



GUIDANCE NOTE ON **INTERNAL AUDIT OF** General Insurance Companies



THE INSTITUTE OF COST ACCOUNTANTS OF INDIA
(Statutory Body Under An Act of Parliament)

GUIDANCE NOTE

ON

INTERNAL AUDIT

OF

GENERAL INSURANCE COMPANIES



The Institute of Cost Accountants of India
(Statutory body under an Act of Parliament)

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CMA Balwinder Singh

PRESIDENT



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President's Message

Insurance Industry in India is expected to reach US\$280 billion by 2020. The Government's policy of insuring the uninsured has gradually pushed insurance penetration in the country and proliferation of insurance schemes.

I am pleased to note that the Banking & Insurance Committee is bringing out Guidance Note on Internal Audit of General Insurance Companies. The Institute is in process of developing the Sector Specific Guidance Notes for various sectors of economy in view of mandate to conduct the internal audit by the Cost Accountants vide Section 138 (1) of the Companies Act, 2013 and also to equip the members of the Institute with the internal audit skills and capacity building of that sector. The development of this Guidance Note is an effort towards this direction.

I sincerely acknowledge the efforts of C Veeraraghavan who have authored the Guidance Note.

I thank CMA Biswarup Basu, Vice President of the Institute, CMA Chittaranjan Chattopadhyay, Chairman, Banking & Insurance Committee and other members of Banking & Insurance Committee, CMA Vijender Sharma, Chairman Professional Development Committee, CMA P Raju Iyer, Chairman Insurance Audit and Assurance Board, and the Professional Development Directorate of the Institute for their efforts and contribution in bringing out Guidance Note on Internal Audit of General Insurance Companies.

I am sure that the Guidance Note will help the members and Insurance Industry in supplementing their efforts in the area of Internal Audit.

With regards,

CMA Balwinder Singh

09th January, 2020

CMA Chittaranjan

Chattopadhyay

Central Council Member
Chairman-Banking & Insurance
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Preface

I am privileged to present before you the Guidance Note on Internal Audit of General Insurance Companies. This is an industry specific Guidance Note brought out by our Institute. The non-life Insurance Sector's penetration is growing from 0.56 per cent in 2000-01 to nearly 1.00 per cent in 2018-19 with the market size growing to Rs. 1.70 lakh crore in 2018-19. Due to opening up of the industry, the share of private sector has come more than 50 per cent in 2018-19 and annual CAGR is more than 10 per cent in the industry. The, banking and insurance sector contribute nearly seven percent of the GDP. The industry regulator has also issued various regulations to control the industry. Hence, to ensure a quick turn-around time in settlement of claims, a robust internal control system and compliance to the Regulations, internal audit plays a vital role. Therefore, it was felt that a detailed guidance note is necessary to assist them in achieving their objectives.

An attempt has been made in this Guidance Note to cover a brief background of the insurance industry, the gist of the regulations issued by IRDAI on Policy Holders' interest, Licensing of Agents, Insurance Brokers, Health Insurance, TPAs, Re-insurance, Investments and Preparation of Annual Financial Statements and Insurance Act 1938. Also a detailed checklist for audit of each type of insurance product is given. Utmost effort has been given to cover issues came in our knowledge and in the course of discussion. If something is not covered here, the internal auditor may have to apply his mind judiciously, keeping in view the intent behind the law, principles and policies.

The committee is also planning to bring out a similar guidance note on Life Insurance in near future.

We take this opportunity to express our gratitude to CMA Balwinder Singh, President of the Institute and CMA Biswarup Basu, Vice President for being the mentors to the Committee as always. We are grateful to CMA Vijender Sharma, Chairman –Professional Development and CPD Committee along with all the members of the Professional Development and Banking & Insurance committee for their continuous guidance and support. They are our driving force for every activity in the Committee. We are deeply indebted to CMA C Veeraghavan without whose contributions this publication would not have been so successful. I also appreciate the dedicated efforts of CMA Nisha Dewan, Secretary of the Banking & Insurance Committee.

I welcome the readers to come forward with their valuable feedback and suggestions in improvement of this Guidance Note at bi@icmai.in

CMA Chittaranjan Chattopadhyay

Chairman, Banking & Insurance Committee

09th January, 2020

CMA Vijender Sharma

Central Council Member
Chairman-Professional
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Foreword

I congratulate my colleague CMA Chittaranjan Chattopadhyay, Chairman of Banking & Insurance Committee for taking a commendable initiative to bring out the "Guidance Note on Internal Audit of General Insurance Companies". Through this Guidance Note, we feel that the Institute should show case the internal audit competencies of its members and concomitantly enable the members to effectively leverage the institutional repertoire of knowledge, skill and competencies for capacity building and to sharpen their effectiveness to have edge over their competitors operating in the audit space.

We hope and trust that the regulator i.e. IRDAI will appreciate such endeavour of the Institute for the cause of more efficient and effective Guidance Note on Internal Audit of General Insurance Companies.

I would like to place on record the sincere efforts of the Secretariat of the Committee and of Professional Development team.

I am sure that Guidance Note will help the members in imparting their professional responsibilities successfully. I urge the members to give their suggestions on the Guidance Note so that it can be further improved in the time to come.

Thank you very much.

CMA Vijender Sharma

Chairman, Professional Development & CPD

09th January, 2020

CMA P. Raju Iyer
Chairman- Internal Audit and
Assurance Board



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Foreword

I am much privileged to present before you the 'Guidance Note on Internal Audit of General Insurance Companies.' This is an industry specific Guidance Note brought out by the Institute's Banking and Insurance Committee and Professional Development Committee together with Internal Auditing and Assurance Standards Board. The provisions of Section 138 (1) of the Companies Act 2013 requires that prescribed companies should appoint independent Internal Auditors, among others, Practicing Cost Accountants to look after internal audit functions. The Industry Regulator i.e. IRDA also through various initiatives insisting the Insurance Companies to have an effective internal control and audit system. These provisions and initiatives expanded the potential dominie on the activities of CMAs to demonstrate their competency professional skill, knowledge, efficiency and effectiveness in discharging their auditing functions.

The Insurance Sector is service oriented and involves compliance to various Acts, Rules and Regulations. Both Life and Non-life Insurance industry are growing at a faster phase in the past decade. In this backdrop, it was felt that the Institute would initially bring a comprehensive Guidance Note on Internal Audit of General Insurance Companies a first of its kind in India and subsequently on Life Insurance Companies.

We hope and trust that the regulator i.e. IRDA will appreciate the endeavour of our Institute for the cause of efficient and effective supervision of the companies.

We take this opportunity to convey our thanks and appreciation to those contributed to this consummation of the project.

We convey our appreciation to the CMA Chittaranjan Chattopadhyay, Chairman Banking and Insurance Committee and CMA Vijender Sharma, Chairman, Professional Development Committee for the effort in bringing this Guidance Note within a short period of time.

I welcome the readers to come forward with their valuable feedback and suggestions in improvement of this Guidance Note.

CMA P. Raju Iyer
Chairman, Internal Audit and Assurance Board
09th January, 2020



Foreword

General insurance is growing rapidly in India registering a CAGR of 17% in the last decade. The number of players has increased significantly since opening up. The industry will continue to register high growth rates in the coming decades till India reaches global levels of penetration and density. The need for quality internal audit in the General Insurance industry is consequently very high.

Auditing is a science and an art which presupposes an in depth and comprehensive knowledge of the important aspects of the company's operation on the part of the auditors. This is all the more important in the field of General Insurance which is characterized by array of products ,each with its peculiar risk cover, exclusions, conditions, warranties ,pricing , underwriting and claims .Indian General Insurance market is vibrant with large number of carriers innovating new products and processes. With this back ground this "guidance Note" has come at the right time fulfilling a long standing need for the auditors as a reference hand book. All important aspects and functions of an insurer has been touched which has relevance for the auditor to concentrate and evaluate the quality of operations within the laws and regulatory frame work.

The special feature of this guide note is the product wise technical literature which enables the auditor to comprehend the essential features of the policies across Fire, Marine, Health, Engineering and miscellaneous lines with the specific covers, exclusions, conditions, underwriting guide lines and claims procedure and the specific auditing check list. I am sure this will be an enabling factor and a ready reference book for the auditors to scrutinize the transactions within the overall guideline of objectivity, consistency and transparency. The auditor's main job is to ascertain the risk and its management by the company and this becomes very important when the enterprise is an insurer. Basis of sum insured and valuation becomes contentious particularly during claims settlement and this guide note has appropriately dealt with this for auditor's knowledge.

Similarly the product wise claims features and procedures have been dealt with specific check points including value, under insurance, salvage adjustments. The Guide note reiterates the various scrutiny points in Risk management, reinsurance, investments, reserving particularly taking the past experience of auditors which are touch stones for auditing.

The content is adequate and the language is lucid for a new auditor to understand and feel the essence of General Insurance audit and I am sure the purpose of the Guide Note is well served.

A handwritten signature in black ink, appearing to read 'G Srinivasan'. The signature is fluid and cursive, with a long horizontal stroke at the end.

G Srinivasan

Director National Insurance Academy, Pune

09th January, 2020

ACKNOWLEDGMENTS

Banking & Insurance Committee (2019-20)

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CHAPTER I

HISTORY OF INSURANCE IN INDIA

1.1 HISTORY:

According to Insurance Regulatory and Development Authority of India (IRDA) Insurance in India had a deep-rooted history. From the writings of Manu (*Manusmriti*), Yagnavalkya (*Dharmasastra*) and Kautilya (*Arthasastra*) it talks in terms of pooling of resources that could be re-distributed in times of calamities such as fire, floods, epidemics and famine. This may probably be a pre-cursor to modern day insurance. Ancient Indian history has preserved the earliest traces of insurance in the form of marine trade loans and carriers' contracts. Insurance in India has evolved over time heavily drawing from other countries, England in particular.

In the year 1818 the Oriental Life Insurance Company in Calcutta was established. In 1829, the Madras Equitable had begun transacting life insurance business in the Madras Presidency. The year 1870 saw the enactment of the British Insurance Act and in the last three decades of the nineteenth century, the Bombay Mutual (1871), Oriental (1874) and Empire of India (1897) were started in the Bombay Presidency. However, the business was dominated by foreign insurance offices in India. In the year 1928, the Indian Insurance Companies Act was enacted to enable the Government to collect statistical information about both life and non-life business transacted in India by Indian and foreign insurers including provident insurance societies. Insurance Act, 1938 was enacted with comprehensive provisions for effective control over the activities of insurers.



CHAPTER 2

HISTORY OF GENERAL INSURANCE IN INDIA

2.1 The **history of general insurance dates** back to the Industrial Revolution in the west and the consequent growth of sea-faring trade and commerce in the 17th century. It came to India as a legacy of British occupation. In 1907, the Indian Mercantile Insurance Ltd, was set up. This was the first company to transact all classes of general insurance business. The year 1957 saw the formation of the General Insurance Council, a wing of the Insurance Association of India. The General Insurance Council framed a code of conduct for ensuring fair conduct and sound business practices. In 1968, the Insurance Act was amended to regulate investments and set minimum solvency margins. The Tariff Advisory Committee was also set up then.

2.2 NATIONALISATION OF GENERAL INSURANCE BUSINESS

The entire general insurance business in India was nationalised by General Insurance Business (Nationalisation) Act, 1972 (GIBNA)¹. The Government of India (GOI), through Nationalisation took over the shares of 55 Indian insurance companies and the undertakings of 52 insurers carrying on general insurance business. General Insurance Corporation of India (GIC) was formed in pursuance of Section 9(1) of GIBNA. It was incorporated on 22 November 1972 under the Companies Act, 1956 as a private company limited by shares. GIC was formed for the purpose of superintending, controlling and carrying on the business of general insurance. As soon as GIC was formed, GOI transferred all the shares it held of the general insurance companies to GIC. Simultaneously, the nationalised undertakings were transferred to Indian insurance companies.

After a process of mergers among Indian insurance companies, four companies were left as fully owned subsidiary companies of GIC

- National Insurance Company Limited.
- The New India Assurance Company Limited.
- The Oriental Insurance Company Limited.
- United India Insurance Company Limited.

The Insurance Regulatory and Development Authority Act, 1999 (IRDA) came into force in April 2000. This Act also introduced amendment to GIBNA

¹ As per GIC of India



and the Insurance Act, 1938. An amendment to GIBNA removed the exclusive privilege of GIC and its subsidiaries carrying on general insurance in India. In November 2000, GIC was re-notified as the Indian Reinsurer and through administrative instruction, its supervisory role over the four subsidiaries was ended. With the General Insurance Business (Nationalisation) Amendment Act 2002 (40 of 2002) coming into force from March 21, 2003; GIC ceased to be a holding company of its subsidiaries. The ownership of the four erstwhile subsidiary companies and also of the General Insurance Corporation of India was vested with Government of India.

2.3 OPENING UP OF INSURANCE BUSINESS TO PRIVATE SECTOR

The IRDA opened up the market in August 2000 by its Regulation with the invitation for application for registrations. Foreign companies were allowed ownership of up to 26 per cent. The Authority has the power to frame regulations under Section 114A of the Insurance Act, 1938 and from 2000 onwards framed various regulations ranging from registration of companies for carrying on insurance business to protection of policyholders' interests.

As per IRDA's annual report for 2018-19, there are 46 General Insurance Companies including the ECGC and Agriculture Insurance Corporation of India, Stand-alone Health Insurance Companies and Reinsurance Companies and 24 Life Insurance Companies operating in the country. Together with banking services, insurance services add about 7 per cent to the country's GDP. A well-developed and evolved insurance sector is a boon for economic development as it provides long- term funds for infrastructure development at the same time strengthening the risk taking ability of the country.

As per IRDA's Annual Report for 2018-19, The General Insurance Companies in India is covering all types of risks except life insurance like Fire and Engineering, Health, Marine, Motor and other miscellaneous insurance. The Health Insurance contributes nearly 30 per cent, Motor Insurance about 38 per cent, Marine Insurance less than 2 per cent and Fire Insurance about 7 per cent. Other Miscellaneous insurance products account for the rest. The market share of Public Sector General Insurance was about 46 per cent against 54 per cent by Private Sector. There is high growth in premium income as well as commission expenses in private sector compared to Public Sector Insurers over a period of time. The annual growth in premium income is increasing above 10 per cent for the past 3 to 4 years which accounted to Rs. 1.70 lakh crore at the end of March 2019. The incurred claims ratio also increased from



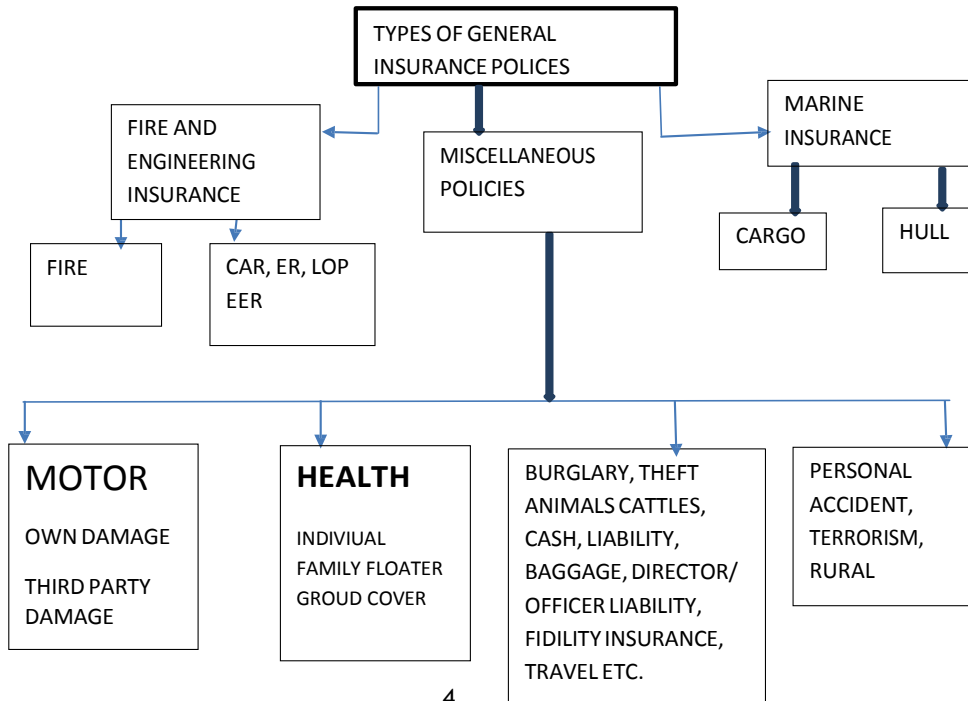
85 per cent in 2018 to 89 per cent in 2019. The investment in General Insurance companies had also touched nearly Rs.17,665 crore as of 31 March 2019.

Apart from Insurance Act 1938 and IRDA Act 1999 and its regulations, the following Acts and Regulations are also play a vital role in the regulation of General Insurance Business in India especially Marine Insurance

- Marine Insurance Act,
- Carriage of goods by sea act
- Carriage by air act
- Indian railway act
- Customs act
- Exchange control regulations
- Containerised exportation of goods rules

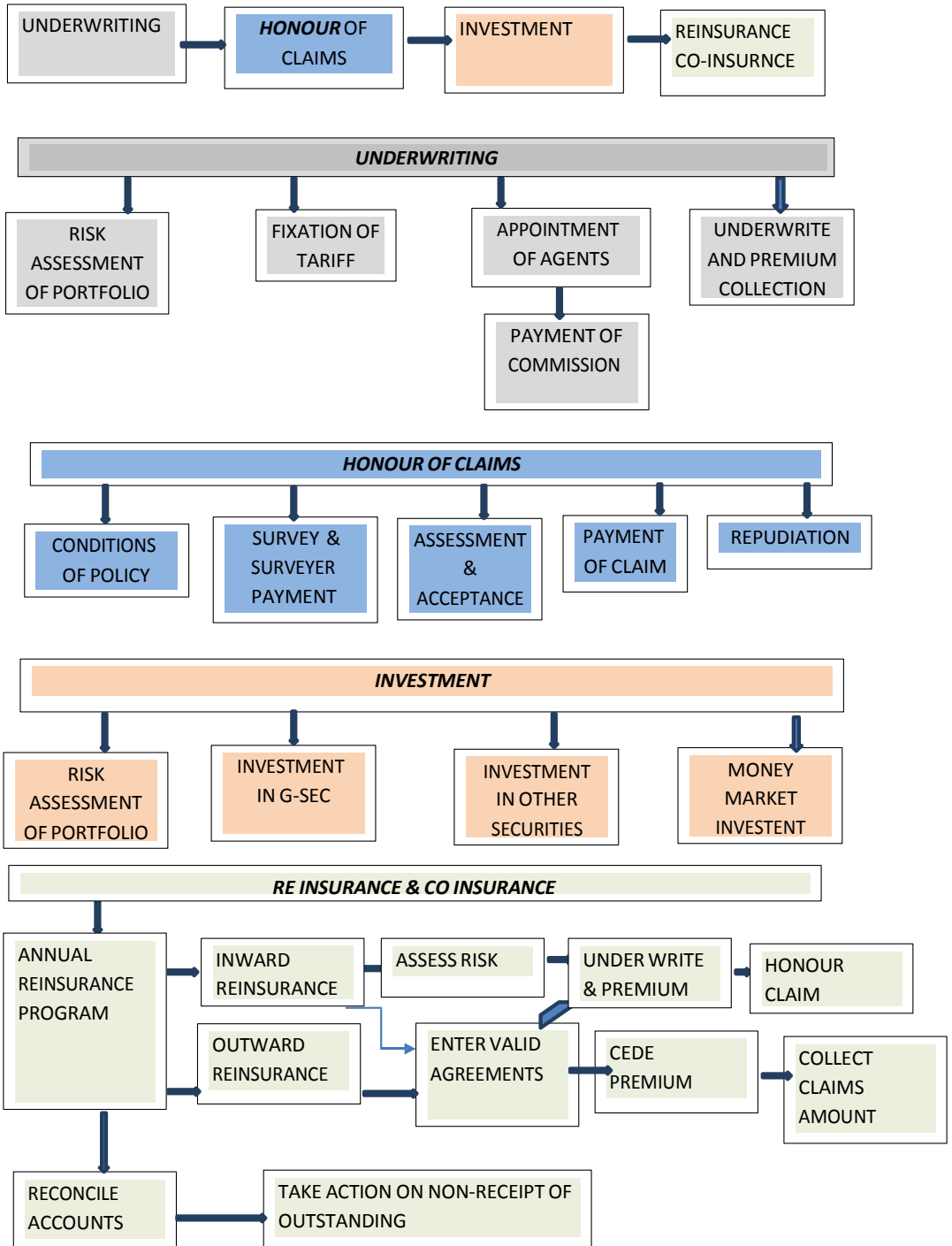
Besides this, the Companies Act 2013 and Rules made there under, IRDA Regulations, other Corporate and Financial Laws are applicable in regulation of General Insurance Companies in India.

TYPES OF POLICIES SOLD BY GENERAL INSURANCE COMPANIES





FUNCTIONS OF GENERAL INSURANCE COMPANY





CHAPTER 3

PRINCIPLES OF GENERAL INSURANCE²

3.1 Insurance are of Contract in nature. There is minimum two parties -an underwriter and insured. Losses created by catastrophes such as the tsunami, earthquakes, cyclones etc. have created huge losses. The general insurance helps to mitigate losses. General Insurance comprises of insurance of property against fire, burglary etc, personal insurance such as Accident and Health Insurance, and liability insurance which covers legal liabilities. It also covers contractors' liability as well as loss of profits. A Health Insurance policy can provide financial relief to a person undergoing medical treatment due to a disease or an injury. The Principles of General Insurance are of Principles of Good Faith, Indemnity, Insurable interest, subrogation, contribution and Proximate cause. They are explained below.

3.2 PRINCIPLES OF UTMOST GOOD FAITH

Utmost Good Faith can be defined as —A positive duty to voluntarily disclose, accurately and fully all facts material to the risk being proposed whether requested for or not. In Insurance contracts Utmost Good Faith means that —each party to the proposed contract is legally obliged to disclose to the other all information which can influence the others decision to enter the contract.

Both the parties to a commercial contract are by law required to observe good faith.. The common law principle —Caveat Emptor or let the buyer beware is applicable to commercial contracts and the buyer must satisfy himself that the contract is good because he has no legal redress later on if he has made a bad bargain. But in Insurance contracts the principles of —Uberrima fides i.e. of Utmost Good Faith is observed and simple good faith is not enough.

In Insurance contracts the seller is the insurer and he has no knowledge about the property to be insured. The proposer on the other hand knows or is supposed to know everything about the property. The seller (Insurer) is entirely dependent upon the buyer to provide the information about the property and hence the need for Utmost Good Faith on the part of the proposer. It may be said here that the insurer has the option of getting the subject matter of Insurance examined before covering the risk. But even then there will be facts which only the insured can know e.g., the history of Insurance of the property whether it has been refused earlier for Insurance by

² Various publications from Internet referred



another company or whether it is also already insured with another company and the previous claim experience. Similarly a medical examination may not reveal the previous history i.e. details of past illness, accidents etc. Therefore Insurance contracts insist on the practice of Utmost Good Faith on the part of the Insured.

