



Since 1943

J.B.BODA GROUP

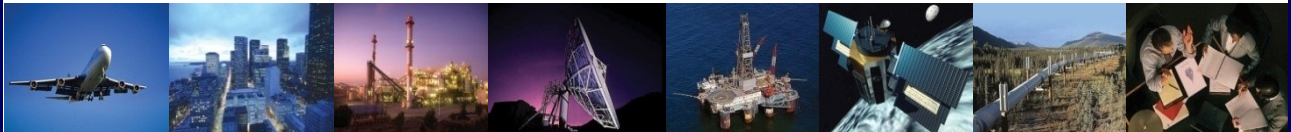
MEDIAN

Issue 65

November 2012



We wish our Readers
HAPPY DIWALI
AND
A HAPPY & PROSPEROUS YEAR AHEAD.



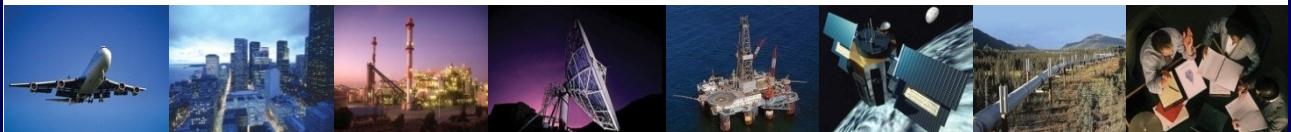


Since 1943

CONTENTS	PAGE NOS.
<u>ON “WRITE” SIDE</u>	3 - 6
Valuation of Assets – III	
<u>REINSURANCE</u>	7 - 8
Munich Re	7
Lloyd’s of London	7
Allianz	7
Hanover Re	7
Tokio Marine	8
MIGA	8
60 Years in Prison	8
<u>INTERNATIONAL</u>	9 - 10
M&A Activity	9
German Non-Life Market	9
Japan Deposit Insurance	9
Vehicle and Deer Collisions in US	9
Sound Healthcare Model	9
Nuclear Operator’s Liability in UAE	10
Insurance Sector in Bahrain	10
Insurance Outlook in Indonesia	10
Micro Insurance for Nigerians	10
Sri Lanka Insurance Corporation	10
Investment Options for Chinese Insurers	10
<u>NON – LIFE</u>	11
Automobile Third Party claims	11
Reforms on Fast Track Mode	11
Health Cover	11
Higher Tax Benefits	11
Government considers premium subsidy	11
<u>J.B.BODA GROUP AT YOUR SERVICE</u>	12
<u>DISCLAIMER</u>	13

Visit us at: www.jbboda.net

(Click on “NEWS” for back Issues of “MEDIAN”)





Since 1943

ON “WRITE” SIDE
Valuation of Assets – III
Sanjiv Shanbhag

ENGINEERING INSURANCES

Engineering Insurance Policies would normally cover the following :-

1. Machinery Breakdown (MB) Insurance Policy.
2. Boiler Explosion (BE) Insurance Policy.
3. Electronic Equipment (EE) Insurance Policy.
4. Contractor’s Plant & Machinery (CPM) Insurance Policy.
5. Marine Cum Erection (MCE) Insurance Policy.
6. Contractor’s All Risks (CAR) Insurance Policy.

Principles for adequacy of Sum Insured are noteworthy in all the abovementioned policies.

(1) to (4) are Operational Policies and (5) & (6) are Project Policies. Settlement of claims has direct bearing on Sum Insured and therefore adequacy of Sum Insured becomes an important consideration while availing a Policy.

ADEQUACY OF SUM INSURED :

Under various Engineering Policies listed above, Sum Insured is defined as under:-

1) **MB POLICY :**

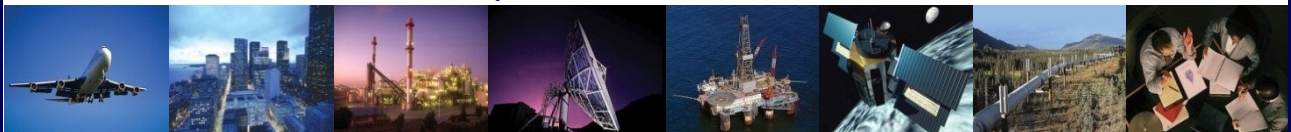
Sum Insured shall be equal to the Cost of Replacement of the Insured Property by New Property of the same kind and capacity including Freight, Customs Duty, Taxes, Erection costs etc..

