

CHAPTER II MINISTRY OF COMMUNICATIONS AND INFORMATION TECHNOLOGY

DEPARTMENT OF POSTS

Performance Audit of Postal Life Insurance/Rural Postal Life Insurance in Department of Posts

Highlights

- The annual growth in the number of Postal Life Insurance (PLI) policies ranged between four to eight *per cent* during 2002-07. Except “Santosh”, other schemes of PLI have not been very popular and the number of new policies procured under Suraksha, Suvidha, Sumangal and Children Policy has declined consistently during last five years.

(Paragraphs 2.7.1 and 2.7.1.1)

- There has been significant growth in the business of Rural PLI during last five years, however, the percentage growth in the number of policies has come down from 58.43 *per cent* in 2002-03 to only 11.56 *per cent* in 2006-07. In RPLI, the Gram Sumangal, Gram Priya and Children Policy have not been very successful and the number of new policy holders under these schemes are few.

(Paragraphs 2.7.1 and 2.7.1.1)

- Sectoral analysis of PLI indicated that the scheme was largely concentrated in Civil departments, Defence, Post and Telecommunications and PSUs, and had not gained enough popularity among Railways and Public Sector Banks’ employees.

(Paragraph 2.7.1.2)

- DoP failed to achieve the yearly targets set for procurement of business, both for PLI and RPLI during the period from 2002-03 to 2006-07. In case of PLI, the shortfall in targets went up from 17 *per cent* in 2002-03 to 41 *per cent* in 2006-07 and in case of RPLI, the shortfall had gone up from 16 *per cent* to 27 *per cent* during the same period.

(Paragraph 2.7.1.3)

- In the seven circles test checked, there were delays in acceptance of proposals for PLI/RPLI policies. In PLI, four *per cent* of the proposals received during the period 2002-07 were accepted with delays of more than 30 days whereas in RPLI, 23 *per cent* of proposals were delayed for more than 30 days during the same period.

(Paragraph 2.7.2.1)

- **In the eight circles test checked, there were delays in settlement of claims. In PLI, 25 per cent of the claims received during the period 2002-07 were settled with delays of more than 30 days whereas in RPLI, 17 per cent of claims were delayed for more than 30 days during the same period.**
(Paragraph 2.7.2.3)
- **An amount of Rs 148.24 crore remained unadjusted in the books of accounts of eight circles due to non-posting of schedules in the premium ledger accounts/non-receipt of schedules of receipt from field offices as of March 2007.**
(Paragraphs 2.7.2.2 (i) and (ii))
- **A sum of Rs 3.41 crore was paid in excess of the actual bonus admissible during the period from April 2002 to April 2006 in the 10 selected circles due to non-regulation of interim bonus paid at higher rate for the same period.**
(Paragraph 2.7.5.1)
- **In seven circles, Service Tax of Rs 6.23 crore was short/non-recovered from the insurants during the period from November 2004 to March 2007.**
(Paragraph 2.7.5.3)
- **DoP short received Flat Rate Remuneration (cost of working expenses) of Rs 12.30 crore from the Ministry of Finance due to incorrect accounting of lapsed policies.**
(Paragraph 2.7.6.2)
- **While working out the total amount of premium collected during the year 2005-06 and 2006-07, the Department did not include the amount of premium received in respect of wanting schedules. This resulted in short receipt of Flat Rate Remuneration (FRR) amounting to Rs 84.10 crore.**
(Paragraph 2.7.6.2)
- **DoP had to rely on manual system as the software suffered from various deficiencies.**
(Paragraph 2.7.7)

Summary of recommendations

- *DoP may take appropriate measures to accelerate growth of PLI/RPLI business especially in new and non-performing schemes by developing aggressive marketing strategies, ensuring adequate publicity, redesigning the schemes if necessary and providing improved services to the customers.*
- *Time norms for acceptance of proposals and settlement of claims may be reviewed for providing more efficient customer service.*

- *The mechanism for redressal of grievances in circle PLI offices may be strengthened by maintaining complaint registers for close monitoring and settlement.*
- *Quality of maintenance of PLI/RPLI accounts should be improved both in terms of accuracy and completeness by ensuring timely receipt and posting of schedules/vouchers, prompt clearance of unposted items, maintenance of valuation cards, review of lapsed policies etc.*
- *DoP may systematize and effectively monitor furnishing of data to actuary by DPLI Kolkata and Circle PLI offices to ensure timely declaration of bonus and avoid excess payment to the insurants by application of higher interim rates of bonus.*
- *Directorate of PLI should effectively implement its instructions to ensure that Circle PLI offices collect the short/non-recovered amount of Service Tax on premium for depositing the same with the Excise authorities to avoid imposition of penalty at a later stage and loss to DoP.*
- *Decision on investment of the corpus under POIF/RPOIF as per IRDA guidelines should be expedited.*
- *DoP should ensure timely receipt of schedules/vouchers so that the accounts depict correct position of fund balances and consequently interest is correctly worked out and credited to POIF/RPOIF.*
- *The validation checks in respect of CLIP software may be strengthened to ensure integrity of data thereby removing reliance on manual system.*

2.1 Introduction

The Postal Life Insurance (PLI) Scheme is operated through the Post Office Insurance Fund (POIF). PLI was started in 1884 as a welfare measure for the employees of Posts & Telegraphs Department. Due to popularity of the schemes, its benefits were extended to various Departments of Central and State Governments. Presently, PLI is open for employees of all Central and State Government Departments, Nationalized Banks, Public Sector Undertakings, Financial Institutions, Local Bodies like Municipalities and Zila Parishads, Educational Institutions aided by the Government etc. In March 1995, the benefits of PLI were extended to rural populace of the country under the banner of Rural Postal Life Insurance (RPLI) which is operated through the Rural Post Office Insurance Fund (RPOIF). Both funds form a part of the Public Accounts.

The Post Office Insurance Fund had a balance of Rs 10,342.61 crore and Rural Post Office Insurance Fund had a balance of Rs 2,284.92 crore as on 31 March 2007. Year-wise details of balances under POIF/RPOIF are given in Annexure I. As of March 2007, six schemes each were being operated through POIF and RPOIF totalling 30.98 lakh PLI policies and 52.47 lakh RPLI policies respectively. The details of schemes are given in Annexure II.

2.2 Organisational Setup

Both PLI/RPLI schemes function under the PLI Directorate, in New Delhi, headed by a Chief General Manager. He is responsible for policy decisions and control over the PLI/RPLI funds. In all postal circles, there is an administrative and operational unit in respect of PLI/RPLI in the office of Chief Postmaster General (CPMG). The PLI operations in the concerned state are looked after by Divisional Manager (PLI) assisted by Deputy Divisional Manager and Assistant Divisional Managers. RPLI operations are looked after by the Postmaster General in the regions, assisted by Assistant Divisional Manager. The Director, PLI, Kolkata is responsible for central accounting of receipts and payments to/from the PLI/RPLI funds.

2.3 Audit Scope

The performance audit of PLI/RPLI in DoP was conducted during April 2007 to June 2007 covering the period from 2002-03 to 2006-07. Out of 22 Postal Circles, 10 circles¹ were selected for performance audit. In the selected circles, audit was conducted in Circle PLI offices, Circle Postal Accounts Offices, Director PLI Kolkata and PLI Directorate, New Delhi. Performance audit of RPLI was conducted in Circle PLI offices, Circle Postal Accounts offices, Director PLI Kolkata and PLI, Directorate, New Delhi and two Regional PMsG along with the records in the office of CPMsG.

