

**SIXTEENTH REPORT**  
**COMMITTEE ON PUBLIC UNDERTAKINGS**  
**(2006 - 2007)**  
**(FOURTEENTH LOK SABHA)**

**SPECIAL CONTINGENCY POLICIES ON MOBILE HANDSETS  
BY INSURANCE COMPANIES**

**MINISTRY OF FINANCE**

**[Based on Chapter X of C&AG Report (Commercial)  
No. 4 of 2005]**



**Presented to Lok Sabha on 15<sup>th</sup> December 2006**

**Laid in Rajya Sabha on 15<sup>th</sup> December 2006**

**LOK SABHA SECRETARIAT**

**NEW DELHI**

**December 2006/ Agrahayana1928(S)**

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**COMPOSITION OF COMMITTEE ON PUBLIC UNDERTAKINGS**  
**(2006 – 2007)**

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3. Shri Manoranjan Bhakta
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- |                        |                      |
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| 4. Shri H. Ram Prakash | Committee Officer    |

## INTRODUCTION

I, the Chairman, Committee on Public Undertakings having been authorized by the Committee to present the Report on their behalf, present this Sixteenth Report on "Special Contingency Policy on Mobile Handsets."

2. The subject was selected for examination by the Committee on Public Undertakings (2006-07). The Committee's examination of the subject was based on the Report of the Comptroller & Auditor General of India – Union Government No. 4(Commercial) of 2005.

3. The Committee on Public Undertakings (2006-07) took oral evidence on the subject of the representatives of National Insurance Company Limited (NICTL) on 12<sup>th</sup> October 2006, The Committee also invited Shri. P. Bandhyopadhyay, Chief Vigilance Office (Retd), National Insurance Company Limited, and Shri. B. Chakraborti, former CMD, NICTL and presently CMD, New India Assurance Co. Ltd. Mumbai to tender oral evidence on the subject on 30<sup>th</sup> October, 2006 and the representatives of The Oriental Insurance Company Limited (OICL) and the Ministry of Finance on 30<sup>th</sup> October 2006.

4. The Committee wish to express their thanks to the representatives of the National Insurance Company Ltd, the Oriental Insurance Company Limited and Ministry of Finance for placing before them the material and information they required in connection with the examination of the subject.

5. The C.O.P.U. (2006-07) considered and adopted the Report at their sitting held on 12.12.2006. The Committee also place on record their appreciation for the assistance rendered by the officials of the Comptroller & Auditor General of India. The Committee would also like to place on record their deep sense of appreciation for the valuable assistance rendered to them by officials of Lok Sabha Secretariat attached to the Committee.

**New Delhi**  
**12<sup>th</sup> December, 2006**  
**21 Agrahayana, 1928 (S)**

**RUPCHAND PAL**  
**CHAIRMAN**  
**COMMITTEE ON PUBLIC UNDERTAKINGS**

## **REPORT**

### **CHAPTER – I**

#### **A. BACKGROUND**

1. General Insurance business is traditionally divided into Fire, Marine and Miscellaneous. Miscellaneous insurance includes in its scope Special Contingency Policy (SCP) or tailor-made policy. The risks associated with 'Mobile handsets', which could not be covered under the standard policies, were covered under SCP.

2. The Chapter X of Audit Report of the C&AG-Union Government (Commercial) No –4 of 2005 contained Audit observations on special contingency policies on mobile handsets. The observations contained the deficiencies in the issue of special contingencies policies and consequential losses on account of the policies to the two Insurance Companies namely National Insurance Company Limited and to Oriental Insurance Company Limited. The highlights of the Audit observations are given below.

#### **Highlights**

Two insurance Companies suffered heavy losses in the issue of tailor made insurance policies because of non-compliance to technical parameters and non-evaluation of risk factors involved.

***(Para 10.4)***

The failure on the part of the Management to obtain reinsurance protection, ensure the compliance of Insurance Regularity and Development Authority (IRDA)/ General Insurance Public Sector Association (GIPSA) guidelines as well as non-inclusion of the loading clause deprived the Company of the opportunity to reduce its losses in all the Special Contingency Policies (SCPs) issued during 2002-03 to 2004-05.

***(Paras 10.5.2, 10.5.3, 10.5.4 and 10.5.6)***

In handsets all risk cover issued under SCP on 18 December 2002 to Reliance Industries Limited (RIL), National Insurance Company Limited (NIC) received claims for Rs.91.23 crore upto October 2004 against the premium of Rs.27.39 crore (excluding service tax) realised during December 2002 to October 2004. Out of these, it settled claims for Rs.24.69 crore and the balance claims for Rs.66.54 crore were pending settlement.

***(Para 10.5.6)***

In the default policy issued to RIL on 25 June 2003, NIC received claims for Rs.152.34 crore against the premium of Rs.55.71 crore realised upto October 2004. Out of these it settled claims for Rs.120.60 crore and the balance claims for Rs.31.74 crore were pending.

**(Para 10.6.3)**

In the default policy issued to Tata Tele Services Limited on 1 April 2004 NIC received claims of Rs.9.54 crore against the premium of Rs.6.20 crore realised upto October 2004. Out of these, it settled claims for Rs.3.42 crore and the balance claims for Rs.6.12 crore were pending.

**(Para 10.7)**

In the default policy issued by OIC in August 2003 to RIL for handsets the insured reported 61193 claims for Rs.63.53 crore. The Company had so far settled 18706 claims for Rs.19.64 crore and balance claims involving estimated outgo of Rs.13.81 crore, after taking into consideration repudiated claims, were pending.

**(Para 10.8)**

NIC failed to arrange the reinsurance protection. With a view to finance the huge flow of claims, it obtained Alternate Risk Transfer (ART) cover from foreign reinsurer and paid Rs.13.38 crore as one time upfront fee. This upfront fee further reduced the already low premium income.

**(Para 10.9)**

A copy of the full Audit Para as contained in the C&AG Report is given at Annexure – I. The sequence of activities as brought out during the examination of the above Audit Para by the Committee are discussed in the following paragraphs.

## CHAPTER II

### NATIONAL INSURANCE COMPANY LIMITED (NICL)

#### **A. POWER TO ISSUE SPECIAL CONTINGENCIES POLICIES**

2.1. Audit in Para 10.3 of Chapter X of Audit Report No. 4 (Commercial) of 2005 has stated that an analysis of the insurance policies issued by NICL under SCPs revealed that they were devised primarily to suit the requirements of the insured, without safeguarding the insurers' interest owing to non-adoption of the prudent underwriting guidelines as brought out in the succeeding paragraphs.

2.2 Audit in Para 10.4 relating to Non-evaluation of technical aspects observed the following :-

Before issuing the SCPs, all the operating offices were required to comply with the following technical parameters to ensure that the risk would not make the rating unviable:

- (i) Prior sanction of the Reinsurance Department of the Company to be obtained before acceptance of risks beyond the prescribed limits, as advised by Reinsurance Department from time to time.
- (ii) The Excess clause\* must be clearly indicated against each item or section.
- (iii) Basis of sum insured i.e. whether market value, reinstatement, replacement, non-recoverable cost etc. as applicable, to be indicated to avoid disputes.
- (iv) In case of non-standard products/risks like financial risks, asset protection and stock exchange risks, the pricing, terms and conditions should be in line with the requirement of reinsurer as contemplated in the Company's reinsurance programme.

\* Excess clause means that part of loss, which would be borne by the insured in order to avoid high frequency low value losses/claims to be paid by the insurer.

2.3 The Committee were informed that a total of 52,04,194 handsets were insured under Speical Contingency Policies. The NICL however could not inform the Committee about the break up of ordinary and premium handsets that were covered under SCP. The Committee were furnished the details of the SCP policies issued to Reliance Industries by NICL which are as follows::

**(a) Handset all Risk Cover**

Policy No 253200/46/02/9500248. This policy covered the Handsets purchased by subscribers against physical loss or damage for a period of three years and fraudulent misuse of the set following loss/theft..

**(b) Default Liability Policy**

Policy No. 253200/46/03/9500087. This policy covered loss suffered by Reliance Industries on account of failure of the subscribers to pay service charges or return the handset upto a maximum of Rs. 11,000/- per connection.”

**2.4. Audit have made the following observations in Para 10.5.1.**

“As per NIC’s guidelines issued in March 1999, the power to develop a new product under SCP was retained with the Head Office of the Company. Kalyan D.O. based on MOU dated 6 December 2002 with RIL, devised a new SCP to cover the loss or damage to the mobile handsets involving repair and fraudulent use. Being a new product, it required approval of headquarters before its implementation. However, this was not obtained.

Besides this, as per Company’s guidelines all fresh proposals under SCP where the sum insured exceeded Rs.50 lakh were to be referred to Head Office for approval. However, Kalyan D.O issued the above-cited SCP for mobile handsets for the sum insured of Rs.6.50 crore with a clause that sum insured would increase with subsequent sales of mobile handsets upto the expiry of period of the policy i.e. 17 December 2005. As the sum insured had far exceeded the prescribed limit of Rs.50 lakh, the Kalyan D.O, by not obtaining prior approval of Head Office, had exceeded its powers.”

**2.5 On the basis of the above audit comments, the Committee wanted to know the details of Special Contingency Policies (SCPs) and when Insurance Companies preferred to issue SCP’s. In reply, NIC in their note stated as under:**

“Special Contingency Policies are issued when the covers sought are not available under any existing Standard Policies. For instance, Paintings or other objects of Art while sent for exhibitions when the cover is sought while in transit, during exhibition and return to original place of storage/display.

Similarly, cover in respect of equipment carried by employees of insured in connection with work such as laptops, testing equipment etc. where the cover sought is against Fire, Accidental Damage, Breakdown, Theft, damages whilst in use.



Another example is event insurance such as cricket matches, cultural programmes etc. against the risk of cancellation due to perils such as Fire, Acts of God, Illness or accident to leading performers, terrorism etc.”

2.6 When asked by the Committee to explain the procedure adopted by NICL in the issuance of Special Contingency Policies( SCP), , NICL stated as under:

“The underwriting offices obtain the details of cover required from the proposer and the same is referred to head office through the Regional offices alongwith the recommendations of the latter to enable Head office to take a decision regarding acceptance of the proposal. Once the Head office communicates the acceptance, the underwriting offices issue the policy.”

2.7 When the Committee wanted to know what was the premium charged by National Insurance Company Ltd. (NICL) on plans covering normal electronic household gadgets and how it compared with the premium charged for insurance of mobile hand sets under Special Contingency Policies to Reliance, NICL stated as under:

“The normal rates for insuring normal electronic household gadgets were around 1%. The premium charged from RIL was 0.25% i.e. one fourth.”

2.8. The Committee asked as to when and how did Head Office (H.O.) of NIC came to know about the issue of SCP for mobile handsets to RIL. In reply, NICL stated as under-:

“A reference was made to Head Office by the Regional Office prior to issuance of cover. The coverage was against the risk of accidental physical loss or damage to the Handsets including theft which was almost akin to our standard ‘All risks insurance’. Since the value at risk per handset was Rs. 11000/Rs. 24000 only, Head Office advised that the matter fell within the delegated authority of the Regional offices to underwrite special contingency policies and the same may be decided by the Regional Office on merits.”

2.9 As the risk was the first of its kind covered in India, Committee asked as to whether any attempt was made by NICL to inquire from the International Market about the ratings, terms and conditions etc. followed by them in such cases. NICL in their written reply stated the following:

“No such attempts were made. Attempts through Reinsurance brokers also did not yield any information on any policies designed / available to cover such handsets.”

2.10. Audit have made the following observations under para no. 10.6

“Based on another MOU entered into between NIC and RIL on 25 June 2003, the Kalyan DO issued an SCP to RIL to cover the default liability risk in respect of mobile handsets for the period from 25 June 2003 to 24 June 2006. The premium rate per handset/connection was charged at Rs.100 (including eight per cent service tax). The scope of cover included net ascertained financial losses arising out of telecom services of the insured and/or cost of the handset from default due to fraudulent activity of the subscriber subject to a maximum loss of Rs.11,000 per handset. The fraudulent activity included default of periodical payment/dues by the subscriber for any reasons whatsoever. Further, the parties had no option to cancel the policy during the validity period of the policy. “

2.11. Asked by the Committee about how the Kalyan D.O /MUMBAI R.O was allowed to underwrite the policies, the present Chairman of NICL during oral evidence on 12<sup>th</sup> Oct, 06 interalia stated the following:

“In this case also our underwriting rules and regulations say that since we take into account the individual’s sum insured per individual, each office can have certain underwriting limit. Based on that they underwrite this particular issue of special contingency policy or the individual handset policy which has been given by the Kalyan DO and RO. They have probably taken this factor and issued the policy. However, it is something like a special policy which was probably offered to us for the first time in the history, it was referred to the head office for the sake of approval. I will have to frankly admit that it is unfortunate that the head office has taken a stand that it falls within your authority and you can deal with that case based on merit.”