The Insurer is also obliged to practice Utmost Good Faith in his dealings with the Insured. He cannot and should not make false promises during negotiations. He should not withhold information from the Insured such as the discounts available for good features e.g., fire extinguishing Appliances discount in fire policies or that Earthquake risk is not covered under the standard fire policy but can be covered on payment of additional premium. The duty of disclosure also revives at the time of renewal of contract since legally renewal is regarded as a fresh contract.

3.3 BREACHES OF UTMOST GOOD FAITH

Breaches of Utmost Good Faith occur in either of 2 ways.

- **Misrepresentation**, which again may be either innocent or intentional. If intentional then they are fraudulent
- **Non-Disclosure**, which may be innocent or fraudulent. If fraudulent then it is called concealment.

When Breach of Utmost Good Faith occurs the aggrieved party gets the right to avoid the contract. The contract does not become automatically void and it must decide on the course to be taken

3.4 PRINCIPLE OF INSURABLE INTEREST

Insurable Interest is defined as –The legal right to insure arising out of a financial relationship recognized under the law between the insured and the subject matter of Insurance.

One of the essential ingredients of an Insurance contract is that the insured must have an insurable interest in the subject matter of the contract. Insurance without insurable interest would be a mere wager and as such unenforceable in the eyes of law. The subject matter of the Insurance contract may be a property, or an event that may create a liability but it is not the property or the potential liability which is insured but it is the pecuniary interest of the insured in that property or liability which is insured. Insurable Interest is applicable in the Insurance of property, life and liability.



There are four essential components of Insurable Interests

- a. There must be some property, right, interest, life, limb or potential liability capable of being insured.
- b. Any of these above i.e. property, right, interest etc. must be the subject matter of Insurance.
- c. The insured must stand in a formal or legal relationship with the subject matter of the Insurance. Whereby he benefits from its safety, well-being or freedom from liability and would be adversely affected by its loss, damage existence of liability
- d. The relationship between the insured and the subject matter must be recognized by law.

In case of property Insurance, insurable interest arises out of ownership where the owner is the insured but it can arise due to other situations & financial interests which gives a person who is not an owner, insurable interest in the property and some of the situations are listed below.

Mortgagee and Mortgagers:

- a) Bailee:
- b) Trustees:
- c) Part Ownership:
- d) Agents:
- e) Husband & Wife:
- f) Creditor:
- g) Liability:

Therefore in liability assurance the insured is asked to choose the amount of sum insured as the maximum figure that he estimates is ever likely to be required to settle the liability claims.

3.5 PRINCIPLE OF INDEMNITY

In Insurance the word indemnity is defined as –financial compensation sufficient to place the insured in the same financial position after a loss as he enjoyed immediately before the loss occurred. Indemnity thus prevents the insured from recovering more than the amount of his pecuniary loss.



Indemnity according to the Cambridge International Dictionary is –Protection against possible damage or loss and the Collins Thesaurus suggests the words –Guarantee, –Protection, –Security, –Compensation, –Restitution and –Reimbursement amongst others as suitable substitute for the word –Indemnity. The words protection, security, compensation etc. are all suited to the subject of Insurance but the dictionary meaning or the alternate words suggested do not convey the exact meaning of Indemnity as applicable in Insurance Contracts. An Insurance may be for less than a complete indemnity but it may not be for more than it. Similarly in the case of partial loss if some part of the asset needs to be replaced the Insurer will not pay the full value of the new part. He shall assess how much the old part had run and after deduction of a proportionate sum he shall pay the balance amount. An insured is not entitled to new for old as otherwise he would be making a profit from the accident. However there are two modern types of policy where there is a deviation from the application of this principle.

3.5.1 HOW IS INDEMNITY PROVIDED?

The Insurers normally provide indemnity in the following manner and the choice is entirely of the insurer

- Cash Payment
- Repairs
- Replacement
- Reinstatement

3.6 SUBROGATION

According to common law the right of subrogation arises once the Insurers have admitted the claim and paid it. It has already been established that the purpose of Indemnity is to ensure that the Insured does not make a profit or gain in any way as a consequence of an accident. He is placed in the same financial position, which he had occupied immediately before the loss occurred. As an offshoot of the above it is also fair that the insurer having indemnified the insured for damage caused by another (A Third Party) should have the right to recover from that party the amount of damages or part of the amount he has paid as indemnity. This right to recover damages usually lies with the bereaved or injured party but the law recognises that if another has already paid the bereaved or injured party then the person who



has paid the compensation has the right to recover damages. In case the insured after having received indemnity also recovers losses from another then he shall be in a position of gain which is not correct and this amount recovered from another shall be held in trust for the insurer who have already given indemnity. Subrogation may be defined as **the transfer of legal rights of the insured to recover, to the Insurer**. Subrogation can arise in 4 ways- Tort, Contract, Statute and Subject matter of Insurance

This can create problems for the Insurers as delay in taking action could at times hamper their chance of recovering the damages from the wrongdoer or it could be adversely effected due to any action taken by the Insured. To safeguard their rights and to ensure that they are in control of the situation from the beginning Insurers place a condition in the policy giving themselves subrogation rights before the claim is paid. The limitation is that they cannot recover from the third party unless they have indemnified the insured but this express condition allows the insurer to hold the third party liable pending indemnity being granted.

3.7 CONTRIBUTION

An individual may have more than one policy on the same property and in case there was a loss and he were to claim from all the Insurers then he would be obviously making a profit out of the loss which is against the principle of Indemnity. To prevent such a situation the principle of contribution has been evolved under common law. Contribution may be defined as the **—right of Insurers who have paid a loss to recover a proportionate amount from other Insurers who are also liable for the same loss—**. The common law allows the insured to recover his full loss within the sum insured from any of the insurers.

Condition of Contribution will only arise if all the following conditions are met:

- Two or more policies of Indemnity should exist
- The policies must cover a common interest
- The policies must cover a common peril which is the cause of loss
- The policies must cover a common subject matter
- The policies must be in operation at the time of loss



3.8 PROXIMATE CAUSE-

Proximate cause has been defined as **“The active efficient cause that sets in motion a train of events which bring about a result without the intervention of any force started and working actively from a new and independent source”**. (This definition comes from the ruling given in the case Pawsey v/s Scottish Union and National Insurance Co. (1907). The doctrine of proximate cause is based on the principle of cause and effect, which states that having proved the effect and traced the cause it is not necessary to go any further i.e. cause of cause. The law provided the rule —Cause Proxima non Remote spectatorl. The **immediate cause and not the remote one** should be taken into consideration. Therefore the **proximate cause should be the immediate cause. Immediate does not mean the nearest to the loss in point of time but the one most effective or efficient**. Thus if there are a number of causes and the proximate cause has to be chosen the choice should be of **the most predominant and efficient cause i.e. the cause which effectively caused the result**. There are three types of perils related to a claim under an Insurance policy

- a. **Insured Perils:** These are the perils mentioned in the policy as being insured e.g. Fire, lightening, storm etc. in the case of a fire policy
- b. **Excepted Perils:** These are the perils mentioned in the policy as being excepted perils or excluded perils e.g. Riot strike, flood etc. which may have been excluded and discount in premium availed.
- c. **Uninsured Perils:** Those not mentioned in the policy at all either in Insured or excepted perils e.g. snow, smoke or water as perils may not be mentioned in the policy.

Insurers are liable to pay claims arising out of losses caused by Insured Perils and not those losses caused by excepted or Uninsured perils. If the loss is brought about by only one event then there is no problem in settlement of liability but more often than not the loss is a result of two or more causes acting together or in tandem i.e. one after another. In such cases it is necessary to choose the most important, most effective and the most powerful cause which has brought about the loss. This cause is termed the Proximate Cause and all other causes being considered as —remotel. The proximate cause has to be an insured peril for the claim to be payable. The proximate cause would be accident (covered under PA Policy) which resulted in concussion (Disease -



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not covered) and hence the claim would be payable. However if reverse were the case and the chain was started by an excepted or excluded peril then the claim would not be payable.



CHAPTER 4

ENGINEERING INSURANCE

4.1 INTRODUCTION-In industries and factories, even in offices or at home, nowadays more and more machinery and equipment are being used. They are exposed to various accidental losses like fire, theft, accidental breakdown etc. Such losses not only cause financial stress on its owner but also hinder normal operation of the Industry. Apart from this, massive Engineering projects ranging from building of bridges to set up thermal power stations are very common in today's era of industrialization. Major accidents or natural disasters like earth quake etc., will cause immense losses to such projects. Engineering Policies are designed to provide coverage against such accidental losses.

4.2 BASIC PRINCIPLES

The following basic principles are applicable for Engineering Insurance Contracts.

- Insurable Interest Indemnity
- Utmost Good Faith Subrogation
- Proximate Cause Contribution

4.2.1 CONSTRUCTION PERIOD

The liability of the Insurer should commence only from the time of commencement of work after the unloading of the property specified in the schedule from any conveyance at the site specified in the schedule whichever is earlier and shall expire on the date specified in the schedule. However, the Insurer's liability expires also for parts of the insured contract works taken over or put into service by the Principal prior to the expiry date specified in the policy whichever shall be earlier. _If actual construction period is shorter than the period indicated in the schedule, no refund of premium shall be allowed unless specifically allowed in the policy. If the work is extended beyond the specified period, then the Insurer can extend the policy by charging extra premium for the extended period. The Sum Insured under CAR Policy should represent the completely erected value of the project to be installed including freight, customs duties and erection cost. This should represent the current replacement value of the items when erected. For additional Covers, suitable limit has to be selected for the opted ones.



4.3 TYPES OF POLICIES³

Broadly, various engineering policies can be classified as follows:

- **Construction Phase Insurance (Project Policies).** These are one time policies issued for entire project period irrespective of whether the project period is a few days or a few years:
 - i. Contractor's All Risk Insurance (CAR)
 - ii. Erection All Risk Insurance (EAR) [also known as Storage-cum-Erection or SCE Insurance]
 - iii. Marine - cum - Erection Insurance (MCE)
- **Operational Phase Insurance (Annual Policies)**
 - i. Machinery Insurance
 - ii. Contractor's Plant and Machinery Insurance
 - iii. Electronic Equipment Insurance
 - iv. Deterioration of Stock Insurance (DOS)
 - v. Civil Engineering Completed Risk Insurance
 - vi. Contract Works Insurance
 - vii. Machinery Loss of Profit Insurance
 - viii. Boiler Loss of Profit Insurance

4.3.1 CONTRACTOR'S ALL RISK INSURANCE (CAR)

Any kind of large construction projects involves a number of hazards both for Principals as well as Contractors and the only way to economically safe guard against all natural and human hazards is by way of a CAR Policy. This applies to all Risks located in India where the value of Civil Engineering Works is more than 50per cent of the total Contract Value. Contractors All Risk (CAR) Insurance Policy is suitable for Construction of Civil works as well as composite projects. All Risks (with certain exceptions) involved during storage, assembly, erection/Construction against:-

³ Terms & Conditions of different Products from United India insurance company web site



- fire, lightning, explosion/implosion, aircraft damage, flood, storm, earthquake, landslide, theft, burglary, RSMD, terrorism,
- negligence, lack of skill, collision, impact, dropping short circuit, electrical/ mechanical breakdown etc.

The exceptions are Damage due to faulty design, defective materials etc. Willful negligence, bad workmanship, Consequential loss say penalty for delay etc. Inventory losses War, nuclear reaction, Normal wear and tear, gradual deterioration etc.

4.3.2 MARINE/TRANSIT RISKS CONNECTED WITH CONTRACTORS ALL RISKS INSURANCE -

Where Marine/Transit Insurance connected with Contractor's All Risks Insurance of any project is placed in India simultaneously or later on in one combined policy or under separate policies, in one department or in different departments, the matter relating to Contractors All Risks Cover is required to be underwritten. The loss due to breakage of glass can, however, be covered by payment of additional premium. Premium shall be computed for the total period commencing from

- (a) Commencement of work **OR**
- (b) Date of arrival of the first consignment at the site of construction whichever is earlier.

Additional rates for earthquake (fire & shock) perils will be charged. In cases where the Sum Insured for CAR is required to be increased during the policy period, the premium should be collected on the additional Sum insured at applicable CAR rates since inception of policy. It is not permissible to charge pro-rata premium on such increased sum insured. Mid-term increase in Sum Insurance shall be effected only after the same has been recorded in the policy by the Company before the occurrence of any claim. The Third Party Liability Cover can be modified to offer cross liability cover as if a separate policy has been issued to each Insured party. Construction machinery plants and equipment can be covered under CAR policies within prescribed rates. For long term policies having policy period more than 12 months, instalment facility can be granted under CAR policies.



4.3.3. ERECTION ALL RISK POLICIES (EAR)

This applies to all Risks located in India where the value of Equipment, Plant and Machinery (Non- Civil Engineering Works) is more than 50 per cent of the total Contract Value. Erection All Risk (EAR) Insurance Policy is suitable for erection of individual machines as well as composite projects and connected civil engineering works. All Risks (with certain exceptions) involved during storage, assembly, erection and testing of all kinds of plant & machinery against fire, lightning, explosion/implosion, aircraft damage, flood, storm, earthquake, landslide, theft, burglary, terrorism, negligence, lack of skill, collision, impact, dropping short circuit, electrical/mechanical breakdown etc.

Few of the Exceptions are Damage due to faulty design, defective materials etc., wilful negligence, bad workmanship, Consequential loss say penalty for delay etc. Inventory losses. War, nuclear reaction, Normal wear and tear, gradual deterioration etc. The Sum Insured under EAR Policy should represent the completely erected value of the Plant and Machinery to be installed including freight, customs duties, and erection cost. Damages which can be repaired/rectified- necessary expenses to restore the machinery/item to its condition immediately before the loss. This includes cost involved in dismantling, freight and assembly charges.

The liability of the Insurer commences, only from the time after the unloading of the property specified in the Schedule from any conveyance at the site specified in the schedule and shall continue until immediately after the first test operation or test loading is concluded (whichever is earlier) but in no case beyond four weeks from the day on which after completion of erection a trial running is made and/or readiness for work is declared by the erectors/contractors, whichever is earlier.

If however, a part of a plant or one or several machine/s is/are tested and put into operation the cover and consequently the liability of the Insurer for that particular part of the plant or machine **ceases** whereas it continues for the remaining parts which are not yet ready. In case after the expiry of four weeks of trial running, approval of the plant or any part thereof is not given by the concerned Authorities, the insurance cover for the extended period of further trial running can be covered at extra premium. If the actual erection period is shorter than the period indicated in the Schedule, no refund of premium shall be allowed, unless specifically mentioned in the policy by Insurers. In the case



of second-hand/used property, the insurance coverage will, however, cease immediately on the commencement of the testing.

4.3.4. INSURANCE COVER FOR SURROUNDING PROPERTY

For covering the specified surrounding property of the Insured the additional rate of premium as applicable should be charged on the limit of sum insured selected for surrounding property. The civil works related to machinery foundations should necessarily be covered along with the machinery under EAR/SCE Policies.

4.3.5 CONTRACTORS PLANT AND MACHINERY (CPM) POLICY

Plant and machinery used for erection/construction purpose can be covered under this policy against Fire, theft, burglary, RSMD, terrorism, earthquake, flood, inundation, landslide, storm, tempest, cyclone etc. accidental external damage while at work or rest at site due to faulty handling, impact, collapse, dropping, damage caused by wilful act negligence, Electrical/Mechanical breakdown, overloading, internal explosion, Damage to exchangeable parts, Damage to water borne vessel, vehicles for road use, Total/partial immersion in tidal water, during transit/while working in underground mines, Inventory losses, War, nuclear reaction etc. Additional cover will be given in cases of Third Party personal injury & property damage, Insured's own surrounding property damage, Clearance and removal of debris, Express freight, holiday and overtime charges. This is an annual policy. May be issued for short periods on short period premium scale. Policy should be issued for plants used at particular site(s). If one plant is taken from one site to another, necessary declaration should be obtained and the policy should be endorsed accordingly. Transit part has to be covered under separate transit policy.

4.3.6. ELECTRONIC EQUIPMENT INSURANCE (EEI)

All Electronic equipment like Computers, Medical, Biomedical, Micro-processors; Audio/ Visual equipment including the value of Systems Software may be covered under Electronic Equipment Policy. The term equipment shall also include the entire computer system consisting of CPU, Keyboards, Monitors, Printers, Stabilizers, UPS, System Software etc.

The policy also cover in following three sections -

Section - I : Provides material damage cover to the main equipment.

Section - II : Provides cover to external data media used



Section - III : Provides cover to increased cost of working which arises due to damage to the insured equipment.

Cover granted under E.E.I policy are virtually against all insurable perils namely fire, RSMD, Terrorism, Flood, Storm, subsidence, Earthquake, accidental breakdown while at work or rest, electrical damage, faulty manipulation, dropping, falling impact etc.

The exceptions in cover are War and Nuclear perils, Wilful act/negligence Pre-existing defects/manufacturing defects, Normal wear and tear, gradual deterioration, Consequential loss of any kind Cessation of work Aesthetic defects. Dish Antenna is excluded from the scope of cover under this policy. Movable/Portable Electronic Equipment like testing and Bio-medical equipment can be covered with loading in premium.

4.3.7. MACHINERY BREAKDOWN INSURANCE (MBD)

All items of Plant and Machinery are susceptible to breakdown or damage irrespective of their quality or the maintenance. With the steady increase in cost of parts, labour and freight, repairs and replacements are becoming more and more costly day by day. Machinery Insurance Policy covers unforeseen and sudden damage to the insured Machinery while at WORK or at REST, during cleaning, inspection, overhauling or removal to another position within the premises. The main element of the insurance is Electrical & Mechanical breakdown and accidental damages All types of installed machinery can be covered under this policy against the following :

Damage caused by vibration, mal-adjustment, mal-alignment, defective lubrication, abnormal stress, centrifugal force, explosion/implosion, impact, collision, falling, faulty material, design, construction, excessive electrical pressure, failure of insulation, short circuit arcing, failure of protective devices, entry of foreign material, lack of skill, carelessness.

The following are exceptions to MBD policies

- Fire, lightning, theft, subsidence, landslide, flood, storm, earthquake and other perils which can be covered under fire policy.
- damage during experiments/overhauling or similar tests, normal wear or deterioration,
- willful act/negligence,
- damage to exchangeable parts, manufacturer's defect



- war, nuclear reaction etc.

Additional cover with extra premium could be done on the following cases.

- Insured's own surrounding property cover
- Third Party Liability
- Express freight overtime & holiday wages (Excluding Air freight)
- Air freight
- Additional Custom Duty

In cases where the proposal specifically provides for covering 'foundation', their values should be declared separately.

4.3.8 MACHINERY LOSS OF PROFITS (MLOP) / BOILER LOSS OF PROFITS (BLOP)

Policies are normally issued on a turnover basis. The policies can be issued on output basis for loss of profits cover following machinery breakdown and or boiler explosion only to manufactures having single end products. For manufacturers having multiple end products individual proposals must be submitted for approval before granting MLOP Cover on output basis. Insurers can extend MLOP Cover on DG sets subject to adequate re-insurance support. With regard to the issuance of MB (LOP) policies in the first year of operation such proposals will be considered on case to case basis and rates will be decided on merit.

Definitions-The following definitions are used in LOP polices

- **Gross Profit:** The sum produced by adding to the net profit the amount of the Insured standing charges or if there be no Net Profit, the amount of the Insured Standing Charges less such a proportion of any net trading loss as the amount of the Insured Standing Charges bears to all the Standing Charges of the business.
- **Net Profit:** The net trading profit (exclusive of all capital receipts and accretions and all out lay properly chargeable to capital) resulting from the business at the Insured at the Premises after due provision has been made for all Standing and Other Charges including depreciation but before the deduction of any taxation chargeable on profits.
- **Output:** The quantity produced at the premises, measured in units.



- **Indemnity Period and Time Excess:** The period not exceeding the indemnity period limit stated in the list of machinery and the plant insured commencing with the occurrence of the accident during which the results of the business are affected in consequence of such accident provided always that the insurers are not liable for the amount equivalent to the rate of gross profit applied to the standard output during the period of time excess (in terms of days) stated in the policy.

Minimum time excess under MLOP policies are -21 days for all policies whose Sum Insured (SI) is more than Rs.2500 crore and 14 days for all other policies whose SI is less than RS.2500 crore. The Time Excess for Boiler will follow the industry in which it is installed. Rates under this tariff will be decided as per rating factors and at Insurers discretion. Insurers can extend MLOP cover on DG sets subject to adequate re-insurance support.

4.4 INTERNAL AUDIT CHECKS TO BE EXERCISED.

As stated above, under Engineering and LOP Policies, a variety of risks were underwritten and they differ from one Insurer to another. Therefore, the Internal Auditor should frame the checklist according to the Insurer and types of policies underwritten. A general checklist was given below.

- i. The Internal Auditor should review the standard terms and conditions
- ii. The Internal Auditor should check whether any additional coverage was underwritten in the policy for surrounding area damage and adequate premium for that was received.
- iii. The Internal Auditor should check whether the Insurer while quoting the premium for CAR policies had taken into account the past history of the insured in completing the projects
- iv. The Internal Auditor should check the premiums for CAR policies were quoted for the full value of the project and for full term.
- v. The Internal Auditor should check the reasonableness of the discounts allowed
- vi. The Internal Auditor should check whether instalments were collected on time to give the policy in force.
- vii. The Internal Auditor should get whether there is any increase in the sum assured during the currency of the policy.



- viii. If so, check whether additional premium was collected on the past instalments also.
- ix. The Internal Auditor should check whether there is any modifications in the engineering contract of the insured, to charge additional premium when the terms and conditions of the contract of the original policy.
- x. In case of early completion of the works by the Contractors either CAR or ER, appropriateness of refund allowed has to be checked.
- xi. The Internal Auditor should check whether premium for the surrounding area coverage is charged as per prescribed rates.
- xii. The Internal Auditor should check the past history of the insured before quoting premiums and allowing discounts for LOP policies
- xiii. The Internal Auditor should check the reasonableness of the gross profit fixed for charging the premium
- xiv. The Internal Auditor should check whether the damage was properly reported with in the time-limit prescribed.
- xv. The Internal Auditor should check whether proper assessment was made for the damages to entertain claim.
- xvi. The Internal Auditor should check whether the loss assessors were appointed in time to check the claim
- xvii. The Internal Auditor should check whether average clause was enforced while settling the claims
- xviii. The Internal Auditor should check whether the subrogation right was enforced in case of full settlement of claims to recover the dues from the carriers
- xix. The Internal Auditor should check all the documents were received from the claimant before settlement of claims.
- xx. The Internal Auditor should ensure that claim should not be paid for claims occurring during the cooling period.
- xxi. The Internal Auditor should check whether proper assessment was made for surrounding area claims and Third Party Damage claims.
- xxii. The Internal Auditor should check the Gross profit calculations and exclusions were enforced.



