



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

**Title:Order**

**Reference No.:**IRDAI/LIFE/ORD/MISC/105/04/2021

**Date:**28/04/2021

Order in the matter of Max Life Insurance Company Ltd

**Order in the matter of Max Life Insurance Company Ltd**

**Based on**

- (i) Report of the focussed onsite inspection of M/s. Max Skill First Limited(Max Skill First), a Max group Company and Outsourcing entity, conducted from 3-05-2018 to 8-05-2018
- (ii) Responses of M/s Max Life Insurance Company Ltd(Max Life or Insurer) and Max Skill First received on 6-08-2018
- (iii) Further explanation sought from Max Life vide letter dated 21-12-2018
  - (i) Max Life responses dated 28-01-2019 and 25-05-2019.
  - (ii) Show cause Notice of the Authority to Max Life dated 24-01-2020.
  - (iii) Reply of Max Life dated 28-02-2020 to the aforesaid Show Cause Notice (SCN) dated 24-01-2020.
- (iv) The Submissions made by Max Life during the Personal Hearing held on 15-07-2020 at 2.30 PM chaired by Dr. Subhash C. Khuntia, Chairman, IRDAI, through video conference, at the office of Insurance Regulatory and Development Authority of India (**hereinafter referred to as "the Authority/IRDAI"**), Financial District, Nanakramguda, Hyderabad.
- (v) Additional response dated 17-07-2020 submitted by Max Life post personal hearing.

The Authority conducted a focussed onsite inspection of M/s. Max Skill First, a Max group Company and Outsourcing service provider of the Insurer on 7<sup>th</sup> and 8<sup>th</sup> May 2018. While conducting the same, the inspection team felt a need to inspect transactions between M/S Max Life Insurance Co Ltd and M/S Max Skill First Ltd and accordingly an inspection of such transactions was also carried out. Inspection Reports pertaining to Max Life and Max Skill First were forwarded to Max Life and also to Max Skill First on 16-07-2018 for which Max Life and Max Skill First submitted responses on 6-08-2018 separately.

2. After examination of the submissions made by Max Life, the Authority sought clarifications on 10-10-2018. Max Life submitted response on 31-10-2018. The Authority also sought explanation vide letter dated 21-12-2018 for which Max Life submitted response on 28-01-2019 and further clarifications on 25-05-2019.

3. A show cause notice dated 24-01-2020 was issued to Max Life for violation of Outsourcing Guidelines, 2011 and Corporate Governance Guidelines,2016. The response of Max Life was received on 28<sup>th</sup> February 2020.

4. As per the request of Max Life an opportunity of personal hearing was given to the Insurer on 15-07-2020. The following participated in the hearing on behalf of the insurer.

- (i) Mr Prashant Tripathy, MD & CEO, Max Life
- (ii) Mr V. Viswanand, DMD, Max Life
- (iii) Mr Amitabh Das, Chief Legal Officer, Max Life
- (iv) Mr Shiv Maheshwari, Head of Agency, Max Life
- (v) MrMandeepMehta, CFO,MaxLife
- (vi) Mr Jogesh Sikka, CCO, Max Life

On behalf of IRDAI, Mr V Jayanth Kumar,CGM(Life) and Mr T Venkateswara Rao, GM(Life) attended.

The Max Life sought to explain the background and broader perspective on the charges in SCN and submitted their response during the hearing. The Insurer also submitted additional related evidences after the hearing.

The four charges forming part of the SCN, the submissions of Max Life Insurance Co including the additional submissions received after hearing are as given below.

#### **5. Charge (1): Violation of Clause 11.2 of Outsourcing Guidelines.**

Max Life Insurance Company made the following payments towards training services to Max Skill First Ltd.

Sl.No.	FY	Amount
1	2015-16	Rs 25.88 cr
2	2016-17	Rs 22.91 cr

Max Life did not disclose the details of payments made to the Max Skill First in the half yearly Outsourcing returns filed with the Authority for the financial years 2015-16 and 2016-17 in violation of Clause 11.2 of IRDA Outsourcing Guidelines,2011.

