



IRDAI/ENF/MISC/ONS/008/01/2019

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

Based on the

- a) Show Cause Notice (hereinafter referred to as "SCN") Reference No. IRDA / Enforcement /2016/179 dated 11th October, 2018 in connection with the onsite inspection conducted by Insurance Regulatory and Development Authority of India (Herein after referred to as "the Authority" or "IRDAI") during 22nd August, 2016 to 2nd September, 2016.
- b) M/s.Star Union Dai-ichi Life Insurance Company Limited (Hereinafter referred as "the Life Insurer" or "Company") letter Reference No.SUD: HO:L&C:SA:256:2018-19 dated 1st November, 2018.
- c) Submissions of the Life Insurer during Personal Hearing held on 5th December, 2018, taken by the Chairman of the Authority at its office at Hyderabad.
- d) Further submission of the Life Insurer post personal hearing vide email dated 11th December, 2018.

Background

The Insurance Regulatory and Development Authority of India had conducted an onsite inspection of M/s. Star Union Dai-ichi Life Insurance Company Limited, during 22.08.2016 to 02.09.2016. The inspection report, inter alia, revealed certain violations of provisions of the Insurance Act, 1938, IRDAI Regulations, Guidelines and various circulars issued there under.

2. A copy of the report was forwarded to the Life Insurer on 31st July, 2017 and the reply was received at the Authority vide letter dated 21st August, 2017. Post scrutiny of the reply, the Authority had raised further queries on some of the observations, for which the Life Insurer responded to vide email/letters dated 23rd November, 2017, 11th December, 2017, 21st December, 2017, 4th January, 2018 and 11th October, 2018.

3. On examining the submissions made in all the above referred letters, emails by the Life Insurer to each of the inspection observation, it is observed that the Life Insurer has not complied with the applicable provisions of the Insurance Act, 1938, IRDAI's Regulations, guidelines framed there under, in case of certain observations.

4. Consequently, an SCN was issued by the Authority on 11th October, 2018 to the Life Insurer in this regard and the Life Insurer replied to the SCN on 1st November, 2018. While replying to the SCN, the Life Insurer requested for a personal hearing which was granted by the Chairman. The personal hearing was held on 5th December, 2018. On behalf of the Life Insurer, Mr.Girish Kulkarni, MD & CEO, Mr.Hitoshi Yamaguchi, Dy.CEO & CFO, Mr.Y.Venkat Rao, EVP, Mr.G.Saikumar, EVP and Mrs.Sreemaya Athikkat-Chief Compliance Officer were present. From the Authority, Mr.Prabhat Kumar Maiti, GM (Enforcement), Mr.G.R.Surya Kumar, GM & EA to Chairman and Mr.K.Sridhar Rao, AGM (Enforcement) were also present.

SCN

5. The charges and the decisions made by the Authority are as under:-

Charge No.1

6. Violation of Section 45(4) of Insurance Act, 1938; as per which,

“A policy of Life Insurance may be called in question at any time within three years from the date of issuance of the policy, on the ground that any statement of or suppression of a fact material to the expectancy of the life of the insured was incorrectly made in the proposal or other document on the basis of which the policy was issued or revived or rider issued”. Further, as per explanation part of the Section 45(4) “for the purposes of this sub section, the mis-statement of or suppression of fact shall not be considered material unless it has a direct bearing on the risk undertaken by the insurer...”

7. The Life insurer under an insurance policy repudiated the death claim on the grounds that the Life Assured not disclosed the existing insurance cover with other Life Insurer at the time of taking out the policy. The matter was referred to the Underwriter of the Life Insurer for their opinion, at the time of processing the death claim. The Underwriter opined that had the Life Assured disclosed the existing insurance cover with other Life Insurers, they would still have issued the policy.

Summary of Submissions by the Life Insurer

8. The Underwriters opinion was purely from the perspective of financial underwriting decision. Had the proposer disclosed the previous insurance, the proposal would have failed Straight through Process (STP) and have been referred for manual underwriting as 'High Risk Case' which would have lead to extra due diligence including calling for further information/documents (Copy of the relevant underwriting guidelines and screenshot showing STP fail are submitted). The information was essential and relevant for the insurers from the overall risk assessment perspective to decide whether to accept or decline the proposal. It was submitted that on scrutiny of the documents pertaining to the policy, it was found that the address proof submitted was forged and no person with the name lived there at any point of time and the occupation details as per proposal form were also suspicious. Also, the area of the policy holder is falling under negative region wherein fraudulent claims were observed across the industry. (Copy of the guidelines for negative location due diligence is submitted which indicates that the company shall exercise extra due diligence for authenticity of the proposal). Hence, the claim was repudiated in accordance with Section 45(2) of Insurance Act, 1938 as per which the active concealment of a fact by the insured having knowledge or belief of the fact tantamount to fraud and the premiums paid were refunded to the claimant.

