CHAPTER X: MINISTRY OF FINANCE

Insurance Division

National Insurance Company Limited

10.1.1 Loss due to charging premium at incorrect rate

The Company suffered a loss of premium amounting to Rs.4.41 crore due to application of incorrect rate on tank farms and associated properties of Indian Oil Corporation Limited during August 2004 to July 2005.

As per All India Fire Tariff (Section VII), premium of Rs.3.50 *per mille* was chargeable for Tank Farms/Gas holders located outside the compounds of Industrial/Manufacturing risks and containing liquids flashing at 32^0 C or below. The associated properties such as pumping stations, compressor houses *etc*., were also to be charged at the rates at par with the tanks.

The Delhi based Divisional Office of National Insurance Company Limited (Company) issued standard fire and special perils policy to Indian Oil Corporation Limited for the period 1 August 2004 to 31 July 2005 covering the insured's property and various assets situated at their Salaya Mathura Pipeline (SMPL) for sum insured of Rs.2,651.96 crore of which Rs.2,277.84 crore was for tank farms, tank contents and pump stations and terminals at Viramgam, Vadinar and Chaksu.

It was observed in Audit (December 2004) that SMPL was a crude oil pipeline and its tank farms at Vadinar, Viramgam and Chaksu were meant for storage of crude oil which had flash point below 32^0 C. The Company however, charged premium at the rates ranging from 0.95 to 2.00 *per mille* on these tank farms, their contents and associated properties instead of prescribed rate of Rs.3.50 *per mille*. Due to charging premium at incorrect rate the Company suffered a loss of revenue of Rs.4.41 crore[*].

The Management stated (July 2007) that the policy was issued on the basis of details furnished in tender documents. The tender documents issued by Indian Oil Corporation Limited did not mention the flash point of crude oil. The Ministry endorsed (July 2007) the reply of the Management.

The reply was not acceptable. As the rates were dependent on the flash point of the property being insured, the underwriting office should have ascertained this information before quoting the rates against the tender.

[*] ***Difference between the premium (including earthquake premium) chargeable by the Company after applicable discounts and the premium charged by the Company***

10.1.2 Under loading of premium

A Divisional Office of National Insurance Company Limited renewed a Group Mediclaim Policy without loading premium on account of adverse claim ratio as per the terms of the policy resulting in under charge of premium by Rs.58.16 lakh.

Durgapur Divisional Office (DO) of National Insurance Company Limited (Company) issued (February 2003) a Group Mediclaim Policy customised to the requirements of M/s. Alstom Projects India Limited at a premium of Rs.21.35 lakh. The Head Office of the Company in according the *ex post facto* sanction prescribed that the claim ratio should be maintained at 70 *per cent* on "as if" basis. The policy was renewed at a premium of Rs.28 lakh for the year 2004-05.

It was noticed in Audit (May 2006) that at the time of issuing the policy, the DO of the Company did not ascertain the incurred claim ratio (ICR) from New India Assurance Company Limited (NIA) and relied on the verbal statement of the insured that there was no adverse claim experience with the erstwhile insurer. Audit scrutiny revealed that prior to 2003-04, the insured had a Group Mediclaim Policy with NIA and the ICR for the same was 315.65 *per cent* for the year 2001-02 which was subsequently replaced by individual policies in the year 2002-03. Further, at the time of renewal of the policy for 2004-05, the DO ignored the instructions of the Head Office to maintain 70 *per cent* ICR and loaded the premium to the extent of Rs.5.27 lakh only instead of Rs.63.43 lakh[*] as warranted by the ICR of 285 *per cent* for the period 2003-04 to maintain a claim ratio of 70 *per cent*. Thus, the DO did not base its premium on a proper assessment initially and thereafter, did not observe the terms of approval of the policy at the time of renewal resulting in under charge of premium of Rs.58.16 lakh.

The Management stated (May 2007) that the Group Mediclaim Policy was issued in 2003 by relying on the insured's version regarding past ICR and the decision of under loading at the time of renewal was prompted by stiff competition, as well as expectation of obtaining other profitable business from the insured.

The reply was not tenable in view of failure on the part of the DO to comply with the specific instructions of its Head Office resulting in loss of premium of Rs.58.16 lakh.

The matter was reported to the Ministry in May 2007; reply was awaited (November 2007).

10.1.3 Loss due to charging incorrect rates

The Company charged fire premium at incorrect rates while issuing standard fire and special perils policies to an insured during 2003-04 and 2005-06 resulting in loss of Rs.40.91 lakh.