#### ***11. Reporting Requirements:***

*11.1 The activities outsourced vide point no.4.1 of these guidelines shall be reported to IRDA within 45 days from the date of entering into outsourcing agreement.*

*11.2 With respect to each of the other outsourced activities all insurers shall file a report in Form A (attached as Annexure-II) within 45 days from the end of every half year.*

#### **Summary of the submissions of the insurer:**

- (i) Max Life argued that there was no clarity prior to the issue of Outsourcing regulations,2017 that training activity falls within the definition of Outsourcing and that there was no uniform practice across the Industry.

(ii) It referred to a letter from Authority dated 8-11-2016 and submitted that the aforesaid guidance was construed by them as seeking one-time additional information. Therefore, they did not include training even in subsequent outsourcing returns of March 2017.

(iii) The information related to Max Skill First was submitted to the Authority after the letter raising the query following review of Outsourcing Returns.

(iv) The details of related party disclosures in the notes to accounts indicate that the Insurer obtained training services in the years 2016-17 and 2015-16 and such disclosure highlights the fact that Max Life had no intentions to conceal nor was there was any ulterior motive in not reporting these under outsourcing returns

### **Decision on Charge (1):**

The Life Insurer has admitted that the said transactions were not reported in the Outsourcing Returns as stated in the charge.

(i) The Insurer has argued that there was no clarity as to what constitutes outsourcing as per Guidelines and as per their interpretation training expenses do not form part of the Outsourcing. The definition of outsourcing as per the guidelines is "*Insurer's use of a third party (either an affiliated entity within a corporate group or an entity that is external to the corporate group) to perform activities on a continuing basis that would normally be undertaken by the Insurer itself, now or in the future*". The Life Insurer was conducting its training activities internally prior to entering into outsourcing agreement with the Max Group Company i.e Max Skill First.

(ii) If the Insurer was in any doubt as to the inclusion of training as part of Outsourcing, Clause 13 of the Outsourcing Guidelines clearly provided for seeking the guidance of IRDA in case of any ambiguity regarding the classification of activities that are not explicitly referred in the Guidelines.

(iii) The submission that they construed Authority's letter dated 8<sup>th</sup> November 2016, to the Life Insurer to report all such activities including those which are not specifically mentioned in the Guidelines as additional information for one time, is also not adequate, as the direction in the said letter was to file a **fresh return** reporting all such activities. Thus there was need to include the same and report as part of regulatory return.

However, taking into account the submission that the information has been submitted following the query raised by the Authority and that the same information forms part of Related Party Disclosures to the Notes to Accounts, a penalty of Rs. 2 lakh is imposed on Max Life in exercise of the powers vested under Section 102 (b) of Insurance Act, 1938 for not disclosing the details of payments made to the Max Skill First in the Outsourcing returns filed with the Authority for two financial years 2015-16 and 2016-17 in violation of the Clause 11.2 of IRDA Outsourcing Guidelines, 2011.

### **6. Charge (2) Violation of Clause 9.12 and 9.15 of Outsourcing Guidelines.**

**Charge (2)(a)** The payments made by Max Life towards training services to Max Skill First are fixed for a period as monthly rate per trainer and are irrespective of the number of Training Sessions held for Max Life. It has also been observed that the operational data of count of trainers mentioned in invoice summary for the year 2016-17 was found to be inconsistent with amounts invoiced. Certain individuals were employed as trainers who were neither employees of Max Skill First nor in the list of retainers. All this has been done without ensuring meaningful cost benefit analysis.

**Charge (2) (b)** Max Skill First is a Related Party of Max Life Insurance and both the companies are part of Max Group. As per the minutes of meeting of Board of Max Life Insurance dated 29<sup>th</sup> January, 2015, the Board of Max Life Insurance was informed of the Max India Group's decision to form a new training company and that current employees of Training and Development Department of Max Life Insurance would become the employees of the new company. The Board of the Life Insurer only noted the same. Further, the fact that the so called new company i.e Max Skill First started with accumulated losses of Rs 23.04 Cr in 2014-15 clearly shows that, it is only the change of name that has happened for a loss making Max Group company from Max Health International staff Ltd to Max Skill First Limited on 29<sup>th</sup> April 2015, and not forming a new training company. Thereafter 274 employees of Max Life Insurance were transferred on 1<sup>st</sup> May 2015 to Max Skill First and Outsourcing contracts were given to Max Skill First by Max Life Insurance on fixed rate for period basis such as monthly rate per trainer irrespective of number of training sessions held and the payments mentioned in Charge 1 are made. The arrangement is a clear case of conflict of interest as the whole arrangement is to create a revenue generation opportunity to the loss-making group company and related party of the Life Insurer in violation of Clause 9.12 of Outsourcing Guidelines, 2011.

