



Ref: IRDAI / Enf / ORD / ONS / 033/ 02 /2019

**Order in the matter of M/s United India Insurance Co Ltd**

**Based on the**

- (i) Show Cause Notice (hereinafter referred to as "SCN") reference No.IRDA/Enf/SCN/2018/NL/UIIC-Insp.rpt dated 29<sup>th</sup> August, 2018 in connection with the on-site inspection conducted by the Insurance Regulatory and Development Authority of India (herein after referred to as 'the Authority' or 'IRDAI') during 5<sup>th</sup> to 16<sup>th</sup> October, 2015.
- (ii) M/s. United India Insurance Co Ltd (hereinafter referred to as "UIIC" or as "general insurer") response dated 31<sup>st</sup> October, 2018 to the aforesaid SCN.
- (iii) The submissions made by UIIC during the Personal Hearing held on 28<sup>th</sup> November, 2018 at 3.00 PM, taken by the Chairman of the Authority at its office at Hyderabad.
- (iv) Further submissions/data submitted by UIIC post personal hearing vide letter dated 14<sup>th</sup> December, 2018.

**Background:**

2. The IRDAI had conducted an onsite inspection of M/s. United India Insurance Co Ltd during 5<sup>th</sup> to 16<sup>th</sup> October, 2015. The inspection report, inter alia, revealed certain violations of provisions of the Insurance Act, 1938, Regulations, Guidelines and various circulars issued there under.

3. A copy of the inspection report was forwarded to UIIC on 19<sup>th</sup> April, 2017 seeking their response. On examining the submissions made by UIIC vide letter dated 29<sup>th</sup> May, 2017 and 7<sup>th</sup> February, 2018, a SCN was issued on 29<sup>th</sup> August, 2018, which was responded to by UIIC vide letter dated 31<sup>st</sup> October, 2018. As requested by UIIC therein, personal hearing was granted to UIIC on 28<sup>th</sup> November, 2018.

4. Mr. Girish Radhakrishnan, CMD, Mr. S Shankar, GM, Mr.B.Rajaram, GM, Mr. R.Hariharan, DGM, Mr. K.Nanda kumar, DGM, Ms.D Naga Lakshmi, DGM, Ms Gauri Venkatesan, DGM & CCO and Mr Sanjay Joshi, Chief Manager were present in the personal hearing on behalf of UIIC. On behalf of the Authority, Mr. Prabhat Kumar Maiti, GM (Enforcement), Mr. G.R. Surya Kumar, GM (EA to Chairman) and Mr. K.Sridhar,AGM (Enforcement) were also present.

5. The submissions made by the UIIC in its letter dated 31<sup>st</sup> October, 2018, during the personal hearing on 28<sup>th</sup> November, 2018 and those made post personal hearing vide letter dated 14<sup>th</sup> December, 2018 have been considered by the Authority and on that basis the decision on each of the charges is given as under:

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**Charge no.1**

6. Violation of Para 2 (ii-c) under Schedule II-B of IRDA (Assets, Liabilities and Solvency Margin of Insurers) Regulations, 2000; as per which,

*“Reserve for claims incurred but not reported (IBNR) shall be determined using actuarial principles. In such determination, the appointed actuary shall follow the Guidance Notes issued by the Actuarial Society of India, with the concurrence of the Authority, and any directions issued by the Authority, in this behalf”.*

On examining the documents, it was observed that in respect of Motor-Own Damage and health businesses, UIIC kept the IBNR reserve lesser than that implied by the calculations *using actuarial principles*, based on paid claim Data figures as on 31st March, 2015.

7. Summary of submissions

The Actuary could not go by the reserves implied by the calculations based on the claims paid data since the same was not consistent with trends seen in earlier years.

Insurer submitted that the procedure of estimating IBNR reserves for FY 2015-16, 2016-17 and 2017-18 was not the same as carried out during the FY 2013-14 & 2014-15. Insurer stated that the Appointed Actuary after the discussions with the Management decided to keep the reserves as per calculations based on actuarial principles during all the three FY 2015-16, 2016-17 & 2017-18.

8. Decision on charge no.1

IRDAI from time to time has clarified to all general insurers that the estimate of IBNR reserves shall be determined using actuarial principles.

