

INSURANCE CHECK LIST

Preparedness in times of Covid-19
Securing Tomorrow

Edelweiss Gallagher Insurance Brokers Ltd

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INSURANCE CHECK-LIST

A report by Edelweiss Gallagher Insurance Broking Ltd

This note has been prepared by the Edelweiss Gallagher Insurance Brokers for its clients and partners. The report is based on the risk exposures and industry practice largely followed across sectors. The aim of this report is to provide evidence-based guidance for designing and understanding insurance response during the COVID outbreak. It also serves as an important repository of policy responses in times of crisis

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Over the years we have seen insurers improvise coverages to cater to the needs of evolving business risk. The pandemic that has spread enough chaos across various industries has not spared the insurance companies too. Measuring the impact of pandemic, given the uncertainty of its life span, is a question bothering most underwriters. While most of the risk carriers have been responsive to customer needs despite of their operations being affected extensively, many have started incorporating conditions and clauses pertaining to pandemic to protect their books against the unforeseen future.

This makes it important for every Insurance manager to look into their insurance program carefully and plan well in advance for a secured tomorrow. Insurance policies and wordings are referred to when crisis hit.

It's time to reverse this practice!

Review your insurance needs - track the changes in business operations - update your risk carrier about the changes - revisit the policy wordings before placement and not after.

The current crisis indicates economic slowdown rolling towards global recession. The direct impact of shutdown has led to decline in the level of output and drastic drop in customer expenditure. The continued containment measures will not only impact the GDP adversely but will also build pressure on the Fiscal and Monetary policies supporting the effect.



With reducing output and demand companies need to pay special attention, while buying Property Insurance. Few of the factors that should be reviewed and considered under Fire Insurance, Burglary Insurance, Industrial All Risk or Package insurance policies are:

- Fire policy has a condition that the policy ceases to attach if the insured property remains unoccupied for a period of 30 days (unless sanction of insurer is obtained for endorsing such change in the policy before occurrence of any loss or damage). This condition applies to all types of occupancies and not only industrial premises. It is recommended to inform such changes to insurers.
- Operational premises (classified under Section IV & V of erstwhile Fire Tariff-industrial risks & utilities) falling 'silent' following coronavirus related lockdown can be considered as 'change /alteration of risk' and insurer should be informed of such status. If shutdown continues beyond 30 days, the risk is technically rateable as 'silent risk'. If a given industry belongs to non-essential sector, it is likely that the premises have inventory/stocks, though production operations may have stopped. In such a scenario, the basic rate may change from manufacturing to storage depending upon categories of stocks present at such premises.
- If a premise is left unoccupied or uninhabited for 7 or more consecutive days and nights, then the burglary insurance policy ceases to be in effect as per policy condition and therefore insurer should be advised of such situation in order to ensure continuity of coverage.

- Lockdown may result in 'overcrowding' of godowns or warehouses insured under fire /burglary policy.
 - If an excess stock is stored outside in open or a temporary shed, it is advisable that such situation is informed to insurer well in advance.
 - If the premises are originally rated as 'closed godown', then open storage at such location is not supposed to exceed 2% of sum insured at such location as per Tariff condition. It is likely that this '2%' ceiling for incidental open storage is breached on account of insufficient space in closed godown.
 - For burglary insurance too, additional value outside closed godown or block indicates 'change /alteration of risk'.

- If excess stocks are shifted to any newly acquired premises, then address of such new premises should be included in insurance policy. Also, increase in value of stocks /material (existing as well as new premises) should be informed to insurer and additional premium shall be charged towards enhancement of sum insured.

- Change in security arrangement at insured premises may be informed to insurer.

- Any major change in business process/business model/logistics process should be recorded and intimated to the insurer.

- If the plant/factory is shutdown, it is recommended that industry good practice of preservation of equipment and machinery is followed, and firefighting systems are always maintained in good operating order.

- Machineries/capital goods that are unloaded at plant premises but awaiting installation and commissioning: Such items and their values should be intimated to the insurer in order to include these assets under Fire/IAR policy

- In case of temporary structures erected in insured premises, such structures (other than those created as temporary monsoon protection sheds) may be viewed as 'kutcha construction' by insurer and hence it is advisable that such changes are immediately reported to insurer.

- If the policy has a separate sum insured for 'goods held in trust' as per the clause, then this sum insured can be reviewed and increased if required.

Supply chain management and transit protection is the next important aspect to be safeguarded.

