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Inside Bulletin

WESTERN INDIA REGIONAL COUNCIL
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From the Desk of Chairman . . . . . .

Dear CMA Professional Colleagues,

After a series of Lockdowns, it is my immense pleasure to greet you in Unlock 1.0. I am sure that your life is now returning to new normal and you are following all the safety measures in doing so.

The ICAI-WIRC as well as the Institute are continuing in their endeavour of providing quality knowledge using E-platform. I am happy to inform you that WIRC just celebrated its 100th CEP in the term 2019-20. It was a joyous occasion for us and we were honoured to have our President CMA Balwinder Singh sir, Vice President CMA Biswarup Basu sir, CCM CMA H. Padmanabhan sir & CCM CMA Vijender Sharma sir with us on the occasion. I put on record my appreciation by CMA Vinayak Kulkarni sir, Chairman PD Committee of ICAI-WIRC in achieving this feat. I am also thankful to the entire team of WIRC and especially our Staff for their efforts towards PD Activity.

I am hopeful that you are able to resume your professional activities. I am glad to inform you that the CAASB of ICAI has issued “Advisory on Auditing and Assurance assignments during the Period of Lockdown and Restrictions on traveling”. I am sure that the advisory will prove helpful to the professionals in handling the relevant assignments.

The situation of COVID 19 has posed many challenges for the professionals, but it has also created a lot of opportunities for professionals specially CMAs. I think it is the most apt time for the CMAs to showcase their skills in the domain of Cost & Management Accounting and help the Industry overcome this economic slowdown. If we can achieve this as a professional community, it will be a great boost to the profession for years to come. I am sure that we all will do our bit to achieve this feat. I am pleased to inform you that WIRC has resumed operations following the norms and rules as set out by the Government. At the same time I like you to note that AGM of WIRC for the current year will get a little delayed. Once the situation is normalised and we are in a position to conduct AGM, I will inform you about the same.

On 21st June we celebrate International Yoga Day. To mark this occasion the Institute is organising a Yoga Session from 6.30 am to 7.30 am. The session will focus on Yoga Exercises for Sedentary Lifestyle. I understand that the timing is of early morning, but let’s participate in this initiative of the Institute and rejuvenate our mind, soul & body.

I am pleased to inform you that the Pre-Campus Training for the recently passed out students, which was halted due to COVID 19 Lockdown, will now resume through the E-Learning Mode. It will be handled centrally through the HQ. I appeal all the members, especially in the Industry to help these young professionals in getting recruitment. WIRC & Institute can arrange for Online Interview Process, I request the members to please help us in this regards by providing leads on the recruitment requirements. It is our responsibility as professionals to support the new CMAs to help them start their career. Let’s support the Future of our Profession.

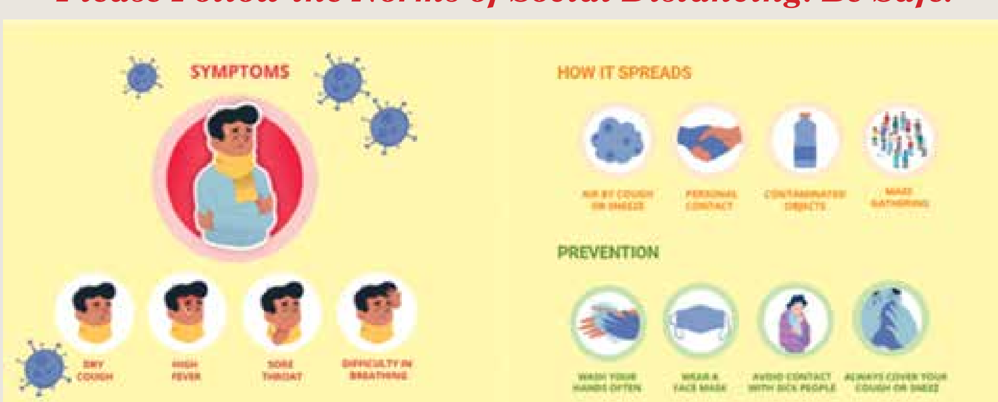
“Help others achieve their dreams and you will achieve yours — Les Brown”

I once again request you to follow all the safety norms and encourage other to do so. Stay Healthy & Stay Safe !

