

CHAPTER III: MINISTRY OF FINANCE

National Insurance Company Limited

3.1 Avoidable loss due to imprudent underwriting of Group Personal Accident Policy

Non-adherence to policy guidelines by National Insurance Company Limited resulted in avoidable loss of ₹7.84 crore on the Group Personal Accident Policy issued to M/s. Telangana Rashtra Samithi

The underwriting policy (November 2013) of National Insurance Company Limited (NICK) envisaged that the rate quoted¹ should not be less than 0.10 per mille² on Sum Insured (SI) without specific approval of the competent authority. Besides, the Company's guidelines for Group Personal Accident Policy provided that the premium should be charged at the rate of ₹0.90 per mille for normal risk and the maximum discount permitted was only up to 30 per cent where more than 10 lakh persons were covered.

Audit observed that NICK's Marathalli Divisional Office (DO), Bangalore Region issued (April 2015) a Group Personal Accident Policy to 41.30 lakh party workers of the Telangana Rashtra Samithi (TRS), a political party, with a sum insured of ₹2 lakh per worker for one year for a premium of ₹4.13 crore at the rate of ₹10 per member (i.e. ₹0.05 per mille³). The DO incurred a claim of ₹13.17 crore (claim ratio of 319 per cent⁴) during the year 2015-16. In spite of such huge loss, the policy was renewed in the subsequent year (2016-17) covering 42.29 lakh party workers for a premium of ₹4.75 crore at the rate of ₹11.23 per member (₹0.056 per mille⁵) and the DO incurred a claim of ₹9.36 crore (claim ratio of 197 per cent⁶) on the renewed policy. The policy was not renewed further. Thus, against the premium of ₹8.88 crore earned during the two years, the DO incurred claims of ₹22.53 crore and thereby sustained a loss of ₹13.65 crore.

During both the years 2015-16 and 2016-17, the premium charged (i.e. ₹0.05 per mille and ₹0.056 per mille respectively) was lesser than the minimum chargeable premium of ₹0.63 per mille⁷ as prescribed in the Group Personal Accident Policy of the Company. Besides, the premium was charged at a rate lesser than that prescribed (₹0.10 per mille) in the underwriting policy without seeking approval of the competent authority. Considering the rate of ₹0.10 per mille prescribed in the underwriting policy, the DO should have collected minimum premium of ₹8.26 crore⁸ in 2015-16 and ₹8.46 crore⁹ in 2016-17,

¹ Rate quoted is based on pure premium plus loadings on account of business procurement expenses, management and promotional expenses, profit margin, etc.

² Per mille means per thousand

³ Per mille rate charged = Rate charged per member / (Sum Insured/1000) = ₹10/ ₹200 = ₹0.05

⁴ Claim ratio = Claims incurred/Premium charged*100 = ₹13.17 crore/ ₹4.13 crore*100 = 319 per cent

⁵ Per mille rate charged = Rate charged per member / (Sum Insured/1000) = ₹11.23/ ₹200 = ₹0.056

⁶ Claim ratio = Claims incurred/Premium charged*100 = ₹9.36 crore/ ₹4.75 crore*100 = 197 per cent

⁷ Rate of Premium as per Group Accident Insurance Policy (₹0.90 per mille)–Maximum discount allowed at the rate of 30 per cent (i.e. ₹0.27 per mille) = ₹0.63 per mille

⁸ Sum Insured/1000*0.10*No. of members covered i.e. ₹2,00,000/1,000*0.10*41,30,000=₹8,26,00,000

⁹ ₹2,00,000/1,000*0.10*42,29,000 = ₹8,45,80,000

against which it actually collected ₹4.13 crore and ₹4.75 crore respectively. This resulted in short collection of premium of ₹7.84 crore¹⁰. Thus, by adhering to the policy guidelines, the loss of ₹13.65 crore incurred by NICL on account of claims against the insurance policy could have been mitigated at least to the extent of ₹7.84 crore.

Thus, due to non-adherence of policy guidelines and renewal of the insurance policy in the subsequent year irrespective of adverse claims ratio, NICL incurred avoidable loss of ₹7.84 crore.

The Management accepted (March 2018) the underwriting lapses and stated that disciplinary proceedings had been initiated against the erring officials.

The matter was referred to the Ministry in May 2018; their response was awaited (May 2019).

New India Assurance Company Limited

3.2 Loss due to imprudent underwriting and lack of proper risk assessment

New India Assurance Company Limited incurred loss of ₹91.32 crore due to imprudent underwriting and lack of proper risk assessment

Appsdaily Solutions Private Limited (Insured), a mobile application provider sold mobile applications through its agents at the mobile sales points. It offered free insurance cover for new mobile handsets, provided the customer bought their application within 15 days of purchase of mobile handset.

