

Order in the matter of SBI Life Insurance Co. Ltd.

1. Based on the

- i) Show Cause Notice ("SCN") reference No. IRDA / Enforcement / 2023 /710 / LR / 018 dated 24th June, 2024 issued to M/s SBI Life Insurance Co. Ltd. **(Insurer)** in connection with the on-site inspection conducted by the Authority.
- ii) Submissions made by the Insurer vide email dated 15th July, 2024 in response to the aforesaid SCN.
- iii) Submissions made by the Insurer during the personal hearing held on 12th August, 2024 at 2.30 PM, by the panel of Two Whole Time Members of the Authority- Shri B.C Patnaik (Member-Life) and Shri Satyajit Tripathy (Member-Distribution).
- iv) Further submissions made by the Insurer vide email dated 19th August, 2024.

2. Background

- 2.1. The Authority had conducted an on-site inspection of M/s. SBI Life Insurance Co. Ltd. (Insurer) from 12th to 23rd October, 2020. The inspection report, inter alia, revealed certain violations of provisions of the Insurance Act, 1938 and Regulations and Guidelines issued thereunder.
- 2.2. A copy of the inspection report was forwarded to the Insurer on 12th January, 2021 seeking their response and the response was received vide letter dated 12th February, 2021.
- 2.3. On examining the submissions made by the Insurer, a show cause notice (SCN) was issued on 24th June, 2024. The Insurer replied to the SCN vide letter dated 15th July, 2024. As requested for by the Insurer, personal hearing was granted to the Insurer on 12th August, 2024.
- 2.4. On behalf of the Insurer, Shri Amit Jhingran, MD & CEO; Shri Sangramjit Sarangi, President and CFO; Shri Rajnish Madhukar Chief Operating Officer; Ms. Smita Verma, Senior Vice President (F&A) and Shri Pranay Raniwala,

Chief Compliance Officer and on behalf of the Authority, Shri B.C Patnaik (Member-Life), Shri Satyajit Tripathy (Member-Distribution) and, Shri R K Sharma (CGM), Shri T.V. Rao (GM), Shri Sanjay Kr. Verma (GM), Shri Saket Gupta (Manager), Shri Viswanath Valmiki (Manager) and Shri Atul Gupta (Asst. Manager) attended the hearing.

2.5. The submissions made by the Insurer in its letter dated 12th February, 2021, submission made after SCN vide email dated 15th July, 2024 and submission during the personal hearing on 12th August, 2024 and those made vide email dated 19th August, 2024 have been carefully considered by the Authority and are summarized below:

3. Charge-1

Violation of

- a) *Clause 6 of Corporate Governance Guidelines dated 18th May, 2016;*
- b) *Clause 2 of Circular IRDA/Life/CIR/GDL/285/12/2014 dated 29.12.14 issued by the Authority read with Regulation 42(e)(iv) of IRDA (Linked Products) Regulations, 2013 & Regulation 49(a) read with Regulation 34(e) & 34(g)(iv) of IRDA (Non-Linked Insurance Products) Regulations, 2013.*

3.1. Inspection Observation-1, Chapter C

The insurer did not ensure that the Master Policyholder (MPH) has obtained authorization from respective members covered under group policies under lender borrower relationship category before making payment of claim proceeds to the MPH to the extent of amount due from them.

3.2. Summary of Insurer's Submissions:

The insurer submitted that in the standard membership form of all the three credit life products, they had obtained necessary authorization from the members at the time of their enrolment and they submitted samples for the same. Based on the authorization obtained from the member, outstanding loan amount is paid to Master Policyholder by deduction from claim proceeds payable on happening of the contingent event covered by the Group Life

Insurance Scheme and balance claim amount, if any, is paid to nominee/beneficiary of insured member. The insurer confirmed that they are obtaining authorization in all such cases and submitted a certificate confirming the same.

3.3. Decision on Charge 1:

Based on the submission made by the Insurer, the charge is not pressed.

