



REPORT OF THE COMMITTEE ON GRANTING CHARTERED STATUS TO IISLA

December 2018

**भारतीय बीमा विनियामक और विकास प्राधिकरण
INSURANCE REGULATORY AND DEVELOPMENT AUTHORITY OF INDIA**



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Insurance Regulatory and Development Authority of India
Hyderabad - 500032





To
Dr.Subhash Chandra Khuntia,
Chairman,
IRDAI,
Hyderabad.

Subject: Report of Committee on granting of Charter Status to IIISLA

Respected Sir,

It gives me immense pleasure to present the Report of the Committee constituted vide IRDAI order Ref No. IRDA/SUR/MISC/ORD/262/11/2017 dated December 4, 2017 and the subsequent addendums dated April 4, 2018 and June 21, 2018 to evaluate the prospects of granting Charter status to the Indian Institute of Insurance Surveyors and Loss Assessors (IIISLA).

The committee comprising representatives from Insurance companies, Surveyors, IIISLA and nominated members of IRDAI and the Government deliberated upon the prospects, challenges, risks and opportunities in the context of the proposal from IIISLA to accord itself the status of a chartered institute. To further its objectives, the committee also examined the report of M/s Anandam & Co., the audit firm appointed by IRDAI to conduct Financial and Process Audit of IIISLA.

The report and the recommendations contained herein are an outcome of the review of literature of various Committee's reports on Insurance Surveyors, meetings with various stakeholders and detailed internal discussions by the Committee. The present Report broadly covers the following areas:

- Background of IIISLA
- General Insurance Industry - Present Scenario
- IIISLA - Mandated Role and Responsibilities
- Surveyors and Loss Assessors - Present Scenario and Status
- Issues faced - Stakeholders Views
- International Practices
- Financial and Process Audit of IIISLA
- Response of IIISLA Management
- Current Status of IIISLA - the Fact Sheet

The Report is divided into four sections:

Section 1 : Background

Section 2 : Present Scenario

Section 3 : Financial and Process Audit of IIISLA

Section 4 : Way Forward and Recommendations

On behalf of the Members of the Committee and me, I sincerely thank you for entrusting this responsibility to us.

Place: Hyderabad
Date: December 24, 2018

SUJAY BANARJI
Chairman of the Committee

IRDA ORDER DATED 04-DECEMBER-2017



भारतीय बीमा विनियामक और विकास प्राधिकरण
INSURANCE REGULATORY AND
DEVELOPMENT AUTHORITY OF INDIA

Ref No. IRDA/SUR/~~MISC/ORD/262~~11/2017

4th December, 2017

OFFICE ORDER

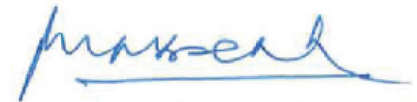
Re: Constitution of the committee with regard to grant of Charter status to IISLA.

The Indian Institute of Insurance Surveyors and Loss Assessors (IISLA) was formed as Sec.25 company in 2005 and promoted by Insurance Regulatory and Development Authority of India (IRDA) for the holistic development of the profession of Surveying and Loss Assessment. There is a request from IISLA with regard to granting of chartered status to them.

There are various issues that need to be examined before considering the request of IISLA for chartered status. The issues raised, deserve to be discussed and debated by a select group of insurers, surveyors and representatives from the regulator and government. Therefore, the IRDAI hereby constitutes a committee consisting of the following to deliberate and suggest suitable framework / recommendations after detailed examination of various issues related therewith.

1. Shri. P.J.Joseph, Member (NL), IRDAI – Chairperson,
2. Smt. Bhumika Verma – Joint Director, DFS, Ministry of Finance, Member
3. Shri. Suresh Mathur, ED (Surveyors), IRDAI, Member,
4. Shri. Sudeep Dutta, Chief Manager, Oriental Insurance, Member
5. Shri.R.Suresh, Principal Officer, Spl. Projects Cholamandalam MS Gen.Ins.Co.Ltd, Member
6. President, IISLA, Member
7. Shri. Vikram Johar, Member
8. Smt. Nimisha Srivastava, DGM(Surveyor), IRDAI, Member-Convener.

The Committee may invite other persons to the meeting/s as special invitees if required. The committee shall meet as often as required and come up with the recommendations before 31st March, 2018.



(P.J.Joseph)
Member (Non Life)

ADDENDUM ORDER DATED 04-APRIL-2017

Ref. No: IRDA/SURV/MISC/ADD/4/2018

Date: 04-04-2018

Addendum to Office Order - Term Extension of Committee for Grant of Charter status to IIISLA

Further to Office Order No. IRDA/Sur/Misc/ORD/262/11/2017 dated December 4, 2017 in respect of Constitution of the committee with regard to grant of Charter status to IIISLA, it has been decided by the competent authority to extend the term of the committee upto 30.06.2018 and that Shri Sujay Banarji, Member (D) shall be special invitee to the Committee.

The committee shall meet as often as required and come up with the recommendations before 30th June, 2018.

(P J Joseph)

Member (Non-Life)

ADDENDUM ORDER DATED 21-JUNE-2018



भारतीय बीमा विनियामक और विकास प्राधिकरण
INSURANCE REGULATORY AND
DEVELOPMENT AUTHORITY OF INDIA

Ref: IRDA/SURV/MISC/ADD/6/2018

21st June, 2018

Addendum

Further to Office Order No. IRDA/Sur/Misc/ORD/262/11/2017 dated 4th December 2017 and Addendum dated 4th April 2018 in respect of constitution of the committee with regard to grant of Charter Status to IIISLA, it has now been decided to designate Shri. Sujay Banarji, Member(D), IRDAI as the Chairperson of the committee in the place of Shri. P J Jospeh, Member(NL), IRDAI with immediate effect.


Suresh Mathur
Executive Director

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Members of the Committee	

The contents of this report and the recommendations are a collective opinion of the Committee; and are based on deliberations and analysis carried out by and between all the relevant stakeholders. While certain individuals differed on some of the issues in terms of perception, the Committee as a whole stand by the holistic outcome presented in this report

Acknowledgments

At the outset, the Committee expresses its gratitude to the Chairman, IRDAI, for providing an opportunity to deliberate on the issues concerning Indian Institute of Insurance Surveyors and Loss Assessors (IIISLA), its governance structure, pre-requisites for granting of chartered status as well as the competence and ability of IIISLA to discharge its obligations and carry out its functions, if it is accorded the status of a chartered institute as proposed by IIISLA.

The Committee would like to place on record the valuable contributions of Shri P J Joseph, Member (Non-Life), who had chaired the Committee for the first two meetings. The Committee is extremely grateful to Smt. Bhumika Verma, Joint Director, DFS, Ministry of Finance, for sparing her time and providing her valuable thoughts and views.

The Committee would also like to thank the representative members of General Insurance Companies, both PSU and Private for their detailed inputs and suggestions as well as the office-bearers of IIISLA for their contribution in preparing this report.

The Committee would like to place on record its appreciation to IRDAI, New Delhi Office for providing the necessary support in facilitating the discussions and Shri R K Sharma, GM, IRDAI and Shri V Pranav, IRDAI., HO in preparation of the report and the entire team for completion and submission of the Report.

EXECUTIVE SUMMARY

1. The Authority constituted a committee Vide its Order No. IRDA/SUR/MISC/ORD/262/11/2017 dated December 4, 2017 to evaluate the proposal to grant Charter Status to IIISLA and to review and recommend a suitable framework for this purpose. The committee, comprising representatives of all the relevant stakeholders of the industry, have deliberated upon the intrinsic prospects and challenges in the present proposal received from IIISLA.

The Committee primarily focused on the following areas:

- Legal framework of IIISLA and its mandated role
- Current requirements of the General Insurance Industry
- Gaps in implementation of the IIISLA agenda
- Challenges faced by the stakeholders
- Financial and Process Audit of IIISLA
- Response from IIISLA Council

The methodology adopted by the Committee included:

- Understanding the genesis of the Legal framework
- Open deliberations with all relevant stakeholders
- Consideration of the Financial and Process Audit Report
- Understanding the current and future needs of the general insurance industry
- Making recommendations, with defined timelines

2. Major Points of Action

In order to completely discharge all the duties and carry out all the functions envisaged for IIISLA in its objects as stated in Memorandum of Association (MOA), the Committee recommends the following against each Object along with other recommendations:

Object 1: To promote quality in profession of Surveyors and Loss Assessors through education and training, facilitate introduction of best practices amongst its members and to disseminate technical information amongst its members to upgrade their skill and knowledge.

2.1 Issue: Membership Process

According to the provisions of the Insurance Act, 1938, as amended by the Insurance Laws (Amendment) Act, 2015, membership of IIISLA is one of the essential requirements for granting of Surveyors license. However, IIISLA has been insisting on giving membership to only those surveyors working in an individual capacity and denying membership to all those who are working with insurance companies and some of those working with other corporate surveyor firms citing S. No. 2 of its AOA viz. The Membership shall be restricted only to individuals holding a valid licence as defined herein and who are duly categorized as defined herein to practice as independent Insurance Surveyor and Loss Assessor.

Recommendation: Membership must be issued to every eligible applicant/existing surveyor who comply with statutory requirements. The existing provisions of AOA were drafted when the membership was not mandatory and now, in keeping with the statutory requirements of the present legal framework, it must be amended, immediately.

2.2 Fair Representation of non-motor surveyors in IISLA Council

The Committee deliberated on the need for adequate representation and greater involvement of non-motor surveyors, surveyors from other departments as well as corporate survey firms in the affairs of IISLA for wider participation, bringing in new technology advancements and best practices, nurturing high levels of professional skills, acquiring good standards and reputation for servicing the industry.

Recommendations: IISLA Council has to be made more diverse with inclusion of members from varied domains and expertise areas.

Object 2: To conduct Professional examinations relating to the profession of Surveyors and Loss Assessors.

2.3 Professional examinations:

Training and examinations are basic functions of IISLA and are essential pre-requisites for consideration of chartered status. There is a need for replacing existing licensing system with the certificate of practice to function as a truly professional body, as does The Institute of Chartered Accountants of India (ICAI) or The Institute of Company Secretaries of India (ICSI) for instance. The Committee has noted that there is no such accredited framework existing at present towards designing of courses, development of course content, criteria for qualifications at various levels, training, and also to comply with the professional requirements viz. workshops, seminars and certification programs etc., in relation to Continuing Professional Development of its members.

Recommendations: IISLA shall define a framework of technical qualifications and examinations at par with global standards and only when it has established such a framework, it can regulate the profession of surveyors and loss assessors as a self- regulatory body on the lines of ICAI, ICSI etc. IISLA may draw necessary technical know-how from similar bodies such as The Chartered Institute of Loss Adjusters, London (CILA) and then develop a roadmap for this endeavour.

Object 3: To promote research and studies in loss control and minimization techniques and measures and share the same with Insurance Industry and general public and to update its members on application of new technologies for improving service to the users and consumers.

Object 4: To bring out guidance notes, instruction manuals, periodicals for the use and benefit of members and others connected with the profession of surveyors and loss assessors.

2.4 Research, Training and publications:

The Committee observed that IIISLA has not provided any details about the measures being taken up by it for promoting research and studies to strengthen the technical capacity required for the insurance surveyor and loss assessor community in India.

Recommendation: IIISLA must set up a Research and Training Wing - for carrying out research and bringing out academic publications, both for Motor and Non-Motor technical areas in loss control and minimization techniques and measures. There is a need to promote the efficiency and usefulness of the profession of loss adjuster by having in place high standards of research and education.

Object 5: To develop and administer code of conduct and ethics from time to time with the concurrence of the IRDA and ensure compliance of the same by its members and also ensure that the members maintain/adhere to high standards of integrity, transparency, discipline, and professional conduct.

2.5 IIISLA: Internal Governance

The Committee was seized with the complaints with regard to the mismanagement of internal affairs of the IIISLA, that could potentially damage the reputation of IIISLA, surveyors as well as IRDAI, for the latter, being associated in the promotion of IIISLA. A number of court cases are filed in such matters against IIISLA, in which IRDAI is also impleaded, thereby defeating the very purpose of establishment of the institute.

Recommendation: IIISLA will be able to carry out its functions effectively only when it has proper governance structures in place. There is a need to work with all the members of the institute in a coherent manner to design a well-laid governance system to carry out the objects of its present AOA and gain credibility, essentially required for the institute as well as for the profession of survey and loss assessment.

3. IIISLA: Financial and Process Audit

3.1 Auditors report: The Committee took note of the observations pointed out in the Finance and Process Audit Report pertaining to some serious lapses in the management of IIISLA at all levels of operations. It was suggested that IIISLA must establish basic internal control systems that include preparation and implementation of manuals for processes, accountability and adherence to auditable processes, and establishment of proper voucher/invoice systems, etc. These lapses have placed serious doubts on the methods, credibility and capabilities of its existing structure, financial processes and controls.

Recommendations: IIISLA must ensure that adequate internal controls and systems are in place, including proper maintenance of books of accounts and records, appropriate structure of operations and the appointment of an executive officer, independent of office bearers. The accountability of the office bearers may be demonstrated through appropriate penal action. For instance, if it is found that there is involvement of office bearers in any of the lapses identified, suitable action may be taken against them including ineligibility to contest the elections atleast for a period of three years and so on.

