



Ref. IRDAI/NL/ORD/PRO/159/09/2019

13th September, 2019

Order in the matter of M/s Go Digit General Insurance Ltd - Filing of 'Digit Protection Plus' and 'Standard Fire and Special Perils Policy' under 'Use & File' Procedure

Based on the

- (i) Show Cause Notice (hereinafter referred to as "SCN") reference no. IRDAI/NL/SCN/GDGIL/326/2018-19 dated 13th February, 2019 in connection with filing of 'Digit Protection Plus' and 'Standard Fire and Special Perils Policy'(SFSP) under 'Use & File' procedure of Guidelines on Product Filing Procedures for General Insurance Products (hereinafter referred to as 'Product Filing Guidelines') issued by Insurance Regulatory and Development Authority of India (hereinafter referred to as "the Authority" or "IRDAI") vide ref. IRDAI/NL/GDL/F&U/030/02/2016 dated 18th February, 2019 .
- (ii) M/s. Go Digit General Insurance Ltd.'s (hereinafter referred to as "GDGIL" or "Insurer") response dated 11th March, 2019 to the aforesaid SCN.
- (iii) The submissions made by GDGIL during the Personal Hearing held on 8th July, 2019 at 3:30 PM, granted by the Chairman of the Authority at its office at Hyderabad.

1. Background:

1.1 GDGIL had filed 'Digit Protection Plus' and 'SFSP' products under 'Use & File' procedure and generated automatic Unique Identification Number (UIN) for the said products. The Authority, while examining the said product applications, observed that requirements of Product Filing Guidelines and provisions of erstwhile tariffs including All India Fire Tariff, 2001 (AIFT) had been violated. Further, the Insurer had generated UIN for 'Digit Protection Plus' under Automatic UIN generation, without disclosing the fact that it had already filed the same product under 'Use and File' before automatic UIN generation was introduced. Upon noticing the same, the Insurer was advised not to market Digit Protection Plus and SFSP products. The Show Cause Notice was issued by the Authority on 13th February, 2019 regarding the violations observed, which was responded to by the Insurer vide letter dated 11th March, 2019. As requested for by the Insurer therein, personal hearing was granted on 8th July, 2019.

1.2 Mr. Vijay Kumar, Chief Executive Officer, Mr. Sameer Bakshi, Director, Mr. Adarsh Agarwal, Appointed Actuary, Ms. Rasika Kuber, Head- Legal & Compliance

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and Mr. Paresh Bhatia, Manager- Product Development were present in the hearing on behalf of GDGIL. On behalf of the Authority, Dr. Subhash Chandra Khuntia, Chairman, Mr. Shyama Prasad Chakraborty, General Manager (Actuarial Department), Mr. A Rama Sudheer, Manager, Mr. Pradeep Kumar Singh, Manager, and Mr. Rupesh Dhinde, Assistant Manager from Non-Life Department were present.

1.3 The submissions made by GDGIL in its letter dated 11th March, 2019 and during personal hearing on 8th July, 2019 have been considered by the Authority and on that basis the decision on each charge is given as under.

2. Charge 1

2.1 Violation of General Rules and Regulation 1 of AIFT, 2001, *Only Standard Fire and Special Perils Policy with the permitted "Add- on" covers (as appearing under Section VIII) if any, can be issued.*

'Digit Protection Plus' consists of 13 different covers put together whereas it had been classified under Fire in Form A of BAP and as Property in the physical filing. Fire insurance products are governed by erstwhile AIFT and it does not permit putting together different covers under one document or 'packaging' of covers namely, Public Liability, Employee Compensation, Fidelity Insurance, Machinery Breakdown, MLOP, Money Insurance, Marine Insurance etc.

2.2 Summary of Insurer's Submissions

Digit Protection Plus was an 'all risks' product and hence, it could not fall under the purview of erstwhile AIFT, in which the cover is restricted to named perils. Therefore, the Insurer had stated in Form A as 'Property Insurance' in the physical filing. However, during the personal hearing the Insurer submitted that they ought to have filed the product under 'Miscellaneous' class of insurance.

