



MINUTES OF THE 78th MEETING OF THE AUTHORITY

**held on 28th June, 2013 at 11:00 AM
in the Conference Room of IRDA Office, Hyderabad**

Present:	Chairman	Shri T. S. Vijayan
	Member	Shri R. K. Nair
	Member	Shri M. Ramaprasad
	Member	Shri S. Roy Chowdhury
	Member	Shri D. D. Singh
	Member	Shri S. B. Mathur
	Member	Shri Arvind Kumar
	Member	CA Subodh Kr Agrawal
Also present:	Designated Officer	Shri Sriram Taranikanti, Executive Director

Chairman extended a warm welcome to all those who were present. Leave of absence was granted to Prof. V.K. Gupta Part-time Member, who could not attend because of prior commitments. Thereafter the agenda was taken up for discussion.

Item 1: Confirmation of Minutes of the 77th Meeting of the Authority held on 4th May, 2013.

Confirmed.

Item 1A: Action Taken Report on the 77th Meeting of the Authority held on 4th May, 2013.

In respect of impact of the programmes on Consumer Awareness, the Authority while taking note of the material placed before them informed that in the next meeting, the actual impact of the advertisement campaign may be brought out. The Members also felt that this impact study should be done by a third party agency. It is also felt that there is a need for further breakup of the expenditure met under various subheads.

The Authority took note of the action taken in respect of the other agenda items and got updated of the progress made in respect of each one of them.

Item 2: Annual Statement of Accounts of the Authority for the year ended 31st March, 2013.

The Accounts placed were adopted by the Authority.

It was also decided that a status note on the fulfillment of legal obligations such as compliance of the following Enactments may also be placed before the Authority on a quarterly basis

- a. Income Tax Provisions to the extent applicable to the Authority
- b. Service Tax Provisions to the extent applicable to the Authority
- c. PF and Gratuity Act

While noting that IRDA is having a R&D wing and brings out journals on a monthly basis, it was further suggested that as a good practice, Research expenses should be shown separately.

On a specific query on Investments, it was informed that a defined criteria such as CAR, NPA and exposure to bank etc is followed for investment.

Item 3: Reduction of renewal fees and other fees applicable to Insurance Companies, Insurance Agents, Surveyors and Loss Assessors and Insurance Brokers.

The agenda note was placed before the Authority. It was felt that fees also act as entry barriers and as such processing and license fee for Brokers and TPA may be retained at present level.

With the above observations, Authority approved the reduction in fees etc as proposed in the agenda.

Item 5: IRDA (Licensing of Bancassurance Entities) Regulations, 2013.

1. At the outset Shri Sriram Taranikanti, Executive Director, (Administration) gave a brief background of the proposed Bancassurance Regulations. He informed that with the observations of the 76th Authority Meeting, the matter was once again placed in the IAC in its meeting on 23.05.2013. The observations of the IAC were duly factored in the draft now placed before the Authority. He also informed that a few corrections including deletion of 'incentives to Specified Persons' under infrastructure fee needs to be made in the draft placed to the Authority as those need to be covered within the commission of the Bancassurance entity. Shri T.S. Naik JD (Agency Distribution), IRDA thereafter made a presentation on the essence of the proposed Regulations drawing the attention of the Committee to the salient features viz. Structure, Remuneration, Code of Conduct, Relaxations offered to medium and low penetration areas etc.

2. Chairman, IRDA sought comments from the members on the proposed Regulations. The committee then deliberated on the proposed Regulations.

3. Shri SB Mathur opined that the Remuneration part appears to exceed that given for individual agents. He further stated that by additionally accommodating infrastructure fee, the payout would cross that of Individual Agents. In response, Executive Director (Administration) informed that the Infrastructure fee was intended for the value addition that Banks would provide to Insurers towards publicity and sharing of infrastructure etc. Further he added that the infrastructure fee proposed to allow is to be monitored in terms of Section 40B and 40 C of Insurance Act, 1938. Member (Life) supported this and opined that payment of infrastructure fee in Bancassurance is justified, in view of the utilization of readymade infrastructure of Banks by Insurers. Thereafter an analysis of infrastructure fee and how it encourages the persistency of insurance policies in Bancassurance model was also presented. It was further informed that if the tenure is less than 5 years (as is the present case, in case of policies through the Banking channel) the proposed infrastructure

fee and commission under these Regulations will not breach even the section 40A ceilings.

