Pakistan Insurance Institute Quarterly Newsletter

INSURE

Issue 24, December 2018

PII
Pakistan Insurance Institute
Since 1951

"Every time you tear a leaf off a calendar, you present a new place for new ideas and progress"

Charles Kettering

CONTENTS

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Case studies received for the Case Study Competition 2016 are being reproduced for our readers interest

Insolvency of Hanjin Shipping and Its Impact on Marine Insurance Cover

Introduction

The questions to be dealt in this paper relates to the bankruptcy of Hanjin Shipping. Such incidents rarely occur in history and when they do, a lot can be learned from these. Hanjin has 141 ships, of which 128 were operating. The collapse of the world's seventh-largest container shipper has caused much agonizing among its clients over the fate of stranded cargo. Hanjin vessels are carrying cargo worth 16 trillion won ($14.5 billion) belonging to some 8,300 cargo owners and most of which will be insured by insurance companies worldwide.

In this paper I will discuss one typical scenario that many insurance companies will face in near future and the possible course of work available to insurance companies who have insured cargo under Institute Cargo Clauses A version 01/01/09. As our industry has never seen such a situation before so the discussion will mostly be based on my understanding of cargo clauses in general and to some material that I have read in this regard. First of all let's look at the background of a recent case of marine export policy issued by our office in which the assured claims for forwarding charges that will arise due to insolvency of Hanjin Shipping and premature termination of contract of carriage.

Background of the Case

A containerized consignment of sports goods insured under ICC A (01/01/09) plus War & Strike Clauses is being found on board of one of the Hanjin vessels. The contract of sale was on CIF Sydney and insurance attached when goods first moved in the warehouse located in Sialkot for immediate loading on to the vehicle for its onward journey. Due to insolvency of operators/charterers, the vessel was not able to reach its destination and it was decided that the insured consignment along with other shipments will be unloaded at Singapore port. From Singapore port the consignment insured by our company will be taken to Sydney through another vessel.

Considering the above scenario there are three questions that will be discussed in this paper with reference to relevant sections in ICC "A" (01/01/09). The questions are as follow:

1. Is loss or damage to consignment and related expenses due to insolvency of vessel operator or charterer covered under Institute Cargo Clauses A?
2. What will happen with the insurance coverage if the consignment is unloaded due to bankruptcy of shipping line & termination of contract of carriage at a port other than to which it was destined?
3. Are forwarding charges covered under ICC "A" and to what extent when incurred to send consignment to its intended port of destination after premature discharge at some other port/place?

At the time of writing, the claim is under process so this paper will discuss the technical issues from underwriting perspective which may differ from original position after settlement of claim. As the event is unique in itself and numerous types of claims will follow from the bankruptcy of shipping line which will be settled under different laws and practice, so it is true to say that this paper is purely for academic purpose based on my understanding which may lack at some points. Therefore readers are encouraged to take caution in applying contents given in this paper on any practical situation.

Discussion on Question No. 1

ICC "A" covers all risk of loss or damage to subject matter insured except exclusions that are stated in it. Coming to the first question of this paper i.e. loss or damage to subject matter insured (consignment of sports goods) due to insolvency of vessel operator/charterer. I have reproduced the exclusion no. 4.6 below for reference which typically relates to this position:

Exclusions

4. In no case shall this insurance cover

4.6 loss damage or expense caused by insolvency or financial default of the owners managers charterers or operators of the vessel where, at the time of loading of the subject-matter insured on board the vessel, the Assured are aware, or in the ordinary course of business should be aware, that such insolvency or financial default could prevent the normal prosecution of the voyage

This exclusion shall not apply where the contract of insurance has been assigned to the party claiming hereunder who has bought or agreed to buy the subject-matter insured in good faith under a binding contract

Under current version of ICC clauses (01/01/09) the above exclusion will not apply where contract of insurance has been assigned to a party claiming hereunder who has bought or agreed to buy the subject matter insured in good faith under a binding contract. The situation would have been quite different under Institute Cargo Clauses A (01/01/1982) which states that this insurance shall not cover "loss damage or expense arising from insolvency or financial default of the owners managers charterers or operators of the vessel".

