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The WHY of Insurance Documentation

Sunil Vidhate



the documentation that precedes reinsurer's accepting risks. We need to understand that such documentation is actually in our interest.

Let us start with the fundamental axiom in insurance – the more information/details the insurance company asks before accepting your risk, the less questions they will ask in the event of a claim. Insurance is a contract of good faith. If an insurance policy is taken where, later it is revealed that some relevant information has not been provided by us to the Insurance company, the policy itself can be cancelled from inception; and, the Insurance company is legally justified and correct in making such cancellation!

So, when the insurance company lists out the documents needed before they will accept your risk, they are actually taking the initiative to ensure you and I do not become victims of the legal situation I have mentioned above. In simple words, the insurance company is making it easy for all concerned that your claims are paid without much hassle.

I will go even one step further – We, at Alliance, actually respect such insurance companies who take such initiative of collecting all necessary documents at the

time of accepting the risk. This very action demonstrates these insurance companies have a far clearer understanding of the risk, and therefore, once having accepted a risk, are far more prompt in paying claims, if any.

Just to drive home the point – Will you trust an insurance company that offers to insure your home without even asking for the address? Or, your vehicle with an insurance company that does not even ask for the vehicle's registration number?

Yes, more complex the risk, more information/documentation is called for.

We cannot run away from the fact that Bullion trade is a complex one. There are physical features in the entire process involved that are unique; there are ethical issues as are always present in any trade involving commodities that are low in volume & high in value. And, let us admit it, bullion is a currency pretty much in usage in operations that are not entirely lawful. Where certain countries of the world are involved in the entire supply chain, these risks are even more.

When we look at the insurance documentation in perspective of this ground reality, we will understand

It's a year since I greeted you all through my previous article 'Insurance – Get the Best of Both Worlds' published in Volume 6 of Bullion Bulletin – October, 2016 issue.

Much water has flown under the bridge in the last year; much of coverage of bullion risks has also moved to the Re-Insurance Market.

Increasing engagement of Bullion trade with underwriters has resulted in the underwriters who were initially tentative in providing bullion related coverages have become more bullish and have started accepting risks of even such transits that they were averse to underwrite earlier. Obviously, with a more cautious approach and with complete understanding of the risk. Some of us tend to feel irked about

the documentation is only to ensure that the risk covered is not anything unlawful.

Let me illustrate some documents, and give a brief of why these are required:

- **Filled proposal form:**
To capture all information relating to the risk in one document
- **Commercial Invoice:**
Documentary evidence of the value at risk
- **Packing List:**
Documentary evidence of the quantity at risk
- **Airway Bill:**
Documentary evidence that the quantity & the value that is actually in transit.
- **Assay certificate:**
Documentary evidence of the quality of the bullion at risk.
- **Custom documents at country of export & country of import:**
Documentary evidence that the transit is legal & all dues to the respective Governments as per Law are paid.
- **Certificate of origin:**
Documentary evidence of the actual geographical source of the bullion –

While the above is required to establish identity of what is covered, there are documents called for that establishes the credibility of the people/entities we are dealing with. These would include:

Information on the supplier's presence & image in the market. As

documentary support, references may also be called for. Insurance company also ask for information/documents that establish the credibility of the supplier.

In calling for such information and validating the same, the insurance company is actually protecting us from unwittingly getting into dealings with people/entities whose legality may be suspect. In a way, they are doing a due diligence for us.

Once the credibility of the supplier is established, there is the next step of caution – to ensure the supplier, again unknowingly may be, does not source the bullion from people/entities that are not completely legal. Documents called for in this context would include

Suppliers' sourcing licenses, suppliers' export licenses, etc.

There is another angle to most of the above documentation. Many of the above documents are documents of title. The carrier of your bullion is actually an entity to whom you have entrusted your bullion for safe delivery at the defined destination. The carrier is thus holding your goods as a bailee.

If there is any loss or damage to your goods during the period the carrier is holding your goods as a bailee, the carrier is legally liable to compensate you for your loss due to such loss or damage. In reality however, most carriers restrict their

liability to you, the owner of goods, in one way or the other; and it is never quite easy to recover such compensation from carriers unless there is insurance as a backup. Your insurance company pays for your actual loss and attempts to recover whatever is possible from the carrier, getting subrogated to your rights of recovery against such carriers. For this, the documents of title being provided to the insurance company become necessary. Such recovery, made entirely at the cost of the insurance company, actually impacts your claims ratios positively, resulting in proportionately lower premium during renewal. In this way, again, insurance documentation is actually a help to us.

To sum up:

You may feel the information/documentation insurance companies call for is cumbersome; but this process benefits you,

Ensuring ease & promptitude in claim settlement and acting as your watch dog, facilitating due diligence

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