Report

On Insurance Policies and Recommendations for Adequacy of Sum Insured

Submitted to

Warehousing Development and Regulatory Authority

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Foreword

The Warehousing Development & Regulatory Authority (WDRA) setup by the Government of India under the Warehousing (Development & Regulation) Act, 2007 is registering warehouses belonging to the Central Warehousing Corporation (CWC), State Warehousing Corporations (SWCs), Primary Agricultural Cooperative Societies (PACS), private organisations and cold storages. These warehouses are accredited prior to their registration by the WDRA approved accreditation agencies. The warehouses are required to be adequately insured as per the requirement of the Warehousing (Development and Regulation) Act, 2007.

The WDRA vide its letter dated 24.8.2015 has engaged undersigned and Dr. S.K. Munjal, Ex. DGM, United India Insurance Company Limited consultants to examine all the issues related to requirement of insurance policies for the accreditation and registration of different category of warehouses including cold storages. Following are the Terms and References of the consultancy assignment:

i. The Consultants are required to examine all the issues related to requirement of insurance policies (Standard fire and special perils, Burglary and Fidelity guarantee policy) for the accreditation and registration of different category of warehouses including cold storages as per the provisions of Warehousing (Development and Regulation) Act, 2007, Rules and Regulations with a view to protect the integrity of the negotiable warehouse receipts being issued by the registered warehouses against the deposit of agricultural goods in the warehouses.

ii. The Consultants will discuss with various warehousing organisations, both Government and private, Primary Agricultural Cooperative Credit Societies (PACS), cold storages, individual warehouse owners / managers on the issue of requirement of various insurance policies for the different category of warehouses.

iii. The Consultants will undertake a study of the present practice of insurance policies and other forms of the indemnification in different categories and ownership of warehouses, namely, CWC, SWCs, cooperative warehouses, cold storages, standalone warehouses etc. and comment on their adequacy / shortcomings for a sound Negotiable Warehouse Receipt system (NWRs).

iv. The Consultants will suggest to the WDRA in clear terms the exact requirement of various insurance policies from different category of warehouses and mix of commodities and the procedure for the determination of the value of the commodities for the purpose of accreditation and registration with the WDRA as per provisions of the Warehousing (Development and Regulation) Act, 2007, Rules and Regulations.

v. The Consultants will advise differential norms for stand-alone warehouses including those owned by primary cooperative societies for a mix of commodities.

vi. The Consultants will explore the opinion of an undertaking from the State Government to underwrite the loss arising out of the specified perils in case the SWC does not have a proper insurance mechanism.

vii. The Consultants will also recommend WDRA after consultation with the Insurance Regulatory and Development Authority of India (IRDAI) and general insurance companies whether there may be a special and cost effective insurance product (tailor-made insurance policy) offered by insurance companies for the warehouses to meet the WDRA's statutory requirement.

viii. The Consultants will submit their report along with recommendations on requirement of insurance policies from the warehouses for accreditation and registration with the WDRA within a period of 45 days from the date of issue of the work order / assignment letter.

The Consultants held meeting with representatives of the Warehouse Service Providers (WSPs) on 01.9.2015 who gave their valuable inputs on all the insurance related issues of the warehousing sector.

The Consultants held meeting with senior officers of the Central Warehousing Corporation (CWC) and State Warehousing Corporations (SWCs) on 08.9.2015 wherein suggestions were made by the participants about the insurance requirements for the warehouses of the CWC and SWCs. The Consultants also held detailed discussions with Senior Executives of insurance companies on 28.9.2015 to obtain their considered views on adequacy of requirement of various insurance policies for warehousing sector. The Consultants alsocritically examined the insurance policies being taken by the CWC, SWCs and Private warehousing service providers. Data on insurance policies taken by various organisations, sum insured for various types of policies, premium paid, claims made by the insured parties etc. were examined by the consultants. The draft report was also discussed in detail with the Chairman, Member, Joint Secretary and other officers of the WDRA.

The final report of the Consultants has emerged out of the above discussions. It is hoped that the insurance norms for accreditation and registration of warehouses with the WDRA recommended in this report will be accepted by the WDRA so that the negotiable warehouse receipt system can be strengthened and the integrity of NWRs issued by the registered warehouses may be protected.

The consultants are thankful to the Chairman, Member, and Joint Secretary WDRA for organising interactions with the different stakeholders and giving their valuable suggestions on insurance issues.

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Ex. Chairman cum Managing Director
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Date: 30th November, 2015

EXECUTIVE SUMMARY

After getting the consultancy assignment for reporting the adequacy of sum insured for various kinds of warehouses, the consultants held interactions with representatives of major warehousing service providers of the country, the Central Warehousing Corporation (CWC), State Warehousing Corporations (SWCs), Primary Agricultural Cooperative Societies (PACS) and insurance executives of New India Assurance Company Limited and United

India Insurance Company Limited. The consultant also studied in detail the existing norms for requirement of various insurance policies from the warehouses for registration with the WDRA as well as data submitted by CWC and other organizations on their insurance policies, premiums and claims made for various losses. The executive summary of the recommendations based on prevailing present practices as on date of writing this report is as follows:

i. For building, the Standard fire and special perils (SFSP) policy should be on Reinstatement Value Basis (RIV)basis.

ii. Single commodity insurance may be restricted to market value of the stock stored in full capacity of the warehouse or its value of the basis of average capacity utilization in the last three years, on declaration basis. The minimum sum insured for declaration policy is Rs. one crore in one or more locations and the sum insured shall not be less than Rs. 25 lakh in atleast one of these locations.

iii. For mixed commodities, sum insured may be average value of market price of mixed commodities (Hazardous or non hazardous as per Insurance Tariff list) stored in full capacity of warehouse or on the basis of average capacity utilized in the last three years, on declaration basis. The minimum sum insured for declaration policy is Rs. one crore in one or more locations and the sum insured shall not be less than Rs. 25 lakh in atleast one of these locations.

iv. For new warehouses (not more than one year old), 30% of the storage capacity (Hazardous or non hazardous as per Insurance Tariff list) may be taken for calculating the fire insurance policy.

v. The warehouses storing agricultural produce upto 5000 tons should take the burglary policy for 20% of value of the stocks.

vi. The warehouses storing agricultural produce from 5001 tons and upto 25000 tons should take the burglary policy for Rs. 2.0 crores + 10% of the value exceeding 5000 tons.

