CHAPTER VII: MINISTRY OF FINANCE

IFCI Factors Limited

7.1 Decision to reschedule loan without insisting on adequate tangible security led to non-recovery of dues

IFCI Factors Limited decided to restructure short term loan sanctioned in December 2010 to Glodyne Ventures and Holding Private Limited without insisting on tangible security which led to non-recovery of dues of ₹ 24.23 crore.

IFCI Factors Limited (the Company) offers corporate loans/short term loans to the customers for general purpose/augmenting their working capital. These loans are backed by suitable security in the form of pledge of listed shares/equitable mortgage of tangible properties.

In order to meet expenses for various business initiatives of Glodyne Ventures and Holding Pvt Ltd. (GVHPL) (a Glodyne Group Company) the Company sanctioned and disbursed corporate loan of ₹ 15 crore in December 2010. The tenure of the loan was two years including a moratorium of 17 months. Accordingly, it was repayable in three equal quarterly instalments of ₹ 5 crore each in June, September and December 2012. The loan was secured by 5,86,000 shares of Glodyne Technoserve Limited (GTL, a group company) having market value of ₹ 42.95 crore (December 2010), to cover at least 250 *per cent* of loan. Subsequently in May 2012, the number of pledged shares were increased to 11,69,490 due to fall in value of security. Besides, post dated cheques (PDCs) for interest/principal repayment were also obtained in the form of security.

The loan agreement with the borrower stipulated that the borrower would top up shares in 3 working days, if the value of stipulated security cover fell by 10 per cent to maintain security cover of at least 250 *per cent* of the outstanding loan amount at all the times during the currency of loan. The borrower had to provide cash margin within 3 days, if the market value of shares fell by 20 *per cent* from the initial pledge price. Further, additional security to the satisfaction of the Company was to be provided when the security provided by the borrower was lost or became inadequate to cover the balance of the loan.

GVHPL defaulted in payment of interest with effect from May 2012 and the first instalment of loan due in June 2012. Further, the share price of GTL fell drastically from ₹ 341.95 per share on 25 July 2012 to ₹ 218.90 per share on 27 July 2012 (36 *per cent* fall). The prices further decreased to ₹ 87.30 per share (74 *per cent* fall) on 24 August 2012 resulting in reduction of security cover to ₹ 10.21 crore which was below the loan amount by around ₹ 5 crore. Meanwhile (on 12 August 2012), ICRA (Investment Credit Rating Agency) reduced the rating of GTL from A2+ (Strongly safe), assigned to its ₹ 75 crore commercial paper programme, to D which is the default level rating (i.e., the instruments with this rating are in default or expected to be in default on maturity). Moreover, ICRA withdrew its BBB+ (moderately safe) rating assigned to the ₹ 75 crore

Non-convertible Debenture programme as it failed to raise funds against the rated instrument.

Despite being aware of fall in security, reduction of credit rating by ICRA and default in payment of both principal and interest, the Company restructured the loan and signed (28 August 2012) a Memorandum of Understanding (MoU) with GVHPL along with other lenders with modified terms and conditions which stipulated that the interest due and payable as on 1 July 2012 would be payable by 31 August 2012 and the interest due and payable by 15 September 2012 would be payable by 15 September 2012 and subsequent interest shall be paid on the first day of every month starting from 1 October 2012. The principal was to be repaid in six quarterly instalments starting from 1 January 2013 and ending on 1 April 2014. Additional interest of 2 *per cent* would be charged on account of security shortfall till the time security cover was restored to the stipulated value. GVHPL failed to make interest payment by 31 August 2012 and thereafter.

The Company started selling shares from October 2012 and realized ₹ 1.23 crore till December 2012 and adjusted the same towards overdue interest of ₹ 1.57 crore.GVHPL failed to repay the principal due on 1 January and 1 April 2013. The Company again started selling of shares from May 2013 to September 2013 and realized ₹ 74 lakh and adjusted towards overdue interest and deposited (July 2013) post dated cheques for ₹ 2.19 crore to make further recovery. But the cheques were dishonored and therefore the Company filed (September 2013) a complaint u/s 138 of Negotiable Instrument Act. Even then no repayment towards principal and interest was received. Again, the Company started (19 December 2013) selling shares and sold entire stock of 33,504 shares and realized ₹ 2.84 lakh. Further, GVHPL is in the process of winding up as per the orders (October 2014) of the Bombay High Court.

