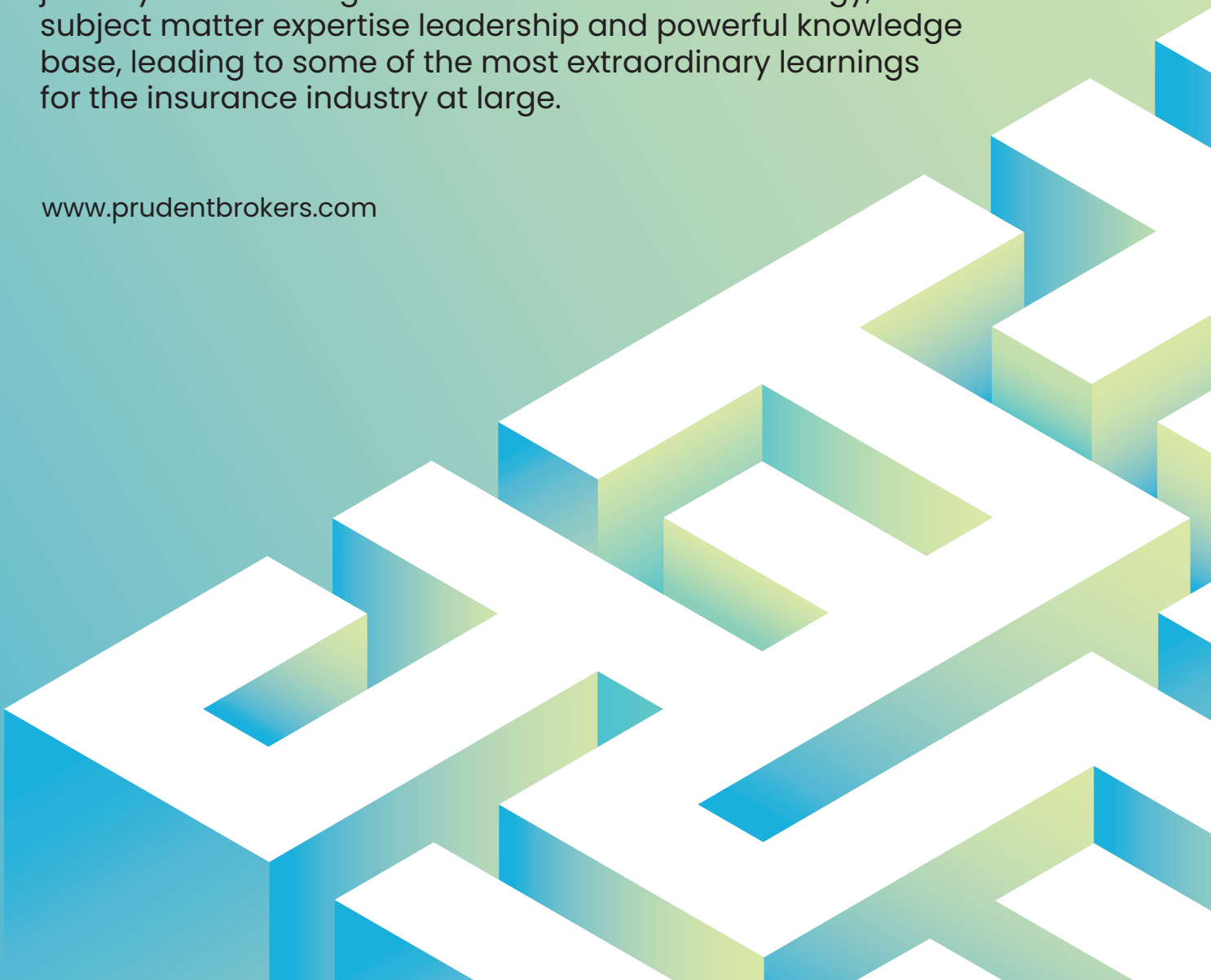


MAZE^{TO} AMAZE

S E R I E S

This unique 'Claims Maze to Amaze Series' aims to take you through some of the most amazing claims processing journeys showcasing the confluence of smart strategy, subject matter expertise leadership and powerful knowledge base, leading to some of the most extraordinary learnings for the insurance industry at large.

www.prudentbrokers.com





POLICY TYPE:

Udyam Suraksha Policy (BLUS)



KEY PLAYERS:

The Insured: The insured is a key player in the export-oriented raw material trading

The Insurer: One of the country's leading players

The Starting Point

The insured operates as a 100% export-oriented trading company procuring & supplying raw material to their vendor (job worker) for processing into finished goods for exports across the world on a B2B basis.

As part of the above process, the insured had supplied raw materials to their vendor (job worker) who in turn processed a majority of the raw material into finished goods and stored at their processing unit for exports.

