

# Introduction to Property Insurance Policies

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Presentation is for illustrative purpose only. For all policy terms and conditions, refer the policy documents.

**Accurate Risk Managers & Insurance Brokers Pvt. Ltd.**

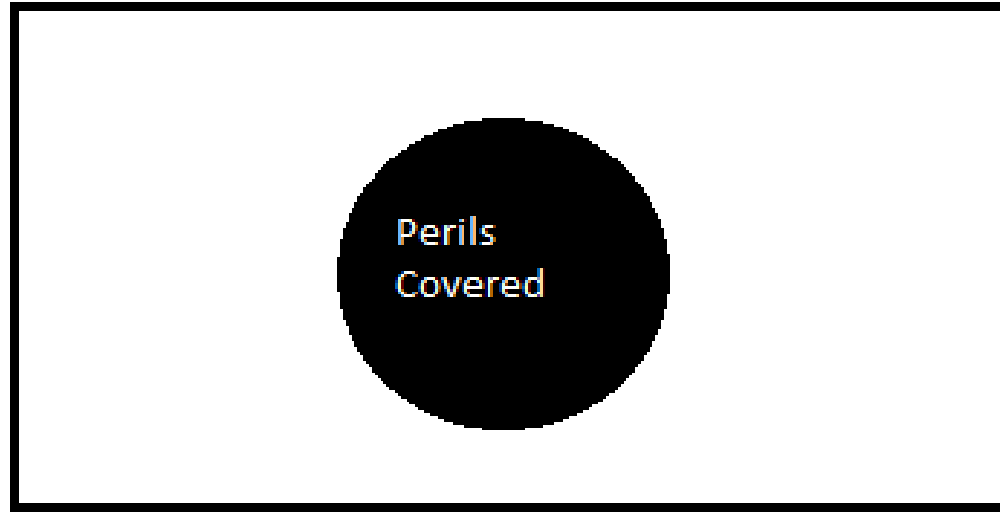
# Types of Policies basis Phase of the risk



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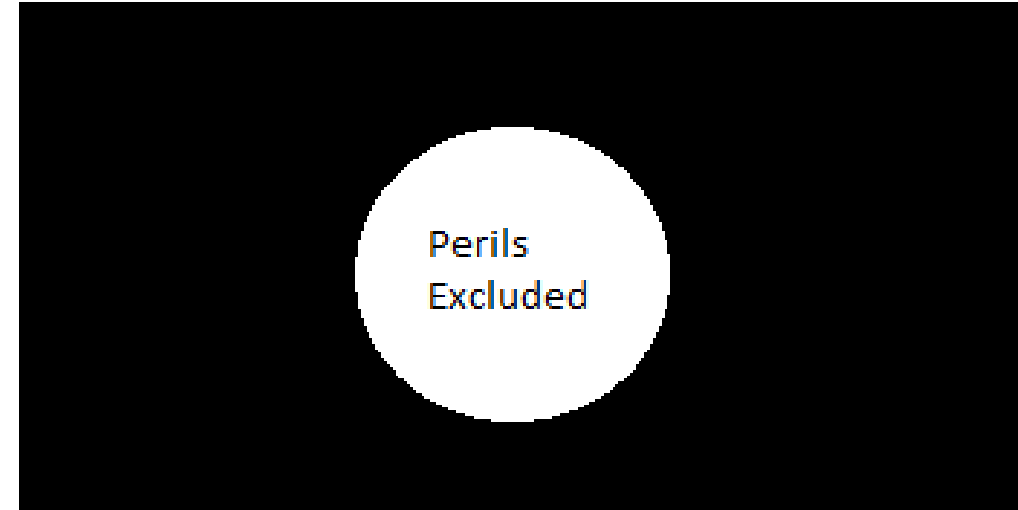


