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J. B. BODA GROUP

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On “Write” Side

Business Interruption Insurance – IV

In order to avoid inadequacies in the Policy, the following Check List can guide and assist both the Insured and the Insurers:-

- a. The Policy definition of “Business” ought to include all activities of the Insured intended to be covered.
- b. The Policy definition of “Premises” ought to include all the Premises of the Insured intended to be covered.
- c. Sum Insured proposed to be declared for Gross Profit and Wages must be liberal enough to avoid any under-insurance. The Refund of Premium Clause ought to be made applicable
- d. The Period of Indemnity proposed to be declared for insurance ought to cover the maximum period estimated to be required for rehabilitation of the insured premises and property therein in case of total destruction.
- e. The Policy ought to include all Perils which are covered under the basic Fire Policy for the premises and the property.
- f. In the List of Specified Standing Charges, all Standing Charges ought to be listed. In any business, there are periodical variations in its trend, e.g. increase in cost of raw materials or utilities. This will reduce the Rate of Gross Profit. There could be expansion of production capacity or improved utilization of the installed equipments resulting in increase in Turnover/Output. All such trend changes are considered under the Adjustments Clause bracketing the Definitions of “Rate of Gross Profit”, “Standard Turnover” and “Annual Turnover”. Any Adjustment in any or both of the first two items requires a suitable Adjustment to “Annual Turnover” to ensure adequate Application of the Average Proviso.

The Policy is to provide indemnity and can pay nothing additional than what the uninterrupted business would have earned. The formula set out in the Policy must be followed to determine the indemnity. The adjustments allowed on “Rate of Gross Profit”, “Standard Turnover”, and “Annual Turnover” for changes in trend, variations and other circumstances need to be carefully utilised with special knowledge and understanding of the business. This is done to achieve indemnity as per the Terms of the Policy and not to bring in reimbursement of losses outside the Policy ambit.





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All charges or expenses which directly vary with increase/decrease in turnover/output are considered variable charges/expenses. Cost of raw materials, packing, outward freight, excise duty, etc. are clear examples. Costs of utilities are also normally variable expenses but it is found that the Utility Suppliers usually have a minimum charge even in the absence of any usage. To such an extent, the said minimum charge becomes a Standing Charge worth insuring.

All other charges which do not directly vary with the increase/decrease in turnover / output are construed as Standing Charges and to ensure proper recovery, must be fully insured by specifying all of these charges. The major portion of the Standing Charges in any business is generally found in employee wages, salaries and benefits, interest and financial charges and depreciation. These are followed by administration, communication and conveyance and other miscellaneous expenses. It is likely that some of these expenses could partly reduce during a long interruption, but a part cover thereof would not allow a full recovery of any Increase in Cost of Working. In small interruptions, such part cover would reduce the recovery with no reduction in expenditure of such charges.

Business Interruption (Machinery Breakdown) Insurance, now becoming visible in market, has an almost identical Policy format as the Business Interruption (Fire) Insurance. However, there are some vital differences which must be considered by the Insureds having such Insurance Policies. These differences are given below:-

- a. The peril covered is “sudden and unforeseen damage from any accidental cause” subject to normal Exclusions. Fire, Explosion and other allied perils which are normally insurable under the Fire Policies are excluded here in addition to War, Nuclear Risks, etc. The Business Interruption Insurance cover follows the Property Insurance cover and the material Damage Proviso ensures it.
- b. Unlike the Fire Policy, this cover allows specific selection of Items of Plant & Machinery, which is against the interests of the Insurers in obtaining an adequate spread of risk. The Insured would normally select only critical machinery and/or often failing items of plant & machinery. It is allowed to have a larger list of machinery items for insurance in Property Damage and a smaller list in Business Interruption Insurance. However, the items in the shorter list must be in the larger list.
- c. Separate and different Periods of Indemnity are allowed to be selected for different items of Plant & Machinery. Normally, such Periods are in months, i.e. short indemnity periods are selected.