**Charge (2)(c)** The outsourcing agreement signed by Max Life Insurance with Max Skill First, a related party and group entity on 5-05-2015 for providing training services has not been filed with Authority as soon as the same is entered into and before making any payments which is a violation of 9.15 of Outsourcing Guidelines, 2011.

*9.12 The Insurer shall ensure that the third party service provider does not have any conflict of interest. The third party service provider or any of their group entities shall not be able to derive any benefit by causing loss to the insurer or policyholder. For instance, the third party service provider shall not have the responsibility of repairing the damaged vehicle, supply of spare parts and marketing of the policy. In case of existence of conflict of interest among group entities, the insurer shall avoid outsourcing to such entities.*

*9.15 Where the third party service provider is either a group entity as defined in provisions of Regulation (2) (ca) of IRDA (Investment) Regulations, 2000 and having a common director with the insurer, the insurer shall ensure that the transfer pricing is done according to the sound principles and or all such transactions shall be disclosed to the Authority as soon as the agreement is completed and before payment is made to the third party service provider. However, nothing contained herein shall be applicable for outsourcing of activities to a scheduled commercial bank*

**Summary of the submissions of the insurer on charge 2(a):**

The Life Insurer submitted that the decision to enter into the arrangement with Max Skill First was made after prudent application of collective commercial acumen and judgement by Max Life. It was argued that the cost of designing and customising training must be factored into the fixed rates and the number of sessions delivered is not the only basis of costing. There was arm's length pricing as certified by a reputed Third party Expert. The report clearly states that these rates were the lowest.

**On the issue of the count of trainers and certain individuals not being employees of Max Skill First, it was submitted that the** Enterprise Learning Management (ELM) System would capture additional information as well (such as Supervisors of the Manager Learning and Development who imparted the trainings or Max Life employees who provided guidance as trainers of trainers) **for operational and record purposes but Invoicing would be done as per the terms of the agreement. It was explained that contextual training provided by Max Life senior staff gets captured in ELM and is not invoiced. They had provided details of independent checks and training verification vide their letter dated**

28-01-2019 and reiterated the same through their letter dated 25-05-2019. They submitted that cost benefit analysis was done carefully.

Further,

- (i) It was submitted that there was favourable cost impact as explained through the reduction of overall training cost in comparison to the sales volumes for the periods before engaging of Max Skill First and after engaging.
- (ii) Similarly, data were submitted on the increasing number of top agents who bring in annualized premium of Rs 10 lakh or more and increased active agent productivity.

**Decision on Charge 2(a):**The insurer has submitted that the arrangement with Max Skill First was made after prudent application of collective commercial acumen and judgement. The Life Insurer has not submitted any document with clear parameters that would have facilitated comparison of competitive bids for training services. It is observed that there was no uniformity and standardization in the format of quotes obtained by the Life Insurer and each of the four bids gave financial quotes in a different manner making it difficult to objectively carryout comparison and to determine the most responsive bidder. It is observed that the actual training cost of Max Life for the period prior to engaging Max Skill First declined from Rs.52.40 crore in FY 2011 to Rs.34.37 crore in FY 15. However, the cost was estimated by the Life Insurer to increase from FY 16 attributing the same to staff salary annual increments .Amounts of Rs.34.60 Cr, Rs 35.79 Cr and Rs 32.99 Cr were paid to Max Skill First in FY 16,FY17 and FY18 respectively.

