

# THE BEACON BULLETIN

## Beacon Monthly Newsletter: Credit and liability insurance

**BEACON FAMILY WISHES YOU & YOUR FAMILY A VERY  
HAPPY AND PROSPEROUS DIWALI !!**

### CREDIT INSURANCE

## INDUSTRY PERFORMANCE DURING COVID-19 RECESSION

As the COVID-19 recession firmly takes hold of both advanced and emerging economies around the world, monitoring the health of industry sectors is more important than ever. Based on a survey by Atradius below is summary of credit risk and business performance of major industries in India.

### AUTOMOTIVE /TRANSPORT

After a subdued performance in 2019, the automotive sector suffered from further deteriorating sales for passenger cars and commercial vehicles in H1 of 2020. Automotive value added is forecast to decline by more than 40% in 2020. In the coming months there could be a slow recovery in demand, due to the beginning of the festive season and the increasing preference of personal cars over public transport resulting from the pandemic. While payment delays in the industry have not yet increased, a surge in the coming months cannot be ruled out, due to severe liquidity strains for automotive and transport businesses.

### CHEMICALS /PHARMACEUTICALS

Deteriorating domestic and global demand have a negative impact on chemicals performance. Many chemical businesses are suffering from the subdued demand from key buyer sectors, and sector value added growth is forecast to shrink by more than 12% in 2020. The short-term outlook for pharmaceuticals is more benign, as demand has increased due to higher health expenses. Ongoing political issues between India and China still affect the supply chain, and pharmaceuticals value added is expected to decrease by more than 9% in 2020.

### CONSTRUCTION

Delays and postponement of many building projects are expected, due to the overall slowdown in the economy, which will additionally increase the credit risk of many businesses. Construction value added is expected to shrink by more than 5% in 2020, with payment delays increasing over the past couple of months.

### FINANCIAL SERVICES

The Indian banking sector (especially the public sector bank segment) remains under stress, with a high level of non-performing assets, which has resulted in tightening of lending conditions and of due diligence processes.

### ELECTRONICS /INFORMATION & COMMUNICATION TECHNOLOGY (ICT)

Over the past couple of years, ICT key drivers were robust economic growth, growing disposable income and penetration into rural markets. However, ICT sales deteriorated due to the temporary closure of businesses during the lockdown measures, and value added growth of the ICT sector is forecast to level off in 2020. Payment delays in the ICT sector have started to increase.

However, a government recapitalization programme, including consolidation of banks, is ongoing to support the sector. Additionally, the Insolvency and Bankruptcy Code from 2016 has helped to improve corporate repayment discipline to some extent.

### MACHINES /ENGINEERING

The business outlook has deteriorated, as orders on hand and production have decreased due to postponed investments. Domestic and international demand from key buyer sectors like automotive and construction have deteriorated.

### METALS

Many Indian metal businesses are highly leveraged and heavily depend on bank financing for their working capital requirements. However, banks have been unwilling to provide credit to the industry, which has caused additional liquidity issues for many businesses. Due to subdued economic growth in 2020, metals value added is expected to decrease by more than 5% in 2020, and payment delays have increased.

### PAPER

Paper producers have been impacted by less demand due to the lock-down measures in H1 of 2020, lower economic growth and the ongoing digitization. The sector is impacted by fierce competition and working capital pressure for many businesses. Value added of the industry is expected to contract by more than 11% in 2020.

### STEEL

Many Indian steel businesses are highly leveraged and heavily depend on bank financing for their working capital requirements. However, banks have been unwilling to provide credit to the industry, which has caused additional liquidity issues for many businesses. Several steel businesses went insolvent last year. Due to subdued economic growth in 2020, steel value added is expected to decrease by more than 5% in 2020, with rising payment delays.



### DO YOU KNOW



COVID-19 is impacting both demand and supply, many businesses are inevitably suffering due disruption to their cash flows leading to an increased demand for short-term credit and, for those already borrowing, are at a greater likelihood of defaulting on debt. Default rates are incredibly increasing day by day and the only insurance solution to safeguard business from payment details is "Credit insurance".

### TEXTILES

Exporters of textiles and cotton suffered in 2019 from fierce competition (e.g. from Vietnam), lower demand from overseas and working capital pressure. In early 2020 textile producers were negatively affected by supply chain disruptions due to the corona-virus related lock-downs. At the same time, the performance of wholesalers and retailers has deteriorated due to low sales. Domestic and export sales are expected to remain subdued in the coming months, and textile value added is expected to shrink by 3% in 2020. While payment delays have increased over the past couple of months, they are expected to stabilize on an elevated level in Q4 of 2020.

## PUBLIC LIABILITY INSURANCE ACT, 1991 CLAIMS PERSPECTIVE

In previous issue of [BIBPL's] The Beacon Bulletin the following was primitively worked up:

Under Public Liability Insurance Act, 1991 (PL ACT), any person handling hazardous material (hazmat) needs:

- To provide such relief for any accident involving a **'unintended occurrence' while 'handling any hazardous material'**
- To purchase Public Liability Insurance Act Policy (PL ACT POLICY) & non-compliance may result into imprisonment of 1.5 Years to 6 Year &/or fine up to INR 1 Lac.

so, Buy PL Act policy Today only!!

