

TOPIC
(ROLE OF CHARTERED ACCOUNTANTS IN INSURANCE
CLAIM SETTLEMENT)

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ROLE OF CHARTERED ACCOUNTANTS AS SURVEYORS IN CLAIM SETTLEMENT

A Chartered Accountant can play a vital role for settling the claims under various policies such as

- **Standard Fire & Special Perils Policy**
- **Miscellaneous Policy**
- **Marine Policy**
- **Loss of Profit Policy**

Standard Fire & Special Perils Policy

A Chartered Accountant can use his expertise knowledge for quantification, valuation and assessment of loss by physical verification, verifications of books and records, analysis of various financial data and past performances, determination of the most appropriate costs and identification of the cost components etc. and then arrive at a figure of loss assessment.

- **Knowledge of CA is used compulsorily in stock losses**
- **For assessing Plant & Machinery, Building & FFF, they take the help of another technical experts ie. Engineers/ Architects**
- **Engineers/ Architects helps the CA in identifying the cause and extent of affect of loss in the item damaged.**
- **Generally insurance companies appoints CA's in most of the stock fire losses, but also appoint CA's for other losses who are having experience and exposure to such losses.**

Miscellaneous Policy

The Chartered Accountant can utilize his knowledge and is required by insurance companies to assess the losses under the following policies:

- **Burglary Policy**
 - **Assessment can be done by the help of books and records vis a vis physical**

- **Bankers Indemnity Insurance Policy**

The policy covers mainly four sections i.e. losses on premises, in transit, forgery and alterations, dishonesty.

The depth knowledge of banking system and procedures, books and records maintained at the bank by the CA gathered during education and in practice while auditing the banks can help in ascertaining the correct quantum of losses and the admissibility under the policy.

- **Credit Risk Insurance Policy**

The objective of the credit risk insurance policy is to indemnify the insured against the default in payments by any of their agents, brokers, who have been appointed to do the business on their behalf.

- Such policies are taken by Indian Airlines, IAATA etc. where agents default in making payments to the airlines directly or through IAATA

- Knowledge of systems and records of agents and airlines or IAATA helps in ascertaining the liability

- **Stock Brokers Policy**

This policy covers the risk of stock brokers against infidelity of the employees, computer crime and error and omission, fraud in the depository accounts.

- The knowledge of system of operation & books, records and documentation of NSE/BSE and knowledge of SEBI rules and regulations helps CA's in assessing such losses with ease.

- **Credit Policy**

It is taken to cover the risk of payments from various debtors. Such policies are given to high networth corporates and individuals after analyzing and studying their balance sheets and financial details for the past few years.

- CA can help in assessing losses under such policies, because of their edge over general / Engineer surveyor due to their expertise knowledge in financial analyses and records.
- **Jewellers Block Policy**

Such policies covers jewellery stocks, cash of various jewellers in the premises, in transit, at exhibitions.
- The losses under such policies is primarily assessed on the basis of various stock ledgers, books and records, purchase and sale bills and verification and investigations to know the authenticity of such stocks available before the loss can be done by CA based on their knowledge, experience and qualification.
- **Product liability policy etc.**

Such policies covers the liability to the insured on account of any technical defects in the product causing loss to the third parties. The losses under such policies can be compensated either directly or through the affected party's underwriters.
- CA's are appointed to assess the liabilities under such policies since they have in depth knowledge of the systems, process of various kind of industries, gathered during their training and practice.
- Their ability to identify physically vis a vis records of various kind of product costing and material damage losses makes CA one step ahead of other surveyors.

MARINE POLICIES.

Marine policies are valued policies and experience and knowledge of CA of various kind of products, Industries, quantification/ costing vis a vis books and records and indepth knowledge of various systems and controls helps in conducting in depth investigations and assessments of losses under the marine policies.

- Correlating physical losses with the records with great expertise helps in assessing such losses and proving the insurable interest.

LOSS OF PROFIT (LOP) POLICIES.

This is the core area where expert knowledge and experience of a Chartered Accountant is required to assess the loss of profit due to business interruption.

