



बीमा विनियामक और विकास प्राधिकरण
**INSURANCE REGULATORY AND
DEVELOPMENT AUTHORITY**

Ref: IRDA/Life/ORD/Misc/158/07/2011

Personal hearing in the matter of M/s SBI Life Insurance Company Limited

Wednesday, February 07th, 2011 at 03.00 PM

**The Insurance Regulatory & Development Authority, 3rd Floor, Parishram Bhavanam,
Basheer Bagh, Hyderabad**

In Chair: Sri J Hari Narayan, Chairman, IRDA

The Insurance Regulatory & Development Authority (the Authority) caused an inspection on M/s SBI Life Insurance Company Limited (*hereafter referred as Life Insurer*) which revealed certain gross violations of Guidelines on Group Insurance Policies issued vide Circular No. 015/IRDA/Life/Circular/GI Guidelines/2005 dated 14th July, 2005. Based on the findings of the inspection report, a show cause notice was issued to the life insurer who had submitted their explanation and sought a personal hearing.

The personal hearing was accorded to the Life Insurer on February 07th, 2011. Sri M N Rao, CEO and his team were present. On behalf of the Authority, Sri G. Prabhakara, Member (Life), Sri Kunnel Prem, CSO (Life) and Sri D V S Ramesh, Deputy Director (Life) were present.

The findings and the explanations offered to the issues raised in the Show Cause Notice dated 16th November, 2010 are as follows.

Payments were made by the Insurer towards reimbursement of Group Administration Expenses to various Master Policyholders in violation of Clause C – 4 of the above referred guidelines issued by the Authority under Section 34 of the Insurance Act, 1938 (the Act).

Based on the above referred findings and subsequent submissions of the insurer, the Authority issued a Show Cause Notice dated 16th November, 2010 which was responded to by the Insurer vide its letter dated 23rd December, 2010. These submissions of the insurer as also those made during the course of the personal hearing granted by the Authority on February 07th 2011 were taken into account.

The submission of the insurer that reimbursement of administrative expenses in consideration of certain functions discharged by various entities in their capacity as Master Policyholder is not tenable. The Authority had issued Group Insurance Guidelines under Section 34 of the Insurance Act. Under these Guidelines, a commission is payable to the Agent or Corporate Agent in respect of group insurance policies which should not exceed the percentage approved by the Authority. The commission payable to an Insurance Agent,

in the event of solicitation of such insurance business by such agent, shall be as approved under File and Use. Further, no payment shall be made towards management expenses, document expenses or profit commission or bulk discount or payment of any other description to the Agent or Corporate Agent or Group Organiser or Group Manager (the last two terms also include synonymously Master Policy Holder).

Despite these specific Guidelines, the Life Insurer paid the above referred expenses in violation, to 8 of its Corporate Agents and 6 other Master Policy Holders who are listed at Item A and Item B respectively in the Annexure attached hereto.

The Life Insurer in its defense stated that the Guidelines were issued in July 2005 and earlier there were no Guidelines and they took some time to redesign the policy and such revised policy was submitted for the approval of the Authority and such approval was accorded by the Authority on 5th November 2007.

The Authority gives the benefit of doubt to the Life Insurer for payments made prior to 5th November 2007 but it notices that payments referred herein continued to be made even after the approval of revised product on 5th November 2007. Hence, the Authority has come to the conclusion that the payments made by the Life Insurer are wrongful and in violation of the Guidelines.

While payments were made, in violation of the referred guidelines on group insurance policies issued to 14 master policy holders (as attached hereto); it is considered that the Insurer has failed to adhere to the within referred guidelines every time when such payment is made. The violation of the referred guidelines invites a penalty under Section 102(B) of the Act and the Authority is empowered to impose a penalty not exceeding Rs.5 lakh for each such violation and punishable with fine. Considering the gross and continued nature of the violations, the Authority has come to the conclusion that it is just and proper to impose a penalty of Rs.5 lakh each for such payments made in 14 instances to Corporate Agents and Master Policy Holders totaling Rs.70 lakh.