3.2 Amendment in Articles of Association - Regulatory and administrative powers:

One of the key recommendations of the auditor's report after carrying out the Financial and Process Audit was to enhance the regulatory and administrative powers of IRDAI in order to have better control over affairs of the Institute. The Authority may retain express rights to take over the control of the affairs of the Institute, whenever it is of the opinion that the conduct of the affairs of the Institute is detrimental to its objects or the interests of its members or interest of the public.

Recommendation: IIISLA should amend Article 69 of AOA which deals with powers of IRDAI.

3.3 Elections in IIISLA: Auditors have also recommended that articles 49 and 50 of AOA which deals with procedure of elections to the council may be revisited and framed in line with ICAI regulations.

Recommendation:

Following are the recommendations for the matters pertaining to Elections in the Articles

- Annual Elections maybe replaced with once in three years
- No member can be elected to the Council for more than two consecutive terms
- No member shall continue in the council for more than two consecutive terms.
- There shall be rotation of members during the period of three years

4 Key recommendations of the Committee

4.1 Based on deliberations on the status of functioning of IIISLA, after going through the financial audit and process audit reports of auditors and response received from IIISLA on various matters, it is felt by the Committee that at this juncture, IIISLA does not have proper governance structure to pursue the Objects of its incorporation. The Committee is of the view that unless systems are put in place and there is a visible improvement in the functioning of IIISLA and its governance, it is not possible to consider the request of granting chartered status. The question of conferring Charter status to IIISLA arises only when the Institute demonstrates commitment and seriousness to carry out the objectives envisaged upon its present structure and maintains highest degree of governance and conduct of its day-to-day operations.

4.2 Notwithstanding the above, the Committee is of the considered view that following discussion may be taken up with IIISLA on priority:

- IIISLA shall put in place proper governance structure to pursue the objects of its incorporation and present a specific roadmap with timelines to the Authority with respect to all the actionable points mentioned above, including the measures to be taken up by them to rectify the errors/ gaps identified in the auditor's reports;
- MOA and AOA to be revised taking into consideration the suggestions made by the auditors as well as the recommendations made by the Committee;

- Provisions in AOA to be changed to ensure compliance with regard to issuance of membership and also facilitate fair representation of all types of surveyors including surveyors from other lines of business, corporate surveyors, etc. in the Elected Council of IISLA;
 - Manuals on processes and accounting procedures should be appropriately constituted and submitted to the Authority
 - Mechanism to grant membership to all licensed surveyors to be submitted to the Authority
 - Procedure for cancellation and denial of membership to be defined and submitted to the Authority.
 - IISLA must submit a roadmap within 30 days of release of this report indicating actionable points for implementation on the above; this has to be implemented within a period of six months from the date of release of this report. The progress and compliance report should be submitted to IRDAI on a monthly basis.
 - After six months, a comprehensive compliance audit report on the functioning of IISLA should be furnished to IRDAI and Ministry of Finance, indicating the status and extent of compliance of the above requirements.
- 4.3** IISLA shall have to demonstrate the highest degree of governance and conduct for a considerable period of time before aspiring for any further autonomy by way of grant of Charter status or otherwise. The performance of IISLA will be reviewed by IRDAI and Ministry of Finance and necessary direction will be provided to the Institute towards pursuit of the objects of its incorporation.

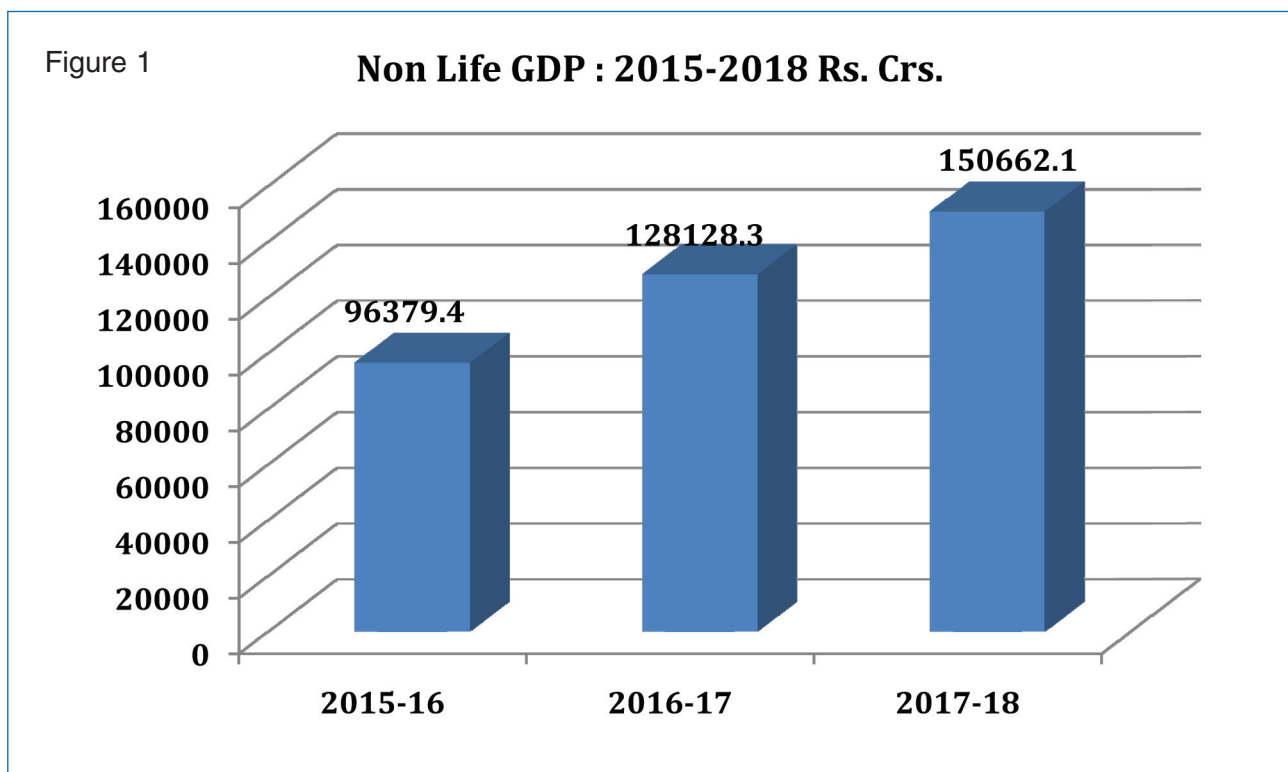
Section 1 - Background Information

1.1) General Insurance Industry - Present Scenario

As of March 31, 2018, there are 59 insurers operating in India of which 24 are life insurers, 33 are general insurers including health and specialist insurers and two are reinsurers. In addition, there are nine foreign reinsurer branches along with Lloyd's offices operating in India.

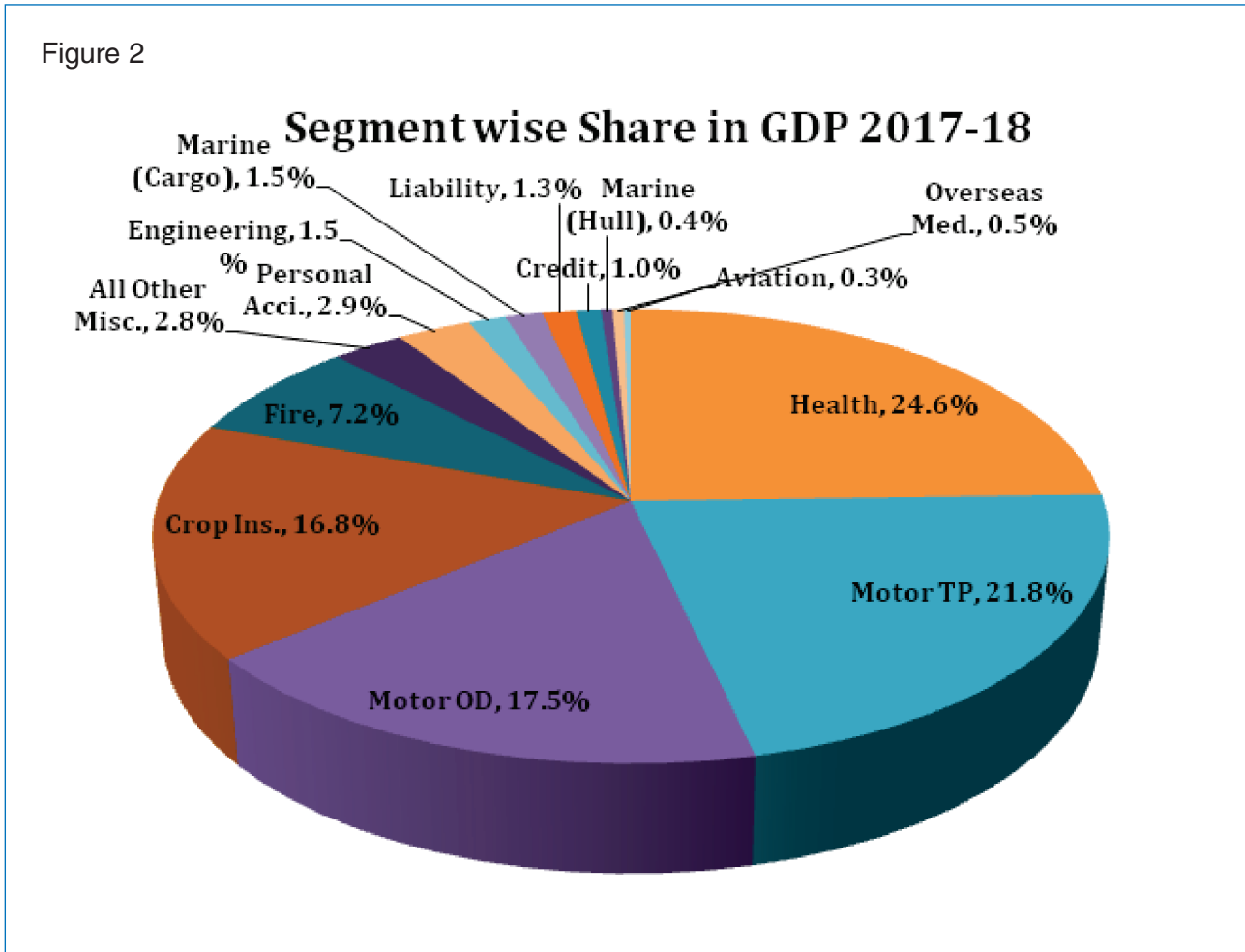
Out of 33 general insurers presently in operation, four are in the public sector and the two are specialized insurers namely, ECGC and AIC, six are standalone health insurers and remaining 21 general insurers are from the private sector.

At the time of the opening up of the insurance sector for private participation in 2001-02, the non-life insurance premium was Rs. 12,723.76 crore and by end of March 2018, the industry underwritten an amount of Rs. 1,50,662 crores as gross direct premium. The business trends in the non-life insurance sector over the last three years are as under:



¹Source: IRDAI data Compilation-Form I submitted by NL insurers

The general insurance consists of the following segments: Fire, Marine, Motor (OD and TP), Engineering, Health and Miscellaneous etc. Segment-wise Gross Direct Premium income for FY 2017-18 is given in Fig.2:



The Motor insurance segments forms around 40% of the total general insurance premium, followed by Health with a share of 25%.

The industry has paid a total amount of Rs. 67,939 crore, Rs. 78,415 Crore and Rs. 88,879 crore for FY 2015-16, 2016-17 and 2017-18 respectively.

