Industrial All Risks Insurance
A knowledge share initiative of Salasar Services (Insurance Brokers) Pvt. Ltd.
INTRODUCTION

Industrial All Risk Policy is an exclusion based package policy without any named perils. In this policy specific exclusions are incorporated with reference to the operating perils and properties. That means whatever is not excluded, is covered under the policy.

ELIGIBILITY

All industrial risks (other than risks rateable under Petrochemical Tariff) having overall Sum Insured of Rs.100 crores and above in one or more locations in India shall be eligible for Industrial All Risks Policy. In some cases risks worth Sum Insured of less than 100Crores INR can also be covered under IAR.

SCOPE OF COVER

Section-1: Material Damage

- All Risk cover including Standard Fire & special perils viz Lightning, Explosion, Implosion, Aircraft damage, impact damage, Riot strike & malicious damage, Storm, tempest, flood, inundation, cyclone, typhoon, hurricane, tornado, Subsidence and landslide including rockslide, leakage from automatic sprinkler Installation, Bursting, etc
- Theft & Burglary
- Machinery Breakdown - Mechanical and Electrical Breakdown
- Boiler explosion - Explosion and implosion of boiler and pressure plants, Explosion due to smelt water reaction for waste heat boilers, Flue gas explosion.
- Electronic equipment insurance – Breakdown and all risk coverage of electronic equipments.
- Transit risk and loading – unloading risks within the premises

Section-2: Business Interruption

Loss of Profit due to Fire and Allied Perils

Section-3: Machinery Loss of Profit

Loss of Profit or business interruption due to machinery breakdown

EXCLUSIONS

Excluded Causes

This policy does not cover damage to the property insured caused by:

- Faulty or defective design materials or workmanship inherent vice latent defect gradual deterioration and deformation or distortion or wear and tear
- Interruption of the water supply gas electricity or fuel systems or failure of the effluent disposal systems to and from the premises unless damage by a cause not excluded in the policy ensues and then the Insurer shall be liable only for such ensuing damage.
- Collapse or cracking of buildings
- Corrosion rust extremes or changes in temperature dampness dryness wet or dry rot fungus shrinkage evaporation loss of weight pollution contamination change in colour flavour texture or finish action of light vermin insects marring or scratching unless such loss is
caused directly by damage to the property insured or to premises containing such property by a cause not excluded in the policy.

- Larceny
- Acts of fraud or dishonesty
- Disappearance unexplained or inventory shortage misfiling or misplacing of information shortage in supply or delivery of materials or shortage due to clerical or accounting error.
- Coastal or river erosion
- Normal settlement or bedding down of new structures

Damage caused by or arising from:

- Any wilful act or wilful negligence on the part of the Insured or any person acting on his behalf
- Cessation of work delay or loss of market or any other consequential or indirect loss of any kind or description whatsoever

Damage occasioned directly or indirectly by or through or in consequence of any of the following occurrences, namely:

- War invasion act of foreign enemy hostilities or warlike operations (whether war be declared or not) civil war.
- Mutiny civil commotion assuming the proportions of or amounting to a popular rising military, rising insurrection rebellion, revolution military or usurped power.
- Permanent or temporary dispossessing resulting from nationalization commandeering or requisition by any lawfully constituted authority.
- Permanent or temporary dispossessing of any building resulting from the unlawful occupation of such building by any person provided that the Insurers are not relieved of any liability to the Insured in respect of Damage to the property insured occurring before dispossessing or during temporary dispossessing which is otherwise insured by this Policy.
- The destruction of property by order of any public authority in any action, suit or other proceeding

Damage directly or indirectly caused by or arising from or in consequence of or contributed confiscation to by:

- Nuclear weapons material
- Ionizing radiations or contamination by radioactivity from any nuclear fuel or from any nuclear waste from the combustion of nuclear fuel. Solely for the purpose of this Exclusion Combustion shall include any self-sustaining process of nuclear fission.

