



Ref: IRDAI/E&C/ORD/MISC/107/08/2024

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

1. Based on the

- 1.1 Show Cause Notice ("SCN") reference No. IRDA/ Enforcement/2023/701/SCN dated 12th February, 2024 issued to M/s HDFC Life Insurance Co. Ltd. (Insurer) in connection with the on-site inspection conducted by the Authority from 14.09.2020 to 25.09.2020.
- 1.2 Submissions made by the Insurer vide email dated 22nd March, 2024 in response to the aforesaid SCN.
- 1.3 Submissions made by the Insurer during the personal hearing held on 30th May, 2024 at 2.30 PM, by the panel of Two Whole Time Members of the Authority- Shri B C Patnaik (Member-Life) and Shri Rajay Kumar Sinha (Member-F&I).
- 1.4 Further submissions made by the Insurer vide email dated 5th June, 2024.

2. Background

- 2.1 The Authority had conducted an on-site inspection of M/s. HDFC Life Insurance Co. Ltd. (Insurer) from 14th to 25th September, 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 21st December, 2020 seeking their response and the response was received vide letter dated 9th April, 2021.
- 2.3 On examining the submissions made by the Insurer, a show cause notice (SCN) was issued on 12th February, 2024. The Insurer replied to the SCN vide letter dated 22nd March, 2024. As requested for by the Insurer, personal hearing was granted to the Insurer on 30th May, 2024.
- 2.4 On behalf of the Insurer, Ms. Vibha Padalkar, MD & CEO; Shri Suresh Badami, Dy. MD; Shri Niraj Shah, Executive Director & Chief Finance Officer; Shri Narendra Gangan, Chief Compliance Officer; Shri Vineet Arora, Chief Operating Officer; Shri Prithwiraj Sengupta, Sr. Vice President (Compliance); Shri K. Prejith Gopalakrishnan, AVP (Compliance) and on behalf of the Authority, Shri Rajay

Kumar Sinha (Member-F&I) and Shri B C Patnaik (Member-Life), Shri R K Sharma (CGM), Shri T.V. Rao (GM), Shri Sanjay Kr. Verma (GM) and Shri Saket Gupta (Manager) attended the hearing.

- 2.5 The submissions made by the Insurer in its letter dated 9th April, 2021, submission made after SCN vide email dated 22nd March, 2024 and submission during the personal hearing on 30th May, 2024 and those made vide email dated 5th June, 2024 have been carefully considered by the Authority and are summarized below:

3. Charge-1

Violation of

a) *Regulation 36 (a) & (b) of the IRDAI (Non-Linked Insurance Products) Regulations, 2013.*

b) *Regulation 52 (i) & (ii) of the IRDAI (Linked Insurance Products) Regulations, 2013.*

c) *Clauses 1(i) and 2(i) of the Circular Ref. no. - IRDA/ACT/CIR/PRD/089/03/2013-14 dated 21st March, 2014.*

d) *Clause 6 of Corporate Governance Guidelines dated 18th May, 2016*

3.1. Inspection Observation-2

Advance premium collected in the financial years 2018-19 and 2019-20 under a sample of around 780 policies was more than three months' period from policy due date. The Insurer did not have proper internal controls to ensure that the advance premiums are not collected beyond 3 months' period for the policies as prescribed in the Regulations.

3.2. **Summary of Insurer's Submissions:**

3.2.1. The cases are mainly new business monthly mode premiums collected along with new business applications. As per the File & Use provisions, three months premium is collected in advance along with the proposal form for monthly

mode cases which is adjusted as premium on the respective due dates for the month.

3.2.2. With regard to the remaining cases, these were cases wherein the customer had paid their renewal premiums through online modes three months in advance from the relevant premium due month. In the interest of policyholders, these have been considered for adjustment since a rejection and refund would have led to lapse and cessation of risk cover given the narrow margin of time.

3.2.3. The Insurer submitted that they have made the necessary changes in the system with effect from Q4, FY 2020-21 and the advance premium collected are now adjusted against the policy in line with the applicable regulatory provisions of considering 90 days from the premium due date as opposed to the erstwhile practice of considering basis the end of the premium due month.

3.3. Decision on Charge 1:

The Insurer is directed to

- a) **collect and adjust advance premium only to the extent allowed in the extant Regulations;**
- b) **make the necessary changes in the system not to accept or adjust advance premium in violation of the applicable regulatory provisions; and**
- c) **file a certificate to this effect signed by CEO and Compliance Officer.**

4. Charge-2

- a) *The Insurer failed to handle unclaimed amounts in the manner prescribed under Master Circular (Unclaimed Amount of Policy Holders) Ver 01 dated 25th July, 2017.*



- b) *The Insurer violated regulation 3 of Part II(A)(6) of Schedule A to IRDA (Preparation of Financial Statements and Auditor's Report of Insurance Companies) Regulations, 2002.*

4.1. Inspection Observation-2

4.1.1. In schedule-13 of the Annual report for the year 2019-20, closing balance towards "Payable to Policyholders" was shown for Rs 1281 crores as on 31.03.2020 and Rs 1161 crores as on 31.03.2019.

