

ANTI FRAUD POLICY

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ANTI FRAUD POLICY

TABLE OF CONTENTS		
Sr.No.	Brief Particulars	Page No.
	Background	4
	Definitions	4-6
I	Objectives	6
II	Scope of the Policy	6
III	Classification of Fraud	7
IV	Fraud Detection	7
	A- Investigation	7-8
	B- Mitigating Occurrence of Fraud	8
V	Fraud Monitoring	9
	A- Role of Board	9
	B- Role of Fraud Monitoring Committee	9
	B1- Role of Chief Risk Officer	10
	C- Role of Disciplinary Authorities	10
	D- Role of Individual HODs	10
	E- Role of Individual Employee	11
	F- Role of various Intermediaries	11
	G- Role of Policyholders, Beneficiaries	11
	H- Role of Audit & Inspection	

VI	Potential areas of fraud	11
	A- Accounting of loss due to Fraud	12
	B- Remedial Measures for Prevention of frauds	12
VII	Training	12
VIII	Co-ordination with Law enforcement Agencies	13
IX	Exchange of Information	13
X	Due Diligence	13
XI	Regular Communication Channels	14
XII	Reporting Obligations	14
XIII	Review & Amendment of Anti Fraud Policy	14
	Illustrative List of Insurance Frauds	15

LIFE INSURANCE CORPORATION OF INDIA**ANTI FRAUD POLICY****BACKGROUND**

Life Insurance Corporation of India (*hereinafter referred to as Corporation*) is the largest life insurer in India and has been playing a significant role in spreading the life insurance amongst the masses and in mobilization of people's money for people's welfare. In order to increase its market presence, Corporation has introduced CLIA channel, Direct Marketing Channel, Bank Assurance & Alternate channels for procurement of new business. Apart from Conventional Insurance Products, Corporation caters to the need of its customers by providing Health Insurance, Micro Insurance and Pension & Group Insurance schemes. To facilitate premium collection, Corporation has taken Customer centric initiatives and has introduced various alternate channels of premium collection such as Electronic Clearance System (ECS), Electronic Bill Presentation & Payment (EBPP), ATM, Customer Payment Portal Gateway on LIC Website www.licindia.in, through Axis Bank, Corporation Bank, franchisees, Senior Business Associates, Empowered Agents, and Authorized Retired Employees. While dealing with such huge enterprise there is a risk of occurrence of fraud at various stages. In order to curb the menace of fraud, Corporation has strengthened its systems & procedures by automating various processes and by reducing manual intervention in Data handling.

Corporation aims to be an honest and ethical Organization, seeking to conduct its business to the highest level of integrity and objectivity. In order to protect its financial systems, resources and assets and the honesty and integrity of its employees and intermediaries, it is important that the Corporation has an established policy in place to minimize the risk and impact of fraudulent activity. As such Life Insurance Corporation of India will implement the following Anti Fraud Policy as a part of Fraud Monitoring Framework for the Corporation in accordance to Para C of IRDA Circular ref: IRDA/SDD/MISC/CIR/009/01/2013 dated Jan 21, 2013

DEFINITIONS:

Fraud: The term fraud means and includes but does not limit to any/all of the following acts committed by a party to a Contract, or with his connivance, or by his agent, with intent to deceive another party thereto or his agent or to induce him to enter into the contract:

- 1) The suggestion, as to a fact, of that which is not true by one who does not believe it to be true;