2) **BE POLICY :**

Same as defined in MB Policy above at (1)

3) **EE POLICY :**

Same as defined in MB Policy above at (1)





Since 1943

4) **CPM POLICY :**

Same as defined in MB Policy above at (1)

5) **MCE POLICY :**

- (a) In case of Marine claims, Basis of Valuation will be prime cost of the goods plus expenses indicated to shipping (FOB) plus Freight, Insurance and other additional percentage as may have been mutually agreed towards Escalation on CIF in Price.
- (b) In case of Erection cover, sum stated in the Schedule to be not less than the completely erected value of the property inclusive of freight, customs duty and erection cost and the Insured undertakes to increase or decrease the amount in the event of any material fluctuation in the level of wages or prices.

6) **CAR POLICY :**

Sum Insured shall not be less than the completed value of the contract works on completion of construction inclusive of all materials, wages, freight, customs duty, construction cost and materials or items supplied by the Principals and the Insured undertakes to increase or decrease the amount in the event of any material fluctuation in the level of wages or prices.

Having examined the requirement of Sum Insured under various Engineering Policies as listed above, how to arrive at the value of adequate Sum required to be Insured under the various Policies listed above?

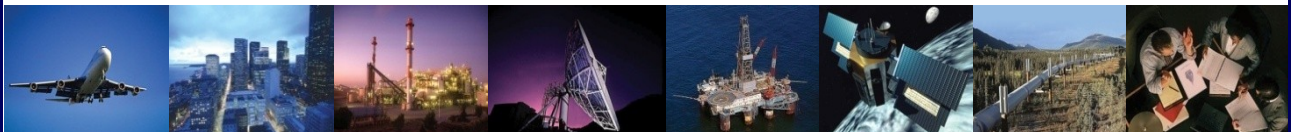
There is no thumb rule, which is available for the above, but best approximations are possible. In this manner, the gap between the actual replacement cost at the time of claim and Sum Insured could be minimised depending upon the circumstances.

The principles of valuation for arriving at the adequate Sum Insured on Replacement Cost Basis are as follows:-

BASIS OF VALUATION :

MB, BE, EE & CPM Policies :

These are selective policies and separate values are required to be indicated for each one of the machineries and equipments required to be covered by the Policy.





Since 1943

While considering the value to be insured on Replacement Cost basis, following aspects have to be considered :-

- (a) Replacement value of the equipment as new on the date of inception / renewal.
- (b) Provision for absorbing fluctuation in price during the Policy period due to unexpected changes in foreign exchange rates, customs duty, inflation, etc..
- (c) Provision for absorbing some changes as (b) above during repairs period, which may extend from 6 months to 2 years or more, particularly in respect of high cost imported equipments.

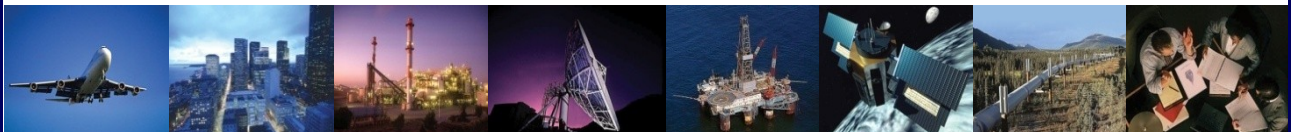
It is not practical to obtain the price of the equipments at the time of renewal every year and again this could also be approximate. Further, the price should be for similar kind and type of equipment, which may or may not be available. Therefore, as an alternative, Index Method of Valuation is acceptable in settlement of the claims. While working out the valuation on Index Method, following scenario is faced by the Insured :-

- (i) Capitalised Cost along with the year of purchase as available from Books of Accounts or Assets Register.
- (ii) Project completed on Turnkey Basis, where Capitalised Cost for Individual Equipment is not available.
- (iii) Indigenous equipments, but containing certain percentage of imported components.

