


Commercial Crime Insurance (Commercial) PROSPECTUS



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1. INTRODUCTION

In today's business world, white collar crime has become an undeniable reality. Witnessing any sort of infidelity from workers of an organization or company has become a common issue in today's world. As businesses embrace new technological developments, they become inadvertent hosts to advanced exposures and an entire set of new risks. Fraud involving computers is fast becoming a problem in today's technologically enhanced society. Couple that with issues such as job insecurity and reduced company loyalty and we have an environment that increases the probability of an employee being dishonest. Whilst stringent internal controls and sound administrative and management practices help limit exposures, they can never eradicate the risk completely. That's where a crime policy is needed.

Crime Insurance protects organizations from loss of money, securities, or inventory resulting from crime. Crime insurance claims include alleged employee dishonesty, embezzlement, forgery, robbery, safe burglary, computer fraud, wire transfer fraud, counterfeiting, and other criminal acts.

These schemes involve every possible angle, taking advantage of any potential weakness the company's financial controls. From fictitious employees, dummy accounts payable, nonexistent suppliers to outright theft of money, securities and property. Fraud and embezzlement in the workplace is on the rise, occurring in even the best work environments.

- Citibank India employee arrested for alleged £57m fraud - The Telegraph, 30 Dec 2010
- Godrej comes under Economic Offenses Wing (EoW) radar after employee fraud - Live Mint, 31 May 2010
- Wipro employee commits \$4 Million fraud - The Hindu, 23 Feb 2010
- Company boards wake up to employee fraud - The Economic Times, 9 Jan 2011 •
- Overall incidence of fraud rising in India Inc: KPMG - The Economic Times, 6 Apr 2010

According to a recent survey by India Forensic Research, India might be losing as much as USD 40 billion annually to frauds which are occurring in even the best work environments.

2. SCOPE OF COVER

The insurance cover is provided by the Insurer to the policyholder in accordance with the Insuring Clause and other applicable terms, conditions, exclusions, in-built extensions and Extension(s) of the Policy.

The Policy holder will be indemnified for its financial interest in respect of any loss incurred by an insured which results directly from any criminal acts first discovered during the period of insurance or any extended discovery period (if applicable) and notified to the insurer in accordance with the provisions of the policy.

For the purposes of the Insuring Clause, criminal acts shall mean any internal crime or external crime.

a) Internal crime

Internal crime means any fraudulent or dishonest single, continuous or repeated act(s) committed by an employee acting alone or in collusion with others which causes a loss to the insured.

b) External crime

External crime means any fraudulent or dishonest single, continuous or repeated act(s) or a series of acts committed by a third party of:

- (i) theft;
- (ii) forgery;
- (iii) fraudulent alteration;
- (iv) counterfeiting;
- (v) computer fraud;
- (vi) fraudulent induced transfer only if covered by the extension "Fraudulent impersonation" .

External crime shall in no event mean:

- 1) corporate transaction;
- 2) voluntary exchange or purchase unless covered under forgery, fraudulent alteration, counterfeiting or computer fraud; or
- 3) investment activities.

3. IN-BUILT EXTENSIONS

a) Extended Discovery Period

b) New Subsidiaries

c) Run Off Cover For Ceased Subsidiaries

4. EXTENSIONS

a) Data Reconstitution costs-

The policyholder shall be indemnified for reasonable data reconstitution costs.

Data reconstitution costs means the reasonable costs (other than remuneration payable to any employee, partner, director or officer of any insured, and the cost of their time or costs or overhead of any insured) incurred in reproducing or amending the software programs or systems where such reproducing or amendment is necessary to correct damages caused to the programs or to amend the security codes following a criminal act in respect of the use of the

computer hardware or software programs or systems owned and operated by the insured and which was the subject of a loss under the policy.

b) Credit Card Fraud

The policyholder shall be indemnified for direct loss suffered by an insured resulting from credit card fraud committed by a third party which direct loss is discovered during the period of insurance and the extended discovery period (if applicable).

Credit card fraud means the forgery or alteration of, on or in, any written instrument required in connection with any credit card issued to an insured, to any director or officer, or any partner or to any employee of the insured.

c) Care Custody & Control

The policyholder shall be indemnified for the loss of property, money or securities under the control and custody of an insured and for which such insured is legally liable.