4. Charge-2

Violations of -

- a) *Section 45 of Insurance Act, 1938,*
- b) *Circular IRDA/Life/GDL/Misc/186/10/2015 dated 28.10.2015.*

4.1. Inspection Observation-3, Chapter C

- 4.1.1. The insurer has been repudiating claims by way of calling the policy in question in terms of Section 45 of the Insurance Act, 1938 after the lapse of 3 years from the date of risk commencement.
- 4.1.2. There were 21 sample cases taken, some of the policies collected as a samples, like Policy No. 51010938705, 1G001864504, 56050381705, the insurer submitted that claims were rejected based on non-disclosures at the time of revival. However, the relevant evidences have not been furnished.
- 4.1.3. In case of 45009324304, the insurer submitted that the death occurred within 3 years of policy issuance but reported after 3 years.
- 4.1.4. In case of 17 other cases, the insurer stated that they have repudiated the claims as the date of death was within three years of policy issuance.

4.2. Summary of Insurer's Submissions:

- 4.2.1. Insurer submitted that in accordance with the Authority's letter dated October 28, 2015 ref: IRDA/Life/GDL/MISC/186/10/2015, they had been following the practice of repudiating the claims wherein the fraud was

clearly established and the date of death was within 3 years of the risk commencement date or date of issuance of the policy or date of rider of the policy, whichever is later.

4.2.2. Insurer further submitted that they had identified 86 claims that had been repudiated after expiry of 3 years from date of policy i.e. from the date of issuance of the policy or date of commencement of risk or date of revival of the policy or date of the rider, whichever is later, even if death has occurred within 3 years of DOC / date of revival of policy.

4.2.3. Insurer submitted that all these cases in total amounting to Rs 5.78 crores along with penal interest of Rs 4.43 crores were settled for 86 policies.

4.2.4. The insurer has submitted a certification signed by CEO and CFO that all claims beyond three years from DOC / DOR have been paid along with penal interest as per the amended act provisions.

4.3. Decision on Charges- 2

The submission of insurer is taken on record. Further, the Insurer is advised to adhere to the provision of Section 45 of Insurance Act, 1938 while settling the death claims.

5. Charge-3

Violation of Circular No IRDA/ACTL/FUP/VER 2.0/ DEC 2001 on File and Use Procedure dated 12th December, 2001.

5.1. Inspection Observation-1, Chapter E

5.1.1. There were sample of 7 instances where the proposal form was filled and subsequently policy issuance of insurance product was materialized after the date of withdrawal. Further, the proposal form of policy number 45462486210 was filled on 17th November, 2017. However, the insurance product SBI Life - Smart Shield (UIN: 111N067V04) was launched on 20th November, 2017. Therefore, the filling of proposal was done before the launch of the product.

5.1.2. Hence it is concluded that the insurer has sold insurance products after withdrawal date / before launch date. Further, the insurer has also failed to ensure suitable infrastructure requirements before launch of new products and after withdrawal of existing product.

5.2. Summary of Insurer's Submissions:

Insurer submitted that at the time of vesting of Pension Policy no. 8001898504, SBI Life Annuity Plus version (UIN - 111N083V05) was in existence. Therefore, in order to maintain continuity from vesting date in accordance with the approved terms of conditions SBI Life - Unit Plus 3 Pension product, annuity policy had been issued under earlier version of the Product. Besides, they submitted that they have now streamlined the system to prohibit data entry after withdrawal.

5.3. Decision on Charge 3:

The insurer is cautioned for selling insurance policies after the withdrawal of the product and advised to adhere to the extant regulations in this regard.

6. Charge-4 & 5

6.1. Charge-4

Violation of regulation 30(b)(ii), 30(b)(iv), clause 1(b) of Form U under Schedule VII read with regulations 2(j) and 30 of IRDAI (Insurance Web Aggregators) Regulations, 2017.

