Chapter: V

The Oriental Insurance Company Limited

Integrated Non-Life Insurance Application Software (INLIAS)

Highlights

Delayed completion of INLIAS Project due to defective User Requirement Specifications.

(Para 5.5.2 and 5.5.7)

Failure to initiate change management procedures in time resulted in short collection of Service Tax

(Para 5.5.4)

Lack of appreciation of access controls, and deficient validation and input controls rendered the system prone to the risk of data manipulation.

(Para 5.5.5 and Para 5.5.6)

Data redundancy and vulnerability of data integrity in INLIAS system due to non-application of 'normalisation' concept of relational database.

(Para 5.5.8)

Inconsistency between input and expected output due to failure of process controls.

(Para 5.5.9)

Non documentation of business continuity and disaster recovery plan.

(Para 5.5.3)

Extra expenditure on Virtual Private Network due to delayed live-on of INLIAS.

(Para 5.5.10.2)

Manual intervention in database rendered the data vulnerable to the risk of manipulation.

(Para 5.5.10.1, 5.5.10.3 and 5.5.10.4)

5.1   Introduction

The Oriental Insurance Company Limited (Company) is one of the four public sector General Insurance companies, conducting general insurance business in India. The Company's main activities include:

(i)   Underwriting of risks under Fire, Marine, and Miscellaneous portfolios;

(ii)   Settlement of claims arising on these policies;

(iii)   Reinsurance of the risks underwritten by the Company; and

(iv)   Investment operations in both primary and secondary markets.

The Company is regulated by the Insurance Regulatory and Development Authority (IRDA). IRDA, however, deregulated tariff for all portfolios w.e.f. 1 January 2007. The tariff for collection of premium under Fire, Motor and Engineering portfolios was being decided by the Tariff Advisory Committee (TAC).

5.1.1 Computerisation in the Company

The Company introduced front office computerisation (FOC) in 1994 for issue of policies, settlement of claims and capturing accounts data. This application software was implemented in 943 of the 945 operating offices of the Company. The FOC system served well over the years as per the prevalent IT.

The Company decided (2002) to switchover to Integrated Non-Life Insurance Application Software (INLIAS) with the following objectives:

(i)   Real time availability of information for decision-making.

(ii)   Integration of data across 943 offices.

(iii)   Ability to handle large volumes of transactions per day.

(iv)   Ability to rapidly respond to market feedback and regulatory body notifications and implement changes across all offices.

(v)   Single repository for real time, online MIS, Decision Support System at corporate and other controlling offices.

(vi)   Highly secure and flexible system with the ability to cope with frequently changing insurance regulations, in the shortest possible timeframe.

(vii)   Availability of changes in business rules to all the offices simultaneously and quickly.

(viii) Easy rollout of future upgrades without worrying about compatibility or overwriting existing/specific features.

(ix)   Consolidation of financial information at various levels in the organisation.

The four major business requirements (MBR) envisaged by Company for INLIAS were:-

(i)   Underwriting;

(ii)   Claim;

(iii)   Accounts; and

(iv)   Re-Insurance.

An agreement for implementation of INLIAS, was signed (August 2002) with M/s ICICI Infotech Services Limited, now known as M/s 3i Infotech Limited (M/s 3i), and four more contracts were entered into simultaneously with other agencies for implementation of different requirements. The Company incurred Rs.68.29 crore against total cost of Rs.116.63 crore for the pilot and Phase-I of the project and had operationalised Underwriting and Claim modules (up to June 2007).

5.2   Scope of Audit

The scope of audit covered locations where the implementation of the Underwriting and the Claims modules was complete. Development and implementation of INLIAS and linkage of the two fully developed modules with accounts module were also examined.

5.3   Audit objectives

The main objectives of the IT Audit were:

(i)   To assess that the objectives set by the Company for introduction of the package were achieved economically and effectively;

(ii)   To review the in-built System Controls in the developed software

(iii)   To assess the integrity of data; and

(iv)   To review the status of implementation of the project.

5.4   Audit methodology

The methodology included:

• Questionnaire and personal interviews with officers of the IT and user departments of the Company.