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- xxiii. In respect of LOP claims, the Internal Auditor should check whether the claims were regulated as per Indemnity period.
- xxiv. The Internal Auditor should check whether all the larger claims were reported to the Reinsurance department in time to stake claim from the reinsurers.



CHAPTER 5

FIRE INSURANCE⁴

5.1 MEANING OF FIRE INSURANCE

Under section 2(6A) Insurance Act 1938, the fire insurance business is defined as follows: –Fire insurance business means the business of effecting, otherwise than independently to some other class of business, contracts of insurance against loss by or incidental to fire or other occurrence customarily included among the risks insured against in fire insurance policiesl.

The following are the items which can be burnt/ damaged through fire:

- Buildings
- Electrical installation in buildings
- Contents of buildings such as machinery, plant and equipment, accessories, etc.
- Goods (raw materials, in-process, semi-finished, finished, packing materials, etc.) in factories, godowns etc..
- Goods in the open
- Furniture, fixture and fittings
- Pipelines (including contents) located inside or outside the compound, etc.

The owner of above mentioned properties can insure against fire damage through fire insurance policy which provides financial protection for property against loss or damage by fire.

5.2 FEATURES OF FIRE INSURANCE:

- **Offer & Acceptance:**
- **Payment of Premium:** An owner must ensure that the premium is paid well in advance so that the risk can be covered. If the payment is made through cheque and it is dishonoured then the coverage of risk will not exist. It is as per section 64VB of Insurance Act 1938.
- **Contract of Indemnity**
- **Utmost Good Faith:.**
- **Insurable Interest:**

⁴ Various Fire Insurance Products by United India insurance company Limited



- **Contribution:**
- **Period of fire Insurance:**
- **Deliberate Act:**
- **Claims:**

5.3. PERILS COVERED UNDER FIRE INSURANCE IN INDIA⁵

In India, under fire insurance policy, in addition to fire, other perils are also included and the policy is known as “**Standard Fire and Allied Perils Policy**”. The perils specified in the fire policy are:

- a. Fire:.
- b. Lightning: Any lightning due to cloud burst may damage the property and the same will be covered under the fire policy.
- c. Explosion / Implosion: Sudden change in the temperature in any plant & machinery or exposure to atmospheric pressure may result into loss and the same will be covered under fire policy.
- d. Aircraft Damage: Any damage to the property due to any droppings by aircraft or by itself will also be covered under the fire policy.
- e. Riot, Strike and Malicious Damage (RSMD):
- f. Storm, Cyclone, Typhoon, Tempest, Hurricane, Tornado, Flood and Inundation (STFI):
- g. Impact Damage:
- h. Subsidence and Landslide including Rock Slide-
- i. Bursting and/or overflowing of Water Tanks, Apparatus and Pipes:
- j. Missile Testing Operations: Any loss or damage due to missile testing by the Govt. or otherwise will be covered under this policy.
- k. Leakage from Automatic Sprinkler Installations :

5.4. GENERAL EXCLUSIONS

- a) In every claim minimum deduction say Rs 5000/- or Rs 10000/- will be made while settling the claim under this policy. It is to avoid small losses.
- b) Loss, destruction or damage caused by war, and kindred perils.

⁵ As per Policy conditions issued by UIIC.



- c) Loss, destruction or damage directly or indirectly caused to the insured property by nuclear peril.
- d) Loss, destruction or damage caused to the insured property by pollution or contamination.
- e) Loss, destruction or damage to any electrical and / or electronic machine, apparatus, fixture or fitting (excluding fans and electrical wiring in dwellings) arising from or occasioned by over-running, excessive pressure, short circuiting, arcing, self-heating or leakage of electricity, from whatever cause (lightning included).
- f) Loss of earnings, loss by delay, loss of market or other consequential or indirect loss or damage of any kind or disruption whatsoever.
- g) Earthquake: It is not covered under the fire policy but by paying additional premium, the earthquake can be covered.

5.5 SPECIAL POLICIES

- a) **Floater Policy**-This policy is issued only for the stocks, not for plant & machineries. Sometime the stock is kept at various locations and it is very difficult to provide the value of stock at each location. Therefore to cover the risks of stocks at various locations under one sum insured an additional premium can be paid.
- b) **Declaration Policies**-This type of policy is useful where there is frequent fluctuations in stocks / stock values and to avoid the under insurance (insurance of lower value) of the stock, Declaration Policy(ies) can be granted subject to the following conditions:
 - The minimum sum insured shall be Rs. 1 crore.
 - Monthly declarations based on the average of the highest value at risk on each day or highest value on any day of the month shall be submitted by the Insured latest by the last day of the succeeding month. If declarations are not received within the specified period, the full sum insured under the policy shall be deemed to have been declared.
 - Reduction in sum insured shall not be allowed under any circumstances.
 - Refund of premium on adjustment based on the declarations / cancellations shall not exceed 50per cent of the total premium.



- The basis of value for declaration shall be the Market Value unless otherwise agreed to between insurer and insured.
- It is not permissible to issue declaration policy in respect of
 - i) Insurance required for a short period
 - ii) Stocks undergoing process
 - iii) Stocks at Railway sidings
- c) **Floater Declaration Policy**-It is combination of the above mentioned policies i.e. stock lying at different locations and the value of stock fluctuating.

5.6 ADDITIONAL TERMS & CONDITIONS

• **Reinstatement Value**

The clause provides that in the event of loss, the amount payable is the cost of reinstating property of the same kind or type, by new property (i.e.) —New for Old. Under reinstatement value policy, it is possible to cover the depreciated value of the building or machinery. The cost of replacement of the damaged property is ascertained by new property of the same kind. If due to technical improvements the new machinery is better than the damaged machinery e.g. output is increased with less consumption of power, the insured is obliged to bear a part of the cost of the new machinery to ensure that he does not derive any undue benefits. Thus, the principle of indemnity is still observed.

These insurances are not granted on stocks.

b) **Local Authorities Clause**

Reinstatement Value Policy may be extended to cover such additional cost of reinstatement of the destroyed or damaged property as may be incurred solely by reason of the necessity to comply with the Building or other Regulations under any Act of Parliament or bye-laws of any Municipal or Local Authority.

c) **Agreed Bank Clause-**

All policies in which a Bank has a partial interest are to be made out in the name of the Bank and Owner or Mortgagor and the Agreed Bank Clause incorporated in the policy. The salient features of the clause are :

- The claim is payable to the bank whose receipt shall be a complete discharge and binding on all parties insured.
- Any notice under the policy is sufficient if given by or to the bank.



- Any settlement, compromise etc. in relation to dispute if made with the bank shall be valid and binding on all parties insured.
- Any alteration or increase in risk does not invalidate the insurance, provided the bank notifies the same as soon as it comes to its knowledge and pays additional premium.

5.7 PROCEDURE TO SETTLE THE FIRE INSURANCE CLAIM:

If there are any damage or loss arising due to fire then the policy holder should immediately inform the insurance company in writing and with estimated amount of loss.

5.8. CHECKS TO BE EXERCISED BY THE INTERNAL AUDITOR

The Internal Auditor should check the following items in the administration of Fire insurance portfolio.

- i) The tariff for general insurance premiums were freed in August 2006 by IRDA. The respective Insurer can file and use the tariff rates for different kinds of policies. The Internal Auditor should check whether the insurer had filed the tariff schedule with the IRDA before usage.
- ii) The Internal Auditor should check whether the premiums fixed for different kinds of policies were based on the advice of the actuary as well as the data base available with it and approved by the Board before filing with IRDA.
- iii) The Internal Auditor should check the reasonableness of the discounts allowed by the Insurer on the premiums. He should comment on the profitability of the portfolio due to allowance of excess discounts.
- iv) The Internal Auditor should check, while allowing discounts, whether the claims history of group portfolio or client's portfolio were taken into account.
- v) The Internal Auditor should check the standard clauses were included in the policy documents including inclusions and exclusions.
- vi) If any specific additions were made, check whether additional premium were collected
- vii) The Internal Auditor should check whether the subrogation clause, agreed bank clause, average clause, reinstatement clause etc., were expressly included in the policies to protect the company.



- viii) The Internal Auditor should check whether for coverage of additional perils, extra premium were collected appropriately.
- ix) The Internal Auditor should check whether the premium is realised before the commencement of policy.
- x) The Internal Auditor should check whether due to dishonoured cheques the respective policies were cancelled and properly notified
- xi) The Internal Auditor should check whether proper intimation/notice was given by the insured to the insurer on the happening of fire/accident within the time prescribed.
- xii) The Internal Auditor should check whether the Insurer had appointed proper surveyor to assess the losses.
- xiii) The Internal Auditor should check whether all the documentary evidences were submitted by the insured as per terms and conditions of the policy
- xiv) The Internal Auditor should ensure that the surveyor had submitted the estimated loss within the time prescribed and the insured had given adequate cooperation in surveying the damages/perils
- xv) The Internal Auditor should check whether the original policy was surrendered along with the claim application to check the title of the goods
- xvi) The Internal Auditor should check whether all the required documents (such as FIR with the police, Fire Service Report for cause of fire, invoice, bill, survey report, debit note, letter of subrogation etc.) were submitted with the claims application
- xvii) The Internal Auditor should check the documentary evidence produced by the insured about the efforts taken by him to prevent or reduce the loss due to perils and the reasonableness of the cost incurred for such prevention or minimisation of loss
- xviii) The Internal Auditor should check whether the average clause was enforced while settling the claims in case of under insurance.
- xix) The Internal Auditor should check reasonableness on the loss assessed and salvages were taken into account
- xx) The Internal Auditor should check whether the claims were paid subject to exclusion clauses mentioned in the policy



Guidance Note on Internal Audit of General Insurance Companies

- xxi) The Internal Auditor should ensure that the claims for losses be honoured on verifying the Total Loss, particular average, general average, salvage loss, sue and labour charges and survey charges.
- xxii) The Internal Auditor should ensure that no claim for loss of theft during or after the fire accident is paid.
- xxiii) Similarly the Internal Auditor should verify no claim for accidents due to own heating and drying process was paid.
- xxiv) The Internal Auditor should check whether all the larger claims were reported to the Reinsurance department in time to stake claim from the reinsurers.



CHAPTER 6

HEALTH INSURANCE⁶

6.1 INTROUDCTION:-Health Insurance products may be offered only by entities with a valid registration granted to carry on Life Insurance or General Insurance or Health Insurance Business under the Insurance Regulatory and Development Authority (Registration of Indian Insurance Companies) Regulations 2000 as amended from time to time. Health Insurance is covered under Miscellaneous Policies in General Insurance.

Due to exponential growth of this sector, the IRDA allowed standalone Insurance Companies to offer health insurance products. In the later part of current decade, there is a phenomenal growth in this sector. Therefore separate standalone health insurance companies were permitted to operate to innovate and specialise to offer services in this sector. The latest Regulation was issued by IRDA called Insurance Regulatory and Development Authority of India (Health Insurance) Regulations, 2016 which is a master Regulations.

6.2 DEFINITIONS

Some important definitions applicable to health insurance as per IRDA Regulations are detailed below.

- a. "Health Services Agreement" means an agreement as defined in IRDAI (Third Party Administrators - Health Services) Regulations, 2016.
- b. –AYUSH Treatment^l refers to the medical and / or hospitalization treatments given under _Ayurveda, Yoga and Naturopathy, Unani, Siddha and Homeopathy systems.
- c. –Break in policy^l means the period of gap that occurs at the end of the existing policy term, when the premium due for renewal on a given policy is not paid on or before the premium renewal date or within 30 days thereof.
- d. –Cashless facility^l means a facility extended by the Insurer or TPA on behalf of the Insurer to the insured, where the payments for the costs of treatment undergone by the insured in accordance with the policy terms and conditions, are directly made to the network provider by the Insurer to the extent pre-authorization is approved.

⁶ This chapter is based on the clauses included in Health Insurance Regulations (2016) issued by IRDA.



- e. –Product Filing Guidelines mean the Guidelines specified by the Authority on the procedure to be followed by Insurers before marketing or offering a product falling under Health Insurance Business.
- f. –Health insurance business means Health insurance business as defined under Section 2 (6C) of the Act.
- g. "Health Services by TPA" means the services specified in Regulation (3) of IRDAI (Third Party Administrators - Health Services) Regulations, 2016.
- h. –Health plus Life Combi Products mean products which offer the combination of a Life Insurance cover offered by a life Insurer and a Health Insurance cover offered by General Insurer or Health Insurer.
- i. –Network Provider means network provider as defined in IRDAI (Third Party Administrators - Health Services) Regulations, 2016.
- j. –Pilot product means a close-ended product with a policy term of one year that may be offered for sale by General Insurers or Health Insurers for a period not exceeding five years from the date of launch of the product with a view to giving scope to innovation for covering risks that have not been offered hitherto or stand excluded in the extant products.
- k. –Portability means the right accorded to an individual health insurance policyholder (including family cover), to transfer the credit gained for pre-existing conditions and time bound exclusions, from one Insurer to another or from one plan to another plan of the same Insurer.
- l. –Third Party Administrators or TPA means any person who is registered under the IRDAI (Third Party Administrators - Health Services) Regulations, 2016 notified by the Authority, and is engaged, for a fee or remuneration by an insurance company, for the purposes of providing health services as defined in those Regulations.

6.3 SCOPE OF HEALTH INSURANCE BUSINESS

During the current decade, there was an exponential growth in Health Insurance and very innovative health insurance products were introduced. The Life Insurers were also allowed to offer long term Individual Health Insurance products i.e., for term of 5 years or more, but the premium for such products should remain unchanged for at least a period of every block of three years, thereafter the premium may be reviewed and modified as



necessary. General and Health Insurers were allowed to offer individual health products with a minimum tenure of one year and a maximum tenure of three years, provided that the premium remains unchanged for the tenure. Group Health Policies were offered by Insurer for a term of one year except credit linked products where the term can be extended up to the loan period not exceeding five years. Group Personal Accident Policies were also offered by General and Health Insurers with term less than one year also to provide coverage to specific events. Other Insurance Products offering Travel Cover and Individual Personal Accident Cover were also offered for a period less than one year.

Overseas or Domestic Travel Insurance policies should be offered by General Insurers and Health Insurers, either as a standalone product or as an add-on cover to a health or personal accident policy. All the products introduced by the Insurer should be filed before IRDA and get its approval before offering to policy holders. Similarly, when a policy was issued, it should not be withdrawn till the end of the policy period.

All particulars of any health insurance product of Life Insurers, General Insurers and Health Insurers should, after introduction, revision or modification be reviewed by the Appointed Actuary at least once in a year. If the product is found to be financially unviable, or is deficient the Appointed Actuary may revise the product appropriately and apply for revision under Product Filing Guidelines.

No Group Health Insurance Policy should be issued by any Insurer where a Group is formed with the main purpose of availing itself of insurance. There should be a clearly evident relationship as specified by the Authority from time to time between the members of the group and the group policy holder. The Group should have a size as determined by the Insurer which should be applicable for all its group policies, subject to a minimum of 7, to be eligible for issuance of a Group Insurance Policy. Further, Insurer should follow the Guidelines specified by the Authority on Group Insurance, from time to time.

6.4 UNDERWRITING

All Life Insurers, General Insurers and Health Insurers should evolve a Health Insurance **Underwriting Policy** which should be approved by the Board of the Company. Every Insurer should also put in place measures for periodical review of the underwriting policy in tune with the changes



affecting the medical field and health insurance business. The underwriting policy should also cover the approach and aspects relating to offering health insurance coverage not only to standard lives but also to sub-standard lives. It should have in place various objective underwriting parameters to differentiate the various classes of risks being accepted in accordance with the respective risk categorisation. Any proposal for health insurance will be accepted as proposed or on modified terms or denied wholly based on the Board approved underwriting policy. A denial of a proposal should be communicated to the prospect in writing, by recording the reasons for denial. Provided, the denial of the coverage should be the last resort that an Insurer may consider. General Insurers and Health Insurers should devise mechanisms or incentives to reward policyholders for early entry, continued renewals (wherever applicable), favourable claims experience, preventive and wellness habits and disclose upfront such mechanism or incentives in the prospectus and the policy document, by complying with the norms specified under Product Filing Procedure Guidelines. Provided that what is proposed to be covered as part of wellness habits and preventive habits be clearly defined in each and every product. Further that no discount should be offered on any third party service or merchandise. However, discounts in premium and/or benefits on diagnostic or pharmaceuticals or consultation services of providers in the network are permitted.

6.5 PRINCIPLES OF PRICING OF HEALTH INSURANCE PRODUCTS:

Insurers should ensure that the premium for a health insurance policy should be based on Age: for individual policies and group policies and other relevant risk factors as applicable. For provision of cover under family floater, the impact of the multiple incidence of rates of all family members proposed to be covered should be considered. The premiums filed should ordinarily be not changed for a period of three years after a product has been cleared in accordance to the product filing guidelines specified by the Authority. Thereafter the Insurer may revise the premium rates depending on the experience. However, such revised rates should not be changed for a further period of at least one year from the date of launching the revision.

The policy premium rate should be unchanged for all group products for the term of the policy and for all individual and family floater products, other than travel insurance products offered by general Insurers and health Insurers, for at least-for a period of one year in case of one year renewable



policies. The changes in rates will be applicable from the date of approval by the Authority and should be applied only prospectively thereafter for new policies and from the date of renewal for the existing policies.

6.6 GENERAL PROVISIONS RELATING TO HEALTH INSURANCE

6.6.1 DESIGNING OF HEALTH INSURANCE POLICIES

Health insurance product may be designed to offer various covers;

- i. For specific age or gender groups
- ii. For different age groups
- iii. For treatment in all hospitals throughout the country, provided the hospitals comply with the definition specified
- iv. For treatment in specific hospitals only, provided the morbidity rates used are representative
- v. For treatment in specific geographies only, provided the morbidity rates used are representative

Provided, such specifications are disclosed clearly upfront in the product prospectus, documents and during sale process. And provided that no Insurer should offer any benefit or service without any insurance element.

In order to facilitate offering of innovative covers by Insurers, 'Pilot products' may be designed and filed for approval of the Authority in accordance with the Product Filing Guidelines specified by the Authority. Pilot products referred herein can be offered only by General Insurers and Health Insurers for policy tenure of one year. Every Pilot product may be offered upto a period not exceeding 5 years. After 5 years of launch of the pilot product, the product needs to get converted into a regular product or based on valid reasons may be withdrawn subject to the insured being given an option to migrate to another product subject to portability conditions. The Authority may specify guidelines for Pilot Products from time to time. Where a pilot product gets converted into a regular product, any exception made in these Regulations for pilot products should no longer apply and the Insurer should ensure compliance with all the provisions of these Regulations.

Insurer should not compel the insured to migrate to other health insurance products. In case of migration from a withdrawn product, the Insurer should



offer the policyholder an alternative available product subject to portability conditions.

Insurers should ensure adequate dissemination of product information on all their health insurance products on their websites. This information should include a description of the product, copies of the prospectus as approved under the Product Filing Guidelines, proposal form, policy document wordings and premium rates inclusive and exclusive of Service Tax as applicable.

6.6.2 MIGRATION OF HEALTH INSURANCE POLICY_(PORTABILITY)

General Insurers and Health Insurers offering health covers specific to age groups such as maternity covers, children under family floater policies, students etc, should offer an option to migrate to a suitable alternative available health insurance policy at the end of the specific exit age or at the time of withdrawal of the policy at the option exercised by the said lives by allowing suitable credits for all the previous policy years, provided the policy has been maintained without a break. All health insurance policies issued by General and Health Insurers should allow the portability of any policy in accordance with Schedule -1 of the Regulations.

6.6.3 OPTIONAL COVERAGE FOR CERTAIN ITEMS

List of Generally Excluded Items that may be optionally covered by the Insurers may be specified by the Authority from time to time through Guidelines.

- i In respect of hospitalisation indemnity policies that exclude certain standard items, Insurers should ensure that these are mentioned in the product filing when made under the Product Filing Guidelines.
- ii Product wise specific list of excluded items should be disclosed in the website of Insurers and a reference should be made in the prospectus and policy wordings of the respective products about such excluded items and the availability of the details on the website along with the address of website.
- iii Insurers should supply the policyholders on demand a copy of such excluded list of the concerned product if the same is not incorporated in the policy document.



iv Insurers may offer cover for these items and mention it clearly in the policy.

6.6.4 SPECIAL PROVISIONS FOR SENIOR CITIZENS

The premium charged for health insurance products offered by Insurers, to senior citizens should be fair, justified, transparent and duly disclosed upfront. The insured should be informed in writing of any underwriting loading charged as filed and approved under the Product Filing Guidelines over and above the premium and specific consent of the policyholder for such loadings should be obtained before issuance of a policy. All Insurers and TPAs, as the case may be, should establish a separate channel to address the health insurance related claims and grievances of senior citizens.

6.6.5 MULTIPLE POLICIES

In case of multiple policies which provide fixed benefits, on the occurrence of the insured event in accordance with the terms and conditions of the policies, each Insurer should make the claim payments independent of payments received under other similar policies. If two or more policies are taken by an insured during a period from one or more Insurers to indemnify treatment costs, the policyholder should have the right to require a settlement of his/her claim in terms of any of his/her policies.

- i. In all such cases the Insurer who has issued the chosen policy should be obliged to settle the claim as long as the claim is within the limits of and according to the terms of the chosen policy.
- ii. Claims under other policy/ies should be made after exhaustion of Sum Insured in the earlier chosen policy / policies
- iii. If the amount to be claimed exceeds the sum insured under a single policy after considering the deductibles or co-pay, the policyholder should have the right to choose Insurers from whom he/she wants to claim the balance amount.
- iv. Where an insured has policies from more than one Insurer to cover the same risk on indemnity basis, the insured should only be indemnified the hospitalization costs in accordance with the terms and conditions of the chosen policy.



6.7 ADMINISTRATION OF HEALTH INSURANCE POLICIES

6.7.1 PROTECTION OF POLICYHOLDERS' INTEREST:

Every insured should be provided with a **Customer Information Sheet** as specified by the Authority in the relevant Guidelines. The Insurer should establish necessary systems, procedures, offices and infrastructure to enable efficient issuance of pre-authorisations on a 24 hour basis and for prompt settlement of claims and grievances.

6.7.2 SETTLEMENT/REJECTION OF CLAIM BY INSURER:

An Insurer should settle or reject a claim, as may be the case, within thirty days of the receipt of the last 'necessary' document. Except in cases where a fraud is suspected, ordinarily no document not listed in the policy terms and conditions should be deemed 'necessary'. The Insurer should ensure that all the documents required for claims processing are called for at one time and that the documents are not called for in a piece-meal manner. The information that the Insurer has captured in the proposal form at the time of accepting the proposal, the terms & conditions offered under the policy, the medical history as revealed by earlier claims, if any, and the prior claims experience should all be maintained by the Insurer as an electronic record and should not be called for again from the policyholder/insured at the time of subsequent claim settlements. Insurer may stipulate a period within which all necessary claim documents should be furnished by the policyholder/insured to make a claim. However, claims filed even beyond such period should be considered if there are valid reasons for any delay. Every Insurance Claim should be disposed of in accordance to the Terms and Conditions of the policy contract and the extant Regulations governing the settlement of Claims. No Claim should be closed in the books of the Insurers.

