



ORDER

Ref No: - IRDA/F&A/ORD/SOLP/200/11/2019

6th November, 2019

Order Issued under Section 64VA (5) of the Insurance Act, 1938 read with Section 14 (1) of the IRDA Act, 1999 regarding Reliance Health Insurance Co. Ltd (RHICL)

Ref:

- (1) Reliance Health Insurance Ltd. letter dated 20th August 2019 –Submission of Solvency Returns
- (2) IRDAI Letter No. 371/F&A(NL)/COM-H-RH/2019-20/179 dated 30th August 2019
- (3) Reliance Health Insurance Ltd. letters dated 6th September and 10th September 2019
- (4) IRDAI Letter No. 371/F&A(NL)/COM-H-RH/2019-20/187 dated 13th September 2019
- (5) Reliance Health Insurance Ltd. letter dated 14th September 2019
- (6) IRDAI Letter No.371/F&A(NL)/COM-H-RH/2019-20/194 dated 26th September 2019
- (7) Reliance Health Insurance Ltd. email dated 3rdOctober 2019
- (8) IRDAI Show-Cause Notice Vide No. IRDA/F&A/Solvency/ RHIC /2019-20/1/206 dated 16.10.2019
- (9) Reliance Capital Ltd- response dated 22.10.2019
- (10) IRDAI letter No. IRDA/F&A/Solvency/ 2019-20/LR/210 dated 24.10.2019- notice for personal hearing

Facts of the case

1. The Insurance Regulatory and Development Authority of India (herein after referred to as “the Authority”) issued the Certificate of Registration bearing No. 160 dated 3rd October, 2018 to Reliance Health Insurance Ltd (herein after referred to as “RHICL”) to carry on the business of health Insurance in India in terms of Section 3 of the Insurance Act, 1938 (herein after referred to as “the Act”). In terms thereof, RHICL is subject to the terms and conditions of the Certificate of Registration and is also required to abide by the provisions of the Act particularly Section 64VA of the Act and IRDAI (Assets, Liabilities and Solvency Margin of General Insurance Business) Regulations, 2016 (herein after referred to as “the Solvency Regulations”), the Insurance Regulatory and Development Authority Act, 1999, the Regulations framed thereunder, the directions issued by the Authority from time to time by way of circulars and/or guidelines and any directions issued to RHICL.

S. Chandra

2. RHICL had submitted the solvency return for the quarter ending on 30th June, 2019 vide letter dated 20th August, 2019 (Ref. 1) and reported a solvency ratio of 106% which was below the control level of solvency of 150%, as specified under Clause 3 of schedule III of the solvency regulations.
3. The Authority, vide its letter dated 30th August, 2019 (Ref. 2), advised RHICL to restore the solvency margin to the control level on or before 30th September, 2019 and also to indicate, in the interim, as to how the control level of solvency was proposed to be achieved. RHICL was further advised to submit the solvency position as on 31st August, 2019.
4. RHICL vide letter dated 6th September 2019 (Ref. 3) stated that *"they will be submitting their plan to ensure the emergence of a strong, well-capitalized Health Insurance Company"*. However, the response did not indicate the manner in which the control level of solvency would be restored. RHICL vide letter dated 10th September, 2019 (Ref. 3) reported a solvency ratio of 77% as on 31st August, 2019 and stated that they intended to bring in new/additional promoters/investors. RHICL also indicated that RCL along with RHICL had signed a Term Sheet with a potential new promoter and due diligence process had commenced.
5. As there was no concrete plan in place to restore solvency, and there was further deterioration in solvency between June 2019 and August 2019 [from 106% to 77%], the Authority, in order to safeguard the interest of policyholders, directed RHICL, vide letter dated 13th September, 2019, (Ref. 4)
 - I. *not to make any payment towards Capital Expenditure; and*
 - II. *not to make any payment to any of the related party of RHICL.*

The Authority also sought additional information from RHICL on the cash flow, income, break-up of the operating expenses and net worth. RHICL vide letter dated 14.09.2019 (Ref.5) submitted the above information.