• Database analysis of the dump of the Underwriting and Claims modules through Computer Aided Audit Techniques.

• Analysis of reports generated from live data through INLIAS and further test checks with dummy entries on the training server.

5.5   Audit criteria

The criteria adopted were as follows:

(i)   Objectives set by the Company at the time of conceptualisation of INLIAS;

(ii)   Compliance of regulations issued by IRDA;

(iii)   Compliance of rates and guidelines of TAC and the Company; and

(iv)   Business rules and procedures followed by the Company.

5.5.1   Audit findings

5.5.2   Delay in implementation of INLIAS

The implementation of INLIAS was stipulated for completion within two years from the date of agreement (August 2002). A steering committee and a number of core implementation groups (CIGs) with domain expertise from various disciplines of the Company were constituted. Each CIG was responsible for recommending user requirements for incorporation in INLIAS software. Despite regular meetings of CIGs, the Company was not able to ensure the scheduled implementation of INLIAS and only 285 operating offices had become live on INLIAS (July 2007) covering the Claims and Underwriting modules.

The Management attributed the delay in implementation of INLIAS to various reasons like:

(i)   User requirements were found to be far more extensive than envisaged during the gap analysis exercise;

(ii)   ORACLE announced release of new software tools;

(iii)   Hardware sizing problem, shifting of base software from Oracle 8i to 9i and again from 9i to 10g;

(iv)   The attrition rate of IT experts at M/s 3i side added to this delay because on various occasions their interface with the CIG was changed and caused communication gap; and

(v)   From the Company's side, most of the members from almost all CIGs were replaced with new ones causing delay in the project.

The reasons cited by the Management are not convincing as URS were improperly framed (July 2001) without gap analysis which was conducted later on and the steering committee constituted for the purpose did not discharge its role of overseeing the project of INLIAS effectively. The system software failed to meet all the end-users' requirements as discussed in the following paragraphs.

5.5.3   *Business continuity and disaster recovery plan*

The Company did not have a business continuity and disaster recovery plan to meet a system failure or disaster. The Company had its main processing centre at Vashi, Mumbai and the backup taken by the Company in tapes was located within the main processing centre campus. Moreover, the offsite storage centre located at Belapur, Mumbai, is not far away from the main data centre premises and therefore exposed to the same risks (natural disasters) as the main processing centre.

Reply of the Management is awaited (September 2007).

5.5.4   *Change management control*

The Company has a Self Supporting Portal (SSP) for lodging any problem faced by users while working in INLIAS. This was an arrangement for effecting change management in software, essential for effective preparation, distribution, control and maintenance for any conversion or correction and enhancement to any module of the software. It was observed that:

(i)   In three cases, updating patch of INLIAS software that was loaded by M/s 3i to correct the errors in calculation of premium and agency commission was deficient and the problem could not be rectified. It was observed that the subsequent corrections were made to the data rather than in the application on the central server which meant that the change management programme was ineffective and posed a risk of recurrence of the problem.

(ii)   There was delay of two days in updating of service tax rates from 10.2 to 12.24 *per cent* which resulted in short collection of service tax to the extent of Rs.4.17 lakh in 49 operating offices under the Regional Office in New Delhi.

The deficiencies in loading the updated patches were a result of inadequate change management control and raised the risk of short-charging of premium.

The Management accepted (August 2007) the audit observation and assured that suitable changes in the system would be made at the earliest.

5.5.5   *Access controls*

A review of access controls in operating offices revealed that:

(i)   Minimum character size for password had not been specified;

(ii)   The system had no restriction on user Id and the password being same;

(iii)   The system allowed unlimited incorrect log-in attempts;

(iv)   Periodic change of password had not been prescribed; and

(v)   No idle time-out had been specified after logging into INLIAS.

The Management accepted (June 2007) the observations partially. It stated that it was not necessary to have minimum or maximum characters for a password and there was no need to limit password trials. The reply indicates Management's lack of appreciation of the risk of unauthorised access to the system.

