सत्यमेव जयते

Report of the
Comptroller and Auditor General of India
on

Operational Performance of Export Credit Guarantee Corporation of India Limited

Union Government
Ministry of Commerce & Industry

No. 12 of 2012-13
(Performance Audit)

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Preface

This Report of the Comptroller and Auditor General of India contains the results of performance audit of the operational performance of Export Credit Guarantee Corporation of India Limited during the period April 2008 to March 2011 and is based on the test audit of records of the Company.

Executive Summary

Export Credit Guarantee Corporation of India Limited, a Company fully owned by the Government of India was formed in 1957 with the objective of catalyzing the promotion of exports from the country by covering the risks of exports on credit. It is registered with Insurance Regulatory and Development Authority (IRDA) as a general insurance company dealing in credit insurance policies/covers.

Our main audit objective in conducting this Performance Audit was to examine the operational performance of the Company during the years 2008-09 to 2010-11 with a view to assessing the effectiveness of system in place for underwriting risks and settlement of claims relating to covers issued to banks and short term policies issued to exporters. During the course of audit, adequacy of the risk mitigation measures in place for protection against large claims was also examined. Significant audit findings are narrated below:

Shortcomings in underwriting of covers issued to Banks

The Company offered whole turnover covers to the Banks to protect them against the default by the exporter who had availed Packing Credit or Post Shipment Credit. During 2008-09 to 2010-11, the Company issued 108 Whole Turnover Packing Credit (WTPC) covers to 36 Banks and 92 Whole Turnover Post Shipment (WTPS) covers to 31 Banks. A review of 102 covers issued to 34 Banks under WTPC and 86 covers issued to 29 Banks under WTPS showed that there was a profit of ₹ 665.78 crore under WTPC and a loss of ₹ 191.72 crore under WTPS during the above period.

(Para 2.2)

Out of 29 Banks to whom WTPS cover was issued, the Claim Premium Ratio (CPR) of 13 Banks was more than 200 *per cent* and resulted in a loss of ₹ 309.27 crore during 2008-09 to 2010-11. The Company did not have an effective system of incentives and disincentives under WTPS for containing the adverse claim ratio.

(Para 2.2.1)

The consortium agreements amongst the Banks to finance the exporters posed an enhanced credit risk and the Company had no mechanism to know of this arrangement except only at the time of their filing the Report of Default. Out of 29 claims examined in audit, 26 claims involved nine Banks under consortium arrangement and related to only one commodity viz. diamond. The Banks had extended 477 advances to four exporters for a value of ₹ 518.87 crore relating to diamond exports, which ultimately culminated in a claim of ₹ 278.43 crore. Detailed examination of 310 advances for ₹ 322.67 crore out of the above 477 advances showed that 240 advances were extended to exporters involving Hongkong based buyers accounting for claims of ₹ 170.10 crore. Same individuals were either owners or Chief Executive Officers representing more than one buyer. The Banks extended 83 advances for ₹ 133.90 crore covering exports to nine buyers, who were represented by three individuals, with a claim payout of ₹ 67.21 crore. The consortium member Banks extended advances to four exporters for ₹ 12.83 crore, covering the exports to buyers who had already defaulted.

(Para 2.2.2)

The Company paid claims of ₹ 316.13 crore despite buyer verification reports obtained by the Banks being either outdated or unsatisfactory or post dated.

(Para 2.2.3)

While underwriting individual risks of exporters, the Company only relied on information furnished by the Banks without any access to the Banks' appraisal system. In the absence of an independent appraisal system, even in case of large risks like Zoom Developers Limited, the Company injudiciously continued its counter guarantee without ensuring the completion of the projects. These guarantees were extended for more than five years even though the normal validity of these guarantees was six months. Invocation of guarantees by the buyers on account of non-completion of projects resulted in claims and the net claim liability likely to devolve on the Company worked out to ₹ 1047 crore.

(Para 2.2.4)

Banks sanctioned Post Shipment advances by discounting the bills drawn on the buyers who were already figuring in the defaulters list of the Company. This resulted in claim payment of ₹ 23.40 crore. Four other buyers who had defaulted in repayment of advances during January 2009 to February 2010 and where the Company had paid ₹ 20.73 crore as claims were not placed in defaulters' list.

(Para 2.2.7)

After settlement of claims, branches of the Company were required to pursue the recoveries with the Banks and branch-wise targets were also set in this regard. We observed that pending recoveries had gone up from ₹ 2170 crore in 2008-09 to ₹ 2628 crore in 2010-11. The actual recoveries made during these years also declined from ₹ 151.29 crore in 2008-09 to ₹ 110.65 in 2010-11 which was indicative of inadequate recovery efforts.

(Para 2.2.10)

Deficiencies in short term policies issued to exporters

The system of appraisal of buyers and fixation of Overall Limit (OL) based on financial and non-financial parameters was flawed. In 48 out of 98 buyers selected in audit, the Company had fixed/enhanced the OL without obtaining latest and full financial information about the buyers or despite unfavorable reports of Credit Information Agencies, involving payment of claims to the extent of ₹ 158.40 crore.

(Para 3.3)

The Company issued a customized policy in August 2007 in favour of MSTC Limited (MSTC) covering the risk of default of payment by the domestic suppliers which was renewed in August 2008. However, it did not ensure that MSTC had any insurable interest by establishing the relationship between MSTC and its associates though it was aware (July 2007) that procurement and shipment of goods would be done by the associates and MSTC would merely act as a canalizing agency. MSTC filed 37 claims (March 2009 to November 2009) for a total value of ₹ 452.81 crore due to buyers default in respect of shipments made by its three associates. The above claims included an amount of ₹ 5.57 crore in respect of six shipments which were effected during November 2008 and December 2008 i.e. after the Company became aware of MOA between MSTC and its associates.

(Para 3.4)

It was seen that the exporters were not complying with the terms and conditions of the policy and yet the Company settled claims filed by them. During the three years ending 31 March 2011, we observed that in 88 out of 155 claims, the Company paid ₹ 145.19 crore by condoning the lapses/deviations and after deducting a nominal amount. Out of the above, in 30 cases amounting to ₹ 36.08 crore, the breaches committed involved serious omissions.

(Para 3.5)

The amount to be recovered from the buyers against the claims paid to the exporters increased from ₹ 946.27 crore in 2008-09 to ₹ 1341.76 crore in 2010-11. The recovery rate of the Company ranged from 4.13 *per cent* to 5.58 *per cent* only during 2008-09 to 2010-11.

(Para 3.6)

Risk assumption without adequate reinsurance

The Company's medium and long term exposures i.e. project exports were not covered by adequate reinsurance arrangement though the maximum liability ranged between ₹ 2100 crore to ₹ 5984 crore during the three years ending 31 March 2011.

(Para 4.3.1)

The Company did not take Excess of Loss protection in 2010-11. There were large claims in respect of two exporters during the year for ₹ 157.27 crore. In the absence of above protection, the entire amount had to be borne by the Company. The Excess of Loss protection could have resulted in a recovery of ₹ 101.55 crore.

(Para 4.3.2)

Recommendations

Based on the Audit findings, the following recommendations are made:

- **The Company needs to introduce an effective system of incentivising the Banks with lesser claim ratio and disincentivise Banks with higher claim ratio in WTPS. The Company should also consider laying down normative Claim Premium Ratio in order to benchmark the incentives/disincentives.**

- **The Company may put in place a system to obtain information regarding consortium agreements among the Banks to assess the concentration at the time of underwriting to protect its financial interests.**

- **Audit reiterates the earlier recommendation that in order to reduce the risk of claims, the Company needs to make it mandatory for Banks to carry out credit worthiness verification of foreign importers before sanctioning advances. The Company should insist on obtaining from the Banks, a certificate that due diligence has been carried out on the credit worthiness of the buyers.**

- **The Company should put in place an effective system for assessment of buyers while fixing OL by assigning appropriate weights for both financial and non-financial parameters.**

- **Settlement of claims condoning grave lapses on the part of exporters should be resorted only on an exceptional basis.**

- **The Company needs to strengthen the system of recovery from buyers so as to match with the peers in other countries.**

- **The Company needs to have an appropriate reinsurance protection commensurate with its exposures, to safeguard against uncertainty and instability of global markets.**

Chapter 1
Introduction

1.1 About ECGC

Export Risk Insurance Corporation which was set up in 1957 was renamed as Export Credit Guarantee Corporation of India Limited (ECGC) in the year 1983. ECGC (Company) is fully owned by the Government of India (GOI) and its functions are overseen by the Ministry of Commerce and Industry (Ministry). The Company was formed with the objective of catalyzing the promotion of exports from the country by covering the risks of exports on credit. It is registered with Insurance Regulatory and Development Authority (IRDA) as a general insurance company dealing in credit insurance policies/covers. As of March 2011, the Company had 51 branch offices and 5 regional offices with corporate office at Mumbai.

1.2 Objectives of the Company

The objective of the Company on a macro level was to encourage and facilitate globalisation of trade. It provided insurance in the form of policies to safeguard the exporters against unforeseen losses. It also offered insurance cover to Banks with the objective of expediting adequate Bank finance to Indian exporters. In addition, it assists Indian exporters in managing their credit risks by providing timely information on the credit worthiness of the buyers, bankers and various countries.

1.3 Financial and operational highlights

The financial highlights of the Company for the five years ending 31 March 2011 were as under:

(₹ in crore)

S. No.	Particulars	2006-07	2007-08	2008-09	2009-10	2010-11
1	Authorised Capital	1000	1000	1000	1000	1000
2	Paid-up Capital	800	900	900	900	900
3	Reserves and surplus	629	913	986	1027	1082
4	Net worth	1429	1813	1886	1959	2062
5	Investments (excluding term deposits)	228	586	1062	2620	3164
6	Gross premium income	618	668	745	813	885
7	Net premium [Gross premium less reinsurance ceded]	614	477	573	579	771
8	Total Earned premium [net premium +/- adjustment for change in reserve for unexpired risk]	594	546	525	576	675
9	Investment and other income apportioned to revenue account (policyholders account)	116	131	157	120	146
10	Total incurred claims	187	-16	355	675	757
11	Net Commission [(-) indicates income and (+) indicates outgo]	0	-34	-25	-31	-9
12	Operating expenses	74	105	94	103	151
13	Premium deficiency[1]	0	0	0	48	-48
14	Operating Profit/(Loss) from Insurance Business [(8+9) - (10+11+12+13)]	449	622	258	-99	-30
15	Income from Investments & other income [share holders account]	103	150	185	173	151
16	Provision other than taxation and other expenditure	0	0	5	9	3
17	Profit/Loss before tax [14+15-16]	552	772	438	65	118
18	Provision for Taxation and prior period expenditure	182	293	155	11	32
19	Net Profit/Loss after tax [17-18]	370	479	283	54	86
20	Dividend paid [including dividend tax]	139	192	211	13	30

[1] *If the sum of expected claim costs, related expenses and maintenance costs exceeds related reserve for unexpired risks, premium deficiency needs to be recognized*

Analysis of the financial data for the period 2006-07 to 2010-11 indicated the following:

i) Share Capital

During 2006-07 to 2010-11, the Company's coverage of the country's exports stagnated between eight to ten *per cent*. The Company attributed this to the IRDA's requirement on exposure limit (as a multiple of net worth). Increasing the paid-up share capital was one of the ways of increasing the net worth. However, it was noticed that the paid up share capital of the Company also remained constant at ₹ 900 crore since 2007-08. The Company stated that the matter had been taken up with the Ministry for increasing the share capital.

ii) Investments

The long term investment corpus of the Company increased from ₹ 228 crore in 2006-07 to ₹ 3164 crore in 2010-11, which was mainly due to conversion of term deposits into long term investments to comply with the IRDA guidelines on investments. The gross yield[2] on such investments was 7.78 *per cent* (2010-11).

iii) Premium

The gross premium income increased from ₹ 618 crore in 2006-07 to ₹ 885 crore in 2010-11 as value of business covered increased from ₹ 428840 crore in 2006-07 to ₹ 431888 crore in 2010-11.

iv) Operating profit

The main reason for increase of operating profit from ₹ 449 crore in 2006-07 to ₹ 622 crore in 2007-08 was reduction in outstanding claims. The reduction for operating profit from ₹ 622 crore in 2007-08 to ₹ 258 crore in 2008-09 was on account of increase in claim provisioning. The operating loss reported in 2009-10 and 2010-11 was on account of increased default of buyers resulting in increased claims. Reasons for increased claims have been discussed in Chapters 2 and 3 of this Report.

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[2] *Gross yield refers to yield on investment before deduction of taxes and expenses*

1.4 Products / services of the Company

The Company issued 13 types of short term policies to exporters and 8 types of covers to the Banks. Product profile for each is given in **Annexure I**. Insurance policies issued to exporters covered the risk of non-payment of export proceeds by the buyers. Policies/covers issued by the Company mainly covered goods exported on short term credit i.e. credit not exceeding 180 days.

Insurance covers issued to Banks (known as Export Credit Insurance for Banks [ECIB]) were in the nature of guarantees to advances given to exporters by the Banks. The Company also covered the risk of default in payment in respect of exports of engineering goods, execution of turnkey projects and civil construction contracts abroad, which were collectively referred to as 'Project Exports'.

The table below indicates the number of policies / covers issued, value of business covered and premium for the five years from 2006-07 to 2010-11:

Product	Details	2006-07	2007-08	2008-09	2009-10	2010-11
Short term policies	No. of policies (Fresh + Renewal)	10822	10196	11541	10557	10117
	Value of business covered (₹ in crore)	50421	52767	68866	85643	92884
	Premium (₹ in crore)	191	205	247	288	333
	Percentage of Premium to total Premium	31	31	33	35	38
Short term ECIB	No. of covers (Fresh + Renewal)	2961	4223	4177	4082	3922
	Value of business covered (₹ in crore)	375260	182766	261732	271274	331758
	Premium (₹ in crore)	397	430	464	487	511
	Percentage of Premium to total Premium	64	64	62	60	58
Project & Term Exports	**Policies**					
	No. of covers (Fresh)	1	4	4	4	1
	Value of business covered (₹ in crore)	1229	1564	2443	3993	3781
	Premium (₹ in crore)	10	13	15	15	19
	ECIB					
	No. of covers (Fresh)	3	5	0	0	0

Product	Details	2006-07	2007-08	2008-09	2009-10	2010-11
	Value of business covered (₹ in crore)	1846	2780	2412[3]	2775[3]	3221[3]
	Premium (₹ in crore)	18	21	19	22	22
Domestic Insurance[4] and Factoring[5]	No. of covers (Fresh)	Not available				
	Value of business covered (₹ in crore)	84	0	5	43	243
	Premium (₹ in crore)	2	0	0.12	1	1
	Total Premium	**618**	**669**	**745**	**813**	**886**

From the above table, it was noticed that premium generated from short term policies and covers to Banks ranged from 95 to 96 *per cent* of total premium. This Performance Audit was therefore carried out on these two products only. As audit upto the year 2007-08 was covered during the previous Performance Audit (Report No. PA 27 of 2009-10 of the Comptroller and Auditor General of India), period from 2008-09 to 2010-11 was covered during this Performance Audit.