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- d. Time Excess is a normal feature of this Insurance and may range from 7 to 28 days.
- e. Relative importance of each item of plant & machinery covered to the Annual Gross Profit in percentage has to be declared and recorded on the Policy. If actual relative importance of the damaged item is found to be more than the declared relative importance, the claim is to be proportionately reduced.
- f. The measure of activity insisted upon by the Insurers is TURNOVER. However, as only one individual item of plant & machinery is likely to get damaged and shut down in case of any accident, measure of activity by way of OUTPUT ought to provide a clearer picture of the effects of interruption. SALE VALUE OF OUTPUT may also be considered as an alternative to TURNOVER.
- g. In this class of Interruption Insurance business, the Period of Indemnity specified in the Policy is rarely 2 months or more and in many cases is 1 month to 3 months. Under these conditions, wages and other benefits to all employees are treated as Standing Charges. Rarely other options of Wages Covers are in practice.

In this group of insurance, i.e. in the Engineering Department of the Insurers, the other available Business Interruption Insurance is coverage following Boiler Explosion and Collapse Damage. The Policy format and the cover granted is similar, with the peril covered being different.

The Insurance Policy is a one-sided contract and imposes certain responsibilities on the Insured to be fulfilled prior to and after a claim occurs. In addition the entire onus of proof of claim is on the Insured. Intimation of any change in the risk, business, premises, etc., prompt intimation of loss and full co-operation in loss minimisation, etc. are but a few of the Insured's responsibilities.

It is in the interests of the Insured to obtain prompt recovery of their losses particularly when the rate of interest ranges from 1.5 % to 2% per month. A few loss situations may be prepared with the likely effects on the Company's working, output, sales and accounting results. The Insurers prepare certain data for their underwriting & reinsurance arrangements and they can assist the Insured in these regards. A contingency plan ought to be developed and kept ready with suitable improvements and adjustments for changes in circumstances from time to time. Tentative claim computations can also be prepared for the various perceived scenarios and advice may be sought from the Insurers, who may also associate a professional loss adjuster. Thence, the claim when it occurs will not be a crisis situation, but an envisaged situation capable of addressing well.

By Mr. Sanjiv Shanbhag – Senior Executive Director, J.B.BODA &Company Pvt. Ltd., Mumbai, India. sanjiv@jbbodamail.com





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NATIONAL

NON – LIFE

Employees’ State Insurance Scheme (ESIS)

The Government has expanded the number of people eligible for Employees’ State Insurance (ESI) benefits, which provides medical care to workers and their dependents, by increasing the salary cap of beneficiaries to INR 25,000/- (USD 417) from INR 15,000/- (USD 250). This change will directly benefit an additional 4.5 million workers. The revision in the ceiling means that all industrial workers who draw a salary of upto INR 25,000/- will benefit from medical and hospitalisation facilities at more than 1,550 clinics and hospitals that the ESI Corporation runs directly or has a tie-up with. Every month, eligible employees contribute 1.75 % of their salary and employers contribute 4.75% to the ESI corpus.

Jumbos’ safety

The elephants participating in the historic Mysore Dasara procession majestically stroll in the streets of the city in a pre-determined path in preparations for Jamboo Savari. The parading pachyderms have their risks and hence they have been insured by the District Administration for INR 300,000/- (USD 5,000) per elephant upto 60 years of age and INR 200,000/- (USD 3,333) above 60 years of age.

Investments in AUMs

The Insurance Regulatory & Development Authority (IRDA) has announced that Indian life and general insurers can now invest upto 20% of their Assets Under Management (AUM) in Infrastructure Debt Funds (IDF).

Value of vehicle in Policy

While insuring a motor vehicle, an insurer collects premium according to the value stated in the Policy, but avoids settling a claim on the basis of the same valuation. In a recent case, the National Consumer Commission has termed this as an “unethical practice” and indicted an insurer. The Commission has relied on a Judgement of the Supreme Court in Dharmendra Goel v/s Oriental Insurance, and has held that once the insurer accepts the value of a particular vehicle, it cannot later on disown that valuation on some pretext or the other at the time of paying a claim. Such a ‘take it or leave it’ attitude is unwarranted, bad in law and ethically indefensible.





