



MINUTES OF THE 85th MEETING OF THE AUTHORITY

held on 25th September, 2014 at 10.30 AM

at the Office of the Authority, 3rd Floor, Parishrama Bhawan, Basheerbagh,
Hyderabad.

Present:	Chairman	Shri T. S. Vijayan
	Whole-time Member	Shri R.K. Nair
	Whole-time Member	Shri M. Ramaprasad
	Whole-time Member	Shri D. D. Singh
	Part-time Member	Shri Anup Wadhawan
	Part-time Member	Shri S.B. Mathur

Also present:

Designated Officer	Shri M. Pulla Rao, Sr. J.D. (General)
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Chairman extended a warm welcome to the Members present. Leave of absence was granted to Shri K. Raghu, President, ICAI and Prof. V.K. Gupta, Part-time Members, who could not attend the meeting because of prior commitments.

Thereafter, the agenda was taken up for discussion.

Item No. 1: Confirmation of Minutes of the 84th meeting of the Authority held on 27th May, 2014 and 4th June, 2014 respectively

Confirmed.

Item No. 2 : Action Taken Report on the 84th Meeting of the Authority held on 4th June, 2014

Noted.

Item No. 4: Minutes of 71st to 82nd Meetings of the Authority where action has been completed/or is under progress

Noted

Item No. 5: Annual Accounts of the Authority for the year ended 31st March, 2014

CAO informed the Members that the Annual Accounts of the Authority had been prepared in compliance with the provisions of IRDA Act, 1999 and IRDA (Form of Annual Statement of Accounts and Records) Rules, 2001 and the same were audited by the office of the Comptroller and Auditor General of India (C&AG).

After due deliberations, the Authority adopted the Annual Accounts by passing the following resolution:

RESOLVED THAT the audited Annual Statements of Accounts of the Authority for the year ended 31st March, 2014 be and hereby adopted.

Item No. 6: Delegation of powers of Authority under Section 64UM (3) of Insurance Act, 1938

Member (Non-life) explained that in a recent court case relating to appointment of second surveyor u/s 64 UM (3) of Insurance Act, 1938, the Hon'ble High Court of Karnataka held that power vested with the Authority should be exercised by the Authority as defined u/s 3 of the IRDA Act, 1999, which meant that all matters relating to appointment of second Surveyor u/s 64 UM (3) were required to be brought before the Authority (which means the Authority comprising of Chairman and all the Members) which would result in delay in taking decisions.

Member (F&I) suggested that the power should be delegated to both Chairman and Member (Non-life), instead of Member (Non-life) alone, to facilitate prompt decision-making.

With the above discussions, the Authority approved delegation of power of the Authority u/s 64 UM (3) to Chairperson and Whole-time Member (Non-life) by passing the following resolution:

RESOLVED THAT the powers vested with the Authority under sub-section 3 of Section 64 UM (3) of Insurance Act, 1938, be and hereby delegated to the Chairman

and Whole-time Member (Non-life) of the Authority in terms of Section 23 of IRDA Act, 1999.

Item No. 7: Revision of IRDA Insurance Research Grant Scheme (IRDA-IRGS)

The Authority approved the revision of the scheme proposed by the Authority and advised the Department to modify the areas of research so that research work shall include any relevant topic as might be suggested by Members of IRDA.

Item No. 8: Modifications to IRDA (Protection of Policyholders' Interests) Regulations, 2002 and issue of Revised IRDA (Protection of Policyholders' Interests) Regulations

The need for modification to the Regulations and the salient features of the draft Regulations were discussed. The Authority approved taking up modifications to the Regulations and directed the Department to go ahead with the next stage and place draft Regulations in public domain for comments.

Item No. 9: Status note on IRDA building project under construction at Nanakramguda, Gachibowli, Hyderabad

Joint Director (Building) had briefed the Authority on the progress of construction of IRDA Building complex. He also explained the status of various issues such as taking over of the project from APIIC, structural stability certification by JNTU, and approval from Local Authority, i.e., APIIC - IALA.

He also apprised the Authority about the details of expenditure as per preliminary estimate of CPWD and sought approval of the Authority for an expenditure sanction of Rs. 153.73 crore towards total building project cost in cancellation of Rs.116.49 crore approved in the Authority's 66th meeting held on 20.10.2010. The above sanction included 3% contingencies and 4.5 % CPWD charges. Joint Director also informed the Authority that the Building Steering Committee had also approved changes in respect of seating arrangements of Members on the 5th floor, instead of spreading across all floors as per earlier plan. The architectural consultant has estimated that these changes and interior design work in 5th floor would cost an

additional expenditure of Rs. 11-12 crore , he submitted and stated that the total project cost would stand revised to Rs.165.73 crore.