Mr. Mathur however felt that at a conceptual level, the sum of Commission and Infrastructure fee in case of Bancassurance channel should not exceed the commission prescribed for Individual Agents. Shri Arvind Kumar, Joint Secretary, DFS also opined that payment of infrastructure fee as allowed in these Regulation may lead to channel conflict and thereby could result in litigations among distribution Channels and Insurers, because of similar expectations by other channels. Considering the above discussion, it was agreed to revise the Remuneration part of the Proposed Regulations at par with that of Individual / Corporate Agents.

Mr. Mathur also pointed out the need to look into the penal provisions in light of the multiple tie-ups and the penalty provisions to be limited to those entities.

Shri, R.K. Nair, Member (Finance) suggested to consider NBFC's such as HDFC Ltd etc and to bring them in the ambit of "promoter" in these Regulations under clause 3(5). Further he also suggested to change proviso under Regulation 11(1) by replacing the word "such product" with the word "such class of Insurance". It was agreed that this needs to be factored suitably.

It was also felt that there would be a need to ensure that there is no specific conflict with 'Licensing of Banks as brokers' and 'Licensing of Corporate Agents' Regulations.

The Authority approved subject to the above modifications and authorized Chairman to make consequent changes on the above lines.

Item 6: Status of Registration of Insurance Companies.

Noted.

Item 7: KYC norms-written confirmation from Banks towards Proof of Identity (PoI) and Proof of Address (PoA).

The Authority discussed the agenda with regard to the possibility of using the current passbook of banks as Proof of Identity (PoI) and Proof of Address (PoA) for all insurance products. It was submitted to the Authority that presently written confirmation from the bank is currently regarded as both PoI and PoA under the IRDA's AML/CFT guidelines. The use of the current passbook has also been accepted as a PoA for micro insurance products. One of the Members requested that the current passbook should also be used as PoI and PoA across all insurance products in order to increase the penetration. It was submitted that IRDA is presently not in favour of relaxing this norm as there is a possibility of abuse in case such documents are obtained in isolation across all insurance products. However, IRDA is in favour of accepting the current passbook along with a credit card, debit card, kisan credit card etc., with photograph as PoI and PoA.

The Authority RESOLVED that IRDA would consider current passbook and statement of bank account supported by documents specified namely debit card, credit card, kisan card, etc., issued by any regulated entity/ Government with photograph as a PoI and PoA.

Item 8: List of Circulars/Notifications/Guidelines issued from 22nd April, 2013 to 31st May, 2013.

Noted.

Item 9: Status of requests for change in shareholding pattern of Life Insurers.

Noted.

Item 10: Status of change in the Shareholding pattern by Non- Life Insurers.

Noted.

Item 11: Clarifications on IRDA (Linked Insurance Products), 2013 and IRDA (Non-Linked Insurance Products), 2013.

Noted.

Item 12: Solvency Ratio of Life Insurance companies.

Noted.

Item 13 : Note on Insurance Repository System.

The attention of the Members was drawn to the deliberations in the last meeting of the Authority, when it was decided that a detailed note will be placed in the next Authority meeting. Accordingly, the Agenda note was prepared drawing reference to the previous note to the Authority.

Thereafter, the status of Insurance Repositories was presented to the Members of the Authority. It was explained that the system started from issuance of guidelines on Insurance Repositories and opening of e-insurance account in April, 2011, followed by grant of 'in principle' approval to five Insurance Repositories. This was followed by extensive due diligence and security checks of the application by the CERT in auditors, second level review by STQC and physical verification of the IT infrastructure of all Insurance Repositories by committee of IT experts. In addition, issuance of data standards, procedure for appointment of approved person were finalized and circulated to the industry.

In order to overcome the concerns of some large organisations, the mandatory clause of tying up with Insurance Repository was relaxed. Now only those Insurers who wish to issue electronic policies will need to necessarily tie up with Insurance Repository(ies). The Insurance Repositories shall declare upfront the Insurers with whom they have a tie-up so that the customer is aware of Insurance policies of which Insurance company can be kept in demat form.