- **IRDA has specifically recommended such losses to be assessed by a CA.**
- **Computation of standard turn over, annual turn over, indemnity period, standing charges, net profit is the key requirements for assessing such losses which is the expert area of CA only.**

A Chartered Accountant can play a vital role in the claim settlement from two different angles:

- i) Angle one : is from Insurers/insured's angle i.e. chartered accountant can act as surveyors**
- ii) Angle Two: from insured's i.e. Chartered Accountant can act as consultant or a guide to the insured in completing their formalities/ documents.**

The above two roles are separate and independent and can not be mixed up, so principal of "independence" has to be adhered to

ANGLE-I (ROLE AS SURVEYORS)

Who is a surveyor & How a CA can become a surveyor

- Surveyor is a person who assess the losses under the policy of insurance**
- To become a surveyor, CA has to undergo training for one year under Category A or B surveyor. After completion of the training, they have to pass the surveyors examination for categorization under IRDA regulations and after that he get the license and can work as a independent surveyor.**

Role of a surveyor

His role is to assess the loss and submit a detailed report to the underwriters covering various aspects required under a policy of insurance for settlement of the claim by quantification & calculation of loss. For that a proper procedure is followed as under:

I. METHODOLOGY/PROCEDURE OF CONDUCTING INSURANCE LOSS ASSESSMENTS/SURVEY

WHAT IS EXPECTED OF THE INSURED IN THE EVENT OF A CLAIM UNDER THE POLICY.

In the event of a loss the insured is expected to do the following:

- a. To intimate to the insurer about the loss immediately, submit full statement in writing of the claim providing the nature and extent of loss and also estimate of loss.
- b. To extend all co-operation to the insurer and the surveyor appointed for the successful completion of the survey work and for proper assessment of the loss.
- c. Produce all such record and proof as may be required by the insurer or the surveyor for arriving at the extent of loss and liability under policy.

Keep the damaged property under the safe custody until advised of by the surveyor for disposal.

C. SURVEY RELATED STEPS TO BE TAKEN

As soon as telephonic/E-mail communication for appointing a surveyors is received from the Insurers:

Survey procedure and aspects will be taken into consideration during the loss assessment by the surveyor:

- *. To obtain the copy of Policy of Insurance and verify such contents as under:
 1. Period of Policy & type of Policy.
 2. Name of Insured/Hypothecation; if any.
 3. Contents of coverage with their Sum Insured.
 4. Special clauses, like:
 - I. Debris Clause/ Architect Surveyor & Consulting Engg. Clause
 - II. Designation of Property Clause.
 - III. Whether Policy is on Declaration or not.
 - IV. First loss basis or not.
 - V. Re-instatement Clause.
 - VI. Clause of Construction
 - VII. Agreed Bank Clause
 5. Floater Policy or not.

- * To reach the affected site at the earliest,
- * Record the statement of witnesses
- * Take photograph/ Arrange videography
- * Segregate the affected/ safe stocks and conduct the physical inventory
- * Investigate about the cause of loss, whether within the scope of the policy.
- * Any breach of warranty/ condition, and if so, whether the breach is material to the loss or not material to the loss.
- * Control the loss by obtaining basic documents,
- * To take necessary steps to minimize the loss i.e. shifting of safe material to another safe place, segregation of stocks, disposal of salvage,
- * Obtain the claim form with detailed statement of loss

QUANTUM, ASSESSMENT & CALCULATION

Quantum means to quantify the loss

Quantification can be either of :

- 1) Quantity/ In quantitative terms
- 2) Valuation/ In value terms

The loss calculation & assessment can only be quantified with quantity and value- which can be achieved as under:

- a) By physical verification
- b) By Books & Records
- c) By Additional Records

Physical Verification Method.

After reaching the site Surveyors quantify the loss physically either due to fire or flood etc. Three type of stocks could be physically found:

Safe Stocks	Partially Damaged Stocks	Badly damaged Stocks
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Here surveyors expertise or knowledge of type of product is required visually to quantify the stocks in trade.

To correctly & scientifically segregate the stocks according to the condition.

Loss minimization can be achieved. If the surveyor is alert & under writers representative also makes one joint visit to the site either at the time of segregation or after this, but before quantification by surveyors.

Generally insured may have difference of opinion at their point. So surveyors expertise is required to mutually & reasonably identify or quantify physically.

Problem is not there till the time stocks are either safe available or fully or is partly identifiable condition, but where the stocks are physically fully burnt and turned into ashes or debris not identifiable. This is the most tricky or difficult condition for the surveyor to quantify the stocks.

METHODS TO PHYSICALLY QUANTIFY.

A. Partially Damaged or Identifiable Stocks :

Surveyors instructs the insured during their first visit to site to segregate the stocks physically according to the condition and prepare a list of items condition wise and surveyor can jointly inspect the stock with regard to such list and make alteration or change practically during their inspection.

B. Ash or Fully Burnt (not identifiable) Stocks

This is a problematic area, where great caution is required, where by disputes are quite likely to occur, since ash contents may have three factors:

- 1) Stocks Ash
- 2) Building Debris
- 3) Water Contents

Surveyor expertise or knowledge is required for this quantification of stocks before loss position.

- i) Weighment method is the most important exercise needs to be conducted first.

- ii) Deciding the % of water and building debris. This is purely on visual inspection depends on case to case on circumstances of the loss.

