

TOPIC OF THE MONTH

MOODY'S UPGRADE OF INDIA RATING: The upgrade by Moody's will have cascading effect of increasing investment by Foreign investors in Indian corporates and markets. In insurance it translates into funds flowing to Insurance and Reinsurance companies. This will result in larger capacities available in terms of treaty arrangements and facultative arrangements in the country. Which means this money will remain in Indian economy and will create wealth in India as immediate result and in long term capacity building will also follow. Lot of insurance companies will now come to India who will, in aftermath of this rating upgrade will find India fit for their investments.

The treaties renewal which is due in January now will see a smooth renewal without any tightening of rates and with higher capacity sizes.

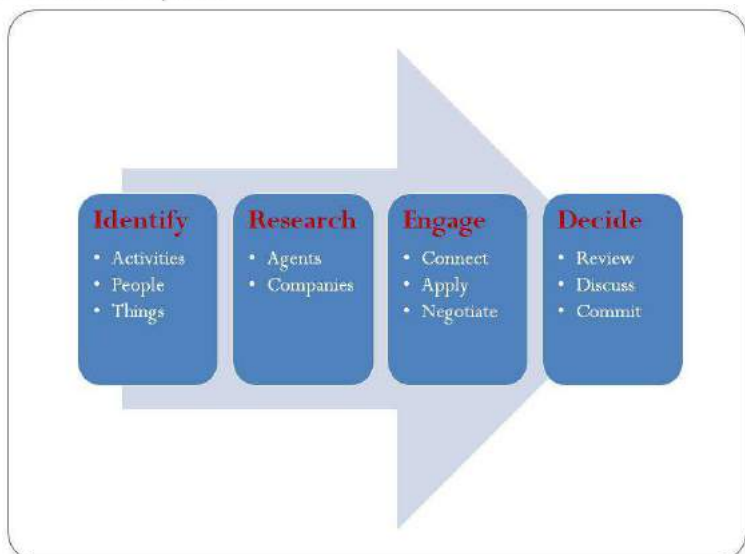
Premiums will surge as growth in industrial output and investment in infrastructure will get a boost with this rating upgrade which in turn will result in premium growth for entire industry.

DISCUSSION FORUM

A. UNDERWRITING

Fire and special perils policy wordings are tariffed. Any changes in coverages beyond the tariff wordings are to be vetted by IRDA and such changes in coverage are to be filed with IRDA under File and Use System. They can be used once the approval of IRDA is in place.

However, the rating part is now de-tariffed, and each insurer is free to fix its own rates for various occupancies manufacturing / warehouse / offices / malls / shopping complexes etc. The Public-sector insurance companies have resorted to Burning rate concept for some of the categories of industries. Burning Rate means, the overall claims experience of an insurance company in that industry. E.g.; All Sugar Mills risks written by an insurance company during last 5 years in India resulted in total premium income of Rs.25 Crores at erstwhile tariff rates. The total outgo on a) Management Expenses, procurement cost and claims paid amounts to say Rs.15 crores. So, the Burning cost is Rs.15 crores. Which is 60% of premium procured. Therefore, for this industry they will fix burning cost at 60% of erstwhile tariff rate. Thus, if tariff provides for Rs.2% rate, the burning cost for Sugar Industry will be 1.20%.



This burning rate varies from industry to industry. All PSU insurers have compiled their own burning rates. Also, GIC (General Insurance Council) has given burning rate based on the overall General Insurance Industry experience of claims.

B. RISK MANAGEMENT:

CONVEYOR BELTS IN PUBLIC PLACES, MALLS, OFFICES, METRO STATIONS ETC.

Escalators and conveyor belts used in public places also referred to as moving walkways are designed to carry passengers from one place to another, either at same level door from one level to another level. These are common in work places, shopping centres, sports centres, metro stations, airports etc. Usually, the top of an escalator or traveller passes through a gap or opening in the upper floor to reach the lower level floor. In many cases, the opening in the upper floor are not filled by such upper portion of the system. Handrails and supporting structure to prevent the gapping hole remaining open and thus inviting accidental situations. AT times the fill in material (a thin sheet of steel) may not be designed to carry load of more passengers in rush hour and may collapse. And this may result in accidental injuries.