# Named Perils Policies Vs All Risk Policies



Named Peril Policies

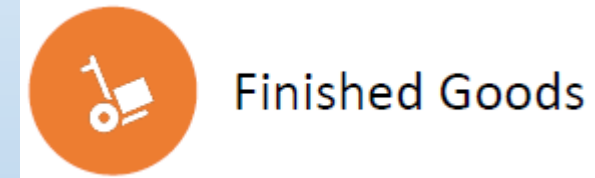
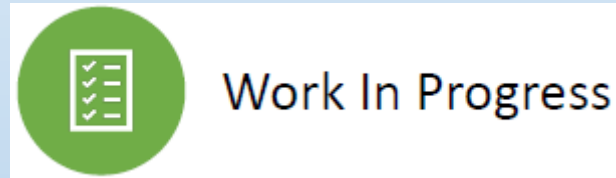
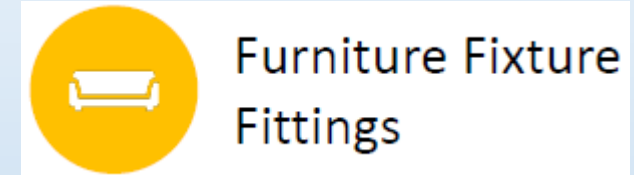
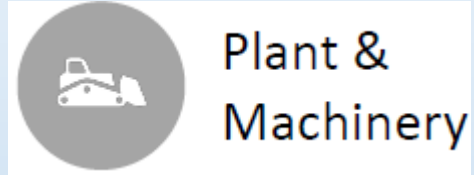
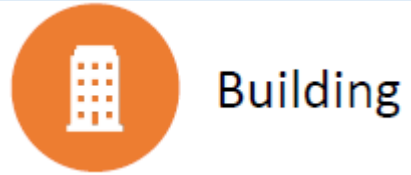
e.g. SFSP/BLUS/BSUS



All Risk Policies

e.g. IAR/EAR/CAR/CPM

# Property\_Insurance: What is insured?



# Basis of fixing the Sum Insured

- **Building** - Cost of rebuilding the structure at the same site with similar material if the insured opts for reinstatement basis of claims settlement. (Excluding land value)
- **Stocks** - Market value
- **Machinery, FFF, Other fixed Assets** - current replacement value or Indemnity value

# What is Reinstatement Value?



Asset purchased 10 Yrs ago

Acquisition Value 10 Lakh

Book Value 5 Lakh

Reinstatement Value 20 Lakh

# Standard Fire and Special Perils

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# Standard Fire and Special Perils



12 – Perils

13 – Exclusion

Add-ons

# Standard Fire and Special Perils

## Insured Perils:

- Fire
- Lightning
- Explosion
- RSMD
- Impact damage due to other vehicle
- Aircraft damage
- Bursting of overflowing pipes ,apparatus & Tanks
- Leakage from automatic sprinkler installation
- STFI
- Missile testing operation of Govt. of India
- Bush Fire
- Subsidence & Landslide

# Standard Fire and Special Perils

## Excess:

- Policies having Sum Insured up to INR 10 cr per location – 5% of claim amount subject to a minimum of Rs 10,000/-
- Policies having Sum Insured above INR 10 cr per location up to INR 100 cr per location - 5% of claim amount subject to a minimum of INR 25,000/-
- Policies having Sum Insured above INR 100 cr and up to INR 1500 cr per location - 5% of claim amount subject to a minimum of INR 5 lakhs
- Policies having Sum Insured above INR 1500 Cr and up to INR 2500 cr per location - 5% of claim amount subject to a minimum of INR 25 lakhs
- Policies having Sum Insured above INR 2500 Cr per location - 5% of claim amount subject to a minimum of INR 50 lakhs

# General Exclusions- SFSP

- Excess under policy
- War, invasion or war like operations
- Loss by Ionising radiations or contamination by radioactivity
- Loss by pollution or contamination
- Loss to bullion or precious stones, any works of art, paper money, cheques, books of accounts, explosives
- Loss or damage to the stocks in Cold Storage premises caused by change of temperature.
- Loss or damage to any electrical machine occasioned by over-running, excessive pressure, short circuiting, self heating or leakage of electricity from whatever cause.
- Loss of profit due to consequential loss
- Loss by spoilage resulting from cessation of any process
- Loss by burglary or theft

# Add on's under the SFSP

- Architects, Surveyors and Consulting Engineers Fees (Upto 3% claim amount)
- Removal of Debris (Upto 1% claim amount)
- Impact Damage due to Insured's own Rail/Road Vehicles, Fork lifts, Cranes, Stackers and the like and articles dropped there from.
- Omission to Insure additions, alterations or extensions 5% of BMA Sum Insured
- Floater Clause for Stocks
- Goods held in trust
- Earthquake (Fire and Shock)
- Escalation Clause upto 10% of BMA Sum Insured

# Declaration & Methodology of Declaration

- To take care of frequent fluctuations in stocks/stock values, Declaration Policy can be granted
- Monthly declarations based on:-
  - a) the **average** of the values at risk on each day of the month **or**
  - b) the **highest** value at risk during the monthshall be submitted by the Insured latest by the last day of the succeeding month.
- If declarations are not received within the specified period, the full sum insured under the policy shall be deemed to have been declared.
- Reduction in sum insured shall not be allowed under any circumstances.
- Refund of premium on adjustment based on the declarations
  - i. Shall not exceed 50% of the total premium in case of Declaration Policy
  - ii. Retention by insurer shall be min 80% in case of Floater Declaration Policy
- The basis of value for declaration shall be the Market Value anterior to the loss.
- Stock declaration not to include Stocks undergoing process.