The Appointed Actuary is expected to ensure compliance to guidelines on estimation of IBNR claims provision as prescribed at Chapter I of circular no.11/IRDA/ACTL/IBNR/2005-06, dated 8-6-2005.

However, taking note from the insurer submission that the Appointed Actuary has recommended the IBNR provision exactly as estimated and also insurer made a provision as recommended by Appointed Actuary during the three FYs 2015-16, 2016-17 and 2017-18, the charge is not pressed. The general insurer is advised to ensure strict compliance of Para 3 & 4 under Schedule II of IRDAI (Assets, Liabilities and Solvency Margin of General Insurance Business) Regulations, 2016.





**Charge no.2:**

9. Violation of

- I) Circular no. IRDA/NL/CIR/F&U/003/01/2011 dated 6<sup>th</sup> January, 2011, circular no. 048/IRDA/De-tariff/Dec-07 dated 18<sup>th</sup> December, 2007 and Guideline 1, 3(ix), 8 & 11 of File and Use guidelines ref. 021/IRDA/F&U/SEP-06 dated 28.09.2006 as the insurer offered rates/discounts other than those filed & approved by IRDA. As per the referred circulars/guidelines;
- rates proposed to be charged shall be filed following due process
  - Competition shall not lead to unprincipled rate cutting and other improper underwriting practices.
  - Every insurer to market the product strictly in accordance with the terms and conditions and other features of the product as cleared by the Authority and the rates quoted shall be within the range filed with the IRDAI.
- II) Regulation 3(2) and 11(1) of IRDA (Protection of Policyholders' Interests) Regulations, 2002 as the insurer provided incorrect information to the prospect on the risk coverage and chargeable premium.

As per Regulation 3(2), *"An insurer or its agent or other intermediary shall provide all material information in respect of a proposed cover to the prospect to enable the prospect to decide on the best cover that would be in his or her interest"*.

As per Regulation 11(1), *"The requirements of disclosure of 'material information' regarding a proposal or policy apply, under these regulations, both to the insurer and insured"*.

On examining the sample policy files of UIIC, it was noted that

- a) The Insurer has not recorded justification for the "extent of discount" given to different clients. The discount given is derived from market forces, as the insurer relies on quotes given by other competitors. The premium rates filed by insurer with regard to erstwhile tariff wordings of 'Erection All Risks policy' under F&U guidelines is inclusive of premium for Act of God (AOG) risks. In the sample cases examined, insurer has separated the premium into base premium + STFI premium + EQ premium and the insurer has nowhere informed to Authority in the F&U documents about the separation of premium. Thus insurer presented a false picture, as if it is offering a huge discount on the base premium and charging premium separately for AOG perils.
- b) The rating of two Group Tailor made Health policies issued to two corporate clients has been derived from quotes taken from other insurers, without examining the viability of rates offered.

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10. Summary of submissions

- a) The rates for STFI are included in the base cover in the erstwhile tariff. Although the STFI rates are included, the tariff does not prohibit the insurer to charge separately for STFI. These STFI rates are printed on the face of the policy for clarity to the insured and the intention is not to misguide the insured. As per the common market practice, based on individual merits, discounts are offered on basic cover excluding STFI. The percentage of discount/loading allowable for a risk will depend on various individual risk features. Subsequently, EQ and STFI rates are applied along with the premium for other add-on covers. STFI rates are catastrophic perils and are not limited to a single risk, hence a common rate is being charged for all similar risks.

The insurer submitted that it has put in place several control measures in the IT system itself to ensure that discounts are not offered indiscriminately.

- b) The insurer is continuously analyzing the viability of Group Health policies and has already gone ahead with course correction with regarding to pricing as warranted taking into consideration the track record of the insured/risk factors and good features of the risk along with some margin for expenses and IBNR. All these measures have resulted in better claim performance subsequently and the good trend continues.

11. Decision on charge no.2

- a) As per coverage, exclusions and memorandum 6 of erstwhile tariff wordings of Erection All Risks Policy (EAR), coverage towards STFI perils (Storm, Tempest, Flood, Inundation, Hurricane, Cyclone, Typhoon and Tornado) is an in-built cover and rate charged for EAR cover is to include the cover for STFI perils.