This weighing must be done by the insured in presence of surveyors representative on Dharam Kanta etc. and receipts must be obtained. In Panipat, where shoddy yarn or cotton is burnt in various units. This method is generally adopted.

- iii) Burning Test:

This means some sample stocks either cotton, textile, chemicals (safe) must be taken in specific quantity and burn in order to know the quantity of stocks turned into ashes due to fire before loss position.

This is not exact method, but is quite near to exact or cross check the calculations/ quantifications on the basis of books and records.

Since it is a saying "knowing is nothing, but seeing is believing"

IMPORTANT OBSERVATIONS.

1. Some times the Books are destroyed or stocks records are not properly maintained, in such cases physical verification jointly conducted is one of the most important methods to assess or quantify the loss.

Inventory of safe & damaged stocks can give you the loss and value at risk also. But there is an option to advice the insured to rebuilt their records from the information obtained from various sources such as sales tax, income tax, auditors, banks, various debtors and creditors.

2. Joint inventory sheets duly signed by the insured are most important documentary evidence for physical verification method quantification.
3. Example of cold storage, where chambers of imported meat from all over the world were burnt. The stocks records were in complete and they had consolidated stock records although the insured had separate locations. Only one location was affected due to fire, rest all were

safe. So it was very difficult to correlate the physical stocks with stocks records. The assessment was finally made on the basis of joint physical verification only and it was physically identified with the purchase bills with regard to its item no. & rates.

4. Identification physically vs records

Physically verified stocks must be identified with respect to records such as Serial No., Style No., pallet No. etc. In case of food items, physical verification helps to a great extent in identifying expired or expiring stocks. For example in case of cold storage loss, the meat items were having their expiry dates and joint physical inventory of segregated and identified all the expired or expiring stocks and surveyor could identify stock as under:

- a) Fresh Stocks
- b) Expiry in next 3 months
- c) Expiry in 3 to 6 months
- d) Expiry in 6 to 1 year or more
- e) Expired Stocks

The above said segregation reduced the loss to a great extent since deduction factors could be applied to stocks based on their age & usage demand.

5. In another unit of garment exports, the physical verification of garments based on its style no. could help in identifying the same with its purchase order no. and accordingly the cost could be computed based on **selling price** given in the order.

In the same, case some stocks were smoke and water affected. We asked the insured to done the perking treatment on these stocks and after such process these garments could be exported after giving some minor discounts, which also helps to minimize the loss or getting more salvage value.

6. Ash/ Debris Disposal

The ashes and debris is generated due to massive fire. It is the foremost enquiry of the insured as to when it would be cleared off?. Number of times this question is faced by the surveyor as well as insurers. This part

of the assessment/ survey is also very important for quantification of loss. So surveyors have to take immediate steps (when segregation is completed) to allow the insured for clearing off the debris/ ash. This clearing process helps in doing the weightment simultaneously for quantification and debris count of the identifiable stocks can also quantify the loss.

Conversion Example

During the course of our survey we also noticed the uncountable stocks which turned into badly burnt stocks. The weightment of badly burnt ashes of garments was conducted, which was found to be 574.6 kg since at the time of fire few of the stocks had been badly burnt.

We conducted the weightment of safe stocks after got wet and found the water contents to be around 50% and these weights of water have been deducted from the badly burnt stocks, which included the contents of water also. It may be worthwhile noted that whenever we visited the site to conduct the survey one fire tender was again pressed into operation since the fire again started smouldering so it was controlled after putting a lot of water on the burning stocks. This proves that the stocks weighted on the same day also included the contents of water. Weight of badly burnt garments after deduction of water would be as under:

Particulars	Weight of total ashes	Water contents @50 %	Net weight of ashes
Garments	574.6 kg	287.3kg	287.3 kg

Thus the weight of badly burnt stocks after deduction of water comes to **287.3 kg** and these weights have been considered for conversion of badly burnt stocks into garments.

For this purpose, we had conducted the weightment of three safe garments, which found to be 522 grams and the same was then got burnt in that condition in which we had noticed the badly burnt garments and found the weight of ashes of that safe garments to be 278 grams. Total physical weight of ashes of garments has now been divided by the weight

of ashes of safe stocks and multiplied by no. of safe pieces to arrive at the qty of garments during the fire.

The computation of qty of garments through mathematical equation is given as under:

Total qty of damaged and burnt garments= {(No. of pieces of safe garments/Weight of ashes after converted the safe pieces)*total ashes of burnt garments} = $(3/278)*287300 = 3100$ garments

These total qty of damaged and burnt garments has now been multiplied with the weighted average rates of garments since the same had been mixed up and the rates against particular garments could not be identified. Therefore in this situation weighted average rates are reasonable to value the uncountable damaged stocks, which had been turned into ashes or badly burnt.

