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**Cotton  
Association  
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# COTTON STATISTICS & NEWS

Edited & Published by Amar Singh

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## MARINE INSURANCE – 7

### Insurance premium requirements factors affecting insurance premium

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*The views expressed in this column are his own and not that of Cotton Association of India).*

#### What is premium?

Premium is consideration or return for insurers promise of making good the Insured's loss when it arises. In other words, it is the price to be paid for insurance.

Under provisions of the Indian Contract Act, the premium may be paid in future and only the agreement to pay the premium is sufficient to constitute a good contract. But as per Indian law and practice, the premium MUST be paid in advance in full before commencement of transit. Under marine cargo insurance policy, payment of premium in installments is not allowed. However under an Open policy for periodical increase in sum insured, periodical premium can be paid; but in that case the premium for the increase in the sum insured to be paid in full.

For example: if initial policy is taken for Rs 10 crore. Premium on 10 crore is to be paid in advance

of commencement of the policy. If subsequently if amount is increased by Rs 2 crore then the premium also to be paid before increase of Rs 2 crore. Till premium is paid the increase is not effective.

#### I. METHODS OF PAYING PREMIUM:

Under IRDA Regulations of Manner of Receipt of Premium, 2002, the premium can be paid by any of the following methods:

- Cash
- Cheques, DD, Pay order etc.
- Postal Money Orders
- Credit /Debit cards
- Bank Guarantee or Cash Deposit
- Internet
- E transfer

In case of payment by cheque etc. it is treated as payment on the date of receipt of cheque by insurer, provided cheque is honoured on presentation. If it is dishonoured (due to any reason) it is as good as no payment.

In case of payment by Money order, payment is deemed to be made on date of booking of M.O if it is received subsequently by the insurers. Also if cheque is posted by registered letter, it can be treated as payment on date of booking of registered letter.

In case of Bank Guarantee (BG) and cash deposit (CD), the client gets credit of payment up to limits of BG or CD and he has to pay premium by end of next calendar month irrespective of date of debit to

### EXPERT'S Column



**Shri Rajendra Ganatra**

BG/CD account. If premium is debited on 1st or last day of current month, it should be paid by end of next month.

In case of other methods when insurers receives actual premium then it is treated as date of receipt of premium.

## II. FACTORS AFFECTING INSURANCE PREMIUM:

In marine insurance there is no fixed rate of premium. It varies from insurer to insurer and client to client. Every insurer charges premium on the basis of their perception of the risk. As insurance works on principle of pooling of the risk and paying out of the fund, too less premium will make insurance un viable for insurers and may threaten their solvency which is dangerous for all including insuring public. If higher than required premium is charged, then the insurer takes undue advantage of clients' vulnerable position and lack of his negotiating power which is also not good. So premium charged should be reasonable. What is reasonable and fair premium? It depends upon various factors affecting the risk. Some of these factors are discussed below.

**i) Cargo:** The type of goods transported is the main criteria for charging the premium. Hazardous goods attract more premium than iron or steel, while chemicals and inflammable goods are also charged higher rate of premium because of higher loss incidences.

**ii) Packing:** Packing of goods to be transported should be strong enough to take care of normal hazards involved in transit. For different cargo different packing are used e.g computers need thermocol, plastic lining, card board cartons, liquids need drums or carboys, grains and sugars need jute bags etc. Whether packing is new or second hand is also important. For second hand packing higher rate is charged. If there is no packing it is called "in Bulk" and cargo like petroleum products, cement, fertilizers, sugar, etc. when carried in huge quantities, are carried in bulk. In bulk cargo, methods of weightment are generally not perfect so insurers companies are reluctant to give shortage risk.

There are no laid down standards for what is proper packing for goods in transit. But if the client follows trade practices or uses customary packing then insurers accept that as normal.

In case of containerised cargo, stuffing inside a container is very important. While stuffing, care is to be taken to see that container is properly cleaned, that adequate dunnage is provided if grains, chemicals, etc. are carried to avoid loss due to contamination from moisture. Cargo which is

likely to react with each other should not be put in the same container to avoid taint damage. Selection of suitable container also to be used. Example: perishable cargo needs refrigerated container, for cargo which is subject to sweat, heat, etc. needs ventilated cargo, heavy and over dimensional cargo needs flat rack container etc.

Packing itself is not insured as it does not have any commercial value, but if it is to be insured, separate value of packing is to be given.

Losses arising out of insufficient packing are excluded from the scope of the policy.

**iii) Conveyance:** The type of conveyance by which the cargo is to be carried is very important. For different conveyances different premiums may be charged. For airfreight, premium may be less as it is safer and faster mode of transport. In case of trucks, they should be in good condition and cargo should not be over loaded there on beyond the permissible limits. They also should be closed or covered by tarpaulins to avoid damage to cargo due to rain etc. and minimise losses due to theft, pilferage etc.