Audit observed that:

- The decision to restructure the loan with lenient terms was injudicious as GVHPL did not furnish additional security to cover the loan of ₹ 15 crore as per the terms of loan agreement when the value of security reduced to ₹ 25 crore (₹ 218.90 per share) against the required security of ₹ 37.50 crore on 27 July 2012 and further drastically reduced to ₹ 10.21 crore (₹ 87.30 per share) on 24 August 2012. It was a clear evidence of poor financial strength of GVHPL. Further, D (Default) rating by ICRA indicated payment delays and liquidity constraints of GTL.
- Considering the continuous fall in price of shares from July 2012 to the date of MOU, the Company could have sold the pledged shares to recover the maximum possible instead of entering into MOU with liberal lending terms.
- Tangible security should have been insisted at the time of restructuring instead of additional interest of 2 per cent on account of security shortfall till the time security cover was restored to the stipulated value.

The Ministry replied (February 2016) that in view of security short fall as stipulated by lenders, non-payment of outstanding dues and GVHPL's inability to restore security cover or pay cash margin despite repeated request to the Company, the lenders of GVHPL decided (22 August 2012) to allow the Company time to recover and service the

debt, instead of selling the pledged shares in bulk which would have resulted in price fall immediately and more drastically.

The reply is not tenable because GVHPL was defaulter in repayment of principal from the beginning and of interest from May 2012 and there was no certainty in recovering the dues considering the reduced rating by ICRA. Further, the Company failed to insist on additional tangible security to safeguard its financial interest but signed the MoU with liberal terms and conditions without having adequate security in violation of its own credit policy which led to non-recovery of dues of ₹ 24.23 crore (₹ 15 crore principal and ₹ 9.23 crore towards interest.)

7.2 Non Compliance with provisions of credit policy and extension of undue favour led to non-recovery of dues

IFCI Factors Limited deviated from provisions of credit policy while appraising the financials of a buyer and extended undue favour to Gangotri Iron and Steel Company Limited by not selling the pledged shares which resulted in non- recovery of dues of ₹ 13.22 crore

IFCI Factors Limited (the Company) is offering wide range of products to the target customer segments to satisfy their specific credit needs. Domestic Sales bill factoring is one among them whereby the client (seller) invoices the goods to a domestic buyer located within India, assigns the invoices to the Company and receives prepayment up to 80 to 90 *per cent* of the invoice value immediately. The Company follows up the payment with the buyer. The buyer makes the payment directly to the Company and the Company makes the balance payment to the client (seller). The credit policy of the Company for the year 2011-12 stipulates that the client should not have concentration of sales exceeding 15 *per cent* of its total sales to a particular buyer and extensive due diligence exercise should be carried out to ensure the credit worthiness of client and buyers before sanctioning factoring facility.

The Company sanctioned (July 2011) domestic sales bill factoring to Gangotri Iron and Steel Company Limited (GISCO) to the extent of ₹ 10 crore against the sales invoice to be raised on 13 buyers with factoring limit of ₹ 1 crore to ₹ 2 crore against each buyer. Vijay Traders was one among the 13 buyers. An agreement was entered into (August 2011) between the Company and GISCO the terms of which *inter alia* stated that the buyer/GISCO would repay the factoring facility availed within 90 days or less from invoice dates as may be approved for each buyer. Further, GISCO shall furnish post-dated cheques for ₹10 crore, pledge equity shares of aggregate market value not less than the amount equal to two times the facility amount with top up at 10 *per cent* fall in the market price, personal guarantee of promoters and corporate guarantee of group companies. Accordingly, GISCO pledged 34.50 lakh[1] shares of GISCO valuing ₹ 20 crore (@ ₹ 57.97 per share) and fulfilled other formalities.

[1] GISCO also pledged 5.38 lakh shares during September-November 2011 taking the pledged shares to 39.88 lakh shares

Though the Company initially extended factoring facility against invoices on six buyers[1] of GISCO, this facility was extended only to Vijay Traders from 28 December 2012 onwards because GISCO was having business only with Vijay traders.

Audit observed that since beginning, Vijay Traders was not making timely payments as it took 141 to 307 days in making payments for various invoices against stipulated period of 90 days. Further, neither repayment of principal nor payment of overdue penalty was made by Vijay Traders from 2 December 2013 onwards by which date the principal dues amounted to ₹ 9.99 crore.