5.5.6   Input controls and validation checks

Proper validation checks and input controls are essential for ensuring correct and authenticated data entry into the system for various transactions so as to generate reliable output. A review of the database revealed weakness in input controls and validation checks resulting in data being incorrect and unreliable in cases noted below.

5.5.6.1 Discrepancies in the cover notes

As per Rule 142, Sub-Rule (1) of Central Motor Vehicles Rules 1989, a Cover Note[*](CN) shall be valid for a period of 60 days. If a backdated policy is issued on a CN, the date on the CN will be the cut off date for assumption of risk cover by the Company.

The software application was found to be in contravention of this rule in the following cases:

(i)   The system generated policies against time barred CNs. In 162 cases there was a gap of more than 60 days between the date of issue of CN and the date of approval of the policy. In respect of 12 cases, the policies were issued even after a lapse of 365 days from the date of issue of CN.

(ii)   Only one policy was to be issued against one CN. In 17 of the 60 cases reviewed from the given data more than one policy was found issued against the same CN.

(iii)   Populating date field in the CN had not been made mandatory. Verification of 60 policies revealed that in eight cases, the date of assumption of risk was prior to the date of the issue of policy indicating a deficient validation check. Thus the possibility of an irregular practice of assuming of risk prior to the date of issue of CN could not be ruled out.

(iv)   In a test check of the CNs issued by DO-XIV, New Delhi it was noticed that there were gaps in the sequence of the serial numbers of the CNs issued. In 7 of the 50 CNs issued to two development officers, it was found that no corresponding policies were issued against those CNs. Further, there was no record that these CNs were cancelled subsequently.

In absence of in-built validation checks in the software and resulting input controls failure, the system was susceptible to the following risks:

(i)   The Company generally assumes the risk from the date mentioned on the CN. In the absence of a validation check of a CN date, the policies could be issued from a

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[*] *A cover note is a temporary document, issued by the authorised officers, for assumption of the risk pending issue of the Policy against the cover note after which it stands closed*

prospective date, resulting in extension of risk liability without compensating premium for the extended period.

(ii)   Interest lost on the amounts of cheques deposited belatedly by the concerned officers.

(iii)   When more than one policy is issued on a CN and the CN date is not mandatorily entered in the system, there is a risk of issue of a back dated policy.

(iv)   Unutilised CN, if not cancelled, could be used at a later date to cover a back dated risk thus jeopardising the business interest of the Company.

The Management accepted (June 2007) the audit observation and assured (August 2007) implementation of these checks.

5.5.6.2 Duplicate assured codes

Assured code is generated after creating profile of a new policyholder and is the key to identify the policyholder.

Audit observed that:

(i)   In 25 cases of the reviewed data, the same assured code has been assigned to more than one policyholder.

(ii)   In eight cases out of given data, policies had been generated with '0' as 'Assured Code' as well as '0' in the 'Assured Name' and 'Assured Address'.

Thus, in absence of validation checks and input controls, the data on policyholders in the system was not reliable.

The Management accepted (June 2007) the audit observation and assured (August 2007) to do the needful in INLIAS.

5.5.6.3 Agents' commission on lapsed licenses

According to Regulation 8 (ii) (a) of IRDA (Licensing of Insurance Agents) Regulations, 2000, no insurance agent shall solicit or procure insurance business without holding a valid license.

While analysing the commission bills of three New Delhi based divisional offices viz. DO-IV, XI and XIV, Audit observed that business was procured from 20 agents whose licenses had expired and an amount of Rs.46.17 lakh was released to them as commission as the system did not have an appropriate validation check.

The Management accepted (July 2007) the audit observation and assured (August 2007) that such a check would be implemented.

5.5.6.4 Irregular allowance of 'No claim discount' in motor policies

During analysis of claim summary of DO-III, New Delhi for January 2007 on INLIAS Live, one case was noticed where 'No claim discount' was allowed even though a claim existed on the previous policy issued to the insured by the Company indicating lack of validation checks in the system.

The Management assured (August 2007) that such a check would be implemented.