**iv) Ship:** Ship is the most important mode of cargo transportation because it can carry huge quantity of cargo over a long distance. Because of higher amount at stake, insurers are very careful about underwriting of goods going by ship. They prefer goods carried only by 1st class ship or the ship which is confirming the requirements of Institute Classification Clause (2001). The requirements of the Institute Classification Clause are as under:

**Steel ships:** The ship should be made up of steel.

**Age:** Age of the ship should not be more than the following;

Tanker ships - 10 years.

Chartered or other non liner ships - 15 years.

Chartered ships - 25 years

Containerised liner ships - 30 years.

**Tonnage:** Tonnage is nowadays not very important as there are very few ocean going ships of less than 1000 Gross Tons capacity. As small ships are more susceptible to sinking or damage in case of even slightly rough weather, they are treated as bad risk.

**Classification:** Classification is like quality certification. A classification by a good classification society assures underwriter about well maintained ships as the classification societies keep control over maintenance of ships through periodical surveys and suggestions about improvements in the up keep of the ships. This gives cargo underwriters a comfort level.

The ship is to be classified with a classification society which is member of ICSA-International

Classification Societies' Association. Indian Classification society is IRS- Indian Register of Ships with its headquarters at Mumbai.

**Type of operations:** There are mainly two types of ship operations - Liner and Tramps. Liner ships are those who play on advertised schedule as per pre declared time table and have fixed period of stay at every place of stay. They are supposed to be well manned and well maintained. Tramp operations are without any schedule or without pre decided programme. Wherever cargo is available they will go and many a times wait for a long till promised cargo arrives. There is no certainty of such ships reaching a particular port in a definite time. In other words, their operations are unreliable. In bad market they may cease to operate. They are said to be manned by not so efficient crew and as their income is not certain they also may not be well maintained as liner ships. Insurer give 15 years to tramp ships and 25 years to liner ships. If ships are older than this then they charge additional premium or may not grant insurance cover.

**Charter ships:** Ship/s may be owned by ship operators or they may take ship on charter i.e. hire and run it either on annual basis or on voyage basis. In case of charter ships, the important factors are the creditability of charterer. Charter ship may operate as liner or tramp. Many times importer of bulk cargo like cement or sugar may charter ship for one voyage.

All the above referred parameters are laid down in Institute Classification Clause (2001) which is attached to Open Policies/ covers or when the name of the ship is not known at the time of arranging for the cover. In such cases the underwriters may continue "Held Covered" provision, given in the clause or sometimes they may delete it also. Held Covered provision means if the ship does not comply with some of the aspects of the clause, then cover is still available but subject to notice to insurers and payment of additional premium if demanded by them. If Held Covered provision is deleted, than the ships which are not complying with the requirements are not covered.

**v) Carrier:** In all modes of transport, the carrier is also important as many frauds are taking place. Unscrupulous carriers either disappear with the cargo or because of bad handling deliver the cargo in damaged condition. The carrier's financial soundness is also important.

**vi) Transshipments:** Though transshipments are covered under policy, more transshipments increase the risk. Insurers are concerned about this and if likely transshipments are more than expected higher premium may be charged.

**vii) Transit places & Route:** The place of commencement of transit, the load port, route and final port/ place are very important as they affect the risk due to available infrastructure and condition thereof.

**viii) Sum Insured:** In case of large insurers this is not relevant factor as they have huge capacity to underwrite big risks, but for small insurers this is relevant factor as they have to rely heavily on reinsurance companies and so their rating and terms will depend upon their terms with re insurers.

**ix) Season:** Season during which cargo is carried is also important. In rainy season, the chances of water damage are more, whereas in summer, damage and losses due to fire increase. Season during full transit is important. According to the season, insurers also put additional conditions like in rainy season -cargo to be carried in closed truck or packing should be water proof, etc.

**x) Past loss experience of the insurers in particular commodity:** Insurers experience in insurance of particular commodity is also important. Some insurers who have suffered big losses under their policies for cotton do not insure this cargo.

**xi) The client:** For rating purpose who is the client that is the most important. For an insurance company, a good client is the one who gives good business in marine and non marine, claims less, whose moral integrity is good and whose handling of cargo etc is done by professionals. In insurance terms integrity of the client is called Moral hazard and handling of cargo and other related factors are called Morale hazard.

**xii) Type of cover opted by insured:** For wider cover like ICC( A) i.e All Risk premium rates are high whereas for covers like ICC (B)- medium and ICC (C )- basic are low. So is about type and number of add on cover.

**xiii) The Competition:** Presently, the competition amongst the insurers is the sole factor deciding rating and terms. But one should not be guided by the lower premium criteria only while deciding the insurance company. As we saw earlier, insurance works on principle of common fund and if fund is less, obviously insurers have lesser money to pay. So likelihood of the claims getting rejected are more. One has to pay a reasonable premium and select a good insurance company who has paid for big losses. Generally all companies pay small losses without any fuss, but the problem arises when a big loss occurs.