**Excluded Property**

This Policy does not cover:

- Money cheques, stamps, bonds, credit cards, securities of any description, jewellery, precious stones, precious metals, bullion, furs, curiosities, rare books or works of art unless specifically mentioned as insured by this policy.
- Unless specifically mentioned as insured by this Policy goods held in trust or on commission documents manuscripts business books computer systems records patterns models moulds plans designs explosives.
- Vehicles licensed for road use (including accessories thereon) caravans trailers railway locomotives or rolling stock watercraft aircraft spacecraft or the like
- Property in transit other than within the premises specified in the Schedule
- Property or structures in course of demolition construction or erection and materials or supplies in connection therewith.
- Land (including top-soil back-fill drainage or culverts) driveways pavements roads runways railway lines dams reservoirs canals rigs wells pipelines tunnels bridges docks piers jetties excavations wharves mining property underground off-shore property unless specifically covered.
- Livestock growing crops or trees
- Property damaged as a result of its undergoing any process
- Property undergoing alteration repair testing installation or servicing including materials and supplies therefore if directly attributable to the operations of work being performed thereon unless damage by a cause not otherwise excluded ensues and then the Insurer will be liable only for such ensuing loss.
- Property more specifically insured
- Property insured if removed to any building or place other than in which it is herein stated to be insured, except machinery and equipments temporarily removed for repairs, cleaning, renovation or other similar purpose for a period not exceeding 60 days.
- Damage to property which at the time of the happening of such damage is insured by or would for the existence of this policy be insured by any marine policy or policies except in respect of any excess beyond the amount which would have been payable under the marine policy or policies had this insurance not been effected.

**ADVANTAGES OF AN IAR POLICY**

- Underinsurance up to 15% is waived
- Reduced flat rate is applicable for Machinery breakdown cover
- Transit risk within the premises is covered
- Burglary & other accidental damage cover
- No depreciation is deducted
- Breakdown of Machinery, Electronic Equipments & explosion risk of Boiler are covered. So there is no need for separate MB, EEI & BPP policy (all insurance companies do not cover EEI)

**EXCESS**

<table>
<thead>
<tr>
<th>S. No.</th>
<th>Type of Loss</th>
<th>Sum Insured</th>
<th>Excess</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Material Damage</td>
<td>SI &lt; Rs. 100Crores</td>
<td>5% of the claim amount subject to a min of Rs. 5Lacs</td>
</tr>
<tr>
<td></td>
<td></td>
<td>SI &gt; Rs. 100Crores</td>
<td>5% of the claim amount subject to a min of Rs. 10Lacs</td>
</tr>
<tr>
<td>2</td>
<td>Business Interruption</td>
<td></td>
<td>7 days Gross Profit</td>
</tr>
<tr>
<td>3</td>
<td>Machinery Loss of Profit</td>
<td></td>
<td>14 Days Gross Profit</td>
</tr>
</tbody>
</table>
SUM INSURED

Sum insured under IAR policy is considered on the basis of Reinstatement value. By Reinstatement it shall mean the cost of replacement of the insured items by the new items in a condition equal to but not better or more extensive than its condition when new. In other words, the cost of reinstatement is equivalent to a new property of the same type, specification and capacity.

ADD-ON COVERS

Material Damage
- Architects, surveyors and consulting engineers fees (in excess of 3% of the claim amount)
- Removal of debris (in excess of 1% of the claim amount)
- Omission to insure additions, alterations or extensions
- Earthquake (fire & shock)
- STFI (storm, tempest, flood, inundation)
- Start-up expenses
- Escalation
- Auditor’s Fees Cover
- Minor works

Business Interruption
- Customer Extension
- Supplier Extension
- Public Liability extension for public electricity
- Public Liability extension for water supply

PREMIUM RATES

Rates for this policy depend on:
- The detailed Risk Assessment Report of the Engineer.
- Deductibles opted by the Insured
- Claims Experience

IMPORTANT CLAUSES

Reinstatement Value Clause

Where the subject matter to be insured is only building and/or machinery and furniture, fixtures and fittings, the modern practice is to issue policy on the Reinstatement value basis and not on the standard basis. The Reinstatement value policy cannot be issued to cover stock merchandise or materials.