In case mentioned above, the insurable interest in consignment shifted from consignor (seller) to consignee (buyer) from FOB point which is when consignment is on board the vessel at Karachi port and the consignee has bought the subject matter insured in good faith. So exclusion 4.6 will not apply on an innocent assured, or an innocent buyer to whom the insurance has been assigned as he will enjoy greater protection under new version of ICC clauses.

Discussion on Question No. 2

Clause 9 of ICC "A" is given below for discussion on second question which deals with termination of insurance coverage in case of termination of contract of carriage:

Termination of Contract of Carriage

9. If owing to circumstances beyond the control of the Assured either the contract of carriage is terminated at

a port or place other than the destination named therein or the transit is otherwise terminated before unloading of the subject-matter insured as provided for in Clause 8 above, then this insurance shall also terminate unless prompt notice is given to the Insurers and continuation of cover is requested when this insurance shall remain in force, subject to an additional premium if required by the Insurers, either

9.1 until the subject-matter insured is sold and delivered at such port or place, or, unless otherwise specially agreed, until the expiry of 60 days after arrival of the subject-matter insured at such port or place, whichever shall first occur,

or

9.2 if the subject-matter insured is forwarded within the said period of 60 days (or any agreed extension thereof) to the destination named in the contract of insurance or to any other destination, until terminated in accordance with the provisions of Clause 8 above.

As per clause 9 above, the contract of insurance will also terminate once contract of carriage is terminated at a port or place other than the destination named in insurance contract as provided for under clause 8 due to circumstances beyond the control of assured. So in our case the contract of insurance will also terminate after unloading of shipment at Singapore port unless prompt notice is given to insurers and continuation of cover is requested for this insurance to remain in force, subject to an additional premium if required by the insurer.

In my understanding if assured wants its consignment to be covered from Singapore to Sydney, he must give prompt notice to insurer and insurer can provide cover subject to any additional premium if required. If insurer refuses to extend cover from Singapore to Sydney than any loss to consignment and related liabilities that arises during this voyage will not be covered under the policy as insurance contract terminates at Singapore port and insurer didn't agree to continuation of cover.

If continuation of cover is agreed by insurer than the insurance cover will remain in force as per provisions of 9.1 or 9.2 above. This technical point is very important to consider as it provides a chance to insurer to re-evaluate his liability that he will take for rest of the journey which will be under a new contract of carriage with different vessel operator.

Discussion on Question No. 3

How forwarding charges, which are incurred to send the consignment to its intended port of destination, will be settled under ICC "A"? Clause 12 which deals with this situation is reproduced below:

Forwarding Charges

12. Where, as a result of the operation of a risk covered by this insurance, the insured transit is terminated at a port or place other than that to which the subject-matter insured is covered under this insurance, the Insurers will reimburse the Assured for any extra charges properly and reasonably incurred in unloading storing and forwarding the subject-matter insured to the destination to which it is insured.

This Clause 12, which does not apply to general average or salvage charges, shall be subject to the exclusions contained in Clauses 4, 5, 6 and 7 above, and shall not include charges arising from the fault negligence insolvency or financial default of the Assured or their employees.

Forwarding charges are an important feature in our case. Many consignments will be off-loaded from Hanjin vessels and will then be forwarded to destination through other vessels. As far as forwarding charges are concerned which are reasonably incurred in unloading storing and forwarding the subject matter insured to the destination to which it is insured, they will be paid under Clause 12 as these charges are incurred because of the operation of a risk covered by the insurance policy. So the charges that will be incurred to send the consignment to Sydney will be paid by the insurance company and will usually be a percentage of sum insured which must be reasonable in given circumstances.

The above mentioned understandings are open to discussion and will prove a good starting point for insurance professionals to research more on this topic. As the Hanjin event is still unwinding so a lot more is still to come.