For the purposes of this extension only, the definition of property is amended as follows:

'property' shall mean any tangible property other than money or securities.

d) Erroneous Funds transfer

The policyholder will be indemnified for loss resulting from unlawful taking by a third party of money or securities erroneously directed or erroneously transferred by an insured.

e) Fraudulent Impersonation

The policyholder shall be indemnified for loss caused by fraudulent induced transfer first sustained by the policyholder and discovered during the period of insurance or any extended discovery period. Fraudulent induced transfer means loss of money, securities or property, on deposit in the insured's own account, resulting directly from a transfer resulting from the good faith reliance

f) Investigation Costs

The policyholder shall be indemnified for investigation costs incurred by an insured, which are directly related to a loss covered under the policy. Investigation costs means all reasonable and necessary costs incurred by the insured to establish the amount of a loss (other than remuneration payable to any employee, partner, director or officer of any insured, cost of their time or costs or overhead of any insured) with our written consent in connection with a covered loss to be paid under the policy where the loss is excess of the applicable deductible.

g) Legal Expenses

The policyholder shall be indemnified for reasonable court costs and legal fees incurred with our prior written consent in defending the *insured* in any legal proceeding to enforce payment of

any cheque, draft, promissory note or bill of exchange or other *financial instrument* which was the subject of *forgery* covered by the policy. Legal expenses means reasonable court costs and legal fees incurred with the insurers prior written consent in defending the insured in any legal proceeding to enforce payment of any cheque, draft, promissory note or bill of exchange or other financial instrument which was the subject of forgery covered by the policy.

h) Outsourcing

The policyholder shall be indemnified for any direct financial loss of money, securities or property as a result of any fraudulent or dishonest single, continuous or repeated act(s) or a series of acts committed by employees of any company to whom the *insured* outsources services (including but not limited to payroll, computing or accountancy services) under a written contract.

i) Partners

Cover in respect of internal crime is extended to cover any fraudulent or dishonest single, continuous or repeated act(s) which causes a loss to the insured committed by a partner of the insured (where the policyholder or its subsidiary is a partnership) whilst performing acts coming within the scope of the usual duties of an employee, whether acting alone or in collusion with others.

Provided that we will not pay the amount of such loss equal to the financial value of such partner's equity share of the insured as determined by the closing value of the insured's books of account as of the date of discovery of the loss by the insured or any partner not in collusion with the partner who committed such act.

j) Telephone System Fraud

Cover in respect of external crime is extended to cover any unauthorized access and use of the insured's telephone system by a third party which causes a loss to the insured. Indemnity under this extension is limited to toll and line charges for which the insured is liable as a result of such unauthorized access and use

k) Client Liability

The policyholder shall be indemnified for loss sustained by a client from improper financial gain committed by an employee not in collusion with such client's directors or employees, where such loss is discovered during the period of insurance or the extended discovery period (if applicable).

l) Business Interruption

The policyholder shall be indemnified for any reasonable Additional Costs incurred as a result of a loss covered under the policy provided that these Additional Costs are beyond the insured's usual operational costs and necessary to the restoration of the normal course of operations of the insured's business.

m) Public Relation expenses

The policyholder shall be indemnified for the public relations expenses in connection with a criminal act covered by the policy.

n) Contractual Damages

The policyholder shall be indemnified for any contractual penalty assumed by and enforced against an insured under a written contract, resulting directly from a loss covered under the policy.

o) Extortion

The policyholder shall be indemnified for any loss due to extortion committed by an employee of an insured. Extortion means any *loss* due to *extortion* committed by an *employee* of an *insured*.

p) Audit Fees

The policyholder shall be indemnified for the reasonable fees payable for its auditors for producing and certifying any particulars or details contained in the Insured's books of accounts or the other business books or documents or such other proofs, information or evidence as may be required by the insurer for the purpose of investigating or verifying any claim under the Policy.

q) Court Attendance Costs

The policyholder shall be indemnified for the Court Attendance Costs incurred by the insured if the insured is legally compelled to attend court of law as a witness in connection with a loss covered under the policy

r) Interest

The policyholder shall be indemnified for the amount of any interest receivable or payable by the insured, resulting directly from a loss covered by the policy, from the time the loss was incurred to the time the loss was discovered.

5. EXCLUSIONS

- a) Absolute Asbestos Exclusion
- b) Bodily injury
- c) Consequential loss
- d) Directors or Shareholders' Criminal Act
- e) Property Damage
- f) Fraudulent induced transfer (Unless covered by extension)
- g) Intellectual property rights and Trade secrets
- h) Inventory shortages
- i) Kidnap and Ransom
- j) Known criminal acts
- k) Nuclear
- l) Pollution
- m) Specific documents
- n) Outside Territorial Limits
- o) Trade finance and Trade loans
- p) War & Terrorism
- q) Discovery outside the Insurance Period
- r) Criminal Act prior to Retroactive date

Other Insured's Benefit

6. PROHIBITION ON REBATES

Section 41 of the Insurance Act 1938 stipulates as follows:

“(1) No person shall allow or offer to allow, either directly or indirectly, as an inducement to any person to take out or renew or continue an insurance in respect of any kind of risk relating to lives or property in India, any rebate of the whole or part of the commission payable or any rebate of the premium shown on the policy, nor shall any person taking out or renewing or continuing a policy accept any rebate, except such rebate as may be allowed in accordance with the published prospectuses or tables of the insurer.

(2) Any person making default in complying with the provisions of this section shall be liable for a penalty which may extend to ten lakh rupees.”