

**GOVERNMENT OF INDIA
FINANCE
LOK SABHA**

UNSTARRED QUESTION NO:2504
ANSWERED ON:04.12.2009
FRAUDULENT ACTIVITIES OF INSURANCE COMPANIES
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Will the Minister of FINANCE be pleased to state:

- (a) whether the insurance companies have to pay heavy compensations due to fraudulent activities of their agents;
- (b) if so, the facts in this regard; and
- (c) the stringent measures taken/being taken by the Government to check such frauds?

Answer

Minister of State in the Ministry of Finance (Shri Namo Narain Meena)

(a) & (b): General Insurers` (Public Sector) Association of India (GIPSA) has reported that most of the policies of Public Sector General Insurance Companies have a clause built in the policy terms itself, to protect the interests of Insurance Company against acts of fraud or misrepresentation committed by the insured or his representative, whereby the insurance company acquires the right to repudiate such claims. The exaggerated/fraud claims are dealt with as per policy terms and no payment is made if fraud is confirmed.

(c): In the event of any fraud being detected, the licenses of agents found guilty of committing fraudulent activities are cancelled through Insurance Regulatory & Development Authority (IRDA). To obviate the occurrence of such instances, the audit and vigilance departments of the companies also conduct periodic scrutiny and surprise checks to ensure strict adherence of company guidelines. IRDA has reported that insurance companies while underwriting insurance policies put in place stringent screening procedures including obtaining supporting documents, conducting medical examination and calling for Agents Confidential Reports/Moral Hazards Reports from insurance agents/officials of insurance companies, Risk Inspection Report etc. to carry out the due diligence on the life/property to be assured. Subsequent to the Prevention of Money Laundering Act, life insurance companies and agents have to adhere to elaborate Know Your Customer (FCYC) norms before entering into a contract with a prospective customer. Procedures of due diligence are conducted on an on-going basis till the termination of a contract. Similarly, non life insurance companies shall carry out the required due diligence at the payout/refund stage where claims payout/premium refund cross a threshold of Rs. 1.00 lakh per claim/premium refund.