According to the provisions of All India Fire Tariff (Section VI), premium on the storage risks located outside the compounds of industrial/manufacturing risks is charged as per

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[*] ***Worked out on the basis of 70 per cent ICR on net premium before service tax***
(285*100/70) less100=307.14
20,65,272*307.14=Rs.63,43,276

the nature of goods, *i.e.*, hazardous or non-hazardous. Based on the Tariff Advisory Committee notification regarding categorisation of paddy in June 1998 and subsequent clarification issued in July 1999 and August 2004, paddy was to be categorised as hazardous goods and the premium charged accordingly.

The Delhi based Divisional Office of the Company issued Standard Fire and Special Perils Policy to M/s. KRBL Limited for the period 2 April 2003 to 1 April 2004 covering the insured's rice mill at Gautam Budh Nagar for Rs.222.20 crore of which Rs.122.40 crore was for the stock of rice, paddy and packing materials stored at its various godowns outside the rice mill premises. A similar policy was issued covering the period 2 April 2005 to 1 April 2006 for sum insured Rs.293.90 crore of which Rs.159.90 crore pertained to stock of rice, paddy and packing materials. In these policies the Company charged premium @ Re.1.00 *per mille* (rate applicable for non-hazardous goods) on the stocks of rice, paddy and packing material at godowns outside the rice mill instead of chargeable rate of Rs.2.50 *per mille* (rate applicable for hazardous goods) and lost Rs.40.91 lakh due to application of incorrect rate[*].

The Management stated (June 2007) that the subject matter covered in various godowns was incorrectly indicated due to typographical error as 'Stock of rice and/or paddy and/or packing materials" instead of 'rice'. The Ministry endorsed (June 2007) the reply of the Management.

The reply was not tenable as the Insured had declared (2005-06) the stock held in godowns as 'Rice and/or paddy and packing material'. Thus, there was a loss of revenue of Rs.40.91 lakh to the Company due to application of incorrect rate.

The New India Assurance Company Limited

10.2.1 Excess settlement of claim

The Company admitted Rs.1.51 crore as increase in cost of working instead of Rs.4.98 lakh resulting in excess settlement of Rs.1.46 crore.

The New India Assurance Company Limited (Company) issued a Consequential Loss (Fire) Policy to Neyveli Lignite Corporation Limited (Insured) for the period from April 2002 to March 2003.

The insured preferred a claim in December 2002 towards loss of profit on account of a fire accident on 4 September 2002 and interruption in generation from 4 September 2002 to 7 October 2002. The Company settled the claim in February 2005 for Rs.16.22 crore. This included *inter alia* reimbursement of Rs.5.03 crore for increased cost of working comprising Rs.3.52 crore towards cost of Oil/Naphtha consumed and Rs.1.51 crore towards saving of gross profit by allowing incentive to the contractor for completing the repairs two days ahead of schedule.

[*] ***The policy for 2004-05 issued by the Company, however, covered the stock of 'rice' only in various godowns as against 'rice paddy and packing material' in other two policies.***

Consequential Loss (Fire) Insurance Tariff – Specification B – Insurance on Gross Profit on output basis stipulates that the insurance cover should be limited to loss of gross profit due to (a) reduction in output and (b) increase in cost of working. The amount payable as indemnity on account of increase in cost of working is the additional expenditure necessarily and reasonably incurred for the sole purpose of avoiding or diminishing reduction in output which but for that expenditure would have taken place during the indemnity period in consequence of the damage. However, it cannot exceed the sum produced by applying the rate of gross profit to the amount of the reduction in loss of output thereby avoided. This means that each item of additional expenditure incurred has to be necessarily compared and limited to the gross profit earned by incurring that expenditure.

Audit scrutiny (March 2006) revealed that the insured paid an incentive of Rs.4.98 lakh to contractor for completing the repairs two days ahead of schedule. The surveyor assessed the loss of gross profit avoided by the above expenditure at Rs.1.51 crore. Similarly, the loss of gross profit avoided by maintaining generation with Oil/Naphtha during interruption period was assessed at Rs.3.52 crore against an expenditure of Rs.13.87 crore on Oil/Naphtha. The Company while settling the claim aggregated the costs (Rs.13.92 crore) and compared these with total figure of gross profit saved (Rs.5.03 crore) and restricted the claim paid to Rs.5.03 crore instead of restricting each item of additional cost to the resultant saving in loss of gross profit *i.e.,* Rs.3.52 crore for additional cost on oil consumed and Rs.4.98 lakh for incentive paid to contractor. Hence, the Company admitted claim of Rs.1.51 crore for early completion of repairs instead of Rs.4.98 lakh by clubbing the same with cost of oil consumed.