In the two policies examined, the general insurer has separated total premium into base premium and STFI premium. Whereas, the general insurer has filed a consolidated premium and has not shown any bifurcation of rate in the rate filed under F&U guidelines towards base rate and rate for STFI perils. In the quotations/policy schedule issued to the prospect/insured, insurer has bifurcated the rate into base rate for EAR cover and a separate rate for STFI perils and has allowed differential discount on both the rates.

In the first policy, insurer has shown STFI perils coverage as an add-on cover and similarly in the schedule of second policy, insurer has shown STFI perils coverage as an additional cover.

By adopting the above approach, insurer gave a misleading impression that it has given a heavy discount on the base cover and has shown the coverage of STFI peril

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as an add-on/additional cover. The practice adopted by the insurer in the instant cases is in deviation of the rate guide filed with the Authority, wherein a single rate has been filed for the EAR risk which includes STFI perils coverage.

In view of the violations observed in the two policies examined which were issued during January & February, 2015, the Authority in exercise of the powers vested under Section 102(b) of the Insurance Act, 1938 imposes a **penalty of Rs.2 lakh** (Rs.1 lakh for each of the two policies).

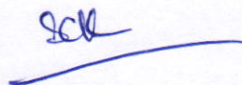
**b) UIIC** accepted that the rating of two health policies referred in the observation was based on various risk factors along with the factor of prevailing competitive quotes in order to ensure retention of renewals.

It was observed from the available internal office notes that the rates offered by insurer under the referred two policies was to match competitors quotes rather than considering them on the basis of risk factors as required under F&U guidelines. The loadings/discount structure should be as filed by the insurer and cleared by IRDAI under F&U guidelines. By allowing discounts on unsound grounds, the insurer has deviated from the rating structure filed with the Authority.

In view of the violations observed in the two policies examined which were issued during August & September, 2015, the Authority in exercise of the powers vested under Section 102(b) of the Insurance Act, 1938 imposes a **penalty of Rs. 2 lakh** (Rs.1 lakh for each of the two policies).

**Charge no.3:**

- 12.** Violation of Regulation 9 of IRDA (Protection of Policyholders' Interests) Regulations, 2002. As per the Regulation:
- A general insurer has to appoint a surveyor within 72 hours of the receipt of intimation from the insured.
  - A surveyor shall not take more than six months from the date of his appointment to furnish his report.
  - On receipt of survey report, an insurer shall within a period of 30 days offer a settlement of claim to the insured.
  - Insurer shall pay the amount within 7 days from the date of acceptance of the offer by the insured.





On examining the sample documents pertaining to UIIC, it was observed that

- a) There are numerous circumstances where the surveyor has been appointed beyond 72 hours.
- b) In 28 claims, the submission of survey report has been delayed beyond six months.
- c) In 33 claims there has been a delay in settlement of claim by the insurer after the receipt of final surveyor report.

13. Summary of submissions

- a) UIIC informed that as per data available, the delay in appointment of surveyor with regard to surveyor appointed cases has been 25% during 2015-16, 25% during 2016-17 and 17.70% during 2017-18. With regard to delay in appointment of surveyor, insurer submitted that incorrect data entry in the system has contributed to the observed delay in appointment in many cases and provided few samples wherein such data error has occurred.

Further, UIIC submitted that a revised Surveyor Management policy is being implemented w.e.f. 1<sup>st</sup> April, 2019 which expressly specifies the timelines for appointment of Surveyors, report submission and claims settlement. Checks and balances have been introduced in the IT systems. In case of delays, the same gets escalated to next higher authority.

- b) UIIC provided claim wise data informing where out of 28 claims referred in the charge, only in 5 claims there was a delay in submission of surveyor report due to non submission of documents by claimants.
- c) UIIC submitted claim wise data of 33 sample claims referred in the charge giving the details of date of receipt of surveyor report, date of offer made by UIIC on receipt of surveyor report, date of receipt of acceptance of offer by UIIC and date of claim payment. UIIC further submitted that the operating offices and claims servicing hubs have been sensitized to strictly adhere to turnaround times through periodic reviews and reports designed to capture this data through the IT system for better monitoring.

