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J.B.BODA GROUP

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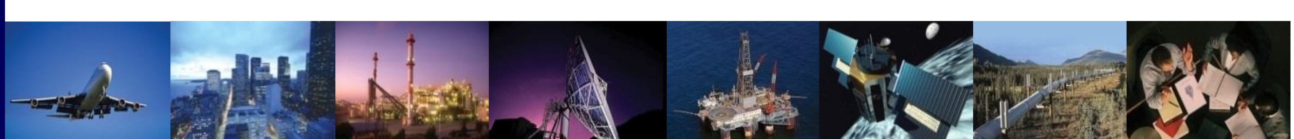

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ON "WRITE" SIDE

Business Interruption Insurance – I

Sanjiv Shanbhag

"Business Interruption Insurance" is also known as "Consequential Loss Insurance" or "Loss of Profits Insurance".

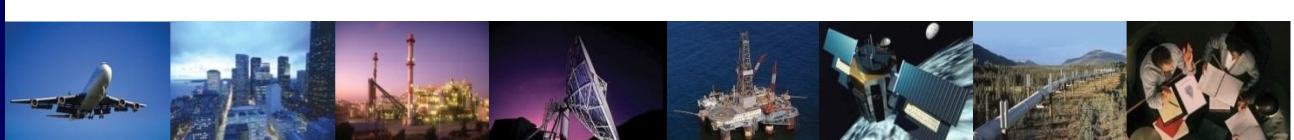
In the world of commerce and industry, the risks can go beyond control resulting in losses. The need for Insurance is thus quite imminent and pertinent. The past experience is the best guide demonstrating that with a small or big Property Damage, a much larger Business Interruption loss may follow. A large cash-rich organisation may be in a position to bear such losses, but in most cases, in the absence of Insurance, the affected organisation has to be assisted substantially by the Banks or the Financial Institutions in rehabilitation. There have been both situations – one is of some uninsured organisations being wiped out, whereas the other is of some insured organisations coming out stronger after a loss. Therefore, the preferable option appears to be to transfer the Business Interruption Risks to the Insurers.

Various types of calamities and catastrophe losses due to different insurable perils occur globally. Fires, floods, storms, earthquakes, riots etc. are now more rampant and more severe. The increase in values and the concentration thereof in large cities or industrial areas are also factors which cause large losses. Large losses in Property Damage now do take place. The consequent Business Interruption loss to various affected industries would be colossal. The absolute necessity of Business Interruption Insurance is quite evident.

Unfortunately, the Business Interruption Insurance has not yet become popular in insurance markets.

As a matter of better conduct standard and good governance practice, the Top Management of a progressive organisation has its onerous responsibility to protect the interests of the stakeholders as well as creditors like Banks and Financial Institutions. Unfortunately, the latter only insist on Property Damage cover of the hypothecated / mortgaged stocks and assets. There is no thought that a small Property Damage can result in a large Business Interruption, whereby the organisation's earning capacity would be severely affected and in turn the interest payments as well as the loan installment payments could be hampered. There is need for somewhat better and improved perception for enlargement of the Business Interruption Insurance portfolio with Banks and Financial Institutions, in their capacity as Lenders, taking large participation in loans and finance arrangements of new operations.

It is desirable to understand certain basic tenets of Business Interruption Insurance.



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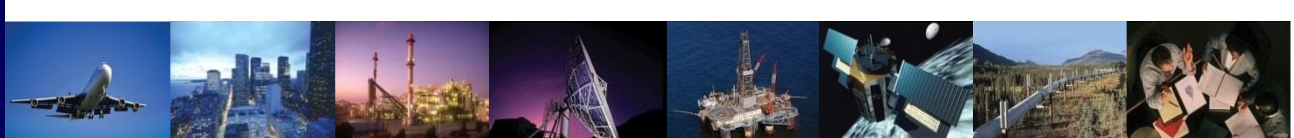
The present Policy Form covering (1) Loss of Gross Profit due to reduction in turnover and (2) increase in cost of working incurred to avoid such Loss of Gross Profit as a result of damage by an insured peril has now been in practice for more than 50 years and is quite well established. The Policy Form lays down quite clearly all the steps for the computation of the loss payable under the Policy. Suitable Additional Covers for wages in different forms, auditors' fees, etc. are also available.