Elaborating further he stated: -

“...The second is the Default Liability Policy which was actually issued after six months from the date of the issue of the original handset policy. Default Liability means if a subscriber fails to pay the amount, coverage was given to Reliance for reimbursing the outstanding amount which has not been paid by the various subscribers. As per the audit findings and records, nearly 1,38,879 claims were lodged by Reliance Industries and out of that, 1,03,928 claims were investigated and a total amount of about Rs. 120 crore was paid. The balance amount for 34,000 claims were not paid because by the time the claims started pouring in, the balance 34,000 were not investigated by us. In respect of handset claims, claims for an amount of Rs. 91.23 crore were reported and out of that, claims to the extent of Rs. 24.69 crore were settled. The

balance claims which were settled as on date were Rs. 66.54 crore. In these cases also, investigations with more amount of claims were reported and we could not investigate them. This is the amount that is pending as on date. This is the crux of the two policies issued and the details of the claims settled by the National Insurance Company.”

2.12. Asked further as to whether it was proper on the part of H.O. of NICL to have allowed the D.O./R.O. to underwrite the SCP, the present Chairman of NICL, stated:-

“It should have been done by the Head Office”.

2.13 The Committee were informed by the Ministry that the then CVO of NICL, Shri P.Bandyopadhyay had investigated and submitted reports on the issue. The Committee decided to examine the CVO(now retired) When the Committee enquired whether the Kalyan Divisional Office was within its powers to issue the SCP, the then Chief Vigilance Officer of NICL (now retired), Shri. P. Bandyopadhyay, who had investigated the matter, stated the following during oral-evidence:-

“Now, there are two policies here. One is handset policy and the second is the default liability policy. These policies are called special contingency policies. Special contingency policy means that this is not a standard policy of the company. This special contingency policy is a customized policy according to the need of the insurer, special contingency policy is issued and the pricing is also done after diligence study on the basis on the evaluation and also should be done on the basis of indemnity. It found that the handset policy was there where the sum assured was Rs. 12,000 and it contained a lot of other things like fire, RSMD, that is, riot, strike, damage, STFI, that is, storm, tycoon, flood, earthquake, burglary, electrical and electronic damage, theft, accidents and mechanical background. The coverage is so wide because the word accident has got many connotations. An MOU was signed on December 2002. The crux of the problem is this actually. Whether a Regional Office or Divisional Office can underwrite such business. If Rs. 12,000 is the sum assured, then it is within the limit of the Divisional Office . But if you sell ‘n’ number of sets, then the sum assured is Rs. 12,000 multiplied by ‘n’. As a result of that, with a lot of endorsements, the entire risk covered under the handset policy went upto Rs. 3849 crore. .... The second point is, this is the new type of a plan. What type of pricing to be followed? There was a circular because of electronic gadgets, etc, insurance premium should be at least 1 to 1.5 per cent. But people who actually underwritten it had charged only .25 per cent. [REDACTED] means, in their wisdom, they found that the risk is one-fourth of the other electronic goods.”

Elucidating further on the issue, he stated as under:-

“They wanted to take the permission of the Head Office. If I remember correctly, on 12<sup>th</sup> June, 2002, a letter was written by the then AGM of the Mumbai Regional Office to the Head Office seeking permission. In that letter, the words theft and burglary were not used and the MoU was signed, meaning thereby that they did not wait for the Head Office approval or it may well happen that subsequent letter dated 12<sup>th</sup> June, 2002, which was in the file, was subsequently inserted. Anyway that is a different question. It is a matter of conjecture. My opinion is this that it was not within the financial powers of the Regional Office to underwrite it. The Head Office gave a reply that the Probable Maximum Loss (PML) is within your power.....”

Elaborating further on the default liability policy, he added

“..... I found that the default liability policy is a highly risky business. Here, the maximum sum assured per loss is Rs. 11,000. Firstly, default liability policy, in my opinion, is not an insurable risk. Financial guarantee, goodwill etc. cannot be insured and if the default liability is insured, then different type of customers were necessary. When the customers are general public -- so many people, hundreds and thousands of people, that type of default is simply uninsurable in my opinion. I have put it in my record, in my note before the then CMD, Shri H.S. Wadhwa, in the month of November, 2004. In all my subsequent correspondences till I retired from the service, I consistently took the stand that this default liability is not insurable. There were differences of opinion, sometimes in discussions. However, I was not convinced and I consistently took the stand that the default is uninsurable. This is the underwriting mistake. Ultimately, what the total risk cover comes to is Rs. 9,000 crore.”

2.14. The Committee also decided to have the views of the CMD who took over from Shri. H.S. Wadhwa, namely, Shri. B. Chakraborti who was CMD from Jan 2005 to Nov 2005. When asked by the Committee to make his observation about the issue of SCP by NICL, Shri Charkaborti stated as under:-

“If my memory goes right – because I am not there for the last over one year – I would not like to quote the figures absolutely but the facts are known to me. I think, I have written to IRDA and to the others that the underwriting, perhaps, was not proper; it could have been done better. Certain precautions, certain terms and conditions, pricing, checking up with the RI arrangements – these are all prerequisites – could have been done better. Maybe at the time of settlement of claims, certain steps could have been taken to try and see minimizing the losses. I was also told after

joining there that there was some business decision that they never had much business from that concerned group. So, as a commercial decision, perhaps, they could get an entry into the account and could perhaps look for some more business from that group, could have been a decision as well. Mr. Chairman, Sir, I would like to talk freely. My priorities were different at that particular point of time. Since you are the owners here, I must share my views. Underwriting is not correct; it could have been done better. But, when I joined there, so much of media reports, so much of talks, so much of informations were coming out in various newspapers. As a matter of fact, for an organisation to which I had just joined, the credibility and image factor were of immense importance for continuation of business. So, that was my first criteria.”

Elaborating further on the issue of Policy, he added:-

“Oriental did it, National did it, and New India at that was not interested. That time I was working in the United India in Madras as a General Manager before my promotion. There was a talk on that. But we have not shown much interest because we have not understood the risk. So, how can we come to the conclusion that somebody has mooted it? I cannot say like that because if that had been the case all the four companies would not have been involved. GIC came into the picture as a re-insurer. If my memory goes right, they also took a 20 per cent obligatory insurance. So, I cannot logically come to that conclusion. How come Oriental has done it? How come the proposal came to New India to my predecessor who was not interested for whatever reason. In the United India it was being discussed and then we thought it was too risky.”

2.15 .When asked whether such an underwriting decision could have been taken by a local office without the approval of the Head Office, the Shri. B. Chakraborti replied:

“The Head Office ought to know about it.”

On further questioning about the issue, Shri. B. Chakraborti added:

“My reaction again is the same thing. First of all, in such situations some senior executive writing a letter saying that it is within your authority is the number one issue. As a CMD, I ought to know such a big business. Exactly how much one person knows or does not know or whether right or wrong, I cannot comment. But as a CMD, I am supposed to know and I ought to know.”

## **B. REINSURANCE PROTECTION**

2.16. Audit in their observations under Para 10.5.2 regarding Reinsurance Protection have made the following comments.

“The Company every year draws up its reinsurance programme for various classes of risks in order to fix retention limit of risks commensurate with its financial strength. Insurance Regulatory and Development Authority (IRDA) guidelines also stipulate that the maximum loss retention should not exceed five per cent of the networth of the Company. However, the D O did not make any reference to Re-insurance Department for taking reinsurance cover. In the absence of this, the risk retention limit could not be calculated. The sum insured as on 31 October 2004 was Rs.3850 crore (and would increase further as validity of the policy was upto 17 December 2005). Thus, there was no reinsurance to protect the Company’s risk except 20 per cent obligatory share of risk accepted by the General Insurance Corporation (GIC). The GIC allowed 25 per cent commission on premium received on account of obligatory reinsurance.

As already mentioned, as per IRDA guidelines and the Company’s reinsurance programme, the Company, before undertaking any cover, must obtain reinsurance support. However, the Kalyan D.O. in the instant case of ‘Default cover policy’ also did not take any reinsurance protection before issue of the policy, even though the aggregate sum insured was Rs.5,500 crore.”

2.17 From a note furnished by NICL by the Committee, it is noted that reinsurance department at H.O. was not approached by Kalyan D.O. for obtaining reinsurance support. Giving the reasons for not taking reinsurance support, NICL in their note stated that the risk was looked at exposure of value per handset which was 11000 /Rs.24000 only. The total risk cover under handset policy and default liability policy are Rs. 4931 crores and Rs. 4981 crores respectively.

2.18. The Committee enquired how the Reinsurance requirement of the Company are assessed, to which NICL in their written reply stated as under:

“The Reinsurance programme of the company is advised to all the underwriting offices. The procedure to be followed in the event of any such exposure being beyond the retention limits of the company is also informed therein. The underwriting offices provide the requisite details in the periodical returns submitted to Head Office in accordance with the reporting procedures laid down in the programme.”

2.19 When asked why was reinsurance not taken keeping in view the impact of the collective sum insured of numerous Handsets Covered under the Policy. NICL in their written reply stated the following:

“The risk was looked at from the exposure of value per Handset which was Rs.11000/Rs.24000 only. In policies such as Group personal accident insurance requirement for arranging reinsurance is decided based on the highest sum insured for any insured person. A similar view was taken in this case and therefore Reinsurance Department was not approached for obtaining Reinsurance support.”

2.20. The Committee pointed out that financial interest of the organisation had been put in jeopardy as D.O. had not informed the H.O. about requirement of reinsurance, and asked as to what mechanism existed in the H.O. to check such cases. The NICL in their written reply stated as under:-

“The company’s Reinsurance arrangements in respect of Standard policies provide against such eventualities. As the authority to issue SCPs is centralized at Head Office, decisions regarding requirements of Reinsurance support is taken at Head Office.”

2.21. The Committee were informed that GIC provides obligatory reinsurance cover up to 20% in respect of all the business underwritten by PSUs Insurance Companies.

2.22. The Committee noted that in view of the fact that large number of mobile sets were to be insured the collective liability for NIC would be in hundreds of crores. The Committee therefore sought to know was it not financially prudent to seek reinsurance so as to obviate colossal losses incurred to the company. To this, the Committee were informed as under by NICL.

“All Reinsurance contracts have a deductible, i.e. they shall cover losses only above a particular amount/level of each and every loss. In the case of covers granted to Reliance Industries although the total insured value were a huge amount running into hundreds of crores, the limit of liability in respect of each connection under both the policies were so low that no Reinsurance covers would have been available.”

### **C. CANCELLATION CLAUSE IN THE SCP’S**

2.23. Audit have made the following observations in Para No. 10.5.6 regarding Non-invoking of cancellation clause by NICL.

“As per clause eight of the MOU entered into between NIC and RIL for the Handsets all risk policy, there was a provision for cancellation of policy by giving seven days notice to the insured. Despite the number of deficiencies in the implementation of the terms and conditions of the MOU,

NIC did not invoke the cancellation clause. The reasons to justify the non-invoking of the cancellation clause were not available in the records made available to Audit.”

2.24 The Committee enquired as to why NIC did not invoke the Cancellation Clause as provided for in the MOU even after getting adverse claims ratio and whether any action was taken against anybody in this regard. In reply the NICL stated the following:

“Ninety percent of the total premium was already received in the first year itself by which time the full impact of claims were not known. Hence, the cancellation clause was not invoked and no action was taken against any employee.”

2.25. The Committee note that the clauses such as cancellation of policy, periodic review of the premium, excess loading etc. were in the MOU. These were however not included in the default liability policy. The Committee, therefore, asked as to why the cover was extended beyond the scope of the MOU, NICL stated the following in their reply.

“RIL wanted to protect against the eventuality of their post paid subscribers defaulting in payment of service charges they wanted to guard against their receivables not being protected by insurance. Hence, cancellation clause was not incorporated in the policy as per the request of the insured. The policy was envisaged for a three year period to coincide with the period the subscriber was to hold the connection with RIL and there was no scope to amend the pricing during the contract period. Normally such loadings based on claims experience are effected at the time of next renewal of the contract. Initially, the cover was sought for a sum insured of Rs. 11000. Subsequently with the introduction of the higher value handsets of RIL wanted those sets also to be covered. Hence, the policy was extended to cover such sets also.”

2.26. From the Audit report, the Committee note that in the MOU for handset policy signed in December 2002 between NIC and RIL there was a clause for cancellation of policy by giving seven days notice in writing by either side whereas In the MOU dated 25 June 2003, for default liability policy, the option to cancel the policy was not available. Asked as to why this clause was not included in Default Liability Policy, NICL stated as under:

“Since the cover was in respect of default by the subscriber to pay service charges, RIL wanted no cancellation clause to be incorporated.”



**D. SETTLEMENT OF CLAIMS BY NICL**

2.27 Audit in Para 10.6.3(d) observed the following with regard to the default liability policy issued to RIL:

“.....NIC received claims for Rs.152.34 crore against the premium of Rs.55.71 crore upto October 2004. The Company settled claims for Rs.120.60 crore and the balance claims for Rs.31.74 crore were pending. Though the currency of policy was three years, the liability of the Company would extend beyond the stipulated period as each policy endorsement carried coverage period of three years from the date of issue. As such the Company would be liable for any future default/claims upto June 2009. On the basis of paid/outstanding claims after taking into account premium ceded and commission received on account of reinsurance the Company had suffered a loss of Rs.96.63 crore (NIC Rs.74.51 crore and GIC Rs.22.12 crore) upto October 2004.

