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J. B. BODA GROUP

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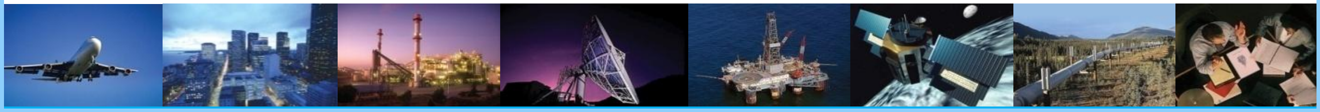

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ON “WRITE” SIDE

CORPORATE INSURANCE MANAGEMENT – REVIEWS, APPRAISALS & AUDITS- I

The industrial establishments are exposed to numerous risks. As the structure of the industries changes, competitive advantages are also largely influenced by the superior ability to manage risks. It is therefore, imperative to develop an Insurance Programme through detailed analysis and understanding of the different risks of an organization.

Risk Management Culture & Philosophy

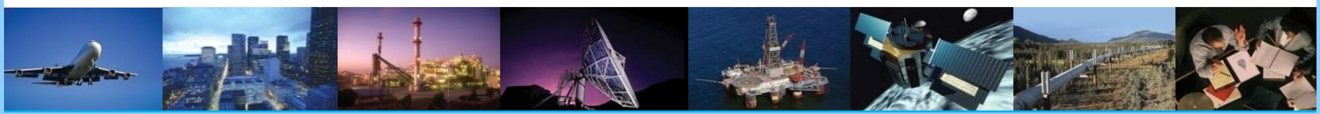
The steps of Risk Management Techniques for evolving the Insurance Culture & Philosophy of an organisation are required to be taken. Risk Management is a systematic approach to pure Risks. Risk Identification, Risk Evaluation and Risk Reduction are three basic steps before reaching Risk Transfer mode i.e. transfer of risk to an Insurer. It is important to formulate an Insurance Portfolio with minimum shortcomings by using the above methods. The following three components of Risk Management are particularly relevant for meeting this challenge.

1. Risk Inspection (be aware of the actual risks)
2. Risk Assessment (quantify these risks)
3. Risk Handling (reduce these risks as far as possible)

The periodical visits to the plants, warehouses and other offices are necessary to identify the risks and ascertain the dynamic developments at the various sites. Suitable periodical interactive meetings should be arranged with the executives from other Departments to gather the information for future analysis. Ideally, this objective can be achieved by having a Corporate Insurance Committee.

The Risk Identification Method encompasses analysis of various related functions and resources of process people, capital, supplies, product, waste product etc.. Risk areas should also be further analysed to identify the basic perils exposure which need immediate attention. The next task is to apply Hazard Evaluation Procedures to identify and analyse significance of Hazardous situation associated with a process activity by the organized efforts. It is necessary to pinpoint weakness in the design and operation of facilities and take decisions for improving safety of the operation. **The following questions should be addressed to understand the risk**:-

How likely is it ? - Probability
What can go wrong ? – Cause & Effect
What are the impacts ? - Severity



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The elements of Risk Assessment foundation area are as under:-

Historical Experience / Exposure
Analytical Methods
Knowledge and Perception

The above studies help to derive an insight towards the Adverse Consequences. These Adverse Consequences can be divided into three parts. 1. Human Impacts, 2. Environmental Impacts, 3. Economic Impacts.

Human Impacts:

(i) Consumer Injuries
(ii) Community Injuries
(iii) On – site Personnel Injuries
 (a) Unit Personnel Injuries
 (b) Loss of Employment
 (c) Psychological Effects

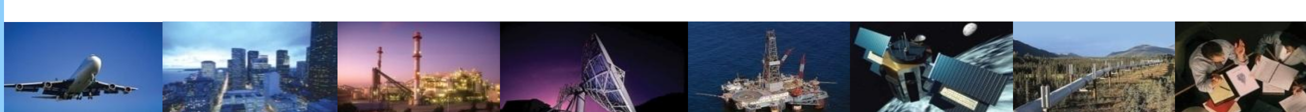
Environmental Impacts:

(i) Off-site contamination
 (a) Air
 (b) Water
 (c) Soil

(ii) On-site contamination
 (a) Air
 (b) Water
 (c) Soil

Economic Impacts:

(i) Property damage
(ii) Inventory loss
(iii) Production outage
(iv) Poor product quality / yield
(v) Loss of market share
(vi) Legal Liability
(vii) Negative image



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The Quantitative Risk Assessment (QRA) should be carried out after examining the Adverse consequences. **This is a structured method to answer following questions**:-

(i) What can go wrong? - Cause & Effect
(ii) How often ? – Probability
(iii) What are the consequences? - Severity
(iv) Should we do anything? - Introspection
(v) What can we do about it ? – Action

QRA is a powerful tool in decision making and for comparison of alternatives. QRA clearly gives indications about Risk and consequence estimates.

The Risk Reduction opportunities should be perused after Risk Evaluation process.

Risk Reduction Opportunities:

(i) Conceptual design
(ii) Engineering / Standards
(iii) Operational and maintenance procedures / practices
(iv) Safety Management

The final step towards the Risk transfer mode would be selection of Risk elements and create location-wise tabulated details in regard to respective values (Sum to be Insured), period of Insurance, Type of Insurance required etc.. The tabulated form of details will help in negotiating with the Insurers and monitoring the entire Insurance Portfolio.

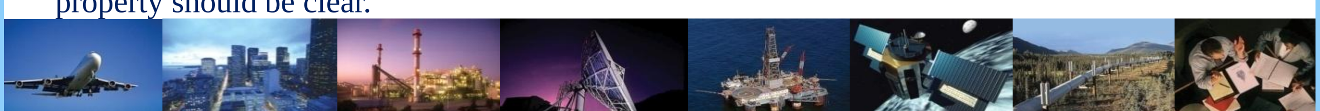
Corporate Insurance Perspectives

(i) Non-Industrial and Industrial Risks to be categorised separately.
(ii) Adequacy of the Sum Insured is important. The Sum Insured should be adequate, because the Insurance Coverage provides for an Average Clause / Underinsurance Clause, whereby the assessed loss is reduced in proportion to the underinsurance level.
(iii) Assets Insurance Policies covering Buildings & Civil Structures, Plant & Machinery, Equipments can be obtained for (1) “Reinstatement Value” / “Replacement Value” or (2) “Market Value”. Stocks and Stock in Process Policies can be sought for “Market Value.”

Reinstatement Value – is the value of similar new property without taking any physical / technical depreciation into account. This enables the Insured to replace the property without much financial loss.

Market Value – is the value of similar new property subject to physical / technical depreciation on straight line method for age and usage.

In case of Buildings & Civil Structures – It is to be clarified whether the Plinth and Foundation is to be covered or not. Value of land is to be excluded. Description of the property should be clear.



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Value of Buildings & Civil Structures should be computed considering the cost of floors, walls, roofs, false roofs / ceilings and value of such items like piles, electrical and telephone wirings or other items, which are embedded underground or in the walls / roofs.

In case of Plant & Machinery, Equipments : Best method for ascertaining the current Replacement Value of a machinery would be to find out from the suppliers, the current price of a similar machine and make suitable adjustments for the price quoted, towards technological advancement, if any. Cost of fabrication of identical machinery at current day component and labour cost is also a method of determining the price of the machinery on current day replacement basis.

Factors to be considered are :-

(i) Quality;
(ii) Less use of space – compactness;
(iii) High output or productivity – speed;
(iv) Less use of fuel – operating cost; and
(v) Less use of manpower – automation.

In case of Stocks :-

Raw Materials : Net cost at which the materials are available on the date of and at the place of loss i.e. the exact market price prevailing, less discount, if any.

The cost of Octroi, Freight, Taxes and Levies, Loading / Unloading, Transit Insurance etc., from the place of purchase upto the premise would also form part of the cost of raw materials.

Finished Goods: The value represented by the net manufacturing cost including factory overheads. In other words, the manufacturers' ex-factory price, less administrative / sales overheads and Net Profit. Excise duty can be added to the value of finished goods only if it is already incurred.