The insured took a Master Package Policy from Bommasandra Branch Office of New India Assurance Company Limited (NIACL) to cover the risk undertaken at the time of sale of mobile handsets with coverage of fire & allied perils, theft, burglary and accidental damages. Claims were to be processed by the insured as per (i) General Guidelines for theft claims and (ii) General guidelines for damage claims.

The policy was initially issued with an estimated sum insured (SI) for ₹5 crore and a premium of ₹6 lakh was collected (at the rate of 1.2 *per cent*) for the period from 04 June 2013 to 03 June 2014. The policy was cancelled and reissued twice during October 2013 and February 2014 respectively, after re-negotiation of the terms and conditions with the insured. The premium rate and terms of depreciation were revised in favour of the insured; however, detailed justification for fixing initial rates and their subsequent revisions was not available on record.

Audit observed that:

- Despite increasing trend of Incurred Claim Ratio (ICR), the company renewed the policy during February 2015 and August 2015. The policy was cancelled in November 2015. Till then, NIACL collected total net premium of ₹33.78 crore against which it had to settle claims to the extent of ₹125.10 crore.

¹⁰ ₹8.26 crore + ₹8.46 crore – (₹4.13 crore + ₹4.75 crore)

- To insure a risk, the insured should have insurable interest in the subject matter of insurance. In the instant case, the master policy was issued to the insured who did not have insurable interest in the mobile handset, which was the subject matter of insurance. Rather, the customers who purchased the handset and installed the app had the insurable interest in the mobile sets. This was against the fundamental principles of insurance.
- Though it was an evolving line of business, no actuarial valuation of the policy was done by NIACL, while fixing the premium rate, etc.
- The policy was issued and renewed without the approval of the competent authority.

The Management in its reply (October 2018) stated that the policy was within the acceptance authority of the Regional Offices/Branch Office as per the circulars of Head Office (HO). Policy issuing office was authorised to decide the acceptance, loading and deductibles based on previous three years experience in case of adverse claims. Claim ratio was closely monitored and to sustain the policy, premium rate was increased and finally the policy was cancelled in November 2015.

The reply is not in consonance with the facts as stated below:

- As per the prescribed acceptance limits for underwriting, the portable equipment could be insured only with the approval of RO whose acceptance limit was ₹5 crore for the SI. However, the approval of RO for the initial policy was taken after the commencement of the policy. Subsequently, the policy was reissued for a SI of ₹50 crore without getting the approval of the competent authority i.e. Head Office.
- The policy was cancelled in November 2015 only, while the ICR was on an increasing trend since inception of the policy.

Thus, imprudent underwriting without the approval of competent authorities and lack of proper risk assessment, insurable interest and actuarial valuation resulted in loss of ₹91.32 crore¹¹.

The matter was referred to the Ministry in November 2018; their response was awaited (May 2019).

The Oriental Insurance Company Limited

3.3 Loss due to Excess Retention of Risks at own capacity

The Oriental Insurance Company Limited suffered a loss of ₹5.55 crore due to excess retention of risks in respect of two insurance policies under Miscellaneous Segment in violation of its Reinsurance Programme submitted to the IRDA

Insurance Regulatory & Development Authority of India (IRDA) (General Insurance Reinsurance) Regulations, 2016 govern the reinsurance arrangements. These regulations

¹¹ Claim ₹125.48 crore and commission outgo ₹3.89 crore minus ₹37.67 crore (Premium received)

require submission of reinsurance programme of every insurer to IRDA. Reinsurance programme of an insurer *inter-alia* defines the manner of cession of risks assumed by the insurer which are normally in the form of obligatory¹² cession, intergroup¹³ and other treaty¹⁴ cessions and facultative¹⁵ cessions and in that order. Further, IRDA circular on Reinsurance Arrangement – Guidelines for good Corporate Governance (November 2004) also require that an insurer shall ‘not go on risk’ without the required reinsurance having been placed.

Audit observed that the Oriental Insurance Company Limited (OICL) suffered a loss of ₹5.55 crore in respect of the claims incurred against two insurance policies under Miscellaneous Segment i.e. Special Contingency Policy (SCP) and Product Liability Policy due to excess retention of risks on its own account in violation of its Reinsurance Programme as detailed below:

(A) OICL issued (October, 2015) an event cancellation insurance policy under SCP to M/s One-97 Communications Private Limited¹⁶ for the period from 1 October 2015 to 30 September 2016 for the sum insured at ₹38.72 crore. The risk covered under this policy was loss of sponsorship cover of three cricket series which included a total 16 matches of T-20/One Day/ Test Series to be played in different cities in India.