2.4 Audit Objectives

The performance audit of working of PLI/RPLI was taken up with a view to assessing whether:

- The PLI and RPLI schemes were implemented with improved customer satisfaction and achieved the growth targets set for business.
- The accounts in respect of the PLI/RPLI scheme were being maintained properly.
- The internal controls pertaining to PLI/RPLI were adequate to safeguard against misappropriations, frauds and loss.
- The Department was efficiently managing the POI/RPOI funds.
- The operations of the PLI scheme had been effectively computerized to improve efficiency of operations and quality of service.

2.5 Audit Criteria

The following criteria were used in the performance audit:

- Targets for procurement of new policies of PLI/RPLI.
- Scheme-wise and sector-wise growth of business.

¹ Andhra Pradesh, Assam, Bihar, Delhi, Gujarat, Karnataka, Kerala, Maharashtra, North East, West Bengal

- Prescribed time norms for acceptance of proposals and settlement of claims.
- Norms for payment of bonus, deduction of service tax and collection of premium.
- Frequency of inspection of field offices.
- Guidelines for investment of POI and RPOI funds.
- Departmental rules pertaining to compilation and maintenance of accounts.
- Standard IT controls.

2.6 Audit Methodology

The Audit methodology included examination of the records and discussions in entry and exit conferences with the auditee to assess the performance of the PLI/RPLI on the basis of audit criteria broadly outlined above.

2.7 Audit Findings

Audit findings with regard to growth of business, maintenance of accounts, safeguards against fraud and loss, fund management and steps taken for computerization and modernization of PLI/RPLI functions are discussed in the succeeding paragraphs.

2.7.1 Growth of business

The overall growth of the business, in terms of number of active policies and the value of sum assured during the period from 2002-03 to 2006-2007 is given in the following table:

Year (Position as on)	31.3.03	31.3.04	31.3.05	31.3.06	31.3.07
PLI					
No. of active policies (in lakh)	25.65	26.75	28.58	30.98	32.98
Value of sum assured (Rs in crore)	13318.58	15559.39	18747.22	22951.60	26753.17
Percentage growth over previous year (on number of policies)	7.68	4.29	6.84	8.40	6.46
Percentage growth over previous year (on sum assured)	15.69	16.82	20.49	22.43	16.56

RPLI					
No. of active policies (in lakh)	17.16	26.67	37.97	47.03	52.47
Value of sum assured (Rs. in crore)	7187.21	12385.34	18895.93	25229.66	33865.66
Percentage growth over previous year (on number of policies)	58.43	55.41	42.36	23.86	11.56
Percentage growth over previous year (on sum assured)	69.50	72.32	52.57	33.52	34.23

As would be seen from the above table, there has been a steady growth in PLI. The annual growth in number of policies ranged from 4.29 *per cent* in 2003-04 to 8.40 *per cent* in 2005-06. The annual growth in sum assured ranged from 15.69 *per cent* in 2002-03 to 22.43 *per cent* in 2005-06. However, the growth was slow in 2006-07, both in terms of number of policies and sum assured. In the case of RPLI, although the number of policies increased from 17.16 lakh in 2002-03 to 52.47 lakh in 2006-07, there was a continuous decline in annual growth in business during the period. The annual growth in number of policies declined from 58.43 *per cent* in 2002-03 to 11.56 *per cent* in 2006-07. The annual growth in sum assured declined from 69.50 *per cent* in 2002-03 to 34.23 *per cent* in 2006-07. The factors responsible for slow growth of business are discussed in the succeeding paragraphs.

2.7.1.1 Skewed growth of business among different schemes

As of March 2007, six schemes viz. *Santosh* (Endowment Insurance), *Suraksha* (Whole Life Insurance), *Suvidha* (Convertible Whole Life Insurance), *Sumangal* (Anticipated Endowment Insurance), *Yugal Suraksha* (Joint Life Endowment Insurance) and Children Policy were in operation through Postal Life Insurance. Another six schemes namely *Gram Santosh* (Endowment Insurance), *Gram Suraksha* (Whole Life Insurance), *Gram Suvidha* (Convertible Whole Life Insurance), *Gram Sumangal* (Anticipated Endowment Insurance), *Gram Priya* and Children Policy were in operation through Rural Postal Life Insurance.

Audit observed that “Santosh” (Endowment Insurance) scheme, accounted for almost 90 *per cent* of the total PLI policies procured during the period 2002-07. Similarly, in RPLI, “Gram Santosh” (Endowment Insurance) scheme accounted for 90 *per cent* of the business. The business procured in respect of each of the above schemes in the selected circles during the period 2002-03 to 2006-07 is given in Tables 2 and 3 below, which would show the skewed growth of business among different schemes.

Number of new policies procured during the year

Table 2 – PLI

Name of the scheme	2002-03		2003-04		2004-05		2005-06		2006-07	
	No of Policies	%	No of Policies	%	No of Policies	%	No of Policies	%	No of Policies	%
Suraksha	2749	2.43	2726	2.19	1894	1.36	1998	1.45	1403	1.32
Santosh	99840	88.16	111199	89.20	125507	90.29	124368	90.17	96358	90.83
Suvidha	4101	3.62	4221	3.39	3971	2.86	3575.00	2.59	2975	2.80
Sumangal	3670	3.24	3291	2.64	3111	2.24	2734	1.98	1891	1.78
Yugal Suraksha	2891	2.55	3229	2.59	4525	3.26	5108	3.70	3360	3.17
Children Policy*	-	-	-	-	-	-	149	0.11	99	0.09
Total	113251		124666		139008		137932		106086	

Table – 3 (RPLI)

Name of the scheme	2002-03		2003-04		2004-05		2005-06		2006-07	
	No of Policies	%	No of Policies	%	No of Policies	%	No of Policies	%	No of Policies	%
Gram Suraksha	4158	2.95	8333	2.95	7525	2.59	10084	3.81	10341	3.68
Gram Santosh	129466	91.80	257686	91.11	262864	90.63	237859	89.97	245024	87.22
Gram Suvidha	3513	2.49	11392	4.03	15018	5.18	13083	4.95	22866	8.14
Gram Sumangal	1392	0.99	2158	0.76	1839	0.63	1295	0.49	1194	0.43
Gram Priya	2508	1.78	3273	1.16	2779	0.96	2045	0.77	1493	0.53
Children Policy*	-	-	-	-	-	-	1	0.00	2	0.00
Total	141037		282842		290025		264367		280920	

*The Children policy schemes started in 2005-06.

The number of new policies procured under various schemes indicates that five schemes of PLI other than “Santosh” have not been very popular and in fact the number of new policies procured under Suraksha, Suvidha, Sumangal and Children policy has declined consistently during last five years.

In RPLI, the Gram Sumangal, Gram Priya and Children Policy have not been very successful with the number of new policy holders being very few.

Even though the Department had been reviewing these schemes annually, they could not take effective measures to make these schemes attractive enough to garner new business.

2.7.1.2 Skewed sectoral growth of PLI business

Sector-wise policy holding of PLI is shown in the table below:

(Figures in lakh)	
Sector/year	Number of policies (2005-06)
Civil	13.51
Defence	5.45
Posts & Telecom	6.79
Railways	0.39
Banks	0.72
Public Sector Undertakings	4.12
Total	30.98

Sector-wise analysis showed that PLI was not gaining popularity among railways, banks and public sector undertaking employees as compared to other employees of the Central Government.

Audit further noticed that only 19 *per cent* of the Central Government employees opted for PLI scheme in the 10 selected circles as shown in Annexure III. The percentage of PLI holders was low in Bihar (8 *per cent*), North Eastern States (9 *per cent*) and West Bengal (10 *per cent*) as compared to Gujarat (44 *per cent*) and Karnataka (32 *per cent*).

In respect of RPLI, the Department could get business from only three *per cent* of the rural population in the 10 selected circles as shown in Annexure IV.