LOSS ASSESSMENT BASED ON VOLUMETRIC METHOD

This is another method to cross check the quantum of stock stacked or kept inside the godown. There are signs on the side wall & roof which depicts the height and length of the stocks kept inside the godown before fire. The total available stackable area and actual sign of fire and its height and length can give some clue or information on the quantum of stocks kept inside the godown. This exercise is useful for items of stocks such as Cotton bales, yarn, Textiles, Sugar, Chemicals etc., which can be turned into ashes or can be fully burnt also.

Based on my practical experience, I have found this method to be of Cross Check only vis a vis other methodology such as Books, record etc.

PHYSICAL VERIFICATION METHOD (OUR IMPORTANT OBSERVATIONS) With regard to Raw material/ WIP / Semi Finished/ Finished good

1. Raw Materials: Physical stocks found can be compared to records.

2. WIP/ Semi Finished Stocks: Physical stock found in damaged condition can not be compared in 90% cases with records on item to item basis, since it is practically not possible to record each & every steps in stock records, so WIP can be computed on over all basis from books and records and then compared with the physically found damaged and safe WIP stocks. This can quantify the loss of WIP & Semi Finished goods.

We can give a very good example of Bulk Drug Division, where there is a serious fire and all the batch sheets are burnt. The Batch Register and Standard formats of batch Sheets are very well available. These two documents can help by giving batch nos running before fire in Bulk Drug Division and Standard quantity can be known. So this way by working backward, the quantities required can be computed and compared to actual issue from the Raw Material Stock Register. This can very well help in computing a loss of stocks of bulk drug Division.

VALUATION OF PHYSICALLY VERIFIED STOCKS

After the quantification in quantity terms, the loss has to be computed in money term. The stocks whether safe or damaged physically verified has to be multiplied with regard to its rate/ value to be calculated as under:

A) RAW MATERIALS

Raw materials are valued as per purchase rates. To value the materials stocks either we follow the weighted average rates or FIFO basis as per AS-2(issued by the Institute of Chartered Accountants of India). Weighted Average Rates are considered in case of fluctuations in rates. FIFO method indicates the rates around the loss date since the materials purchased by the insured on earlier dates, had already been issued, and the materials lying in the factory at the time of fire relates to current purchases around the loss date. FIFO method is followed, when the unit has applied in valuation of stocks FIFO basis in the factory.

Moreover there could be old, slow moving and dead stocks, which is valued at Realisable value basis.

VALUATION METHODS.

1. FIFO – FIRST IN FIRST OUT METHOD

The quantity of stocks available as per records whether safe or damaged should be considered backward with respect to its value also from the purchase bills and average rate can be computed and applied to safe and damaged stocks.

2. Weighted Average Method.

The weighted average rate is computed by Dividing the total purchases with its quantity for the annual period. This takes care of fluctuation affect if any.

3. Other expenses additions.

When a raw material is purchased, the insured incurs other expenses apart from the basic purchase price i.e.

1)Freight Inwards, 2) Loading/Unloading Expenses 3)Other Labour if any, 4) Brokerage, 5) Commission etc.

The basic price computed as per FIFO or weighted average methods is added with per unit cost of other expenses till final destination and the final rate is computed.

B. WORK IN PROGRESS

To value the semi-finished stocks, we consider the cost upto degree of completion i.e. raw materials cost plus expenditure incurred up to stage of completion. Mean to say, only relevant cost is taken into consideration while valuing the damaged stocks.

WIP can also be valued by working backward method starting from selling price less gross profit loss un-incurred expenses. So, only relevant costs are taken into consideration, while valuing the stocks.

FINISHED GOODS

There are two basis of valuation

- A) Direct Costing Method
- B) Indirect Costing Method (Selling Price less gross profit)

A) DIRECT COSTING METHOD

Under Direct Costing Method, the cost of each of the product damaged is ascertained. To this, we take the raw materials cost and further manufacturing expenses are added to the raw materials cost to arrive at cost of product upto relevant stage i.e. final stage.

B) INDIRECT COSTING METHOD

Under Indirect Costing Method, we start from selling price of the product as per sales bills and from this, we deduct the gross profit ratio (being already discussed) to arrive at cost of the product.

Conclusion: cost as per Direct Costing Method is compared with cost as per indirect method and lower of two, is considered for valuation of stocks.

VALUATION IN STANDARD FIRE POLICY.

In case of Standard Fire Policy, the insured is indemnified to basic cost of raw material plus other direct manufacturing expenses incurred on the product.

There is a dispute on allowing depreciation & interest on loan.

In our view, depreciation on plant & machinery and factory building can be added to the product cost apart from other Direct Expenses. But interest should not be allowed as cost.