The checklist for transit related challenges is presented in the form of illustration below along with their coverage implications:

Illustration 1:

Overseas Vessel has reached Indian Port and awaiting discharge. The discharge operations face delay for want of labour or similar constraint which the COVID 19 lockdown has given rise to:

As per the transit clause, the coverage under marine policy shall continue since the consignment is still in ordinary course of transit. However, the insurance coverage after unloading of shipment will be determined based on INCOTERMS and whether the storage at port is intentional or in ordinary course of transit.



Illustration 2:

Cargo has been discharged from overseas vessel and awaiting further transit to the factory /Warehouse (Warehouse to warehouse terms):

If the shipment is taken into storage after unloading at the port for want of availability of conveyance for movement to final destination, then such storage may not be considered as *'storage during ordinary course of transit'* and hence marine cover may terminate during such storage. Also, timeframe prescribed in 'Duration Clause', under ICC can also come in the way for continuing coverage under Marine. It is therefore advisable that a separate fire and burglary policy is arranged to cover this exposure, or such storage location is added in any existing fire/burglary policy.

Marine cover shall re-attach once shipment is moved for loading onto carrying conveyance.

Illustration 3:

Cargo discharged from overseas vessel and awaiting further transit to plant/depot or any other final destination (CIF port shipments):

The cover ends once the consignment is discharged from overseas vessel. Fire policy will cover storage phase on named perils basis. Transit cover shall re- commence once cargo is moved from storage point and loaded onto carrying conveyance for inland movement (i.e. inland transit incidental to imports)

Illustration 4:**Delay in delivery at final destination (beyond time period mentioned in ICC) e.g. Import shipments**

- a. As per Transit clause of ICC, Insurance terminates on expiry of 60 days after completion of discharge over side of insured consignment from vessel at final port of discharge. However, if the carrying vehicle is stranded/stopped en-route during inland transit from ports/airports and if the cargo is still outside assured's control, then the Duration clause should continue to provide coverage to the cargo as per time limit applicable (subject to normal customary route and customary transshipments).
- b. If lockdown is expected to delay the delivery of shipment at final destination (beyond 60day limit mentioned in Duration Clause of ICC), then it is recommended that insurer is informed of and extension is sought under Duration Clause.

For example, port of discharge is JNPT and final warehouse is situated in Raipur, then the ICC clause provides coverage if the shipment is delivered to final destination at Raipur within 60 days from date of discharge of shipment from vessel at JNPT. If shipment is stranded en-route to Raipur on account of lockdown and the delivery of shipment at final warehouse is expected to face delay (beyond 60 days), then extension under Duration Clause may be sought. This is however subject to the condition that the shipment is still in carrier's custody (and outside assured's control) and the carrier has not invoked 'force majeure' and terminated the contract of carriage.

(Insurer may or may not agree to extension request depending upon their underwriting appetite and treaty conditions applicable at the time of seeking such extension)



Illustration 5:

Inland transit

Consignment that may have reached its destination railway siding but awaiting discharge from railway rack:

As per Duration Clause under ITC (Rail/Road), the marine insurance cover shall cease on expiry of 7 days after arrival of the railway wagon at the final destination railway station. However, if consignment is stored at railway siding or any other intermediate point of storage not in ordinary course of transit, then marine insurance shall not continue to cover such situation and a separate fire insurance policy is recommended to cover such storage.

The standard cargo /marine insurance clauses in the policy, pertaining to the transit time frames should be referred in order to verify if the policy already has extended duration clause beyond the min timeframe mentioned in standard clauses.

The standard conditions are as follows:

Marine insurance clause	Standard Time frame under Duration Clause for delivery of shipment at final destination or final warehouse	
Institute Cargo Clauses (A/B/C)	60 days	After completion of discharge from vessel at final port of discharge
Institute Cargo Clauses (Air)	30 days	After unloading of aircraft at the final place of discharge
Inland Transit Clause	7 days	After consignment reaches final destination town (e.g. railway siding)

Coverage under Marine insurance may however terminate if shipment is unloaded from carrying vehicle and stored at any other warehouse or place of storage prior to destination named in contract of insurance/certificate. It is possible that insurer may not view such storage as 'storage during ordinary course of transit'.

Other important condition to be reviewed is:

Per location limit (PLL) under Marine Insurance policy can be reviewed in the light of any possible accumulation at port or similar storage points "

Note: In all the situation mentioned above, the discussion is centred around whether marine insurance coverage continues in each situation or not. Any loss, damage or expense proximately caused by delay will be exclusion under marine insurance in all cases discussed above.

PROJECT INSURANCE

'Cessation of Work' is an exclusion under most standard project insurance policies. If project work is stopped at site arising from COVID-19 lockdown, then it would be prudent to inform insurer and seek continuity of coverage under the policy.



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