**2.28 STATEMENT SHOWING DETAILS OF PREMIUM RECEIVED AND POSITION OF CLAIMS IN RESPECT OF POLICIES ISSUED TO RELIANCE INDUSTRIES LIMITED ARE AS UNDER****1) Default Policy**

Year	Premium received	Claims received	Claims settled	Claim outstanding
2003-04	Rs.41,39,81,481	Rs.152,33,46,334	Rs 70,18,000	Rs.151,63,28,334
2004-05	Rs. 1,15,74,074	NIL	Rs.119,89,28,334	Rs. 31,74,00,000
2005-06	NIL	NIL	NIL	Rs. 31.74,00,000

**2) Hand Set Policy**

Year	Premium received	Claims received	Claims settled	Claim outstanding
2002-03	Rs.2,99,25,000	Rs.14,63,473	Rs.10,87,271	Rs.3,76,202
2003-04	Rs.24,06,00,694	Rs.39,25,19,939	Rs.24,51,71,340	Rs.14,77,24,801
2004-05	Rs.32,32,769	Rs.53,72,02,689	Rs.5,68,38,490	Rs.62,80,89,000

**Tata Tele Services Ltd.**1) Default Policy

Year	Premium received	Claims received	Claims settled	Claim outstanding
2004-05	Rs.4,19,35,900	Rs.12,75,64,779	Rs.46,02,539	Rs.12,29,62,240
2005-06	Rs.4,31,93,264	Rs.60,48,46,078	Rs.4,25,89,316	Rs.66,52,19,002

2.29. The Committee asked NICL as to what safeguards were there with them to detect lodging of false claims. NICL in a written reply stated as under:-

“Both the Handset and Default cover had laid down the procedure to be followed and the documentation required to establish a claim.”

2.30. The Committee enquired NICL whether claims were settled without proper scrutiny. The present Chairman NICL during oral evidence inter-alia stated the following:

“I do not know whether I can comment on it or not. But in the claim settlement, some lapses have been noticed. I am sorry. I do not know whether there was a deliberate attempt or not. But I concede that claims were prepared without verification of the document.”

2.31 The Committee wanted to know whether cases of settlement of false claims came to the notice of NIC. If so, what action was taken by NICL to recover amount of such Claims. To this, . NICL in a written reply stated as under:-

“No false claim under the Handset Policy have come to our notice. As regards Default insurance cover investigation have brought to light the fact of subscribers not being in existence or address being fictitious. We had raised a demand on RIL to repay an amount of Rs.6,97,84,000 on account of such connections, claims in respect of which had been settled. RIL have not accepted our contention and not repaid any amount.”

2.32. The CVO note to the Ministry of Finance in Sept 2005, a copy of which was furnished to this Committee, makes the following observations regarding the claims management system adopted by the NICL.

“If the underwriting was bad, the claim management was still worse. The claim for handset and default liability were paid making bunch of 50 and 40 claims respectively. No verification was done regarding the genuineness of the most of the claims. The claim form does not contain the signature of the user or the details viz. the date on which the connection was provided. The claim forms were not supported with documentary proof like disconnection certificate, copy of the unpaid bill,

copy of the notices, details of the SMS message sent. The disconnection certificate does not show the name and address of the customer and any intimation of default. For loss or theft claims neither FIR nor final police report was collected before settlement of the claim. Ignoring, the basic requirements for settlement of claim, discharge voucher to the tune of Rs. 75.21 crores were given to Reliance Industries Ltd. thereby creating a pressure on Head Office to release the fund.

After incurring huge loss, a decision was taken to investigate the genuineness of the claims. The Oriental Insurance Company Ltd. has issued similar type of policy. But reportedly out of 61,193 claims as many as 29,334 claims were repudiated on investigation. But the National Insurance Co. Ltd. did not carry out investigation till payment to the tune of Rs. 123 crores was made to Reliance. On the contrary the concerned Assistant Manager was advised not to insist on documents in each case on the plea that all records are available with Reliance. Now two investigators based at Ahmedabad and Mumbai were appointed to investigate 20,000 pending cases at fees ranging from Rs. 300/- to Rs. 700/- per case. The selection of the Investigation Report was very poor. They have not collected any paper to show that they carried out any investigation into the matter. Taking advantage of this deficiency the Insured in their letter dated 10.1.2005 has contested the Company's claim for refund."

2.33. To a query as how the CVO mentioned in his report that the Asst Manager was advised not to insist on documents for settlement of claims, and whether he believed that the Asst Manager was collaborating with some people in Head Office., the then CVO Shri P. Bandyopadhyay who was called to tender his evidence before the Committee stated as under:-

"This inference is very logical".

2.34 . When asked by the Committee to brief about the investigations carried out by the CVO, the then CVO during oral evidence replied as under:

"It is regarding claims. The first investigation dealt with underwriting. The second investigation dealt with claims. There were a number of cases. Naturally, my team took some time. They had to work very hard to come to the conclusion. They should know who were the customers, what efforts were made by the company to realise the bill etc. Even for the sake or argument, I am telling that there was nothing wrong in underwriting. But at the time of claims settlement, all the claims are not payable. Some sort of a searching, some sort of a filtration, screening should be done. Every insurer in the world does it. The second investigation was there to arrive at the measures being adopted while settling the claims."

2.35. When probed by the Committee as to whether the laxity in underwriting and settlement of claims was an error or a deliberate attempt by a few officials, the CVO (retd) stated the following:

“: It is very difficult to say. But the inference of having pre-knowledge or prior knowledge - if not encouraging, remaining passive and allowing things to drift away - is there. One is capable of drawing that inference.”

2.36. When the Committee questioned NICL as to why no investigation by Surveyors was conducted before settling the claims, and whether they admit that if proper procedure had been adopted, the amount settled could have been much less. To this NICL in a written reply stated as under:-

“Given the quantum and number of claims it would have been inconvenient to have each and every claim surveyed. The Insurance Act also does not require losses below Rs.20,000 to be surveyed. Even had surveys been conducted, with the attendant costs, we are of the opinion that no tangible reduction in losses would have been achieved.”

2.37 When the Committee enquired as to whom should be held responsible for complaints arising out of claims settlement, the present Chairman NICL, Shri. V. Ramasaamy interalia stated the following:

“When a complaint comes, CMD has to interfere for any delay in settlement, CMD is responsible”.

2.38 As the claims to tune of Rs. 31.74 crore under Default Liability Policy, Rs. 62.8 crore under handset policy and Rs. 66.52 crore under Default Policy to Tata tele service were yet to be settled, Committee desired to know as to how NICL proposed to settle the outstanding claims. The NICL in their written replies stated the following:-

“Following the CBI investigations into the matter pertaining to Reliance Industries the settlement of claims had almost ceased. The Company’s Board has directed that a panel of investigators be formed through a tender process and thereafter have the claims investigated to establish the veracity of the claims as well as existence of the subscribers. A decision regarding settlement of the claims shall be taken subsequently upon receipt of reports.”

## **E. ALTERNATE RISK TRANSFER (ART)**

2.39. Audit in their Report under Para 10.9 have stated the following regarding Alternate Risk Transfer:

“The Alternate Risk Transfer (ART) cover is generally taken where substantial losses are apprehended. The main object of ART cover is risk financing and not risk-sharing. The default cover policies were given to RIL without any reinsurance protection. After steady flow of claims, the Company searched for reinsurance protection but could not arrange any conventional reinsurance. Ultimately, through broker, it could obtain non-conventional risk financing under ART protection from foreign reinsurer. Under the ART cover, insurer (NIC) would require to pay back the entire amount received from reinsurer to settle claims within two to three years to smoothen the effect on balance sheet.”

2.40 Committee were informed that the Reinsurance arrangement (ART Cover) was arranged through K M Dastur Reinsurance Brokers Pvt. Ltd. Mumbai and Alexander Forbes Risk Services UK Ltd. London with Imagine Insurance Company Ltd. Barbados.

2.41 When the Committee wanted to know what was the purpose of ART and when it is resorted to by Insurance Companies, the NICL in their written replies have stated the following

“The ART cover being a Non-traditional Reinsurance facility had been adopted for the first time in the Company. This type of arrangement is resorted to when the exposure per risk, event, location or person is small but the number of such exposures are large. In such cases traditional Reinsurance covers are not available and ART is resorted to, to guard against aggregate annual losses beyond a selected level.”

2.42 The Committee asked NIC to explain the reason for resorting to ART. In a written reply NIC stated as under:-

“As suitable R/I cover was not available from the traditional market, ART cover was arranged and finalized. Though National was confident of its underwriting procedures on the direct side it was not possible to anticipate the intensity and frequency of unprecedented claims which by nature are fortuitous in nature. Even in policies where utmost underwriting prudence is exercised on the direct side, reinsurance is arranged to mitigate losses.”

2.43 When asked by the Committee to furnish their comments on the fact that ART is only a risk-financing measure to smoothen the balance sheet and not a risk-sharing mechanism, NICL stated the following in their written reply:-

“In the ART cover if there is losses reported, reinsurers give recovery credit in the first year, which is then repaid over a period as agreed. This gives the reinsured the benefit of spreading the loss over a period thereby smoothening and protecting the balance sheet from sudden surge in loss figures.”

2.44. To a query by the Committee as to whether the issue regarding Alternate Risk Transfer (ART) was discussed in the Board of Director’s meeting or in any other Committee of National Insurance Company Limited (NICL). NICL stated as under :-

“The ART cover was approved by the Board at its 284<sup>th</sup> Board Meeting on 12.06.2004.”

2.45 Asked further by the Committee as to what benefits NICL obtained by resorting to ART, NICL in their note stated:

“No benefits were obtained by the Company by obtaining the ART cover.”

#### **F. ROLE OF FORMER CMD**

2.46 In view of the fact that SCP was issued and claims were settled without proper scrutiny, the Committee desired to know as to whether the then CMD of NICL was aware of the happenings in the Company. The Committee found that CVO had commented about the role of CMD, NICL in his report to Ministry of Finance as under:

“While examining the role of Head Office Officials we find from the file that Shri. H. S. Wadhwa, the then CMD, in his letter of 10<sup>th</sup> July 2003 thanked Reliance Chairman for patronizing NICL for default insurance and assured Reliance of prompt settlement of claim. This shows that he was aware of the business. As a CMD he should have foreseen the potent loss in underwriting such business. From the correspondences exchanged between Reliance and CMD it was clear that he had promised them to make payment of claims to the extent of Rs. 72 crores in three instalments.”

2.47 Elaborating further on the role of the then CMD before the Committee, the then CVO during his oral evidence stated as under:

“I have all along been maintaining that the Head Office has failed in its role of mentoring and coaching. The Head Office was aware that such

business is going to be under-written. H[REDACTED] Office was aware that huge claims are coming. Then, who will take the steps? They will come from the leader. The steps were not taken. When I am saying that there was a lacuna in claims management, when the claims are coming, already the lacuna in the underwriting is known to them. Then, what should be the natural reaction of the response management? It would have been to plug the loopholes in claims management. That was not done.”

2.48 When the Committee sought to know whether the then CMD, Shri H. S. Wadhwa should be held responsible alongwith the other for the loss incurred by NICL, Shri. B. Chakraborti who took over charge as CMD from Shri HJ.S. Wadhwa:

“As a CMD now and as the CMD earlier, whatever happens in some place, I am also held responsible. I cannot deny my responsibility.”

2.49 When the Committee enquired as to whether the Ministry of Finance sought any explanation from the then CMD on this issue, the Ministry of Finance in their written reply stated as under:

“The Ministry had sought the explanation of the then CMD, NIC on receiving a complaint from the office of the CVC and sent the explanation as such to the CVC for further action.”

### CHAPTER III

#### ORIENTAL INSURANCE COMPANY LIMITED

##### **A. ISSUE OF POLICY**

3.1 C&AG in their Report No. 4 of 2005 have discussed the special contingency policy issued by Oriental Insurance Co. Ltd. to RIL in Para 10.8.

The highlights of the Para are as follows:

“In the default policy issued by OIC in August 2003 to RIL for handsets the insured reported 61193 claims for Rs.63.53 crore. The Company had so far settled 18706 claims for Rs.19.64 crore and balance claims involving estimated outgo of Rs.13.81 crore, after taking into consideration repudiated claims, were pending.”

