

**Report of the  
Comptroller and Auditor General  
of India**

**for the year ended March 2007**

**Union Government (Commercial)**

**Review of selected activities of  
Public Sector General Insurance Companies**

**No. PA 15 of 2008**

**(Performance Audit)**

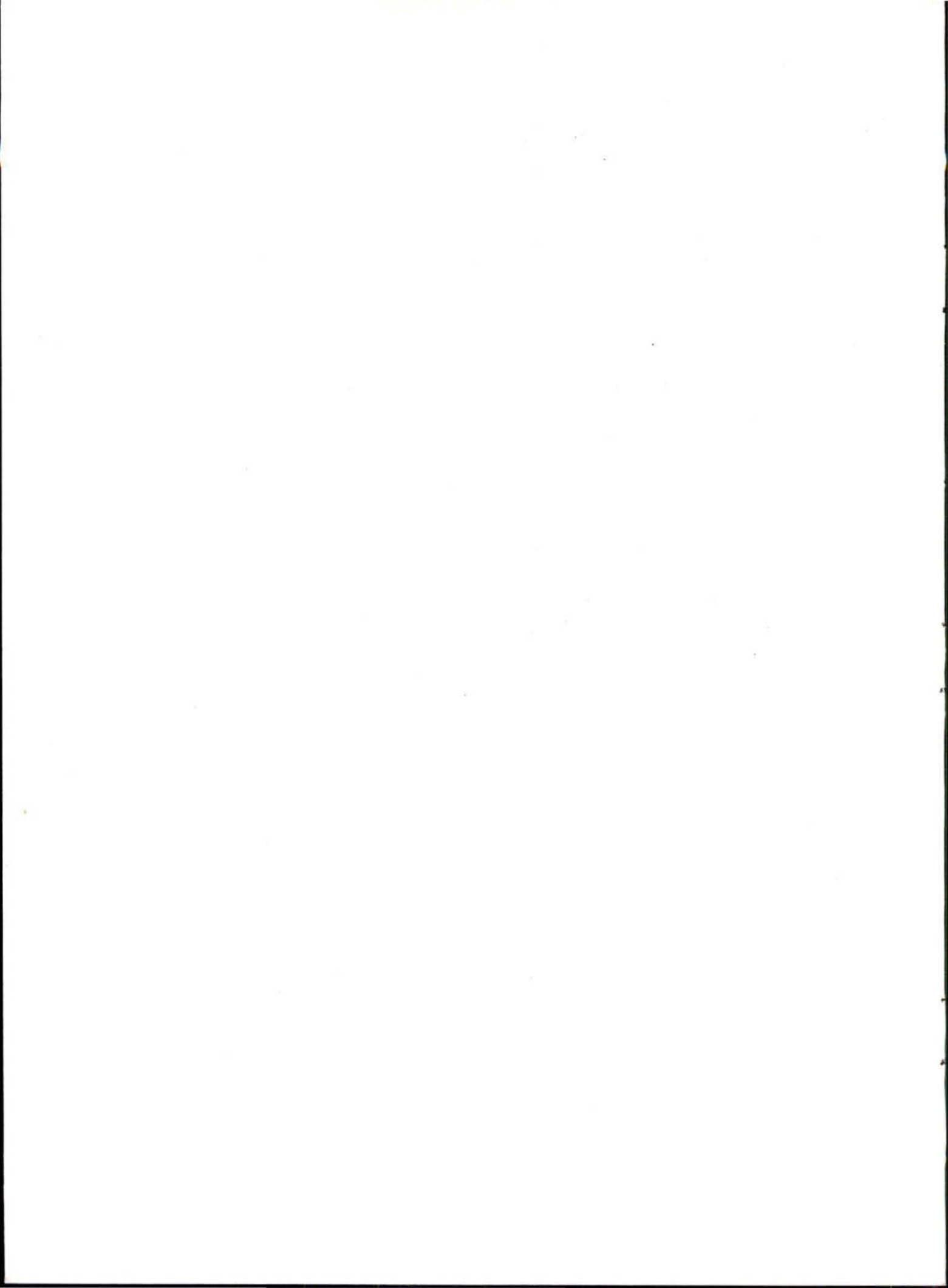
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## PREFACE

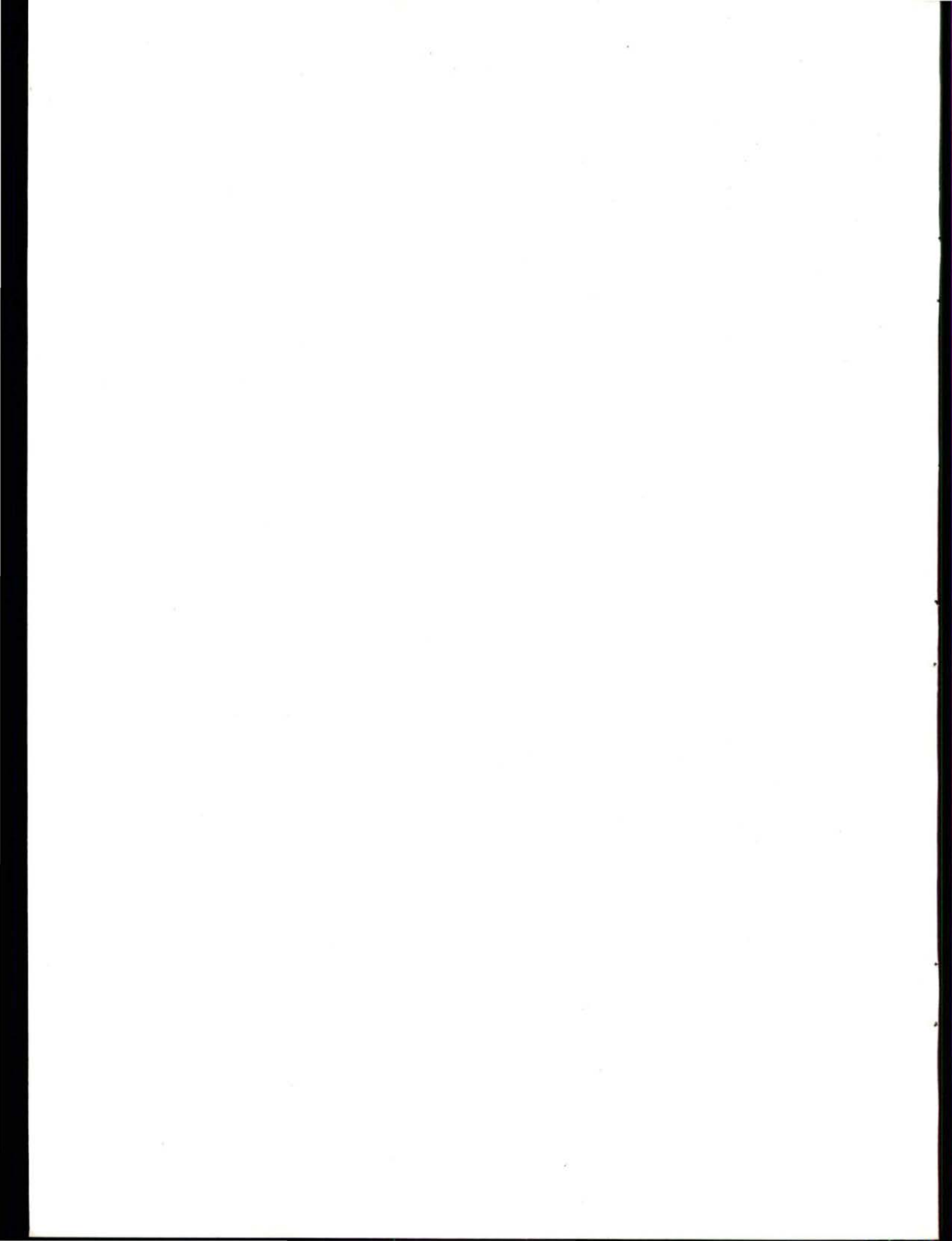
A reference is invited to the prefatory remarks in Report No. 9 (CA) of 2008 – Union Government (Commercial) of the Comptroller and Auditor General of India where a mention has been made that reviews of the performance of Companies/Corporations by the Comptroller and Auditor General of India (CAG) are contained in separate audit reports including stand alone performance audit reports.

The Audit Board mechanism was restructured during 2005-06 under the supervision and control of the CAG. The Board, which is permanent in nature, is chaired by the Deputy Comptroller and Auditor General and consists of senior officers of the CAG office. Two technical experts are inducted as special invitees, if necessary. The Board approves the topics for performance audit. It also approves the guidelines, audit objectives, criteria and methodology for conducting major performance audits. The Board finalises the performance audit reports after discussions with representatives of the relevant Ministry and the Management .

This stand alone Report reviewed the selected activities of the general insurance public sector companies viz. General Insurance Corporation of India, New India Assurance Company Limited, United India Insurance Company Limited, National Insurance Company Limited and Oriental Insurance Company Limited. The Report was finalised by the Audit Board with the assistance of Shri K. C. Mishra, Director, National Insurance Academy, Pune and Shri D. B. Malik Managing Director (Retd.), Loss Prevention Association of India, Mumbai, a subsidiary of GIC - the two technical experts appointed by the Government of India (the Ministry of Finance) as special invitees.

This Report as set out in the succeeding chapters is based on test check of records of the Corporate offices as well as 32 Regional Offices, 160 Divisional Offices, and 128 Branch Offices of the four general insurance companies and the discussions held with the Managements of these companies and the administrative Ministry. Audit of reinsurance was conducted at GIC and at the Reinsurance Departments in the Head Offices of the four general insurance companies.

The cases mentioned in the Report are among those which came to notice in the course of audit conducted during the year 2007-08.





## OVERVIEW

The insurance industry in India witnessed sweeping changes since 1999, when the Insurance Regulatory and Development Authority Act was enacted. While there were only one life insurer and five public sector non-life insurers at that stage, there were sixteen life and fifteen non-life insurers by August 2007.

The insurance industry today functions in a highly competitive environment, with increasing private participation and an expanding product portfolio. While public sector insurers have been experiencing declines in their market share, they have registered an overall growth in premium incomes. Potential for growth is substantial, given current levels of insurance penetration in India. With tariffs being entirely deregulated with effect from January 2008, except for Motor Third Party premium, there would be considerable change in the insurance markets posing new challenges to the public sector insurers.

A performance audit of the functioning of public sector insurance companies was undertaken, focusing on issues related to Motor Third Party Claims; reinsurance; commission and brokerage payments; and claims settlement and grievance redressal procedures. The primary objective of the audit was to ascertain whether the companies had adequate and effective operating and control systems in these areas and to suggest appropriate measures for improvement.

Motor Third Party business has traditionally been viewed as a loss making segment of the insurance business. The establishment of a centralised database would greatly improve processing of information relating to claims, lower risks related to fraudulent claims, and lead to quicker settlement of claims. There were numerous cases of delayed settlement of Tribunal awards, resulting in additional payment of interest.

The objective of maximising retention levels within the country, in relation to reinsurance, has largely been achieved. Instances were noticed where business was placed with reinsurers who did not enjoy the stipulated ratings, contrary to regulatory directions. Steps also need to be taken to institute a credible system of empanelment of reinsurance brokers.

Claims settlement is an area where improvements need to be effected, especially in the current competitive environment. Numerous claims were outstanding for more than six months. The companies did not institute procedures for the formal and periodic assessment of the work of surveyors and loss assessors. Delays in appointment of surveyors and receipt of survey reports hindered the claims settlement process, with consequent impact on customer satisfaction.

Companies had entered into various agreements with automobile manufacturers, dealers, financiers, etc. as part of their business promotion strategies. However, the contents of the agreements and the nature of payments being released to these entities lack clarity and are not in accordance with either statutory provisions or regulatory stipulations. There were numerous instances of commission being released to agents whose licenses had expired, as well as diversion of commission without appropriate authorisations.



MEMORANDUM

The first part of the report deals with the general situation of the country and the progress of the work during the year.

The second part contains a detailed account of the work done in each of the various departments.

The third part is devoted to a summary of the results of the work and to a few remarks on the future prospects.

The fourth part contains a list of the names of the persons who have been employed during the year.

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## HIGHLIGHTS

There has been a steady growth in their premium income, however the market share of the four public sector insurance companies had been declining.

*(Para 1.3)*

The Miscellaneous segment of the insurance business, which includes the motor portfolio, registered poor or negative results. This was attributed to the high incidence of claims in the Motor Third Party business.

*(Para 1.4)*

There was no centralised database, either at company or industry level, to facilitate improved control on motor claims.

*(Para 2.4)*

There were delays in settling awards within the required thirty days in 1845 cases reviewed. This resulted in payment of interest amounting to Rs.2.20 crore.

*(Para 2.7)*

The amount to be recovered in respect of 457 pay and recover cases was Rs.8.87 crore.

*(Para 2.8)*

There was no formal system in place for empanelment and selection of reinsurance brokers.

*(Para 3.14)*

In some cases, business was placed with reinsurers who did not possess BBB ratings as stipulated by IRDA.

*(Para 3.16)*

Sums amounting to Rs.24.36 crore could not be recovered from reinsurers who had gone into liquidation. A sum of Rs.42.91 crore could not be recovered from reinsurers for over six years.

*(Para 3.18)*

A total 14.87 lakh claims, valued at Rs.16,158 crore were pending settlement as at 31 March 2007. Of these, 70.62 per cent of claims were pending for over six months.

*(Para 4.3)*



There were numerous cases of delay in appointment of surveyors, receipt of survey reports and in final settlement of cases.

*(Paras 4.4, 4.5 and 4.7)*

A number of claims, initially repudiated by the companies, were finally settled in favour of the insured leading to payment of interest/penalties.

*(Para 4.14)*

As many as 946 agents, validity of whose licenses had expired, procured business for the insurance companies in violation of IRDA Regulations.

*(Para 5.4)*

Commission amounting to Rs.54.35 lakh was transferred from 'Direct code' to 'Agency code' subsequent to the issue of policies, without appropriate authorisation.

*(Para 5.5)*

The companies had effected various payments, under different agreements, to automobile manufacturers, dealers, financiers, etc. These agreements lack clarity, and were not in compliance with statutory and regulatory requirements.

*(Paras 5.6 to 5.14)*



### *Summary of Recommendations*

#### *The Companies should:*

1. *create and maintain a centralised database of motor claims at Head Office level for monitoring of the claim;*
2. *develop systems for review of the performance of advocates and investigators to ensure that only those rendering satisfactory services, are retained;*
3. *create dedicated cells at operating offices for expeditious satisfaction of the awards within the time stipulated in the Motor Vehicles Act, where appeals are not considered necessary;*
4. *take steps to identify and insure uninsured vehicles in collaboration with the concerned Regional Transport Authority and Police Department in the States;*
5. *develop an over-arching strategic document, outlining policies and procedures under which annual Reinsurance Programmes should be framed, as required by IRDA guidelines on Corporate Governance;*
6. *institute a transparent system for empanelment and selection of brokers as required by the Ministry of Finance circular of September 2002;*
7. *Strengthen internal control measures to monitor recoverables from reinsurers and for timely flow of information from regional offices to the Reinsurance department;*
8. *take appropriate measures to enable expeditious settlement of claims, specifically targeting the claims that are outstanding for more than six months;*
9. *issue suitable instructions to their operating offices to ensure adequate examination before repudiation of claims. This would obviate the possibility of the claims being subsequently allowed by Ombudsmen or Consumer Fora and will also assist in mitigating grievances/complaints;*
10. *ensure that only agents with valid licenses are be permitted to procure business; and*
11. *review the agreements with automobile manufacturers/dealers, finance companies, etc. in order to ensure clarity and compliance with the provisions of the Insurance Act, 1938 and regulatory directions.*

*Besides, initiating steps on the above mentioned areas by the PSUs, efforts are needed to be taken at industry level to:*



1. *Establish a Bureau of Investigation of Third Party claims, as directed by the High Court of Madras in November 2006.*
2. *Create and consolidate Industry-level database of all the insurers issuing motor policies to enable identification of duplicate claims and possible fraudulent claims; and to enable identification of involvement of vehicles in accidents for proper loading of premium.*
3. *Engage the General Insurance Council with the State Governments to ensure compliance with the directions of the Supreme Court on adherence to the requirements of Section 158 (6) of the Motor Vehicles Act.*



## Chapter 1

### Growth of insurance industry

#### 1.1 Introduction

The beginnings of the insurance industry in India date back to the nineteenth century when the first life insurance company was established at Kolkata in 1818. Subsequently, the first general insurance company commenced operations at Kolkata in 1850. Over the years the industry expanded, with numerous entities operating in both life and general insurance segments. The insurance business is normally classified into two segments viz. life and non-life. General insurance is part of the non-life segment and refers to fire, marine and miscellaneous insurance. The term “miscellaneous insurance” includes engineering, motor vehicle insurance, health insurance, etc. Significant milestones in the development of the insurance sector are described in Box 1.1.

#### Box 1.1

##### **Insurance in India: Milestones**

- 1938- Enactment of the Insurance Act, 1938, replaced earlier legislation and consolidated the law relating to both life and general insurance.
- 1956- Nationalization of the life insurance business by enactment of the Life Insurance Corporation Act, 1956.
- 1968- Amendment of the Insurance Act, 1938 providing for, the establishment of the Tariff Advisory Committee (TAC) to fix, control and regulate premium rates and conditions of policies.
- 1971- The Central Government took over the management of general insurance companies under the General Insurance (Emergency provisions) Act, 1971.
- 1972- Enactment of the General Insurance Business (Nationalization) Act, 1972, paving the way for the formation of the General Insurance Corporation of India (GIC) along with its four subsidiaries viz. the United India Insurance Company (UIIC), the New India Assurance Company Limited (NIAC), the National Insurance Company Limited (NIC) and the Oriental Insurance Company Limited (OIC). These companies were given the exclusive privilege of carrying on general insurance business in India.
- 1994- The Committee, headed by Shri R.N. Malhotra, submitted its report on the structure of the insurance industry making significant recommendations like allowing domestic and foreign operators entry into the sector and setting up an independent insurance regulatory authority.

