

# 9

## **LOSS DUE TO IMPRUDENT UNDERWRITING AND LACK OF PROPER RISK ASSESSMENT**

**[Based on Para No. 3.2 of C&AG Report No. 13 of 2019]**

**NEW INDIA ASSURANCE COMPANY LIMITED**

**MINISTRY OF FINANCE (DEPARTMENT OF FINANCIAL SERVICES)**

**COMMITTEE ON PUBLIC UNDERTAKINGS  
(2020-21)**

**NINTH REPORT**

**SEVENTEENTH LOK SABHA**



**LOK SABHA SECRETARIAT  
NEW DELHI**

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**NEW INDIA ASSURANCE COMPANY LIMITED**

**MINISTRY OF FINANCE (DEPARTMENT OF FINANCIAL SERVICES)**

*Presented to Lok Sabha on 24.03.2021*

*Laid in Rajya Sabha on 24.03.2021*



**LOK SABHA SECRETARIAT  
NEW DELHI**

***24 March, 2021/03 Chaitra, 1942 (Saka)***

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## **COMPOSITION OF COMMITTEE ON PUBLIC UNDERTAKINGS (2020-21)**

***Smt. Meenakshi Lekhi* - *Chairperson***

### **Members**

#### **LOK SABHA**

2. Dr.Heena Vijaykumar Gavit
3. Shri Chandra Prakash Joshi
4. Smt. K. Kanimozhi
5. Shri Raghu Ramakrishna Raju Kanumuru
6. Smt. Poonamben Hematbhai Maadam
7. Shri Arjunlal Meena
8. Shri Janardan Mishra
9. Shri Kinjarapu Ram Mohan Naidu
10. Prof. Saugata Roy
11. Dr. Arvind Kumar Sharma
12. Shri Ravneet Singh
13. Shri Sushil Kumar Singh
14. Shri Uday Pratap Singh
15. Shri Ramdas Chandrabhanji Tadas

#### **RAJYA SABHA**

16. Shri Prasanna Acharya
17. Shri Birendra Prasad Baishya
18. Shri Anil Desai
19. Shri Joginipally Santosh Kumar
20. Shri Om Prakash Mathur
21. Shri Surendra Singh Nagar
22. Shri M. Shanmugam

### **Secretariat**

- |                   |   |                             |
|-------------------|---|-----------------------------|
| Shri R.C. Tiwari  | - | Joint Secretary             |
| Shri G.C. Prasad  | - | Additional Director         |
| Shri Haokip Kakai | - | Assistant Executive Officer |

## INTRODUCTION

I, the Chairperson, Committee on Public Undertakings (2020-21) having been authorized by the Committee to submit the Report on their behalf, present this Ninth Report on 'Loss due to Imprudent Underwriting and lack of proper risk assessment' [Based on para No. 3.2 of C&AG Report No. 13 of 2019] relating to New India Assurance Company Limited.

2. The Committee on Public Undertakings (2020-21) selected the above said subject for detailed examination.

3. The Committee on Public Undertakings (2020-21) were initially briefed about the subject by the representatives of the C&AG on 18<sup>th</sup> February, 2021. The Committee then took evidence of the representatives of New India Assurance Company Limited and Ministry of Finance (Department of Financial Services) on 10<sup>th</sup> March, 2021.

4. The Committee (2020-21) considered and adopted the draft Report at their sitting held on 23 March, 2021.

5. The Committee wish to express their thanks to the representatives of New India Assurance Company Limited and Ministry of Finance (Department of Financial Services) for tendering evidence before them and furnishing the requisite information to them in connection with examination of the subject.

6. The Committee would also like to place on record their appreciation for the assistance rendered to them in the matter by the Office of the Comptroller and Auditor General of India.

7. For facility of reference and convenience, the Observations and Recommendations of the Committee have been printed in bold letters in Part-II of the Report.

**New Delhi**  
**23 March, 2021**  
**02 Chaitra, 1942 (S)**

**MEENAKASHI LEKHI**  
**Chairperson**  
**Committee on Public Undertakings**



# REPORT

## PART-I

### BACKGROUND ANALYSIS

New India Assurance Company Limited (NIACL) was founded by Sir Dorabji Tata in 1919. It is a multinational General Insurance Company which operates in 28 countries with its headquarters at Mumbai. NIACL is one of the market leaders in India in Non-Life business for more than 50 years. It has been leading the market in premium, in reserves & net worth for many years. Its global crossed Rs. 29715 crores and its Indian business crossed Rs.26813 crores in March 2020. Net worth of the company including its fair value stands at Rs.34851 crores, The Company's Investments at Market value is Rs.68424 crores and its Asset base at Rs.85697 crores.

2. There are 60 odd insurance companies today in operation in the country. New India Assurance is one of the leading companies with 17 percent of the market share and its Gross Written Premium is the highest in the country as far as one single general insurer is concerned.

#### A. AUDIT PARAGRAPH

##### I. Loss due to Imprudent underwriting and lack of proper risk assessment

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

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

5. The insured took a Master Package Policy from Bommasandra Branch Office of New India Assurance Company Limited (NIACL) to cover the risk undertaken at the time of sale of mobile handsets with coverage of fire & allied perils, theft, burglary and

accidental damages. Claims were to be processed by the insured as per (i) General Guidelines for theft claims and (ii) General Guidelines for damage claims.

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

## **II. Audit Observations**

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

8. To insure a risk, the insured should have insurable interest in the subject matter of insurance. In the instant case, the master policy was issued to the insured who did not have insurable interest in the mobile handset, which was the subject matter of insurance. Rather, the customers who purchased the handset and installed the app had the insurable interest in the mobile sets. This was against the fundamental principles of insurance.