The Management stated (May 2007) that as per the tariff expenses necessarily and reasonably incurred for avoiding or diminishing the reduction of turnover were payable. They further added that the aggregate of increased cost of working was compared with and restricted to aggregate reduction in loss of gross profit achieved.

The Management's reply was not tenable. The additional cost of fuel was incurred for maintaining production during the indemnity period whereas the incentive paid to the contractor for early completion was meant to curtail the indemnity period. Hence, the expenditure led to saving of gross profits of different nature and aggregation of costs and loss of gross profit saved was not justified. Thus, aggregation resulted in excess settlement of claim by Rs.1.46 crore.

The matter was reported to the Ministry in June 2007; reply was awaited (November 2007).

The New India Assurance Company Limited and National Insurance Company Limited

10.3.1 Imprudent underwriting resulting in loss of revenue

Underwriting special contingency policy without considering claims history resulted in loss of Rs.2.60 crore.

The Haj Committee of India invited (16 September 2004) bids for obtaining insurance cover under Group Accident Compensation Scheme[1] in respect of Haj pilgrims for the year 2005. The New India Assurance Company Limited, Vile Parle Divisional Office (NIA) issued (14 December 2004) a special contingency policy for 80,000 persons for the period 13 December 2004 to 12 February 2005 at a premium of Rs.64.50 *per* person for aggregate value of Rs.51.60 lakh. The numbers of persons covered were increased to 80,800 on collection of additional premium of Rs.51,600. NIA incurred claims of Rs.1.17 crore under the cover thereby incurring a loss of Rs.76.11 lakh[2]. For the year 2006, National Insurance Company Limited, Divisional Office 12 (NIC) issued (December 2005) a policy covering 98,000 persons for the period 3 December 2005 to 18 February 2006 at a premium of Rs.76.44 lakh applying a rate of premium of Rs.78 *per* person. The numbers of persons covered were increased (January 2006) to 99,700 on collection of additional premium of Rs.1.33 lakh. Against this policy, NIC incurred claims under the cover of Rs.2.24 crore resulting in a loss of Rs.1.84 crore.

It was observed in Audit (September 2006) that in respect of special contingency policy, NIA and NIC did not specify disclosure of claim history in the proposal form. Further, for issuing the policy for 2004-05, NIA initially worked out a premium at the rate of Rs.95 *per* person with a cushion of 10 *per cent* for negotiations. However, it proposed (October 2004) a premium at a rate of Rs.91.39 *per* person which was further reduced (November 2004) to Rs.64.50 during negotiations. NIA also paid (January 2005) brokerage of Rs.6.15 lakh to M/s. Surekh Insurance Services Private Limited even though it was a direct business. For the cover for 2005-06, NIC proposed premium at the rate of Rs.85 *per* person, which was reduced (November 2005) to Rs.78 *per* person considering claim ratio of less than 80 *per cent* for 2004-05 though the actual claim ratio was more than 200 *per cent*.

In response, NIA stated (June 2007) the following:

(i) the reduced premium had been charged to compete with other insurers;

(ii) the insured had informed that in the previous cover, only a few death claims and 100 claims each under money insurance and baggage policy had been made;

(iii) obtaining written confirmation in respect of claims ratio from previous insurers was not feasible considering competition; and

(iv) the business was booked through M/s. Surekh Insurance Services Private Limited as per the letter from Haj Committee;

NIC stated (June 2007) that a large number of claims were reported, which could not be foreseen at the time underwriting the risk.

Response of the Companies was not tenable because they did not ascertain claim history for a reasonable period and negotiated premium below their internal estimates. Thus, to

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[1] ***Covering death/ permanent total/ partial disablement due to accident/ fire/ stampede/ subversive activity, personal accident, in patient treatment expenses incurred in recognised hospitals for not less than 24 hours, loss of cash and loss of baggage***

[2] ***Loss = incurred claims and expenses less net premium excluding service tax***

compete with other PSUs, they fixed premium not commensurating the risk undertaken. NIC had not ascertained the previous claim history and finalised the premium on incorrect assumptions. Further, NIA had procured the business directly in response to a tender without involving the broker, therefore, the payment made to M/s. Surekh Insurance Services Private Limited was irregular.