1.5 Memorandum of Understanding and Corporate Plans

The general superintendence, direction and management of the affairs and business of the Company were vested in its Board of Directors (BOD) and the same was presided over by the Chairman-cum-Managing Director (CMD). All the Directors on the Board other than the CMD were non-executive part-time Directors. Keeping in view the guidelines of Department of Public Enterprises, a Memorandum of Understanding (MOU) with the Ministry was signed each year. The MOU was a negotiated agreement between the GOI and the management of the Company intended to evaluate the performance of the Company at the end of the year vis-à-vis the targets fixed at the beginning of the year. The performance of the Company as against the MOU standards was rated as 'Very Good' in 2008-09, 'Good' in 2009-10 and 'Very Good' in 2010-11.

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[3] *Only renewal premium*

[4] *The Company introduced Domestic Credit Insurance during February 2009. However, it promoted the product on a very low key.*

[5] *Factoring is a financial transaction whereby a business sells its accounts receivable (i.e., invoices) to a third party (called a factor) at a discount. The Company introduced factoring service in April 2007.*

A comparison of performance of the Company in respect of short term exports credit insurance policies with that of 45 Berne Union members[6] on parameters such as business covered, premium income and premium rate for the year 2010 (latest available) indicated that the Company was placed on 12th, 13th and 23rd rank respectively.

1.6 Scope of Audit

The scope of audit mainly included review of policies and ECIB covers issued and claims settled during the three year period ending 31 March 2011. Relevant rejected claims were also verified to assess the process. The commitments given by the Company in the form of acceptance for the recommendations made in the earlier Performance Audit Report were also revisited to assess compliance by the Company.

1.7 Audit objective

Our main audit objective in conducting this Performance Audit was to examine the operational performance of the Company during the years 2008-09 to 2010-11 with a view to assessing the effectiveness of system in place for underwriting risks and settling claims related to short term policies issued to exporters and covers issued to Banks. Adequacy of the risk mitigation measures in place for protection against large claims was also examined.

1.8 Audit criteria

The audit criteria primarily included IRDA Regulations, Annual Reports of Directorate General of Foreign Trade, RBI Circulars, Corporate Plans (CPs) of the Company, Memorandum of Understandings (MOUs) signed by the Company with the Ministry, Reports of Credit Information Agencies[7] (CIAs), circulars issued by the Company and decisions of the Board of Directors.

1.9 Audit methodology

An entry conference with the Management of the Company was held on 12 September 2011 wherein the audit objectives, audit criteria, methodology and audit

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[6] *A leading association for export credit and investment insurance which works for cooperation and stability in cross border trade and provides a forum for professional exchange among its members.*

[7] *Agencies which collects and sells information about the credit worthiness of an individual or a company.*

issues were discussed and the Company's suggestions were considered. Audit was conducted during September 2011 to January 2012. The audit methodology included scrutiny of documents, analysis of data, issue of requisitions to elucidate information, discussions with the management and review of replies given to preliminary observations issued during the course of audit. Records at the Ministry were also examined. Based on the examination, draft Performance Audit Report was issued to the Management on 23 February 2012 and an Exit meeting was held on 28 March 2012. The draft Report was also issued to the Ministry on 29 May 2012. Replies/views of the Company and Ministry were considered while drawing audit conclusions which are discussed in the subsequent chapters.

1.10 Audit Sampling

Audit sampling was done with thrust on selection of high value[8] claims paid both under policies and ECIB during the three year period from 2008-09 to 2010-11. The total value of claims paid during the year 2008-09 to 2010-11 under ECIB was ₹ 1065.52 crore, out of which audit selection of value of claims paid amounted to ₹ 455.33 crore (43 *per cent*) and total value of claims paid under policy was ₹ 646.46 crore, out of which audit selection of value of claims paid amounted to ₹ 301.18 crore (47 *per cent*).

1.11 Acknowledgement

Audit acknowledges the co-operation and assistance extended by the Ministry and the Management of the Company at various stages of the Performance Audit.

[8] *Short term policies above ₹ 5 crore and above ₹ 10 crore for ECIB*

Chapter 2
Export Credit Insurance for Banks

2.1 Whole Turnover Covers

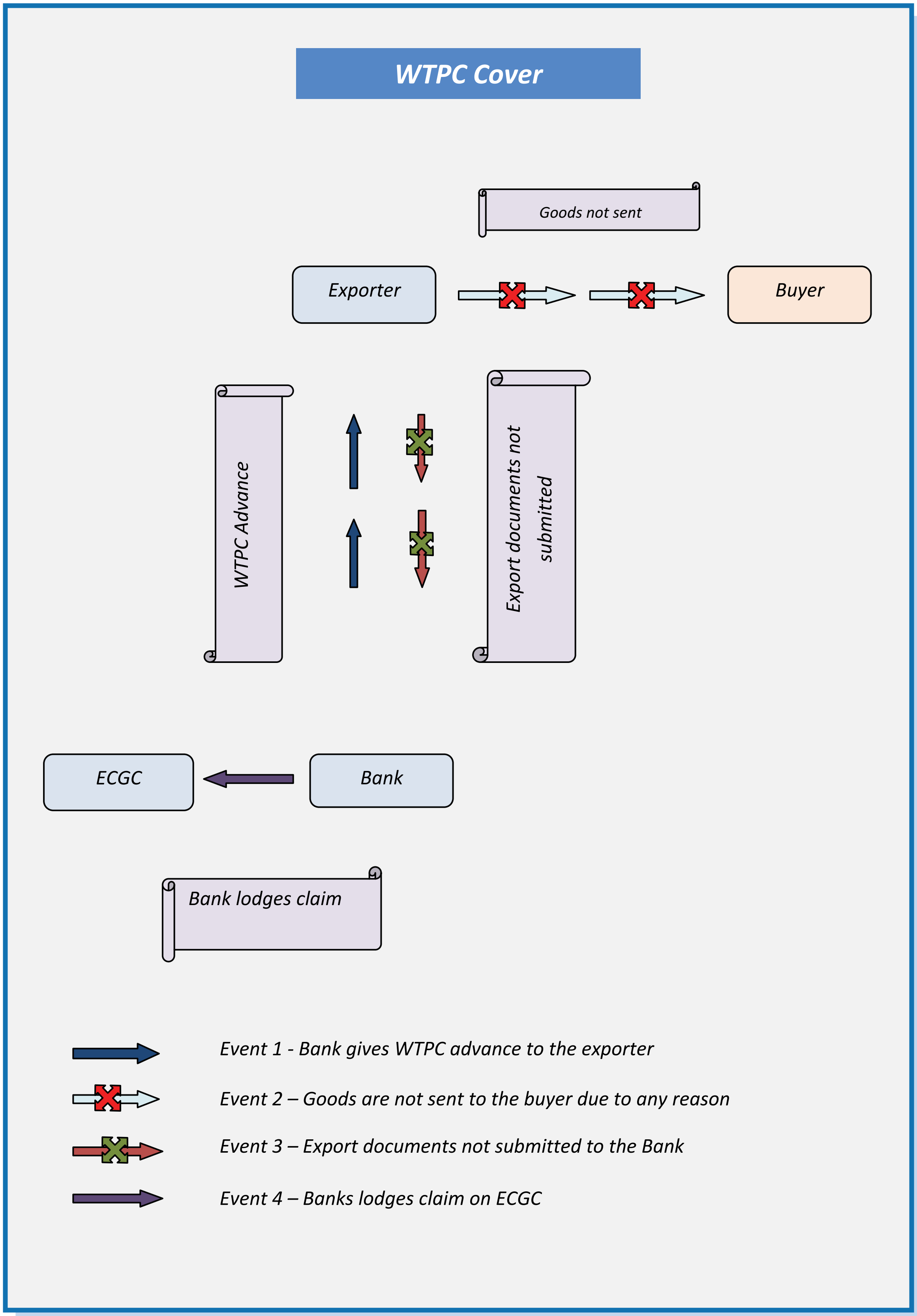
The scheme of export financing by the Banks was introduced in 1967. The financial assistance was provided by Banks to the exporters at two stages. The first was by way of Packing Credit (PC) for working capital to purchase raw material, processing, packing and warehousing of goods meant for export. The second stage namely, Post Shipment (PS) finance was provided by the Banks against the shipping documents after liquidating the PC advances.

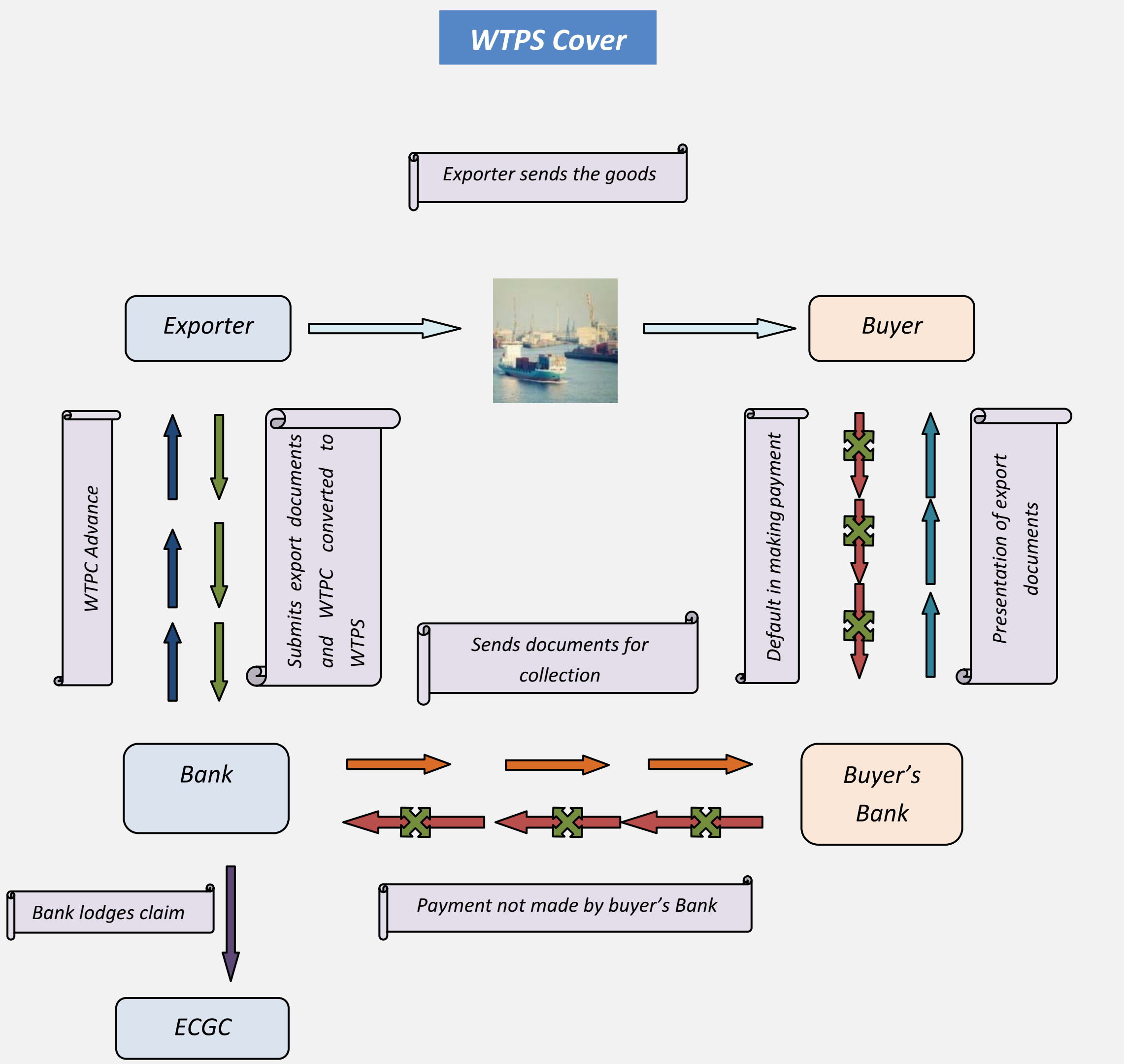
These advances to the exporters for PC and PS by the Banks had a risk of default and such a default would add to the Non-Performing Assets (NPA) of the Banks. The whole turnover covers offered by the Company protected the Banks against the default by the exporter who had availed PC or PS credit. The Banks were to be reimbursed at different rates varying from 50 to 95 *per cent* of the advances outstanding depending on the terms and conditions of the covers.

The Whole Turnover PC/PS (WTPC/WTPS) covers issued to the Banks automatically covered all the advances given to the exporters except those with previous history of default. In other words, the Banks got insurance cover for the advances extended to all the exporter/account holders who were regular in servicing their debt. In case of any fresh default by such exporters, the Banks got the money back from the Company. In effect, these defaults did not increase the NPA of the Banks.

Under the capital adequacy framework (BASEL requirement), Banks were to provide a minimum capital of 9 *per cent* on their risk weighted assets. However, the PC and PS advances against which insurance cover was given by the Company to the Banks were treated as risk free to the extent of 80 *per cent*. Thus, the Banks were required to meet the capital requirement for the balance of 20 *per cent* of the outstanding dues, which translated to 1.80 *per cent* only.