9. Though it was an evolving line of business, no actuarial valuation of the policy was done by NIACL, while fixing the premium rate, etc.

10. The policy was issued and renewed without the approval of the competent authority.

11. The Management in its reply (October 2018) stated that the policy was within the acceptance authority of the Regional Offices/Branch Office as per the circulars of Head Office (HO). Policy issuing office was authorised to decide the acceptance, loading and



deductibles based on previous three years experience in case of adverse claims. Claim ratio was closely monitored and to sustain the policy, premium rate was increased and finally the policy was cancelled in November 2015.

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

- As per the prescribed acceptance limits for underwriting, the portable equipment could be insured only with the approval of RO whose acceptance limit was Rs. 5 crore for the SI. However, the approval of RO for the initial policy was taken after the commencement of the policy. Subsequently, the policy was reissued for a SI of Rs. 50 crore without getting the approval of the competent authority i.e. Head Office.
- The policy was cancelled in November 2015 only, while the ICR was on an increasing trend since inception of the policy.
- Thus, imprudent underwriting without the approval of competent authorities and of proper risk assessment, insurable interest and actuarial valuation resulted in loss of Rs. 91.32 crore.

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

## **B. ISSUES EMERGED IN AUDIT OBSERVATIONS**

### **I. Premium rate and the terms of depreciation revised in favour of the insured**

14. The premium rate and the terms of depreciation were revised by NIACL in favour of the insured. However, as per the Audit para, detailed justification for fixing initial rates and their subsequent revisions were not provided to Audit.

15. When asked about the reasons for not retaining the records on such important decisions, NIACL in a written note stated as under :

"Branch/DO had discussed the proposal with RO Technical team and had obtained oral consent to proceed with premium acceptance and subsequently the data sheet which was tendered along with policy for formal Approval by the Competent authority at RO as per discussions.

The same was approved by the then Regional Manager (Misc. Technical Dept.), Bangalore RO duly mentioning the period of the policy as 4-6-2013

to 3-6-2014 in the letter dated 17/18-6-2013 and all subsequent policies and changes were discussed in detail with the then RM, Technical Dept., Bangalore RO and as per the express directions/consent of RO/RM only such changes had been effected."

16. When enquired about the criteria and procedure followed by NIACL for fixing and revision of premium rates, the Company in a written note submitted as under;

"Premium rates are fixed based on risk features, loss experience if available, expected premium volumes and market competition.

As a restricted cover (i.e. removal of Electrical & mechanical breakdown, larceny, territorial restriction of India, equipment value restriction etc.) was given in comparison to the Standard Package Policy for Portable Equipment, and in the de-tariff pricing regime, initial premium rate charged was higher than the prevalent market rates for the total turnover assured under the policy."

17. Elaborating further on observance of due diligence & prudence, and rating justification for the initial pricing, NIACL stated as under :

a) "Standard Fire & Allied Perils comprising of 12 basic covers attracts a basic rate of Rs. 2.50% or 0.25% under erstwhile tariff whereas for the Basic Fire cover, 0.25% on the sum insured value was charged.

b) For Burglary & Theft (excluding larceny) – then Prevailing market rate was around 0.04 to 0.05% whereas we have charged 0.60% on the sum insured considering the nature of risk.

c) For Accidental damage including wet damage – Prevailing market rate was around 0.25% whereas a rate of 0.35% on the sum insured was charged.

Necessary underwriting controls like Depreciation, Policy Excess etc. were part of the policy terms. Subsequent pricing changes were in line with the claims experience visible at that point of time on the risk assumed as well as changed terms, reduced intermediary cost etc. The ICR as on 31/03/2014 in respect of this account (June 13, Oct 13 & Feb 14 – 3 policies combined) was 40%.

Since this policy had a long tail, claims continued to get reported for one full year after the policy expiry date and, as such, the actual ICR to full extent and the correction required was not immediately known.

There was close monitoring of the account and when the claims ratio was behaving adversely, the premium was revised mid-term during currency of the policy in August 2015 to 1.38% from 1.10%. The intermediary charges

were also reduced from 15% to 11% during Feb 2015 renewal itself. As the claims ratio continued to behave adversely a premium rate of Rs. 2.75% was demanded (Mid-term) in October 2015 which was not forthcoming from insured and hence further acceptance of declarations under the policy after 10/11/2015 were stopped.

The above measures/steps taken suggest that the observance of due diligence and prudence exhibited by the office concerned, in the monitoring of the account.”

18. When asked about the compelling reasons for revising the premium rates and terms of depreciation in favour of the insured despite the fact that the initial policy had not completed its full period, the Company in a written reply stated as under;

"The first Master Policy was issued for the period from 04/06/2013 to 03/06/2014 and the Premium rate for the coverage on all risk basis was Rs. 1.20% + ST. This premium rate was quoted keeping in mind the projected targeted turnover of Rs. 75 crores. Prevalent market rate at that phase was much lower at 0.80% to 0.90 % for such similar risks.

The Insured sought a new intermediary to solicit the business and for technical reasons (there is no provision to modify/change the intermediary during the currency of Policy) hence the old master policy had to be had to be discontinued and a new one was issued w.e.f. 15/10/2013. The initial policy was not cancelled, as observed in the C&AG para but only declarations were discontinued in the light of New Policy issued. While re-issuing the Policy as above, the turnover assured was increased to 250/300 crore, warranting rate adjustment to a little lower rate. Further, the claim experience at that point of time was not un- favourable.