3. Charge 2

3.1 Violation of definition 10 of Schedule I of Product Filing guidelines -*Package products are products which are created by packaging various sections/benefits of existing approved products. These are also those products which are created by combining benefits of various lines of business in one product with different sections or otherwise.*

Digit Protection Plus provides the insured an option to choose a combination of covers drawn from different Lines of Business (LOB). A package product requires either each of the independent sections in it to have been filed and noted independently under the Product Filing Guidelines or filing of the product as a 'package product' under the Miscellaneous class of business. Though it is structured as a package product, the Insurer has not filed it as a package product with the



intent of marketing each product as a standalone product or in any permutation and combination which is contrary to the spirit of the above provision in the Product Filing Guidelines.

3.2 Summary of Insurer's Submissions

GDGIL submitted that product is not a package product, since it was not created by packaging various sections/benefits of existing approved products. In their view, the product has 'modular' approach where no section is mandatory for the customer. The customer has option to choose one or more sections as per its need. The Insurer stated that Package products provide fixed coverage and not on a modular basis. Hence, it is not a package product. It was stated that the company had not launched the product.

4. Charge 3

4.1 Violation of para (7.2) (IV)(i) of Product Filing Guidelines, *"The wordings of the products filed with policy wording taken from erstwhile tariffs or standard products shall not be changed and no changes to General Rules and Regulations of the Tariff that has an impact on policy terms, conditions, wordings, clauses and endorsements shall be made until further orders issued by the Authority"*.

It is noted that the Insurer has made several changes to tariff wordings of standard products in the filing of 'Digit Protection Plus'.

4.2 Summary of Insurer's Submissions

'Digit Protection Plus' is neither a SFSP nor Industrial All Risk (IAR) and hence, it does not fall under the ambit of erstwhile tariffs. SFSP is a named peril cover whereas its product offers all-risk cover; IAR has mandatory sections and no modular approach whereas its product had modular approach.

The Insurer stated that the product was, therefore, not filed as a tariff product requiring compliance to standard wordings, general rules and regulations under erstwhile tariffs.

4.3 The illustrative examples of changes in tariff wordings/provisions given in SCN and the Insurers' submissions on the same are as under.

4.3.1 Long-Term Policies: As per the filed documents, the cover under Digit Protection Plus can be offered for a period up to 25 years. However, as per erstwhile All India Fire Tariff (AIFT), policies for a period exceeding 12 months shall not be issued except for "Dwellings". As per the erstwhile Workmen's Compensation (WC) tariff as revised for Employee's Compensation Policy, it can be issued for a maximum period of 12 months only. This is not clearly stated in the filed documents.



Summary of Insurer's Submissions

GDGIL submitted that Long-Term cover was intended only for Dwellings i.e flats owned by commercial entities. However, the Insurer has accepted that it has not made it clear in the documents originally submitted.

The Insurer also submitted that Tariff Covers like Employees' Compensation Policy and Machinery Breakdown Insurance Policy would implicitly fall under the ambit of Tariff Provisions which provide coverage for a maximum period of 12 months, hence, it did not specifically mention details pertaining to Policy Term.

- 4.3.2** Agreed Value Policies: As per erstwhile AIFT, *Valued policies can be issued only for properties whose Market Value cannot be ascertained.* Further, products available in the market confine Sum Insured on agreed value basis to residential flats/apartments in multi-storeyed buildings/structures. However, Digit Protection Plus product intends to offer Agreed Value basis policies to all Buildings/Structures.

Summary of Insurer's Submissions

GDGIL reiterated that the product does not fall under erstwhile AIFT.

The super-markets/hypermarkets/shops/offices/hotels/restaurants in multi-storeyed buildings/structures can face situation similar to that of flats/apartments in a multi-storeyed buildings/structures. The Insurer added that keeping the prospect's interest and benefit in mind, agreed value basis was introduced for other occupancies as well. The ascertainment of sum insured and claim process was clearly explained in filing documents. It can help re-starting business activity after loss rather than waiting till entire multi-storeyed gets re-built.

- 4.3.3** All Risk Cover for Non-Industrial Risks: The proposed product intends to offer All Risk cover to Commercial Entities like Shops, Shopping Malls, Offices, Hotels, Restaurants on the lines of Industrial All Risks policy. However, as per erstwhile tariff for Industrial All Risks (IAR) insurance and the Authority's circular ref no. IRDA/NL/CIR/F&U/025/2016 dated 10th February 2016, issuing of IAR policies to risks other than industrial risks is prohibited.

Summary of Insurer's Submissions

The Product is different from Industrial All risk policy, as it also covers SME/hotels/departmental stores, offices etc. Further, this product provides various options of sum insured basis, which are not present in IAR. In addition, IAR has defined covers, whereas this product is innovative and provides modular option of covers. The Insurer contends that this product is different from IAR and, hence, circulars related to IAR do not apply.