Usman Arif
Alfalah Insurance Company Limited


Jubilee
GENERAL INSURANCE
RS.
10
BILLION
PREMIUM

Lahore Insurance Institute

Impact of Insurance on Pakistan's Economy Conference

October 16, 2018

Lahore Insurance Institute (LII) staged a second conference on the captioned subject at Faletti's Hotel Lahore on October 16, 2018 which was attended by insurance executives from across the industry in large numbers.

Speakers from across the country including some from UK, UAE and Saudi Arabia also participated in this conference.

Chairman LII, Mr. Muhammad Hisham who was the main architect of this conference extended his cordial welcome to all participants and highlighted the significant features of this conference.

Mr. Nasar Us Samad, CEO, Alfalah Insurance and Chairman, Insurance Association of Pakistan in his address defined the current state of the insurance sector in Pakistan and highlighted potential challenges and opportunities for the industry. Mr. Samad pointed out the importance of streamlining Motor 3rd Party Liability insurance and how it can be a game changer for the industry.

Mr. Khurram Nasim Ghuman, Executive Director EFU General Insurance emphasized the importance and understanding of reinsurance and presented an insight on the subject of **"Capacity Building of Re-insurance Sector in Pakistan"** vital to the development of the industry.

Dr. Masuma Zaidi, Senior Project Coordinator-Health Sector, KFW, gave an impressive presentation on the subject of **"Govt Sponsored Health Insurance Program (KPK Sehat Sahulat Scheme)"**. She shared the successful model of health scheme launched in KPK and aspired to carry it forward to other provinces in Pakistan, as well.

On the topic of **"Government Funded Crop Schemes"** Mr. Kamran Bakhshi, former Additional Director State Bank of Pakistan gave an informative account of the potential with facts and figures and opened another dimension of business diversity in the insurance sector.

Mr. Chris Wareham, Director Hawkins who came from Dubai presented on an interesting subject of **"Forensic Investigation in Insurance Sector".**

On the topic of **"Technology Based Distribution Channels & Their Impact on Economy"** Mr. Umair Khalid, CEO of

Milvik Mobile Pakistan shared his views on the need and use of technology for the advancement of insurance sector.

Mr. Shahid Mehmood, Director EFT-UK, who came from England, gave an insight about the **"Trade Credit Insurance-Boosting Pakistan's Exports".**

Speaking on the subject of **"Insurtech Pakistan-A new way to stand"** Mr. Shayan Ahmed, CEO Meri Policy highlighted the way forward for the industry in the relevance and use of technology.

Mr. Nomaan Bashir, Head of Consumer, IGI General Insurance also gave a comprehensive account of **"Pakistan Insurance Industry-Technology Led Value Generation".**

Mr. Kaiser Kithana, Chairman Institute of Road Safety spoke on the much ignored but important subject of **"Road Safety Economics & Insurance" and the visible impact it has on insurance.**

Dr. Mubbsher Munawar Khan, Principal, Hailey College of Banking and Finance shared his meaningful thoughts beside assuming and discharging the responsibility as Chairman panel discussions.