The process flow of the WTPC and WTPS insurance covers provided to the Banks is depicted in the following charts:





Event 1 -Bank gives WTPC Advance to the exporter

Event 2 - Exporter sends the goods to the

Event 3 - Exporter submits the export documents and WTPC is converted to

Event 4 - Bank sends export documents for collection to Buyers' Bank

Event 5 - Buyer's Bank present the documents to the buyer for payment

Event 6 - Buyer defaults in making payment; Buyer's Bank intimates

Event 7 - Bank lodges claim on ECGC

2.2 Performance of Whole Turnover covers

The Company's main ECIB business came from WTPC and WTPS as together they constituted 75-78 *per cent* of the total ECIB premium and 64-96 *per cent* of total ECIB claims during the five years ending 31 March 2011, as can be seen from the details given below:

(₹in crore)

Product		2006-07	2007-08	2008-09	2009-10	2010-11	Total
WTPC	Premium	230.14	250.48	263.76	268.69	293.27	**1306.34**
	Claims	154.17	176.08	141.48	126.84	126.79	**725.36**
	Recovery	116.07	93.45	105.57	80.11	74.2	**469.4**
	Net Claims	38.1	82.63	35.91	46.73	52.59	**255.96**
WTPS	Premium	76.01	76.48	87.94	96.83	106.3	**443.56**
	Claims	81.19	92.93	49.72	209.88	302.73	**736.45**
	Recovery	29.15	35.01	32.83	25.51	26.14	**148.64**
	Net Claims	52.04	57.92	16.89	184.37	276.59	**587.81**
Total of WTPC+WTPS	Premium	306.15	326.96	351.7	365.52	399.57	**1749.9**
	Claims	235.36	269.01	191.2	336.72	429.52	**1461.81**
	Recovery	145.22	128.46	138.4	105.62	100.34	**618.04**
	Net Claims	90.14	140.55	52.8	231.1	329.18	**843.77**
ECIB short term covers	Premium	396.69	429.76	464.18	486.78	510.62	**2288.03**
	Claims	245.15	285.86	234.19	371.69	459.63	**1596.52**
	Recovery	151.71	133.88	151.29	110.87	110.65	**658.40**
	Net claims	93.44	151.98	82.9	260.82	348.98	**938.12**
Whole turnover covers to ECIB short term covers (in *per cent*)	Premium	77.18	76.08	75.77	75.09	78.25	**76.48**
	Net Claims	96.47	92.48	63.69	88.61	94.33	**89.94**

Higher net claims affect the profitability of the Company adversely. During the last five years period, the premium under WTPC was more than the net claims and hence WTPC generated surplus. This would mean that the Company gained from the covers insuring pre-shipment advances by the Banks. WTPS generated surplus only during 2006-07 to 2008-09. However, due to a sudden surge in claims under WTPS, which cover post-shipment advances by the Banks, it turned out to be loss making during 2009-10 and 2010-11. Also, while the recovery[9] under WTPC was 64.71 *per cent* of the claims, it was only 20.18 *per cent* of the claims under WTPS.

Detailed scrutiny of these two products during the period 2008-09 to 2010-11 indicated that the Company issued 108 WTPC covers to 36 Banks and 92 WTPS covers to 31 Banks (five Banks did not avail WTPS covers). A review of 102 covers issued to 34[10] Banks under WTPC and 86 covers issued to 29 Banks under WTPS showed that there was a profit of ₹ 665.78 crore under WTPC and a loss of ₹ 191.72 crore under WTPS during the above period. An analysis of the losses posted by the Company under WTPS during the three year period indicated that many of the claims could have been avoided had the Banks observed due diligence and enforced the compliance to their sanction conditions. The Company did not enforce observance of prudence by Banks through enabling provisions in its covers and paid claims despite their adverse effects on its finances as discussed in the ensuing paragraphs.

The Ministry in its reply (June 2012) stated that:

- *historically, the claim incidence was always under WTPC, the situation under WTPS was adverse since 2008 onwards due to global meltdown. There were non-payments by buyers from developed countries. The loss under WTPS for two years (2009-10 and 2010-11) was only a temporary aberration due to global crisis and cannot be linked to any flaw in the scheme.*
- *various measures were taken to bring down the losses under WTPS like requirement of Banks to take prior approval of the Company in cases of larger exposures under diamond sector, restriction on limit exposures and percentage covers for iron ore sector and*
- *claims were not admitted where Banks had substantially violated their own sanction terms and conditions.*

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[9] ***A recovery would mean recovery of amount paid as insurance claim from buyers or other collaterals.***

[10] ***Data on underwriting not readily available for one Bank while the other Bank i.e. SBI availed only sectoral cover.***

The reply of the Ministry was in contrast to the following facts:

- An analysis of the data on premium and claims paid during the nine year period 2002-03 to 2010-11 showed that WTPC had always produced surplus (overall ₹ 1369 crore) with high recovery performance, while WTPS had sustained losses in five out of nine years (overall net loss ₹ 192 crore). Thus, the risk in respect of WTPS was higher as compared to WTPC and hence needed to be addressed.

- The steps taken by the Company to bring down the losses did not yield the desired effect in 2011-12 also. Out of ₹ 177 crore claim pay out in 2011-12 under WTPS, Gems and Jewellery accounted for ₹ 163 crore (92 *per cent*). Another ₹ 50 crore was outstanding for payment in 2012-13.

2.2.1 Non-loading for adverse claim experience under WTPS

During the period 2008-09 to 2010-11, under WTPC coverage, the Claim Premium Ratio (CPR)[11] was above 200 *per cent* for 2 out of 34 Banks with a loss of ₹ 26.62 crore. Contrasting this, under WTPS, CPR was more than 200 *per cent* in respect of 13 out of 29 Banks with a loss of ₹ 309.27 crore, as detailed below:

(₹in crore)

Sr. No.	Name of Bank	2008-09				2009-10				2010-11				Total loss
		Premium	Net claims[12]	Profit/ Loss (-)	CPR (In *per cent*)	Premium	Net claims[12]	Profit/ Loss (-)	CPR (In *per cent*)	Premium	Net claims[12]	Profit/ Loss (-)	CPR (In *per cent*)	
1	**Axis Bank**	4.07	0	4.07	0	4.01	4.33	-0.32	108	4.1	61.47	-57.37	1499	-53.62
2	**Karnataka Bank**	3.32	3.63	-0.31	109	2.91	34.3	-31.4	1179	3.57	25.39	-21.82	712	-53.53
3	**ING Vysya Bank**	3.72	0	3.72	0	2.7	-0.16	2.86	-6	2.54	33.3	-30.76	1309	-24.18
4	**Dena Bank**	3.49	3.77	-0.28	108	3.76	45.2	-41.42	1202	4.04	10.44	-6.4	259	-48.1
5	**Saraswat co-op Bank**	2.86	0.11	2.75	4	1.61	9.25	-7.64	575	1.1	11.96	-10.86	1089	-15.75
6	**Bank of India**	7.44	-0.4	7.8	-5	5.96	48.1	-42.13	807	8	4.33	3.67	54	-30.66
7	**Oriental Bank of Commerce**	4.81	2.41	2.4	50	5.23	7.07	-1.84	135	5.58	21.77	-16.19	390	-15.63
8	**UCO Bank**	3.98	-1.3	5.27	-32	3.81	-0.26	4.07	-7	3.83	27.04	-23.21	706	-13.87
9	**Union Bank of India**	10.7	11.7	-0.94	109	9.42	15.1	-5.63	160	8.7	28.54	-19.84	328	-26.41
10	**Syndicate Bank**	5.01	-1.5	6.48	-29	4.35	14.2	-9.87	327	4.26	15.19	-10.93	357	-14.32

[11] *Percentage of claim paid to the premium received*

[12] *Net claims = Claims less recovery*

Sr. No.	Name of Bank	2008-09				2009-10				2010-11				Total loss
		Premium	Net claims[12]	Profit/ Loss (-)	CPR (In *per cent*)	Premium	Net claims[12]	Profit/ Loss (-)	CPR (In *per cent*)	Premium	Net claims[12]	Profit/ Loss (-)	CPR (In *per cent*)	
11	**Laxmivilas Bank**	0.46	-0.6	1.04	-126	0.66	1.49	-0.83	226	0.66	4.12	-3.46	622	-3.25
12	**The South Indian Bank Ltd**	0.26	2.53	-2.27	973	0.26	-0.03	0.29	-12	0.27	0	0.27	0	-1.71
13	**Vijaya Bank**	2.08	-0.8	2.88	-38	1.94	-0.08	2.02	-4	1.9	15.04	-13.14	792	-8.24
Total														**-309.27**

The gap between premium and claim was wide in 2009-10 and 2010-11. The Company's loss in respect of these Banks during the above two years is detailed below:

(₹in crore)

Sl No	Name of Bank	Year	Premium	Net Claim	Deficit
1	Axis Bank	2010-11	4.10	61.47	57.37
2	Karnataka Bank	2009-10	2.91	34.31	31.40
		2010-11	3.57	25.39	21.82
3	ING Vysya Bank	2010-11	2.54	33.30	30.76
4	Dena Bank	2009-10	3.76	45.20	41.42
		2010-11	4.04	10.44	6.40
5	Saraswat Co-op Bank	2010-11	1.10	11.96	10.86
6	Bank of India	2009-10	5.96	48.10	42.13
7	Oriental Bank of Commerce	2010-11	5.58	21.77	16.19
8	UCO Bank	2010-11	3.83	27.04	23.21
9	Union Bank of India	2010-11	8.70	28.54	19.84
10	Syndicate Bank	2009-10	4.35	14.2	9.87
		2010-11	4.26	15.19	10.93
11	Laxmivilas Bank	2009-10	0.66	1.49	0.83
		2010-11	0.66	4.12	3.46
12	Vijaya Bank	2010-11	1.90	15.04	13.14
	Total		**57.92**	**397.56**	**339.63**

As seen from above, there was a surge in claims during 2009-10 and 2010-11 signifying that the exposures taken by the Company needed to be monitored. The CPR widely varied from Bank to Bank. In fact it ranged from 973 *per cent* to (-) 126 *per cent* in 2008-09 and from 1202 *per cent*[13] to (-) 12 *per cent* in 2009-10. Similarly in 2010-11, the CPR ranged from 1499 *per cent* to Nil *per cent*. The premium in respect of WTPS cover was borne by the Banks and Company's action to allow the Banks very high claim ratio, without adequate loading in the premium, resulted in unintended benefit to them.

It was observed that the Company, while renewing the covers, considered data on premium, claim paid etc. relating to previous five years without any disincentive for bad performance for any year and vice versa. This deflated the spikes in the CPR during the two years. In majority of cases, it was seen that the average CPR for three years (2008-09 to 2010-11) was much higher than the average CPR of five years (2006-07 to 2010-11). Thus, adoption of five years average CPR did not have the pinching effect on the Banks to adopt prudent practices to bring down the claim ratio.

In July 2010, one of the Directors suggested in the meeting of the Board that the Company could consider differential premium rates for Banks on the basis of their respective CPR, if warranted. Subsequently, the Company introduced (May 2011) a differential rate of premium, according to which the premium rate ranging from 5.5 paise to 7.00 paise per ₹ 100 was to be charged under WTPS depending upon the CPR.

However, it was observed that even this differential rate structure for WTPS was lower than that of WTPC which ranged from 6 paise to 10 paise per ₹ 100. Further, there was no denial of acceptance of risk for CPR beyond 400 *per cent* as was there in case of WTPC.

The Company stated (May 2012) that:

- *adoption of five year claim ratio was to avoid an increased premium burden on the exporters in WTPC and the same period was adopted for WTPS for uniformity;*
- *in most of the G-11 and other countries, the losses on account of export credit insurance were borne by the respective governments through official Export Credit Agencies to sustain export of their countries and hence spread of five years was considered logical.*

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[13] A positive CPR percentage denotes adverse CPR as claims are higher than the premium paid.

The Ministry in its reply stated (June 2012) that:

- *the Company's intention was not to have any pinching effect on the Banks so that flow of credit to export was not affected. It was for RBI to have a system of recognition of penalty to reflect good and bad performance of Banks.*
- *a spread of five years to arrive at the CPR was considered logical and appropriate as steep increase in claims in any particular year would have a milder impact.*
- *WTPC covers carried a higher risk as compared to WTPS. The claim settlement under WTPC had been invariably higher than WTPS for the last several years except for 2009-10 and 2010-11.*
- *BOD did not suggest that the premium rates of the two covers be aligned but the number of slabs under WTPS be aligned.*
- *the percentage cover under WTPS was low as compared to WTPC.*

The replies are to be seen in the light of the fact that:

- the flow of credit was to be ensured by RBI and the Company's role was limited only to provide credit insurance to the Banks. It was not prudent on the part of the Company to bear the burden of the bad performance of Banks in terms of credit management.
- the adoption of five year average was not in line with the practice followed by other General Insurers[14], who were normally adopting three year CPR.
- the performance of the two products during the last nine year period (2002-03 to 2010-11) showed that WTPC resulted in surplus of ₹ 1369 crore whereas WTPS resulted in net loss of ₹ 192 crore during this period. Further, WTPC was profitable in each of the nine year whereas WTPS sustained losses during five out of nine years. The recovery performance under WTPC was also very high (46 *per cent* as against 18 for WTPS). Thus, the Company was exposed to more risk under WTPS. Therefore, WTPS needed to be priced appropriately.

Thus, there was a need for putting in place an effective system of incentives and disincentives under WTPS for containing the adverse claim ratio.

[14] *e.g. The New India Assurance Company Limited*

2.2.2 Claims under WTPS

Audit test checked 29 major WTPS claims totaling ₹ 371 crore paid by the Company during 2008-09 to 2010-11. Out of these, 26 claims for ₹ 347 crore related to export of diamonds under consortium arrangements. 17 claims amounting to ₹ 278.43 crore related to only four exporters. Four consortiums involving nine member Banks[15] covered by the Company extended 477 advances to these four exporters for exporting diamonds. Details are at the following table.