The approach to the valuation for adequacy of Sum Insured in all the above cases may be different and could be briefly described as under:-

For working out the adequacy of Sum Insured or Replacement Cost by Index Method in this instance, following are the basic requirements:-

- (i) **Capitalised cost available from Assets Register :**
 - a) Capitalised cost of the equipment inclusive of purchase price, taxes, freight, customs duty, installation etc..
 - b) Year of purchase.
 - c) Details of country of origin, exchange rate and customs duty in the Year of Purchase of Imported Equipment.
 - d) Details of prevailing exchange rate and customs duty on the date of valuation.
 - e) Escalation Index for Indigenous Equipments and Imported Equipments as per respective Country Index.





Since 1943

This covers most of the equipments imported in India and balance can be adjusted by interpolation etc. for the nearest approximation.

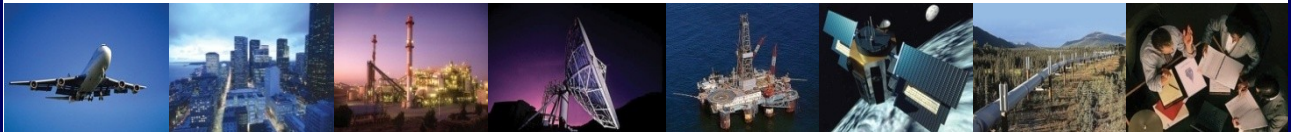
The combination of all the above factors may give Replacement Cost at the time of inception / renewal of Policy.

While considering the capitalised cost, certain overheads such as interest, technical know-how, royalty etc. may have to be excluded, if taken into account for Capitalised Cost. For this purpose, method of capitalisation is to be studied and overheads of non-insurable interest should be taken out from the capitalised cost before applying Index. At times, this amounts to 30% to 35%.

(To be continued)

The author is Executive Director, J.B.BODA & Company Pvt. Ltd., Mumbai, India

sanjiv@jbbodamail.com





Since 1943

REINSURANCE

Munich Re

- (i) The Automation Solutions Division of Munich RE is to establish a strategic R&D facility in Dublin.
- (ii) Munich Re expects life reinsurance premiums to grow as the business takes on more risk from insurers trying to meet tougher capital requirements.
- (iii) According to Munich Re, profitability in core insurance business is what counts in the low-interest-rate phase. The sovereign debt and banking crisis and the uncertain economic environment are presenting the insurance industry with growing challenges. The persistently low interest rates in particular are impacting investments.

Lloyd's of London

Lloyd's of London has posted a return to profit after benefiting from a benign six months for natural catastrophes.

Lloyd's top line for 2013 could be up, mirroring a similar rise for the 2012 year.

Casualty business remains a central area of concern for the Lloyd's performance management authorities.

Allianz

Allianz is the winner of the General Insurance Company of the Year 2012 at the Australia Banking and Insurance Awards.

Hanover Re

According to Global Credit Ratings, Hanover's market position and profile were viewed as key strengths, given Hanover Re's position as a top tier player in South African reinsurance market, as well as its strong brand.





Since 1943

Tokio Marine

Tokio Marine & Nichido Fire Insurance has received regulatory approval from Labuan FSA to set up a new reinsurance subsidiary in Labuan, Malaysia. The Unit, Tokio Marine Global Re Asia (TMGRe Asia) intends to start writing new and renewal treaty business for 2013 renewals and onwards.

MIGA

The Multilateral Investment Guarantee Agency (MIGA) is providing reinsurance of USD 150 million to the Overseas Private Investment Corporation (OPIC) for its USD 300 million coverage to Apache against the risks of expropriation and breach of contract.

60 Years in Prison

The President of a Costa Rican Company that sold reinsurance bonds to life settlement companies was sentenced recently in Richmond, Virginia to 60 years in prison for carrying out a half-billion-dollar fraud scheme that affected more than 3,500 victims throughout the US and abroad.

Minor Vargas Calvo, 61, a citizen and resident of Costa Rica, is the majority owner of Provident Capital Indemnity (PCI) Ltd., an insurance and reinsurance company registered in the Commonwealth of Dominica and doing business in Costa Rica.