6.7.3 MINIMUM DISCLOSURES IN POLICY DOCUMENT:

In addition to the requirements stipulated in IRDA (Protection of Policyholders' Interest) Regulations, 2002 as amended from time to time the policy document should contain:

- i. Procedure for claims submission, time lines and possible course of action, if time lines for claim submission are not adhered to along with all the claims documents required for claim processing.



- ii. Sub-limits applicable on any of the covers offered in the health insurance product and the impact of such sub-limits on other covers provided in the product, if any, should be clearly spelt out.
- iii. Penal interest provision should invariably be incorporated in the policy document as per Regulation 9(6) of IRDA (Protection of Policyholders' Interests) Regulations, 2002 as modified from time to time.
- iv. The TPA(s) details, if any along with the complete address and contact numbers should be attached to the policy document. It should also be mentioned that the updated list of the TPAs will be available in the website of the Insurers.
- v. Every Insurer should disclose product-wise or location or geography-wise particulars of the TPAs that are engaged for rendering health services in their respective website, and these details should be updated whenever there is a change.
- vi. Product-wise cashless services offered should be clearly explained in the website of the respective Insurers.
- vii. In case of Pilot Products referred under Regulation (2)(i)(l) above, in addition to all the extant disclosure norms applicable to insurance advertisements, all the sales and publicity material pertaining to the 'Pilot products' should disclose the following:
 - viii. The product offered is a pilot product and that it is a close-ended one.
 - ix. The product may be discontinued from the date of (to specify the maximum date on which the product be either withdrawn or converted into a regular product) or may be continued as a regular product.
 - x. In the event of the discontinuation of the Pilot product, the Insured would be provided the option of migration as per the extant applicable provisions.
 - xi. The product should carry a tag line of —PILOT PRODUCT to demonstrate that the Health Insurance product promoted is a Pilot product.
 - xii. Insurer should keep the insured informed of the list of Network Providers and display the same on their website. Such list should be displayed geography wise and updated as and when there is any change in the Network providers.



6.7.4 ADMINISTRATION OF HEALTH POLICIES

Subject to the terms of a policy, General Insurers and Health Insurers should extend to all policy holders a cashless facility for treatment at specific establishments or the reimbursement of the costs of medical and health treatments or services availed at any medical establishment. Cashless facility should be offered only at establishments which have entered into an Agreement with the Insurer to extend such services. Such establishments will be termed as Network Providers. Reimbursement should be allowed at any medical establishment. All such establishments must be licensed or registered as may be required by any Local, State or National Law as applicable. The administration of all health plus life-combi products should be in accordance with the provisions of Schedule II of the Regulation for Health Insurance. Except in emergencies a cashless facility may require a Pre-Authorisation to be issued by the Insurer or an appointed TPA to the Network Provider where the treatment is to be undergone. To avail the benefit of cashless facility, Insurers should issue an Identification Card to the insured within 15 days from the date of issuance of a policy, either through a TPA or directly. Provided where there is no mention of the expiry date on the card, the Insurer may provide a permanent card which is valid as long as the policy is renewed with the company. The identification card should, at the minimum, carry details of the policyholder and the logo of the Insurer. Insurers should endeavour to issue Smart Cards with features such as cards with Quick Response Code, Magnetic reader to enable the TPAs and Network Providers offer health services seamlessly. Where a policyholder has been issued a pre-authorization for the conduct of a given procedure in a given hospital or if the policyholder is already undergoing such treatment at a hospital, and such hospital is proposed to be removed from the list of Network Provider before the final settlement of the claim, then Insurers should provide the benefits of cashless facility to such policy holder as if such hospital continues to be on the Network Provider list. An insurance company may enter into an arrangement with other insurance companies for sharing of Network Providers, transfer of claim and transactional data arising in areas beyond their service.

6.7.5 HEALTH SERVICES AGREEMENTS: (POLICIES)

Insurance companies offer policies providing cashless services to the policyholders.. The services are offered through network providers who have been enlisted to provide medical services under a direct written agreement



with the Insurer where there is a direct arrangement or by a tripartite agreement amongst health services provider, the TPA and the Insurer where it is through a TPA. Where an Insurer wishes to utilise the services of a TPA, it should ensure that the written agreement is entered into for defined services with a certified TPA. The Agreements which should be entered into between / amongst Insurers, network providers or TPAs should cover the following amongst others:

- i. The tariff applicable with respect to various kinds of healthcare services being provided by the network provider.
- ii. A clause empowering the Insurer to cancel or modify the agreement in case of any fraud, misrepresentation, inadequacy of service or other non-compliance or default on the part of TPA or network provider;-
- iii. A standard clause as may be agreed upon providing for continuance of services by a network provider to the insurance company if the TPA is changed or the agreement with TPA is terminated.
- iv. A clause providing for opting out of network provider from a given TPA or dis-empanelment of a network provider by a TPA subject to the Guidelines specified by the Authority, if any, for reasons of inadequacy of service rendered by the TPA to the network provider.
- v. A clause specifically fixing the onus on the Insurer to deny or repudiate a claim
- vi. A clause enabling Insurer to inspect the premises of the Network Provider at any time without prior intimation.

Insurers and TPAs should comply with standard clauses to be incorporated in all such agreements as specified by the Authority by way of guidelines. The insurance company should endeavour to enter into Agreements with adequate number of both public and private sector network providers across the geographical spread. The copy of the agreement should be maintained by the Insurer for a period of not less than five years from the date of the expiry or termination of the agreement. The Authority may specify, through Guidelines, certain standards, benchmarks and protocols for Network Providers from time to time. The Insurers and TPAs should ensure that only those Providers who meet with such standards, benchmarks and protocols are enrolled into the network.



6.7.6 PAYMENTS TO NETWORK PROVIDERS AND SETTLEMENT OF CLAIMS OF POLICYHOLDERS:

For the purpose of claim settlement, Insurer should make direct payments to the Network provider and to the policyholders by integrating their banking system platform with the Network Provider or the policyholder, as the case may be. Provided that, if a claimant opts for payment through a cheque or Demand Draft, the Insurer should not deny such request.

6.7.7 ENGAGEMENT OF SERVICES OF TPAs BY INSURERS

Every Insurer should provide detailed product wise guidelines to TPAs for handling of claims i.e. claim admissions and assessments. The guidelines should articulate the payments / benefits allowed or disallowed under various products that are being serviced by the TPAs. While prescribing such guidelines the Insurers should also prescribe the capacity requirements, internal control procedures to be put in place by the TPA under the agreement for rendering the services under such product.

- i Detailed Claim Guidelines: Every Insurer should issue detailed product specific claim guidelines to TPAs
- ii Insurers should ensure that the TPAs are not carrying out the following activities as part of the agreement
 - Claim rejections/repudiations with respect to the health insurance policies. Payments to the policyholders, claimants or the network providers;
 - Any services directly to the policyholder or insured or to any other person unless such service is in accordance with the terms and conditions of the Agreement entered into with the Insurer.
- iii **Settlement and Denial of Claims**:
 - Insurers and/or TPAs, as may be applicable, should endeavour to collect documents for processing claims for disposal electronically. Claims that are being settled should be done through e-payments by the Insurers.
 - Where claims are directly handled by the Insurers, the provisions of Regulation (21) (c) (i) of IRDAI (TPA-Health Services) Regulations, 2016 should be complied in the correspondence to the policyholder with respect to settlement of the claims



- The Insurer should be responsible for proper and prompt service to the policyholders at all times.
 - Where a claim is denied or repudiated, the communication about the denial or the repudiation should be made only by the Insurer by specifically stating the reasons for the denial or repudiation, while necessarily referring to the corresponding policy conditions. The Insurer should also furnish the grievance redressal procedures available with the Insurance Company and with the Insurance Ombudsman along with the detailed addresses of the respective offices.
- iv More than one TPA may be engaged by an insurance company.
 - v Where there is a change in the TPA, Insurers should communicate to the policyholders 30 days before giving effect to the change.
 - vi The contact details like helpline numbers, addresses, etc. of the new TPA should be immediately made available to all the policyholders in case of change of TPA.
 - vii The Insurers should take over all the data in respect of the policies serviced by the earlier TPA within thirty days from the cessation of the services of the TPA and make sure that the same is transferred seamlessly to the newly assigned TPA, if any. No inconvenience or hardship should be caused to the policyholders as a result of the change.

6.7.8 DATA AND RELATED ISSUES:

- The TPA and the Insurer should establish a seamless flow of data transfer for all the claims. Towards this purpose the entities referred herein should endeavour electronic flow of the data.
- The respective claim settlement files should be handed over to the Insurer within 15 days thereof.
- Authority may require Insurers, TPAs and Network Providers, to comply with data related matters as specified in the Guidelines that may be issued separately.

6.8 GENERAL CHECKS TO BE EXERCISED DURING INTERNAL AUDITOR

The administration of health insurance is of different stages. Besides individual policies, group policies are also to be administered by the Insurer



apart from travel insurance etc. Therefore a detailed checklist was given below to check different aspects of health insurance administration. Though the checklist given under is a detailed one, the concerned Internal Auditor should draft his own check list based on his study of the types of policies offered by the particular Insurer.

6.8.1 PRICING & UNDERWRITING OF POLICIES.

- i.** The Internal Auditor needs to study the pricing of different types of policies. While checking basis of the fixation of premium, he should verify whether they were supported by actuarial recommendation based on mortality ratio as well as the morbidity ratio of occurrence of certain type of illness at different age groups and cost of their administration.
- ii.** The Internal Auditor should also ensure whether the Insurer had fixed the premium rates based on the master data available with him.
- iii.** The Internal Auditor should verify whether the Insurer had reviewed the premium rates offered every year and made adjustments in the premium rates with the approval of IRDA.
- iv.** There should be an underwriting policy by the Insurer. The Internal Auditor should check that the Underwriting policy was approved by the Board of the Insurer.
- v.** The Internal Auditor should verify whether the underwriting policy was modified in tune with the changes affecting the medical field and health insurance policies.
- vi.** The Internal Auditor should check whether there is any change in the premium rates approved by the Board of the Insurer and when new products were introduced, they got approval from IRDA? Or at least they were filed with IRDA before marketing the products/
- vii.** Whether the data base available with different TPAs were considered while fixing the premium is to be ensured.
- viii.** The Internal Auditor should check whether the underwriting policy of the Insurer contained various underwriting parameters to differentiate different classes of risks being accepted in accordance with the respective risk categories.
- ix.** The Internal Auditor should check whether loading on premium rates for coverage of different illness or sub-standard lives were fixed



properly taking into account the past disease history and payment records.

- x. The Internal Auditor should check whether the loading was made for adding coverage to certain exclusions of policy like pregnancy, Child-delivery related expenses, glasses to eyes excluding frames etc.
- xi. Though the premium rates were fixed and filed with IRDA, the Insurers are at liberty to offer discounts on these premium rates to attract business. In such situation, the IA should verify whether such discounts did not affect the profitability of the portfolio, If so it should be critically analysed and commented
- xii. In case of group medi-claim insurance, the Internal Auditor should check the premium determination?
- xiii. Whether past history of claim ratio was taken into account? The expenses like brokerage and TPA charges were properly loaded to be checked..
- xiv. While allowing the discounts, the Internal Auditor should check whether the officer in charge has adequate delegated powers to offer such discounts or got them ratified
- xv. The Internal Auditor should check the parameters fixed by the Insurer to offer incentives to the policy holders for early entry, continued renewals, favourable claims experience, preventive and wellness habits of the insured and included in the prospectus and policy documents
- xvi. The Internal Auditor should check whether the discounts in premium or discounts or benefits on diagnostic or pharmaceuticals or consultation services of providers in the network were provided.
- xvii. The Internal Auditor should check whether on renewal of policies, applicable premiums for the age group was applied and rebate/discounts were allowed.
- xviii. The Internal Auditor should not only check whether the name of the TPA was clearly spelt out in the policy, but also ensure whether the TPA had provided the cashless cards within the time prescribed to the policy holders.
- xix. The Internal Auditor should verify the pre-insurance medical examination costs which form part of the expenses on premium.

6.8.2 TERMS & CONDITIONS OF THE POLICY

- xx. The Internal Auditor should check whether, all the data required from the policy holder were captured in the application form and the Insurer had maintained confidentiality



- xxi. The Internal Auditor should verify whether as per the IRDA guidelines, the Terms & Conditions of different types of policies or products were clearly spelt out?
- xxii. The Internal Auditor should check whether the exclusions and inclusions were clearly spelt out in the Terms & Conditions of the policies to avoid future litigations.
- xxiii. The Internal Auditor should check whether the policy conditions allowed free look period of 15 days to the policy holders?
- xxiv. If so check whether any policy was cancelled within the free look period without any claim and if so check the refund details. Check whether the applicable expenses were deducted out of refund of policy amount.
- xxv. The Internal Auditor should check whether any proposals were rejected and verify the reasons for such denials
- xxvi. The Internal Auditor should check the fixation of sub-limits applicable on any of the covers offered in the policy conditions and their impact on the portfolio on implementation
- xxvii. The Internal Auditor should check whether the penal interest clause was incorporated in the T&C of the policies
- xxviii. The Internal Auditor should verify whether adequate information was provided to the insured the list of network providers on geography-wise and updated the changes to provide cashless facilities

6.8.3 AGREEMENTS WITH TPA OR NETWORK SERVICE PROVIDORS

- xxix. The Internal Auditor should ensure that only IRDA registered TPAs were selected by the Insurer to administer the health policies.
- xxx. The Internal Auditor should check all the agreements entered into with all the TPAs. The clauses mentioned in the Regulations should be forming part of the agreement
- xxxi. The Internal Auditor should verify whether all the agreements entered by the TPAs with network providers were valid for atleast one year and also the rates agreed for different medical procedure should not be modified without notice. It is obligatory for the TPA to provide a copy of the agreement with network providers.
- xxxii. The Internal Auditor should ensure that the Insurer had verified the TPAs internal control system capacity requirement and adequate qualified man power to administer the TPA



- xxxiii. The Internal Auditor should ensure that the Insurer had entered into agreement with adequate number of TPAs to serve the policy holders.
- xxxiv. The Internal Auditor should check the provision for termination of agreement with TPA/Network providers for fraudulent practices.
- xxxv. The Internal Auditor should check whether the Insurer provided the TPAs detailed guidelines for settlement of claims and they are uniform to all the TPAs.
- xxxvi. The Internal Auditor should check whether the Insurer and TPAs ensured that only those providers who meet with such standards, bench marks and protocols prescribed by IRDA into the network
- xxxvii. The Internal Auditor should verify that no claim is settled by the TPA and getting reimbursement.

6.8.4 SETTLEMENT OF CLAIMS

- xxxviii. The Internal Auditor should ensure that the settlement of claims or reimbursements were to be made directly by the Insurer and not by TPAs.
- xxxix. The Internal Auditor should ensure that the claims to be settled through banking channel only i.e. Payment by way of demand draft, bank transfer etc., No cash settlement to be made.
- xl. The Internal Auditor should check the cases of repudiation or rejection of claims by TPAs and examine their reasonableness and as per policy conditions.
- xli. The Internal Auditor should ensure timely settlement of claims
- xlii. In cases of reimbursement, the Internal Auditor should check that the Insurer had taken due care in settlement as per terms and conditions of policy.
- xliii. The Internal Auditor should check whether the Insurer/TPA had collected all the required documents for processing the claims for disposal electronically.
- xliv. In case of rejection/repudiation of claims, the Internal Auditor should check whether the Insurer had specifically recorded reasons and intimated the policy holder indicating the relevant policy conditions
- xlv. The Internal Auditor should check whether there is a sound grievance redressal system to dispose of the grievances of the policy holders.



- xlvi.** The Internal Auditor should ensure that the Insurer and TPA are maintaining the data secrecy of the policy holder on their policy and claims details.
- xlvii.** The Internal Auditor should ensure that the Insurer and TPA had put in place adequate control systems to identify, monitor and mitigate frauds.
- 6.8.5 PORTABILITY OF HEALTH INSURANCE POLICIES**
- xlviii.** The Internal Auditor should check whether in inward or outward ported policies, a policyholder desirous of porting his/her policy to another insurance company had applied to such insurance company to port the entire policy along with all the members of the family, if any, at least 45 days before, but not earlier than 60 days from the premium renewal date of his/her existing policy.
- xliv.** The Internal Auditor should check whether Insurer will not be liable to offer portability if policyholder (a) fails to approach the new insurer at least 45 days before the premium renewal date, or (b) approaches the new Insurer more than 60 days prior to the premium renewal date.
- i.** Portability should be opted for by the policyholder only at the end of the policy period and not during the currency of the policy.
- ii.** Where the outcome of acceptance of portability is still awaited from the new insurer on the date of renewal
- the existing policy should be allowed to be extended, if requested for by the policyholder, for a short period of not less than one month by accepting a pro- rata premium for such short period and
 - existing insurer should not cancel existing policy until such time a confirmed policy from new insurer is received or there is a specific written request of the insured
 - the new insurer, in all such cases, should reckon the date of the commencement of risk to match with the date of expiry of the short period policy issued based on the request of the policyholder. If for any reason the insured intends to continue the policy before the expiry of the policy or before the expiry of the short-period policy referred to under Clause (5) (a) above, with the existing insurer, it shall be allowed to continue by charging regular premium and without imposing any new condition.
- iii.** In case the policyholder has opted for portability and there is a claim, the existing insurer may charge the balance premium for remaining part



of the policy year provided the claims are accepted by the existing insurer. In such cases, policyholder is liable to pay the premium for the balance period and continue with the existing insurer for that policy year.

- liii. No commission is payable to the intermediary for ported policies.
- liiv. Check whether all the data were received from the ported policies from their former insurers.
- liv. Similarly check whether the insurer had provided all the required data to the outgoing ported policies.
- lvi. The Internal Auditor should check whether the formalities as prescribed by the IRDA regarding portability is followed for both incoming and outgoing.
- lvii. Check that there is no loading for the incoming ported policies.

6.8.6 HEALTH PLUS LIFE COMBI PRODUCTS

All the Insurers can offer this Health plus life combi products. IRDA had issued guidelines for such products.

- lviii. The Internal Auditor should check the agreements between the Insurers in offering the products
- lix. The Internal Auditor should check the reasonability of the premium fixed for such products.
- lx. The Internal Auditor should exercise all the checks mentioned above for administration and claims settlements of the products of these kinds.



CHAPTER 7

MOTOR INSURANCE

7.1 INTRODUCTION

This is the class of Insurance through which a majority of the people recognize general Insurance and that too because it is compulsory for all motorized vehicles to have an Insurance policy against third party liability before they can come on road. Though this class of Insurance is the major source of premium earnings for the Insurance companies it is also the class which is showing the biggest losses.

For purpose of insurance, motor vehicles are classified into three broad categories:

- Private cars
- Motor cycles and motor scooters
- Commercial vehicles,

7.2. MOTOR VEHICLES ACT, 1988⁷

It is necessary to have knowledge of Motor Vehicles Act passed in 1939 and amended in 1988. In order to safeguard the interests of pedestrians, therefore, the Motor Vehicles Act, 1939, introduced compulsory insurance. The insurance of motor vehicles against damage is not made compulsory, but the insurance of third party liability arising out of the use of motor vehicles in public places is made compulsory. No motor vehicle can ply in a public place without such insurance. The liabilities which require compulsory insurance are as follows:

- a. any liability incurred by the insured in respect of death or bodily injury of any person including owner of the goods or his authorised representative carried in the carriage.
- b. liability incurred in respect of damage to any property of a third party;
- c. liability incurred in respect of death or bodily injury of any passenger of a public service vehicle;
- d. liability arising under Workmen's Compensation Act, 1923 in respect of death or bodily injury of:

⁷ As per Motor Vehicles Act 1988 and its amendments



- paid driver of the vehicle;
- (ii) conductor, or ticket examiner (Public service vehicles);
- (iii) workers, carried in a goods vehicle;
- e. liability in respect of death or bodily injury of passengers who are carried for hire or reward or by reason of or in pursuance of contract of employment.

The policy of insurance should cover the liability incurred in respect of any one accident as follows:

- In respect of death of or bodily injury to any person, the amount of liability incurred is without limit i.e. unlimited
- In respect of damage to any property of third party: Limit as fixed in the Motor Vehicle Act from time to time

The liability in respect of death of or bodily injury to any passenger of a public service vehicle in a public place, the amount of liability incurred is unlimited. Section 140 of the Motor Vehicles Act 1988, provides for liability of the owner of the Motor Vehicle to pay compensation in certain cases, on the principle of —no fault. The amount of compensation, so payable, is, Rs.50,000/- for death, and Rs.25,000/- for permanent disablement of any person resulting from an accident arising out of the use of the motor vehicle.

7.3. CERTIFICATE OF INSURANCE

The Motor Vehicles Act provides that the policy of insurance shall be of no effect unless and until a certificate of insurance in the form prescribed under the Rules of the Act is issued. The only evidence of the existence of a valid insurance as required by the Motor Vehicles Act acceptable to the police authorities and R.T.O, is a certificate of insurance issued by the insurers. The points covered under a certificate of insurance differ according to the type of vehicle insured.

7.4. POLICIES⁸

The motor insurance policies have two parts namely Section I covering Loss or Damage (own damage) and Section II Third Party Coverage

Section II Liability to Third Parties

⁸ Policy conditions of different insurance companies



The insurers indemnify the insured against all sums which he may become legally liable to any person including occupants carried in the motor car (provided that they are not carried for hire or reward) by reason of death or bodily injuries caused to such third parties or by reason of damage to the property of third parties caused by or arising out of the use of the motor car. The insured's liability for damage to property of third parties is limited to Rs.6000/-whilst liability for death of or bodily injury to third party is unlimited. The legal costs and expenses incurred by such third parties are reimbursed in addition. The Insurer can give prior consent for reimbursement of legal costs and expenses incurred by the insured.

The insurers are liable for the death of or bodily injury arising out of and in the course of employment, but only to the extent necessary to meet the requirements of the Motor Vehicles Act. The damage to property is not paid for, if the damaged property belonged to the insured or was held in trust by him or was in the custody or control of the insured.

Section III

This appears in commercial vehicle policies only. This section provides cover while the vehicle is towing one disabled mechanically - propelled vehicle. It provides that whilst the insured vehicle is being used for the purpose of towing any one disabled mechanically - propelled vehicle

7.5. GENERAL EXCLUSIONS⁹ (applicable to all sections)

These provide that the insurer shall not be liable in respect of:

- a) any accident outside the geographical area specified in the policy, that is, India. The limit can be extended to cover Bangladesh, Bhutan, Nepal, Pakistan, Sri Lanka & Maldives on payment of extra premium.
- b) contractual liability.
- c) any accident when the vehicle is used not in accordance with the Limitations (Use Clause)
- d) any accident when the vehicle is driven without an effective driving licence (Driver's Clause).
- e) war, etc and nuclear risks.