##### **3.2 STATEMENT REGARDING THE NUMBER OF HANDSETS INSURED UNDER DEFAULT LIABILITY INSURANCE POLICY AND PREMIUM COLLECTED YEAR-WISE;-**

<i>Year</i>	<i>Premium collected (Rs. in Crore)</i>	<i>No. of handsets insured*</i>
<i>2003-04</i>	<i>16.20</i>	<i>1,6,66,938</i>
<i>2004-05</i>	<i>00.83</i>	<i>83,647</i>
<i>2005-06</i>	<i>00.00</i>	<i>00</i>
<b><i>TOTAL</i></b>	<b><i>17.03</i></b>	<b><i>17,50,585</i></b>

3.3 When asked about the guidelines that were prevailing in OIC when this default policy was issued by Mumbai Regional Office, OICL stated the following in their written reply:

“There were no guidelines prevailing for above Special Contingency Policy (Default Liability Cover). This was the first Default Policy of this nature which was issued by us.”

3.4 Asked by the Committee as to whether the approval of Head Office was necessary for issuance of the SCP Policy, the OICL in its written reply stated the following:

“The above policy was underwritten by Divisional Office 18 Mumbai which was dealing with other insurance business of Reliance Group of Industries. The policy was discussed between Head Office, Delhi and



Mumbai Office at several occasions and it was issued with due diligence and with the consent of the Head Office.”

3.5. The Committee were informed that the proposal for issuance of such a policy was mooted by the insured i.e. Reliance Industries Limited. When the Committee sought to know whether OIC has brought any policy subsequent to issuing of Default Liability Policy for insuring mobile handsets for individual, the OIC replied in negative.

3.6 When the Committee desired to know whether the Head Office assessed the risk of the Policy being issued and suggested any measures to mitigate the risk, the OICL in their written reply stated the following:

“Mumbai Office vide their letter dated 16.07.2003 sought the guidance of Head Office for this policy. Head Office vide their letter dated 9-8-2003 referring various documents received from Mumbai Office advised various suggestions which are summarised as under :-

- a) No exclusive arrangement to be signed with Reliance.
- b) Policy to be kept confidential.
- a) Promotional offers by Reliance to be excluded.
- b) Basis of loss assessment and claim procedure to be added.
- c) Default due to dispute or death of subscriber to be excluded.
- d) Follow cancellation clause as per standard policy clause.
- e) Claim procedure to be spelt out.

The points suggested by Head Office were discussed with the clients and they did not agree. Their contention was that the Oriental's policy should be on the similar lines that of policy issued by National Insurance Company in June 2003. However, 'Oriental' succeeded in prevailing upon the client for two changes in our policy vis.a.vis National Insurance Policy.

- (i) Policy Excess
- (ii) Modified Cancellation Clause.”

3.7 When asked by the Committee to give details about the risk assessment and the internal projections regarding the default liability policy issued by OICL, the Company gave the following in their written reply:

“We confirm that this was the first time such a policy was being issued and hence we did not have previous experience in such risks. The risk assessment of the default liability policy was perceived to be spread over entire length and breadth of the country and possibility of large number of subscribers defaulting on payment simultaneously at any given time was less. As per market information, the expectation on default rate was 2%. As per actual statistics 61193 claims were lodged out of 17.51 lacs connections actually insured. This amounting to 3.5% of subscribers

insured. It can be noticed that actual results have not gone much out of the market information.

Also we had taken into account the then premium income and potential from the customer, most of which were highly profitable, in fact much more profitable than the loss incurred under this policy.”

3.8 When asked whether OICL Head Office agreed with the R.O. even after its conditions were not accepted, the OICL in their written reply stated the following:

“The suggestions of Head Office were not incorporated due to non acceptance by the insured. After taking oral consent of the Head Office, the policy was issued covering the connections to be issued from 15<sup>th</sup> August 2003.”

3.9 When asked by the Committee whether oral consent is an accepted form of approval, the Chairman, OICL, during the oral evidence stated the following:

“There was a communication from the Mumbai R.O. to the Head Office saying that this is what we have done and the Head Office did not come back asking us to cancel it. So it was an indirect approval.”

On further probing by the Committee on this issue, the CMD, Oriental Insurance Company during the oral evidence stated:

“Even today Head Office owns it.....The H.O. has never taken a stand that it was issued without their approval.”

3.10 When asked to justify the issuance of Default Liability Policy by the Committee, OICL in their reply stated as under:

“We may say that though the above Default Liability Policy issued to Reliance Infocom, the Company earned a premium of Rs. 17 crores and settled claims of Rs.28 crores thereby incurring a loss of Rs.11 crores, this enabled the Company to get a Fire and Engineering premium to the tune of Rs.75 crores in the year 2003-04. Therefore, the pricing and conditions of the above policy was a commercial decision mainly to get a better share of other profitable lines of business from Reliance Group. Also we successfully negotiated with the client to agree for a Deductible Excess of Rs.500 for ordinary handset and Rs.1000 for premium handset for each and every claim and modified Cancellation Clause. In claim processing also, we observed due diligence and got investigation done through outside independent agency about identity and residence of the defaulting subscriber. This due diligence in claim processing helped the company in reducing the claim outgo of Rs.38.56 crores.

It may be pointed out that even today due to severe competition in the market, all the Companies including private sector companies are forced to price detariffed policies in a very competitive way with a view to get other profitable lines of business like Fire and Engineering which are tarified as on date. Therefore, the Companies are looking at a profitability of the account as a whole instead of profitability of every policy. This is how the market dynamics are changed and as a commercial organization, we are also forced to price our detariffed products in tune with the market, taking into account the overall profitability of the client rather than profitability of every policy. We are forced to write some unprofitable lines of business knowingly mainly to get other profitable lines of business from the client. This is the basic reason for writing the above risk at a very competitive rate.”

3.11 The Committee wanted to know whether cross-subsidisation of policies are not in violation under GIPSA/IRDA guidelines and asked OICL to justify them. OICL stated as under in a written reply:

“There is no GIPSA guideline on such issues. As for IRDA is concerned, wherever tarified rates are to be followed, IRDA through its arm of Tariff Advisory Committee (TAC) ensures that all insurers follow tariff guidelines. Special Contingency is a non-tariff portfolio and therefore there is no IRDA rule as well. This is indeed a cross-product subsidization. Like any prudent businessman, who would like to sell a product at a small loss in exchange for a bigger profitable business, we have also accepted the risk although at a small loss. The final statistics comparing the premium and loss proves that our decision was justified and Oriental only gained from the customer contact. Even the guidelines issued by IRDA for framing Underwriting policy to be adopted by each insurance Company in the face of detariffing with effect from 1.1.2007., provides that “each Company has to decide whether they look into the profitability of each policy or for each client while underwriting and quoting premium”. Hence it is not prohibited and rightly so. Only consideration shall be that the Company’s Solvency Margin should not be adversely impacted.”

3.12 The Committee enquired whether the SCP ought to be treated as an Aggregate Risk from the point of Reinsurance protection as 50 lac connections were to be covered under the default liability policy. To this OICL in their Post-evidence written replies gave the following comments:

“We have not treated the Special Contingency Policy as aggregate risk from reinsurance point of view and considered each connection as an independent risk, therefore, there was no need for arranging reinsurance as it was falling within Company’s retention and accordingly no reinsurance was arranged.

The default liability insurance policy issued covers the liability of Rs. 11,000/- for ordinary handsets and Rs. 24,000/- for premium handsets.

The 50 lac connections covered under the policy were spread over entire length and breadth of the country and were to be issued during the currency of the policy. In the year 2003-04, we insured 16.66 lacs connections and in the year 2004-05, and 0.83 lacs connections and no connection were insured in the year 2005-06. The occurrence of any subscriber defaulting for payment would happen at different time and place and there was little possibility of large number of subscribers resulting into default simultaneously at one time. Each default is treated as an independent event and claim. In view of this probability, there was no need to take reinsurance protection. The ART offered to us was also not found suitable because it was only a method of financing payment of claims without any real reinsurance protection and any such arrangement would involve further outgo.”

**B. SETTLEMENT OF CLAIMS**

3.13 Audit under Para 10.8 in its Report have observed the following:

“The business results available upto December 2004 indicated that the Company could get premium of Rs.17.02 crore (excluding service tax). The insured reported 61193 claims of the total handsets for Rs.63.53 crore covered under the default cases upto November 2004. Out of 61193 claims reported, verification of 53670 claims was carried out by the investigator appointed by the Company upto February 2005 by incurring an expenditure of Rs.3.76 crore. Based on verification report of the 53670 claims given by investigator, the Company repudiated 29,334 claims for Rs.30.08 crore on the grounds of (i) non-existence of addresses (3278 claims) (ii) non-existence of persons at the given address (16289 claims), (iii) persons not subscribed to Reliance Mobile (5438 claims), (iv) persons moved away from the given address (3345 claims) and (v) continuance of mobile service even after default (984 claims) and settled 18706 claims of Rs.19.64 crore in aggregate. The balance 13,153 claims of Rs.13.81 crore were outstanding for want of further verification.”

**3.14 STATEMENT FURNISHED BY OIC TO THE COMMITTEE ON POSITION OF CLAIMS SETTLED AND OUTSTANDING CLAIMS TILL DATE, IN RESPECT OF DEFAULT LIABILITY POLICY TO RIL IS AS UNDER:**

(Rs. in Crores)

Year	No. of claims received		Claims Settled		Outstanding claims		Remarks
	No. of hand-sets	Amount	No. of hand-sets	Amt	No. of hand-sets	Amt	
2003-04	49280	51.74	22	0.0231	49258	51.72	Besides claim payment of Rs. 25.058 crores expenses on investigation fee was Rs.2.072 Crs. So total comes to Rs.28.13 Crores. No. of Claims repudiated were 36728 amounting to Rs.38.56 crore.
2004-05	11913	12.51	22037	23.055	5992	6.29	
2005-06	00	00	2406	1.98	00	00	
Total	61193	64.25	24465	25.058	NIL	NIL	

3.15 When the Committee wanted to know as to whether any assessment with regard to claims that may arise was made. In reply OICL stated:

“As per the market information, it was expected number of default around 2% of the total number of connections issued. Since the number of subscribers were spread all over India, therefore sudden occurrence of large number of claims was not contemplated due to vast geographical spread of subscribers. However, it is pertinent to note that the claim amount including investigation charges was Rs.28.13 Crores against a premium of Rs.17.03 Crores resulting into an incurred claim ratio of 165% only.”

3.16 When asked by the Committee as to how the policy was a good business proportion, the Chairman explained as below during the oral evidence:

“At that time, the overall business consideration of the group was paramount. We were looking at about Rs.500-Rs.600 crore premium which the client may be giving to us. Our growth rate was very much less at that time. It was ultimately one per cent at that time. Commercial consideration was the main thing. Coming to this policy as such, we covered per policy, a liability of Rs.11,000, charging a premium of Rs.100 per hand set. It works out to be something like one per cent. We had the market data, that a person not paying the bills, the risk was around two per cent. Even today, we checked up with Airtel and others; the default is around half a per cent or one per cent only. Therefore, charging a premium of one per cent was not bad. Everybody says that this is a new policy. We are taking risk. We are taking the risk with a bigger premium in

mind and the pricing was roughly with the market indulgence. Knowing full well that you cannot issue the mobile set to any Tom, Dick and Harry, you have to verify every subscriber before giving that. With that consideration perhaps, it was thought that this is a viable proposition. But after one year, we were saddled with so many claims that naturally we got upset because how can we handle all these claims which are all payable? Then, we undertook to examine each and every claim. So, the premise on which we took the risk assuming greater control on the subscriber installations, and later on, with the claims that were coming, we felt that not much control was exercised. Therefore, we came very heavily on the claim settlement and rejected almost 60 per cent of the claims. That is why, we managed it and that is why, we could come out with less losses, I would say.”

3.17. When asked by the Committee as to whether any action was taken against RIL for submission of false claims especially when 36728 out of 53670 claims were repudiated, the OICL informed the Committee in a written reply:

“As per the practice, whenever any claim is found to be not payable under the terms and conditions of the policy, the insurance company repudiates the claim by citing the reasons of repudiation. But there is no practice to take action against the insured having filed the claim which was found to be not payable under the policy.”

## **CHAPTER-IV**

### **MINISTRY OF FINANCE**

4.1 When the Committee wanted to know how and when did the Ministry come to know about the issue of SCP to RIL by NICL, the Ministry in a written reply stated the following:

“On 13<sup>th</sup> August 2004, a complaint was received from the Central Vigilance Commission (CVC) against the Chairman-cum-Managing Director of the National Insurance Company (NIC). A report on the complaint was sought from him and the same was forwarded to the CVC in November 2004 for further appropriate action. Another complaint already from an officer of NIC was received in September 2004 against the top executives of the Company in which reference to the issuance of a defective policy to Reliance India mobile was made. On this complaint, the CVO of the Company was asked to enquire and submit report. He sent his report in December 2004 stating that, prima-facie, some officers from NIC were involved in irregular underwriting of business and issuance of defective insurance policy to M/s Reliance Infocom. The Insurance Division has directed the Company to initiate action against the concerned officers. Thereafter, in December 2004, the Principal Director of Commercial Audit forwarded to this Ministry for comments a Mini review on the Special Contingency Policies on mobile handsets issued by the two companies before including this in the Audit Report No. 4 of 2005. The same was forwarded to the respective companies for comments. However, in March 2005 this draft audit Para was included and published in the Audit report of the C&AG (Chapter X). In May 2005, while highlighting one of the recommendation viz., “the matter needs to be investigated thoroughly and appropriate Departmental and legal action taken”, the concerned companies were requested to furnish their comments and Action Taken Notes. Based on the comments received from the insurance companies, an ATR was sent to CAG in October 2005.”

