

**GOVERNMENT OF INDIA  
FINANCE  
LOK SABHA**

UNSTARRED QUESTION NO:3390  
ANSWERED ON:13.08.2010  
LOSSES OF INSURANCE COMPANIES  
Hazari Shri Maheshwar

**Will the Minister of FINANCE be pleased to state:**

- (a) whether the insurance companies suffer huge losses on account of fraudulent activities of their agents;
- (b) if so, the details thereof; and
- (c) the corrective measures taken/being taken by the Government to curb such fraudulent activities?

**Answer**

Minister of State in the Ministry of Finance (Shri S.S. Palanimanickam)

(a) & (b): The insurance policies have a clause which protects the insurance company against acts of fraud such that if any fraudulent means/devices are used by the insured or his representative to obtain undue benefit under the policy, the company has the right to repudiate the claim. The exaggerated/fraud claims are dealt with as per policy terms and no payment is made if fraud is confirmed. The Life Insurance Corporation has reported that four cases of frauds by the agents have been detected during 2009-10. Necessary actions against erring agents have been taken under Life Insurance Corporation (Agents) Rules 1972.

(c): In the event of any fraud being detected, the licence of the agent found guilty of committing fraudulent activities is cancelled through Insurance Regulatory and Development Authority (IRDA). To obviate the occurrence of such instances, the audit and vigilance departments of the insurance companies also conduct periodic scrutiny and surprise checks to ensure strict adherence to company guidelines, insurance companies while underwriting insurance policies. Also 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 Reports, etc to carry out due-diligence on the life/property to be assured. Subsequent to the enactment of Prevention of Money Laundering Act, 2002, life insurance companies and agents have to adhere to elaborate Know Your Customer (KYC) norms before entering into a contract with a prospective customer. Procedures of due-diligence have to be conducted on an on-going basis till the termination of a contract. Similarly, non life insurance companies carry out the required due diligence at the payout / refund stage where claims payout/ premium refund cross a threshold of Rs 1 lakh per claim/premium refund.

Further, the provisions of Section 42(7) of the Insurance Act, 1938 enable an insurance company to disqualify an insurance agent in the event of his/her found guilty of criminal misappropriation or criminal breach of trust or cheating or forgery etc. Section 44 of the Act also enables the life insurers to prohibit payment of renewal commission to a life insurance agent in the event of such agent indulging in fraud.