CHAPTER X: MINISTRY OF FINANCE

Insurance Division

National Insurance Company Limited

10.1.1 Loss due to charging incorrect premium

The Company did not charge applicable premium rates on the policy covering fire resulting in loss of Rs. 9.09 crore.

As per the instructions of Tariff Advisory Committee (TAC), risks where the threshold limit of probable maximum loss (PML) at any one location was Rs.1,054 crore or above or sum insured at any one location was Rs. 10,000 crore or above, were to be treated as 'Mega Risks' and taken out of the purview of the Tariff. The insurers could issue Comprehensive Package Policy for such Mega Risks duly filing the product with Insurance Regularity Development Authority under 'File and Use' system introduced since June 2003.

A Delhi based Divisional Office of the National Insurance Company Limited (the Company) issued a Comprehensive Package Policy to M/s. Mahanagar Telephone Nigam Limited (MTNL) for the period 8 June 2004 to 7 June 2005 covering all telephone exchanges, offices and stores of MTNL at Mumbai and Delhi for a sum insured of Rs.7,317.39 crore for material damage, Rs.1,000 crore for business interruption and Rs.3,206 crore for other extensions like cash insurance, fidelity guarantee and all risk cover for laptops.

Audit observed (January 2006) that out of a total of 492 exchanges covered in the policy, 38 exchanges had PML between Rs.10 crore and 15 crore and the remaining 454 exchanges had PML of less than Rs.10 crore. Thus, even though the risk did not satisfy the criteria for 'Mega Risk', the Company issued a comprehensive package policy charging a lump sum premium amounting to Rs.2.86 crore for material damage and Rs.38.92 lakh for business interruption instead of chargeable premium of Rs.10.98 crore[♣] for material damage and a premium of Rs.1.36 crore[♥] for business interruption resulting in a loss of revenue of Rs.9.09 crore.

The Management stated (August 2006) that MTNL invited quotations for tailor-made comprehensive all risk insurance cover for their assets. Though the essential cover was fire and allied perils, due to various extensions required by the telecom/cellular operators and the peculiarities of coverage, this policy was underwritten as a special contingency policy. Given the high exposure, the risk was referred to the overseas market for reinsurance rates and terms. Reinsurance was arranged with various reinsurers including

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[♣] ***At the rate of Rs.1.50 per mille (per thousand of sum insured) as per the rate applicable for telephone exchanges under All India Fire Tariff***

[♥] ***At the rate of Rs.1.36 per mille as per Consequential Loss Fire Tariff***

General Insurance Corporation of India. The comprehensive package policy was issued as per the requirements of the insured and at reinsurance driven rates.

The reply was not tenable because the risk was not a 'Mega Risk' and the Company should have quoted rates based on All India Fire Tariff, Consequential Loss (Fire) Tariff and for other perils as per its own guidelines.

Thus, due to not charging the prescribed rates, the Company lost premium of Rs.9.09 crore.

The matter was reported to the Ministry in November 2006; reply was awaited (January 2007).

10.1.2 Loss in underwriting fire insurance of Jute Mills

The Divisional Offices under Kolkata Regional Office-I of the Company accepted fire insurance business of Jute Mills without exercising due diligence and incurred loss of Rs.7.22 crore.

National Insurance Company Limited (Company) issued (June 2001) guidelines to its operating offices on prudent underwriting practices emphasising that in case of fresh business, the proposal form should contain information about the claim experience for preceding three years and any misrepresentation or material suppression would make the policy void *ab initio*. Further, in order to avoid loss from underwriting of bad risks in the Jute Mills, Kolkata Regional office I advised (January 2003) its operating offices to strictly follow loss control measures, which, *inter alia*, required that all renewal proposals were to be considered after taking into account the experience of incurred claims of the past five years. The guidelines were reiterated in May 2003, January 2004, March 2005 and December 2005.

Test check in Audit revealed (May 2005) that the operating offices under the Kolkata Regional Office-I did not follow the stipulated underwriting norms. The proposal forms neither contained information about past claim experience nor a declaration that misrepresentation or suppression of the material information would render the policy void *ab initio*. Notwithstanding this, the operating offices continued to renew the existing policies as well as issued fresh fire insurance policies to Jute Mills without exercising due diligence.