The basis of settlement in the event of destruction is the cost of re-building of the building or for the plant and machinery, the cost of replacement/reinstatement of similar property in a condition equal to but not or more expensive that its condition when new. In other words, the settlement is on the new for old basis. The Reinstatement Policy, therefore, seeks to place the insured in a position better than the one which he enjoyed immediately before the loss. To this extent therefore, there is a deviation from the principle of strict indemnity.
The important beneficial feature of RIV basis insurance is that the element of Depreciation is not taken into consideration, i.e. NO DEPRECIATION IS DEDUCTED at the time of settlement of claim (unlike Market Value basis insurance).

**Escalation Clause**

This provision, under the ambit of the All India Fire Tariff, allows the insurers to consider automatic regular increase in the sum insured throughout the period of the policy against payment of additional premium at the rate 50% of the final rate which is charged on the selected percentage sum insured of escalation.

The application of the said provision at the point of claim is not guided by market forces. It is automatic. Suppose, the sum insured against Building is Rs.2920000.00 and the insured opts for 25% escalation provision, then the sum insured under escalation stands for Rs.730000.00. Under the escalation provision, the sum insured under the policy will automatically stand increased by 1/365 of the escalated sum insured during each day of insurance. Hence on the 90th day, the overall sum insured under the policy will be (Rs.2920000.00+Rs.730000.00/365X90) Rs.3100000.00. Similar practice will be followed while arriving at the sum insured on any other day during the period of insurance. On the 365th day the overall sum insured will be (Rs.2920000.00+Rs.730000.00) Rs.3650000.00

There are certain guidelines which are required to be followed while considering escalation provision by the insurers. These are as under:

- The selected percentage under escalation provision shall not exceed 25% of the sum insured.
- Escalation provision cannot be applied to policies covering stocks.

**Omissions to Insure Additions, Alterations or Extensions Clause**

The Insurance by this Policy extends to cover Buildings and/or Machinery, Plant and other Contents as defined in Columns here of which the insured may erect or acquire or for which they may become responsible:

- At the within described premises
- For use as factories
  - The liability under this Extension shall not exceed in respect of (a) above, 5% of the Sum Insured by each item, in respect of (b) above, 5% of the Sum Insured by item no. .........
  - No liability shall attach to the insurers in respect of any Building, Machinery, Plant or other Contents while such property is otherwise insured.

N.B.:

- An additional premium on 5% of the Sum Insured on Buildings and/or Machinery, Plant and other Contents as stated in the above clause is collected in advance.
- All new additions to Buildings and/or Machinery and Plant not specifically insured/ included during the currency of the policy should be declared at the end of the year and suitable additional premium paid on pro-rata basis from the date of completion of the construction/erection of additions subject to adjustment against the advance premium collected as stated in N.B. 1 above.

If the insured fails to declare the value of such additions within 30 days after the expiry of the policy there shall be no refund of the advance premium collected.
Temporary Removal of Stock Clause

It is agreed that the stock insured hereby not exceeding 10% of the total sum insured of such stock is covered while temporarily removed to any other premises for purposes of fabrication or processing or finishing or other similar purposes. This extension does not apply to stock if and so far as it is otherwise insured. The pro-rata condition of average should be applied to the limit of stocks temporarily removed as well as to the total sum insured of such stock under the policy.

Spoilage Material Damage Cover

The policy covers loss or damage to stocks in process or machinery, containers, and equipments including cost of removal of debris and cleaning by spoilage resulting from the retardation or interruption or cessation of any process or operation caused by the perils insured under the policy.

Accumulated Stock Clause

Where the insured maintains sufficient stock of finished goods from time to time as a matter of business policy, the Insurers may, at their discretion, attach the following Clause to the Consequential Loss (Fire) Policy issued on Turnover Basis:-

“In adjusting any loss, account shall be taken and an equitable allowance made if any shortage in turnover due to the damage is postponed by reason of the Turnover being temporarily maintained from accumulated stocks of finished goods in the Insured’s warehouses.”

Departmental Clause

“If the business be conducted in departments, the independent trading results of which are ascertainable, the provision of Clauses shall apply separately to each department affected by the damage except that if the Sum Insured by the said item be less than the aggregate of the sum produced by applying the rate of gross profit for each department of the business (whether affected by the damage or not) to the relative Annual Turnover thereof, the amount payable shall be proportionately reduced.