- 1999- The Insurance Regulatory and Development Authority (IRDA) Act, 1999 was enacted with the objectives of protecting the interests of holders of insurance policies and to regulate, promote and ensure the orderly growth of the insurance industry. The IRDA Act also amended the Life Insurance Corporation Act, 1956 and the General Insurance Business (Nationalization) Act, 1972, withdrawing the exclusive privilege of the LIC and GIC and its subsidiaries of carrying on life and general insurance business.
- 2002- The General Insurance Business (Nationalization) Act, 1972 was amended. Consequently, the four subsidiary companies of GIC became independent companies wholly owned by the Government of India. The role of GIC was restricted to the business of reinsurance.

## ***1.2 Legislative and regulatory framework***

The Insurance Act, (the Act) 1938, which came into effect from 1 July 1939, was the cornerstone of the legislative framework underpinning the insurance industry in India. The Act consolidated and amended the law relating to the insurance business, both life and general insurance and increased the supervision of all entities engaged in the insurance business. The Act established the control of the Central Government over the conduct of insurance business in India and created the office of the Controller of Insurance.

The Act contains provisions for regulating the following aspects of the functioning of insurance companies:

- Investments,
- Managerial Expenses,
- Registration, licensing and remuneration of agents and other intermediaries,
- Solvency margins,
- Receipt of premium and inception of risk,
- Reinsurance, and
- Annual accounts and audit.

The Act was amended in 1968 to establish greater control on assets and investments as also to regulate tariffs, through the medium of the TAC which was established to regulate the rates, the advantages, terms and conditions that could be offered by insurers in respect of general insurance business.

Marine (Cargo) and Marine (Hull) tariff was deregulated from 1 April 1994 and 1 April 2005, respectively. However, a significant development in the insurance industry was the removal of tariffs with effect from 1 January 2007. Subsequently, tariffs have been entirely deregulated with effect from 1 January 2008 with the exception of Motor Third Party premium. The current de-regulated scenario would lead to considerable change in the insurance markets.



With the enactment of the IRDA Act, 1999 and the changing environment of the insurance industry, the IRDA now performs the functions earlier vested with the Controller of Insurance. In pursuance of its primary objectives of regulating, promoting and ensuring the orderly growth of the insurance industry as also protecting the interest of policy holders, the IRDA issued various Regulations relating to specific aspects of the insurance business. The details of Regulations issued are contained in Annexure I.

### 1.3 Insurance industry in India

When the IRDA Act was enacted in 1999, there was only one life insurer viz. LIC and five public sector non-life insurers. In addition, there was one specialised institution - Export Credit Guarantee Corporation of India. However, by August 2007, there were sixteen life insurers and fifteen non-life insurers in operation (Box 1.2). This is indicative of the change that has swept the insurance sector in the past few years. (The GIC is now only involved in the reinsurance business as the national reinsurer or "National Re").

**BOX 1.2**

<b>Life insurers</b>	<b>Non-Life insurers</b>
Bajaj Allianz Life Insurance Company Limited	Bajaj Allianz General Insurance Company Limited
Birla Sun Life Life Insurance Company Limited	ICICI Lombard General Insurance Company Limited
HDFC Standard Life Insurance Company Limited	IFFCO Tokio General Insurance Company Limited
ICICI Prudential Life Insurance Company Limited	National Insurance Company Limited
ING Vysya Life Insurance Company Limited	The New India Assurance Company Limited
Life Insurance Corporation of India	The Oriental Insurance Company Limited
Max New York Life Insurance Company Limited	Reliance General Insurance Company Limited
Met Life India Insurance Company Limited	Royal Sundaram Alliance Insurance Company Limited
Kotak Mahindra Old Mutual Life Insurance Limited	Tata AIG General Insurance Company Limited
SBI Life Insurance Company Limited	United India Insurance Company Limited
Tata AIG Life Insurance Company Limited	Cholamandalam MS General Insurance Company Limited
Reliance Life Insurance Company Limited	HDFC-Chubb General Insurance Company Limited
Aviva Life Insurance Company Limited	Export Credit Guarantee Corporation of India Limited
Sahara India Life Insurance Company Limited	Agriculture Insurance Company of India Limited
Shriram Life Insurance Company Limited	Star Health and Allied Insurance Company Limited
Bharti Axa Life Insurance Company Limited	

(IRDA website)

However, considerable potential for growth existed given the current levels of general insurance density and insurance penetration in India, in comparison to global levels. Insurance density is the percentage of premium to total population while insurance penetration is an expression of the ratio of total premium to Gross Domestic Product (GDP). The Table 1.1 indicates the comparative figures.

**Table 1.1**  
**Year-wise comparison – general insurance density and insurance penetration**

Year	Insurance density		Insurance penetration	
	World	India	World	India
2003	202.5	3.5	3.48	0.62
2004	220.0	4.0	3.43	0.65
2005	219.0	4.4	3.18	0.61

(IRDA Annual Reports)

While there had been a steady growth in premium income for the four public sector insurers in the four years up to 2006-07 there was a decline in market share, with the entry of private insurers. This is illustrated in Table 1.2.

**Table 1.2**  
**Public Sector Insurers' premium growth and declining market share**

Year	Total premium	PSU	Percentage to total premium	(Rs. in crore)	
				Private	Percentage to total premium
2003-04	15595	13337	85.52	2258	14.48
2004-05	17481	13973	79.93	3508	20.07
2005-06	20359	14997	73.66	5361	26.34
2006-07	25003	16286	65.13	8717	34.87

(Annual Report of IRDA/Report Card March 2007)

#### 1.4 Performance of the Public Sector General Insurers

The overall performance of the four public sector general insurance companies were assessed using certain key indicators like the retention ratio, the incurred claims ratio, operating profits or losses in different business segments as also the costs of procuring business which is represented by commission payouts. These indicators are briefly discussed below.

The Insurance companies pass on or cede a part of the risk covered by them to reinsurers. For this protection, a pre-determined portion of the premium is ceded to the reinsurers. Similarly, companies accept part of the risk of other insurers for which they receive a pre-determined portion of the premiums of the ceding companies called "acceptances". The portion of the premium that relates to the accounting year is known as net earned



premium. The retention ratio measures the premium retained by the insurer after cessions to reinsurers, to the gross premium, which includes acceptances. Table 1.3 gives details of gross premium received, net earned premium and the retention ratios.

**Table 1.3: Public Sector Insurers' gross premium receipt and retention**

	(Rs. in crore)				
	2002-03	2003-04	2004-05	2005-06	2006-07
<b>Gross Premium including acceptances</b>					
NIA	5083	5146	5418	6008	6405
NIC	2976	3469	3906	3636	3880
UIIC	3095	3164	3045	3217	3573
OIC	2990	3009	3196	3691	4128
GIC*	4515	4641	5122	4881	7404
<b>Net Earned Premium</b>					
NIA	3297	3589	3767	4121	4535
NIC	1966	2388	2664	2763	2768
UIIC	2109	2137	2163	2194	2373
OIC	1856	1972	2123	2356	2691
GIC*	3186	3992	4374	4459	5264
<b>Retention Percentage (Net Premium divided by Gross Premium including acceptances)</b>					
NIA	73	74	76	77	80
NIC	74	74	74	76	75
UIIC	70	70	73	71	72
OIC	66	70	72	69	72
GIC*	85	90	90	87	87

\* represents premium on reinsurance accepted

The net incurred claims represent the claims paid and payable that had not been ceded to reinsurers. The net incurred claims ratio indicates the extent to which the 'net premium' is to be applied to meet this obligation and is a measure of the risk retained by the insurer. This enables an assessment of profitability of underwriting operations and reinsurance arrangements. The Incurred Claims Ratio (ICR) of the five companies, over the five year period ending March 31 2007, is given in Table 1.4.

**Table 1.4: Public Sector Insurers' incurred claims ratio**

	(Rs. in crore)				
	2002-03	2003-04	2004-05	2005-06	2006-07
<b>Net Incurred claims</b>					
NIA	2699	2713	2905	3632	3644
NIC	1620	2110	2263	2830	2394
UIIC	1905	1842	1998	2043	2142
OIC	1466	1588	1908	2065	2359
GIC	2744	2895	3703	4573	3622
<b>Net Incurred claims percentage to Net Earned premium</b>					
NIA	82	75	77	88	80
NIC	82	88	85	102	86
UIIC	90	86	92	93	90
OIC	79	80	90	87	88
GIC	86	73	85	103	69

The cost of procuring business had registered a steady increase over the last five year ending 2006-07. Commission expenses of all four companies had risen, reflecting the current competitive nature of the insurance markets as indicated below:

**Table 1.5: Public Sector Insurers' commission expenses**

	(Rs. in crore)				
	2002-03	2003-04	2004-05	2005-06	2006-07
<b>Commission</b>					
NIA	418	453	529	611	607
NIC	199	245	273	296	315
UIIC	167	202	203	244	266
OIC	151	192	228	280	302
GIC	NIL	NIL	NIL	NIL	NIL

The operating results of the companies, in different business segments, are detailed in Table 1.6. It will be noted that the miscellaneous segment, which includes the Motor portfolio, continued to register negative or poor results. This was attributed to the high incidence of claims in the Motor Third Party business.

Table 1.6: Operating Profit/Loss (Net of income from investments)

(Rs. in crore)

Company/ Business segment	2002-03	2003-04	2004-05	2005-06	2006-07
<b>NIA</b>					
Fire	32	167	107	-155	17
Marine	45	52	4	-16	35
Misc.	-639	-907	-793	-1072	-708
Net operating profit	-562	-688	-682	-1243	-656
<b>NIC</b>					
Fire	133	147	98	-34	48
Marine	-2	74	0	-5	-38
Misc.	-432	-748	-633	-1050	-618
Net operating profit	-301	-527	-535	-1089	-608
<b>UIC</b>					
Fire	139	150	111	27	-69
Marine	38	8	-15	-16	-53
Misc.	-619	-702	-841	-943	-648
Net operating profit	-442	-544	-745	-932	-770
<b>OIC</b>					
Fire	127	76	53	-26	81
Marine	8	18	-14	-18	-53
Misc.	-384	-556	-649	-634	-564
Net operating profit	-249	-462	-610	-678	-536
<b>GIC</b>					
Fire	110	276	61	-85	-182
Marine	-6	-6	-90	-60	-172
Misc.	-593	-289	-542	-1117	275
Net operating profit	-489	-19	-571	-1262	-79

Income from Investments is the critical source of revenue for all the companies and accounts for their overall profits, as evidenced from Tables 1.7 and 1.8.



**Table 1.7: Income from investments and other income**

(Rs. in crore)

Company	2002-03	2003-04	2004-05	2005-06	2006-07
NIA	805	1030	1128	1422	1557
NIC	419	508	505	606	627
UIIC	545	676	742	858	864
OIC	413	536	741	642	735
GIC	844	1033	1158	1225	1309

**Table 1.8: Profit before tax**

(Rs. in crore)

Company	2002-03	2003-04	2004-05	2005-06	2006-07
NIA	313	648	798	856	1614
NIC	139	73	141	-60	456
UIIC	214	393	318	453	520
OIC	176	454	472	334	630
GIC	343	1277	800	443	1790

**1.5 Combined Ratio**

The Insurance companies publish various performance indicators/ratios in their Annual Reports to facilitate appreciation of their overall performance. The Combined Ratio correlates expenses of management and claims paid out to the gross premium earned. The ratio reveals whether premium earned was adequate to meet expenses of management and claim payouts. The ratios as computed and reported by the Companies for the period 2002-2003 to 2006-2007 are detailed in Table 1.9:

**Table 1.9: Details of Combined Ratios**

(Figures in percentage)

Company	2002-03	2003-04	2004-05	2005-06	2006-07
NIA	75	82	80	87	81
NIC	81	99	98	115	107
UIIC	91	93	106	127	116
OIC	87	97	102	121	99

$$\text{Combined Ratio} = \frac{\text{Expenses of Management} + \text{Claims paid}}{\text{Gross Premium (Direct)}}$$



However, while computing expenses of management, commission paid is not included though it represents the cost of procurement of business. Sec. 40C of the Insurance Act, 1938, while prescribing limits on expenses of management, includes commission as part of expenses. Such inclusion of commission is also standard international practice. A more accurate picture would emerge if commission pay out is also taken into account while computing the combined ratio as given in Table 1.10.

**Table 1.10: Details of Combined Ratios after considering commission paid**

(Figures in percentage)					
Company	2002-03	2003-04	2004-05	2005-06	2006-07
NIA	72	93	92	100	102
NIC	96	100	104	122	114
UIIC	98	101	117	134	122
OIC	97	99	97	109	94

$$\text{Combined Ratio} = \frac{\text{Expenses of Management} + \text{Claims paid} + \text{Commission}}{\text{Total Premium (including acceptances)}}$$

When the combined ratio exceeds 100 *per cent*, the implication is that the company had, during the year, not been able to raise adequate earnings to meet these expenses. It will be seen that NIC and UIIC consistently suffered operating losses for three years. The four PSU insurers had operated on low margins or at a loss during the five years.

The pre-tax profits have largely been generated by income from investments. The inadequate operating profits would indicate that either premia were inadequate or efforts to contain expenses of management need to be strengthened.

### **1.6 Scope and objectives of the performance audit**

A performance audit was undertaken between March and August 2007, focusing on the operations and performance of the public sector insurance companies viz, NIA, UIIC, NIC and OIIC and the designated Indian reinsurer, the GIC.

The performance audit was limited to four specific aspects of the functioning of the public sector insurance companies viz Motor Third Party claims, reinsurance, claims settlement and grievance redressal procedures, and agency and brokerage commission. In respect of GIC, acceptances and reinsurance arrangements were examined as the company undertakes only reinsurance business. The audit focused on transactions for the period 2004-2005 to 2006-2007.

The broad objectives of the performance audit were to assess and examine the effectiveness of systems established by the companies for:

- reinsurance operations which ensured mitigation of losses and improve underwriting capacity;
- mitigation of losses in Motor Third Party claims;

- settlement of claims and grievance redressal, thereby enhancing customer satisfaction; and
- compliance with the procedures and regulations governing payments to intermediaries like brokers and agents.

While the broad objectives of the audit have been outlined above, specific audit objectives for each of the four areas reviewed and examined are discussed in the appropriate chapters.

Entry conferences were held with the senior management of all five companies in March, 2007, where the scope and objectives of the audit were explained to them. Ministry of finance had forwarded the replies of the Companies on 10 January 2008. Detailed discussions on the audit findings and recommendations were held with the Ministry of Finance and the senior management of the companies on 24 January 2008. The view point of the Ministry/Companies have been considered and included appropriately at the time of finalisation of this Report.

### ***1.7 Audit methodology***

The four general insurance companies have a national presence and widespread operations. Each company has several regional offices, which control divisional offices and branch offices. In order to ensure a representative sample, random sampling was adopted for selecting divisional offices, adopting the ICR as the criterion. Where divisional offices had branches, one branch was covered in this audit. In all, 32 regional offices, 160 divisional offices and 128 branch offices of the four companies were audited. Audit of reinsurance activities was conducted at the GIC and the Head Offices of the four general insurance companies. The details of the units audited are given in Annexure II.

### ***1.8 Audit criteria***

While conducting the audit, the criteria applied included the companies' own policies, guidelines and operating procedures. In addition, the operations of the companies were also examined with reference to the Regulations issued by the IRDA, governing specific aspects of the insurance business.

Cases and records, pertaining to the period under review, were selected using sampling techniques. The databases of the companies were directly queried, certain data extracted and analysed, as appropriate. The audit methodology and the sample size are detailed in Annexure III.

### ***1.9 Acknowledgement***

The assistance and cooperation extended to audit by the Management and staff at various levels of the five companies is acknowledged.



## Chapter 2

### Motor Third Party claims

#### 2.1 Introduction

The Motor Vehicles (MV) Act, 1988 mandates payment of compensation to the victims of accidents arising out of the use of a motor vehicle or motor vehicles, in public places by the owner or owners, as the case may.

The MV Act further provides that no person shall use a motor vehicle in public places without a policy of insurance complying with the requirements of the MV Act. In such a policy of insurance, the insurer agrees to indemnify the user of the vehicle against the legal liability to pay compensation payable to the victims (third parties) of accidents (death, injury, disability, property damages, etc.) arising out of the use of the motor vehicle.

Apart from the legal liabilities to third parties, the general insurers also cover pecuniary losses arising out of damages to the vehicle of the insured. This insurance cover is commonly known as Own Damage Cover. The motor insurance portfolio has, thus, two distinct sections - one relating to the cover for the vehicle and its physical damage (OD) and the other relating to injury or death of other parties (TP). The cover for OD is optional and the cover for TP is mandatory. The Motor Third Party policies have to comply with the requirements of the MV Act. The compensation payable to the claimants is determined by the Motor Accident Claims Tribunals (MACT) established under the MV Act.

The motor portfolio constitutes around 40 *per cent* of the non-life insurance premium underwritten in India. The motor policies were governed by the tariff prescribed by Tariff Advisory Committee. The tariffs were withdrawn with effect from January 2007. The IRDA prescribed the Motor Third Party Premium with effect from January 2007.