- 2) The active concealment of a fact by one having knowledge or belief of the fact;
- 3) A promise made without any intention of performing it;
- 4) Any other act fitted to deceive;
- 5) Any such act or omission as the law specially declares to be fraudulent.
- 6) Any intentional false representation, including failure to declare information
- 7) Abuse of position which is carried out to make gain, cause loss or expose another to the risk of loss.
- 8) Fraud may include such acts as deception, bribery, forgery, extortion, corruption, theft, conspiracy, embezzlement, misappropriation, false representation, concealment of material facts and collusion.
- 9) Deliberately misrepresenting, concealing, suppressing or not disclosing one or more material facts relevant to financial decision, transaction or perception of the insurer's status.
- 10) Abusing responsibility, a position of trust or a fiduciary relationship.
- 11) The criminal act is the attempt to deceive; attempted fraud is therefore treated as seriously as accomplished fraud.
- 12) Altering, concealing or destroying manual or computer records, misuse of computer facilities or changing computer programs
- 13) Possessing articles for use in fraud and an offence of making or supplying articles for use in fraud.
- 14) Misappropriation of assets or insider trading.
- 15) Any dishonest or fraudulent Act.
- 16) Unauthorized destruction, Removal or conversion of records.
- 17) Improper withholding of any money or premia paid on an Insurance policy.
- 18) Accepting or seeking anything of material value in exchange for special consideration from proposers, beneficiaries, intermediaries or other interested parties.
- 19) Forgery or alteration in any financial documents.
- 20) Passing/revealing sensitive information to any third party, with the intention to gain any personal benefit or assisting other to get some advantage.
- 21) Any other act not covered above but deemed as "Fraud" by the Competent Authority.

Indian Contract Act, 1872, Section 17 of the Act defines Fraud as:

"Fraud" means and includes any of the following acts committed by a party to a contract, or with his connivance, or by his agents, with intent to deceive another party thereto his agent, or to induce him to enter into a contract.

1. the suggestion as a fact, of that which is not true, by one who does not believe it to be true
2. the active concealment of a fact by one having knowledge or belief of the fact;
3. a promise made without any intention of performing it;

4. any other act fitted to deceive;
5. any such act or omission as the law specially declares to be fraudulent.

Indian Penal Code, 1860 (“IPC”) Section 25 of IPC defines "Fraudulently "as:

A person is said to do a thing fraudulently if he does that thing with intent to defraud but not otherwise.

I OBJECTIVES

- a) The primary objective of this policy is to minimize the risk of any fraud occurring within the Organization and to optimize the likelihood of its detection as soon as possible leading to full investigation.
- b) To Protect the Corporation from the financial and reputational risks posed by Insurance frauds.
- c) To setup a framework to detect, monitor and mitigate the occurrence of such Insurance frauds within the Corporation.
- d) To develop and promote an organizational culture which encourages the prevention of fraud by raising awareness of the need for high standard of personal conduct.

II SCOPE OF THE POLICY

The Anti Fraud Policy extends to all the offices of the Corporation situated within the jurisdiction of India. In respect of offices outside India, local laws of that country relating to Anti Fraud will be followed. This policy covers frauds & losses within the Corporation and applies to all the areas of its operations. The Anti Fraud policy should be approved by the Risk Management Committee and subsequently by the Board.

Anti Fraud Policy for the Corporation encompasses the following:

- **Classification of Frauds**
- **Fraud Detection**
- **Fraud Monitoring**
- **Potential Areas of Fraud**
- **Training**
- **Co-ordination with Law Enforcement Agencies**
- **Exchange of Information**
- **Due Diligence**
- **Regular Communication Channels**
- **Reporting Obligations.**

III CLASSIFICATION OF FRAUD

The frauds against the Corporation are classified into following Categories:

- a) **Internal Frauds:** Frauds/misappropriation of Corporations funds by the employees/Officers of the Corporation on their own or in collusion with others who are either internal or external to the Corporation and frauds by the employees of the Corporation on deputation to the Offices they are serving.
- b) **Intermediary fraud:** Fraud perpetuated by an Insurance Agent, Corporate Agent, Financial Service Executive, Direct Sales Executive, Chief Life Insurance Advisors, Senior Business Associates, Agents, Brokers, Third Party Administrators, Micro Insurance Agents, Intermediaries etc. on their own or in connivance with the policyholders against the Corporation and/or the Policyholders.
- c) **Policyholder fraud and/or Claims fraud:** Fraud against the Corporation in the purchase and/or execution of an Insurance Product, including fraud at the time of making a claim by the claimant/or payment of Loan/Surrender.