10.1.2.1 Issue of new policies without obtaining information on past claim ratio experience

Divisional offices (DOs) V, VII, and XI accepted (2005-06) fresh proposal of fire risk of Hastings Jute Mills, Wellington Jute Mills and Jute Mills of Champdani Industries Limited at Rishra and Chowdwar without ascertaining their past claim experience in violation of the risk evaluation practices. The above three DOs suffered losses of Rs.37.29 lakh, Rs.42.49 lakh and Rs.422.29 lakh respectively on these policies. The claim ratio in respect of these policies was 554 *per cent* (Hastings Jute Mills), 369 *per cent* (Wellington Jute Mills) and 12,122 *per cent* (Jute Mills of Champdani Industries Limited at Rishra and Chowdwar).

10.1.2.2 Renewal of policies despite high claim ratio in previous years

DO-XX accepted (2004-05) the new risk of Agarpara Jute Mills without obtaining information in respect of the claim experience from the earlier insurer *i.e.* Divisional Office-VII of the Company which had suffered continuous loss on the policy with an average incurred claim ratio of 304 *per cent* from 1998-99 to 2003-04. DO-XX suffered a loss of Rs.119.28 lakh (claim ratio1,364 *per cent*) on the renewed policy. In the case of Baranagore Jute Mills, despite a claim experience of 473 *per cent* on the policy of 2003-04, DO-XX renewed the policy for 2004-05 and incurred a loss of Rs.83.29 lakh (claim ratio 1,238 *per cent*). The policy of Naihati Jute Mills was also renewed for 2004-05 despite an average claim ratio of 231 *per cent* for the policies of 2002-03 and 2003-04. The loss incurred on this policy was Rs.16.96 lakh (claim ratio 284 *per cent*). While renewing these policies the DO did not load the premium in view of the earlier adverse claims experience.

Thus, in spite of regular instructions issued since 2003 by Kolkata Regional Office-I regarding prudent underwriting norms and loss control measures, its DOs did not exercise due diligence and caution at the time of underwriting the fire risk of Jute Mills which were prone to a high probability of loss. As of March 2006, the Company had paid claims of Rs.20.53 lakh and outstanding claims stood at Rs.7.55 crore against total realisation of premium of Rs.53.44 lakh for policy period 2004-05 and 2005-06 in respect of the above stated policies. This resulted in a loss of Rs.7.22 crore due to underwriting the high risk fire insurance of Jute Mills in disregard of extant instructions.

The Management stated (August 2006) that adverse claim experience would be arrested by strictly following the prudent underwriting norms and periodical inspection of the mills for compliance of the loss control measures in future.

The matter was reported to the Ministry in October 2006; reply was awaited (January 2007).

The New India Assurance Company Limited

10.2.1 Short collection of premium

The Company deviated from the instructions for computing the premium chargeable on the Group Floater Mediclaim policy issued to M/s. Wipro Technologies Limited for 2003-04 and it did not load the premium in terms of Memorandum of Understanding at the time of renewal of the policy for 2004-05. These deviations resulted in under recovery of premium of Rs. 6.92 crore.

A Divisional Office (DO) of The New India Assurance Company Limited (Company) at Bangalore entered (September 2003) into an MOU with M/s. Wipro Technologies Limited (Wipro) for three years setting out the terms and conditions of the Group Floater Mediclaim policy covering employees and their dependents. As per the terms and conditions of the policy, the claims experience was to be reviewed at the end of the policy period and if found to exceed 90 *per cent*, the premium was to be loaded to bring down the claim ratio to 90 *per cent*.

Scrutiny in Audit (April 2004) revealed that while computing the premium chargeable the Company deviated from its circular of January 2001 and Technical Manual as detailed below:

(i) Instead of charging family floater at 10 *per cent* for each member of the family, an *ad hoc* loading of five *per cent* was done.

(ii) For deletion of domiciliary treatment, a discount of 20 *per cent* was allowed instead of 10 *per cent*.

(iii) In the policy, the basic premium applicable to the lowest age band was charged. Allowing a further 48 *per cent* discount for age profile was clearly not in order.

(iv) For maternity benefit extension, a loading of five *per cent* was applied instead of the stipulated 10 *per cent*.