2.7.1.3 Extent of achievement of targets

The targets are fixed in terms of sum assured on the basis of total number of public servants in the circle, eligible clientele and targets and achievements of previous years. Both in case of PLI and RPLI, DoP could not achieve the yearly targets from 2002-03 to 2006-07. In case of PLI, the shortfall in targets went up from 17 *per cent* in 2002-03 to 41 *per cent* in 2006-07. Similarly, in case of RPLI, the shortfall went up from 16 *per cent* to 27 *per cent* during the same period as shown in the table 4 below.

Table 4

(Rs in crore)				
Year	Target fixed (Sum Assured)	Achievement (Sum Assured)	Shortfall (Sum Assured)	Percentage of short fall
PLI				
2002-03	2538	2110.21	427.79	16.86
2003-04	3427	2846.66	580.34	16.93
2004-05	4785	3830.64	954.36	19.94
2005-06	6000	4533.20	1466.80	24.45
2006-07	7355	4365.99	2989.01	40.64

RPLI				
2002-03	4009	3347.93	661.07	16.49
2003-04	7160	5949.98	1210.02	16.90
2004-05	13300	7207.97	6092.03	45.80
2005-06	13000	8822.89	4177.11	32.13
2006-07	14585	10632.34	3952.66	27.10

Ministry stated (December 2007) that the targets for PLI in terms of Sum Assured was increased from Rs 2538 crore in 2002-03 to Rs 7355 crore in 2006-07 (i.e. by 190 *per cent* in 4 years). The targets were on higher side as compared to the market trend. Every year targets were raised substantially. On the other hand, there was no fresh recruitment of staff in most of the Central Government departments and that imposed a limitation on the business growth for PLI. The introduction of Service Tax on premium w.e.f 18.4.2006 and decrease in the bonus rates in the year 2002-03 had also affected adversely the business procurement in recent years. Even then in terms of Sum Assured, growth of business in the last four years are 97 *per cent* and 234 *per cent* respectively for PLI and RPLI respectively.

The reply is not tenable as DoP failed to popularise all its schemes except Santosh and Gram Santosh. Besides, PLI failed to penetrate into sectors like railways, banks and public sector undertaking employees. Further, the penetration levels of RPLI in many states remained very low.

2.7.2 Efficiency of Operations

Audit examined efficiency of operations of PLI/RPLI in the following areas:

- Prompt acceptance of proposals.
- Timely posting of schedules and proper maintenance of accounts.
- Timely issue of maturity and default notices.
- Prompt settlement of claims on maturity, surrender or death.
- Speedy redressal of grievances.

Deficiencies noticed are discussed in the succeeding paragraphs.

2.7.2.1 Delay in acceptance of proposals

Departmental rules stipulate that every proposal from the insurant has to be accepted within 30 days of medical examination. However, Audit scrutiny revealed that in seven² out of 10 circles test checked, there were delays beyond 30 days in acceptance of proposals both in respect of PLI and RPLI. In PLI, out of 6.40 lakh proposals received during the period 2002-07, 28,000 proposals, constituting four *per cent* of total number of proposals received, were delayed. The position was more severe in the case of RPLI, where out of 23.22 lakh

² Andhra Pradesh, Assam, Gujarat, Karnataka, Maharashtra, North East and West Bengal

proposals received during the period 2002-07, 5.34 lakh proposals, constituting 23 per cent of proposals received were accepted with delays beyond 30 days. The details are given in Annexure V.

The Ministry in their reply stated that delay in acceptance of proposals was expected to reduce after computerisation and networking as the PLI Directorate had taken up the computerisation plan right up to the levels of Divisional Offices and Head Offices.

Even though PLI was computerised long back during 1990-91 to 1996-97, DoP had not been able to reduce the maximum time for acceptance of proposals, which continued to be 30 days. In the present competitive scenario, DoP should curtail the time period for acceptance of proposals so that they can attract more customers.

2.7.2.2 Quality of maintenance of accounts

Proper maintenance of accounts is essential for ensuring that the premia received from insurants as well as debits are promptly posted to their ledger accounts. This would enable prompt issue of default and maturity notices, besides avoiding delays in processing and settlement of claims. This would also obliterate the present practice of making final payments on the basis of premium receipt book required to be produced by the customer at the time of preferring claims as settlement can be done on the basis of updated ledger accounts. Proper maintenance of accounts also provides a strong internal control environment. At the macro level, proper maintenance of accounts would ensure that the receipts and payments to/from the PLI/RPLI funds are properly reflected in the books of accounts. The deficiencies noticed by Audit in maintenance of accounts are discussed in the succeeding paragraphs.

(i) *Non-receipt and non-posting of schedule of receipts*

Insurance premia are realised every month. While the first premium is payable only in cash at the Post Office, the subsequent premia may be paid either in cash or by deduction from monthly salary bills of the insurer. The Post Offices, after booking the amount under PLI premium receipts, prepare a schedule of receipt and send the same to the respective Circle postal accounts office for onward transmission to the concerned Circle PLI Office. On receipt of schedules, the Circle PLI Office prepares and maintains a premium ledger account of insurants so as to readily detect omissions and short payments of premia.

Test check of records in PLI Directorate revealed that as of August 2007, 16,385 schedules of receipts were wanting from the field units in respect of PLI/RPLI. These wanting schedules relate to the period 1997 to 2007. Further, 14,175 schedules pertaining to the period April 1996 to August 2007 which had already been received, were not posted in the Premium Ledger Account of PLI/RPLI. Of these, 13,790 schedules were delayed in posting for more than one to 11 years.

Audit also observed that due to non-posting of all the schedules, final payments were made by DoP on the basis of premium receipt book produced by

the customer. Delays in receipt/ posting of schedules not only affected the accuracy of PLI/RPLI accounts, it also impacted the customers satisfaction adversely as insurant had to maintain premium receipts for the entire period of insurance to claim the benefits.

The Ministry in their reply stated that the position was being monitored through monthly reports and circles had been directed to take needful action in this regard.

(ii) Premium amounts lying unadjusted

Unposted items may occur in cases of insurants whose policy numbers are either wanting or were incorrectly quoted in the schedules. Such items are noted in the unadjusted item register, and Circle PLI offices are required to obtain necessary details from the respective post offices for their prompt clearance.

Audit scrutiny of the records of Circle PLI offices in 10 selected circles revealed that an amount of Rs 148.24 crore was lying unadjusted in eight out of 10 circles as of March 2007 due to non-posting of schedules in premium ledger account or for want of information for posting in the premium ledger account as shown in table 5 below.

Table 5

Sl No	Name of the Circle	Unadjusted Amount (Rs in crore)
1	Assam	2.95
2	Bihar	2.63
3	Delhi	0.17
4	Gujarat	28.38
5	Karnataka	47.78
6	Kerala	19.66
7	Maharashtra	46.52
8	North Eastern	0.15
Total		148.24

Further, it was also noticed that in Delhi, Gujarat, Karnataka and Maharashtra Postal circles, the annual rate of clearance of unadjusted items was either nil or low as compared to the annual rate of addition of these items during the period 2002-05.

The Ministry in their reply stated that all the circles were being directed to conduct a drive to clear unadjusted items which would also be monitored through monthly reports.

(iii) Lapsed Policies

As per the departmental rules, a policy shall be treated as lapsed in case the policy holder fails to pay within the period of grace the premia that have become due against his/her policy.

A test check of records in the 10 circles, for the years 2002-03 to 2006-07 showed that in all the 10 circles, the details of lapsed policies were not maintained and non-credit notices to the insureds were not issued to facilitate updating of ledger cards. After computerisation, PLI Directorate supplied software to Circle PLI offices for identifying the lapsed policies. As the posting of premium recoveries were in arrears in Circle PLI offices, they could not generate the list of lapsed policies.