To fulfill the requirement of having only one e-insurance account, a Central Index Server has been made operational which will prevent duplication of e-insurance accounts. This Central Index Server would be set up by CDAC. As an interim measure, an application on which IRDA has full IP rights and source code has been developed. This application has been tested by STQC and hosted on the BSNL server. The process of integration of web services between Central Index Server and Insurance Repositories is complete and that of insurers with CIS is underway. With this the Insurance Repository system should be ready for launch.

Further it was informed that one of the members had through a letter raised six issues which he had wanted for taking up for discussion in the Authority meeting. It was brought out that a response to those issues was placed at Annexure II of the Agenda note. Thereafter, these issues were taken up for discussion one by one for consideration of the members.

The following observations were made by the members:

1. One of the members wanted to know whether LIC has in any of their communication to the Authority indicated that the policy administration cost was Rs.600/- which is assumed in the calculations. It was clarified that there was no communication from LIC in this regard. However, this could be obtained either from LIC itself or from the product filings done by the company under file and use guidelines. In this context, Chairman pointed out as Electronic policy is an option for the Insurers, they could take a suitable call based on the advantages or otherwise of this system.
2. Another member pointed out that care should be taken to ensure that the Insurance Companies do not exercise control over the Insurance Repositories and there is a need to avoid conflict of interest. Secondly, IRDA should not get into pricing of the services offered by IR to insurers. Thirdly, there is a need to have utmost data security

and data integrity so that personal details and customer data of a company is kept confidential.

3. Chairman, IRDA added that the Insurance Repository system can be leveraged to increase Insurance penetration by selling simpler low ticket insurance products using this architecture. The cost of issuing and servicing an Insurance policy can be reduced substantially using Information Technology and ensure spread of Insurance to every nook and corner of the country. He observed that for a premium size of say Rs.2,000/- there would be a need to cover the 'Onboarding & Policy Administration' costs to not only within the yield amounts but also give a reasonable net yield at par with Savings Bank interest to the policyholders.

It was also informed to the Members that Insurance Repository system is proposed to be launched shortly. The Authority took note of the same.

Item 16: Sting Operation on Insurance Companies-Steps taken/ Subsequent events post first expose.

Noted.

It was submitted to the Authority that subsequent to the Cobrapost expose on March 14, 2013 on three insurance companies, a second expose in May 2013 on four insurance companies namely Life Insurance Corporation of India, Birla Sun Life Insurance Company Ltd., Reliance Life Insurance Company Ltd., and Tata AIA Life Insurance Company Ltd., was reported. The Authority was informed that while the first three companies inspections was carried out by IRDA the irregularities highlighted thereunder would be taken to its logical conclusion. However, with respect to the second expose, it was submitted to the Authority that the comments/views of the companies were called for and the CEOs and Compliance Officers were summoned to explain the lapses if any with regard to the systems and processes for compliance to the extant AML/CFT guidelines. It was further submitted that the focused inspection with regard to these companies have been completed and the inspection reports are under examination.

The Authority was further informed that Director (Intelligence) from Income Tax Departments, Chennai and Hyderabad had visited IRDA office to enquire into the alleged money laundering/tax evasion arising out of the sting operation reported so far. The IRDA's procedure and process with respect to regulation and supervision of insurance companies and the reporting of suspicious transaction and cash transaction to the FIU of the Department of Revenue was explained.

With this the Authority directed that the inspection findings be taken to their logical conclusion and insurance companies be advised to implement the AML/CFT guidelines strictly.

Any other item with the permission of the Chair:

Discussion paper on Web Aggregation.

A discussion paper was circulated to the Members of the Authority as a table item during the meeting.

Member (Distribution) briefed the Authority on the status of web aggregation and gave details about number of leads transferred so far by the approved web aggregators to the Insurers. He also informed about the present remuneration structure and the observations of various stakeholders on the same. He also briefed the Authority about the web aggregation system prevalent in other jurisdictions.

It was proposed in the meeting that the web aggregation system in the present form requires a relook.

It was decided that the matter will be taken up with various stakeholders and their views will be considered before a final decision is taken on the matter.

It was also mentioned that the Authority proposes to issue regulations in this regard.

(T. S. Vijayan)
Chairman