



Ref: IRDA/NL/ORD/MISC/085/04/2021

Order in the matter of M/s Royal Sundaram General Insurance Co. Ltd.

Based on the

- (i) Show Cause Notice (“SCN”) reference no. IRDAI/NL/ROYAL/SCN/141/2020-21 dated 21st August, 2020 in connection with onsite inspection by Insurance Regulatory and Development Authority of India (“the Authority” or “IRDAI”) during 8th to 10th August 2018.
- (ii) M/s. Royal Sundaram General Insurance Co. Ltd.’s (“RSGICL” or “Insurer” or “Company”) response dated 18th and 21st September, 2020 to the aforesaid SCN.
- (iii) The submissions made by RSGICL during the personal hearing, through video conferencing, held on 17th December, 2020 at 10:30 AM, taken by the Chairman of the Authority.
- (iv) Further, submissions/data submitted by RSGICL vide e-mail dated 27th November, 2020 and 13th January, 2021.

1. Background:

1.1 IRDAI had conducted an onsite inspection of M/s Royal Sundaram General Insurance Co. Ltd during 8th August, 2018 to 10th August, 2018. The inspection report, *inter alia*, revealed certain violations of the Guidelines on Motor Insurance Service Provider (‘MISP Guidelines’) issued by the Authority vide ref. IRDA/INT/GDL/MISP/202/08/2017 dated 31st August, 2017 and Circulars thereunder, provisions of Insurance Act 1938, Regulations, Guidelines issued thereunder.

1.2 A copy of the inspection report was forwarded to the insurer on 14th September, 2018. The insurer responded to the same vide letter dated 10th October, 2018. On examining the insurer’s submissions, a show cause notice was issued on 21st August, 2020. The insurer replied to the same vide e-mails dated 18th and 21st September 2020. As requested by the insurer, a personal hearing was held on 17th December, 2020.

1.3 Shri. M S Sreedhar - MD, Shri. Vaibhav Kabra - CFO, Shri. S Thirunavukkarasu - Head, Motor Underwriting and Claims, Shri. S R Balachandher - CS & CCO were present on behalf of the Insurer. On behalf of the Authority, Smt. Yegnapiya Bharath - CGM (NL), Shri. Randip Singh Jagpal - CGM (Intermediaries), Smt. Anita Josyula - GM (NL), Shri. Rahul Agarwal - Manager (NL) attended.

1.4 The submissions made by the insurer vide e-mails dated 18th and 21st September, 2020, during personal hearing on 17th December, 2020 and through e-mails dated 27th November 2020 and 13th January 2021 have been carefully considered and the details are as under:

2. Charge no. 1:

2.1 Violation of para 15(16) of MISP Guidelines by utilizing services and making payments to motor dealers under existing arrangements with whom no MISP distribution agreement was in place.

The insurer had entered into agreement with 777 Automobile Dealers prior to 1st November, 2017. On examination of sample invoices of payments made by the insurer to these dealers, it was observed that the insurer has continued to avail services of Motor Dealers even after implementation of MISP Guidelines from 1st November 2017, without ensuring that the dealers become MISPs. The insurer has made the following payments to dealers for data processing and policy servicing even after implementation of MISP guidelines, i.e. after 1st November 2017.

S.No.	Dealer	Invoice Number	Payment Amount (Rs.)	Payment Particulars
1	P. R. Motors	13/17-18	4309/-	Data processing and policy servicing for the month of Dec'17
2	M Square	AMS/INI/1 718/062	1,88,354/-	Data processing and policy servicing and related activities upto month of Nov, 2017
3	B M Automobiles	KTZ91	5612/-	Data processing and policy servicing for the month of Dec'17

2.2 Summary of Insurer's submissions:

2.2.1 The insurer submitted that after introduction of MISP Guidelines, they have not availed any services from motor dealers who were not MISPs. The insurer stated that till October 2017, the Company was utilizing the services of motor dealers for policy servicing.

2.2.2 The insurer stated that in all the above three cases, services were rendered prior to 1st November 2017. However, invoices were raised after 1st November 2017 and the dealers, by mistake, mentioned the period subsequent to 1st November 2017 on the invoices raised. The insurer submitted that it was an inadvertent error which they also missed correcting and there was an error in processing of these invoices at insurer's end. They stated that the errors are purely clerical in nature.

Further, post personal hearing, the insurer submitted vide email dated 13th January 2021 that services from B.M Automobiles were availed during October, 2017, from PR Motors during September 2017 and from M Square during the period of April 2017 to October 2017. The insurer stated that in the case of B.M Automobiles and M Square differential amount of the above-mentioned period was released after implementation of MISP Guidelines.