Formula for valuation is : Raw Material + Direct Cost incurred till such stage + Depreciation etc. = Cost of Product.

DECLARATION POLICY

In case of declaration policy, the insured is declaring the stocks every month and the valuation of stocks is done as under:

Raw Material Basic Cost+ Direct Cost+ Indirect Cost = Cost of Product.

All expenses incurred are allowed in case of Fire Declaration Policy. But we have to see the basis of rates and declaration and valuation should go beyond such declared rates.

D. VERIFICATION OF BOOKS AND RECORDS

a. Stocks

- Copy of Police Report,
- Copy of Fire Report
- News Paper cuttings if any
- Verification of books/records (Ledger A/cs, Sales & Purchase Bills Stock Records etc).
- Analysis of financial transactions.
- Analysis of past performance.
- Involves audit & investigation of books.
- Excise records, returns.
- Cenvat/Excise duty/Custom Duty. (**Note -I**)
- Profitability trend.
- Determination of cost & cost components.
- Sale tax laws application.
- Accounting standards application.
- Depreciation element for stocks & for Fixed Assets.
- Interest cost role.
- Valuation of Stock.
- Catching the inflated claims because of financial analysis.
- Stock statement sent to bank,
- Sales Tax returns
- Dead Stock & Slow moving stock factor
- Comparison of weightment of ashes.

b) Plant & Machinery

- Obtain the capitalization details such as Purchase Bills and Asset register etc.
- Current market value quotations of same type and make machines as on loss date,
- Repair/replacement estimates,
- Apply appropriate depreciation according to the nature of machine and normal life of machinery,

- If policy is on Reinstatement basis, physical as well as financial reinstatement to be done.
- c) **Building**
 - Layout Plan of the affected site
 - Nature of construction
 - Year of construction and capitalization in books
 - Apply appropriate depreciation based on the type of construction and year of construction.

NOTE- I

IMPLICATION OF EXCISE/CENVAT

- Intimation to be given to Excise Department within 24 hours of happening of loss.

- **FINISHED GOODS**

If damaged/lost within/from the factory premises, the Excise Duty due on them is remitted under the express provisions of the Cenvat Credit Rule 21 (read with Section 50 Central Excise Act).

If damaged/lost outside the factory premises, the Excise duty would already have been paid and there is no case of any reversal or remission.

Duty amount to be allowed by the Insurers as a part of the claim only in the second instance and there are supporting duty paid invoices for such goods.

Excise on RM → If cenvat Cr. Availed then insurance co is liable only if reversed or paid.

- **RAW MATERIAL/INPUTS**

If damaged/lost and Cenvat Credit has already been availed, the cenvat availed is then required to be reversed or an equal amount is to be deposited in cash with the Excise authorities. The idea behind this is should not be a loss of Revenue to the Govt. once the goods (or raw material) are produced and sold.

The above condition is also applicable to the inputs portion of the used in the finished goods or WIP damaged.

Duty amount to be allowed by the Insurers as a part of the claim only if proof of reversal submitted by the claimant and such reversal has also been declared to the Excise Authorities.

- **CAPITAL GOODS**

The duty paid on Capital Goods damaged may be considered to the extent its utilized credit has not been availed previously. The reason behind it that manufacturer has already paid duty in full but will not be able to take its benefit and so it's a loss to Insured which he can claim from Insurers.

Any unutilized portion of duty paid would be allowed as loss.

However No duty is to be considered while allowed the new replacement asset in lieu of the damaged asset, since Cenvat paid on replacement would be available.

Remission of Duty in case of theft is not allowed since goods are available for consumption elsewhere in the country and moreover only unavoidable accidents are covered for remission i.e. only fire of flood covers.

IMPLICATION OF CUSTOM DUTY

Intimation to be given to Custom Department within 24 hours of happening of loss.

- **100% EXPORT ORIENTED UNITS/UNITS IN FREE TRADE ZONES & EXPORT PROCESSING ZONES**

Allowed to import Raw Material, Capital Goods, etc. without payment of duty since intended to be used for export of goods or services.

If damaged before use for the purpose of intended production of goods or services, Custom Department normally raises demand for Custom Duty waived at the time of import (Notification No. 52 dt. 31.03.03 read with Section 25 (I) of Custom Act).

Example : Sapient Ltd. (Imported Chairs Loss)

Cost+ Basic Custom Duty+ CVD+ Additional duty in lieu of Excise)

- **OTHER UNITS (OTHER THAN 100% EOU)**

Basic Custom Duty is to be considered on the damaged items while assessing the loss.

However additional duty leviable U/S 3 of Customs Act is to be treated in the similar way as Cenvat Duty.