4.2 When the Committee wanted to know what action was taken by the Ministry on the observations of C&AG Audit regarding NIC and OIC about the issue of SCPs, and whether the Ministry have fixed any responsibility, the Ministry in their written reply stated the following”

“The Ministry conveyed the observations of C&AG to NIC and OIC. The companies themselves reviewed their underwriting policies and made amends to avoid recurrence of such an event in future. Since the CVC was already seized with the matter, the Ministry provided whatever

information was required by it to properly investigate and fix responsibility in the case.”

4.3 When the Committee enquired as to whether any investigation was undertaken in the matter by Vigilance / CBI or any other agencies, and if so, the present status, the Ministry of Finance stated the following in their written replies:

“The vigilance department of the Company conducted detailed Departmental investigation and the Central Vigilance Commission was kept informed of the case. The matter is also under investigation by CBI.”

4.4 When the Committee wanted to know whether the Ministry had at any time called the then CMD of NIC for discussion on this issue and sought explanation, the Ministry stated the following in a written reply:

“The Ministry had sought the explanation of the then CMD, NIC on receiving a complaint from the office of the CVC and sent the explanation as such to the CVC for further action.”

4.5 In view of the fact that the then CVO of NIC had made certain observations against the then CMD in his report to Ministry of Finance, the Committee asked what was the reaction of the Finance Ministry to the CVO’s observations about CMD’s role. Secretary (Fin. Sec) stated the following during the oral evidence:-

“The report was sought from us by the CVC. We got the details from the company. And since it has been sought from the CVC, the action which the Government took is – we do not have investigating agency – that we made everything available to the CVC. The CVC may have an investigation conducted through whatever channels they wanted to and if it is the Board level appointee, then the CVC will get in touch with the Government and if it is an appointee in the company, then the CVC will instruct the management of the company to take action against that particular appointee.”

4.6 When the Committee asked for the views of the Ministry regarding non-invoking of Cancellation clause by NIC, the Ministry stated the following:

“The company should have invoked the cancellation clause to limit the losses under the handset policy.”



4.7 Asked by the Committee about the steps taken by the Ministry to obviate recurrence of such instances in future and also to safeguard the financial interest of the Company, the Secretary (Fin Sec) stated the following:-

“As stated earlier, the public sector insurance companies are Board run. The Board is supposed to decide the broad policies and strategies. Other day-to-day decisions are taken by the management. The management is also to seek the guidance of the Board, if required. Any deviation from the policies/strategies, as decided by the Board, is to be brought to the notice of the Board. The Government, however, does not directly come into the picture so far as the procurement of business or the settlement of claims is concerned.”

4.8 The Committee sought to know from the Ministry of Finance whether the nominee of the Ministry on the Board of NICL communicated to the Ministry that such a serious matter had taken place. The Secretary, (Financial Sector), Ministry of Finance during his oral-evidence replied as under:

“The Ministry has a nominee on the Board of the Insurance Companies including the NICL. He was present in the Board meeting and I have a copy of the agenda note which was placed in the Board. The agenda note on Board does not make any reference to the coverage of insurance of the mobile handsets or the default liability. It was only specific for alternate Risk Transfer Facility that the company sought approval of the Board. I have a copy of that and I will place that before the Committee. The issue was not that the Head Office or the Board has given an approval to indemnify. The issue before the Board was whether an additional or alternate Risk Transfer Facility can be created or not.”

Elaborating further, he stated:-

“Sir, ordinarily the issue of business or commercial interest which have large repercussion on the company always come to the Board for discussion. They should be discussed. There is no doubt about that.”

4.9 When asked by the Committee about the opinion of the Ministry about issuance of this particular policy due to which NICL and OICL suffered losses, the Secretary replied the following:

“Let me emphasise that commercial enterprises whether it is a public sector or private sector are always on the look out for innovative methods by which they can increase their balance sheet size and their profits, etc. It is a question of when you are going to try the innovative projects and trying to emphasise (1) risk calculation of a very mature kind and (2) trying to ensure that prudentially you are totally covered from all risk exposure.

Oriental had handled a similar case in one way and National had handled it in a different way. It remains to be seen as to who has been more prudent in handling it. Of course, from the losses that have occurred or the claim settlements that have taken place for the same kind of policy, Oriental's handling has turned out to be very mature than the National in this particular case. Overall, we feel that probably some element of caution should have been exercised in undertaking a policy of this kind and also ensure that there is sufficient amount of risk transfer while taking a policy."

4.10 When the Committee asked to explain why such a unique and novel policy about which there were no global experience was not discussed in the Board, the Secretary (Fin Sec) during the oral evidence stated:

"The Risk Transfer is a routine thing. The Board had to take a decision on a policy already taken earlier. The issue that came before the Board was of Risk Transfer Facility and that was the only document which was before the Director who was representing the Government. My only submission is that the part-time Directors on Public Sector Companies or banks or insurance companies suffer from a handicap and that is, the information that we go with on the Board meeting is only that information which is placed before us. We do not have access to files, or the decision-making process. To the extent the information is revealed in the agenda note is all that we have. We can certainly, while sitting on the Board, ask for additional information in case we so require it and it is made available to us. That is all the information that was made available to the Director also."

4.11 The Committee pointed out that when the Board was taking a wrong decision the Company incur losses. The Committee desire to know whether Government have any role to play in such cases, for which the Secretary during oral-evidence replied the following:

"We regularly review the performance of each of the public sector enterprise. Each of the company executes a Statement of Intent or an MoU with us. In the MoU we give a large number of points which need to be covered in it. We monitor the performance of the Company as per that Memorandum. So far as the loss or gain in regard to a particular venture is concerned, Government does not give any direction on the commercial operations."

**RECOMMENDATIONS / OBSERVATIONS****NATIONAL INSURANCE COMPANY LIMITED****RECOMMENDATION No. 1****POWER TO ISSUE SPECIAL CONTINGENCY POLICY (SCP)**

The Committee note that NICL issued two policies under Special Contingency Policies (SCPs), namely, Handset all risks cover and Default liability policy to Reliance Industries Limited. As per audit Default liability policy was also issued to Tata Teleservices Limited. These policies were issued during the year from 2002–04.

The Committee were informed that Special Contingency Policies (SCP) are issued by the insurance companies, when covers are not available under any existing standard policies. Normally SCP's are issued for events like art exhibitions, cultural programmes, cricket matches, etc. which are specific event related. However, the Committee are surprised that NICL resorted to issue of SCP for covering mobile handsets which do not fall under the above categories of activities.

The Committee were also informed that the power to issue the SCP does not lie with either the Divisional Office (D.O.) or Regional Office (R.O). and all SCPs are referred to Head Office before acceptance of the proposal. In the extant case Committee note that the Head Office (H. O.) did not exercise proper due diligence when the D.O. / R.O. sent the proposal to them for approval. The Committee regret to note that without fully analyzing the implications of the policy, the H.O. communicated to Mumbai Regional Office that as the maximum value per Handset was within their acceptance limits they may take an appropriate decision in the matter. As the number of handsets to be covered were approximately 50 lakhs and the aggregate risk was about Rs. 4931crore for Handset policy and Rs. 4981 crore for Default liability policy, the Committee strongly feel that the stand of H.O. to allow Kalyan D.O. to take appropriate decision in the matter was not proper and in their opinion, it reflects nothing but their evasive attitude.

The Committee understand that the proposal for the policies covering the mobile handsets from RIL and for default liability were received by all the PSU insurers. However, only National Insurance Company Ltd. (NIC) and Oriental Insurance Company Limited (OICL) accepted the proposal and other PSU insurers did not agree for the same as they considered it to be a very risky venture. As no such policy had been issued both before and after the issue of extant SCP, the Committee would like to conclude that the NICL acted with undue haste without fully assessing the risk involved and anticipating the claims that could be lodged.

The issue of SCP and settlement of claims without proper scrutiny, is indicative of lack of accountability and failure of supervisory mechanism in NICL. The Committee recommend that the Ministry / NICL should take appropriate remedial measures to strengthen internal controls and supervisory mechanisms so that, instances of this kind do not recur in future.

In view of the above the Committee recommend that Ministry of Finance in consultation with IRDA should amend the guidelines suitably so as to plug the loopholes in the issuance of Special Contingency Policies and tailor-made Policies to the customers in future.

**RECOMMENDATION NO. 2****REINSURANCE PROTECTION FOR SCP**

The Committee have been informed that the Insurance Companies have Reinsurance Departments which decide on the Reinsurance arrangements to be made by the Company. The Reinsurance arrangements in respect of standard policies are well laid down.

The Committee note that before issuing the mobile handset and default liability policies, NIC did not carry out any exercise to evaluate the risks associated with the policy. As the SCP's policies were being given for the first time in the country, the Committee feel that the NICL ought to have checked for the availability of reinsurance protection. The Committee do not agree with the contention that NICL did not check for Reinsurance before the issue of the policy, considering the low value per Handsets.. As the aggregate risk amounts covered under the two policies are Rs. 4931 crores under Handset Policy and Rs. 4981 crores under Default Policy, the Committee feel that it was imperative on the part of NICL to have arranged for reinsurance.

The Committee highly deplore the inaction on the part of H.O. officials to arrange for reinsurance of SCP. Had the Reinsurance Division properly evaluated risk involved in issuance of SCP in question and taken Reinsurance cover before the issue of policy , the colossal losses to the company could have been avoided The Committee recommend that before issuing any policy in future NICL should make proper assessment of risk involved in the policy and take adequate steps for reinsurance cover.

The Committee therefore strongly recommend that such guidelines should be amended so as to make reinsurance mandatory for SCPs also.

**RECOMMENDATION NO. 3****CANCELLATION CLAUSE IN THE SCP**

The Committee note that in the MOU signed on December, 2002 between NICL and RIL for SCP covering handsets all risks, the MOU contained a condition that either side might cancel the policy by giving seven days notice in writing.

After the policy came into force, the Committee note that within a short time, the NIC got huge claims. In view of large claims and huge amount involved for settlement the Committee are surprised that NICL had not thought it fit to invoke the cancellation clause provided for in the policy even after the claims ratio was becoming worse. The Committee are not convinced with the reply of NICL that 90% of the total premium was already received in the first year and hence, cancellation clause was not invoked. Even the Ministry of Finance has expressed the view that the company ought to have cancelled the policy by invoking the cancellation clause. The Committee, therefore, deplore their actions of NICL for not invoking the cancellation clause despite the fact that claim ratio exceeded to alarming proportions.

The committee also note that in the default liability policy, Reliance wanted to protect their financial interest and hence did not want any cancellation clause to be incorporated. The committee strongly opine that PSU insurance companies like NICL should instead of yielding to the demands of customers protect their commercial interest too.

**RECOMMENDATION NO. 4****SETTLEMENT OF CLAIMS**

The Committee were informed that out of 1,38,879 claims lodged by Reliance Industries under Default Liability Policy (DLP) only 103928 could be investigated. The balance 34,000 claims were not settled because further new claims started pouring in. Similarly many claims filed under handset policy could not be investigated. As a result, outstanding claims to tune of Rs. 31. 74 crores under DLP and around Rs.62.80 crores under handset policy remain unsettled. Besides claims to the tune of Rs. 66.52 crores in respect of Default Liability Policy issued to Tata Teleservices are still outstanding.

The fact that such huge number of claims are still outstanding indicate a very sorry state of affairs in NICL in the matter of settlement of claims. This is also evident from the fact that with regard to settlement of claims, CVO's note dated September 5, 2005 *inter-alia* observed "If the underwriting was bad, the claim management was still worse. No verification was done regarding the genuineness of the claims." The Committee deplore that not only NIC failed to investigate all the cases of claims which were filed but it also did not exercise proper care to check the veracity of such claims. No wonder that such callous approach of NIC in settlement of claims caused huge losses to the company.

The Committee believe that NICL could have contained their losses to a large extent, if it had done proper claim investigation. Here the Committee would like to refer to the claim investigation done by OIC, in which, out of 61193 claims lodged for settlement, OICL repudiated around 36728 claims. The Committee therefore feel that the responsibility for such acts of omission squarely lies with H.O./R.O. of NICL as they failed to properly advise Kalyan D.O. and initiate corrective steps. The committee further note that NICL had raised a demand on RIL to repay an amount of Rs 6.97 cr on claims that were wrongly settled. However RIL did not accept

**NICL's contention and have not repaid any amount. This also indicates the undue haste with which NICL first settled the claims and sought refund later.**

**The Committee, desire that a thorough enquiry should be conducted in the matter of settlement of claims for fixing of responsibility on officials on whose behest claims were settled without proper documents.**

**As significant number of claims are still pending, the Committee desire that a panel of investigators as directed by NICL's Board be formed for proper investigation of claims and their settlement. Action on this front should be time specific and expedited. The Committee would like to be apprised of the progress on this issue within the next six months.**



**RECOMMENDATION NO. 5****ALTERNATE RISK TRANSFER (ART)**

The Committee note that as SCP policies were not covered by Reinsurance Protection, the company had to bear the brunt on the financial front due to the large outgo of funds on the settlement of claim. Having understood the implications of such outgo of funds on its financial performance, NIC looked for Alternate Risk Transfer (ART) to smoothen the balance sheet of the company. The company even paid Rs. 12.6 crore as upfront fee for ART which yielded no benefits to the Company.