### BOX 2.1

#### **The MV Act, 1988: Salient features**

- No person shall use, except as a passenger, a motor vehicle in public places, unless there is a policy of insurance complying with the requirements of the MV Act. (Sec. 146)
- The policy must be against any liability incurred by the insured in respect of death or bodily injury to any person or damage to any property of a third party. (Sec. 147)
- The insurer can be made a party to the proceedings of the Motor Accident Claims Tribunal. (Sec. 149)
- When a cover note issued by an insurer is not followed by a policy within the prescribed time, the insurer is bound to notify the fact to the concerned Registering Authority. (Sec. 147)
- A claimant is entitled to compensation of Rs.50,000 in cases of death or Rs.25,000 in the cases of injury without burden of proof of fault on the part of the vehicle owner. (Sec. 140-No fault liability).
- A claimant may also seek compensation on the basis of the structured formula prescribed in the Act. (Sec. 163 A)
- A claimant may at his option, approach the Tribunal having jurisdiction over the area i) in which the accident occurred, ii) where he resides, iii) carries on business or iv) where the defendant resides. (Sec. 166)
- For victims of hit and run cases i.e. where the identity of the vehicle cannot be ascertained the insurers are liable to pay the stipulated compensation. (Sec. 161)
- The Tribunal may direct payment of interest on the award at the rates and from the date specified by it. (Sec. 171)
- The Tribunal shall arrange to deliver copies of the award to the parties concerned within a period of fifteen days from the date of award. (Sec. 168)
- The person liable to satisfy the award shall do so within thirty days of announcement of the award. (Sec. 168)

## 2.2 Key indicators

The motor portfolio has generally been viewed as a loss making segment by the insurance industry. The incurred claims on motor insurance business ranged between 87 and 132 per cent of the net premiums during the period 2002-03 to 2006-07 as detailed in Tables 2.1 and 2.2



**Table 2.1: Net premium-Motor Business****(Rs. in crore)**

Company	2002-03	2003-04	2004-05	2005-06	2006-07
NIA	1342	1547	1661	1874	1985
NIC	904	1209	1482	1545	1534
UIIC	864	945	932	904	944
OIC	818	916	1034	1167	1328

*(Details compiled from Annual Reports)***Table 2.2: Incurred Claims - Motor Business***(Figures in bracket represent Incurred Claims Ratio)***(Rs. in crore)**

Company	2002-03	2003-04	2004-05	2005-06	2006-07
NIA	1271 (95)	1522 (98)	1577 (95)	1881 (100)	1806 (91)
NIC	998 (110)	1245 (103)	1449 (98)	1823 (118)	1333 (87)
UIIC	1144 (132)	1166 (123)	1196 (128)	1160 (128)	900 (95)
OIC	928 (113)	981 (107)	1237 (120)	1143 (98)	1304 (98)

*(Details compiled from Annual Reports)*

The Third Party claim segment had a significantly higher claims ratio when compared to the Own Damages segment as indicated below:

**Table 2.3: Incurred claim ratio of motor OD and TP portfolio****(figures in percentage)**

Company	Motor OD		Motor TP	
	2005-06	2006-07	2005-06	2006-07
NIA	53	49	209	181
NIC	60	60	252	155
UIIC	153	45	87	170
OIC	51	48	192	190

*(Details compiled from Annual Reports)*

The reduction in the ICR in NIC and UIIC during 2006-07 was due to growth in motor TP premium and increased settlement of claims through Tribunals and other fora. TP claims already settled were removed from the list of outstanding claims.

The process of settling claims is also long drawn-out, as will be seen from Table 2.4. The figures in brackets represent claims outstanding for more than three years.

**Table 2.4: Claims Outstanding at the close of the financial year**

Company	2002-03	2003-04	2004-05	2005-06	2006-07
NIA	209471 (Not available)*	236213 (Not available)*	244915 (114133)	248850 (120575)	266604 (127714)
NIC	195193 (65004)	233772 (91098)	271444 (108277)	299481 (122111)	277104 (115731)
UIIC	89618 (39235)	264001 (122610)	274198 (139172)	260609 (144873)	233241 (136612)
OIC	234950 (96086)	248476 (107123)	243027 (104616)	231370 (96135)	238174 (99161)

### 2.3 Audit objectives

The performance audit of the four companies was conducted to assess:

- appropriateness and adequacy of the systems for generating and monitoring claims related information for improving overall control on motor claim;
- compliance with underwriting principles while accepting risk;
- promptness, economy and efficiency in settling claims; and
- adequacy of measures taken by the companies to control the losses arising out of Motor Accident Claims Tribunal cases.

### 2.4 Absence of centralised database

There is no centralised data base, either at the company level or at the industry level in respect of claims handled. Claims are handled and controlled by the concerned divisional offices. A centralised database would assist the companies in the following:

- (a) searching for patterns in awards, interest allowed, delays, vehicle make-wise claims, age-wise claims, etc.;
- (b) categorising data for projections;
- (c) compiling and tracking geographic location of accidents;
- (d) speedy identification of possible fraudulent claims;
- (e) compiling Tribunal wise awards and interest rates decreed to enable better presentation of defence against claims, awards and interest rates; and
- (f) taking specific management decisions.

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\*NIA did not furnish the break up.



IRDA in its Annual Report of 2004-05, specifically mentioned that public sector insurers failed to maintain data relating to underwriting, claims paid and claims outstanding on motor insurance, policy-wise and vehicle-wise. Consequently, the data collected for revision of tariff lacked credibility, leading to revisions on ad-hoc basis. The lack of a detailed database is, therefore, a key reason underlying the computation of inadequate premium rates.

All the companies stated that they were in the process of implementing various IT enabled solutions like CORE Insurance Solutions and business process re-engineering which would enable them to address the issues mentioned above.

### **2.5 Absence of data for loading of premium**

Motor Tariff was revised by the TAC with effect from July, 2002. The Tariff permitted loading of the Tariff Rates by 100 *per cent* for adverse claims experience of the insured vehicles and individual risk perception of the insurer. A further loading of 100 *per cent* was also permitted if the experience continued to be adverse. The IRDA clarified (October 2002) that no loading should be made in cases where no claims had been lodged in the previous year or where the owners enjoyed no claims bonus. The TAC also clarified (August 2003) that loading for adverse claims experience prescribed in the tariff was not compulsory, though it had prescribed (June 2003) a check list for loading, indicating weights for claims experience of the expiring policy period and also earlier policy periods.

The overall effect of these clarifications was that insurers could not resort to loading of premium unless there were claims in the policy period that had just expired.

In the review of the selected files, audit noticed that the operating offices did not have adequate data on the claims experience of the vehicles insured by them. It was, therefore, not possible for audit to ascertain whether the underwriting was accurate nor was it possible to quantify the premium foregone.

For example, a test check of underwriting documents in three divisional offices of NIC (Kukatpally, Namakkal and Salem) revealed that there were instances of failure to collect proposal forms from the insured. Despite absence of data, loading of premium was resorted to on an ad-hoc basis, at rates ranging between 10 and 125 *per cent*.

NIC stated that it was not always possible to load Motor TP premium on the basis of the preceding policy period as the claims were lodged after the policy period. However, IRDA's circular requires loading with reference to the year in which the claim was reported.

### **2.6 Frauds in MACT claims**

The need to build a centralised data base assumes importance in the context of the disturbing trend of fraudulent third party claims that have been detected. It was established by the insurance companies that in many such cases there had been active connivance between the persons involved i.e. the driver, doctors/hospitals, advocates and in some cases the concerned police stations. In some cases, the same car was involved.

A centralised database will assist in extracting information and identifying cases of repeated involvement of same parties. Some cases are described below, by way of illustration. These cases are already in the knowledge of the companies concerned.

NIC approached (2002) the High Court of Madras seeking investigation by the police in a third party claim suspected to be false. The investigation by the police authorities proved that the claim was fraudulent. The Court directed (October 2003) that a Central Agency be constituted for the purpose of looking into all complaints, relating to bogus claims within 60 days of reference by the Insurer. Accordingly, a central agency was constituted by the Crime Branch - Crime Investigation Department (CB-CID) of Tamil Nadu Police in Chennai.

NIC brought (2005) to the notice of the High Court that consequent to the formation of the CB-CID, 410 claims were withdrawn. However, it also pleaded that the central agency was showing "indifference" in the investigation and prayed for investigation by the Central Bureau of Investigation (CBI), in the cases closed by the CB-CID. During the course of the hearing, the three other insurers also furnished details of fraudulent claims requiring investigation. The Court ordered (March 2006) investigation of the complaints by CBI. The CBI, however, expressed its inability in handling such a volume of cases. The Court, therefore, agreed that the CBI undertake investigation in 13 specific cases (11 involving fraudulent claims and two involving use of fake First Investigation Reports).

In the wake of the constitution of the central agency and investigation being entrusted to CBI, 1647 claims relating to four PSUs (amount claimed Rs.60 crore) were withdrawn. Subsequent to the entrustment of cases to CBI, in respect of NIC, Coimbatore Region alone the claimants filed 'not pressed' petitions in 418 cases (Rs.17.56 crore). Of these, in 44 cases, the amounts already awarded by Motor Claims Tribunals were Rs.81.70 lakh which was not paid to the claimants in view of 'not pressed' petitions.

- (a) A review of the list of cases withdrawn, consequent to the Court orders mentioned above, in Coimbatore Regional Offices of NIC and UIIC revealed that:
  - The same advocate was representing 23 petitions, out of 111 cases withdrawn (NIC). Similarly, out of 263 cases withdrawn (UIIC - DO - Erode), 47 cases were represented by the same advocate.
  - Disability Certificates were issued by the same doctor in 7 out of 13 cases withdrawn (UIIC and NIC - DO - Namakkal).
  - One vehicle was involved in ten claims impleaded and another vehicle was involved in 5 claims (NIC, Coimbatore).
- (b) The Additional District and Sessions Judge, Udaipur (Rajasthan) in April 2006, brought to the attention of IRDA the existence of a large number of fraudulent claims. The IRDA instructed NIC in May 2006 to investigate the suspected claim. The Company referred (February 2007) certain claims for investigation by the Vigilance Department. Action was pending.
- (c) The Superintendent of Police, Ujjain (Madhya Pradesh) also brought to notice of IRDA a large number of fraudulent claims in NIC. Head Office of the Company sought a detailed report from Indore Regional Office in October 2006. The report was yet to be submitted (October 2007).



- (d) Kolkata Regional Office of OIC detected the involvement of a nursing home July–September 2006 in 85 fraud injury cases and filed (March 2007) a case with the police authorities.

The companies stated that information relating to fraudulent claims was being exchanged amongst them and that the General Insurance Council had taken certain initiatives in this regard. It was also felt that problems relating to identification of fraudulent claims would be addressed, to some extent, by the introduction of CORE Insurance Solutions.

### 2.7 Delay in settlement of awards

The MV Act provides that the MACT shall forward awards within 15 days. The Act stipulates that the award shall be satisfied within 30 days of announcement of the award. In the divisional offices audited, these time frames were not followed in 1845 cases out of 7571 cases reviewed. In these cases, on account of the delay, interest amounting to Rs.220.28 lakh\* was paid during the period 2003-2004 to 2006-07.

### 2.8 Pay and Recover cases

The Tribunals had directed the insurers in some cases to satisfy the awards and then recover the amount from the insured. Examination in selected divisional offices/branches revealed that amounts yet to be collected on this account amounted to Rs.296.70 lakh in NIA, Rs.200.62 lakh in NIC, Rs.126.52 lakh in UIIC and Rs.262.98 lakh in OIC in 167,104,51 and 135 cases, respectively as at the end of March 2007.

In reply, the companies stated that the legal procedures involved were time-consuming and that they had appropriately instructed their operating offices.

### 2.9 Delay in investigation of MACT claims

A test check of the Own Damage (OD) claims, revealed that there were also motor Third Party (TP) claims pertaining to these accidents. Company-wise details are indicated in Table 2.5

**Table 2.5: Details of Own Damages and Third Party claims**  
(Number of claims)

Company	2004-05	2005-06	2006-07
NIA	520	428	386
NIC	281	187	66
UIIC	930	821	787
OIC	239	266	296

It was noticed that there was no system of gathering information relating to the TP claim, while settling the OD claims. As the related TP cases were reported subsequently and

\* NIA Rs.45.87 lakh, NIC Rs.76.22 lakh, UIIC Rs.34.70 lakh and OIC Rs.63.49 lakh in 368, 686, 255 and 536 cases, respectively

investigated, these offices could not link the facts evidenced during the assessment of the OD claim. Additionally, where TP cases were handled by an office other than the policy issuing office, there was no system to ascertain the position of OD claims, if any. Chennai regional office of OIC, which handled the TP claims of all divisional offices in the region, stated that it had no data on the related OD claims. In fact, Hassan divisional office of OIC did not maintain such information, although the DO itself handled the TP claims. None of the units audited in the Eastern region, maintained adequate data linking such co-existing claims.

Under 158(6) of the MV Act 1988, the police officer who receives the intimation/report of the accident shall forward a copy of the report within 30 days to the Tribunal having jurisdiction with a copy to the insurer. In all the divisional offices visited, it was seen that such reports were not received. The companies appoint investigators after the receipt of summons from the Tribunal for getting copies of First Information Report or license details or permit details. Had the companies received the intimation report from the police in time, it would have assisted them in identifying possible TP claims.

The companies stated that as a result of their efforts, the Supreme Court had recently directed the State Governments to strictly adhere to the requirements of Section 158 (6) of the MV Act.

### **2.10 Settlement through alternative forum**

The Legal Services Authorities Act, 1987 provides for organising of Lok Adalats by the Legal Services Committees at various levels, to determine and arrive at a compromise or settlement between parties to a dispute in respect of any case pending before any court for which the Lok Adalat is organised. Every Lok Adalat organised for an area shall consist of serving or retired Judicial Officers and other persons. The Act also treats insurance services as public utility services.

The insurance industry has also established Claims Conciliation Committees and Jald Rahat Yojana which are fora that enable negotiated settlements. The awards by these fora would not carry any interest. Thus, the settlements through the above fora would enable the companies to save interest and administrative charges.

In the units audited, it was noticed that the number of cases settled through these fora during the period 2003-2004 to 2006-07 was 12547\*.

NIC and UIIC stated that they were constantly monitoring the cases for expeditious settlement through alternative fora.

### **2.11 Recent developments**

The General Insurers' (Public Sector) Association of India (GIPSA), a body constituted by the PSU Insurers constituted a committee in October, 2002 to examine various issues relating to the motor insurance business. The Committee recommended certain

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\* NIA-4955, OIC-4063, NIC-2906, and UIIC-623.



amendments to the MV Act, for encouraging settlements through Lok Adalats and conciliatory fora, formation of Third Party cells, etc.

The Committee also stressed the need for:

- (a) Limit on the liability of the insurer;
- (b) Amending the Motor Vehicles Act to ensure furnishing of full details by Police authorities to the insurer;
- (c) Awarding of uniform interest rates;
- (d) Encouraging settlements through alternative fora;
- (e) Fixing responsibility on Advocate/Officials for delay in satisfaction of Awards; and
- (f) Sharing of liability in collision cases among GIPSA members.

Subsequently, the Government of India introduced a Bill (May 2007) to amend the MV Act. The salient features of the bill are indicated in Box 2.2:

**Box 2.2**

**The Motor Vehicles Bill, May, 2007: Salient features**

- The claimant may opt for determination of compensation under the structured formula or otherwise and the option, once exercised, shall be final.
- Insurers may also defend claims on the basis of non receipt of premium.
- The owner of the vehicle involved in the accident is bound to furnish particulars to the insurer.
- Claims can also be filed in Civil Courts in some cases.
- Transport vehicle owners shall keep attested copies of the drivers' license, Registration Certificates and Permit and deliver them to the insurer on demand.
- Person seeking awards other than on the structured formula, shall be required to prove neglect or default on part of the owner or driver.
- The Courts/Tribunals shall hear the cases expeditiously and endeavor to settle claims within a period of two years.
- The insurer shall endeavor to settle claims, out of the Tribunal or Court, within a period of three months.
- The awards shall be satisfied within sixty days (instead of thirty days at present)
- The Court/Tribunal may award interest at rates which may be two *per cent* higher than the bank rate.

IRDA, in a meeting held with the Ministry of Finance, pointed out (May 2006) that out of a total of 7.7 crore registered vehicles, only 3.25 crore vehicles were insured. If all

registered vehicles were insured; losses in the motor portfolio would be eliminated. It was decided that in each district, one of the insurers, in collaboration with the local authorities, would undertake a campaign to identify and bring under coverage such uninsured vehicles. This exercise was to be completed by March 2007. However, there is no evidence of such an exercise having been conducted by the four companies.

### ***2.12 Motor Third Party Pool***

In December 2006, IRDA issued directions that all the General Insurers or General Insurance business to collectively participate in a pooling arrangement to share in all motor third party insurance business. The GIC was nominated by the IRDA as the administrator of the pooling arrangement.

The Pool is operational from 1 April 2007. The salient features of the pool are as under:

- (a) All general insurers' underwriting motor business shall participate in the pool in respect of Commercial vehicles.
- (b) The GIC's share would be the statutory cession received by it.
- (c) All other members will cede to the pool in proportion to their market share of the Gross Direct Premium underwritten in India.
- (d) The General Insurance Council shall appoint a committee to lay down detailed underwriting polices and procedures as well as detailed claims processing procedures.

The pool will handle only commercial vehicles covered by policies issued by all general insurers.

GIC as Pool Administrator has since established IT systems to receive all data pertaining to policies, premiums and claims.

