

Chapter 5

Conclusion and Recommendations

5.1 Conclusion

The Company ranked 12th, 13th and 23rd in respect of business covered, premium income and premium rate among 45 Berne Union members.

During 2008-11, the Company renewed the covers to the Banks irrespective of their claim ratio and there was no system of loading the premium in respect of Banks having adverse claim ratio. There was accumulation of risks under WTPS on account of consortium arrangements made by the Banks and the Company was ignorant about these arrangements till the time of claim. Further, despite acceptance of recommendation made earlier by audit to make the buyer's verification mandatory by the Banks, the Company continued to pay claims even though the buyer verification reports were either outdated or unsatisfactory or post dated.

In the case of the policies issued to exporters, the fixation of OL limit on the buyer lacked transparency and was not based on an objective criteria. The Company fixed/enhanced the OL without obtaining latest and full financial information about the buyers or despite unfavorable reports of Credit Information Agencies. The Company was condoning serious breaches made by the exporters against the spirit of the terms and conditions of the policy. The performance of the Company in recovering the amounts from the exporters/buyers after settlement of claims was poor.

The Company also needed to protect its net through appropriate reinsurance arrangement.

5.2 Recommendations

Based on the Audit findings discussed in the foregoing chapters, the following recommendations are made:

- 1. The Company needs to introduce an effective system of incentivising the Banks with lesser claim ratio and disincentivise Banks with higher claim ratio in WTPS. The Company should also consider laying down normative Claim Premium Ratio in order to benchmark the incentives/disincentives.**

2. The Company may put in place a system to obtain information regarding consortium agreements among the Banks to assess the concentration at the time of underwriting to protect its financial interests.
3. Audit reiterates the earlier recommendation that in order to reduce the risk of claims, the Company needs to make it mandatory for Banks to carry out credit worthiness verification of foreign importers before sanctioning advances. The Company should insist on obtaining from the Banks, a certificate that due diligence has been carried out on the credit worthiness of the buyers.
4. The Company should put in place an effective system for assessment of buyers while fixing OL by assigning appropriate weights for both financial and non-financial parameters.
5. Settlement of claims condoning grave lapses on the part of exporters should be resorted only on an exceptional basis.
6. The Company needs to strengthen the system of recovery from buyers so as to match with the peers in other countries.
7. The Company needs to have an appropriate reinsurance protection commensurate with its exposures, to safeguard against uncertainty and instability of global markets.



(A.K.PATNAIK)

Deputy Comptroller and Auditor General
and Chairman, Audit Board

New Delhi
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Countersigned



(VINOD RAI)

Comptroller and Auditor General of India

New Delhi
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