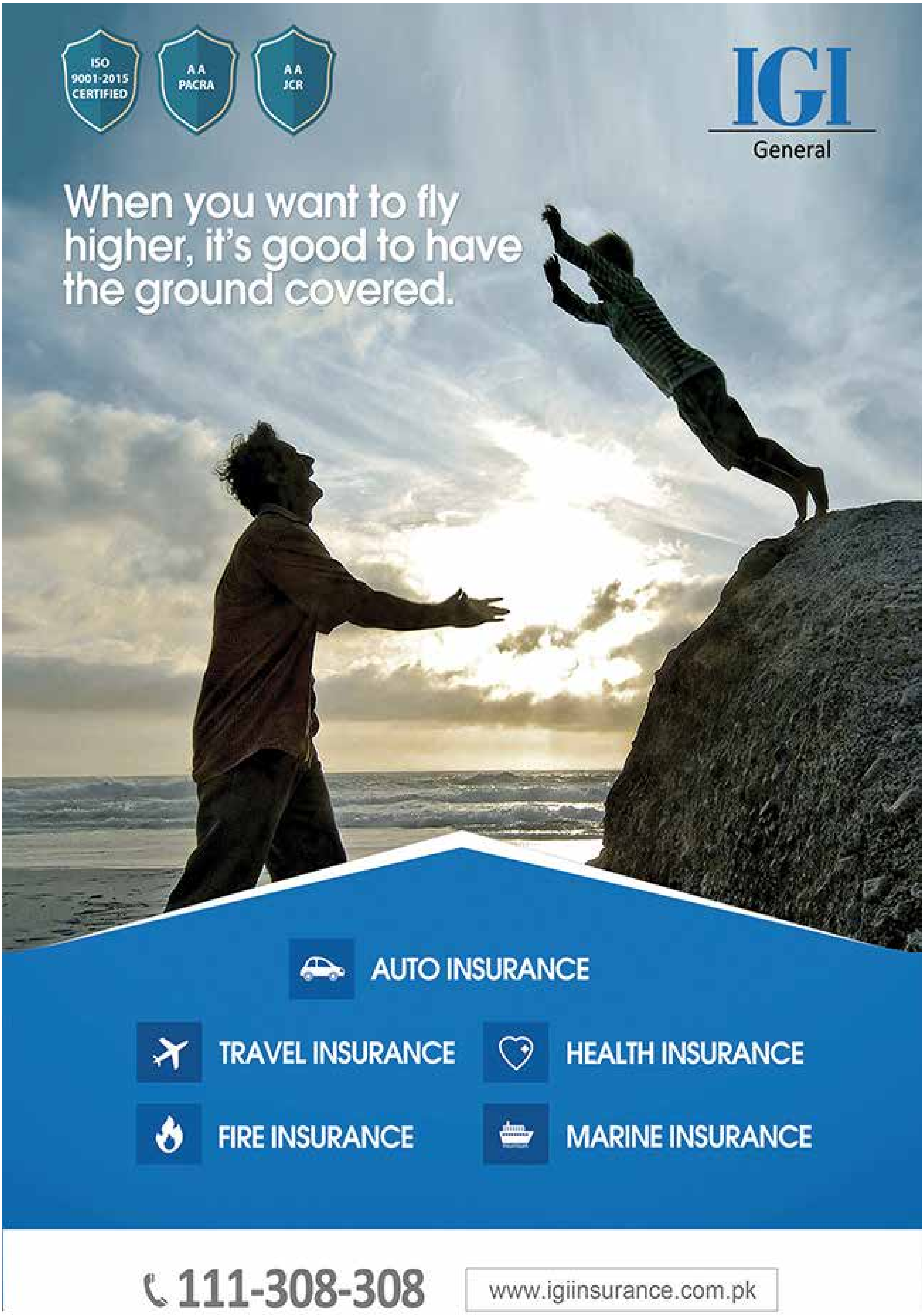
Raja Arifullah from Saudi Re chaired the panel discussion and shared his views about the insurance climate in Saudi Arabia.

Mr. Satwat Mahmood Butt, DED, EFU General, Chairman Sports & Social Activities Committee, LII, in his usual literary style performed his role as Master of Ceremony for the conference.

Mr. Muhammad Hisham, Chairman LII, in his concluding remarks thanked his team for the excellent organization of the event.

All speakers were presented with Mementos and all members of the organizing team were also presented with souvenirs.

A comprehensive vote of thanks was given by Mr. Zulfiqar Ali Khan, Vice Chairman, LII recognizing and thanking all those who positively contributed for the success of this conference.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2019

1 January

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Karachi Insurance Institute

Specialty Lines

Workshop

October 16, 2018

Karachi Insurance Institute organized a half day workshop on the topic of 'Specialty Lines' and invited Mr. Ram Garg CFA, MBA General Manager JB Boda & Co(s) PTE Ltd, Singapore to conduct the workshop.

In his welcome address Mr. Ayaz Gad Chairman Karachi Insurance Institute introduced Mr. Garg and thanked him for accepting the invitation at such a short notice.

In the first session Mr. Garg provided an in depth analysis of the need, risk exposure and coverage of Bankers Blanket Bond.