4.1.2. The Insurer was required to transfer the amount from the "Payable to Policyholders Account" to unclaimed fund as on 31.03.2020 but the Insurer did not transfer the amount to the unclaimed fund even after 6 months from the due date and consequently unclaimed fund was not disclosed accurately in the financials for the year 2019-20. The Internal audit report has also confirmed gaps in the compliance and control mechanism regarding reporting of the unclaimed amounts.

4.2. Summary of Insurer's Submissions:

The Insurer submitted that the instances observed by the Authority was an inadvertent error. They have already taken corrective steps by automating the entire process to remove manual interventions and to avoid recurrence of such errors in future.

4.3. Decisions on Charges- 2

The Insurer is directed to

- a) transfer outstanding amounts for more than one year to unclaimed amount;**
- b) build necessary systems and processes for compliance extant instructions including Master Circular (Unclaimed Amount of Policy Holders) Ver 01 dated 25th July, 2017 as amended from time to time.**

5. Charge-3

Violation of *Regulation 8(6) & 8(7) of IRDA (Protection of Policyholders' Interest) Regulations, 2017.*

5.1. Inspection Observation-3

5.1.1. A closing balance towards "unallocated premium" was shown for Rs. 486 Crores as on 31.03.2020 and Rs. 618 Crore as on 31.03.2019. The premium collected from proposers was neither allocated into the risk or policy for long time nor it was refunded back or transferred into unclaimed fund.


5.1.2. Out of the total 65741 number of unallocated cases, around 799 cases amounting to Rs 96.34 lakhs, were not linked to any proposal numbers as on 31.03.2020. There were 40604 cases aged more than 6 months for Rs 312 crores and 38664 cases aged more than 12 months for Rs 275 crores in the unallocated balances as on 31.03.2020 for which neither any refund was made nor any transfer was made to unclaimed fund as on 31.03.2020.

5.1.3. A sample of 29 cases was prepared and the insurer was asked to submit the proposal forms for the same and was asked to clarify the reasons for the amounts shows as unallocated.

5.2. **Summary of Insurer's Submissions:**

5.2.1. The insurer submitted that the decision to allow additional time for submitting mandatory documents required by the Company to complete the underwriting process, is in the interest of the Customer.

5.2.2. The insurer confirmed that most of the policies which were not refunded were finally issued which meant that the decision not to refund during Covid period was beneficial by the customers.





6. Charge-5

Violation of Regulation 14(2)(iv) of IRDAI (Protection of Policyholders Interests) Regulations, 2017

6.1. Inspection Observation 15 and 34

There were considerable delays in the settlement of maturity claims and the Insurer did not pay the penal interest at the time of settlement of maturity amount. Similarly, the insurer has not been making the payments of survival benefits on time to the policyholders and also not making interest payments on the delays.

6.2. Summary of Insurer's Submissions

6.2.1. The claim pay-outs which were pending beyond the maturity date are typically for want of requirements from the policyholders. The insurer submitted that they will ensure timely pay-outs for these cases by sending regular reminders through email/ SMS/ calls etc., nudges at servicing touchpoints and at the time of premium payment.

6.2.2. Of all the cases observed, 20% cases were paid within 0-1 day, 50% in 2-5 days and the rest within 7 days of receipt of last pending requirement.

6.2.3. The insurer submitted that they would evaluate the process related to payment of notional interest to the policyholder from the date of last pending requirement to the actual pay out date. They have confirmed to have processed all cases within reasonable time after receipt of Last Received Date (LRD). 20% < 5 days, balance 70% < 7 days.

7. Decision on Charge 3 and 5

7.1. The insurer failed to process the proposals with speed and efficiency and has also failed to adjust / refund the premium deposit within the stipulated time.

