

GIC RE LAUNCH NUCLEAR SUPPLIER'S INSURANCE POLICY

Within a year of launching the Rs. 1,500 crore India Nuclear Insurance Pool (INIP), state-run GIC Re today unveiled the Nuclear Supplier's Insurance Policy (NSIP).

A couple of month back, New India Assurance issued a policy for the operators of nuclear power plants under INPI by underwriting premium to the tune of Rs.100 crore. "With the launch of Nuclear Supplier' Insurance Policy, we are now in a position to issue policies for the both operators and suppliers of nuclear power plants," GIC Re Chairperson and Managing Director Alice Vaidyan said while unveiling the NSIP here.

"Around 40 million people are electricity – starved in the country. We will do everything to provide safe power to them by ensuring that the nuclear power plants are safe," she added.

"Apprehension of suppliers of nuclear power plants that recourse of NPCIL was not protected by any insurance policy, doesn't exist any longer as this policy provides that cover," New India Assurance CMD G Srinivasan said. Atomic Energy Commission Chairman ShekherBasu said, "We have already completed the construction of 20 nuclear reactors in the country and 10 more and under construction." "The extra suppliers' cover will be taken by those who will be supplying equipment to the upcoming 10 nuclear reactors on their becoming operational in future," he said.



MOTOR VEHICLES ACT: STEEP FINES MAKE INSURANCE IMPORTANT

Expect premiums to go up or introduction of a co-pay option for third -party damage

It's a new and a much tougher regime for violators of traffic rules. With the new Motor Vehicles Act increasing compensation substantially from all offence and accidents, car and bike owners need to arm themselves with substantially more insurance cover. Those without a valid any insurance policy might have to shell out Rs. 5,000 compared to Rs. 500 earlier in case of an incident.

"In the two wheeler segment 80-85 per cent (of the vehicles) are uninsured. The higher penalty will encourage more two wheeler owners to buy insurance," says Punit Shani, head (product development) SBI General Insurance.

The reduction of the validity period a vehicle registration from 15 years currently to five years could also encourage owners to buy insurance because the registration cannot be renewed without insurance, says Mukesh Kumar Executive Director at HDFC ERGO General Insurance.

In case of accident where the vehicles owner is not traced, the current compensation is Rs. 25,000 for death and Rs. 12,500 for injury. The Act proposes to increase this to Rs.2 lakh.

This amount is paid out of the Solatium Fund contributed by insurance companies out of the third party (TP) insurance they underwrite.

Faced with this new reality, insurance companies are likely to provide option whereby the policy holder can pay higher premium or go for the co-pay option. However, this increase will happen only in April 2017, when the TP premium are decided by government.

At present, there is no minimum or maximum limit for accident where the vehicle owner can be traced. The amount is decided by the court, after taking in account whether the victim was the primary earning member of the family and his/her ability to earn if alive and able to work now the Act has prescribed a maximum of Rs. 5lakh for injuries and Rs. 10 lakh for death.

Insurance companies could launch policies that offer higher coverage for TP premium for those who want it, and the policy holder can buy it as an optional cover by paying higher premium, says Kumar of HDFC ERGO.

At present, about 70 per cent of the premium paid goes towards own damaged (OD) and 30 per cent towards TP, in case of private cars. In case of two wheelers, 55 per cent goes towards OD and 45 per cent towards TP.

For a private car with the cover of Rs.4 lakh the premium for package motor policy would be Rs. 20,300 (excluding service tax). In this OD premium would be 13,750 and the TP premium Rs.6550. For a two wheeler cover of Rs.2lakh, the premium for package policy would be Rs.4560(Excluding tax). In this OD premium would be Rs.3775 and TP premium would be Rs.895.

Instead of prescribing a cap, allowing co-payment in TP premium would have been a more effective way of dealing with the rising case of accident, says Vijay Kumar President (motor insurance) at Bajaj Alliance General Insurance. Co-payment is allowed in OD claims in motor insurance. This reduces the premium of the insured.

New Policy launched by New India for Custom Duty Cover

CUSTOM DUTY PACKAGE INSURANCE

OPERATIVE CLAUSE

The Company hereby agrees subject to the terms, conditions and exclusions of this Policy to indemnify by payment of Loss to the Beneficiary arising out of Warehoused Goods being lost, destroyed or damaged by any Insured Peril specified herein, occurring at any time during the period of this insurance stated in the Schedule hereto, provided that the liability of the Company shall not exceed the Duty thereon and in no case beyond the total Sum Insured stated in the Schedule.