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Multiple policies

The Bombay High Court has recently held that renewal of health insurance policies cannot be declined on an arbitrary ground that a person holds multiple policies. The Court has said that there is no bar on the number of health insurance policies a person can have.

Medical justification

The insurers will not be permitted to assume a reason for an ailment according to own convenience, whims and fancies. If a reason is attributed, the onus would lie on the insurer to medically prove the correctness of its contention. The Maharashtra State Consumer Commission has recently held that jumping to such a presumption is incorrect.





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NATIONAL

LIFE

Insurers rush for product approvals

Many life insurers have ensured that their existing products are re-filed with the IRDA for approvals. In February 2013, the IRDA had brought out traditional product guidelines that mandated life insurers to be compliant with the new norms by 1st October 2013. The new traditional product guidelines state the minimum guaranteed surrender value to be 30% of the total premium paid, excluding any survival benefits paid, if the Policy was surrendered in the second or third year. For single premium products, IRDA has fixed the minimum death benefit at 125 % of the single premium or the minimum guaranteed sum assured on maturity or any absolute amount to be paid on death, whichever is higher. For other products, it would be 10 times the annualised premium or 105 % of all premia paid as of the date on death or the minimum guaranteed sum assured on maturity or any absolute amount to be paid on death, whichever is higher. Incidentally, IRDA has extended deadline for re-filing of Life Insurance Products to 1st January 2014.

More transparent products

The new product guidelines for linked and non-linked insurance products will disclose all benefits and fund value calculations upfront, to ensure that customers are buying the products that they need. The new guidelines have categorised life insurance products into three broad categories – traditional insurance plans, variable insurance plans and unit – linked plans. While customers will have a clearer idea of their Policy with new guidelines in place, there could be lesser number of products to choose from for a new customer.

PFRDA Bill gets President's assent

The President of India has given his assent to the Pension Bill, which provides for investment of funds in equity market and opens the sector to upto 26% FDI. The long pending Pension Fund Regulatory and Development Authority (PFRDA) Bill was passed by Parliament on 6th September 2013. Now the PFRDA has become a statutory authority. Till now, PFRDA was an interim regulator.





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INTERNATIONAL

Call for greater cooperation

Speakers at the 17th Insurance Congress of Developing countries (ICDC) held in Colombo, Sri Lanka have called for greater cooperation and sharing of experiences, practices and discussions on prevailing issues and concerns pertaining to insurance and reinsurance amongst Members of the Association of Insurers and Reinsurers of Developing Countries (AIRDC).

It was for the first time that this event was hosted by Sri Lanka and was attended by over 350 delegates from 30 countries.

Mr. Atul D. Boda, our Group Chairman chaired the Third Technical Session of the Congress on 30th September 2013, the Theme being “Alternative Distribution Channels – The Winning Combination”.

J.B.Boda Group was the Platinum Sponsor of the Congress (29th September to 2nd October 2013).

Terrorism Insurance to grow

Insurance of properties against terrorism risk is expected to grow significantly following the Westgate siege that has left about 67 dead and 175 people injured. This is a wakeup call for business with no terrorism cover.

GCC insurance industry

The Gulf Cooperation Council (GCC) insurance market has been one of the fastest growing regions for insurers, with average annual revenue growth of 16.8 % over the past six years and will see significant further growth over the near to medium term, according to Moody’s Investors Service. GCC comprises of Kingdom of Saudi Arabia, United Arab Emirates, Kingdom of Bahrain, Sultanate of Oman, Qatar and Kuwait, their 2012 total premiums being USD 16.3 billion.





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REINSURANCE

Hike in reinsurance premium

The political uncertainty and continuing agitations in Andhra Pradesh following the decision to form the state of Telangana has raised the risk of a rise in reinsurance premium for industrial establishments in Andhra Pradesh.