These deviations resulted in a concession of Rs.2.94 crore in premium being extended to Wipro. The DO issued the policy for 2003-04 after collecting a premium of Rs.2.02 crore against which claims amounting to Rs.5.40 crore were settled. The policy was renewed further for the period 2004-05. Audit scrutiny (June 2006) revealed that claim experience for 2003-04 was 267 *per cent*, which required suitable loading of the premium for 2004-05 to bring down the claim ratio to 90 *per cent* as per the terms and conditions of the MOU. However, the Company collected premium of Rs.4.26 crore against the premium of Rs.8.24 crore chargeable in view of the claim ratio exceeding the prescribed limit. Not imposing the conditions of the MOU resulted in under recovery of Rs.3.98 crore.

The Management while confirming the facts and figures stated (April 2006) that normally such deviations were not permitted and added that retention of a client such as Wipro was paramount. The Management further stated (June 2006) that the client did not agree to the loading applicable under the MOU for renewal of the policy for 2004-05 and the Head Office had considered all aspects including claims, client's future potential and anticipation of reduction in claims due to introduction of claim control measures. Such measures included restrictions of claims under maternity benefit, the limit of room rent brought down and parents of the insured in the group were issued separate normal group mediclaim policy while approving the renewal for 2004-05.

The reply was not tenable as at the time of issue of the policy the Company did not have any other business of the client. Suitable loading of the premium to bring down the claim ratio was the claim control measure incorporated in the MOU. Further, the policy was not renewed for 2005-06 on review of the claim profile for the earlier years.

Thus, deviations from the Company's instructions and non-compliance of the terms and conditions of MOU resulted in under recovery of premium of Rs.6.92 crore.

The matter was reported to the Ministry in November 2006; reply was awaited (January 2007).

10.2.2 Avoidable expenditure due to delay in shifting to own building

Due to delay in shifting the office to its own building at Surat, the Company incurred an avoidable expenditure of Rs.90.64 lakh on rent and taxes during the period May 2004 to June 2006.

The Regional Office (RO) of The New India Assurance Company Limited (Company) at Surat was functioning from rented premises admeasuring 7,110 square feet. Considering the heavy outgo on rent, the BOD approved (December 2003) purchase of premises for the RO at first floor, Tirupati Plaza, Surat with a carpet area of 7,395 square feet at a cost of Rs.2.09 crore. Accordingly, the Company purchased the premises and took possession on 17 February 2004.

The purchase proposal did not envisage requirement of interior work before occupation. However, after one year from purchase of the premises, a proposal was made (February 2005) to furnish an area of 5,900 square feet which was deferred by the BOD. In September 2005, Head office of the Company while intimating the BOD's decision directed the RO to shift some of the departments to the new premises. Accordingly, five departments were shifted (October 2005) to occupy an area of 2,000 square feet and rented area of 2,100 square feet was surrendered (October 2005). The remaining departments continued to function from the rented premises. On the matter being taken up in Audit in February 2006, all the departments shifted to the new premises in June 2006. The remaining area of rented premises was surrendered on 30 June 2006.

Thus, despite acquiring its own building in February 2004, the same was not put to full use till June 2006 while the Company incurred an avoidable expenditure of Rs.90.64 lakh on rent and taxes of the rented premises during the period May 2004 to June 2006.

The Management stated (June 2006) that the proposal for interior work was deferred till September 2005 due to the possibility of restructuring of offices in western region.

The matter was reported to the Ministry in September 2006; reply was awaited (January 2007).

The Oriental Insurance Company Limited

10.3.1 Loss of Rs.3.27 crore due to undercharge of premium

The Oriental Insurance Company Limited incurred a loss of revenue of Rs.3.27 crore in underwriting a Group Personal Accident Policy due to under loading of the premium during the period June 2002 to May 2005.

As per General Insurance Public Sector Association (GIPSA) guidelines (June 2001), the rate of the premium quoted were to be suitably loaded on claim experience of each year so as to bring the incurred claim ratio to 70 *per cent* in case of tariffed and non tariffed portfolios. However, Oriental Insurance Company Limited (Company) did not frame any specific guidelines in this regard. Siliguri Divisional Office (DO) of the Company issued a Group Personal Accident (GPA) Policy in June 2002 in favour of M/s. Jaiprakash

Industries Limited[♣] including its associate companies, contractors and sub-contractors engaged in different locations, for the period 1 June 2002 to 31 May 2003. The premium was fixed at a flat rate of Rs.0.25 per mille and a sum of Rs.63.41 lakh was received by the Company. The policy was further renewed for the years ended 31 May 2004 and 31 May 2005.