Meanwhile, Market value of pledged shares had decreased to ₹ 28.70 per share on 17 January 2012 resulting in fall in security to the extent of ₹ 11.23 crore i.e 1.12 times only of facility extended. GISCO failed to top up the security andthe Company sold (2-13 January 2012) 74175 shares for ₹ 34.71 lakh and adjusted the sale proceeds against the outstanding dues of ₹ 9.64 crore (including overdue penalty) as on 20 January 2012. However, on the request (January 2012) of GISCO explaining its financial hardship, the Company did not sell any shares till November 2014. From November 2014 onwards, though the Company sold 9,86,638 shares, it could realise only ₹ 7.31 lakhas market value of pledged shares had fallen considerably[2] by that time.

GISCO deposited (December 2013) post-dated cheques valuing ₹ 7.14 crore for encashment but all the cheques were dishonoured. Company also failed to encash pledged shares in time and as a result outstanding dues against GISCO amounted to ₹ 13.22 crore (₹ 9.99 crore towards principal and ₹ 3.23 crore towards penalty for overdue principal) as on 30 June 2015. Against this dues the security available with the Company was 29.27 lakh shares valuing ₹ 7.32 lakh (@ ₹ 0.25 per share).

Following deficiencies were observed by Audit in this case:

- The Company did not ensure the credit worthiness of Vijay Traders and seven other buyers before sanctioning the factoring facility, due to non-availability of their financials.

- Despite significant delays in payment of dues by Vijay Traders since beginning, credit limit for them was increased thrice i.e. from ₹ 1 crore to ₹ 2 crore in August 2011, ₹ 6 crore in August 2012 and ₹ 10 crore on 5 March 2013 without any recorded justification. This was done despite the fact that there was 100 *per cent* sales concentration with Vijay Traders since December 2012 onwards which violated credit policy of company that client should not have concentration of sales exceeding 15 *per cent* of its total sales to a particular buyer.

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[1] ***Vijay Traders, Shanti Steels Limited, Rani Sati Enterprises, TanuInternatioanl, Sonalika enterprises and ChauriChaura steels.***

[2] ***Value of shares which was ranging from ₹30.95 to ₹50.40 between January 2012 to February 2013 remained at less than ₹2 in November 2014***

- Despite significant fall in security cover[1] that started from January 2012 onwards Company did not sell the pledged shares though as per its own agreement in case of shortfall in security cover, it could have sold shares to realise its dues.

- The personal guarantee of promoter and corporate guarantee of group company were not invoked because it costs four *per cent* of outstanding dues as court fee to the Company without any guarantee for realisation of dues.

The Company replied that (November 2015) decision to defer the process of sale of shares was taken based on the prospects of better recovery from the client and improvement in share price. Further, it has put in place a system and teams to monitor/track movement of shares to take immediate action either for sale of shares or top-up of security in a situation where there is fall in security. It also stated that legal action has been initiated against the client and complaints have been filed against the client company and its directors under Negotiable Instruments Act which are pending adjudication before the Court.

Ministry endorsed (February 2016) the reply of the Company and stated that the decision to increase the credit limit of Vijay Traders was a conscious business decision taken by the Competent Authority. The facility was continued in anticipation of revival in the macro-economic conditions as a result of which GISCO would also be able to recover.

The reply is not acceptable because GISCO while requesting the Company not to liquidate its shares in January 2012 had assured to regularise its accounts by February 2012. After failure of GISCO to fulfil its promise, Company could have sold the pledged shares to recover its entire outstanding dues when the share prices were ranging from ₹ 36.05 to ₹ 50.40 per share during March 2012 to February 2013. Moreover, decision to extend credit limit for Vijay Traders thrice despite continuous defaults in payment and 100 *per cent* sales concentration with them was also not prudent. So far as taking legal action against client is concerned, it was only for dishonour of cheques and no recovery suit could be filed by the Company as it involved further loss to the Company on account of payment of 4 *per cent* of claimed amount as Court Fee.

Thus, lack of due diligence while appraisal, frequent upward revision in credit limit and failure to sell the pledged shares resulted in non-recovery of dues of ₹ 13.22 crore.