7.2. Further, the insurer has failed to transfer the unallocated premium beyond 6 months to the unclaimed amount.

- 7.3. With respect to charge 5, in the sample of 10 cases of maturity claims, delay ranging from 59 to 133 days was observed. In Survival Benefit Claims, around 1234 claims were paid with delays ranging upto more than six months in some cases.
- 7.4. This is also be noted that in maturity claims and survival benefits claims, Regulation 14(2)(iv) of IRDAI (Protection of Policyholders Interests) Regulations, 2017 has put grater onus on the insurer in as much as it provides that "In respect of Maturity, Survival Benefit claims and Annuities, the Life Insurer shall initiate the claim process by sending intimation sufficiently in advance or send post-dated cheque or give direct credit to the bank account of claimant through any electronic mode approved by RBI, so as to pay the claim on or before the due date." Therefore, the insurer's argument that there were requirements pending from the claimant is erroneous and without merit as the insurer ought to have started the process of maturity claims and survival benefit claims much in advance of the due date of the payment.
- 7.5. Further, in case of delay of payment of claim, the insurer is liable to pay interest which is 2% above the bank rate from the due date of payment or date of last necessary document from the claimant as per Regulation 14(2)(iv) of IRDAI (Protection of Policyholders Interests) Regulations, 2017 which the insurer has failed to pay.
- 7.6. The insurer has failed to demonstrate that they have robust systems in place to process the maturity claims and survival benefits and has violated Regulation 14(2)(iv) of IRDAI (Protection of Policyholders Interests) Regulations, 2017.
- 7.7. **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.1 crore (one crore) for the violation of Regulation 8(6), 8(7) and 14(2)(iv) of IRDAI (Protection of Policyholders Interests) Regulations, 2017. The Insurer is further directed to**
- a) **evaluate the status of unallocated balances as on 31-03-2024;**

- b) transfer the outstanding amounts pending for more than 12 months to unclaimed amounts;
- c) build necessary systems and processes for compliance of Unclaimed Amounts Guidelines/instructions;
- d) review all cases mentioned in the charge and ensure payment of penal interest;
- e) put in place systems and processes to process the claims on time in compliance and in accordance with the regulatory norms prescribed under the extant Policyholder Protection Regulation and master circulars/Guidelines issued thereunder;
- f) place action taken report in respect the above before the Policyholder Protection, Grievance Redressal and Claims monitoring Committee (PPGR &CM Committee) for their review and further advice.

8. Charge-4

Violation of Regulation 12 of IRDAI (Expenses of Management of Insurers transacting life insurance business) Regulations, 2016

8.1. Inspection Observation-6

The Statutory Auditor's certificates in Schedule-III was not placed and reviewed by the Audit committee prior to being placed for approval of the Board of the Insurer for the years 2018-19 and 2019-20.

8.2. **Summary of Insurer's Submissions**

The Insurer submitted that the scanned copy of Statutory Auditors Certificate was uploaded on the Board/PAC along with the power point presentation on review of statement of expense of management. Insurer submitted screenshot of the same.

8.3. Decision on Charges- 4

The Insurer is advised to ensure that the statutory certificate is placed before the Audit Committee and subsequently the same shall be placed before the Board.

9. Charge-6

Violation of Regulation 11(2), Regulation 11(3), Regulation 11(10), Regulation 11(11), Regulation 10(1), Regulation 14(1)(a) and Regulation 15 and of the IRDAI (Appointment of Insurance Agents) Regulations, 2016.

9.1. Inspection Observation-22

The process of termination of Insurance Agents including suspension, manner of holding enquiry before/after suspension and cancellation is not in line with the regulatory prescriptions. In the data pertaining to termination of agency on the grounds of frauds, there were 454 cases out of a total of 542 cases, where the enquiry officer has taken more than 45 days for submission of enquiry report.

9.2. Summary of Insurer's Submissions

9.2.1. Insurer submitted that their Agency Operations Department is responsible for dealing with all operational requirements pertaining to insurance agents/intermediaries including on boarding, termination and renewals.

9.2.2. The Company has necessary checks and controls in its insurance policy administration system to ensure that no new insurance proposal is accepted in the name of such insurance agent subsequent to his/her termination.

9.3. Decision on Charge-6

The Insurer is directed to review and ensure that their internal systems and controls are efficient enough to manage the operational issued related to agents viz their appointment, renewal and termination etc. The Insurer is further directed to place action take report in this respect before the Board level committee for their review and advice.

10. Charge-7

Violation of *Regulations 21(iii), 23(b) and 23(d) of IRDAI (Registration of Corporate Agents) Regulations, 2015*

10.1. Inspection Observation- 23

Some of the clauses in the agreement with M/s. Utkarsh Small Finance Bank Ltd, a corporate agent (CA) are not in the interests of the policyholders and compel the CA to solicit the products of HDFC Life only. As per the records, the CA has tie-up with another Life Insurer. Adding a clause such as recovery of compensation in case the CA does not meet the business commitments before the termination or expiry of the agreement is also not in the interest of policyholders and compels the CA to meet the business commitments by whatever means.

10.2. Summary of Insurer's Submissions

The Insurer has taken corrective steps by amending the agreement on January 22, 2021 and no other such agreements have similar clauses any longer. A copy of the amended agreement was submitted by the Insurer.

10.3. Decision on Charge-7

The Insurer is directed to

- a) **review all agreements with Intermediaries to ensure compliance with Regulations 21(iii), 23(b) and 23(d) of IRDAI (Registration of Corporate Agents) Regulations, 2015.**
- b) **ensure that restrictive clauses are deleted under the guidance of Policyholder Protection, Grievance Redressal and Claims monitoring Committee (PPGR &CM Committee) in as much as they limit the choice of the policyholder to make an informed decision for buying a suitable insurance policy.**

- c) **Filing an undertaking signed by the CEO and Compliance Officer to this effect.**

11. Charge-8

Violation of section 48A of the Insurance Act, 1938

11.1. Inspection Observation- 24

Mr. V.K. Viswanathan, a director of the Insurer since April 25, 2014, is holding directorship in M/s Magma Fincorp also; a Corporate Agent licensed with the Authority. The Insurer did not take prior approval of the common directorship from the Authority even though he was re-appointed on July 23, 2019.