Some examples of International practice where one product provides coverage against All Risks (LM7) was provided.

- 4.3.4 Machinery Breakdown Cover:** As per erstwhile All India Tariff on Machinery Breakdown Insurance, Loss or damage for which the manufacturer or supplier or repairer of the property is responsible either by law or contract is excluded. However, the Insurer has modified this exclusion and created two products i.e Machinery Breakdown and Machinery Breakdown (excluding Extended warranty cover). Further, Riot, Strike, Lockout and Malicious Damage etc. are deleted from the exclusions. Endorsements such as Express Freight, Owners Surrounding Property, Third Party Liability etc have been deleted.

Basis of indemnity: As per tariff wording 'If the repairs are executed at a workshop owned by the insured the company will pay the cost of materials and wages incurred for purpose of the repairs'. However, the Insurer has modified the wording as 'If the repairs are executed at a workshop owned by us....'

Summary of Insurer`s Submissions

The modified version of Machinery Breakdown Cover is on lines similar to that of Extended Warranty Cover available in the Market. The deletion of words Riot, Strike, Lockout and Malicious Damage from exclusion and usage of word "Us" instead of "You" under 'Basis of Indemnity' of wording were due to inadvertent error.

The Insurer stated that its intention was to subsequently file other endorsements such Express Freight, Owners Surrounding Property, Third Party Liability on receipt of approval for main Product. It also added that other Package policies in the Market do not necessarily offer these endorsements with the main product.

- 4.3.5 Employee's Compensation:** Conditions such as cancellation, claim intimation have been modified, deductible/co-payment have been introduced.

Summary of Insurer`s Submissions

The deductible /co-payment as one of the specific exclusion to this cover was inadvertently mentioned since this was a general exclusion for all sections. However, the policy schedule for the product doesn't have provision to capture the same.

GDGIL stated that for simplification, one standard cancellation and claim intimation clause had been applied for all covers and main cover being property, cancellation rules related to main cover were used.



4.3.6 Machinery Loss of Profit: As per erstwhile All India Tariff for Loss of Profits insurance (following Machinery Breakdown) and Section II of All India Tariff for Industrial All Risk Policy, the cover under the policy shall be limited to loss of gross profit due to reduction in gross profit and increase in cost of working.

However, in addition to the above, new basis has been introduced in which benefit amount equal to percentage of final claim amount settled under Machinery Breakdown/All Risk Cover will be paid to the insured. Exclusions such as 'mechanical or electrical breakdown or derangement of machinery or equipment' and provision of under insurance waiver have been added which otherwise are not there in All India Tariff for Loss of profits insurance (following Machinery Breakdown).

Summary of Insurer's Submissions

The intention behind providing an alternate basis of settlement was to simplify and de-complicate the claims process by not subjecting the customer to the hassle of asking too many documents. The objective was thus to make claims process hassle-free.

GDGIL submitted that with regard to MBD exclusion and introduction of waiver of under insurance for endorsement no 17- "Machinery Loss of Profit" was on account of inadvertence.

4.3.7 As per para 10 (d) of Schedule-I of the said Guidelines '*The Insurer can include Household policies on first loss basis covering fire insurance of building and contents under Household package policies.*'

However, the proposed product intends to offer First Loss Basis Sum insured option to all Building/Structure and Contents.

Summary of Insurer's Submissions

GDGIL reiterated that the product is different from SFSP. It is a commercial product and there may be situations where Probable Maximum Loss (PML) may not be 100% of Sum Insured. In such cases only, the insured has an option to select Sum Insured on First Loss Basis wherein a benefit of appropriate premium on PML can be provided.

4.3.8 Product specific General Rules & Regulations and Conditions which are present in erstwhile tariffs for standard products such as Machinery Breakdown, Machinery Loss of profit and General Insurance Council's revised wording for Employees Compensation have been deleted/modified.



Summary of Insurer's Submissions

It is submitted that at the time of filing of the Product, Insurer was unaware of the requirement of filing Product Specific General Rules & Regulations along with documents. Insurer stated that this was also not specifically mentioned in the File & Use Guidelines document list. However, after the Authority's observation in one of the products, it has started filing General Rules and Regulations along with Tariff Products.