Bankers Blanket Bond

In view of non-stop crime related losses and devastating monetary hits, financial institutions require a stand by protection to immediately bring them back to work after any such destruction happens. Therefore Bankers Blanket Bond, a comprehensive set of coverage offered by insurance companies, has now become one of the mandatory components of risk management mechanisms and contingency planning of financial institutions.

Bankers Blanket Bond provides cover to financial institutions against crime-related losses arising out of either one or more of the following:

- Personnel fraudulent activities.
- Loss of Property i.e. cash and valuables of the Insured and insured's customers at the premises of the insured due to theft, robbery or armed hold-up.
- Loss of cash and valuables owned by the Insured person during their transportation.
- Losses associated with the forgery or fraudulent alteration of financial instruments meant for withdrawal or payment of funds / money.
- Losses associated with acceptance of counterfeit money.
- Damage to facilities and in-house equipment caused by theft, acts of vandalism and other intended actions. This can often be covered by way of a separate policy hence this clause then gets excluded from the coverage.
- Losses associated with false, fraudulently altered, lost or stolen securities.

The standard Bankers Blanket Bond policy offered by the insurers is LPO 218 which includes the following clauses:

Infidelity of Employees: coverage is in respect of losses sustained due to the dishonest or fraudulent acts of the Insured's one or more employees whether committed alone or in collusion for improper personal financial gain. Losses sustained under this category of coverage have accounted for a large proportion of any institution's losses.

However, it should be noted that the definition of "employee" can be set in accordance with each financial institution's requirement depending on whom they want to include in the definition of employee.

Usually security guards and contractual employees are excluded from the scope of definition due to the fact that security guards have been found more susceptible towards committing fraud and crime. On the other hand contractual employees are usually covered under primary Fidelity Guarantee Policy arranged by the third party providers.

On Premises: Premises include all offices of the insured's institution and coverage is automatically afforded to all such offices at inception and added to the policy during the given policy year including branches, booths, Service Centers and on and off site ATMs.

The coverage under this clause is against the loss of cash and valuable property such as gold bullion, precious metals, certificates, securities etc on insured's premises due to theft, burglary, robbery and armed hold-up. The coverage is extended to include loss of customer's property while on premises due to any of above mentioned happenings.

In addition to the above, the policy can also be extended to cover the excess cash holdings in excess of the insured cash limits on a daily basis upon intimation to the insurer at a minimum additional cost.

In Transit: Valuable property in transit covers loss or damage to the property whilst in transit and under the custody of the insured's employee or an armoured car or security company.

Many armoured car companies purchase insurance as part of the contractual requirement for the property in their care for transit and in such cases Bankers Blanket Bond policy acts as a secondary policy.

Forged Cheques: The forgery section of the Bankers Blanket Bond policy can provide cover against a financial loss, which results from having acted in good faith upon "written instruments" or "payment instructions", if these prove to be forged, or fraudulently altered or forged as to signature.

However this clause does not cover any loss if the instrument is genuinely signed but is false as to contents.

Counterfeit Currency: Coverage in this respect indemnifies the institution for losses sustained as a result of its acting upon any counterfeit currency, for example the encashment of counterfeit currency handled during the normal course of business.

This coverage is particularly beneficial for those institutions which handle foreign currencies but nevertheless financial institutions on average have not sustained much loss under this clause.

Damage to Offices and Contents: Coverage is against loss of or damage to offices and contents i.e. furniture, fixtures, equipments, stationary except computers and peripheral items and office interiors due to burglary, armed hold-up or attempted act.

Securities and Written Instruments: The standard Bankers Blanket Bond policy separates this form from and the standard coverage and is added through an endorsement to the policy which covers losses arising from situations where the institution has "acted upon" (e.g. accepted as collateral) any forged or fraudulently altered securities or has suffered loss due to lost or stolen securities.

Securities include share certificates, bonds, coupons, warrants, guarantees, mortgage deeds and agreements, stocks, debentures.

After the above brief overview of Bankers Blanket

Policy it is needless to mention the benefits of this policy as it is quite obvious that it is one of the cost effective tools to safeguard against fraud and crime-related losses.