The Committee note that unlike reinsurance where risk is covered Alternate Risk Transfer is an arrangement of risk-financing and not risk-sharing. The Committee take strong exception to NIC'S attempt to mislead them as also their Board which is evident from the fact that in their agenda paper of Board Meeting held on 12 June 2004, ART was camouflaged as an reinsurance protection. The Committee would also like to reprimand the Board of Directors of NICL for failing to seek proper justification for ART before granting approval for ART

The Committee strongly believe that happening of this nature do not augur well for Public sector Insurance Companies. The Committee, therefore, recommend that Ministry should impress upon all public sector insurance companies that they should refrain from resorting to ART in a casual manner.

**RECOMMENDATION NO. 6****ROLE OF THE THEN CONCERNED CMD OF NICL**

The Committee believe that the executive accountability in a commercial organization begins with the CMD. From the audit para, CVO's note and as also Committee's own examination, the Committee feel that in the entire business beginning from the issue of SCP, settlement of claims, opting for ART, lack of reinsurance, non-invoking of cancellation clause etc., the role and conduct of the concerned CMD was far from satisfactory.

From the CVO's note of September, 2005, the Committee observe that, the then CMD of NICL, was fully aware of the issuance of SCP and he had written a letter on 10<sup>th</sup> July 2003 to Reliance Infocom Chairman thanking him for patronizing NICL and assuring him of prompt settlement of claims. The Committee are highly constrained to note that when the claims were settled and losses were mounting, the CMD did not act to protect the financial interests of the Company. He took no steps either to cancel the policy or to make proper investigation into settlement of claims. Further when the company was reeling under huge losses on account of single policy, the CMD should have brought the matter to the Board's notice for their appropriate direction. However, instead of seeking direction of Board, the Committee note that then CMD tried to mislead the Board by seeking ART cover and camouflaging it as reinsurance support. All these facts/points the needle of suspicion to the concerned CMD.

Despite the fact that issue of SCP had resulted into huge losses to company the Committee are surprised to note that the Ministry did not deem it fit to put the CMD on notice and seek explanation on the issue. The Committee strongly believe that without the knowledge of the then CMD, things could not have gone thus far. Hence the Committee strongly recommend that Ministry should prefer CBI to investigate the role of the then CMD in the entire issue relating to SCP to RIL separately and a report of action taken thereon may be given to the Committee.

**RECOMMENDATION NO.7****ORIENTAL INSURANCE COMPANY LIMITED**

The Committee note that Oriental Insurance Company Limited also underwrote the default liability policy of RIL as was done by NICL. They insured 17.10 lakhs handsets under default liability policy (DLP). The Committee regret to note that the OICL without carrying out in-house assessment with regard to pros and cons of SCPs, underwrote the policy mainly because NICL had already issued a similar policy and also in order to gain entry into the business of Reliance Industries Ltd.

The Committee have been informed that OICL had expected default of around 2% of the total number of connections issued in the instant case wherein 17.5 lakh handsets were insured. Claims settled by OICL were 24,465 only which are less than 2%. The Committee wonder why even though default was less than anticipated 2% yet OICL incurred losses which shows that at the time of issuance of SCP proper assessment in fixing the premium was not done. Had OICL fixed the premium as per the perceived risk losses altogether could have been avoided.

OICL has justified the issuance of SCP on the ground that the overall business portfolio was profitable even though this particular policy had incurred losses. The committee however find that issue of SCP to gain entry into the business of RIL is against GIPSA guidelines which says that each policy should be treated separately and cross-subsidisation is not permissible. The Committee deplore the action of OICL for underwriting a business knowing fully well that particular business will bring losses to the company. In the opinion of the Committee, the PSUs are to function as commercially viable business and they should focus on strong business models for the long term rather than achieving growth through short-term methods.

**RECOMMENDATION NO.8****CONTROL AND SUPERVISION BY MINISTRY OF FINANCE**

The Committee note that the National Insurance Company Ltd. and Oriental Insurance Company Limited come under the Ministry of Finance. The Ministry has two nominees as part-time Directors in the Board of these companies. As they are non-executive positions, these nominees attend Board Meetings, which are infrequent and agenda driven. The Ministry reviews their overall financial and physical performance at the end of financial year .

While committee appreciate that by way of functional and financial autonomy to PSUs, Ministries should not interfere into their day to day activities they feel that Ministries ought not be altogether ignorant of such happenings like issuance of SCP and consequent losses in Public Sector Undertakings under their control. In the extant case, the Committee feel that the response of the Ministry to the happenings have been shoddy and apathetic. When the Ministry received a complaint from the CVC against the then CMD, NICL, they forwarded the same to him for explanation. The Committee are unable to understand as to how CMD of a company would send an adverse report against himself. This speaks volume of the type of action taken by senior officials of the Ministry particularly associated with vigilance matters.

Further, the Committee are of the view that the role of the part-time Government Directors was merely that of passive listeners as they failed to seek any clarification when the issue of approval for ART was discussed in the Board Meeting on 12<sup>th</sup> June, 2004. The Secretary (Financial Sectors) during his evidence agreed that the part-time Government Directors could have sought more information on any of the agenda matters placed before the Board of NICL as Govt.nominees. This reflects very poorly on the part-time Directors occupying the position. They should be aware of the responsibilities they discharge as Part-time Directors and also should take

full cognizance of the fact that they are representing the Government of India.

The Committee, therefore, feel that present system of control and supervision of the PSUs by the Ministry needs to be further strengthened. The Committee recommend that the Ministry should appoint a group of experts to study the weaknesses of the present system to suggest remedial measures for ensuring better supervision by the Ministry. The Committee further recommend that the feasibility of inducting Independent Directors who can function without any fear or favour in the Board of PSU insurance companies should also be explored.

New Delhi  
12<sup>th</sup> December, 2006  
21 Agrahayana, 1928 (S)

RUPCHAND PAL  
CHAIRMAN  
COMMITTEE ON PUBLIC UNDERTAKINGS

**DEPARTMENT OF ECONOMIC AFFAIRS- INSURANCE DIVISION****CHAPTER X**

National Insurance Company Limited  
Oriental Insurance Company Limited

Special contingency policies on mobile handsets.

**Highlights**

Two insurance Companies suffered heavy losses in the issue of tailor made insurance policies because of non-compliance to technical parameters and non-evaluation of risk factors involved.

**(Para 10.4)**

The failure on the part of the Management to obtain reinsurance protection, ensure the compliance of Insurance Regularity and Development Authority (IRDA)/ General Insurance Public Sector Association (GIPSA) guidelines as well as non-inclusion of the loading clause deprived the Company of the opportunity to reduce its losses in all the Special Contingency Policies (SCPs) issued during 2002-03 to 2004-05.

**(Paras 10.5.2, 10.5.3, 10.5.4 and 10.5.6)**

In handsets all risk cover issued under SCP on 18 December 2002 to Reliance Industries Limited (RIL), National Insurance Company Limited (NIC) received claims for Rs.91.23 crore upto October 2004 against the premium of Rs.27.39 crore (excluding service tax) realised during December 2002 to October 2004. Out of these, it settled claims for Rs.24.69 crore and the balance claims for Rs.66.54 crore were pending settlement.

**(Para 10.5.6)**

In the default policy issued to RIL on 25 June 2003, NIC received claims for Rs.152.34 crore against the premium of Rs.55.71 crore realised upto October 2004. Out of these it settled claims for Rs.120.60 crore and the balance claims for Rs.31.74 crore were pending.

**(Para 10.6.3)**

In the default policy issued to Tata Tele Services Limited on 1 April 2004 NIC received claims of Rs.9.54 crore against the premium of Rs.6.20 crore realised upto October 2004. Out of these, it settled claims for Rs.3.42 crore and the balance claims for Rs.6.12 crore were pending.

**(Para 10.7)**

In the default policy issued by OIC in August 2003 to RIL for handsets the insured reported 61193 claims for Rs.63.53 crore. The Company had so far settled 18706 claims for Rs.19.64 crore and balance claims involving estimated outgo of Rs.13.81 crore, after taking into consideration repudiated claims, were pending.

**(Para 10.8)**

NIC failed to arrange the reinsurance protection. With a view to finance the huge flow of claims, it obtained Alternate Risk Transfer (ART) cover from foreign reinsurer and paid Rs.13.38 crore as one time upfront fee. This upfront fee further reduced the already low premium income.

**(Para 10.9)**

### **10.1 Introduction**

General Insurance business is traditionally divided into Fire, Marine and Miscellaneous. Miscellaneous insurance includes in its scope Special Contingency Policy (SCP) or tailor-made policy. The risks associated with 'Mobile handsets', which could not be covered under the standard policies, were covered under SCP. SCP covers were issued to dealers and manufacturers.

The Mumbai Divisional Offices of the National Insurance Company Limited (NIC) issued two policies in 2002-03 and 2003-04 respectively to the Reliance Industries Limited, Reliance Infocom Limited and its associates (hereinafter referred to as RIL) and one policy to Tata Tele Services Limited during the year 2004-05 and the Mumbai-based Divisional Office of the Oriental Insurance Company Limited (OIC) also issued a policy during the year 2003-04 to RIL to underwrite the risks associated with mobile handsets without careful evaluation of the risk involved and other technical aspects, which resulted in heavy losses to these companies.

### **10.2 Scope**

The review of the insurance cover issued by the Mumbai-based Divisional Offices of NIC and OIC during the years 2002-03 to 2004-05 to cover the risks related to mobile handsets under SCPs was conducted during the period from September 2004 to November 2004.

### **10.3 Audit Findings**

An analysis by Audit of the insurance policies under SCPs revealed that they were devised primarily to suit the requirements of the insured, without safeguarding the insurers' interest owing to non-adoption of the prudent underwriting guidelines as brought out in the succeeding paragraphs.

#### **10.4 Non-evaluation of technical aspects**

Before issuing the SCPs, all the operating offices were required to comply with the following technical parameters to ensure that the risk would not make the rating unviable:

- (i) Prior sanction of the Reinsurance Department of the Company to be obtained before acceptance of risks beyond the prescribed limits, as advised by Reinsurance Department from time to time.
- (ii) The excess clause\* must be clearly indicated against each item or section.
- (iii) Basis of sum insured i.e. whether market value, reinstatement, replacement, non-recoverable cost etc. as applicable, to be indicated to avoid disputes.

**\* Excess clause means that part of loss, which would be borne by the insured in order to avoid high frequency low value losses/claims to be paid by the insurer.**

- (iv) In case of non-standard products/risks like financial risks, asset protection and stock exchange risks, the pricing, terms and conditions should be in line with the requirement of reinsurer as contemplated in the Company's reinsurance programme.

However, an analysis in audit revealed that during the course of finalisation of terms and conditions of policy documents for the issue of insurance cover for SCP for the mobile handsets by the operating offices of NIC and OIC, the above-cited instructions were not complied with as brought out in paragraphs 10.5.2 to 10.5.4, 10.6.1 and 10.6.3.

#### **10.5 Handsets all risks cover with RIL**

The Kalyan Divisional Office (D.O) under the Mumbai Regional Office (R.O)-I of NIC, issued a SCP for mobile handsets on 18 December 2002 to RIL, which was valid for three years, based on a Memorandum of Understanding (MOU) signed on 6 December 2002 with RIL. It covered the risk of physical loss or damage to the mobile handsets necessitating repair and fraudulent use consequent upon misplacement/theft, suffered by the persons to whom the mobile handsets were sold by the insured, subject to a maximum of Rs.12,000 per accident. Premium at the rate of 0.25 per cent per annum was charged on the declared sum insured.

The salient features of the MOU were as under:

- (i) The policy was issued with the concept of periodical increase in sum insured by progressive coverage.



- (ii) Either side (insurer or insured) might cancel the policy by giving seven days notice in writing.
- (iii) The insured would undertake periodic declaration of invoice number, date of sales, value, and details of customer (name, city) to the insurer;

A review of the MOU referred to above revealed that the following important guidelines were not followed by the operating offices:

#### ***10.5.1 Approval from Head Office:***

As per NIC's guidelines issued in March 1999 the power to develop a new product under SCP was retained with the Head Office of the Company. The Kalyan D.O. based on MOU dated 6 December 2002 with RIL, devised a new SCP to cover the loss or damage to the mobile handsets involving repair and fraudulent use. Being a new product, it required approval of headquarters before its implementation. However, this was not obtained before its implementation.