Since 1943

INTERNATIONAL

M&A Activity

September 2012 was the busiest month for corporate developments in the global insurance market, seeing the announcement of several of 2012's largest deals.

German Non-Life Market

The effect of the global economic crisis on German insurers was less dramatic than expected. The economy has proved resilient and provided there is an absence of major natural catastrophes, year 2012 is expected to be reasonably good one for the insurance sector. Germany has Europe's largest domestic non-life market, followed by France and the UK, and the third largest in the world, after the US and Japan. Total insurance premiums in 2011 are estimated to amount to USD 248 billion, of which about 28 % was non-life business, 23 % personal accident & health and 49 % life.

Japan Deposit Insurance

Japan's Financial Services Agency has decided to expand the coverage of the Deposit Insurance System to include yen deposits at foreign banks in Japan.

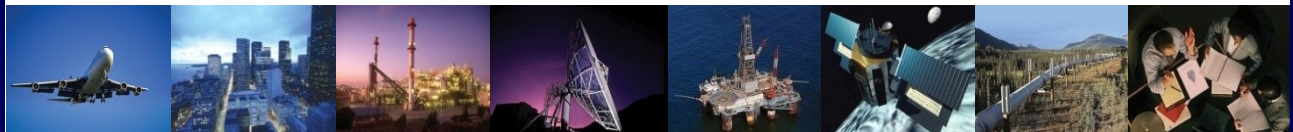
Vehicle and Deer Collisions in US

An increase in urban sprawl and more roads being built through wildlife habitats have displaced deer from their natural habitat, leading to rise in vehicle-deer collisions, according to the Insurance Information Institute. An estimated 1.23 million vehicle-deer collisions occurred in the US between 1st July 2011 and 30th June 2012, costing more than USD 4 billion in vehicle damage, according to State Farm, the country's leading auto insurer.

The Insurance Institute for Highway Safety noted that vehicle-deer collisions in the US cause about 200 fatalities annually.

Sound Healthcare Model

The best Health Financing model is one which is well implemented according to Director of Health Funding, Dubai Health Authority (DHA). Sustainable Financing for health care services is a key objective as embedded in DHA's march towards reaching the goals of achieving better health, accessibility, quality and efficiency.





Since 1943

Nuclear Operator's Liability in UAE

The liability for nuclear facility operators has been set at approx. AED 2.5 billion (USD 681 million) under a new Federal Law to regulate the provisions and determine the scope of civil liability and compensation for damages that could result from a nuclear accident.

Insurance Sector in Bahrain

The insurance market in the region is experiencing a fast phase of growth reflecting the dynamic nature of its economies, according to Chairman of Bahrain Insurance Association.

Insurance Outlook in Indonesia

Indonesia's ratings outlook for life and non-life insurance sectors are stable, underpinned by a growing domestic market and strengthening regulatory requirements, according to Fitch Ratings.

Micro Insurance for Nigerians

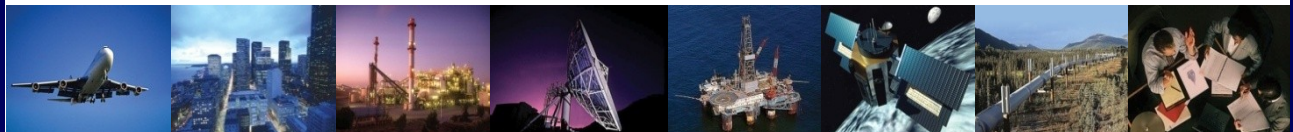
The National Insurance Commission (NAICOM) of Nigeria has promised to come up with an action plan for the promotion of Micro Insurance, which will aid sustainable economic development in the country.

Sri Lanka Insurance Corporation

RAM Ratings has confirmed an 'AAA' rating for Sri Lanka Insurance Corporation, on its competitive position, state ownership and its systemic importance as the second largest premium collector. The Corporation had 39 % of industry assets and accounted for 23 % of gross written premium by end of December 2011.