*Recommendation No.1*

*(i) The companies should:*

- *create and maintain a centralised database of motor claims at Head Office level (categorising the claims into death, grievous injury, minor injury and property) for monitoring of the claims.*
  - *develop systems for review of the performance of advocates and investigators to ensure that only those rendering satisfactory services, are retained.*
  - *create dedicated cells at operating offices for expeditious satisfaction of the awards within the time stipulated in the MV Act, where appeals are not considered necessary.*
  - *take steps to identify and insure uninsured vehicles in collaboration with the concerned Regional Transport Authority and Police Departments in the States.*
- (ii) Industry level efforts should be made to establish a Bureau of Investigation of TP claims, as directed by the High Court of Madras in November 2006.*
- (iii) A consolidated Industry-level database of all the insurers issuing motor policies may be created to enable identification of duplicate claims and possible fraudulent claims; and to enable identification of involvement of vehicles in accidents for proper loading of premium.*
- (iv) The General Insurance Council should engage with the State Governments to ensure compliance with the directions of the Supreme Court on adherence to the requirements of Section 158 (6) of the Motor Vehicles Act.*



## Chapter 3

### Reinsurance

#### 3.1 *Regulatory framework*

Sec. 101A of the Insurance Act 1938 stipulates that every insurer shall re-insure with Indian reinsurers such percentage of the sum assured on each policy as may be specified by IRDA. The IRDA has prescribed 15 *per cent* of the sum insured of every policy from 1 April 2007. It was earlier 20 *per cent*. This is called obligatory cession. The Insurance companies draw up reinsurance programmes for various classes of risks in order to fix retention limit of risks commensurate with their financial strength.

IRDA (General Insurance-Reinsurance) Regulations, 2000 govern the reinsurance arrangements. Regulation 3(1) stipulates that the reinsurance programmes of insurance companies should be guided by the following objectives:

- maximise retention within the country,
- develop adequate capacity,
- secure the best possible protection for the reinsurance cost incurred and
- simplify the administration of business.

#### 3.2 *Corporate governance*

IRDA in its circular of 3 November 2004 to all general insurers advised the introduction of internal procedures necessary to ensure compliance with the guidelines for good corporate governance, with immediate effect.

The guidelines, require the Board of Directors of insurance companies to:

- prescribe clear policies and procedures for implementing the reinsurance strategy, including setting underwriting guidelines, policy terms and conditions, aggregate exposure, establishing limits on the amount to be automatically covered by reinsurance and procedures of acceptance of risk exceeding the automatic capacity,
- fix the retention level, based on well researched recommendations about net retention per risk and per event for each class of business,
- maintain an up to date list of approved reinsurers, which carry the minimum rating together with the approved level of exposure,
- determine the automatic insurance capacity and catastrophe cover along with the workings for the manner in which it was determined,

- be informed of the exposure to the net account, in case of retention of risk at a level higher than permitted by the reinsurance programme,
- accord prior written approval where reinsurance terms are different from the terms of original insurance and obtain reports on the additional exposure arising out of it,
- ensure that there is a management information system in place conforming to the requirement on reporting frequency and level of detail of every claim,
- ensure that there is an adequate internal control system for reporting the claims to the appropriate reinsurer.

The guidelines also emphasised the need for regular audit and examination of claim recovery.

### BOX 3.1

#### Glossary of Reinsurance terms

**Facultative** means the reinsurance of a part or all of a single policy, in which cession is negotiated separately. The reinsurer and the insurer have the option of accepting or declining each individual submission.

**Pool** means any joint underwriting operation of insurance or reinsurance in which the participants assume a predetermined and fixed interest in all business underwritten.

**Retrocession** means the transaction whereby a reinsurer cedes to another insurer or reinsurer all or part of the reinsurance it has previously assumed.

**Retention** means the amount which an insurer assumes for his own account. In proportional contracts, the retention may be a percentage of the policy limit. In 'Excess of loss' contracts, the retention is an amount of loss.

**Treaty** means a reinsurance arrangement between the insurer and the reinsurer, usually for one year or longer, which stipulates the technical particulars and financial terms applicable to the reinsurance of some class or classes of business.

**Excess of loss (XL) cover** This is a reinsurance arrangement to protect a company's net account against claims beyond normal ranges as well as against catastrophe losses.

**Probable Maximum Loss (PML)** This is an estimation of 'Probable Maximum Loss' that can occur. Reinsurance cessions are done on the basis of the PML to effect savings in reinsurance premium.

**Surplus treaty** A company cedes those amounts which it cannot or does not want to retain on its net account. Such a contract is known as surplus treaty.

**Inward Acceptance** When a company participates in the treaty of another insurer, it is called inward acceptance.

**GNPI** Gross Net Premium Income (GNPI) means gross premium income less reinsurance cessions.

**Capacity** It refers to insurer's capability to accept the level of risk as proposed in the Reinsurance Programme.



### 3.3 Audit objectives

The performance audit aimed to assess the performance of the reinsurance programmes and to ascertain that :

- reinsurance programmes of the companies were designed to maximise retention of insurance premium within the country;
- the regulatory framework was complied with;
- the process of selection of brokers and reinsurers was transparent and objective;
- the existing Management Information System was effective; and
- internal audit in relation to reinsurance was regular and adequate.

### 3.4 Results of Reinsurance Department Operations

The performance of reinsurance operations of the four PSUs for the past three years is given in Table 3.1:

**Table 3.1: Performance of reinsurance operations by PSUs**

YEAR	Cessions				Acceptances				Net Profit/Loss
	Premium	Claims	Add: Commission	Profit/Loss (-)	Premium	Claims	Less: Commission	Profit/Loss (-)	
<b>New India Assurance Company</b>									
2004-05	1522.64	862.08	263.37	-397.19	314.58	98.12	65.61	150.85	-246.34
2005-06	1665.02	1659.64	285.94	280.56	332.13	310.56	51.60	-30.03	250.53
2006-07	1653.54	1288.81	296.74	-67.99	468.53	155.27	81.00	232.26	164.27
<b>National Insurance Company</b>									
2004-05	1073.88	809.15	214.90	-49.83	95.38	43.92	19.30	32.16	-17.67
2005-06	953.62	977.57	174.63	198.58	100.28	54.23	19.30	26.75	225.33
2006-07	1024.92	882.10	214.19	71.37	53.15	24.18	13.55	15.42	86.79
<b>United India Insurance Company</b>									
2004-05	871.00	539.00	198.00	-134.00	101.00	40.00	15.00	46.00	-88.00
2005-06	991.02	1729.88	197.72	936.58	62.08	51.62	17.31	-6.85	929.73
2006-07	1043.39	634.47	214.85	-194.07	74.15	35.29	16.17	22.69	-171.38
<b>Oriental Insurance Company</b>									
2004-05	977.80	602.18	172.20	-203.42	105.26	35.77	28.34	41.15	-162.27
2005-06	1190.83	1497.37	199.68	506.22	81.52	47.52	22.58	11.42	517.64
2006-07	1247.26	922.85	231.98	-92.43	106.78	61.16	29.56	16.06	-76.37

(Details compiled from Annual Accounts of the concerned Reinsurance Departments)



The profits in reinsurance operations arise when recoveries from reinsurers towards claim paid exceed the premiums ceded. Loss in reinsurance indicates that cessions made were more than the loss recovered from the reinsurers.

The operating results of GIC, the national reinsurer, are given in Table 3.2

**Table 3.2: Operating results of GIC**

	(Rs. in crore)		
	2004-05	2005-06	2006-07
Gross premium	5121.55	4880.77	7404.17
Net premium	4613.87	4234.88	6420.87
Commission/ brokerage	1207.49	1102.93	1670.12
Operating expenses	40.60	45.33	48.11
Claims, increase in unexpired risks reserve and other outgoes	3942.99	4349.12	4779.78
Operating profit/loss (excluding investment income)	-577.21	-1262.50	-77.14

The increase in loss in 2005-2006 was mainly due to a change in the accounting policy resulting in deferring of revenue of the fourth quarter of the year to the following year.

### 3.5 Retention of adequate capacity within the country

**Table 3.3: Details of total foreign and Indian cessions**

		(Rs. in crore)			
Year/Company→		NIA	NIC	UIIC	OIC
2004-05	Total cessions	1522.64	1073.88	871.00	977.80
	Foreign cessions	216.18	175.37	142.90	294.37
	Indian cessions	1306.46	898.51	728.10	683.43
	Percentage of Indian cessions	85.80	83.67	83.59	69.90
2005-06	Total cessions	1665.02	953.62	991.02	1190.83
	Foreign cessions	233.49	74.42	98.41	384.74
	Indian cessions	1431.53	879.20	892.61	806.09
	Percentage of Indian cessions	85.98	92.20	90.07	67.69
2006-07	Total cessions	1653.54	1024.92	1043.39	1247.26
	Foreign cessions	223.56	3.20	171.27	343.39
	Indian cessions	1429.98	1021.72	872.12	903.87
	Percentage of Indian cessions	86.48	99.69	83.59	72.47

*(The figures relating to total cessions are compiled from the books of the Reinsurance department)*

Table 3.3 would show that the broad objective of maximum retention within the country has largely been achieved. However, GIC stated that there was further scope to improve retention levels within the country and that its capacity to underwrite and accept risk should be fully utilised by the companies. In NIC, foreign cessions during 2006-07 were abnormally low due to booking of cessions to foreign reinsurers through Indian brokers as Indian cession.

### **3.6 Reinsurance strategy**

IRDA by its circular of 3 November 2004 advised that every insurer should document clear policies and procedures for implementing the reinsurance strategy set by its Board of Directors. However, it was noticed that though the circular was placed before the respective Boards (except NIC), no separate document detailing policies and procedures as envisaged by the circular was prepared by any of the companies.

The companies stated that their annual Reinsurance Programmes were comprehensive documents which were approved by their respective Boards and filed with the IRDA. Reinsurance Programmes were, by nature, dynamic and could be modified depending on market conditions. Such modifications/deviations were authorised by the CMDs of the companies under powers delegated to them by the Boards.

While it is agreed that the annual Reinsurance Programmes were comprehensive, they do not address all the issues mentioned in the IRDA circular of 3 November 2004. Essentially, the IRDA circular contemplates the framing of an over-arching strategic document under which annual Reinsurance Programmes are to be prepared.

### **3.7 Non-utilisation of capacity of terrorism pool**

A market terrorism pool was created with effect from 1 April 2002, to be managed by GIC. All insurance companies in India are members of the pool. The pool commenced with a capacity to cover up to Rs.200 crore which was revised up to Rs.600 crore per location with the pool rate fixed by the Tariff Advisory Committee (TAC)/Pool Manager from time to time. The Tariff Advisory Committee directed (April 2002) that all terrorism risk up to the prescribed limits was required to be underwritten in the country and charged pool rate.

In respect of Mega risks (risks exceeding the pool capacity) separate terrorism risk policies were issued (2004-07) covering the risks beyond the pool capacity by the companies. The rate applied was as per the Reinsurer's quote and the complete reinsurance arrangement was made on facultative basis, outside the country, instead of availing the pool capacity.

The above underwriting of the terrorism risk was not in compliance with the TAC circular and resulted in the non-utilisation of national capacity created. The amount of premium thus not ceded to pool was Rs.6.51 crore (Rs.4.33 crore - NIA, Rs.1.05 crore - UIIC and Rs.1.13 crore - NIC ).

UIIC replied (September 2007) that cessions to the pool would not be feasible as the rates obtained from the market were lower than the pool rates. However this reply has to be



viewed in the context of TAC's specific directions to underwrite the risks at the pool rate up to the capacity of the pool.

The companies stated that it was not feasible to split the cessions in case of Mega Risks exceeding Rs.600 crore. While Audit's suggestion was noted, the Pool Manager viz. GIC stated that the Underwriting Committee of the pool was seized of the matter and the issue was expected to be soon resolved.

### 3.8 *Facultative placement*

Regulation 3(10) of IRDA (General Insurance-Reinsurance) Regulations, 2000 stipulates that every insurer shall offer an opportunity to other Indian insurers including the Indian reinsurer, to participate in its facultative and treaty surpluses before placement of such cessions outside India. It was observed that NIA has a retention capacity of Rs.75 crore, Rs.100 crore and Rs.200 crore in the fire department in 2004-05, 2005-06 and 2006-07, respectively. UIIC, while making facultative cessions in respect of 11 policies, did not consider the retention capacity of NIA. This resulted in underutilisation of capacity and consequent outgo of facultative premium of Rs.8.45 crore, in respect of 11 policies test checked in audit.

While the companies (NIC, UIIC and OIC) expressed certain difficulties in obtaining inter-company facultative reinsurance support, it would be desirable to address this issue in Inter-Company meetings. This would facilitate achieving the objective of maximising retention of premium within the country.

### 3.9 *Delay in collection of Reinsurance Premium in GIC*

Premia in respect of inward treaties were to be collected quarterly or half-yearly according to the terms of treaties. During the period 2004-07, it was noticed there were delays in collecting reinsurance premia in GIC with respect to both proportional and non-proportional treaties. Details are in Table 3.4.

**Table 3.4: Delay in receipt of premium**

Description	Non-proportional	Proportional
Number of treaties where delay was noticed	219	51
Amount of premium delayed (Rs. in crore)	19.84	14.62
<b>Period of delay</b>		
Upto 30 days	77	71
31 - 90 days	264	93
91 - 180 days	147	49
181 - 365 days	58	29
Above 365 days	5	Nil
<b>Total number of Instances</b>	<b>551</b>	<b>242</b>

The delayed receipt of premium affected the cash flow of the company.



While agreeing that there had been delays in receipt of premium in some acceptances, GIC stated that it had recently activated a Credit Control Department to follow up on such recoveries.

### 3.10 Delay in receipt of adjustment premium

GIC accepts non proportional treaties from Indian insurance companies collecting Minimum Deposit Premium (MDP) based on the Estimated Gross Net Premium Income (EGNPI) indicated in the Treaty. As soon as practicable after the expiration of the treaty agreement, the reinsured (insurance companies) render a statement of their actual Gross Net Premium Income to GIC. It was however, seen that receipt of adjustment premium of Rs.93 lakh was delayed as detailed in Table 3.5.

**Table 3.5: Delay in receipt of adjustment premium**

(Rs. in crore)

No of treaties	No of cases delayed			Total	Amount
	Upto 90 days	91 to 180 days	181 to 365 days		
12 out of 24 treaties checked	5	8	5	18	0.83
7 out of 28 treaties checked	3	3	2	8	0.10
<b>Total</b>				<b>26</b>	<b>0.93</b>

GIC stated that it would control such delays in future through its Credit Control Department.

### 3.11 Additional exposure due to difference in terms of reinsurance

In terms of the IRDA guidelines on good corporate governance, Reinsurance departments will not have the authority to increase the net retention of the insurer either through failure to place reinsurance or through placement of reinsurance on terms different from terms of original risk, without prior approval of the Board.

UIIC issued 10 policies and accepted co-insurance share in respect of six policies on terms which were at variance with the terms agreed with the reinsurers. This involved an additional exposure of Rs.511.66 crore to the company during 2004-07. This additional exposure arose due to difference in deductibles as per the terms of the reinsurance and terms of insurance policy.

In one specific case (Tata Motors) it was noticed that the company's share of the claim was Rs.58.46 crore and only an amount of Rs.24.02 crore was recoverable from reinsurers. The balance of Rs.34.44 crore was borne by the company. This exceeded the per loss limit of Rs.15 crore as per Reinsurance Programme.

Similarly in OIC, 39 reinsurance policies were issued during the period 2004-07 on terms which were at variance with the terms agreed with the reinsurers. This resulted in an additional exposure of Rs.303.31 crore to the company.

While the cases were subsequently brought before the Board for ratification, no prior approval was taken as contemplated in the IRDA guidelines. Moreover, it was noticed that only the individual cases involving additional risk exposure were being brought before the Boards for ratification. The overall, cumulative exposure arising out of such cases needs to be placed before the respective Boards to facilitate a complete and proper appreciation of risk exposure of the companies.

The companies stated that owing to competition in the market, some risks needed to be underwritten on terms which were different from the original terms agreed with the reinsurers. Owing to the spreading of risk, it was unlikely that total additional net exposure would be affected by any single accident/event. In all such cases, approval of the respective Boards was being obtained. However, these replies do not address the issue raised by Audit, i.e. the overall, cumulative exposure arising out of all such cases should be placed before the respective Boards to facilitate a comprehensive appreciation of risk exposure.

### **3.12 Cessions based on Probable Maximum Loss**

Probable Maximum Loss (PML) will always be lower than the sum insured. In 500 out of 1653 cessions in UIIC during the period 2004-07, Probable Maximum Loss was higher than the sum insured for individual small policies. The company had made cessions in respect of those policies based on PML. As the maximum loss in those policies would not exceed the sum insured, the adoption of PML for making cessions was inappropriate. This resulted in excess cession of premium amounting to Rs.3.32 crore in Fire Department.

UIIC stated (September 2007) that there had been an error. The company was attempting to have a system in place for underwriting such policies and cessions thereon, so that such errors did not recur in future.

Similarly in 183 out of 1653 cessions reviewed in audit, UIIC adopted the entire PML instead of only their share of PML for making cessions. This resulted in additional exposure to the Company's account. UIIC agreed (October 2007) that, in future, risks would be classified appropriately based on their share of the risk.

### **3.13 Empanelment of brokers**

The Government of India, Ministry of Finance in its circular of September 2002 to insurance companies on corporate governance had instructed that there should be a credible system of empanelment of brokers. It was further stated that managements should develop detailed guidelines for empanelment and usage of these intermediaries. These guidelines were to be submitted to the respective Boards for approval.

However, the companies did not develop detailed guidelines for empanelment of brokers. It was noticed that UIIC and NIA approached certain brokers for obtaining quotes from reinsurers merely indicating the geographical area from which they had to obtain quotes. In UIIC, three brokers obtained 45 and 51 *per cent* of the total business placed through brokers in 2005-06 and 2006-07, respectively. UIIC stated (September 2007) that the



audit observations were duly taken note of and that the utilisation of intermediaries was being progressively broad-based, to the extent possible.

In NIC, it was noticed that an amount of Rs.5.23 crore was ceded to certain reinsurers through brokers even though the company was also directly placing business with the same reinsurers.

The companies responded that they were following specific criteria while selecting brokers including reputation in the international reinsurance market, past experience of the companies with the brokers, advice on Reinsurance Programmes, etc. However, the intention of the Ministry's circular of September 2002 is that the companies should develop detailed guidelines which should underpin a credible system of empanelment of brokers. These guidelines are also required to be approved by the respective Boards.