IV FRAUD DETECTION

1. Personnel, Vigilance, Finance & Accounts and Internal Audit Departments shall have the joint responsibility for detecting and monitoring frauds. The Corporation shall establish, implement and monitor procedures, controls designed to assess, prevent and remediate fraud and fraudulent behavior.
2. The main source for detection of frauds should be through complaints, during Quality Management Analysis, Audit, Inspection, Surprise Vigilance checks, Whistle blowers, Data Vigilance Module or any other avenues.
3. All employees & various Intermediaries of the Corporation are also equally responsible for prevention & detection of fraud and other irregularities. They should be alert in their respective areas of operation and should be familiar with the type of improprieties that may take place in their area of operation and should be able to recognize potential frauds. Appraising the appropriate Authority immediately on any indication or knowledge that a fraud or attempted fraud is being committed will be helpful in prevention or remediation of the wrongful activity.

A INVESTIGATION

- Any complaint alleging fraud with verifiable facts will be investigated with the approval of Competent Authority.

- Investigation officer shall carry out the investigation as per the established procedures of the Corporation. The investigation has to be completed within a period of 30 days of it being assigned to the officer. Specific permission of the Competent Authority shall have to be sought if additional time is required for completing the investigation. In case lesser time is prescribed by the Competent Authority the same has to be adhered to.
- Role analysis of all the officials found to be involved in the fraud, due to contributory negligence or lack of supervision etc, shall be done and disciplinary action as deemed fit as per the prevalent procedures of the Corporation shall be initiated, if required.

B MITIGATING OCCURRENCE OF FRAUDS

The existing policies adopted by the Corporation to mitigate the occurrences of Frauds which may have the following:

- Customer Identification Process through KYC norms while introducing New Business.
- Identity Proof shall be called for any Policy Servicing transaction on the Policy.
- Corporation has established internal procedures and controls in order to avoid money laundering and regular training in this area is being imparted in all training sessions.
- Complaint Redressal Procedures are in place which attempt to identify the cause of complaints including the commission of potential fraudulent activity.
- Appropriate provisions to initiate Disciplinary Proceedings against Agents under LIC of India (Agents) Regulations, 2017 shall be invoked. Similarly, action against Employees, Pensioners and retired PF optees shall be taken as per relevant LIC of India (Staff) Regulations, 1960 for the commission of fraudulent acts.
- If the act of fraud is an act involving Moral turpitude, the gratuity payable to such employee shall be wholly/partially forfeited to the extent of loss, as the case may be.
- Corporation has an IT Security Policy in place to prevent misuse of its systems & data. All the employees of the Corporation shall be responsible for maintaining the secrecy of their passwords.
- Through Data vigilance module, an eye is kept on the suspicious transactions to rule out the possibility of any potential fraud.
- Corporation has devised such policies and procedures that address areas as underwriting, cash receipts, and claim payments.
- Repudiation of bad claims and action against Agents/Development Officers
- Manuals for each department containing clearly defined uniform systems & procedures, duly approved by the Competent Authorities and duly updated from time to time, are in place.
- Audit & Inspection of all the offices of the Corporation is being conducted every year. In addition to this Surprise and Special Audit is also being carried out.
- Preventive Vigilance Checks are being carried out by Zonal Vigilance Officers periodically in various offices of the Corporation.

V FRAUD MONITORING

For monitoring all the instances of Frauds, Fraud Monitoring Committee shall be constituted by Chairman at Central Office, Zonal Manager at Zonal Office, Sr.Divisional Manager at Divisional Office and Chief/Sr./Branch Manager at Branch Office. All cases of frauds /suspected frauds should be reported to Fraud Monitoring Committees from the lower offices to higher offices i.e. Branches to Divisional Office, Divisional Office to Zonal Office, Zonal Office to Central Office on at least monthly basis, in order to take documented and approved actions including notifying law enforcement and any other required Government agencies when appropriate. The Fraud Monitoring Committee at Central Office shall report the cases of Fraud through the Risk Management Committee to the Board quarterly. The reports shall include the measures taken or amendments proposed / implemented to system / procedures to strengthen the gaps for mitigating the incidence of fraud.