vii. The warehouses storing agricultural produce from 25001 tons and upto 50000 tons should take the burglary policy for Rs. 6.0 crores + 5% of value exceeding 25000 tons.

viii. The warehouses storing agricultural produce from 50001 tons and upto 100000 tons should take the burglary policy for Rs. 8.5 crores + 0.25% of value exceeding 50000 tons.

ix. The warehouses storing agricultural produce of more than 1 lakh tons should take the burglary policy for Rs. 8.75 crore + 0.15 % of value exceeding one lakh tons subject to a cap of Rs. 15 crores for sum insured.

x. For warehouse(s) including companies etc. having storage capacity upto 1 lakh tons, the fidelity guarantee policy would be 10% of the sum insured in fire policysubject to a maximum of Rs. 20 crores.

xi. For warehouse(s) including companies etc. having storage capacity above 1 lakh tons, thefidelity guarantee policy recommended for their employees is Rs. 20 crores.

Note: The recommendations have been arrived at taking into consideration the value of stocks @Rs. 20000 per ton. In case of higher value of stocks the calculation will be according to market price of the commodity.

Normally, it is the prerogative of the Insured / Client to declare Sum Insured. However, the provisions in the Warehousing (Development and Regulation) Act, 2007 require adequacy of the sum insured to protect the integrity of NWRs being issued by the registered warehouses. We, in the absence of sufficient data on insurance claims of warehouses, have made recommendation on the sum insured to be taken by warehouses/companies on the basis of our technical knowledge and experience.

The above insurance norms prescribed for accreditation and registration of warehouses are adequate and will protect the integrity of negotiable warehouse receipts issued by the registered warehouses. These insurance covers taken by the registered warehouses will increase the fiduciary trust of Banks and other financial institutions and will enhance their interest in lending against NWRs.

CHAPTER-I

1. Registration of warehouses with the Warehousing Development and Regulatory Authority (WDRA) and requirement of insurance policies by the warehouses

The Warehousing Development & Regulatory Authority (WDRA) setup by the Government of India under the Warehousing (Development & Regulation) Act, 2007 is registering warehouses belonging to the Central Warehousing Corporation (CWC), State Warehousing Corporations (SWCs), Primary Agricultural Cooperative Societies (PACS),, private organisations and cold storages. These warehouses are accredited prior to their registration by the WDRA approved accreditation agencies. The warehouses are required to be adequately insured as per the requirement of the WDRA.

1.1. The rule position of requirement of insurance policies by the warehouses to be accredited / registered with the WDRA is as follows:

i. Section 11(1) (k) of the Warehousing (Development and Regulation) Act, 2007 provides that warehouse receipt should have name of the insurance company indemnifying for fire, floods, theft, burglary, misappropriation, riots, strikes or terrorism.

ii. Section 8 (vii) of the Warehousing (Development and Regulation) Registration of Warehouses Rules, 2010 provides that no registration certificate shall be issued unless the warehouse is adequately insured as per the requirement of the Authority.

iii. Regulation 3 (2) (viii) of the Warehousing Development and Regulatory Authority (Warehouse Accreditation) Regulations, 2011 provides that for the accreditation of warehouses, the warehouses should have insurance policies to cover risk on account of fire, floods, theft, burglary, riots and for the goods stored.

iv. Regulation 3 (3) (v) provides that a certificate of accreditation shall be granted by an accreditation agency only when a warehouses complies with insurance policies of the warehouse and the goods stored or to be stored in the warehouses.

1.2. Existing insurance requirements in the WDRA

At present, the WDRA has decided that the following insurance policies shall be taken by the warehousemen for the purpose of accreditation and registration of their warehouses with the WDRA:

I. Central Warehousing Corporation (CWC): The insurance policies being taken by the CWC for its warehouses shall be treated as adequate insurance for the purpose of registration with the WDRA.

II. State Warehousing Corporations (SWCs) : Insurance policies taken by SWCs in various States shall be studied after obtaining information from the States and decision regarding their adequacy will be taken separately for each State at the level of the Member and Chairman WDRA as per current procedure.

III. PACS Godowns: The PACS godowns shall be registered without insisting on fidelity guarantee, but with a condition that the godown shall take adequate fidelity guarantee after its registration by the WDRA and before issuing NWRs.

IV. Standalone Warehouses: A registered warehouse should have policy of special fire and other perils for the average value of the stocks held in storage for the last three years which shall be based on the fact that the value declared for sum insured shall not be less than Rs. 2000/- per quintal of the total stocks in a warehouse, however, upper limit of per quintal may be based on actual high value stocks in storage. The fire policy taken by the warehouseman should be consistent with the category of goods stored in the warehouse. The fire policy must be extended to cover spontaneous combustion in case of agricultural goods stored in the warehouse are prone to spontaneous combustion.

V. For new standalone warehouses, the insurance shall be taken on the basis of 30% of the storage capacity to be registered with WDRA to begin with. The policy shall be a declaration policy providing for additional premium as and when the utilization goes beyond 30%.
However, in case of standalone warehouses, 10% value of the stocks held in storage in registered capacity shall be worked out to come out with a figure, to cover risk of misappropriation (fidelity guarantee) by employee/employees.

CHAPTER – II

2. Discussions with the senior officers of the Warehouse Service Providers (WSPs)

Discussions were held with major Warehouse Service Providers (WSPs) of the country in a meeting held on 01.9.2015 in the WDRA. The meeting was attended by the senior officers from M/s Shree Shubham Logistics Limited (SSL), National Bulk Handling Corporation Private Limited (NBHC), JICS Logistic Limited, LTC Commercial Company Private Limited, Janhavi Promoters Private Limited (JPPL), UIB Insurance Brokers (India) Private Limited, Sohan Lal Commodity Management Private Limited (SLCM), Origo Commodities India Private Limited and National Collateral Management Services Limited (NCMSL). The Member, Director, WDRA and consultants from the NIPFP were also present during the discussions. The list of the participants is given in Annexure I.

The WSPs informed that they ensure to fully cover the value of goods stored in their warehouses under insurance for all perils relevant to the commodities for which insurance cover is available and necessary. The WSPs take insurance cover for risks such as viz. Fire and allied perils including flood, cyclone, earthquake and spontaneous combustion, Burglary and Theft. The WSPs also take fidelity guarantee policy for their employees.