During an incident of torrential rain, the entire processing unit was flooded up to a height of approximately 4.5 feet. The stocks remained submerged in slushy and muddy water for nearly 3-4 days. Consequently, the insured sustained a loss to the extent of approximately INR 7 crore for which they initiated a claim under their Udyam Suraksha Policy (BLUS).

The Roadblock

The tripartite contract between the insured & its affiliate entities (incorporated abroad) with India-based vendors (each operating independently) was complex. There was a contradiction between the work contract vis-à-vis the insurance policy, creating doubts about the 'insurable interest' of the principal/insured (post the supply of raw materials to their vendor).

The main challenge in the claim was to establish 'Insurable Interest' on the stocks affected due to tri-party contract agreement, executed between the insured, its affiliate entities, and their vendor.

The Dead-end Impact

There was a major delay from the insurer's end due to lack of clarity and non-availability of relevant documents. This deferred the process of simplifying the 'Insurable Interest' arising from the non-fulfillment of the rights & responsibilities on the part of the vendor who failed to take its own insurance (as per the business contract agreement between the vendor, the insured & its affiliate entities).

A well-drafted tripartite agreement, defining the seamless transition of supply of goods & the insurance for the same, along with the timely submission of supporting documents could have significantly reduced or avoided the delay.

Navigating through the Maze to Amaze

According to the insurer, the principal/insured did not have an insurable interest after supplying raw materials to the vendor. Under their business contract, the vendor was responsible for insuring both the finished and work-in-progress goods.

The Maze

The insurer's view regarding the insurable interest on part of the principal/insured, post the supply of raw material to the vendor, aggravated the situation.

Team Prudent meticulously applied the principle of The Sale of Goods Act, in conjunction with the independent working of the insurance contract, clarifying that the violation by one party does not void the insurance contract taken by the other law-abiding party. It was successfully argued with and agreed by both the surveyor and the insurer that the insurable interest rested with the principal/insured till the time of export. Furthermore, the insurance contract was not violated, as on date of loss, since the goods were under processing for export and the payment for the supply of material was not released to insured (by the vendor).

Team Prudent conducted in-depth reviews and analysed the insured's supply chain – right from procuring orders till the finished goods were exported. This included a thorough understanding of their payment cycle to decode the transfer of insurable interest from one party to another. This exercise was carried out by taking a sample example from previous export shipments.

Ultimately, the claim assessment was maximised from nil to INR 3.25 crore by the insurer after taking a subrogation letter from the insured for recovery rights against their vendor for the sake of good order.



Results

As a result of our in-depth review of the work contract and a thorough assessment of the insured's supply chain, both the surveyor and the insurer were convinced to pay INR 3.25 crore to the insured.

Key Learnings

Our role as a broker should not just be confined merely to the documentation of claims but should also extend to:

- Reviewing and understanding the contract between the insured and their vendor/job worker
- Establishing clarity on the interpretation of insurance contract vis-à-vis business contracts w.r.t. insurable interest
- Justifying and presenting the insurable interest effectively before the surveyor/insurer

Crux

It is very critical to ensure:

- A clear contractual framework wherein the tripartite/work contracts clearly define the transfer of insurable interest between the insured, affiliate entities, and job workers to avoid ambiguity during claims
- A proactive role on the part of the broker that operates beyond claim documentation, regularly reviews supply chains, and advises clients on insurable interest transfer to pre-empt claim challenges

Where Representation is the Cause for Victory



POLICY TYPE:

Industrial All Risk Policy (covering Property Damage & Business Interruption)



KEY PLAYERS:

The Insured: Key player in production, collection, and distribution of electricity in the renewable energy sector



THE INSURANCE SURVEYORS:

Top category surveyor

The Starting Point

In one of the insured's key wind power projects, a failure of the main shaft greasing grid was noted during an ongoing preventive check of the Wind Turbine Generator (WTG). The decision to manually stop the turbine was made.

The on-site engineer's initial tests indicated the presence of tiny particles. After the corrective measure of replacing the grease, the WTG was put into operation. Subsequently, further fluctuations were noted in the grid. The insured then lodged the claim for damages to the shaft and the main bearing of the wind turbine (possibly caused by the grid voltage fluctuation).

The Roadblock

In the said incident, the insured suffered a large quantum loss owing to a business interruption of more than 100 days. The surveyor's initial report concluded from the sequence of events, that the loss was due to wear and tear. As a result of this assumption, no serious efforts were made to discover the root cause of the problem, and the insurer did not get the correct representation of the claim.