The nomenclature of this Insurance originally started as "Loss of Profits" and gradually changed to "Consequential Loss" and thereafter to "Business Interruption". The first two are more in vogue in India. The nomenclature of "Consequential Loss" and "Loss of Profits" requires clarification to the extent that such Insurance does not cover all types of losses consequent to the damage by an insured peril. A list of losses not covered is set out below:-

1. Loss due to under-insurance against Property Damage under Fire Insurance Policies.
2. The difference between value of stocks at the time of the damage and the value thereof at the time of subsequent replacement.
3. Depreciation of undamaged stocks after damage.
4. Litigation costs connected with Property Damage or Consequential Loss Insurance claims.
5. Loss of or extra cost of interest due to delayed claim settlements.
6. Third Party claims.
7. Loss in recovery of book debts owing to destruction of records.
8. Loss of goodwill.
9. Spoilage or deterioration of stocks or stocks-in-process of limited shelf life or of periodical or perishable nature, which are not actually damaged by the insured peril.
10. Fines and Penalties for non-fulfillment of Contracts or delayed deliveries of finished stocks due to damage and interruption in business thereafter.
11. Cost of preparation of Property Damage and Consequential Loss claims. Auditors' Fees for extracting and certifying particulars of the Loss of Profits as required by the Insurers or Surveyors are insurable by an Additional Item under the Policy. The Sum Insured declared under such Additional Item is deemed to be the Limit of Liability.

The method of claim computation has been clearly set out in the Policy Wordings and is given below in sequential steps. These sequential steps leading to the final claim adjustment are without any adjustment to Rate of Gross Profit, Standard Turnover and Annual Turnover. Such adjustments may be required for variations in business trends etc. and ought to be made judiciously after a proper understanding of the business and the trends current at the time of the claim:-



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1. Ascertainment of Annual Gross Profit based on audited Accounts. Income/ accretions of capital nature are to be excluded. Specified Standing Charges plus Net Profit OR Specified Standing Charges minus Net Loss constitutes Gross Profit.

2. Ascertainment of Rate of Gross Profit per Rupee of Turnover i.e. Annual Gross Profit divided by the said year's Turnover.

3. Ascertainment of Reduction in Turnover, i.e. Standard Turnover less Actual Turnover during the affected period of interruption / indemnity.

4. Ascertainment of Loss of Gross Profit, i.e. Reduction in Turnover multiplied by the Rate of Gross Profit.

5. Ascertainment of allowable Increase in Cost of Working, if any, subject to economic limit and Memo 2.

6. Ascertainment of Savings in Insured Standing Charges, if any.

7. Ascertainment of "Net Loss of Gross Profit" (4 plus 5 minus 6).

8. Application of Average/Under-insurance – if any, to the "Net Loss" worked out.

9. Application of Excess/Deductible, if any.

The Insurance Policy clearly provides indemnification of "Increase in Cost of Working". There are some requirements on the recovery of such costs and as stated in the Policy, these are as under:-

1. Such costs must be necessarily and reasonably incurred.

2. Such costs are incurred for the sole purpose of avoiding or diminishing the reduction in turnover.

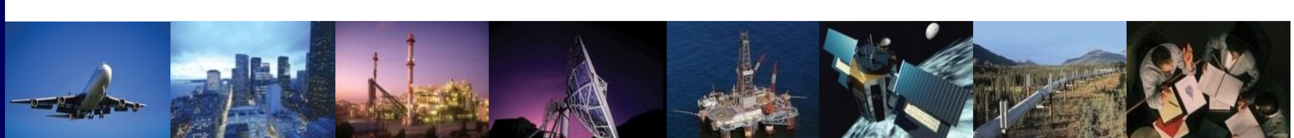
3. Such reduction in turnover would have been during the specified period of indemnity and due to the damage.

4. Recovery of such costs ought not to exceed the loss of insured gross profit thereby avoided.

5. Generally, all standing charges must be insured.

In case these facets are not satisfied, thence the Increase in Cost of Working cannot be indemnified.

(to be continued……..)



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INTERNATIONAL

BELGIUM

Diamond Heist at Brussels

Eight masked gunmen made a hole in a security fence at Brussels International Airport, drove onto the tarmac and snatched USD 50 million worth of diamonds from the hold of a Swiss bound plane without firing a shot.

The gang used two black cars in their daring raid on 18th February 2013, grabbed the cache of diamonds and sped off into the darkness.

They tried to pose and pass themselves off as police officers. They reportedly wore outfits, which resembled dark police clothing and both cars had blue lights on top. The police found one burnt-out vehicle close to the airport later during night and they were still looking for clues.