Besides this, as per Company's guidelines all fresh proposals under SCP where the sum insured exceeded Rs.50 lakh were to be referred to Head Office for approval. However, Kalyan D.O issued the above-cited SCP for mobile handsets for the sum insured of Rs.6.50 crore with a clause that sum insured would increase with subsequent sales of mobile handsets upto the expiry of period of the policy i.e. 17 December 2005. As the sum insured had far exceeded the prescribed limit of Rs.50 lakh, the Kalyan D.O, by not obtaining prior approval of Head Office, had exceeded its powers.

#### ***10.5.2 Re-insurance protection:***

The Company every year draws up its reinsurance programme for various classes of risks in order to fix retention limit of risks commensurate with its financial strength. Insurance Regulatory and Development Authority (IRDA) guidelines also stipulate that the maximum loss retention should not exceed five per cent of the networth of the Company. However, the D O did not make any reference to Re-insurance Department for taking reinsurance cover. In the absence of this, the risk retention limit could not be calculated. The sum insured as on 31 October 2004 was Rs.3850 crore (and would increase further as validity of the policy was upto 17 December 2005). Thus, there was no reinsurance to protect the Company's risk except 20 per cent obligatory share of risk accepted by the General Insurance Corporation (GIC). The GIC allowed 25 per cent commission on premium received on account of obligatory reinsurance.

#### ***10.5.3 Absence of risk analysis***

As per IRDA guidelines NIC was to indicate how the products would be priced, the database that would be used to determine the premium basis and the terms and conditions and the statistical system that would be established to review the adequacy of rates. NIC did not make any exercise based on statistical data of similar industry to evaluate the adequacy of rating and risk involved.

#### ***10.5.4 Absence of viable clause of loading.***

As per General Insurance Public Sector Association (GIPSA) guidelines circulated by the Company in June 2001, the rates quoted were to be suitably loaded based on claims experience of each year so as to bring the incurred claim ratio to 70 per cent in case of adverse claims. However, the policy was issued on long-term basis for three years without inclusion of above-cited clause, which ultimately made the rating of the policy unviable.

#### **10.5.5 Inaccurate pricing**

In March 1996 the Company formulated a scheme for wholesalers/dealers/manufacturers for normal coverage of damage and theft of mobile phone on trial basis for a period of one year at a suggested rate of 0.25 per cent per annum. Although the scope of risk involved in the SCP for handsets policy issued to RIL was increased to cover the new element of loss due to fraudulent act in addition to normal losses on account of damage and theft of mobile phone, the Divisional office of NIC did not charge any premium for the additional coverage of risk. This resulted in extending undue benefit to the insured.

#### **10.5.6 Non-invoking of cancellation clause**

As per clause eight of the MOU entered into between NIC and RIL there was a provision for cancellation of policy by giving seven days notice to the insured. Despite the number of deficiencies in the implementation of the terms and conditions of the MOU, NIC did not invoke the cancellation clause. The reasons to justify the non-invoking of the cancellation clause were not available in the records made available to Audit.

The technical department of Head Office observed in February 2003 that the operating office should have included a suitable clause for rapid obsolescence of the equipment and fall in its market price, unexplained losses/malicious act and settlement of claims on market value basis after deduction of depreciation. By not referring the above policy to Head Office for their technical concurrence, the above-cited aspects were left out of the policy conditions.

The failure on the part of the Management to obtain reinsurance protection as well as non-inclusion of the loading clause deprived the Company of the opportunity to reduce its losses. As a result of this, against the premium of Rs.27.39 crore (excluding service tax) realised during December 2002 to October 2004, it received claims for Rs.91.23 crore upto October 2004. Out of these, claims for only Rs.24.69 crore were settled and the balance claims for Rs.66.54 crore were pending settlement. On the basis of paid/outstanding claims after taking into account premium ceded and commission received on account of reinsurance the Company had suffered a loss of Rs.63.84 crore (NIC Rs.49.70 crore and GIC Rs.14.14 crore).

#### **10.6 Default policy issued to RIL**

Based on another MOU entered into between NIC and RIL on 25 June 2003, the Kalyan DO issued an SCP to RIL to cover the default liability risk in respect of mobile handsets for the period from 25 June 2003 to 24 June 2006. The premium

rate per handset/connection was charged at Rs.100 (including eight per cent service tax). The scope of cover included net ascertained financial losses arising out of telecom services of the insured and/or cost of the handset from default due to fraudulent activity of the subscriber subject to a maximum loss of Rs.11,000 per handset. The fraudulent activity included default of periodical payment/dues by the subscriber for any reasons whatsoever. Further, the parties had no option to cancel the policy during the validity period of the policy.

A review of records relating to the underwriting of the risk under this default policy revealed the following deficiencies that led to huge losses to the Company:

#### ***10.6.1 Non-conventional Policy***

The SCP for handsets issued in 2002 covered the risks of damage/theft suffered by the users on account of fraudulent use of the handsets consequent on misplacement/theft. The Kalyan D.O, based on the MOU signed in June 2003, devised a new product enlarging the scope of risk. The cover was given to RIL with sum insured of Rs.5500 crore to indemnify their financial loss on account of default of periodic payment/ dues by the subscribers for any reasons including fraudulent activity. This type of non-conventional policy covering financial risk was issued for the first time in the Indian market. Despite the substantial increase in the amount of the sum insured over the prescribed limit of only Rs.50 lakh, the Kalyan D.O in this case also did not obtain the approval of Head Office before issue of SCP for default cover for handsets. Thus, the same D.O exceeded its powers in issuing the above-cited cover.

In this context the Head Office of NIC also observed while reviewing the policy in March 2004 that any non-conventional, tailor-made or contingency proposal should not have been committed without its authorisation and more serious thought should have been given and prudence should have been observed in ascertaining the aggregate risk exposure.

#### ***10.6.2 Absence of reinsurance protection***

As already mentioned as per IRDA guidelines and the Company's reinsurance programme, the Company, before undertaking any cover, must obtain reinsurance support. However, the Kalyan D.O. in the instant case of 'Default cover policy' also did not take any reinsurance protection before issue of the policy, even though the aggregate sum insured was Rs.5,500 crore.

#### ***10.6.3 Deficiencies in MOU***

##### ***(a) No clause for cancellation***

In the earlier MOU (December 2002) entered into between NIC and RIL, there was a clause for cancellation of policy by giving seven days notice in writing by either side. In the MOU dated 25 June 2003, however, this condition was excluded. Thus, the Management had forgone the right to take any remedial action. As a result, the Company would be bound to accept claims under policy endorsements issued upto 24 June 2006.

***(b) No provision for loading and periodic review***

Despite the Head Office specific instructions of February 2003 that the SCP in any case should be renewed on yearly basis, this provision was not considered in the MOU entered into with RIL in June 2003. The default policy was issued to RIL for three years without any provision for periodic review of premium including loading factor for adverse claims.

***(c) Risk coverage beyond the scope of MOU***

The D.O. had also extended the risk coverage to coloured handsets by charging premium of Rs.140 per set (including service tax) with a sum insured of Rs.24,000 per set and thereby increased the total sum insured from Rs.5,500 crore to Rs.6,150 crore, even though no such provision existed in the MOU.

***(d) Absence of excess clause***

No excess clause to limit the overall loss amount was included in the MOU in order to minimize /restrict the loss of the Company.

In view of the deficiencies narrated above, NIC received claims for Rs.152.34 crore against the premium of Rs.55.71 crore upto October 2004. The Company settled claims for Rs.120.60 crore and the balance claims for Rs.31.74 crore were pending. Though the currency of policy was three years, the liability of the Company would extend beyond the stipulated period as each policy endorsement carried coverage period of three years from the date of issue. As such the Company would be liable for any future default/claims upto June 2009. On the basis of paid/outstanding claims after taking into account premium ceded and commission received on account of reinsurance the Company had suffered a loss of Rs.96.63 crore (NIC Rs.74.51 crore and GIC Rs.22.12 crore) upto October 2004.

The request of the Management to RIL for enhancement of premium in April 2004 stating that pricing done was not proper considering the nature of risk and that the magnitude of loss would reduce the network, substantiated the audit findings.

***10.7 Default Policy with TATA TELE Services Limited***

While the Company had already suffered huge loss in underwriting the default cover of RIL at a very low premium as mentioned above, the Mumbai based Divisional Office under the same Regional office entered into MOU on 1 April 2004 for a three year period with TATA TELE Services Limited for giving default cover similar to the cover given to RIL. The premium rate was Rs.92 (excluding service tax at fixed rate) for one year instead of three years in the case of RIL. In the issue of insurance cover to TATA TELE Services Limited also NIC committed the deficiencies as brought out in paragraphs 10.6.2 and 10.6.3 (a) and (d).

NIC had received claims of Rs.9.54 crore, against the premium of Rs.6.20 crore realised upto September 2004. The Company had settled claims for Rs.3.42 crore upto October 2004 and the balance claims for Rs.6.12 crore were pending, based on settled/outstanding claim position after taking into account premium

ceded and commission received on account of reinsurance the Company had suffered a loss of Rs.3.34 crore (NIC: Rs.2.37 crore and GIC: Rs.97 lakh) on this policy. This indicated that the company had been venturing to underwrite risks even though it was clear that this would be a loss-making portfolio.

### **10.8 Default Policy issued by the Oriental Insurance Company Limited**

The Oriental Insurance Company Limited (OIC) also agreed (August 2003) to underwrite the default insurance policy covering the period from 1 August 2003 to 31 July 2006 with RIL at the agreed rate of Rs.92+ Service Tax of eight per cent. In the issue of default policy cover to RIL, OIC committed the same deficiencies as brought out in paragraphs 10.6.1, 10.6.2 and 10.6.3 (a) and (b) viz. not obtaining approval of H.O., absence of reinsurance protection, non-inclusion of cancellation clause and non-provision for periodic review.

The gist of OIC replies (December 2004) to paragraphs 10.6.1, 10.6.2, and 10.6.3 (a) and 10.6.3 (b) and the audit comments thereon are given below:

(i) While accepting the fact that such cover was issued for the first time OIC stated that the policy was issued by the Regional Office (RO) after exercising due diligence and the detailed information was sent to Head Office for information and necessary action

The above contention of OIC is not tenable as many claims were subsequently found to be false and were repudiated due to non-existence of the subscribers at the given addresses. Inclusion of persons who had not subscribed to Reliance mobile services substantiated the fact that due diligence was not exercised by the Company before the issue of the policy to the insured.

Further, the contention of OIC that the detailed information was sent to Head Office for information and necessary action is also not acceptable as in the absence of the details as to when the matter was referred by the R.O. to the Head Office (H.O.) and the action by the H.O. thereon before the issue of the policy, the correctness of the facts stated in the Management's reply could not be verified in Audit. Some suggestions sent by the H.O. after the issue of the policy i.e. on 9 August 2003 on inclusion of the cancellation/claim procedure clauses were also found not complied with.

(ii) The contention of the Management with regard to para 10.6.2 that the Company did not take reinsurance protection before the issue of the policy cover as it treated each connection as an independent risk and not as an aggregate risk is not tenable because sum insured under SCP for 'Default Insurance Cover' issued to RIL-Mumbai for Rs.6150 crore covering 50 lakh mobile handsets substantiated that the risk was treated as an aggregate risk and not as an independent risk. Further, the total risk under the policy which is spread all over the country is similar to floater policy where-under aggregate of risk is considered as a single risk irrespective of their location. On the analogy of floater policy approval from competent authority should have been taken, considering need for reinsurance and underwriting the aggregate risk.

(iii) In reply to para 10.6.3. (a), the Management stated that they had included the cancellation clause to protect their interest. The above contention of the Management is not correct because as per terms of the cancellation clause included in the insurance policy the insurer and the insured had agreed to waive any right of cancellation of the insurance agreement for a period of three years. Thus, the option for cancellation could be exercised only after expiry of three year period of the policy. It shows that the Management cannot cancel the insurance policy during the currency of policy to protect its interest.

(iv) In reply to para 10.6.3. (b), the Management stated that since it was the first policy of its kind underwritten by them it did not have the features like review, which was normally incorporated on renewal of a policy if claim experience was adverse. The above contention of the Management is not acceptable because as per the general rules and regulations of insurance no insurance may be granted for a longer period than one year. Thus, the Company should have included the provisions for review of the premium/ adverse claim ratio on yearly basis instead of for three years.

The business results available upto December 2004 indicated that the Company could get premium of Rs.17.02 crore (excluding service tax). The insured reported 61193 claims of the total handsets for Rs.63.53 crore covered under the default cases upto November 2004. Out of 61193 claims reported, verification of 53670 claims was carried out by the investigator appointed by the Company upto February 2005 by incurring an expenditure of Rs.3.76 crore. Based on verification report of the 53670 claims given by investigator, the Company repudiated 29,334 claims for Rs.30.08 crore on the grounds of (i) non-existence of addresses (3278 claims) (ii) non-existence of persons at the given address (16289 claims), (iii) persons not subscribed to Reliance Mobile (5438 claims), (iv) persons moved away from the given address (3345 claims) and (v) continuance of mobile service even after default (984 claims) and settled 18706 claims of Rs.19.64 crore in aggregate. The balance 13,153 claims of Rs.13.81 crore were outstanding for want of further verification.