Similarly, you would have noticed at malls and metro stations, that handrail of the escalator and RCC section of the station are at less than a foot, at times within 15 CMs from handrail of escalators. Any accidental slip of hand, or a baby protruding his head outside may result in grievous injury. These gaps need to be filled or covered to avoid such accidents.

It should be therefore ensured that material used for fill-ins is of good quality, that right signage warn the public of the safety hazard of falling from those areas and guide people how to use the escalators. The strengthening of fill-in areas should be done with strong material, envisaging higher load and rush hours.

It is also seen that in rainy seasons the water seeps in and enters the escalators in public areas, such as metro stations, malls etc. Many a times access is stopped during this period, but at times, the access is allowed and there if possibility of electric shock or machine malfunctioning due to short circuit etc. Cleaning of escalators/travellers should be done with long hand equipment's, so that the cleaning staff safety is taken care of. The harness belt should be used by the cleaning staff when approaching difficult access area to prevent fall.

Another good measure, is to use rough surface near landing of escalators on the floors, to avoid slip, trip and falls.

The area should be well lit and at regular intervals, the wear and tear of machinery should be checked, and parts worn out should be replaced well in time. The machine should be stopped for checks and oiling and greasing from time to time at regular intervals.

C. CLAIMS:

CASE OF SHIFTING OF SECOND HAND PRINTING PRESS PLANT

A highly sophisticated 6 colour printing plant with an insured value of Rs.12 crores covered for Dismantling- transit and Re-erection under Marine cum erection insurance policy including dismantling cover.

As per requirement of insurer, the machinery was dismantled in presence of the surveyor appointed by insurer for inspection, it was loaded in lorries in again inspected and again at time of unloading the surveyor was present.

In course of movement of machinery from shop floor to erection location within the plant area, one of the compressor cum motor of the unit fell down from the manual lift and got damaged, rendering it unfit for use in the machinery. The surveyor carried out the inspection and submitted his report for the damages. There was a decommissioning- movement- commissioning contract with the supplier of the plant which happens to be a German manufacturer of the machinery. The claim amount was assessed at Rs.1200000/- total replacement of the part. The documents required by surveyor



- a) invoice for new part purchased
- b) copy of contract signed for decommissioning-shifting and recommissioning of the plant.
- c) Estimates
- d) GR of the shifting of the machinery
- e) Physical damage report of the supplier on the damage to item
- f) Written statement of the worker who moved the lift
- g) A written statement from the Engineer of the German firm responsible for shifting and recommissioning of the machinery.
- h) Records of the commissioning of the machinery.
- i) Claim form
- j) A written statement from the Plant In-charge of the insured about the incident.

Claim is under process and expected to be settled for the claimed amount less adjustment for salvage and second hand machinery value.

C. LEARNING:

- 1.Second hand machinery when insured under EAR policy for dismantling- shifting cum commissioning, should be insured for reinstatement value.
- 2.The methodology for settlement of claim should be discussed and finalized with insurer in advance.
- 3.The requirement of surveyor at time of despatch of machinery, dismantling and again at time of landing at place of erection should be confirmed in writing from the insurer to avoid confusion at a later date.
- 4.Last but not the least, be sure that Intermediary/Broker and insurance company you are dealing with are tried and tested for their knowledge and expertise.



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D. IN THIN CLOUDS:

As subject line says, this is in thin clouds. These are products which we feel will see the light of the day sooner or later, as we envisage the need for such products/ add-ons in existing products.

EXECUTIVE PACKAGE POLICY: As of now we have specific coverages which cater to a working executive. These are overseas travel health insurance. All Risk for laptops and mobiles and note pads. Health insurance for self and family whilst in the country and baggage insurance for travel. Also, Personal accident cover is taken for compensating the accidental injury to some extent.

We believe there is a very good market for an Executive Package Policy which can have more than one section on following lines:

Section :1. Personal Accident Section- Comprehensive PA cover

Section :2: Health insurance: Part A: within country

Part B: overseas travel health insurance

Section :3: All Risk Section: to cover Laptop, note pad, and mobile equipment's
Cameras.