Bankers Blanket Bond is usually sold as a packaged policy containing various covers as separate sections. To name few, these include Electronic & Computer Crime Insurance, Safe Deposit Box Insurance, Financial Institutions Professional Indemnity Insurance and Directors and Officers Liability Insurance.

As Bankers Blanket Bond is one of the special covers and a very high risk portfolio, therefore in few cases a pre-risk assessment of client's security systems and operations is conducted with the objective of not only assessing the risk management mechanisms of the client's institution and proposing recommendations regarding the improvement of the risk but at the same time to help the client to identify and close the gaps in existing security systems risk control measures in place.

However as a normal course of practice the underwriting formalities include providing complete loss details for the past five years, completion of proposal form, confirmation of no known and reported losses at policy inception and details of insuring limits including details of all the offices of insured's institution.

Mr. Garg continued highlighting the challenges and shared the list of exclusions in the policy.

In conclusion he shared some of the noted claims around the globe.

Cyber Risk

Following tea break Mr. Garg gave an over view of one of the important and fastest growing risk "Cyber Risks'

Landscape

- Cyber insurance market is rapidly emerging and expected to ten-fold its size, reaching $20 billion by 2025.
- However, the insurance industry is struggling with issues such as the lack of historical data, inadequate cyber security information, ever evolving cyber attacks, aggregation of cyber exposure, buyers' awareness, or the inexperience in underwriting, claims & responses management final result is volatility and uncertainty surrounding this peril.

21st Century Risks and their Challenges

Challenges for Insurers

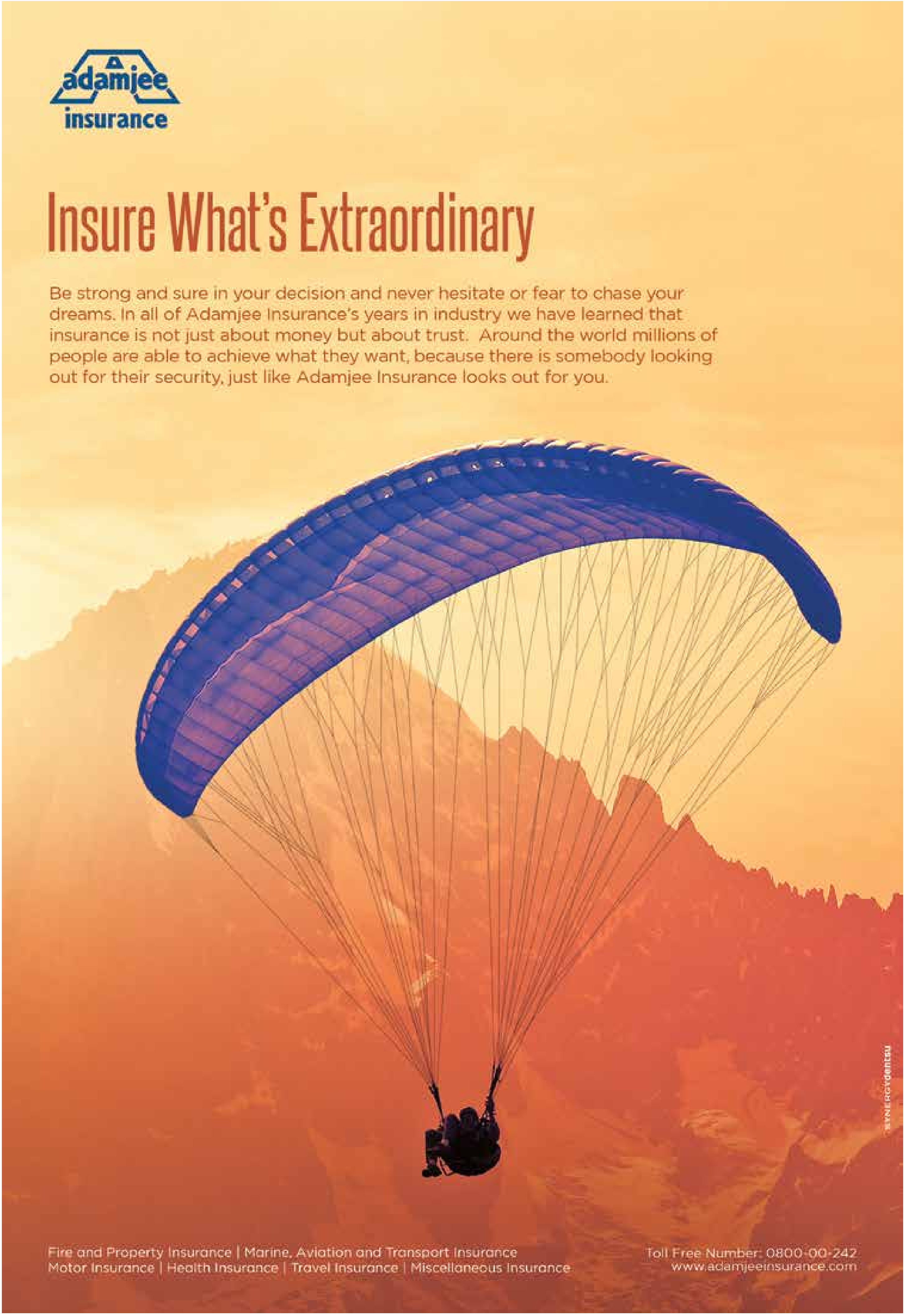
1 Rapidly changing risk characteristics and lack of claims history