The Ministry in their reply stated that all the circles had been directed to conduct a drive for issue of notices to insureds in respect of non-credits.

(iv) Pendency of valuation cards

Valuations cards³ contain vital information regarding policies issued during the year which is needed by the actuary for biannual verification of fund balance and declaration of bonus. As soon as a policy is issued, a valuation card is prepared and sent to DPLI Kolkata who in turn prepares the statement. As per Monthly Status Report (MSR) of March 2007, 1.33 lakh valuation cards in respect of PLI policies and 6.01 lakh valuation cards in respect of RPLI policies for the period 2004-2007 were pending for dispatch to DPLI Kolkata in various postal circles.

The Ministry in their reply stated that circles had been instructed to send all pending valuation cards to DPLI, Kolkata.

2.7.2.3 Delay in settlement of claims

Any person, who desires to receive payment of a policy either on its maturity or on death of the insured person, is required to submit an application sufficiently in advance of the date of maturity of the policy. Rules prescribe that claim cases should be taken up by the Department for processing at least one year in advance of the month of the last instalment of premium. In case the claim is not settled within 30 days from the date of receipt of insurer's application or date of maturity whichever is later and the delay is attributable to administrative delays, the Department is liable to pay interest on the unsettled amount of claim for the delayed period.

Audit scrutiny of the records of Circle PLI offices in the 10 selected circles revealed that in eight⁴ out of 10 circles test checked, there were delays in settlement of claims both in respect of PLI and RPLI beyond 30 days. In respect of PLI, out of 2.70 lakh claims received during the period 2002-07, 68,000 claims, constituting 25 *per cent* of total number of claims received, were settled with delays. Similarly, in respect of RPLI, out of 47,000 claims received, 7900 claims, constituting 17 *per cent* of the claims received were settled with delays beyond 30 days. The year-wise details are given in Annexure VI.

³ These cards are prepared in respect of each insured and contain information such as date of birth, date of acceptance of policy, date of maturity, details of premium payable, mode of payment, last premium due etc.

⁴ Andhra Pradesh, Assam, Bihar, Gujarat, Karnataka, Kerala, Maharashtra and West Bengal.

Circle PLI authorities stated that as the missing credits details were not readily available due to non-receipt of schedules/vouchers from HPOs and also due to arrears in posting of vouchers in ledger cards by the Circle PLI, the settlement of claims was delayed. The Ministry in their reply stated that the PLI Directorate is introducing computerisation and networking up to the level of HPOs, which is expected to avoid delay in settlement of claims.

2.7.2.4 Non-maintenance of complaint registers

Maintenance of a complaint register is essential for effective monitoring and redressal of public grievances. However, it was noticed that none of the 10 selected circles were maintaining complaint registers to monitor receipt and settlement of complaints received from the customers. The Ministry in their reply stated that circles had been instructed to maintain complaint registers in respect of PLI/RPLI claims.

2.7.3 Marketing staff

The marketing of insurance schemes in the Department is carried by Development Officers (DO) who are postal employees and by Field Officers (FO) who are retired government employees. Audit observed that DoP had only 185 DOs and 363 FOs posted in 593 districts and 841 Head Post Offices under 23 circles in the country for marketing and promotion of the PLI/RPLI business.

The Ministry in their reply stated that recommendations made in this para would be kept in view in decision making process.

2.7.4 Non-utilization of funds allotted for publicity of PLI/RPLI

Advertisement and publicity is an essential element of business strategy for achieving faster growth and attracting new customers in the competitive environment today. Despite slow growth in many schemes of PLI/RPLI, DoP did not intensify its advertisement and publicity campaign for its insurance products to attract more business. The year-wise utilisation of funds allotted for advertisement and publicity of PLI and RPLI for the period 2004-07 is given in the table 6 below.

Table 6

Year	Funds Allotted	Actual Expenditure	Savings	(Rs. in lakh)
				Percentage utilisation
2004-05	68.90	37.49	31.41	54.41
2005-06	40.00	20.83	19.17	52.08
2006-07	64.00	16.74	47.26	26.16

PLI Directorate failed to utilize the funds allotted for advertisement and publicity of PLI and RPLI. The PLI Directorate utilized 26.16 *per cent* to 54.41 *per cent* funds during these three years. Rs 97.84 lakh was surrendered due to non-utilization of funds towards publicity of PLI and RPLI during the last three years.

The Department stated that the proposal for advertisement in print and electronic media could not materialize in time. Advertisement and publicity are

very vital for popularising and attracting new customers especially when competition in the insurance sector has increased due to entry of private players. DoP must handle these operations on commercial lines in a more competitive way by improving its efficiency, adequately publicising its products through appropriate media and substantially improving customer service and satisfaction levels.

The Ministry in their reply stated that all concerned had been instructed to utilise the allotted funds in future.

Recommendations

- *DoP may take appropriate measures to accelerate growth of PLI/RPLI business especially in new and non-performing schemes by developing aggressive marketing strategies, ensuring adequate publicity, redesigning the schemes, if necessary, and providing improved services to customers.*
- *Time norms for acceptance of proposals and settlement of claims may be reviewed for providing more efficient customer service.*
- *The mechanism for redressal of grievances in circle PLI offices may be strengthened by maintaining complaint registers for close monitoring and settlement.*
- *Quality of maintenance of PLI/RPLI accounts should be improved both in terms of accuracy and completeness by ensuring timely receipt and posting of schedules/vouchers, prompt clearance of unposted items, maintenance of valuation cards, review of lapsed policies etc.*

2.7.5 Inadequate internal controls

Establishing an effective internal control mechanism involves assessment of the risks, the organization faces both externally and internally. Control measures such as close monitoring, timely reconciliation, systematic review and reporting, compliance with regulations, regular inspections and prompt investigations are necessary to check occurrence of fraud, misappropriations and theft in an organization. The deficiencies observed by Audit in internal controls in respect of operation of PLI/RPLI schemes are discussed in the succeeding paragraphs.

2.7.5.1 Excess payment of bonus due to delay in declaration of rate of bonus

The PLI Directorate in April 2004 notified the rates of bonus on the Postal Life Insurance policies for the year ending March 2002. The circles were instructed to pay interim bonus at the rates notified for the year ending March 2002, for all claims arising due to maturity or death during the period from April 2002 to December 2004. In May 2006, the Directorate while notifying the rates of bonus on the Postal Life Insurance policies for the year ending March 2004 instructed the circles to apply the rates of bonus for the year 2003-04 from the date of receipt of this notification in their circle. Further, it stated that interim bonus at the rates notified for the year ending March 2004 would also be payable for all claims arising due to maturity or death until future valuation is completed.

The bonus on various insurance policies for the period ending March 2004 was less than the bonus on policies for the year ending March 2002. However, bonus was paid at the higher rate fixed by the PLI Directorate in 2002. As a result, a sum of Rs 3.41 crore was paid in excess of the actual bonus admissible, during the period from April 2002 to April 2006 in 10 Postal circles⁵ test checked in audit as detailed in Annexure VII. Delay of two years in declaring bonus highlights inefficiencies of the DPLI Kolkata and Circle offices in coordinating and furnishing basic data to the actuary.

On this being pointed out by Audit, the PLI Directorate, Delhi stated that the declaration of bonus was made on the basis of the report of the actuary which was delayed due to delay in furnishing of data by DPLI Kolkata. Late receipt of data from the circles and shortage of staff in the office of DPLI Kolkata were stated to be the main reasons for delay in furnishing of data to the actuary.

The reply is not tenable, as the department should have furnished the relevant data to the actuary in time. Delay in furnishing information is leading to excess payments which remained unrecovered. The Ministry, in their reply stated that effort would be made to expedite the valuation work in future to avoid delays in declaration of bonus.