The Fraud Monitoring committees at BO / DO / ZO level shall hold monthly meetings and the Fraud Monitoring Committee at CO shall hold meeting atleast once in a quarter to monitor the progress in implementation of Anti Fraud Policy, to oversee the progress of investigations and to review the monthly reports on fraudulent activities reported during the month. Minutes of all such meetings shall be recorded and preserved. The committees along with the concerned P&IR department shall also coordinate with the law enforcement agencies to monitor the progress of the cases handed over to them.

Preliminary investigations shall be conducted as per existing policy of the Corporation.

A ROLE OF BOARD

- Board shall review and approve the Anti Fraud Policy on an annual basis.
- Board shall provide guidance to minimize the incidents of fraud taking cognizance of fraud cases reported.
- Board shall review the proceedings of Fraud Monitoring Committee at Central office of the Corporation quarterly.

B ROLE OF FRAUD MONITORING COMMITTEE

- The Fraud Monitoring Committee at DO / ZO / CO level shall classify an incidence as fraud or otherwise for the offices under their jurisdiction.
- Fraud Monitoring Committee at DO/ZO/CO level shall conduct a root cause analysis of frauds to identify systemic lacunae, if any that facilitated the perpetration of fraud.

- Fraud Monitoring Committee will be responsible for monitoring the Fraud cases reported to it and advising the Competent Authority on actions to be taken at various levels viz;
- In Central Office, a Central Fraud Monitoring Committee
- In Zonal Offices, a Zonal Fraud Monitoring Committee
- In Divisional Offices, a Divisional Fraud Monitoring Committee
- In Branch Offices, a Branch Fraud Monitoring Committee

B1 ROLE OF CHIEF RISK OFFICER:

Chief Risk Officer (CRO) will go through the Central Fraud Monitoring Committee (CFMC) reports placed to RMC through CERM. CRO will also advise CFMC & the department concerned about the areas of fraud risk where thrust is to be given.

C ROLE OF DISCIPLINARY AUTHORITIES

- In case of detection of a fraud, vigorous and prompt investigation should be carried out which should include imparting proper training to the official who shall be entrusted with the preliminary investigation.
- To take appropriate legal and/or disciplinary action against the perpetrators of the fraud.
- To consider Disciplinary action against the officials whose contributory negligence/lack of supervision has facilitated the perpetrator of the fraud.
- To ensure recovery of financial loss after imposition of penalty.
- To establish and maintain systems for recording and subsequently monitoring all the cases of fraud.

D ROLE OF INDIVIDUAL HODs

- Identify, itemize and assess potential areas vulnerable to fraud in their departments.
- Implementation of and the adherence to the Anti Fraud policy within the HOD's functional areas at various levels.
- Development and maintenance of effective checks & controls in the systems & procedures in order to obviate potential frauds.
- Inform concerned Fraud Monitoring Committee immediately when a fraud has occurred or is suspected.
- Conduct Quality Management Analysis visits regularly and diligently ensuring complete adherence to laid down systems and procedures.
- Seize the original records and keep it in safe custody as per our internal procedures.

E ROLE OF INDIVIDUAL EMPLOYEE

- Be alert.
- Never share their user-id or password.
- Identify the potential areas of fraud in the operations of their responsibility.
- Develop systems of internal controls to minimize the risk of fraud.
- Have utmost good faith but never have blind faith.
- Maintain high level of personal integrity
- Ensure that public funds are safeguarded while dealing with cash, receipts, stocks or dealing with contractors or suppliers etc.
- Whenever any fraud is suspected or has occurred, immediately the same should be brought to the notice of their immediate superior officer for further necessary action.
- Assist in the investigation by providing relevant information and co-operate by recording statements if required.
- Create an environment which inhibits the frauds

F ROLE OF VARIOUS INTERMEDIARIES

The Corporation expects all Agents, Corporate Agents, Financial Service Executive, Direct Sales Executive, Chief Life Insurance Advisors, agents, brokers, Micro Insurance Agents to abide by and co-operate with the Corporation's Anti Fraud Policy. All the intermediaries shall be responsible for compliance with applicable Insurance Laws. They should maintain such procedures that would reasonably deter such wrongful acts. They should be familiar with the types of improprieties that might occur in their areas of responsibility and should be alert for any indication of irregularities.