The insurers are closely watching the situation and may raise the reinsurance premiums to be determined by the actual insurance losses incurred. While there have been significant economic losses, the insurance losses are not huge as of now.

Andhra Pradesh has several mega projects in oil & gas, steel, power among others.

Natural Catastrophe Reinsurance Pool

Soon, Indian insurers will be able to cover natural catastrophes with the sole domestic re-insurer GIC Re forming a Natural Catastrophe Reinsurance Pool for the Afro-Asian Region. The Pool is formed in collaboration with Federation of Afro-Asian Insurers and Reinsurers (FAIR).

Swiss Re

Global reinsurer Swiss Re hopes to partner with the Central and State Governments in India in Health Insurance. Health Insurance gap in Asia is estimated to be USD 197 billion. For Swiss Re, the largest Asian market is Japan. The fastest growing ones are China, Indonesia and India.





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HEALTH IS WEALTH

Basic First Aid

Whilst accidents occur, with some care, they can be prevented. In case an accident happens, you can be of help, if you know First Aid. Do not move the casualty unnecessarily. Keep him / her warm. Make a diagnosis, decide the treatment and treat. Remember the ABC of First Aid. See if his Airways are clear, that he is Breathing and his blood Circulation is patent.

1. **RESPIRATION:** If it is failing, give artificial respiration – MOUTH to MOUTH or MOUTH to NOSE.
2. **BLEEDING:** Arrest the bleeding and protect the wound. Apply direct or indirect pressure. Cover with a dressing, apply a pad and firm bandage. Elevate. Keep at rest.
3. **FRACTURES:** IMMOBILE it with a well padded stiff support reaching the joints on either side. Apply bandages on either side of the site and at the joints on either side support.
4. **BURNS AND SCALDS:** A burn is caused by dry heat and a scald by moist heat like steam, very hot water or oil. IMMEDIATELY cool the area with cold water – for 15 minutes, till pain subsides. DO NOT break blisters, or apply anything on the burns. Cover with a sterile or clean cloth, pad and bandage. Give fluids.
5. **NOSE BLEEDING:** Sit him / her up facing the breeze and the head slightly forward. Ask him/her to breath through the mouth and NOT to blow the nose. Apply a cold compress over the nose. The soft part of the nose may be pinched close with the fingers for 10 minutes. Cold application on the back of the neck and forehead may help.
6. **BEE STING:** Do not press the bag (of the sting). Use forceps and remove the sting. Apply cold or weak ammonia.
7. **ANIMAL BITES:** Wash with soap and plenty of water. Loose bandage may be applied. Get quick medical aid.
8. **SNAKE BITES:** Keep patient calm. Wash with plenty of water and soap. DO NOT RUB hard. First apply a constructive bandage on the heart side of the bite. (Not to be applied continuously for more than 20 minutes). Do not incise or attempt to suck the wound. Get aid quickly. Try to identify the snake.
9. **FAINTING:** Lay him / her down and loosen the clothing around chest and waist. Turn head to one side. The legs may be raised a little. DO NOT attempt to give any solids or liquids. ON recovery a small quantity of a drink may be given and allowed to sit up and move after rest.
10. **GENERAL:** If you are in doubt about the treatment, DO NOT DO anything. You may do more harm.





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“J.B.BODA” NEWS

REINSURANCE PROGRAMME

Two Days' Training Programme on Reinsurance for Executives of J.B. Boda Reinsurance Brokers Pvt. Ltd, was held on 1st and 2nd August, 2013 in Head Office, Mumbai.

The emphasis of this Programme was to be familiar with the ground realities of the domestic and global Reinsurance market scenario.

The sessions dealt with an Overview of the Reinsurance Operations, Facultative Reinsurance, Proportional Reinsurance, the concept of Excess of Loss Reinsurance & its various methods, various terms used in the Reinsurance Accounting and the Role of Professional Reinsurance Broker.

The training sessions were followed by an interactive session to resolve the queries of the participants.

Mr. K.V. Pathak, Principal, J.B. Boda Academy, coordinated this Programme.





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