Segment wise break up for the last three years² is given below under Table I

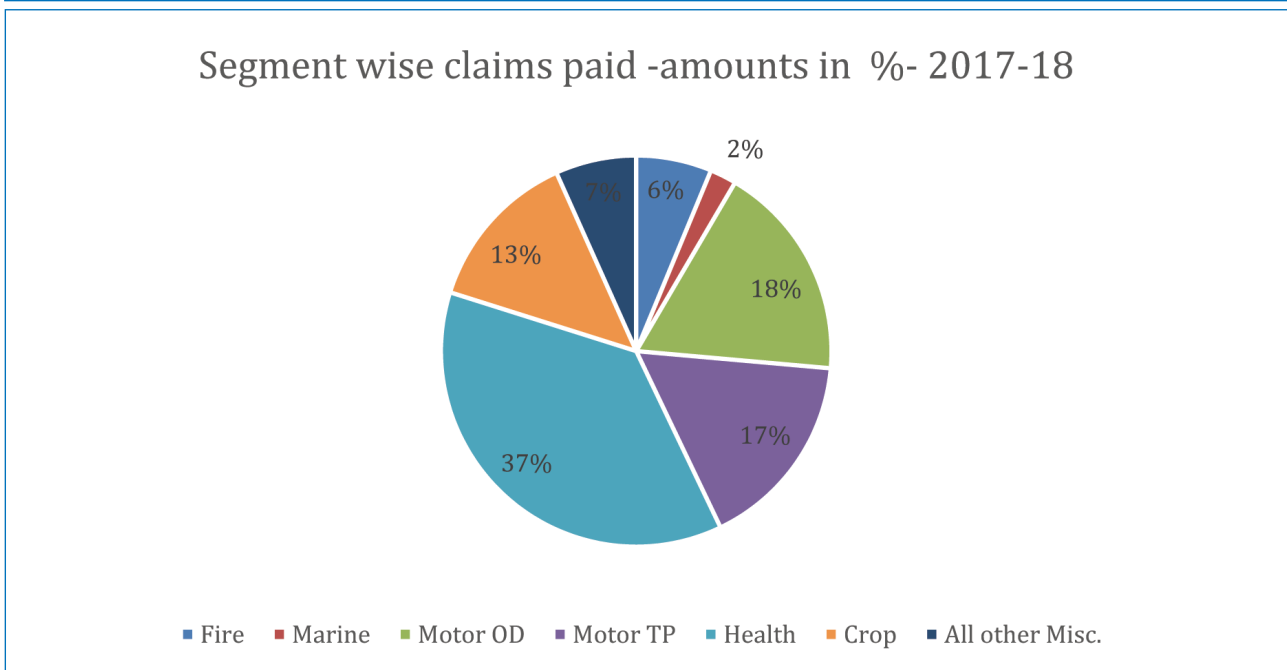
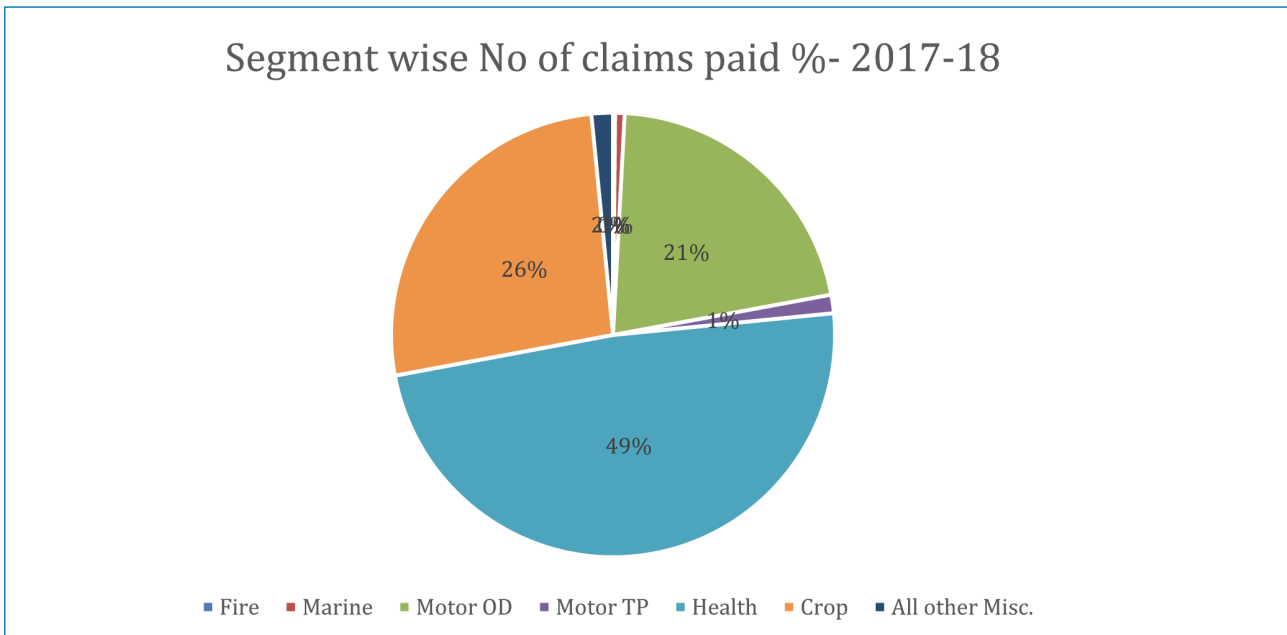
Table I: Segment wise details of Paid Claims

Segment	2017-18			2016-17			2015-16		
	No. of Claims Reported	No. of Claims paid	Amount of Claims paid Rs. Crore	No. of Claims Reported	No. of Claims paid	Amount of Claims paid Rs. Crore	No. of Claims Reported	No. of Claims paid	Amount of Claims paid Rs. Crore
Fire	55,127	46,142	5,560	57,594	48,360	5,984	80,123	63,662	5,826
Marine (Cargo)	242,653	212,544	1,541	240,251	204,785	1,893	302,396	226,694	1,616
Marine (Hull)	1,307	1,168	407	1,791	1,256	506	1,607	1,392	625
Aviation	1,423	748	421	933	461	815	687	679	481
Engineering	68,219	56,295	1,158	64,477	47,318	1,278	67,039	55,534	1,209
Motor Own Damage	7,027,415	6,591,986	15,964	6,429,494	6,057,689	15,704	5,564,473	5,206,955	14,493
Motor Third Party	470,770	415,122	14,652	497,234	490,726	13,448	616,666	453,119	11,631
Liability insurance	18,490	13,747	415	17,649	10,878	322	15,268	10,331	258
Personal Accident	168,852	141,744	2,602	159,996	117,959	1,610	139,234	99,676	1,121
Health Insurance	16,030,185	14,894,998	30,013	12,305,456	11,009,342	28,591	8,079,054	7,104,838	21,217
Overseas medical Insurance	74,612	42,293	244	70,340	50,812	237	50,111	33,814	198
Crop Insurance	7,861,925	8,178,508	11,938	12,289,592	17,315,998	5,118	15,109,497	10,474,606	6,121
Credit Insurance	2,679	1,322	1,368	2,379	1,196	909	1,942	994	1,189
All Other Miscellaneous	525,948	411,911	2,597	627,694	585,274	2,001	352,470	305,121	1,953
TOTAL	32,549,605	31,008,528	88,879	32,764,880	35,942,054	78,415	30,380,567	24,037,415	67,939

²Source: IRDAI data compilation- Form VI submitted by NL insurers

Based on above data, on average, after excluding Health insurance segment³, Motor OD claims form 32% of total claims paid in terms of numbers and 31% of total claims paid in terms of amounts. The losses reported by the insured beyond the stipulated limits (Rs. 50000/- in cases of motor and Rs. 1,00,000/- in case of other than motor segments) need to be surveyed and assessed for timely settlement of claim and the licensed surveyors and loss assessors (SLAs) are appointed by insurers for this purpose.

Figure 3: Segment wise paid claims 2017-18



The total amount of claims paid (excluding health segment) has grown by 5.6% and 16.7% over the last two years. The growing volumes of non-life business and the increasing number of claims demand existence of qualified professional surveyors to examine, measure, assess the losses and report to insurers for speedy settlement of claims.

³Health segment includes health, PA and travel

1.2) Genesis of Regulatory framework for Surveyors and Loss Assessors

Surveyors and Loss Assessors (SLAs) play an important role in the process of evaluation and settlement of claims pertaining to general insurance policies. SLAs are individuals or firms, possessing necessary qualifications as laid down in Section 64UM of the Insurance Act and the regulations framed thereunder.

The requirement of licensing of surveyors was introduced in the year 1968, through an Amendment to the Insurance Act, 1938, read with the Rules/Regulations framed thereunder. The substantive and procedural legislations deal with the licensing procedure, qualifications, code of conduct, categorization, etc. Their primary role is to examine, measure, assess and report to the insurer the financial loss or damage suffered by the insured as a result of materialization of one or many of the insured perils.

Section 64UM of the Insurance Act, 1938 provided that no person shall act as a surveyor or loss assessor in respect of general insurance business unless he holds a valid licence. The erstwhile Act required that all claims of Rs. 20,000 and above must be referred to a licensed surveyor for assessment of loss. Earlier, the Controller of Insurance, Government of India was the competent authority for grant of licence, and as of now, the IRDAI is the competent authority for the purpose.

1.2.1. Malhotra Committee Report

In the backdrop of the new industrial policy, in 1993, the Government of India set a high-powered committee headed by Shri R. N. Malhotra to examine the structure of the insurance industry, to assess its strength and weaknesses in terms of the objective of providing high quality services to the public and serving as an effective instrument for mobilisation of financial resources for development, to review the then existing structure of regulation and supervision of insurance sector and to suggest reforms for strengthening and modernizing regulatory system in tune with the changing economic environment.

The Malhotra Committee submitted its report in 1994. The Committee had recommended the opening up of the insurance sector with a new insurance regulatory authority on board. There are several other issues which were examined by the Committee suggesting legislative changes. The Malhotra Committee evaluated, amongst others, the functioning of SLAs, and suggested that the licensing of surveyors under Sec. 64 UM of the Insurance Act, 1938 may be discontinued. It further observed that insurance companies should be free to empanel, at their discretion, surveyors possessing the qualification laid down in law and assign the right surveyor the right job. It had recommended that the threshold of Rs. 20,000 should be raised to Rs. One lakh. One of the recommendations of the Committee with regard to Insurance Surveyors include setting up of an institution of **professional surveyors and loss assessors**.

"It is necessary to set up an institution of professional surveyors, loss assessors and adjusters with wide participation from survey professionals. The institution should have the responsibility to create, nurture and sustain high levels of skills among survey professionals, to evolve a code of conduct for them and to take such action as necessary against unprofessional conduct of its members. It should be mandatory for a prospective surveyor to pass an examination to be conducted by the institution and to work thereafter as an apprentice for two years under a senior surveyor of standing, before obtaining a certificate from the institution to practice the profession of surveyor".

1.2.2. Regulatory Legal Regime - Insurance Regulatory and Development Authority Act (IRDA) 1999

Based on the recommendations of the Malhotra Committee, the Government of India constituted an Interim Insurance Regulatory Authority (IRA) and later enacted the Insurance Regulatory and Development Authority Act, 1999 to establish a statutory body to regulate, promote and ensure orderly growth of the insurance and reinsurance business as also to protect the interest of policy holders. The constitution of the Insurance Regulatory and Development Authority of India (hereinafter referred to as the Authority/IRDA) is being considered as one of the most redeeming features of insurance reforms in India.

The IRDA Act, 1999 provides for the composition of the Authority, terms and conditions of the Chairperson and members including their tenure and removal; duties, powers and functions of the Authority,

The corresponding amendments made in the Insurance Act, 1938 prohibited insurers other than the insurers granted the Certificate of Registration under Section 3 of the Insurance Act, 1938 to carry on insurance business in India and investment of funds of the policyholders outside India.

Duties, Powers and Functions of IRDA under IRDA Act, 1999

The IRDA has the duty to regulate, promote and ensure orderly growth of the insurance and reinsurance business. The powers and functions of the IRDA include:

- (a) issue the applicant a certificate of registration and renew, modify, withdraw, suspend or cancel such registration;
- (b) protection of the interests of the policy holders in matters concerning assigning of policy, nomination by policy holders, insurable interest, settlement of insurance claim, surrender value of policy and other terms and conditions of contracts of insurance;
- (c) specifying requisite qualifications, code of conduct and practical training for intermediary or insurance intermediaries and agents;
- (d) specifying the code of conduct for surveyors and loss assessors;**
- (e) promoting efficiency in the conduct of insurance business;
- (f) promoting and regulating professional organisations connected with the insurance and re-insurance business;**
- (g) levying fees and other charges for carrying out the purposes of this Act;
- (h) calling for information from, undertaking inspection of, and conducting enquiries and investigations including audit of the insurers, intermediaries, insurance intermediaries and other organisations connected with the insurance business;**
- (i) control and regulation of the rates, advantages, terms and conditions that may be offered by insurers in respect of general insurance business not so controlled and regulated by the Tariff Advisory Committee under Section 64U of the Insurance Act, 1938 (4 of 1938);

- (j) specifying the form and manner in which books of account shall be maintained and statement of accounts shall be rendered by insurers and other insurance intermediaries;
- (k) regulating investment of funds by insurance companies;
- (l) regulating maintenance of margin of solvency;
- (m) adjudication of disputes between insurers and intermediaries or insurance intermediaries;
- (n) supervising the functioning of the Tariff Advisory Committee
- (o) specifying the percentage of premium income of the insurer to finance schemes for promoting and regulating professional organisations referred to in clause (f);
- (p) specifying the percentage of life insurance business and general insurance business to be undertaken by the insurer in the rural or social sector; and
- (q) exercising such other powers as may be prescribed.

1.2.3. Bhandari Committee (2002):

The Government of India had constituted a Committee on Surveyors and Loss Assessors to examine the issue of according statutory status to the Surveyors and Loss Assessors presided over by Shri K. N. Bhandari, Ex-CMD, New India Assurance Co. Ltd. The Committee has opined to do away with the licensing of surveyors and abolishing sub-section 2 of Sec. 64 UM of Insurance Act, 1938. Committee felt that the law should prescribe minimum qualifications necessary for eligibility to work as surveyor and loss assessor and it should be left to the judgement of insurer to use him as may be considered necessary. Insurance companies should be free to empanel, contract and or employ qualified surveyors. The committee favoured utilisation of in-house surveyors by insurers as a cost effective measure and recommended that in-house surveyors should also possess the same qualification that are required for external surveyor. The Committee has also stated that Government of India, IRDAI and insurance industry should do everything possible to promote establishment of an Institute for surveyors whose main objective will be to promote quality in the profession of surveyors through education and training. Having considered the recommendations of the Committee, the Government advised IRDA to take further action **to promote the institute as a self-financing and self-regulated institute on the model of Institute of Company Secretaries or the Chartered Accountants with an objective that the institute will set up norms and standards, conduct examinations, undertake teaching, research and enforce a code of conduct for its members.**

1.2.4. Need for and grounds of revision of the Insurance Act, 1938: Law Commission Report, 2004⁴

A reference was made to the Law Commission of India by the Insurance Regulatory and Development Authority (IRDA) to undertake a comprehensive review of Insurance Laws and to make recommendations for revision of the Insurance Act, 1938 and for consequential amendments thereto. The exercise of revision started with the release of Consultation Paper on Revision of The Insurance Act, 1938 and The Insurance Regulatory and Development Act, 1999 by the Law Commission of India in June 2003.