New Unit Clause

Any project which is under construction presently on successful completion of the project or on after successful commissioning and trial run, the same project can be included in the same IAR policy belonging to the same insured on payment of pro-rata premium.
## COMPARISON OF FIRE & IAR POLICY

<table>
<thead>
<tr>
<th>DESCRIPTION</th>
<th>FIRE POLICY</th>
<th>IAR POLICY</th>
</tr>
</thead>
<tbody>
<tr>
<td>Eligibility</td>
<td>No requirement</td>
<td>Sum Insured greater than Rs. 50crores at one or more locations (other than Petrochemical Plants)</td>
</tr>
<tr>
<td>Cover</td>
<td>Fire and allied Perils</td>
<td>Comprehensive cover Fire and allied Perils Fire Loss of Profit Machinery Insurance / Boiler &amp; Pressure Plant and Electronic Equipment Burglary / Theft Machinery Loss of Profit (Optional)</td>
</tr>
<tr>
<td>Rating</td>
<td>As per All India Fire Tariff (AIFT)</td>
<td>Material Damage - as per AIFT LOP Machinery Insurance – Flat rate of Rs. 2.50 per mille, much lower than rates for individual machines Burglary – Free of cost</td>
</tr>
<tr>
<td>Compulsory Deductible</td>
<td>AOG perils 5% of claim amount subject to a min Rs. 10,000 Other perils Rs.10,000/-</td>
<td>Material Damage: 5% of the claim amount subject to a min of Rs. 5 lacs and max of Rs. 50 lacs Business Interruption: 3 days Gross Profit subject to a min of Rs. 5 lacs and max of Rs. 50 lacs</td>
</tr>
<tr>
<td>Discounts</td>
<td>Claims Discount / Loading FEA Discount Voluntary Excess Discount</td>
<td>Apart from the discounts available under Fire Policy, following additional discount are available: IAR claims experience discount: After completion of 2 years of an IAR policy, additional discount ranging from 5% to 25% can be claimed under an IAR Policy provided the claims ratio is less has 30%.</td>
</tr>
<tr>
<td>Underinsurance</td>
<td>Policy is subject to underinsurance</td>
<td>Underinsurance to the extent of 15% is waived</td>
</tr>
<tr>
<td>Refund in Premium for over insurance under LOP</td>
<td>If the actual Gross Profit as declared for the policy period is less than the original sum insured, pro-rata refund of premium up to 1/2 of the premium paid is allowed</td>
<td>If the actual Gross Profit as declared for the policy period is less than the original sum insured, pro-rata refund of premium up to 1/3 of the premium paid is allowed</td>
</tr>
<tr>
<td>Stocks</td>
<td>Declaration facility is available for stocks</td>
<td>Declarations facility is not available for stocks</td>
</tr>
<tr>
<td>Sum Insured</td>
<td>In a Fire Policy, Sum Insured can be on the basis of Market Value or Replacement value</td>
<td>In an IAR Policy sum Insured for Buildings, Machinery, Furniture etc is on Reinstatement value basis while stock is on Market value basis</td>
</tr>
<tr>
<td>Others</td>
<td>There are certain limitations under a MBD policy: There is a declined list of machines that</td>
<td>These limitations are not there in an IAR Policy as it a comprehensive cover</td>
</tr>
</tbody>
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cannot be covered under an MBD policy
For claims on DG Set, excess of 20% of the cost of crankshaft replacement is applicable
Compulsory depreciation applicable on losses under cylinder head, liner and piston of Diesel/oil engines
Overhauling warranty is applicable for turbines and turbo generators

There are certain limitations under a EEI policy:
Annual Maintenance Contract (AMC) is a must.
Loss or damage to parts with limited life will attract depreciation

These limitations are not there in an IAR Policy as it a comprehensive cover

<table>
<thead>
<tr>
<th>Transit Risk</th>
<th>Not covered</th>
<th>Transit risks within compound/location is covered free of cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Electrical Damages</td>
<td>Not covered</td>
<td>Electrical Fire damages are payable</td>
</tr>
</tbody>
</table>