2 Complex and non-obvious patterns of risk linkage and risk accumulation

3 High-volume, diverse, and dynamic external data needed to model risk

The workshop was very interactive and participants from various insurance companies who attended the workshop found it to be a learning experience. In appreciation Mr. Ram Garg was presented with a memento .


DECISIONS THAT ARE HURTING YOUR CAREER
1
NO DIRECTION
2
NOT LEARNING ABOUT YOURSELF
3
CONFUSING HARD WORK WITH PERFORMANCE
4
NO MENTORS
5
NO STRETCH OR VALUE CREATION
6
LIMITED PROFESSIONAL NETWORK
7
NOT PITCHING YOUR IDEAS WELL
8
NOT LEARNING ABOUT YOUR BUSINESS
9
NOT CONNECTING FREQUENTLY WITH OTHERS IN YOUR BUSINESS
10
NOT STAYING CONNECTED AND AWARE OF THE EMPLOYMENT MARKET
11
NOT ACTING ON WHAT YOU SAY YOU WANT
12
NOT HAVING AN ADVOCATE
13
NOT LEARNING TO MANAGE POLITICS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PAKISTAN INSURANCE INSTITUTE CALENDAR 2019

Diploma	
The 2 Semester Post Graduate Diploma (PGD) in Insurance (in affiliation with University of Karachi)	July : 1st semester January: 2nd semester
Commencement of Classes	
Certification (Approved by SECP)	
Agents Foundation Course / Refresher • General & Life Takaful (General & Family)	Quarterly
Licensing Examination for Surveyors	June
Certification	
Health Insurance	February
Insurance Day	
Seminar at an educational institution	April
International Insurance Conference	
InsurTech and Microinsurance	April
Chartered Insurance Institute (CII)	
Certificate/ Diploma /Advanced Diploma Examination Tutorial classes (free of charge) for preparation for the exams	April & October March & September
Continuous Professional Development (CPD)	
(Participants to the workshops can avail credits from CII towards CPD)	
Case Study Competition	October
Workshop	
» Compliance Regulatory Framework • Anti Money Laundering (AML) • Counter Terrorism Financing (CTF) » Cyber Crime Insurance » Reinsurance	Quarterly
» Property & Business Interruption – Underwriting & Claims » Customer Service in Insurance » Interpersonal Communication Skills	February
» Risk Assessment Property & Business Interruption in Insurance » Banc assurance » Effective Business Communication	March
» Survey Case Study / Report Writing	June
» Project Insurance – Underwriting & Claims » Underwriting • Medical & Financial	July
» Ethics in Insurance » Improving Personal Effectiveness	August
» Goal Setting & Work Planning	September
» Financial Management » Team work	October
» Time and Stress Management	November