(₹in crore)

Sl No	Name of lead Bank	No. of other consortium members	Name of the exporter	Number of advances	Amount	No. of claims	Amount of claims paid
1	Dena Bank	6	Niru Impex	209	144.98	4	89.25
2	Bank of India	5	Kalsaria diamonds	105	133.53	5	77.61
3	SBI	12	J.B.Diamonds	89	148.76	3	63.48
4	Union Bank of India	4	Mukund Gems	74	91.60	5	48.09
Total				**477**	**518.87**	**17**	**278.43**

Audit carried out a detailed check of 14 claims out of these 17 claims. These 14 claims involved 310 advances for diamond export to 61 foreign buyers and claim payment of ₹ 203.81 crore by the Company. In case of 40 foreign buyers there were repeated cases of default in payment resulting in default in repayment of multiple advances taken by the exporters from the Banks. The total default in 289 advances amounted to ₹ 367 crore and it resulted in claim outgo of ₹ 192 crore for the Company. The number of such defaults ranged from 2 to 27 for these 40 buyers. Six of these defaulted in payment of more than 10 advances resulting in payment of claims of ₹ 58.72 crore.

(₹in crore)

Sl No	Name of exporter	Name of buyer	No of Banks	No of advances	Amount of advances	Amount of claim paid
1	Niru Impex	i) Niru Creations	3	27	7.61	4.07
2	Kalsaria diamonds	ii) Gem Gold International (HK)	4	14	16.44	9.86

[15] *ING Vysya, Vijaya Bank, UCO Bank, AXIS Bank, Bank of India, Dena Bank, Karnataka Bank, Union Bank of India, Allahabad Bank*

Sl No	Name of exporter	Name of buyer	No of Banks	No of advances	Amount of advances	Amount of claim paid
3	J.B.Diamonds	iii) Sugem (HK) iv) Chan Nit Trading Co (HK)	3 2	21 11	37.19 22.30	16.32 7.21
4	Mukund Gems	v) Diam star (HK) vi) Diamond Collection (HK)	4 3	22 11	28.99 11.05	15.25 6.01
Total				**106**	**123.58**	**58.72**

The Banks disbursed 240 out of 310 advances amounting to ₹ 322.67 crore to these exporters for export to Hong Kong based buyers, the default of which resulted in claim payout of ₹ 170.10 crore. It was noted in audit that the same individuals were figuring as CEO for different buyers based at Hong Kong. This in effect meant that the risk was not only concentrated at buyer level but also at individual level. The table below indicates the steep concentration of risk at the individual level and incidence of claim for ₹ 67.21 crore in respect of these individuals:

(₹in crore)

Sl. No.	Individual name S/Shri	Appearing in the buyer report as owner/CEO	No of advances	Amount of advance	Claim paid
1	Bhupendra Jivrajbhai Surani	Global Trend International	9	13.27	5.76
		J.B.Collection	9	18.98	8.65
		J.B.Jewellery	6	12.87	6.13
		Sugem	21	37.19	16.32
2	Laxman Dattaram Dalavi	Gem Diam	10	11.11	6.42
		Krishna Jewels	8	11.16	6.47
		Kristal Designs	11	11.17	6.39
3	Rohit Dusad	Kowloon Impex	8	16.69	10.01
		Reva Trading	1	1.46	1.06
Total			**83**	**133.90**	**67.21**

In addition to the risk of concentration in consortiums highlighted above, audit also observed lack of co-ordination amongst consortium members. During January 2009 to November 2009 four consortium member Banks made 10 post shipment credits of ₹ 12.83 crore to four exporters in respect of foreign buyers, who had already defaulted in repayment of seven advances for ₹ 7.15 crore within due date/extended due date.

It was observed that in some of the cases involving consortium arrangements, the Company came to know of the same only at the time of filing of the Report of Default by the exporters. Thus, in effect the Company, while underwriting the WTPS cover, did not assess the concentration of risk to the extent that Company was not even aware of the existence of these arrangements amongst Banks.

The Company in reply (March 2012) stated that the matter of co-ordination among various consortium members, was to be dealt with by RBI[16] and not by them.

The Ministry while endorsing (June 2012) the reply of the Company further stated that various initiative have been taken by the Company to curb losses in the gem, jewellery and diamond sector which had resulted in lower claim of ₹ 530 crore in 2011-12 as against ₹ 606 crore in 2010-11. Moreover, it was stated that the Company had since introduced prudential norms for exposures, linked to the net worth of ECGC.

The reply of the Company demonstrates that this serious threat to its financial condition due to default by any one individual was not adequately evaluated and steps were not taken to mitigate the probability of loss.

It was the responsibility of the Company to map all the risk exposures and provide for adequate risk mitigation measures. Moreover, the risk exposure arising out of concentration of risk at commodity, region or individual level cannot be mitigated unless the Company is aware of the arrangements among the various Banks at the time of underwriting itself. Apart from the fact that the claims of ₹ 530 crore were still very high, the reply of the Ministry was silent about the high exposure level during the period.

2.2.3 Inadequacies in buyer verification

The WTPS covered all the account holders availing the credit facility from the Banks. Some of the accounts holders could be policy holders (having short term policy with the Company). The risk of default in respect of account holders, who were also policy holders, had already been assessed and credit limit fixed by the Company. However, in respect of non-policyholders, the Banks were required to take suitable safeguards like obtaining credit reports and satisfy that the payments from the buyers were being received in the normal course.

[16] *Reserve Bank of India*

In the earlier Performance Audit, the issue of inadequate verification of creditworthiness of buyers was raised. The Ministry in Action Taken Note (ATN) of January 2011 stated that the recommendation of audit to make verification of buyer credit worthiness mandatory for Banks was implemented.

During the present audit, this issue was reviewed in detail and it was observed that 111 out of 135 WTPS claims paid by the Company during 2008-09 to 2010-11 pertained to non-policyholders. In these cases, the Banks were responsible for verification. Audit scrutiny of 29 selected WTPS claims (all non-policy holders) amounting to ₹ 371 crore (69 *per cent* of ₹ 534 crore paid towards 135 claims.) indicated that out of 668 advances, the Bank branches had disbursed 574[17] advances to the exporters, without ensuring satisfactory buyer reports as detailed below:

(₹in crore)

Sl. No	Advances				Claims paid		
	Type of reports	**No. of advances**	**Amount**	**Percent-age to total**	**No. of claims paid**	**Amount**	**Percent-age to total**
1	Out-dated Reports[18]	125	145.25	21.42	29	79.39	21.39
2	Post-dated Reports[19]	71	81.29	11.99		46.86	12.63
3	Unsatisfactory Reports[20]	133	162.47	23.96		87.54	23.59
4	Clear Reports[21]	94	105.81	15.61		54.96	14.81
5	Nil Reports[22]	245	183.15	27.02		102.34	27.58
	Total	**668**	**677.97**	**100.00**	**29**	**371.09**	**100.00**

In this regard, audit observed that:

- The Company issued ECIB covers to the Banks with a clause which required that due diligence be observed by the Banks in granting credit to the exporters;
- A stipulation was also made by the Company on the requirement of buyer verification in the covering letter to ECIB bond issued to the Banks;

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17 *Total no of advances minus clear reports i.e. 668-94 = 574.*
18 *Any report obtained more than six months prior to the date of advance.*
19 *Any report obtained after the date of payment of advance.*
20 *Any report with nil rating due to inadequate information on the buyer or below average rating.*
21 *Any report both relevant to the date of advance as well as satisfactory rating.*
22 *Report not obtained by Banks.*

- Majority of Banks made buyer verification a pre-condition for compliance by their branches before granting advances to the exporters;

- Two export promotion bodies (Exporters India and Textiles Indepth) also observed (April 2012) that in case of Non-LC exports, bank financing was totally dependent on the credit worthiness of the buyer besides the exporter.

Yet, advances were disbursed by the branches of Banks on the basis of outdated, post-dated, unsatisfactory or nil buyer verification reports. Thus, there was lack of due diligence and non-compliance with the stipulations made by the Company in the covering letter to the ECIB Bond on the part of the Bank branches. No certificate regarding exercising of due diligence by the Banks was ever insisted by the Company before payment of claims. Despite the laxity on the part of the Bank branches, the Company paid claims of ₹ 316.13 crore[23].

The Company in reply stated (March 2012) that:

- *it was not practical to stipulate such conditions mandatory for all sectors as Banks followed their own credit appraisal norms/standards;*

- *it had no intention of imposing the condition of obtaining overseas buyer reports in its cover since the risk covered was default of the exporter and not the buyer;*

- *based on adverse claim experience with regard to gem, jewellery and diamond sector, obtaining satisfactory buyer reports was made mandatory for limit approvals from December 2009 onwards;*

- *there were umpteen instances where the Company disallowed many post shipment advances on the ground of out-dated / post-dated / unsatisfactory reports.*

During the Exit meeting in March 2012, the Management further elaborated that both the GOI and RBI were taking a liberal view for extending credit to exporters, Banks were allowed to advance even without firm order and Banks had to necessarily discount the bills presented by the exporters even if the buyer verification showed inadequacies after the grant of packing credit advances.

[23] ***Total claims less claims paid towards clear reports i.e. ₹ 371.09 - ₹ 54.96 crore = ₹ 316.13 crore***

The Ministry in its reply further added (June 2012) that:

- *even if the buyer failed to repay, the Banks had recourse on the exporter and it could not be concluded that the reason for non-payment was on account of the buyer report being out-dated or un-satisfactory or post-dated. Moreover, the entire account of the exporter-borrower was covered under ECIB and the claim would be lodged only if the entire account became NPA.*

- *subsequent to the audit recommendation for ensuring buyer verification, the Banks had informed that they were governed by RBI norms and their internal sanction terms normally stipulated conditions to the effect that they should obtain satisfactory credit reports on overseas buyers who were not associates. Making obtention of satisfactory report on the overseas buyer mandatory for discounting the bills for all sectors might not be practical and the banks might opt out of extending export finances, in the absence of covers from the Company.*

- *the Banks had to necessarily purchase the bills presented by the exporters, even if the buyer verification showed inadequacies.*

- *the Company erred in accepting audit recommendation made in the Performance Audit Report of 2008 regarding obtaining of satisfactory report on overseas buyer mandatory by banks for extending ECIB Covers to banks.*

However, it also stated that the Company would consider stipulating the condition relating to buyer verification for specific sectors in future, if warranted by circumstances.

The replies have to be viewed in the light of the following:

- As per the Company's manual, WTPS covered non-realization of export proceeds and resultant insolvency/protracted default of the exporter. Thus the performance of the foreign buyer was not delinked from the exporter and the risk basically rested on the financial position of the buyer.

- Though Banks were governed by the RBI norms, it is in the interest of the Company to have enabling provisions in their cover to guard against unmitigated risk falling to their account. Ensuring proper buyer verification by Banks would minimize the chances of default as well as loss to the Company.

- The Ministry in its ATN (January 2011) had stated that the earlier audit recommendation on the issue was implemented by the Company. However, the present endorsement of the Company's reply that they erred in accepting the recommendation showed weakness in governance. Further, the Banks' internal sanction terms did not distinguish an associate[24] from non-associate in the matter of buyer verifications.

- The Banks were under no obligation to discount the bills after knowing that the buyer report was unsatisfactory.
- The action taken by the Company in December 2009 referred to issue of an internal circular to its branch offices stipulating buyer verification for gem and jewellery advances, which was not legally binding on the Banks. Further, the audit recommendation was for all the commodities.
- Out of 574 advances for ₹ 572.16 crore in the last three years, where audit observed default by the exporters, the Company had disallowed only seven cases for ₹ 10.41 crore (1.82 *per cent*) on grounds of buyer reports.
- IRDA had vide its onsite inspection report (October 2011) on ECGC inter-alia commented on the unsatisfactory buyer reports.

Thus, the Company accepted the liability despite defective buyer reports rendering the system susceptible to be used as a conduit for transferring the NPAs of Banks. This ultimately resulted in the negative performance of the WTPS cover with a deficit of ₹ 187 crore during the three years ending 31 March 2011.

2.2.4 Injudicious underwriting

In some export transactions, the foreign buyers make advance payment to the Indian exporters for executing the contract and the same gets liquidated on satisfactory performance of the contract. However, the buyers in these cases generally require that the advance payment be guaranteed by Banks.

The Company through its Export Performance Advance Payment (EPAP) cover provided counter guarantee to the Banks against the guarantees so issued by them which protected the Banks against failure of the exporter in fulfilling the export obligation.

During 2008-09 to 2010-11, the Company issued 142 guarantees with a total risk value of ₹ 815.48 crore. Out of these, 45 guarantees were issued to Banks against the performance of an exporter M/s Zoom Developers Ltd, as detailed below:

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[24] *An associate means an overseas subsidiary or an associate of the exporter client of the Bank in which the exporter client has financial interest and/or operational/managerial control*

(₹ in crore)

Year	Total No and value of guarantee		M/s Zoom Developers Ltd.	
	Number	Risk value	Number	Risk value
2008-09	75	571.53	35	494.32
2009-10	44	224.20	10	155.69
2010-11	23	19.75	Nil	Nil
Total	**142**	**815.48**	**45**	**650.01**

The Company was issuing these counter guarantees to the Banks relying on the assessment of creditworthiness of exporter by Banks and there was no system of independent evaluation of the exporter or their capacity to execute the contract.

The case relating to issuance of counter guarantees to the Banks in respect of M/s Zoom Developers Limited is discussed below:

M/s Zoom Developers Limited a medium sized project development and IT Company was involved in multi sector projects like process plants, chemical and petro chemical plants, steel plants, auto components, rehabilitation of water supply pipelines etc. The Company issued 193 counter guarantees for a value of ₹ 2114 crore during 2003 to 2009 to a consortium of 24 Banks led by Punjab National Bank in respect of the above exporter. These counter guarantees covered the advance payments received by the exporter from its foreign buyers for executing projects in different countries. However, 190 covers for ₹ 2066 crore were invoked (since March 2009 onwards) by the foreign buyers for non-completion of projects. Accordingly, the consortium of Banks made (February 2010 to April 2011) claims and the net claim liability likely to devolve on the Company worked out to ₹ 1047 crore. The Company after receipt of the claim, conducted (September 2011) inspection of records at the Banks and found that the part money received as advances initially, was sent back to the same entity who had given the advance. The inspection also revealed that ₹ 15 crore was transferred (September 2006) to entities not connected with the project. The Company rejected the claims of the Banks on the above ground. The matter was also being investigated (2011) by CBI[25] and a case was registered against the Director of M/s Zoom Developers Limited and others.