Though Master Policy was issued for a period of one year, each equipment was covered for period of 12 months from the date of purchase and hence it was warranted for not cancelling the Policy, as otherwise claims reported on or after the date of cancellation could not have been registered, processed or settled.

Rate was reduced as the assured turnover (owing to festive season) was increased to a minimum of Rs. 250 to 300 crores.

Further, the claims under the initial policy at that time (4 months of cover) was very minimal and in the light of market prevailing rate, price was negotiated @ 1% keeping in mind the turnover which had substantially increased. In addition, AppsDaily assured to initiate various claim control measures like:

- Dedicated / customized software dealing with mobile claims which was linked to web portal, IVRS and call center, 24x7 access for customers.
- Software was equipped to take claim intimations, track claim status, provide summary sheet and to update customer by automated sms, mails.

New Policy i.e effective from 1st February 2014 had following changes in the terms and pricing:

- An annual turnover of Rs. 1000 crores (Sum Insured) was the minimum requirement under the policy with an initial premium to be paid for a sum insured value of Rs. 100 crores and subsequent increase was to be effected for similar Rs. 100 crores of SI.
- This assured a minimum premium of Rs. 11 crores of premium with this above change whereas none of such similar policies in the market during that period had generated such volume of premium."

## II. **Insurable interest:**

19. CAG in their report had observed that :

"To insure a risk, the insured should have insurable interest in the subject matter of insurance. in the instant case, the master policy was issued to the insured who did not have insurable interest in the mobile handset, which was the subject matter of the insurance. Rather, the customers who purchased the handsets and installed the app had the insurable interest in the mobile sets. This was against the fundamental principles of insurance".

20. When asked to furnish a note on the aforesaid observation of C&AG, the Company in a written note submitted as under;

"Master Policy issued to AppsDaily as Group Manager. Policy defined insured as – Purchaser of mobile handset installed with application manufactured and marketed by AppsDaily solution Pvt. Ltd". All the claims were settled in favour of the individual insured, as defined above and reimbursed to AppsDaily. This is within the group guidelines of IRDAI."

21. On the issue of whether the insured had insurable interest in the subject matter of insurance in the instant case, CMD, NIACL during the course of evidence on 10 March 2021 deposed before the Committee as under;

*".....This policy is very much valid. This policy was issued and as far as insurable interest is concerned as you spoke, this insurable interest did*

*exist. Here he is not the mobile manufacturer. The AppsDaily was software providers and as we come across quite often that if you buy our software, then, your phone is insured for its loss or for its damage."*

### **III. Actuarial valuation**

22. CAG in their report had observed that :

'Though it was an evolving line of business, no actuarial valuation of the policy was done by NIACL, while fixing the premium rate, etc'.

23. When asked whether actuarial valuation of policies was not required to be done by Insurance Companies to mitigate risk factor, and what were the specific reasons for not doing actuarial valuation while fixing premium rates despite the fact that the business model was an evolving one and claims could be long tail, NIACL, in a written reply, submitted as under;

"The actuarial pricing is at product level and not at a policy level. This being the case, with regard to AppsDaily there was no new product as such and the same was issued under tailor-made policy under the Miscellaneous line of business."

24. On the aforesaid issue, the Ministry of Finance (Department of Financial Services) in a written reply submitted as under :

"The policy in question is issued under and governed by IRDAI's Guidelines on Group Insurance Policies, dated 14.7.2005."

25. During the course of evidence on 10 March 2021, CMD, NIACL on the issue of actuarial valuation clarified as under:

*"Actuarial assessment is done on the basis of pricing. How much we shall be charging is done at that product level. As far as individual policies are concerned, it is left to the discretion of the underwriters. We have no objection. We assess the risk, we exercise our judgement. This is the very nature of insurance that when we assess we make our assessment at what price. In 80 percent of the cases it goes right and in 20 percent of the cases it goes wrong and that is why there are losses.....I would say that though we have not written, but possibly this is an underwriting assessment that went horribly wrong."*

**IV. Authenticity of Claims & delay in taking decision to cancel the policy**

26. When asked as to what mechanism was put in place by the Company to ensure the authenticity of the claims, the Company in a written reply stated as under;

"Each and every claim was processed at Claims Hub in line with established claims procedure."

27. When asked to furnish reasons for the delay in taking decision to cancel the policy despite continued adverse claim experience and increasing Incurred Claim Ratio(ICR), the Company in a written reply stated as under;

"There was no delay in deciding on cancellation of policy, as can be kindly seen from the claim history given below:

1. Policy premium on 31/03/2014 - 4.80 Crs, Claims - 1.93 Crs (ICR 40%)
2. Policy premium on 31/03/2015 – 19.99 Crs, Claims – 26.57 Crs (ICR 133%)
3. Policy Premium on 31/03/2016 – 12.88 crs, Claims – 70.91 Crs (ICR 551%)
4. Policy discontinued on 10/11/2015.

Thus the policy was discontinued during the period 2015-16, when the claim ratio became adverse."

