QUARTERLY NEWSLETTER

SPOTLIGHT INDIA

www.prudentbrokers.com

Edition: 02 | October 2021

INDEX

Namaskar,

A warm welcome to news and perspectives from India!

We are pleased to share the second edition of Spotlight India, our quarterly newsletter.

October marks the start of festivities in India including Dussehra and Eid e Milad, followed by Deepavali - the festival of lights in November, culminating in New Year's Eve celebrations in December. We would like to take this opportunity to wish our partners and customers a healthy, safe, and joyous holiday season and a Happy New Year.

This time of the year is peak season for holiday shoppers worldwide, which creates strong demand for goods, especially from Asia. This is the busiest time of the year for cargo handlers, ports, and warehouses. Although there has been an increase in cargo traffic with easing of Covid-19 norms, adverse weather events and port shutdowns have impacted supply chains worldwide. In this edition, our Vice President - Marine, Gaurav Agarwal, shares valuable insights on how marine loss control measures and insurance can help mitigate and/or transfer risks to minimise the effects of the pandemic and extreme weather events on supply chain.

IRDAI recently announced the much-anticipated revised guidelines for trade credit insurance, permitting general insurers to offer trade credit insurance to certain financial institutions to protect against loans to exporters. Vijay Bhatt, Vice President - Specialty Lines, Trade Credit Insurance, shares his take on this important development and a comparison between the new and existing guidelines.

Prudent and RIMS co-hosted a coffee table discussion on the impact of NatCat events on the telecom industry and alternative risk transfer mechanisms that can replace or supplement insurance. Watch the video of this straight-from-the-gut discussion held in August 2021.

Our next edition will reach you in January 2022. Happy Holidays!

Alda Dhingra
Vice President, Multinational Practice
Prudent Insurance Brokers Pvt. Ltd.

MITIGATING THE IMPACT OF SUPPLY CHAIN DISRUPTIONS

Supply chains are critical to the flow of goods and services. However, the recent pandemic led to additional risks and increased exposure. Almost every link in the supply chain came to a standstill which led to congestion at ports and warehouses, and subsequently caused major disruptions in manufacturing activities. The recent shutdown of Chinese ports in May and August 2021 due to the spread of the new Delta variant of SARS-CoV-2 has caused a ripple effect across the globe. It is important to note that with a 'Zero Tolerance Policy' adopted by Chinese ports, future shutdowns cannot be ruled out. Disruptions caused by extreme weather conditions create additional pressure on the already distressed supply chain sector.

Effects of port shutdowns and weather disruptions on supply chain:

- Freight rates skyrocketed due to shortage of containers caused by port closures in China due to Covid-19 and import cargo rush at US ports, rendering sea routes highly uneconomical for the time being
- Some companies are now moving cargo in break-bulk/bulk form to reduce freight cost leading to increased exposures
- Small companies are expected to see reduced production due to non-availability of raw materials, ultimately impacting their sales
- Bulkers are now being pressed into handling of containers. Low quality containers are being pressed into service to overcome the shortage, which again increases the risk and exposure
- Normalisation of production and increased demand due to the upcoming holiday season could lead to increased exposures at plants, warehouses, and ports

It is essential that corporates now increase their focus on protecting their supply chains because of unpredictable situations which are beyond one's control. The operations team should focus on shipping line agreements, internal SOPs related to verification of fitness of containers, loading and securing of cargo inside the containers, revisiting the shipping schedules, and having a backup plan. The planning teams should also revisit their stock policy values and revise the same if there is any build-up at warehouses or plants. They should also focus on marine loss control which includes analysing past claims trends, reviewing the SOPs, and engaging with Supply Chain Management (SCM) teams to improve and implement SOPs.

KEY THINGS TO REMEMBER

While marine insurance can protect cargo, it does have some limitations

- Every policy has an excess/ deductible; hence there will always be a certain amount of loss which will have to be borne
- Fitness issues with the containers can cause loss or damage to the cargo, not to mention the possible rejection of the insurance claim
- Any fitness issue with the bulk vessel can lead to rejection of a claim
- Any loss or damage caused by delay, howsoever caused, is excluded from marine policies
- Intermediate/voluntary storages are excluded from marine cargo in India w.e.f. April 1, 2019. Hence, any exposure at ports/port warehouses will have to be informed to the insurers and fire policies will have to be procured, if required
- Duration period in governing clauses have a limited time period. Hence, if the transit is not completed within the stipulated time frame, the marine cover comes to an end. This time period can be extended after a discussion with the insurer
- Consequential loss caused by delay cannot be insured
- The Marine cover can be customised to provide increased protection in case of a loss or damage

Gaurav Agarwal
Vice President – Marine
Prudent Insurance Brokers Pvt. Ltd.

NEW TRADE CREDIT INSURANCE GUIDELINES (EFFECTIVE NOVEMBER 1, 2021*)

The much-awaited guidelines for trade credit insurance have been recently announced by IRDA. The new guidelines allow general insurance companies to offer Trade Credit Insurance (TCI) cover to banks, factoring companies, TReDS platform, and other financial institutions to secure their trade transactions to borrowers on non-recourse basis. The last decade has witnessed considerable development in the trade finance sector, including complexities in transaction structures and increased volume of transactions. There is no doubt that trade finance is going to be an important form of resource raising for the foreseeable future – both for large enterprises as well as micro, small and medium enterprises (MSME) and this move by the regulator would aid banks/FIs to support businesses.