# Fire Loss of Profit (FLOP)

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# Fire Loss of Profit (FLOP)

- Also called as Business interruption
- Loss of Gross Profit due to:
  - (a) Reduction in Turnover and
  - (b) Reduction in profit
- Consequential upon a loss covered under the underlying MD policy

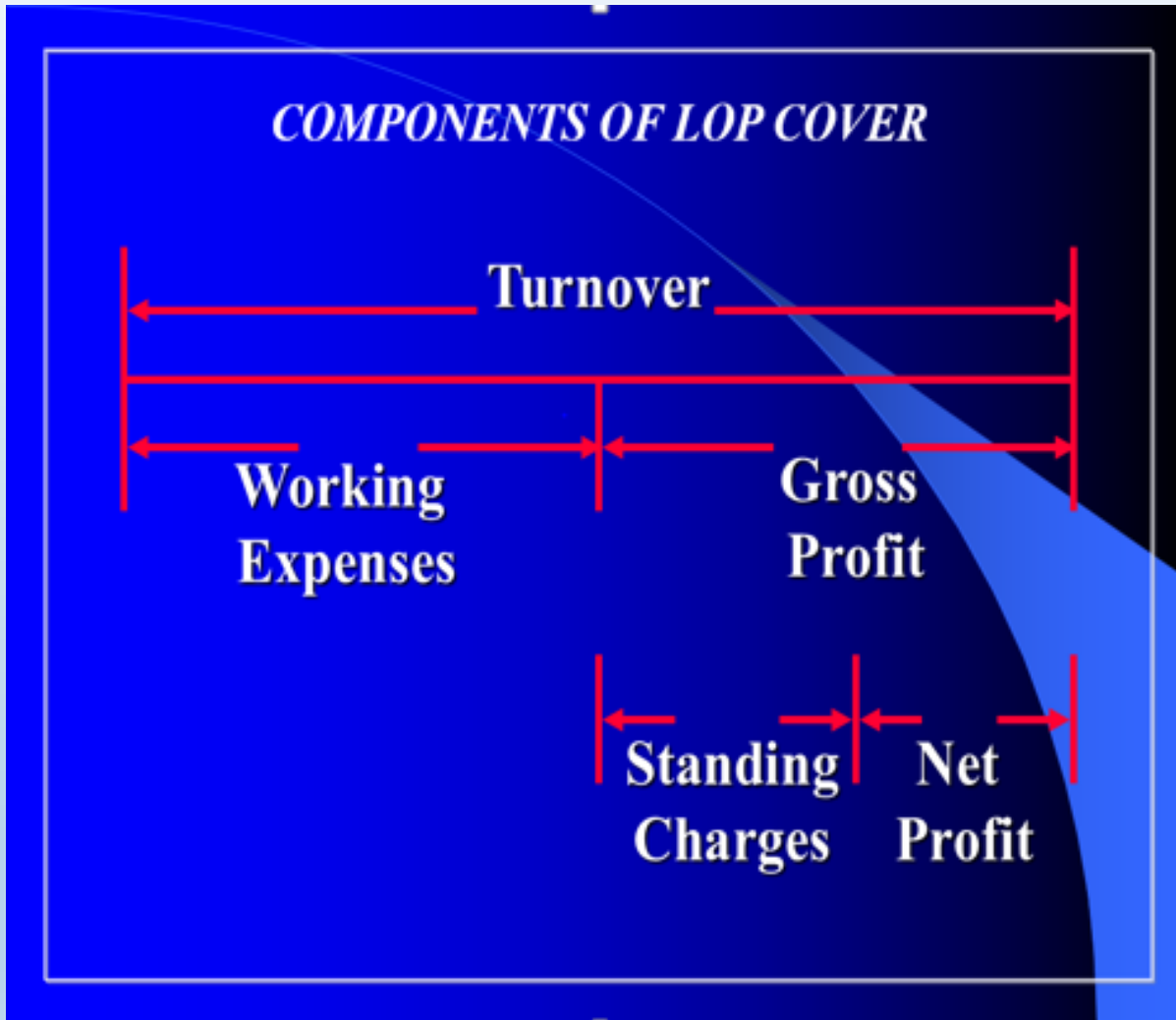


# Business interruption Insurance at a Glance



- Sum Insured : Gross Profit
- Gross Profit : Net Profit before Taxation + Standing Charges
- Standing Charges : All Expenses of the Insured's Business which continue to be incurred or not reduced after damage.
  1. Rent
  2. Directors salary
  3. Depreciation
  4. Publicity expenses
  5. Auditor's fees
  6. Interest on loans
- Indemnity Period : The period beginning with the occurrence of loss and ending latter than period defined under the policy not