G ROLE OF POLICYHOLDERS, BENEFICIARIES

The Corporation encourages its Policyholders, beneficiaries & all concerned to act in a lawful & proper manner and to report all allegations or irregularities in respect of Insurance Fraud to the Corporation.

H ROLE OF AUDIT, INSPECTION

- Provide opinion about the adequacy of systems & procedures to curb a potential fraud.
- Include areas susceptible to frauds in the questionnaire.
- Provide necessary support in causing investigation.
- The minutes of monthly meetings conducted by various Fraud Monitoring Committees shall be examined during the course of Audit, Inspection & QMA. Appropriate debits shall be given by Audit/Inspection if the minutes are not maintained properly.
- Audit / Inspection departments may make Exception Reporting to Audit Committee, if required.

VI POTENTIAL AREAS OF FRAUD

Corporation follows a Zero tolerance policy in relation to frauds and encourages its employees and intermediaries to act honestly with high level of integrity and to safeguard its interests including Policyholders.

Identification and assessment of the potential areas vulnerable to fraud shall be the responsibility of the concerned Head of the departments along with its staff members. An indicative list of potential areas of fraud shall be laid down in the operational and procedural guidelines, for prevention, applying suitable mitigation measures and to enhance employee sensitization.

An Illustrative list of some of the examples of the fraudulent act/omissions includes but are not limited is provided in Annexure -I.

A ACCOUNTING OF LOSS DUE TO FRAUD

- Losses resulting through frauds shall be recovered from the employees who are found to be directly involved in the commission of fraud or whose connivance is established in the commission of fraud.
- The officials whose contributory negligence has facilitated the fraud shall be imposed deterrent penalty.
- Immediately on identifying the suspected employee/policyholder/intermediary, the Zonal Office / Divisional Office, Personnel department shall take necessary steps to file a civil suit through their legal department. Information regarding the quantum of fraud shall also be communicated to Finance & Accounts department of Central Office with full details.

B REMEDIAL MEASURES FOR PREVENTION OF FRAUDS

- Fixed Tenure and system for transfer of Employee.
- There should be separation of duties so that control of a key function does not rest with one individual.
- Use of technology & e-governance to minimize discretion and human intervention.
- New measures to be introduced with IT initiatives to rectify gaps in systems & procedures.
- Periodical feedbacks should be sent to the concerned departments to examine the lacunas and to bring about systemic improvement in order to plug in the loopholes.
- Sensitization of Employees with regard to potential areas of fraud.
- Adequate training shall be provided to the staff in respect of non disclosure responsibilities towards outsiders.
- Increase fraud awareness amongst the employees including existence of Anti fraud policy of the Corporation.

- Implement new controls to reduce the risk of similar fraud occurring again in the same office or in the other offices.

VII TRAINING:

Through periodical trainings in MDC, ZTC and STC, the awareness level of employees, Agents etc shall be enhanced towards the potential dangers and areas of the fraud. They will be trained to recognize fraud indicators, Red flags and the process for reporting the suspected/frauds to the appropriate authorities at CO/ZO/DO level.

VIII COORDINATION WITH LAW ENFORCEMENT AGENCIES

A decision to prosecute by way of civil proceedings or referring the investigative conclusions to the appropriate law enforcement and/or regulatory agencies on detection of the suspected employee/policyholder/intermediary/third party shall be made if breach of any law or regulation is observed.