With regard to inconsistency between operational data of count of trainers in the invoice summary and amounts invoiced, it was submitted that some of Max Life employees took part in training and that the ELM records capture those details as well for record purposes but no payments are made to Max Skill First on that account and that there are adequate governance and independent checks to ensure that the payments are released properly as per invoices. In view of the above, the Insurer is advised to take adequate care while seeking commercial proposals so as to be able to compare the proposals on an objective basis.

**Summary of the submissions of the insurer on Charge 2(b)**

The Insurer made the following submissions:

- (i) a pure play training entity outside of Max Life would serve the interests of the Company and its policyholders better and with that in mind, Max Life sought help from the Max Group for achieving its well-considered objectives. The creation of Max Skill First was an enabler and benefitted Max Life and its policyholders.
- (ii) Since the approval by Max Life's board is not mandatory in the event of renaming of the existing company, a mere noting by the board does not imbue the arrangement with any impropriety or conflict of interest.
- (iii) The fact of Max Skill First being a loss-making entity did not cause, whether inadvertently or deliberately, any compromise on the interests of Max Life and its policyholders. Some employees of Max Life were moved to Max Skill First in a legally permissible manner and to ensure consistency with standards of training services hitherto and hence the action was in the interest of the Max Life and its policyholders.

(iv) "Creating a revenue generation opportunity for a group company" is by itself not an indicator of conflict of interest. Max Life determined that it would be the best option for the pure play training entity to be within the umbrella of the Max Group and for that, arms' length pricing requirements were complied with.

The following additional documents to demonstrate compliance with **Related Party Transaction Policy** were submitted by the Insurer on 17-07-2020 subsequent to the personal hearing:

(a) Max Life Related Party Transaction Policy (RPT) made in accordance with the prevailing Companies Act provided the following process for approval of related party transactions:

- o Transactions with related parties with respect to specified transaction required approval of the Audit Committee, provided the transaction was in the ordinary course of business and at arm's length basis.
- o In case the transaction is neither in the ordinary course of business nor on arm's length basis, then approval of the Board is required.
- o In case such transaction requiring the approval of the Board exceeds a certain specified amount and limit, then shareholders' approval via special resolution is required.

(b) Since, the said transaction was on **arm's length basis** and in **ordinary course of business** and that training of agents and employees is essential for an insurance company in order to sell insurance products in its normal course of business and Max Life avails such training services from different vendors, Max Life had taken approval of the Audit Committee for the arrangement to be entered into with Max Skill First in compliance with the Max Life RPT policy.

(c) In the Audit Committee that approved the Max Skill First contract, there was no common director between Max Skill and Max Life as on the date of approval of this transaction.

**Decision on charge 2(b):** With regard to conflict of interest in the arrangement between Max Life and Max Skill First, the following facts are noted.

(a) Max Life Board was informed in the meeting dated 29<sup>th</sup> January 2015 that the Max India group intends to form a new training company and that the current employees of Learning and Development department of Max Life would become the employees of the new company. The board members were further informed that the matter was reviewed by the Audit and Ethics Committee for compliance with the requirements under the IRDAI Outsourcing Guidelines and that the transition of employees was also approved at HR Compensation & Organisation committee, and the Board noted the same. The Board members further noted that any transaction to avail services from the new company will be in accordance with the provisions of the Companies' Act on Related Party transactions.

The HRC &O Committee in its meeting on the same day of 29<sup>th</sup> January 2015, noted that the Learning & Development Centre of Excellence set up in 2013 would become a separate entity under Max India with approximately 250 employees of Max Life to transit in April/May 2015 to the new entity.

(b) The Audit and Ethics Committee in its meeting dated 22<sup>nd</sup> April, 2015 approved the Related Party transaction with Max Skill First to provide training services to Max Life for three years from 2015-16 to 2017-18 specifying the outer limits of costs of Rs 32 Cr, Rs 36.56 Cr and 38.99 Cr respectively. It is significant to observe that on April 22, 2015 the company Max Skill First was not in existence.

(c) Max Health International Staff Limited was in the business of training to nursing staff and was a loss making company, and its name was changed bringing into existence Max Skill First on 29<sup>th</sup> April 2015 with due approval of ROC.