6. Analysis of the information submitted indicated a sharp reduction in its net-worth, investments and cash & bank balance during the period from June, 2019 to August, 2019 mainly because of the operating expenses. The monthly outgo was approximately Rs.5.86 crore on account of operating expenses.
7. In view of the continuing deteriorating financial position of RHICL as also the declining solvency, the Authority, invoking the provisions of Section 14(2) of the Insurance Regulatory and Development Authority Act, 1999 read with Section 64VA of Insurance

Act, 1938 directed RHICL, vide letter dated 26th September, 2019 (Ref. 6), to restore the solvency ratio to control level before 30th September, 2019 and till such time as the solvency is restored, to take the following actions:

- I. Ring fence the investments and cash & bank balance;
 - II. No funds shall be utilized for any purpose other than for recoupment of any deficiency arising on account of payment of claims to the existing policyholders;
 - III. Not to sell investment except with the prior written approval of the Authority;
 - IV. Credit the investment income and premium received to its bank account(s) and also ring fence the same as stated at (I) above;
 - V. Report the following:
 - (i) Cash inflow and Outflow on a daily basis;
 - (ii) Balance Sheet, Cash flow Statement and Undertaking on Compliance of Directions on a weekly basis; and
 - (iii) Solvency Margin Return on a monthly basis.
8. RHICL vide their email dated 3rd October, 2019 (Ref. 7) submitted the solvency statement as on 30.09.2019. The Authority noted with concern that the solvency ratio of RHICL had further declined to 63% as on 30th September, 2019. Further, as per the report of RHICL (Ref. 7), the difference between assets and liabilities of RHICL as on 30th September, 2019 was Rs.31.66 crore as against the required statutory difference of Rs.50 crore [being 50 percent of amount of the minimum paid up capital] as stipulated in Section 64VA (1) of the Insurance Act.
9. In view of the above, show cause notice (SCN) was issued to RHICL vide IRDAI letter No IRDA/F&A/Solvency/ RHIC /2019-20/1/206 dated 16th October, 2019 (Ref. 8) for having violated the provisions of Section 64VA(3), 64VA(4) and 64VA(1) of the Act.
10. Reliance Capital Ltd., (RCL) the sole promoter of RHICL (hereinafter called "RCL") vide letter dated 22.10.2019 (Ref. 9), admitted to the violations of the provisions of 64VA (1) and 64VA (3) of the Insurance Act, while affirming that, RHICL had sufficient assets to cover policyholders' liabilities. It also informed that proposed induction of a new promoter/investor was not proceeding as envisaged. RCL further indicated that it proposed to amalgamate/merge RHICL with Reliance General Insurance Company Ltd. (RGICL) and a detailed plan would be submitted subsequently. As an immediate step,

it proposed to transfer available funds with RHICL and policyholders' liabilities to RGICL, which has RCL as the sole shareholder and promoter. Further, RCL also requested for an opportunity for personal hearing.

11. Accordingly, the CEOs of RHICL, RGICL, RCL were asked to be present in IRDAI office on 30th October, 2019.
12. The matter was heard by the Chairman of the Authority on 30.10.2019 at 3.30 pm. The following were present:
 - (i) Shri. Amit Bapna, Chief Financial Officer; RCL;
 - (ii) Shri. Ravi Vishwanath, CEO of RHICL;
 - (iii) Shri. Rakesh Jain, CEO, RGICL;
 - (iv) Shri. Vaibhav Kabra, CFO, RHICL.

From IRDAI, the following officials were present (i) Mr. Suresh Mathur, Executive Director; (ii) Mrs. Y P Bharat, CGM-Non-life; (iii) Mr. S P Chakraborty, GM (Actuarial); (iv) Mr. R K Sharma, GM (F&A-NL); and (v) Mr. D V S Ramesh, GM- Health.