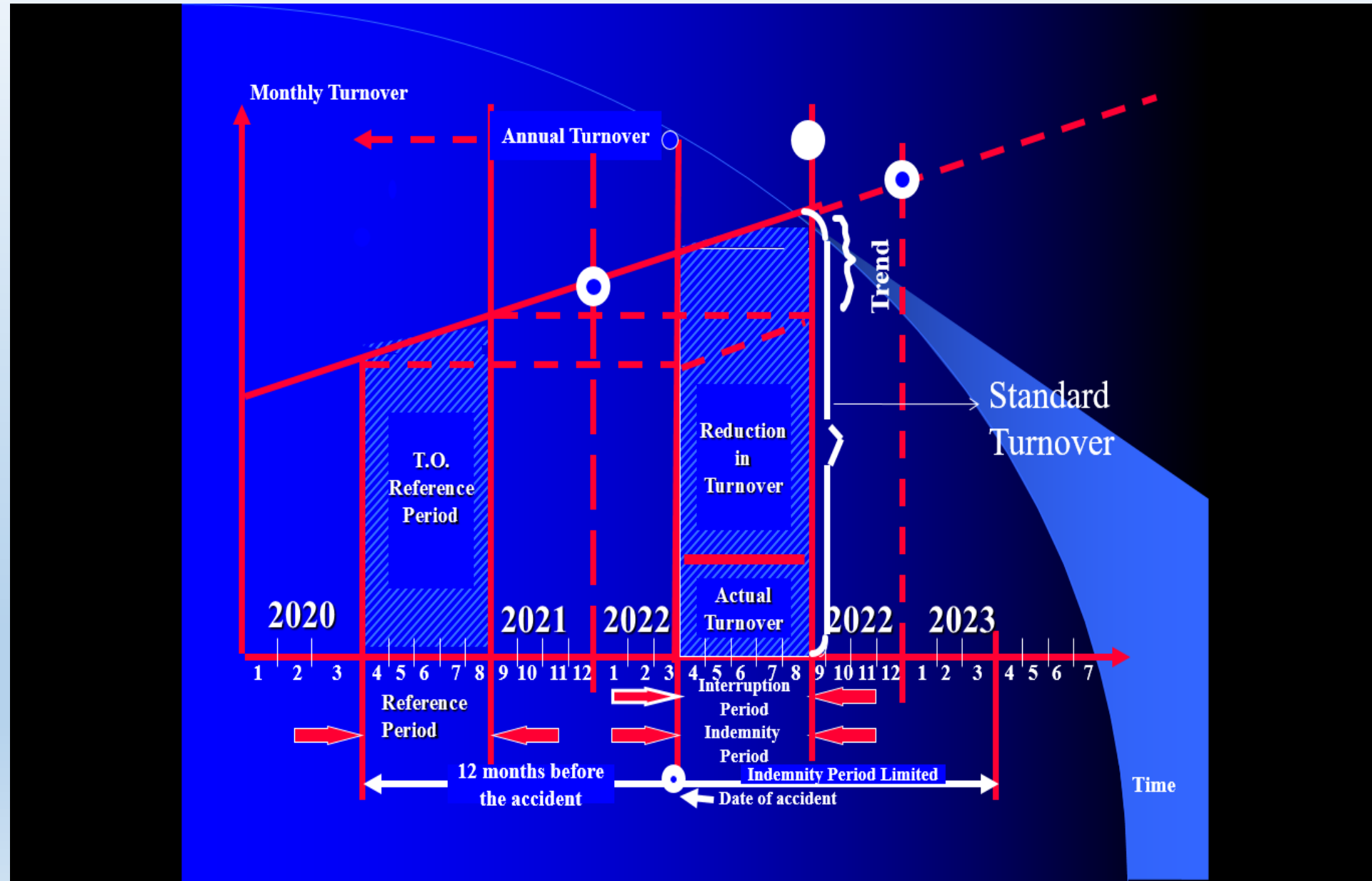
# Business Interruption



## During The Interruption Of Business As A Consequence Of The Operation Of The Peril-

1. Variable charges are either not incurred or get reduced in proportion to the turnover maintained
2. Raw materials are not consumed or consumed in proportion to the turnover maintained
3. Liability to pay standing charges continues, resulting in reduced profits or loss
4. Net profit will reduce in proportion to the reduction in turnover
5. Additional expenditure may have to be incurred to avoid stoppage of business. This is called increased cost of working

# Business Interruption – Loss Scenario



# Machinery Breakdown Insurance

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# Machinery Breakdown Policy

- The policy broadly covers loss due to all kinds of **Accidental, electrical and mechanical breakdowns** as a result of internal and external causes.
- Covered during the time the machinery is in **operation** or at **rest** or in the process of being **dismantled, overhauled** or during Subsequent **re-erection** at the same premises.
- Sum Insured: A compulsory excess is chargeable, depending upon the value of the insured machinery.

The policy does not cover loss and/or damage from:

- Fire and allied perils
- Theft
- Overloading experiments
- Willful acts or gross negligence
- Flaws that gradually develop and deterioration from normal use

Extensions:

- Air Freight
- Express Freight (excluding Air Freight), Overtime and Holiday Wages
- Insured's Own Surrounding Property
- Third Party Liability

# Machinery Loss Of Profits (MLOP)

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# Machinery Loss Of Profits (MLOP)

- MLOP insurance indemnifies the actual loss of gross profit sustained as a result of a business interruption caused by an accident covered under machinery insurance.
- Scope of Cover : MLOP insurance compensates for -
  - The continuing business expenses (standing charges) including the salaries and wages paid to employees
  - The net profit
  - The increase in cost of working, i.e. the additional expenditure necessarily and reasonably incurred for avoiding or diminishing a reduction in turnover
- Premium rates are broadly determined from the following factors :
  - The general and the specific technical risk of the machinery to be insured.