The WSPs informed that since they are registering their warehouses with the WDRA, the insurance norms are as per the guidelines issued by the WDRA. However, they are of the opinion thatburglary policy should be for10-15 % of the sum insured for fire policy with AOA Rs. 50 crore& AOY Rs. 100 crore. Thefidelity guarantee policy should be AOA Rs. 5 crore& AOY Rs. 20 crore.

2.1. Discussions with the officers of the CWC and SWCs on insurance related issues

A meeting was held with the officersof the CWC and SWCs on 8.9.2015 on insurance related issues. The meeting was attended by Shri B.K. Bal, Member, WDRA, Shri Rajendra Beri, Ex. CMD, New India Assurance Company Limited, Dr. S.K. Munjal, Ex. DGM, United India Insurance Company Limited, Director (A&F), US (Tech.), Consultant (AK) and officers from the CWC, UPSWC, MPSWLC, MSWC, KSWC, TNWC and APSWC. The list of the participants is given in Annexure II. The brief record of discussions is as follows:

i. It was informed by the WDRA that with a view to rationalize the insurance norms for registration, the WDRA has appointed two senior consultants from insurance sector. Both the consultants were introduced with the participants. The basic objective of organising the interaction with CWC and SWCs was to know the existing insurance policies for the warehouses taken by the CWC and the SWCs. The consultant requested all the SWCs and CWC to explain in detail about insurance coverage of their warehouses and their employees.

ii. **Karnataka SWC:** The representative of KSWC informed that their organisation takes insurance policy of stocks and burglary policy. Besides, the fidelity policy of Rs. 2.0 crores for each warehouse manager is also taken by the KSWC.

iii. **Maharashtra SWC:** The General Manager of MSWC informed that they have the floater fire and special perils policy for Rs. 2230 crores for the stocks stored in their warehouses. Besides, they have burglary policy for Rs. 325 crores and fidelity policy for Rs. 10 crores for their all warehouses.

iv. **Tamilnadu SWC:**They have the storage capacity of 6.7 lakh MTs and have self indemnity fund of Rs. 8.0 crores for compensating the losses, if any. A sum of Rs. 50 lakh is contributed every year to this indemnity fund.
He informed that prior to 2004, their organisation was paying a premium of Rs. 2.0 crores every year but there were no losses or claims. Therefore, they had stopped taking insurance policies for their warehouses. For the registration of their warehouses with the WDRA, they have taken the standard fire and special perils policy for Rs. 448 crores for which a premium of Rs. 51 lakh is being paid by them.

v. **Madhya Pradesh SWLC:**They have the storage capacity of about 75 lakh MTs for which they have floater standard fire and special perils policy for Rs. 8000 crores which is equal to the value of the goods stored in their warehouses. They have also taken burglary policy for Rs. 800 crores (10% of total value of goods) and fidelity coverage of Rs. 1.0 crores per employee. Although, they have also a self indemnity fund of Rs. 40 crores but they have not utilized.

vi. **Andhra Pradesh SWC:** TheAPSWC has 8.0 lakh MTs owned storage capacity and 14.0 lakh hired storage capacity. They take stocks insurance of Rs. 2000 crores. They requested that since their staff is covered under various service rules and regulations, fidelity guarantee from their staff should not be asked.

vii. **Uttar Pradesh SWC:** TheUPSWC has 169 godowns with a storage capacity of 25 lakh MTs. The take insurance policy for the total stocks, burglary policy and fidelity policy. There is a corpus fund for Rs. 8 crores for self indemnifying the losses.

viii. **CWC:**TheCWC takes the insurance policy of Rs. 14000 crores for which a premium of Rs. 14 crores per annum is paid by them. Besides, they have burglary policy AOA for Rs. 5.0 crores and AOY for Rs. 15 crores. They have the fidelity policy for their employees viz AOA Rs. 5.0 crores and AOY Rs. 20 crores for which a premium of Rs. 10 lakh is paid by them. Besides, CWC takes third party insurance for AOA of Rs. 5.0 crores and AOY of Rs. 15 crores for which a premium of Rs. 2 lakh per year is paid. For the godowns owned by the CWC, it is also taking building insurance policies.

2.2. Discussions on 14.9.2015 with senior officers of Cooperation Departments of the Stateson insurance related issues

The Consultants also held detailed discussions on 14.9.2015 with the senior officers of the Cooperation Departments of Governments of Tamilnadu, Karnataka, Kerala, Madhya Pradesh, Maharashtra, Rajasthan, Uttar Pradesh and Bihar. Besides, General Manager NABARD and senior officers of NABCONS from Mumbai and Delhi were also present during the discussions.

The Additional Registrar of Kerala informed that they are having Cooperative Rubber Marketing Societies which are also owning the warehouses and farmers are storing their natural rubber in these warehouses before marketing.

The Additional Commissioner, Cooperation Department, Government of Maharashtra informed that Maharashtra is having about 20,000 Cooperative Societies, out of these 3000 societies are having positive networth.

The Additional Registrar Cooperative Societies of Tamilnadu informed that about 3314 godowns of PACS have been constructed from 2011 to 2014 under RIDF scheme with a storage capacity of 4.05 lakh. These godowns have standard design and have facilities for scientific storage of agricultural commodities and are offering storage facilities to the farmers. About 2.13 lakh MT commodities with a total value of Rs. 669.8 crores have been stored in these warehouses and pledge financing of Rs. 367.8 crores have been availed by the farmers.

The Additional Registrar Cooperative Societies of Tamilnadu further informed that the small warehouses of PACS having capacity ranging from 100-200 MT opt for basic covers for Fire, Burglary & Fidelity Guarantee policies as per the requirement of WDRA.

CHAPTER – III

3. Fire Insurance Policy

The fire insurance was governed by All India Fire Tariff Advisory Committee, a statutory body.The Standard Fire and Special Perils Policy covers all properties on land (excluding cost of land), moveable or immoveable, at various locations against named perils.Special Types of Policies are designed for Stocks (declaration and floater), Building, Plant & Machinery keeping in mind the nature of property, proposers' requirements and basis of indemnification.Long Term Policies are available for Dwellings with suitable discounts in premium.Policy can be extended to cover certain additional perils and expenses at additional premium.Certain perils can be deleted resulting in reduction of premium rates.