### 3.14 Rates of reinsurance commission on outward cession

In terms of the Government of India, Ministry of Finance Circular dated 18 September 2002, in the absence of any policy guidelines from the Board, companies were not to resort to reducing commission receivable on reinsurance ceded, thereby reducing quotations to client. Reinsurance commission was meant to take care of the cost of procurement, cost of funding claims till recovery was made from the reinsurers and to account for any non-recovery in the event of their going insolvent. The companies were advised not to reduce reinsurance commission indiscriminately. A proper policy was to be framed by each company and any deviation was to be made only by Chairman cum Managing Director on basis of a reasoned order. A summary of such decisions would be reported to Board immediately.

However it was noticed that the companies had not developed policies as contemplated in the circular of Ministry of Finance except OIC. As had been agreed earlier (March 2002) by the General Insurers' (Public Sector) Association (GIPSA), a minimum percentage of 10 would be collected as reinsurance commission. OIC, had however stipulated a range of 5 to 20 *per cent* commission for different classes of business.

It was noticed that, during the period 2004-07, the four companies collected commission at rates less than 10 *per cent*/rates approved by the company. This resulted in foregoing income of Rs.29.34 crore as detailed in Table 3.6.

**Table 3.6: Income foregone**

Company	No. of cessions	(Rs. in crore)
		Income foregone
NIA	84	14.38
NIC	22	1.90
UIIC	441	10.76
OIC	36	2.30
<b>Total</b>	<b>583</b>	<b>29.34</b>

Out of the 583 cessions mentioned in Table 3.6, no commission was collected in 206 cessions.



In reply, the companies (NIC, UIIC and OIC) stated that such deviations from the agreed rate of 10 *per cent* were necessitated by the competitive environment. OIC periodically reports such deviations to its Board. It is suggested that the other companies could consider reporting such deviations to their respective Boards.

### **3.15 Placement of business with reinsurers**

Regulation 3(7) of IRDA (General Insurance- Reinsurance) Regulations, 2000 stipulates that insurers have to place business only with those reinsurers enjoying, for at least five years, a credit rating of at least BBB (Standard & Poor) or equivalent rating of any other international rating agency.

A review of selected treaties in the five general insurance companies during the period 2004-07 revealed the following:

- (a) In UIIC, an amount of Rs.7.91 crore during 2005-06 and Rs.9.96 crore during 2006-07 was ceded to five reinsurers with rating below 'BBB'. The company replied (August/September 2007) that they had business relationships on reciprocal basis with some of the insurers for a long period of time even before constitution of IRDA. However, this was not acceptable since it was in violation of the IRDA's Regulations.
- (b) In GIC, during 2004 and 2005, two reinsurers and during 2006, three reinsurers with rating below 'BBB' were given business. In respect of 21, 48 and 46 reinsurers in 2004, 2005 and 2006, respectively, even data about the ratings was not maintained by GIC, indicating that the information system requires to be strengthened.
- (c) In OIC, during the period 2004-07, reinsurance business was placed with five companies with credit rating lower than 'BBB'.

The companies stated that the reinsurers with whom they had placed such business were the ones with whom they either had reciprocal arrangements or were backed by sovereign guarantees or may not have been rated. However, these placements need to be viewed in the light of the specific regulatory requirement that reinsurers need to have a minimum of 'BBB' (Standard & Poor) or equivalent rating of any other international credit rating agency. If required, the companies should approach IRDA for a special dispensation.

### **3.16 Information flow from the regional offices**

Regional Underwriting Cell (RUC) reports sent by the regional offices of companies list the details of large and medium risk undertaken to the Reinsurance department at Head Office for making cessions. Delays were noticed in furnishing such information as indicated in Table 3.7.

Table 3.7: Details of delays

Delay range	No. of instances		
	NIA	NIC	UIIC
30 to 60 days	12	52	265
61 to 90 days	2	5	177
91 to 180 days	3	3	66
181 to 365 days	1	-	2
>365 days	3	-	-
<b>Total</b>	<b>21</b>	<b>60</b>	<b>510</b>

Due to delay in receipt of information the companies could not arrange required reinsurance or initiate recoveries from the reinsurers. Some illustrative cases are discussed below:

- (a) The divisional office III, MRO-II of NIA accepted co-insurance of an erection risk underwritten by Maharashtra State Insurance Fund (MSIF). The cover was for a period of five years from April 2000 to March 2005 and the premium was to be received in 19 instalments. The division received 11 instalments and did not intimate the fact of acceptance of risk to the reinsurance department. Consequently no reinsurance arrangement was made. The non-receipt of the balance instalments was not taken up with MSIF. MSIF extended the period of cover from April 2005 to March 2007. The remaining eight instalments were paid by MSIF in January 2006 and the premium for the extended period only in May 2007. A major claim with NIA's share Rs.36.48 crore had occurred in June 2005. As there was no reinsurance arrangement the company passed on the claim to the Inter company Group Treaty (IGT) for Rs.22.24 crore and borne the balance amount of Rs.14.24 crore. The failure of the divisional office to inform the reinsurance department of the acceptance of the risk resulted in burdening the IGT with a claim without prior concurrence of the participating insurers.
- (b) In OIC, it was found that there were 28 and 85 policies during 2005-06 and 2006-07, respectively that had not been placed with reinsurers. In terms of the reinsurance programme applicable for the respective years, reinsurance protection should have been made for Rs.1262.93 crore. The company made delayed cessions in respect of 85 policies for Rs.1052.47 crore resulting in additional exposure during 2006-07. Of these, in respect of 25 policies the company had to retain these risks to its account as facultative support could not be arranged at such a late stage. This resulted in additional exposure amounted to Rs. 210.46 crore for 2005-06.
- (c) In UIIC, during the year 2006-07, recoveries were not raised by Reinsurance department in respect of nine accidents, amounting to Rs.54.65 lakh as these were not reported by Operating offices to Reinsurance department. UIIC stated (July 2007) that they were taking up the recoveries for the above cases and recoveries would be effected in 2007-08.



- (d) It was also noticed that the Namakkal Divisional office of NIC during 2004-05 did not intimate the RI department about large claims (two accidents) of Rs.1.08 crore for effecting prompt recovery from the reinsurers.
- (e) In UIIC, during 2006-07 it was found that in respect of two policies (Miscellaneous department) cessions were made automatically by Integrated Reinsurance System (in-house software used in Reinsurance department). This resulted in retention of Rs.25 crore, against the permissible retention of Rs. Seven crore under the reinsurance programme for the year. UIIC stated (August 2007) that there had been an inadvertent error and corrections would be made during the current year.

The companies stated that the delays would be overcome once CORE Insurance Solutions/INLIAS are in place.

### **3.17 Recoverables from reinsurers**

It was noticed that UIIC and OIC had large amounts recoverable from the reinsurers at the close of the financial years 2004-2005 to 2006-2007. The amounts outstanding were Rs.225.80 crore, Rs.1428.39 crore and Rs.140.73 crore in UIIC and Rs.245.43 crore, Rs.401.33 crore and Rs.580.31 crore in OIC for the year 2004-05, 2005-06 and 2006-07, respectively. The amounts recoverable from reinsurers were Rs.924.17 crore in GIC, Rs.1489.63 crore in NIA, and Rs.118.95 crore in NIC as on 31 March 2007.

In UIIC, it was noticed that of the amount outstanding as on 31 March 2007 an amount of Rs.22.92 crore was recoverable from 25 reinsurers who had gone into liquidation. Similarly, in respect of OIC, an amount of Rs.42.91 crore remained un-recovered for over six years. It was also noted in OIC that Rs.1.44 crore was due to be received from the reinsurers who had gone into liquidation.

In NIA, the recovery from foreign Facultative Reinsurance was pending for more than three years to the extent of Rs.4.64 crore (Engineering Department) and Rs.1.67 crore (Miscellaneous Department).

The companies (GIC, UIIC and OIC) replied that steps were being taken to recover the amounts due.

### **3.18 Settlement of balances and rendering of accounts**

In NIC, the outstanding claims as per Marine Hull Register maintained at Reinsurance department was Rs.131.36 crore and as per balance sheet it was Rs.37.33 crore as on 31 March 2007. This amount has not been reconciled

NIC stated that the reconciliation would be carried out.

### **3.19 Internal audit**

Internal Audit of the Reinsurance departments would normally cover key aspects of the implementation of the reinsurance strategy. These would include examining whether cessions were made as per the approved Reinsurance programme; whether all risks were



covered in time and whether recoveries in respect of each treaty were effected as per the cessions made. Internal audit would also examine terms and conditions of all treaties (Inward, Outward, Facultative and Excess of Loss) and review whether these were communicated by the treaties department to the accounts department in time. Internal audit would also review the efficacy of systems and procedures in place. These areas have been outlined in the Internal Audit Manual of UIIC. Internal audit, in the other companies would also need to review these aspects.

It was noticed that during the period 2004-05 to 2006-07, internal audit of Reinsurance departments was not conducted in UIIC and OIC. In NIA and NIC, the internal audit was completed up to 2006-07. In GIC, the internal audit work has been outsourced from 2006-07 onwards. Given the nature and significance of reinsurance transactions, it is essential that regular and effective internal audit be undertaken. The need for regular internal audit had also been emphasised in IRDA's circular of November 2004 on corporate governance.

OIC stated that internal audit was programmed for the Reinsurance Department for the year 2007-08.

***Recommendation No.2***

***The companies should:***

- (i) develop an over-arching strategic document, outlining policies and procedures under which annual Reinsurance Programmes should be framed, as required by IRDA guidelines on Corporate Governance;***
- (ii) bring before the Boards of the companies the deviations from reinsurance programmes along with details of cumulative risk exposure for approval;***
- (iii) institute a transparent system for empanelment and selection of brokers as required by the Ministry of Finance circular of September 2002;***
- (iv) strengthen measures to build up appropriate data on ratings of reinsurers as well as ensure adherence to IRDA stipulations on ratings of reinsurers; and***
- (v) strengthen internal control measures to monitor recoverables from reinsurers and timely flow of information from regional offices to the Reinsurance department.***

## Chapter 4

### Claims Settlement and Grievance Redressal Procedures

#### 4.1 Introduction

Insurance is a contract in which an individual or entity receives financial protection or reimbursement (indemnity) against losses from an insurance company. Thus, an insurer settles claims against policies issued by him. The efficiency of the claims management and settlement process has a direct impact on a company's ability to retain customers and to minimise grievances.

#### 4.2 Audit objectives

The performance audit, carried out at 32 regional offices, 160 divisional offices and 128 branch offices of the four public sector companies, aimed to assess the quality of service rendered to the insured by reviewing:

- the claim settlement procedures and the servicing of policies;
- the role of loss assessors/surveyors and service rendered by them; and
- the procedures in place for attending to and redressing grievances/complaints.

While undertaking the review of selected cases and files, the companies' own procedures were studied, apart from assessing the level of adherence to IRDA Regulations in regard to claims settlement (Box 4.1) and disposal of grievances.

#### Box 4.1

##### IRDA (Protection of Policyholders' Interest) Regulations, 2002: Regulation 9

On receipt of claim intimation:

- the insurer shall respond immediately and direct the insured on the procedures to be followed.
- Surveyor to be appointed within 72 hours.
- Surveyor shall communicate his findings to the insurer within 30 days of his appointment.
- In special circumstances, due to special and complicated nature of claim, surveyor shall seek extension of time for submission of his report, in no case shall a surveyor take more than six months from the date of his appointment to furnish his report.
- The insurer to seek additional information, if any, required from the surveyor within 15 days of the receipt of original survey report
- The surveyor shall furnish the additional report within three weeks from the date of receipt of communication from insurer.
- Offer of settlement or rejection of a claim to be issued by the insurer within 30 days, on receipt of survey report or the additional survey report as the case may be.
- On acceptance of the offer of settlement by the insured, payment shall be made within seven days. For any delay in payment, interest at a rate which is two *per cent* above the bank rate shall be payable by insurer.



It should be noted that Motor Third Party claims are, however, governed by the procedures and time-schedules of the Motor Accident Claims Tribunals.

### 4.3 Outstanding claims

The details of claims reported, paid and outstanding with respect to the four companies for the five year period ending 2006-07 are given in Tables 4.1 to 4.4. These figures also include claims relating to Motor Third Party claims. The information was extracted from the Annual Reports of the companies.

**Table 4.1: Claims intimated, settled and outstanding-NIA**

Year	Number of claims				Value of outstanding amount (Rs. in crore)	No. of claims outstanding for more than six months
	Out-standing opening balance	Intimated during the year	Settled during the year	Out-standing-closing balance		
2002-03	355551	1271986	1267423	360114	3929	230384
2003-04	360114	1405705	1378480	387339	4380	247059
2004-05	387339	1450229	1455845	381723	4845	242475
2005-06	381723	1192640	1190122	384241	5505	234968
2006-07	384241	942598	930590	396249	5759	247777

**Table 4.2: Claims intimated, settled and outstanding-NIC**

Year	Number of claims				Value of outstanding amount (Rs. in crore)	No. of claims outstanding for more than six months
	Out-standing opening balance	Intimated during the year	Settled during the year	Out-standing-closing balance		
2002-03	299951	746894	708085	338760	2253	206560
2003-04	338760	870690	822671	386779	2642	253794
2004-05	386779	844195	860515	416258**	2809	282437
2005-06	416258	813143	780424	448977*	3381	319248
2006-07	439798*	622210	648769	413239	3359	304323

\* 9179 duplicate cases deleted

\*\* figure as per Annual Report of the Company. Opening balance of claims outstanding plus claims intimated during the year less claims settled during the year works out to 370459

Table 4.3: Claims intimated, settled and outstanding-UIIC

Year	Number of claims				Value of outstanding amount (Rs. in crore)	No. of claims outstanding for more than six months
	Out-standing opening balance	Intimated during the year	Settled during the year	Out-standing-closing balance		
2002-03	417557	765132	747712	434977	3244	302482
2003-04	434977	772372	773349	434000	3444	306167
2004-05	434000	767345	775398	425947	3673	315411
2005-06	425947	676766	684789	417924	3754	314443
2006-07	417924	627772	677228	368468	3753	281127

Table 4.4: Claims intimated, settled and outstanding-OIC

Year	Number of claims				Value of outstanding amount (Rs. in crore)	No. of claims outstanding for more than six months
	Out-standing opening balance	Intimated during the year	Settled during the year	Out-standing-closing balance		
2002-03	312264	618780	619013	312031*	2490	219349
2003-04	330906*	612342	570673	372575	2293	233922
2004-05	372575	539835	594499	317911	2859	231400
2005-06	317911	564123	575440	306594	2949	215550
2006-07	306594	557861	555302	309153	3287	216960

\*difference in printed annual reports

Taking 2002-03 as the base year, it is seen that the total number of claims intimated to all four companies in 2006-07 had declined. Similarly, the number of claims settled by them in 2006-07 had also decreased. However, there was no significant progress in settling outstanding claims. Total outstanding claims (Table 4.1 to Table 4.4) increased in 2003-04 and remained comparatively static, over the years up to 2006-07. Progress in settling outstanding claims was, however, registered by UIIC and OIC.



Total claims outstanding for more than six months constituted 70.62 *per cent* of total claims outstanding in 2006-07. The ratio was lowest in case of NIC (62.53 *per cent*) followed by OIC (70.18 *per cent*) NIC (73.64 *per cent*) and UIIC (76.30 *per cent*).

Steps need to be taken to address the issue of outstanding claims. This becomes imperative in the context of the current competitive environment.

The companies stated that they were actively monitoring settlement of claims and had appropriately instructed their operating offices. In respect of non-suit claims\*, settlement ratios were generally higher. However, as mentioned earlier, efforts need to be focussed on the settlement of claims outstanding for more than six months.

#### ***4.4 Appointment of surveyors***

The IRDA Regulations require insurers to appoint surveyors to assess the loss within 72 hours of receipt of the claims. In the divisional offices/branches audited it was noticed that there were delays in appointment of surveyors in 4026 out of 13819 cases in NIA, 3676 out of 26657 cases in NIC, 5115 out of 18365 cases in UIIC and 430 out of 40775 cases in OIC.

#### ***4.5 Delay in receipt of survey reports from surveyors***

Surveyors are required to submit their reports within 30 days of appointment. It was noticed in the divisional offices/branches audited that this timeframe was not adhered to in 4550 of 13819 cases in NIA, 2595 of 26657 cases in NIC, 14435 of 18365 cases in UIIC and 1161 of 40775 cases in OIC during the period 2004-2007.

##### ***4.5.1 Evaluation of survey work***

Surveyors and loss assessors are critical to the claims settlement process. The IRDA Insurance Surveyors and Loss Assessors (Licensing, Professional Requirements and Code of Conduct) Regulations, 2000 spell out their duties and responsibilities in considerable detail. Surveyors are required to investigate, manage, quantify and validate losses that may arise from various contingencies and are to carry out their work with competence, objectivity and professional integrity.

Surveyors and their reports play a significant role in the settlement of claims. However, the companies had not prescribed any formal procedure that would facilitate a periodic, thorough and objective assessment of the work of surveyors. It is in the companies' interest to introduce an appropriate evaluation process, since inadequate or qualitatively poor survey work adversely impacts claims settlement and financial outflow. Information regarding the disqualification of surveyors by any company should be shared with the other companies.

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\* *claims which are not under any litigation*

#### 4.6 Non-utilisation of in-house surveyors

The Insurance Act, 1938 stipulates that a licensed surveyor is mandatory where the estimated amount of claim is Rs.20,000 and above. Claims below this limit can be surveyed by the companies' in-house surveyors.

A review of records of selected divisional and branch offices of the four companies, in the Northern region revealed that the licensed surveyors were appointed even in cases where in-house surveyors could have been utilised. This resulted in avoidable payment of survey fee of Rs.1.46 crore as detailed in Table 4.5.