- If the goods are destroyed in the course of import to country before clearance for home consumption, remission of Custom Duty U/S 23 of Customs Act is there. The reason behind is since not received in territorial way in India, hence duty is remitted/wowed.

IMPLICATION OF VAT

- VAT paid on purchase of inputs is to be considered while assessing the loss of inputs, since its credit could only be taken upon sale of such goods. Thus, it is a cost since goods could not be sold and hence no credit availed

VAT not to be considered while assessing the loss of Capital goods in use since the VAT credit must have been availed.

IMPLICATION OF SALE TAX

- Sale Tax paid on purchase of items damaged is to be considered while assessing the loss of inputs.

(This is our personal opinion based on interpretation of law vs insurance.)

SALVAGING PROCESS.

The physical verification of damages stocks also helps condition & salvage wise quantification. So that based on condition such as water affected, smoke affected, partially burnt, the salvage recovery could be made.

This process again helps in recovery of salvage property and quantifying the loss. The salvage can be disposed off in the following manner:

1. By getting 3 quotations and insured's own offer where salvage value is less than 2 Lacs.

2. Where salvage value is more than 2 Lacs, tendering process as per CVC guide Lines has to be followed by the insured in coordination with Surveyor in presence of insurers. The proceedings is as under:
 - a. The insured has to dispose off the salvage under supervision of the surveyor.
 - b. Tenders have to be invited by giving advertisement in two national dailies (newspapers) & two local dailies.
 - c. Draft of such advertisement and tender form will be provided by the surveyor and subsequently after approval the tender forms would be sold by the insured at site & surveyors representative at Delhi.
 - d. After due correction of public advertisement and tender form by the insured, the acceptance of the surveyor would also being obtained subsequently and the advertisement would be published.
 - e. The earnest money amounts so decided in the tender form will be collected and retained by the insured till the time of disposal of salvage and it would be settled against the total amount realized. The earnest money of the unsuccessful bidders would be refunded immediately after the tender within seven days as maximum.
 - f. The bids would be received at the insured's site or surveyors office and the same shall be opened on a pre-fixed date in presence of surveyor and representative of the Insurance Company & the insured as well as concerned parties at decided place.
 - g. The cost related to such salvage disposal such as advertisement expenses before disposal and any other salvaging expenses would be incurred by the insured and would be reduced from salvage realized.
 - h. This disposal of salvage will be carried on as per norms and the terms and conditions of the Tender would be governed by the Tender Form as per insurance guide lines given by CVC.

DIFFICULTIES IN TENDERING PROCESS.

- a) Brand/ Reputation loss is the worry of the insured.

For example due to floods, there was a loss of stocks of shoes of a reputed brand shoe company. The loss was around 15 Crores. The insured resisted to go through the tendering process, due to worry of misuse of their brand name and they strongly took their stand to destroy the water affected shoes. After a lot of discussion with the insured as well as insurers finally it was decided to remove all the brand logos from the affected shoes and thereafter the tendering process was conducted and fetch a good salvage value.

- b) Long Procedure, Involves expenditure

The tendering process is a long procedure i.e. given instructions to insured, advertisement in news papers, inspection of material by various bidders, opening of tenders and payment and final removal. It will take minimum 3 to 4 weeks. Which causes expenditure such a advertisement in news papers and coordination with various buyers etc. Moreover these long process also caused some deterioration salvage value.

For example in 2006 floods at Surat, there was a loss of around 1.50 Crores to a fabric trading company. The stocks was kept at the basement as well as the ground floor, which was submerged with water for more than 48 hours. A lot of slush's and other foreign material was contaminated with the fabrics. According to our instructions, the insured had put water on the stocks and cleaned the premises whatever possible according to that situation. Thereafter we conducted the physical inventory and then asked the insured to go through tendering process. Subsequently the insured had published the advertisement in news papers. However due to the contamination of slush and other foreign material the stocks were badly damaged day by day and after 12-15 days, the stocks badly damaged and the strength of fabric was lost, discoloured and fungus was originated, such situation may affect the better salvage value.

NOW THE LOSS CAN BE FINALLY ASSESSED AS UNDER

1. By Trading Account Method
2. By Stock Register Method
3. By Bank Stock Statement Methods
4. By Physical verification Method

The Loss is assessed

Gross Loss (-) Depreciation/ Dead Stocks (-) Salvage (-) Under Insurance (-) Excess Clause= Net Loss Payable

MARINE CLAIMS

1. Role of surveyor in loss assessment.

- To see the proximate cause of loss
- To see cause of loss vis- a –vis coverage under policy
- To assess the amount of loss payable under the policy

Coverage would depend upon terms & conditions of the policy i.e. clauses attached and provisions of marine insurance act 1963.