6.1.1. Inspection Observation 5, Chapter B

On perusal of the agreements shared by the insurer pertaining to insurance web aggregators, it is noticed that the insurer engaged them

for outsourcing activities. Brief details of these agreements are given in the following table:

Name of the Insurance Web Aggregator	Date of Agreement	Payment terms	Remarks
Policybazaar Insurance Web Aggregators Pvt. Ltd	17.11.2017	Rs.40,000/- per seat per month	No specific services mentioned in the agreement
MIC Insurance Web Aggregators Pvt. Ltd	4.4.2018	Rs.40,000/- per seat per month	Outbound calling to assist the customer complete the online application and documentation submission
Compare Policy Insurance Web Aggregators Pvt. Ltd	20.6.2018	Rs.40,000/- per seat per month	Outbound calling to assist the customer complete the online application and documentation submission
Easypolicy Insurance Web Aggregators Pvt. Ltd	21.4.2018	Rs.40,000/- per seat per month	No specific services mentioned in the agreement
Wishfin Insurance Web Aggregator Pvt. Ltd	5.8.2018	Rs.39,000/- per seat per month	No specific services mentioned in the agreement

In the absence of specific details of services / activities to be performed by the insurance web aggregators, it is not clear on what basis the insurer has arrived at the payment per seat / per resource basis. In addition, in the case of My Insurance Club Insurance Web Aggregator Pvt. Ltd (MIC Ins. Web Agg) and Compare Policy Insurance Web Aggregator Pvt. Ltd, the activities stated in the agreements were pre-sale activities which are considered to be telemarketing activities for solicitation of insurance.

6.1.2. Summary of Insurer's Submissions

6.1.2.1. Insurer submitted that they had entered into an agreement with the Web Aggregators viz. Policy Bazaar Ins. Web Agg. Pvt. Ltd., Easy Policy Ins. Web Agg. Pvt. Ltd. and My Insurance Club Web Agg. Pvt. Ltd.(MIC) to undertake outsourcing activities in respect of insurance policies procured through them through telemarketing & distance marketing modes. In the addendum executed with each of these Web Aggregators, the scope of Outsourcing further defined to undertake post solicitation activities like premier reminders, collection of renewal premium, assisting in the policy services related matters etc. using telemarketing. In this Annexure of the agreement basis of charge was agreed as Rs 40,000 per Full time employee per month working 8 hours / day.

6.1.2.2. The insurer further submitted that they discontinued the agreement with web aggregators mentioned in the observation from 2021 onwards. Post personal hearing, the insurer has submitted a certification signed by CEO and CFO in this regard detailing the date of discontinuance of agreements as under:

Name of Insurance intermediary	Service availed till
Policy bazaar Insurance web aggregators Pvt Ltd	June 2021
MIC Insurance web aggregators Pvt Ltd	Sep 2018
Compare Policy Insurance web aggregators Pvt Ltd	No services availed
Easypolicy Insurance web aggregators Pvt Ltd	March 2021
Wishfin Insurance web aggregators Pvt Ltd	No services availed

6.2. Charge-5

Violation of *Regulation 21 of IRDAI (Outsourcing by Indian Insurers) Regulations, 2017.*

6.2.1. Inspection Observation-6, Chapter B

The insurer paid an amount Rs.1,48,65,838/- and Rs. 45,00,000/- to M/s. Extent Marketing and Technologies Pvt. Ltd during the years 2017-18 and 2018-19 respectively. While the insurer was under obligation to report the payment made to the said entity in the year 2017-18, the same was not filed with the Authority as per the requirement of Regulation 21 of IRDAI (Outsourcing by Indian Insurers) Regulations, 2017. It was noticed that vendor does not have its own infrastructures and 95% of its revenue is received from entity were expended in the form of outsourcing. Thus, 95% of revenue has been transferred to Third party.