Though the Company had rejected the claims during March 2011 to October 2011, yet, the following omissions on the part of the Company in undertaking this risk required mention:

[25] *Central Bureau of Investigation*

- The guarantee and counter guarantee was meant for a period of six months. However, in the instant case, the Company extended the counter guarantees for more than five years and simultaneously increased its exposure which is apparent from the following table:

(₹in crore)

Sl. No.	Period of issuance of guarantees	No. of guarantees / projects	Value of guarantees outstanding on September 2009	Percentage range of project completion
1	2003-04 to 2005-06	42	252.78	above 90
2	2004-05 to 2006-07	34	338.12	60-89
3	2005-06 to 2008-09	44	492.09	30-59
4	2006-07 to 2008-09	73	1031.27	0-29
	Total	**193**	**2114.26**	

The non-liquidation of counter guarantees issued in the earlier years, extension of the same and issue of fresh guarantees resulted in steep increase in claim value.

- The Company continued to increase its exposure limits from ₹ 285 crore in February 2004 to ₹ 1850 crore in March 2009 without obtaining the status of completion of the projects. The Company obtained status report on completion of the projects in September 2009, only after reporting of the claim by the Bank. As per the above report, in respect of 73 projects (₹ 1031 crore) out of 193 projects (₹ 2114 crore), the completion was only 0-29 *per cent*. The cumulative effect of this resulted in accumulation of risk in respect of the same party with a peak risk value of ₹ 1850 crore.

- The Company's maximum liability in this case was ₹ 1222 crore (February 2011) against which the reinsurance cover was available only for ₹ 175 crore (approximate) and the balance was to be borne by the Company.

- Though the Company's underwriting guidelines governing the counter guarantee covers stipulated that the value of bank guarantees given to the foreign buyers be reduced upon receipt of proceeds of exports, the same condition was not inserted by the Banks in the guarantee as revealed by a test-check. The underwriting could have been avoided had the Company taken note of the omission made by the Banks in the guarantees given by them.

The Company in reply (March 2012) stated it had issued the covers in good faith based on information provided by Banks in their proposal form. Further, it was stated that the claims had been rejected on account of serious fraud committed by the exporter and non-monitoring the end use of funds by the Banks in violation of RBI norms. The Company also stated that it had since initiated stricter risk mitigation measures/prudential norms such as fixation of limits for each exporter exposure, augmenting reinsurance covers, revisiting and strengthening ECIB/EP cover documents etc. During the Exit meeting, the Company assured to review and take corrective action to improve the form design of ECGC cover and also carry out verification of Bank's appraisal at the underwriting stage in respect of large EPAP covers.

The Ministry endorsed (June 2012) the reply of the Company regarding issuance of the cover under good faith and rejection of claim on account of fraud committed by the exporter.

The fact remains that the Company did not have an appropriate system of making an independent assessment of the risk while underwriting mega risks.

2.2.5 Non-issue of commodity specific covers for diamond exports

We observed that though the claim pay out in respect of gems and jewellery advances during 2008-09 to 2010-11 was maximum (₹ 432 crore out of total ₹ 534 crore), the decision of the BOD to issue commodity specific cover with proper premium rate was pending since 2002. The CMD had also observed (March 2011) the need for increase in premium rate for gems and jewellery and Company's corporate plan also provided for issue of such covers.

The Company in its reply (March 2012) stated that it was in discussion with Gem and Jewellery Export Promotion Council for introduction of suitable commodity cover.

The Ministry endorsed (June 2012) the reply of the Company.

2.2.6 Fixing of Maximum Liability

The Company at the time of underwriting the covers for WTPC and WTPS was also fixing the Maximum Liability (ML) separately for each of them. The ML signified the cap on the liability on the part of the Company towards the Bank. As per the ECIB manual of the Company, the ML was to be fixed for each Bank on the basis of aggregate advances (WTPC or WTPS advances) outstanding as on 31 March before commencement of the cover (July to June). We observed, in selected 33 covers of WTPC, where CPR was more than 70 *per cent*, the ML ranged from 9.55 *per cent* to 71.56 *per cent* of the aggregate outstanding advances. Similarly, in 33 covers of WTPS, where CPR was more than 70 *per cent*, the ML ranged from 5.46 *per cent* to 169.49 *per cent*. Thus, there was no uniformity in fixing the ML.

Further, the fixation of ML with reference to the aggregate of advances outstanding at the year-end only without appropriate formulae was flawed. The Company needed to cap its liability by assessing the risk for each Bank considering the factors like CPR, number of account holders, number of policy holders, number of Non-Performing Account holders with amount of outstanding from them etc.

The Company replied (March 2012) that it was in the process of formulating suitable methodology for fixing maximum liability under WT covers.

The Ministry replied(June 2012) that for the year 2012-13, ML was being fixed by the Company after taking into account three parameters viz. one third of total outstanding, 20-30 times of premium anticipated or received in previous year, ML approved for Banks with comparable business for the year 2012-13.

2.2.7 Advances for buyers in the defaulters list

In the event of default in payment by a buyer, the Company besides canceling the Overall Limit (OL) sanctioned on that buyer puts the buyer's name in the defaulters list also. The defaulters list was intended to caution other exporters on the financial condition of the buyer for appropriate action.

It was seen in audit that during April 2008 to July 2009, 18 Bank branches gave 40 PS advances amounting to ₹ 38.75 crore to ten exporters against four defaulted buyers, who had already been placed in defaulters list during November 2006 to September 2007. Though this was in violation of the due diligence clause of the ECIB cover granted to the

Banks, yet the Company paid claims of ₹ 23.40 crore in respect of these four buyers as detailed below:

(₹in crore)

Sl No	Name of the buyer	Period of advances given	Amount of advance	Date of putting on defaulters list	Amount of claim
1	Kristal Designs, Hongkong	May 2008-Dec 2008	9.79	July 2007	5.70
2	Krishna Jewels, Hongkong	May 2008 to October 2008	7.68	November 2006	4.21
3	Gem Diam, Hongkong	July 2008 to December 2008	5.87	December 2006	3.69
4	Mohit Gems, Hongkong	April 2008 to July 2009	15.41	September 2007	9.80
Total			**38.75**		**23.40**

Four other buyers (C&H Dia Trading, HK Dia Trading Company, Hongkong, Phoenix Impex, Hongkong, Starlite Diamonds, Hongkong) who had defaulted in repayment of 26 PS advances during January 2009 to February 2010 for ₹ 33.11 crore and where the Company had paid ₹ 20.73 crore as claims, were not even placed in defaulters' list as of November 2011.

In reply, the Company stated (March 2012) that there was no pre condition in ECIB covers to prevent Banks from discounting bills drawn on a buyer who figured in BSAL[26] (defaulter list).

The Ministry stated (June 2012) that the risk covered was default of the exporter and not foreign buyer. It further stated that ECGC could not impose very strict restrictions as various entities could claim damages for loss of reputation as there could be disputes, at times, with Indian exporters and buyer's name would get included in the list for no fault of his.

Audit is of the view that as per the terms of the ECIB cover, Banks were bound to exercise due diligence in granting credit to exporters and thus they should have referred to the defaulters list of the Company as disbursement of advances to exporters for shipment to buyers who had figured in the defaulters' list was an adverse risk. The apprehension that various entities could claim damages is unfounded, as the audit

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[26] *Buyer Specific Approval List*

committee of the Company had taken a decision way back in July 2009, after obtaining opinion of their legal department, to circulate the names of the defaulting buyers among Banks so as to avoid any further risks on such buyers. Also, though the Company stated that very strict restrictions (like putting in BSAL list) could not be imposed as it could lead to litigation by the buyers, it had imposed the same condition for coverage under Gems and Jewellery sector. Therefore, the reply is contradictory.

2.2.8 Settlement of claims in WTPC involving stock

The PC extended by Banks to the exporters was primarily secured through hypothecation of stocks. The claim for WTPC by Banks on the Company was made on non-discounting of export bills by the exporter. We observed that the Company settled (2008-09 to 2010-11) eight claims of Banks amounting to ₹ 84.21 crore in respect of WTPC cover without ascertaining the latest position of availability of the stock with the exporter. The Banks referred to stock reports in the claim form which were one to thirteen months old on the date of filing of the claims, as detailed hereunder:

Sl. No	Name of exporter	Claim made on	Month of last stock report
1	Sheena textiles	03.01.2009	12/2007
2	Jeevanlal & sons	17.09.2007	07/2007
3	Sonal garments (Corporation Bank)	26.02.2010	06/2009
4	Sonal garment (ING Vysya Bank)	07.01.2010	09/2009
5	J.B.Diamonds	14.10.2010	06/2010
6	Elite International (Saraswat Co-op Bank)	05.09.2008	06/2008
7	Elite International (Axis Bank)	19.09.2008	08/2008
8	Lalit Polyesters	13.12.2010	08/2010

On account of non consideration of the latest stock report by the Company, the possibility of unauthorised disposal of stocks by the exporters could not be ruled out.

In this regard, it was observed that Section 64 UM (2) of Insurance Act 1938, stipulated that no claims in excess of ₹ 20,000 in respect of a loss which occurred in India could be paid without a report from the surveyor about the loss. Had the Company complied with this requirement while settling the claims under WTPC, it would have had first hand knowledge of the availability and value of stock with the exporter rather than depending upon the outdated stock reports mentioned in the claim forms filed by the Banks.

During the Exit meeting when the issue regarding non-appointment of surveyor under Section 64 UM (2) was raised, the Company stated that this section was not applicable to them.

The Ministry, however, replied (June 2012) that the Company had written to IRDA in June 2012 seeking exemption/waiver from the relevant provisions of the Insurance Act 1938 as it was for the Banks to ensure protection of stocks charged to them and enforce realization of the same.

In view of the fact that there was no specific exemption obtained from IRDA by the Company, the settlement of claims without engaging the surveyor was not in order.

2.2.9 Staff accountability issues

Any loss to the Bank due to an act of omission and/or commission on the part of the Bank officials was excluded from the cover given by the Company. Accordingly, at the time of claim submission to the Company, Banks were required to give an explicit undertaking that either there was no omission or commission on the part of their officials or an investigation was under progress. The Banks undertook to refund the entire claim amount in the event of any official found guilty of malafide, negligence or irregularity.

The above issue was raised in the earlier Performance Audit Report, wherein it was recommended that the Company needed to institute a system for regular in-house consolidated reporting and follow-up of claims involving accountability issues besides ascertaining its dues, if any, arising out of such cases. The Ministry also accepted (January 2009) the above recommendation and stated in ATN (January 2011) that the Company had implemented the same.

The implementation of the above recommendation was reviewed during the present audit and it was observed that the computerised system implemented for capturing the data regarding staff accountability issues did not have any provision to capture the data regarding internal enquiry, if any, in progress. Further, there was no provision in the system to consolidate the data at Head Office level. As a result, the Company manually compiled the data with only number of cases on the basis of information sent by its branch offices. Data regarding money value and age-wise/investigating agency-wise analysis of the cases where enquiry was going on was also not available with the Company.

Audit observed that as of March 2011, there were 138 pending staff accountability issue cases. It was seen that in Ahmadabad branch alone there were 93 cases pending as on November 2011 as detailed below:

(₹in crore)

Age-wise analysis	No. of pending cases	Pending recovery
Upto 1 year	1	4.15
1 year to 3 years	17	43.33
3 years to 5 years	14	22.41
5 years to 10 years	60	66.08
More than 10 years	1	1.48
Total	**93**	**137.45**

It may be seen from the above table that 60 pending cases for ₹ 66.08 crore were between 5 to 10 years of age. The branch did not reply to an audit query regarding periodic follow-up of these cases with the Banks.

Taking into account the above, the Company needed to address the deficiency in capturing the data in the system for effective monitoring. The pending staff accountability cases also needed to be closely monitored.

The Company stated (March 2012), that the format of undertaking was designed in consultation with Indian Banks Association and the same would be reviewed and suitably modified, if required.

The Ministry while endorsing (June 2012) the reply of Company regarding revision of format of undertaking, further stated that the Company had advised its branches to vigorously follow up the cases, obtain necessary information and to report the same to Head Office. It was further informed that the Company was setting up a separate recovery cell at HO and follow up of staff accountability would be a part of the work entrusted to the cell.

2.2.10 Recoveries of claims settled

After settlement of claims, branches of the Company were required to pursue the recoveries with the Banks and branch-wise targets were also set in this regard. We observed that pending recoveries had gone up from ₹ 2170 crore in 2008-09 to ₹ 2333 crore in 2009-10 and further to ₹ 2628 crore in 2010-11. The actual recoveries made during these years also declined from ₹ 151.29 crore in 2008-09 to ₹ 110.65 in 2010-11 which was indicative of inadequate recovery efforts. The age-wise detail of the pending recoveries was not on record.

In reply, the Company stated (March 2012) that the recoveries being effected in ECIB were considered reasonable in the light of the fact that the Banks were not insisting upon material collaterals where ECIB covers were available. It also stated that the collateral securities obtained by the Banks were meant for all facilities sanctioned to an exporter by the Bank and not exclusively for the facilities under ECIB.

The Ministry stated (June 2012), that the Company was setting up a separate recovery cell to consolidate recovery efforts of branches. It was further stated that the reduction in ratio of recovery to outstanding amount was also due to not writing off very old cases and efforts would be taken to improve the ratio.

Chapter 3
Short Term Policies issued to Exporters

3.1 Short term policies

Policies issued to the exporters covering goods exported on short term credit basis i.e. credit not exceeding 180 days are short term policies. These policies cover export transactions against payment and political risks. Payment risks, also known as commercial risks covered insolvency of the buyer, failure of the buyer to pay within four months after due date of payment (default of buyer), failure or refusal of the buyer to accept the goods, which had already been exported (repudiation of contract) etc. whereas political risks included imposition of restrictions on transfer of payments by buyer's country, occurrence of war between buyer's country and India, occurrence of civil war, rebellion, revolution, insurrection or other disturbances in the buyer's country, new import restrictions, cancellation of valid import license etc. The policies issued covered maximum of 100 *per cent* of exports value for political risks and 80 to 95 *per cent* for commercial risks.

3.2 Performance of short term policies issued to exporters

The Company issued 13 types of short term policies to exporters (**Annexure I**), broadly classified as declaration or exposure based. While, under declaration policies, the exporters were required to intimate on a monthly/quarterly basis all the shipments sent during the previous month/quarter; in exposure based policies, the shipment declaration clause was waived, but the exporters were expected not to send shipments to those buyers who were listed as 'defaulters' by the Company.