- I. CFO, Reliance Capital stated that their CEO, Shri Anmol Ambani was unable to travel due to foot injury and had authorized him to represent RCL. He mentioned that RCL was keen on merging RHICL with RGICL which is a much bigger company with more than 80,000 active policyholders. He stated that RCL would submit a formal proposal for merger in 4-6 weeks. CEO, RHICL admitted to the violations of the provisions of the Act, due to inability of RCL to provide the required capital. However, all policyholders' claims were being settled promptly and there was no complaint on that count. He stated that the discussion with the prospective new promoter had been dropped, but RHICL would work closely with RCL to restore solvency. He suggested transfer of policyholders' liabilities to RGICL, their group company along with the financial assets so that RGICL can settle the claims as they arise. He also mentioned that there were about 9,000 active policies as on date.
- II. CEO of RGICL stated that RGICL was willing to handle the assets and policyholders' liabilities portfolio of RHICL. When questioned about the possible impact of merger on RGICL's solvency, he stated that it would be negligible and the solvency of the combined entity would be well above the control level.

Pending merger, RGICL would be willing to manage the claims portfolio with the investment assets and cash and bank balances of RHICL.

III. It was agreed by RHICL, RGICL and RCL that as an interim measure:

- (i) RHICL shall transfer Policyholders liabilities including the reinsurance balance, agency balance, UPR, unallocated premium etc., to RGICL;
- (ii) RHICL shall transfer cash & bank balance and the investments held in policyholders' account and shareholders' account to RGICL. RGICL shall utilize the funds only for the purpose of making payments to the policyholders of RHICL.
- (iii) Residual assets of the RHICL shall be ring fenced till the process of merger is over to the satisfaction of the Authority. Till such time, the operating expenses such as salary, rent, payment to creditors etc. will be responsibility of RCL and the same shall be paid by infusing fresh funds. No expense of RHICL other than those indicated above shall be borne by RGICL.
- (iv) RGICL shall maintain a separate account of the portfolio transferred by RHICL and the funds received from RHICL shall only be used for the purpose of discharging the liabilities of the policyholders of RHICL.
- (v) RCL shall provide a commitment letter to meet the capital requirement of RGICL.

13. It is noted that RHICL has not brought out any additional facts in the personal hearing and has admitted to the violation of the following provisions of the Act and the Regulations framed thereunder:

- I. Section 64VA(3) read with the solvency regulations which requires the insurer to maintain control level of solvency at 150%, whereas the RHICL's solvency level was 106% as on 30th June, 2019 and 63% as on 30th September, 2019;
- II. Section 64VA(4) of the Act, as despite directions of the Authority dated 30th August, 2019 to restore the solvency to control level by 30th September, 2019, RHICL has neither complied with the said directions nor has been able to file a plan of action to correct the deficiency, within the specified timeframe;
- III. Section 64VA(1) of the Act which requires the insurer to maintain an excess of value of assets over the amount of liabilities, of not less than Rs.50 crore

whereas the excess as on 31st August, 2019 and 30th September, 2019 was observed to be Rs.38.50 crore and Rs.31.66 crore respectively.

14. Subsequent to the personal hearing, RCL vide its letter dated 31st October 2019 has submitted that it will “support RGICL financially and operationally as promoter.....” and committed to “fund the deficiency if any in the insurance portfolio of RHICL being administered by RGICL”. Further, RGICL vide its letter dated 31st October 2019 has agreed to “manage investment, bank balance assets and policyholders’ liabilities” of RHICL.

Decision of the Authority

15. The Authority notes that RHICL was granted certificate of registration in the month of October, 2018 and has completed just one year of the operations. During this period, the solvency has dipped below control as follows:

For the period ended on	Solvency Ratio reported by the Insurer
As on 30 th June, 2019	106%
As on 31 st August, 2019	77%
As on 30 th September, 2019	63%

16. Given the fact that the solvency of the RHICL is considerably below the control level of solvency and based upon the submissions made by RHICL and RCL, the Authority has come to the conclusion that continuation of transaction of health insurance business by RHICL at this junction, will not be in the interests of the policyholders.
17. Taking cognizance of deteriorating solvency margin of the insurer, there is immediate need to protect the interest of the policyholders. There are several options available under section 64VA (5) including issue of direction as deemed necessary.
18. After weighing the various options available and in the best interest of the policyholders, after considering the submissions of RCL and RHICL and also the fact that RCL is the sole promoter of both RGICL and RHICL, with the entire share capital of both these entities held by RCL, the Authority considers it appropriate to invoke Section 64VA (5) of the Act read with Section 14 of the IRDA Act, 1999 and issue direction to RHICL for entrustment of the insurance portfolio of RHICL to RGICL for management pending a permanent resolution of the issue.