The Ministry of Commerce and Industry reported a rise in India's exports by 45.17% to USD 33.14 bn in August 2021, which was driven by healthy growth in sectors such as engineering, petroleum products, gems/jewellery, and chemicals. India's manufacturing sector activities witnessed the strongest rate of growth in three months starting July amid improved demand conditions and easing of Covid-19 restrictions. The new TCI guidelines will provide a boost to banks and FIs in supporting SMEs by providing collateral-free lending against trade transactions in a secured manner.

Trade credit insurance is a valuable tool for financial institutions which can be used to support growth while managing overall risks. The product insures against the default risk of the borrower in a financed portfolio.

The policy can be used to cover underlying trade transaction with borrowers which could be factoring, bill discounting or other trade-related arrangements. Trade credit policies for banks can be designed based on the portfolio segment and are primarily used to provide protection to banks.

Credit insurance benefits for banks

- Mitigation of unsecured assets against an event of default or non-payment from borrowers
- Effective risk mitigation tool to minimise provisions from books of accounts
- Better provisioning of bad debts since debts are covered by credit insurers
- Regular monitoring of portfolio buyers based on the information available with credit insurers
- Complete collection services as part of the cover
- Justify better lending rates and less restrictive covenants with credit underwriters
- Establish a deeper relationship with clients by developing consultative business relationships rather than simply being a lender

Vijay Anand Bhatt
Vice President - Specialty Lines,
Trade Credit Insurance
Prudent Insurance Brokers Pvt. Ltd.

Snapshot - New Guidelines vs Existing Guidelines

Existing Guidelines	New Guidelines
Policy can be issued to any company engaged in manufacturing of goods, services, and trading of goods	Policy can be issued to suppliers as well as licensed banks and other financial institutions
Indemnification: 85% of the approved claim by the Insurer	Expected to be higher than the current 85%, based on the risk
A single specific trade credit policy covering only one shipment cannot be sold to a prospect	Single invoice covers through bill discounting/factoring shall be allowed only on invoice discounting electronic platforms such as TReDS
Applicable only to whole turnover policy	Whole turnover and single buyer policies have been allowed (single buyer only for SMEs & MSMEs)
	Projects with duration above 6 months can be covered for non-payment and Political Risk Insurance (PRI) (only for overseas projects)

Source: Ref No.: IRDAI/NL/GDL/MISC/244/09/2021

ACHIEVEMENTS

Special Purpose Acquisition Company (SPAC)

Prudent's liability team along with its partner from London placed the D&O policy for the first de-SPAC NASDAQ listing from India since 2016. The business was won amidst a high level of competition from the largest brokers in the world. The current market for D&O, especially for entities going through the SPAC and de-SPAC route, is extremely challenging, with very few players wanting to cover the risks.

The proposal was shown and discussed with over 30 markets, and two roadshow presentations were conducted to achieve the desired placement. Prudent and its London partner's work was reviewed and appreciated not only by the insured's risk team but also by the risk managers and brokers for the SPAC investor.

PRUDENT AND ITS LONDON PARTNER'S WORK WAS REVIEWED AND APPRECIATED NOT ONLY BY THE INSURED'S RISK TEAM BUT ALSO THE RISK MANAGERS AND BROKERS FOR THE SPAC INVESTOR.

Public Offering of Securities Insurance (POSI)

Prudent recently placed the POSI policy for what is expected to be the largest IPO on the Indian stock exchanges. This deal was more complicated than usual for many reasons including the size, regulated industry, high-limit requirements, and pricing target of the client. What made matters more complex is that only a few days before placement there was adverse news around the company and their proposed listing. Despite the challenges and through multiple rounds of negotiation and exploring many different layering structures, Prudent was able to place the policy at a 25% lower premium than another recent listing which was half the size of our client's.

Tanuj Gulani
Vice President - Specialty Lines & Reinsurance
Prudent Insurance Brokers Pvt. Ltd.

NATCAT IMPACT ON THE TELECOM INDUSTRY AND INNOVATIVE SOLUTIONS TO ADDRESS CAPACITY CONSTRAINTS

Climate change has profound effects on India, which is ranked fourth among the countries most affected by climate change in the period from 1996 to 2015. The continued increase in the frequency and severity of natural catastrophes has challenged industries and risk managers to look for innovative risk transfer mechanisms.

On 26 August 2021, RIMS and Prudent collaborated to bring to our clients a coffee table discussion on the impact of climate change and increasing frequency of natural catastrophes on the telecom sector and possible solutions to mitigate the risks associated therewith. The coffee table discussion included Jimmy Gopalakrishnan, Head of Insurance and Risk Management, Airtel; Pankaj Tomar, India Head - AXA Climate; Prof. (Dr.) Anil K. Gupta, National Institute of Disaster Management; and moderator Ajit S. Horra, National Head Technical & Member Executive Board, Prudent. The frank and hard-hitting discussion on the impact of catastrophic events on the telecom sector, the resulting withdrawal of capacity to this sector from both the direct and reinsurance markets, and the feasibility of alternative and innovative risk transfer solutions can be viewed here.

www.prudentbrokers.com

For more information, please write to: **consulting@prudentbrokers.com**

PRUDENT INSURANCE BROKERS PVT. LTD.
101 Tower B, Peninsula Business Park, Lower Parel, Mumbai 400 013
+91 22 3306 6000

PRUDENT INSURANCE BROKERS PVT. LTD.
Registered Office at 101, Tower B, Peninsula Business Park, G.K. Marg, Lower Parel, Mumbai 400 013 Maharashtra
Tel: +91 22 3306 6000.

Certificate of Registration No. 291 (Validity: 18th February 2020 to 17th February 2023)
CIN No.: U70100MH1982PTC027681