5.5.6.5 Refund of premium on the expired policy

A test check of the endorsements passed on the policies issued by DO-XIV, New Delhi revealed that in one case, the premium amount collected from the policyholder was found refundable by passing a cancellation endorsement after the policy had expired. It resulted in coverage of risk for the full period and thereafter refund of the premium amount to the policyholder indicating that appropriate validations to check refund of premium after the expiry of the policy period was not built into INLIAS.

The Management accepted (August 2007) the observation and assured that a functionality to restrict the cancellation of an expired policy would be introduced.

5.5.6.6 Irregular issuance of motor policies

As per the India Motor Tariff, the cubic capacity (CC) of a vehicle is one of the crucial factors for determining the premium payable. Audit, however, observed that the field of CC is open to manipulation for any 'Make' and 'Model'. Audit analysed the given data and observed that in six cases, at the time of renewal, the policies were created without any validation with the CC of the same vehicle from the policy of the previous period. Thus, a CC, different from the CC of the same vehicle for the previous period, could be entered, leading to the manual intervention and risk of short collection of premium.

The Management accepted (June 2007) the audit observation and assured (August 2007) that suitable corrections would be made.

5.5.7 Defective user requirement specifications

5.5.7.1 Standard fire and special perils policy (storage risks)

According to All India Fire Tariff (AIFT), premium in storage risks of standard fire and special perils policy depends upon the nature of stock covered. The stored goods has been broadly categorised under (i) Non-Hazardous; (ii) Hazardous Category–I; (iii) Hazardous Category–II; and (iv) Hazardous Category–III. Each of these categories has a distinct list of goods. The rates of premium chargeable are lowest for Non-Hazardous goods and highest in Hazardous Category–III.

On a test check of policies issued by Division-IV, New Delhi of the Company for storage of goods, Audit observed that the Company lost an amount of Rs.75.01 lakh on account of short collection of premium, since the stored goods were Hazardous Category-I items whereas the Company categorised them as Non-Hazardous. Thus, the category was selected without reference to the description of the stocks covered in the policy. Absence of a provision, of selecting the type of goods from a list, as per the TAC's "List of Hazardous Goods" and the premium to be charged as per the categorisation of the good, resulted in the loss on account of short-charged premium.

The Management accepted (July 2007) the audit observation and assured (August 2007) to consider the incorporation of list of values.

5.5.7.2 Non-fulfilment of IRDA's prescribed data format

As per IRDA circular dated 8 November 2006, it is mandatory for a general insurance company to submit data in respect of eleven portfolios♣ in the formats prescribed by the TAC with effect from 1 April 2007.

Audit observed that the necessary data formats were not built into the system due to defective URS resulting in the manual preparation of the returns by the Company. Thus, the Company was not able to consolidate the data collected from the operating offices on time and accurately.

The Management assured (August 2007) implementation of this check.

5.5.7.3 Deficient control for monitoring deposits in appeal court cases

According to Section 173 of the Motor Vehicles Act, 1988 (MV Act) an appeal against any award of a Claims Tribunal would be entertained, provided Rs.25,000 or 50 *per cent* of the amount so awarded, which ever is less, is deposited in the manner directed by the High Court.

Audit observed that the system did not have the provision to capture separately the details of deposits relating to Motor Accident Claims Tribunal (MACT) appeal cases made by the Company due to defective URS as a result of which the Company was not able to monitor the cases in appeal and the deposits lying in the courts.

The Management accepted (July 2007) the audit observation and assured (August 2007) provision of a facility to capture data regarding amount deposited in the High Court in respect of MACT appeal cases.

5.5.8   Deficiencies in system design

5.5.8.1 Non-utilisation of 'normalisation' concept

In a relational database, 'normalisation' is the process of taking data from a problem and reducing it to a set of relations while ensuring data integrity and eliminating data redundancy. This ensures that the data is stored only once and storing data that can be calculated from other data already held in the database is avoided. During the process of 'normalisation' redundancy is removed but not at the expense of breaking data integrity rules.