In addition to the above, basis of quantum of fraud or misappropriation for independent investigation will also be considered in conjunction with Legal department by the Fraud Monitoring Committees and Personnel Department. Executive Director (Personnel) shall be the Competent Authority to issue instructions / guidelines, regarding the reporting of incidents of frauds to higher authorities and law enforcement agencies.

IX EXCHANGE OF INFORMATION:

- Information related to various types of fraud commissioned in the office with their modus operandi shall be shared by the respective Branch/Divisional/Zonal/Central Fraud Monitoring Committee in periodical meetings.
- Information related to various types of fraud commissioned in the Corporation with their modus operandi may be shared by the CVO or any other Competent Authority of the Corporation with other institutions.
- Information related to any incident of fraud to the public or rejoinder to any inquiry from the Press, Social Media, Law Enforcement Agencies or any external body shall be responded by the Authorized Officials in coordination with the Legal and Personnel departments.

X DUE DILIGENCE:

- While appointing an employee, the existence of Anti fraud Policy and Zero tolerance to fraud in the Corporation should be clearly mentioned in the Appointment letter. It may

also be clearly indicated that any indulgence into said activity may result in Removal/Dismissal from the services of the Corporation.

- While appointing an agent or entering into contract with DSE/FSE, the existence of Anti fraud Policy and Zero tolerance to fraud in the Corporation should be clearly mentioned in the Appointment/contract letter. It may also be clearly indicated that any indulgence into said activity may result in termination of agency/contract with forfeiture of renewal commission.
- In the proposal papers it should be clearly indicated that if any information provided in the proposal form is found to be incorrect or if any misrepresentation of facts is observed then the contract shall be dealt with as per provisions of Section 45 of the Insurance Act, 1938 as amended from time to time.

XI REGULAR COMMUNICATION CHANNELS

- A dedicated Email-id shall be created to facilitate employees/field force to trigger/send alerts in respect of any actual or possible fraud. Personnel Department, Central Office shall analyze the trigger/alert. When there is a reasonable evidence to conclude that fraud is possible or taken place, Personnel department, CO shall initiate suitable action.
- Identity of the person giving an alert shall be kept confidential. Anonymous complaints or abusive information shall not be considered appropriate for further investigations.
- All cases of frauds revealed in Quality Management Analysis, Audit, and Inspection or through complaints/investigation shall be reported by Head of office to the appropriate authorities at CO/ZO/DO, as the case may be in the prescribed formats.

XII REPORTING OBLIGATIONS

- The statistics regarding the various fraudulent cases detected and action taken thereon shall be filed with IRDA in the prescribed Formats FMR1 & FMR 2 every year within 30 days of the close of the financial year providing details of
 - Outstanding fraud cases business segment wise.
 - Closed fraud cases

XIII REVIEW & AMENDMENT OF ANTI FRAUD POLICY

This policy should be reviewed at least annually and will be amended as required. When amended, each copy of the former policy should be replaced by a copy of the new policy.

Illustrative List of Insurance Frauds**1. Internal Fraud:**

- a) misappropriating funds
- b) fraudulent financial reporting
- c) stealing cheques
- d) inflating expenses claims/over billing
- e) paying false (or inflated) invoices, either self-prepared or obtained through collusion with suppliers
- f) permitting special prices or privileges to customers, or granting business to favoured suppliers, for kickbacks/favours
- g) forging signatures
- h) loans,surrenders and recycling of policy proceeds without policyholder knowledge.
- i) falsifying documents

2. Policyholder Fraud and Claims Fraud:

- a) Exaggerating damages/loss
- b) Staging the occurrence of incidents
- c) Reporting and claiming of fictitious damage/loss
- d) Medical claims fraud
- e) Fraudulent Death Claims

3. Intermediary fraud:

- a) Premium diversion-intermediary takes the premium from the purchaser and does not pass it to the insurer
- b) Inflates the premium, passing on the correct amount to the insurer and keeping the difference
- c) Non-disclosure or misrepresentation of the risk to reduce premiums
- d) Commission fraud - insuring non-existent policyholders while paying a first premium to the insurer, collecting commission and annulling the insurance by ceasing further premium payments.