Sincerely Yours,

CMA Neeraj Dhananjay Joshi
Chairman, ICAI-WIRC

Please Follow the Norms of Social Distancing. Be Safe.



From Desk of Chief Editor . . . . . . ✍

Dear CMA Professional Colleagues,

Hope you are doing well and taking care of yourself and your family. Under unlock -1, you have started your professional work in full fledge. Practice professionals now getting busy in audit and compliance work. WIRC during this lock down period continue to serving members and student in all respect. As part of the same, WIRC bring out E version of WIRC bulletin for the month of June, 2020 for professional update and knowledge sharing.

Theme for the month of June 2020 decided is "Insurance". During this lockdown period MSMEs are very badly affected and government had also announced various schemes for uplift MSMEs. So, we have also decided to include MSME in our theme. Hence, this month we have dual theme – "Insurance" and "MSMEs". Due to COVID -19, whole world is facing health crises. Hence the importance of Insurance sector increased much more. For Insurance sector, costing of its various product is very important to sustain in the market. MSME sector is backbone of Indian economy. Government of India had taken various steps to review MSME sector during this pandemic situation. One of the major changes is the definition of MSMEs. We have received around 9 articles on the themes. Articles on the theme are published as cover story. We are also publishing articles on other professional matters. I am thankful to all authors for providing articles and making WIRC bulletin a Knowledge Pack.

We have also start publishing interview of CMAs who had reached a respectable position like CFO, VP, Director etc. Objective of the same to share their experience with CMA fraternity. It will inspire young CMAs for making future brighter. In this bulletin, we have published interview of CMA G. Srinivasn Director of the National Insurance Academy, Pune. I thank CMA Chaitanya Mohrir, RCM for conducting the interview. I request our proud CMAs who reach this highest position during their career to share their experience with CMA fraternity. Place reach us so that we can conduct interview.

Women empowerment is also one of the needs of the hour. We have also decided to publish at least one article from lady CMA. In response to our appeal we have received 3 articles from lady CMA. I hope that we will get such excellent response from lady CMAs in future also.

I urge members to share knowledge by way of article to make WIRC Bulletins Knowledge Pack.

We welcome suggestion and feedback for betterment of WIRC Bulletin.

Stay Safe

Happy Reading !!!

With Ward Regards

CMA Ashish Bhavsar
Chairman, Editorial Board

Introduction to IRDAI and History of insurance in India

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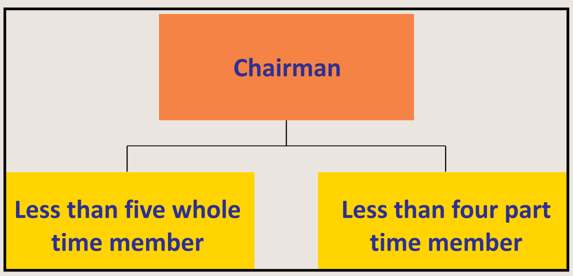
Dear Professional colleagues,

Introduction:

A dictionary meaning of insurance is, "an agreement with a company (insurer) in which you (Insured) pay them regular amounts of money and they agree to pay cost of it, for example, you die or ill, or if you lose or damage something. But in layman language insurance is nothing but, pay certain calculated premium amount to insurer make good loss which will arise in uncertain future.

To provide for the establishment of an Authority to protect the interests of holders of insurance policies, to regulate, promote and ensure orderly growth of the insurance industry and for matters connected therewith and further to amend the Insurance Act, 1938, the Life Insurance Corporation Act, 1956 and the General Insurance Business(Nationalization) Act, 1972.