It was seen that the given data had 27 tables, which contained all the information about policies and claims. A test check of 10 tables revealed that one of the tables had 242 fields containing information about the underlying risk in all types of policies. There was another table that contained 207 fields. There were 38 fields that were common in the two tables indicating that there was data redundancy built into the database. Moreover, there were 31387 cases, where the records were also not matching.

♣ *(1) Fire, (2) Marine Cargo, (3) Marine Hull, (4) Erection All Risks/ Contractors All Risks (Engineering), (5) Boiler & Pressure Plant (Engineering) and (6) Machinery Loss of Profits (Engineering), (7) Consequential Loss (Fire), (8) Machinery breakdown (Engineering), (9) Contractor's Plant & Machinery (Engineering),(10) Electronic Equipment Insurance (Engineering) and (11) Deterioration of Stocks – Potatoes (Engineering).*

Thus inadequate 'normalization' of the database led not only to data redundancy but also to weakness in data integrity.

Reply of the Management was awaited (September 2007).

5.5.8.2 Irregular allowance of 'No Claim Bonus'

As per General Rules of India Motor Tariff, in the event of a policyholder transferring his insurance from one insurer to another insurer, the transferee insurer may allow the same rate of 'No Claim Bonus' (NCB) which the policyholder would have received from the previous insurer. Evidence of the policyholder's NCB entitlement either in the form of a renewal notice or a letter confirming the NCB entitlement from the previous insurer is required for this purpose. Where the policyholder is unable to produce such evidence, the claimed NCB may be allowed after obtaining a declaration from the policyholder, as per the aforesaid tariff. While checking NCB details from the given data, Audit noticed that evidence of the policyholder's NCB entitlement had not been correctly authorised and validated. Audit analysed the cases where NCB allowed was more than Rs.100/- and found that the operating offices allowed NCB in 54970 Motor policies involving a total NCB of Rs.7.49 crore. In these cases, the system was not able to capture the declaration given by the policyholder and verification of the same from the previous insurer at the time of registering a claim in the policy. Thus, the system did not assist in deciding the admissibility of the claim.

5.5.8.3.Failure to cancel motor policies in respect of cash loss/total loss

In case vehicle is totally damaged or when the net cost of repair is almost close to the market value or the insured estimated value (IEV) or the vehicle is stolen, the claim can be considered as a total loss. If loss is extensive but does not warrant consideration of the claim on 'Total Loss' basis, claim can be settled on 'Cash Loss' basis. According to 'Claims Settlement Manual' of the Company, in such cases, the policy should be cancelled and Regional Transport Office informed by registered post about the cancellation of the policy.

Audit, however, noticed that the system does not have appropriate controls to ensure cancellation of policy after settling such claims leading to the risk of further claims being acknowledged on the same policy.

The Management assured (August 2007) implementation of this check.

5.5.8.4 Non-Provision of excluded diseases of mediclaim policies

The mediclaim cover is a hospitalisation cover and reimburses the medical expenses incurred in respect of covered disease and surgery however, certain diseases/charges are excluded from the scope of the cover.

Audit, however, observed that these exclusions had not been provided in the system. As a result, it was not possible to validate the claims at the time of registering the claim against the policy and consequently, the admissibility of the claim could not be decided.

The Management accepted (August 2007) the observation and assured to provide list of values in the claims module to enable the system to recognise the excluded diseases/charges.

5.5.8.5 *Deficient control for protection of recovery rights in marine claim.*

As per the circular (May 1990) of the loss control measures department of the Company, "Where there is loss of recovery rights by the policyholder/claimant, the settlement of claim on non-standard basis should take into account the loss of probable recovery from the carriers and loss should be settled deducting that amount which would have been recovered had the recovery rights been preserved". Statutory time limits have been prescribed in the guidelines of the Company for disposal of claims. If the claim is not lodged by the policyholder on the carrier within the statutory time limit, the recovery rights of the insurers are not protected. In that case, the claim has to be settled on Non-Standard basis.

Audit, however, observed that the guidelines of the Company for disposal of claims on Standard/Non standard basis were not incorporated in the Claims module. In the absence of this, the operating offices of the Company were not able to decide the admissibility of marine claim where recovery rights were not protected.