After due deliberations, the Authority accorded the administrative approval and expenditure sanction as proposed by passing the following resolution:

RESOLVED THAT the revised cost of estimate of Rs. 153.73 crore towards the total building project cost in cancellation of earlier sanction of Rs. 116.40 crore approved in the 65th meeting of the Authority held on 20th October, 2010, be and hereby approved. IT IS FURTHER RESOLVED THAT, the additional estimated cost of Rs. 11-12 crore on account of furnishing of 5th floor be and hereby considered and the same may be approved by the Chairman with the recommendations of the Building Steering Committee.

Item No. 10: IRDA (Micro Insurance) Regulations, 2014

Joint Director (Life) introduced the background of the Micro Insurance Regulations and presented the proposed IRDA (Micro Insurance) Regulations, 2014. Suggestions received from the Members of Insurance Advisory Committee in its meeting held on 20th September, 2014 were placed before the Authority. The Members welcomed the proposed Regulations on Micro Insurance. During the course of deliberations, Members suggested the following:

1. Instead of allowing individually various categories of the Business Correspondents, the Business Correspondents as a category should be allowed. It was pointed out that Micro Insurance was going to play a key role in the Financial Inclusion efforts of the Government of India. It was clarified that various individuals allowed as Business Correspondents were a potential market for giving the individual insurance agency for commercial lines of business, hence, a considerate view was taken to selectively permit only certain categories of the BCs. Further, it was also clarified that allowing BCs as a class would potentially leave the selective criteria of Micro Insurance Agents to the criteria adopted by the RBI. Member (Distribution) explained in detail the objective of being choosy in allowing the MI Agents owing to the substantial functions, including the collection of premiums, carried out by the Micro Insurance Agents. Chairman while emphasizing the need for expanding the definition of Micro Insurance Agents,

allowing various other categories of the Business Correspondents as Micro Insurance Agents might be considered.

2. Members expressed the view that the regulations should have provisions that require protection of the interests of the policyholders.
3. Based on the suggestions of IAC, the proposal to decrease the Non Life Insurance premium for MSME Sector from Rs 25000 to Rs 10000 was considered by the Authority. Another suggestion of IAC for having different maximum ceilings / caps for Individuals and Family under Health Insurance were also considered. Accordingly, it has been decided to place a maximum cap of Rs 1 lakh sum assured for individual health insurance and Rs 2.50 lakhs sum assured as maximum cap for family under Health Insurance.
4. It was decided to authorise Chairman, IRDA to issue any clarifications / removal of any difficulties under Micro Insurance Regulations, 2014 by modifying the clauses 20 and 21.
5. Members expressed that the micro insurance regulations should allow innovations.
6. Chairman clarified that the guaranteed interest provisions pertaining to Micro Variable Life Products would be revisited.
7. Chairman has informed that the provisions of product regulations, health insurance regulations, those regulatory provisions that were relevant for the best practices in the settlement of claims and market conduct would be made applicable to the Micro Insurance Business. It was further clarified that certain regulatory provisions of the product regulations, specifically, those relating to the actuarial matters would be suitably adapted and brought into the Micro Insurance Regulations.
8. With regard to removal of difficulties/issuing clarifications, it was resolved to replace the word "Authority" in Regulations 20 and 21 with "Chairperson".

Chairman was authorized to make such corrections / modifications as necessary before notifying the regulations.

Item No. 11: Development of professional skills of Agents through Financial Sector Skill Council of NSDC

Joint Director (Agency Distribution) apprised that the Authority in its previous meeting decided to refer the matter pertaining to infusion of capital into BFSI SSC to Insurance Councils. Accordingly, the Department had written to the Councils. The Life Insurance Council has agreed to infuse capital as sought by BFSI SSC. Further, as decided by the Authority, the competent authority has nominated Member (Distribution) to the board of BFSI SSC and the required formalities have been completed.

The above was placed before the Authority for information which was noted.

Item No. 13: Status of Public Disclosures by life insurers for the year ended March, 2014

Noted.

Item No. 14: Status of Public Disclosures by Non-Life Insurers for the Quarter ended June, 2014

Noted

Item No. 16: IRDA {Licensing of Insurance Marketing Firm (IMF)} Regulations, 2014

The Authority took up for consideration the agenda on Regulations on Insurance Marketing Firm. A presentation by Sr. JD (Intermediaries) giving the concept, background and genesis of the Insurance Marketing Firm was made to the Members of the Authority. The presentation covered the consultative steps followed by the Authority with various stakeholders in the insurance industry culminating in submission of a report by the working group of 10 CEOs of insurance companies and issuance of draft regulations for comments. The comments received from various stakeholders were analysed and incorporated into the draft regulations which were placed before the Insurance Advisory Committee.