The fire insurance falls under property insurance with main heading under commercial insurance. The term “Fire” for insurance purpose means actual ignition or burning under accidental or fortuitous circumstances, so for as the insured is concerned.

The fire insurance contract may be defined as an agreement between the insurers and the insured whereby the insurers having received premium, undertake to make good financial loss, (subject to the sum insured) suffered by the insured as a result of damage or destruction of the insured property by fire or other specified perils during a stated period.

3.1. Special types of Policies available for Stocks:

3.1.1 Declaration Policy: Insurance companies provide declaration policy to take care of frequent fluctuations in stocks/ stock values. The minimum sum insured for declaration policy is Rs. one crore in one or more locations and the sum insured shall not be less than Rs. 25 lakh in atleast one of these locations.

Monthly declaration on any one of the following basis is required to be submitted before the last day of the succeeding month:

i. Average of the highest values at risk on each day (or)
ii. Highest value on any day of the month.

There is a provision of refund of premium on expiry of policy based on the average declaration upto 50% of the provisional premium. Declaration is to be made before expiry of proceeding month. Reduction in sum insured is not allowed.

3.1.2 Floater Policy: There is provisionof floater policyto take care of frequent changes in values at various locations. The single sum insured is for all the stocks in all the locations. There is nominal premium loading to cover all the stocks in all the locations. Minimum sum insured required is Rs. 2.0 crore and provision for retention by insurer is 80%.

3.1.3 Risk covers: The fire insurance policies are available as standard fire& special perils (SFSP) which covers 12 risks namely as:

1. Fire
2. Lightning
3. Explosion/ implosion
4. Aircraft Damage
5. Riot, Strike, Malicious, Damage (RSMD)
6. Storm, cyclone, Typhoon, Tempest, Hurricane, Tornado, Flood And Inundation
7. Impact Damage

8. Subsidence and landslide including rockslide
9. Bursting and or overflowing of water tanks, apparatus and pipes
10. Missile testing operation
11. Leakage from Automatic Sprinkler Installation
12. Bush fire

The requirement of insurance against the risk of terrorism which is not included automatically in the fire cover as given above is not mandatory in the Warehousing (Development & Regulation) Act, 2007, the Warehousing (Development & Regulation) Registration of Warehouses Rules, 2010 and the WDRA (Warehouse Accreditation) Regulations, 2011. Authority may examine on case to case basis whether terrorism cover is required or not.

Add On Covers: The following additional covers are available with fire on payment of additional premium:

1. Combustion (by Fire only)
2. Earthquake (Fire and Shock)
3. Forest Fire
4. Impact damage due to Insured’s own Vehicles and the articles dropped from them.
5. Deterioration of stocks in cold storage premises due to accidental power failure consequent to damage at the premises of Power station due to an insured peril.
6. Architects, etc. Fees (in excess of 3%)
7. Debris Removal (in excess of 1%)
8. Omission to insure, Addition, Alteration or Extension Clause
9. Spoilage Material Damage Cover
10. Leakage and Contamination cover
11. Temporary Removal of Stocks Clause
12. Loss of Rent Clause
13. Insurance of Additional Expenses of Rent for An Alternative Accommodation
14. Start-up Expenses

The subject matter relevant to warehouse is building or the stock,although the fire covers are available for machinery etc. also.

Cold Storages

The standard fire and special peril policy does not cover deterioration of stocks due to change in temperature. Loss or damage to stock in cold storage caused by change in temperature is excluded under SFSP. However, deterioration of stocks in cold storages due to failure of electric supply / or fire damage to cold storage machinery can be covered by paying additional premium.

3.1.4 Building of warehouses and stocks

Building: The value of the land has to be excluded while declaring sum insured as it cannot be damaged by fire and allied perils. The plinth and foundation normally do not get damaged hence, separate sum insured should be declared for them. Plinth and foundation shall be considered for earthquake, fire & shock.

Valuation of Building: Building can be insured on following basis:

1. Original Cost
2. Book Value
3. Market Value
4. Reinstatement Value (Value of similar new property)

   (1 to 3 need no explanation)

Reinstatement Value Basis (RIV)

It is the value at which the damaged property can be reinstated or replaced by new property of the new kind without deducting depreciation.

We recommend that the building should be insured on reinstatement value basis. As per reinstatement value policy, a reinstatement value is the value of new property without taking any deprecation into account. This type of insurance enables the owner to replace the property without any financial strain.

Earlier, there used to be four volumes of fire tariff, very bulky, quite embarrassing to carry. These were having provisions for discounts on account of Fire Extinguishing Appliances (FEA)&Electrical Installation (EI). Perhaps, the inflation has not spared the fire tariff book as with the passage of time, the latest fire tariff book has become very small in size and may be kept in pocket. Nowadays, even this has been dispensed with owing to de-tariffing. Now the concept of one risk one rate is prevailing.

3.1.5 Check points for Standard Fire and Special Perils Policy: Broadly, the following aspects should be carefully looked into while scrutinizing the standard fire and special perils policy in respect of building and stocks:

For Building:

i. Name &address ofthe insured warehouse(s)

ii. Period of insurance

iii. Total sum insured

iv. Storm, cyclone, Typhoon, Tempest, Hurricane, Tornado, Flood And Inundation

v. Reinstatement value clause

For Stocks: The following aspects are to be checked:

i. Name &address of the insured warehouse(s)

ii. Period of insurance

iii. Total sum insured

iv. Excess for fire & Act of God: The excess is the amount insured has to pay if he makes a claim on his insurance policy. In case of standard fire and special perils policy, the following excess / deductible shall be applicable:

   a. Policies having sum insured upto Rs. 10 crore per location – 5% of claim amount subject to a minimum of Rs. 10,000/-

   b. Policies having sum insured above Rs. 10 crore per location upto Rs. 100 crore per location - 5% of claim amount subject to a minimum of Rs. 25,000/-

   c. Policies having sum insured above Rs. 100 crore and upto Rs. 1500 crore per location – 5% of claim amount subject to a minimum of Rs. 5 lakh

   d. Policies having sum insured above Rs. 1500 crore and upto Rs. 2500 crore per location - 5% of claim amount subject to a minimum of Rs. 25 lakhs

e. Policies having sum insured above Rs. 2500 crore per location - 5% of claim amount subject to a minimum of Rs. 50 lakhs

Since, the stocks are stored inside the building, above excess shall be applicable under the policy

v. Storm, cyclone, Typhoon, Tempest, Hurricane, Tornado, Flood And Inundation
vi. Besides, declaration clause, list of commodities (categories as per fire tariff) and goods held in trust clause should be checked.