The Management while accepting the audit observations assured (August 2007) implementation of this check.

5.5.9   *Inadequate process controls*

5.5.9.1 *Irregularities in consolidated general ledger summary*

As per clause 8.1.2.18 pertaining to Accounts module of business requirement specifications of the agreement between the Company and M/s 3i for implementation of INLIAS, consolidation of accounts at various levels up to the generation of Balance Sheet as per IRDA guidelines was to be done by the system.

A test check of consolidated General Ledger Summary (GL) and consolidated Trial Balances (TB) of New Delhi based Regional Offices (NRO-I and NRO-II) for the year 2006-07, revealed that the balances of GL did not tally with the TB figures. Due to this, there was a difference of Rs.41.20 crore in NRO-I and Rs.18.73 crore in NRO-II between the GL balances and TB figures.

The Management stated (August 2007) that based on audit observation, necessary corrections had been carried out in the report. During discussion, the Management agreed to take necessary measures to ensure that similar errors do not occur in other consolidated reports before freezing the Accounts Module.

Audit, however, subsequently observed (September 2007) that the Management had rectified only the data relating to NRO-I and NRO-II and not the entire system as it was seen in the RO-I, Mumbai that the General ledger of RO-I was still not tallying with the TB figures.

5.5.9.2 *Irregularities in terrorism pool data*

Terrorism risk in India is covered by the Terrorism Pool, which is managed by General Insurance Company (GIC). The pool gets its underwriting capacity from the general insurance companies in India. The general insurance companies furnish the terrorism pool data to GIC on quarterly basis for quarters ending June, September, December and March and annually at the end of the financial year.

During review of the reports generated from INLIAS, Audit observed that the Terrorism Pool data relating to premium for quarters ending June 2006, September 2006, December

2006 and March 2007 pertaining to DO-XI, DO-VII and CBO-19, New Delhi did not tally with the annual figures of the same data for 2006-07. Thus there was an excess cession of premium to pool amounting to Rs.61.70 lakh. Besides, Audit observed (September 2007) that the Terrorism Pool Data for the year 2006-07 did not tally with the data contained in the Annual Premium Register, generated by the system.

Reply of the Management was awaited (September 2007).

5.5.9.3. Non-collection of stamp duty on short period policies

As per the Company's circular of 1 June, 2004, the stamp duty on the short period policies should be borne by the policy holder. Audit noticed that in 3 of the 25 cases relating to DO-XIV, New Delhi that were examined, system did not calculate the correct stamp duty amount when the policies were issued for short period. Consequently, the Company could not collect the required stamp duty amount from the policy holders.

The Management accepted (June 2007) the audit observation and assured (August 2007) that the field for 'Period of Insurance' would be categorised as 'default' for the purpose of calculation of stamp duty.

5.5.10 Other points of interest

5.5.10.1 Deficient control for day end process on daily basis

According to Section 64VB of the Insurance Act, 1938, no risk can be assumed from a date earlier than a date on which the premium has been received in cash/cheque. The collection of premium has to be accounted for daily and the Daily Cash Book (DCB) has to be closed before office hours.

Audit observed that the DCB of Division-XIV New Delhi in INLIAS was open up to two days. Non-closure of DCB on daily basis was fraught with the risk of misuse, as listed below:

(i)   The premium may be accounted for only after the claim becomes due.

(ii)   If there is no claim, the cheque may be returned to the party causing loss of business to the Company.

(iii)   The cheque may be held if money is not available in the party's account.

(iv)   Back dated entries in the Cash book can be made and policies with back date can also be generated after giving a cover note number.

It is therefore, recommended that the daily closing may be monitored through central server of INLIAS and the timeliness strictly ensured.

The Management assured (August 2007) that the DCB would be processed on the same day.

5.5.10.2 Avoidable expenditure of Rs.8.51 lakh on virtual private network

The Company took virtual private network (VPN) connectivity in order to launch INLIAS on real time basis by networking all the offices. VPN tariff was applicable from the time the connectivity was provided. Data migration into INLIAS takes three to four hours per operating office and after migration the office may become live on INLIAS from the next working day.