11.2. Summary of Insurer's Submission

The Insurer submitted that Mr. Viswanathan is no more a director in both Insurer as well as the Corporate Agent.

11.3. Decision in Charge-8

The Insurer is directed to review all such cases of appointment of common directors, if any, and submit a confirmation to this effect that they are now compliant with Section 48A and related Regulations/Circulars.

12. Charge-9

Violation of

- a) *Regulation 30(b)(ii), (iv) read with explanation of IRDAI (Insurance Web Aggregators) Regulations, 2017;*
- b) *Clause 1(b) of Form U under Schedule VII read with regulations 2(j) and 30 of IRDAI (Insurance Web Aggregators) Regulations, 2017;*
- c) *Regulation 14(vi) and Regulation 21 of IRDAI (Outsourcing of Activities by Indian Insurers) Regulations, 2017; and*

d) *Regulation 5(b) IRDAI (Payment of Commission or remuneration or Reward to Insurance Agents and Insurance Intermediaries) Regulations, 2016.*

12.1. Inspection Observation-26

12.1.1. The Insurer is utilizing the services of insurance Web Aggregators (IWAs) as a regular tele-marketer or outsourcing service provider and the services outsourced are not limited to the services specified in the regulations. The insurance web aggregator cannot make cold calling or unsolicited calling to anyone without the customer being evinced interest to buy the policy by visiting the website of the insurance web aggregator. The per seat payment are made by the Insurer for the reason of suo-motu solicitation by Insurance Web Aggregators acting as a tele-marketer for solicitation of business without basing on the leads generated through their website. The Insurer entered into agreement with the insurance web aggregators for providing outsourcing services and agreed to pay Rs. 38,000/- per month per seat for providing such services. On perusal of the agreements, it is noticed that the agreements do not contain any specific type of services to be performed by the insurance web aggregators. The Insurer made the following payments to the said web aggregators.

Policy bazaar	FY17-18	FY18-19	FY19-20
Total	32,55,84,000	51,28,86,000	1,04,59,50,000
Easy policy	FY18-19		FY19-20
Total	3,07,80,000		5,62,78,000

12.1.2. In addition to the above insurance Web Aggregators, it was noticed that the Insurer utilised the services of M/s. Wishfin Insurance Web Aggregators Pvt. Ltd and made the payment of Rs. 26,45,560.

12.1.3. The Services provided by the insurance Web Aggregators are beyond the scope of the activities allowed under the regulations. The Insurer repeatedly

emphasized that the services of the insurance Web Aggregators are on par with other customer contact centers engaged by the Insurer. However, the regulations limit the scope of outsourcing to the policies which are procured through the respective insurance web aggregator only. The Insurer made payments in the name of outsourcing to the insurance web aggregators to act as their tele-marketers and also made payments for policies which do not entitle for commission / remuneration.

12.2. Summary of Insurer's Submission

12.2.1. Insurer submitted that servicing is to be done for calling for post-sale services by the IWAs. The agreement between the Insurer and IWAs lists out services for outsourcing. The per seat payment was fixed as per the industry standards. Violation of non-submission of outsourcing returns was also pointed out to which the Insurer sighted regulation 14(v) of Outsourcing Regulations, 2017 and claimed that outsourcing returns of regulated entities need not be filed with the Authority.

12.2.2. Regulation 30(b)(iv) of the IRDAI WA Regulations does not state that the service charges to be charged individually i.e. per service basis. There is no linkage of the outsourcing fees charged by the IWA with the commission income or number of policies sourced on its platform.

13. Charge-10

Violation of regulation 45(1) of IRDAI (Insurance Brokers) Regulations, 2018 read with clause 1(b) of Form U under Schedule VII read with regulations 2(j) and 30 of IRDAI (Insurance Web Aggregators) Regulations, 2017

13.1. Inspection Observation-27

13.1.1. Insurer availed outsourcing services from Insurance Brokers namely, Platinumone, Coretree, Coverfox and Invictus for online sales, Telemarketing and Distance Marketing and made exorbitant payments under the head "work station

cost @ 38,000 X no. of resources per month”, for FY 2018-20. The Insurer has availed the services from the Insurance Brokers which are not allowed under Insurance Brokers Regulations, 2018.

13.1.2. The payments made to M/s. Coverfox Ins. Broker is greater than Rupee one crore and with respect to others its less than Rupee One crore and non-submission of outsourcing returns is a violation of Regulation 21 of Outsourcing Regulations, 2017.