Raw Material / Finished Goods in Bonded Warehouse: As soon as the finished goods acquire "bonded" status, the duty is deemed to have been earned by the Revenue Authorities and therefore this duty element has to be added back.

Stock in Process: Maximum value represented in the cost of Raw Materials, plus other inputs and processing costs at any given time in the areas should be worked out and declared as separate Item. Declaration Policies are not available for Stock in Process and therefore it is essential to insure on the basis of maximum value at risk, likely to be present at any time during the Period of Insurance.

(to be continued ….)

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REINSURANCE

Global Reinsurance Market

The strong presence of European and US insurers in emerging nations is expected to drive the reinsurance industry. The gross premium of the global market is expected to reach an estimated USD 304.4 billion in 2018 over the next five years (2013 – 2018).

The reinsurance industry comprises establishments whose business is to assume all or part of the risk associated with existing insurance policies originally underwritten by other insurance carriers. Enterprises engaged in this business collect fees, reinsurance premiums or annuity considerations and invest premiums to build up a portfolio of financial assets to be used against future claims.

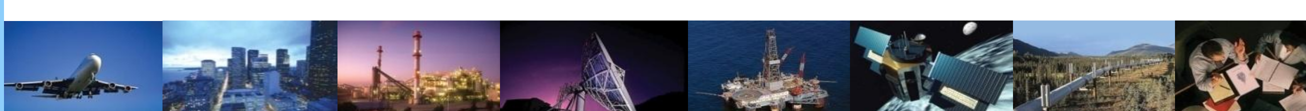
This research indicates that premium growth remained strong across Asian markets due to sustained growth in primary insurance supporting reinsurance growth and the increasing need for greater risk awareness.

Greater awareness of the benefits of reinsurance followed encouragement from regulators with their growth-favouring policies. Demand for reinsurance in Middle East nations continued to grow with new entrants providing additional capacity in expanding non-life markets.

In the global reinsurance industry, life reinsurance witnessed the highest premium growth during the last five years due to increasing life insurance premium growth that supported the growth of life reinsurance and rising demand for longevity risk transfers. Demand for reinsurance solutions is increasing as a means to manage the capital strain put on primary life and health insurers, resulting in growth of the industry.

Reinsurance cost for India Inc.

The reinsurance cover for India Inc. has become 20 % cheaper in 2014-15 at a time when inflation has impacted the economy. There is a softening of reinsurance pricing as globally there are not many claims. GIC Re, with a global balance sheet size of around INR 120 billion (USD 2 billion) has its domestic and international business in the ratio of 50:50 and going ahead, it would like to grow its global portfolio and shrink the domestic business to achieve stability in the business.



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INTERNATIONAL

Global Growth along with Rising Risks

The International Monetary Fund has recently predicted that global recovery would strengthen this year as output in richer nations picked up, but it warned of rising risks in emerging economies. In its latest global economic snapshot, the Washington-based IMF said better policies were needed to raise the world's productive capacity and avoid a prolonged period of sluggish growth. Global output should expand 3.6 % this year, slightly lower than forecast in January 2014, and grow 3.9 % next year, the IMF has said in its "World Economic Outlook."

But the number masks an increasing divergence among countries. While less fiscal austerity should help unshackle growth in the United States and Europe, emerging markets are likely to grow more slowly than thought just a few months ago due to tighter financial conditions, the IMF has said.

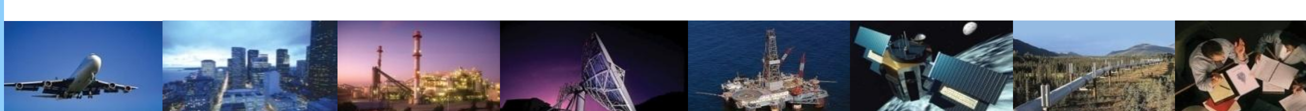
The strengthening of the recovery from the Great Recession in the advanced economies is a welcome development, the IMF has said. But growth is not evenly robust across the globe, and more policy efforts are needed to fully restore confidence, ensure robust growth, and lower downside risks.