It was observed in Audit (January 2004) that the incurred claim ratio in respect of the above policy was 423.5 *per cent* in the first year. At the time of renewal of the policy, the instructions of GIPSA were not adhered to and the premium was loaded only by 80 *per cent*. Similarly, in the second year the claim ratio was 419.22 *per cent* and at the time of subsequent renewal the loading was only 100 *per cent*. The Head Office of the Company, at the time of examining the renewal proposal for the year 2004-05, observed (September 2004) that the premium should be loaded in such a way that the incurred claim ratio is maintained at 90 *per cent*. However, the DO did not take any action on this directive and the policy was allowed to continue without suitable loading. The incurred claim ratio in respect of the third year was 364.22 *per cent* and the policy was not renewed further. Even if the most conservative view was taken to load the premium to safeguard the financial interests of the Company and maintain a minimum level of profitability in the portfolio, the DO should have loaded the premium at the time of the renewals to maintain the claim experience at 90 *per cent*. Failure to load the premium appropriately resulted in undercharge of premium by Rs.1.64 crore and Rs.1.63 crore in the second and the third year respectively and there was a loss of revenue of Rs.3.27 crore. Further analysis of the portfolio in Audit revealed that against the total premium of Rs.2.88 crore collected in three years of coverage, the Company paid claims of Rs.12.60 crore and incurred loss of Rs.9.72 crore. Appropriate loading of the premium on renewals in the second and the third year would have reduced the loss by Rs.3.27 crore.

The Management stated (May 2006) that overall claim experience with the insured was less than 90 *per cent*. The Management's contention was not tenable in view of its Head Office instructions issued to the Regional Office in January 2005 on maintaining the claim ratio at 90 *per cent* in each policy individually.

The matter was reported to the Ministry in November 2006; reply was awaited (January 2007).

10.3.2 Loss due to undercharge of premium

The Company undercharged premium by Rs.1.82 crore under its Group Mediclaim Policy issued to the Godrej Group of Companies due to not loading premium based on their previous adverse claims ratio.

The prospectus on Group Mediclaim Insurance Policy issued by the Company, *inter alia*, provides that the total premium payable at the time of renewal of the group policy will be loaded at the prescribed scale depending upon the incurred claims ratio for the entire group for the preceding three completed years excluding the year immediately preceding the date of renewal.

[♣] ***Renamed as Jaiprakash Associates Limited***

The Godrej Group of Companies (Insured) approached (August 2005) the Company for Group Mediclaim Policy cover for their employees for the year 2005-06. Divisional Office 21, Mumbai issued the Group Mediclaim Policy to the Insured covering an aggregate of 8,871 employees for the period from 6 August 2005 to 5 August 2006 and collected a total premium of Rs.5.27 crore (including service tax). The policy included the coverage of floater[♣], pre-existing ailments, children and dependent parents of the employees (irrespective of their age) and post retirement medical benefits, if opted for by the employee.

It was observed in Audit in December 2005 that while computing the premium at the time of issuing the policy, the Company had loaded the premium by 85 *per cent* instead of applicable 150 *per cent* based on actual claims ratio during the policy years 2001-02 to 2003-04[♦] resulting in under charge of premium by Rs.1.82 crore. Further, approval of the competent authority for inadequate loading of premium was not on record/made available to Audit.

In response, the Regional Office, Mumbai stated in June 2006 that loading under the policy was restricted to 85 *per cent* only in order to secure other profitable business *viz.* fire, engineering and miscellaneous from the Insured.

Reply of the Management was not tenable as fire and engineering business were tariff business and cross subsidisation thereof defeats the very purpose of prescribing tariff. Further, issue of policy in violation of the terms of prospectus without approval of the competent authority reflects on the efficacy of the internal control mechanism of the Company.

The matter was reported to the Ministry in November 2006; reply was awaited (January 2007).

10.3.3 Undercharging of premium under Group Mediclaim policy

Disregarding the scale prescribed in the prospectus for the Group Mediclaim Insurance Policy, the Company did not load the premium based on previous adverse claim ratio and allowed excess discounts to Dell Computers India Private Limited resulting in undercharge of premium by Rs.1.28 crore.