⁴<http://lawcommissionofindia.nic.in/reports/InsuranceReport-2nddraft1.pdf>

The Consultation Paper had proposed that the functions to be performed by surveyors and loss assessors should be strictly in accordance with the code of conduct laid down in the regulations of the IRDA. The power to settle claims be exercised by an Adjudicating Officer to be appointed by the IRDA. It was further proposed that appointment and payment to surveyors/loss assessors should be on rotation and controlled by IRDA. Finally, it was proposed that the requirement of a written test for issuing licence to any person to act as a surveyor be done away with because the new trainees are well-qualified technical graduates.

Although a wide range of the responses were received, the most exhaustive response was from the Institute of Insurance Surveyors and Adjusters (IISA). The principal suggestion was that “the Act should spell out only the Policy Framework. All regulatory issues should be within the purview of the Regulator. All operational and administrative issues should fall under the purview of the self-regulating Chartered Institute”. Consequently, the IISA had suggested that the system of licencing of surveyors should be abolished. They would like to have a system of issuance of certificate of practice by a Chartered Institute of Insurance Surveyors. The response of the General Insurers’ (Public Sector) Association of India was to retain then existing provisions where the appointment of surveyors was within the domain of the insurer rather than give any further powers to the IRDA, FICCI suggested that there should be no practice of licencing of surveyors and that the IRDA should be empowered to prescribe the qualifications,

However, there was no consensus arrived as such on whether the system of licensing should be continued or abolished and whether there should be a greater role for the IRDA in this regard. Moreover, this being a policy decision, the Law Commission did not therefore consider it appropriate to make any recommendations in regard to the provisions concerning surveyors and loss assessors.

The exercise was confined to restructuring of Insurance Act, 1938 in view of the developments in the insurance sector and the emerging provisions of the IRDA with the Insurance Act, 1938. Though the Law Commission had made specific recommendations in many areas requiring legislative intervention, it, however, was of the considered view that with regard to some of the specialized domain areas including Insurance Surveyors, a detailed examination by experts in such areas would be necessary for suggesting amendments to the statutory framework of the Act.

1.2.5. Ad-hoc Committee for formation of an Institute⁵:

The Authority, after considering the suggestion of the Government of India to operationalize the recommendations of the Surveyors and Loss Assessors Committee headed by Mr. K. N. Bhandari, appointed Shri G.V. Rao as Advisor to assist the Authority in processing the recommendations and taking necessary steps to establish the institute. The Advisor consulted the existing two institutes of surveyors and loss assessors operating from Mumbai and Chennai and also discussed the relevant issues with professionals in the insurance industry, including some of the CEOs of the Government and private insurers. He recommended the constitution of an Ad-hoc Committee of professional surveyors on the lines of the recommendations made by the Government Committee. The Authority vide order ref: ORD/SLA/28 /JUL-04 dated July 16, 2004, considered his recommendations and announced the constitution of the Ad-hoc Committee of Surveyors and Loss Assessors for the purposes of setting up of an independent Institute of Surveyors and Loss Assessors on the basis of recommendations of the Committee set up by the Government of India.

⁵www.irdai.gov.in IRDA Order Ref. No. ORD/SLA/20/JUL-04, dated July 16, 2004

The Ad-hoc Committee was given the responsibility to form and establish the Institute of Surveyors and Loss Assessors.

1.2.6. KP Narasimhan Committee (KPN Committee) to study the Report of the Law Commission and make recommendations⁶ : Since the Law Commission opined that in respect of a few areas, a detailed examination by experts in their respective fields would be necessary to consider any changes, the KPN Committee was asked to cover five subjects viz. Provisions relating to Investments (Sec 27, 27A and 27B); Sufficiency of Assets (Sec 64VA); Insurance Surveyors (Sec 64UM); Tariff Advisory Committee (Sec 64UA and 64ULA) and Shareholders' Funds and Policyholders' Funds (Sec 49). It was also advised to look into other areas that needed to be amended as per the Law Commission report.

The report was submitted on July 26, 2005. Under its report Chapter V, on surveyors and related matters, KPN Committee recommended the following:

Recommendations

- On a detailed examination of the various issues, views, current practices and findings of earlier Committees, the Committee recommends that the system of licensing of surveyors be abolished.
- The Committee opined that the law should only prescribe the minimum qualifications necessary for eligibility to work as a surveyor, and it should be left to the judgment of an insurer to utilize his services, as may be considered necessary.
- The Committee also did not favour dilution of qualifications for in-house surveyors and recommended that they should also have same qualifications as are required for external surveyors.
- The Committee found no merit in continuation of the mandatory legal requirement that survey by professional surveyors apply only to claims of Rs. 20,000 and above. The limit was fixed in the year 1968, and if inflation, and consequent erosion in the value of the rupee is to be reckoned, it would now translate into a very high figure. Instead, the Committee suggested that IRDA may be empowered to notify from time to time, the limits for different classes of business beyond which it must be mandatory on the part of the insurer to utilize the services of professional surveyors.
- The response to the Law Commission's Consultation Paper also yielded an important suggestion of constitution of a self-regulating institute of surveyors on the lines of the Institute of Chartered Accountants of India. Similar institutes of surveyors exist globally. The Malhotra Committee had also recommended establishment of an institute of surveyors to usher in professionalism by creating and nurturing high levels of skills and evolving a code of conduct. The Committee recommended that the Government, **IRDA and Insurance Industry should do everything possible to promote establishment of an institute of surveyors on self-sustaining basis. Such an institute should undertake the responsibility of developing courses and training programmes, conducting examinations and awarding qualifications.**

⁶www.irda.gov.in Order Ref. No: IRDA/Ord/Act/080/MAR-05, Date: March 7, 2005

- In order to ensure that the Institute, as suggested herein above, and its members become fully accountable to the users and consumers for the quality of their services, membership should be restricted to individuals. However, surveyors may form a company or partnership firm, subject to the condition that all the directors or partners, as the case may be, shall possess the certificate of practice.
- The Executive Council of the Institute should have adequate representation from Government/ IRDA and general insurance industry. The Council shall have a disciplinary committee, to take cognizance of complaints referred to it by the IRDA, and also to send its report on action taken. An appellate mechanism shall be provided to enable any aggrieved insurer, insured or surveyor to refer an appeal to the IRDA against an order/decision of the institute.
- **If the IRDA, at any time, comes to the conclusion that the affairs of the Institute are not being carried out in accordance with the mandate given, or its activities are not conducive to the interests of users and consumers, it may, by an order, supersede the Executive Council of the Institute and appoint an Administrator in its place and such an order by the IRDA should be binding on all concerned.**
- The IRDA should carry out a comprehensive review of functioning of the institute at the end of three years from the date of establishment and if it is satisfied that the affairs are being carried out in accordance with its objectives, it may persuade the Government to confer statutory status on the institute through an Act of Parliament. Till such time recognition is granted to the Institute, the IRDA shall continue to discharge the function of granting licence in terms of the present regulations.
- **Recommended amendments to provisions in the Insurance Act, 1938 relating to Surveyors and Loss Assessors by KPN Committee:**
 - I. **For the existing Section 64UM, under Insurance, 1938; the following to be substituted and the section may be numbered as section 64U:**

“64U. Surveyors and loss assessors. - (1) Save as otherwise provided in this section, no person shall act as a surveyor or loss assessor in respect of general insurance business (including health and agriculture insurance).

(2) No person shall act as surveyor or loss assessor in respect of general insurance business unless he:

 - (a) possesses one or more educational or technical qualifications as may be specified by the Authority by way of regulations;
 - (b) does not suffer from any of the disqualifications mentioned in sub-section (4) of section 42;
 - (c) is a member of a professional body of surveyors and loss assessors, by whatever name called, duly recognized by the Authority for the purpose; and
 - (d) holds a valid certificate of practice to work as surveyor and loss assessor granted by the professional body as stated in clause (c):

Provided that in the case of a firm or company, all the partners or directors or other persons, who may be called upon to make a survey or assess a loss reported, as the case may be, shall fulfill the requirements of clauses (a) to (d) of sub-section (2).

1.3) Formation of IISLA and thereafter:

Pursuant to the advice of the Government of India based on the recommendations of the Bhandari Committee to set up an institute for surveyors and loss assessors, the Insurance Regulatory and Development Authority got **The Indian Institute of Insurance Surveyors and Loss Assessors (IISLA)** incorporated on October 4, 2005.

The Institute of Indian Insurance Surveyors and Loss Assessors (IISLA) is promoted and established by IRDAI under Section 14(2)(f) of the IRDA Act 1999. As per MOA of IISLA, following are the main objects of the institute to be pursued by them:

- 1) To promote quality in profession of Surveyors and Loss Assessors through education and training, facilitate introduction of best practices amongst its members and to disseminate technical information amongst its members to upgrade their skill and knowledge;
- 2) To conduct Professional examinations relating to the profession of Surveyors and Loss Assessors;
- 3) To promote research and studies in loss control and adminimisation techniques and measures and share the same with Insurance Industry and general public and to update its members on application of new technologies for improving service to the users and consumers;
- 4) To bring out guidance notes, instruction manuals, and periodicals for the use and benefit of members and others connected with the profession of surveyors and Loss Assessors; and
- 5) To develop and administer code of conduct and ethics from time to time with the concurrence of the IRDA, ensure compliance of the same by its members and also ensure that the members maintain/adhere to high standards of integrity, transparency, discipline, and professional conduct.

It also has ancillary objects incidental to the attainment of main objects such as to organise, present, manage, superintend, conduct and participate at any place or places, talks, lectures, seminars, conferences, and other educational and professional development functions on insurance or other appropriate or insurance related subjects such as loss mitigation, loss prevention, loss assessment, and risk management, etc.

Accordingly, IISLA was established as a Section 25 Company, under the Companies Act, 1956 (now defined as Section 8 Company under The Companies Act, 2013) and was registered with ROC, Hyderabad in the year 2005. The Institute acts through its council. The council consists of both elected and nominee members. The election to the council is held once in a year to fill the 1/3rd vacancy created by retirement of members as stated in the Articles of Association (AOA) of the institute.

The council consists:

- 12 elected members
- Three nominee members, each representing Government of India, IRDAI and General Insurance Council.

- Out of the 12 elected members, four members could act as the office bearers viz. President, Vice President, Secretary and Treasurer of the Institute.

At the time of inception of IISLA, a large section of surveyors refused to become members, and there was fierce opposition to the high entry and annual fees that IISLA was charging. However, the Authority stepped in and persuaded licensed surveyors to become members of the institute. As mandated in its AOA, the Authority conducted the first council election in the year 2018 and the management of the institute was then handed over to the elected council.

As envisaged in Article 15(6) of the Articles of Association of IISLA, with the completion of the initial membership processing and the successful conduct of the first elections to the Council, the management of the Institute, promoted by IRDA, was formally transferred to the office bearers of the newly elected council at its meeting held at the registered office at Hyderabad on December 15, 2007.

Further, in order to strengthen the institute and fulfill the mandate of bringing the institute to the level of other Chartered Institutes, the Authority has mandated membership of IISLA as an eligibility criteria for grant and renewal of licenses of surveyors and loss assessors vide notification of Insurance Surveyors and Loss Assessors (Licensing, Professional Requirements and Code of Conduct) (Amendment) Regulations, 2013 on March 22, 2013. Additionally, IISLA was also empowered vide these regulations to conduct mandatory training, Continuous Professional Development (CPD) programmes, workshops, seminars etc. to enable surveyors to upgrade their skills, knowledge and their membership levels.

As per the Articles of Association (AoA) of IISLA, the following has been envisaged:

- 1) The duty of carrying out the provisions of this Article of Association shall be vested in the Council.
- 2) In particular and without prejudice to the generality of the foregoing powers, the duties of the Council shall include:
 - i. conducting examination for candidates for enrolment and the prescribing of fees thereof;
 - ii. recognizing foreign qualifications and training for purposes of enrolment;
 - iii. maintaining and publishing of a Register of persons qualified to practice as Surveyors and Loss Assessors;
 - iv. levying and collecting fees from members, students, examinees and other persons;
 - v. removing names from the Register and the restoring to the Register of names which have been removed;
 - vi. regulating, maintaining and developing the status and standard of professional qualifications of members of the Institute;
 - vii. calling for, examining and conducting elections of the Council and supervising other elections to various bodies of the Institute as the situation would warrant in accordance with the regulations of the Institute;
 - viii. issuing guidelines for the observance of the members, including the student members.