In this issue, we take our readers through various implications of **'unintended occurrence' while 'handling any hazardous material (hazmat)'** due to which liability under PL ACT may arise?

At the very outset, we need to understand that here liability arises due to 'handling' of hazmat. Therefore, owner is strictly & absolutely liable for compensation. There is no scope to evade such liability in any circumstances. Handling of hazmat can be distinguished [on basis of purpose of hazmat] into following heads:

- Storage (for use, distribution or both)
- Transportation & Discharge
- Manufacture or Processed
- Treatment, Disposal or Destruction

With the intent to explain what may result into liability to pay relief under PL ACT, various scenarios are explained in detail below using examples & various news reports.

### STORAGE USE, PROCESS AND MANUFACTURING

Storing hazmat [beyond certain prescribed threshold limits] either as raw material for further process or for distribution or even for logistics; may expose the owner or occupier to various explosion & fire related incidences. Recently, 12 persons were injured in a major blast that ripped through a chemical boiler at Shahil Enterprises which was engaged in the production of chemicals on Pirana-Piplaj road, Ahmedabad.

More recently, Vizag gas leak was likely the result of gas [hazmat] causing 11 deaths & 1000+ people sick due to exposure with gas. Not to forget the genesis of PL ACT - Bhopal Gas Leak @ UCIL - where liquid methyl isocyanate (MIC) was produced & stored as an intermediate to produce carbaryl (pesticide). 3000+ deaths & over 500,000 people were exposed to poisonous gas.

In 2009, fire broke out in Indian Oil Corporation (IOC) oil depot's giant tank holding 8000 KL of petrol in Jaipur. 12 deaths & 300+ injuries were reported, losses worth INR 2.8 BN, fire raged for 11 days & half a million people evacuated from the area.

It is a common human practice to avoid strict & sophisticated adherence of SOPs while handling raw materials or goods, unless supervised adequately. But this low process obedience may result huge havoc in case of handling hazmat. Therefore, any person storing, using, processing, manufacturing, packaging or distributing hazmat [for any purpose] may be in huge liabilities if any adversity occurs.

? **DID YOU KNOW?** ?

***Even owner &/or occupier of Petrol Pumps, Gas Stations, LPG Gas Agencies, Electricity Distribution & Generation Companies are liable for any handling hazmat accidents & should purchase PL ACT POLICY***

### TRANSPORTATION & DISCHARGE

When shipping hazardous materials, even small mistakes can lead to big consequences. Very common incidents are - an unsecured load collapses and crushes a fragile container. A faulty closure leaks hazardous chemicals. Incompatible materials combine or react in transit & create a poisonous gas.

Even if shipper does everything right & ensures that hazmat consignments are fully compliant, any unfortunate accident in transit may hamper entire supply chain causing delay along with huge liabilities at stake.

Pipeline discharge is comparatively considered a safer alternative to other transportation modalities. But pipelines often cross highly populated residential & industrial areas, where any possible release of hazmat may generate catastrophic events with severe consequences. Therefore, persons involved in transporting hazmat through road, rail, sea, air & pipes must insure their third-party liabilities just like they insure their own vehicles & equipments.

### TREATMENT, DISPOSAL & DESTRUCTION

Although disposal events account for a limited number of hazmat release overall, but the dangers associated with improper disposal of hazmat can be severe.

A sanitation truck impacted due to an improperly disposed-off container of hydrochloric acid, releasing approximately 10 gallons of the hazmat into a commercial/residential area. At least 2 workers sustained severe chemical burns. Hydrochloric acid used in an illicit methamphetamine laboratory was disposed of in an apartment building dumpster. A sanitation worker sustained respiratory irritation.

Historically, industries have advanced in dealing with hazmat but not much in disposing & destruction of hazmat. Therefore, even improper disposal, failure to treat before discharge or destruction of hazmat may give rise to various accidents.

### HOW WILL PL ACT POLICY RESPOND TO SUCH ACCIDENTS?

PL ACT POLICY is not an automatic payout policy. The collector shall determine the amount of relief to be paid with respect to the accident as under the PL ACT. Once, the same is determined the insurer or the insured shall deposit the amount to collector as directed. In case, the insured has deposited the amount - the same shall be reimbursed by insurer within 30 Days of receipt of all documents.

The policy shall also pay defense fees & expenses incurred in investigation, defense or settlement of any claim made under this policy.

Now-a-days state & central pollution boards along with National Green Tribunal award higher compensation for victims of accident while 'handling of hazmat'.

Please note: This residuary liability of owner is not covered under PL ACT POLICY.

However, there are various other insurance available in market to cover such types of liabilities like Public Liability Insurance, Commercial General Liability Insurance & Employee Compensation Act Insurance.

In subsequent issues of [BIBPL's] The Beacon Bulletin we would be addressing the above policies with their claim perspectives in detail.

Stay Tuned!!

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