The prospectus for Group Mediclaim Insurance Policy issued by The Oriental Insurance Company Limited (Company), *inter alia*, prescribed a discount of 10 *per cent* if the number of persons under the policy ranged between 2,001 and 10,000. The premium would be loaded by 25 *per cent* if the claim ratio for the preceding three completed years or such shorter period as the case may be but excluding the year immediately preceding

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[♣] ***The sum insured of each employee could be availed of by any of the family members upto three either individually or collectively.***

[♦] ***During 1999-00 to 2002-03, the Insured had obtained Group Mediclaim Policies from United India Insurance Company Limited (UIIC). In 2003-04, when UIIC proposed enhancement of the premium due to high incidence of their past claim experience (222.41 per cent of the premium charged), the Insured shifted the business to National Insurance Company Limited (NIC) for the years 2003-04 and 2004-05. When NIC proposed enhancement of the premium (claim experience 254 per cent), the Insured shifted to New India Insurance Company Limited.***

the date of renewal, ranged between 70 and 100 *per cent*. The loading of premium would be 55 *per cent* in case the claim ratio ranged between 101 and 125 *per cent*.

The City Divisional Office, Mumbai renewed the Group Mediclaim Policy of Dell Computers India Private Limited on family floater basis for the period 7 November 2005 to 6 November 2006 covering 8,397 employees for a sum insured of Rs. two lakh per family and realised a premium of Rs.2.32 crore♥.

While computing the premium, the Company allowed a group discount of 35 *per cent* as against 10 *per cent* applicable to a group of 8,397 employees and loaded the premium by 25 *per cent* on account of adverse claim ratio instead of applicable 55 *per cent* for an adverse claim ratio of 105.15 *per cent* for the three years from 2001-02 to 2003-04. This resulted in undercharge of premium by Rs.1.28 crore♦.

The Management in reply stated (April 2006) that the claim loading was restricted to 25 *per cent* in view of the application of sub limits for various benefits under the policy though it was marginally higher than the maximum permissible ratio of 100 *per cent* for restricting the loading to 25 *per cent*. Further, the group discount allowed and the premium charged were 20 *per cent* and Rs.2.38 crore respectively while Audit had stated these as 35 p*er cent* and Rs.2.32 crore respectively.

Reply of the Management was not tenable as the Divisional Office violated the terms of the prospectus without the approval of the Head office. Further, the figures stated by the Management were from initial internal proposals while figures taken in Audit were from the policy finally issued by the Company.

The matter was reported to the Ministry in November 2006; reply was awaited (January 2007).

10.3.4 Short collection of premium

Contrary to the provisions of all India tariff on Storage cum Erection insurance, the Company collected premium on increase in the sum insured during the currency of the policy on pro-rata basis, resulting in short collection of premium by Rs.30.98 lakh.

According to the General Regulations of the All India Tariff on Storage cum Erection (SCE) policies, in case the sum insured under an SCE policy is increased during the policy period, the premium should be collected on the additional sum insured at applicable rates for the entire policy period and not on pro rata basis.

The Divisional Office 7 of the Company at Mumbai issued (June 2005) an SCE Policy to Reliance Industries Limited (Insured) for their Hazira 3-PTA Plant with sum insured of Rs.446 crore covering the period 1 June 2005 to 30 June 2006 at a premium of Rs.1.53 crore♣. In disregard of the General Regulations, at the time of issue of the policy, the

♥ ***Including service tax***

♦ ***Amount recoverable Rs.3.60 crore less amount charged Rs.2.32 crore***

♣ ***Including service tax of Rs.14.20 lakh***

Divisional Office agreed (June 2005) to charge premium on any increase in the sum insured during the currency of the policy on pro rata basis.

While the project was in progress, the Insured requested (October 2005) the Divisional Office for an increase in the sum insured by Rs.275 crore from 24 October 2005. Accordingly, an additional premium of Rs.55.90 lakh reckoned on pro rata basis was collected (October 2005) as against applicable premium of Rs. 86.87 lakh♦.

The decision of the Divisional Office to charge pro rata premium on the increase in sum insured during the policy period was in disregard of the General Regulations and resulted in short collection of premium of Rs.30.98 lakh♥.