The overall performance of policies issued during five years ending 2010-11 is indicated in the table below:

(₹in crore)

Year	Value of business cover	Gross Premium	Claims Paid	Recoveries effected	Net Claims (Claim paid less recoveries)	Surplus (Gross premium less Net claims)
2006-07	50421	190.91	120.10	4.34	115.76	75.15
2007-08	52767	205.32	133.88	8.29	125.59	79.73
2008-09	68866	246.59	216.01	8.92	207.09	39.50
2009-10	85643	288.09	269.98	15.06	254.92	33.17
2010-11	92884	332.51	160.47	8.82	151.65	180.86

A review of the above table indicated that gross premium increased by 74 *per cent* in 2010-11 when compared to 2006-07, aligning with the growth in the business covered. In 2008-09 and 2009-10, there was substantial increase in the claims paid, resulting in reduction in surplus to the extent of nearly 50 *per cent* when compared to surplus generated in 2006-07. In the year 2010-11, there was increase in premium as well as sharp decline in the claims which resulted in substantial surplus.

3.3 System of fixing limit on buyers

Under declaration policies, exporter was required to obtain credit limit (CL) on the buyer upto which the Company was liable to compensate in case of a loss on account of commercial risks. Therefore, the exporters approached the Company with the details of the buyer and sought CL by submitting an application along with remittance of processing fee. On receipt of Credit Limit Application (CLA), the Company assessed the capacity and willingness of the buyer to meet their financial obligations at a future date by considering various financial and non-financial factors. Based on such assessment, the Company fixed a limit termed as 'Overall Limit (OL)' up to which the Company was willing to take exposure on a buyer. This OL fixed on the buyer, was then available for allocation as Credit Limit (CL) to individual exporters. CL was thus, the limit upto which the Company considered claim to each exporter in the event of loss arising on account of commercial risks.

In this connection, audit observed the following deficiencies:

In the earlier Performance Audit Report of 2009-10, avoidable claim payments of ₹ 16.13 crore under Shipment Comprehensive Risks (SCR) policies, due to approval/ enhancement/non-cancellation of OL on importers, despite adverse remarks of credit information agencies was reported. Audit had recommended that the Company should devise and implement a system of assigning pre-determined weights to various parameters (credit rating agency reports, buyer history, track record of the Company with the buyer, etc) that were to be taken into account in proposing an OL for a particular buyer. This was supposed to facilitate Buyer Underwriting Department (BUD) to submit an objective assessment of the buyer to the Management for taking a transparent and appropriate decision while approving/enhancing the OL. In the ATN (January 2011), the Ministry replied that the Company had implemented the audit recommendation. However, it was seen that 'Objective Review Note' introduced for CLs was not based on a system of pre-determined weights. Therefore, the Company was yet to comply with the accepted audit recommendation made in the earlier Performance Audit Report.

During the present audit, 155 claims paid (₹ 301.18 crore) were checked, which involved 98 buyers and deficiencies in respect of fixation of OL in respect of 48 buyers were observed as detailed below:

- In respect of 31 buyers (**Annexure II**) the Company fixed OL despite insufficient information from Credit Information Agencies (CIAs) or absence of latest financial data. There was a claim outgo of ₹ 141.27 crore in these cases. The cases of four buyers, with OL above ₹ 20 crore indicated the following:

(₹ in crore)

Sl. No	Buyer Name/ country	Date of CIA report	Financial Information status	Date of sanctioning of OL	OL sanctioned	Claims paid	Claims paid in the year
1	Trade AM, USA	14.07.2005	1998, 1999, 2000	27.07.2006	65.00	58.33	2008-09
2	Beekay, Hongkong	17.10.2006	No financial information	19.10.2006	26.50	23.23	2008-09
3	Andin International, USA	11.11.2006	No financial information	25.06.2007	23.00	14.13	2009-10 2010-11
4	4004 Incorporated, USA	06.03.2008	No financial information	31.03.2008	65.00	17.62	2008-09
Total						**113.31**	

It could be seen from the above table that the Company had sanctioned OL in July 2006 to Trade AM, USA although the CIA report of July 2005 contained financial information as old as that of the year 2000. Further, in case of all the other three buyers, although no financial information was available, the Company sanctioned OL. The claim settled on account of these four buyers itself amounted to ₹ 113.31 crore. In addition, the Company paid claims for ₹ 27.96 crore in respect of other

27 buyers for whom also the Company fixed OL based on insufficient financial information.

- In 17 other cases, the Company continued to sanction OL despite adverse remarks / recommendations in the CIA report such as, no credit recommended, turnover decrease and increase in loss, undetermined credit appraisal, loss making, claims could be in dispute, postpone exposure, negative net worth, litigation cases, financial condition unbalanced etc. (**Annexure III**). The claim settled in respect of these cases amounted to ₹ 17.13 crore.

Hence, the deficiency in the fixation of OL contributed to enhanced credit risk and higher incidence of claim to the extent of ₹ 158.40 crore (₹ 141.27 crore plus ₹ 17.13 crore).

The Company replied (March 2012) that financial information readily available with the agency was taken into consideration and policy holders experience was considered as the basis for fixation of OL. Further, it was stated that the buyers continued to be a good risk based on the past payment record, despite some adverse features in the report.

The Ministry in its reply (June 2012) further added that in many countries, Companies were not obliged to publish financial statements and also buyers were reluctant to disclose financial statements to the credit information agencies. Thus, fixation / enhancement of OLs were based on the Company's experience. It was stated that the Company was in the process of developing the system for rating of Buyers and fixation / enhancement of OLs based on pre-determined weights and the system was expected to be in place by September 2012.

The reply of the Company/Ministry was to be viewed in the light of the fact that credit limits on buyer needed to be based on the adequate financial information on the buyer and any laxity in this critical area was likely to impact the Company adversely with increased claims.

3.4 Underwriting deficiency in issue of customized policy to MSTC Limited

MSTC Limited (MSTC), a GOI enterprise acted as a canalizing agency for exports for gold ornaments. The Company issued a customized Export Turnover Policy covering the period from 29 August 2007 to 31 August 2008. The expected turnover was around ₹ 1000 crore and the minimum premium was fixed at ₹ 1.50 crore with a maximum liability of ₹ 300 crore. During the course of policy, MSTC applied to the Company for enhancement of maximum limit from ₹ 300 crore to ₹ 600 crore and the same was agreed

(April 2008). The policy was renewed for the period from 1 September 2008 to 31 August 2009 with an expected turnover of ₹ 1200 crore and a minimum premium of ₹ 2.40 crore. The coverage of loss was fixed at 90 *per cent* and upto CLs approved on individual buyers.

MSTC filed 37 claims (March 2009 to November 2009) for a total value of ₹ 452.81 crore due to buyers default in respect of shipments made by its three associates viz. Ushma Jewellery and Packing Exports Pvt. Ltd., Mumbai, Space Mercantile Company Pvt. Ltd. Mumbai and Bonito Impex Pvt. Ltd. Mumbai. The Company rejected the claims (May 2010) citing reasons such as policy issued did not cover the failure of suppliers in India, failure of MSTC to adhere to policy conditions etc. MSTC had filed (October 2010) a case with National Consumer Disputes Redressal Commission, New Delhi, against the repudiation of the claims.

In this regard, following system deficiencies were observed -

- At the time of issuing the policy (29 August 2007), the Company did not ensure that MSTC had any insurable interest by establishing the relationship between MSTC and its associates though it was aware (July 2007) that procurement and shipment of goods would be done by the associates and MSTC would merely act as a canalizing agency. In fact, MSTC had already entered (16 August 2007) into a Memorandum of Agreement (MOA) with its associates i.e. prior to issuance of the policy by the Company.

- The Company did not cancel the customer specific policy issued to MSTC even after being aware (November 2008) that MSTC did not have insurable interest in view of MOA and amendment to MOA (August 2007) which contained that 'associates' were responsible for quality, quantity, price and documentation of shipments and also responsible for the payments due from the buyer.

In view of the above lapse in underwriting, the Company was saddled with claims of ₹ 452.81 crore and subsequent litigation on account of rejection of these claims. The above claims included an amount of ₹ 5.57 crore in respect of six shipments which were effected during November 2008 and December 2008 i.e. after the Company became aware of MOA.

The Company replied (March 2012) that it had received copy of MOA in November 2008 and that it would not have issued a policy had MSTC disclosed the existence of MOA earlier. By November 2008, MSTC had begun filing ROD on their overseas buyers.

Hence, even if ECGC had cancelled the policy in November 2008, it would not have materially altered its liability, if any, under the policy.

While endorsing Company's reply regarding MOA, the Ministry further added (June 2012) that MSTC had declared itself as an exporter in the proposal form and sought cover of non-payment on a specified list of buyers. Accordingly, the policy was issued after assessing the risk on the overseas buyer. It further stated that at the time of claim, the Company found that the exporter had failed to disclose material information (regarding existence of MOA), which affected the Company's liability and therefore the claim was rightfully rejected.

The reply of the Company and Ministry was not acceptable as the Company did not exercise due diligence of obtaining full particulars relating to relationship between MSTC and associates prior to issuance of policy in August 2007 even though it was aware about the transaction modalities. Further, even after getting to know that MSTC had entered into an MOA with the associates, the Company did not cancel the policy forthwith resulting in additional claims of ₹ 5.57 crore.

3.5 Settlement of claims to exporters

A credit insurance policy issued to the exporters read with proposal form was a legal agreement between an insured and an insurer. The policy issued contained clauses detailing the obligations of the insured, which were to be diligently observed and the non-observance entitled the insurer to reject claims. One of the vital clauses of the policy relating to acceptance of liability by the Company was that due performance and observance of each term and condition contained therein or in the proposal or declaration was a condition precedent to any liability of the Company there-under and to the enforcement thereof by the insured.

However, the Company issued an internal circular (September 2007) by which it treated acts of omission and commission amounting to breach of a basic condition of the policy like payment of premium in respect of shipments under claim after the due date of the payment by the buyer or after the occurrence of default / insolvency / repudiation of contract, non-declaration and non-payment of premium on shipments under claim, absence of valid credit limit on the date of shipment, failure to prefer claim within the time limit prescribed etc. as Category 'A' lapse and allowed competent authorities of the Company to condone these as lapses by reducing the claim payable amount by minimum 10 *per cent*. Further, lapses such as delay in remittance of premium before the payment became overdue, omission to declare shipments preceding earliest shipment under the claim etc were classified as Category 'B' and allowed competent authority to condone these lapses by reducing the claim amount by 0 to 50 *per cent*. It also listed certain other lapses as Category ‘C’ lapse which could be condoned by the competent authority without reducing the claim amount. Deviations other than those categorised under the above categories were not to be treated as a lapse.

During the three years 2008-09 to 2010-11, the Company settled 2163 claims amounting to ₹ 646.46 crore out of which, audit scrutinized 155 claims amounting to ₹ 301.18 crore (47 *per cent*). We observed that in 88 out of 155 claims, the Company paid ₹ 145.19 crore by condoning the lapses/deviations as per details given below:

Type of Lapse condoned	No. of claims condoned	Claim paid (₹ in crore)	Amount deducted (₹ in crore)
A category	30	36.08	10.37
B category	28	43.26	2.55
C category/ Minor deviations	30	65.85	0.00
Total	**88**	**145.19**	**12.92**

The condonation of various breaches at the time of claim was against the spirit of the policy conditions. Further, condonation of category ‘A’ lapses which involved grave violations such as non availability of sufficient balance in deposit premium account, non declaration of shipment till it became overdue for payment, time barred claims, claims where no valid credit limit were available as on the date of shipment etc. was not in order and resulted in avoidable payment of ₹ 36.08 crore.

The Company replied (March 2012) that condoning of any lapse was not done as a matter of routine. It was further stated that it was playing a developmental role and its objective was to promote exports and mitigate the risks faced by the Indian exporters, in that process the Corporation was required to be pragmatic and practical while admitting claims.

The Ministry, while endorsing the reply of the Company, further added (June 2012) that certain conditions in the policy were mentioned more as enabling provisions or more as deterrents for compliance with certain procedures for orderly administration of the schemes rather than as a condition precedent for settlement of claims. It also stated that condonation of lapses were more related to procedure to be followed and not related to any policy matter.

The replies needed to be viewed in light of the fact that 57 *per cent* of the test checked cases involved condonation of lapses and hence it was not done on exceptional basis.

Further, as the Policy was a legal document and all clauses had to be complied mandatorily, the argument that the clauses in the policies were merely deterrents for compliance was not correct. The adherence to policy conditions like timely submission of shipment information, filing of overdue reports, payment of premium etc. form the basis of the insurance cover and were not merely procedural formalities.

3.6 Inadequate recovery efforts

One of the basic principles of insurance is 'subrogation'. Under subrogation, after settlement of claim, the insurance Company steps into the shoes of insured and obtain the rights of recovery. We observed that the Company was not following the principle of subrogation and was entirely dependent on the exporter to effect recovery from the buyer.

The amount to be recovered increased from ₹ 946.27 crore in 2008-09 to ₹ 1341.76 crore in 2010-11. The year-wise claims paid and recovery effected by the Company was as under:

FY	Claim paid	Amount recovered	Percentage of recovery
	₹ in crore		
2008-09	216.01	8.92	4.13
2009-10	269.98	15.06	5.58
2010-11	160.47	8.82	5.49

The recovery rate of the Company ranged from 4.13 *per cent* to 5.58 *per cent* only during 2008 to 2011.

The Company in reply (March 2012) stated that in order to improve its recoveries, it had introduced the procedure of insisting on the exporter to enter into an agreement with the Debt Collection Agencies (DCAs) for recovering the dues from the buyer before preferring claims. It further stated that the DCAs also directly kept the Company informed of the developments. In addition to the above steps, the Company stated that it was also examining other options, to improve recoveries from the buyers.