ACCOUNTS

- The Institute shall cause proper books of accounts to be kept of all sums of money received and expended by the Institute and of the matters in respect of which the receipt and expenditure had taken place and of the assets and liabilities of the Institute.
- The books of accounts shall be kept at the registered office of the Institute.
- The Council shall, from time to time, determine at what times and places and under what conditions or regulations the accounts and books of the Institute or any of them shall be open to inspection of members.
- The Council shall, from time to time, in accordance with Section 210 of the Act, cause to be prepared and laid before the Institute in a general meeting such an income and expenditure account, balance sheet and reports as are referred to in that Section.
- A copy of every balance sheet (including every document required by law to be annexed thereto) which is to be laid before the Institute in the general meeting shall not less than twenty one (21) days before the date of the meeting, will be sent to all persons entitled to receive notices of general meetings of the Institute.

AUDIT

- Auditors shall be appointed and their duties regulated in accordance with the provisions of the Act.

1.4) Present Statutory and Regulatory status

The Insurance Act, as amended by The Insurance Laws Amendment Act, 2015 stipulates under Section 64UM(1)(b) that no person can act as surveyor and loss assessor unless he is a member of a professional body of surveyors and loss assessors, namely, the Indian Institute of Insurance Surveyors and Loss Assessors.

Regulation 2(9) of IRDAI (Insurance Surveyors and Loss Assessors) Regulations, 2015 (hereafter referred as Surveyors Regulations) defines 'Institute' as the Indian Institute of Insurance Surveyors and Loss Assessors (IISLA) promoted by IRDAI under Section 14(2)(f) of IRDA Act, 1999 and incorporated under Section 8 of the Companies Act, 2013.

Regulation 15 of Surveyors Regulations elaborates on the Functions of the Institute specifying timeline of 15 days to the Institute for grant of appropriate membership to the person eligible from the date of receipt of application for membership. Regulation 15 further details the basis for categorization of members as Licentiate, Associate and Fellow in addition to training, seminar, workshops that Institute shall conduct with the prior approval of the Authority

1.5) Need for establishing a Committee for examining the proposal for grant of Charter Status to IISLA

Vide letter dated July 11, 2017, the Department of Financial Services (DFS) had forwarded a representation from IISLA registering a demand with the Ministry of Finance (MoF) to grant Charter Status.

The Authority vide its letter dated October 25, 2017, wrote to DFS elaborating the probable issues and concerns regarding overall functioning of IIISLA with a suggestion to set up a committee to review the practices and suggest suitable framework/recommendations in this regard. It was also communicated to the DFS about a proposal to carry out Financial and Process Audit of IIISLA in order to evaluate the performance of the Institute for the last three years.

M/s. Anandam and Company, one of the empanelled auditing firm of IRDAI, was appointed vide order vide letter No. IRDAI /Surveyors/11/2017 dated November 30, 2017 to conduct financial audit for the last three financial years 2014-15, 2015-16, 2016-17 and up to October' 2017 and subsequently, the scope was expanded to include process audit also as advised by the Committee vide letter No. IRDA/ Surv/IIISLA/2018/ OTW / 1242 dated January 18, 2018. The auditor submitted its report on April 18, 2018.

Vide Order No. IRDA/SUR/MISC/ORD/262/11/2017 dated December 4, 2017, the Authority constituted the present committee to evaluate the prospects of granting Charter status to IIISLA.

The Authority has made all efforts required for promotion of IIISLA and empowered its status by making the membership mandatory. The institute needs to meet the expectations of the industry and reach the global standards required to become a Chartered Institute of Surveyors and Loss assessors. As per the original plan of incorporation of IIISLA, it should have become full-fledged functional institute within three years. However, despite completion of 12 years of its formation, IIISLA is still not in a position to settle membership issues and miles apart with regard to fulfillment of the objects.

Section 2 - Present Scenario

2.1) Surveyors and Loss Assessors - Present Scenario and Status

There are 11976⁷ (approx.) Surveyors and Loss Assessors (SLAs) in India, registered with IRDAI. The insurance Regulator grants individual and corporate licenses to surveyors and loss assessors. Surveyors and loss assessors are defined as intermediary under Section 2 of IRDA Act, 1999.

The SLA licensing is broadly divided in the following two segments:

- Individual Surveyors working in individual capacity and most of them are hired by insurance companies.

Some of the individual SLAs also take up employment with insurance companies.

- Corporate Survey Firms, which are commonly a partnership/ private limited entity holding a valid SLA licence; and each Partner/ Director also holds a valid SLA. A Corporate Surveyor may also hire employee SLAs and operate from multiple locations/ offices within India. There are a little more than 250 Corporate SLAs in India. The corporate SLAs service both Motor and Non-Motor lines of business.

Other important aspects include:

- Majority of the Individual Surveyors in terms of numbers are Motor Surveyors as motor insurance is one of the largest portfolios for general insurers and it has contributed nearly 39% to the gross direct premium written by general insurers in 2017–18. Third party insurance does not require licensed surveyors if there is no asset loss.
- Based on the claims paid data received from IIB for the last two years, in terms of claim numbers, Motor-claims above Rs. 50,000/- constitute more than 95% of the total claims that have to be surveyed and assessed as per the limits.
- In terms of claims paid value, Motor claims exceeding Rs. 50,000/- represents almost 68% of the total claims paid value.
- Majority of the Property-claims are handled by Corporate Surveyors.

Claims Paid by Non-life insurance companies				
FY	Motor Above Rs. 50,000		Non-Motor Above Rs. 1 lakh	
	No of claims	Amount Rs.	No of claims	Amount Rs.
2016-17	656005	83040905768	16,794	374795,79,508
2015-16	636205	76406733735	21,217	372812,16,921

Source: Insurance Information Bureau (IIB)

2.2) Representation of SLA in the General Insurance Council

The General Insurance Council has been constituted under Section 64C of the Insurance Act, 1938 by the IRDAI. The General Insurance Council is an important link between the IRDAI and

⁷List of licensed surveyors, www.irda.gov.in

the non-Life insurance industry. It also pushes for the Industry issues with the Government. While the Council plays the role envisaged for it by the Insurance Act, 1938 as amended, it also facilitates overall growth for the industry in a fair and equitable manner in the interest of all stakeholders.

Section 64F(2) of the Insurance Act 1938, as amended by The Insurance Laws Amendment Act, 2015, on constitution of Executive Committee of General Insurance Council, specifies in clause (c) of Section 64(2) that a representative of surveyors and loss assessors is required to be nominated by the Authority in the Executive Committee of General Insurance Council.

2.3) Pre-requisites for considering the request towards attaining chartered status

1. Fulfilling the Objects of establishment of the Institute; and
2. Proper Governance and compliance with the requirements including the following:
 - i. Financial Management of Funds of IIISLA ;
 - ii. Membership for all eligible surveyors and loss assessors including trainee surveyors;
 - iii. Online System of Membership;
 - iv. Maintaining proper register and record of all inward/outward letters, emails and other communications;
 - v. Effective complaint redressal system;
3. Fair representation of surveyors from all lines of business on the Council:
4. Currently, the IIISLA Board has overwhelming representation of motor insurance surveyors only and surveyors from other lines of insurance business, viz. Fire, Marine Cargo, Marine Hull, Engineering, Loss of Profit have no voice in the administration and functioning of IIISLA. The Authority opines that other lines of business surveyors should also be fairly represented on the board of IIISLA to make it a more participative and democratic institute. Similarly, participation of women surveyors is very limited in the industry and it is recommended that they should encourage women nominee members in the council or committees formed thereunder.

2.4) Financial and process auditing of IIISLA:

Apart from the request of IIISLA for granting of chartered status, IRDAI also received many complaints from surveyors, with regard to the delay and discretionary exercise of powers by IIISLA in providing the membership and misappropriation of funds of IIISLA. Bhandari Committee, which has recommended formation of IIISLA, in its report also mentioned that IRDA must carry out a comprehensive review of the functioning of the institute and if it is satisfied that the affairs of the institute are being carried in accordance with its objectives, may advise the Government to confer chartered status to the institute.

Therefore, before forming the Committee, the Authority appointed M/s. Anandam & Co (Chartered Accountants) for conducting the audit of financial accounts of IIISLA and to study the MOA/ AOA and the processes adopted by the institute. After submission of the audit reports, IIISLA representative was invited to discuss in detail its performance and the following points were deliberated upon by the Committee:

- (i) Functioning of IISLA;
- (ii) Revision of Articles of Association of IISLA in line with present statutory and regulatory framework;
- (iii) Procedure for grant of membership including introducing an online system;
- (iv) Review of existing procedures of maintenance of records at IISLA office(s).
- (v) Financial Audit and Process Audit report

2.5) Issues and challenges associated with IISLA - Stakeholders Views

During the course of three meetings of the Committee, the members deliberated on various aspects, including the perspectives of stakeholders with regard to general insurance industry, role of surveyors, current status of IISLA, challenges faced by Insurers and the surveyors community.

According to an ASSOCHAM-APAS study report, the insurance industry is expected to grow to US\$280 billion by the end of fiscal year 2020. With an annual growth rate at 17%, the general insurance industry business is likely to exceed Rs.2,00,000 crore by 2020 and surveyors play a key role in assessing insurance claims. The IISLA, as a professional body of surveyors and loss assessors after acquiring charter status, will be accountable not only to the insurance industry but to the general public at large.

Concern areas:

- At present, the surveyors' profession is not very attractive and the IISLA has to enhance their professional image and competence to attract talent. There is a need to develop a well-trained cadre of surveyors to meet the market demand.
- Currently, a bulk of the surveyors service the motor segment but the role of non-motor surveyors is also of equal importance, given the value of claims handled by them.
- The average age of the current crop of top 50 loss assessors in the country is around 65 years; and barring a few, there are not many bright young individuals on the horizon.
- New talent is not forthcoming for surveyor's profession and therefore it has to be seen where IISLA failed in complying with the requirements to address this issue.
- Corporate survey firms also play an important role, but IISLA has failed to adequately appreciate/ address the needs of this segment.
- Motor survey will witness radical changes with development of newer technologies in the foreseeable future. As such, the scope of motor survey is likely to get restricted.
- The complexity and dimension of Survey and Loss Assessment in the Property and Miscellaneous segments will increase manifold with the changes in technology applications and business.

IISLA Membership to Eligible SLAs

- Out of 11976 licensed SLAs, as per the list published by IISLA on its website, there are 7897 members only⁸.

⁸<http://www.iisla.co.in/memberlist.php>

- This has been an industry-wide challenge, though acutely being faced by the employees of the corporate survey firms and insurers, as hundreds of membership applications have been held up.
- The IIISLA has a different/limited interpretation of independent surveyor and employee surveyors. The employee surveyors working with corporate surveyors carry out their professional duty of survey and loss assessment impartially and independently. Their independence should be interpreted as independence in his professional work and hence, the IIISLA needs to relook at their version of an independent surveyor. The issue of ‘Employee Surveyor’ and ‘Non-Employee Surveyor’ has to be addressed with clarity.
- The status of membership should be available for public viewing to ensure transparency. The status of applications, new as well as renewals, should be visible to everyone. The transparency in displaying status of membership would also reflect how confident IIISLA is about its working.
- The IIISLA should consider granting membership to employees of insurance companies as Act and Regulations do not differentiate between individual and employee surveyors. Keeping in view the above, the IIISLA should not have a discriminatory process of granting membership and pre-empt regulations.
- The Committee felt that there is an urgent requirement to amend MOA and AOA of IIISLA in compliance with the Act and Regulations.

Fair representation of surveyors from all lines of business on the council

- The total amount of claims outgo from non-motor lines is around 80% and hence a fair representation of non-motor surveyors is required in IIISLA to ensure that an adequate number of well-trained non-motor surveyors are available.
- Corporate survey firms also play an important role but the IIISLA has failed to adequately appreciate the needs of this segment.
- Adequate representation of general insurers and surveyors from all segments in the IIISLA governing body is a necessity, given the vital role played by loss assessors in the claims management process of general insurance companies.
- With the rapid induction of advanced technologies and innovations, the whole business of motor survey will witness radical changes in the near future. As such, the scope of motor survey is likely to get restricted.
- It is in this background that the IIISLA Council has to be made more representative for including members with varied domain expertise and skills.

Continued Professional Development

- The Institute, in consultation with IRDAI and General Insurance Council, may deliberate on the development of dedicated academic courses preferably by tying up with Institutes/Universities to encourage youngsters to join the profession of surveyor and loss assessors.
- The Committee also discussed the quality of training imparted by the IIISLA. Insurance companies offer a variety of products and surveyors are required to be aware of the intricacies of these products and this may also be part of training curriculum of the IIISLA.

IIISLA Management

Concerns were expressed by committee members with respect to the IIISLA management, which includes:

- Lack of proper governance structure and accountability by management;
- Absence of process transparency at various levels including chapters,
- Negligible efforts to meet its objects including development of courses and academic qualifications required for different levels of Certification
- Lack of framework for training and Continuous Professional Development required as per Regulations
- No Research and Development efforts to address the changing industry requirements, in tune with the times
- Lack of industry-wide representation for broadening professional expertise and technical know-how in diversified fields of the insurance sector

It is in this background that the IIISLA Council has to be made more representative for including members with varied domain expertise and skills.