## Felicitation Dinner for Shri Mohit Shah

A dinner was held on November 18, 2013 at Hotel Intercontinental to felicitate Shri Mohit Shah on becoming ICA President.



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# Glimpses of ITMF Delegation's Visit to CAI on November 15, 2013



UPCOUNTRY SPOT RATES							(Rs./Qtl)					
Standard Descriptions with Basic Grade & Staple in Millimetres based on Upper Half Mean Length [ By law 66 (A) (a) (4) ]							Spot Rate (Upcountry) 2013-14 Crop NOVEMBER 2013					
Sr. No.	Growth	Grade Standard	Grade	Staple	Micronaire	Strength /GPT	11th	12th	13th	14th	15th	16th
1	P/H/R	ICS-101	Fine	Below 22mm	5.0 - 7.0	15	11585 (41200)	11698 (41600)	11698 (41600)	11698 (41600)	11642 (41400)	11642 (41400)
2	P/H/R	ICS-201	Fine	Below 22mm	5.0 - 7.0	15	11867 (42200)	11979 (42600)	11979 (42600)	11979 (42600)	11923 (42400)	11923 (42400)
3	GUJ	ICS-102	Fine	22mm	4.0 - 6.0	20	8042 (28600)	8042 (28600)	8042 (28600)	8042 (28600)	8042 (28600)	8042 (28600)
4	KAR	ICS-103	Fine	23mm	4.0 - 5.5	21	9280 (33000)	9280 (33000)	9280 (33000)	9280 (33000)	9280 (33000)	9280 (33000)
5	M/M	ICS-104	Fine	24mm	4.0 - 5.5	23	10404 (37000)	10404 (37000)	10404 (37000)	10404 (37000)	10404 (37000)	10404 (37000)
6	P/H/R	ICS-202	Fine	26mm	3.5 - 4.9	26	N.Q.	N.Q.	N.Q.	N.Q.	N.Q.	N.Q.
7	M/M/A	ICS-105	Fine	26mm	3.0 - 3.4	25	N.Q.	N.Q.	N.Q.	N.Q.	N.Q.	N.Q.
8	M/M/A	ICS-105	Fine	26mm	3.5 - 4.9	25	N.Q.	N.Q.	N.Q.	N.Q.	N.Q.	N.Q.
9	P/H/R	ICS-105	Fine	27mm	3.5 - 4.9	26	11332 (40300)	11417 (40600)	11389 (40500)	11276 (40100)	11248 (40000)	11389 (40500)
10	M/M/A	ICS-105	Fine	27mm	3.0 - 3.4	26	N.Q.	N.Q.	N.Q.	N.Q.	N.Q.	N.Q.
11	M/M/A	ICS-105	Fine	27mm	3.5 - 4.9	26	N.Q.	N.Q.	N.Q.	N.Q.	N.Q.	N.Q.
12	P/H/R	ICS-105	Fine	28mm	3.5 - 4.9	27	11557 (41100)	11642 (41400)	11614 (41300)	11501 (40900)	11473 (40800)	11023 (39200)
13	M/M/A	ICS-105	Fine	28mm	3.5 - 4.9	27	11248 (40000)	11304 (40200)	11248 (40000)	11192 (39800)	11107 (39500)	11051 (39300)
14	GUJ	ICS-105	Fine	28mm	3.5 - 4.9	27	11276 (40100)	11332 (40300)	11276 (40100)	11220 (39900)	11135 (39600)	11164 (39700)
15	M/M/ A/K	ICS-105	Fine	29mm	3.5 - 4.9	28	11389 (40500)	11445 (40700)	11389 (40500)	11332 (40300)	11248 (40000)	11220 (39900)
16	GUJ	ICS-105	Fine	29mm	3.5 - 4.9	28	11445 (40700)	11501 (40900)	11445 (40700)	11389 (40500)	11304 (40200)	11248 (40000)
17	M/M/A/K	ICS-105	Fine	30mm	3.5 - 4.9	29	11445 (40700)	11529 (41000)	11473 (40800)	11417 (40600)	11332 (40300)	11332 (40300)
18	M/M/A/K/T/O	ICS-105	Fine	31mm	3.5 - 4.9	30	11529 (41000)	11614 (41300)	11557 (41100)	11501 (40900)	11417 (40600)	11417 (40600)
19	K/A/ T/O	ICS-106	Fine	32mm	3.5 - 4.9	31	11642 (41400)	11698 (41600)	11642 (41400)	11585 (41200)	11501 (40900)	11417 (40600)
20	M(P)/K/T	ICS-107	Fine	34mm	3.0 - 3.8	33	15044 (53500)	15185 (54000)	15185 (54000)	15185 (54000)	15185 (54000)	15185 (54000)

(Note: Figures in bracket indicate prices in Rs./Candy) N.Q. = Not Quoted