The robbers made a hole in the perimeter fence and drove up to a Swiss passenger plane, which was ready to leave. The robbers got out of the car, flashed guns at pilots and security transport workers before taking the loot from the hold, which was accessed from outside. Without firing a shot, they drove off through the hole in the fence, completing the theft within barely five minutes.

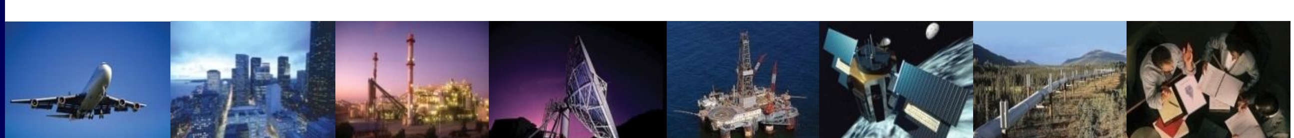
The armed robbery has put the spotlight on security at the airport, as gunmen breached fence and were not intercepted.

Insurance Claims –

The insurance for air transport – handled sometimes by airlines themselves or external insurance companies – is usually relatively cheap, because it is considered to be the safest way of transporting small, high value items, say logistics experts. Unlike a car or a truck, an airplane cannot be waylaid by robbers once it is on its way and it is considered to be very safe before the departure and after the plane’s arrival, because the aircraft is always within the confines of an airport, which are normally highly secured.

Aviation security consultants have opined that the robbery was worrying not because the fence was breached, but because the response did not appear to have been immediate. That raises questions whether alarms were ringing in the right places.

American International Group Inc’s global speciality insurance underwriter Ascot Underwriting Inc. could face claims on the theft of diamonds worth USD 50 million from Brussels Airport.



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Other big heists -

(1) 26th November 1983 -
Loss : USD 39 million
Brinks – MAT Warehouse,
Heathrow Airport, London, England

(2) August 1994 -
Amount Stolen : USD 60 million
Carlton Hotel, Cannes, France

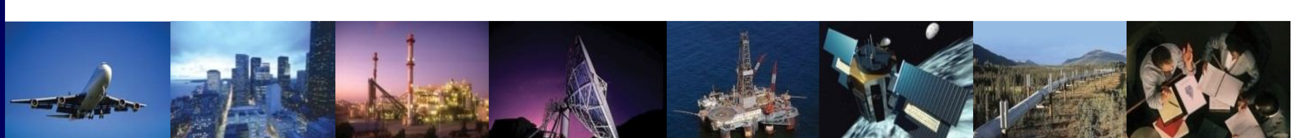
(3) Year : 2000 (foiled heist)
Amount : USD 700 million
Millennium Dome, London, England

(4) 16th February 2003 -
Amount Stolen : USD 127 million
Antwerp Diamond Centre,
Antwerp, Belgium

(5) 25th February 2005 -
Loss : USD 118 million (unconfirmed)
Schiphol Airport, Amsterdam

(6) 4th December 2008 -
Amount Stolen : USD 107 million
Harry Winston Store, Paris, France

(7) 6th August 2009 -
Amount Stolen : USD 65 million
Graff Diamonds, London, England



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CHINA

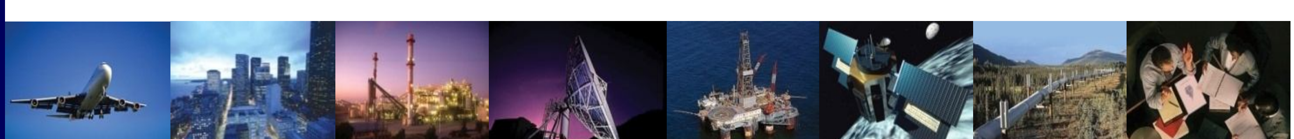
Compulsory Insurance on Heavy Polluters

China’s Ministry of Environmental Protection and the China Insurance Regulatory Commission have jointly released the Guiding Opinions on carrying out the Pilot Programme on Compulsory Environmental Pollution Liability Insurance. This new measure will force heavily polluting enterprises to join an environmental liability insurance system to ensure that they can provide adequate compensation for any damages caused.

RUSSIA

Probe for Fraud

A criminal case has been opened against a Moscow Insurance Company for using fake paperwork to transfer 500 million rubles (about USD 16 million) to accounts of other entities, also under their control, according to the Russian Interior Ministry.