The salient features of the regulations included: 1) IMF to market insurance and financial products such as MF, Pension, banking products, post office products, etc.; 2) IMF to undertake insurance activities such as surveyor functions, outsourcing

activities as permitted in the outsourcing guidelines; 3) Appointment of Principal Officer with requisite qualification, experience, training and passing of exam; 4) IMF to engage Insurance Sales Person (ISP) whose qualifications, training and examination were specified; 5) Appointment of a licensed Financial Service Executive (FSE) to market MF/ Pension Products, investment advice through an Investment Advisor, etc.; 6) Structure of IMF as LLP or a company or a cooperative society; 7) Fit and Proper criteria to assess the suitability of the IMF; 8) Code of Conduct and Duties and Obligations for the Principal Officer, ISP and FSE; 9) Customer grievance handling procedure; 10) Net-worth requirement of Rs 10 lakhs; 11) Validity of license for 3 years; 12) Remuneration payable to IMF/ ISP/ FSE; 13) Requirements for agents/ brokers becoming IMF; 14) Operations of IMF restricted to a district; 15) Minimum remuneration payable to ISP; 16) Suspension, cancellation and renewal of licenses; 17) Furnishing of returns to Authority; etc.

In addition, the following changes were proposed to the draft IMF regulations after consultations with the Members of the Insurance Advisory Committee:

1. The IMF could market insurance products of 2 life, 2 general and 2 health insurance companies
2. The IMF should market only retail lines of general insurance products such as motor, health, householders, shopkeepers, etc. The complex products for large/ complicated risks shall be outside its purview.
3. The IMF would be entitled to receive fee/ charges only from life insurers, for recruitment, training and mentoring of its sales force. This is typically allowed for a development officer in case of LIC and unit sales manager for a private life insurer. This fee/ charge shall not exceed 50% of 1st year commission and 10% of renewal commission. Further, these fees/ charges will have to be filed with the Authority upfront at the time of filing of the life insurance product under the file & use guidelines of the Authority.
4. Multi-level marketing be not permitted. To keep a check on it, reporting in terms of number of policies sold, number of ISP's employed, amount of remuneration paid to ISP and premium collected would be reported to the Authority on a monthly basis.
5. The promoters of brokers also be allowed to set-up an IMF.

6. The ISP might be given a fixed minimum monthly salary of Rs 5,000/- instead of Rs 8,000/- as given in the draft regulations.
7. The IMF be allowed to use licensed payment gateways for collection and transfer of premium when the IMF was authorized by the insurer to collect the premium on its behalf.
8. Chairman of the Authority be authorized to issue clarifications/ modifications to the Regulations by way of circulars/ guidelines/ directions.

One of the Members of the Authority suggested that since the IMF would be entitled to receive fees for undertaking insurance service activities that are mutually agreed between it and the insurance company, it might be in order to specify that these fees should be reasonable depending upon the time and effort.

One of the Members sought to know the difference between a broker and an IMF as both fell into the category of insurance intermediary and whether a broker could duplicate the functions of an IMF. It was explained that while broker was licensed on an all-India basis and dealt with all insurance companies in all categories of products, the IMF operations were restricted to a district, with tie-ups with 2 life, 2 general and 2 health insurers and selling only retail general insurance products which were defined in the file & use guidelines.

It was pointed out that there could be a potential conflict of interest situation if the promoters of a broking company were allowed to promote the IMF. It was explained that both the broking company and the IMF represent the customer. Each of them would be working in a different market segment. Further, if full disclosures were made with regard to the directors, promoters, shareholders and key management, persons there might not be any conflict of interest.

Following this, the Members of the Authority approved the Regulations on Insurance Marketing Firm with the above changes by passing the following resolution:

RESOLVED THAT the IRDA {Licencing of Insurance Marketing Firm (IMF)} Regulations, 2014 with the proposed modifications be and hereby approved. IT IS FURTHER RESOLVED to authorise Chairman to make such corrections/modifications as necessary before notifying the regulations.

Item No. 17: Budget support to IIB (2014-15)

The Members perused the agenda placed before them and it was noted that the issue pertaining to IIB has not yet been resolved from the Government level. In this context, the letter F. No. R-16014/08/2014-Ins. I dated 23rd September, 2014 sent by the Under Secretary to the Government of India was placed before them wherein the observations of the DFS in consultation with Ministry of Law and Justice was communicated to IRDA. It was decided to take the said observations on record.

In this context, Members strongly viewed that the creation of a body such as Insurance Information Bureau (IIB) was well within the mandate given to the IRDA under the IRDA Act, 1999. Similar such organizations have been created by RBI and SEBI as per their provisions. It was also emphasized that an organization like IIB should be in existence with an 'arm's length' from IRDA in view of the need to bring efficiency to the Insurance market and requirement of different skill sets for the purpose.