13.2. Summary of Insurer’s Submission

13.2.1. Insurer submitted that as per their understanding such arrangements were a prevalent practice in the industry. Chapter IV of IRDAI (Insurance Brokers) Regulations, 2018 provides guidance for online sales, telemarketing and distance marketing. The said provision also defines that Insurance Brokers are allowed to undertake outsourcing activities in this regard as per IRDAI (Insurance Web Aggregators) Regulations, 2017. Resources were deployed who can manage and provide services similar to some of other customer contact centers used by HDFC Life. Hence, it was mutually agreed to use the approach based on fixed resource cost per seat and a price of Rs. 38,000 per month per seat was arrived at based on benchmarking with other contact centers providing such services.

13.2.2. The Insurer confirmed that they have no longer insurance intermediation arrangements with M/s Platinumone Insurance Broking Private Limited and M/s Coretree Insurance Brokers (India) Pvt. Ltd. respectively.

14. Charge- 11

Violation of regulations 2(f)(ii) and 6(c) of IRDAI (Payment of Commission or Remuneration or Reward to Insurance Agents and Insurance Intermediaries) Regulations, 2016.

14.1. Inspection Observation- 28

14.1.1. The Insurer made payments other than commission / remuneration to various corporate agents. Insurer entered into various agreements with Corporate Agents. These are considered to be joint sales marketing and the expenses such as printing of material, brochures are already incurred by the Insurer. In this case, corporate agents are drawing commission / remuneration for the sale / distribution of the Insurer's products. There is no basis on which the cost was arrived at for each activity. Secondly, with regard to ATM maintenance or screen display, the Insurance is one of the activities which the bank will be providing to their customer. The cost of arriving at these charges to be paid by the Insurer will have to be arrived at based on the actual cost incurred by the bank for all the screen displays of their banking and other products. The cost, if at all to be shared, will have to be shared proportionately.

14.1.2. *Arguendo* even if the Insurer is allowed to make such payments to the corporate agents, there has to be a basis for which the cost is arrived at in each activity. The invoices shared by the Insurer are not supported by any documentary evidence. If the corporate agent has already incurred such expenses and claiming the reimbursement of the same from the Insurer, there would have been a proper documentary evidence to substantiate their claim. No such documentary evidence was provided for.

14.1.3. Mere agreeing to a cost or payment in an agreement will not substantiate the charges paid or incurred. This cannot be considered as a separate contractual obligation as the entities engaged by the Insurer are acting as corporate agents to the Insurer for distribution of their products for which they receive commission / remuneration. The contractual obligation in this case cannot be against the principles laid down in the regulations.

14.2. **Summary of Insurer's Submission**

14.2.1. As part of its overall Branding Strategy, HDFC Life conducts various campaigns from time to time to increase insurance knowledge. Branding across

the banks' ATMs has provided HDFC Life with a platform to reach out to a significantly larger group of customers, from across all social and economic classes, which besides the corporate agent Bank's own customers also has the unique advantage of including the customers of other Banks using the ATM services for carrying out banking transactions.

14.2.2. Insurer further submitted that industry practices were followed to pay the banks for advertisement. The expenses incurred were duly audited by the Chartered Accountant.

15. Charge-12

Violation of

- a) *Section 41 of the Insurance Act, 1938;*
- b) *Regulations 2(f)(ii) and 6(c) of IRDAI (Payment of Commission or Remuneration or Reward to Insurance Agents and Insurance Intermediaries) Regulations, 2016;*
- c) *Regulation 21 of Outsourcing Regulations, 2017;*
- d) *Clause 21 of Corporate Agency Guidelines, 2005;*
- e) *C-4 of Group Insurance Guidelines, 2005, Clause 3.7,3.8 of Group Insurance Guidelines, 2019.*

15.1. Inspection Observation- 29

The majority of the outsourcing expenses were incurred towards manpower services. The Insurer deployed the manpower, hired from all the outsourcing entities during the years 2018-19 and 2019-20, at locations of some of the corporate agents (CAs) with whom they have tie-up with for distribution of their products. The Insurer also provided manpower to certain entities with whom they do not have any corporate agency agreement. The Insurer doesn't have separate agreements with the corporate agent or group master policyholders for the purpose of providing manpower. The Insurer spent exorbitant amounts towards

manpower deployment which is quite high as compared to the premium procured from the group master policies.

15.2. Summary of Insurer's Submissions

Insurer submitted that due to the seasonality of the business, it is not feasible to keep Manpower on roll. A letter was issued by IRDAI to Life Insurance Council on February 21, 2018, seeking Life Insurance Council to debate the issue at the industry level and provide suggestions.

16. Charge-13

Violation of Regulation 8(iv) and 10 of IRDAI (Outsourcing of Activities by Indian Insurers) Regulations, 2017 and Regulation 21 of IRDAI (Outsourcing of Activities by Indian Insurers) Regulations, 2017.