Despite weather-related weakness at the start of the year, the IMF has said that the United States should enjoy above-trend growth of 2.8 % this year thanks to less severe budget cutting, a recovering housing market and an easy monetary policy. It said it did not expect the U.S. Federal Reserve to raise interest rates until the third quarter of next year. Economic activity in the euro zone should pick up slightly as countries slow the pace of fiscal austerity, even though the currency bloc continues to suffer from financial fragmentation and weak credit supply and demand.

The IMF repeated warnings about the very low level of inflation in the euro zone and it saw about a 20 % chance of growth-sapping deflation in the region.

Malaysian Plane Tragedy

After long hunt for MH370, pressure is building for better ways of tracking aircraft, as regulators wrestle with the Malaysian jet's disappearance armed with only minimal information.



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It is viewed that satellite technology be made mandatory so that controllers can track aircrafts. Until recently, aircraft flying over oceans well outside the reach of air traffic control routinely gave their position through high-frquency radio links that are vulnerable to interference from the atmosphere. Some airlines now use satellite-based voice and text communications, but these are not mandatory and may require a subscription that Malaysia Airlines had not signed up for, according to officials investigating the loss of Flight MH370. Technology that exists today can pinpoint the location of aircraft in near real time and, in this day and age, it is unacceptable that the location of the aircraft is unknown. Implementation of technology such as ADS-B and use of satellite surveillance of aircraft during flight operations must become the standard across the industry. ADS-B is a satellite navigation device capable of linking to the Global Positioning System or other space-based networks. MH370 disappeared while en route from Kuala Lumpur to Beijing in the early hours of 8th March 2014. Authorities have not ruled out mechanical problems, but say evidence suggests it was deliberately diverted and crashed in the Indian Ocean.

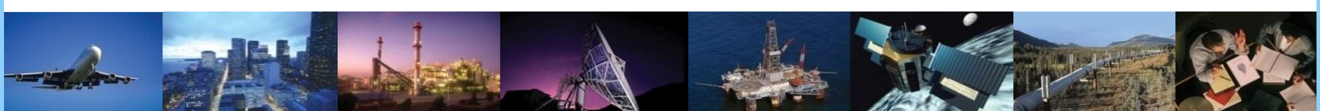
308 Disaster Events

Swiss Re’s latest Sigma Report highlights 308 disaster events in 2013, of which 150 were natural catastrophes and 158 man-made. Almost 26,000 people lost their lives or went missing in the disasters. The biggest “humanitarian catastrophe” was typhoon Haiyan, which struck Philippines in November 2013, as one of the strongest typhoons ever recorded worldwide. It killed around 7,500 people and left more than 4 million homeless. The next most extreme in terms of human cost was June 2013 flooding in Himalayan State of Uttarakhand in India, in which around 6,000 people died.

The total economic losses from natural catastrophes and man-made disasters were around USD 140 billion last year, down from USD 196 billion in 2012, and, Swiss Re noted, well below the inflation-adjusted 10-year average of USD 190 billion. Asia was hardest hit, with the cyclones in the Pacific generating most economic losses.

Weather events in North America and Europe caused most of the remainder of major economic losses with insured losses around USD 45 billion, down from USD 81 billion in 2012, and below the inflation-adjusted average of USD 61 billion for the previous 10 years, due largely to a benign hurricane season in the US.

Of the total, natural catastrophes generated USD 37 billion of losses, and man-made disasters the other USD 8 billion in claims. The biggest losses came from large scale floods in Europe and Canada, record-level hail losses and multiple windstorm events in Europe, convective thunderstorm and tornado events in US, and Haiyan in Philippines.



The Report has indicated that emergency preparedness and disaster risk management progressed in 2013; however, disaster events continue to generate increasing financial losses alongside ongoing economic development, population growth and global urbanization.

Swiss Re added that along with local prevention and mitigation measures, insurance is a powerful measure to strengthen resilience against catastrophe events. The wide gap between economic and insured losses caused by natural disasters places a significant burden on the public sector and, ultimately, uninsured individuals and businesses. By pricing risk and thus incentivizing investments in prevention measures, the reinsurance and insurance industries can help reduce the economic and social costs of catastrophes.