The Ministry, while endorsing the reply of the Company, stated (June 2012) that the Company would examine the aspect of subrogation rights taking into consideration provisions of FEMA[27] *and other legal issues.*

[27] *Foreign Exchange Management Act*

3.7 Introduction of new products – Small and Medium Enterprise Policy

Report of Working Group on rehabilitation of sick SMEs (April 2008) released by RBI estimated that small sector industries units exported ₹ 124417 crore and ₹ 150242 crore in 2004-05 and 2005-06 respectively. As per this report, Micro, Small and Medium Enterprises (MSME) sector of the Indian economy was contributing over 39 *per cent* of the manufacturing sector output and 33 *per cent* of the national exports. In order to promote and to accord high priority to MSME sector, the Company introduced (April 2008) a new exposure based policy for MSME with an intention to simplify the procedural formalities. The maximum liability under the policy was capped at ₹ 10 lakh and the single loss limit under the policy was ₹ 3 lakh.

In this connection, the following points were observed:

- The salient feature of the product was to target exporters who were classified as micro exporter as per MSME Development Act 2006. However, only three policies were issued during the three years 2008-09 to 2010-11.

- The policy roll out was neither preceded by any customer survey/projections nor any feedback was taken from the market though the underwriting policy emphasized the need for designing the product based on the customer feedback.

- There was also no review of the performance of the policy for making midway corrections to popularize the same.

Thus, the policy failed apparently and the Company thus lost the opportunity for tapping huge business potential of the sector.

The Company agreed (March 2012) that the policy was unsuccessful as small exporters already held either SCR or Small Exporters Cover policies. Further, it stated that exporters were not enthused by this policy owing to limitation of maximum liability and single loss limit to ₹ 10 lakh and ₹ 3 lakh respectively. The upper limits were purposely kept low as annual turnover of the targeted exporters was not expected to cross ₹ 50 lakh. Limits were not raised consciously as the policy holders under this product were to get automatic limit on a buyer (not appearing in the negative list of the Company) even without any financial verification. Such discretion could not be given for high value credit limits.

The Ministry endorsed (June 2012) the reply of the Company regarding small exporters being covered by various other products and a separate product for SMEs may not be required. However, it stated that the Company would, after getting market feedback, make necessary modification in the product, if it was considered worthwhile to continue the product.

3.8 Non-sustainable product – Small Exporter's Cover

Small Exporter's Cover (SEC) was meant for small exporters whose anticipated export turnover for a period of one year did not exceed ₹ 50 lakh. The loss on account of commercial risks and political risks to the extent of 95 *per cent* and 100 *per cent* respectively was covered. The period under the policy was 12 months. The minimum premium adjustable was ₹ 2,000.

The premium income, claims paid and recoveries under the policy made during the five year period from 2006-07 to 2010-11 were as under:

(₹in lakh)

	2006-07	2007-08	2008-09	2009-10	2010-11
Premium (1)	62.88	51.55	58.68	42.67	29.58
Claims paid (2)	385.93	310.88	201.41	83.34	49.35
Recoveries (3)	2.82	2.82	8.43	33.93	0.00
Net (1-2+3)	-320.23	-256.51	-134.30	-6.74	-19.77

The product was unviable in all the five years from 2006-07 onwards but still the Company continued to issue policy to exporters without appropriate safeguards to the financial interest of the Company.

The Company replied (March 2012) that the availability of the policy in this simplified form was more important than generating surpluses from the scheme.

The Ministry, however, stated (June 2012) that the Company would review the product features.

Chapter 4
Reinsurance

4.1 Need for reinsurance

The Company was issuing short term policies to exporters and ECIB covers to Banks covering the risk of default in payment by the buyer and exporters respectively. The table below indicates the maximum liability underwritten by the Company in respect of short term policies, ECIB covers and long term project covers:

(₹in crore)

Year	Net worth	Maximum Liability		
		Policy	ECIB	Project Exports
2008-09	1886	24492	27327	2100
2009-10	1959	24590	28832	5984
2010-11	2062	25757	30812	2190

It could be seen from the above table that the maximum liability under Policy, ECIB and Project covers was far more than the net worth of Company, indicating the risk needed to be adequately protected through reinsurance[28].

4.2 Reinsurance arrangement

In terms of the IRDA Regulations, during 2008-09 to 2010-11, all the risks undertaken by the Company were automatically reinsured to the extent of 10 *per cent* (obligatory cession) by the General Insurance Corporation of India (GIC).

[28] *The practice of insurers transferring portions of risk portfolios to other parties by some form of agreement in order to reduce the likelihood of having to pay a large obligation resulting from an insurance claim.*

Apart from the above statutory reinsurance protection, during 2008-09 and 2009-10, the Company also arranged proportional treaty[29] (voluntary quota share) covering all risks to the extent of 10 *per cent* and 15 *per cent*, respectively. However, this arrangement could not be continued in 2010-11.

The arrangement under proportional treaty did not protect the Company from the risk of large losses occurring due to the default of the buyer/exporter. As a risk mitigation measure in this regard, the Company (February 2008) arranged an Excess of Loss Treaty (EOL), under which the losses beyond a threshold limit were to be passed on to the reinsurer for 2008-09 and 2009-10. However, EOL could not be entered in 2010-11 as discussed in later paragraph.

4.3 Deficiencies in the reinsurance arrangement

Audit observed the following deficiencies in the reinsurance protection arranged by the Company:

4.3.1 Non-coverage of long term and medium term projects

Under the EOL treaty, the loss above ₹ 5 crore in respect of short term policies and loss above ₹ 10 crore in respect of ECIB covers were covered for 2008-09. This limit was revised to ₹ 10 crore and ₹ 20 crore in respect of short term policy and ECIB covers during 2009-10 respectively.

It was observed that the Company's EOL treaty did not cover the Company's medium and long term exposures i.e. project exports[30] though the maximum liability ranged between ₹ 2100 crore to ₹ 5984 crore during the three years ending 31 March 2011.

It was seen that a policy issued to an exporter M/s Gannon Dunkerley, for the period 13.08.2010 to 12.08.2013 with a maximum liability of ₹ 2730 crore, was a single large risk without any appropriate reinsurance protection. It was also observed in audit that in respect of another project export relating to M/s Punj Lloyd Upstream Limited, the policy cover was issued for ₹ 193.27 crore for the period 07.12.2009 to 23.08.2011 and the Company had received a claim for ₹ 57.11 crore which was under examination (May 2012). The Company's liability in this case was likely to be ₹ 51.40 crore (as stated by the Company) which could have been reduced with appropriate reinsurance cover.

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[29] *The premium and claim would be shared between insurer and reinsurer in the same proportion*

[30] *Export of engineering goods on deferred payment terms and execution of turnkey projects and civil construction contracts abroad are collectively referred to as 'Project Exports'.*

The Company did not offer any comments in its reply (March 2012) on the issue of non-coverage of long term and medium term projects through re-insurance. The Ministry in its reply stated (June 2012) that the EOL was arranged for short term policies and in respect of long and medium term business, the Company extended cover on case to case basis and therefore, reinsurance had to be arranged only under facultative arrangement. It further stated that the facultative covers for long term and medium term business were not available at competitive rates.

The reply was not convincing as though the long and medium term policies were issued on case to case basis, yet the exposure needed to be adequately protected through EOL to save from the steep losses. Further, the pricing of long or medium term policies needs to factor the reinsurance cost instead of allowing the exposure without reinsurance backup on grounds of competitiveness.

4.3.2 No protection under EOL in 2010-11

The Company did not take EOL protection in 2010-11. Scrutiny highlighted that the Company approached GIC in February 2010 to obtain quotes for EOL cover. GIC quoted a premium of ₹ 76 crore for EOL cover in June 2010. However, the Company felt that the premium demanded was too high and did not take any EOL protection.

It was observed that there were large claims in respect of two exporters during the year under ECIB for ₹ 157.27 crore. In the absence of EOL cover, the entire amount was borne by the Company. The EOL cover could have resulted in a recovery of ₹ 101.55 crore as detailed in the table below, if it had continued at the same level of retention as in the year 2009-10.

(₹ in crore)

Exporter Name	Claim paid	Obligatory recovery @ 10 *per cent*	Amount left after obligatory recovery	EOL retention	Amount recoverable from reinsurance
J B Diamonds	77.64	7.76	69.88	20.00	49.88
Biotor Industries Ltd	79.63	7.96	71.67	20.00	51.67
Total	**157.27**		**141.55**	**40.00**	**101.55**

Further, another major claim pertaining to M/s Teledata Informatics for the year 2010-11 amounting to ₹ 64.43 crore was pending as of February 2012 and chances of receipt of more such claims pertaining to the year 2010-11 also could not be ruled out.

The Company in its reply (March 2012), stated that GIC was the only company having capacity for providing reinsurance in respect of credit insurance business and its quotes were not cost effective and further that the non-obtention had not resulted in adverse effect up till now.

The Ministry endorsed (June 2012) the reply of the Company regarding the high quotes of GIC. It was further stated that the premium quoted by the reinsurer was ₹ 76 crore and considering the likely reinstatement cost, the net benefit was only ₹ 10 crore. It added that had the Company accepted the high premium rates for the year 2010-11, the same would have formed the basis for the future years.

The Ministry agreed that had the reinsurance protection been obtained during 2010-11, it would have resulted in savings to the Company. However, the contention that premium quoted for 2010-11 would have formed the basis for future years is not acceptable as re-insurance premium rates varied on year to year basis which is evident from fact that after quoting ₹ 76 crore as premium in 2010-11, GIC accepted a premium of ₹ 31 crore in 2011-12. Further, the need for appropriate reinsurance protection cannot be undermined.

Chapter 5

Conclusion and Recommendations

5.1 Conclusion

The Company ranked 12th, 13th and 23rd in respect of business covered, premium income and premium rate among 45 Berne Union members.

During 2008-11, the Company renewed the covers to the Banks irrespective of their claim ratio and there was no system of loading the premium in respect of Banks having adverse claim ratio. There was accumulation of risks under WTPS on account of consortium arrangements made by the Banks and the Company was ignorant about these arrangements till the time of claim. Further, despite acceptance of recommendation made earlier by audit to make the buyer's verification mandatory by the Banks, the Company continued to pay claims even though the buyer verification reports were either outdated or unsatisfactory or post dated.

In the case of the policies issued to exporters, the fixation of OL limit on the buyer lacked transparency and was not based on an objective criteria. The Company fixed/enhanced the OL without obtaining latest and full financial information about the buyers or despite unfavorable reports of Credit Information Agencies. The Company was condoning serious breaches made by the exporters against the spirit of the terms and conditions of the policy. The performance of the Company in recovering the amounts from the exporters/buyers after settlement of claims was poor.

The Company also needed to protect its net through appropriate reinsurance arrangement.

5.2 Recommendations

Based on the Audit findings discussed in the foregoing chapters, the following recommendations are made:

1. **The Company needs to introduce an effective system of incentivising the Banks with lesser claim ratio and disincentivise Banks with higher claim ratio in WTPS. The Company should also consider laying down normative Claim Premium Ratio in order to benchmark the incentives/disincentives.**

2. **The Company may put in place a system to obtain information regarding consortium agreements among the Banks to assess the concentration at the time of underwriting to protect its financial interests.**

3. **Audit reiterates the earlier recommendation that in order to reduce the risk of claims, the Company needs to make it mandatory for Banks to carry out credit worthiness verification of foreign importers before sanctioning advances. The Company should insist on obtaining from the Banks, a certificate that due diligence has been carried out on the credit worthiness of the buyers.**

4. **The Company should put in place an effective system for assessment of buyers while fixing OL by assigning appropriate weights for both financial and non-financial parameters.**

5. **Settlement of claims condoning grave lapses on the part of exporters should be resorted only on an exceptional basis.**

6. **The Company needs to strengthen the system of recovery from buyers so as to match with the peers in other countries.**

7. **The Company needs to have an appropriate reinsurance protection commensurate with its exposures, to safeguard against uncertainty and instability of global markets.**

(A.K.PATNAIK)
Deputy Comptroller and Auditor General
and Chairman, Audit Board

New Delhi
Dated: 24th August, 2012

Countersigned

(VINOD RAI)
Comptroller and Auditor General of India

New Delhi
Dated: 27th August, 2012

Annexure I
(Refer Para 1.4 and 3.2)

Short term policies issued to Exporters

S.No.	Name of the Product/Service	Basis	Description
1	Shipment Comprehensive Risks (SCR) Policy	Declaration	SCR policy, commonly known as the Standard Policy, covered both commercial and political risks from the date of shipment. Exporters whose anticipated export turnover for the next 12 months exceeded ₹ 50 lakh were considered for issue of SCR policy. For commercial as well as political risks, 90 *per cent* of Gross Invoice Value (GIV) subject to a maximum credit limit sanctioned on the buyer to the exporter as well as after deduction of amounts such as payment received in advance, expenses saved, part payment received etc. were considered as loss payable under SCR policy. The period of policy was for 24 months. Some of the significant obligations of the exporter were obtaining of valid credit limit on the buyer/Banks (in case Letter of Credit), payment of premium in advance on the basis of projected turnover, monthly declaration of shipments, declaration of payment overdue by more than 30 days, filing of claim within 24 months from the due date and sharing of recovery. The minimum premium adjustable under this policy was ₹10,000.
2	Small Exporters Policy (SEC)	Declaration	SEC policy incorporated certain improvements to the Standard Policy in terms of coverage, in order to encourage small exporters to obtain and operate the policy. Exporters whose anticipated export turnover for a period of one year did not exceed ₹ 50 lakh were eligible for this policy. The loss on account of commercial risks and political risks to the extent of 95 *per cent* and 100 *per cent* respectively were covered. Policy period under this type of policy was for 12 months. The minimum premium adjustable was ₹ 2,000 and obligations of exporter included were the same as above except that instead of monthly shipments,

S.No.	Name of the Product/Service	Basis	Description
			exporters were allowed quarterly shipments and filing of claim period was within 12 months from the due date.
3	Specific Shipment Policy (Short term) (SSP)	Declaration	Shipments excluded under Standard Policy or those exporters who did not have Standard Policy could avail the SSP. The validity of period of policy was from the date of issue up to last date allowed under the relevant contract for shipment. 80 *per cent* of the risk was covered under commercial, political and L/C opening Bank risks. The highlight of this policy was selection of cover.
4	Export (Specific Buyers) Policy	Declaration	Basically, this policy was a declaration policy where exporters had large number of shipments to specific buyer. One policy for one buyer was the highlight of this policy. The validity of the policy was for 12 months with loss payable up to 80 *per cent*.
5	Export Turnover Policy (ETP)	Declaration	In order to extend benefit to large exporters who contributed a premium of not less than ₹ 10 lakh per annum, ETP was introduced. The policy envisaged premium payable based on initial projection and was subject to adjustment at the end of the year based on actual shipments during the 12 months from the date of issue of policy. Risk covered included commercial, political and L/C opening Bank risks. Percentage of cover available was 90 *per cent*. The obligations of exporter included premium payable in four equal quarterly installments in advance, quarterly submission of statement of shipments, declaration of overdue payments, filing claim within 24 months and sharing of recovery.
6	Single Buyer Exposure Policy	Exposure	This policy is to ensure exporters having a large number of shipments with simplified procedure and rationalized premium. An exporter can choose to obtain exposure based cover on a selected buyer. The cover would be against both commercial and political risk.