⁹ Policy conditions of United India insurance company Limited



7.6 CONDITIONS¹⁰

Apart from the usual conditions such as notice of loss, cancellation of policy, arbitration, etc. there are two conditions which are specific to motor policies.

- The insured is required to safeguard the vehicle from loss or damage and maintain it in efficient condition. In the event of an accident, the insured shall take precautions to prevent further damage. If the vehicle is driven before repairs any further damage is at insured's risk.
- The insurer has the option to repair or replace the vehicle or parts or pay in cash the amount of damage or loss. The insurer's liability cannot exceed the insured's estimated value of the vehicle (specified in the policy) or the value of the vehicle at the time of loss whichever is less

7.7. PERSONAL ACCIDENT COVER

There is provision in the MV Act for Compulsory Personal Accident Cover for Owner and Driver of two wheelers, cars and commercial vehicles. It covers Death, Permanent Total Disability and Permanent Partial Disability only.

7.8. UNDERWRITING

There are several factors influence underwriting such as type of vehicle e.g. imported cars, sports cars, use of the vehicle, geographical area etc. But the most important is the age of the vehicle.

7.9. NO CLAIM BONUS

A discount in the premium is allowed at renewal if there is no claim during the policy year for all vehicles.

7.10. CLAIMS (OWN DAMAGE)

On receipt of notice of loss, the policy records are checked to see that the policy is in force and that it covers the vehicle involved. The loss is entered in the Claims Register and a claim form is issued to the insured for completion and return. The insured is required to submit a detailed estimate of repairs from any repairer of his choice. Generally, these repairs are acceptable to the insurers but they at times ask the insured to obtain repair estimate from another repairer, if they have reason to believe that the competence, moral hazard or business integrity of the repairer first chosen is not satisfactory.

¹⁰ Policy conditions of United India insurance company Ltd



7.11. THIRD PARTY CLAIMS

Section 165 of the Motor Vehicles Act 1988, empowers the State Governments to set up Motor Accident Claims Tribunals (MACT) for adjudicating upon third party claims. When a tribunal has been set up for an area, no civil court has any jurisdiction to entertain any claim falling under the tribunal's jurisdiction. The aggrieved party has to move the tribunal within a period of six months from the date of accident. While making the award, the tribunal has to specify the amount payable by the insurer.

7.12. COMPROMISE SETTLEMENTS

Where there is clear liability under the policy, claims are negotiated with the third party to accept a compromise settlement, which if accepted by the third party, is registered with the MACT and its consent obtained. The cheque is deposited with MACT for disbursement to the rightful beneficiaries.

7.13. LOK ADALATS

Pending cases with the MACT where the liability under the policy is not in doubt are placed before the Lok Adalat or Lok Nyayalaya, for a voluntary and amicable settlement between the parties. A copy of decision in the prescribed memo and the cheque is deposited with MACT. Lok Adalat sessions are organized regularly by the insurance companies in liaison with the Legal Aid Board of each State and MACT to effect amicable settlement of third party claims.

7.14. NO FAULT LIABILITY

As per MV Act, these claims should be made good by depositing the appropriate amount with the MACT after obtaining death certificate, medical certificate and police report before defending the case in MACT.

7.15. AUDIT CHECKS TO BE EXERCISED

The Internal Auditor should exercise such checks that his audit would assure fairness of the Motor Insurance Administration by the Insurer. The Internal Auditor should be well versed with the Indian Motor Vehicles Act 1938 as amended from time because the compensation for accidents were regulated by the MV Act only.

- i. The Internal Auditor should check the reasonableness of the tie-ups by the Insurer with the dealers of vehicles to market the products



- ii. The Internal Auditor should check the reasonableness of the commission payable to the dealers of vehicles
- iii. Check the agreements entered with the vehicle manufacturer to determine the price of various spare parts for replacement
- iv. Internal Auditor should check the reasonableness of the discounts allowed on the file and use rates of premium.
- v. Internal Auditor should check the reasonableness of the premium charged and discounts allowed on the premium for special type of vehicles.
- vi. Internal Auditor should check that for Third Party Coverage, appropriate premium was charged as prescribed by the IRDA for different kinds of vehicles.
- vii. Internal Auditor should check all the inward ported policies and check appropriate premium was received.
- viii. Internal Auditor should ensure that no commission was paid for porting policies.
- ix. Though the policies were of standard in nature, the Internal Auditor should check whether all the inclusions and exclusions were clearly spelt out in the policy documents.
- x. In case of additional cover, the Internal Auditor should check whether extra premium was collected for these covers.

While checking the own damage claims, the following aspects are to be kept in mind by the Internal Auditor

- xi. The Internal Auditor should ensure that proper notice was received from the Insured about the accident
- xii. Internal Auditor should ensure that for the claims received, the policy was in force on the occurrence day
- xiii. The Internal Auditor should check the claims register maintained to ensure that all the claims were entered into and claims form was issued.
- xiv. Internal Auditor should check whether the Independent Automobile Assessor was appointed for major claims to assess the loss
- xv. In case of minor claims, the Internal Auditor should check whether the claims were inspected at least by the officers of the Insured to assess the loss.



- xvi. The Internal Auditor should examine the survey reports to ensure the reasonableness of the claims settlement.
- xvii. The Internal Auditor should ensure that all the required documents were received from the insured before settlement of claims.
- xviii. In case of total loss claim cases, the Internal Auditor should check the reasonableness of the payment of claims and if necessary the salvage was sold or suitable rebate on the settlement was made.
- xix. For all the claims for theft cases the Internal Auditor should ensure that proper police certificate for non-traceable was received along with other documents before settlement.
- xx. The Internal Auditor in checking the claims to ensure whether the exclusions as per policy conditions were properly dealt with.

While checking the settlement of TP claims, the Internal Auditor should ensure the following.

- xxi. The Internal Auditor should check whether proper notices were received for the TP claims.
- xxii. The Internal Auditor should check on the admissibility of the TP claims i.e. that the claims were registered with the tribunal within 6 months of the accident and whether the policy was in force on the date of accident.
- xxiii. The Internal Auditor should check the defence of the Insurer with the Motor Accident Claims Tribunal (MACT) by appointing lawyers etc. in time
- xxiv. The Internal Auditor should ensure the reasonableness in acceptance of the award and payment of claims to the affected persons.
- xxv. The Internal Auditor should also check whether proper TDS was made from the interest payments along with the claim order



CHAPTER 8

MARINE INSURANCE

8.1 HISTORY OF MARINE INSURANCE¹¹

Marine cargo insurance is as old as marine trade and has existed in various forms dating back to 3000 BC. Early merchants trading on China's rivers practiced a form of loss control by deliberately spreading a given cargo among several vessels, thereby reducing the potential loss. It is in the ancient civilization of Babylon, however, that we find the earliest record of insurance in the form of "bottomry." The Code of Hammurabi (c. 2100 BC) sets bottomry (the advance of money on the security of a vessel to protect against the loss of the cargo by marine perils) at 20 percent. Traders, whose cargoes were advanced by merchants, were thus protected from debt in the event that the cargo was lost. This practice continued throughout the Mediterranean region and was further emphasized in an edict by the Roman Emperor Justinian, who restricted the interest money advanced to bottomry to 12 percent. The oldest marine policy known to have been issued was on a vessel named Santa Clara, and the oldest policy document in existence was dated April 24, 1384, covering four bales of textiles on a journey from Pisa to Savona. The Lombards brought these basic concepts of marine insurance to northern Europe and England in the 13th Century. By the 17th Century, London, with the emergence of the Lloyd's of London Association, had developed into a leading centre for marine insurance. Today, Lloyd's of London is still acknowledged as the largest meeting place for underwriters and shippers to transact marine insurance business

8.2. MEANING OF MARINE INSURANCE

A contract of marine insurance is an agreement whereby the insurer undertakes to indemnify the insured, in the manner and to the extent thereby agreed, against transit losses, that is to say losses incidental to transit. A contract of marine insurance may by its express terms or by usage of trade be extended so as to protect the insured against losses on inland waters or any land risk which may be incidental to any sea voyage. In simple words the marine insurance includes

- Cargo insurance which provides insurance cover in respect of loss of or damage to goods during transit by rail, road, sea or air.

¹¹ VAZZANO LIMITED WEB PAGES-HISTORY OF MARINE INSURANCE.



Thus cargo insurance concerns the following

export and import shipments by ocean-going vessels of all types,
coastal shipments by steamers, sailing vessels, mechanized boats,
etc.,

shipments by inland vessels or country craft, and

Consignments by rail, road, or air and articles sent by post.

- Hull insurance which is concerned with the insurance of ships, yatches, boats, tugs, or any kind of water going vessel., (including hull, machinery, etc.).

8.3. SPECIAL FEATURES OF MARINE INSURANCE

Marine insurance plays an important role in domestic as well as in international trade. Most contracts of sale require that the goods must be covered, either by the seller or the buyer, against loss or damage. A contract of sale involves mainly a seller and a buyer, apart from other associated parties like carriers, banks, clearing agents, etc. The main features are

- i. Offer & Acceptance:
- ii. Payment of premium:
- iii. Contract of Indemnity:.
- iv. Utmost good faith:
- v. Insurable Interest:
- vi. Contribution
- vii. **Period of marine Insurance:** The period of insurance in the policy is for the normal time taken for a particular transit. Generally the period of open marine insurance will not exceed one year. It can also be issued for the single transit and for specific period but not for more than a year.
- viii. **Deliberate Act Claims and**
- ix. **Statues related:-**The following statues were involved in the Marine Insurance.
 - Marine insurance act
 - Carriage of goods by sea act
 - Carriage by air act



- Indian railway act
- Carriers act
- Port trusts act
- Post office guide
- Customs act
- Inland post rules
- Foreign post rules
- Exchange control regulations
- Containerised exportation of goods rules

8.4. PRACTICE IN INTERNATIONAL TRADE

The normal practice in export /import trade is for the exporter to ask the importer to open a letter of credit with a bank in favour of the exporter. As and when the goods are ready for shipment by the exporter, he hands over the documents of title to the bank and gets the bill of exchange drawn by him on the importer, discounted with the bank. In this process, the goods which are the subject of the sale are considered by the bank as physical security against the monies advanced by it to the exporter. A further security by way of an insurance policy is also required by the bank to protect its interests in the event of the goods suffering loss or damage in transit, in which case the importer may not make the payment. The terms and conditions of insurance are specified in the letter of credit. For export/import policies, the-Institute Cargo Clauses (I.C.C.) are used. These clauses are drafted by the Institute of London Underwriters (ILU) and are used by insurance companies in a majority of countries including India.

8.5. TYPES OF MARINE INSURANCE

8.5.1 Special Declaration Policy

This is a form of floating policy issued to clients whose annual estimated dispatches (i.e. turnover) by rail / road / inland waterways exceed Rs 2 crores. Declaration of dispatches shall be made at periodical intervals and premium is adjusted on expiry of the policy based on the total declared amount. When the policy is issued sum insured should be based on previous year's turnover or in case of fresh proposals, on a fair estimate of annual



dispatches. A discount in the rates of premium based on turnover amount on a slab basis and loss ratio is applicable.

8.5.2 Special Storage Risks Insurance

This insurance is granted in conjunction with an open policy or a special declaration policy. The purpose of this policy is to cover goods lying at the Railway premises or carrier's godowns after termination of transit cover under open or special declaration policies but pending clearance by the consignees. The cover terminates when delivery is taken by the consignee or payment is received by the consignor, whichever is earlier.

8.5.3 Annual Policy

This policy, issued for 12 months, covers goods belonging to the insured, which are not under contract of sale, and which are in transit by rail / road from specified depots / processing units to other specified depots / processing units.

8.5.4 "Duty" Insurance

Cargo imported into India is subject to payment of Customs Duty, as per the Customs Act. This duty can be included in the value of the cargo insured under a Marine Cargo Policy, or a separate policy can be issued in which case the Duty Insurance Clause is incorporated in the policy. Warranty provides that the claim under the Duty Policy would be payable only if the claim under the cargo policy is payable.

8.5.5 "Increased Value" Insurance

Insurance may be 'goods at destination port' on the date of landing if it is higher than the CIF and Duty value of the cargo.

8.6. RISK COVERAGE

For export/import policies, the-Institute Cargo Clauses (I.C.C.) are used. These clauses are drafted by the Institute of London Underwriters (ILU) and are used by insurance companies in a majority of countries including India. The important exclusions for both inland and international marine policies are

- i. Loss caused by wilful misconduct of the insured.
- ii. Ordinary leakage, ordinary loss in weight or volume or ordinary wear and tear. These are normal 'trade' losses which are inevitable and not accidental in nature.



- iii. Loss caused by ‘inherent vice’ or nature of the subject matter. For example, perishable commodities like fruits, vegetables, etc. may deteriorate without any ‘accidental cause’. This is known as ‘inherent vice’.
- iv. Loss caused by delay, even though the delay be caused by an insured risk.
- v. Deliberate damage by the wrongful act of any person. This is called ‘malicious damage’ and can be covered at extra premium the risk is automatically covered.
- vi. Loss arising from insolvency or financial default of owners, operators, etc. of the vessel. Many ship owners, especially tramp vessel owners, fail to perform the voyage due to financial troubles with consequent loss or damage to cargo. This is not an accidental loss. The insured has to be cautious in selecting the vessel for shipment.
- vii. Loss or damage due to inadequate packing.
- viii. War and kindred perils. These can be covered on payment of extra premium.
- ix. Strikes, riots, lock-out, civil commotions and terrorism (SRCC) can be covered on payment of extra premium.

8.7. PROCEDURE OF CLAIM SETTLEMENT:

As the risk coverage are different for import/export and inland (with in India) consignments, the procedure of claim settlement is explained separately.



8.7.1 For Import/Export consignments Claims Documents

Claims under marine policies have to be supported by certain documents which vary according to the type of loss as also the circumstances of the claim and the mode of carriage. The documents required for any claim are as under:

- **Intimation to the Insurance Company:**
- **Policy:**
- **Bill of Lading:**
- **Invoice:**
- **Survey Report:**
- **Debit Note:**
- **Copy of Protest:**
- **Letter of Subrogation:**
- **Bill of entry:**

8.7.2 Inland Transit Claims (Rail / Road)

With regard to claims relating to inland transit, the documents required to be submitted to the insurers in support of the claim are:

- Original policy or certificate of insurance duly endorsed.
- Invoice, in original, or copy thereof.
- Certificate of loss or damage (original) issued by carriers.
- If goods are totally lost or not delivered, the original railway receipt and / or non-delivery certificate / consignment note.
- Copy of the claim lodged against the railways / road carriers (By Regd. A.D.)
- Letter of Subrogation, duly stamped.
- Special Power of Attorney duly stamped. (Railway Claims).
- Letter of Authority addressed to the railway authorities signed by the consignors in favour of consignees whenever loss is claimed by consignees.
- Letter of Authority addressed to the railway authorities signed by the consignors in favour of the insurers



Guidance Note on Internal Audit of General Insurance Companies

- Letter of Undertaking from the claimant in case of non-delivery of consignment.
- Claim Bill, after adjusting salvage value proposed.



8.8 INTERNAL AUDIT CHECKS TO BE EXERCISED.

The Internal Auditor has to check the following items to ensure the fairness of the management of Marine Insurance Portfolio by the Insurer

8.8.1 UNDERWRITING:

- (i) The Internal Auditor should check whether the Insurer had obtained all the details of vessels for insurance.
- (ii) The Internal Auditor should check whether the insured had furnished all the required details about the cargo like description of goods to be transported, type of packing, voyage and mode of transportation, place and destination of voyage and risk cover of the goods to be covered
- (iii) Similarly, the Internal Auditor should check the details of whether the underwriting is for a particular voyage or for floater.
- (iv) For each type, (specific or floater) of policy, whether the applicable premium was quoted and received.
- (v) The Internal Auditor should check that in each floater policy, the per bottom limit or limit per voyage was fixed and agreed to
- (vi) The Internal Auditor should ensure whether the Insurer had taken into account the risk factors associated with the journey and cargo while fixing the premium.
- (vii) The Internal Auditor should ensure that the risk cover should commence only on receipt of premium
- (viii) The Internal Auditor should check whether the premium received is covered the customs duty and exchange rate variation portion also
- (ix) The Internal Auditor should check extra premium was charged for
 - War and kindred perils.
 - Strikes, riots, lock-out, civil commotions and terrorism (SRCC).
- (x) The Internal Auditor should ensure whether the Insurer had obtained the details from the owners of marine vessels (ship, steamer, tugs, boats etc.,) before underwriting a hull policy like age of the vessel, its sea/water worthiness etc.,
- (xi) The Internal Auditor should ensure that the Insurer had taken into consideration the age and water worthiness, additions / deletion



/replacement to the equipment in the vessel etc., while fixing premium to the vessels under written.

8.8.2 POLICY TERMS & CONDITIONS & ADMINISTRATION

- (xii) The Internal Auditor should check whether the cover notes issued were properly replaced by issue of Policy on receipt of all the required particulars to be incorporated in the policy from the insured
- (xiii) The Internal Auditor should ensure that no claims to be settled based on cover note since most of the details required was not incorporated in the policy which is an enforceable contract document.
- (xiv) The Internal Auditor should check whether the risk inclusion and exclusions items were clearly spelt in the policies
- (xv) The Internal Auditor should check in case of floater (open) policies, that different terms and conditions were prescribed for different kind of cargo and voyage
- (xvi) The Internal Auditor should check whether the declarations were made according to the declaration clause by the insured.
- (xvii) The Internal Auditor should check the special declaration policy and the declarations which should not exceed the limits prescribed in the policy
- (xviii) If exceeded, check whether adequate add on premium was collected.
- (xix) The Internal Auditor should check whether the marine policy also includes storage clause for storing the goods in railway yards/ godowns or transporters' warehouse for transshipment of goods

8.8.3 SETTLEMENT OF CLAIMS

- (xx) The Internal Auditor should check the date and time of intimation of loss by the insured for admission of claims
- (xxi) The Internal Auditor should check whether the original policy was surrendered along with the claim application to check the title of the goods
- (xxii) The Internal Auditor should check whether all the required documents (such as Bill of Lading, invoice, shipping bill, survey report, debit note, copy of protest, letter of subrogation bill of entry etc.) were submitted with the claims application
- (xxiii) The Internal Auditor should check the documentary evidence produced by the insured about the efforts taken by him to prevent or



- reduce the loss due to perils and the reasonableness of the cost incurred for such prevention or minimisation of loss
- (xxiv) The Internal Auditor should check whether the average clause was enforced while settling the claims
 - (xxv) The Internal Auditor should check reasonableness on the loss assessed and salvages were taken into account
 - (xxvi) The Internal Auditor should check whether the claims were paid subject to exclusion clause which were drafted in accordance with Institute Cargo Clause as far as Export/Import of cargo.
 - (xxvii) While checking the inland transit claims the Internal Auditor should check the required documents
 - (xxviii) While checking inland transit claims, the Internal Auditor should ensure that the claims were made subject to the exclusions clause.
 - (xxix) The Internal Auditor should check that the claims were admitted subject to Warehouse to Warehouse clause (The time limit of 60 days is prescribed to ensure early clearance of goods by the consignee. Insurers extend the time limit, at extra premium, in genuine circumstances causing delay in clearance.)
 - (xxx) The Internal Auditor should ensure that the claims for losses be honoured on verifying the Total Loss, particular average, general average, salvage loss, sue and labour charges and survey charges.
 - (xxxix) The Internal Auditor should also verify whether the claims were made with the carriers by enforcing the subrogation clause.
 - (xxxii) While checking the claims on hull, the Internal Auditor should check whether the valuation was properly made and negotiations were made for the salvage value and salvage was disposed by the insurer or agreed by owner to reduce the claim to the extent of negotiated value.



CHAPTER 9

MISCELLANEOUS INSURANCE POLICIES

9.1 All insurance products which are not forming part of Fire & Engineering and Marine Insurance are grouped under Miscellaneous Insurance products. The Motor and Health insurance products also forming part of Miscellaneous Insurance products but since they contribute more than 60 per cent of the General Insurance Business, they were given separate coverage in the Guidance Note for Internal Audit of General Insurance Companies. The other products are Business policies, package policies, Rural policies, Social and Travel Policies. Under business policies, baggage policies, Bankers indemnity policy, compact policy, Directors or Officers liability policies, fidelity guarantee, travel policy, film production, gun insurance, household policy shop keepers policy accident polices etc. The premium income on these products contribute less than one per cent individually and collectively less than 10 per cent of the business. Due to tariff free regime in this sector, the Insurers are at liberty to design their own products and file and use the same. The audit of these segments are like any other branch –fire, health, motor, marine etc. The checklist of other products like Fire, Marine etc., can be used for detailed check and therefore only a brief check list is given below.

- i. The Internal Auditor should well versed with the salient features of each type of product and design his own checklist for these products.
- ii. The Internal Auditor should check the premium rates fixation-whether supported by actuarial report and approval by the Board
- iii. The Internal Auditor should check whether the products were approved by IRDA or atleast not objected to by IRDA
- iv. The Internal Auditor should ensure that all the policies were issued, risks were underwritten after receipt of full premium.
- v. The Internal Auditor should check the commission paid to the agents/brokers which should not exceed the limits prescribed by IRDA
- vi. The Internal Auditor should check on the claims as specified in the respective product guidelines like-receipt of intimation of loss, loss assessors report, police FIR, claim form surrender of original policy, subrogation authorisation etc. before acceptance of claim.
- vii. The Internal Auditor should check the repudiation/rejection of claims and see that the reasons were documented for such repudiation/rejection by the Insurer.



CHAPTER 10

REINSURANCE

10.1 INTRODUCTION The arrangement whereby one insurer obtains insurance from another insurer on risks assumed by the former is called Reinsurance. The former is called ceding company and the latter is known as Reinsurer. The reinsurance business is regulated as per the IRDA (Reinsurance) Regulations as amended on 30TH November 2018 which is effective from 1ST January 2019

10.2 DEFINITIONS

- **Board** means Board of Directors for (a) Indian Insurance Companies other than IIOs writing direct insurance business (b) Indian Re-insurers and (c) Service companies of Lloyds India, Executive committee of Foreign Reinsurance Branches (FRBs) and International Financial Service Centre (IFSC) Insurance Offices duly authorised by the Board of Directors of their applicant Companies and Head of Insurance Division or Department of exempted Insurers.
- **Cedant** means and Indian Insurer who underwrites direct business and contractually transfers (cedes) a portion of risk
- **Cession** means part of the risk passed on to the reinsurer by the Cedant
- **Cross Border Reinsurer (CBR)** means a foreign reinsurer including Lloyd's syndicates whose place of business is established outside India which are supervised by the Regulator of the Home country of the CBR
- **Facultative Reinsurance** means reinsurance for a single risk or a defined package of risks where neither the Cedant is obliged to submit these risks to the reinsurer nor the reinsurer is obliged to provide reinsurance coverage
- **Foreign Reinsurer Branch (FRB)** means a branch of the Foreign company engaged in reinsurance business who has been granted certificate of registration by the IRDA
- **Fronting** means a process of risk transferring in which Indian Insurer cedes or retro-cedes all or most of the assumed risks to a Reinsurer
- **Insurance Segment** means and include the following
 - A Fire (Other than Oil & Energy)
 - B Marine Hull
 - C Marine Cargo



- D Engineering
- E Aviation
- F Motor
- G Health (including Personal Accident & Travel)
- H Crop
- I Trade Credit
- J Oil & Energy
- K Liability
- L Miscellaneous
- M Any other segment as notified by IRDA

- **International Financial Service Centre (IFSC)** Insurance Office (IIO) means a branch office of an Insurer or Reinsurer domiciled in India or outside which has been granted Certificate by IRDA to set up office in IFSC SEZ to transact insurance or reinsurance business
- **Reinsurance contract** means a commercial agreement between Cedant and Reinsurer which is legally binding.
- **Retention** means the portion of the risk which an Indian Insurer assumes for its own account
- **Retrocession** means a reinsurance transaction whereby a part of the assumed reinsurance risk was further ceded to another Indian Reinsurer or CBR
- **Treaty** means a reinsurance contract between a Cedant and a reinsurer or between a reinsurer and retrocessionaire usually for one year which stipulates the technical and financial terms applicable to the reinsurance of defined class or segment of business.