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NON – LIFE

New “IRDA” Chairman

Mr. T.S.Vijayan has taken charge as Chairman of the Insurance Regulatory and Development Authority of India (IRDA) on 21st February 2013. Mr. Vijayan succeeds Mr. J. Hari Narayan.

“IPL” Cricket

As the brand value of the Indian Premier League (IPL) has eroded considerably, the insurance cover for the country’s mega cricket event in 2013 will be less than previous years, it is learnt.

A proposal for IPL’s insurance cover for 2013 has come from the Board of Control for Cricket in India (BCCI). However, this year, the cover would see a reduction of atleast Rs. 1 billion (USD 20 million) than the 2012 edition.

In 2011, after India won the World Cup, the 20-over cricketing event got a thumping response and it had got a cover of around Rs. 9 billion (USD 180 million) for that year.

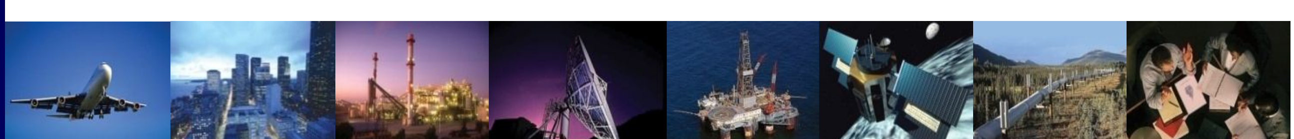
But in 2012, it had to settle with a cover of around Rs. 7 billion (USD 140 million) owing to poor advertisement revenue collection and dismal performance by the Indian cricket team in all the one-day matches that it played.

It was inevitable that the cover will shrink this year as well. The players’ auction already gave that signal. The total advertisement revenue commitment will also play a key role.

The insurance cover for IPL will protect BCCI against any loss of revenue on account of the cancellation of any match due to reasons beyond their control such as terrorism, bad weather, natural calamities, strikes etc..

BCCI, one of the richest sports bodies in the world, along with broadcaster Sony took separate covers of the same amount in 2011. The cover included domestic and overseas media rights, protection of sponsorship fees and other contingencies.

For this year, however, it is not yet clear on whether the mega cricket event will be able to clinch substantial cover on both fronts separately. The average premium for such insurance is 2 % to 3 % of the sum insured. The sixth edition of the cricket carnival will have 76 matches this year. Despite shrink in cover, IPL Insurance would still be higher than India’s other marquee sporting events in the recent times.



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Solvency Margin for Insurers

The IRDA has proposed a lower solvency margin for insurers, at 145% as against 150 % currently, after including a risk charge. In an exposure draft on a risk based solvency approach, IRDA has said that the expert Committee constituted to suggest the road map to move to Solvency-II norms was in the process of deliberations.

The IRDA has said that the requirement would be applicable from 2013-14 and a certificate needed to be furnished on March 31, 2014. It has proposed to impose a risk charge for debt investments of insurers. According to the IRDA Investment Regulations 2000, a majority of funds need to be invested in government securities and approved investments and no risk charge is imposed on insurers, who invest in riskier instruments.

The immediate need is felt to define the risk charge on debt instruments, loans and advances of the insurers, to address the spread of risk on various categories of debt instruments.

In line with these concerns, it has proposed a capital charge ranging between 0.9 and 7.5 %, based on the instrument rating, with lower rated ones having a higher risk charge. India now follows a factor based solvency model for insurers. Solvency – II norms are to insurers what Basel-III norms are for banks.

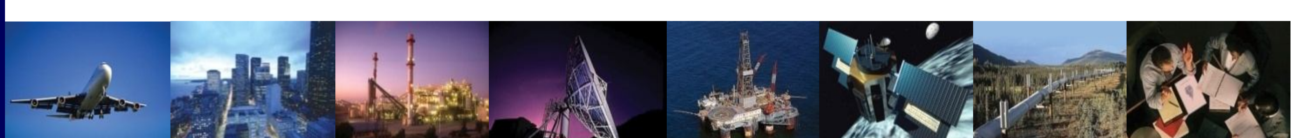
Clarity in Health Insurance

In a bid to remove confusion and bring better clarity on various terms used in Health Insurance, the IRDA has issued guidelines for standardisation. In an elaborate Circular addressed to life insurers, non-life insurers, stand-alone health insurers and third party administrators (TPAs), IRDA has defined 46 commonly used terms and standardised 11 critical illness terms.