16.1. Inspection Observation- 30

The payments of Rs. 8.7 Crore and Rs. 8.4 Crore were made to M/s. Extent Marketing and Technologies Pvt. Ltd and M/s. Wishkart Marketing and Consultancy Pvt. Ltd respectively during 2017-18 and Rs. 1.475 Crore to each entity during 2018-19. The payments were made purportedly to these entities for displaying banners on their website viz. www.extent.co.in and www.wishkart.co.in. No vendor due diligence documents and documents pertaining to approval accorded by the competent authority of the Insurer for engaging the services of both the vendors were shared. As per the financial statements pertaining to the vendors, it is noticed that both the vendors do not have any infrastructure of their own. They do not have any tangible / fixed assets against their name. The entire revenues earned by the vendors were being expended in the name of outsourcing expenses.

16.2. Summary of Insurer's Submissions

M/s. Extent marketing and Wishkart Marketing were engaged solely for digital marketing and the pay-outs were made for the activity of banner display

conducted by respective vendors for specific duration. The per banner cost agreed is in-line with the standard cost for the activity across the vendors conducting similar activities. These vendors were engaged for the activity mentioned in the agreement for their expertise demonstrated by them at that point of time and later on the activity was stopped from April, 2018.

17. Charge-14

Violation of Section 41 of the Insurance Act, 1938 and Regulation 21 of IRDAI (Outsourcing of activities by Insurers) Regulations, 2017.

17.1. Inspection Observation-32

17.1.1. The Insurer engaged the services of M/s. Bluechip Corporate Investment Centre Private Limited (BCIC) and made the payments of Rs. 7,25,53,674/- and Rs. 79,48,08,070/- during the years 2018-19 and 2019-20 respectively. BCIC was also paid brokerage and commission. The agreement with BCIC is only for making excess pay-outs to the insurance broker proportionate to the business placed

17.1.2. The payments made to Abhiram Marketing Services Pvt. Ltd. (AMS) in the name of marketing and advertisement are nothing but sharing of commission/rebating to the master policyholder.

17.1.3. The Insurer has engaged an unregistered insurance web aggregator (M/s. WRS Info India Pvt. Ltd) for insurance web aggregation and made the payments.

17.1.4. The agreement for brand building and product support entered into with M/s. TMF Holdings Limited is nothing but offering rebating to the policies placed with the Insurer.

17.1.5. The payments made to three entities M/s KNZ Marketing Services; M/s Muthoot Credit Marketing Services Limited; M/s. MJBR Marketing and Financial Services Pvt. Ltd were in the form of excess payments to the insurance broker.

17.1.6. The strategic agreement with PHFL Home Loans and Services Limited is nothing but extending rebating to the master policyholder in the name of brand building.

17.2. Summary of Insurer's Submissions

Branding and advertisement related activities do not fall under the scope of outsourcing activities, and hence by engaging any entities, even where the same are related parties of any group policyholder or an insurance intermediary, is not in contravention with the extant regulatory framework.

18. Decision on Charges 9, 10, 11, 12, 13 and 14

With regard to Charge 9

18.1. The Insurer was asked if any recordings of the Web Aggregators (WAs) for tele calling are available with the Insurer to which the insurer replied in negative. In absence of any recordings, the genuineness of the transactions mentioned in the invoices could not be showcased by the Insurer. It was also pointed out to the Insurer that outsourcing payments made to Policybazaar (WA) were more than 50% premiums sourced through them which was unreasonably high. The invoices do not divulge the full details of the expenses or provide a substantiating basis for the amounts being billed. In the absence of specific details of services, it is not clear on what basis per seat per month payment was agreed upon. The payments made to Policybazaar were Rs. 32,55,84,000, Rs. 51,28,86,000 and Rs. 1,04,59,50,000 for the FY 2017-18, 2018-19 and 2019-20 respectively.

18.2. The services rendered by the Web Aggregators are limited, the remuneration should be reasonable and for the services rendered. Irrespective of the parameter – ie., 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. None of the entities, be it the Insurer or the Web Aggregators have mentioned the volumes or 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. Further such outsourcing payments were not reported to the Authority under “Outsourcing Returns” as per Regulation 21 of IRDAI (Outsourcing of Activities by Indian Insurers) Regulations, 2017

With regard to Charge10

18.3. In the Insurer’s Service Level Agreements with Coverfox, Platnumone and Invictus Brokers, there were no specific services or activities listed and the Insurer merely agreed to pay an amount of Rs. 38,000/- per resource per month without providing any rationale including the nature of services to be provided. Insurer failed to submit the transactional level data to showing the nature of outsourcing services offered by the Brokers commensurate to the payments. While the list of outsourcing services in the agreement is not mentioned in detail, omnibus reference to the outsourcing guidelines mentioned in the Web Aggregator Regulations, 2017 is provided for to ensure that the services provided are within the ambit of these guidelines/regulation which casts serious doubts on the sanctity of such payments.