The matter was reported to the Management and the Ministry in May 2006 and October 2006 respectively; replies were awaited (January 2007).

United India Insurance Company Limited

10.4.1 Loss due to charging lower premium

The Company suffered a loss of premium of Rs.3.84 crore due to application of incorrect tariff rate on the policies issued to Indian Oil Corporation Limited during August 2003 to May 2005.

All India Fire Tariff (Tariff) prescribed a rate of Rs.4.50 *per mille*♠ with effect from March 2001 for insuring Liquified Gas Bottling Plants. The rate was applicable to the entire insured property in the same industrial compound including storage areas and offices. The Tariff also allowed:

(i) Claims experience discount for risks with sum insured above Rs.50 crore.

(ii) Fire extinguishing appliances discount for protected blocks.

(iii) Discount for Sprinkler installation.

Thus, the premium was chargeable at a discounted net rate of Rs.3.21• *per mille* for locations where total sum insured was more than Rs.50 crore and Rs.3.85♣ *per mille* for other locations.

A Delhi based Divisional office of the United India Insurance Company Limited (Company) issued seven standard fire and special perils policies and three endorsements to Indian Oil Corporation Limited during the period August 2003 to May 2005 for their

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♦ ***Including service tax of Rs.8.04 lakh***

♥ ***Including service tax of Rs.3.16 lakh***

♠ ***Per thousand of sum insured***

• ***Rs. 4.5 per mille less five per cent sprinkler discount less 10 per cent fire extinguishing appliances discount and less 15 per cent claims experience discount***

♣ ***Rs. 4.5 per mille less five per cent sprinkler discount less 10 per cent fire extinguishing appliances discount***

plant and machinery, office buildings, stock of liquefied petroleum gas (LPG) and LPG cylinders at various LPG Bottling Plants charging the premium at lower rates ranging from Rs.0.227 *per mille* to Rs.3.375 *per mille*. Besides this, the Company also allowed claims experience discount for locations having sum insured of less than Rs.50 crore. The Company, thus, charged a premium of Rs.5.71 crore instead of Rs.9.55 crore resulting in under recovery of Rs.3.84 crore.

The Management stated (August 2006) that all assets including LPG bottling plants of Marketing Divisions of petroleum companies were underwritten under Petrochemical Risk and a special rate of Rs.1.50 plus 0.375 *per mille* was charged earlier and subsequently the provisional rate of Rs.2.5 *per mille* as given by the Tariff Advisory Committee was charged. The Management, however, agreed that 'No claim discount' was allowable only in respect of risks when the sum insured at a particular location exceeded Rs.50 crore.

The reply was not tenable because the LPG bottling plants located outside the refinery premises were not petrochemical risk and were specifically excluded from the scope of Petrochemical Tariff from March 2001. Further the Company had not charged even the premium at the special or provisional rates as stated in the reply. Instead a net discounted rate ranging from Rs.0.227 *per mille* to Rs.3.375 *per mille* depending on the asset covered in the policy was charged, which was in contravention of the prescribed tariff.

Thus, due to application of incorrect rate and allowing inadmissible claim experience discount, the Company suffered a loss of premium of Rs.3.84 crore.

The matter was reported to the Ministry in November 2006; reply was awaited (January 2007).

10.4.2 Under recovery of premium

The Company issued Group Mediclaim policy without adequate loading resulting in under recovery of premium of Rs.1.66 crore.

A Hyderabad based Divisional Office of the United India Insurance Company Limited (Company) had been issuing tailormade mediclaim policies covering employees of Dr. Reddy's Laboratories Limited (Insured) since 2000-01. During the period 2000-01 to 2003-04 the premium charged and claims paid amounted to Rs.5.03 crore and Rs. 12.44 crore respectively. For the year 2004-05 M/s. Bajaj Alliance granted the mediclaim cover to the Insured for a premium of Rs.2.60 crore against which claims of Rs.5.20 crore were incurred. The Insured requested (August 2005) the Company to consider renewal of the policy for 2005-06 at a premium of Rs.3.90 crore (including service tax) with an assurance that other policies would be placed with the Company for a co-insurance share of 40 *per cent* wherein total premium involved would be around Rs.12 crore per year. The competent authority approved the proposal based on the assurance that the Insured would give a substantial share of other profitable portfolio. The policy was renewed for 2005-06 for a premium of Rs.3.90 crore.