(d) 274 employees of Learning and Development Department of Max Life were transferred to Max Skill First on 1<sup>st</sup> May 2015.

(e) Max Skill First was awarded contract to provide training to employees and agents of Max Life for three years from 2015-16 on fixed amount per trainer basis.

(i) It is also seen from the response of Max Life that they have called for quotations from four entities. In the detailed analysis submitted, Max Life mentioned experience of 15 + years on the basis of the experience of its own employees (who were transferred to Max Skill First much later from 1<sup>st</sup> May 2015). This placed Max Skill First in an advantageous position vis-à-vis other competitor bidders.

(ii) The Independent third party Consulting firm which certified on Arm's length Transfer Pricing, in its report mentions only two competitive bids apart from that of Max Skill First whereas the Insurer submitted "Detailed Analysis" which contains 3 competitive bids apart from Max skill first. The Report concluded that the lowest of the three bidders was Max Skill First

(iii) It is also observed that the Board resolution of Max Life dated 29<sup>th</sup> January 2015 where it is clearly documented that the Board of Max Life was only informed of the intention to form a training company and the employees of L&D Department of Max Life then would become the employees of new company to become functional from 31-03-2015.

(iv) While there was no common director between the Audit and Ethics Committee as on the date of 22<sup>nd</sup> April 2015 when the Related Party Transaction with Max Skill First was approved, three of the directors of Max Life were appointed directors of Max Skill First from 1<sup>st</sup> May 2015 i.e within a week from the approval of Related Party transaction. None of them are independent directors, one of them is Audit Committee Member of Max Life and the other MD/CEO of Max Life and the third one a common director in all three companies i.e Max India and Max Life and Max Skill First.

(v) It is observed that on 21<sup>st</sup> May 2015, the day when the Audit and Ethics Committee reported to the board of Max Life about the approval of Related Party Transaction with Max India group company Max Skill First, there were three common directors between Max Life and Max Skill First.

Taking into account the above observations, the insurer is hereby advised to be more careful in future and adhere to relevant provisions of IRDAI (Outsourcing Activities by Indian Insurers) Regulations, 2017 which is presently in force.

**Summary of the submissions of the insurer on charge 2(c):** The Insurer submitted that the response to Charge (1) explained in detail why training services were not treated as outsourcing requiring disclosure, etc., under the Outsourcing Guidelines.2011

### **Decision on Charge (2)(c):**

The Life Insurer has not disputed non-reporting to the Authority immediately after the agreement is completed and before payment. It is noted that details of payments form part of the Related Party Disclosures to the Notes to Accounts for the

corresponding period. However, in view of the non-reporting of the outsourcing agreement with a related party, a penalty of Rs. 1 lakh is imposed on Max Life in exercise of the powers vested under Section 102 (b) of Insurance Act, 1938 for not reporting the arrangement to IRDAI as required under Clause 9.15. The Insurer is also advised to be more careful in future.

**7. Charge (3) Violation of Clause 10.2 of Corporate Governance Guidelines, 2016 read with Clause 9.3 of Outsourcing Guidelines, 2011.**

The Management of Max Life Insurance Co did not monitor and review the performance of Max Skill First, to whom training activities have been outsourced, at least annually and report findings to the Board as required under Clause 10.2 of Corporate Governance Guidelines, 2016

The Board of Directors of insurer did not review the performance of all third party service providers every year with respect to compliance with provisions of Insurance Act 1938, Regulations, Rules or any other order issued there under as required under Clause 9.3 of Outsourcing Guidelines, 2011

*10.2 The management of the insurance company shall monitor and review the performance of agencies to whom operations have been outsourced at least annually and report findings to the Board.*

*9.3 The Board of Directors of insurer shall review the performance of all third party service providers every year with respect to compliance with provisions of Insurance Act 1938, Regulations, Rules or any other order issued there under.*

**Summary of the submissions of the insurer:** The insurer submitted data from FY 2015-16 to FY 2019-20 to substantiate that the average rate per trainer reduced from year to year as a result of a regular and effective review of the deliverables of Max Skill First. They explained how reviews at Branch/Region/Zone/HO levels tracked performance score card for trainings. Three of Max Life Board members were actively involved in the oversight of operations of Max Skill First. It was submitted that MoS framework (which captures metrics positively impacting the agency force of Max Life) was reviewed by Max Life board every quarter. There was also Executive level engagement between both Organisations to review performance.