14. Decision on charge no.3

- a) Based on the submission on data errors which lead to presentation of data indicating delay in appointment of surveyor, insurer is advised to ensure compliance to timelines at all times and to track/monitor the progress on a regular basis to make sure that in no case delay happens in appointment of surveyor.

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- b) With regard to 28 sample claim cases referred in the inspection observation on the delay in receipt of survey report, insurer clarified that there was a delay in receipt of survey report in 5 cases due to non receipt of documents from claimant. In this regard, the insurer is advised to communicate clearly in writing to claimant / surveyor, in case of a delay in receipt of any necessary documents.
- c) On examining the **data provided by insurer** with regard to 33 claims on delay in claim settlement post receiving survey report, it is observed that in case of 12 claims there has been a delay beyond 30 days in making an offer to claimant. The delay in days beyond the stipulated period in making an offer is in the range of 17 days to 886 days. Details as below:

| Sl.no of sample policies of annexure B to charge 3 | Date of Loss | Date of receipt of survey report | Date of offer made by UIIC | Additional time taken beyond 30 days after receipt of survey report |
|--|--------------|----------------------------------|----------------------------|---|
| 14   | 24-04-2014   | 09-07-2014                       | 21-11-2014                 | 105 days  |
| 15   | 23-05-2014   | 24-09-2014                       | 12-03-2015                 | 139 days  |
| 16   | 10-08-2014   | 10-10-2014                       | 12-04-2017                 | 886 days  |
| 17   | 13-07-2014   | 02-09-2014                       | 11-09-2015                 | 344 days  |
| 20   | 17-07-2013   | 10-06-2014                       | 25-11-2015                 | 503 days  |
| 21   | 16-04-2014   | 30-04-2014                       | 25-06-2014                 | 26 days   |
| 22   | 12-10-2014   | 15-12-2014                       | 11-03-2015                 | 61 days   |
| 23   | 24-08-2014   | 20-10-2014                       | 05-12-2014                 | 17 days   |
| 24   | 29-11-2013   | 18-07-2014                       | 05-11-2014                 | 80 days   |
| 25   | 12-10-2014   | 29-10-2014                       | 17-03-2015                 | 109 days  |
| 28   | 20-05-2014   | 31-07-2014                       | 07-10-2014                 | 38 days   |
| 31   | 10-05-2014   | 16-10-2014                       | 16-06-2015                 | 213 days  |

In view of the violation observed in the 12 sample claim cases (with date of loss prior to 26<sup>th</sup> December, 2014) on delay in making an offer by the general insurer after receipt of surveyor report, the Authority in exercise of the powers vested under Section 102(b) of the Insurance Act, 1938 **imposes a penalty of Rs.5 lakh..**

Further, the general insurer is directed to pay penal interest for the delayed period as per the provisions of Regulation 9 of IRDA (Protection of policyholders' Interests) Regulations, 2002.

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15. **Summary of Decisions:**

| Charge No. | Violation of Provisions   | Decision              |
|------------|---|-----------------------|
| 1          | Para 2 (ii-c) under Schedule II-B of IRDA (Assets, Liabilities and Solvency Margin of Insurers) Regulations, 2000 | Advisory              |
| 2          | F&U guidelines and IRDA (Protection of Policyholders' Interests) Regulations, 2002                                | Penalty of Rs.4 lakh  |
| 3          | Regulation 9 of IRDA (Protection of Policyholders' Interests) Regulations, 2002                                   | Penalty of Rs. 5 lakh |

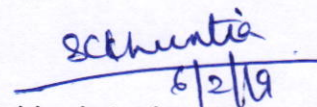
16. In conclusion, as directed under the respective charges, the **total penalty amount of Rs. 9 lakh** (Rupees nine lakh only) shall be remitted by UIIC by debiting shareholders' account within a period of 45 days from the date of receipt of this order through NEFT/RTGS (details for which will be communicated 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 500032, email id - enforcement@irda.gov.in.

Further,

- i. 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.
- ii. The general insurer shall submit an Action Taken Report to the Authority on direction given within 90 days from the date of this Order.

17. If UIIC 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 : 06/02/2019

  
(Dr. Subhash C. Khuntia)  
Chairman