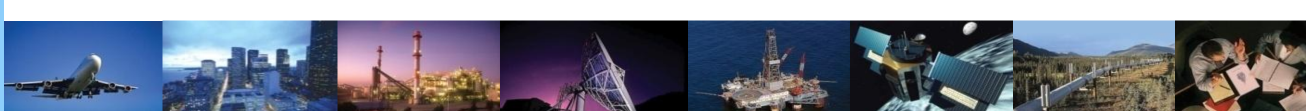
Logistics Performance Index (LPI)

The gap between the countries that perform best and worst in trade logistics is still quite large, despite a slow convergence since 2007, according to a new World Bank Group Report released recently. This gap persists because of the complexity of logistics-related reforms and investment in developing countries, and despite the almost universal recognition that poor supply-chain efficiency is the main barrier to trade integration in the modern world.

The Report, “Connecting to Compete 2014: Trade Logistics in the Global Economy”, ranks 160 countries on a number of dimensions of trade -- including customs performance, infrastructure quality, and timeliness of shipments -- that have increasingly been recognized as important to development. The data comes from a Survey of more than 1,000 logistics professionals. The World Bank Group’s International Trade Unit produces the Logistics Performance Index (LPI) about every two years since 2007.

The LPI is trying to capture a rather complex reality: attributes of the supply chain. In countries with high logistics costs, it is often not the distance between trading partners, but reliability of the supply chain that is the most important contributor to those costs.

In the 2014 LPI Report, Germany showed the world’s best overall logistics performance. Somalia had the lowest score. As with previous Editions, the 2014 Report finds that high-income countries dominate the world’s top-ten performers. Among low-income countries, Malawi, Kenya, and Rwanda showed the highest performance. In general, the trend across past Reports has been that countries are improving and low-performing countries are improving their overall scores faster than high-performing countries.



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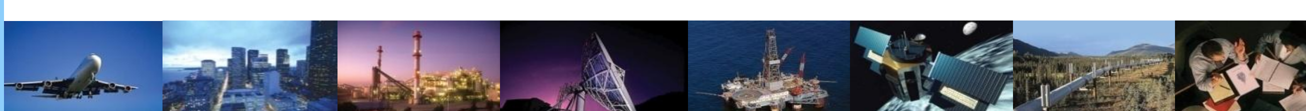
The 2014 Report finds that low-income, middle-income, and high-income countries will need to take different strategies to improve their standings in logistics performance. In low-income countries, the biggest gains typically come from improvements to infrastructure and basic border management. This might mean reforming a customs agency, but, increasingly, it means improving efficiency in other agencies present at the border, including those responsible for sanitary and phyto-sanitary controls. Often, multiple approaches are required.

Middle-income countries, by contrast, usually have fairly well-functioning infrastructure and border control. They generally see the biggest gains from improving logistics services, and particularly outsourcing specialized functions, such as transportation, freight-forwarding, and warehousing.

The LPI is increasingly respected by policy makers. In Indonesia, for example, the Index is formally used to measure the Trade Ministry’s performance. The Asia-Pacific Economic Cooperation (APEC) organization uses the LPI to measure the impact of an initiative to improve supply-chain connectivity. The EU Commission has used the LPI in its Transport Scoreboard and in its 2013 Evaluation of the EU Customs Union.

<u>Asia Pacific : NAT CAT Insurance</u>

The Asia Pacific is more vulnerable to natural hazards than any other region in the world and it urgently needs to improve its insurance and other disaster risk financing to address the high human and economic toll of floods, droughts and other increasingly common natural disasters that have cross border impacts, the Asian Development Bank has stated recently. In 2013, only 7.6% of economic losses were insured, so costs are threatening to outstrip Governments’ ability to finance recovery.



