



HIGHLIGHTS

- P2 - Claims.....Transformed!
- P4 - Knocked out cold...
by Fani..... Financially
- P6 - Devil is in the **Details**.....
Interpretation.....
- P8 - Simple Policies.....
Big Challenge

insurance industry will do well to just survive with its head above water for this year also.

Like any other service industry, the fortunes of the insurance industry are linked to the economy and let us hope we come out of this situation with as little damage as possible. The other major development in our part of the world as commercial insurance brokers is the standardized policies introduced by the Regulator with the objective of friendly features and simple language for Policy holders. This is currently applicable for residential occupancies without any sum insured limit and commercial fire policies up to ₹50 crores value in one location.

While some of the features like under insurance waiver of 15% maybe beneficial to the insured, we feel that any attempt at standardization hurts the insured in the long run and will be used against them defeating the purpose for which the whole exercise was intended. We have already seen some areas of concern, both in the wordings and coverages, which as expected, the insurers are saying cannot be altered in a standardized structure when the Regulator has made it mandatory.

To quote a German philosopher, maybe not in the same context but equally relevant, "the hardest hit, as everywhere, are those who have no choice".

REALITY CHECK

The general insurance industry has survived the COVID-19 pandemic year of 2020-21 registering a growth of about 6% over 2019-20 which, when compared with several other industries like the Travel and Hospitality sectors, should be viewed as a blessing!!

The significant drivers of growth in premium was the property insurance segment which grew by 28% over a 36% growth in 2019-20. The impressive growth over the two years has

mainly been due to significant increase in the premium rates. Obviously, the other growth area has been Health with the medical concerns pushing the health insurance premium by 18%, and the retail health segment growing by a significant 38%. The Liability sector, probably driven by the increased awareness on the Cyber and other risks, also grew a significant 16%.

The growth of these segments compensated the degrowth in the Motor business which lost about ₹1000 crores premium as against the expected normal year on year growth of at least ₹5000 crores.

The financial year 2021-22 has got off to the worst possible start with huge COVID numbers in April - May 2021 and it looks like the

ON OUTSOURCING

The knowledge needed for any activity has become highly specialized. It is therefore increasingly expensive, and also increasingly difficult, to maintain enough critical mass for every major task within an enterprise. And because knowledge rapidly deteriorates unless it is used constantly, maintaining within an organisation an activity that is used only intermittently, guarantees incompetence.

- Peter Drucker

 **Vijay T**
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CLAIMS ANATOMY

**CLAIM.....
TRANSFORMED!**

A fire was noticed by a crane operator in a 40 MVA transformer.

During the surveyor’s visit, an external inspection was carried out at site and after discussions, the following were observed:

- The gaskets of LV risers were damaged and oil from the tank was leaking through the gasket.
- All LV side risers’ insulators, OLTC drive mechanism, HV bushing and Control Cubicle were found burnt and damaged.
- The transformer winding was intact as the fire had not spread inside the transformer tank, being a closed circuit.



As usual, the cause of fire was gone into by the surveyor. The insured opined that molten metal from the furnace could have propelled out and come in contact with the permalene wood bushing / gasket on the LV side of the unit. In this scenario, the molten metal could have created a spark that ignited the bushing / gasket which could have been soaked in transformer oil from a leak in the transformer. This fire then spread to the additional accessories of the distribution network.

This theory was disputed by the surveyor stating that the possibility of an external fire triggering the damages was not possible since the spurt of molten metal from the main furnace would have had a vertical direction and could not have propelled sideways to the transformer area. Even accepting this remote possibility of the permalene wood bushing / gaskets igniting due to the presence of oil, the damage was caused by arcing because of the contact of oil and molten metal at very high temperature. Based on this, the surveyor concluded that the

damage to the transformer was caused by arcing which is an exclusion under the fire policy as under:

“Loss, destruction or damage to any electrical machine, apparatus, fixture, or fitting arising from or occasioned by over-running, excessive pressure, short circuiting, arcing self-heating or leakage of electricity from whatever cause (lightning included) provided that this exclusion shall apply only to the particular electrical machine, apparatus, fixture or fitting so affected and not to other machines, apparatus, fixtures or fittings which may be destroyed or damaged by fire so set up”.