Reinsurance Programme-2015-16 submitted to IRDA by OICL for the Special Contingency policies stipulate that after five *per cent* obligatory cession, policies having Probable Maximum Loss (PML)¹⁷ up to ₹10 crore were to be kept on net retention of the company and policies exceeding PML of ₹10 crore were qualified for the placement of Reinsurance arrangements like Inter Group Treaty (IGT) and Facultative cessions.

OICL considered PML as ₹2.42 crore (i.e. sum insured per match) and, therefore, after obligatory cession of 5 *per cent* of PML (₹0.12 crore) did not pass on the risk through Reinsurance arrangements.

Due to heavy rain, a T-20 Match at Kolkata on 8 October 2015 and 2nd to 5th days’ Test match from 15 November 2015 to 18 November 2015 were abandoned. Accordingly, M/s One-97 Communications Private Limited submitted claims (October to December, 2015) and total claims of ₹4.14 crore were approved (₹2.30 crore plus ₹1.84 crore respectively).

Audit observed, that the highest sum insured under the aforesaid special contingency policy was for the India-South Africa series i.e. ₹29.04 crore, which should have been considered as PML. However, OICL considered PML as ₹2.42 crore only (i.e. sum insured per match) while placing reinsurance arrangements which resulted in exclusion of

¹² *Mandatory cession of a specified percentage of sum insured to the Indian reinsurer viz. General Insurance Corporation of India.*

¹³ *Cession of reinsurance premium within four General Insurance Public Sector Companies.*

¹⁴ *Reinsurance arrangement, for one year and longer, applicable for defined class or classes of business*

¹⁵ *A specific RI arrangement which is placed after obligatory, inter-group treaties and other treaties on case to case basis*

¹⁶ *M/s One-97 Communications Private Limited entered into an agreement with Board of Control for Cricket in India (BCCI) for exclusive title for sponsorship of series of cricket matches.*

¹⁷ *The basic criteria to prepare RI Programme and to decide for placement of RI Arrangements.*

this special contingency policy from reinsurance placements and entire risk was retained to the net capacity of OICL.

As per the Reinsurance Programme of OICL for the year 2015-16, net retention of risk in respect of the aforesaid policy should have been kept at 34.44 *per cent*¹⁸ and after 5 *per cent* obligatory cession, rest of the 60.56 *per cent* risk should have been placed under RI arrangements (i.e. IGT and Facultative) which was not done resulting in excess retention of risk by 60.56 *per cent*.

Thus, because of wrong consideration of PML in violation of RI Programme-2015-16, OICL suffered a loss of ₹2.50 crore (₹4.14 crore*60.56 *per cent* excess retention).

The Management stated (October 2018) that the matches take place at different venues and dates, so chances that one peril will affect many matches is rare. Thus the PML is analysed on case to case basis and in this particular case 'per match sum insured' was taken as PML.

The reply of the Management is not acceptable as in the instant case risk covered was for all the series and not for an individual match and perils covered under the policy included perils like riot, civil commotion that could have affected the entire series. Therefore, maximum loss that can be suffered is the sum insured of the series having maximum number of matches and it is substantiated by the fact that there are many instances in the past where entire cricket match series were cancelled. OICL itself had underwritten SCP by considering the sum insured of series as PML, instead of sum insured per match, in 2016-17 & 2017-18 indicating that the company did not have any consistent policy to determine the PML for the event cancellation.

(B) OICL issued (July, 2009) a Product Liability Policy for the period 4 July 2009 to 3 July 2010 in favour of M/s IPCA Labs Ltd with a sum insured of ₹15 crore for covering the liability arising out of use of pharmaceutical products manufactured by M/s IPCA Labs Ltd. The sum insured was enhanced to ₹35 crore w.e.f. 27 July 2009.

OICL considered PML as ₹15 crore. As per reinsurance programme-2009-10, after 10 *per cent* obligatory cession, OICL kept 33 *per cent*¹⁹ risk on net retention and rest of the risk of 57 *per cent* was placed in Inter Group Treaty.

A claim under the aforesaid policy was reported (January, 2010) due to disease to the consumers across USA caused by the product Metoclopramide (Relgan) manufactured by M/s IPCA Labs Ltd. OICL approved the claim (July 2018) for ₹16.29 crore.

Audit observed that the Company considered PML of ₹15 crore only instead of ₹35 crore which led to net retention of risk to the extent of 33 *per cent* instead of 14.29 *per cent*²⁰ after 10 *per cent* obligatory cession and balance risk passed in IGT. Thus, excess retention of risk in violation of Reinsurance Programme-2009-10, led to a loss of ₹3.05 crore (18.71 *per cent*²¹ of ₹16.29 crore).