28. On the issue of delay in cancellation of policy, CMD, NIACL during the course of evidence on 10March 2021 deposed before the Committee as under :

*".....This policy that was issued was a long-tail policy. For instance, suppose this policy was issued from 1st January of certain year to 31st December of that year. So, any mobile that installed their app and got the insurance, say, on 30th December, so the insurance was valid up to the next 364 days. That means, practically this policy was valid for one year and 364 days for certain mobile phones bought at the end of it. Therefore, when making such assessment, possibly they erred because when the first policy was issued, the claim ratio was only 40 per cent. When the next avatar came, it was 133 per cent. But possibly, they failed to assess that this policy is going continue, clearance will keep coming for certain number of mobile sets which were insured at the end of the policy period. Their policy was to run for 365 days. Therefore, this is error of judgment....."*

29. CMD, NIACL during the course of evidence before the Committee on 10 March

2021 also highlighted the limitations of quicker decision making process as under :

*"...It is because, here, my decision making is delayed. My competitors are taking on the spot decision; and I cannot do that. First of all, I get affected by psyche that if I take these decision, how many questions will be asked by so many agencies. Therefore, the private companies take the decisions quickly. For example, just to bring to your knowledge, all the companies are heavily dependent on IT these days. So, there is a huge amount of cost involved because of obsolescence. I cannot replace it quickly. I have to float the tender as per CVC. So, these are the things which slow down while decision making."*

#### **V. Strengthening of Internal Control Systems**

30. According to Audit observation, the policy was issued and renewed without the approval of the competent authority. When asked about the measures taken to strengthen the internal control system to avoid such lapses in future, NIACL, in a written reply stated as under;

"The concerned office is on record that due approvals were given and also periodical audits were conducted to ensure that policies conformed to the approvals taken."

31. When enquired as to who is the competent authority for issuance and renewal of policies according to the audit observation, the Company in a written note submitted as under;

"Each technical department has laid-down limits for acceptance of policy based on Sum Insured and/or underwriting features."

32. When asked whether any risk assessment study was required before fixing of rates, revision of rates, issuing and renewal of policy, NIACL in a written note stated as under :

"Risk assessment study is done before fixing up rate, revision of rate and on policy renewals, both at product level and also at policy level, depending on the type of policies".

33. On the issue of making corrections in the internal control systems to prevent the recurrence of such lapses due to human error, the CMD, NIACL during the course of evidence on 10 April, 2021 elaborated on following steps taken :

*"It is a human error which goaded us to do certain corrections also. When this thing happened, we immediately issued the circular, we withdrew the authority from all operating offices to do this type of mobile insurance, and the Head Office became the only authority to give this sanction. Otherwise, every officer according to the Branch or Division was authorized to do certain amount of insurance. In the year 2015 itself, we also issued a huge list of Dos and Don't's that when you do mobile insurance, what is to be done and what is not to be done. So, that was immediately done. My team, in private, realized that they did not assess the risk properly, and therefore, it is high time that we should not trust the local expertise, and we should have it concentrated in the corporate office where the exclusive team of Actuaries and others are there. So these two steps were immediately taken."*

## **VI. Fixing of responsibility for the lapses**

34. When asked whether any responsibility has been fixed and any action taken against any officer for underwriting or causing the avoidable loss of ₹91.32 crore to NIACL, it was submitted, in a written reply, as under;

"The officers concerned have been charge-sheeted by the Competent Authority and a disciplinary enquiry is already underway. Hence we wish to submit that it will be subsequent to the conclusion of enquiry, we will get to know if any action against any of the Officers require to be taken. The outcome of the enquiry may also result in confirming the earlier submissions made by us, here above."

35. On the aforesaid issue, the Ministry of Finance (Department of Financial Services) in a written reply clarified as under:

"Responsibility would be fixed on the basis of the outcome of the disciplinary inquiry. In light of the report of CVO, NIACL, the matter was examined by DFS and major penalty proceedings initiated against the officers concerned. Accordingly, charge-sheets were issued to Shri K. Sanath Kumar, Ex-CMD, NICTL (then General Manager and Director, NIACL) who retired on 30.4.2018, and Shri C.Narambunathan, Ex General Manager and Director, NIACL (then DGM), who retired on 31.5.2019. Resultantly, the memorandum of charges has been issued to Shri K. Sanath Kumar, ex-CMD of NICTL, and Shri C. Narambunathan. The proceedings have commenced on 14.12.2020 against both the charged officers."



36. Elaborating further on the charges framed against the officers, the Secretary, Department of Financial Services during the course of evidence before the Committee on 10 April 2021 submitted as under :

*”Primarily, two or three charges were framed against these two officers. Firstly, they did not have the authority to delegate the responsibility and probably that was one of the reasons why this happened. Also, there was the question of whether they were competent or they needed to seek the approval of the Board in order to delegate those financial powers of claim settlement. Secondly, the other charge was made by the Vigilance Department which was about the unauthorized settlement of the claims.”*

## PART-II

### OBSERVATIONS / RECOMMENDATIONS OF THE COMMITTEE

#### A. OVERVIEW

1. New India Assurance Company Limited (NIACL) was founded by Sir Dorabji Tata in 1919. It is a multinational General Insurance Company which operates in 28 countries with its Headquarters at Mumbai. The Company's global business has crossed Rs. 29,715 crore and it is one of the leading market leaders in India for more than 50 years in the Non-life business, The present C&AG Audit Para no. 3.2 of Report No. 13 of 2019 (Compliance Audit Observation) examined by the Committee relates to 'Loss due to imprudent underwriting and lack of proper risk assessment' by New India Assurance Company Limited (NIACL).The Committee were informed that the policy in question was governed by Insurance Regulatory Development Authority of India (IRDAI) and was issued by NIACL in June 2013 but was discontinued in November 2015. AppsDaily Solutions Private Limited (Insured), a mobile application provider sold mobile applications through its agents at the mobile sales points. It offered free insurance cover for new mobile handsets provided that the customer bought their application within 15 days of purchase of mobile handset. In the policy, the Company collected a total premium of Rs. 33.78 crore against which it settled claims of Rs. 125.10 crore that resulted in loss of Rs. 91.30 crore due to imprudent underwriting without the approval of the competent authorities, lack of proper risk assessment, insurable interest and not carrying out the actuarial valuation of the policy while fixing the premium rate. On the basis of a preliminary enquiry conducted by CVO, NIACL who found that there were lapses in the policy, the matter was referred to CVC. On the advice of CVC, major penalty proceedings were initiated against the then General Manager (IT), and the then DGM In-charge of Regional Office, Bangalore and four other officers. The Committee before finalising their observations in their report heard the views of the officers from C&AG that conducted the audit,