The surveyor was willing to admit the claim only towards periphery / accessories installed in the transformer room namely bushings, bus – bars, 33KVA isolation switch, etc.. The values of the items that was being allowed by the surveyor was less than 10% of the total claim amount.

Interestingly, during the course of the assessment, the insured was not aware of the stand taken by the surveyor on the cause of loss and it was only after they demanded and received the survey report from the insurance company were they aware of the same.

Based on technical evaluation and expert opinions, the stand taken by the surveyor was challenged as his conclusion on arcing as the cause of loss was not correct as the term “Arcing” refers to a “Luminous electric discharge between two electrically charged objects having huge potential difference”.

While the surveyor was willing to accept the possibility of a piece of molten metal falling onto the oil soaked bush, his conclusion that this will create arcing because of the presence of oil and molten metal at very high temperature, was not valid. For arcing to take place, there was a requirement for potential difference between two electrically charged objects.



The oil soaked bush of the transformer and molten metal pieces do not carry any potential difference and hence cannot cause arcing. The logical conclusion was that the cause of fire was due to flash oil fire and not arcing.

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- 10 years of experience in Project Design, Engineering, Project Management and Project Execution
- As an insurance broker for more than 15 years, with specialization in customization of insurances for Chemical, Cement and Metallurgical industries providing risk management solutions

Root cause analysis (RCA) even in fire claims have become routine. In many cases, there could be multiple possibilities as to why the accident happened and arriving at a single cause could be complex.

Bharat Review

Fortunately, in this case, the insurance company agreed with the stand taken by us and settled the claim. They excluded the costs of internal overhauling charges of the transformer as there were no damages to any internal part of the equipment. They also did not consider the cost of transformer oil left in the transformer after the incident and the cost for the spare transformer installation claimed by client.

Often discussing the multiple reasons is itself counterproductive as there is a possibility of the loss assessor holding on to one of the possibilities, which would deny the claim. Almost in all claims, where the RCA becomes the point of discussion, we, as Brokers, have a tough time negotiating the maze to ensure that we do not fall into the exclusions of the policy inadvertently and at the same time, establishing the admissibility of the claim.

MAJOR ACCIDENTS
THIS IS WHY YOU INSURE

A major fire broke out at an agrochemical unit during handling of solvents and 10 fire tenders from nearby industries doused the blaze. The entire plant was gutted in the fire, but there were no casualties. The estimated loss was about ₹150 crores. Authorities had given permission to the company to operate its agrochemical and pesticide manufacturing unit during lockdown. Atleast 65 workers were present in the unit when the fire occurred.



In another incident, two workers died and 26 were injured after a serious fire broke out following a powerful explosion that was heard a long distance away, in a plant in shutdown condition in a major Agro-chemical industry in India. The company in a statement said since the plant was shut for its planned annual boiler inspection there was no chemical reaction in progress. Prima facie, it appears that the fire may have been caused due to fire/explosion in the solvent which could have been caused due to electric short circuit. The estimated loss was more than ₹200 crores.

Source: Media / Internet

CLAIMS ANATOMY

KNOCKED OUT COLD... BY FANI..... FINANCIALLY

A multi-purpose cold storage unit was devastated by cyclone Fani. The insured had taken a fire policy covering the building, plant and machinery and also the stocks. Fortunately, they were able to remove the stocks before the cyclone made landfall.

The buildings, plant and machinery and the cold storage unit chambers were severely damaged. The estimated loss ran into several crores. You would expect that the claim settlement process would not have had any issues considering the fact that damage by the cyclone should be easily assessed.

The long list of deductions will certainly surprise you!!

