seems to be relevant.

Claim settlement is a core function of insurance and the insurer is totally responsible to ensure that the claim payment is made in the name of the insured member even if the cheque is sent to the Group Manager for administrative convenience. Therefore the insurer is warned for indulging in such practice and directed to ensure strict compliance of Clause no. C (7) of the Authority circular No. 015/IRDA/Life/Circular/GI Guidelines/2005, dated 14-7-2005.

27. **Charge – 34**

It was noted from the certificates of insurance that C.A./Policy Holder / Group Organizer had charged Admin Charges ranging between "Rs. 135/- to Rs. 108/- per annum to the insured / member for providing the life and health coverage." The details of per insured / member wise admin charges collected (considering the lowest admin fee of Rs.108/-, per member) for the period 2011-12 and 2012-2013 (upto Dec. 12) for the policies issued to M/s. BASIX were calculated on the basis of group size of the policy at the time of commencement of policy.

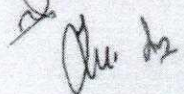
It was alarming to note that the premium under above mentioned policies is Rs. 15.57 Crs and Rs. 2.34 Crs in 2011-12 and 2012-13 (upto Dec.12) respectively, while the collection of administrative charges by BASIX was Rs. 21.29 Crs and 8.61 Crs which were substantially high compared to premium amount.

Violation of

IRDA circular reference IRDA/LIFE/CIR/MISC/001/01/2011 dated 04-01-2011.

Submission of insurer:

The insurer submitted that Basix had been implementing the group policy for their customer since 2005-06. Credit shield is the principle cover and health insurance was bundled into it. It required special arrangement and service delivery plan to administer this group scheme. The services include (a) service at door step (b) accompanying customer to Government offices (c) assisting in collection of documents (d) providing immediate cash relief in the event of death (e) handholding the customers and guiding them in the event of



hospitalization (f) assisting in collection of documents at the time of discharge to support the claim, and (g) helping the customer to receive the claim proceeds from the insurance company.

To cover up the cost involved for this additional service they had charged the admin fee from their customers and the same was disclosed to the customers as well.

The circular no Ref : 015/IRDA/Life/Circular/GI Guideline/2005, section C 4 permits group organizer to collect services charges from the members to cover its cost by disclosing it as an additional cost and not as a premium. The above provision in the Group Policy Guidelines enabled Basix to collect admin charges duly disclosing it as additional cost.

The insurer further submitted that the mentioned group size of 1971840 (at the beginning of the policy) was entirely belongs to earlier years. i.e, they had been enrolled earlier to FY 2011-12 and for whom the admin charges were collected as permitted under the earlier IRDA Guidelines.

The policies on which query had been raised were those policies which had incepted prior to the effective date of the IRDA's circular dated 4th January 2011 and hence the insurer submitted that the amount shown as Admin charges was relating to the prior period policies whereas the premium was only for the current policies. Further, the admin charges shown in the query were pertaining to both life and general policies. The collection of admin charges for providing life and health insurance coverage had already been raised by the Regulator to the Basix and Basix had in turn represented in writing and also in person along with the life insurer. The decision in this matter was pending with IRDA. Further we understand from Basix that they were not charging any admin charges currently.

We respectfully submit that the administrative charge has been erroneously assumed. The admin charge is not per person but is per family and is for servicing both Life and Health Insurance. The number 19,71,840 used for calculation entirely belong to earlier years prior to 1st April 2011 and admin charges were collected as per earlier guidelines. The actual families enrolled are 47,118 and 27,734 only to the respective period. Basix is not collecting any admin charges.

BASIX is an organization which is engaged in insurance inclusion and improving the penetration in rural and remote areas. Hence, the services provided by BASIX needs to looked at from a different perspective.

Decision:

The insurer is directed to refer to the Circular Number IRDA/Life/CIR/Misc/001/01/ 2011 dated 04.01.2011 which gives clarification of clause C(4) of IRDA's Guidelines on Group Insurance policies. It is brought to the notice of the insurer that any organization / entity in its capacity as Group Organizer / Group Manager is prohibited from collecting any amount other than insurance premium payable to the insurers with regard to the underlying group insurance.

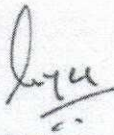
As the insurer has confirmed that BASIX is currently not collecting any administration charges from the customer, the Authority is not pressing any charges.

In conclusion, as directed under the respective charges, the penalty of Rs. 40 lakh (Rupees Forty Lakh only) shall be debited to the shareholders' account of the general insurer and the amount 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 General Insurer shall confirm compliance in respect of all the directions referred to in this Order, within 15 days from the date of issuance of this order. Timelines, if any as applicable shall also be communicated to the Authority.
- b) The Order shall be placed before the Audit committee of the insurer and also in the next immediate Board meeting and to provide a copy of the minutes of the discussion.
- c) If the general insurer feels aggrieved by any of the decisions in this order, an appeal may be preferred to Securities Appellate Tribunal as per Section.110 of the Insurance Act, 1938.

Place: Hyderabad
Date: 6.05.2016


(V R IYER)
Member (F&I)
