

CHAPTER IX: MINISTRY OF FINANCE

Oriental Insurance Company Limited

9.1 Information Technology (IT) Audit of Integrated Non-Life Insurance Application Software (INLIAS)

9.1.1 Introduction

The Oriental Insurance Company Limited (Company) is one of the four public sector General Insurance Companies transacting general insurance business in India with head office at New Delhi. As on 31 March 2013, the Company had 27 Regional Offices (RO), three Corporate Business Regional Offices (CBRO), 346 Divisional Offices (DO), 494 Branch Offices (BO) and 596 One Man Offices in addition to service centers and motor third party claim hubs. During the year 2012-13, the Company's Gross Direct Premium Income in India was ₹ 6,737.66 crore and operating profit of the Company was ₹ 404.41 crore. The Company has three main application softwares for its operations viz. Integrated Non-Life Insurance Application Software (INLIAS), Investment Software and Human Resource Management System (HRMS).

The INLIAS application is an integrated solution covering Underwriting, Claims, Accounts, Reinsurance and related reports. In its scope it covers all the products and the entire business operations of the operating offices are handled by this application. It is live in all the offices of the Company and its roll out was completed in March, 2009. The system also generates consolidated reports for the RO as a whole as required. The application has an online integration with web portal and also has email and SMS integration for various events. The Underwriting, Claims and Accounts modules catering to the requirements of operating offices and the RO's have been fully functional since 2009. However, parts of the Re-insurance module and HO Accounts consolidation were still under testing (February 2014) by the respective user departments. The Budget Module which was under detailed testing has become operational and the Fixed Asset Module is being tested by the user department. The front end of the application is Oracle forms and Reports and Backend is Oracle 10g database.

Though various modules have not yet been finalized by the Company, a test check of some of the modules has been carried out by Audit. Audit observed that there has been a considerable delay in implementation of Reinsurance and HO Accounts consolidation modules as the agreement for INLIAS was signed in August 2002 and it was scheduled for completion within two years from date of agreement.

The company incurred ₹ 68.29 crore till June 2007 and ₹ 232.90 crore from July 2007 to March 2013 related to software and hardware procurement pertaining to INLIAS.

9.1.2 Audit Findings

Audit observations regarding lack of proper controls and validations in INLIAS are given below:

9.1.2.1 Inappropriate underwriting validations in Marine Cargo Policies

As per Insurance Regulatory and Development Authority of India (IRDA) Guidelines on 'File & Use' requirements for general insurance products (September 2006), the premium rates that are less than ₹ 0.1 *per mille*¹ on the sum insured should be discussed with the Financial Advisor of the Company and his concurrence obtained to such rates based on sound technical reasons. In such cases, the Financial Advisor was expected to play the role of moderator to ensure that the terms were determined on a sound technical basis and not merely to meet competition in pricing regardless of logic. During live tests for underwriting, Audit observed that there was no validation for approval by HO for underwriting the policies with premium rate below 0.1 *per mille* on sum insured. The system did not prevent issuance of policies by operating offices at premium rate lower than 0.1 *per mille* on sum insured without approval of competent authority.

Audit collected data for marine cargo policies issued by the Company during year 2012-13, analysis of which revealed that 1317 policies out of total 1,20,843 cases of marine underwriting, were issued below the rate 0.1 *per mille*. In absence of required validation in the system, premium collected was ₹ 9.56 crore against minimum chargeable premium of ₹ 31.38 crore. This has resulted in short collection of premium amounting to ₹ 21.82 crore and loss to the Company to the same extent.

Management stated (October 2013) that operating offices are being advised to ensure that proper administrative control should be exercised while approving such proposals and the same should be done only when required approval of the competent authority has been obtained. The reply, however, is not acceptable in view of the fact that such control should be inbuilt in system to avoid manual intervention and adherence to IRDA guidelines.

9.1.2.2 Inappropriate inputs in Marine Cargo policies

The Marine Policy covers goods, freight and other interests against loss or damage to goods whilst being transported by rail, road, sea and/or air. These policies may be extended to cover war and SRCC² perils as add on covers by payment of additional premium. Audit, however, observed that in the absence of appropriate input controls, system does not prohibit issuance of marine policies covering only War & SRCC without providing basic marine cover.

Management agreed with the audit observation and stated (October 2013) that they are taking up the matter with 3i InfoTech for implementing a control that coverage of War and SRCC risks are allowed only in conjunction with the Basic Cover.

9.1.2.3 Inappropriate inputs in Marine Hull policies

Review of underwriting of Marine hull policies (DO-14 Mumbai) revealed that:

- The system allows any age of vessel without giving any alert above normal life for insurance.

¹ *Per thousand*

² *Strike, Riot or Civil Commotion*

Management admitted the audit observation and stated (October 2013) that the operating offices would be advised that all underwriting related parameters should be carefully examined before approving the proposal in the application. A warning message/alert will be duly incorporated.

- In preparing GUC* statement for Marine Hull policies the dealing official has to manually feed details like name of the vessel and sum insured in case of endorsement from the premium register as premium register generated through the system does not have these details.