3.1.6 Recommendations: The following recommendations based on prevailing present practices as on date of writing this report are made for taking Standard fire and special perils (SFSP) insurance policy for the warehouses:

Buildings

i. The Standard fire and special perils (SFSP) policy should be on Reinstatement Value Basis (RIV)basis.
ii. The value of plinth & foundation should be declared separately.
iii. No fire cover for plinth & foundation should be taken but earthquake & fire shock coversshould be taken for them.

Stocks

i. Single commodity insurance may be restricted to market value of the stock stored in full capacity of the warehouse or its value of the basis of average capacity utilization in the last three years, on declaration basis. The minimum sum insured for declaration policy is Rs. one crore in one or more locations and the sum insured shall not be less than Rs. 25 lakh in atleast one of these locations.

ii. For mixed commodities, sum insured may be average value of market price of mixed commodities (Hazardous or non hazardous as per Insurance Tariff list) stored in full capacity of warehouse or on the basis of average capacity utilized in the last three years, on declaration basis. The minimum sum insured for declaration policy is Rs. one crore in one or more locations and the sum insured shall not be less than Rs. 25 lakh in atleast one of these locations.

iii. For new warehouses (not more than one year old), 30% of the storage capacity (Hazardous or non hazardous as per Insurance Tariff list)may be taken for calculating the fire insurance policy.

iv. Periodic valuation of stock (market price basis) is recommended for enhancing the insurance policy, if need be.

v. The following add on covers in the fire insurance policy may be opted by the warehouse(s):

   a. **Earthquake:** The policy may be extended to cover damage due to earthquake including loss or damage (including loss or damage by fire) to the property by earthquake including landslide/rockslide but excluding flood or overflow of the sea, lakes, reservoirs and river caused by earthquake.

   b. **Impact by own vehicle & item dropped there from:** This add on clause covers the loss or visible physical damage or destruction caused to the property insured due to impact by any rail / road vehicle or animal by direct contact not belonging to or owned by the insured or any occupier of the premises or their employees while acting in the course of their employment.

   c. **Spontaneous combustion:**Additional premium is taken by the insurance company from the insured so as to cover loss or damage to the property by spontaneous combustion. In such case, the Insurance Company is liable to pay the damage suffered by the complainant because of spontaneous combustion.

   d. **Removal of Debris clause:** Standard fire policy includes debris removal expenses upto 1% of claim amount. However, if desired the higher percentage of claim amount for debris removal may be obtained by paying extra premium.

Corpus fund by SWCs:

The issue of self indemnification by creating a corpus fund by some SWCs was discussed in detail with the representatives of the UPSWC and TNSWC. The TNSWC has corpus fund of Rs. 8.0 crore for self indemnifying the losses in their warehouses. The corpus fund may be exhausted in a single major incident in a warehouse or the losses may be more than the total corpus fund. Therefore, the consultants recommend that self-insurance should be discouraged. Authority may examine on case to case basis whether terrorism cover is required or not.

The Consultants also recommend standard fire and special perils policy with declaration.The provisions of declaration policies are as follows:

1. The minimum sum insured for declaration policy is Rs. one crore in one or more locations and the sum insured shall not be less than Rs. 25 lakh in atleast one of these locations.
2. The reduction of sum insured is not allowed under any circumstances.
3. Monthly declaration based on the average of the highest value at risk on each day or highest value on any day of month shall be submitted by the insured latest by the last day of the succeeding month. If declaration is not received within the specified period, the full sum insured under the policy shall be deemed to have been declared.
4. The basis of value for declaration shall be the market price unless otherwise agreed to between insurers and insured.
5. The refund of premium on adjustment based on the declaration / cancellation shall not exceed 50% of the total premium. (This is the minimum premium retention under the policy).

Advantages of declaration policies:

1. The premium ultimately payable is limited to the actual amount at risk irrespective of the sum insured.
2. Irrespective of the premium eventually paid on expiry of the policy, the liability under the policy remains up to the sum insured at all times during the currency of the policy.
3. The provision for adjustment of premium is an incentive to the insured to take coverage for the maximum amount at risk that may be anticipated by him.

The causes of fire hazard are given in the Annexure III. The DOs and DON'Ts of fire insurance are given in the Annexure IV. The procedure for claiming compensation from the insurance company is given in Annexure V.

CHAPTER – IV

4. Burglary (Business Premises) Policy

Burglary insurance is major class of miscellaneous insurance. The policy covers contents against loss or damage by burglary and is available to commercial establishments, factories, warehouses, shops etc.

4.1.1 Understanding Terms:

At the outset, it is necessary to understand the meaning of certain terms.

1. **Housebreaking -**

   Section 445 of Indian penal code has held laid down a rigorous definition of the term "housebreaking". It is not contemplated to go into the ingredients of housebreaking. For our understanding, the following definition may be remembered.

   "A person who commits house trespass if he effects his entrance into the house(or any part of it), or if, being in the house (or any part of it), for the purpose of committing an offence, or having committed an offence therein, he quits the house (or any part of it), such entrance or exit being made in the six ways as described in the penal code, is said to commit housebreaking".

2. **Theft -**

   The Indian penal code in section 378 defines as follows "whoever intending to take dishonestly any movable property out of the possession of any person without the consent of that person or any person having for that purpose authority, moves that property in order to such taking is said commit theft".

3. **Robbery -**

   It is an aggravated form of theft. Section 390 of the Indian penal code states that theft is robbery "if in order to the commission of or in committing of the theft or in carrying away property obtained by theft, the offender, for that end, voluntarily cause (or attempts to cause) to any person death or hurt or wrongful restraint or fear of instant death or hurt or wrongful restraint".

4. **Dacoity -**

   Section 391 of the Indian penal code defines 'dacoity' as "Where five or more persons conjointly commit or attempt to commit a robbery or are present and aid such commission or attempt, every one of them is said to commit dacoity".