Consequently, the claim was nullified by the insurer stating that:

- There was no breakdown
- The Root Cause Analysis (RCA) report confirmed that this loss was discovered during maintenance
- The bearings are subject to wear & tear loss, hence, don't contribute to the losses claimable under the Industrial All Risk Insurance Policy

The Dead-end Impact

The initial analysis of the problem statement was done without any technical deep diving, resulting in a generalised report whose outcome didn't favour the insured. Considering the large exposure as a pre-emptive measure, the insured should have got an in-depth Root Cause Analysis done by a specialised agency (dealing in the servicing of windmills) If it had not been for the intervention of the Prudent's claims team, the insured would have ended up singularly bearing a humongous loss of INR 2 crore due to business interruption.

A Twist in the Tale

As per the surveyor's initial report and the insured's on-site engineer's analysis, small particles were present in lighter concentrations in the shaft. This was considered to be a normal phenomenon ruling out anything accidental about the incident. So, it was concluded that since there was no breakdown, this damage was not claimable under the insurance policy.

Navigating through the Maze to Amaze

The moment the incident was reported to Prudent, our team promptly carried out the following actions:

Maze 1: No Breakdown!

Our team thoroughly reviewed both the initial analysis report (which stated the presence of very small particles) and the subsequent analysis report (done after noting grid failure, despite replacing the grease). The subsequent in-depth report stated the presence of heavy particles. We explained the insured that such analyses needed to be conducted through specialised agencies as against relying merely on internal QC analysis. Furthermore, the increase in the density of the particles, post re-greasing, indicated the problem to be more grievous than wear and tear. They were then thoroughly analysed, and the findings were studied further with the help of various articles available on the web and also on the website of the agency (carrying the analysis). In one of their studies, we found that the high reading of particles were indicative of the fact that the damages were most definitely accidental in nature, not caused by normal wear and tear.

Maze 2: Loss Discovered During Maintenance!

The Root Cause Analysis (RCA) report confirmed that the loss was discovered during maintenance/preventive check activity. This RCA activity at the wind farm was usually carried out by the insured's technical person who reached a conclusion with a generalised understanding of the windmill grid. Our team represented the fact that such detailed analysis and conclusion can only be done by a specialised agency, considering the technical aspects and changes in variables.

Maze 3: Bearings Subject to Wear & Tear

In the initial report, there was a lack of understanding of what was damaging the shaft, and it was labelled as wear and tear. We not only studied the reports thoroughly but also researched and understood the dimensions along with the part functions of the windmill. Our cumulative efforts helped unearth the presence of heavy particles in the shaft, accidental in nature.



Result

We could prove that the grid fluctuations were not caused by ordinary wear and tear but by actual damage to the shaft.

Key Learnings

- 1 We must give equal importance to every document/report shared by the insured and thoroughly review them
- 2 Our role as a broker demands us to understand implications and study beyond what has been shared
- 3 A thorough reading along with the in-depth understanding of the policy coverages needs to be done prior arriving at a conclusion. It was by reading various articles and websites that we could arrive at the variables and its resultant cause
- 4 Our representation of a case becomes more stronger if the arguments are based on proven and established industry facts

Crux

It was only due to the time and effort invested in an inadmissible claim that we could convince the surveyor & the insurer that the damages resulted from a purely accidental cause and loss was indemnifiable.



www.prudentbrokers.com

For more details, connect with

Prudent Insurance Brokers Pvt. Ltd.

PRUDENT INSURANCE BROKERS PVT. LTD. (Composite Broker)

Registered office at 1st Floor, Tower B, Peninsula Business park, G.K. Marg, Lower Parel, Mumbai – 400013, Maharashtra,
Tel : +91 22 3306 6000 | CIN No.: U70100MH1982PTC027681

Certificate of Registration IRDAI No. 291 & IFSCA No. 017 (Validity: 18th February 2023 to 17th February 2026)

Insurance is a subject matter of solicitation

Disclaimers: Prudent Insurance Brokers Pvt. Ltd. (herein referred as Prudent) is the Composite Broker registered with IRDA of India and does not underwrite the risk or act as an Insurer. Prudent team provides insurance, re-insurance, and Risk management & claim consulting services as permitted under Applicable law. This report and any recommendations, analysis or advice provided herein, are based on our experience as insurance and reinsurance brokers or as consultants, as applicable, are not intended to be taken as advice or recommendations regarding any individual situation. The opinions expressed herein are valid only for the purpose stated herein and as of the date hereof. We are not responsible for the consequences of any unauthorized use of this report. We have used what we believe are reliable, up-to-date, and comprehensive information and analysis, but all information is provided without warranty of any kind, express or implied, and we disclaim any responsibility for such information or analysis or to update the information or analysis in this report.

The information in this document is provided for general information purposes only. No information contained in this document should be construed as an advice from Prudent Insurance Brokers Private Limited. This document is not a legal advice and Prudent expressly disclaims any liability to any person for actions taken based on the views stated in the given document and we recommend and encourage all to obtain independent legal advice in relation to any subject matter contained herein. All claims under the policy will be solely decided upon by the Insurance company.