  - The moral and technical hazard relating to the user.
  - The effect of machinery breakdowns on the operating profit and standing charges (factor of relative importance)
  - The reserve facilities and spare parts available.
  - The possibilities of loss minimization

# Boiler & Pressure Plant Insurance

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# Boiler & Pressure Plant Insurance

- Boiler and Pressure Plant Insurance covers damage to boilers & pressure plant with damage to surrounding property and Third Party legal liability arising due to explosion and collapse of the boiler/ pressure plant during its normal course of working
- Physical loss or damage to boilers and/or other pressure plant against unforeseen and sudden physical loss of or damage due to explosion or collapse of the insured items.

## Coverage Includes:

- Damage (other than Fire) to the boilers & pressure vessels
- Damage to surrounding property - Upto Limit agreed and
- Third party legal liability due to Explosion/ Collapse/ Implosion - Upto Limit agreed

# Boiler & Pressure Plant Insurance



What is not covered:

- Fire, smoke, soot, aggressive substance lightning, theft, collapse of buildings, subsidence, landslide, rockslide, water
- Accident loss damage and/or liability resulting from overload experiments or tests requiring the imposition of abnormal conditions
- Loss or damage for which the manufacturer or supplier or repairer of the property is responsible either by law or under contracts
- Nuclear reaction, nuclear radiation or radioactive contamination.
- Willful act or willful negligence;
- Wear and Tear
- Inherent defects
- Lack of maintenance
- Consequential loss
- The policy is subject to a compulsory excess.

# Industrial All Risk Policy

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# Industrial All Risk Policy

- An insurance product for operational risks, packaged for industrial clients to offer a comprehensive insurance protection at optimum cost in simplified, convenient format.
- Constraints of existing Fire Cover:
  - Selected perils as basic cover.
  - Theft during or after fire excluded.
  - Strict condition of average.
  - In spite of insuring on replacement value basis, claims on total loss and partial loss ( limited life equipment) - are settled on market value basis.
  - Named machinery parts excluded.