and also the views of the representatives of NIACL and the representatives of the Ministry of Finance (Department of Financial Services). On the basis of the views gathered from all concerned, the Committee is given to understand that insurance is a business of underwriting the risk but the risk has to be a calculated one. It has to be based on actuarial calculations. Yet, the Committee feel that conscious decisions taken complying with all the extant rules/regulations/ guidelines may not get the desired results all the times and can also go awry at sometimes. The Committee is aware that unlike their counterparts in private companies, officers of public companies owe public accountability of their decisions and are answerable to many agencies of the Government that eventually hampers the entire process of quick decision making. The Committee in their report, has therefore, without casting any aspersions on the integrity or competence of the officers concerned; have rather attempted to address a larger issue of bringing improvement in decision making process, emphasizing more and more on technological systems to have increased level of transparency & accountability for minimizing human errors and risks attached to the insurance business.

**B. REVISION OF PREMIUM RATE AND TERMS OF DEPRICIATION IN FAVOUR OF THE INSURED**

2. The Committee note that New India Assurance Company had initially issued Master Package Policy with an estimated Sum Insured (SI) of Rs. 5 crore and a premium of Rs. 6 lakh was collected for the period from 04 June 2013 to 03 June 2014. The policy was cancelled and reissued twice during October, 2013 and February, 2014 after renegotiation of terms in favour of the insured despite increasing trend of Incurred Claim Ratio (ICR). NIACL in their response defended their decision stating that the premium rate for the first Master Policy was quoted keeping in mind the projected targeted turnover of Rs. 75 crores. Prevalent market rate at that phase was much lower at 0.80% to 0.90% for such similar risks as against the 1.20% + ST charged by the Company. The Insured sought a new intermediary to solicit the business and for technical reasons

(there is no provision to modify/change the intermediary during the currency of Policy) hence the old master policy had to be discontinued and a new one was issued w.e.f. 15 October 2013. NIACL clarified that the initial policy was however not cancelled but only declarations were discontinued in the light of New Policy issued. While reissuing the policy, the turnover assured was increased to Rs. 250/ 300 crore warranting rate adjustment to a little lower rate. Further the claim experience at that point of time was not un-favourable. The new policy that was effective from 01 February 2014 had many changes in terms of pricing viz. an annual turnover of Rs. 1000 crore (Sum Insured) was the minimum requirement under the policy with an initial premium to be paid for a sum insured value of Rs. 100 crore and subsequent increase was to be effected for similar Rs. 100 crore of SI. This assured a minimum premium of Rs. 11 crore of premium with this change whereas none of such similar policies in the market during that period had generated such volume of premium. The Committee however are not in agreement with the explanation given by NIACL for cancellation of the old Master Policy or reissuance of the new Policy. This is substantiated by the fact that NIACL in another response has stated that the “Master Policy issued to AppsDaily as Group Manager Policy defined ‘Insured’ as – Purchaser of mobile handset installed with application manufactured and marketed by AppsDaily solution Pvt. Limited”. In the given explanation, if the policy had to be discontinued, it could only have been discontinued if all the purchasers (Insured in this case) of the mobile handset could have sought a new intermediary. The Committee do not understand as to why the old master policy was discontinued on AppsDaily seeking a new intermediary when it was not the ‘Insured’ as defined in the Master Policy. And what was more surprising is the officers of NIACL relenting on the request of AppsDaily for change of intermediary, and discontinuing the old policy to come out with another new policy in favour of AppsDaily. This is admitted by the fact that all the claims were settled in favour of the individual insured as defined above and reimbursed to AppsDaily. The Committee feel that adequate precautions should have been taken in this case. The Committee while hoping that sufficient checks and balance must have now

been put in place NIACL on the discretion given to its officers implementing policies of the Company so that it is employed for the goodwill of the Company and not in favour of someone undeserving.

**C. NON-MAINTENANCE OF PROPER RECORDS**

3. The Committee also find it rather surprising that the documents/papers pertaining to the revision of premium and the terms of depreciation were not available on record and all decisions related to the proceeding with the premium acceptance and revision of terms of depreciation were taken on oral consent at the Branch, Divisional and Regional Office level. The Committee feel that such a lackadaisical approach was not only against the system of ensuring transparency in public dealings/ business of the Company but it also raises suspicion on the integrity of the persons involved in taking those decisions. The Committee is happy to note that in the year 2015 itself, NIACL issued a list of Do's and Don'ts to all those dealing with the mobile insurance, risk assessment and actuarial valuation. The Committee desire that in future records of the Company should maintained properly and major decisions taken on record so that in the event of any lapse, problems can be identified and responsibility fixed on erring officials.