¹⁸ ₹10 Crore/₹29.04 Crore*100=34.44 *per cent*

¹⁹ ₹5 crore/₹15 crore*100=33 *per cent*

²⁰ ₹5 crore/₹35 crore PML*100=14.29 *per cent*

²¹ 18.71 *per cent* = 33 *per cent* – 14.29 *per cent*

The Management accepted (October 2018) that this policy should have been underwritten after arranging facultative reinsurance due to the enhanced sum insured on renewal of the policy as the risk went beyond the net retention capacity of OICL. It was also stated that requirement of arranging facultative reinsurance came into the knowledge of the Management after a lapse of considerable time resulting in non-arrangement of facultative reinsurance and accordingly, decision was taken to keep it on net retention of OICL.

Thus, reinsurance placement in violation of the applicable Reinsurance Programme resulted in a loss of ₹5.55 crore (M/s One-97 Communications P. Ltd - ₹2.50 crore and M/s IPCA Labs Ltd ₹3.05 crore) as well as violation of IRDA guidelines.

The matter was referred to the Ministry in November 2018; their response was awaited (May 2019).

Security Printing and Minting Corporation of India Limited

3.4 Irregular travelling allowance claims

Passing of travelling allowance claims based on the invoices of private travel agency without verification of actual air fare charged by the airlines led to excess payment of ₹4.84 lakh

Bank Note Press (BNP), Dewas, Madhya Pradesh is one of the nine units of Security Printing and Minting Corporation of India Limited (SPMCIL) which is headed by a General Manager (GM). As per delegation of powers of SPMCIL, head of the unit is empowered to pass travelling allowance (TA) bills of all officials/ officers of the unit i.e. head of unit is the claim passing authority for his/her own TA claims also.

Test check (January 2018) of TA claims by Audit revealed that while other officers of BNP, Dewas booked their air tickets for official journeys either through Balmer Lawrie (Government of India undertaking) or through the website of the airlines, the then GM, booked the air tickets through private travel agent viz. Meridian Air Travel Private limited. The then GM claimed ₹13.09 lakh towards domestic (nine tours) and international (four tours) tour performed during November 2015 to January 2018. The claims of the GM were processed at three²² levels and finally passed by the GM for ₹13.09 lakh (Annexure I).

Based on an audit observation issued in January 2018, BNP, Dewas obtained the travel certificate along with invoices against the air journeys performed by the GM from Emirates Airlines and Jet Airways. Copies of invoices furnished (April/ May 2018) by these airlines revealed that the actual invoice price of these airlines were lesser than the invoice price charged by the travel agent by ₹4.84 lakh in respect of three international tours and nine domestic tours as detailed in Annexure I. In respect of one international tour, the airline regretted to provide the original invoice. SPMCIL directed (November 2018) the GM to deposit ₹4.38 lakh, being the excess amount claimed and passed towards international tours.

²² TA Assistant, Assistant Manager I (Finance & Accounts) and Assistant Manager II (Finance & Accounts)

Audit further observed that:

- **TA claims processing authorities did not check the actual fare charged by the concerned airlines before passing the TA claims to ensure genuineness of invoices raised by the private travel agency.**
- **SPMCIL had authorised (May 2016) M/s Ashoka Travels and Tours (ATT) for booking air tickets. Even after this authorisation, the GM continued booking of air tickets through private travel agency till he was relieved from this unit in February 2018.**
- **The excess amount was yet to be deposited (March 2019) by the GM.**

The Management stated (December 2018) that BNP Dewas had checked travelling bills of all officers for the last two years on random basis and it was observed that all TA bills were settled as per SPMCIL Travelling and Daily Allowance Rules, 2010. However, in case of the GM, it was observed that all the invoices submitted by him were prepared by the private travel agency and invoices issued by Airlines were not submitted. Directions have been issued to the concerned GM for depositing the differential amount of ₹4.38 lakh immediately with SPMCIL. Further, the matter has also been referred to the Chief Vigilance Officer (CVO) of SPMCIL.

The Ministry of Finance (MoF) stated (March, 2019) that, in consultation with its CVO, SPMCIL had approved major penalty action and registration of case under provisions of IPC against the erring official and the travel agent for entering into criminal conspiracy to cheat SPMCIL by creating forged documents. Further, the case has also been referred to the Central Vigilance Commission (CVC) for its first stage advice. While the matter had been referred to CVC, the process of taking major penalty action and registration of case under IPC was yet to be initiated (February 2019).