Audit observed that there was a delay ranging between 6 days to 633 days in sending 246 offices live on INLIAS (March 2007) resulting in payment of connectivity charges without working on INLIAS.

The Management stated (July 2007) that the delay should be seen with reference to the date of commencement of parallel run and date of port activation. Management's reply is not tenable because even if the delay is counted up to the parallel run date, the delay ranged from 6 to 375 days. The tariff for minimum and maximum charges was Rs.257 and Rs.1425 per day, respectively. Thus the minimum recurring charges paid for providing connectivity to operating offices (excluding the offices with delay of less than six days) resulted in avoidable loss of Rs.8.51 lakh.

5.5.10.3 Creation of policy without proper authorisation

As per Company policy, only class-I officers are authorised for approving a policy proposal.

Audit, however, observed that:

(i)   The system allowed creation and approval of a policy proposal by the same user thus raising the risk of acceptance of bad risks by the creators of the proposal, who were not authorised by the Management to accept the same.

(ii)   In 11 cases, policies were issued without the details of the users of the system that processed the policies.

While replying to the observation, the Management stated (August 2007) that even though the person entering the data gives the approval, the policy is checked and signed by another person. The reply was not acceptable as the control built into the system were deficient and posed a risk of unauthorised acceptance of proposals by the Company especially when the audit trail was not ensured as brought out in (ii) above.

5.5.10.4 Non-utilisation of system functionality for creating provisions for claims

To satisfy the awards of MACT the provisions for outstanding motor (Third party) claims are to be made on the basis of guidelines/circulars issued by the Technical Department of the Company.

Audit observed that New Delhi RO-I and RO-II kept provisions of Rs.62.22 crore and Rs.95.31 crore, respectively for MACT claims outstanding as on 31 March 2007. These provisions in the final accounts were made on the basis of statement of Motor Third Party claims paid during the year 2006-07 and outstanding as on 31 March 2007, which was prepared manually despite the fact that this functionality was available in the INLIAS system. It was also seen that provisions for outstanding MACT claims did not depict accurate figures on the basis of aforesaid criteria for provisioning of the same in the system. Thus, the Company carried out the summarisation of the statement outside the system. This not only led to non utilisation of a functionality in the system but also created a risk to the confidentiality and integrity of the data and results of the statements generated.

The Management accepted (July 2007) the audit observation and assured (August 2007) to implement the same when INLIAS will be completely implemented.

5.6 Conclusion

Implementation of INLIAS in the Company was delayed by more than 23 months and was still to be implemented in all the operating offices of the Company. The collection of premium, issue of policies and settlement of claims were the major risk prone areas of the business, which were to be mapped through INLIAS.

Lack of complete customisation, inconsistencies and inadequacies in the design, lack of input controls and validation checks resulted in manual interventions that made the system vulnerable to manipulations and errors besides not conforming to the relevant provision of rules and regulations. Incorrect data fed into the system led to unreliability of the database. Thus there was underutilisation of the application in achieving the objectives of availability of on-line and accurate information for improved decision making.

5.7 Recommendations

- Data table size should be in consonance with the business requirements and normalised so as to facilitate quick generation of reports/ queries.

- System design deficiencies along with change management procedures should be institutionalised to carry out the necessary modifications in INLIAS.

- Required rectification of the inadequacies in INLIAS working relating to input controls, application controls and process controls as indicated in Audit review should be carried out in a time bound manner.

- The IT security should be strengthened through formulation and implementation of an IT Policy. The system should prompt for password change at defined intervals to ensure its use only by the authorised users.

- In the areas of input control and business continuity plan, the Company should evolve suitable security policies with clearly defined procedures and responsibilities. Its implementation by the operating offices should be closely monitored by Head Office.

- The end-users' URS, mapping of business rules and regulations and compliance of statutory provisions should be incorporated in the software.

The matter was reported to the Ministry (December 2007), its reply was awaited.