**D. EXPEDITING THE COMPLETION OF INQUIRY**

4. The Committee note that NIACL did not have any kind of lapse or fraud warning system to alert them that something wrong or unusual was happening in their Company. It was only after a complaint was received and on a preliminary enquiry by the CVO, the matter was reported to the CVC and the issue of imprudent underwriting and proper risk management came to light. Even though when the matter came to light in 2016, the officers concerned were charge sheeted on the last day of their retirement in 2018 and the enquiry began in December 2020. The charges framed against the officers was primarily of two counts. Firstly, whether the officers had the authority to delegate the

responsibility or needed to seek the approval of the Board in order to delegate those financial powers of claim settlement and second was regarding the unauthorized settlement of the claims. The Committee find the delay in initiation of enquiry quite unusual. The Committee understand that the insurance business is a business of underwriting and there could have been an error in the calculation of risk and underwriting by the charged officers. But, taking of action on a lapse that was detected not through the Company's own internal mechanism but through a complaint by an outsider and delay in charging the officers and initiation of enquiry only substantiates the involvement of the officers of the Company while they may not be involved. Although the loss to the Company owing to wrong risk assessment was only Rs. 91.32 crore, yet it was public money that could have been saved. The Committee without casting any aspersions on the integrity or competence of the officers charged or without delving much on the possibility of any collusion between the apps provider and the insurer; desire expediting the completion of the enquiry so that the officers charged may come out clean if not guilty or may be punished quickly if they had deliberately committed the lapse.

#### **E. STRENGTHENING OF INTERNAL CONTROL MECHANISMS**

5. The Committee note that NIACL did not have any concrete internal control mechanisms in place to check/detect the lapse before its occurrence. Firstly, NIACL did not have detailed justification for fixing of initial rates & subsequent revision on record. Secondly, the issue of new policy and it getting renewed without the approval of the competent authorities also went unchecked. Thirdly, the Company did not get the actuarial valuation done which is the basic requirement of any risk management in the non-life insurance business. And lastly, the lapse that should have been detected by the Company's own mechanism was detected through a complaint lodged from outside and a preliminary enquiry conducted by the CVO, NIACL which is an extended arm of the CVC. All these factors resulted in loss of Rs. 91.32 crore to the Government exchequer which could have been saved. The Committee feel

that had there been sufficient internal control mechanism to induce advance warnings of any unusual activity or frauds could be detected and precious time and public money could be avoided. The Committee, therefore, recommend NIACL to build rationale decision making processes and build workable internal warning systems depending on its nature of business & functions to detect various kinds of frauds/ lapses on the part of the Company. This could be done through (i) use of technology embedment into their systems with suitable measures enabling data protection. (ii) NIACL can maintain a data-base to serve its local interest and engage independent surveyors and analyzers to help in rational decision making. (iii) In future, Risk should be managed professionally and any assessment should be based on actuarial valuation supported by research and scientific methodology. (iv) the functioning of the Company and all the decisions taken for the customers should be made transparent and have sufficient mechanism for fixing of accountability. (v) Online Grievance Redressal Mechanism and other modes of receipts of complaint mechanism of NIACL should be strengthened and every complaint should be taken seriously and personally looked into by a Manager/higher level and should be redressed to the satisfaction of the customer/client.

New Delhi  
23 March, 2021  
02 Chaitra, 1942 (S)

**MEENAKASHI LEKHI**  
Chairperson  
Committee on Public Undertakings

**APPENDIX-I**

**COMMITTEE ON PUBLIC UNDERTAKINGS**  
**(2020-2021)**

**MINUTES OF THE TENTH SITTING OF THE COMMITTEE**

The Committee sat on Thursday, the 18th February, 2021 from 1450 hrs to 1520 hrs in Committee Room No. 1, Parliament House Annexe Extension Building, New Delhi.

***PRESENT***

Smt Meenakashi Lekhi - Chairperson

***MEMBERS***

***Lok Sabha***

2. Shri Chandra Prakash Joshi
3. Shri Raghu Ramakrishna Raju Kanumuru
4. Shri Arjunlal Meena
5. Shri Janardan Mishra
6. Shri Ravneet Singh

***Rajya Sabha***

7. Shri Prasanna Acharya
8. Shri Anil Desai
9. Shri M. Shanmugam

**SECRETARIAT**

1. Shri. R. C. Tiwari - Joint Secretary
2. Shri Khakhai Zou - Additional Director
3. Shri G.C. Prasad - Additional Director



## REPRESENTATIVES OF COMPTROLLER AND AUDITOR GENERAL

1.	Ms Shubha Kumar	-	Dy. C&AG
2.	Shri Deepak Anurag	-	Director General
3.	Dr. Kavita Prasad	-	Director General
4.	Ms. Ritika Bhatia	-	Director General
5.	Sh. Manish Kumar	-	Director General
6.	Sh. Shailendra Vikram	-	Director General

2. At the outset, the Chairperson welcomed the members to the sitting of the Committee convened for consideration and adoption of Memorandum No. 2 regarding inclusion of 'Container Corporation of India (CONCOR)' under comprehensive examination. The Committee, thereafter, considered the Memorandum and unanimously agreed to select 'Container Corporation of India (CONCOR)' for comprehensive examination by the Committee during its current term, i.e 2020-21.