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NON - LIFE

Insurance for Public Deposits

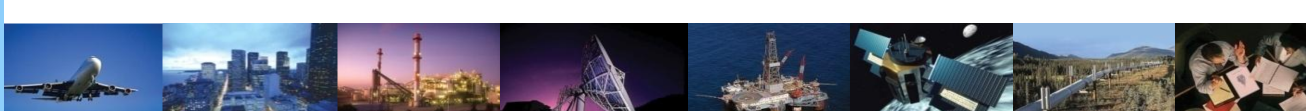
Union Ministry of Corporate Affairs (MCA) notified Rules on providing Insurance cover for Public Deposits. The Rules called Regulations for Acceptance of Deposits by Companies was notified under section 73(2) (d) of the Companies Act 2013. Section 73(2) (d) of the Act provides a mandatory insurance cover for public deposits garnered by Companies and a penalty of up to 18 % annual interest for defaulters. The Rules were notified on 26th March 2014 and became operational from 1 April 2014.

Every Company under sub-section (2) of section 73 and every other eligible Company inviting public deposits shall enter into a Contract providing for Deposit Insurance at least thirty days before the issue of Circular or Advertisement. The Deposit Insurance Contract shall specifically provide that in case the Company defaults in repayment of principal amount and interest thereon, the depositor shall be entitled to the repayment of principal amount of deposits and the interest thereon by the Insurer upto the aggregate monetary ceiling as specified in the Contract. Provided that in the case of any deposit not exceeding INR 20,000/= (USD 334/=), the Deposit Insurance Contract shall provide for payment of the full amount of the deposit and in the case of any deposit in excess of INR 20,000/=, Deposit Insurance Contract shall provide for payment of an amount not less than INR 20,000/= for each depositor. All deposit-taking companies would need to maintain a Deposit Repayment Reserve Account with a scheduled bank and this Account would need to have atleast 15 % of the total amount of deposits.

High Court overturns Arrest of Vessel

In a recent Case concerning the arrest of the vessel MT HARTATI (1), the Bombay High Court directed that the security amount furnished by the owners of the vessel should be refunded with interest, arguing that the order of arrest or retention of the security of the vessel could not be sustained.

The Plaintiff obtained an *ex parte* Order of Arrest for the First Defendant Vessel (MT Hartati). The owner of the vessel (ie, the Second Defendant) applied for vacation of the Order of Arrest by furnishing security, without prejudice to its rights and defences.



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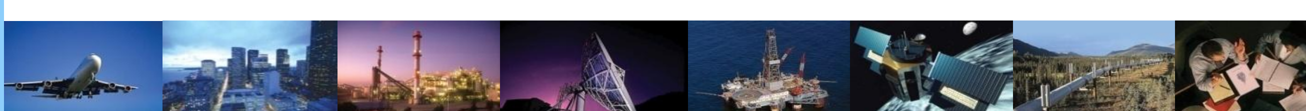
Through an Application made during Proceedings (ie, after obtaining the Order of Arrest), the Plaintiff sought to amend its pleadings to include an averment that the Second Defendant – along with its Holding Company, PT Berlian Laji Tanker, TBK (BLT) – was the owner, entity or beneficial owner allegedly in *de facto* control of the various vessels, including the First Defendant Vessel. The Case centred on amounts that were due to the Plaintiff for unpaid invoices for the supply and delivery of ship stores and goods to the First Defendant Vessel and various sister vessels.

After considering both the relevant Case Law and the International Convention on Arrest of Ships, the Court held that Article 3(1) of the Convention relates to the arrest of a ship in respect of which a maritime claim is asserted. Article 3(2) relates to the arrest of any ship(s) other than that in respect of which the maritime claim is asserted. The Court expressed that such ships are those that, when the arrest is effected, are owned by the person liable for the maritime claim, provided that such person was the owner of the ship in respect of which the claim arose, when the claim arose. It further held that the word 'owner' in the convention should be taken to mean a registered owner, since the only person that could be held liable for a claim against the ship is the person that owns all shares in the ship and would be liable for an action *in personam*.

The Court argued that the fact that BLT owned various entities and incorporated Companies, each of which owned different ships, did not make all the ships sister ships. Nor did it entitle a claimant to seek Arrest of a Ship owned by a particular entity for a claim against a ship owned by another entity merely because both the entities were Subsidiaries of a third entity, unless the Plaintiff could prove that the Companies were formed with an intent to defraud the Plaintiff or the Creditors. In view of the above observations, the Court held that there is nothing wrong with a person owning different ships in the names of different Companies, unless it is a sham. The Court therefore ordered that the security furnished by the owners of the vessel for its release be refunded.