Thus, finalising premium without considering previous claim history, the companies incurred a loss of Rs.2.60 crore.

The matter was reported to the Ministry in June 2007; reply was awaited (November 2007).

The Oriental Insurance Company Limited

10.4.1 Short recovery of premium due to violation of Tariff

The Company under charged premium of Rs.1.65 crore due to incorrect application of Tariff.

A Coimbatore based Divisional Office of The Oriental Insurance Company Limited (Company) issued (June 2002) a special contingency policy to M/s. Dishnet DSL Limited (Insured) covering electronic equipment, data media, virus, hacking, business interruption, loss of profit and third party liability for the period 26 June 2002 to 25 June 2003. The sum insured was Rs.241.30 crore of which Rs.190 crore pertained to electronic equipment and data media.

The coverage of electronic equipment was governed by All India Tariff on Electronic Equipment Insurance (Tariff), which prescribes a rate of one *per cent*.

Audit scrutiny revealed (May 2005) that the Company had collected a premium of Rs.0.25 crore as against Rs.1.90 crore. This resulted in short collection of premium by Rs.1.65 crore.

The Ministry in reply stated (July 2007) that the policy was reinsurance driven and the question of breach of Tariff did not arise. The Ministry's reply was not tenable. As per Clause 6 of General Regulations of the Tariff all special contingency policies (or similar policies known by any other name) covering electronic equipment fall under the Tariff. In December 1999 the Tariff Advisory Committee decided that only Mega Risks[*] (fire) would be out of the purview of the Tariff.

Thus, the Company suffered a loss of premium of Rs.1.65 crore by issuing the contingency policy to the Insured at lower than the prescribed rates in violation of the Tariff.

[*] ***A risk was termed as 'mega risk' if it fulfilled the criteria of being above the threshold limit of probable maximum loss of Rs.1,054 crore or the sum insured of Rs.10,000 crore or above, at any one location.***

10.4.2 Loss due to undercharge of premium

A Divisional Office of Oriental Insurance Company Limited while underwriting a Group Mediclaim Policy allowed excess discount and under loaded the premium during the period March 1999 to February 2005 resulting in undercharge of premium by Rs.1.02 crore.

Divisional Office -II, Kolkata (DO) of The Oriental Insurance Company Limited (OIC) entered into a Memorandum of Understanding (MOU) with The Bank Employees Co-operative Bank Limited (insured) and agreed (January 1999) to issue a Tailor Made Group Mediclaim 'Excess Loss' Policy covering its employees, members and their dependants. The policy was issued in March 1999 and renewed annually upto 2004-05. The scheme, *inter alia* provided for 100 *per cent* reimbursement of medical expenses by the insurer in the first three years[1] of the cover and in the last[2] three years the insured shared the expenditure to the extent of 65 *per cent*, 45 *per cent* and 55 *per cent* respectively of the total expenditure reimbursed. The guidelines of OIC in this regard (October 1999) required that a maximum of 30 *per cent* of the basic rate of the premium could be allowed as group discount on the basis of the actual number of persons in the group at the beginning of the policy. The underwriting practices also required loading of the premium on renewals so as to maintain incurred claim ratio at 70 *per cent* on 'as if' basis.

It was noticed in Audit (April 2004) that the DO did not adhere to the extant instructions and allowed group discount at a flat rate of 80 *per cent* of the basic premium for the period from 1999-2000 to 2001-02 for which no justification was found on record. This resulted in undercharge of premium to the extent of Rs.80.09 lakh calculated on the basis of discounts admissible under the OIC guideline. The discount was subsequently reduced to 15 *per cent* in 2002-03 and 20 *per cent* in 2003-04 and 2004-05. In none of these years the group discounts allowed had any correlation with the number of the beneficiaries. It was also observed that the premium was not loaded on the basis of the claim experienced. While the premium was overloaded during 2002-03 to the extent of Rs.5.43 lakh, the same was under loaded by Rs.13.65 lakh and Rs.13.99 lakh during 2003-04 and 2004-05, respectively as worked out on the basis of maintaining 70 *per cent* claim experience ratio after considering average of claims experienced in the immediately preceding three years.

Thus, heavy discounts allowed and underloading of the premium in contravention of stated underwriting principles year after year, resulted in undercharge of premium to the extent of Rs.1.02 crore[3]. However, against a total premium of Rs.1.35 crore received during the entire period of the coverage of the policy, claims paid/incurred was Rs.1.73 crore leading to net loss of Rs.38 lakh.