**Table 4.5: Details of avoidable payment of survey fees**

(Rs. in lakh)

Year	OIC-RO, Ambala		NIC-RO, Dehradun		UIIC-RO, Lucknow		NIA-RO, Kanpur	
	No. of cases	Amount	No. of cases	Amount	No. of cases	Amount	No. of cases	Amount
2004-05	2754	28.82	734	5.59	590	2.95	1639	19.17
2005-06	2357	24.19	620	4.48	456	2.28	1366	16.53
2006-07	1822	20.43	830	6.12	535	2.67	1026	12.53
<b>Total</b>	<b>6933</b>	<b>73.44</b>	<b>2184</b>	<b>16.19</b>	<b>1581</b>	<b>7.90</b>	<b>4031</b>	<b>48.23</b>

Non-utilisation of in-house surveyors was also noticed in 459 instances in OIC, Chennai and Bengaluru regions, resulting in avoidable payment of Rs.3.54 lakh.

#### 4.7 Delay in settlement of claims

IRDA Regulations require that the claimant be offered a settlement within 30 days of receipt of the survey reports. However, in selected divisional offices/branches there were delays beyond this period in 3005 cases in NIA, 4637 cases in NIC, 4103 cases in UIIC and 1021 cases in OIC during the period 2004-2005 to 2006-2007 out of 99616 cases reviewed in audit.

#### 4.8 Incorrect extension of 'No Claim Bonus'

In Motor policies covering Own Damages (OD), insurance companies extend 'No Claim Bonus' (NCB). An insured is entitled to NCB only when the policy is to be renewed, after the expiry of the full duration of 12 months. NCB is given as a discount on OD premium and ranges from 20 to 50 per cent, depending upon the claim-free policy years at the time of renewal.

A review, in the selected divisions of the four companies in the Southern region revealed that they incorrectly extended NCB. Though claims had been filed earlier in the same divisions, NCB was extended to the policy-holders while renewing the policies. There is, evidently, a need to strengthen internal controls in this area. Details are in Table 4.6



**Table 4.6: Details of avoidable 'no claim bonus' extended**

Company	Region	2004-05		2005-06		2006-07		Total	
		No.	Rs.	No.	Rs.	No.	Rs.	No.	Rs.
NIA	Chennai	9	10316	6	8130	6	1121	21	19567
	Bengaluru	35	62831	25	45269	25	38127	85	146227
NIC	Coimbatore	40	106528	16	43026	19	23106	75	172660
	Hyderabad	13	34778	12	27558	10	23093	35	85429
UIIC	Coimbatore	31	68705	19	54451	14	24256	64	147412
	Hyderabad	16	34565	16	16132	7	15723	39	66420
OIC	Chennai	34	75639	19	44357	11	28704	64	148700
	Bengaluru	43	73867	29	38895	28	33184	100	145946
<b>Total</b>		<b>221</b>	<b>467229</b>	<b>142</b>	<b>277818</b>	<b>120</b>	<b>187314</b>	<b>483</b>	<b>932361</b>

NIC and UIIC stated that efforts were being made to streamline the system of allowing NCB.

#### 4.9 Non-issue of renewal notices

Issue of renewal notices in time is a measure of customer service. The GENISYS system used by NIC, NIA and UIIC as well as INLIAS system used by OIC have inbuilt programmes to facilitate timely issue of renewal notices in the operating offices. However, test-check in the Northern region revealed that certain divisional offices failed to issue renewal notices as detailed in Table 4.7. This is indicative of deficiency in service.

**Table 4.7: Details of renewal notices not issued**

Company	R.O	No. of policies test-checked			Renewal notices not issued		
		2004-05	2005-06	2006-07	2004-05	2005-06	2006-07
OIC	Ambala	2057	2026	1781	2057	2026	1781
NIC	Delhi RO I	6000	3998	3961	149	235	185
UIIC	Lucknow	21596	21920	23698	18450	19230	17211

NIC stated that CORE Insurance Solutions would address the issue. OIC stated that instructions had been issued to the operating offices to ensure timely issue of renewal notices.

#### 4.10 Non-retention of old policies

It was also noticed, in the Northern region, that a number of policies were not retained, during the three year period 2004-05 to 2006-07, resulting in a loss of business to the tune of Rs.51.46 crore (Table 4.8).

**Table 4.8: Details of loss of business**

(Rs. in crore)			
Company	Regional Office	No. of policies	Premium amount not retained
OIC	Ambala (Five DOs and four BOs)	51053	16.93
UIIC	Delhi RO-II (Five DOs)	99977	34.53
<b>Total</b>		<b>151030</b>	<b>51.46</b>

The non-retention of policies in these divisional and branch offices would require appropriate review and action by the companies concerned in order to retain both business and market share. Such review, if conducted on a company-wide basis, will assist in addressing the issue of non-retention of policies on a strategic basis.

#### 4.11 Grievance redressal procedure

Regulation 5 of the IRDA (Protection of Policyholders' Interest) Regulations 2002 stipulates that every insurer shall have in place proper procedures and effective mechanism to address complaints and grievances of policyholders efficiently and with speed and the same, along with the information in respect of Insurance Ombudsman, shall be communicated to the policyholder with the policy document as may be found necessary.

The settlement of claims is governed by the internal operating procedures and financial authority set up by individual companies. The companies have all instituted grievance settlement procedures. The IRDA also monitors settlement of grievances by the insurance companies. In addition, the IRDA has a cell for grievance redressal to look into complaints of policy holders.

UIIC stated that effective measures at various levels, from Branch to Head Office, to sort out grievances were being taken. NIC stated that steps were being taken to develop a Customer Satisfaction Index (CSI) which would be assessed at regular intervals.

#### 4.12 Grievance settlement

The details of grievances received and settled by the companies, during the period 2004-05 to 2006-07, in respect of the offices reviewed by audit are given in Table 4.9



**Table 4.9: Details of grievances received, disposed of and remained outstanding**

Company	No. of Complaints			
	Outstanding at the beginning	Received during 2003-04 to 2006-07	Disposed of during 2003-04 to 2006-07	Outstanding as at 31 March 2007
NIA	8	659	380	287
NIC	8	237	93	152
UIIC	17	1093	474	636
OIC	4	627	588	43
<b>Total</b>	<b>37</b>	<b>2616</b>	<b>1535</b>	<b>1118</b>

Of 2653 complaints, only 1535 were attended to, during the three years ending 2006-07. One thousand one hundred eighteen complaints, which constituted 42.14 *per cent* of the total complaints during the period, were pending disposal as on 31 March 2007. Steps require to be taken by the managements of NIA, NIC and UIIC, where the number of complaints pending clearance was comparatively higher.

The details of grievances settled through Ombudsman, Consumer Forum, Arbitration and Civil Courts during the last three years ending 2006-07 in respect of selected regional offices of the four companies are as in Table No.4.10.

**Table 4.10: No. of cases settled through alternate fora**

Company	No. of cases settled through		
	Ombudsmen	Consumer Forum	Arbitration/Courts
NIA	8	231	2
NIC	11	188	0
UIIC	54	204	0
OIC	40	297	1
<b>Total</b>	<b>113</b>	<b>920</b>	<b>3</b>

UIIC stated that, over the years, the grievance disposal had steadily improved and that during the period under reference the disposal rate was 88.5 *per cent*, with reference to the overall number of grievances received by the company. OIC stated that it had started to implement a revised mechanism to make grievance redressal more effective and time bound. NIC has identified a number of issues relating to customer relations management and settlement of grievances, which are expected to be addressed through their Business Process Reengineering exercise.

#### 4.13 Grievances reported to Ombudsmen

The Insurance Council has appointed 12 Ombudsmen across the country. All insurers are required to honour the awards passed by an Ombudsman, within a period of three

months. The Ombudsman can decide on claims up to a value of Rs.20 lakh. All customers, including those whose cases do not fall under the purview of the Ombudsman, can approach the District/State and National Consumer Dispute Redressal Forums. Besides all these, insurance policies and claims fall within the jurisdiction of Civil Courts of appropriate jurisdiction.

The details of the grievances settled through the mechanism of the Ombudsman for the four year period ending 2005-06 are in Table 4.11:

**Table 4.11: Details of cases settled through Ombudsman**

Year	Total no. of complaints (OB + Received during the year)	Total complaints disposed	Duration wise outstanding complaints			
			< 1 month	1 to 3 months	> 3 months	Total
2002-03	3898	2497	253	461	687	<b>1401</b>
2003-04	5707	3528	661	1175	343	<b>2179</b>
2004-05	6714	5173	606	923	12	<b>1541</b>
2005-06	5635	4290	458	722	165	<b>1345</b>

(Annual Reports of IRDA)

#### 4.14 Claims repudiated by companies

There were a number of instances where claims repudiated by the companies were subsequently settled in favour of the insured by Ombudsman/Consumer Forum. This resulted in additional payment of interest/penalty amounting to Rs.49.84 lakh, as detailed in Table 4.12

**Table 4.12: Particulars of additional payment of penalty/interest**

(Rs. in lakh)			
Company	Region	No. of cases	Additional interest / penalty
NIA	Jaipur	152	23.15
	Pune	4	0.38
	Ahmedabad	1	2.13
	Mumbai RO-IV	2	2.40
NIC	Dehradun	80	11.75
UIIC	Lucknow	16	1.73
	Mumbai RO-I	1	7.00
OIC	Ahmedabad	1	1.30
<b>Total</b>		<b>257</b>	<b>49.84</b>

These cases illustrate the need for the companies to exercise due care before repudiating claims, since cases could be finally decided against the companies if adequate prior examination was not undertaken.



NIA and OIC stated that operating offices had been instructed to exercise more vigilance, in future, before repudiation of claims.

***Recommendation No.3***

***The companies should:***

- (i) address the issues relating to the appointment of surveyors and timely submission of their reports so as to ensure adherence to the requirement of IRDA (Protection of Policy Holders' Interest) Regulations, 2002.***
- (ii) introduce a formal, periodic and well-documented process, on a company-wide basis, to evaluate the work of surveyors.***
- (iii) take appropriate measures to enable expeditious settlement of claims, specifically targeting the claims that are outstanding for more than six months.***
- (iv) issue suitable instructions to their operating offices on the need to ensure adequate examination before the repudiation of claims. This would obviate the possibility of the claims being subsequently allowed by Ombudsmen or Consumer Fora and will also assist in mitigating grievances/complaints.***

## Chapter 5

### Agency Commission and Brokerage

#### 5.1 Introduction

Agency commission and brokerage represent the cost of procuring business for the insurance companies. The Insurance Act, 1938, regulations and circulars issued by the IRDA provide the legal and regulatory framework that governs the functioning of and remuneration payable to intermediaries like agents and brokers.

Agents represent the insurance companies while brokers are appointed by the insured i.e., client of the insurance company. Unlike insurance agents, brokers have only recently entered the insurance market as intermediaries. Brokers deal in either general insurance or reinsurance. There are also composite brokers, who deal in both general insurance and reinsurance.

Section 40 of the Insurance Act, 1938 prohibits the payment of any remuneration or reward by way of commission for soliciting or procuring business to any person except to an insurance agent, intermediary or insurance intermediary. Sec. 42 stipulates that the IRDA shall issue licenses to persons to act as insurance agents, in accordance with the Regulations framed by it.

As regards the rates of commission payable to insurance agents, Sec. 40 A (3) of the Insurance Act 1938 states that a maximum of 15 *per cent* of the premium payable can be paid out on a policy relating to fire, marine and miscellaneous insurance.

Remuneration of brokers is governed by Sec. 42 E of the Insurance Act, 1938 which prescribes a ceiling of 30 *per cent* of the premium, subject to which rates are prescribed by the IRDA.

Sec. 40 C of the Act also stipulates an overall limitation on expenses of management in the general insurance business. Payments on account of commission fall within the ambit of expenses of management and are required to be limited to such limits as may be prescribed by the IRDA from time to time.

#### 5.2 Key indicators

The total premium earned on Indian business by the four PSUs in all the segments viz., Fire, Marine and Miscellaneous (including Motor) and the total commission outgo on Indian business for the period 2002-03 to 2006-07 are detailed in Table 5.1.



**Table No. 5.1: Total Direct Premium earned vis a vis Total Commission Paid**

(Rs. in crore)

Year	NIA			NIC			UIIC			OIC		
	Prem.	Comm.	%	Prem.	Comm.	%	Prem.	Comm.	%	Prem.	Comm.	%
2002-03	4813	418	9	2870	199	7	2970	167	6	2868	151	5
2003-04	4921	453	9	3400	245	7	3063	202	7	2900	192	7
2004-05	5103	529	10	3810	273	7	2944	203	7	3090	228	7
2005-06	5675	611	11	3536	296	8	3155	244	8	3610	280	8
2006-07	5937	607	10	3827	315	8	3499	266	8	4021	302	7

The total commission outgo on Indian miscellaneous business (including motor) ranged from 74 to 91 *per cent* of the total commission on total Indian business for the period from 2002-2003 to 2006-2007 (Table 5.2)

**Table No. 5.2: Total Commission vis a vis Miscellaneous Commission**

(Rs. in crore)

Year	NIA			NIC			UIIC			OIC		
	Total	Misc	%	Total	Misc	%	Total	Misc	%	Total	Misc	%
2002-03	<b>418</b>	315	75	<b>199</b>	181	91	<b>167</b>	137	82	<b>151</b>	125	83
2003-04	<b>453</b>	337	74	<b>245</b>	213	87	<b>202</b>	162	80	<b>192</b>	158	82
2004-05	<b>529</b>	402	76	<b>273</b>	235	86	<b>203</b>	163	80	<b>228</b>	186	82
2005-06	<b>611</b>	469	77	<b>296</b>	250	84	<b>244</b>	192	79	<b>280</b>	227	81
2006-07	<b>607</b>	460	76	<b>315</b>	271	86	<b>266</b>	207	78	<b>302</b>	244	81

While the motor segment is a loss making segment, it will be seen that commission payout on total Indian motor business, accounted for 34 to 69 *per cent* of total commission outgo on total Indian miscellaneous business during the period 2002-2003 to 2006-2007 (Table 5.3).

**Table No. 5.3: Motor Commission vis a vis Misc. Commission paid****(Rs. in crore)**

Year	NIA			NIC			UIIC			OIC		
	Misc	Motor	%	Misc	Motor	%	Misc	Motor	%	Misc	Motor	%
2002-03	315	177	56	181	121	67	137	70	51	125	67	54
2003-04	337	187	55	213	129	61	162	79	49	158	93	59
2004-05	402	212	53	235	162	69	163	63	39	186	99	53
2005-06	469	247	53	250	148	59	192	70	36	227	116	51
2006-07	460	206	45	271	168	62	207	70	34	244	124	51

(Note: The expenditure incurred on tie-up with the Automobile dealers/Financial institutions is not included.)

### 5.3 Audit objectives

The performance audit is aimed to assess that:

- only agents, holding valid license were allowed to procure business and receive commission;
- transfers of business from 'Direct code' to 'Agents code' were justified;
- compliance with relevant provisions of the Insurance Act, 1938 and IRDA Regulations/circulars relating to rates of commission/brokerage was satisfactory;
- payments to cover technical and other support expenses of agents/brokers were appropriate and did not exceed the rates of remuneration prescribed by the IRDA; and
- adequate evidence existed of brokers having specific mandate from the insured and that they rendered the services prescribed by the IRDA.

### 5.4 Payment to agents without valid license

It was noticed, during review of records in the operating offices, that commission was paid to 946 agents, whose license had expired. Such payments were made during 2004-05 to 2006-07 and are detailed in Table 5.4.



**Table 5.4: Details of commission paid to agents having expired licenses**

(Rs. in lakh)			
Company	No. of Agents	No. of Policies	Amount
NIA	268	2456	16.25
NIC	368	14504	56.84
UIIC	214	7151	186.99
OIC	96	5200	8.61
<b>Total</b>	<b>946</b>	<b>29311</b>	<b>268.69</b>

A similar issue had also been reported in Paragraph 3.5.2.2 of Report No. 10 of 2007 of the Comptroller and Auditor General of India – IT controls in GENISYS.

#### 5.5 Transfers from 'Direct Code' to 'Agent Code'

It was noticed that there were cases of transfer of business from 'Direct code' to 'Agents code' subsequent to issue of policies. Company-wise details are given in Table 5.5.

**Table 5.5: Particulars of transfer of business from 'direct code' to 'agent code'**

(Rs. in lakh)						
Company	2004-05		2005-06		2006-07	
	No. of cases	Amount	No. of cases	Amount	No. of cases	Amount
NIA	165	1.38	94	1.37	87	0.52
NIC	194	1.50	786	5.09	298	12.86
UIIC	402	10.35	204	2.06	212	3.30
OIC	1	4.38	4	6.02	9	5.52
<b>Total</b>	<b>762</b>	<b>17.61</b>	<b>1088</b>	<b>14.54</b>	<b>606</b>	<b>22.20</b>

(No. cases were reported in respect of units in Eastern region)

These transfers were effected without appropriate authorisations.

NIA stated that transfers from direct code to agent code were generally not allowed unless a client insisted that the business be routed through a particular agent. UIIC stated that operating offices had already been instructed not to effect such transfers without appropriate authorisation.

### 5.6 *Motor Business –support payments for facilities offered by dealers*

Some of the insurance companies have entered into agreements with various automobile manufacturers and dealers. Such agreements are intended to form part of their customer service strategies. Consequently, dealers are performing various services for the companies including providing space in their premises, issuing cover notes and policies and processing claims of customers who have insured their vehicles through these dealers.

Some of these agreements were reviewed in the course of the performance audit. Apart from the fact that such agreements and the services contemplated to be provided under them could raise questions of potential conflict of interest; certain other issues are also involved.