10.3 Types of Reinsurance Contracts

10.3.1 Facultative Re-insurance-whereby separate contracts are entered into for each particular risk. This type of reinsurance is used either when risks are not covered under Treaty or the ceding company did not want to cover the risk under Treaty. It is used mainly under the following circumstances.

- i. The risk is not covered by treaty
- ii. The insurer doesn't want his reinsurance treaties overburdened with particularly heavy and abnormal risks.
- iii. The nature of risk is such that technical guidance or consultation is needed with the re-insurer at every stage of acceptance of the



risk as in case of atomic installations, oils and rigs for oil drilling etc.

10.3.2 Treaty Re-insurance:-Where a treaty is entered into between a ceding insurance company and reinsurer for reinsurance of particular risks covered under the treaty, it is called treaty reinsurance. Under this contract, it is obligatory for the re-insurer to accept all the risks with scope of the treaty and it is obligatory on the party of the ceding insurer to ced risks in accordance to the terms of treaty. In case of treaty reinsurance contracts, the insurer usually prepares a statement of treaty reinsurance accounts on quarterly basis for reconciliation of claims lodged, claims settled and claims outstanding, etc.

An Indian insurance company may also act as re-insurer. Then when he reinsures they are called inward reinsurance contracts.

10.4 . ANNUAL RE-INSURANCE PROGRAM

Each General Insurance company has to prepare its annual re-insurance program or plan (for both inward and outward reinsurance) in which it would indicate how much value of risk it would retain (called retention) and how much it would cede. This Annual Reinsurance Program should be approved by the Board of Directors. Some Insures would also have a second retention amount it can retain after first cede. Similarly, in the program it would be indicated that for which kind of risk, who would be associated for Facultative reinsurance. For inward reinsurance it would indicate how much risk it can accept and reinsure.

10.5. INTERNAL AUDIT CHECKS TO BE EXERCISED

The Internal Auditor Should check whether the insurer follows strictly the IRDA (Reinsurance) Regulations 2018 issued on 30 November 2018 which is effective from January 2019 onwards. The Internal Auditor (IA) should check the following areas while doing the audit of reinsurance program of an Indian Insurance company

10.5.1 INTERNAL CONTROL SYSTEM

It is the duty of the Internal Auditor to check the Internal Control System prevalent in the re-insurance department. He should check whether the Annual Re-Insurance Program is consistent with the size of the company.

- i. The Internal Auditor (IA) should check whether adequate solvency margins are maintained to accept the re-insurance contracts



- ii. The Internal Auditor should obtain evidences as to effectiveness of re-insurance inwards and outwards
- iii. The Internal Auditor should check whether the agreements/contracts are as per the guidelines prescribed in the Insurance Act or by IRDA.

10.5.2 PROGRAM OBJECTIVES

The Internal Auditor (IA) should check whether the annual reinsurance program is drawn in accordance with the following objectives and approved by the Board of Directors to enable a simplified administrations

- iv. Maximise retention within the country subject to proper and adequate diversification of risks.
- v. Develop adequate capability and financial capacity and
- vi. Secure best possible reinsurance coverage required to protect the interest of the policy holder and (retro) cedents at a reasonable cause.

10.5.3 RETENTION POLICY

- vii. The Internal Auditor should check whether as per the objective of the Reinsurance Program, every insurer should maintain maximum possible retention commensurate with the financial strength of the company quality of risk and volume of business.
- viii. The Insurer should formulate a suitable segment wise retention policy. The Internal Auditor should ensure that the reinsurance arrangements are not fronting.
- ix. The Internal Auditor should also check that every Indian Reinsurer should retain a minimum retention 50 per cent of the Indian business.

10.5.4 REINSURANCE ARRANGEMENTS:-

- x. The Internal Auditor should verify whether the reinsurance program and policies were taken into consideration of factors like Mechanism of Reinsurance, Business mix, overall risk appetite, type and extent of requirement of reinsurance, level of risk concentration and retention level.
- xi. The Internal Auditor should ensure that segment-wise retention limits were fixed, and examine the reasons for variation over previous year.



- xii. The Internal Auditor should check the structure of Reinsurance Program with details of proportional arrangements for each insurance segment including treaty capacity, retention limits, estimated premium and reinsurance commission.
- xiii. The Internal Auditor should check Non-proportional arrangements for each insurance segment, estimated gross and net premium, commission structure, cover limits, deductible, excess of loss premium, reinstatement provisions etc.
- xiv. It is the duty of the Internal Auditor to check the cost of reinsurance of each segment and their profitability.
- xv. The Internal Auditor should verify the inter-company Reinsurance arrangements with Indian insurers transacting direct insurance business.
- xvi. The Internal Auditor should verify whether all the records as prescribed by the IRDA with respect to Reinsurance Program were maintained with the required particulars and submitted to the IRDA in time.

10.5.5 CROSS BORDER REINSURANCE (CBR)

- xvii. The Internal Auditor should check whether the insurer had placed its Reinsurance with any CBR if the CBR satisfied the following conditions namely-
 - the CBR should be a registered Insurer or Reinsurer in its home country duly authorised by the Regulator of the Home country to transact Insurance or Reinsurance business for the past three continuous years.
 - the CBR is having a credit rating of atleast BBB from Standard & Poor credit rating agency or equivalent rating from any other world repute credit rating agency
 - the Home country of the CBR is having a double taxation treaty with India
 - the CBR is having the required solvency or capital adequacy as prescribed by the Regulator of the Home country during immediate past three years and
 - Past claim settlement history of the CBR



10.5.6 INWARD RE-INSURANCE CONTRACTS

- xviii.** The Internal Auditor has to examine whether the Indian Insurance Company doing reinsurance is having a well-defined underwriting policy as approved by the Board of Directors and filed with the IRDA.
- xix.** The Internal Auditor should examine the arrangements made with the Principal Insurer reinsurance business received, premium received and commission structure, event limits etc.,
- xx.** The Internal Auditor should examine the time of loss intimation. It should not be time-barred
- xxi.** The Internal Auditor should verify whether the claims were paid as per the contractual terms
- xxii.** The Internal Auditor should verify that the provisions made for all the claims were adequate.
- xxiii.** The Internal Auditor should verify the outstanding premium receipts and comment on that
- xxiv.** The Internal Auditor should verify the reconciliation of balances between the principal Insurer and the company.

10.5.7 OUTWARD RE-INSURANCE PLACEMENT

- xxv.** The Internal Auditor should examine the arrangements with atleast Indian registered Reinsurers who are doing re-insurance business for past three continuous years and four FRB re-insurers.
- xxvi.** The Internal Auditor should check whether the reinsurance wing/ department had received the copies of all the policies issued with specified upper limit for each kind of policy to place them in appropriate reinsurance program to spread the risk.
- xxvii.** The Cedant should have sought a credit rating of atleast A (-) by Standard & Poor Credit rating Agency or equivalent rating from any other international credit rating agency from IIOs, CBR and FRBs.
- xxviii.** The Internal Auditor should ensure appropriateness of the accounting treatment of the reinsurance business ceded, premium payable and payment of commission
- xxix.** The Internal Auditor should check whether the ceded reinsurance was as per the guidelines of the IRDA which prescribes the limits for re-insurance
- xxx.** The Internal Auditor should check whether the occurrence of loss were intimated in time
- xxxi.** The Internal Auditor should ensure the claims were received in time to enable the company to stake claim with reinsurers.



- xxxii.** The Internal Auditor should examine the position of the claims received and outstanding from the reinsurers and the action taken by the company
- xxxiii.** The Internal Auditor should examine the outstanding position from the reinsurers and comment on the adequacy of the follow up action taken to recover the dues.
- xxxiv.** The Internal Auditor should verify the reconciliation of balances between the reinsurer and the company.

10.5.8 COINSURANCE

When two or more insurance companies can join together and underwrite a high major risk is called coinsurance. Under coinsurance, there should be a leader and others are coinsurers. It's the duty of the leader, to collect premium render accounts to the co-insurers, share the premium and commissions. Also it is the duty of the leader to verify the claims when arise and honour the claim and collect the share of dues from other coinsurers.

10.5.9 LEADER IN COINSURANCE

- xxxv.** The Internal Auditor should examine the agreements entered by the lead Insures with co-insurer.
- xxxvi.** The Internal Auditor should examine whether there were any policy conditions prescribed by the co-insurers and the same was included. Analyse the impact on this.
- xxxvii.** The Internal Auditor should ensure appropriateness of the accounting treatment of the coinsurance business received, premium received and payment of commission.
- xxxviii.** The Internal Auditor should check whether appropriate commission was retained by the leader while transferring the share of premium to the co-insurer.
- xxxix.** The Internal Auditor should examine the time of loss intimation. The claim of loss should not be time-barred
- xl.** The Internal Auditor should verify whether the claims were paid as per the contractual terms and conditions of policy.
- xl.** The Internal Auditor should verify the adequacy of provisions made for all the claims
- xli.** The Internal Auditor should verify the effectiveness of recovering the co-insurer's share of claim.



- xlii. The Internal Auditor should verify the reconciliation of balances between the leader and co insurer.

10.5.10 MEMBERS IN CO-INSURERS

- xliii. The Internal Auditor should examine the arrangements with the lead insurer OR leader.
- xliv. The Internal Auditor should ensure appropriateness of the accounting treatment of the coinsurance business received, premium receivable and payment of commission
- xlv. The Internal Auditor should check whether the occurrence of loss were intimated in time by the leader.
- xlvi. The Internal Auditor should ensure the claims were paid in time to enable the company to pay claim to the leaders.
- xlvii. The Internal Auditor should examine the position of the claims received and outstanding from the leader and the action taken by the company
- xlviii. The Internal Auditor should examine the outstanding position from the leader and comment on the adequacy of the follow up action taken to recover the dues.
- xlix. The Internal Auditor should verify the reconciliation of balances between the leader and the company.



CHAPTER 11

THIRD PARTY ADMINISTRATORS UNDER HEALTH INSURANCE¹²

11.1 INTROUDCTION. Third party Administrators (TPAs) are intermediaries functioning under licence by IRDA under Health Insurance. These companies administer the health insurance policies of Indian Insurance Companies. They are having adequate knowledge in the fields of health and medical and helps for cashless facilities. They enter into agreement with hospitals to serve the policy holders. IRDA had prescribed a separate Regulations called IRDA (Third Party Administrators) Regulations 2016 coming with effect from 14 March 2016 to regulate the functioning of TPAs. The purpose of including these intermediaries into the Internal Audit Fold is that the Insurance Companies (Principal) have a right to audit these TPAs with respect to their administered policies and general internal control of these TPAs.

11.2 Definitions: Some of the definitions in Insurance sector applicable to these TPAs listed below.

- a. Health Service TPA means services mentioned in Regulation 3 of the IRDA (Third Party Administrators) Regulations 2016
- b. Cashless Facility means a facility extended by an Insurer to an Insured where the payment of the costs of treatment undergone by the Insured in accordance with the policy terms and conditions is directly made to the network provider by the Insurer to the extent of pre-authorisation.
- c. Health Service Agreement means an agreement prescribing the terms and conditions of services which may be rendered to the health insurance policy holders of any Insurer and may be entered into between TPA, Insurer and the Network provider or between any two among them.
- d. Network provider means hospital or health-care provider enlisted by an Insurer or TPA or jointly by them to provide medical services to an insured either on payment or by cashless facility.
- e. **Third Party Administrator (TPA)** means a company registered with the IRDA and engaged by an Insurer for a fee or remuneration

¹² IRDA (TPA) REGULATIONS ISSUED IN 2016



as may be mentioned in the agreement for providing health services as mentioned in the IRDA (TPA) Regulations.

11.3 INTERNAL AUDIT CHECKS TO BE EXERCISED-

The TPAs are intermediaries in the Insurance Sector. Their performance would be linked to the health insurance segment of an Insurer. Therefore, it is necessary for the Insurer that each and every TPA should have a robust internal control system and a good reporting system. To monitor these, a sound internal audit system at TPA level is necessary. Therefore, this chapter deals with the audit checks to be exercised at the TPAs. The Internal auditor should be well versed with the Regulations prescribed by IRDA and he should keep updated on the latest notifications and circulars issued by IRDA on the functioning of TPAs. He should exercise the following checks to ensure the functioning of the TPAs.

11.3.1 BASIC CHECKS

- i. The Internal Auditor should ensure that the TPA is having a valid licence from IRDA to function or if it is lapsed,
- ii. The TPA had appointed Chief Medical Officer and Chief Executive Officers and other Officers with prescribed qualifications and experience as per requirement of the Regulations.
- iii. The Internal Auditor to check whether the TPA had fulfilled the capital adequacy and working capital requirements as prescribed by IRDA from time to time.
- iv. The Internal Auditor should check whether the TPA is having in place necessary infrastructure to extend the health services as required in the policy conditions as both TPA and the Insurer are always liable to provide services as per the terms and conditions of Insurance Policies.

11.3.2 AGREEMENTS

- v. The Internal Auditor should check the agreements entered by the respective TPA with the Insurers as well as network service providers. HE should verify whether enough network service providers were appointed by the TPAs as per the agreement entered with the Insurer to render cashless treatments as well as on payment basis to the holder of health insurance policies.
- vi. The agreements with the Network service providers is normally valid for three/six/twelve months and as annexure to the agreement the rates/fees for each medical procedure adopted would be indicated.



The Internal Auditor should check that each speciality Network service provider had indicated rates for various treatment procedure which should be fixed for the agreement period.

- vii. The Internal Auditor should check whether there is any turnaround time envisaged for rendering various services as stipulated in the terms and conditions of insurance policies.
- viii. The agreements between the Insurers and TPA would indicate that the Insurers have right to access the data relating the policies entrusted with the TPA. The Internal Auditor should ensure that the TPA is maintaining the database according to the Insurer and policies.
- ix. The Internal Auditor should check that the TPA had received the copies of the policies from the Insurer in time to avoid delay in issue of cards for cashless treatments to the insured.
- x. The Internal Auditor should also check whether the TPA had issued all the cards correctly in time to the Insured for cashless treatments to avoid future litigations

11.3.3 SCRUTINY AND HANDLING OF CLAIMS

- xi. The Internal Auditor should check whether the TPA admit claims, authorise cashless facility and recommended only eligible claims for payment which should be in line with the policy conditions and detailed guidelines issued by the Insurer to the TPA
- xii. The Internal Auditor should check whether the TPA had settle the claims directly
- xiii. The Internal Auditor should check whether all the claims were recommended to settle within the time limit
- xiv. The Internal Auditor should verify the all or Sampled claims dockets which contain all the details of claims honoured and/or disallowed
- xv. The Internal Auditor should check whether the discounts allowed by the Network service providers were properly passed on to the policy holder/claimant.
- xvi. The Internal Auditor should check whether the TPA is serving the foreign travel policy holders
- xvii. If so check whether he had obtained all the relevant terms and conditions governing the policy and should serve only on specific authorisations of the foreign insurer.



- xviii. The Internal Auditor should check whether the TPA had obtained all approvals under various applicable laws before entering to provide such service to the foreign insurers.
- xix. The Internal Auditor should check whether all relevant details/returns were submitted by the TPA to the Insurers as well as to IRDA to avoid penal action
- xx. The Internal Auditor should check the grievance redressal system installed by the TPA and check the redressal mechanism

11.3.4 MAINTENANCE OF ACCOUNTS:-

- xxi. The Internal Auditor should ensure that the TPA is maintaining proper records, documents, evidence books of all transactions carried out by it on behalf of the insurer in terms of agreement with the Insurer.
- xxii. The Internal Auditor should ensure that the TPA fulfils the Minimum Business Requirement stipulated by IRDA to avoid loss of business
- xxiii. The Internal Auditor should check that the TPA is maintaining all the books of accounts as required under the provisions of Companies Act 2013
- xxiv. The Internal Auditor should verify whether the TPA and the Insurer have established electronic system for seamless flow of data for all claims and should follow the standards and protocols for capture of data as prescribed by IRDA from time to time.
- xxv. The Internal Auditor should verify whether the TPA had furnished the insurer and the IRDA the annual report and other returns as prescribed by IRDA.
- xxvi. The Internal Auditor should check whether the TPA had maintained all the data, relevant information on the claims and records and handed over to the respective Insurer on a quarterly basis in time and check whether the respective Insurer had acknowledged the receipt of the same.



CHAPTER 12

APPOINTMENT OF BROKER & AGENTS¹³

12.1 INTRODUCTION: The Insurance brokers and Agents are intermediaries in selling business on behalf of insurance companies. They will be paid commission for the business secured by them and the maximum rates are fixed by IRDA for different types of policies. The Brokers mainly corporate entities and the agents are individuals. Individual agents were sponsored by the insurance companies. They give training to agents. The agents have to qualify the examinations conducted by IRDA and issues Licence to these intermediaries. The agents were regulated based on the Insurance Regulatory and Development Authority (Licensing of Insurance Agents) Regulations, 2000. The brokers were regulated by IRDAI (Insurance Brokers) Regulations 2002 and subsequent amendments issued on it. In this chapter we can see the areas the Internal Auditor has to check at the Insurance Company as well as if appointed at the office of the Brokers.

12.2 At Insurance Company

12.2.1 The Internal Auditor has to check the following areas in respect of agents

- i. The Internal Auditor should check whether the agents selected for training have requisite educational qualifications and trained before sponsoring them to IRDA
- ii. On receipt of IRDA approval, the Agents can function on behalf of the sponsored Insurer only. The Internal Auditor has to check whether the Agents Licence were in force when they secure business
- iii. The Internal Auditor should check what is the system established by the Insurer that the agents are not securing business for other insurers except for standalone health insurance companies.
- iv. The Internal Auditor should check the commission paid should match the policies sold through them
- v. The Internal Auditor should check that there is no excess commission paid than prescribed by the IRDA for different policies.
- vi. The Internal Auditor should check whether TDS was deducted on the commission payments or declarations from the agents for non-deduction of taxes.
- vii. The Internal Auditor should check the NOC given for migration applications of the agents and there should not be any dues from them.

12.2.2 The Brokers can function to secure direct business from the clients or for reinsurance from other insurers. Those who are securing direct business is

¹³ As per IRDA Regulations issued from time to time.



called direct brokers and those doing reinsurance is called reinsurance brokers. If the same broker is doing both direct and reinsurance brokerage, he would be known as composite broker. As per the IRDA regulations, the Broker has to maintain capital adequacy and prescribed books of accounts and furnish half yearly return. There is a code of conduct also for these brokers as prescribed by the IRDA.

The Internal Auditor has to check the following areas in respect of Brokers

- viii. The Internal Auditor has to check whether the Broker had furnished all the required details to underwrite a risk
- ix. The Internal Auditor should check whether the quotations for premiums were given to the brokers has the approval of competent authorities
- x. The Internal Auditor has to check whether the brokerage quoted is not more than the rates approved by IRDA for different policies.
- xi. When a broker negotiates on behalf of another insurer in case of reinsurance, he should have necessary authorisation from the principal. The Internal Auditor has to check whether the insurer had authorised any brokers to secure reinsurance business and check whether the broker of another insurer has proper authority
- xii. The Internal Auditor has to check whether the brokers' licence was in force at the time of securing business
- xiii. The Internal Auditor will have to check the commission payments to the brokers.
- xiv. The Internal Auditor should check whether the insurer had complies with all tax provisions while doing business with the broker.(TDS, GST etc)

12.3 AT The BROKER'S OFFICE

This guidelines were prepared taking into account the Insurance Brokers who have wide capital base and required under Companies Act 2013 to appoint Internal Auditors. The IRDA Regulation with respect to Appointment of Brokers insists that the Brokers have to file their audited annual financial statements with them (whether partnership or company). Hence these brokers have to comply with appointment of statutory auditors. The Corporate Agents like Banks have their own set up of internal audit to comply. Taking these into account the following guidelines were suggested in the audit of Insurance Brokers. The Internal Auditor has to check



12.3.1 Statutory Compliance

- i. Whether the Broker is having a valid licence to function and renewed timely
- ii. Whether they were penalised by IRDA for any non-compliance
- iii. Whether the principal officer had requisite educational qualification and experience in the field of Insurance as specified by IRDA.
- iv. In case of change in the principal officer, whether he possess the required qualification and experience
- v. Whether they have adequate capital adequacy as prescribed by IRDA
- vi. Whether they had filed the required returns with the IRDA
- vii. Whether the broker had not violated any code of conduct prescribed by IRDA
- viii. Whether they had complied with other laws like IT, GST, Labour laws etc., by filing the required returns

12.3.2 Business:

- ix. Whether the broker is having adequate knowledge about the business activities of the client he represents
- x. Whether he had collected all the material facts about the insured to negotiate premium with the insurance companies
- xi. Whether he got quotes for premium from Insurance companies which are reasonable to both his clients and Insurer.
- xii. Whether he is keeping own funds and clients funds separately and maintain accounts accordingly.
- xiii. In case of reinsurance, whether the broker had adequate knowledge about different reinsurance markets and risk retention philosophy of the insurer
- xiv. Whether maintaining a database of available reinsurance markets, including solvency ratings of individual reinsurers;
- xv. Whether adequate methodology created in selecting and recommending a reinsurer or a group of reinsurers;
- xvi. Whether acting promptly on instructions from a client and providing it written acknowledgements and progress reports;
- xvii. Whether collecting and remitting premiums and claims within such time as agreed upon;
- xviii. Whether maintaining proper records of claims; and
- xix. Whether exercising due care and diligence at the time of selection of reinsurers and international insurance brokers having regard to their respective security rating and establishing respective responsibilities at the time of engaging their services.



Guidance Note on Internal Audit of General Insurance Companies

- xx. Whether the broker is having a professional indemnity insurance to compensate for any error on the part of the employees or officers
- xxi. Whether maintain proper books of accounts and file the financial statements with IRDA and half yearly unaudited returns.
- xxii. Whether the Broker is having adequate internal control system in the office as required by IRDA.