INSURED PERILS:

1. Fire, Lightning, Riot & Strike, Malicious Damage, Aircraft Damage, Impact Damage, Explosion Damage, Implosion Damage, Missile Testing Operations, Bursting and /or overflowing of Water Tanks, Apparatus and Pipes, Leakage from Automatic Sprinkler Installations, Bush Fire, Natural Calamities (Earthquake, Fire & Shock, Subsidence & Land Slide including Rock slide, Storm, Cyclone, Typhoon, Tempest, Tsunami, Hurricane, Tornado, Flood and Inundation) whilst in Insured's Licensed Warehouse
2. Burglary, House Breaking, Theft, Robbery, hold-up, Attempted Theft causing damage to Warehoused Goods, Skillful Pilferage, whilst stored in the premises as per the sub-limit specified in the schedule.
3. Marine All Risk as per Inland transit clause including SRCC during actual transit of Warehoused Goods to and from the Warehouse
4. Acts of dishonesty/ infidelity / Crime committed by employees, agents, representatives, assigns of Insured whilst stored in the premises as per the sub-limit specified in the schedule.
5. Terrorism means an act or series of acts, including the use of force or violence, of any person or group(s) of persons, whether acting alone or on behalf of or in connection with any organisation(s), committed for political, religious or ideological purposes including the intention to influence any government and/or to put the public in fear for such purposes as per the limit specified in the schedule.

EXCLUSIONS

1. This policy does not cover Loss:
 - i. Attributable to willful misconduct of the Insured or the Importer, ordinary leakage, breakage ordinary loss in weight or volume, or ordinary wear and tear of the subject-matter insured.
 - ii. Caused by inherent vice or nature of the subject-matter insured
 - iii. Arising from the use of any weapon of war employing atomic or nuclear fission and/ or fusion or other like reaction or radioactive force or matter.

- iv. Caused by Insects, vermin, rodents, bacteria, moulds, inherent vice, rust, dampness of atmosphere, extremes of temperature or fumigation, latent defect, weevils or other infestations or fumigation
- v. Arising from insolvency or financial default of the warehouse-owners/importers.
- vi. Caused by its own fermentation, natural heating or spontaneous combustion.
- vii. Caused by any processing operation including but not limited to cooling, thawing, packaging, repackaging, mixing, ripening or freezing, or any actual work upon the property as described above unless loss by fire or explosion ensues, and then only for such ensuing loss
- viii. Caused by Corrosion, rust extremes or changes in temperature, dampness, dryness, wet or dry rot fungus shrinkage evaporation loss of weight pollution contamination change in colourflavour texture or finish action of light vermin insects marring or scratching.
- ix. Caused by coastal or river erosion
- x. Caused by ionising radiations or contamination by radioactivity from any nuclear fuel or from any nuclear waste from the combustion of nuclear fuel. Solely for the purpose of this Exclusion Combustion shall include any self-sustaining process of nuclear fission.
- xi. Of Any goods where duty has not been paid and remains in the bonded warehouse for a period beyond 365 days unless extension has been permitted by Commissioner of Customs by order in writing; .
- xii. Arising out of any material change/deviation from the facts stated in the application for obtaining licence.
- xiv Any fines and penalties levied by any authorities for which Insured is liable under the statute.
- xv For Consequential loss and/or legal liability of any kind.
- xvi For any Duty which is liable for abatement or remission as per the Customs Act 1962 , which extinguishes the custom duties; .
- xvii The amount of the excess as specified in the schedule after the application of all other terms and conditions of the policy.
- xviii Notwithstanding anything to the contrary contained herein this Policy does not cover Loss or Damage directly or indirectly occasioned by, happening through or in consequence of war, invasion, acts of foreign enemies, hostilities (whether war be declared or not), civil war, rebellion, revolution, insurrection, military or usurped power or confiscation or nationalism or requisition or destruction of or damage to property by or under the order of any government or public or local authority.

- xiv. Notwithstanding any provision to the contrary within this insurance or any endorsement thereto it is agreed that this insurance excludes loss, damage, cost or expense of whatsoever nature directly or indirectly caused by, resulting from or in connection with any act of terrorism regardless of any other cause or event contributing concurrently or in any other sequence to the loss. This Insurance also excludes loss, damage, cost or expense of whatsoever nature directly or indirectly caused by, resulting from or in connection with any action taken in controlling, preventing, suppressing or in any way relating to any act of terrorism. If the Underwriters allege that by reason of this exclusion, any loss, damage, cost or expense is not covered by this insurance the burden of proving the contrary shall be upon the Assured. In the event any portion of this endorsement is found to be invalid or unenforceable, the remainder shall remain in full force and effect.