Investment Options for Chinese Insurers

China's insurance regulator has widened the overseas investment scope of insurers and expanded the categories of assets that they can invest in to boost their investment returns. China Insurance Regulatory Commission has relaxed the restriction limiting mainland insurers to invest only in Hong Kong to 45 countries, including 25 developed economies and 20 developing countries such as Brazil and India. Approved asset categories have been expanded from equities and bonds to real estate, currency products and non-bond fixed-income products.





Since 1943

NON – LIFE

Automobile Third Party claims

As losses of insurers mount due to obligatory third party insurance on automobiles, the Government of India is planning to move an Ordinance for a separate Motor Vehicle Insurance & compensation Bill.

Reforms on Fast Track Mode

IRDA has sent out six draft regulations on standardization of products, product design investment norms, bancassurance and reinsurance.

Health Cover

Over 630 million people in India will be covered under Health Insurance by 2015, according to a recent World Bank study.

Higher Tax Benefits

Health, Householder's and Personal Accident Insurance policies could be considered for higher tax benefits following a meeting amongst insurers and Finance Ministry. The objective was to discuss steps to revive growth and improve non-life penetration, which stands at 0.7% presently.

Government considers premium subsidy

The Government is considering positively a proposal, which will subsidise premiums for the low-income population in a bid to achieve Universal Health Coverage. Insurers will have to open offices in small towns and villages to increase penetration.





Since 1943

J.B.BODA GROUP AT YOUR SERVICE

J.B.BODA Group, well-known internationally for its capabilities, well-spread network around the world and personalised services for almost seven decades.

24 Offices in India & 5 Offices Overseas in U.K., Singapore, Dubai, Nepal, Kenya.

SERVICES

- **Insurance & Risk Management Consultants, Life Valuation,**
- **Life & Employee Benefit Schemes,**
- **Training Academy, Assistance for Actuarial Valuations.**

- **Valuation of Land, Building, Plant & Machinery.**

- **Protection & Indemnity Insurance Services.**
London
Luxembourg

- **Fire, Engineering, Miscellaneous Accident Surveyors & Loss Assessors.**
Marine Cargo Surveyors, Loss Assessors, Superintendents.
Container Surveyors, Tank Calibrators, Samplers & Analysts.

- **International Reinsurance Brokers (Non-Life & Life)**

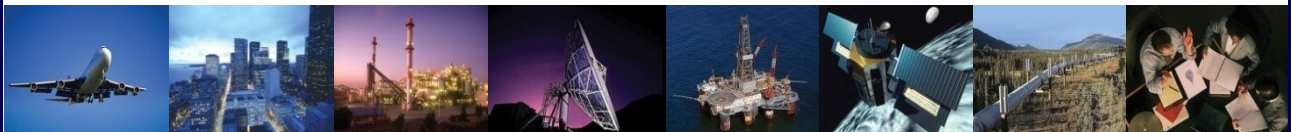
- **Direct Insurance Brokers (Non-Life & Life)**

Head Office :

Maker Bhavan No. 1., Sir Vithaldas Thackersey Road, Mumbai 400 020 (INDIA)

Telephone : + 91 22 6631 4949 / 6631 4917 * Telefax : + 91 22 22623747 / 22625112

E-Mail : jbbmbi@jbbodamail.com * Web : <http://www.jbboda.net>





Since 1943

Team Co-ordinator : Sanjiv Shanbhag,
Executive Director,
J. B. BODA & Company Pvt. Ltd.,
Mumbai, India.
sanjiv@jbbodamail.com

We value feedback at : median@jbbodamail.com

DISCLAIMER

- This document is intended for general information purposes only. We do not accept any responsibility or liability for any errors or omissions therein / therefrom.
- We have not verified the contents of this document and we do not vouch for their authenticity. We hereby disclaim any responsibility or liability in these regards.
- Any statements, facts, figures, opinions, beliefs or views contained in this document do not necessarily reflect our sense, opinion or view and we cannot be held responsible or liable for them.
- Nothing herein contained shall constitute or be deemed to constitute a recommendation or an invitation or a solicitation or a suggestion for any party, person, product or service.
- Reproduction or distribution of this document without our permission is strictly prohibited.
- All disputes subject to Mumbai jurisdiction only.

Visit us at:

www.jbboda.net

(Click on “NEWS” for back Issues of “MEDIAN”)