Insurance claims on vector-borne diseases

Due to increased incidence of vector-borne diseases like dengue and malaria and rising treatment costs, insurers have been seeing the number of claims and the claim amounts going up. As per a global mapping study conducted by Oxford University, it found that India recorded 33 million dengue cases, which account for one-third of the infections across the world every year. The incidence of malaria too has been on the rise in India last year. In the last financial year, total claims for vector-borne diseases have risen by over 25 %. The average claim amount too went up last year due to the increased cost on hospitalisation. With the increase in hospitalisation costs, the average claim amount for such diseases is also on a rise, with most customers claiming over INR 40,000/= (USD 667/=).



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LIFE

Digitisation of Policies

Digitisation of insurance policies may take some more time to take off on a large scale, with customers not being too eager to convert their policies into an electronic format. According to insurance industry sources, at present while all processes have been initiated, only a small percentage of policyholders have made their policies into a paperless format. Customers have expressed their reluctance to have a non-paper Policy that can be accessed with one number, since they are more comfortable in having a physical document. The Insurance Regulatory and Development Authority of India (IRDA) has not mandated customers to digitise their Policies, however it is anticipated that in the next 8-10 years, all processes will move into an electronic format.

Life Insurance Policy – Things to Verify

The Policy is a complete guide to the coverage in your Insurance Contract:-

Key Parameters to peruse:-

(i) Personal details

(ii) Benefits

(iii) Riders

(iv) Exclusions

(v) Payment tenure

(vi) Returns

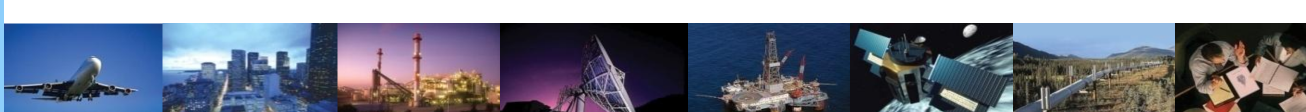
(vii) Service Contract

(viii) Surrender charges

(ix) Claim Settlement Process

(x) Review of Policy (free look period of 15 days)

(xi) Any mis-selling of product?



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"J. B. BODA" NEWS

An international Conference of the Insurance Regulators of SAARC – South Asian Association for Regional Cooperation Countries was held in Karachi, Pakistan on 14^{th} & 15^{th} April 2014. It was attended by over 500 delegates from across the Region.

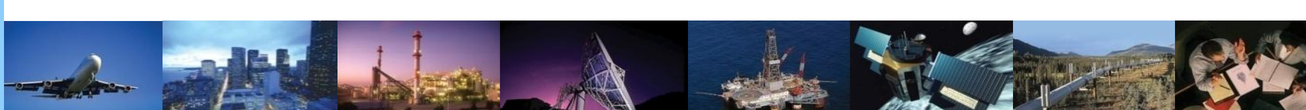
After global recession that hit almost all major economies, the insurance growth rate has significantly improved in the SAARC Region depicting healthy prospects of insurance and reinsurance industry.

During the recession period, insurance growth had shifted to Asia where China, India, Japan, Singapore and South Korea had witnessed a positive growth after a global financial meltdown.

The insurance industry in the SAARC Region has huge untapped potential. The level of insurance penetration in the member countries – (Afganistan, Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan & Sri Lanka) is very low indicating that much of the population does not have access to insurance and if accessed in an organised manner, can significantly contribute to the insurance penetration level.

Innovation is a key factor to make the insurance industry more viable and there is need for insurers to incorporate more innovation for selling their insurance products, including technological introductions. Technology has a high role to play in encouraging and empowering people to purchase insurance policies.

Mr. Atul D. Boda, our Group Chairman gave the Presentation at the Conference on the currently relevant topic of "**ALTERNATIVE DISTRIBUTION CHANNELS"** and it was very well received by the Conference delegates.



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