2.7.5.2 Irregular payment of bonus

The PLI Directorate in November 2003 instructed that bonus was not payable on insurance policies surrendered after expiry of three years but before five years and proportionate bonus was to be paid on the policies surrendered after completion of five years from the date of commencement. However, it was observed that Rs 39.46 lakh was paid irregularly as bonus on policies surrendered during three to five years from the date of commencement, in four⁶ out of ten circles test checked in audit. Similarly, bonus of Rs 2.56 lakh was paid in excess on the policies surrendered after five years. The details are given in the table 7 below.

Table 7

(Rs. in lakh)

Name of the Circle	Excess payment of bonus		Total excess payment	
	For policies surrendered within 5 years	For policies surrendered after 5 years	Before receipt of orders	After receipt of orders
Maharashtra	37.53	0.57	33.53	4.31
West Bengal	0.25	0.11	-	0.36
Assam	0.71	1.82	-	2.53
N.E.	0.97	0.06	-	1.03
Total	39.46	2.56	33.53	8.23

⁵ Assam, Andhra Pradesh, Bihar, Delhi, Gujarat, Karnataka, Kerala, Maharashtra, North East and West Bengal

⁶ Assam, Maharashtra, North East and West Bengal

On this being pointed out in audit, Department stated that the overpayment was made due to late receipt of orders due to non-receipt of updated software in time.

Reply is not tenable as the overpayment was also made after the receipt of orders and continued till November 2004. Further, the Department could have calculated the bonus manually till the receipt of updated software as mentioned in the orders dated November 2003.

The Ministry, in their reply stated that 50 *per cent* of the irregular payments of bonus have been recovered and efforts would be made to recover the balance amount.

2.7.5.3 Non/short realization of Service Tax

Finance Act, 2004 (Amended) stipulated that service tax was payable by an insurer on the risk cover in the life insurance effective from 10 September 2004. Thus service tax was payable by the insurer of PLI/RPLI policies on the risk portion from 10 September 2004. The PLI Directorate, New Delhi also instructed all the circles in April 2005 that service tax and educational cess should be charged from the insurants at the prescribed rates from 1 April 2005 including arrears of service tax, if any, relating to previous years. Again the PLI Directorate, New Delhi in June 2006 issued instructions to Heads of circles to recover service tax and prescribed two sets for calculation of service tax on risk premium i.e. for policies taken before 18 April 2006 and for policies taken on or after 18 April 2006.

Audit noticed that seven⁷ out of 10 circles had either not recovered or short recovered service tax from the insurants contrary to the above mentioned provisions, which resulted in non/short realization of service tax amounting to Rs 6.23 crore for the period November 2004 to March 2007 as detailed in Annexure VIII. Further, it was also noticed that DPLI, Kolkata had not taken any action to register centrally with Excise Authorities and did not pass the amount of service tax and educational cess collected from various circles.

On this being pointed out, the Department stated that service tax non/short realized would be collected from the insurants and action would be taken to register centrally with the Excise Authorities.

2.7.5.4 Short collection of premium

For calculating premium of PLI policies, the age at entry should be arrived at by deducting the year of birth from the year in which the next birthday falls. The rate per thousand thus arrived at should be taken from relevant table of premia printed in the Post Office Insurance Fund Rules and actual rate payable for the amount of proposed insurance worked out by multiplication or division, as the case may be. Audit scrutiny of 10 selected circles revealed that in two circles, namely Maharashtra and Karnataka, premium was wrongly calculated in respect

⁷ Assam, Andhra Pradesh, Bihar, Delhi, Karnataka, Kerala and Maharashtra

of PLI/RPLI policies. This resulted in short collection of premium of Rs 9.84 lakh in 123 cases.

The Ministry, in their reply stated that Karnataka and Maharashtra circles had been directed to take corrective measures.

2.7.5.5 Irregular settlement of death claims

Departmental rules stipulate that cases of early death i.e before completion of three years from the date of acceptance of a policy should be investigated thoroughly to enquire if the insurant while submitting the proposal had suppressed material information which otherwise would not allow the insurant to be eligible for PLI. It should be examined whether insurant was suffering from any disease prior to taking of a policy or whether there was any deliberate attempt on the part of Development Officers/Field Officers/Agents or other field staff to insure substandard life or to cause loss to fund balance. The Chief Postmasters General were to sanction death claims after satisfying themselves on the above lines. Death claims up to Rs 60,000 could be settled by Secretary, Post based on recommendation of CPMG. During audit, it was noticed that 11 early death cases i.e before completion of three years from the date of acceptance of the policy were settled during 2003 to 2005 in Bihar Circle without referring the cases to PLI Directorate New Delhi for obtaining approval of Secretary, Posts. On this being pointed out, the Deputy Divisional Manager (DDM) PLI, Bihar Circle replied that the cases were not referred to PLI Directorate inadvertently.

2.7.5.6 Unauthorised revival of lapsed PLI policies resulted in avoidable payment of death claims.

Departmental Rules stipulate that revival of the lapsed policy may be considered by the PLI Authorities subject to the production of a certificate from the employer(s) that the policy holder had not taken any leave on medical grounds during the last one year, or during the entire period of service and a certificate from an authorised medical agent in the prescribed performa certifying that the life assured was insurable having regard to the insurant's health and habits and of evidence to show that there had been no change in his/her personal or family history or his/her occupations. Audit observed that in DDM PLI, Gujarat circle revived three lapsed policies without obtaining requisite medical certificate/ employer's certificate, in violation of Departmental rules, resulting in irregular payment of Rs. 3.21 lakh.

The Ministry in their reply stated that Gujarat Circle had been directed to regularise the cases. Reply is not tenable as adherence to rules must be emphasised by appropriate action against the defaulting officials instead of merely taking regularisation action.

2.7.5.7 Inadequate inspection of field units

As per codal provisions, Chief General Manager / Addl. GM. PLI were to carry out inspection of PLI field units every year in various circles. Audit noticed that all the units were not inspected every year by CGM / Addl. GM. PLI. The

details of units not inspected by CGM / Addl. GM. PLI are given below in the table 8 below:

Table 8

Year	Names of units not inspected
2003	Delhi Gujarat, Haryana, Himachal Pradesh, Jharkhand, Madhya Pradesh, Punjab, Tamil Nadu, Uttar Pradesh and West Bengal
2004	APS, Bihar, Chattisgarh, Delhi, Gujarat, Himachal Pradesh, Madhya Pradesh, Rajasthan and Uttranchal
2005	Assam, Bihar, Chattisgarh, Delhi, DPLI Kolkata, Gujarat, Haryana, Himachal Pradesh, Jharkhand, Madhya Pradesh, Punjab, Uttar Pradesh, Uttranchal and West Bengal
2006	APS, Bihar, Delhi, Haryana, J&K, Jharkhand, Madhya Pradesh, North East, Orissa, Punjab and Uttranchal

It was further noticed that after issuing the inspection reports to the unit inspected, PLI Directorate did not monitor compliance of inspection reports. Thus, the purpose of conducting inspection was defeated.

On this being pointed out, the Department stated that the inspection of PLI units of circles which could not be inspected by CGM PLI was carried out by the heads of circles. The reply is not tenable as the inspections were required to be carried out by CGM / Addl. GM. PLI. Moreover, inspection reports in respect of units inspected by heads of circles were not sent to the PLI, Directorate for monitoring and compliance.

The Ministry in their reply stated that the inspection of field units would be strengthened and all the units would be inspected during the current year.