This policy does not cover any loss or damage arising directly or indirectly from nuclear reaction nuclear radiation or radioactive contamination however such nuclear reaction nuclear radiation or radioactive contamination may have been caused .Nevertheless, if Fire is an insured peril and a Fire arises directly or indirectly from nuclear reaction nuclear radiation or radioactive contamination any loss or damage arising directly from that Fire shall (subject to the provisions of this policy) be covered. Excluding however all loss or damage caused by nuclear reaction nuclear radiation or radioactive contamination arising directly or indirectly from that Fire.



ALTERNATIVE RISK TRANSFER

What is ART

- ✦ Alternative Risk Transfer (often referred to as ART) is the use of techniques other than traditional/ conventional insurance and reinsurance to provide risk bearing entities with coverage or protection.
- ✦ They are tailor-made and highly customised.

HISTORY

- ✦ The field of alternative risk transfer grew out of a series of insurance capacity crises in the 1970s through 1990s that drove purchasers of traditional coverage to seek more robust ways to buy protection.

PURPOSE

- ✦ Primarily introduced to counter:
 - ✦ unpredictability of conventional markets – the hard-soft cyclical movement.
 - ✦ Lack of transparency in rating
 - ✦ To cover the uninsurable portions
 - ✦ To beat the cross subsidy – like small risks subsidising large risks and the good risks subsidising bad risks.

SEGMENTS

Alternative Risk Techniques falls into three large segments:

- ✦ Risk Transfer (with or without funds withheld facility)
- ✦ Risk Retentions Financing
- ✦ Asset Management

FEATURES/ RECENT FORMS

- ✦ Finite risk reinsurance
- ✦ Integrated multi line, multi-year, multi trigger products
- ✦ Contingent Capital
- ✦ Securitisation of risks (convergence of insurance & capital market – weather derivatives)

- ✦ Cover non-insurable risks such as Currency Risk, Interest Rate Risk and Credit risk
- ✦ A major part of the premium not required to meet claims liability is paid back.

LIMITATIONS

- ✦ Number of ART solution providers are limited, hence market is small and not very competitive.
- ✦ Hit rate post negotiations is very low.
- ✦ Tax implications are heavy, accumulated funds are subject to Tax, hence ART is more popular in regions of tax heavens.

KEY MARKET PARTICIPANTS

- ✦ **Banks** : JPMorgan Chase, Goldman Sachs, Bank of America, and Citibank.
- ✦ **Insurers** : AIG, Zurich, USAA, and XL Capital
- ✦ **Reinsurers** : Munich Re, Hannover Re. and Swiss Re
- ✦ **Consultants** : Towers Watson, Mercer, and Cavendish Consulting.
- ✦ **Sovereigns** : Mexico is the only national sovereign to have issued cat bonds (in 2006, for hedging earthquake risk; in 2009, a multi-structure instrument covering earthquake and hurricane risk).



APPLICATION OF REPLACEMENT CLAUSE FOR 2ND HAND MACHINERY

If the policy is issued covering second-hand or in-use machinery, the following Replacement Clause applicable for Second-hand Machinery is to be attached with the policy.

“In the event of loss of or damage to any part or parts of an insured machine caused by a peril covered by the policy, the Company shall be liable only for the cost of repairing or replacing such part or parts, subject to condition that settlement of the claim will be made in the same proportion which the insured value of the machine bears to the current market value of a similar new machine”.

It is pertinent to note that under Replacement clause for new machinery the Insurers are liable for the current cost of replacing part or parts of the machine that might have been damaged during the transit along with the cost of transportation, re-fitting etc.

Under the Replacement Clause for second-hand machinery, the insurers will be liable only for the proportion of the current replacement cost as the Sum insured of the Second-hand machinery bears to the market value of similar new machinery. In other words, under the Replacement Clause for second-hand machinery, the insurer's liability will be limited to the extent of such proportion of current-replacement cost which is relatable to the difference between the value of second-hand machinery and the current market value of such new machinery.

In one case that has come to light, failure to make the policy with Replacement Clause for second-hand machinery reproduced above, has increased the Company's liability.

In view of the foregoing, it is to be ensured that replacement Clause applicable for second-hand machinery is mentioned in the policy while covering second-hand machinery.

To be continued in next edition.....