19. Accordingly, the Authority in exercise of its powers under Section 64VA (5) read with Section 14 (1) of IRDA Act, 1999 issues the following directions:

I. Directions to RHICL

- (i) RHICL shall transfer the entire health insurance portfolio to RGICL on the appointed date.
- (ii) RHICL shall transfer to RGICL all the investments pertaining to policyholders and those lying in shareholders' account; bank balance and cash in hand; and cash/cheque lying with the agents/branches of RHICL on account of premium collection on policies issued by RHICL, if any, and any other financial assets.
- (iii) RGICL shall maintain the funds of RHICL in a separate account and use the same to discharge the liabilities of the policyholders of RHICL which would arise on or after the appointed date. Till the appointed date, such liabilities will be discharged by RHICL.
- (iv) RHICL shall give notice to all existing policyholders informing them about the transfer of the portfolio to RGICL; and the procedure to prefer claims to RGICL for settlement. The same shall also be published in two national widely circulated newspapers (one in English and the other in Hindi).
- (v) RHICL shall make available all records and IT systems to RGICL to enable the latter to settle claims of policyholders promptly.
- (vi) RHICL shall get the policyholders' liability as on the appointed date estimated through a panel actuary and submit the same to the Authority within 10 days of the appointed date.
- (vii) RHICL shall ring fence its residual assets and not dispose off the same without the prior written approval of the Authority
- (viii) On and from the appointed date, RHICL shall stop underwriting insurance business and a communication to this effect shall be displayed on the website of RHICL and shall be prominently displayed at all its branches.

II. Directions to RGICL

- (i) RGICL shall keep the assets and liabilities of RHICL separate from the general insurance business and will report the same as a separate line of business.

- (ii) RGICL shall promptly settle claims arising out of RHICL portfolio and display the procedure for the same on its website and on the notice board of all its offices and branches. It will create a dedicated e-mail id and helplines to handle the concerns/issues of policyholders of RHICL.
- (iii) RGICL shall not issue any new policy on behalf of RHICL nor shall it renew any policy from RHICL portfolio. However, the policyholders of RHICL will be provided opportunity and choice of portability of their policies to other insurers including RGICL.
- (iv) RGICL shall ensure the confidentiality of the policyholder data pertaining to the portfolio.

III. RGICL and RHICL shall

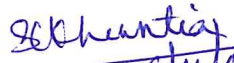
- (i) make available FAQs as regards servicing of policyholders of RHICL and also publish the same on the website of both the insurers.
- (ii) arrange to host a copy of this Order on their website prominently and also arrange to paste a copy of the operative portion of this Order in a conspicuous place at each of its branches and offices.

IV. It is further directed that

- (i) The appointed date for implementing the aforesaid order shall be 15th November, 2019.
- (ii) RHICL and RGICL shall place this order before their respective Boards in their next meeting for information;
- (iii) RHICL shall submit an Action Plan approved by their Board on proposed merger / amalgamation or revival within 30 days of the appointed date.
- (iv) RHICL and RGICL shall report to the Authority on compliances of the above directions within 3 days of the appointed date.
- (v) RCL, RGICL and RHICL shall promptly inform the Authority of any development which may impact the interests of the policyholders of RGICL and/or RHICL.

SC Chatterjee

20. This order is issued without prejudice to the Authority's right to initiate appropriate action under the provisions of the Act and regulations.
21. If RHICL, RGICL and RCL feel 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.


6/11/19
(Dr. Subhash C. Khuntia)

Chairman

Place: Hyderabad

Date: 06.11.2019