9. The Insurer also submitted that the decision of the Company was also upheld by concerned Insurance Ombudsman. However, post complaint by claimant before permanent lok adalat (PLA), an adverse award was issued against the Company which is binding and hence the Company settled claim in favour of the claimant along with applicable interest. It was further submitted that all the genuine claims have been paid and there were no instances where claims have been repudiated merely on the grounds of non-disclosure of information. The Company has also informed that they further strengthened the claims assessment process which includes taking exhaustive views from underwriter while processing the claims, communicating clearly all the reasons for repudiation in the relevant

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communications to the claimants. Without prejudice to the above contentions and provisions, it was submitted that the claim was already paid along with interest much before the date of SCN and the claims assessment process has been further strengthened hence the charge may be condoned.

Decision

10. The Life insurer's submission is based on following points:

a). Underwriter's opinion was purely from the perspective of financial underwriting decision. Had the proposer disclosed the previous insurance the proposal would have failed Straight through Process (STP) and have been referred for manual underwriting as 'High Risk Case' which would have lead to extra due diligence including calling for further information/documents.

b). The address proof submitted was forged and no person with this name lived there at any point of time. The area of the policy holder is falling under negative region wherein fraudulent claims were observed across the industry.

c). The occupation details as per proposal form were also suspicious.

d). The claim is already paid based on PLA order.

11. Submissions made under 10 (a) above are not tenable for the following reasons:

Underwriting guidelines submitted by the Insurer as a supporting document nowhere indicate that had the life assured disclosed the previous insurance the proposal would have failed Straight through Process (STP) and would have been referred for manual underwriting as 'High Risk Case'. The screenshot submitted in support of "STP fail", did not use the total Sum Assured considering previous policy details of the life assured as an input.

12. Submissions made under 10(b) above are not tenable for the following reasons:

In the proposal form, in addition to mailing address, the permanent address was also mentioned. The insurer is considering the location as per permanent address as a "Negative Location" as per their underwriting guidelines. As the permanent address was disclosed by the policyholder, the insurer should have duly considered the location at proposal stage itself. As the address was disclosed, it cannot be treated as a case of fraud. Further the "Negative Location" issue was not considered at the time of claim investigation, neither indicated during the onsite inspection nor with the reply to inspection report.

13. Submissions made under 10(c) above are not tenable as the Claim Committee Review Sheet, clearly indicated that "Occupation is verified and found genuine".

14. Invoking Section 45(2) of Insurance Act, 1938 by exercising extra due diligence at the time of claim rather than at the time of issuance of the policy, would generally be prejudicial to the interests of the policy holders. Such practices may impact genuine claims as well. In the light of the same, it is concluded that the Life Insurer has repudiated the claim on the non-disclosure of information which is not material thereby violating the provisions of Section 45(4) of Insurance Act, 1938. Hence, as per the powers vested under Section 102 (b) of Insurance Act, 1938, considering that the violation occurred only in this one occasion, and

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that the claim has already been paid along with interest, a penalty of Rs.1,00,000 (Rupees One Lakh only) is levied on the Life Insurer.

The Life insurer shall continue to ensure appropriate claims assessment process and the communication with the beneficiaries/claimants on repudiations, if any should be clear and explanatory. The Life Insurer has to further strengthen their training process to ensure that their frontline sales personnel shall guide the prospective policy holders to disclose all the relevant material information and to avoid unintentional non-disclosure affecting the evaluation of risk proposed.

Charge 2

15. Violation of Regulation 40(d) of IRDA (Linked Insurance Products) Regulations, 2013

"The benefit illustration shall be as prescribed in Annexure V_A for Unit Linked Products and V_B for Variable Linked Products",

The formats in Annexure V_A and V_B stipulate that the benefit illustrations shall be signed by both prospective policy holder and the intermediary.

Violation Regulation 43(b) of IRDA (Non-Linked Insurance Products) Regulations, 2013.

"Such benefit illustration shall be signed by both the prospective policyholder & the intermediary and shall form part of the policy document".

16. A sample of proposals pertaining to the policies issued through Corporate Agents was examined. On scrutiny of those proposals, it was found that some of the benefit illustrations were either not signed by the specified person or signed by the person who is not the specified person. A list containing 13 of such cases was furnished to the Life Insurer along with SCN.