The Management accepted (June 2007) that the discount allowed on the basic premium by the DO was not in conformity with the discounts permitted by the Head Office; but the Mediclaim Policy issued to bank employees and their family members was considered of great importance to the Company since it was expected that the portfolio would indirectly

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[1] ***1999-2000 to 2001-02***

[2] ***2002-03, 2003-04 and 2004-05***

[3] ***Rs.80.09 lakh minus Rs.5.43 lakh plus Rs.13.65 lakh plus Rs.13.99 lakh = Rs.102.30 lakh (say Rs.1.02 crore)***

generate premia in the form of bank insurance portfolios, insurance of bank property, *etc.* However, as the experience was not on expected lines, the policy was discontinued after 2004-05.

The reply was not tenable since neither the DO observed extant instructions of its Head Office as regards group discount and loading of the premium nor sought the approval for deviations in the terms of the tailor made policy for a period of six years. This is also indicative of lack of oversight at the top management level.

The matter was reported to the Ministry in June 2007; reply was awaited (November 2007).

United India Insurance Company Limited

10.5.1 Avoidable excess payment of reinsurance premium

United India Insurance Company Limited obtained excess of loss reinsurance policy to cover the risk retained against the catastrophic events for a part of the year 2005-06 and paid excess premium of Rs.2.59 crore in violation of stipulated treaty conditions.

Catastrophic excess of loss (cat xl) cover is a reinsurance cover for the insurer for protection against numerous losses caused by events like cyclone, earthquake, floods, conflagration, *etc*. United India Insurance Company Limited (Company) arranged cat xl cover to protect its net account (risk retained) from any catastrophic event for the year 2005-06. The cover was to the extent of Rs.335 crore. During the year 2005, two major catastrophic events occurred in India[1], which depleted the Company's existing cat xl cover. Therefore, the Company took (October 2005) another back-up cat xl cover for the period from 14 October 2005 to 31 March 2006 for Rs.335 crore with ALLIANZ SE, Singapore as the lead reinsurer through broker M/s. Heritage Finance and Trust (I) Private Limited, Kolkata.

As per the terms of the back up cover, the estimated Gross Net Premium Income (GNPI)[2] was Rs.560 crore and the minimum deposit premium[3] was Rs.9.99 crore covering losses during the period commencing 14 October 2005 to 31 March 2006. The cover note stipulated that the minimum deposit premium was adjustable at the stipulated rates applicable on the gross net premium income accounted during the period covered by the back up reinsurance. Thus, the actual reinsurance premium payable would be the amount computed at the percentage rates indicated in the reinsurance treaty, on the actual premium accounted during the period 14 October 2005 to 31 March 2006, subject to the minimum deposit premium.

Audit scrutiny revealed (October 2006) that the Company calculated final adjusted premium with reference to the GNPI for the whole year (2005-06) and paid Rs.2.59 crore to reinsurers as adjustment premium, over and above the minimum deposit premium of

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[1] ***Floods in Mumbai and Gujarat***
[2] ***Gross premium less commission paid***
[3] ***Minimum premium payable***

Rs.9.99 crore. The actual GNPI recorded during October 2005 to March 2006 was Rs.263 crore *i.e.*, much less than estimated GNPI of Rs.560 crore. Hence, only minimum deposit premium stipulated was payable.

The Ministry stated (August 2007) that the back up cover was to take care of any loss for the remaining period and was a mere pre-paid reinstatement of the original cat xl cover with same terms and conditions. As the back up cover was a mirror image of the original cover, the adjustment was done as that of the original cat xl programme.

The reply of the Ministry was not tenable as the coverage for the period 14 October 2005 to 31 March 2006 could not be viewed as a reinstatement of the original cover. The cover note clearly specified that the minimum deposit premium was adjustable for the GNPI accounted during the period of cover.

Thus, the payment of Rs.2.59 crore as adjustment premium calculated on the annual GNPI instead of the period covered by the treaty was beyond the terms of the treaty and avoidable.

10.5.2 Loss due to under charging of premium

The Company suffered a loss of Rs.2.27 crore due to inadequate revision of premium charged on renewal of group personal accident policies during 2001-04 and 2004-07.