*(Representatives of the O/o C&AG were then called in)*

3. Chairperson, COPU welcomed the representatives of C&AG and drew their attention to Direction 55(1) of the 'Directions by the Speaker' regarding confidentiality of evidence before the Parliamentary Committees. Representatives of C&AG briefed the Committee on Audit Para No. 3.2 of Compliance Report No. 13 of 2019 titled 'Loss due to Imprudent underwriting and lack of proper risk assessment' relating to New India Assurance Company Limited (NIACL) highlighting therein various issues such as, NIACL issuing Master Package Policy to an entity who had no insurable interest in subject matter of risk; Policy being cancelled and reissued twice after re-negotiation of terms and conditions with the insured despite increasing trend of incurred claim ratio; Premium rate and terms of depreciation revised in favour of the insured; detailed justification for fixing initial rates and subsequent revisions not available on record; NIACL issuing and renewing policy without getting the approval of competent authorities, the Company neither ensuring existence of insurable interest nor getting actual valuation done before issuing policy; Imprudent underwriting, lack of proper risk assessment, insurable interest and actual valuation resulting in loss of Rs. 91.32 crore etc. The representatives of C&AG also informed that the Company in their Action Taken Note had stated that the NIACL considered the value of individual equipment and not

the policy Sum insured and there was no need for special reference to Head Office, at the time of renewal of policy. Incurred Claim Ratio (ICR) was well within the favourable/reasonable limits and actuarial rating was not required as it was a package policy covering standard perils as per already approved Guidelines and filed product. The Committee was also informed that besides Audit observation on the subject, a complaint was also received and preliminary enquiry conducted by Chief Vigilance officer, NIACL found that there were lapses in processing the policy and the matter was referred to CVC. On advice of CVC, major penalty proceedings have been initiated against the officers of NIACL associated with the case.

4. Thereafter, Chairperson and members raised queries on various aspects of the case with the representatives of the C&AG. The representatives of the C&AG responded to the queries and it was decided that the Department of Financial Services and NIACL may be called for tendering evidence before the Committee.

***The Committee then adjourned.***

***(A verbatim record of the proceedings has been kept separately).***

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## APPENDIX-II

### **COMMITTEE ON PUBLIC UNDERTAKINGS** **(2020-2021)**

#### **MINUTES OF THE FIFTEEN SITTING OF THE COMMITTEE**

The Committee sat on Wednesday, the 10th March, 2021 from 1500 hrs to 1550 hrs in Committee Room 'E', Parliament House Annexe, New Delhi.

#### **PRESENT**

Smt Meenakashi Lekhi - Chairperson

#### **MEMBERS**

##### ***Lok Sabha***

2. Dr. Heena Vijaykumar Gavit
3. Shri Chandra Prakash Joshi
4. Shri Raghu Ramakrishna Raju Kanumuru
5. Shri Janardan Mishra
6. Shri Ravneet Singh
7. Shri Sushil Kumar Singh
8. Shri Ramdas Chandrabhan Tadas

##### ***Rajya Sabha***

9. Shri Surendra Singh Nagar

#### **SECRETARIAT**

1. Shri. R. C. Tiwari - Joint Secretary
2. Shri Srinivasulu Gunda - Director

#### **REPRESENTATIVES OF COMPTROLLER AND AUDITOR GENERAL**

1. Dr. Kavita Prasad - Dy. C&AG
2. Ms. Ritika Bhatia - Director General

## REPRESENTATIVES OF NEW INDIA ASSURANCE COMPANY LIMITED

1. Shri Atul Sahai - CMD
2. Shri Jitender Mehndiratta - Dy. General Manager
3. Ms. Jayashree Nair - Company Secretary

2. At the outset, the Chairperson welcomed the members to the sitting of the Committee convened to take evidence of the representatives of New India Assurance Company Limited (NIACL) in connection with the examination of Para No. 3.2 of Compliance Audit Report No. 13 of 2019 titled 'Loss due to Imprudent underwriting and proper risk assessment relating to New India Assurance Company Limited. She then drew their attention to Direction 55(1) of the 'Directions by the Speaker' regarding maintaining confidentiality of evidence tendered before the Parliamentary Committees.

3. The CMD, NIACL, after introducing himself and his colleagues to the Committee gave a brief report on the issues mentioned in the aforesaid Audit Para. Hon'ble Chairperson then raised specific issues such as NIACL issuing Master Package Policy to an entity who had no insurable interest in subject matter of risk; Policy being cancelled and reissued twice after re-negotiation of terms and conditions with the insured despite increasing trend of incurred claim ratio; Premium rate and terms of depreciation revised in favour of the insured; detailed justification for fixing initial rates and subsequent revisions not available on record; NIACL issuing and renewing policy without getting the approval of competent authorities, the Company neither ensuring existence of insurable interest nor getting actuarial valuation done before issuing policy; Imprudent underwriting, lack of proper risk assessment, lack of insurable interest resulting in loss of Rs. 91.32 crore etc. The representatives of NIACL responded to the queries and also explained several issues like presence of insurable interest in the policy, policy being issued on acceptable lines of business, policy being a long-tail one, absence of mala-fide intent by the policy issuer etc.

4. Thereafter, Chairperson and Members sought clarifications on various aspects related to the case under examination. The representatives of NIACL clarified some issues on which information was readily available with them. In respect to points on

which information was not readily available, the Chairperson directed them to submit written replies to the Secretariat at the earliest.

***The Committee then adjourned.***

***(A verbatim record of the proceedings has been kept separately).***

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## **APPENDIX-III**

### **COMMITTEE ON PUBLIC UNDERTAKINGS** **(2020-2021)**

#### **MINUTES OF THE SIXTEENTH SITTING OF THE COMMITTEE**

The Committee sat on Wednesday, the 10th March, 2021 from 1550 hrs to 1640 hrs in Committee Room 'E', Parliament House Annexe, New Delhi.