For the development of IIISLA into a chartered body, it is essential that the institute draws support of all stakeholders – which include the IRDAI, DFS- GOI, Insurance Companies (PSU and Private), Corporate Insured, Veterans from insurance industry, Legal experts, Surveyors from Non-Motor and Motor segments; and it shall have to put in place a framework of technical qualifications and examinations at par with global standards. Only when it has such established framework, it can regulate the profession of surveyors and loss assessors as a self-regulatory body on the lines of ICAI, ICSI etc. Like ICAI and ICSI, there needs to be a defined code of conduct and ethics for Council members who are vested with policy/decisions to promote ethical conduct and good practices amongst members and punish wrong-doers. Laying down such codes shall be a step towards ethical decision-making in which strategic management decisions result from due deliberations and objective analyses of facts, distanced from personal biases, learning, subjectivity or emotional perceptions. An appropriate Financial Standing Order document has to be developed which will, inter alia, specify the Financial Authority limits of the authorised officials for various heads of bank accounts.

2.6) Presentation by IIISLA Council

The representative of the IIISLA Council in the Committee stated that:

- At present, pendency is minimal and applicants are informed of deficiency in their applications;
- Online gateway for payment of subscription to be operational⁹;
- Filing of membership application and checking status thereof would be available on a new website/portal;

⁹Online gateway is launched by the time of submission of this report and the IIISLA membership enrolment gone up to 9362. (Source: <http://www.iiisla.co.in/downloads/ListofMembers-21-09-2018.pdf>)

- In the new online system of membership, IISLA Chapters/members will be bound by time-frame for recommending applications and if any member or chapter does not respond within the stipulated timeline, the application will get escalated to higher/next level automatically

2.7) Existing Practices of similar institutes-case studies

- **Institute of Chartered Accountants of India¹⁰**

The Institute of Chartered Accountants of India (ICAI) is a statutory body established by an Act of Parliament, viz. The Chartered Accountants Act, 1949 (Act No. XXXVIII of 1949) for regulating the profession of Chartered Accountancy in the country. The Institute functions under the administrative control of the Ministry of Corporate Affairs, Government of India. The ICAI is the second largest professional body of Chartered Accountants in the world, with a strong tradition of service to the Indian economy in public interest.

The affairs of the ICAI are managed by a Council in accordance with the provisions of the Chartered Accountants Act, 1949 and the Chartered Accountants Regulations, 1988. The Council constitutes of 40 members of whom 32 are elected by the Chartered Accountants and remaining 8 are nominated by the Central Government generally representing the Comptroller and Auditor General of India, Securities and Exchange Board of India, Ministry of Corporate Affairs, Ministry of Finance and other stakeholders.

ICAI conducts three levels of examinations viz. the Common Proficiency Test (formerly known as Foundation Course), Integrated Professional Competence Course (IPCC) and Final along with various certificate courses being part of the Continuous Professional Development. Enrolment of membership, the levels of examinations, syllabus and the article ship required to become a Chartered Accountant, details with regard to the issuance of Certificate of Practice and code of conduct to be adhered to, with the framework of complaint redressal and disciplinary mechanism are clearly stipulated under the Chartered Accounts Regulations, 1988. The requirements to become a Chartered Accountant are detailed in their website.

- **Institute of Company Secretaries of India¹¹**

The Institute of Company Secretaries of India (ICSI) is a recognised professional body in India to develop and regulate the profession of Company Secretaries in India. It is a national professional body set up under an act of Parliament, the Company Secretaries Act, 1980. The ICSI functions under the jurisdiction of the Ministry of Corporate Affairs, Government of India. The Institute provides top-quality education to the students of Company Secretaries (CS) Course and best quality set standards to CS Members. At present, there are more than 50,000 members and about 4,00,000 students on the rolls of the ICSI.

The Council of the Institute of Company Secretaries of India approves the syllabus (for the Executive and Professional Programmes) of the Company Secretaryship Course.

- a) Student Enrolment: The process of registering is online. Students are essentially required to fill up and submit their application online.

¹⁰[www.https://www.icai.org/](https://www.icai.org/)

¹¹<https://www.icsi.edu/about-icsi/>

- b) Passing the examinations at various levels: There are three stages covered under the CS Course:
1. Foundation Programme (10+2 Passed Students can start from this stage)
 2. Executive Programme [Bachelor's Degree (except in Fine Arts), Foundation pass of ICSI, Foundation pass of ICAI-CMA, CPT Pass of ICAI can start from this stage]
 3. Professional Programme.
- The details of eligibility and exemption procedures are detailed on their website.

The registration is open throughout the year. However, certain cut-off dates have been fixed vis-à-vis the CS Examinations conducted in June and December every year.

There are Guidelines for Good Council Practices and there is a separate code of conduct for Council and members of senior management. The Code is designed to assist in defining appropriate personal and professional conduct, to provide guidance in the identification and resolution of ethical issues, and to help the members of the Council and the members of the Senior Management of the Institute to maintain a culture of honesty, integrity, transparency and accountability.

Each Council Member and member of the Senior Management should endeavour to deal fairly with the Institute's members and students. No Council Member or senior member of the Institute should take unfair advantage of anyone through manipulation, concealment, abuse of privileged information, misrepresentation of material facts, or any other unfair dealing/ practice.

APPLICABILITY OF CODE

The Code applies to the members of the Council and the members of the Senior Management of the Institute. The Code of Conduct and Ethics also applies mutatis mutandis to the members of the Regional Council and members of Management Committee of Chapters.

A comparative table of the activities being done by the ICAI, ICSI vis-à-vis IISLA is given below:

ICAI	ICSI	IISLA
Regulate the profession of Accountancy	Regulate the profession of Company secretaries	Yet to establish the guidelines, procedures and processes for implementation of most of these activities in a full-fledged manner.
Education and Examination of Chartered Accountancy Course	Education and Examination of Company Secretary Course	
Continuing Professional Education of Members	Continuing Professional Education of Members	
Conducting Post Qualification Courses	Conducting Post Qualification Courses	
Formulation of Accounting Standards	Formulation of Secretarial practice Standards	
Prescription of Standard Auditing Procedures	Prescription of Standard Secretarial practice Procedures	
Laying down Ethical Standards	Laying down Ethical Standards	
Monitoring Quality through Peer Review	Monitoring Quality through Peer Review	
Ensuring Standards of performance of Members	Ensuring Standards of performance of Members	

Exercise Disciplinary Jurisdiction	Exercise Disciplinary Jurisdiction	
Financial Reporting Review and guidance notes	Publishing Guidance notes and papers	
Input on Policy matters to Government	Input on Policy matters to Government	

2.7 International practices: Case studies

i) Chartered Institute of Loss Adjusters, London, UK¹²

The Chartered Institute of Loss Adjusters, London (CILA) is a globally recognized membership organization for insurance claims professionals and was granted a Royal Charter in 1961. The aims of the Institute's Charter are to promote the education of its members and it therefore provides its members with a range of qualifications from a Level 3 Certificate recognised on the Qualification Credit Framework in the UK to a Masters level 7 qualification.

The Institute has a Guide to Professional Conduct, a Royal Charter and Bye-Laws. All of these can be found via their website www.cila.co.uk. The Institute sets the professional and ethical standards for those who work in the handling of claims through its qualification framework and guide to professional conduct. This, together with the Guide to Professional Conduct, enables the Institute to exercise control over the professional standards and conduct of its members.

Objectives of CILA

- a. To advance the study of the profession of loss adjuster.
- b. To promote the efficiency and usefulness of the profession of loss adjuster by requiring the observance of strict rules of professional conduct by members of the Institute and by establishing high standards of education and knowledge.
- c. To secure the association of those who practice as loss adjusters.
- d. To establish designated groups of members in United Kingdom and in any part of Commonwealth or elsewhere; and to discontinue or abolish any such designated groups.
- e. To establish and maintain an efficient database of relevant information.
- f. To publish or superintend the publication of books, pamphlets, papers and other matter relating to the affairs of the Institute, whether in print or electronically.
- g. To provide lectures, classes or other tuition or to make grants thereof for the benefit of members of the Institute.
- h. To make grants to Universities or other educational establishments towards the provision of such lectures, classes or other tuition.
- i. To award prizes to deserving members of the Institute.
- j. To acquire by purchase or taking on lease or otherwise, premises for use as offices and other facilities for the use of the members of the Institute or for any purpose of the Institute.
- k. To establish a General Fund and such other funds as may seem proper and to apply such funds in accordance with the provisions of this Charter, including the payment of remuneration to employees of the Institute and of pensions or annuities to former employees and their dependents.

¹²Source: <https://www.cila.co.uk/>

- i. To do all such other lawful things as may be associated or connected with or as may be incidental or conducive to or in furtherance of the foregoing objects.
- m. To ensure that all members comply with the Institute's Guide to Professional Conduct.
- n. To ensure that all members comply with the Institute's requirements in relation to Continuing Professional Development.

Learnings from CILA: The Committee invited country representative of CILA to brief the committee on the possibility of mentoring of IISLA by CILA who elaborated on the following aspects where CILA could provide assistance and guidance:

- Guidance on competencies and knowledge requirements
- Guide to measuring required competences and knowledge
- Guidance on setting, marking and moderating examinations
- Guidance on benchmarking of qualifications
- Guidance on Guide to Professional Conduct preparation
- Defining technical professionals in India
- Offering CILA qualifications to IISLA members
- Support training and technical workshops
- Offering reading material and books

ii) Australasian Institute of Chartered Loss Adjusters (AICLA)¹³:

The Australasian Institute of Chartered Loss Adjusters is Australasia's premier professional Loss Adjusting Institute with the primary object to advance the Profession of Loss Adjusting for the benefit of its practitioners and the public in general through the continual education of its Members and the encouragement of skilled, ethical and sound practices in the Profession. There are different classes of membership viz. Provisional, affiliate, associate and fellowship. The eligibility for various classes of membership depends upon the successful completion of the required qualifications, completion of specified period of experience, and compliance with the requirements of Continued Professional Development etc. The requirements to become a Chartered Loss adjuster are detailed in their website

With regard to management, the Board of Directors are elected from Division Councils and is supported by a number of committees. Division Councils are elected annually and are responsible for organising local educational activities. The Administrative Office assists the Board in the development and implementation of strategic directions and policies.

2.8. Recommendations:

- The office administration, hierarchy and number of offices of IISLA across the country have to be rationalized and a clearly defined organizational structure has to be created and mapped with the respective Job Positions, Job Profiles and Job Responsibilities with a code of conduct for people who will be put in these positions.
- The IISLA should come with a codified process both for enrolment as well as upgradation of membership for various levels.
- From academic perspective, the CILA model can be replicated by customizing the same for relevance in the Indian context and environment.

¹³<https://aicla.org/>

The IISLA shall define a framework of technical qualifications and examinations primarily required for becoming a Surveyor and Loss Assessor along with CPD requirements. And only when it puts such a framework in place, it can regulate the profession of surveyors and loss assessors as a self- regulatory body on the lines of ICAI, ICSI, etc. The IISLA may draw necessary technical know-how from similar bodies such as The Chartered Institute of Loss Adjusters, London (CILA) and Australasian Institute of Chartered Loss Adjusters (AICLA) and develop a road map for this endeavour.

Section 3 - Financial and Process Audit of IISLA

3.1) Appointment of Auditor for examining the affairs of IISLA:

The Authority had appointed the chartered accountants firm M/s Anandam & Co., to conduct financial and process audit of IISLA for the financial years 2014-15, 2015-16, 2016-17 and upto October 2017 vide letter no. IRDAI/Surveyors/11/2017 dated November 30, 2017. The terms of reference were:

- 3.1.1 Reconciliation of
 - a. Bank accounts
 - b. Membership fees
 - c. Other receipts
- 3.1.2 Verification of
 - a. Expenses and list of expenses which are of personal nature
 - b. Accuracy of the financial statements
 - c. Financial statements of zonal offices
 - d. The assets and liabilities
 - e. Charge or encumbrance, if any, on the assets of the IISLA
 - f. Status of the compliance of all applicable laws more particularly Companies Act, 2013, Income Tax, PF Act, etc.
 - g. Disclosure of the interested parties to the Council by the council members
- 3.1.3) Consolidation of the financial statements of zonal offices
- 3.1.4) Physical verification of the assets
- 3.1.5) Listing out the details of the bank accounts of Head Offices and zonal offices
- 3.1.6) Study of the existing internal control systems and suggesting measures to ensure an effective internal control system
- 3.1.7) Study the MOA/ AOA of IISLA, suggest the necessary amendments to provide effective control of the institute to the Authority and the method/ process to be adopted for carrying out the proposed changes
- 3.1.8) Study processes and suggest the necessary changes to strengthen the processes with aim to bring the Institute at par with the Chartered status provided such as ICAI, ICSI, etc.
- 3.1.9) Any other item ancillary to the above.

The scope of the assignment of the Audit Firm was discussed by the Committee

The Committee, in order to have a holistic view on the affairs of the IISLA, was of the view that the scope of the Audit Firm may be enhanced to incorporate process audit of IISLA along with financial audit. Accordingly, the scope of audit was extended vide letter no. IRDA/Surv/IISLA/

2018/OTW/1242 dated January 18, 2018 to conduct the process audit with the following terms of reference:

- Study of MOA and AOA of the IISLA, suggest necessary amendments to provide effective control of the institute to the Authority and the method/process to be adopted for carrying out the proposed changes
- Study the processes and suggest the necessary changes to strengthen the processes with aim to bring the Institute at par with the Charter Status provided to institutes such as ICAI and ICSI.