18.4. Regulation 45 (1) of Insurance Brokers Regulations, 2018 allows outsourcing of activities only to the extent of tele-calling. However, in the instances cited, the Brokers and Insurer have revealed that they have performed outsourcing activities that are allowed under the outsourcing regulations. This means, the brokers have undertaken several outsourcing activities and not limiting themselves to tele-calling which has already been reiterated by M/s Invictus Broker in their response.

18.5. Further, M/s Invictus Broker have submitted that they have performed several policy servicing activities that are enlisted in the observation. It can be seen that all these activities are integral to a Broker's role for which, they receive brokerage. Hence, payment on per-seat basis for such activities is nothing but extra pay-outs made by the Insurer for the business sourced by the Broker. M/s Coverfox has stated that they do not undertake tele-marketing services and the amounts received by them were in respect of outsourcing activities. The Broker has further added that they undertake activities like renewal reminders etc. which are essentially the services rendered by an intermediary to service its customers, for which they receive brokerage. Hence, these payments too are in the nature of excessive pay-outs by the Insurer for the business sourced by them.

18.6. Therefore, it is concluded that the Insurer is utilising the services of insurance brokers as a regular tele-marketer or outsourcing service provider and not limiting the services as specified in the regulations.

With respect to Charge 11 &12

18.7. With respect to the payments made to the Corporate Agents, all the responses received from the Insurer and a few corporate agents were generic in nature explaining that they undertook co-branding advertisements. However, none of the responses provided the basis for the payments in a direct and clear manner. The pay-outs channelized through agreements / co-branding vis-à-vis business procured / commission paid seems to be exorbitant and it is noticed that the pay-outs are made under the guise of co-branding charges to favor the corporate agents by excess pay-outs. The invoices also do not portray that the pay-outs are reasonable and commensurate to the services said to have been performed. Further, attention is drawn to regulation 6(c) of IRDAI (Payment of Commission or Remuneration of Rewards to insurance agents and insurance intermediaries) Regulations, 2016 which prohibit payment of any expenses other than the commission or remuneration to an insurance intermediary whose revenue from other than insurance intermediation activities is more than 50 percent. In the given case, all the CAs' revenue from other than insurance

intermediation activities are more than 50 percent. Hence, by making pay-outs in the guise of co-branded etc., the insurer has violated the said provision.

With regard to Charge13

18.8. The Insurer has failed to showcase that the arrangements with M/s. Extent Marketing and Technologies Pvt. Ltd and M/s. Wishkart Marketing and Consultancy Pvt. Ltd were evaluated by the Outsourcing Committee and that the decisions 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.

18.9. The Insurer has also admitted that physical due diligence was not undertaken for engaging M/s. Extent Marketing and Technologies Pvt. Ltd and M/s. Wishkart Marketing and Consultancy Pvt. Ltd which shows poor control as far as vendor management and payments is concerned especially given the fact that that both the vendors do not have any infrastructure of their own. They do not have any tangible/fixed assets against their name. The entire revenues earned by the vendors were being expended in the name of outsourcing expenses. Thus, these entities are only acting as a pass through entity.

With regard to Charge 14

18.10. While it may be legal to use entities related to the intermediaries as mentioned under Charge 14 for the purpose of advertisements and publicity, the amounts involved are exorbitant and are apparently for channelling excessive payments over and above commission/brokerage for the business sourced by them. Further, two Master Policy Holders Tata Motor Finance(TMF) Holdings and PHFL Home Loans (Subsidiary of PNB Housing Finance) are in finance business and not in media business. The pay-outs to these entities are nothing but indirectly offering rebating to the policies placed with the insurer which is in violation of Section 41 of the Insurance Act, 1938.

18.11. Engaging related parties of the Brokers, Master Policy Holders and making huge pay-outs as mentioned in the observation, indicate that the Insurer channelized extra pay-outs in the name of services procured. More so when the pay-outs are made in the name of the activities in which these entities are not predominately engaged to.

18.12. With respect to all the entities named in Charge 9 to 14, the Insurer has not filed the outsourcing returns which is in violation of Regulation 21 of IRDAI (Outsourcing of Activities by Indian Insurers) Regulations, 2017 nor has placed the same before the Outsourcing Committee for its approval.

19. 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. 1 Crore for violation of

- Regulation 30(b)(ii), (iv) read with explanation; Clause 1(b) of Form U under Schedule VII read with regulations 2(j) of IRDAI (Insurance Web Aggregators) Regulations, 2017;
- Regulation 45(1) of IRDAI (Insurance Brokers) Regulations, 2018;
- Regulations 2(f)(ii), 5(b) and 6(c) of IRDAI (Payment of Commission or Remuneration or Reward to Insurance Agents and Insurance Intermediaries) Regulations, 2016;
- Regulation 8(iv) and 10 of IRDAI (Outsourcing of Activities by Indian Insurers) Regulations, 2017; and
- Regulation 21 of IRDAI (Outsourcing of Activities by Indian Insurers) Regulations, 2017 and Section 41 of the Insurance Act, 1938.