2.2.3 The insurer stated that there were challenges during transition to MISP Guidelines due to huge number of dealers and volume of business. The insurer added that there were issues related to GST during that period and there was confusion in invoices being raised. The insurer further added that all the 3 dealers in question were appointed as MISPs by them subsequently in December 2017 (B.M Automobiles and P R Motors) and in February 2018 (M Square).

2.2.4 The insurer stated that the 3 payments were processed at regional level and now they have centralized the payment processing. The insurer submitted that only 3 payments mentioned in the SCN were processed erroneously and they have tightened the processes to avoid these lapses in future.

2.3 Decision on Charge 1:

2.3.1 The insurer submitted that in all the three cases, services were rendered prior to implementation of MISP Guidelines and there was a mistake in mentioning the period of service on the invoices. However, the insurer has not provided satisfactory documentary evidence which can prove that services were availed prior to 1st November 2017.

2.3.2 The insurer stated that B.M Automobiles and P R Motors were appointed as MISPs of the insurer during December 2017, whereas M Square was appointed as MISP of the insurer during February 2018. However, as per the pre-inspection data submitted by the insurer, they had 22 MISPs as on 30th June, 2018 and it is observed that B.M Automobiles, P. R Motors and M Square were not included in the list of 22 MISPs. Also, no documentary evidence was submitted to prove that the three dealers were appointed as MISPs before the services were availed as per the invoices available on record.

2.3.3 Thus, it is observed that in respect of three entities mentioned above, the insurer is in violation of Guidelines 15 (16) of MISP Guidelines. The Authority in exercise of the powers vested under Section 102(b) of the Insurance Act, 1938 imposes a penalty **of Rs. 3 lakh (Rupees Three Lakh Only) (Rs. 1 lakh for each entity).**

3. Charge no. 2

3.1 Violation of para 9(d) of MISP Guidelines and section 14(2)(h) of IRDA Act, 1999 by not providing information/data/documents sought by the Authority.

The insurer has not provided the following documents/data/information when requested by the Authority.

- 3.1.1** Proof that the pricing of the Motor policies is in compliance with that approved by the Authority: The insurer vide e-mail dated 09/08/2018 was asked to confirm that the pricing of the sample policies was in compliance with that approved by the Authority, and were also asked to provide the workings for the same. However, the same was not submitted by the insurer. Subsequently, the Authority, vide e-mail dated 21st August, 2019, requested the insurer to provide the rates and discounts filed and approved by the Authority for Private Car Package Policy and the insurer has not provided the same.
- 3.1.2** Confirmation on termination of existing arrangements with Motor Dealers and date of termination.
- 3.1.3** Distribution fees statements forwarded to the MISPs on monthly basis.
- 3.1.4** Memorandum of Association of the following Motor Dealers: M/s Concept Motors Car Pvt. Ltd. and M/s Atul Automotives.

3.2 Summary of Insurer's submissions:

3.2.1 Proof that the pricing of the Motor policies is in compliance with that approved by the Authority:

The insurer submitted that they had filed the Motor products during the year 2001 and the discounts were not part of the filing documents at that time. Subsequently, in 2007, the Authority permitted discount upto 20% as part of the de-tariff exercise and in 2008, they had filed discount moderation including average discount and based on the correspondence with the Authority, they had moved to discount moderation requested by the company. Further, the insurer submitted that in November 2012 there was a fire accident in which product related correspondence with IRDAI got destroyed and the same was also communicated to the inspection team of the Authority during inspection in February 2013 and provided copy of the note submitted to the inspecting team in 2013.

The insurer submitted that the discount ranges filed in 2008 were maintained up to 2017 and after this they had moved to risk-based pricing based on the past experience, competition and market demand. The insurer stated that they follow scientific risk-based pricing, however, the same is not being converted into proposition and filed with the Authority and they regret the same. The insurer assured that they will file the rating and discount approach with the Authority for the Motor products.

3.2.2 Confirmation on termination of existing arrangements with Motor Dealers and date of termination:

The insurer submitted that the agreements with the dealers under existing arrangements had a termination clause. The insurer stated that by virtue of operation of termination clause read with para 15(16) of MISP Guidelines, the agreements have clear effect of immediate termination, and hence no separate termination letters were required. The insurer accepted that better process could have been to send termination letters to these dealers.