The Auditor carried out the exercise and submitted its report on April 16, 2018. It was reported that the offices of the Zones / Chapters are operated at the residence of the office bearers. It was also highlighted that there are material weaknesses in the manner of maintenance of books and preparation of the Financial statements rendering them inaccurate. The Committee noted with concern that the report is subject to the following limitations:

Unavailability of data for FY 2014-15;

- Books of account not updated for FY 2017-18 up to October 2017;
- Non-submission of certain zone/ chapter/ unit (seminar) statements of account
- Absence of books of account for zone/ chapter/ unit (seminar);

The Committee has called the audit firm to make a presentation on the findings of the audit. The Committee noted that the following are the major findings:

3.2. Major/ serious findings of the Financial Statements:

- Primary books of account like Cash Book, Bank Book, Journal Book and General Ledger are not maintained on a day to day basis at Head office. The Chapters/ Zones are not maintaining any books of account.
- The Audited Financial statements do not capture the State of Affairs of the Institute because:
 - Chapters/Zones do not adopt accounts;
 - Chapters/Zones do not submit accounts;
 - no representation is taken from the management/Zones/Chapters that the accounts are complete and accurate;
- The centralised accounting processes with available information without a two-way communication are designed to build incomplete accounts;
- There are material weaknesses in the manner of maintenance of books for preparation of the Financial statements rendering them inaccurate
- There is no voucher system for receipts as well as payments done by cash / bank relating to the conduct of seminar by units under each chapter /zone.
- There are no proper reconciliations and confirmations for various items in the financial statements
 - Entries are bunched and a single entry is passed for the entire year's transactions
 - Inadequate Audit processes, both internal and external, rendering the authenticity of

the documents, the completeness and the classification of expenses open to question.

- Qualification by the statutory auditors in the audit report do not adequately cure the defect
- o Lack of rigour in accounting for members' fees and collections for Seminars
- In-Completeness of Financial Statements

3.2.1. Deficiency in data for preparing Accounts

- Seminar Income and Expenditure accounts are not incorporated
- Bank Accounts are not incorporated
- Cash Accounts by chapters/Zones are not incorporated.
- The finalization of annual accounts is done in an inaccurate and incomplete manner without proper understanding of the process and method of closure of accounts.

3.2.2. Status of accounts submission of Zones/Chapters/Seminar units

Particulars	2016-17		2015-16		2014-15	
	No. of units	Not submitted	No. of units	Not submitted	No. of units	Not submitted
Zone Accounts	4	3	4	2	4	4
Chapter Accounts	23	15	23	16	23	23
Seminar Accounts	42	30	58	26	7	7
Seminar Accounts (Joint ventures with III)	0	0	5	5	0	0

3.2.3. Inaccuracies in financial statements

- **Income / Expenditure**
- Erroneous recognition of subscription income
- Excess/ short recording of seminar fee
- Excess recording of other income
- Excess/ short recording of workshop expenses
- Erroneous treatment of bank transfers as income/ expense
- Erroneous treatment of rejection of cheques deposited as seminar fee/ workshop expenses

3.2.4. Material entries for which no explanation(s) offered

- Withdrawal entry in the Bank account of West Zone with narration "DD issued" – Rs.20,00,000/- on January 19, 2017
- Certain Cheque payments made to various individuals as per the Bank Statements
- Cash deposits and withdrawals for which no books of accounts are prepared and hence transaction details not available

- Transfers to bank accounts are not incorporated in the books of accounts and consequently in financial statements
- Instances where bank accounts have not been included in the financial statements. It is also possible that some bank accounts have been opened without the same being incorporated in the books of account and have not been noticed by us.

3.2.5. Issues in Accounting

- Considering that membership is cancelled if subscription is not received in time, Subscription receivable should be zero. However, Subscription Receivable stands at Rs. 2.24 crores for FY16-17
- Corpus fund is a derived figure – Rs 3.20 crores
- Seminar fee includes income from Donations and Sponsorship
- Cheques received for Advertisements have not been segregated
- Specified Bank Notes (SBN) Balances – Correctness not ascertainable
- Cheques deposited but not issued, Cheques issued but not cleared and Cheques on hand are showing inaccurate balances.
- No bank Reconciliation Statements are prepared
- The accounts are not maintained on an accrual basis, but entirely based on the bank statements.

3.2.6. Accumulation of Funds without any plan for deployment

Particulars	Investments	Fund Balance	Short / Excess
As on 31 March 2017			
Building Fund	6.44 cr	5.94 cr	Short 0.5 cr
Training and Education Fund	3.98 cr	4.2 cr	Excess 0.98 cr
Benevolent Fund	1.51 cr	1.56 cr	Excess 0.05 cr
Research Fund	2.20 cr	2.06 cr	Short 0.14 cr

There are 2,803 reported cases, where subscription is indicated as receivable from members. Out of this, 1,480 cases are pending for more than three years, while another 966 cases are pending for more than two years. Considering that membership is cancelled if subscription is not received in time, Subscription receivable should be zero. However, the Subscription Receivable from members for the FY 2016-17 is Rs. 2,23,63,145/-. In the absence of reconciliation of member's database with books of account, the accuracy of this amount is not ascertainable.

3.2.7. Verification of expenses of personal nature

- In the absence of adequate internal controls and recording of data, it is difficult to establish whether expenses incurred are of a personal nature.
- All seminar expenses are not supported by payment vouchers specifying the details of

persons to whom the monies are paid and the purpose for which it is paid and the person authorized the payment

- Travel reimbursement claims of certain council members are not supported by details of boarding passes, purpose of travel, proof of attendance and tour report.
- Payments to travel agents as per the claims by certain council members are not supported by tickets, original invoices etc.
- All the cheque payments and cash withdrawals are considered as workshop expenses and without any supporting vouchers in majority of the cases.

3.3) Review of processes

3.3.1. Material Weaknesses observed in Processes

- Absence of hierarchical controls of the Central Council/Zones/chapters
 - Issues of autonomy
 - Issues of consolidation of accounts
- Absence of rigour in Accounting and Audit processes
 - Accounts are not complete; accounts are not true and fair
- Absence of observance of strict protocols in the election processes
 - Link up eligible members with fees paid
 - Preparation of voters list
 - Cutoff dates for holding elections
 - Rotation of office bearers
- Absence of Accounting processes for
 - Budgets
 - Sanctions
 - Delegation of powers
 - Collection of fees
 - Expenditure incurred
 - Closing processes
 - Timelines
- No disincentives for non- compliance for accounting processes

3.3.2. Weaknesses in Internal Control System :

The Committee noted the findings of the audit firm on existing internal controls systems, which are as under:

- The offices of the Zones/ Chapters are operated at the residence of the office bearers viz. the Chairman, Secretary or Treasurer without display as required under the Companies Act, 2013. This amounts to non-compliance of the Companies Act, 2013;
- The primary books of accounts such as the Cash Book, Bank Book, Journal Book and General Ledger are not maintained on a day-to-day basis at Head office. The Chapters/ Zones are not maintaining any books of account.
- Blank cheques are signed by one of the signatories and kept in the offices of the chapters/ units, for signature of the second signatory for office use. This is a serious lapse in internal financial control.
- There is no voucher system for receipts as well as payments done by cash/ bank relating to the conduct of seminar by units under each chapter/zone.
- There are no proper reconciliations and confirmations for various items in the financial statements.
- Absence of rigour in accounting for fees and absence of link between payment fees and Members Register
- The system of submission of audited income and expenditure account, receipts and payments account and statement of affairs as at year end relating to seminars conducted by units during the respective years is not followed with rigor.
- Huge cash withdrawals are observed which will result in weakness in internal financial control systems amplified by non-maintenance of cash book and bank book by the Chapters/ zones.
- There are no manuals for administration, accounting and auditing processes for use by the Chapters/ Zones/ Units and Head office.
- There is no process of obtaining management certificates for closing balances of cash-on-hand as at year-end and the bank statements operated by the Chapters/Zones.
- The finalisation of annual accounts is done in an inaccurate and incomplete manner without proper understanding of the processes and methods involved
- Minimal vouchers for seminar expenses and receipts. Processes for verifying the same do not exist.
- Deposit of subscription collections are not within a reasonable time
- Faulty periodical and year-end closing procedures
- Lack of a permanent office in many chapters and difficulty in tracing records
- No proper accounting staff
- No expenditure rules and no travel claim settlement form has been prescribed.
- Poor recording of the Minutes of the Councils, Standing committees etc.

3.3.3) Members Register

- Date of admission not captured
- No mechanism to identify whether the members are holding valid licences from IRDA
- No mechanism to identify whether members are also employed surveyors.
- Members are allowed to remain on the rolls even without payment of subscription fees which is not in line with the IIISLA Regulations

3.3.4) Absence of Governance in the Zones and Chapters

- Meetings not held
- Accounting not done
- Budgets are not prepared
- Annual Reports not prepared
- Elections are held with incorrect members list

The Audit firm has made the following observations on MOA/ AOA:

3.3.5) Review of Memorandum of Association and Articles of Association/ Regulations

- Need to overhaul the governance of the Institute
- Fix the responsibility matrix of Zones/Chapters and the Central Council
- Material corrections required in the IIISLA Regulations to rectify drafting errors
- Reorganization of clauses within the MOA, AOA and regulations
- Re-numbering of clauses
- Clarity required on protocols for
- Elections
- Membership fees and registers
- Delegation of powers and authorities

3.3.6) Setting up of Standing and other committees

- Constitution
- Monitoring and
- Reporting
- Code of Ethics to be codified consistent with other Self Regulatory Organisations
- Strict Disciplinary Mechanisms to be set up and incorporated in the Regulations
- Realign certain provisions to be consistent with Companies Act, 2013
- Power to IRDA to supersede the management under certain circumstances

3.3.7) Way Forward suggested by the Auditors

- A full review of the Memorandum and Articles of Association
- A fresh look at the Standing Committees and other Committees

- Establishment of proper voucher systems for receipts and payments at all levels i.e., Units, Chapters and Zones
- Activating the Audit Committee
- Thorough overhaul of the IISLA regulations
- Discuss issues of Code of Ethics and codify as a separate regulation under the IISLA
- As a one-time measure update Members List
- Manuals to be written for processes and Controls
- Adherence to Processes must be an auditable and reporting event

3.3.8) Response of IISLA's representative on the Committee:

Following are the comments of the IISLA with respect to the observations of the auditors:

- The IISLA has noted the observations of the auditor with respect to the internal control system.
- With respect to the observation that offices of zones/chapters are operated at residences of office bearers amounting to non-compliance of Section 2(14) of Companies Act, IISLA submits that they are in the process of restructuring administration and centralizing the accounts at head office and will do away with chapters and zonal offices. They have confirmed that full-time trained staff are at the head office of the Institute to take care of accounts henceforth.
- With respect to blank cheques kept in offices, IISLA has confirmed that online payment will be immediately put in place and issuance of cheques will be avoided.
- IISLA has formed a committee for Accounts, Audit and Compliance to prepare manuals for administration, accounting and auditing processes.
- As regards observation of the auditor on database of members, IISLA has confirmed that they are revamping and replacing the existing database with a new ERP based database/software with android app interface.
- As regards a few specific audit observations, the IISLA has assured Authority that it will obtain all supporting documents in respect of seminar expenses of chapters or such amount would be collected from the personal accounts of the respective office bearers or in charges for recovery. The issues will be addressed once the manuals are in place.
- The IISLA has also confirmed that it will take disciplinary action against office bearers/ Council members who have not submitted bills or vouchers for the expenses incurred by them for travel and conduct of seminars, etc.
- With respect to the audit observations on non-inclusion of accounts of zones and chapters while finalizing annual statements and erroneous entries with respect to dishonored cheques, subscription accruals, overstatements, etc., the IISLA has noted the observations and assured that, wherever practicable, certificatory entries will be passed while preparing accounts for the year 17-18 or will be achieved in next audited accounts.

Based on the above, the Committee is of the view that the internal functioning and management of IISLA is very poor and they have to raise their performance standards in a holistic manner to establish themselves as a professional institute first. With the current state of affairs, it is premature to think of considering the request of IISLA towards granting of chartered status.

Based on the observations made by the Committee, vide their response submitted, IISLA denied many of the recommendations, and the Committee noted its dissent on the concept of licensing of employee surveyors. IISLA representative is of the view that employees of insurers ought not to be licensed as surveyors, as according to their perception there is a conflict of interest. However, the Committee is in agreement with the recommendations of the Bhandari Committee wherein it is mentioned that insurers should be encouraged to increasing use of in-house surveyors without dilution of qualification requirements prescribed under law to obtain license that are applicable to external surveyors.