As per the guidelines of United India Insurance Company Limited (Company) on group personal accident policies and guidelines of Inter Company Coordination Committee on the issue, premium chargeable on group personal accident policies was to be revised upward at the time of renewal so as to bring down the claim ratio to 80 *per cent* for the preceding three years.

The Delhi based Divisional Office (DO) of the Company issued group personal accident policy covering the risk of 53,000 employees of Delhi Police from 19 February 1997 to 18 February 1998 for sum insured of Rs.1.25 lakh *per* person at a premium of Rs.23.85 lakh. Subsequently, the DO renewed the policy for three periods from 1998 to 2001, 2001 to 2004 and 2004 to 2007 for sum insured of Rs. two lakh *per* person charging premium of Rs.1.03 crore, Rs.1.75 crore and Rs.2.54 crore, respectively.

It was observed in Audit (December 2005) that the Company incurred a high claim ratio of 214 *per cent*, 272.92 *per cent* and 174 *per cent* on the policies for the period 1997 to 1998, 1998 to 2001 and 2001 to 2004 respectively. Based on the experienced claim ratio, the premium for the policy covering the periods 2001-04 and 2004-07 was required to be revised to Rs.3.06 crore and Rs.3.50 crore respectively, as per the Company’s own guideline as against Rs.1.75 crore and Rs.2.54 crore charged by the Company. Thus, due to inadequate revision of the premium the Company lost Rs.2.27 crore during the period 2001-2007.

The Ministry in its reply stated (August 2007) that the increase in premium did not keep pace with claims ratio due to constraints posed by severe competition and the business

was neither under tariff or market agreement but was a part of its social obligation. Further, the Company had not been able to recover the amount despite its best efforts.

The reply was not tenable as the premium was not revised as per guidelines. Further, there was no statutory requirement on the Company to meet such a social obligation or recorded evidence that the Company deliberately and consciously renewed the policy to meet any such obligation and bear the loss of Rs.2.27 crore.

10.5.3 Loss due to remittances of Service Tax on provisional basis

United India Insurance Company Limited paid penal interest and also suffered loss of interest amounting to Rs.2.04 crore on short/excess remittances of Service Tax during 2003-04 to 2005-06.

With effect from 1 July 1994 it was obligatory for general insurance Companies to collect Service Tax from the policy holders and remit it to the Government.

The United India Insurance Company Limited (Company) was paying Service Tax provisionally on the premium collected by its operating offices every month and adjusting the differences, if any, at the time of filing the return. Service Tax was to be paid to the credit of the GOI by twenty-fifth of the month immediately following the said calendar month till 2004-05; and from 2005-06 the payment was to be credited by fifth of the succeeding month.

Audit scrutiny (August 2006) revealed that provisional payments of Service Tax resulted in monthly payments falling short of the amounts due during 2003-04 to 2005-06 and therefore, to avoid short payments of the Service Tax during the year substantial amounts were paid towards the end of the respective year. This resulted in excess remittances of Rs.4.10 lakh, Rs.5.96 crore and Rs.14.00 crore during the years 2003-04, 2004-05 and 2005-06, respectively. The excess remittances were adjusted at the time of finalisation of the tax returns. While the short payments settled in subsequent months attracted penal interest of Rs.50.37 lakh for belated payment of Service Tax, the Company also suffered loss of interest to the extent of Rs.1.54 crore on excess remittances which resulted in funds remaining blocked for periods ranging from 32 days to 523 days during 2003-04 to 2006-07.

The Management stated (May/August 2007) that provisional remittances were made as it is difficult to collect data from all its offices before the stipulated date as the operating units function on Genisys, which is a stand-alone system for each unit. Further, in absence of a centralised data base, collection and consolidation was being performed at four different stages at Branch offices, Divisional offices, Regional offices and Head office which involved considerable time and work. The Ministry (August 2007) endorsed the views of the Management.

The reply was not tenable as the Company planned to procure a suitable consolidation and connectivity software as reported in the Company's Annual Report for 2001-02. With the advent of Genisys Operating System in more than a thousand operating units, the Company computerised underwriting business during 2001-02 but connectivity and consolidation software were not installed despite the same being envisaged, which would

have facilitated consolidation of data and payment of Service Tax with reasonable accuracy.

Thus, the Management's failure to establish inter connectivity with the operating units and procure suitable software to elicit information from Genisys resulted in avoidable payment of penal interest of Rs.50.47 lakh on short deposits and loss of interest of Rs.1.54 crore on funds which remained blocked due to excess remittances.