Based on the current claim settled/outstanding after taking into account premium ceded and commission received on account of reinsurance, OIC has suffered a loss of Rs.16.05 crore (including investigation charges) and GIC a loss of Rs.4.14 crore.

### **10.9 Alternate Risk Transfer**

The Alternate Risk Transfer (ART) cover is generally taken where substantial losses are apprehended. The main object of ART cover is risk financing and not risk-sharing. The default cover policies were given to RIL without any reinsurance protection. After steady flow of claims, the Company searched for reinsurance protection but could not arrange any conventional reinsurance. Ultimately, through broker, it could obtain non-conventional risk financing under ART protection from foreign reinsurer. Under the ART cover, insurer (NIC) would require to pay back the entire amount received from reinsurer to settle claims within two to three years to smoothen the effect on balance sheet.

NIC paid Rs.13.38 crore to the reinsurer as one time upfront fee. This upfront fee further reduced the already low premium income. In ART, the caps for number of mobile phones and recoverable loss were kept at 50 lakh and Rs.482.03 crore respectively. So, the probable loss, which the company would suffer as per its own estimation under this policy, worked out to Rs.482.03 crore.

The Chairman and Managing Director of NIC in reply to the Ministry mentioned (April 2004) that the Company was facing loss in the default liability policy (Reliance Infocom Limited). He added that the claims might far exceed the premium collected. Since no traditional cover was available in the international market, the Company opted for a non-traditional cover known as ART. Efforts were being made to impress upon RIL for additional premium for ART cover.

The lapses in the policy are further substantiated by the fact that the concerned Regional Office approached the Head Office for conventional reinsurance protection after experiencing huge flow of claims. The Company, as per guidelines, should have undertaken the risk only after obtaining the conventional reinsurance protection.

Thus, failure on the part of NIC/OIC to extend SCPs on mobile handsets without risk analysis and reinsurance protection resulted in loss of Rs.65.79 crore (including investigation charges) and liability of Rs.118.21 crore on account of pending claims. On the basis of paid/outstanding claims and expenses, NIC and OIC had so far suffered loss of Rs.142.63 crore (NIC Rs.126.58 crore and OIC Rs.16.05 crore) and made GIC suffer loss amounting to Rs.41.37 crore.

#### **10.10 Inadequate internal control system**

As per IRDA guidelines the Company was required to formulate the procedure and norms with regard to underwriting and policy issue for the pricing of new products, claims processing and settlement. The Financial Advisor of NIC observed (September 2004) that the system of internal control existing in the Company was ineffective and inadequate and needed to be strengthened.

In reply NIC while admitting the facts and accepting the deficiencies as pointed out in Audit stated (March 2005) that the new default liability cover of RIL was perceived by them as an opportunity to get into the big account of Reliance Group. The Management agreed with all the recommendations made by audit and assured that the authority to issue SCP, Tailor made policy and long term policy would be centralised at Headquarters to safeguard the interest of the Company.

#### **10.11 Conclusion**

While underwriting the non-conventional policies, which had serious financial implications, the operating offices did not exercise due diligence and caution and did not ensure the compliance of guidelines issued by IRDA, GIPSA and H.O of NIC/OIC which resulted in huge loss amounting to Rs.142.63 crore (NIC Rs.126.58 crore and OIC Rs.16.05 crore) and made GIC suffer loss amounting to Rs.41.37 crore. No responsibility has been fixed for the Regional/Divisional

Offices having exceeded their powers and exposing the Companies to such heavy risk and loss.

**10.12 Recommendations**

- (a) There is urgent need to ensure that all the instructions issued by IRDA, GIPSA and Head Office are complied with by all the operating offices through better Management Information System.
- (b) The terms and conditions of the insurance policies for the new products should be formulated by incorporating suitable clauses for premium loading and for periodical review of policy so as to ensure that rating of the policy does not become unviable.
- (c) The internal control system needs to be strengthened in order to ensure that the recurrence of such cases is avoided.
- (d) The matter needs to be investigated thoroughly and appropriate departmental and legal action taken.

The para was issued to Ministry in December 2004; its reply was awaited (March 2005).



**ANNEXURE – II****MINUTES OF THE 9<sup>TH</sup> SITTING OF THE COMMITTEE ON PUBLIC UNDERTAKINGS HELD ON 12<sup>TH</sup> OCTOBER, 2006**

The Committee sat from 1130 hrs to 1300 hrs.

**CHAIRMAN**

Shri Rupchand Pal

**MEMBERS - LOK SABHA**

2. Shri Manoranjan Bhakta
3. Shri Gurudas Dasgupta
4. Dr. Vallabhbhai Kathiria
5. Shri Shrinivas Patil
6. Shri Kashiram Rana
7. Shri Mohan Rawale
8. Shri Ramjilal Suman
9. Shri Bagun Sumbrui
10. Shri Ram Kripal Yadav

**MEMBERS - RAJYA SABHA**

11. Shri Rishang Keishing
12. Shri Ajay Maroo
13. Shri. K. Chandran Pillai
14. Shri Shahid Siddiqui
15. Prof. Ram Deo Bhandary
16. Shri Pyarimohan Mohapatra
17. Shri Dinesh Trivedi

**SECRETARIAT**

- |    |                   |                 |
|----|-------------------|-----------------|
| 1. | Shri J.P. Sharma, | Joint Secretary |
| 2. | Shri N. C. Gupta, | Under Secretary |
| 3. | Shri Ajay Kumar,  | Under Secretary |

**OFFICE OF THE COMPTROLLER & AUDITOR GENERAL OF INDIA**

- |    |                       |  |
|----|-----------------------|--|
| 1. | Shri U. Bhattacharya  | Deputy Comptroller and Auditor General |
| 2. | Shri A.K. Awasthi     | Director General (Commercial)          |
| 3. | Ms. Gurveen S. Choppy | Director (Commercial)                  |

**REPRESENTATIVES OF NATIONAL INSURANCE COMPANY LIMITED**

1. Shri V. Ramasaamy Chairman and Managing Director
2. Shri R. Shiv Kumar Chief Manager

2. At the outset, the Dy. C&AG-cum-Chairman, Audit Board briefed the Committee in connection with examination of Chapter X of C&AG's Report No. 4 (Commercial) of 2005 on Special Contingency Policies on mobile handsets which has been selected as a subject for examination during 2006-2007. After the briefing, the Members sought some clarifications on certain points. The same were clarified by the officials of C&AG.

3. Thereafter, the Committee took oral evidence of the representatives of National Insurance Company Limited (NICL). The Hon'ble Chairman, COPU, welcomed the representatives of NICL. Members raised queries on various aspects pertaining to the subject and the explanations/clarifications on the same were made by the representatives of NICL. Information on some of the points raised by the Committee was not readily available with the representatives of NICL. It was, however, promised by them that the same would be furnished to the Committee Secretariat in due course.

4. The Chairman then thanked the representatives of NICL for providing the material/information on the subject matter as desired by the Committee.

5. A copy of the verbatim proceedings has been kept on record separately.

6. The witnesses then withdrew.

7. The Committee then adjourned.

**MINUTES OF THE 10<sup>TH</sup> SITTING OF THE COMMITTEE ON PUBLIC UNDERTAKINGS HELD ON 30<sup>TH</sup> OCTOBER, 2006**

The Committee sat from 1130 hrs to 1415 hrs.

**CHAIRMAN**

Shri Rupchand Pal

**MEMBERS - LOK SABHA**

2. Shri Gurudas Dasgupta
3. Dr. M. Jagannath
4. Shri Suresh Kalmadi
5. Shri Shriniwas Patil
6. Shri Kashiram Rana
7. Shri Ramjilal Suman

**MEMBERS – RAJYA SABHA**

8. Shri Ajay Maroo
9. Shri. K. Chandran Pillai
10. Prof. Ram Deo Bhandary
11. Shri Dinesh Trivedi

**SECRETARIAT**

- |    |                   |                 |
|----|-------------------|-----------------|
| 1. | Shri J.P. Sharma, | Joint Secretary |
| 2. | Shri N. C. Gupta, | Under Secretary |
| 3. | Shri Ajay Kumar,  | Under Secretary |

**OFFICE OF THE COMPTROLLER & AUDITOR GENERAL OF INDIA**

- |    |                       |  |
|----|-----------------------|--|
| 1. | Shri U. Bhattacharya  | Deputy Comptroller and Auditor General |
| 2. | Shri A.K. Awasthi     | Director General (Commercial)          |
| 3. | Ms. Gurveen S. Choppy | Director (Commercial)                  |

**NON-OFFICIAL WITNESSES**

- |    |                       |  |
|----|-----------------------|--|
| 1. | Shri P. Bandyopadhyay | Retired CVO of National Insurance Company Limited  |
| 2. | Shri B. Chakrabarti   | Former CMD of National Insurance Company Limited and presently CMD, New India Assurance Co. Ltd. |

**REPRESENTATIVES OF ORIENTAL INSURANCE COMPANY LIMITED**

- |                         |                                |
|-------------------------|--------------------------------|
| 1. Shri M. Ramadoss     | Chairman-cum-Managing Director |
| 2. Shri Yogesh Lohiya   | General Manager                |
| 3. Shri B. Vaidyanathan | Company Secretary              |

**OFFICIALS OF MINISTRY OF FINANCE**

- |                         |                             |
|-------------------------|-----------------------------|
| 1. Shri Vinod Rai       | Secretary (FS)              |
| 2. Shri G.C. Chaturvedi | Joint Secretary (B&I)       |
| 3. Shri Lalit Kumar     | Dy. Secretary (Insurance)   |
| 4. Shri S.P.S. Sangwan  | Under Secretary (Vigilance) |

2. At the outset, the Chairman welcomed the non-official witness, Shri P. Bandyopadhyay, Retired CVO of NICL. The Committee then took oral evidence of the non-official witness in connection with the examination of Chapter-X of C&AG's Report No. 4 (Commercial) of 2005 regarding Special Contingency Policies on mobile handsets.

(The non-official then withdrew)

3. Thereafter, the Chairman welcomed the non-official witness, Shri B. Chakrabarti, Former CMD of NICL. The Committee then took oral evidence of the non-official witness in connection with the examination of Chapter-X of C&AG's Report No. 4 (Commercial) of 2005 regarding Special Contingency Policies on mobile handsets.

(The non-official then withdrew)

4. Then, the Committee took the oral evidence of the representatives of Oriental Insurance Company Limited. Members raised queries on various aspects pertaining to the subject and the explanations/clarifications on the same were made by the representatives of OICL. Information on some of the points raised by the Committee were not readily available with the representatives of OICL. It was promised that the same would be furnished to the Committee Secretariat in due course.

(Representatives of OICL then withdrew)

5. Finally, the Committee took oral evidence of the representatives of Ministry of Finance. Members sought certain clarifications on the subject from him and the same were clarified. Information on some of the points raised by the Committee were not readily available with the representatives of Ministry. It was promised that the same would be furnished to the Committee Secretariat in due course.

(Representatives of Ministry of Finance then withdrew)

6. A copy of the verbatim proceedings has been kept on record separately.

7. The Committee then adjourned.

**MINUTES OF THE 13<sup>th</sup> SITTING OF THE COMMITTEE ON PUBLIC  
UNDERTAKINGS HELD ON 12<sup>th</sup> DECEMBER, 2006**

The Committee sat from 1600 hrs to 1630 hrs.

**CHAIRMAN**

Shri Rupchand Pal

**MEMBERS**

**LOK SABHA**

2. Shri Manoranjan Bhakta
3. Shri Gurudas Dasgupta
4. Dr. Vallabhabhai Kathiria
5. Smt. Preneet Kaur
6. Shri Kashiram Rana
7. Shri Ram Kripal Yadav
8. Shri Bagun Sumbrui
9. Dr. M. Jagannath
10. Shri Shriniwas Patil
11. Shri Ramjilal Suman

**MEMBERS**

**RAJYA SABHA**

12. Shri Ajay Maroo
13. Shri K. Chandran Pillai

**SECRETARIAT**

- |    |                   |                 |
|----|-------------------|-----------------|
| 1. | Shri J. P.Sharma, | Joint Secretary |
| 2. | Shri N. C. Gupta, | Under Secretary |
| 3. | Shri Ajay Kumar   | Under Secretary |

**OFFICE OF THE COMPTROLLER & AUDITOR GENERAL  
OF INDIA**

Shri A. K. Avasthi,

Director General(Commercial)

2. The Committee considered the Draft Reports on (i) 'Special Contingency Policies on Mobile Handsets by Insurance Companies' -- Based on Chapter X of C & AG Report (Commercial) No.4 of 2005 and

(ii) xxxxx xxxxxx xxxxxx

3. The Committee authorized the Chairman to finalise the Reports for presentation.

4. xxx xxx xxx xxx xxx

The Committee then adjourned.