- The pace at which the reinstatement of the assets was being done was not acceptable to the loss assessors. The insured's contention was that it took almost 75 days for power to be restored partially to the location, because of which only certain civil works, clearance of debris, stacking of damaged panels and insulation material was possible. Other activities like drilling / cutting / welding were not possible till the power was fully restored. The entire reinstatement process was further delayed, possibly because of financial issues and the subsequent covid pandemic, with the result that the ultimate claim settlement was done on market value basis and not on reinstatement basis.
- The compound wall was severely damaged by the cyclone. The surveyor agreed to compensate only 50% of the claimed amount as, according to them, the extent of damage was limited only to that percentage and the measurements were agreed during



a joint inspection. The insureds contended that they never agreed to the measurements and in fact, they were taken when access to most parts of the boundary wall was not possible, and therefore the measurements were arbitrary. It was only later when the debris was removed and the area was fully accessible that the full extent of damage was noticeable in the form of inclined structure and cracks. These portions were falling down even with light pressure and had to be replaced. Also due to the heavy impact of the cyclone, cracks had developed in the foundation and had to be reconstructed. The compound wall was also constructed on an uneven terrain and the height of the wall above and below the plinth varied from place to place and the uniform measurement throughout the length considered by the surveyor was unjustified. The insured had provided the measurements for each section and also provided bills, receipts and supporting bank statements towards payments for reinstatement of the boundary wall.

- Insured had also claimed damages to more than 15,000 sq ft of insulated floors of the cold storage chambers which required repairs to the PCC rafting. The loss assessor contended that they did not notice any damage to the flooring, nor did they notice any repair work being done during several of their visits. The insured's contention was that they were able to take up this work only after the repairs to the walls and roof panels were completed. Because of the heavy water ingress, the rafting had been damaged, and it had lost its insulation property as water had soaked into it, needing complete removal and redoing.
- A substantial part of the claim was on the PUF panel which is the insulation material used in the cold storage chambers. The loss assessor disputed the measurements of the thickness of the panels and were willing to admit only 75% of the estimated loss, even though insured was able to point out errors in the measurements from the bill of quantities, the packing list etc.,



- The staff and labor quarters, vehicle parking area, garages and storerooms were completely flattened. The surveyors argued that the existing construction was made up of asbestos and bamboo and were not covered as per the construction warranty attached to the policy. The insured's view was that the walls were made of PCC with RCC beams around the walls and the construction warranty did not apply.
- Another major area of the claim was the stacking system within the cold storage chambers. These stacking and storage systems were made of bamboo and had a substantial investment in walking paths built around them which were 2 ft in width. The force of the cyclone with wind speeds in excess of 180 kms/hr completely ripped apart the bamboo installations and pathways and these items were blown away from the building. The insured tried their best to segregate and stack the available material as substantial quantity were blown away into neighbouring areas. A detailed inspection of the items was carried out by the surveyors and they had also taken samples of these items for testing.

Despite a second inspection two months later and a detailed listing of the items, the surveyors came to the conclusion that they were unable to exactly quantify the items and had advised the insured to reuse the segregated and collected materials, some of which were undamaged and arbitrarily decided that they would admit only 50% of the claimed amount.

The insured's contention was that they only claimed for the items which cannot be reused inspite of their best efforts, as most of the bamboo and walkway materials that were inside the chambers were soaked with water and cannot be reused as they are not capable of withstanding the product load and the weight of the people who would be moving on these platforms during loading and unloading and they can use a maximum of 10% of the material. The cyclone was so intense that 40 ft panels, PUF windows and doors were blown upto 2 kms away from the site.

- The damage to the plant and machinery were mostly allowed except for substantial reduction in the estimates for the damages to internal wiring, switches, lights, and other electrical fittings.

The insured had incurred expenses for clearing the debris which required hiring of movers and labour charges for cutting, removing, shifting, sorting, and stacking of damaged materials like panels, sheets etc., The loss assessors were willing to pay less than 50% of these expenses even though the insured contended that it was impossible to carry out the reinstatement activities without this clearing process, considering the extent of damages and debris across the entire location.