Recommendation

- *DoP may systematize and effectively monitor furnishing of data to actuary by DPLI Kolkata and Circle PLI offices to ensure timely declaration of bonus and avoid excess payment to the insurants by application of higher interim rates of bonus.*
- *Directorate of PLI should effectively implement its instructions to ensure that Circle PLI offices collect the short/non recovered amount of Service Tax on premium for depositing the same with the Excise authorities to avoid imposition of penalty at a later stage and loss to DoP.*

2.7.6 Management of funds

PLI Directorate is responsible for policy decisions and control over the PLI/RPLI funds. Director PLI Kolkata prepares the annual financial review report of POIF/RPOIF. The report brings out the balances available in the fund after charging all expenses of the Department for conducting the insurance business during the year of review. The deficiencies noticed in management of funds are discussed in the succeeding paragraphs.

2.7.6.1 Non investment of POIF/RPOIF

Consequent to the opening of insurance sector to private operators, the reach of public sector and private players had increased. Ministry of Finance, in March 2004 had advised DoP to examine the rationale to continue with PLI. The

Budget division had further advised that if DoP were to continue with PLI schemes, PLI should be put at par with non-Government provident funds, superannuation funds and gratuity funds in terms of pattern of investment of fund.

Ministry of Finance decided that with effect from 1 April 2005, accretions under PLI would be invested as per the Insurance Regulatory Development Authority (Investment) (IRDA) Regulations 2000 which envisaged that corpus under POIF and Rural POIF as on 31 March 2005 would be frozen and converted into dated securities over a period of three years. This limit was extended twice and finally it was decided that corpus under POIF and Rural POIF would be frozen as on 31 March 2007 and accretions under PLI from 1 April 2007 would be invested as per the Insurance Regulatory Development Authority (Investment) (IRDA) Regulations 2000. No further extension would be considered beyond 31 March 2007.

Audit observed (May 2007) in that the Ministry of Finance and DoP failed to take decision to invest the corpus of Rs10,342.61 crore of POIF and Rs 2,284.92 crore of RPOIF as per guidelines of IRDA. Delay in investment of accretions as per IRDA guidelines is adversely affecting new business opportunities for PLI. In fact, DoP lost an opportunity to get a Group Insurance Scheme for BSNL employees as IRDA had expressed reservation over PLI getting an assured rate of return from Ministry of Finance, as the investment of their corpus of fund was not in line with their guidelines.

The Ministry in their reply stated that investment of POIF/RPOIF was under consideration of the Government.

2.7.6.2 Short receipt of Flat Rate Remuneration and resultant excess credit of interest

DoP receives Flat Rate Remuneration (FRR), the cost of working expenses of Post Office Insurance Fund (POIF) every year from Ministry of Finance, which is debited to Post Office Insurance Fund/ Rural Post Office Insurance Fund (POIF/RPOIF). Till 2004-05, FRR was calculated on the number of active policies available with PLI/RPLI multiplied by a rate fixed every year in consultation with Ministry of Finance. From 2005-06 onwards, the Department switched over from FRR method of calculating the cost of working of Post Office Insurance Fund (POIF) based on number of active policies to a fixed percentage of the premium collected during the year.

The Director PLI Kolkata (DPLI) conducts the annual financial review of the accounts based on statistical information furnished by the circles. The information on lapsed policies is compiled by the Director PLI Kolkata based on the information received from Circle PLI offices and appended as Statement No 2 to the financial review report of POIF.

Audit observed that at the end of 2000-01, PLI Directorate had declared 5.51 lakh policies as lapsed without any documentary evidence. Accordingly, FRR was calculated on number of active policies at the end of each year since 2000-01 after excluding these policies. Subsequently Director (PLI) Kolkata, after

verification of all the records of all Circle PLI offices in the country declared that actual number of lapsed policies were 84,948 only and not 5.51 lakh as declared in 2000-01. Accordingly year-wise data of number of active policies was corrected but the effect of change in number of lapsed policies was not given to FRR which resulted in short receipt of FRR by DoP amounting to Rs 12.31 crore, during 2000-01 to 2004-05 as detailed in table 9 below.

Table 9

Year	No. of policies shown as lapsed	Actual number of lapsed policies	Difference on which FRR was not received	Rate of FRR (in Rs)	Short receipt of FRR (Rs in crore)
2000-01	551083	84948	466135	98.48	4.59
2001-02	551083	84948	466135	79.92	3.72
2002-03	551083	84948	466135	92	4.29
2003-04	551083	84948	466135	67.03	3.12
2004-05	551083	84948	466135	98.48	4.59
Total					20.31
Adjusted amount of FRR for the year 2001-02 and 2002-03					8.01
Balance					12.30

DoP also earns annual interest from Ministry of Finance on the fund balance available at the end of each year. As the cost of Management was understated during the period 2000-01 to 2004-05 because of incorrect assessment of the number of lapsed policies, the closing balance of POIF was overstated by an equivalent amount which resulted in excess credit of interest of Rs 5.31 crore to the fund as detailed in following table.

Table 10

Year	Amount on which interest was not calculated (Rs in crore)	Rate at which interest was calculated (GPF percentage)	Excess interest credited to the POIF fund (Rs in crore)
2000-01	4.59	11	0.50
2001-02	8.31	9.5	0.79
2002-03	12.60	9	1.13
2003-04	15.73	8	1.26
2004-05	20.31	8	1.63
Total	61.54		5.31

Thus, the balance in POIF was overstated by Rs 17.61 crore (Rs 12.30 crore + Rs 5.31 crore) as of March 2005.

Again, from 2005-06 onwards, FRR was to be calculated @ 7 per cent of total premium received in respect of PLI and @ 10 per cent in case of RPLI. However, on verification of Appropriation Accounts of DoP for the year 2005-06, it was noticed that the receipt of premia from post offices was taken on the basis of schedule figures which always remained less than the booked figure as the post

offices were not sending all the receipt schedules. Due to non-inclusion of receipts of premia of wanting schedules in financial review reports of PLI/ RPLI, the FRR was calculated on lesser premium (excluding amount of premia receipts in respect of schedules wanting) which resulted in short receipt of FRR amounting to Rs 84.10 crore for the years 2005-06 and 2006-07 as detailed in the table 11 below.

Table 11

(Rs in crore)

Year	Name of the fund	Amount of premium of wanting schedules	FRR short realized @ 7% of (2) for PLI and @10% of (2) for RPLI
2005-06	PLI	25.36	1.78
	RPLI	322.85	32.29
2006-07	PLI	99.03	6.93
	RPLI	431.00	43.10

The Ministry in their reply stated that arrears of FRR for the years 2001-02 and 2002-03 had been adjusted in 2006-07. The FRR for the remaining years and resultant excess credit of interest would be adjusted during the year 2007-08.

2.7.6.3 Wrong credit of interest to POI/RPOI Fund

The Director PLI Kolkata (DPLI) conducts the annual financial review of the accounts based on statistical information furnished by the Circles. While preparing financial review of POI Fund, the figures of receipts and payments were taken on the basis of schedule figures. If the vouchers of payments made were not received from the Head Post Offices, the PLI cells of the Circle office would not be able to communicate the exact amount of payments made to the DPLI Kolkata. As a result, the schedule figure would be much less than the booked figure. Thus, due to non-inclusion of value of wanting vouchers booked under the major head 8661- Debit Suspense into actual payments made, the payment side shows lesser payments than actually made and the cash balance of the POIF gets inflated on which government pays excess interest on the inflated cash balance of POIF. The effect on accounts of POI Fund during the period from 2002-03 to 2006-07 is given in the table 12 below.

Table 12

(Rs. in crore)

Year	Short receipt of payment vouchers	Rate of interest	Excess interest credited
2002-03	32.83	9.5	3.12
2003-04	83.28	9	7.50
2004-05	125.86	8	10.07
2005-06	216.92	8	17.35
2006-07	262.18	8	20.97
Total			59.01

Thus, the cash balance was inflated by Rs 59.01 crore by way of excess credit of interest due to non receipt of vouchers in time.