#### **PRESENT**

Smt Meenakashi Lekhi - Chairperson

#### **MEMBERS**

##### ***Lok Sabha***

2. Dr. Heena Vijaykumar Gavit
3. Shri Chandra Prakash Joshi
4. Shri Raghu Ramakrishna Raju Kanumuru
5. Shri Janardan Mishra
6. Shri Ravneet Singh
7. Shri Sushil Kumar Singh
8. Shri Ramdas Chandrabhan Tadas

##### ***Rajya Sabha***

9. Shri Surendra Singh Nagar

#### **SECRETARIAT**

1. Shri. R. C. Tiwari - Joint Secretary
2. Shri Srinivasulu Gunda - Director

#### **REPRESENTATIVES OF COMPTROLLER AND AUDITOR GENERAL**

1. Dr. Kavita Prasad - Dy. C&AG
2. Ms. Ritika Bhatia - Director General

## **REPRESENTATIVES OF DEPARTMENT OF FINANCIAL SERVICES**

- |    |                     |   |                      |
|----|---------------------|---|----------------------|
| 1. | Shri Debasish Panda | - | Secretary            |
| 2. | Shri Amit Agrawal   | - | Additional Secretary |
| 3. | Ms. Saurabh Mishra  | - | Joint Secretary      |

## **REPRESENTATIVES OF NEW INDIA ASSURANCE COMPANY LIMITED**

- |    |                           |   |                     |
|----|---------------------------|---|---------------------|
| 1. | Shri Atul Sahai           | - | CMD                 |
| 2. | Shri Jitender Mehndiratta | - | Dy. General Manager |
| 3. | Ms. Jayashree Nair        | - | Company Secretary   |

2. At the outset, the Chairperson welcomed the representatives of Department of Financial Services (DFS) and New India Assurance Company Limited (NIACL) to the sitting of the Committee convened to take evidence of the representatives of DFS in connection with the examination of Para No. 3.2 of Compliance Audit Report No. 13 of 2019 titled 'Loss due to Imprudent underwriting and proper risk assessment relating to New India Assurance Company Limited. She then drew their attention to Direction 55(1) of the 'Directions by the Speaker' regarding maintaining confidentiality of evidence tendered before the Parliamentary Committees.

3. Secretary, DFS after introducing himself and his colleagues to the Committee gave a brief report on the issues mentioned in the aforesaid Audit Para. Hon'ble Chairperson then raised specific issues such as due diligence not being followed before and after issue of the policy, policy being approved through oral consent at the Regional office level, no proper risk assessment and actuarial valuation being carried out, no vital records being maintained by NIACL, exact role of the DFS in determination and monitoring of policies, frequency of meetings or interaction of DFS with Banks, Insurance and Financial Institutions, action taken by the Department in this particular issue etc. The representatives of DFS responded to the queries and also explained several issues like risk factor in Insurance business, how the industry is evolving and growing, robust systems being built into the system not only to regulate public sector companies but also private sector companies, policy being a long-tail one etc. Secretary, DFS also informed the Committee that the officials of NIACL who issued the policy has been charge sheeted and that an departmental Inquiry is ongoing.

4. Thereafter, Chairperson and Members sought clarifications on various aspects related to the case under examination. The representatives of DFS and NIACL clarified some issues on which information was readily available with them. In respect to points on which information was not readily available, the Chairperson directed them to submit written replies to the Secretariat at the earliest.

***The Committee then adjourned.***

***(A verbatim record of the proceedings has been kept separately).***

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**APPENDIX-IV**  
**COMMITTEE ON PUBLIC UNDERTAKINGS**  
**(2020-2021)**

**MINUTES OF THE SEVENTEETH SITTING OF THE COMMITTEE**

The Committee sat on Tuesday, the 23<sup>rd</sup> March, 2021 from 1500 Hrs. to 1530 Hrs. in Room No. 147 (Room of Hon'ble Chairperson CoPU), 3<sup>rd</sup> Floor, Parliament House, New Delhi.

**PRESENT**

**Smt. Meenakashi Lekhi - Chairperson**

**MEMBERS**

**Lok Sabha**

2. Shri Heena Vijaykumar Gavit
3. Shri Chandra Prakash Joshi
4. Shri Raghu Ramakrishna Raju Kanumuru
5. Poonamben Hematbhai Maadam
6. Janardan Mishra
7. Ravneet Singh
8. Shri Uday Pratap Singh
9. Shri Sushil Kumar Singh
10. Shri Ramdas Chandrabhanji Tadas

**Rajya Sabha**

11. Shri Prasanna Acharya
12. Shri Joginipally Santosh Kumar

**SECRETARIAT**

- |                           |   |                     |
|---------------------------|---|---------------------|
| 1. Shri R.C.Tiwari        | - | Joint Secretary     |
| 2. Shri Srinivasulu Gunda | - | Director            |
| 3. Shri G.C. Prasad       | - | Additional Director |

2. At the outset, the Hon'ble Chairperson welcomed the Members of the Committee at the sitting convened for consideration and adoption of the following reports;

(i) \*\*\*\*\* \*\*\*\*\* \*\*\*\*\*;

(ii) Para no. 3.2 of Report No. 13 of 2019 (Compliance Audit) regarding 'Loss due to Imprudent Underwriting and lack of proper risk assessment' related to New India Assurance Company Limited (NIACL).

3. The Committee then considered the aforesaid draft reports and adopted it without any changes/modifications. The Committee thereafter authorized the Chairperson to finalize the report on the basis of factual verification by the concerned Ministry/Department/C&AG and consider for presenting the reports to Parliament during the current Session of Parliament.

***The Committee then adjourned.***

***(A verbatim record of the proceedings has been kept separately).***

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