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Bharat Review

No loss assessment process is without disputes, protracted arguments and in most cases a dissatisfied and unhappy insured. More so when the insured is a small or medium sized enterprise where the quick and fair claims settlement could be the difference between being back in business or faced with an uncertain future.

Unfortunately, apart from a few rare exceptions, the claims settlement process does get into prolonged tussles. It has been our endeavor to get the client to look at reasonable premium rates and not push for L1 everytime and choose the insurance company carefully as a few thousands of savings in the premium could mean a few crores disputed in a claims situation.



DEVIL IS IN THE ~~DETAILS~~..... INTERPRETATION.....

The Complainant, a member of a Stock Exchange, was engaged in the business of arbitrage between the stock exchanges. A key permanent employee of the Complainant Company drawing salary and other regular benefits, was in charge and looking after the arbitrage operations and other back-office work related to the updating of trade data and MIS reports. Though he could decide about volume of arbitrage, he was not allowed to trade on his own or for clients.

After a few years, the Company, while reconciling the accounts, noticed some arbitrage operations and fraudulent entries of buying / selling transactions, for his personal benefit, which were concealed by manipulating the software data. The Company noticed that the employee had committed a huge fraud by transferring the losses incurred by him in the trading transactions to accounts of the Company's clients. The Company lodged a formal Complaint with the Police. The Director of the Company tried to contact the employee, but he was unavailable. Subsequently, he had spoken to his colleague confessing on the fraud committed by him, post which he committed suicide leaving behind a note which confirmed the fact of him having committed fraud.

The Police closed the case in view of the demise of the employee. The Complainant submitted that the said acts were fraudulent, unauthorized, without consent or permission of authority of the Complainant Company and its constituents.

The Complainant Company suffered a huge loss amounting to ₹2.50 crores from the aforesaid fraud and was liable to compensate its clients as well as third parties. As per the mandatory requirements and also as per laws of the Authorities, the Complainant Company took an insurance covers ₹1 Crore, renewed

regularly, which covered "fidelity" under the terms and conditions of the policy. The Complainant Company filed a claim with the Insurance Company, which rejected the claim on the ground that the loss was due to speculative trading entered into by its employee which was outside the scope of the policy.

Thereafter, the Complainant wrote letters to various redressal forums including the insurance company requesting to re-consider its claim as the said loss was caused solely and directly from fraudulent acts of its employee, and it was covered under the policy. The insurance company informed the Complainant about referring the matter to the stock exchange authorities for their opinion. The Authority, in their opinion categorically stated that the loss incurred to the Complainant was due to fraud and infidelity of its employee and it was not speculative trading, and in view

thereof, the rejection of the claim was illegal. This was not accepted by the insurance company who still refused to settle the claim.

Being aggrieved by the denial for settlement of the claim, the Company filed a Consumer Complaint for compensation amounting to ₹1 crore with an interest @18% p.a. and ₹10 lakhs towards harassment and mental agony. In defence of the above, the insurance company submitted that the alleged loss was beyond the ambit of policy as the Complainant failed to produce any evidence, and stated that the deceased was not an employee of the Complainant Company as he was working on commission basis and not as a salaried employee. The alleged quantum of loss amount is exaggerated to ₹2.50 crore without any evidence on record and also alleged that the Complainant Company delayed and failed to supply the requisite documents to the Surveyors to prepare their survey report.



On hearing the arguments from both the parties, the National Consumer Forum, brought about the following observations and conclusion:

- They observed that the surveyors appointed by the insurance company failed to act as per IRDAI guidelines and unnecessarily delayed the settlement of the claim. Complainant Company had submitted the entire details as sought, yet the surveyors made repeated demands for additional information. The Complainant Company had provided thousands of pages of data and there was no attempt to withhold any information. In their view, as the surveyors understood arbitrage transactions only theoretically they failed to grasp the sophisticated techniques adopted by the Complainant Company.
- The Complainant proved with sufficient records that the deceased was a permanent employee of the company and had discharged their duties on the onus of proof and the burden of prove shifts on the insurance company to establish its contention. In their considered view, the Insurance Company failed to produce cogent evidence to prove that the deceased was not an employee of the Company. Thus, the repudiation of insurance claim by the insurance company is not justified.
- The Complainant made a representation to the Stock Exchange Authority and the insurance company also sought clarification from them. The Authority clarified to the Insurance Company as below
 - The loss was incurred due to fraud & infidelity of Employee and not due to speculative trading.
 - Reasonable care was taken by the Complainant Company.
 - Policy is taken to cover losses of the insured and it is immaterial whether the accused person makes a profit or loss. What is material is that the Insured has suffered a loss.
- Based on the entirety, the deficiency in service on the part of Insurance Company was evident.
- The insurance company was directed to pay an insurance claim of ₹1 crore to the complainant company along with interest and also the costs of litigation to the Complainant Company.

Policies issued for specialized businesses and operations often end up in a lot of issues when a claim arises, as the surveyors and insurance companies are not equipped to decide on the admissibility under the policy, taking into account the facts and circumstances of the incidents. Generally, the opinion of experts in the respective fields is sought for, which forms the basis of admissibility of the claim.

In the above instance, even though the stock exchange authority being an expert in the field had given an opinion on the admissibility, the insurance company chose to repudiate the claim. It is also interesting that the insured had taken the policy only out of the statutory compliance point of view which was why the limit of liability was not adequate.

As in most situations, a rare life threatening incident for a commercial enterprise finds them totally unprepared from an insurance protection point of view.

**Bharat
REview**

The requirement for "Outsourcing" cannot be more critical than in the insurance and risk management areas. Enterprise Risk Management (ERM) has moved way beyond insurance expertise alone, and today requires skills from other domains-both technical and commercial. It is impossible for an enterprise to have in-house expertise for ERM, and more importantly, keep it updated and useful, especially when the usage can only be in the event of an infrequent major claim.

**ON
OUTSOURCING
IN INSURANCE**

SIMPLE POLICIES.....

BIG CHALLENGE

DO YOU SMELL A ?

The wiring harness of a car was damaged, which was taken to the dealer point for being surveyed. The surveyor agreed for the repair process to be started and had also asked for the work orders of previous repairs of this vehicle for the past few years. Without questioning the need for these documents, they were provided to the surveyor.

Based on the work orders of earlier repairs, the surveyor came to the conclusion that the current damage was a pre-existing issue as similar damages to the vehicle was mentioned in the work- orders.

The wiring of the vehicle had been damaged on many occasions due to rat bite which was not in dispute. In all the previous instances the damages had occurred in non-critical areas of wiring and the dealer was able to undertake minor repairs in the form of taping the damaged parts and no claims were preferred.

If the damage had been similar to the earlier incidents, which was minor and superficial in nature, then they could have repaired the same by cutting out the respective portion and replacing with a piece / part from a similar wiring harness which would be available as a reused part with the dealer. Also, the damages can be temporarily taped up if the component is working fine as long as the damages are not in the critical areas.

Bharat RE has been predominantly a Corporate Broker, and we have always been highlighting the complexities in handling commercial claims. However, issues even in policies that we think are simple like a Motor policy are quite common and the message of "Buyer Beware" is universal.



In the current instance, the damages were more severe and also at a vital area of the wiring system near the engine check warning light. Any damages in this area cannot be repaired by taping but requires replacement of the wiring harness system.

The Dealership felt that mere cutting out and taping will not be dependable, as the damages were deep enough to threaten the integrity of the vehicle's normal function, especially when the wires which got damaged were directly connected with the car's engine. The workshop had decided to replace the entire wiring harness, without which the vehicle will not be of road worthy condition and safe for the occupants.

The surveyor had not got into the technical details and had merely taken a stand based on earlier work orders which had nothing to do with the current incident.

While the technical aspects of this claim are quite evident, convincing the surveyor to change his opinion was not possible as having taken a stand and conveyed the same to the insurer earlier, he was reluctant to accept the obvious!! Convincing the insurance company was also not easy and the final claim settlement, as in most cases, was a "negotiated" one.