Section:4: Baggage insurance: to cover personal baggage

Section:5: Public Liability

Section:6: motor car insurance

INSURANCE NEWS:

- a. IRDA gives R1 clearance to new insurers in health space
O Care in dental health space and in line is JIVA Health being launched by Mr P Nand Gopal, ex-CEO of Reliance life in Q.
- b. Reinsurance capacities to increase and rates to remain calm in coming renewals.
- c. 2017 so far lowest in accidental deaths on Indian roads.
- d. Better quality of highways being built to result in saving of fuels on Indian roads
- e. Railway to move to electrical fuel to reduce the expense of running. This to result in savings of approx..RS.12500 crores in 2017-18 and Rs.15000 cr. In 2018-19.

ARE YOU BEING SERVED?

As an intermediary the role of an Insurance Broker is defined in Brokers Regulations by IRDA. The list of services which a broker is required to provide to all his clients who have mandated him: -

- I. Obtaining detailed information of the client's business and Risk management philosophy;
- II. Familiarizing himself with the client's business and underwriting information so that this can be explained to an insurer and others;
- III. Rendering advice on appropriate insurance cover and terms;
- IV. Maintaining detailed knowledge of available insurance markets, as may be applicable;
- V. submitting quotation received from insurer/s for consideration of a client;



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VI. Providing requisite underwriting information as required by an insurer in assessing the risk to decide pricing terms and conditions for cover;

VII. Acting promptly on instructions from a client and providing him written acknowledgements and progress reports;

VIII. Assisting clients in paying premium under Section 64 VB of Insurance Act, 1938(4 of 1938);

IX. Providing services related to insurance consultancy and risk management;

X. Assisting in the negotiation of the claims; and

XI. Maintaining proper records of claims.

We will discuss these services one by one in detail in our future issues of **ARUNODAYA**.

PATHSHALA:

VALUATION OF ASSETS IN PROPERTY INSURANCE

In this issue we will discuss certain terms used in VALUATION of assets in Fire insurance.

Why valuation is important for insurance of assets and property? Valuation of assets for insurance purposes is important so that there are no disputes at the time of claims like situation. If assets are not properly valued and declared for insurance purposes, the following possibilities may happen: -

- a) Under insurance: at time of claim the surveyor may find that the total value of assets declared for insurance as mentioned on the policy is lower than actual value of the assets which they may fetch in the market. This situation is called under insurance. It means that insured(Client) has knowingly insured the assets at lower value and he intended to cover part of the risk himself. The part which he transferred to insurance company by way of purchase of insurance policy only will be considered for arriving at assessment of claim by insurance company in case of claims.
- b) Dispute on Market Value vis-à-vis Reinstatement value: We will understand both market value and Reinstatement value to understand this dispute.

Reinstatement value: This is the value of a Brand-new machinery of same make/model/ quality and design. Thus, even if a machine is 10 years old, the insured(client) declares the current days Reinstatement value for insurance and pays premium on that value. The Re-instatement value clause is appended on the policy for this purpose.

Market Value: This the value which is derived from Reinstatement value. The method is as follows:

Reinstatement value of Machinery: Rs. 100,000/-

Life of machinery as per manufacturer: let us say 10 years.

Depreciation to be charged each year: $\text{Rs. } 1,00,000 / 10 \text{ years} = \text{Rs. } 10,000/-$

So, if a machine is 4-year-old, in that case the Market value of that machinery for insurance purpose is:
Rs.1,00,000- Rs. 40,000 (10,000 depreciation per year x4 years) = Rs. 60,000/-

So, Market value of machinery is Rs. 60,000/-

Besides these values, the other values which are confused many times and result in dispute in claims are:

- I) WDV value
- II) Block value



BLOCK VALUE: Block value is the value at which the assets were purchased and capitalized in the books of accounts of the client.

WDV Value: This is value which is reflecting in books of accounts, based on rate of depreciation charged in books of accounts each year to reduce the block value of assets in books of accounts.

Both these values, Block Value and WDV value has no relevance from point of view of insurance and therefore should not be considered to take insurance.

Stocks are the only item which are insured at cost price or Market value whichever is lower and at times of claims also, the settlement for loss to stocks is done on cost price or Market value of stocks whichever is lower.