Firstly, a review of the text/wording of some agreements revealed that the role of the other party viz. manufacturer/dealer is, in some cases, not clearly defined. This raises doubts as to whether the agreements, as worded, are in compliance with the provisions of the Insurance Act, 1938 insofar as it deals with the role and appointment of insurance agents including corporate agents.

Secondly, 'remuneration' to agents, in terms of the statute, has a specific connotation and the IRDA has prohibited any payments, in addition to remuneration, to agents. However, it was noticed that certain payments made by the companies to dealers/manufacturers did not appear to be in compliance with either the Insurance Act or the directions of the IRDA. The categorisation of payments as 'technical and support expenses', 'reimbursement of infrastructure expenses' etc. lacked clarity, when viewed with respect to statutory provisions or regulatory directions.

In order to illustrate these issues, specific cases are discussed below.

### 5.7 *Payment to Maruti Udyog Limited*

An agreement was entered into between Maruti Udyog Limited (MUL) and NIC on 2 September, 2004. The agreement states that:

- MUL and its dealers had made investments in developing Information Technology (IT) infrastructure, connectivity etc. for carrying on business;
- MUL dealers would permit NIC to use the above infrastructure and consumables including providing after sales service;
- NIC agreed to reimburse to MUL, the amount paid by it to its dealers towards the use of their infrastructure not exceeding five *per cent* of net premium duly realised by NIC;
- MUL would forward monthly invoices, duly certified by its auditors, seeking reimbursement of actual amount paid by MUL to its dealers for use of their infrastructure; and
- Dealers would not in any way represent themselves as agents of NIC.



Separately, NIC had also entered into an agreement in May 2002 with Maruti Insurance Brokers Limited (MIBL). The agreement, which was valid for three years, stated that:

- NIC agreed to appoint MIBL to act as its Corporate Agent, which MIBL agreed to on the terms and conditions and prevalent regulations in force from time to time.
- MIBL would establish/maintain insurance desks, solicit, and procure insurance business and distribute policies at mutually agreed outlets.
- NIC would provide trained employees/representatives and provide stationery at its own cost to MIBL.
- NIC authorised MIBL to sign cover notes, policies, endorsements, warranties and conditions and issue them directly to customers.
- NIC, at its cost, would provide interface with MIBL's central database at Divisional Office X, New Delhi.
- NIC would pay MIBL commission at rates of IRDA.
- MIBL to supply periodical reports, returns and accounts.

Since NIC had appointed MIBL as its corporate agent in May 2002, it is not clear as to why it entered into the subsequent agreement in September 2004 with the manufacturer viz. MUL. When MIBL was required to provide all the services at mutually agreed outlets as mentioned in its agreement with NIC, it would appear that no reimbursement was due to MUL (and its dealers) for providing infrastructure facilities. It may also be mentioned that commission was separately being paid by NIC to MIBL for the business being generated by it.

A scrutiny of the records in the operating offices revealed that MUL was paid Rs.21.73 crore, Rs.38.01 crore and Rs.59.81 crore in 2004-2005, 2005-06 and 2006-07, respectively as additional support expenses. NIC was not ascertaining the actual expenditure on infrastructure incurred by the dealers of MUL, though the agreement of September 2004 provided that MUL would forward monthly certified invoices to NIC; giving details of the amounts reimbursed by it to its dealers for the use of their infrastructure. Since payments being released by NIC to MUL are linked to the business being generated by the dealers; these tantamount to "remuneration for soliciting business", in terms of the provisions of the Insurance Act, 1938. Such remuneration cannot be paid to dealers since they are not agents.

It was also noticed that NIC was not only reimbursing 'expenses support' to MUL; it subsequently (August, 2005) decided to extend additional expenses support for penetration into new business and for increasing business volume. These 'additional expenses support' were payable at different percentages of the premium obtained from new and additional business.

NIC stated that providing insurance services at the dealers' outlets was part of the "single window" concept and resulted in qualitatively enhanced customer service. This had resulted in reducing the company's administrative overheads. The infrastructure of the dealers was being utilised by NIC, the cost of which was being reimbursed. NIC further

stated that infrastructure expenses were no longer being reimbursed to MUL with effect from 1 January 2007.

However, NIC's reply does not address the specific question as to why it had entered into the agreement in September 2004 with MUL, when it had already contracted with MIBL in May 2002 to provide similar services. Further, while MUL was not being reimbursed infrastructure expenses with effect from 1 January 2007, NIC has not offered any clarification on the additional support expenses paid by it to MUL up to 1 January 2007.

### **5.8 Payments to Hero Honda**

An Agreement was entered into on 2 January 2004, between NIC and Hero Honda Corporate Services Limited (HCSL). HCSL was licensed to carry on the business of soliciting and procuring business on behalf of NIC as its corporate agent. The Agreement, *inter alia* provided that:

- HCSL would solicit and sell insurance products at its outlets.
- HCSL would establish and maintain insurance desks at its Delhi office or any other place to be intimated by NIC.
- NIC would develop an interface with HCSL's central data base, at NIC's cost, and provide stationery.
- HCSL was obliged to compile, consolidate and verify the correctness of the proposal forms, cover notes, policies to be generated and documents relating to payment and receipt of premium.
- NIC would authorise HCSL/its employees, authorised representatives, business associates to sign and issue policy documents, endorsements except refunds.
- NIC would arrange collection of documents, remittances from HCSL and would issue policy notes online at HCSL specified outlets.
- Vehicle repairs would be carried out HCSL specified workshops and NIC would make settlements to such workshops. Total loss claims would be settled directly with customers by NIC.
- NIC would pay HCSL commission/remuneration at maximum commission of 15 *per cent* on premium (OD and TP) generated for new and old policies.
- Workshops would charge rates, including labour, as recommended by the manufacturer.
- HCSL would provide claims data to the insurer.

It was noticed that, in addition to the 15 *per cent* commission on premium generated on new and old policies that was paid to HCSL, NIC also "reimbursed" infrastructure costs amounting to Rs.0.09 crore, Rs.1.74 crore and Rs.5.90 crore to the Hero Honda dealers during 2004-2005, 2005-2006 and 2006-2007, respectively. There was no provision in the agreement with HCSL for such reimbursement to the dealers. HCSL was the agent and was to perform specific functions as detailed in the Agreement. For such services, commission was paid accordingly by NIC. It is, therefore, not clear as to why additional payments were being made by NIC to dealers of Hero Honda. Secondly, there was no



record of the actual expenses being incurred by the dealers, for which reimbursement was being made. More importantly, since payment of the infrastructure costs is directly linked to the volume of business generated by the dealers, it would amount to "remuneration" for soliciting business, which can only be paid to agents, in terms of Sec. 40 of the Insurance Act, 1938.

While NIC did not offer specific responses to these observations, it stated that its clarification offered in respect of its agreement with MUL be referred to. However, as pointed out, payment of infrastructure cost was being made to the dealers of Hero Honda though there was no such provision in the agreement with HCSL. Moreover, since dealers were being paid infrastructure costs in proportion to the volume of business being generated by them, such payments were in violation of Section 40 of the Insurance Act.

#### **5.9 Payments to Advaith Motors**

Regional Office, NIC, Bengaluru entered into an Agreement on 1 March 2005 for "reimbursement of expenditure" with Advaith Motors Limited and its three group companies viz. Advaith Marketing Private Limited, Cauvery Motors Private Limited, and Garuda Autocraft Private Limited. The agreement, provided that:

- (a) Advaith group would provide services like motor insurance to its customers through their insurance agents (i) Prameela Devi (ii) M V Koteswara Rao and (iii) other agents of Advaith Group.
- (b) The Advaith group had made investments in IT and other infrastructure and would permit NIC to use the infrastructure, consumables and manpower for issuing motor and general insurance products and also after sales services.
- (c) Advaith group would raise demand for part reimbursement of such expenditure on infrastructure. NIC agreed to reimburse such expenditure. Advaith group would provide monthly invoices certified by chartered accountants.
- (d) Reimbursement to Advaith group was not to exceed five *per cent* of net premium realised by NIC through the above insurance agents.

Scrutiny of records revealed that during the period 2004-05 to 2006-07 Rs. 0.47 crore was paid (Rs.0.03 crore, Rs.0.16 crore, and Rs.0.28 crore during 2004-2005, 2005-2006 and 2006-2007, respectively) towards reimbursement of expenses to Advaith Group.

Such payments are in violation of the Insurance Act, 1938 as the business was procured through a person not representing the insurance company. Hence no commission is payable to them.

NIC stated that infrastructure costs were being reimbursed in the same manner as in the case of MUL.

#### **5.10 Prerana Motors, Bengaluru—Payment of additional remuneration**

A Memorandum of Understanding dated 30 January 2004 (effective from 1 February 2004 for three years) was entered into between OIC Divisional Office 8, Bengaluru and

Prerana Motors (dealer). The dealer was to place all its insurance business for new vehicles sold with OIC. The MOU provided that:

- Proposal form and cover note would be supplied by OIC.
- Dealer would issue cover notes.
- OIC would issue policies.
- Labour charges/cost of parts in claim settlement would be based on schedules agreed/attached to MOU.
- Agency Commission at applicable percentage would be transferred to Clover Enterprises, Corporate agent.
- Claim payments would be made directly to Prerana Motors.

Subsequently, OIC in a letter dated 16 December 2004 approved five *per cent* 'additional remuneration' in addition to agency commission. This was subsequently (February, 2006) termed by OIC as "additional payment on infrastructure expenses".

On scrutiny of records during the period 2004-05 to 2007-08 (up to July 2007) revealed that OIC paid infrastructure expenses of Rs.4.57 lakh, Rs.40.48 lakh, and Rs.36.85 lakh to Prerana Motors during 2004-2005, 2005-2006 and 2006-07, respectively. Commission, in terms of the MOU, was being released to M/s Clover Enterprises, the Corporate agent identified in the MOU. There can be no "additional remuneration" payable, as mentioned in OIC letter of 16 December, 2004, since remuneration can only be paid to agents, in terms of the Insurance Act, 1938. Prerana Motors was not an insurance agent.

#### **5.11 Agreement with Magma Leasing**

An agreement dated 27 July 2004 and valid for three years was entered into between NIC and Basukinath Commerce Private Limited (BCPL), a sister concern of Magma Leasing Limited (MLL), Kolkata. The agreement provided that:

- BCPL would act as corporate agent and NIC would provide proposal forms.
- BCPL would identify its offices for the purpose of setting counters for issuing policies.
- BCPL would submit filled in proposal forms and arrange for printing of required documents and NIC would reimburse the costs.
- NIC could set up extension counters at BCPL to centralise and for issuance of documents and settlement of claims.
- NIC would pay commission at rates fixed by IRDA.

A scrutiny of records revealed that NIC paid 'expense support' of Rs.0.23 crore, 0.28 crore and Rs.3.11 crore during the period 2004-2005, 2005-2006 and 2006-2007, respectively to BPCL.

BCPL was appointed as a corporate agent by NIC. The agreement also detailed the specific services that were to be rendered by BCPL. There was no provision in the



agreement to reimburse expenses on infrastructure as support expenses to MLL in addition to commission. Such payment was, therefore, incorrect. Moreover, it is not clear as to why additional payments were required, since such services are required to be provided by BCPL to NIC, in terms of the agreement.

NIC stated that BCPL was a corporate agent. Additional services were being provided by MLL for which it was being reimbursed infrastructure costs.

#### ***5.12 DSC Motors Private Limited***

NIA permitted operating offices to reimburse certain expenses for promotion of sale of Motor Package policies through tie-up. Chennai Divisional Office V paid Rs.32.02 lakh to M/s. DSC Motors Private Limited, during the period 2004-05 to 2007-08 (upto July 2007). However no formal tie-up arrangement with DSC Motors Private Limited was executed by the Divisional Office.

#### ***5.13 Payment of Referral Fee to Dena Bank***

OIC entered into a Memorandum of Agreement (MOA) with Dena Bank in July 2004. The MOA provided that the Bank would refer its customers requiring insurance to OIC. The MOA also provided for payment of Referral Charges, not exceeding the rate of commission allowed by IRDA on the premium collected by OIC from such customers. A referral fee of Rs.28 lakh, Rs.91 lakh and Rs.1.63 crore in the years 2004-05, 2005-06 and 2006-07, respectively was paid to Dena Bank.

In terms of IRDA Circular No. IRDA/Cir/003/2003 dated 14 February, 2003, referral fee is payable only for access to banks' Customers data bases. However, apart from directing customers in need of insurance to OIC, Dena Bank had not provided access to its customer data base. Therefore, in terms of the IRDA circular cited above, no referral fee was payable to Dena Bank.

#### ***5.14 Shriram Transport Finance Company Limited***

Shriram Transport Finance Company Limited entered into three Memoranda of Understanding (MoU) with OIC Divisional Office 3, Chennai, on 28 January 2005, 20 April 2006 and on 18 December 2006, to place the insurance business of vehicles financed by it and all its group companies with any office of OIC. The MOUs specifically stated that "OIC solicited to accept motor insurance business from Shriram" and Shriram accepted to place the business with OIC. Cover notes would be provided by OIC and were to be signed and issued by the authorised representatives of Shriram, on behalf of OIC.

The names of three brokers were mentioned in the MOUs and brokerage payments were released by OIC to them, as depicted in Table 5.6:

**Table 5.6: Particulars of the brokerage paid by OIC****(Rs. in lakh)**

Name of the Broker	Amount Paid			
	2004-05	2005-06	2006-07	Total
Richard Strauss Insurance Broking Private Limited	-	51.21	218.37	<b>269.58</b>
Bharat Reinsurance Service Private Limited	-	15.62	40.81	<b>56.43</b>
Armour Consultants Direct Insurance Brokers	58.70	218.55	75.24	<b>352.49</b>
<b>Total</b>	<b>58.70</b>	<b>285.38</b>	<b>334.42</b>	<b>678.50</b>

The term 'soliciting business' has a specific connotation in the Insurance Act, 1938. When the MOUs provided that "OIC solicited to accept motor insurance business from Shriram"; it would mean, in terms of the Act, that business was directly obtained by OIC and hence, no commission/brokerage was payable to intermediaries. It is evident that the text of the MOU was incorrect, insofar as the reference to OIC "soliciting business" is concerned.

**5.15** In the cases discussed in the preceding paragraphs, payments were made to intermediaries like automobile dealers. These payments were made using different terms like "support expenses", "infrastructure costs", "technical and support expenses", etc. Since such payments are linked to volume of business procured, they would amount to "remuneration" for soliciting business. As remuneration is payable only to agents, such payments would be in violation of Section 40 of the Insurance Act, 1938. The companies (NIC and NIA) stated that such measures were aimed at improving customer service in a competitive environment and that the role played by various intermediaries needed to be recognised. While appreciating the context in which the companies function, the fact remains that such payments do not conform to statutory provisions. It may also be mentioned that the General Insurance Council, in December 2007, decided that all commission/brokerage payments to intermediaries will conform to limits stipulated by IRDA Regulations. Any other payout to any intermediary or others, by whatever nomenclature, would be discontinued with effect from 1 January 2008. Consequently, NIA, UIIC and OIC have issued circulars to their operating offices to discontinue such payments effective 1 January 2008.

**5.16 Payment of brokerage without evidence of brokers rendering required services**

IRDA (Brokers) Regulation 2002, provided that functions of a direct broker include:

- Familiarising with clients business and underwriting information so that the same can be explained to the insurer/client.
- Submitting quotations received from insurers for consideration of clients.
- Providing requisite underwriting information as required by insurer for assessing the risk to decide pricing terms/conditions for cover.



- Assisting in negotiation of claims.

In the following instances (Table 5.7), it was noticed that there was no evidence to suggest that appropriate documentation was maintained to support broker's involvement in securing the following businesses.

**Table 5.7: Particulars of brokers lacking documentation of involvement**

(Rs. in lakh)			
Company	Insured	Broker	Brokerage paid
NIA	HDFC Bank	Heritage Insurance Solutions	55.08
NIA	Intel Group	Marsh	36.89
NIC	Ceat Limited	Savior Insurance Broking Limited	13.40
NIC	Fiat India	Savior Insurance Broking Limited	1.72
NIC	Indofil Chemicals	Savior Insurance Broking Limited	1.54
NIC	Gammon Heinz	Miclows Insurance Services (P) Limited	1.39
NIC	Madhusudhan Industries	AR Insurance Brokers Limited	2.16
NIC	Cera Sanitaryware	AR Insurance Brokers Limited	24.34
NIC	17 Numbers	SRG Insurance Limited	1.76
OIC	Cadilla	Mangal Keshav Insurance Brokers	24.33
OIC	Morarjee Group	Hindustan Insurance	1.61
<b>Total</b>			<b>164.22</b>

**Recommendation No.4**

**The Companies should:**

- (i) *ensure that only agents with valid licenses are permitted to procure business.*
- (ii) *ensure that transfers of business, originally booked as direct to Agent Code should be supported by proper authorisations.*
- (iii) *review the agreements with automobile manufacturers/dealers finance companies, etc. in order to ensure clarity and compliance with the provisions of the Insurance Act, 1938 and regulatory directions.*

## Chapter 6

### Conclusions

The public sector general insurance companies face numerous challenges as the industry continues to grow in an increasingly competitive environment. Tariff deregulation will also enhance such competition.

The preceding chapters have focused on specific areas where the companies could improve their systems and internal control mechanisms. In the case of Motor Third Party business, steps need to be taken to build databases which will enable improved underwriting, claims management and settlement while also mitigating risks associated with fraudulent claims. The industry should actively work with the State Governments so as to bring uninsured vehicles under insurance cover. While the formation of the motor pool may assist in sharing the liabilities arising out of the motor third party business, the companies would still need to address the issues raised in this Report related to lack of comprehensive data, inadequate underwriting and claims management systems. The companies have already initiated measures to install Web-enabled information technology systems (CORE Insurance Solutions) which are expected to resolve issues related to database, claims management, etc.