Similarly, if the schedules were not received from the Head Post Offices, the RPLI cells of the circle office would not be able to communicate the exact amount of premium mobilised to the DPLI Kolkata. As a consequence, schedule figure would be much less than the booked figure. Thus, due to non-inclusion of premium mobilised in respect of wanting schedules, the receipt side shows lesser receipt than actually made and the cash balance gets deflated resulting in short credit of interest. The effect on account of RPOI Fund, during the period from 2002-03 to 2006-07, is given in following table:

Table 13

(Rs in crore)

Year	Scheduled figure	Booked figure	Difference	Rate of interest	Short credit of Interest
2002-03	510.69	555.32	(-) 44.63	9.5	(-) 4.24
2003-04	756.48	842.43	(-) 85.95	9	(-) 7.74
2004-05	1127.61	1282.30	(-) 154.70	8	(-) 12.37
2005-06	1624.77	1951.40	(-) 326.60	8	(-) 26.13
2006-07	2284.92	2724.04	(-) 439.12	8	(-) 35.00
Total					(-) 85.48

Thus, there was short credit of interest to the tune of Rs 85.48 crore in Rural Post Office Insurance Fund.

Further, in case of PLI, the value of wanting vouchers increased from Rs 32.83 crore in 2002-03 to Rs 216.18 crore in 2006-07. Similarly, in case of RPLI, the value of wanting schedules increased from Rs 44.63 crore in 2002-03 to Rs 439.12 crore in 2006-07. This indicates that the quality of maintenance of PLI/RPLI accounts has deteriorated considerably during the last five years.

The Ministry stated (December 2007) that it would carry out interest adjustments in respect of differences between the scheduled figures and booked figures as and when reconciliation takes place. The Ministry added that receipts and payments of previous years were incorporated in the current Financial Review Reports.

The reply is not tenable as the Department should have ensured timely receipt of schedules/vouchers so that the accounts depicted the actual figures of receipt and payments.

Recommendation

- *Decision on investment of the corpus under POIF/RPOIF as per IRDA guidelines should be expedited.*
- *DoP should ensure timely receipt of schedules/vouchers so that the accounts depict correct position of fund balances and consequently interest is correctly worked out and credited to POIF/RPOIF.*

2.7.7 Computerization of PLI

The Department with the help of the National Informatics centre developed the Computerised Postal Life Insurance System (CLIP) and had installed it in all the circles during 1990-91 to 1996-97. The deficiencies noticed by Audit are discussed in the succeeding paragraphs. Some of the deficiencies were also pointed out by Audit earlier during Information Technology Audit (Report No. 3 of 2005) of the CLIP system conducted in 2003-04. Although, the Ministry in their Action Taken Note had given assurance to take action on the deficiencies in the software pointed out by Audit, some of the deficiencies like acceptance of invalid date of birth, acceptance of invalid codes for modes of payment, acceptance of invalid policy status code and non provision of reconciliation in the system in the postings module still persisted.

2.7.7.1 Threats to data integrity due to deficient internal controls

The internal controls associated with a system should be such that the outputs generated are reliable. 'Validation checks' should be designed so that the system does not accept incorrect data and minimizes business risks.

In a number of instances, the internal controls were inadequate, as discussed below.

2.7.7.2 Acceptance of invalid date of birth

The 'date of birth' field in the 'Proposals' module is required to calculate the age of the insurer and check his/her eligibility for opening a policy. It is one of the crucial fields on the basis of which premia are calculated. Prior to 18 August 2003, the age for entry into a new policy was between 19 and 50 years. The maximum age was revised to 55 years from 18 August 2003.

Sample checks by Audit in the Bihar and Karnataka circles revealed that the system was still accepting those proposals, where the age of the applicants was less than 19 years or more than 55 years prior to 18 August 2003. Though, the Ministry in their Action Taken Note stated that necessary corrections were carried out in the system, it was noticed in Karnataka Circle that the incorrect data fed earlier also remained in the database. In the absence of incorporation of this rule in the system, there was a risk of accepting policies in respect of ineligible persons. The Department accepted and stated that efforts to rectify the errors would be taken in consultation with National Informatics Centre.

The Management accepted the audit observation and stated that efforts would be made to rectify the errors in software in consultation with National Informatics Centre.

2.7.7.3 Acceptance of assured sums in excess of the prescribed limit

The assured sum is another crucial field for the calculation of the premium. Scrutiny in Bihar and Maharashtra circles showed that the system

accepted assured sums below/excess of the prescribed limits, thereby exposing itself to the risk of incorrect calculation of premium.

Name of the circle	No. of cases below the minimum	No. of cases above the maximum
Bihar	233	1
Maharashtra	121	21

The Deputy Divisional Manager, PLI, Mumbai while accepting the facts, stated in May 2007, that the software problem would be rectified after consulting National Informatics Centre engineer and action to regularise the excess/minimum assured sums as per the Post Office Insurance Fund rules would be taken. The Deputy Divisional Manager, PLI Bihar while confirming the facts, stated that it was due to software problem.

2.7.7.4 Acceptance of invalid codes for modes of payment

There are only two modes of payment of premia i.e. cash payments made in the post offices or deductions from salaries. The field 'Mode of Payment' is to be filled in by using the alphabet 'C' for cash recovery or 'P' for pay recovery.

Sample checks in the Assam, Bihar, Gujarat circles revealed that the system was accepting all characters including numerals. In the absence of adequate controls, the system was not in a position to ensure proper monitoring of payments.

2.7.7.5 Acceptance of invalid dates

The application form has three crucial dates i.e. the date on which the applicant signs the proposal; the date on which the applicant signs the declaration and the date on which the proposal is accepted and signed by the competent authority. The date of declaration must be on or after the date of proposal and the date of acceptance must be on or after the date of declaration.

Sample checks by Audit in the Assam, Andhra Pradesh, and Maharashtra Circles revealed instances where the system accepted the date of proposal after the date of declaration. Similarly, the system accepted the date of declaration after the date of acceptance and date of proposal after the date of acceptance.

Unless the system is able to ensure correct capturing of details in respect of individual accounts maintained in the PLI section through rejection of the invalid dates, there were risk of incorrect calculation of premia and incorrect payments of claims.

On this being pointed out, the Deputy Divisional Manager, Mumbai stated that this was a software problem and matter would be brought to the notice of PLI Directorate.

2.7.7.6 Acceptance of invalid policy status codes

Claims are processed and payments are made on the basis of the status of the policies. For the purpose of monitoring, every policy is given a status code such as 'P' for proposals; 'C' for current; 'M' for matured; 'S' for surrendered and

'T' for transferred. The default value for policy status is 'C' in the 'policy status' field.

Sample checks by Audit in Bihar and Karnataka circles revealed that the system was accepting invalid policy status codes such as numerals and alphabets other than the permissible codes. In Karnataka Circle it was observed that the system was showing the status of matured policies as current. Thus, the system cannot be completely relied upon since it contains unreliable data.

2.7.7.7 No provision in the system for reconciliation – 'Postings' module

The Departmental Rules stipulate that the amounts posted in the individual accounts in the PLI section should be totalled and reconciled with the figures in the schedules containing the details of PLI recoveries made at different post offices to ensure correctness of posting of premia in the individual accounts.

The system did not have any provision for such reconciliation. Due to this the correctness of posting of premia in the individual accounts could not be ensured. Unless the system is able to ensure reliability of postings of premia in respect of individual accounts through reconciliation with the schedules, the correctness of the output from CLIP is not ensured. Even though Department had written to NIC for provision of auto reconciliation in September 2005 but the same was not followed up and still the provision could not be provided.