6.2.2. Summary of Insurer's Submissions:

Insurer submitted that since digital marketing is a specialized activity and they cannot carry out these activities internally, it was not considered as Outsourcing in accordance with Regulation 4(e) of IRDAI (Outsourcing of Activities by Indian Insurers) Regulations, 2017, and hence the details of the same were not reported to IRDAI along with details of other outsourcing arrangements. The insurer submitted that they discontinued the agreement with Extent Marketing and Technologies Pvt Ltd. from April 1st, 2018 onwards and submitted a certification signed by CEO and CFO confirming the same.

6.3. Decision on Charge 4 and 5

6.3.1. Insurers must avoid or mitigate any conflicts of interest while outsourcing. It is to be noted that even where outsourcing is made to an intermediary, the insurer retains responsibility for all regulatory obligations, proper due diligence, monitoring of the outsource service provider and the services provided is essential. Regulation 14(vi) of IRDAI (Outsourcing of Activities by Indian Insurers) Regulations, 2017

provides that Insurance Intermediaries and other regulated entities of the Authority shall not be contracted for performing any activity other than those activities that are allowed under the respective regulations or guidelines notified. Further, 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.

- 6.3.2. There were no specific services mentioned in the agreement with the Policybazaar Web Aggregator specifying the nature of services along with the cost structure per service basis as mandated under Schedule VII, Form U of IRDAI (Insurance Web Aggregators) Regulations, 2017. In the absence of specific details of services, it is not clear on what basis per seat per month payment was agreed upon. The arrangement is a clear case of conflict of interest as the whole arrangement is to create a revenue generation opportunity to the web aggregators.
- 6.3.3. The regulations do not give any discretion to Insurers to outsource to the Web aggregators whatever activities they wish. Regulations clearly stipulate that the activities to be outsourced to the web aggregators will have to be post-sale activities in respect of policies which have been solicited through the respective web aggregators. The regulations also clearly state that these activities will have to be paid charge basis and the same has to be clearly defined in the agreements. Thus, the services rendered by the Web Aggregators are limited, accordingly, the remuneration should be reasonable and for the specific services availed by the insurer. Irrespective of the parameter – i.e., per seat basis or per transaction basis, the rate at which the services are rendered should be reasonable. To assess the reasonability, the payments made should be in proportion to the volume of transactions involved. The Insurer has failed to demonstrate the type of transactions undertaken for the purpose of post-sale services offered by the Web Aggregators to justify the amounts involved. This is clearly in violation

of Regulation 30(b)(iv) of IRDAI (Insurance Web Aggregators) Regulations, 2017 which prescribes that “reasonable service charges” are to be paid by the Insurer.

- 6.3.4. Further, in terms of IRDAI Circular dated 06/12/2018, the insurer is prohibited from outsourcing pre-sale activities which was undertaken by MIC Insurance Web Aggregator and Easypolicy Insurance Web Aggregator.
- 6.3.5. The Insurer has not filed the outsourcing returns with respect to M/s. Extent Marketing and Technologies Pvt Ltd with the Authority under Regulation 21 of IRDAI (Outsourcing of activities by Indian Insurers) Regulations, 2017 thus avoiding the regulatory scrutiny and further failed to establish that the arrangements with M/s. Extent were evaluated by the Outsourcing Committee and that the decision to engage with such entities were based on sound business practices taking into account the cost and potential benefits of outsourcing against the risk that may arise in accordance with Regulation 8(iv) of IRDAI (Outsourcing of Activities by Indian Insurers) Regulations, 2017. Thus, it is concluded that Outsourcing of critical or important operational functions or activities has been undertaken to impede the supervisory authority’s ability to monitor the compliance by the insurer with its obligations.
- 6.3.6. By not categorising the agreement with M/s Extent Marketing as an outsourcing agreement, the insurer has not scrutinised the operations and functioning of the entity at their own level and ended up transacting with a dubious entity which does not have an infrastructure of its own and about 95% of the revenues received by it are expended in the form of outsourcing. In choosing an outsourcing provider, the Insurer failed to satisfy themselves as to the expertise, knowledge and skills of such provider and thus failed to assess the potential service provider’s ability and capacity to deliver the outsourced activities or functions as they did not perform adequate due diligence on the service provider to ensure

that the service provider has the necessary resources to perform the outsourced activities or functions in a proper and reliable way.