Recommendations:

The Committee noted with concern the serious lapses pointed out and the eye-opening facts brought out in the report. These lapses call for immediate remedial action. The Committee has gone through the recommendations made by the Audit Firm. The Committee recommends for acceptance of the following recommendations of the audit firm:

- Proper maintenance of accounts with accountability at Head Office/Zones/Chapters/ Units, i.e. proper books of accounts such as the Cash Book, Bank Book and Journal along with other accounting records shall be maintained at units/ chapters/ zones with centralized accounting function at Head Office;
- Appointment of Zone/chapter/unit auditors along with the statutory auditor under the Companies Act, 2013 by Central Council
- Rotation of statutory auditors after every five years to be renewed every year.
- Preparation and implementation of manuals for processes and controls at Head Office, Units, Chapters and Zones.
- Adherence to processes must be an auditable and reporting event for all the auditable units.
- Accounting staff must be trained, and enough resources must be provided
- Establishment of proper voucher systems for receipts and payments at all levels i.e., Units, Chapters and Zones
- As a one-time measure, update Members List
- Allocation and use of various funds to be regulated
- Central Office to appoint Zone/chapter/unit auditors
- Demand ownership of the Accounting statements from the Chapter/Zone councils
- Misconduct to include compliance expectations of office bearers

- Elections
 - Annual Voters List to be prepared as on June 30, every year
 - Voters List to be reconciled with actual collections of subscriptions
 - Strict protocols for election processes
 - Manuals to be written for processes and controls
 - Adherence to processes must be an auditable and reporting event
 - Accounting staff must be trained, and enough resources must be provided
 - Disclosure of interests by Zone/Chapter/Central councils in various contracts need to be formalized
- Accounts
 - Account preparation and holding records to be available at units/chapters/zones/HO,
 - All receipts/expenditure should be backed by vouchers
- Administration
 - Accounting Units to certify accounts
 - Trained staff should be available at all accounting units
- Audit
 - Auditors at the Central level to be rotated.
 - Central Council to appoint Zone/Chapter/unit Auditors

Recommendation: The committee noted that the audit report has brought out violations/ lapses which are very serious in nature. Hence, there is a need to take immediate steps to arrest such lapses and put the institute in order first, bringing discipline in its day-to-day functions. Thereafter, IISLA shall carry out a comprehensive compliance audit addressing various issues mentioned above and submit a detailed financial and process audit report within six months from the date of issuance of this report.

IISLA will be able to carry out its functions effectively only when it has proper governance structure in place. There is a need to work with all the members of the institute in a coherent manner with well-laid governance systems to carry out the objects of its present MOA along with necessary revisions in MoA/AoA and get credibility, essentially required for the institute as well as for the profession of survey and loss assessment.

Section 4 - Way forward and recommendations

4.1) IISLA Fact Sheet:

- 4.1.1) In order to strengthen the institute and fulfill the mandate of bringing the institute at the level of other Chartered Institutes, the Insurance Act, 1938 got amended incorporating the requirement of mandatory membership of the IISLA as a pre-requisite for grant and renewal of licenses of surveyors and loss assessors. However, despite wide deliberations, the IISLA is insisting on giving membership only to the surveyors working in an individual capacity and preferred to not issue membership to those who are working with insurance companies and corporate surveyors. This is tantamount to statutory violation and needs to be addressed immediately.
- 4.1.2) The Committee noted IISLA's response to previous meetings ATRs as also on the observations of M/s Anandam&Co. in their audit report and felt that the responses are not adequately addressing the issues raised therein.
- 4.1.3) The IISLA assured the committee that the system for online application of membership will be functional soon. The Committee recommended that real-time status of application should be incorporated on the proposed system of online membership.
- 4.1.4) During the IISLA's presentation, the Committee observed that the IISLA has segregated employee surveyors as "inactive" members, whereas the license given by the Authority does not differentiate between an individual surveyor working independently and an SLA who has taken up a job with insurer. Further, the existing regulations allow employee surveyors to work as licensed surveyors and there is no separate category of surveyors as employee surveyors in Insurance Act or regulations made hereunder. Employee surveyors are part of claims assessment process everywhere else in the world. The issue of 'Employee Surveyor' and 'Non-Employee Surveyor' has to be addressed with clarity.

The committee summed up the requirements for IISLA to comply with the following immediately:

- (i) MOA and AOA should be revised and placed in the upcoming IISLA AGM
- (ii) All queries/observations of the audit report by M/s Anandam& Co. should be reconciled and submitted to the Authority within 30 days from the date of publication of this Report.
- (iii) Manuals on process and accounting procedure should be finalized and submitted to the Authority within 30 days from the date of publication of this Report.
- (iv) The Online system of membership should be functional providing status of application.
- (v) The mechanism to grant membership to all licensed surveyors including employees of corporate surveyors and insurance companies should be submitted within 30 days from the date of publication of this Report.
- (vi) Procedure for cancellation of membership should be defined and submitted to the Authority.

4.2) Recommendations

The Committee has carried out an in-depth analysis of the overall state of affairs of the IISLA. The deliberations particularly focused on process and financial audit report as well as submissions of stakeholders on the functioning of the IISLA. From the current state of affairs, the institute has to raise their performance standards in a holistic manner to establish themselves as a professional institute as a pre-requisite to attain chartered status. A summarized view of the major issues that remain detrimental towards consideration of granting chartered status to IISLA, include:

4.2.1) Membership Process

The IISLA, as a professional body of surveyors and loss assessors, after acquiring charter status will be accountable not only to the insurance industry but to the public at large. The IISLA has the responsibility to enhance the competence and professional image of insurance surveyors and loss assessors. Even, the Bhandari Committee in its report also favoured encouraging insurers to increasingly use in-house surveyors provided they should possess the same qualifications which are prescribed for external surveyors. But, IISLA did not comply with the statutory requirement of issuing membership to employee SLAs, which is one of the requirements under Sec. 64 UM of Insurance Act, 2015.

The existing system of granting membership by IISLA has following shortcomings:

- Lack of process transparency
- Arbitrary discretion exercised by office bearers and Council Members
- Lack of control of Central Council over Zones and Chapters
- Blanket denial to grant membership to in-house surveyors and employees of corporate surveyors

During the discussion in the second meeting of the Committee, the IISLA has assured that the IISLA Council is in the process of resolving membership and minimising delay in grant of membership. The system of membership is going to be online and any delay after specified turn-around time (TAT) in recommending the application by chapters/zones will trigger auto-escalation of the applications.

The Committee recommends the following with respect of granting of membership:

- Establishment of the Online system of Membership enabling any-time access to the applicant of the status in a fair and transparent manner
- The membership process should be in compliance with regulatory timeline specified. The issue of 'Employee Surveyor' and 'Non-Employee Surveyor' has to be resolved.
- Membership to be granted to applicants based on clearly laid down criteria in accordance with applicable statutory norms and provisions of The Insurance Act, 1938 as amended from time to time and regulations made thereunder.
- Amendment of Articles of Association to ensure granting of membership to all eligible applicants and licensed surveyors.

- The Committee further recommends that the above activities should be carried out by the IISLA in a time bound framework. IISLA may come up with a road map in this regard.

The Charter status bestows a level of privilege and the chartered entity becomes answerable to public at large. The first step towards accountability is to have transparency and fairness in the processes and therefore it is imperative that the IISLA makes the grant of membership online, with a defined turnaround time, to the extent possible. This would ensure a greater level of transparency and build up the credibility of the institute.

4.2.2) Fair Representation of non-motor surveyors in the IISLA Council

The Committee deliberated on the need for adequate representation of non-motor surveyors and greater involvement of corporate survey firms in the affairs of the IISLA so that technology and service standards in loss assessment, in particular, in the non-motor segment improves.

The Committee discussed options such as increasing the number of nominated members on the IISLA board, choosing representatives from all stakeholders - IRDAI, DFS-GOI, Insurance Companies (PSU and Private), Corporate Insured, Veterans from insurance industry, Legal experts, Surveyors from Non-Motor and Motor segments and ICAI/ICSI - a well laid out eligibility criteria such as Age/Qualification/Experience, along with defining seats for Motor/ Non-Motor/ Corporate surveyors, so as to provide an all-round representation from the survey community. There has to be a defined code of conduct for the executive members of the Council on the lines of ICSI.

It was also deliberated that with the rapid induction of advanced technologies and innovations, the whole business of motor survey is likely to get restricted. Whereas, the complexity and dimension of survey and loss assessment in property and miscellaneous segments will increase substantially with the changes in technology applications and business. In this background, the IISLA Council has to be made more diverse with the inclusion of members from varied domains and expertise.

The Committee recommends that IISLA may amend their AOA and set up well laid out eligibility criteria for candidates and may even consider defining seats for motor/non-motor/corporate/in-house surveyors, so as to provide a comprehensive representation from the surveyor community.

4.2.3) Academic Training and Examination

The Committee observes that the IISLA has not provided any details about their qualification/training programmes, which is one of the core areas of their functioning; neither has the IISLA provided any details about the academic publications brought about by them till date. The IISLA needs to work on developing dedicated academic courses, preferably by tying up with Institutions/Universities to encourage youngsters to join the profession of insurance surveyors and loss assessors. They must draw technical know-how and best practices from similar chartered bodies. The Committee also deliberated on the idea of constituting a separate unit within the IISLA for the professional development and training of the surveyors – for both Motor and Non-Motor Surveyors.

4.3.3) Amendment in Articles of Association

- In response to the auditor's recommendation to decentralize accounting functions to Zones/Chapters/Units, the IIISLA has submitted to the Committee that it is planning to restructure administration by centralizing all administrative and financial matters at head office only by amending their AOA in this regard which was noted by the Committee.
- One of the key recommendations of the auditor was the provision in AOA giving power to the IRDAI to supersede the management of the IIISLA in line with similar powers vested with RBI as per Section 36 ACA of Banking Regulation Act, 1949. The Committee has also deliberated and is of the considered opinion that the IIISLA should amend Article 69 of AOA which deals with powers of the IRDAI in line with the recommendations of the Auditor and submit the amended AOA to the Authority.
- The Committee is of the view that the articles 49 and 50 of the AOA which deals with procedure of elections to the council may be revisited and framed in line with ICAI regulations.
- Following are recommended for the clauses on Election:
 - Annual Elections maybe replaced with once in three years
 - A Clause may be inserted stating that no member shall be elected to the Council for more than 2/3 consecutive terms. Further, no office bearers shall continue in the same position for more than 2 consecutive terms.
 - Qualification and disqualification of candidacy may also be included

Other matters:

The Committee discussions stressed on fair representation of surveyor community from all lines of general insurance business, i.e. non-motor and corporate representatives. The IIISLA may be advised to amend its AOA to include the above recommendations on Election related articles of AOA.

1. Financial management: Emphasis must be given on having adequate internal control systems in place. These shall include: i) Proper maintenance of books of accounts and records, ii) Centralization of operations and having an executive officer, independent of the office bearers, for the smooth functioning of the institute; iii) Rotation of statutory Auditors after every five years and to be renewed every year; iv) Preparation and implementation of Manuals for processes and Controls at Head Office, Units, Chapters and Zones; v) Adherence to processes must be an auditable and reporting event for all the auditable units; vi) Establishment of proper voucher systems for receipts and payments at all levels and recruiting qualified manpower for smooth functioning of the institute on a continuum basis.
2. There is neither proper internal governance nor clearly defined procedures which are the reasons for the existing state of affairs of the institute and a cause of concern. The institute must take action on a war-footing to redress the situation and work towards initiating remedial

measures and strengthen its internal governance framework. There is a need to prove its willingness for taking corrective actions as may be necessary. They must exhibit professionalism in letter and spirit.

3. For the sake of understanding whether the elected members of IIISLA fulfill the requirements of Form IRDA 11 (under Reg. 16 (13)) and Form IRDA 12 (under Reg. 20(2)), they may be examined to find out the level of compliance, experience and standing to form a view whether they have the necessary ability and skills to run the professional affairs of this large body of surveyors in India. This will also give an idea whether surveyors from all important disciplines are participating to contribute their experience to IIISLA or not.
4. A duty must be cast upon the IIISLA and surveyors to standardize the minimum level of requirements in the formats of information they need from the insured at the time of loss so that the insured is well aware of the parameters based on which surveyor is required to assess the loss. The standardisation will bring transparency into their profession and minimize the chances of their using their discretion against the interest of the policy holder. The standardisation of minimum documents/checklist is required to be made for each and every kind of loss in the various classes of business of Fire, Marine, Engineering, other liability insurances and Hull Insurance.
5. One of the key objectives of the institute is to enable surveyors to upgrade their skills, knowledge and their membership levels. Efforts should be made to empower the institute to carry out its functions by prescribing best-practices in governance and management at par with other chartered institutes, establishing and delivering appropriately benchmarked qualification framework; developing framework towards course content, qualification, training, Continuous Professional Development (CPD), workshops, seminars training and certification programmes, duly accredited/recognised under the regulatory framework. They may acquire necessary technical know-how from similar academic bodies such as CILA and develop a roadmap for this endeavour.
6. The IIISLA must submit a roadmap within 30 days of release of this report indicating actionable points for implementation on the above which has to be completed within a period of six months from the date of release of this report.
7. The progress and compliance report should be submitted to IRDAI as well as the Ministry of Finance on a monthly basis.
8. After six months, a comprehensive compliance audit report on the functioning of IIISLA should be furnished to IRDAI and Ministry of Finance, indicating the status and extent of compliance of the requirements.



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