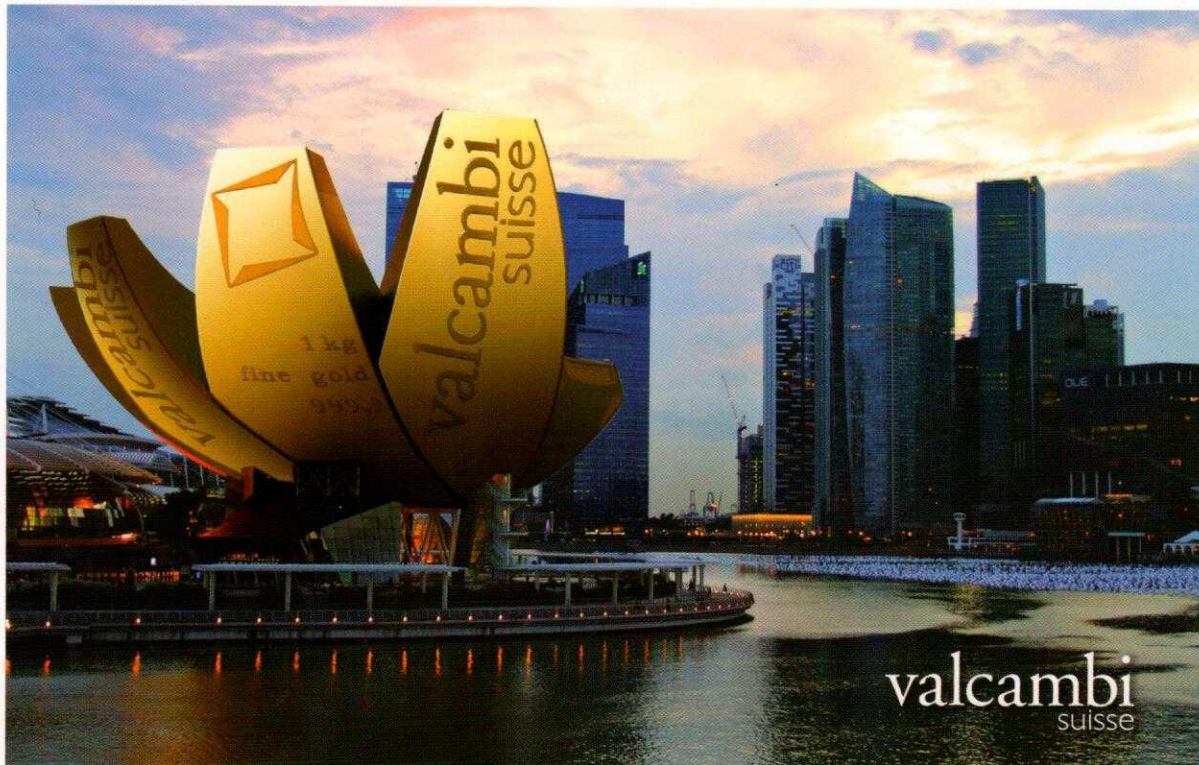


Bullion BulletinTM

Information Insights for Bullion Business

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Insurance - Get the Best of Both Worlds

Sunil Vidhate, Alliance Insurance Brokers Pvt. Ltd.

Given the volumes in exposure and the complexities involved, Indian insurance industry is averse to carrying such risks entirely on their books. Spreading of the risk through globalisation by reinsurance abroad becomes absolutely necessary. Markets abroad, especially London, do have insurance products addressing most of these risks, but, a copy paste of these products will not quite well serve the Indian industry. This industry has certain peculiarities that happen only in India.



Investment in the domain of bullion trade in India has been consistently growing over the years, at rates greater than overall investment growth. Such investment has been not just in known areas like jewellery manufacturing, but, in every process involved. Indian companies today are investing big time into importing dore (Raw form of gold) and refining the same. Almost an entire industrial area in Rudrapur, Uttarakhand consists only of facilities that carry out such refining of dore.

Indian companies are now even setting up refining plants abroad, especially in the middle east.

Investment into jewellery manufacturing is also growing leaps and bounds. This customer facing end of this domain has undergone

a seachange. Gone are the days of your home grown goldsmith being the source of jewellery. Jewellers today are major chains. And the products they dispense are customised, catering to the widest range of economic strata – the not so affluent who will still buy jewellery for the daughter's wedding to those who do not wear a watch to know time.