- 6.3.7. As per the invoice copies mentioned thereunder, the payments were made to display the banners of the insurer by the vendor. However, no such scope was mentioned in the agreement thus raising questions on the genuineness of such payments.
- 6.3.8. On examination of data of business procured by the insurer through the web aggregators namely MIC Insurance web aggregators Pvt Ltd and Easypolicy Insurance web aggregators Pvt Ltd, it is concluded that these entities provided outsourcing activities for policies which were not solicited through them.
- 6.3.9. Therefore, it is concluded that the pay-outs are not reasonable and not commensurate with the function or activity outsourced but they are resulting in paying remuneration for which commissions are already being paid.
- 6.3.10. **In view of the above, in exercise of the powers vested under Section 102(b) of the Insurance Act, 1938, the Authority hereby imposes a penalty of Rs. One Crore for the violation of Regulation 30(b)(ii), 30(b)(iv), clause 1(b) of Form U under Schedule VII read with regulations 2(j) and 30 of IRDAI (Insurance Web Aggregators) Regulations, 2017 and Regulation 21 of IRDAI (Outsourcing by Indian Insurers) Regulations, 2017.**
- 6.3.11. **Taking into account the above observations, the Board of the Insurer is advised to -**
- i. put in place a Comprehensive Policy on Outsourcing in accordance with the extant Regulations/instructions of the Authority; and**
 - ii. 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 outsourcing transactions and to address conflict of interest.

7. Summary of Decisions:

Charge No.	Violation of Provisions	Decision
1	i. Clause 6 of Corporate Governance Guidelines dated 18th May, 2016; and ii. Clause 2 of Circular IRDA/Life/CIR/GDL/285/12/2014 dated 29.12.14 issued by the Authority read with Regulation 42(e)(iv) of IRDA (Linked Products) Regulations, 2013 & Regulation 49(a) read with Regulation 34(e) & 34(g)(iv) of IRDA (Non-Linked Insurance Products) Regulations, 2013.	Charge is not Pressed
2	(i) Section 45 of Insurance Act, 1938; and (ii) Circular IRDA / Life / GDL / Misc / 186 / 10 / 2015 dated 28.10.2015	Advisory
3	Circular No IRDA / ACTL / FUP / VER 2.0 / DEC 2001 on File and Use Procedure dated 12th December, 2001	Caution and Advisory
4 & 5	(i) Regulation 30(b)(ii), 30(b)(iv), clause 1(b) of Form U under Schedule VII read with regulations 2(j) and 30 of IRDAI (Insurance Web Aggregators) Regulations, 2017; (ii) Circular no. IRDAI/INT/CIR/WBA/202/12/2018 dated 6 th December, 2018; and (iii) Regulation 21 of IRDAI (Outsourcing by Indian Insurers) Regulations, 2017	Penalty of Rs. One Crore and Advisory

8. The penalty amount of Rs. 1 Crore (One Crore) shall be remitted by the Insurer by debiting the Shareholders' Account within a period of forty-five 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 Shri T. Venkateswara Rao, General Manager (Enforcement & Compliance) at the Insurance Regulatory and Development Authority of India, Survey No. 115/1, Financial District, Nanakramguda, Hyderabad 500032, email id enforcement@irdai.gov.in.

9. Further,

- a) The Order shall be placed before the Board of the Insurer in the upcoming Board Meeting and the Insurer shall provide a copy of the minutes of the discussion.
- b) The Insurer shall submit an Action Taken Report to the Authority on direction given within 90 days from the date of this Order.

10. If the Insurer 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.

Satyajit Tripathy
Member (Distribution)

B.C. Patnaik
Member (Life)

Place: Hyderabad

Date: 6th September, 2024