5. Decision on Charge 1, 2 and 3:

5.1 Upon examination of the Insurer's responses to the show cause notice and submissions made in the personal hearing, I am of the considered view as given hereunder.

- 5.1.1** The product is filed under 'Fire' class of insurance which shall necessarily follow the general rules and regulations of erstwhile AIFT, 2001 for every property.
- 5.1.2** The covers from different lines of business such as Fire, Marine, Miscellaneous (Engineering, Other Misc.) are combined, which, otherwise are offered as standalone products. As the product has provision to combine benefits from various lines of business in one product, it shall have been a package product and ought to have complied with the various requirements of a package product.
- 5.1.3** The Insurer has agreed that long-term cover was intended for Dwellings only and the same was not stated clearly in the documents filed. Long term cover for Dwelling is a provision of erstwhile AIFT. The Insurer's intention to offer Long-Term cover to Dwellings only proves that the product is deriving provisions from AIFT.
- 5.1.4** The Insurer submitted that the Agreed Value Policies were introduced for occupancies in multi-storeyed buildings/structures. However, the documents filed do not contain this restrictive provision.
- 5.1.5** It is noted that some of the excluded causes and excluded properties applicable for All risk cover for Building/Structure, Contents, Stocks and Stocks in Trade have been derived from erstwhile tariff for IAR. Further, the wording used for 'Business Interruption' cover is largely as per erstwhile tariff for IAR. The Insurer's explanation that the product is different from IAR is not acceptable.
- 5.1.6** Extended Warranty cover was provided under 'Machinery Breakdown' (Extended Warranty Only Cover) in the product. In addition to this, there were two more versions of Machinery Breakdown (MBD) covers, namely MBD and MBD (excluding Extended Warranty Cover) filed with the product

- by altering the exclusion related to loss or damage for which manufacturer or supplier or repairer is responsible. Further, the Insurer has agreed that *Riot, strike, Lockout and Malicious Damage* were deleted from exclusion and word "Us" had been used instead of "You" under 'Basis of Indemnity' of wording due to inadvertent error.
- 5.1.7** The Insurer has accepted that deductible/ co-payment was inadvertently mentioned as one of the exclusion for 'Employees Compensation' policy which otherwise is not present in standard wording.
- 5.1.8** Introduction of new basis of 'Loss Settlement' under Machinery Loss of Profit and Business interruption amounts to alteration in provisions of erstwhile All India Tariff for Loss of Profits Insurance (following Machinery Breakdown) and Section II of erstwhile Tariff for Industrial All Risks Insurance. The Insurer has filed these alterations under 'Use & File' and generated Automatic UIN. However, Product Filing Guidelines does not allow any alteration in erstwhile Tariff provisions until further orders issued by the Authority.
- 5.1.9** Para 10 (d) of Schedule-I of Product Filing Guidelines clearly states that First Loss Basis SI can be provided for Household policies. However, the Insurer has extended this provision for all Building/Structures and Contents, which amount to violation of the above guideline.
- 5.1.10** The Insurer has not adhered to the policy wordings, terms and conditions as per erstwhile tariffs for standard products.
- 5.1.11** However, it is noted that the insurer has submitted that no product had been sold.

5.2 Taking into consideration the above, the Insurer's submission that the product is not Fire product is not tenable as the filing is done in 'Fire' class of insurance and some of the features of the product have been derived from erstwhile AIFT and IAR Insurance tariff. Moreover, the Insurer has also agreed that modifications as mentioned above have been done in provisions of erstwhile tariffs for Machinery Breakdown, Loss of Profits Insurance(Following Machinery Breakdown), Workman Compensation (WC) tariff as revised for Employee's Compensation Policy due to inadvertent error. Hence, these changes in product structure establishes violation of para (7.2) (IV) (i) of Guidelines on Product Filing Procedures for General Insurance Products.

5.3 Digit Protection Plus has the provision to combine benefits from various lines of business in one product, which is as per structure of a package product. But, the Insurer has not filed it as a package product, which is contrary to definition 10 of Schedule I of Guidelines on Product Filing Procedures for General Insurance Products.

5.4 After considering the submissions made by the Insurer in the personal hearing, in terms of Para 21 of Guidelines on Product Filing Procedures for General Insurance

Products dated 18th February, 2016, the Insurer is hereby **warned** for having violated the provisions of the said Product Filing Guidelines.