The said chains not alone cater to this entire economic strata, but, within all the glitter, also endeavor to create specific brands – both in terms of identity and the product.

Like all coins having two sides, the buoyancy above has also been increasing the risks involved – Physical risks, People risks, Financial risks and contingencies exclusive to this trade.

To add to this challenge, bullion also undergoes complex process changes – from dore to metal to jewelry and so on, bringing with it risks peculiar to such processes.

The product in this entire chain is constantly exposed to physical risk of loss due to theft or burglary. Unlike most other commodities, bullion, by virtue of being small in dimension but high in value, has huge susceptibility to loss due to theft. For the Indian industry, this risk commences from the time dore leaves the foreign soils, mostly Ghana, through the air voyage with storage at airports/customs, through transit within India to refining facilities, during the refining process and related storage, during transit of refined metal, through the process of jewellery manufacturing, through movement of jewellery

to the selling unit. Add to this all storage and vaulting which is an essential feature in the domain, you have the widest risk one can think of.

The industry has been mitigating these risks by relying on logistics companies that specialise in moving and vaulting high value cargo, ensuring air voyages happen in valcargos compartments of aircrafts that are designed to carry valuable cargo, increased sophistication in safety features of vaults and storages and so on.

While physical risks can thus be mitigated somewhat, the people risks continue to be a worrisome phenomenon. People involved in handling the products are all aware of the high values of the commodities on their hands. The low economic status and wages to which multitudes in India belong enhances this risk. Occasions are not rare where, trustworthy employees in service for years give in to temptation/financial stress and indulge in doing away with the product. Skill sets required for processes like refining/jewellery making, etc. are not widely prevalent causing huge dependency of the entrepreneurs in this domain on limited human resources possessing such skills. Yes, here again industry has been investing in risk mitigation practices like pre-employment due diligence, etc; but the risk continues to loom large.

There are also certain contingencies that are peculiar to this domain. Substitution of gold with inferior

metals being one. After all, all that glitters is not gold!

It is said crime always stays ahead of police. Very true of this domain. Despite continuous and laudable improvement in risk mitigation, losses continue to occur; and grow in numbers and volumes. Risk transfer through insurance therefore is a sine qua non for this industry.

Given the volumes in exposure and the complexities involved, Indian insurance industry is averse to carrying such risks entirely on their books. Spreading of the risk through globalisation by reinsurance abroad becomes absolutely necessary. Markets abroad, especially London, do have insurance products addressing most of these risks, but, a copy paste of these products will not quite well serve the Indian industry. This industry has certain peculiarities that happen only in India. Angadias, who are not employees on role, who carry crores worth of precious stones and metals in unseemly cloth bags from one part of the process chain to the other, with the only documentation of transfer of crores worth of material being a quarter page handwritten paper called the Jhangad slip, is probably the best example of the peculiarities the Indian business has!!

There is therefore the felt need of marrying the multinational insurance reserves and domain knowledge to the peculiar indigenous risks.

Alliance has developed into an authority in creating this synergy. The speciality team in Alliance, as

the very name goes, specialises in making this marriage happen. Through road shows where underwriters are interfaced with the stakeholders and processes in the industry. Some underwriters were even made to travel from Mumbai to Surat by road and rail! – and by interfacing industry investors and professionals with the underwriters. Team Alliance has successfully created the feel factor with the underwriters that is oh so critical in getting claims paid. It has also made it possible to make these underwriters provide cover for contingencies like substitution, mysterious disappearance, etc – covers that normally underwriters will not touch with a ten feet barge!! No surprise therefore that Alliance offers the widest coverage and has the best record of claim settlement.

The above almost exclusive offering from Alliance has catapulted Alliance to market leadership in the insurance of this domain – be it with diamanteers, bullion refiners or jewellers.

Yet, every new day, there is a new challenge, a new learning. Basis such learning, newer evolutions in the insurance product. This is a journey that is arduous, yet invigorating; since, what gets facilitated is a win win for all – Insurers abroad, Indian insurers and most importantly, Indian entrepreneurship in this domain.



Disclaimer: Views are personal and not the views of the publisher.