Management agreed to audit observation and stated (October 2013) that Technical Department is being requested to examine format of Premium Register of Marine Hull and provide additional fields if any to be added in the report and the same will be modified accordingly.

9.1.2.4 Lack of appropriate validations in Motor Policies

During live test at claims service centre, Delhi, it was observed that a claim (2014/030599) under motor policy (2013/1586) issued by CBO X, Delhi that the system allowed passing of endorsement changing the registration number of the insured vehicle after occurrence of claim. Further, even in the endorsement, the correct registration number, engine and chassis details as per prescribed format were not mentioned. Thus the system without appropriate control leaves a scope for manipulation.

Management stated (October 2013) that it was permissible to pass an endorsement on a policy after occurrence of the claim due to some bonafide requirements. Management also stated that the operating offices were being advised to exercise due care and caution while passing any endorsement so as to ensure that the same is correctly passed. Management assured that the system will be enabled for automatic generation of an exception report highlighting all cases of endorsements passed effective from a date prior to the date of passing of such endorsement which could be accessed by Auditors/Vigilance.

9.1.2.5 Non-deduction of administrative charges from co-insurers

HO circular (October 2002) regarding settlement of co-insurance transactions stipulated that the leader shall remit the co-insurers their share of premium after deducting one percent from their share of premium towards administrative charges, within 21 days of receipt of premium.

Audit test checked journal vouchers passed manually by CBRO, Delhi during 2012-13 for recovering one per cent administrative charges from the coinsurers. Since the system was not deducting the administrative charges automatically from the premium share of co-insurers, the entire premium was being remitted to the co-insurers in full. Administrative charges were being pursued manually for recovery from the co-insurers leaving a scope for short recovery/ non-recovery besides possibility of errors at the end of dealing officials of the Company.

* *Group underwriting cell*

During 2012-13, the Company paid an amount of ₹ 427.76 crore to co-insurers under coinsurance arrangement for which it was required to deduct an amount of ₹ 4.28 crore (@ one percent of ₹ 427.76 crore). However, in absence of input control in INLIAS for deduction of administrative charges at the time of remittance of premium, the Company could recover ₹ 1.39 crore only, resulting in short recovery of ₹ 2.89 crore from the co-insurers.

Management stated (March 2014) that in some stray cases administrative charges were not deducted at the time of payment to co-insurers. Also, some of the offices were not aware of deducting administrative charges manually and was overlooked and that administrative charges were now automatically deducted through INLIAS at the time of underwriting outgoing coinsurance premium. However, the fact remains that delay in incorporation of required validations to this effect led to loss of ₹ 2.89 crore to the Company.

9.1.2.6 Inadequate validations for claims settlement

Audit checked claims settled by Claim Service Center, Mumbai on 27 August 2013. It was observed that a claim (2014/030418) under motor policy (2013/5918) was reported for the loss/damage caused through accident to a motor vehicle, which was approved twice with the same details. The system did not give any alert or message while approving the claim for second time. This lapse may lead to multiple payments against the same claim.

Management stated (October 2013) that the system does not allow the same provision to be approved twice. However, the user can create another provision in the same claim, if required through the system. The reply is not tenable as even accepting another provision with same details of loss is also irregular and needs to be rectified. It is recommended that some validation, at least on key fields of amount and loss date should be put in the system.

9.1.2.7 Mismatch of figures in Claims Outstanding Register and Trial Balance

The System generated two different figures for the "Fire outstanding claims" as on 31 March 2013 in two reports viz. Claims Outstanding Register and Trial Balance, resulting in short provision and overstatement of profit by ₹ 2.45 crore as detailed below:

(₹ in crore)			
Unit	Claim as per outstanding register of INLIAS	Claim as per Trial Balance	Difference (-) short provision
CBRO Chennai	11.32	10.30	(-) 1.02
CBRO Mumbai	50.70	49.27	(-) 1.43
Total	62.02	59.57	(-) 2.45

Management accepted the audit observation (October 2013) and stated that there was a mismatch in the figures as per Claim Outstanding Registers and the Trial Balance generated by INLIAS. Management further stated that efforts were being made to modify the INLIAS to remove the discrepancy of mismatch in the figures.

9.1.2.8 Non generation of exception reports for compliance of IRDA Protection of Policyholders' Interests Regulations, 2002

As per IRDA Protection of Policyholders' Interests Regulations 2002, the claims are to be settled within 256 days from the date of intimation of the same. Each insurer is required to set up a Policyholder Protection Committee which has to report directly to the Board.

Audit collected data of claims settled by the Company during March 2013, wherein it was observed that the Company settled 65,535 motor claims and similar number non-motor claims out of which 22,798 claims for motor and 8,960 claims of non-motor were settled after more than 256 days violating said IRDA regulation. The management took 35 to 8,954 days for settlement of motor claims and 61 to 12,397 days for settlement of non-motor claims. The periodical stratification of these claims for period 257 days to one year, one to two years, two to three years, three to five years and more than five years is given in the following table.