3.2.3 Distribution fees statements forwarded to the MISPs on monthly basis:

The insurer submitted that they had provided distribution fee details (Dealer-wise summary) vide e-mail dated 31st July, 2018 as part of pre-inspection requirements. Further, policy-wise statements containing the premium and distribution fee details for the period till July 2018 were shared during the onsite inspection. The insurer added that they have E-Motor portal whereby MISPs can download the details of policies sourced and there was no need to share a separate statement with the MISPs. Based on the details downloaded at their end, the dealers raised the invoices. The insurer, further submitted that based on the inspection observation they have started sharing distribution fees statement with the MISPs from 1st April 2020. The insurer has also submitted sample communications sent to MISPs.

3.2.4 Memorandum of Association (MOA) for M/s Concept Motors Car Pvt Ltd and M/s Atul Automotives :

The insurer submitted that there were challenges in collection of MOA from dealers as most of the MOAs were prepared long back and amendment to MOA has to undergo process of board and shareholder's approval. The insurer, further stated that they have collected declaration regarding object clause from M/s Concept Motors Car Pvt Ltd and M/s Atul Automotives in line with the clarification on MISP Guidelines issued by the Authority on 1st Nov 2017. These declarations were submitted to the Authority in reply to the Authority's e-mail dated 21st August 2019.

3.3 Decision on Charge 2:

3.3.1 Proof that the pricing of the Motor policies is in compliance with that approved by the Authority:

The insurer, in its written reply to the SCN submitted that they had filed discount moderation with average discounts with the Authority during 2008 for Motor products and the correspondence in this regard got destroyed during fire in November 2012. However, this was not communicated to the inspection team in 2018 or to the Authority, when asked again during August 2019. In both the cases there was no mention of rates filed and approved by the Authority for Motor products or the fire accident. Further, the note submitted to the inspection team in February 2013 has mention of destruction of claim files only.

The non-submission of information is viewed seriously and the insurer is **warned** for not providing the information sought by the Authority. Further, the insurer is **directed** to ensure prompt submission of information/documents during future inspections.

The issue of filing of revision in pricing of Motor products with the Authority shall be dealt with separately. Without prejudice to this order, the Authority reserves its right to take appropriate action with regard to compliance of Product Filing Guidelines.

3.3.2 Confirmation on termination of existing arrangements with Motor Dealers and date of termination:

The insurer's submission with respect to termination clause in the agreements with the Motor dealers is noted. However, the insurer has not provided any evidence of replying to the inspection team's email seeking confirmation on the termination of existing arrangements with the Motor Dealers. Hence, the insurer is **directed** to ensure prompt submission of information/documents during future inspections.

3.3.3 Distribution fees statements forwarded to the MISPs on monthly basis:

Considering the insurer's submission with respect to submission of premium and distribution fee statements, presence of E-Motor portal and sharing of distribution fees statements with the MISPs with effective from 1st April 2020, **the charge is not pressed.**

3.3.4 Memorandum of Association (MOA) for M/s Concept Motors Car Pvt Ltd and M/s Atul Automotives :

The insurer has not provided any evidence of replying to the inspection team's email dated 10th August 2018 seeking the above documents. Hence, the insurer is **directed** to ensure prompt submission of information/documents during future inspections.

Further, as far as collection of declarations from MISPs is concerned, the insurer shall follow the advisory on inspection observation (9) issued vide ref. IRDA/NL/Royal/Advisory/142/2020-21 dated 21st August 2020.

4 Summary of Decisions:

Charge	Violation of Provisions	Decision
1	Violation of para 15(16) of MISP Guidelines	Penalty of Rs. 3 Lakh
2	Violation of para 9(d) of MISP Guidelines and section 14(2)(h) of IRDA Act, 1999.	Warning and Direction.

4.1 In conclusion, as directed under the respective charges, the penalty of Rs. 3,00,000/- (Rupees Three Lakh only) shall be remitted by the insurer by debiting shareholders' account within a period of forty-five days from receipt of this Order through NEFT/RTGS (details of which will be communicated separately). An intimation of remittance may be sent to Ms. Yegnapriya Bharath, Chief General Manager (Non-Life) at Insurance Regulatory and Development Authority of India, Sy. No. 115/1, Financial District, Nanakramguda, Gachibowli, Hyderabad 500032, email id- ypriyab@irdai.gov.in.

4.2 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 discussions.
- (b) The insurer shall submit an Action Taken Report to the Authority on direction given within 90 days from the date of this order.

5. 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.

Place: Hyderabad
Date : 9th April, 2021

Sd/-
(Dr. Subhash C. Khuntia)
Chairman