STCI Finance Limited

7.3 Blocking of funds in bad loans

Failure to initiate timely action by the Company as per provisions of lending policy and terms & conditions of facility agreements, resulted in bad loans and blocking up of own funds to the extent of ₹ 152 crore and loss of interest of ₹ 39.36 crore

STCI Finance Ltd. (formerly known as Securities Trading Corporation of India Limited)(Company), has been undertaking lending and investment activities as a Non-

[1] ***The security cover was up to ₹17.24 crore on 28 February 2013, ₹10 crore on 4 March 2013, ₹4.15 crore on 28 March 2013 and it drastically reduced to ₹ 77.88 lakh in October 2014 against the required security of ₹20 crore.***

Banking Financial Company (NBFC) registered with Reserve Bank of India (RBI) which classified it as a Loan Company.

The loan book of the Company showed (as on 30 June 2015) 112 loans amounting to ₹ 4113 crore of which loans amounting to ₹ 3627 crore were disbursed to 107 clients. As per clause 13.4 of its lending policy any asset, in respect of which interest remained overdue for six months or more, was to be treated as Non-performing Asset (NPA). Audit examined 20 high value loans including all the seven loans that were declared as Non-performing Assets (NPA). Audit observed that in five cases where loans were declared as NPAs, the Company did not initiate action as stipulated by the Lending Policy. All other cases were performing satisfactorily as per loan book and as per test check in audit.

Clause 15.2 of the lending policy of the Company states that, if a corporate client defaults in payment of dues to STCI despite follow up and issue of recall notice and if the primary security is mortgage and/or hypothecation besides guarantees (personal/corporate), the Company has to enforce security interest immediately and inform the Board. As soon as an asset becomes NPA, a recall notice is to be sent to the borrower and guarantor and acivil suit for recovery should be filed within six months (Clause 15.6). In case of NPAs, the Company should strive hard to recover its dues in shortest possible time through negotiations with the client. In case of likelihood of prolonged negotiations, the Company should explore possibility of selling its NPAs to Asset Reconstruction Companies (Clause 15.4).

Details of three loans declared as NPAs wherein STCI failed to take up action as stipulated by the lending policy is as under:

Sl. No	**Details of Borrower and amount disbursed**	**Details of loan disbursement/ repayment**	**Purpose of loan and collateral securities available**	**Details of Repayment / Default and action**	**Amount due on Principal + Interest (30 June 2015)** **₹ in crore**
1	**Biltube Industries Ltd.** **(BIL) - ₹ 15.00 Crore**	November 2010 To be repaid in 10 installments (quarterly) from 01-07-2011	Loan for General Corporate purpose including part financing of captive power plant against the primary security on the entire fixed assets valuing ₹317.07 crore	Paid only two installments of ₹1.50 crore each. *Declared the loan as NPA on 31-07-12.*	19.19 (12.00+7.19)
2	**Era Housing & Developers (India) Ltd.** **(EHDL) - ₹ 25.00 Crore**	March 2010 One year Loan was renewed from time to time. Last renewal on 23.09.2013 for a period of twelve months.	Loan sanctioned against pledge of 37,59,819 shares of promoter Company viz. Era Infra Engineering Ltd. The Company sold (February 2014 to December 2014) 32,86,201 shares of the borrower and adjusted the amount of ₹ 2.46 crore towards interest due. The market value of shares remaining with the Company is ₹ 13.97 lakh (September 2015).	Defaulted the payment of interest since October 2013 *Declared the loan as NPA on 01.03.2015.*	25 (Interest amount adjusted from sale of shares pledged)

3	**Two promoter companies of Tulip Telecom Ltd. viz. Cedar Infonet Pvt Ltd (CIPL -₹50 crore), Sukhmani Technologies Pvt. Ltd. (STPL- ₹50 crore)** ***and its promoters in individual capacity*** **(₹15 crore)** **₹ 115.00 Crore**	September 2010/ February 2012 / September 2013 The two loans to CIPL & STPL renewed in November 2013.	Loan sanctioned against pledge of shares Tulip Telecom Ltd. (₹ 1.43 crore + ₹ 1.35 crore) and against Second & subservient mortgage charge on residential property for individual loan of ₹ 15 crore.	*The Company declared them as NPAs in August /September 2014.* *Recall notices issued (September 2014)*	147.17 (115.00+ 32.17)

Audit observed the following in respect of the three loans:

- BIL defaulted in payment of installments from the first due date of 1st July 2011. The borrower (BIL) came forward (August 2014) for a one time settlement. However, the request was not acceded to on the grounds that no concrete plan was provided. The Net worth of BIL eroded by March 2014 and was referred (July 2015) to the Board for Industrial and Financial Reconstruction (BIFR). The Company terminated the loan agreement and issued (August 2015) Recall Notice only after the borrower was registered with BIFR and three years lapsed between the declaration of asset as NPA and recalling of loanas against the provision for recall after one quarter of non-payment of interest (Clause 5(h) of the facility agreement.The Company issued notices under provisions of the Negotiable Instruments Act for three instances of dishonour of cheques. Though the personal guarantee of Directors for ₹15 crore was invoked (August 2015) by the Company, no recovery was possible as this personal guarantee was unsecured. The failure of the Company to recover its dues was despite the fact that the Company had first charge on the fixed assets of the Borrower. The Company also did not declare the borrower as a defaulter till date as per clauses 17(a) and (c iii) of the facility agreement, but only reported the details of non-payment of loans to Reserve Bank of India (RBI) periodically.

- EHDL started defaulting the payment of interest from October 2013. However, the Company could not dispose off the pledged shares to recover the principal loan as the share prices declined sharply. Audit also observed that although, the credit rating by credit rating agency CIBIL at the time of sanction of loan was satisfactory in respect of the borrower, it showed overdue position in respect of the guarantor. The loan was declared (March 2015) NPA after a delay of 10 months and Recall Notice was issued only on 30 October 2015 after delay of 17 months as against the stipulated period of six months since interest remained overdue.

- CIPL and STPL defaulted in repayment of the initial loan but the Company not only renewed the loans but also granted (September 2013) fresh loan of ₹15 crore to the promoters in their individual capacity. Various concessions extended at the time of renewal of loans included the extension of loan at the existing rate (15 *per cent*) instead of required increased rate of 15.5 *per cent* (as per renewal term and

conditions) and adjustment (March 2014) of excess/penal interest charged for four months amounting to ₹ 14.69 lakhs against interest due. Despite issue (September 2014) of Recall Notice, the borrowers/ guarantors did not pay the outstanding dues. The Company did not initiate any legal action for enforcement of security as provided under clause 15.2 of lending policy (December 2015).

Thus, the inaction of the Company in declaring the loans as NPA, recalling the loans, enforcing the security, exploring the option of selling the NPA to Asset Reconstruction Companies and filing a civil suit against the Loanee within the time prescribed as per the terms of its lending policy, resulted in non-recovery of ₹ 191.36 crore towards principal and interest in the above three loan cases.

The Management stated (November/December 2015) that:

(i) **BIL** had availed credit facilities from various banks and the share of the Company was only 5% approx.The Corporate Debt Restructuring (CDR) was approved (May 2013) by the CDR Cell, and therefore STCI did not initiate recovery proceedings alone by filing suit in the court of law immediately as it was felt that common action by all lenders would be more effective than individual action by each lender. However, the CDR package failed (March 2014). It is only after State Bank of India, the lead banker of the consortium, sold its assets (March 2015) to another Asset reconstruction Company that recall notice was issued in August 2015. The action initiated under Negotiable Instruments Act continues.

(ii) **EHDL**expressed its inability to repay the dues as the group is in infrastructure sector and many of its projects were struck due to adverse economic conditions, delayed payments from various authorities, difficulty in completing road projects due to various hurdles, resulting in increase of debt. The share prices declined continuously which restricted the efforts to liquidate the stock. The client had been servicing interest with some delays upto April 2014, due to continuous follow up and persuasion from the Company. The additional land parcels were obtained as security only after extreme pressure from the Company. Recall Notice was issued on 30 October 2015 and the Company is in the process of filing suit for recovery of dues.

(iii) **CIPL & STPL**were unable to provide additional margin by way of pledge of shares or deposit of cash margin. As a result of free fall of TTL shares in stock markets (August 2012), no lender could sell any shares. To provide further assistance for the successful implementation of the CDR package, the individual loan was sanctioned against available asset cover on the residential property of the promoter already mortgaged to another lender. The CDR package could not be implemented due to various reasons. The Board of the Company has approved (7 November 2015) initiation of arbitration proceedings against STPL and individuals and filing of suit against CIPL.

(iv) The accounts declared as NPA are reported to CIBIL by way of monthly updation of data.

The Ministry stated (January 2016) that the matter was taken up with RBI and RBI has intimated that STCI Finance Ltd. had classified the accounts mentioned as NPA and that it has no comments to offer on the recovery process adopted by the Company.