S.No.	Name of the Product/Service	Basis	Description
7	Multi Buyer Exposure Policy (MBE)	Exposure	Some exporters exported to large number of buyer(s). The number of shipments made by them was also high. Hence, in order to meet the needs of such exporters, Company had introduced MBE policy. The policy covered exports to those buyers in countries categorized by the Company as 'Open Cover Country' and subject to condition that at the time of shipment the buyer was not listed in the 'defaulter buyers list'. The policy coverage was 80 *per cent* of risk.
8	Consignment Export Policy (Stockholding Agent)	Declaration	In August 2004, the Company introduced a separate credit insurance policy to cover consignment exports as economic liberalization and gradual removal of international barriers for trade and commerce opened up various new avenues for export opportunities. This policy covered goods shipped and held in stock overseas ready for sale to overseas buyers, as and when orders were received. Policy covered 90 *per cent* for standard policyholders and 80 *per cent* for others. The policy period was for 12 months and exporters were expected to pay premium in advance on quarterly/monthly basis and also obtain credit limit on ultimate buyers beyond the discretionary limit
9	Consignment Export Policy (Global Entity)	Declaration	This policy was similar to the above except that the goods shipped to exporter's own overseas branch office were covered.
10	Service policy	Declaration	Service Policies offered protection to Indian firms against payment risks involved in rendering services to foreign parties. Exporters had the option either to take Whole Turnover Services Policy or Specific Services Policy for a period of 12/24 months with coverage of 90 *per cent* or 80 *per cent*.
11	IT-Enabled Services Policy (Specific customer)	Declaration	It is issued to cover commercial and political risks involved in rendering IT enabled services to a particular customer. The policy is offered for contracts, which contain standard terms and

S.No.	Name of the Product/Service	Basis	Description
			conditions as per the norms and practices of the IT-Enabled Services Export Industry. Monthly declaration indicating the services rendered, invoices raised and invoices paid were to be submitted by the exporter. There was no separate overdue report. Percentage of cover available was 80 *per cent*.
12	IT-Enabled Services Policy (Multi customer)	Declaration	It is issued to cover commercial and political risks involved in rendering IT enabled services to Multi customer The policy is offered for contracts, which contain standard terms and conditions as per the norms and practices of the IT-Enabled Services Export Industry. Monthly declaration indicating the services rendered, invoices raised and invoices paid were to be submitted by the exporter. There was no separate overdue report. Percentage of cover available was 80 *per cent*.
13	Software Projects Policy	Declaration	It provides protection to exporters of Software and related services where the payments will be received in foreign exchange. Under Software Project Policies, supply of software products and packages, staffing and programming services both off-shore and on-site development is covered.

Export Credit Insurance for Banks

S.No.	Name of the Product/Service	Basis	Description
1.	Whole Turnover Packing Credit (WT-PC)	Declaration	Covers issued at the pre-shipment stage financed by Banks to enable exporters to accomplish timely production, packing and shipment of goods was known as Export Credit Insurance for Banks-Packing Credit (WT-PC). The cover was issued subject to the condition that the Banks or financial institutions offered for cover pre-shipment advances given to all their exporter clients on all over India basis. The eligibility for Banks was minimum number of 25 accounts and assured annual premium of ₹ 5 lakh. All exporters who availed export finance from an insured Bank got automatically covered under whole turnover covers. Maximum liability would be fixed for each Bank on the basis of aggregate outstanding as at 31 March. The risks covered were (i) insolvency of the exporter and (ii) protracted default by the exporter to pay the amounts due to the Bank. The insurance cover was issued for a period of 12 months from 1 July to 30 June. The percentage of cover ranged between 55 *per cent* and 75 *per cent*.
2	Whole turnover Post Shipment (WT-PS)	Declaration	Cover issued at the post-shipment stage was known as Export Credit Insurance for Banks-Post Shipment (WT-PS). The cover was issued subject to the condition that the Banks or financial institution offered for cover post shipment advances given to all their exporter clients on all over India basis It covered all exporters who already availed packing credit and intended to continue the credit facilities till the value of shipment was realized from the foreign buyers. The eligibility for Banks was minimum number of 25 accounts and assured annual premium of ₹ 5 lakh.

S.No.	Name of the Product/Service	Basis	Description
			Maximum liability would be fixed for each Bank on the basis of aggregate outstanding as at 31 March. The risks covered were non realization of export proceeds and resultant failure of the exporter to repay the post shipment advances availed of due to insolvency or protracted default. The insurance cover was issued for a period of 12 months from 1 July to 30 June. Percentage of cover ranged between 90 to 95 *per cent* in respect of exporter holding policy also and advances granted against exports to buyers other than exporters' associates. In respect of advances granted against exports to buyers and were associates, percentage of cover was 60 for exporter having policy and 50 for non policyholder.
3	Individual Packing Credit (IN-PC)	Declaration	Covers issued to Banks which did not hold whole turnover cover or in respect of accounts coming under excluded category such as Small Scale Industrial units, Government Companies and units in Offshore Banking or which had been placed in Specific Approval List subject to certain norms of the Company. The eligibility is the exporter client should be classified as Standard Asset and based on credit rating determined by the Banks for exporters set as norms by the Company. Accounts classified as substandard and below irrespective of credit rating Maximum liability was 66.66 *per cent* of the packing credit limit sanctioned by the Bank The risks covered were losses incurred by Banks in extending packing credit advances due to protracted default or insolvency of the exporter client. The validity period was 12 months from the date of proposal and expiry date covered up to the last day of that month. Percentage of cover was 66.66 *per cent*.

S.No.	Name of the Product/Service	Basis	Description
4	Individual Branchwise Packing Credit (IN-BIPC)	Declaration	To cover a number of accounts under individual Packing credit issued by Bank branches and to reduce the administrative work involved the IN-BIPC cover was issued. Maximum liability was 66.66 *per cent* of the packing credit limits covered. The validity period was 12 months from the date of proposal. Percentage of cover was 66.66 *per cent*.
5	Packing Credit (Sectoral) – (SIPC)	Declaration	This cover was designed to facilitate a circle or zone of big Banks. Eligibility for Banks was minimum premium of ₹ 10 crore for the Bank as a whole in the immediately preceding year under the WT-PC. Maximum liability was on the basis of total limit and amount standing as per proposal covers issued to that Bank. The insurance cover was issued for a period of 12 months from 1 July to 30 June. Percentage of cover varied between 55 *per cent* and 75 *per cent*.
6	Individual Post shipment (INPS)	Exposure	The cover was issued to Banks or financial institutions who were authorized to deal in foreign exchange to cover post shipment advances given to each of its exporter clients. Maximum liability was 75 *per cent* of the post shipment limit sanctioned by the Bank. The period of cover was 12 months from the date of proposal. Percentage of cover was 75 *per cent* and varied depending on options exercised by the exporter under Policy and the Banks in the proposal.
7	Export Performance (EP)	Exposure	EP was in the nature of indemnity to the Banks who had provided guarantees to the exporters at various stages of their export business. For Banks holding WT-PC cover, eligibility for EP cover was standard account irrespective of credit rating. But in respect of other Banks

S.No.	Name of the Product/Service	Basis	Description
			only standard accounts with credit ratings based on weightage/marks of above 50 *per cent* was considered. Maximum liability was 75 *per cent* of the guarantee value. Normally the percentage of cover was extended upto 75 *per cent* of loss. Exception of increase to 90 *per cent* with proportionate increase in premium on merit of the case on request made by Banks could be considered.
8	Export Finance (EF)	Declaration	EF was designed to protect Banks against risks of loss in extending post shipment advances to the exporters against export incentives. EF was issued in respect of exporter clients who were classified as Standard Assets (Regular) and with credit rating based on weightage /marks of 50 *per cent* and above. For Banks holding WT covers, it was issued to all standard accounts irrespective of credit rating. Maximum liability was 75 *per cent* of the post shipment limit sanctioned to the account. Risks covered were non repayment of advances by exporters due to protracted default or insolvency Period of cover was 12 months. Percentage of cover was extended upto 75 *per cent* of the loss.

Annexure II
(Refer Para 3.3)

List of buyers where Overall (credit) Limits were fixed/ enhanced without obtaining latest and full financial information

Sr No	Buyer Code	Buyer Name	Country	Claim paid (net) (₹ in crore)
1	385223964	Bee kay distributors ltd	Hong kong	23.23
2	1000387798	Ultra stores inc	USA	6.05
3	533303192	Andin international inc	USA	14.13
4	472236704	Dystar textilfarben gmbh & co deutschland kg	Germany	7.25
5	1000400942	Kristall inc	USA	2.18
6	533201117	Import stone inc	USA	0.38
7	1000479943	A and b trading (llc)	UAE	0.12
8	1000404980	Al arafa star trading llc	UAE	0.71
9	1000450412	Comercializadora neopharma de venezuela c a	Venezuela	0.91
10	1000484044	Peral oasis general trading l l c	UAE	0.75
11	533266333	Saymar stone inc	USA	0.34
12	533234126	Doral fabrics incorporated	USA	0.01
13	1000418015	Gjinos enterprises inc	USA	0.08
14	1000435511	Beyer textiles ltd	New Zealand	0.08
15	1000386636	Sarl l esprit cameleon	France	0.11
16	1000452786	Alaturca natural stone wholesalers cc	South Africa	0.02
17	1000464313	Matoppie distributors (pty) ltd	South Africa	0.15
18	1000430627	Michelangelo specialities inc	USA	0.11
19	1000385441	U s granite machinery inc t/s u s granite sales	USA	0.02
20	1000449318	Metcom	France	1.08
21	533351466	Tile and stone sales inc t/s belstone and tile	USA	0.76
22	1000450615	Bordados fenix s a de c v	Mexico	0.02
23	1000406842	Sierra granite & marble inc	USA	0.08
24	1000403760	Hookery the	USA	0.70
25	1000404578	Stone gallery inc	Canada	0.37
26	1000435696	Usa granite llc	USA	0.14
27	1000436807	Home tile centre of ny inc	USA	0.40
28	425336699	Az designz pty ltd	Australia	0.64
29	533313750	4004 incorporated	USA	17.62
30	533008180	Trade am international	USA	58.33
31	553264276	Instituto biochimico insustria farmaceutica ltda	Brazil	4.50
		Total		**141.27**

Annexure III
(Refer Para 3.3)

List of buyers where Overall (credit) Limits were fixed/ enhanced despite adverse remarks about the buyer

Sr No	Buyer Code	Buyer Name	Country	Claim paid (net) (₹ in crore)	Deficiency
1	1000467929	Nortel networks s a	France	5.80	Adverse Remarks- greater than average risk
2	1000453324	Claude rozans bvba	Belgium	2.48	Adverse Remarks- medium high risk
3	1000444679	Societe camerounaise de leasing maritime sa	Canada	3.38	Adverse Remarks- undetermined credit appraisal
4	406291778	Ahmed abdulaziz mohamed trading	Saudi Arabia	1.05	Adverse Remarks- no credit recommended
5	488223081	Alpha-nordiska ab	Sweden	0.03	Adverse Remarks- not profitable, loss making
6	489266862	Animex international ltd	Switzerland	0.57	Adverse Remarks- credit not recommended
7	472321962	At-home-gmbh	Germany	0.83	Adverse Remarks- claims could be in dispute
8	468221886	Benazech granits sarl	France	0.54	Adverse Remarks- high risk, postpone exposure
9	483332487	Flowtron	Netherland	0.11	Adverse Remarks- significant level of risk
10	1000461102	Furniture craft limited	UK	0.02	Adverse Remarks- high risk, postpone exposure
11	1000452793	Mitrosh co ltd	Mauritius	0.07	Adverse Remarks- negative net worth
12	1000484237	One o' one t/s o o' o	France	0.09	Adverse Remarks- unfavorable risk
13	493270500	S & n household products ltd	UK	0.66	Adverse Remarks- high risk
14	1000362083	Sarl paule vasseur	France	0.50	Adverse Remarks- no credit recommended
15	425069574	Slate warehouse imports pty ltd	Australia	0.04	Adverse Remarks- adverse, litigation cases
16	1000449609	Sonic gems limited	UK	0.61	Adverse Remarks- above normal risk
17	1000355144	Europa stone distributors inc	USA	0.35	Adverse Remarks- financial condition unbalanced
		Total		**17.13**	

Glossary

ATN	Action Taken Note
BOD	Board of Directors
BSAL	Buyer Specific Approval List
BUD	Buyer Underwriting Department
CBI	Central Bureau of Investigation
CIAs	Credit Information Agencies
CL	Credit Limit
CLA	Credit Limit Application
CMD	Chairman-cum-Managing Director
CPR	Claim Premium Ratio
CPs	Corporate Plans
DCAs	Debt Collection Agencies
ECIB	Export Credit Insurance for Banks
EOL	Excess of Loss Treaty
EPAP	Export Performance Advance Payment
FEMA	Foreign Exchange Management Act
GIC	General Insurance Corporation of India
GOI	Government of India
IRDA	Insurance Regulatory and Development Authority
ML	Maximum Liability
MOA	Memorandum of Agreement
MOU	Memorandum of Understanding
MSME	Micro, Small and Medium Enterprises
NPA	Non-Performing Assets
OL	Overall Limit
PC	Packing Credit
PS	Post Shipment
SCR	Shipment Comprehensive Risk
SEC	Small Exporters Cover
WTPC	Whole Turnover Packing Credit
WTPS	Whole Turnover Post Shipment