5. **Burglary -**

The criminal law of the country does not speak of an offence called burglary. Burglary is defined in the policy as:

- Theft of property form the premises described in the schedule of policy following upon felonious entry of the said premises by violent and forcible means, or
- Theft by a person in the premises who subsequently breaks out by violent and forcible means, provided there shall be visible marks made upon the premises at the place of such entry or exit by tools, explosives, electricity or chemicals.
- The use of force and violence need not be against property only – it can also be against the person of an individual.

4.2. There are three types of burglary policies available:-

i. **Full Value Insurance:** The policy must be effected for the full value of the property to be insured.

ii. **First Loss Insurance:** In the event of improbability of total loss, proposer can opt for a percentage of total stocks to be insured. The Policy on First loss basis is a type of property insurance policy that provides only partial insurance. In the event of a claim, the policyholder agrees to accept an amount less than the full value of damaged, destroyed or stolen items/property. In return, the insurer agrees not to penalize the policyholder for under-insuring their goods or property. First-loss policies are most commonly used in the case of burglary insurance to insure against events where a total loss is extremely rare (i.e. the burglary of all goods contained in a large store/warehouses).

iii. **Stock Declaration Policies:** These policies are given where large stocks frequently fluctuate in quantity during the year. The sum insured is fixed at the maximum value of stocks which the insured anticipates he will hold at any one time. A deposit premium of 100% of the annual premium will be paid at the beginning of the insurance. Monthly declarations of value are to be sent to the company and the "deposit" premium will be adjusted at the end of the policy period based upon the average of the monthly declarations.

4.3. The scope of cover of burglary policy is as follows:

1. The standard burglary and house breaking insurance policy covers theft of property after actual forcible and violent entry into the premises or theft followed by actual forcible and violent exit.
2. It also covers risk of hold-up.
3. Policies issued to business premises cover stock-in-trade, goods held in trust or on commission, fixtures and fitting, tools or trade such as typewriters and calculators and other similar property against the risks or burglary.
4. Loss or damage to contents or to any part of the building caused by burglary or any attempt therefore, is also covered. In other words, repairs to premises or contents caused by the act of burglary are reimbursed.
5. Sometime, cash and currency notes secured in safe are required to be insured. Such cover is known as cash-in-safe insurance. The cover operates only when the cash is secured in a safe and is granted only if there is burglary proof and the safe is of an approved make and design. From the insurance point of view, a safe which is permanently installed in the premises is a better risk than a safe which can be shifted. The cover is granted subject to the following two clauses:

i. The loss of cash extracted form the safe following the use of the key to the said safe or any duplicate thereof belonging to the insured is not covered unless such key has been obtained by violence or threats of violence or through means of force.

- This is generally known as “key clause”
- It is necessary to note that the use of force need not necessarily be against the person or an individual.
- It can be against property as well.
- For instance, if the key to the safe secured in a cupboard is removed after forcing open the cupboard, the loss is covered by the policy.
- The key clause cannot be deleted even by payment of extra premium.

ii. A complete list of the amount of cash in safe should be kept secure in some place other than the safe and the liability of the insurer is limited to the amount actually shown by such records.

4.4. The following are the exclusions in the burglary policy:

1. Loss or damage where any member of the insured's household or his business staff is concerned as principal or accessory.
2. Resulting from any act committed by any other person lawfully on the premises, wherein the property insured may happen to be.
3. Which can be insured against under a plate glass or a motor insurance policy.
4. Due to fire or riots/strike, terrorism.
5. Discovered at the time of stock taking / checking.
6. To deeds, bonds, bill of exchange, promissory notes, cash, treasury notes, cash, bank notes, cheques, securities for money, stamps, stamp collections, books of accounts, manuscripts, documents or any kind and medals and coins, unless specially mentioned and agreed to be covered.
7. The usual exclusion like war an allied risks.
8. Depreciation, wear and tear and consequential losses etc., also appear in this policy.

4.5.Check points for Burglary Policy: Broadly, the following aspects should be carefully looked into while scrutinizing the burglary policy:

i. Name &address of the insured warehouse(s)

ii. Period of insurance

iii. Total sum insured

The DOs and DON'Ts for burglary insurance policy are given in Annexure VI.

4.5. Recommendations: The following recommendationsbased on prevailing present practices as on date of writing this report are made for taking burglary insurance policy for the warehouses:

SI. No.	Particulars	Sum Insured
1.	Upto 5000 tons storage capacity	20% of value of stock *
2.	5001-25000 tons	Rs. 2.0 crore + 10% of value exceeding 5000 tons
3.	25001-50000 tons	Rs. 6.0 crore + 5% of value exceeding 25000 tons

4.	50001-100000 tons	Rs. 8.5 crore + 0.25% of value exceeding 50000 tons
5.	Above 1 lakh tons	Rs. 8.75 crore + 0.15 % of value exceeding 1 lakh tons subject to a cap of Rs. 15 crores for sum insured

*The table has been arrived at taking into consideration the value of stocks @Rs. 20000 per ton. In case of higher value of stocks the calculation will be according to market price of the commodity.

CHAPTER – V

Commercial Fidelity Guarantee Policy

5.1. Scope of Cover:

The operative clause of the policy generally reads as follows.

"If the insured shall sustain direct pecuniary loss caused by act of FRAUD or DISHONESTY committed by the employee at any time during the period of insurance stated herein ………. The insurer will indemnify the insured in respect of such loss but not exceeding the sum specified in the policy, provided that such loss shall have occurred in connection with employees occupation and duties…… during the uninterrupted continuance of employment."

It should be noted that:

- The cover granted is against a direct pecuniary loss and not a consequential one.
- The loss should be in respect of moneys securities or goods or the insured.
- The act should be committed in the course of the duties specified.
- If the employee guaranteed under the policy had left the services of the employer and was re-engaged by him, no liability attached to the policy, unless the consent of the insurers was obtained.
- no loss that may have been caused by bad accountancy is payable, the loss must be supported by evidence of any of the specified act of dishonesty.

Section 17 of the Indian Contract Act provides a definition of fraud, but a precise definition of the term has not been possible even by courts of law. However, fraud is understood as "**obtaining an advantage by unfair or wrongful means**."

5.2. Period of discovery:

Unlike other classes of business, fidelity guarantee policies stipulate time limit for discovery of losses. This is so because the loss can occur over a long period without discovery. Investigation of such losses would be troublesome and recoveries may become legally and practically difficult.In the discovery clause of the policy, the period of time after expiration which is allowed to an insured to identify and report losses occurring during the period of a policy or a bond is defined / mentioned.