It is submitted that the Max Life Board reviewed the performance of all outsourcing service providers every year and the relevant provisions of Insurance act and the regulations there under are complied with.

The following additional documents were submitted by the Insurer on 17-07-2020 subsequent to the hearing:

(i) **Review of performance of Outsourcing Service Providers (OSPs) by the Board under the IRDAI Outsourcing Guidelines 2011:**

- 
- a. The Board reviewed the performance of the OSPs by taking note of the performance assessment submitted by the management in an exceptional reporting format. The REALMC Committee also reviews the said material in its own meetings, asks questions and/or make suggestions and tables the same to the Board as well.
- 
- b. Review of the OSPs was submitted in line with the IRDAI Guidelines on Outsourcing, 2017



c. In compliance with the requirements of the IRDAI Outsourcing Regulations, 2017, a Board approved Outsourcing Committee managed the entire outsourcing related operational framework including review, the summary findings of which are reported to the Board.

(ii) Measure of review by the management and the Board – formal or informal: It was submitted that **Governance and verification process followed by Max Life management was forwarded to IRDAI as part of their response dated 28-01-2019.**

**Decision on Charge (3):**

(i) It is noted from the review of Oct 2015 that it was carried out by an external CA firm and the revised checklist was vetted by another firm. The emphasis was on risk management and not comprehensive performance review as required under the Guidelines. The review dated 31-01-2017 was also focused on risk management as above and not comprehensive performance review as required under the Guidelines.

(ii) It is noted that reviews for the FY 17-18, FY18-19 and FY 19-20 were based on quality, performance and service levels.

Taking into account the submissions made by the Life Insurer on review of Performance of outsourced entities by the Management and reporting to the board and the board's review, the charge is not pressed. The Life Insurer is advised to ensure meaningful and comprehensive review of the performance of outsourcing service providers and adequate reporting to the board in accordance with the spirit of regulatory provisions applicable.

**8. Charge (4) Violation of Clause 3 (A) (1) of Corporate Governance Guidelines, 2016**

-  
The Life Insurer failed to establish and ensure functioning of adequate systems, policies and procedures during transfer of employees to Max Skill First thereby reviving a loss making Group Company and actively favouring a group company to serve shareholders and finally, award of actively outsourcing the training work to Max Skill First, a Group company and failed to address potential conflicts of interest and compliance with the provisions of Companies Act, 2013 and compliance with the relevant provisions of Outsourcing Guidelines, 2011. The Board of Directors, which had common Directors between Max Life and Max Skill First during the financial years 2015-16 and 2016-17, failed to formulate an adequate Policy on Related Party Transactions laying down arm's length pricing. There is no evidence to suggest the impact of such transfer of huge chunk of employees and award of outsourcing contracts on the finances of Life Insurer were appropriately evaluated to ensure that the interests of policyholders were not compromised.

3A(1). Where it is proposed to enter into a contract or arrangement with Related parties as defined in Companies Act 2013, the disclosures by Directors and necessary approvals as required under Sections 184, 177(4)(iv) and 188 of Companies Act 2013, read with the relevant Rules there under, shall be obtained. Adequate systems, policies and procedures to address potential conflicts of interest and compliance with the provisions of Companies Act, 2013 need to be established by the insurers. These include Board level review of key transactions, disclosure of any conflicts of interest to manage and control such issues. Where the transactions with related parties are in the nature of transactions such as reinsurance arrangements or investment transactions or outsourcing to related parties, for which specific regulations or guidelines have been notified, compliance with the respective regulations or guidelines shall also be ensured.