The above penalty is to be paid by M/s SBI Life Insurance Company Limited without prejudice to the action which the AUTHORITY would take against the Corporate Agents and Master Policy Holders who have by receiving such payments also violated the regulatory instructions, the onus of which would equally lie on the life insurer.

The penalty amount of Rs 70,00,000 (Rupees Seventy Lakhs only) shall be paid within a period of 15days from the date of receipt of this order through a crossed demand draft drawn in favour of Insurance Regulatory and Development Authority and payable at Hyderabad which may be sent to Shri Kunnel Prem, C S O (Life) at the Insurance Regulatory and Development Authority, 3rd Floor, Parisrama Bhavan, Basheer Bagh, Hyderabad 500 004.

Dated 08th July, 2011 at Hyderabad


(J Hari Narayan)
CHAIRMAN

Particulars of reimbursement of administrative expenses paid to Corporate Agents / other group organisers:

(Figures in ₹)

<i>Sl No.</i>	<i>Name of entity</i>	<i>Jul 05 to Mar 06</i>	<i>Apr 06 to Mar 07</i>	<i>Apr 07 to Mar 08</i>	<i>Apr 08 to Mar 09</i>	<i>Apr 09 to Jun 09</i>	<i>Total</i>
<i>A</i>	<i>Corporate Agents</i>						
1	State Bank of India	28,83,34,743	34,13,27,722	29,54,95,272	30,81,56,075	4,32,05,694	127,65,19,506
2	State Bank of Bikaner & Jaipur	2,51,58,592	2,11,29,655	1,31,96,784	2,15,25,000	34,83,231	8,44,93,262
3	State Bank of Hyderabad	1,83,90,195	4,29,81,051	2,96,99,678	3,54,04,652	60,69,541	13,25,45,117
4	State Bank of Indore	39,42,378	1,07,18,744	85,57,544	1,25,03,282	12,20,933	3,69,42,881
5	State Bank of Mysore	1,39,73,030	2,40,36,793	2,29,11,067	2,04,69,797	14,95,569	8,28,86,256
6	State Bank of Patiala	74,83,340	2,46,67,521	1,53,50,600	79,04,715	2,55,528	5,56,61,704
7	State Bank of Saurashtra	83,17,335	1,19,94,666	1,27,97,656	---	---	3,31,09,657
8	State Bank of Travancore	2,22,99,318	4,46,41,785	4,08,17,606	4,72,26,159	62,29,466	16,12,14,334
	<i>Total Payments to Corporate Agents / State Bank Group</i>	<i>38,78,98,931</i>	<i>52,14,97,937</i>	<i>43,88,26,207</i>	<i>45,31,89,680</i>	<i>6,19,59,962</i>	<i>186,33,72,717</i>

B		Group Master Policyholders					
		2005-06	2006-07	2007-08	2008-09	2009-10	Total
1	Union Bank of India	2,29,37,300	1,78,37,239	7,70,908	1,95,76,983	1,99,443	6,13,21,873
2	United Bank of India	47,20,394	16,18,530	2,14,61,891	8,06,825	18,07,431	3,04,15,071
3	Sundaram Home Finance Ltd.	5,38,004	15,75,353	55,78,620	58,11,875	21,91,145	1,56,94,997
4	Dewan Housing Finance Corpn Ltd	4,26,955	46,89,208	93,81,710	1,69,62,069	1,11,83,648	4,26,43,590
5	The Federal Bank Ltd	--	1,89,48,091	1,43,08,050	1,67,544	---	3,34,23,685
6	Kerala Transport Development Finance Corpn Ltd	--	1,93,227	69,405	49,709	3,688	3,16,029
Total Payments to Group Master Policy Holders		2,86,22,653	4,48,61,648	5,15,70,584	4,33,75,005	1,53,85,355	18,38,15,245
Grand Total towards the head under reference		41,65,21,584	56,63,59,585	49,03,96,791	49,65,64,685	7,73,45,317	204,71,87,962