It was noted that the IIB was initially conceived in the year 2009 after the dismantlement of the TAC and subsequently converted into a Society in 2012. It is managed by a Governing Council comprising of industry representatives, experts from different fields and the IRDA. In the present juncture, there will be a continued need for support from the IRDA for the functioning of IIB. This is particularly necessary as the Industry has to be sensitised of the benefits of Analytics that are used in other developed jurisdictions in a big way.

IIB has also taken up several initiatives particularly in the Hospital and Motor Insurance matters, the latter issue being in the know of the Hon'ble High Courts of Punjab & Haryana and of Delhi. Such analytics are expected to improve the efficiency of the industry. Such benefits have already been availed by the industry in respect of Motor, Health and other Lines of Business and help towards various matters like reduction in fraud in the Insurance industry will be another key area where such analytics can play a role.

The Members noted with concern that the issues relating to IIB are not yet resolved from the Government perspective and at this stage many of IIB's functions are already affected for want of provision of capital budget for IIB to expand its

activities. Besides, there are a number of revenue related activities such as payment of Salaries & Allowances, payment of rent, payment to vendors, AMC charges, Office expenses etc. There are also requirements in respect of network connectivity and related call charges which are essential for the IIB for its minimum functioning too. Besides, in order to utilize existing resources adequately, some of the capital expenditure also needs to be incurred. Hence, continued financial support would be necessary.

In the above context, in view of the Government stand communicated in the aforesaid letter, the Government of India nominee namely Shri Anup Wadhawan has however, expressed his dissent for further flow of funds from IRDA and sought IRDA comments on the observations to be sent to the Government at an early date. However, notwithstanding the dissent from him, other Members, taking into consideration the totality of the picture including the need to pay salaries and other payments some of which have legal requirements that cannot be postponed, decided that the revenue expenditure be released to IIB.

It was also decided that the matter may be appropriately pursued not only with the DFS but also with the Ministry of Law and Justice and other agencies in order to resolve the matter at an early date so that the remaining expenditure pertaining to capital items can be taken up for best utilization of the IIB services. In view of the above, the Members except the Government representative, namely Shri Anup Wadhwan, decided that the payment to IIB for revenue expenditure may be made for the coming quarter and the matter once again be placed before the Authority in its next meeting.

Item No. 18: Status note on soft loan to IIRM

Members noted that the matter relating to IIRM is also of the similar nature as that of the IIB. In this context, as there was no emergency requirement of funds, it was decided to pursue the matter suitably with the Government for early resolution.

Item No. 20: Status Note on implementation of FSLRC-NLR

Executive Director briefed the Authority that as decided in the 81st meeting of the Authority, a high level review of the non-legislative recommendations (NLRs) of

FSLRC is being undertaken. He also highlighted the initiatives already being taken by the Authority in implementation of the NLRs. The Authority noted that while two sub groups of the high level committee have submitted the reports in their assigned areas, the third sub group is expected to finalize its report by October 15.

In the course of discussions, Executive Director briefed the members that Dr K.P. Krishnan, Additional Secretary, DEA, during his visit to the Authority sensitized the process involving recommendations regarding 'framing of regulations'. He also informed that according to the same, the Authority is to be apprised before the process of making Regulations is initiated. As this would require analysing and presentation in a certain format, Dr Krishnan also assured the Authority of technical assistance in this regard from the DEA.

Executive Director, placed before the Authority of the proposed way in taking the NLRs forward as under –

- Plan of action to be finalized by October, 2014
- Follow up actions to be taken by November, 2014
- Place before the Authority in December, 2014
- Process of implementation of NLRs to be completed by this financial year.

He further informed the Members that the Authority would be apprised of the developments in its next meeting.

Item No. 21: Annual Report 2013-14

Members considered the agenda note placed before them. It was also informed that the Members are requested to give their comments within 15 days so that the timelines stipulated for Annual Report are adhered to. The Members authorised the Chairman to make changes as may be necessary.

Table Items:

Table Item No. 2: IRDA (Health Insurance) (First Amendment) Regulations, 2014

Member (Non-life) informed the Members that certain areas in the IRDA (Health Insurance) Regulations, 2013, were revisited by the Department and it was felt that

aspects like Free Look Period, Cumulative Bonus and AYUSH coverage etc., require modification/clarification. Accordingly, the IRDA (Health Insurance) (First Amendment) Regulations, 2014, incorporating modifications in respect of the aforesaid aspects, were placed in the 24th meeting of IAC held on 20th September, 2014 and the IAC approved the proposed amendments.

The Authority after due deliberations, resolved to approve the same by passing the following resolution:

RESOLVED THAT the 'IRDA (Health Insurance) (First Amendment) Regulations, 2014', be and hereby approved.

Table Item No. 4: Special Dispensation to Insurers under Section 64 UM (2) of the Insurance Act, 1938

Noted.

(T. S. Vijayan)
Chairman