# A Bird's-eye View Of IAR Policy

This Policy consist of 2 parts:

**Section I - Material Damage (Includes Fire + MBD )**

**Section II - Business Interruption (Includes FLOP + MLOP)**

It covers all risks/perils other than those which are specifically excluded.

The cover in its widest form will include the following perils/covers:

- Fire and all Special Perils
- Burglary
- Machinery Breakdown/Boiler Explosion/Electronic Equipment Insurance
- Business Interruption (Fire and all Special Perils)

# A Bird's-eye View Of IAR Policy

- Eligibility : Applicable to risks having sum insured of Rs.100 crores and above ( other than petrochemicals )
- Cumulative sum insured has to be above Rs.100 crores for multiple situation risks.
- Underinsurance upto 15% waived.
- Not a named peril insurance. Specific exclusions which are international in character.
- Insurance on reinstatement value basis.
- Entire property at the location required to be covered and no selection of property allowed.
- Machinery breakdown loss of profits cover is optional and no depreciation on machinery breakdown claims.(No Depreciation other than for consumable spares. )
- Transit risks within compound covered.

# Excess

- Policies having Sum Insured **upto INR 100 Cr** per location for PD & BI -
  - I. Material Damage - 5% of claim amount subject to a minimum of 5 lakhs
  - II. Business Interruption (FLOP) - 7 days of Standard Gross Profit (Other than Petro Chemical Risks)
  - III. Business Interruption (FLOP) - 14 days of Standard Gross Profit (Petro chemical risks) - if applicable
  - IV. Business Interruption (MLOP) - 14 days of Standard Gross Profit - if applicable
- Policies having Sum Insured **above INR 100 Cr and up to INR 1500 cr** per location for PD & BI -
  - I. Material Damage - 5% of claim amount subject to a minimum of 10 lakhs
  - II. Business Interruption (FLOP) - 7 days of Standard Gross Profit (Other than Petro Chemical Risks)
  - III. Business Interruption (FLOP) - 14 days of Standard Gross Profit (Petro chemical risks) - if applicable
  - IV. Business Interruption (MLOP) - 14 days of Standard Gross Profit - if applicable

# Excess

- Policies having Sum Insured **above INR 1500 Cr and up to INR 2500 cr** per location for PD & BI -
  - I. Material Damage - 5% of claim amount subject to a minimum of 25 lakhs
  - II. Business Interruption (FLOP) - 7 days of Standard Gross Profit (Other than Petro Chemical Risks)
  - III. Business Interruption (FLOP) - 14 days of Standard Gross Profit (Petro chemical risks) - if applicable
  - IV. Business Interruption (MLOP) - 14 days of Standard Gross Profit - if applicable
- Policies having Sum Insured **above INR 2500 cr** per location for PD & BI -
  - I. Material Damage - 5% of claim amount subject to a minimum of INR 50 lakh
  - II. Business Interruption (FLOP) - 14 days of Standard Gross Profit
  - III. Business Interruption (MLOP) - 21 days of Standard Gross Profit - if applicable



# Exclusions

- Faulty or defective design
- Gradual deterioration, normal wear & tear
- Interruption of water supply, gas, electricity.
- Corrosion, rust, fungus, shrinkage, pollution unless such loss is caused by damage to the property insured, or to premises containing such property by a cause not excluded in the policy.
- Larcency , Acts of fraud or dishonesty, Willful act or negligence of the insured or any person acting on his behalf
- Inventory shortage, misplacement, unexplained disappearance.
- Coastal or river erosion.
- Cessation of work.

# Comparison

Traditional other policies	Industrial all risk policy
Industries had to take following separate policies <i>Fire &amp; Allied Policies, FLOP, MBD, MLOP, Boiler Explosion, EEI, Burglary</i>	Covers accidental physical damage, and loss of gross profit due to business interruption under a single policy
Named peril policies	All risk policy subject to certain exclusions and excluded property
Any industrial risk irrespective of sum insured	Industrial risk having sum insured of Rs. 100 crores or more in one or more locations excluding petrochemical risks
Choice available for opting to specific covers and extensions. Selection of machinery possible for breakdown	Entire property to be covered However machinery breakdown loss of profits is optional
Valuation of property can be either market value or replacement value	Valuation on reinstatement value for all the property except stocks which are to be covered on market value
Nominal excess	Minimum excess is Rs.5 lakhs for MD and also excess of 7 days on fire loss of profits

# **New Products: BLUS /BSUS**

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# Introduction

- There are three 'New Products' introduced by IRDA
  - Dwellings
  - Micro Enterprises
  - Small Enterprises
- Standardized Policy Structure
- Enhanced policy Coverage
- Effective 1<sup>st</sup> April 2021, the 'All India Fire Tariff' stands de-notified for all risks with 'Value at Risk' upto INR 50crs

## Bharat Sookshma Udhyaam Suraksha

This product is meant for all risks (except dwellings) in India where the total 'Value at Risk' does not exceed ₹ 5 Crore across all insurable asset classes at any one location at the commencement of the insurance.