Summary of submissions by the Life Insurer

17. The process of signing the benefit illustrations by the marketing official is already in place. The instances mentioned in the charge were inadvertent operational errors due to hurrying the proposals' processing and where concerned specified persons were not around. In all the benefit illustrations mentioned, the signatures of proposers were available and these benefit illustrations were sent along with policy bonds. The policy holders neither exercised free look cancellations nor raised any grievance or concern over sales practices or mis-selling hence it is indicative that they took an informed decision at the time of taking out the policy. Out of 13 policyholders mentioned under the charge, the Company's Customer Protection Officers (CPO) contacted 10 policy holders and these policyholders confirmed through customer information forms that they understood all the terms and conditions of the policy proposed at the time of taking out the policy (copies of customer information forms submitted) and in case of remaining three policies where CPOs could not meet, the policies are in premium paying status. To avoid such inadvertent operational errors, the Company has taken various steps such as increasing the number of Specified persons to be commensurate with the volume of business they procure, strengthened the training activities. Various control measures were initiated and mandated that the verification of specified person (SP) name, code and signature in proposal forms and benefit illustrations is made mandatory as a part of data entry quality check (DEQC), done at the proposal stage. In the

event of any mismatch found in the mentioned parameters, the error is triggered and the proposal is put on hold till the same is rectified. As a result of initiatives taken, the quarter on quarter comparison of the data errors indicated below, show substantial reduction of such error instances.

Period -----→ Particulars	Q3 FY '17-18	Q4 FY '17- 18	Q1 FY '18- 19	Q2 FY '18-19
DEQC errors in the sales illustration detected at proposal stage (as % to total proposals logged in)	1.56 %	1.34 %	1.05 %	0.69 %

It was submitted that in all the above cases, the policies are issued only after rectification which enables the Company to ensure adherence to the laid down norms and regulations.

Decision

18. The requirement of signing the benefit illustration by prospective policy holder and the corresponding intermediary is mandated to ensure that the intermediary has properly explained and made the prospective policy holder understood the possible returns, expenses and maturity/surrender value at various time lines and in various scenarios. The Life Insurer accepted that in the cases examined by the Authority, the signatures of intermediary were missed out and in some cases other than intermediaries have signed the benefit illustrations.

19. The Life insurer further submitted that the systems are strengthened so that no proposal is pushed forward until and unless all the concerned persons' signatures are there in the proposal papers including benefit illustrations. The Life Insurer demonstrated the same by showing improvements in reduction of such errors instances by submitting the data of last two quarters of 2017-18 and First two quarters of 2018-19.

20. Considering the submissions that no mis-selling took place at the time sale of the policies referred herein with no adverse effect on the policy holders and it is only an inadvertent operational lapse and that now, the systems are in place to ensure non-recurrence of such lapses, the charge is not pressed. The Life Insurer however, is directed to obtain the signatures of policy holders in the benefit illustrations and make them part of policy documents within 30 (thirty) days from the date of this order.

21. Summary of Decisions:

Charge No.	Violation of Provisions	Decision
1	Violation of Section 45(4) of Insurance Act, 1938	Penalty of Rs.1 Lakh and advisory
2	Violation of Regulation 40(d) of IRDA (Linked Insurance Products) Regulations, 2013 and Violation Regulation 43(b) of IRDA (Non-Linked Insurance Products) Regulations, 2013.	Charge not pressed and Direction


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22. In conclusion, as directed under the respective charges, the penalty of Rs.1,00,000 (Rupees One Lakh only) shall be remitted by the Life Insurer by debiting shareholders' account within a period of 45 days from the date of receipt of this Order through NEFT/ RTGS (details for which will be communicated separately). An intimation of remittance may be sent to Mr.Prabhat Kumar Maiti, General Manager (Enforcement) at the Insurance Regulatory and Development Authority of India, Survey No.115/1, Financial District, Nanakramguda, Hyderabad-500 032.

Further,

- a) The Order shall be placed before the Board of the Life Insurer in the upcoming Board meeting and the Life Insurer shall provide a copy of the minutes of the discussion.
- b) If the Life Insurer feels aggrieved by any of the decisions in this order, an appeal may be preferred to the Securities Appellate Tribunal as per Section 110 of the Insurance Act, 1938.

Place: Hyderabad
Date: 10.01.2019


10/1/19
(Dr. Subhash C. Khuntia)
Chairman