20. The Insurer is further directed to:

- a) Review their Vendor Management Policy and review all vendors' agreements which are existing and make necessary changes to their policy and agreements in order to comply with the extant Regulations/Guidelines on Outsourcing;

- b) Carry out due diligence before entering into outsourcing arrangements with the related parties; and shall refrain from making indirect payments to entities resulting in rebating of any sort which is prohibited by Section 41 of Insurance Act, 1938
- c) Get the prospective outsourcing arrangements specifically reviewed and approved by the Outsourcing Committee showcasing that the decisions to engage with entities for outsourcing the activities are based on sound business practices taking into account the cost and potential benefits of outsourcing against the risk that may arise.
- d) Submit a detailed action taken report addressing various corrective actions carried out and preventive measures put in place in respect of Charges 9, 10, 11, 12, 13 and 14 to exercise oversight of, and accountability for, any outsourced material activity or function and avoid or properly manage any potential conflicts of interest, within 45 days of receipt of this Order.

21. Summary of Decisions:

Charge No.	Violation of Provisions	Decision
1	i. Regulation 36 (a) & (b) of the IRDAI (Non-Linked Insurance Products) Regulations, 2013; ii. Regulation 52 (i) & (ii) of the IRDAI (Linked Insurance Products) Regulations, 2013; iii. Clauses 1(i) and 2(i) of the Circular Ref. no. – IRDA / ACT / CIR / PRD / 089 / 03 / 2013-14 dated 21st March, 2014 and Clause 6 of	Direction

Charge No.	Violation of Provisions	Decision
	Corporate Governance Guidelines dated 18th May, 2016.	
2	<ul style="list-style-type: none"> i. Master Circular (Unclaimed Amount of Policy Holders) Ver 01 dated 25th July, 2017; and ii. Regulation 3 of Part II (A)(6) of Schedule A to IRDA (preparation of Financial Statements and Auditors' Report of Insurance Companies) Regulations, 2002. 	Direction
3, 5	<ul style="list-style-type: none"> i. Regulation 8(6) & 8(7) of IRDA (Protection of Policyholders' Interest) Regulations, 2017; ii. Regulation 14(2)(iv) of IRDAI (Protection of Policyholders Interests) Regulations, 2017. 	Penalty of Rs. One Crore and Directions
4	Regulation 12 of IRDAI (Expenses of Management of Insurers transacting life insurance business) Regulations, 2016.	Advisory
6	Regulation 10(1), 11(2), Regulation 11(3), Regulation 11(10), Regulation 11(11), Regulation 14 (1) (a) and Regulation 15 of the IRDAI (Appointment of Insurance Agents) Regulations, 2016.	Direction

Charge. No.	Violation of Provisions	Decision
7	Regulations 21(iii), 23(b) and 23(d) of IRDAI (Registration of Corporate Agents) Regulations, 2015.	Direction
8	Section 48A of the Insurance Act, 1938	Direction
9,10,11 12,13, 14	<p>i) Regulation 30(b)(ii), (iv) read with explanation; Clause 1(b) of Form U under Schedule VII read with regulation 2(j) and regulation 30 of IRDAI (Insurance Web Aggregators) Regulations, 2017;</p> <p>ii) Regulation 45(1) of IRDAI (Insurance Brokers) Regulations, 2018 read with clause 1(b) of Form U under Schedule VII read with regulations 2(j) and 30 of IRDAI (Insurance Web Aggregators) Regulations, 2017 and regulations 2(f)(ii), 5(b) and 6(c) of IRDAI (Payment of Commission or Remuneration or Reward to Insurance Agents and Insurance Intermediaries) Regulations, 2016;</p> <p>iii) Regulation 8(iv) and 10 of IRDAI (Outsourcing of Activities by Indian Insurers) Regulations, 2017 and Regulation 21 of IRDAI (Outsourcing of Activities by Indian Insurers) Regulations, 2017 and Section 41 of the Insurance Act, 1938.</p>	Penalty of Rs. One Crore and Directions

22. The penalty amount of Rs.2 crore (Rs. Two crore) shall be remitted by the Insurer within a period of forty-five days from the date of receipt of this order through NEFT/RTGS (details of which will be communicated separately). An intimation of

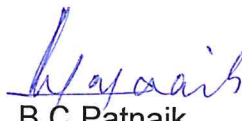
remittance may be sent to Shri T. Venkateswara Rao, General Manager (Enforcement & Compliance) at the Insurance Regulatory and Development Authority of India, Survey No. 115/1, Financial District, Nanakramguda, Hyderabad 500032, email id enforcement@irdai.gov.in.

23. 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.

24. 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.


Rajay Kumar Sinha
Member (F&I)


B C Patnaik
Member (Life)

Place and Date: Hyderabad, 1st August, 2024