The Management while accepting the above audit observation stated that the module needed in this regard was still awaited.

Recommendation

- *The validation checks in respect of CLIP software should be strengthened to ensure integrity of data thereby removing reliance on manual system.*

2.8 Conclusion

The growth in business of postal insurance schemes was not substantial during 2002-03 to 2005-06. DoP could get only 15 per cent of the Central Government employees for PLI scheme and three per cent of the rural population for RPLI scheme in the 10 circles selected for performance audit. Except for "Santosh" in PLI and "Gram Santosh" in RPLI, which secured 90 per cent and 83 per cent of the business respectively, there was almost no growth in the remaining five schemes of PLI and RPLI. The yearly targets set for procurement of business were not achieved. Slow growth in business was mostly due to operation of non-functional schemes, inadequate publicity and marketing efforts and inefficient customer service. In the circles selected for review, there were inordinate delays in acceptance of proposals and in settlement of claims. The long time limits prescribed for acceptance of proposals and settlement of claims coupled with the practice of settling claims only after production of premium receipt books by the customers affected customer satisfaction greatly.

Failure to invest the corpus under POIF/RPOIF as per IRDA guidelines was making the Department lose substantial business opportunities as happened in the case of BSNL employees. Delay in posting of schedules of receipts and

payments was not only adversely affecting customer satisfaction but also leading to incorrect calculation of flat rate remuneration and incorrect debit/credit of interest to POIF/RPOIF. Weak internal controls resulted in irregular payment of excess bonus, non or short realization of service tax and irregular settlement of death claims as pointed out in the report. Similarly, validation checks in the CLIP software were not strong enough to provide reasonable assurance of data integrity and the Department had to continue with the manual system. The Department needs to address these issues urgently to ensure economic, efficient and effective working of PLI/RPLI schemes.

Annexure I
(Referred to in paragraph 2.1)
Table showing year-wise balances of the
Post Office Insurance Fund and Rural Post Office Insurance Fund

(Rs in crore)

Year	Fund Balances as on		Total (POIF+RPOIF)
	POIF	RPOIF	
2002-03	5797.30	510.69	6307.99
2003-04	6619.81	756.48	7376.29
2004-05	7678.42	1127.61	8806.03
2005-06	8933.59	1624.77	10558.36
2006-07	10342.61	2284.92	12627.53

Annexure II
(Referred to in paragraph 2.1)
Details of the Schemes operated under POIF and RPOIF

Name of the fund	Name of the scheme	Category	Remarks
POIF	Santosh	Endowment Assurance	The proponent is given as assurance to the extent of the sum assured and accrued bonus till he/she attains the pre-determined age of maturity
	Suraksha	Whole Life Assurance	Maturity amount is payable to the Assignee/nominee or the legal heir after death of the insurant.
	Suvidha	Convertible Whole Life Assurance	Suvidha can be converted into Santosh after five years.
	Sumangal	Anticipated Endowment Assurance	Money back policy where survival benefits are paid to the insurant periodically
	Yugal Suraksha	Joint Life Endowment Assurance	Life insurance coverage is provided to both the spouses to the extent of sum assured with accrued bonus
	Children Policy		Sum assured alongwith accrued bonus shall be payable on maturity or earlier on death of the child
RPOIF	Gram Santosh	Endowment Assurance	Same as in Santosh for PLI
	Gram Suraksha	Whole Life Assurance	Same as in Suraksha for PLI
	Gram Suvidha	Convertible Whole Life Assurance	Same as in Suvidha for PLI
	Gram Sumangal	Anticipated Endowment Assurance	Same as in Sumangal for PLI
	Gram Priya	Anticipated Endowment	Proponent is given an assurance to the extent of sum assured with accrued bonus payable till completion of 10 years
	Children Policy		Same as in Children Policy for PLI

Annexure III
(Referred to in paragraph 2.7.1.2)
Statement showing penetration of PLI into Government Employees

Name of the circle	No. of public servants	Eligible clientele	No. of policies as of March 2006	Percentage of penetration
Andhra Pradesh	1448000	1158400	238058	21
Assam	529000	423200	57942	14
Bihar	986600	788800	59939	8
Delhi	632000	505600	90031	18
Gujarat	969000	775200	343885	44
Karnataka	1051000	840800	269328	32
Kerala	622000	497600	57847	12
Maharashtra	2337000	1869600	350997	19
North Eastern	342000	273600	25313	9
West Bengal	1598000	1278400	131182	10
Total	10514600	8411200	1624522	19

Annexure IV
(Referred to in paragraph 2.7.1.2)
Statement showing penetration of RPLI in Rural India

Name of the circle	Total rural population	Eligible clientele	No. of policies as of March 2006	Percentage of penetration
Andhra Pradesh	55401067	16620320	721305	4
Assam	23216288	6964886	43440	1
Bihar	74316709	22295012	297905	1
Delhi	0	0	95	0
Gujarat	31841623	9552487	155820	2
Karnataka	34889033	10466710	179350	2
Kerala	23608132	7082440	132873	2
Maharashtra	56624765	16987429	905364	5
North Eastern	9073887	2722166	9178	0.33
West Bengal	58469881	17540964	380416	2
Total	367441385	110232414	2825746	3

Annexure V
(Referred to in paragraph 2.7.2.1)
Statement showing delay in receipt of proposals

Year	Total No of proposals received		Total No of proposals delayed more than 30 days		Percentage of delay	
	PLI	RPLI	PLI	RPLI	PLI	RPLI
2002-03	115867	210620	4719	41044	4	19
2003-04	129501	439382	5390	94368	4	21
2004-05	145304	567992	4639	138101	3	24
2005-06	140449	588883	6523	160345	5	27
2006-07	108439	515425	6687	100105	6	19
Total	639560	2322302	27958	533963	4	23

Annexure VI
(Referred to in paragraph 2.7.2.3)
Statement showing delay in finalization of claims

Year	Total No of claims received		Total No of claims delayed more than 30 days		Percentage of delay	
	PLI	RPLI	PLI	RPLI	PLI	RPLI
2002-03	49636	5728	8919	2382	18	42
2003-04	54525	7058	11392	1355	21	19
2004-05	54579	6175	15919	1069	29	17
2005-06	55112	11310	17001	1324	31	12
2006-07	55937	16384	15187	1744	27	11
Total	269789	46655	68418	7874	25	17

Annexure VII
(Referred to in paragraph 2.7.5.1)
Statement showing excess payment of bonus due to delay in declaration of rate of bonus

(Rs in lakh)

Sl. No	Name of Circle	Amount of excess payment of bonus	Period of excess
1	Assam	4.85	1-4-2004 to 10-5-2006
2	Andhra Pradesh	45.08	2001-02 to May 2006
3	Bihar	17.62	2002-03 to 2005-06
4	Delhi	34.64	April 2003 to February 2006
5	Gujarat	149.00	April 2003 to May 2006
6	Karnataka	15.87	1-4-2004 to 10-5-2006
7	Kerala	13.37	2003-04 to 2005-06
8	Maharashtra	33.07	1-4-2004 to 10-5-2006
9	North Eastern	1.09	1-4-2004 to 10-5-2006
10	West Bengal	27.00	1-4-2004 to 10-5-2006
	Total	341.59	

Annexure VIII
(Referred to in paragraph 2.7.5.3)
Statement showing non-collection of Service Tax on PLI/RPLI

Name of the Circle	Service Tax to be collected (Rs in lakh)
Assam	11.03
Andhra Pradesh	85.00
Bihar	146.00
Delhi	0.27
Karnataka	70.85
Kerala	100.00
Maharashtra	209.60
Total	622.75