The customary time limit provided is that the act or acts insured against should be:

- Discovered not later than twelve months after the resignation, dismissal, retirement or death of the employee, or
- Not later than 12 months after the termination of the policy, whichever be the earlier

5.3. Conditions:

Some of the important conditions are considered below

1. **Application of control measures**
   - I. The employer has to ensure that all precautions, checks and other control measures to secure accuracy of accounts are properly applied and supervision over the employee exercised.
   - II. He has also to advise the insurers immediately of any change in the nature of duties of the employee or the circumstances and conditions of employment, so that the insurers may use their judgment to continue to be on risk or to determine the policy or to levy and additional premium, if found necessary.
   - III. A breach of this condition relieves the insurers of all liability under the policy.
2. **Notice of claim**
   - I. The employer must give immediate notice to the insurers on the discovery of any insured act committed by the employee.

II. Within three months of the initial notice, the claim has to be lodged with the insurers accompanied by full particulars and proof satisfactory to the insurer.

III. When the loss is made good, the policy has to be delivered to the insurers for cancelation and discharge.

IV. This is so in respect of an individual policy. However, if the policy is a floater or collective or blanket, it shall only cease to cover the defaulting employee or employees on and from the date the loss is discovered.

3. Prosecution

I. The insurers reserve their right to insist on criminal prosecution of the employee, bearing upon themselves the expenses thereof in the event of a conviction.

II. The purpose of this condition is to put to the test of law the allegation of an employer and to bring to books, the defaulting employee so that it may be a deterrent to other employees.

4. Subrogation

After satisfaction of a claim, the insurers are entitled to take over the rights of the employer against the employee as far as the loss is concerned, and prosecute all claims and exercise all rights of action against the employee, if necessary in the name of the employer, but at the cost of the insurers themselves.

5. Contribution

I. The policy would pay only pro rata with any other guarantee, whether by policy or otherwise, held by the employer on the date of loss.

II. The employer is bound to disclose to the insurers the existence of all such guarantees and the termination of expiry thereof.

6. Termination of Policy

The insurers are at liberty to cancel the policy at any time after due intimation to the employer, returning on demand a proportion of the premium corresponding to the unexpired period of the policy.

7. Arbitration

I. The disputes relating to the amount of claim only (liability being admitted), are to be referred to arbitration.

II. The making of an award shall be condition precedent to any right of action against the insurers.

5.4. Type of policies:

The following types of policy are in general demand:

1. **Individual policy -** This type of policy is used where only one individual is to be guaranteed.

2. **Collective Policy -** Where the entire staff or a number of selected individuals are to be covered, a collective policy is issued. A collective policy comprises a schedule containing the names of the employees to whom the guarantee applies with a note of the duties of each employee.This is applicable when the fidelity guarantee policy is taken by a company for its number of employees by name. The policy contains the names of all the employees.

   The amount of guarantee to each employee is specified in the schedule against his name. Frequent alteration may have to be made in the schedule because of additional appointments, terminations, etc.

   These changes can be made easily by an endorsement altering the schedule, without the necessity of issuing a fresh policy.

3. **Floating policy or floater cover**

   This is an extension of the collective from of policy is which the name and duties of the individual to be covered are inserted in a schedule, but instead of individual amounts of guarantee, a specified sum of guarantee is "floated" over the whole group. A claim in respect of one employee will, therefore, reduce the guarantee by the amount until renewal unless the original sum is reinstated by payment of an extra premium.

   A floating policy relieves the employer of the necessity of fixing what he considers to be suitable individual amounts of guarantee.

4. **Position policy**

   This is similar to a collective policy with the difference that instead of using names, the "Position" is guaranteed for a specified amount, so that a change in the person holding the position does not affect the cover.This is taken by a company for its unnamed employees mentioning only their designation and location.

It is to be noted that the liability of the insurance in respect of each position remains limited to the amount guaranteed for the position, irrespective of the number of person action in the position. Instead of a specified amount for each position, a single amount of guarantee for all position may be “floated”.

5.5. Check points for Fidelity Guarantee insurance: Broadly, the following aspects should be carefully looked into while scrutinizing the fidelity guarantee policy:

i. Name &address of insured warehouse(s)

ii. Period of insurance

iii. Total sum insured

5.6. Recommendations: The following recommendations based on prevailing present practices as on date of writing this report are made for fidelity guarantee insurance to be taken by the warehouses:

SI. No.	Particulars	Sum Insured
1.	For warehouse(s) including companies etc. having storage capacity upto 1 lakh tons	10% of the sum insured in fire policysubject to maximum of Rs. 20 crores
2.	For warehouse(s) including companies etc. having storage capacity above 1 lakh tons	Rs. 20 crores

*The table has been arrived at taking into consideration the value of stocks @Rs. 20000 per ton. In case of higher value of stocks, the calculation will be according to market price of the commodity.

Special and cost effective product (tailor – made insurance policy)

We have examined the possibility of package policy for warehouses and are of the opinion that it will not be possible for combining the property insurance namely Fire Insurance with Liability Insurance (Burglary, Fidelity Guarantee etc.) as the reinsurance underwriters are different. Individual companies could consider package policy for smaller warehouses depending on their capacity to retain the business on their books. For this they will have to file the product with IRDAI for approval.

The procedure for scrutiny of insurance policies received from insurer is given in Annexure VII.