5.5 Further, in exercise of powers vested in the Authority under section 34(1) of the Insurance Act, 1938, the Insurer is hereby **directed** to scrupulously adhere to Guidelines on Product Filing Procedures for General Insurance Products and ensure that the necessary mechanism is put in place for compliance in future. Any failure to comply with these directions may entail the Authority to take action as deemed necessary.

6. Charge 4

6.1. Violation of para 13 of Schedule III of the Product Filing Guidelines—*“The Insurer may file Add On cover/s only when a basic product is noted by the Authority and UIN is available for such base product”*.

GDGIL has filed 97 add-on covers with the SFSP product and generated a single UIN. Upon Authority’s observation, separate UIN’s were generated by the Insurer by uploading documents of SFSP in all Add on applications without submitting Add on specific documents.

6.2 Summary of Insurer’s Submissions

GDGIL submitted that the approach adopted was similar to the filing done for Digit Private Car Policy, where add-on covers were filed alongside the product filing.

It stated that delay in separate filing of add-on covers was due to filing of Motor long term products to meet timeline stipulated by the Authority vide circular dated 28th August 2018. There was no intention to have a single UIN for the main product as well as add-on covers, as there was delay of only one day due to the above mentioned reasons.

The Insurer added that the add-on wordings and premium rating are linked to the main products and, hence, for the sake of completeness and ease of comprehension, it had filed single set of documents which were also used to file add-on covers.

GDGIL admitted that SFSP was marketed without written communication from the Authority. The Insurer submitted that changes as per the Authority’s observations were made and also communicated that they had decided to commence selling the product.



7. Decision on Charge 4:

7.1 Upon examination of the Insurer's responses to the show cause notice and submissions made in the personal hearing, the following are established.

7.1.1 GDGIL's submission that the approach adopted was similar to Digit Private Car Policy is not tenable as this product was filed under 'File & Use' procedure, in which products and add-ons are examined by the Authority before issuing UIN. Wherever the add-ons are filed with the main product under 'File & Use' procedure, insurers are instructed to file separate add-ons in BAP before issuing UIN for the same. In this case, SFSP product was filed under 'Use & File' and single UIN had been generated for the product and 97 add-ons using Automatic UIN generation.

7.1.2 As per the material available on record, the Insurer had marketed SFSP product even though the Authority had instructed it not to market the same. The Insurer's explanation for the same is not acceptable as the Authority has not given specific approval for marketing the product after submission of clarifications on the observations raised.

7.2 The Insurer, by filing 97 add-ons with the base product, violated para 13 of Schedule III of Guidelines on Product Filing Procedures for General Insurance Products and marketed one SFSP policy even after issuing the instruction. Hence, in exercise of powers vested in the Authority under section 102 of Insurance Act, 1938 and amendments made thereto, a penalty of Rs. 1,00,000/- (*Rupees One Lakh Only*) is levied on the Insurer.

8. Summary of Decisions:

Charge No.	Violation of Provisions	Decision
1	General Rules and Regulation 1 of erstwhile All India Fire Tariff, 2001	(i) Warning (ii) Direction
2	Definition 10 of Schedule I of Product Filing Guidelines	
3	Para (7.2) (IV) (i) of Product Filing Guidelines	
4	Para 13 of Schedule III of the Product Filing Guidelines	Penalty of Rs. 1 lakh

9. In conclusion, as directed under the respective charges, the penalty of Rs. 1,00,000/- (*Rupees One Lakh only*) shall be remitted by the Insurer by debiting shareholders' account within a period of 15 days from receipt of this Order through NEFT/RTGS (details of which will be communicated separately). An intimation of remittance may be sent to Ms. Yegnapriya Bharath, Chief General Manager (Non-Life) at Insurance Regulatory and Development Authority of India, Sy. No. 115/1,

Financial District; Nanakramguda, Gachibowli, Hyderabad 500032, email id-ypriyab@irdai.gov.in.

Further,

(a) The Order shall be placed before the Board of the General Insurer in the upcoming Board Meeting and the General Insurer shall provide a copy of the minutes of the discussion.

(b) The General Insurer shall submit an Action Taken Report to the Authority on direction given within 90 days from the date of this order.

10. If the Insurer feels aggrieved by this Order, an appeal may be preferred to the Securities Appellate Tribunal as per the provisions of Section 110 of the Insurance Act, 1938.

Place: Hyderabad

Date : 13th September, 2019

scdKhuntia
13/9/19

(Dr. Subhash C. Khuntia)
Chairman