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COVID-19 : Risk and Policy Implications for Automotive Industry



The Indian automotive industry was already going through a slowdown in 2019 and the current pandemic has added to their woes. The changes in emission norms, disruption in supply chain, low demand, idle capacities, high cost of production as well as the temporary shutdown of the plants has severely impacted automotive companies in India.

While some companies have already resumed operations with full or limited manpower, others are in the process of restarting their facilities.

In order to support our clients to understand the potential implications of the pandemic under various policies, we have attempted to capture various scenarios against different policies as well as action points against each.

The advisory is inclusive but not an exhaustive list of recommendations. While we have provided coverage positions in general, we would like to emphasise that insurers, underwriters would take a view based on policy level terms, conditions and warranties agreed upon.

PROPERTY RISK ISSUES



COVID-19 has caused several coverage challenges under Property and Business Interruption (BI) insurance policies:

Temporary Mandatory / Voluntary Shutdown of Plants

In view of the lockdown restrictions imposed by the government, several automotive companies have either mandatorily or voluntarily shutdown their facilities for a temporary period. It is advisable to inform the insurer on the present status of the risk and seek continuity of coverage confirmation. We suggest this measure of abundant precaution irrespective of the size of the risk.

Business Interruption (BI)

Property damage is the main trigger in most policies for a BI claim to be admissible unless a specific non-damage BI cover is in place.

The General Insurance Council (GIC) of India and the insurers' have expressed a view that:

"BI cover is not operative during the period of non-occupancy".

Some of the insurers have explicitly made it clear that if operations were to get affected due to lockdown, the insurer would not make good for such portion of BI loss.

However, if there is any loss due to insured peril (such as EQ, STFI, fire etc.) or by a peril not excluded by an all-risk policy causing physical damage to the property during the lockdown period leading to a BI loss, the claim will qualify. The same should be made good after adjusting for the period of lockdown.

In order to ensure absolute clarity and contract certainty, we recommend that you intimate your insurer and seek confirmation from them regarding their position on the matter.

Stocks at Job Workers' Premises

In case the policy has an extension towards temporary removal of stocks, we recommend informing the insurer about the details of the stock as well as its location to seek continuity of coverage confirmation.

Warranties

The property insurance policies could have the following specific warranties which are to be complied:

- Watch and ward provision.
- Maintenance and normal upkeep related provision; including those related to critical equipment to be maintained as per OEM's guidelines and regular overhauling.
- Scheduled maintenance or AMC related conditions.

There may be challenges in total compliance of some of the provisions under the current circumstances.

Hence, as a matter of abundant caution, we recommend informing your insurers on your current status of each of the insured premises and risk management systems present thereof.

Your Marsh relationship manager would assist you in drafting the necessary intimation to your insurer so that in the event of any doubt, your intimation may help the insurer to review your current state and advise you on coverage continuity.

MARINE CARGO RISK ISSUES



Change in Voyage

In the event of a situation requiring a change in voyage due to lockdown restrictions, we recommend that you intimate the change to your insurer and seek a confirmation of cover.

Termination of Contract of Affreightment short of Destination

We recommend that you intimate the insurer before termination of contract and seek a confirmation of cover.

Duration clause

- Cargo is stuck in transit
- Cargo is stuck at destination seaport, airport, railway siding
- Cargo has reached its destination but not unloaded

For all the above cases, if the policy is purchased by you, then we recommend that you intimate your insurer and seek an extension of cover under the duration clause.

However, if the policy has been purchased by your supplier, then we recommend that an extension of duration be taken from the supplier's insurance policy. If this isn't possible, then we recommend that a separate fire and burglary insurance policy be purchased from the local insurer to cover the cargo when it is lying at the port beyond the duration clause period. The tail end transit risk will have to be covered through a separate standalone marine policy.

Storage of Cargo at Customs / Bonded Warehouse

In view of the lockdown restrictions, there could be potential challenges in the movement of cargo thereby requiring storage at the customs / bonded warehouse (for import cargo). We recommend that you purchase a separate fire and burglary insurance policy to cover this storage risk.

Warranties

The marine cargo policies could include specific warranties which are to be complied. For instance, pre-dispatch surveys. However, in view of the current lockdown restrictions, there could be potential challenges to comply to these provisions. We recommend that you should inform your insurer and explain the reasons why fulfilment of these warranties is beyond your control and seek a confirmation of cover. We also advise that cover should be opted from the seller's warehouse up to your warehouse.

PROJECT RISK ISSUES



Due to the ongoing lockdown restrictions, it is likely that projects would have been stalled midway thereby resulting in a cessation of work. The following clauses/provisions require attention in the current scenario:

"The company will not indemnify the insured in respect of loss, damage or liability directly or indirectly caused by or arising out of or aggravated by - cessation of work whether total or partial."

The GIC of India and the insurers' view is as follows:

Cover may be extended subject to:

- All risk management systems being in place.

For example:

1. Security systems
2. Fire systems
3. Power to be shut down in case of storage facilities
4. Burglary protection systems

5. Flood protections measures
6. Fences and video control systems
7. Regular inspection service etc

- An up to date progress work report to be provided.

Cover does not apply for ALOP / DSU. Any cover does not prolong original policy period.

As the communication released by the insurers is broader in their scope, we would strongly advise you, as a matter of abundant precaution, to intimate your lead insurer and co-insurers on your current status of the project work and risk management systems present thereof.