Standard terms would reduce ambiguity, enable all stakeholders to provide better services and enable customers to interact more effectively with insurers, TPAs and providers. All insurers shall adhere to the stipulated definitions, while defining these 46 core terms in all health insurance policies. In order to resolve the differences in the definitions of critical illnesses adopted by various insurers, 11 critical illness terms have also been standardised. From now on, all products offering the 11 critical illness coverage shall ensure that they are in line with the stipulated definitions.

IRDA has called for standard pre-authorization and claim form to streamline processes at all stages. This will enhance the ability of providers to obtain timely prior authorization.

The regulator has also brought out a standard list of 199 excluded items in hospitalisation indemnity policies. However, insurers may include these exclusions, if the product design allows for or if the insurer wants to include these as part of hospitalisation expenses.



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LIFE

New Mortality Tables

The IRDA has released new mortality death ratio tables for life insurers for fixing premium, which may lower payments towards new policies. The Tables called Indian Assured Lives Mortality (2006-08) will be effective from 1st April 2013. The new Tables have been prepared after analysis of different recommendations by insurers and new data of death ratio. The current Tables are based on the data of 1994-96 of Life Insurance Corporation of India.

Beneficial Owner in Contracts

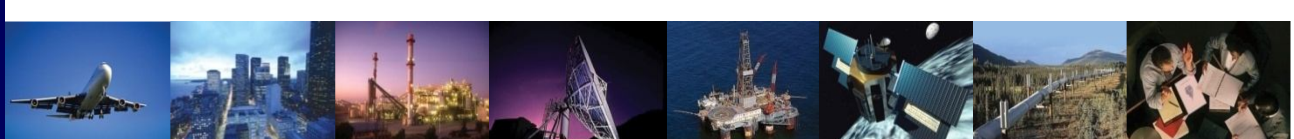
According to the IRDA, insurers should implement appropriate procedures to determine beneficial ownership in insurance contracts.

According to a Government Notification, "Beneficial owner refers to the person(s) who ultimately owns or controls a customer and / or the person on whose behalf a transaction is being conducted, including a person who exercises ultimate effective control over a legal person or arrangement."

In September 2010, IRDA had brought out guidelines on anti-money laundering / counter-financing of terrorism, which required insurers to identify and verify the beneficial owner in an insurance contract. In order to introduce a uniform approach across the financial sector, the Ministry of Finance, along with various financial sector regulators has specified the procedures for determination of beneficial ownership. According to the Ministry's guidelines, in case a customer is not an individual or a trust, the insurer has to verify the identity of the natural person, who, whether acting alone or together, or through one or more persons, exercises control through ownership, or who ultimately has a controlling ownership interest.

In case the customer was a trust, the insurer would identify the beneficial owners of the customer through the identity of the settler of the trust, the trustee, the protector, beneficiaries with interest of atleast 15 % in the trust and any other person exercising ultimate effective control over the trust through a chain of control or ownership. In case the customer or the owner of the controlling interest was a company listed on a stock exchange or a majority owned subsidiary of such a company, it was not necessary to identify and verify the identity of any shareholder or beneficial owner of such companies.

IRDA has stated that these procedures would only apply above prescribed premium threshold in case of insurance contracts.



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“J.B.BODA” NEWS

“CONSTRUCTION INSURANCE” SEMINAR IN KATHMANDU, NEPAL

J B Boda & Company Pvt. Ltd. was invited by ADVANCED RESEARCH & TRAINING INSTITUTE, KATHMANDU, NEPAL to conduct a three day Seminar on **“Construction Insurance”** from 2nd to 4th January 2013 in Kathmandu, Nepal.

Besides participants from construction field like Civil Engineers, Architects and Builders & Contractors, some Senior Officials from Nepal Insurance Companies also participated in the Seminar.

On behalf of J B Boda Group, Mr. S. D. Shah, Executive Director conducted the Seminar proceedings and made Presentations on the following subjects:

RISK ANALYSIS & RISK MANAGEMENT

CONTACTORS’ ALL RISKS (CAR) INSURANCE

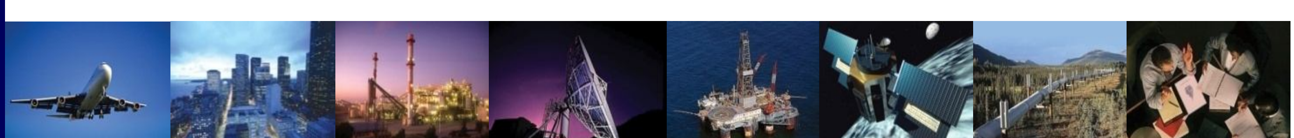
CONTRACTORS’ PLANT AND MACHINERY (CPM) INSURANCE

PROFESSIONAL INDEMNITY INSURANCE

C A R & C P M CLAIMS, SURVEY PROCEDURE & ASSESSMENT (with case studies)

INSURANCE DISPUTES & RESOLUTIONS

The Presentations were well received by participants with lot of interaction.