CHAPTER 13

AUDIT OF FINANCIAL STATEMENTS

13.1 INTRODUCTION The annual accounts of insurance companies (both Life and Non-Life insurance) should be prepared based on the format prescribed as per The Insurance Regulatory and Development Authority (Preparation of Financial Statements And Auditor's Report Of Insurance Companies) Regulations, 2002 notified On 30 March 2002.. While preparing the Annual Accounts, the insurance companies should take into account the following Acts, Rules and Regulations and Standards.

- Insurance Act 1938
- IRDA Act 1999
- IRDA (Preparation of Financial Statements and Auditors' Report of Insurance Companies) Regulation 2002
- Companies Act 2013
- Ind AS as notified by GoI and
- Generally Accepted Accounting Principles followed in India

There is not much scope for Internal Auditors in check of Financial Statements as it is the duty of the Statutory Auditor to certify the Annual Financial Statements. However, in some companies, the Internal Auditor pre-checks these statements (if the terms of reference indicate) before submission to the Statutory Auditors. While preparing the annual financial statements, the instructions issued in IRDA Regulations to be strictly followed on the accounting and provisioning. The following are some of the salient features of the Accounts of an Insurance Company

- i. The cash flow statement is on Direct method and not as per Ind AS 7
- ii. The Ind AS on Investments will not apply
- iii. The Segment report should be prepared irrespective of listing requirements.

Hence taking that into account the above said factors the following check list is suggested. Even the Statutory Auditors of an Insurer can use this to certify the accounts.

13.2 CHECKLIST FOR AUDIT OF ANNUAL FINANCIAL STATEMENTS

The Internal Auditor should exercise the following checks.



- i. The Internal Auditor should check whether preparation of Annual Financial Statements were in accordance with the format as prescribed by IRDA
- ii. The Internal Auditor should ensure that the Accounting Policies of the Insurer should be in accordance with IRDA regulations, Ind AS and GAAP
- iii. The Internal Auditor should examine the Changes in the Accounting policies and their effect in the Revenue Account, Profit and Loss Account and Balance Sheet
- iv. The Internal Auditor should ensure that the revenue accounts were prepared separately for Fire & Engineering, Marine and Miscellaneous Insurance Products as per Regulations.
- v. The Internal Auditor should ensure that there should not be any Premium outstanding but it should only be prepaid.
- vi. The Internal Auditor should ensure that suitable provisions were made for premium payable to co-insurers wherever the Insurer is a leader.
- vii. Similarly, it should be ensured suitable premium income was accounted as share receivable from the leader when the Insurer is a member of the co-insurance.
- viii. The Internal Auditor has to ensure that provisions were made for unexpired premium. This would be regulated according to the accounting policy of the Insurer. Normally 50 per cent of the premium earned in a year is made provision for subsequent year as unexpired premium.
- ix. Similarly Internal Auditor should ensure that previous year unexpired premium carried over should be accounted for in the current year.
- x. The Internal Auditor should check whether the investment income was apportioned segment-wise and between share-holders' and policy-holders' accounts.
- xi. The premium income should be net of re-insurance ceded in each segment.
- xii. The Internal Auditor should check whether all the final dividend declared but not received on equity investments held should be accounted for in the year of declaration.
- xiii. The Internal Auditor should check whether all the accrued interest on debt instruments were accounted on mercantile basis



- xiv. The Internal Auditor should ensure that no income was accounted on accrual basis for the non-performing investments
- xv. The Internal Auditor should ensure that the profit/loss on sale or redemption of investments were properly allocated between shareholders and policy holders and accounted.
- xvi. The Internal Auditor should check whether all the claims acknowledged but not paid were provided for in the accounts. Normally a cut-off date for receipt of the same would be fixed to account the same.
- xvii. The Internal Auditor should check that in respect of accidents occurred, no fault liability was provided if the quantum of claim was disputed.
- xviii. The Internal Auditor should check whether the co-insurer's share of claim was provided when claims were reported by the leader.
- xix. Similarly Internal Auditor should check whether the claim account was netted taking into account the share receivable from the members when the Insurer is a leader.
- xx. The Internal Auditor should check the commission receivable and payable in reinsurance were correctly accounted.
- xxi. The Internal Auditor should ensure that relevant expenditure in connection with claims like survey fees and expenses, legal expenses, charges payable to TPAs and Commission payable to Agents and Brokers were accounted in the respective revenue accounts.
- xxii. The Internal Auditor should check whether the claims receivable from the re-insurers were correctly accounted in the respective account.
- xxiii. Similarly Internal Auditor should ensure necessary provisions were made for claims reported by the principal insurer when the company is a re-insurer
- xxiv. Internal Auditor should check the transfer to share-holders fund, Catastrophe Reserve and Other specified reserves out of surplus from the respective revenue account
- xxv. Internal Auditor should ensure all the administrative expenditure should be accounted in Profit & Loss account.
- xxvi. The Internal Auditor should ensure the correctness of the income earned on share-holders funds should be accounted in the Profit & Loss Account.



- xxvii. The Internal Auditor should ensure that the permanent diminution in the value of investments were apportioned between share-holders and policy holders fund and accounted in the respective accounts.
- xxviii. The Internal Auditor should check the provisions for employee benefits like gratuity, leave salary, other post-retirement benefits were made based on actuarial basis.
- xxix. The Internal Auditor should check the provisions for depreciation, taxation and dividend
- xxx. The Internal Auditor should ensure that all the compliance as per Income-tax Act, GST, and other applicable Acts and provisions were made for TDS, GST etc.
- xxxi. The Internal Auditor should check the correctness of the Fair value change account. This is the reserve created on the value of increase in market value of investments over their acquisition cost.
- xxxii. The Internal Auditor should check the depreciation schedule of fixed assets
- xxxiii. The Internal Auditor should check the valuation of investments held for maturity. No non-life insurer is allowed to hold investments for speculation but can hold for trade.
- xxxiv. The Internal Auditor should check all the balance sheet items as done in any financial audit.
- xxxv. The Internal Auditor should check the correctness of prior period items
- xxxvi. The Internal Auditor should check all the contingent liabilities and ensure that no real liabilities were included to dress the Balance sheet.
- xxxvii. The Internal Auditor should check the adequacy of the notes forming part of the Accounts for disclosure.
- xxxviii. The Internal Auditor should check the correctness of the contents of the Management Report attached with the Annual Financial Statements.



CHAPTER 14

INVESTMENT FUNCTIONS

14.1 INTRODUCTION:

As per the requirement of Section 27 of The Insurance Act 1938, Every insurer should invest and at all times keep invested assets equivalent to not less than the sum of-(a) the amount of his liabilities to holders of life insurance policies in India on account of matured claims, and (b) the amount required to meet the liability on policies of life insurance maturing for payment in India. With the powers vested with IRDA to make rules, the Authority had from time to time had issued detailed guidelines and regulations and the latest regulation on investments was issued in August 2016 called Insurance Regulatory And Development Authority of India (Investments) Regulation 2016 (Regulations). The regulations stipulates the manner in which the funds after meeting the claims and expenditure should be invested and accounted. The regulations are applicable for all the life and non-life insurers. As per the Regulations, every Insurer has to appoint a concurrent/ internal auditor to verify the investment activities of the Insurer apart from other requirements.

As per the Regulations, every insurer should maintain a separate Investment Department which should oversee the investment activities of the Insurer.

14.2 DEFINITIONS

Some of the Definitions specific to the Investment functions of an Insurer as specified by the regulation is detailed below.

- a) **“Accretion of funds** means investment income, gains / loss on sale/redemption of existing investment and operating surplus
- b) **—Accounting Standard** (AS) means applicable Accounting Standard or Indian Accounting Standard (Ind AS) notified by the Central Government under the Companies Act, 2013 to the extent recognized under the IRDAI (Preparation of Financial Statements and Audit Report) Regulations, issued in that behalf.
- c) **—Assets** means assets in India, held by an Insurer in accordance with the provisions of Section 31 of the Act
- d) **—Financial Derivatives** means a derivative as defined under clause (ac) of section 2 of the Securities Contracts (Regulation) Act, 1956, and includes a contract which derives its value from interest rates of



underlying debt securities and such other derivative contracts as may be stipulated by the Authority, from time to time

- e) **–Group** means: two or more individuals, association of individuals, firms, trusts, trustees or bodies corporate, or any combination thereof, which exercises, or is established to be in a position to exercise, significant influence and / or control, directly or indirectly, over any associate as defined in Accounting Standard (AS), body corporate, firm or trust, or use of common brand names, Associated persons, as may be stipulated by the Authority, from time to time, by issuance of guidelines under these regulations

Explanation: Use of common brand names in conjunction with other parameters of significant influence and / or control, whether direct or indirect shall be reckoned for determination for inclusion as forming part of the group or otherwise.

- f) **–Infrastructure facility** means, the ‘Harmonized Master list of Infrastructure sub-sectors’ as per Gazette Notification Dt. 14th October, 2014 of Department of Economic Affairs, as amended from time to time, and shall also include the following:

- a road, including toll road, a bridge or a rail system;
- a highway project including other activities being an integral part of the highway project;
- a port, airport, inland waterway or inland port and associated railway sidings;
- a water supply project, irrigation project, water treatment system, sanitation and sewerage system or solid waste management system;
- telecommunication services whether basic or cellular, including radio paging, domestic satellite service (i.e., a satellite owned and operated by an Indian company for providing telecommunication service), network of trunking, broadband network and internet services;
- an industrial park or special economic zone;
- generation or generation and distribution of power (both conventional and non-conventional);



- transmission or distribution of power by laying a network of new transmission or distribution lines including telecom towers;
 - construction relating to projects involving agro-processing and supply of inputs to agriculture;
 - construction for preservation and storage of processed agro-products, perishable goods such as fruits, vegetables and flowers including testing facilities for quality;
 - construction of educational institutions and hospitals;
- g) –**Investment Assets** mean all investments made out of:
- in the case of General Insurer including an insurer carrying on business of re-insurance or health insurance or in case of a branch of a foreign company engaged in the business of re-insurance, funds maintained in its head office account, shareholders’ funds representing solvency margin and policyholders’ funds at their carrying value as shown in its balance sheet prepared in accordance with any regulations issued in that behalf for the time being in force, by IRDAI (Preparation of Financial Statements and Auditors’ Report of Insurance Companies) Regulations
- h) **Money Market Instruments**:-Money Market Instruments shall comprise of Short term investments with maturity not more than one year comprising of the following instruments:
- Certificate of deposit rated by a credit rating agency registered under SEBI (Credit Rating Agencies) Regulations, 1999
 - Commercial paper rated by a credit rating agency registered under SEBI (Credit Rating Agencies) Regulations, 1999
 - Reverse Repo
 - Treasury Bills (including Cash Management Bills)
 - Call, Notice, Term Money
 - CBLO as per Schedules I and II of these Regulations.
 - Any other instrument as may be prescribed by the Authority



- i) **–Promoter** means a promoter as defined under Regulation 2 (1) (x) of IRDAI (Issuance of Capital by Indian Insurance Companies transacting life insurance business) Regulations
- j) **–Principal Officer** means any person connected with the management of an insurer or any other person upon whom the Authority has served notice of its intention of treating him as the principal officer thereof.

14.3 APPROVED INVESTMENTS

No insurer should invest or keep invested any part of its Controlled Fund, as defined under Sec 27A / Assets as defined under Sec 27 (2) of the Act, read together with Sec 27E of the Act, otherwise than in approved securities, as per Section 2(3) of Insurance Act, 1938, as amended from time to time and in any of the following approved investments, namely:–

- (a) debentures secured by a first charge on any immovable property plant or equipment of any company which has paid interest in full
- (b) debentures secured by a first charge on any immovable property, plant or equipment of any company where either the book value or the market value, whichever is less, of such property, plant or equipment is more than three times the value of such debentures
- (c) first debentures secured by a floating charge on all its assets of any company which has paid dividends on its equity shares
- (d) preference shares of any company which has paid dividends on its equity shares for at least two consecutive years immediately preceding
- (e) equity shares of any listed company on which not less than ten percent dividends have been paid for at least two consecutive years immediately preceding
- (f) immovable property situated in India, provided that the property is free of all encumbrances;
- (g) loans on policies of life insurance within their surrender values issued by him or by an insurer whose business he has acquired and in respect of which business he has assumed liability;
- (h) Fixed Deposits with banks included for the time being in the Second Schedule to the Reserve Bank of India Act, 1934 (2 of 1934) and such other investments as the Authority may, by notification in the Official Gazette, declare to be Approved Investments.



In addition the following investments shall be deemed as Approved Investments

All rated debentures (including bonds) and other rated & secured debt instruments as per Note appended to Regulations 4 to 9. Equity shares, preference shares and debt instruments issued by All India Financial Institutions recognized as such by Reserve Bank of India – investments shall be made in terms of investment policy guidelines, benchmarks and exposure norms, limits approved by the Board of Directors of the insurer.

Bonds or debentures issued by companies, rated not less than AA or its equivalent and A1 or equivalent ratings for short term bonds, debentures, certificate of deposits and commercial papers by a credit rating agency, registered under SEBI (Credit Rating Agencies) Regulations 1999

Subject to norms and limits approved by the Board of Directors of the insurer's deposits [including fixed deposits as per Regulation 3 (a) (8)] with banks (e.g. in current account, call deposits, notice deposits, certificate of deposits etc.) included for the time being in the Second Schedule to Reserve Bank of India Act, 1934 (2 of 1934) and deposits with primary dealers duly recognized by Reserve Bank of India as such.

Collateralized Borrowing & Lending Obligations (CBLO) created by the Clearing Corporation of India Ltd and recognized by the Reserve Bank of India and exposure to Gilt, G Sec and liquid mutual fund forming part of Approved Investments as per Mutual Fund Guidelines issued under these regulations and money market instrument / investment.

Asset Backed Securities with underlying Housing loans or having infrastructure assets as underlying as defined under 'infrastructure facility' in Regulation 2 (h) as amended from time to time.

Commercial papers issued by All India Financial Institutions recognized as such by Reserve Bank of India having a credit rating of A1 by a credit rating agency registered under SEBI (Credit Rating Agencies) Regulations 1999

Money Market instruments as defined in Regulation 2(j) of this Regulation, subject to provisions of approved investments.



Explanation: All conditions mentioned in the ‘_note’ appended to Regulation 4 to 9 shall be complied with

The board of the insurer, to comply with the provisions of **Section 27A (2) (ii)** of the Act, may delegate to Investment Committee, for investments already made and the continuance of such investments from controlled fund / assets, in otherwise than in an approved investments, and in All India Financial Institutions recognized as such by RBI for investments carrying a rating of less than AA and being part of Approved Investment. The investment committee shall be responsible for the details, analysis and review of non-performing assets of investments on a quarterly periodicity. The insurer shall report compliance of this provision to the Authority.

Unless specifically permitted by the Authority, no investment shall be made in any entity not formed under laws relating to companies in India and in any private limited company or one person company or a company formed under section 8 of the Companies Act, 2013

14. 4. EXPOSURE NORMS

Every insurer shall limit its investment of controlled funds / all assets as per the following exposure norms:

A. Exposure norms for:

- General insurance business,
- Re-insurance business
- Health insurance business

for both Approved Investments as per Regulation, and Other Investments as permitted under Section 27A (2) should be as under.

B. The maximum exposure limit for a single ‘_investee’ company (equity, debt and other investments taken together) from all investment assets, should shall not exceed the **lower** of the following;

- an amount of 10per cent of investment assets as under Regulation 2 (i) (1), Regulation 2 (i) (2) excluding fair value change of investment assets under Regulation 4 (a), 4 (b) and Regulation 2(i)
- an aggregate of amount calculated under point (a) **and** (b) should be based on the table given under Regulation 9 of IRDA Investment Regulations;



The Internal Auditor should ensure that the investments made should be of the above mentioned pattern before certifying.

14.5. INVESTMENT MANAGEMENT

A. Investment Committee-

Every insurer should constitute an Investment Committee which should consist of a minimum of two non-executive directors of the Insurer, the Chief Executive Officer, Chief of Finance, Chief Risk Officer, Chief of Investment division, and the Appointed Actuary. The Board of the Insurer shall ensure that Chief of Finance, Chief of Investment and the Chief Risk Officer, should fulfil the minimum qualification requirements specified in the regulations / guidelines issued by the Authority. The decisions taken by the Investment Committee shall be recorded and be open to inspection by the officers of the Authority.

B. Investment Policy

- i. Every Insurer should draw up, an Investment Policy (IP) (fund wise IP in the case of Unit Linked Insurance Business) and place the same before its Board of Directors for its approval.
- ii. Every insurer should have a model code of conduct to prevent insider/ personal trading of Officers involved in various levels of Investment Operations in compliance with SEBI (Prohibition of Insider Trading) Regulation, 1992 as amended from time to time and place the same before its Board of Directors for its approval.
- iii. While framing the Investment Policy, the Board should ensure compliance with the following:
 - Issues relating to liquidity, prudential norms, exposure limits, stop loss limits including securities trading, management of all investment risks, management of assets liabilities mismatch,
 - Scope of Internal or Concurrent audit of Investments, criteria form empanelment and review of investment brokers, investment statistics and all other internal controls of investment operations, the provisions of the Insurance Act, 1938 and IRDAI (Investment) Regulations, Guidelines and Circulars made there under
 - Ensuring adequate return on policyholders and shareholders' funds consistent with the protection, safety and liquidity of such fund(s).



- iv. The investment policy of General Insurer including an insurer carrying on business of re-insurance or health insurance, as approved by the Board shall be implemented by the investment committee. The Board shall review on a quarterly basis the monitoring of fund wise and in respect of each product (both participating and non-participating products in the case of life insurers) the following minimum. General Insurer including an insurer carrying on business of re-insurance or health insurance (at line of business level):
- gross level of premium income projected vs actual along with reasons for negative growth if any
 - steps to correct the business achieved as planned in case of under achievement of gross written premium
 - underwriting results planned vs achieved along with reasons for negative deviations
 - claims outgo projected versus actual - major reasons for increase / decrease in loss ratio and corrective steps planned for future
 - expenses including acquisition cost planned vs actuals- in case of excess over permitted limits, reasons for such excess along with plan to comply limits
 - overall incremental investments projected vs actual - reason for deviation from the planned accretion and steps planned to correct the trend if the same is negative
- v. The Board should review the investment policy and its implementation on a half-yearly basis or at such short intervals as it may decide and make such modification to the investment policy as is necessary to bring it in line with the investment provisions laid down in the Act and Regulations made there under, keeping in mind protection of policyholders' interest and pattern of investment laid down in these regulations

C. Investment Operations

- i. The funds of the insurer should be invested and continued to be invested in equity shares, equity related instruments and debt instruments rated as per Note below Regulations 4 to 8 by a credit rating agency, registered under SEBI (Credit Rating Agencies)



Regulations, 1999. The Board should lay down norms for investing in 'Other Investments' as specified in section 27A(2) of the Insurance Act, 1938 by the investment committee, taking into account the safety and liquidity of the policyholders' funds and protection of their interest.

- ii. As required under Chapter II, Regulation 7 (3) (b) of IRDAI (Registration of Indian Insurance Companies) Regulations, to ensure proper internal control of investment functions and operations the insurer should clearly segregate the functions and operations of front, mid and back office and no function falling under Front, Mid and Back Office Investment function(s), shall be outsourced. Also, the primary data server of the computer application used for investment management should remain within the country.
- iii. The Board of the Insurer should appoint a Custodian to carry out the custodial service for its Investments, who shall not be an entity under its promoter 'Group' unless permitted otherwise by the Authority.

D. Risk Management Systems and its Review

- i. The Board should implement the Investment Risk Management Systems and Process, mandated by the Authority. The implementation shall be certified by a Chartered Accountant firm.
- ii. The Investment Risk Management Systems and Process should be reviewed once in two financial years or such shorter frequency as decided by the Board of the Insurer (the gap between two such audits should not be more than two years), by a Chartered Accountant firm and file the certificate issued by such Chartered Accountant, with the Authority along with the first quarter returns.
- iii. The appointment of Chartered Accountant firm to certify implementation and review of Investment Risk Management Systems and Process shall be as per the circular issued under these regulations.

E. Accounts, Audit and Reporting to Management

- i. Accounting of Investments shall be as per the Insurance Regulatory and Development Authority (Preparation of Financial Statements and Auditor's Report of Insurance Companies) Regulations and Valuation of Assets shall be as per guidelines issued under these regulations from time to time.



- ii. Every Insurer should constitute an Audit Committee of the Board, headed by an individual, as per the IRDAI Corporate Governance Guidelines and such person, and should not be the Chairman of Investment Committee.
- iii. The Insurer should have the investment transactions covering both Shareholders and Policyholders funds be audited through Internal or Concurrent Auditor as per the circular issued under this regulation.
- iv. The quarterly internal / concurrent audit report, covering investments of both shareholders as well as policyholders, shall be as per the –Guidance note on Internal / Concurrent Audit of Investment functions of Insurance Companies issued by the Institute of Chartered Accountants of India, as amended from time to time.
- v. The Details of Investment Policy, implementation status of Investment Risk Management Systems and Process or its review shall be made available to the internal or concurrent auditor. The auditor should comment on implementation status, review and its impact on the investment operations, systems and process in their report to be placed before the Board’s Audit Committee.
- vi. The Statutory Auditor of the Insurer should, on a quarterly basis, confirm compliance to Regulation 13(B)(4)(a,b) and such confirmation, shall be filed by the insurer along with periodical investment returns.

F. Category of Investments

Every insurer should invest its controlled fund as defined under Section 27A or all assets as defined under section 27(2) of the Insurance Act 1938 as amended from time to time only with in the exhaustive category of investments listed in the guidelines issued by IRDA

Every Insurer should invest its controlled fund as defined under Section 27A / all assets as defined under Section 27(2) of the Insurance Act, 1938 as amended from time to time, only within the exhaustive category of investments listed in the guidelines issued by the Authority.



14. 6. Returns to be submitted by an Insurer

Every insurer should submit to the IRDA the prescribed returns (in physical / electronic mode) within such time, at such intervals duly verified/certified in the manner as indicated there against. The Internal Auditor should exercise such examination and certify as per Form 4B stipulated in the Regulations.

The Internal Auditor should also check whether the Insurer had reported the effects or possible effects due to any extra-ordinary event coming to its knowledge which could have material adverse impact on the investment portfolio and consequent impact on the insured fund.

14. 7. General checks to be exercised during Internal Audit

The IRDA (Investment) Regulations specify appointment of concurrent/ Internal Auditor compulsory for the audit of Investment activities by an Insurer. The Internal Auditor should exercise due care in checking the transactions and report. The following areas he has to check and report..