Your Marsh relationship manager would assist you in drafting a necessary intimation to your insurer so that in the event of any doubt, it may help the insurer to review your current state and advise you on coverage continuity.

As a hygiene check, we also suggest to review your current state of site risk management with reference to practices like security, fire protection as well as other loss mitigation precautions.

LIABILITY RISK ISSUES



The potential claim scenarios in liability can be broadly classified as direct claims and indirect claims.

Direct Claims: The claims lodged by the affected parties against the insured. Direct claims would include direct contracting / being directly infected by COVID-19 and/or sustained a mental anguish/emotional distress on account of COVID-19 due to the alleged wrongful acts of insured. For instance, claims arising out of wrongful employment practices would classify as direct claims.

Indirect Claims: The claims lodged by the affected parties against the insured, not due to direct contracting of COVID-19, but have occurred due to institutional/governmental actions, distressed economic climate and functioning remotely under stressful circumstances due to COVID-19.

Insurers as well as reinsurers have incorporated COVID-19/ infectious diseases exclusions under various liability policies

which could potentially negate a cover which was otherwise admissible under normal circumstances.

As a matter of abundant precaution, we recommend informing on these circumstances to your insurer and seek their advice on coverage.

Your Marsh relationship manager would assist you in drafting a necessary intimation to your insurer so that in the event of any doubt, your intimation may help the insurer to review your current state and advise you on coverage confirmation.

TRADE CREDIT



The pandemic has led to financial stress in the automotive industry and there are risks associated with the non-payment of accounts receivables.

As a matter of abundant caution, we recommend that you maintain a close touch with your buyer's financial health. In case you are informed or are aware of any adverse information about your buyers, it is advisable that you intimate your insurer and seek confirmation of their position.

RISK MANAGEMENT



Idle facilities

In view of the lockdown restrictions imposed by the government, companies across industry sectors were forced to shut their

facilities temporarily. While this would have reduced operating costs for the automotive manufacturers, it is important to note that the equipment is exposed to breakdown risks, apart from fire and arson during this period. Preventive steps to avoid such losses are very critical. These steps include maintenance of electrical distribution systems, heating systems for equipment if required in addition to fire protection systems and optimal functioning of site security systems. Our Marsh Risk Consulting Practice would be able to support you with detailed insights & measures for mitigating fire and equipment breakdown hazards in idle facilities.

Logistics

In view of the temporary shutdown of plants, there are increased risks associated with cargo in transit as well as prolonged storage of stocks in facilities as well as in transit. Preventive steps during movement, handling, and storage of these goods, are advisable to avoid subsequent delays and disruption.

Once operations resume, adequate precautions will have to be taken towards:

- Inspection of the premises
- Storage area
- Handling equipment
- Packaging
- Stocks of vehicles and components

Supply Chain

Disruption in the supply chain has severely impacted the automotive industry. Automotive companies carry inventory of limited period (usually one to four weeks). In view of the crisis at the sources of supply as well as the prolonged lockdown restrictions in India, the impact of the disruption is expected to be felt longer than expected. Automotive companies will have to remap and re-build their supply chain model to become more resilient in the future. This would involve understanding the plans of critical suppliers, identification of alternative suppliers as a backup, re-work on the critical component stocking strategies, non-availability of transportation for dispatch of material and finished goods so as to ensure that lessons learned from the ongoing crisis would act as a measure of precaution for the future.

Safe Start of Operation

The objective of a safe start of operation is to ensure that all appropriate areas of concern have been addressed satisfactorily including conditioning monitoring during trial run and that the facility is safe to start. Since automotive companies have resumed operations, it is recommended that all necessary steps for a safe start-up are taken to mitigate financial losses as well as damage to human life and health.

Workforce Safety

With automotive companies resuming operations, it is very

important to take necessary precautions and steps to ensure health and safety of the employees at the workplace. We recommend the following measures in this direction:

- Entrance health checks
- Physical distancing measures
- Ensure 24 -hour sanitization of the factory premises
- Provision of hand sanitisers and masks for all employees
- COVID-19 health and prevention staff training
- Quarantine measures for supply and storage of goods
- Presence of skilled workers

Business Continuity Planning (BCP)

The business continuity plans of numerous automotive companies have been put to test during the ongoing pandemic. In some cases, it was noticed that inadequate testing of the BCP led to newer challenges instead of serving its purpose.

Our Marsh Risk Consulting Practice would be able to support you with detailed insights, measures and solutions for all the risk management activities listed above.

CLAIMS MANAGEMENT



In view of the constraints due to the ongoing pandemic, claims management through the traditional method of physical site inspections and documents is facing challenges. Insurers and surveyors are gradually adapting to the idea of processing files based on digital documents and engaging into discussions virtually. There are unique ways that can be adopted by clients to fulfil the requirements for both, ongoing claims as well as new claims reported during the lockdown. We recommend you to timely intimate any claims or change of circumstances to your insurer.



MARSH INDIA AUTOMOTIVE INDUSTRY TEAM

The Marsh India Automotive Industry Team has been setup to support our clients and colleagues with industry specific knowledge, experience and expertise to structure solutions that address the automotive industry's insurance and risk management requirements in the most optimum way.

For further information, please contact your local marsh representative or visit our website www.marsh.co.in

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