The Board of Directors of an insurer shall formulate a Policy on Related Party Transactions laying down the following:

- (a) Definition of Transactions in the ordinary course of the insurance business giving examples specific to the insurance company.
- (b) Method of determination of arm's length pricing
- (c) List of items requiring approvals from various authorities, Audit Committee, Board, Shareholders etc.
- (d) Any other matter relevant to the Related party transactions

**Summary of the submissions of the insurer:** It was submitted that Clause 3 (A) of Corporate Governance Guidelines, 2016 would not get attracted for the following reasons:

- (i) No actual or potential conflict of interest took place by virtue of the arrangement for training services
- (ii) There was no non-compliance with the provisions of Companies Act, 2013 in this regard or otherwise and compliance has been certified by the secretarial auditor.
- (iii) There was no breach of law, regulation or policy in transfer of Max Life employees to Max Skill First in a one-off corporate transaction, nor was there any failure
- (iv) Max Life's related party policy has been submitted. It is further submitted that the arms' length pricing has been duly adhered to.
- (v) The point of reviving a loss making group company has been addressed in the response to Charge 2(b) above and the company reiterated that there is no conflict of interest. On the contrary, it served the interests of Max Life and its policyholders through decreased costs, increased efficiency and productivity of agents etc.
- (vi) There was no act of favouring a group company as Max Life was the beneficiary. In fact, the design for the training transformation agenda required the training entity to be outside Max Life to ensure singular focus on training.

#### **Decision on Charge (4):**

Clause 3A(1) requires the Board of Directors to formulate a Policy on Related Party transactions laying down among other things definition of transactions in the ordinary course of business with examples specific to the Insurance Company and Method of determination of Arms' Length Pricing.

- (i) The Conflict of Interest has been already discussed in decision for Charge 2(b).
- (ii) While the Life Insurer has submitted its Policy on Related Party Transactions of 2014, details of approval of the policy by the Board have not been submitted.
- (iii) As per the Policy the transaction to award the contract to Max Skill First does not need approval of the Board but requires approval of Audit Committee as the transaction was classified to be "*In the ordinary course of business*" and on the "*Arms Length Basis.*" While "training" as an activity can be accepted to be in

the ordinary course of business for a life insurance company, a more holistic view of this Related Party Transaction is warranted which sets it apart from the ordinary course of business.

(iv) Further, the Policy on Related Party Transactions of the Life Insurer quotes the definition of Arm's length Transaction as a transaction between two related parties that is conducted as if they were unrelated, so that there is no conflict of interest.

(v) The Policy on Related Party Transactions does not contain the method of determination of Arms' Length Transaction.

Taking into account the above observations (i) to (v), the Board of Max Life is directed to put in place a Comprehensive Policy on Related Party Transactions in accordance with relevant provisions of Companies' Act,2013 and Clause 3A(1) of Corporate Governance Guidelines,2016.

9. **Summary of Decisions:**

**Penalties imposed for the following violations:**

Charge No.	Violation of Provisions	Penalties/Direction
1	Clause 11.2 of Outsourcing Guidelines	Penalty of Rs.2 lakh.
2	Clause 9.15 of Outsourcing Guidelines	Penalty of Rs.1 lakh

10. **Directions issued:**

Provision of Guidelines	Directions
1.Clause 9.12 of the Outsourcing Guidelines,2011 2. Clause 10.2 of CG Guidelines,2016 read with Clause 9.3 of Outsourcing Guidelines,2011 3.Clause 3A(1) of CG Guidelines,2016	Place before the board the Authority's order for review of the observations made on the effectiveness of systems and processes put in place for related party transactions and to address conflict of interest and directors' disclosure requirements as per Companies Act,2013 requirements and corporate Governance Guidelines,2016 of IRDAI both in letter and spirit.

11. The total penalty amount of Rs. 3 lakh shall be remitted by Max Life through NEFT/RTGS within a period of 45 days from the date of issuance of this order. An intimation of remittance may be sent to Mr. V. Jayanth Kumar, Chief General Manager (Life) at the Insurance Regulatory and Development Authority of India, Survey No.115/1, Financial District, Nanakramguda, Hyderabad 500032, email id [life@irda.gov.in](mailto:life@irda.gov.in).

12. If Max Life is 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: 27<sup>th</sup> April 2021

**Sd/-**

**(Dr. Subhash C. Khuntia)**

**Chairman**