It was observed in Audit (April 2006) that while the Company's circular of March 2005 stipulated that tailormade mediclaim policies could be issued to corporates with other

profitable portfolios, the overall portfolio of the insured was generating losses through the years 2000-01 to 2003-04. The claims experience against the mediclaim policy for the calculation of premium for 2005-06 worked out to 250 *per cent*. Based on this claim experience ratio, the applicable loading was 150 *per cent* at which the premium chargeable was Rs.6.50 crore. Therefore, in order to ensure sustainability of the cover, the Company should have issued the policy for a minimum premium of Rs.5.20 crore being the claims incurred for the period 2004-05. Failure to do so resulted in under recovery of premium of Rs.1.66 crore.

The Management stated (September 2006) that the Group Mediclaim policy was issued based on the assurance that the Insured would place 40 *per cent* co-insurance share in their other business. Though business worth Rs.1.39 crore under fire insurance was placed with the Company, the commitment made at the time of issue of policy for 2005-06 was not fulfilled. The Ministry stated (January 2007) that the Company prudently decided not to accept the unprofitable marine, motor and miscellaneous cover and took conscious decision not to renew the policy for 2006-07 in view of the high claim ratio.

10.4.3 Loss on settlement of inadmissible claim

The Company settled an inadmissible claim resulting in loss of Rs.47.87 lakh.

A Ranchi based Divisional Office of the United India Insurance Company Limited (Company) issued a Machinery Breakdown Policy (MBP) and Loss of Profit Policy (LOP) to M/s. Bihar Caustic and Chemicals Limited, Jharkhand (Insured) for risk period August 2001 to August 2002. The Company settled a material damage claim under the MBP and a consequential loss of profit claim under the LOP in August 2002 and June 2003 for Rs.1.79 lakh and Rs.47.87 lakh respectively. The loss of profit claimed represented the loss in inter unit transfer of power because of break down in generation.

The Turbo Generator and Static Exciter of the Captive Power Plant of the Insured broke down on 7 March 2002 due to accidental damage. It was observed in Audit (July 2003/February 2005) that while the claim of material damage was covered in the MBP, the claim of loss of profit was not covered under LOP in view of the following:

(i) There was no loss of production of caustic soda during the break down period.

(ii) During the break down period the insured was drawing banked power from the Jharkhand State Electricity Board (JSEB) grid for which it did not incur any extra cost.

(iii) The insurance cover was for loss of profit of the business of manufacture of Caustic soda and not for loss of profit on generation of power. Generation of power from captive power plant was for running the main plant. Financial statements of the insured also did not show profit from power generation separately.

Thus, by making payment towards settlement of inadmissible claim, the Company suffered loss to the extent of Rs.47.87 lakh.

The Management, while accepting the facts, stated (December 2005) that there was no loss of production during the interruption period and the consequential loss of profit claim was limited to the extent of loss of generation of power from captive power plant only. The reply was not acceptable since the Company did not incur any additional expenditure in drawing power from JSEB and profit in inter unit transfers were only notional profits.

The matter was reported to the Ministry in September 2006; reply was awaited (January 2007).

10.4.4 Short collection of premium

The Company issued fire policies in violation of provisions of All India Fire Tariff which resulted in short collection of premium amounting to Rs.29.74 lakh.

A Tenkasi based branch of the United India Insurance Company Limited (Company) issued fire policies to various clients covering stock of logs/timber *etc.* stored in the open charging premium at the rate of Rs.2.50 *per mille*♣. It was observed in Audit (March 2005) that as per All India Fire Tariff (tariff), logs/timber stored in the open attracted premium at the rate of Rs. six *per mille*. Failure to collect premium at the prescribed rate resulted in under recovery of premium of Rs.29.74 lakh on the policies issued during the period 2001 to 2004.

In reply, the Company stated that it had represented (June 2006) to the TAC for reconsideration of the classification of timber logs as hazardous goods based on the technical information about the fire resistant inherent properties of unhewn timber logs. The TAC did not agree (October 2006) to the change in classification.

The reply was not tenable as the Company did not charge the applicable rate and the TAC had also not agreed to change the classification (October 2006). Thus, non-collection of premium at the prescribed rate in violation of tariff resulted in under recovery of Rs.29.74 lakh.