The reply is not tenable as the Company being an independent NBFC and having first charge on assets of BIL, should have taken appropriate and timely action to recover the dues, when the CDR package failed or when the borrower came forward for one time settlement. No legal action was initiated against the defaulters. The Company's decision to not initiate recovery proceedings did not yield expected result since SBI, the lead banker of loan to BIL sold its loans to an Asset Reconstruction Company in March 2015 without intimation to the Company. In respect of the borrower EHDL, the value of security shares with the Company was only ₹ 0.14 crore and the value of additional security in the form of agricultural land was ₹13.36 crore as against the loan amount outstanding of ₹ 25 crore. Further, the probability of recovery through the guarantor was also not certain as even at the time of sanction of loan, the credit report for the guarantor showed overdues. In the case of loans to CIPL, STPL and the promoters, the security available in the form of 2.78 crore pledged shares of TTL are not disposable and second charge on the residential property of ₹ 109 crore in respect of the borrowers against the loan of ₹ 115 crore will not be sufficient to secure the interest of the Company. Further, the additional loan of ₹ 15 crore, was extended without obtaining any additional security.

Thus, the failure of the Company to initiate appropriate action as per provisions of its Lending Policy and terms & conditions of Facility Agreements resulted in bad loans and blocking up of Company's own funds to the extent of ₹152 crore and loss of interest of ₹ 39.36 crore thereon.

United India Insurance Company Limited

7.4 Avoidable payment of insurance claim due to excess retention of risk

Due to failure to arrange Facultative (FAC) reinsurance before underwriting of risk beyond its automatic capacity, UIIC had to pay an avoidable claim of ₹ 8.93 crore

United India Insurance Company Limited (UIIC) (the Company) issued (March 2009) a Marine cum Erection Policy[1] to BHEL Pipava Project (the insured) covering a period from 20 March 2009 to 19 March 2012 for a sum insured of ₹ 1,501.04 crore. The Per Bottom Limit (PBL[2]) in the policy was ₹150 crore and the company's share of PBL was ₹ 135 crore as risk shared between the company and Oriental Insurance Company was in the ratio of 90:10. The Company's automatic capacity[3] was ₹103.50 crore. Despite the fact that PBL was more than its automatic capacity, the company did not arrange facultative reinsurance for excess insurance coverage of ₹ 31.50 crore (i.e., ₹ 135 crore – ₹ 103.50 crore).

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[1] ***Policy No.500300/21/08/02/000001360 issued at New Delhi date 20 March 2009***

[2] ***PBL is the maximum value of consignment in a single transit declared by the insured covering marine cargo risk.***

[3] ***Automatic capacity = ₹103.50 crore [Obligatory ₹13.50 crore + Net retention of ₹10 crore+(inter-group treaties + surplus treaties) of ₹80 crore]***

The insured (BHEL) reported a loss of ₹114.48 crore under the policy due to damage caused (August 2009) to gas turbine while carrying it to Pipavav site. The final insured value for this consignment was ₹130.18 crore. The Company assessed the loss at ₹ 83.95 crore and approved (October 2013) net claim of ₹ 75.44 crore after deducting ₹ 8.51 crore towards non-protection of recovery rights. The company paid its share of ₹ 67.90 crore from net approved claim. Thus, the company made an avoidable payment of ₹ 8.93 crore[1] due to non-arrangement of facultative reinsurance for risk covered beyond its automatic capacity.

The Management while accepting the audit point stated (December 2013) that facultative reinsurance was not arranged for the consignment due to non-receipt of prior information with regard to the transit of the consignment and further stated that the variation in reinsurance program was approved (March 2011) by the competent authority while settling the claim. Ministry has endorsed (March 2015) the view of the management.

The Management's Ministry's reply is to be viewed in the light of the fact that as the Per Bottom Limit was more than automatic capacity, the company was required to take Facultative reinsurance for the insurance coverage exceeding its automatic capacity while underwriting the risk. No specific approval for the deviation from approved RI program was accorded by the competent authority.

Thus, due to failure to arrange Facultative reinsurance before underwriting of excess risk beyond its automatic capacity, the Company had to sustain an avoidable payment of claim of ₹ 8.93 crore.

[1] ***Avoidable claim payment: Total net claim (₹75.44 crore)*90 per cent (i.e. ₹67.90 crore) *13.18 per cent (i.e. ₹8.95 crore) minus proportionate premium income (₹1.78 lakh)=₹8.93 crore***