Principles of Insurance of marine has to be kept in mind by the surveyor in loss assessment:

- Principles of :
 - i. UT most good faith
 - ii. Indemnity
 - iii. Representation & warranties
 - iv. Insurable interest
 - v. Proximate cause

2. TYPE OF LOSSES IN MARINE

1. Shortage loss – due to theft or transit loss.
2. Loss due to accident (material damage)
 - Due to fire.
 - Due to water, cyclone, floods etc.
 - Due to vehicle accident.

2.1 SHORTAGE LOSSES (ROLE OF SURVEYOR)

1. Reason of shortage to determine.
2. FIR lodged of accident /theft.

3. To investigate the reasons of shortage.
4. To exclude normal transit loss of any.
5. To carefully study the documents such as invoice & other G. R/ R. R etc. and ensure their gauntly.
6. To verify the facts from witness/incidents.
7. Shortage certificate by carries, part trust etc.
8. Notice to loss, shortage.
9. Estimate the loss as per qty, rate, cost etc with evidences.

2.2 LOSS DUE TO ACCIDENT (ROLE OF SURVEYOR)

1. Copy of FIR of accident on road.
2. If floods rain then proof in shape of newspaper entry, metrological report.
3. If fire loss then FIR report.
4. A & K for documents such as invoice, packing list, B/L, B/E, payment proof such as L.C.
5. Verify G. R/ R. R/ Airway bill/ B/L etc and its
6. Identify the with identification numbers.
7. Segregate the consignment as per condition, full, partially, water affected.
8. Quantity the loss condition wise.
9. Take offer for salvage for salvageable goods & determine salvage either himself , quotation, tender process
10. To value the loss as per basis of insurance i.e. CIF or C&F or FOB Basis.
11. To see the claim lodged
12. To obtain certificate of shortage

3.0 HOW TO CONDUCT THE SURVEY

On receipt of intimation the surveyor has to obtain the details of loss & location & policy.

To visit the site as soon as possible (prompt action to avoid increase in loss) e.g. Bacteria, Fungus loss could increase due to delay.

To discuss with insured at site,

To arrange for Photographs / Videography.

To inspect the subject matter under loss at discharge of Cargo /Overseas Cargo

Stocks

Machines etc.

Equipments etc.

- **STOCKS**

- To conduct the inventory of damaged stocks & segregate condition wise at warehouse /discharge time.
- To note the identification number of items, so identify/ differentiate.
- To determine the extent of damages.

TOTAL

PARTIAL

Fire, Water heat affected to determine the salvage, for example CPT, News Print, Auto Parts etc.

- To consider it as total loss basis if segregation of each item is not possible and salvage value could determined.
- To call for various document, evident related to subject matter/ loss item and examine then visa-vis the physically inspected item of loss.

In order to determine the following.

1. Who is consignor.
2. Who is consignee.
3. Name of insurers.
4. Policy No., period of Policy, Transit sum insured, basis of coverage and clauses ABC.
5. Invoice No. dt., & packing list no's.
6. To know the date of receipt of consignment at warehouse/destination.
7. To know the date of loss.
8. To see the type of packing.
9. To know the cause of loss.
10. G. R. / L. R./ R. R details.
11. To see claim against carries has been made in time prescribed under the respective acts.
12. Extent & type of loss.
13. To quantify the loss.

14. To do the valuation of loss/salvage value and to see the valuation/assessment.
15. To see the valuation/assessment VS Policy coverage VS subject to matter physical loss identification.
16. To verify damage certificate has been issued.

IN SHORT WE SUMMARISE

DO's

The Role surveyor is :

1. To establish & identify the consignment damaged VS records.
2. To Establish cause of loss or damage.
3. To Assessing the degree and extent thereof.
4. Making suitable recommendation for minimizing or making good the loss.
5. If necessary to assist in recommending the best salvage value.

DONTS

1. It is not the function of survey or in marine to express an opinion on question of insurer's liabilities.
2. The surveyor does not adjust or work out the claim payable normally.
3. His role is to determine the cause & extent of loss or damage and to assist in minimizing the loss in the interest of all

5.0 TIME LIMIT FOR INTIMATION, SUIT FILING AGAINST CARRIERS

S.No.	Type	Time of intimation	Time for filing the suit
1.	Sea carries	3 days	1 year
2.	Rail	6 months	3 year
3.	Rood	6 months	3 year
4.	Air	7 days (damage)	2 year
5.	Post Office	1 month (Deliver)	3 year
6.	Part trust	7 days	7 month

TYPE OF COMMODITIES & STEPS TO BE TAKEN

1. GLASS/ TILES/ PICTURE TUBES AND SIMILAR TYPE OF ITEMS

- a. In case of glass and similar type of items, the packing should be appropriate to prevent the jerks and jolts during the transit.
- b. In case of broken glass sheets, the possibility of reusing after the reduction in size could be helped to retrieve more salvage value.
- c. Similarly in case of finished picture tubes, the possibility of reusing the metal parts can not be ignored
- d. The consignment can be identified with the pallet nos and S.no. with the packing list attached with the invoice.
- e. The damages picture tubes should be destroyed.
- f. The underwriters representative should always coordinate.

