

# THE BEACON BULLETIN

Beacon Monthly Newsletter: Credit and liability insurance

## TRADE CREDIT INSURANCE FOR SME'S AND MSME'S

### INTRODUCTION

Commercial credit is a basic element of business transactions in market economies but it also expose companies to late payments and defaults, becoming a serious problem that might hamper business development. As a solution, Trade credit insurance can be a saviour. It is an insurance policy and risk management product that covers the payment risk resulting from the delivery of goods or services.

Trade credit insurance usually covers a portfolio of buyers and pays an agreed percentage of an invoice or receivable that remains unpaid as a result of protracted default, insolvency or bankruptcy.

### CURRENT GLOBAL SCENARIO

Due to Covid-19, many businesses around the world have been affected. It has been a particularly hard pressed time for many SMEs and MSMEs across the country who have been reeling under the impact of the Covid-19, facing severe losses and shutdowns in uncertain times. Payment defaults across the globe are rising and with them insolvencies are forecast to increase by 26% in 2020 as the coronavirus pandemic pushes the world economy into recession.

### NEED FOR TRADE CREDIT INSURANCE FOR SMES AND MSMES

In this scenario, it becomes imperative for businesses to perform a solid assessment of the risks connected with trading on credit. Unfortunately, SMEs & MSMEs lack the administrative resources to assess buyers' risks, to tailor credit terms to reflect these risks and to monitor payments in order to reduce cash collection periods and minimise the occurrence of payment default. To face the lack of credit management, such enterprises can rely on credit insurance.

### TRADE CREDIT INSURANCE POLICIES

Trade Credit Insurance	Types of policies
Domestic Credit Insurance	1. Turnover Based Policy
Export Credit Insurance	1. Turnover Based Policies 2. Exposure Based Policies

Trade credit policies like Small Exporter's Policy, Specific Shipment Policy, Single Buyer Exposure Policy, Multi-Buyer Exposure Policy and many more have specially been designed to cater the need of the businesses. Also, Trade credit policies can be customized as per the need & requirement of the business.

We at Beacon insurance Brokers have a designated team looking after Trade Credit policies only. Our team shall analyze the risk exposure of your company and help you in getting the best suited credit policy with higher percentage of cover, lower premium cost along with hassle free administration.

# PUBLIC LIABILITY ACT

## INTRODUCTION

The Public Liability Insurance Act 1991 (hereinafter referred as **"PL ACT"**) came into force after the Bhopal gas leak case, where Methyl Isocyanate leaked from the plant of Union Carbide India Ltd, which caused the death of 3000 persons and serious injuries to a large number of people.

Recently, in LG Polymers gas leak, where 10 & more people have died and at-least 1000 are injured, sick and hospitalized – the third party claims could run into crores. Therefore, PL ACT has been in lime-light again.

Take out YOUR microscope, because in this edition of our liability news bulletin we are going through YOUR liabilities under PL ACT & insurance solution to cover the same.

### What does "PL ACT" provide for?

Owner's strict & absolute liability while handling hazardous substance.

PL ACT provides immediate relief [by way of compensation] to the persons (other than workmen) affected by accident occurring while handling hazardous substances.

All industrial units handling hazardous substances need to purchase Adequate & Satisfactory Public Liability Act Insurance Policy (hereinafter referred as **"PL ACT POLICY"**)

PL ACT POLICY indemnifies the Legal-liability-to-pay-relief [of owner] as provided under PL ACT and the rules framed there under. The policy covers accidents occurring during policy period, provided they are notified to the insurance company @ earliest.

### Who should "buy" PL ACT POLICY?

Any Owner handling listed hazardous chemicals needs to buy PL ACT POLICY.



### **DID YOU KNOW???**

Just like Third Party Motor Insurance Policy, PL ACT POLICY is also mandatory in India. Non-Compliance to buy PL ACT POLICY is a punishable offence with imprisonment of 1.5 years to 6 years &/or fine up to INR 1 LAC.

### What does a "handling" of hazardous substance include?

Manufacturing, Processing, Treatment, Packaging, Storage, Transportation, Use, Collection, destruction, disposal, conversion, transfer & offer to sale amount to "handling" of hazardous substance

### What shall the insurance "pay" in case of an accident?

- Reimbursement of medical expenses – Up to INR 12,500/Per Person
- Relief for FATAL ACCIDENTS – INR 25,000 + medical expenses as above
- Relief for Total Permanent Disability – INR 25,000 + medical expenses as above
- Relief for Permanent Partial Disability or other injury or sickness – cash relief on the basis of percentage of disablement certified by authorized physician + medical expenses as above
- Loss of Wages due to Temporary Partial Disability – INR 1000/Month up to maximum of 3 months (victim hospitalized for 3 days & above 16 years)
- Relief for Damage to private property – Actual Damage Up to INR 6000/Property

**Note:** Higher Compensation can be awarded by Collector under PL ACT but the same shall not be payable under PL ACT POLICY. Such compensation can be covered under various other insurances like Public Liability Insurance & Commercial General Liability

### Will it be an "automatic payout"?

No. An order or report determining amount of relief is made against the owner by district collector. On such award the insurance company shall deposit relief amount as against such award, subject to other terms & conditions of PL ACT POLICY

### What should be the "limits" of PL ACT POLICY?

The Policy Operates on two limits - AOA Limit – Any One Accident applicable per accident & AOY Limit – Any One Year – applicable per year

Mandatory PL ACT POLICY Limit as per PL ACT:

- AOA Limit = Paid-Up Share Capital or INR 5 Crores whichever is higher
- AOY Limit = 3 x Paid-Up Share Capital or INR 15 Crores whichever is higher
- Please refer following table for clarity:

<b>Paid-Up Capital</b>	<b>AOA LIMIT</b>	<b>AOY LIMIT</b>
INR 4 CR	INR 4 CR	INR 12 CR
INR 5 CR	INR 5 CR	INR 15 CR
INR 6 CR	INR 5 CR	INR 15 CR


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