14.7.1 OVERALL INVESTMENT MANAGEMENT

- (i) The Internal Auditor should check that there is a proper Investment Committee without vacancies in it to take appropriate investment decisions.
- (ii) The Investment Committee should report to Audit Committee of the Insurer.
- (iii) The Internal Auditor should check the overall internal control system of the investment functions/ department of an insurer.
- (iv) The Internal Auditor should check whether the investment policy is in consonance with the IRDA Regulations and any deviation was reported to the Audit Committee/ Board of Directors.
- (v) The Internal Auditor should check the correctness of segregation of Policy-holders fund and Share-holders fund to account the income earned on respective investments.
- (vi) The Internal Auditor should check whether the Insurer, without prejudice to Sections 10 (2AA), 27, or 27B of the Insurance Act and any provisions of these regulations, invests and at all times keep invested its investment assets in the manner set out in the regulation 8.
- (vii) The Internal Auditor should note that applicability of Pattern of Investment will not be applicable for Shareholders' funds held in



business beyond required solvency margin, and not taken in calculation of solvency margin. Such excess should be:

made after fully complying with investment in Central Government Securities, State Government and Other Approved Securities and in Housing & Infrastructure Investments from funds representing solvency margin.

such excess of Shareholder's funds, held beyond Solvency Margin requirement, shall be held in a separate custody account with identified scrips

such excess funds shall be determined only after Actuarial Valuation, certified by Appointed Actuary and such valuation is filed with the Authority.

such transfer made between quarters, should be certified by the Concurrent/ Internal Auditor to have complied with points (i), (ii) and (iii) above

Exposure Norms of 'investee company', 'group', 'promoter group' and 'industry sector' should be applicable to both Funds Representing Solvency Margin [FRSM] and funds held in excess of required solvency margin.

- (viii) The Internal Auditor should check that all investment in assets or instruments, which are capable of being rated as per market practice, should be made on the basis of credit rating of such assets or instruments.
- (ix) The Internal Auditor should note that no approved investment shall be made in instruments, if such instruments are capable of being rated, but are not rated
- (x) The Internal Auditor should check that for investments, rating should be done by a credit rating agency registered under SEBI (Credit Rating Agencies) Regulations, 1999
- (xi) The Internal Auditor should check on the investments in Corporate bonds or debentures which should be rated not less than AA or its equivalent and A1 or equivalent ratings for short term bonds, debentures, certificate of deposit and commercial paper, by a credit rating agency, registered under SEBI (Credit Rating Agencies) Regulations, 1999



- (xii) The Internal Auditor should ensure that the rating of a debt instrument issued by All India Financial Institutions recognized as such by RBI shall be of 'AA' or equivalent rating.
- (xiii) The Internal Auditor should verify that in case investments of the above grades are not available to meet the requirements of the investing insurance company, and Investment Committee of the investing insurance company should be fully satisfied about the same, then, for the reasons to be recorded in the Investment Committee's minutes, the Investment Committee may approve investments in instruments carrying current rating of not less than 'A+' or equivalent as rated by a credit rating agency, registered under SEBI (Credit Rating Agencies) Regulations, 1999,
- (xiv) It should be ensured that the Approved Investments under regulations 8 which are downgraded below the minimum rating prescribed or not continuing to satisfy dividend criteria should be automatically re-classified under 'Other Investments' and specifically identified under a category which shall be valued at marked to market on a quarterly basis, for the purpose of pattern of investment.
- (xv) The Internal Auditor should examine whether Investments in equity shares listed on a registered stock exchange should be made in actively traded and liquid instruments viz., equity shares other than those defined as thinly traded as per SEBI Regulations and guidelines governing mutual funds issued by SEBI from time to time
 - (a) Not less than 75per cent of investment in debt instruments (including Central Government Securities, State Government Securities or Other Approved Securities) in the case life insurer and not less than 65per cent of investment in debt instruments (including Central Government Securities, State Government Securities or Other Approved Securities) in the case of General Insurer including an insurer carrying on business of re-insurance or health insurance - shall be in sovereign debt, AAA or equivalent rating for long term and sovereign debt, A1+ or equivalent for short term instruments. This shall apply at segregated fund(s) in case of Unit linked business.

Note: In calculating the 75per cent in the case of Life insurers and 65per cent in the case of General Insurer including an insurer carrying on business of re-insurance or health insurance, of investment in 'Debt' instruments, investment in



- ✓ Reverse Repo with corporate bond underlying
- ✓ Bank Fixed Deposit
- ✓ Investment in Promoter Group Mutual Fund(s) and un-rated Mutual funds, shall not be considered both in numerator and denominator

Not more than 8per cent of investment in debt instruments (including Central Government Securities, State Government Securities or Other Approved Securities) in the case of General Insurer including an insurer carrying on business of re-insurance or health insurance – shall have a rating of A or below or equivalent rating for long term

Investments in debt instruments rated AA - (AA minus) or below for long term and below A1 or equivalent for short term debt instruments shall form part of Other Investments

- (xvi) Notwithstanding the above, the Internal Auditor should emphasize that rating should not replace appropriate risk analysis and management on the part of the Insurer. It is to be ensured that the Insurer should conduct risk analysis commensurate with the complexity of the product(s) and the materiality of their holding, or could also refrain from such investments

14.7.2 DAY TO DAY OPERATIONAL ACTIVITIES

- (xvii) The Internal Auditor should check whether the Insurer had formed an investment committee as specified.
- (xviii) The Internal Auditor should check whether the Investment Committee meet frequently to oversee the investment operations
- (xix) He should check whether the proceedings of the Investment Committee were recorded and minuted.
- (xx) The Internal Auditor should check whether the back office, middle office front office functions and accounting functions were segregated by the insurer. Moreover, he should check that these functions should not be outsourced. If not, comment on the impact
- (xxi) Normally, the day to day secondary and money market operations of the investment functions would be delegated to a sub-committee consists of Head of Investment department, CFO and CEO of an Insurer with one or two officers in the Investment Department. The Internal Auditor should check whether the decisions taken on investment or disinvestment with reasons were properly minuted.



- (xxii) The Internal Auditor should check the appointment of dealers of investments for day to day operations.
- (xxiii) The Internal Auditor should check all the contracts on the sale/purchase of securities in the market from the dealers and ensure that only the ordered quantity of investments were purchased and sold.
- (xxiv) The Internal Auditor should check the reconciliation statement of investments transacted during the period (reconciliation to be done on the securities held by custodian with the contracts issued by the dealers) and ensure that all the investments traded were properly credited or debited by the custodian
- (xxv) Internal Auditor should check that on the appointed day, whether the dealer/custodian had credited the sales realisation of investments with in the time limit.
- (xxvi) The Internal Auditor should check whether proper risk management system was in place.
- (xxvii) The Internal Auditor should check that weekly projections of cash flow (both inward and outward) were prepared and investment and disinvestments were made accordingly.
- (xxviii) The Internal Auditor should check whether the insurer is a member of money-market operator and follow the RBI guidelines in this regard.
- (xxix) The Internal Auditor should check the money market transactions and the investment and disinvestment decisions for day to day operations.
- (xxx) The Internal Auditor should check the dividend and interest credits and check whether they were credited on the due dates by the dealer or custodian as the case may be.
- (xxxi) The Internal Auditor should check that matured investments were properly encashed and reinvested properly on the due date to avoid loss of interest.
- (xxxii) The Internal Auditor should ensure whether at the time of investing, subject to group/ promoter group exposure norms, invest a maximum of 20per cent of the project cost (as decided by a competent body) of an Public Limited Special Purpose Vehicle (SPV) engaged in infrastructure sector (or) amount under Regulation 9 (B) (i), whichever is lower, as a part of Approved Investments provided:
 - a. such investment is in Debt



- b. the parent company guarantees the entire debt extended and the interest payment of SPV
 - c. the principal or interest, if in default and if not paid within 90 days of the due date, such debt shall be classified under other investments.
 - d. the latest instrument of the parent company (ies) has (have) rating of not less than AA
 - e. such guarantee of the parent company (ies) should not exceed 20 per cent of net worth of parent company (ies) including the existing guarantees, if any, given
 - f. the net worth of the parent company (ies), if unlisted, shall not be less than Rs. 500 crores or where the parent company (ies) is listed on stock exchanges having nationwide terminals, the net worth shall not be less than Rs. 250 Crores
- (xxxiii) The Internal Auditor should ensure that Investment Committee should at least on a half-yearly periodicity evaluate the risk of such investments and take necessary corrective actions where the parent company (ies) is floating more than one SPV
- (xxxiv) The Internal Auditor should ensure that Investment in securitized assets [Mortgaged Backed Securities (MBS) / Asset Backed Securities (ABS) / Security Receipts (SR)] both under approved and other investment category shall not exceed 5 per cent of Investment Asset in the case of General companies. Approved Investment in MBS / ABS with underlying Housing or Infrastructure Assets and not more than 5 per cent of investment assets in the case of General Insurance companies. Any MBS / ABS with underlying housing or infrastructure assets, if downgraded below AAA or equivalent, shall be reclassified as Other Investments.
- (xxxv) The Internal Auditor should check that Investment Property within the meaning of Accounting Standards, and covered under Regulation 3 (a) (6) shall not exceed, at the time of investment, 5 per cent of Investment Assets in the case of general insurer held as 'investment property' should not be for 'self-use'. Immovable property, for self-use, should be purchased only out of share-holders funds, and should comply with circular / guidelines issued.



- (xxxvi) The Internal Auditor should check whether subject to exposure limits mentioned in the table above, an insurer should not have investments of more than 5per cent in aggregate of its investment assets in all companies belonging to the promoters' group. Investment made in all companies belonging to the promoters' group should not be made by way of private placement or in unlisted instruments (equity, debt, certificate of deposits and fixed deposits held in a Commercial Bank), except for companies formed by Insurers under Note 12 to Regulation 9
- (xxxvii) The Internal Auditor should ensure the exposure limit for financial and insurance activities (as per Section K of NIC classification - 2008, as amended from time to time) should stand at 25per cent of investment assets for all insurers. Investment in Housing Financing Companies and Infrastructure Financing Companies (except investment in Bonds / debentures of HUDCO, NHB and only bonds issued by Housing Finance Companies having a rating of not less than AAA, and investment in Debt, Equity in dedicated infrastructure financing entities forming part of Infrastructure sector) shall form part of exposure to financial and insurance activities (as per Section K of NIC classification - 2008).
- (xxxviii) Where an investment is in partly paid-up shares, the uncalled liability on such shares shall be added to the amount invested for the purpose of computing exposure norms. Notwithstanding anything contained in Regulation 9 (B) where new shares are issued to the existing shareholders by a company the existing shares of which are covered by Regulation 3 (a) (5) and the insurer is already a shareholder, the insurer may subscribe to such new shares, provided that the proportion of new shares subscribed by him does not exceed the proportion which the paid-up amount on the shares held by him immediately before such subscription bears to the total paid-up capital of the company at the time of such subscription
- (xxxix) The Internal Auditor should ensure that an insurer should not out of the controlled fund / assets invest or keep invested in the shares or debentures of any one company more than the exposure prescribed in Regulation 9 above, provided that nothing in this regulation shall apply to any investment made with the previous approval of the Board of the Authority by an insurer, being a company with a view to



forming a subsidiary company carrying on insurance / re-insurance business.

- (xl) Apart from the above, the Internal Auditor should check the general cash management of the insurer.
- (xli) The Internal Auditor should check whether the investment of surplus funds in money/ call markets were made after m
- (xlii) The Internal Auditor should check whether the temporary surplus money was invested in money/call market and retrieved when required instead of selling dated securities or equities
- (xliii) The Internal Auditor should check the decisions in investment in primary markets on equities and debts
- (xliv) The Internal Auditor should check whether there is any system with the Insurer to review the investments and categorise them into performing and non-performing.
- (xlv) The Internal Auditor should check the action taken to dispose of the non-performing investments to salvage them
- (xlvi) The Internal Auditor should ensure that the Insurer did not invest in derivative trades markets (equity, interest rate, forex or other securities).
- (xlvii) The Internal Auditor should ensure whether all the transactions conducted by the front office got confirmed with the back office manager.
- (xlviii) The Internal Auditor should ensure whether the front office check the exposure limits prior to dealing with securities in secondary market.
- (xlix) The Internal Auditor should ensure whether the audit trail of new deals as well as deal amendments/cancellations were reviewed by an independent officer not connected with deal.
- (l) The Internal Auditor should ensure that the back office electronic accounting system supports full range of activities required for efficient processing of transactions, control and monitoring.
- (li) The Internal Auditor should check the dynamism of the updation of data base after every transaction to ensure that it provides exact quantum of exposure under each category of investment.
- (lii) The Internal Auditor should verify whether all the controls and monitoring reports are gone through by the management.
- (liii) The Internal Auditor should track the exception reports and investigate the reasons



Guidance Note on Internal Audit of General Insurance Companies

- (liv) The Internal Auditor should verify the risk management system in the investment department
- (lv) The Internal Auditor should check the sufficiency and effectiveness of the MIS system.



Chapter 15

CONDUCTING INTERNAL AUDIT & REPORTING

15.1 The following are the Internal Audit functions which are explained in brief.

- Knowing the functioning of the organisation
- Data collection
- Data analysis
- Risk assessment
- Sampling
- Selection of Personnel to conduct audit
- Audit Planning
- Conduct of Audit
- Preliminary Audit findings
- Documentation
- working papers
- Evidence gathering
- Audit reporting
- Assurance Memo
- Follow up.

15.2 KNOWING THE ORGANISATION:

Before taking up any audit, it is the duty of the Auditor to know about the functioning of the organisation in which he is going to conduct audit. He should know the organisation chart, work flow, departments to be audited, expenditure involved, revenue earned etc.,

15.3 DATA COLLECTION

Before commencement of any audit, it is the duty of the auditor to collect the required data from the organisation. Apart from data collection from the organisation to be audited, he could collect data from external sources- published data from Government, RBI, Regulatory Authorities, published audited annual accounts of past year with auditors report, other stake



holders, etc.,

15.4 DATA ANALYSIS

After collection of the data, they have to be analysed to form an opinion on the risks involved/undertaken by the organisation. Modern tools such as MS EXCEL, SQL, qlikview etc., may be used to extract data from the database for analysis.

15.5 RISK ASSESSMENT

The auditor then has to make a risk assessment like what can go wrong, how it can go wrong, by whom it can go wrong, what is the impact on the wrong, how it can be curbed or eliminated etc., Based on his assessment, he has to set his audit objectives.

15.6 SAMPLING

Based on the audit objectives set and risk assessment, the auditor should make the sampling based on the number of transactions and volume of data. He should keep in mind that the sample chosen should be a representative of the data collected. For this, he can use different sampling techniques like stratified data sampling with or without replacement, Monetary Unit Sampling etc.

15.7 SELECTION OF PERSONNEL

After data analysis, risk assessment, setting up of audit objectives and sampling, the Internal Auditor is to form an audit team with persons having knowledge of the industry, accountancy and auditing techniques. The audit team can also have technical experts in the industry to assist them in audit to advise and guide the team.

15.8 AUDIT PLANNING

The internal auditor should draw his annual audit plan well in advance with dynamic change based on need. The audit program should be got approved from the appointing authority. The Auditor should, as already mentioned above, communicate his audit program in advance to the respective head of department to enable him to keep all the documents / records ready for audit.

15.9 CONDUCT OF AUDIT

Audit should be conducted according to the Auditing Assurance Standards and generally accepted principles. Before commencement of audit, the



Auditor should make an entry meeting with the concerned key personnel of the department/unit to understand their functioning, their short-comings etc. Then he should determine the risk areas in consultation with the department's key personnel. Based on the above, the Internal Auditor should prepare a detailed check list for audit. All his preliminary audit findings should be addressed to the respective key personnel and their views should be recorded before drafting the audit findings of the department. A preliminary audit memo format is also enclosed in **Annexure 1**. At the end of each audit, a comprehensive draft report to be prepared and discussed with the HOD/key personnel and their views should be considered before preparation of the final report relating to the department. For each meeting, the minutes to be drawn and both auditor and the key personnel to be signed and documented. All the audit findings should be well supported by documents and they should be properly arranged. All the working papers should be properly arranged in an orderly manner for future reference.

15.10 DOCUMENTATION

To conduct of any audit, it is necessary to have a proper audit planning, documentation and Reporting system. Each stage of audit should be documented. There should be proper authorisation from the IT administrator to the Internal Auditor for the specified data access to conduct audit. An auditor should document the process of audit properly in an orderly manner. The success of audit depends on the proper documentation of audit findings well supported by documentation and filing.

15.11 EVIDENCE GATHERING

The Internal Audit team should have proper working papers and evidences to support their audit findings. They should be properly indexed and documented giving cross reference to the report.

15.12 AUDIT REPORTING

It is the duty of the auditor to report all his findings in an orderly manner. His report should be in simple understandable language. The audit findings should be arranged in an orderly manner based on the flow of functions or on value. For all technical terms, he should give foot notes to explain them. Normally, the final report to be addressed to the controlling authority i.e. CEO or top Management/Board of Directors or Audit Committee in case of big organisations. The report should incorporate the views of the respective



HOD/key personnel views on the draft audit findings and reasons to be included for not accepting their views. Each findings should have what is the variance, how it occurred, when it was occurred, who are responsible for deviation/variations, impact due to variations and recommendations to prevent or solve. The final audit report should be finalised within a time frame of say one week after completion of audit. The report should also contain a mention on the effectiveness of monitoring and control systems exist in that department. The format of the Internal Audit Report is enclosed in **Annexure II**. Each audit report should be signed by the Internal Audit. After preparation of the report, the same should be issued to the Management for their view. After incorporating the views of the Management, the final report be submitted to the Audit Committee for their consideration and recommendations.

15.13 ASSURANCE MEMO

One of the best practice in any audit is to give an assurance on the accuracy of the transactions and affairs of the organisation. At the end of each audit, the Internal Auditor should give an assurance that he had verified all the items required as per law and regulations. He should also give assurance that there was no major fraud occurred on the transactions covered either fully or on sample basis. He also has to mention the frauds, defalcations etc. in his report which include how the loss was occurred, what are the failure in the controlling system, who are responsible etc., He has to assure that the sample selected is unbiased and the methodology.

15.14 FOLLOW UP

There should be a proper system of follow up action on the audit findings. It is the responsibility of the management/Board of Directors to take action on the audit findings. If some of the variations were occurred due to management/Board of Directors decisions or management ratifies them, the same to be reported to the auditor who will close the report. The auditor in his subsequent program would check the corrections effected.

15.15 CONCLUSION

Internal audits play a critical role in an organisation's operations and corporate governance. Internal controls are processes and procedures implemented by a company to ensure the integrity of its financial and accounting information, promote accountability, and help prevent fraud.



Guidance Note on Internal Audit of General Insurance Companies

Internal audits seek to identify any shortcomings in a company's internal controls. It also required that a company's internal controls be documented and reviewed as part of their external audit. In addition to ensuring an organisation is complying with laws and regulations, internal audits also provide risk management and safeguard against potential fraud, waste, or abuse. The results of internal audits provide management/Board of Directors/Audit Committee with suggestions for improvements to current processes not functioning as intended, which may include information technology systems as well as supply-chain management. As internal auditor functions a pivot role in the improvement of functions of any organisation it is necessary that he should be independent. Therefore it is preferable to appoint external agency to conduct Internal Audit.



References

The following Acts, Regulations were referred to while preparing the Guidance Note

1. Insurance Act 1938 as amended
2. Marine Insurance Act,
3. Carriage of goods by sea act
4. Carriage by air act
5. Indian railway act
6. Carriers act
7. General Insurance (Nationalisation of Business) Act 1972
8. Insurance Regulatory and Development Authority Act 1999
9. Companies Act 2013
10. Motor Vehicles Act 1988 as amended
11. Insurance Regulatory and Development Authority of India (Protection of Policy holders' Interests) Regulations 2002
12. Insurance Regulatory And Development Authority (Licensing Of Insurance Agents) (Amendment) Regulations, 2002
13. Insurance Regulatory And Development Authority (Insurance Brokers) Regulations, 2002
14. The Insurance Regulatory And Development Authority (Preparation Of Financial Statements And Auditor's Report Of Insurance Companies) Regulations, 2002
15. Insurance Regulatory and Development Authority of India (Health Insurance) Regulations, 2016
16. Insurance Regulatory and Development Authority of India (Third Party Administration Health Services) Regulations, 2016
17. Insurance Regulatory and Development Authority of India (Reinsurance) Regulations, 2016
18. Insurance Regulatory and Development Authority of India (Investment) Regulations, 2016
19. IRDA Annual Report for 2018-19
20. General Insurance Corporation of India web pages



Guidance Note on Internal Audit of General Insurance Companies

21. United India Insurance Company Limited web pages for different types of Insurance policies, their terms and conditions
22. Internet pages of Wikipedia,
23. Internet Pages of NIOS
24. Internet pages of VAZZANO LIMITED.
25. Materials from acadamia.edu



Annexure I

Preliminary Audit Memo format

A preliminary Audit memo should contain the following. It should be prepared and issued in duplicate. The reply from the HOD/KP should be received along with duplicate copy.

1. Department Audited
2. Period of Audit (say 2019-20 or III quarter 2019-20 like that)
3. Audit program dates— conducted from _____ to-----
4. Heading of the audit finding like-Expenditure/discount allowed without proper authorisation, excess claim amount paid, non-availment of discount, Loss in fund management, etc.
5. Subject of the Audit Memo
 - a. What is the management order/rule/Act /Management orders
 - b. What exactly done?
 - c. What is the variance/deviation?
 - d. How the deviation happened?
 - e. When the deviation happened?
 - f. Who is responsible for deviation/variation?
 - g. What is the effect of the deviation?
6. What is the solution to prevent such occurrences in future
7. Signature of the Auditor who examined the case with date
8. Reply of the HOD/Key personnel giving justification or acceptance with date
9. Further Remarks of the Auditor-Reasons to be recorded for accepting/non-acceptance of reply with date.
10. List of documents in support of audit findings and rebuttal with cross reference to working papers



Annexure II

Format for Internal Audit Report

The Internal Auditor may issue his report either department-wise or organisation as a whole. The Internal Audit Report should contain the following details:-

Part-I. Introduction. -should contain the functional jurisdiction of the audited unit.

Part II -At least last three years' budget allocation under different products, services/heads, their utilisation and savings.-The observations on reasons for savings should come under Part II giving cross reference to Part VI of the report.

Part III -Physical targets set and their achievements on production/sales - reasons for under/over achievements-The observations on the reasons of over/under achievement should be included in Part VI giving cross reference. Financial and Physical achievement should be compared and included in Part II appropriately.

Part IV-Audit objective, Scope, Methodology and Sampling method followed in selection of transactions to be explained.

Part V Assurance memo and disclaimer to be added here.

Part VI- Significant audit findings relating to evaluation of regulatory and propriety matters. (Findings to be arranged in descending order of money value)

Part VII - Other incidental audit findings relating to propriety and regulatory matters to be included. In both the parts (Part VI and VII), each audit finding should contain the requirement under any rule/regulation or direction from the management, what is the deviation, how it had occurred, who are responsible for the deviation and what are the effects. Whenever reply is received, the same has to be considered and relevant rebuttal to be added.

Part VIII-Follow up on findings outstanding from previous Inspection Reports- This include corrective action taken on previous audit findings and not taken with reasons thereof.



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Part IX-Best practices followed by the audited department noticed during the audit and Acknowledgement-the extent of co-operation by the audited entity in matters relating to production of records etc.



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