CHANCES OF FRAUD.

- If one consignee is continuously receiving similar type of items (glass – picture tubes, panels & funnels etc), and considering the nature of items there are more possibilities to the damages during the transit. Suppose the surveyor could not reach the site before the unloading, there is a possibility to show the surveyor old broken/damaged consignment (which may or may not claimed earlier).

2. MACHINERY

- a. In case of machinery damaged in transit, it was necessary to verify the mode of packing (if it covers the nature of packing mentioned in the policy)
- b. To examine the nature of damages and immediately arrange to shift the consignment from the accidental place to the consignee/consignor premises and arrange joint inspection with the suppliers engineers to determine the exact quantum of damages.
- c. Arrange repair estimates
- d. Determine the salvage value.
- e. Obtain the pre-dispatch survey report

CHANCES OF FRAUDS

- a. If the machine was dispatched in damaged condition .
- b. If after the loss the machine damages are not controlled then leads to exaggeration, so insurers engineer's visit is required.

3. CLOTH/ COTTON ETC.

1. In case of shortage loss, it can be verified from the packing list and bales numbers mentioned in the consignment.
2. In case of fire in cotton bales, the volumetric analysis also helps the actual quantity damages vs ash weighment.
3. In case of water damages, immediate steps should be taken to minimize the loss i.e. segregation/drying process
4. Determination of salvage value

CHANCES OF FRAUDS

- There is a possibility of damaged/ poor quality material or the rates mentioned in the invoice on higher side.

4.0 MEDICINES/ FOOD ITEMS ETC.

1. In case injection/ syrup bottles and other medicines or food items were broken, it is very necessary to verify the batch number, expiry date.
2. The salvage should be destroyed in presence of surveyor,

CHANCES OF FRAUD

There is a possibility of showing old broken pieces of costly injection/ bottles and claimed that which were damaged in transit. In such circumstances the surveyor should cross verify the batch number and date of expiry on the bottles as well as the invoice

5.0 PAPER ROLLS/ ALUMINIUM ROLLS ETC.

In case of paper rolls/ rims were cut/ wet during the transit, the following steps should be taken:

1. Quantify the no. of rolls/ rims with their net weight
2. Identify the roll no./rim number with packing list.
3. The sound portion of the paper should be removed from the damaged portion after determining the damaged portions weight by using relevant formulas, which helps further assessing damages.
4. In case of paper rims damages, it should be salvaged by minimizing the size and it can be used as fresh.
5. The balance damaged/cut portion can be sold as scrap/ writing paper.
6. The formula which is using the calculation of weight of the cut/ wet portion is :

$$\frac{4T (D-T) X 4}{D^2 - C^2}$$

CHANCES OF FRAUD

- a) The quality difference could be there.
- b) Showing different stocks than under invoice which leads to documentary fraud.

6.0 LIQUID TYPE OF CONSIGNMENTS

In case of bulk edible oil damaged with water:

1. It can be reprocessed by using some extra costs/ chemicals.
2. While calculating the loss, the following aspects should be kept in mind:
 - c. Loss due to weightment shortage
 - d. Extra expenses due to storage/transportation
 - e. It may also to verify the normal expenses for reprocessing the sound cargo and the actual expenses incurred for reprocessing the damaged cargo and the difference between both should be treated as loss.

In case of liquid type consignment evaporated/ leaked out.

1. The balance left over quantity to be determine and exact calculate the loss on exact lost quantity.
2. The circumstances of loss should be investigated.

3. Take immediate steps to shift the consignment to a safer place to prevent further leakage/ damage

In case shortage in transit the following aspects to be cross checked.

1. Genuinenity of dispatch of the consignment and determine the actual quantity dispatched.
2. Authenticity of the transporter
3. Copy of FIR and their investigation reports.
4. Genuinity of the payment made by the consignor
5. Outward register/ weightment slips from the consignor
6. Original GR which shows h entries of various Sale Tax posts during the transit to prove the authenticity.
7. Detailed enquiry from the truck driver/ transporter.
8. Correlate all the statements, records, police records and the circumstances of loss.

CHANCES OF FRAUDS

Firstly, to determine the exact quality/nature of item transported. In some cases, thy transported even water in the tanker and after the accident (intentional) they claimed that the consignment was some chemicals costing crores of rupees. In such circumstances the sampling and testing of left over chemical is required to prevent this type of frauds..