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“OIL & ENERGY INSURANCE” SEMINAR IN NAIROBI, KENYA

J. B. Boda Group organized a Seminar on ‘Oil & Energy Insurance’ in Nairobi, Kenya on 14th & 15th February 2013 for the benefit of Insurance Industry in Kenya in view of the current opportunities and high potential in the oil exploration sector in the Region.

The Seminar was organized jointly with Association of Kenya Insurers [AKI]. In the Keynote address by Mr. T. M. Gichuhi - Executive Director & CEO of AKI and by Ms. Nidiragu – from office of Director of Insurance Regulatory Authority, Kenya, they paid rich tributes to J. B. Boda Group on behalf of Insurance Industry and the Government for organizing Seminar and simplifying the complex subject of ‘Oil & Energy Insurance”. They welcomed J. B. Boda Group for their newly opened operations in Kenya and stressed on mutual support.

The Seminar was attended by 56 senior officials from various Insurance Companies in Kenya and also some from Uganda, which was well received by all participants.

The Seminar dealt with Technical, Insurance & Reinsurance aspects of Oil & Energy related Insurance, which was handled by expert team comprising of Mr. N. B. Menon & Mr. Prakash Bhawnani from J.B.Boda Group, Mumbai, India. Reinsurance was handled by expert team consisting of Ms. Alice Vaidyan & Mr. Savio Fernandes from GIC Re, Mumbai, India and Mr. P. Kumaraswamy from Hanover Re, Bahrain.

RE/INSURANCE FAMILIARISATION PROGRAMME

J.B.Boda Group conducted a Re/insurance Familiarisation Programme for Senior Team from Bhutan Insurance Co. Ltd. from 18th to 22nd February 2013 at their Head Office in Mumbai, India.

THE LEXICON OF REINSURANCE TERMINOLOGY

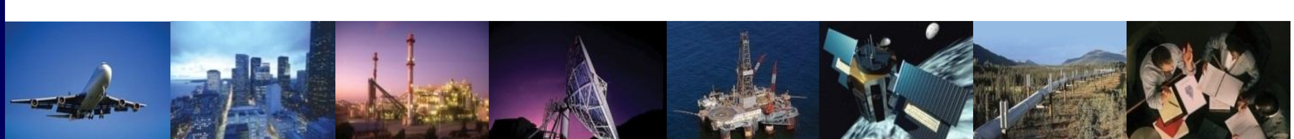
Mr. Kishore Kumar L. Naik, had a long and illustrious career since 1st September 1964. 18 years in India Re and National Insurance Co. Ltd., Kolkata, India and next 31 years in J.B.Boda Group. He has been the Chief Executive Officer of J.B.Boda Reinsurance Brokers Pvt. Ltd. ever since its inception in 2003 as independent arm for reinsurance business.

He has written a book “THE LEXICON OF REINSURANCE TERMINOLOGY” with 100 Points of Reinsurance Fundamentals. It is an excellent reference manual for benefit of students of reinsurance as well as for seasoned reinsurance professionals.

This book is published by National Insurance Academy, Pune, India and its price is Rs. 600 (USD 15). It is available for sale –

E-mail: niapune@vsnl.com Website: www.niapune.com

National Insurance Academy has done yeoman’s service for the benefit of the re/insurance industry by presenting the rich and varied experience of an industry expert such as Mr. Naik.



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

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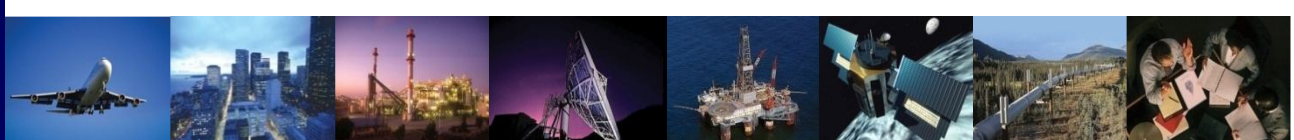

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