The objective of maximizing retention within the country, in relation to reinsurance, has largely been achieved. However, companies should ensure that regulatory stipulations, in relation to documenting policies and procedures for implementation of reinsurance strategies; instituting an objective and transparent system of empanelment of brokers and ratings of reinsurers, are invariably followed. Internal controls, to monitor recoverables from reinsurers and information flow from operating offices, should be strengthened.

The companies need to address issues related to outstanding claims, given the competitive environment in which they function. Claims outstanding for more than six months require close attention. They should also take measures to institute formal and periodic evaluation of the work of surveyors.



The companies have entered into various agreements with automobile manufacturers and dealers as part of their customer service strategies. Such arrangements are also prevalent in the private sector. As mentioned in this Report, some of these agreements lack clarity and are not in compliance with the provisions of the Insurance Act, 1938 and the regulatory directions. Steps need to be taken to review such arrangements, keeping in view the directions of the General Insurance Council in December 2007.



**(BHARTI PRASAD)**

**Deputy Comptroller and Auditor General  
cum Chairperson, Audit Board**

**New Delhi**

**Dated: 30th April, 2008**

**Countersigned**



**(VINOD RAI)**

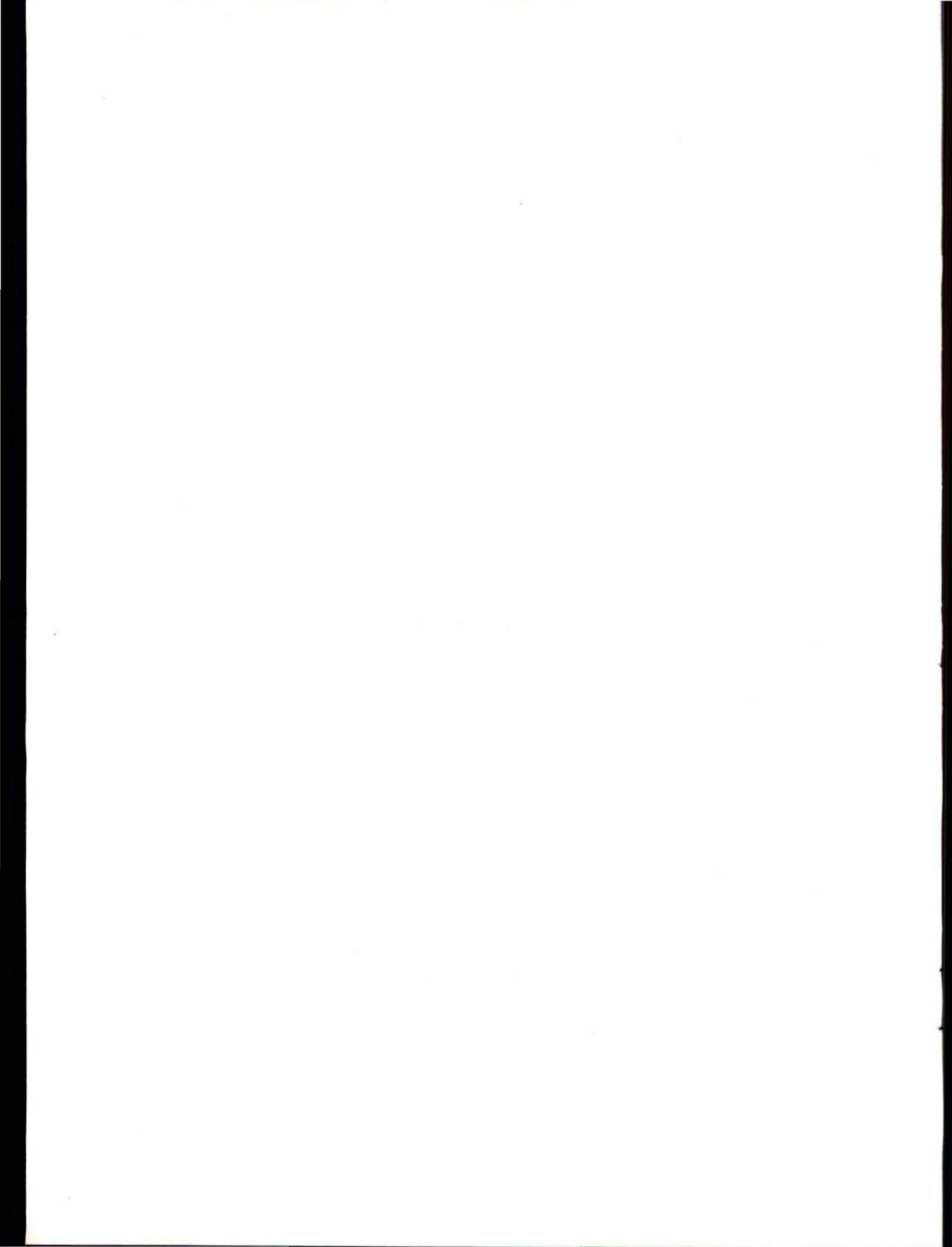
**Comptroller and Auditor General of India**

**New Delhi**

**Dated: 30th April, 2008**

## **Annexures**





**Annexure-I**  
*(Referred to in Para 1.2)*

**List of Regulations issued by the IRDA**

1. IRDA (Actuarial Report and Abstract) Regulations, 2000
2. IRDA (Appointed Actuary) Regulations, 2000
3. IRDA (Assets, Liabilities and Solvency Margin of Insurance) Regulations, 2000
4. IRDA (General Insurance – Reinsurance) Regulations, 2000
5. IRDA (Insurance Advertisements and Disclosure) Regulations, 2000
6. IRDA (Licensing of Insurance Agents) Regulations, 2000
7. IRDA(Registration of Indian Insurance Companies) Regulations, 2000
8. IRDA-Surveyors and Loss Assessors (Licensing, Professional Requirements and Code of Conduct) Regulations, 2000
9. IRDA (Investment)Regulations, 2001
10. IRDA (Re-insurance Advisory Committee )Regulations, 2001
11. IRDA (Third Party Administrators – Health Services )Regulations, 2001
12. IRDA(Distribution of Surplus) Regulations, 2002
13. IRDA( Insurance Brokers ) Regulations, 2002
14. IRDA(Licensing of Corporate Agents ) Regulations, 2002
15. IRDA( Manner of Receipt of Premium ) Regulations, 2002
16. IRDA( Obligations of Insurers to Rural Social Sectors ) Regulations, 2002
17. IRDA(Preparation of financial statements and auditor's report of insurance Companies) Regulations, 2002
18. IRDA( Protection of Policyholders' Interests) Regulations, 2002
19. IRDA (Qualification of Actuary) Regulations, 2004
20. IRDA (Micro-Insurance) Regulations, 2005



**Annexure-II**  
(Referred to in Para 1.7)

**Units visited: New India Assurance Company Limited**

Zone	Regional Office	Divisional Office	Branch Office
<b>North Zone</b>			
Jaipur	Jaipur	Kota Jodhpur DO - II Jaipur DO - II Jaipur DO - I Jaipur DO - III	Kota Bikaner Nehru place, Jaipur Dharma Heights, Jaipur Jaipur Tower, M.I. Road Branch
Kanpur	Kanpur	Haldwani Kanpur DO IV Kanpur DO II Allahabad DO I Mirzapur DO	Rudrapur Unnao Mall Road, Kanpur Pratapgarh Robertganj
<b>West Zone</b>			
Mumbai IV	Mumbai IV	Tardeo 130500 Bandra 130200 Dadar 130600 N I Center 130800 Tardeo 130300	
Pune	Pune	Ratnagiri 150200 Ahmednagar DO 151300 Sangli DO II- 151100 Kolhapur - 150400 Chinchwad - 151000	Kudal City Br Vita City Br 1 Baramati
<b>East Zone</b>			
Guwahati	Guwahati	Bongaigaon Guwahati DO - I Guwahati DO - II Dibrugarh Silchar	Ulubari Beltola Jorhat Aizawal
Patna	Patna	Ranchi DO - I Jamshedpur Dhanbad Gaya Patna DO - II	Ranchi City BO Sakchi BO Dhanbad BO Hazaribagh BO Purnea BO
<b>South Zone</b>			
Bengaluru	Bengaluru	Bellary CDU V CDU XI Belgaum Mysore DO 2	Hospet Indra Nagar R.T. Nagar City Branch 1 Mercara
Chennai	Chennai	Cuddalore Citibank DO Pondicherry Armenian St. Royapettah	Nellikuppam (DAB)  Pondicherry Br 1 Triuvotriyur Royapettah (DAB)

## Units visited: National Insurance Company Limited

Zone	Regional Office	Divisional Office	Branch Office
<b>North Zone</b>			
New Delhi I	New Delhi I	DO VI (Nehru Place) DO XXII (Karol Bagh) DO III (Asaf Ali Road) DO XV (K.G. Marg) DO XVI (New Friends Col.)	Nehru Place, New Delhi Bhandari House, Asaf Ali Rd. Asaf Ali Road, New Delhi  DLF, Gurgaon
Dehradun	Dehradun	Aligarh Moradabad Haridwar M. Nagar Dehradun	Bulandshahar Gajraula Rishikesh Saharanpur Dehradun
<b>West Zone</b>			
Mumbai II	Mumbai II	Mumbai DO II Mumbai DO IX Mumbai DO X Mumbai DO XVI Mumbai DO XIX	DAB 2 DAB 9 DAB 10
Ahmedabad	Ahmedabad	Gandhinagar Ahmedabad DO I Ahmedabad DO III Ahmedabad DO IV Ahmedabad VI	Nidasa Branch Balva Branch Ahmedabad Direct Branch 1  BO III
<b>East Zone</b>			
Patna	Patna	Hazaribag Gaya Bhagalpur Patna DO – I Patna DO – II	Koderma Sasaram Dumka Biharshariff Patna BO 2
Guwahati	Guwahati	Bongaigaon Imphal Maligaon Guwahati DO – I Tinsukia	Dhubri  Mangaodol Guwahati Dullajan
<b>South Zone</b>			
Hyderabad	Hyderabad	Vizag 2 Hyderabad IV Kukatpally Eluru Secunderabad 2	Vizag DAB Osmangunj Kukatpally DAB Bhimavaram Secunderabad Br I
Coimbatore	Coimbatore	Madurai Namakkal Tanjore Salem I Coimbatore 2	Madurai BO 1  Kumbakonam Salem BO 1 Coimbatore City BO 1



**Units visited: United India Insurance Company Limited**

<b>Zone</b>	<b>Regional Office</b>	<b>Divisional Office</b>	<b>Branch Office</b>
<b><u>North Zone</u></b>			
New Delhi II	New Delhi II	DO 16 (Kirti Nagar) DO 19 (Rohini) DO 10 (Faridabad) DO 15 (Laxminagar) DO 28 (Faridabad)	Naraina Janakpuri DLF, Gurgaon Shahdara
Lucknow	Lucknow	Lucknow DO 4 Allahabad Varnasi DO 2 Lucknow DO 1 Varnasi DO 1	BO VI, Capital Cinema Bldg, Lucknow Naini, Allahabad Mirzapur Gomti Nagar Varnasi
<b><u>West Zone</u></b>			
Mumbai I	Mumbai RO I	Mumbai DO 7 Mumbai DO 9 Mumbai DO 10 Mumbai DO 17 Mumbai DO 18	With DAB Mumbai City
Mumbai II	Mumbai RO II	Mumbai DO 2 DO – CBD (Nerul) Kalyan DO Thane DO Vashi DO	Panvel BO Bhiwandi BO Thane BO I
<b><u>East Zone</u></b>			
Patna	Patna	Muzaffarpur Patna DO II Jamshedpur Gaya Patna DO – I	Muzaffarpur BO Danapur Branch Golmuri BO Jhumritilaiya BO Patna City BO
Kolkata	Kolkata	Kolkata DO – VII Kolkata DO – IX Burdwan DO Sambalpur DO Haldia DO	Barasat BO  Krishnagar BO Rourkela BO I Contai BO
<b><u>South Zone</u></b>			
Hyderabad	Hyderabad	Hyderabad 1 Hyderabad 6 Hyderabad 11 Chittor Adilabad	Kushaiguda Basheerbagh Koti Gandhi Road Macherial
Coimbatore	Coimbatore	Coimbatore 2 Coimbatore 3 Coimbatore 5 Namakkal Salem 1 (CBE DO 7)	Nanjappa Road Pollachi  Namakkal Ramnagar (Mettur)

## Units visited: Oriental Insurance Company Limited

Zone	Regional Office	Divisional Office	Branch Office
<b>North Zone</b>			
Ambala	Ambala	Jammu DO - 1 Jammu DO - 2 Panipat Shimla Ambala	Udhampur Jammu Panipat Shimla Ambala city
Lucknow	Lucknow	Jhansi Kanpur DO -3 Lucknow DO - 2 Kanpur DO -1 Kanpur DO -2	Mahoba BO-5 Kanpur Sitapur BO-1 Kanpur Kanpur
<b>West Zone</b>			
Mumbai I	Mumbai I	Mumbai DO 1 Mumbai DO 10 Mumbai DO 12 Mumbai DO 18 Mumbai DO 21	111101 Project Branch
Ahmedabad	Ahmedabad	Ahmedabad I Ahmedabad III Ahmedabad V Jamnagar DO Gandhinagar DO	Ahmedabad BO 1 Branch Office 3 Ahmedabad BO 8
<b>East Zone</b>			
Kolkata	Kolkata	Kolkata DO - VII Kolkata DO - II Durgapur Kolkata DO - V Howrah	Salt Lake Branch  DAB Midnapore BO
Patna	Patna	Ranchi DO - I Ranchi DO - II Purnea Gaya Patna DO - I	** ** BO, Saharsa BO, Hazaribagh **
<b>South Zone</b>			
Chennai	Chennai	Chennai III Chennai V Chennai VI Chennai IX Chennai X	Guindy Mount Road Vadapalani
Bengaluru	Bengaluru	Bengaluru VIII Bengaluru XI Hassan Mangalore Hubli	Cbo N.R. Square Adugodi Chickmagalur Br Office 1 Mangalore Hubli

\*\* cases pertaining to the BO are dealt in the DO

**Annexure-III**  
(Referred to in Para 1.8)

**Audit Methodology**

Audit work was performed at the selected operating offices of the four General Insurance Companies viz. NIA, NIC, UIIC and OIC. Two Regional Offices in each region in each company were randomly selected making a total of 8 Regional Offices per company and 32 Regional Offices in all. Under each selected Regional Office, five Divisional Offices were selected using stratified sampling techniques with Incurred Claim Ratio (ICR) as the criteria. One branch office under each selected Divisional Office was also selected on a judgemental basis. In all, 160 Divisional Offices and 128 branch offices of the four insurance companies were audited.

Audit of the reinsurance activities were conducted at GIC and at the Reinsurance Departments in the Head Offices of the four General Insurance Companies.

Cases were selected for audit scrutiny at the Divisional and Branch Offices using appropriate sampling techniques. Details of cases selected are given below.

**Details of samples**

**Motor Third Party Claims**

Company	Total No. of cases	No. of cases selected
NIA	12943	2352
NIC	11177	1965
UIIC	6759	1760
OIC	6145	1494
Total	37024	7571

**Reinsurance**

Company	Total No. of treaties	No. of treaties selected
GIC	7570	725
NIA	271	135
NIC	257	78
UIIC	462	147
OIC	574	116
Total	9134	1201

**Claim Settlement and Grievance Redressal Procedure**

Company	Total Number of cases	Number of cases selected
NIA	13819	1304
NIC	26657	1631
UIIC	18365	1256
OIC	40775	2470
Total	99616	6661



**Agency Commission and Brokerage**

- (1) In the databases of the selected operating offices of NIA, NIC, and UIIC, Structured Query Language (SQL) was used to extract all cases of deviations from the regulations/circulars of the companies.
- (2) In the operating offices of OIC a total of 109 cases of payments to Agents were selected from the registers of payments where deviations were noticed.

## Glossary of abbreviations

Sl.No.	Abbreviation	Full Form
1.	BCPL	Basukinath Commerce Private Limited
2.	BO	Branch Office
3.	CB-CID	Crime Branch-Crime Investigation Department
4.	CBI	Central Bureau of Investigation
5.	CMD	Chairman and Managing Director
6.	CSI	Customer Satisfaction Index
7.	DO	Divisional Office
8.	EGNPI	Estimated Gross Net Premium Income
9.	GDP	Gross Domestic Product
10.	GENISYS	General Insurance System
11.	GIC	General Insurance Corporation of India
12.	GIPSA	General Insurers' (Public Sector) Association
13.	GNPI	Gross Net Premium Income
14.	HCSL	Hero Honda Corporate Services Limited
15.	ICR	Incurred Claim Ratio
16.	IGT	Inter Group Treaty
17.	INLIAS	Integrated Non-Life Insurance Application Software
18.	IRDA	Insurance Regulatory and Development Authority
19.	IT	Information Technology
20.	MACT	Motor Accident Claims Tribunal
21.	MDP	Minimum Deposit Premium
22.	MIBL	Maruti Insurance Brokers Limited
23.	MLL	Magma Leasing Limited
24.	MoA	Memorandum of Agreement
25.	MoU	Memorandum of Understanding
26.	MSIF	Maharashtra State Industrial Fund
27.	MUL	Maruti Udyog Limited
28.	MV Act	Motor Vehicles Act
29.	NCB	No Claim Bonus
30.	NIA	The New India Assurance Company Limited
31.	NIC	National Insurance Company Limited
32.	OD	Own Damage
33.	OIC	The Oriental Insurance Company Limited
34.	PML	Probable Maximum Loss
35.	RI	Re Insurance
36.	RO	Regional Office
37.	RUC	Regional Underwriting Cell
38.	TAC	Tariff Advisory Committee
39.	TP	Third Party
40.	UIIC	United India Insurance Company Limited
41.	XL	Excess of Loss