Abbreviations:

AOA:	Any One Accident
AOY:	Any One Year
B.P:	Burglary (Business Premises)
CGL:	Commercial General Liability
CWC:	Central Warehousing Corporation
D & O:	Director & Officer
DOS:	Deterioration of Stocks
E I:	Electrical Installation
FEA:	Fire Extinguishing Appliances
FG:	Fidelity Guarantee
GMC:	Group Mediclaim
MV:	Market Value
NWR:	Negotiable Warehouse Receipts
PA:	Personal Accident
PACS:	Primary Agriculture Cooperative Societies

RIV: Reinstatement Value

RSMD: Riot, Strike & Malicious Damage

SFSP: Standard Fire & Special Perils

SWC: State Warehouses Corporation

TPPI: Third Party Personal Injury

TPPD: Third Party Property Damage

WC: Workmen Compensation

WDRA: Warehousing Development & Regulatory Authority

W (D&R) Act: Warehousing (Development & Regulation) Act

Annexure I

List of the participants of the meeting held with officers of WSPs on 01.9.2015

i. Shri R. Beri, Ex. CMD, New India Assurance Company Limited
ii. Dr. S.K. Munjal, Ex. DGM, United India Insurance Company Limited
iii. Shri Rakesh Garg, COO & CS, NBHC
iv. Shri Pankaj Gupta, JPPL
v. Shri Shree Lal Tawaniya, LTC Commercial Company Private Limited
vi. Shri Preetam Singh Rajput, JICS Logistic Limited
vii. Shri Sudhir Kumar Khare, JICS Logistic Limited
viii. Shri Rajesh Singh, VIB India Private Limited
ix. Shri Subhash Kumar, SLCM
x. Shri Ankur Jaipuria, CRO, SLCM
xi. Shri Pankaj Jain, Dr. Amin Controllers Private Limited
xii. Shri Anirudh Burman, Consultant, NIPFP
xiii. Ms. Iravati Damle, Consultant, NIPFP
xiv. Shri Mayank Dhanuka, MD, Origo Commodities India Private Limited
xv. Shri Prakash Bakshi, MD, Shree Shubham Logistics Limited
xvi. Shri Kuldip Singh, NCMSL

Annexure II

List of participants of the meeting held with officers of CWC and SWCs on 08.9.2015

i. Shri I.C. Chadda, GM, CWC
ii. Shri G.P. Singh, DGM, CWC
iii. Shri K. Eswaraiah, CGM, KSWC
iv. Shri Abhay Singh, Dy. Manager, UPSWC
v. Shri S. K. Vidhan, GM, MPSWLC
vi. Shri K. Sakthimani, GM, TNWC
vii. Shri E.S. Panlraj, AGM, TNWC
viii. Shri Harshawardhan Dixit, Bharat Re-Insurance Brokers Private Limited
ix. Shri Sandeep Towar, Bharat Re-Insurance Brokers Private Limited
x. Shri Dinesh Narang, Bharat Re-Insurance Brokers Private Limited
xi. Shri R. Beri, Ex. CMD, New India Assurance Company Limited
xii. Dr. S. K. Munjal, Ex. DGM, United India Insurance Company Limited
xiii. Shri Mehtab Singh Hans, NIPFP
xiv. Shri D.D. Shinde, GM, MSWC
xv. Shri CH Limen, GM, APSWC
xvi. Shri K. Vijay Bhaskar, E.E, APSWC

Annexure III

THE CAUSES OF FIRE HAZARDS

1. Electrical
2. Friction
3. Overheated Material
4. Smoking
5. Burner Flames
6. Combustion Sparks
7. Spontaneous Combustion
8. Hot Surfaces
9. Incendiarism (Malicious Act)
10. Molten Substances

11. Static Spark
12. Lightning
13. Mechanical Spark
14. Chemical Action
15. Cutting & Welding

Contributory Hazards

1. Construction
2. Exposure to other building
3. Locked or inaccessible premises or isolated premises
4. Absence of people to raise an alarm in case of fire

Annexure IV

Dos &Don'ts of Fire Insurance

1. Go through the policy thoroughly to ensure that the risk is properly covered.
2. Renew the policy by paying premium before expiry date to avoid break in insurance.
3. Inform the insurance company immediately of any material change in the risk.
4. Inform the insurance company immediately if the property insured is shifted to a new location.
5. Keep all fire extinguishing appliances in proper working condition.
6. Keep all electrical installations in proper condition. Avoid temporary and loose connections.
7. Train all your employees in fire fighting operations.
8. Follow no smoking rules strictly.
9. As for as possible, no electrical connection should be there in the godown. Movement of stock should be done during day time. In emergency in the night, the help of emergency light or torch should be taken. No patromax or other such lighting device to be used.

Annexure V

Dos & Don’ts for fire claims

1. Take all possible loss minimization measures in addition to the intimation to the Insurance Company.
2. Intimate to police in case of casualty, also call for fire brigade help.
3. Observe good faith towards insurer as exhibited at the time of taking insurance, during the currency of policy and at the time of peril operation.
4. Act as if uninsured.
5. In case of outbreak of fire, the insured must take all reasonable steps to extinguish the fire or prevent to spread it.
6. Do not interfere with the work of Fire brigade people.
7. Wherever practicable, the insured is required to move the property to safe place.
8. In case of damaged to the building, it should be repaired, if not possible at least roof should be covered with tarpaulin to avoid ingress of water.
9. Keep your all documents ready for the inspection of surveyor.
10. Do not alter the effected property unless required to safeguard or minimize loss, for inspection by surveyor and insurance company officials. Surveyor’s approval should be taken in writing for disposal / alternating the site of affected property.

Annexure VI

Dos &Don’ts for Burglary Insurance Policy

1. Never leave the premises unguarded.
2. 24 Hours watchman should be employed.
3. CCTV Camera should be installed wherever possible.
4. Strict entry registers to be maintained for the visitors.
5. Surprise checks may be carried out by the officers.

6. Regular audit be carried out.
7. Police and Administration numbers should be displayed.
8. All doors, windows, skylights, fanlights (avoid any electrical provision), trap doors and every other opening which might lead access to forcible entry inside the premises are adequately protected so as to prevent such entry.
9. Door should be secured by bolts, locks, crossbars.
10. Possibility of removing tiles or slates from the roof should be taken care of.
11. Entry made through adjoining premises should be taken care of.
12. Wherever possible, premises should be protected by barbed wires.
13. Install a burglar alarm.

Annexure VII

Procedure for scrutiny of policies received from insurer

1. Policy documents with warranties, endorsement if any, should be looked into.
2. Name, address, period of insurance, agent/ broker/direct, property covered as per proposal should be checked and tallied.
3. The policy should be duly signed & stamped and name of office name of the policy signatory should be readable.
4. Policy should have stamp as per Indian Stamp Act.
5. Ensured that hand written endorsement prevails on typed one, & typed one prevails on printed one.
6. Policy documents should bear policy no., premium receipts no., date of beginning of policy and validity date.
7. Documents should be recorded place & are kept at the place of business.
8. Policy should be in conjunction with cover note, if any.
9. Proposal form receipt.