Number of cases	Delay in settlement of claims from date of intimation						Total
	Up to 256 days	257 days to One year	1 to 2 years	2 to 3 years	3 to 5 years	above 5 years	
Non-Motor	56575	4584	3197	646	350	183	65535
Motor	42737	5959	6770	3223	3435	3411	65535
Total	99312	10543	9967	3869	3785	3594	131070

It is evident from table that there has been delay in many cases in settlement of claims beyond the maximum permissible limit for settlement of normal claims.

Though the maximum permissible limit for settlement of normal claims is 256 days as per IRDA regulation, no report for delay after such stipulated time period is being generated through system. Since the responsibilities of the Policyholder Protection Committee included ensuring compliance with the regulatory requirements, a report for said delays should have been generated and placed before Policyholder Protection Committee to take required action for ensuring regulatory compliance.

Management assured (October 2013) that the feasibility of generating the report shall be studied and if found feasible, the same shall be enabled in INLIAS.

The matter was reported to the Ministry in December 2013; their reply was awaited (March 2014).

The New India Assurance Company Limited

9.2 Incorrect settlement of claim

Incorrect settlement of claim due to lack of reasonable care by the insured - ₹ 10.15 crore.

The New India Assurance Company Limited (the Company) issued an annual turnover policy to M/s. Wartsila (India) Limited (insured) for sum insured of ₹ 500 crore for the

period, 01 April 2009 to 31 March 2010 covering inter alia, the insured's imports from anywhere in the world to various places in India by sea/air/rail/road/courier. The insured imported two DG sets (January 2010) from M/s. Wartsila Italia for EUR 3851107.00 (INR 25.47 crore) through Nhava Sheva Port. The cargo landed at Nhava Sheva Port on 6 February 2010. The consignment was cleared by the customs on 2 March 2010.

When the cargo was being moved from the Port to Khopoli (2 March 2010), the trailers met with accident resulting in rollover of the trailers causing damage. One DG set was declared as constructive total loss[♦], the other DG set was partially damaged and sent to M/s. Wartsila Italia for repair and brought back to India after repair.

The Company deputed (March 2010) M/s. Trans Ocean Marine and General Survey Agencies as surveyor who, in their report (March 2011), opined that the rollover of the trailers was due to unusually top heavy load and the drivers could not control the vehicles which rolled over on divider. The Surveyor provisionally assessed the loss at ₹ 9.76 crore. After deducting salvage value of ₹ 1 crore, the loss was provisionally arrived at ₹ 8.76 crore.

The Head Office Claims Committee (HCC) of the Company approved (June 2011) on account payment of claim for ₹ 6.50 crore treating the loss as covered under Inland Transit (Rail or Road) Clause (A) (All Risks) [ITC (A)]. The on account payment was made on 9 June 2011. The Company made further payment of ₹ 3.65 crore on 16 September 2013. Thus total payment made was ₹ 10.15 crore.

The main cause of accident was overloading of trailers to the tune of 9.05 MTs and 11.93 MTs which worked to 32 *per cent* and 48 *per cent* respectively of the net cargo carrying capacity of the two trailers as shown in the following table:

Sl. No.	Description	Trailers No. MH 06 AQ 1667	Trailers No.MH 06 K 6718
1	Net cargo carrying capacity Kg.	28000.00	25000.00
2	Weight of Cargo Kg.	32000.00	32000.00
3	Weight of Container Kg.	5050.00	4925.00
4	Total Weight (2+3) Kg.	37050.00	36925.00
5	Overloading Kg. (4 – 1)	9050.00	11925.00
6	Percentage of overloading to Net cargo carrying capacity (<i>per cent</i> of 5 over 1)	32	48

The above clearly indicated that the vehicle deployed could not take the load of the cargo which showed that insured failed to exercise reasonable care in ensuring that cargo was carried in the right type of vehicle.

The Company replied (September 2013) that:

[♦] *the claim is for constructive total loss (CTL) as repairing value was more than 85 per cent of the Sum Insured*

- The preliminary surveyor (M/s. A.S. Desai) stated that the circumstances of the accident, which clearly showed that the carrying trailers had to apply sudden emergency breaks to avoid accident with the vehicle in front, because of which, the drivers lost control of the trailers.
- The surveyors (M/s. Trans Ocean Marine & General Survey Agencies) had categorically stated that the logistic contractors M/s. Glen Trans Shipping & Logistics (I) Private Limited were 'prima facie' responsible for overloading.
- Litigation would be a long drawn process and would entail heavy legal costs; hence 25 *per cent* was deducted from final claim amount.

The reply of the Company is not convincing. In the instant case, there was lack of reasonable care on the part of the insured as it failed to ensure that right type of vehicle was deployed. The Company cannot take refuge that it was the logistic contractor who was responsible for the overloading. The insured who had insurable interest should have taken utmost care in ensuring that the cargo was carried by a responsible logistic contractor. The Company should have repudiated the claim. Therefore, settlement of claim on 'compromise basis', was not in order.

The matter was reported to the Ministry in October 2013; their reply was awaited (March 2014).