## Bharat Laghu Udhyaam Suraksha

This product is meant for all risks (except dwellings) in India where the total 'Value at Risk' exceeds ₹ 5 Crore but does not exceed ₹ 50 Crore across all insurable asset classes at any one location at the commencement of the insurance cover.

# Comparison of new products with current SFSP

Covers	SFSP	Bharat Sookshma Udhya Suraksha	Bharat Laghu Udhya Suraksha
Earthquake	Addon	Inbuilt	Inbuilt
Terrorism	Addon	Inbuilt	Inbuilt
Forest/Jungle Fire	Addon	Inbuilt	Inbuilt
Spontaneous Combustion	Addon	Inbuilt	Inbuilt
Theft within 7 days from the occurrence of and proximately caused by any of the Insured Events	Not covered	Inbuilt	Inbuilt
Additions, Alternations, Extensions	Addon	Inbuilt	Inbuilt
Temporary removal of stocks	Addon	Inbuilt	Inbuilt
Cover for Specific Contents like money, deeds, manuscripts, computer programmes, data and personal effects	Addon	Inbuilt	Inbuilt
Start up Expenses	Addon	Inbuilt	Inbuilt
Professional Fees	Addon	Inbuilt	Inbuilt
Cost for removal of debris	Addon	Inbuilt	Inbuilt
Cost compelled by Municipal Regulations	Addition of clause	Inbuilt	Inbuilt

# Comparison of new products with current SFSP

Covers	SFSP	Bharat Sookshma Udhya Suraksha	Bharat Laghu Udhya Suraksha
Product Limits	No Limit	All kind of risks (except Dwellings) in India Total 'Value at Risk' does not exceed ₹ 5 Crore	All kind of risks (except Dwellings) in India Total 'Value at Risk' exceeds ₹ 5 Crore but does not exceed ₹ 50 Crore
Deductible	Excess-Policies having SI up to Rs.10cr per location-5% of claim amount subject to a min of Rs 10,000.Policies having SI above Rs.10cr per location up to Rs.50cr per location 5% of claim amount subject to a minimum of Rs.25,000.	Excess of ₹ 5,000 for each claim	Excess of 5 % of each claim, subject to a minimum of ₹ 10,000
Standard Addons		Declaration Policy for Stocks	Floater Cover for Stocks Declaration Policy for Stocks
Floater cover for Stocks	To be declared and available at 10% premium loading	Inbuilt	Available as an addon
Waiver of Underinsurance		Underinsurance upto 15% to be waived off	Underinsurance upto 15% to be waived off

# In Built Cover

## Additions, alterations or extensions

Any addition, alteration and erection of Property is covered upto 15% of the Sum Insured for that item (excluding stocks)

## Temporary removal of stocks

Loss to stocks temporarily removed to other premises for fabrication, processing or finishing upto 10% of value

## Cover for Specific Contents

- Cover for Money upto ₹50,000
- Cover for documents such as deeds, manuscripts, business books, plans, drawings, securities etc. upto ₹50,000
- Cover for computer programmes, information and data upto ₹ 5 Lakh
- Cover for personal effects of employees, Directors and visitors upto ₹15,000 per person for a maximum of 20 persons

## Start-Up Expenses

Start-up cost incurred in respect of insured risk consequent upon a loss or damage due to insured events upto ₹ 5 Lakhs for Laghu and upto ₹ 1 Lakh for Sookshma

## Professional fees

Reasonable fees of architects, surveyors, and consulting engineers upto 5% of the claim amount

## Costs for Removal of debris

Reasonable expenses for removal of debris upto 2 % of the claim amount

## Costs compelled by Municipal Regulations

Additional cost of reconstruction of property incurred solely for complying with municipal regulations limited to policy Sum Insured

# Thank You

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