The matter was reported to the Ministry in November 2006; reply was awaited (January 2007).

♣ ***Per thousand of sum insured***

United India Insurance Company Limited and The Oriental Insurance Company Limited

10.5.1 Undercharge of premium of Rs.2.85 crore

United India Insurance Company Limited issued one fire policy covering various assets of 16 LPG bottling plants and stocks of petroleum products at different locations in Eastern Region to Indian Oil Corporation Limited for the period from August 2002 to July 2003 and renewed it for another year. The premium was charged at rates lower than the tariff and inadmissible discounts were allowed. Thereafter the business shifted to the Oriental Insurance Company Limited on similar terms and conditions for the year 2004-05. As a result, these Companies suffered loss of Rs.2.85 crore in three years.

All India Fire Tariff (Tariff) prescribed a rate of Rs.4.50 per mille with effect from March 2001 for underwriting the risk of Liquified Gas Bottling Plants. The TAC advised (August 2001) Insurance Companies to charge the provisional rate of Rs.2.50 per mille for Standard Fire and Special Perils policy in respect of petroleum risks of LPG bottling plants located within the refinery and bulk products. Discount and agency commission were, however, not allowed on this rate. For separate items of stores, different rates of premium were prescribed. A Kolkata based Divisional Office VIII (DO) of United India Insurance Company Limited (UIICL) issued a fire policy to Indian Oil Corporation Limited (IOCL) for the period August 2002 to July 2003 covering various assets of 16 LPG bottling plants and stocks of petroleum products at various locations in Eastern Region at a sum insured of Rs.1929.38 crore. The policy covered the risk of Storm, Tempest, Flood and Inundation (STFI) and Terrorism in all locations. The risk of Earthquake, Fire and Shock (EFS) was also covered in selected locations. The policy was renewed for a further period of one year at a sum insured of Rs.2027.16 crore.

Audit scrutiny revealed (March 2003) that the DO of UIICL applied lower rates[♠] of premium and allowed inadmissible discounts during 2002-03 and continued to apply the same rates in 2003-04. Further, the Company charged lower rate for Terrorism Cover. It was also noticed (February 2005) that TAC had advised (March 2004) charging of Rs.4.50 per mille and allow special discount at the rate of five *per cent* in respect of six LPG bottling plants located outside refinery complex. Head Office of UIICL instructed its Regional office to collect the shortfall in the premium. However, the DO neither cancelled the policy nor adjusted the differential amount at the time of refund of Rs.74.34 lakh made to the insured on stock declaration basis in December 2004 and December 2005. Thus, due to application of lower rates of premium than prescribed under tariff, UIICL undercharged a premium of Rs.60.73 lakh.

It was further observed in Audit (October 2004) that the policy cover was shifted by IOCL to Oriental Insurance Company Limited (OICL). Kolkata DO V of OICL issued the Policy, on similar lines, at a sum insured of Rs. 2,704.95 crore as the lead insurer with 60 *per cent* share for the period August 2004 to July 2005. Remaining 40 *per cent* share

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♠ ***For bulk products -Fire and terrorism (Rs.1.96 per mille) and EFS (Re.0.10 to 1.00 per mille)***
For bottling plants- Fire, EFS and terrorism (Rs.3.74 per mille to Rs.4.08 per mille)

was retained by UIICL. The policy covered risk of STFI (Storm, Tempest, Flood and Inundation) in all cases and earthquake and terrorism in a few.

It was noticed in Audit (October 2004) that OICL charged a premium rate of Rs. two per mille in respect of petroleum products and LPG cylinders and allowed Fire Extinguishing Appliances (FEA) / No claim discount in contravention of the directives of the TAC. Thus, due to undercharge of premium there was a loss of Rs.2.24 crore.

The Management stated (June 2006) that the premium was charged on the basis of the tariff and as per terms and conditions of the previous policy issued by UIICL. The Management's contention that premium was charged as per rate prescribed by the TAC was not correct because the rates charged and discounts allowed were in contravention of the prescribed tariff.

Thus, UIICL and OICL suffered loss of Rs.2.85 crore during 2002-03 to 2004-05 on the policies issued to IOCL due to undercharge of premium.

The matter was reported to the Ministry in November 2006; reply was awaited (January 2007).