Insurance Regulatory Development Authority of India: Composition and Authority:

- All above person are appointed by the central government.
- Person having ability, integrity and having knowledge in finance accounts, general insurance, life insurance, actuarial science, economics, law, accountancy, administration, or any other discipline which would, in the opinion of the Central Government, be useful to the authority.

Tenure of the chairperson and member:

- The chairperson and whole time member shall hold office for five year and shall reappointed.
- No chairman shall hold office after attainment of his age sixty five year.
- No member shall hold office after attainment of his age sixty two year.
- A part-time member shall hold office for a term not exceeding five years.

Removal from Office

Central government may remove member in the following cases: the member who,

- Has at any time has been, adjudged as an insolvent; or
- Has become physically or mentally incapable of acting as a member; or
- Has been convicted of any offence which, in the opinion of the Central Government, involves moral turpitude; or
- Has acquired such financial or other interest as is likely to affect prejudicially his functions as a member; or
- Has so abused his position as to render his continuation in office detrimental to the public interest.

History of insurance in India:

In India insurance was mentioned in the writings of Manu (Manusmrithi), Yagnavalkya (Dharmasastra and Kautilya (Arthashastra), which examined the pooling of resources for redistribution after fire, floods, epidemics and famine. the life-insurance business began in 1818 with the establishment of the Oriental Life Insurance Company in Calcutta. the company failed in 1834. In 1829, Madras Equitable began conducting life-insurance business in the Madras Presidency. The British Insurance Act was enacted in 1870, and Bombay Mutual (1871), Oriental (1874) and Empire of India (1897) were founded in the Bombay Presidency. The era was dominated by British companies.

- The Indian Life Assurance Companies Act, 1912 was the first statute regulating life insurance.
- In 1928 the Indian Insurance Companies Act was enacted to collect the information about life and non-life insurance business conducted by the Indian and foreign companies.
- On January 19, 1956, life insurance sector was nationalized and Life Insurance Corporation was established.
- The LIC absorbed 154 Indian and 16 non-Indian insurers and 75 provident societies.
- Until late 1990 LIC had monopoly before.
- General insurance in India began during the 17th century.
- In 1907 the Indian Mercantile Insurance was established, the first company to underwrite all classes of general insurance.
- In 1957 the General Insurance Council (a wing of the Insurance Association of India) was formed, framing a code of conduct for fairness and sound business practice.
- In 1972, with the passage of the General Insurance Business (Nationalization) Act, the insurance industry was nationalized on 1 January 1973.
- 170 insurer were amalgamated and was group into National Insurance Company, New India Assurance Company, Oriental Insurance Company and United India Insurance Company.
- In 1993, the central government has set up a committee chaired by the RBI governor R. N. Malhotra to propose recommendation to reform finance sector. Committee has recommend to permit private sector in insurance industry. And foreign company with the joint venture of indian companies.
- On the recommendation of the Malhotra committee government has set up IRDAI (Insurance Regulatory and development Authority of India) in April 2000.
- Objectives of the IRDA include promoting competition to enhance customer satisfaction with increased consumer choice and lower premiums while ensuring the financial security of the insurance market.
- The IRDA opened up the market in August 2000 with an invitation for registration applications; foreign companies were allowed ownership up to 26 percent.
- In 2013 the IRDAI attempted to raise the foreign direct investment (FDI) limit in the insurance sector to 49 percent from its current 26 percent. The FDI limit in the insurance sector was raised to 100 percent according to the budget 2019.

Fundamentals of Insurance

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Introduction

In one form or another, we all own/buy insurance. Whether it's auto, medical, liability, disability or life, insurance serves as an excellent risk-management and wealth-preservation tool. Having the right kind of insurance is a critical component of any good financial plan. While most of us own insurance, many of us don't understand what it is or how it works. In this tutorial, we'll review the basics of insurance and how it works, then take you through the main types of insurance out there.

What Is Insurance?

Insurance is a form of risk management in which the insured transfers the cost of potential loss to another entity in exchange for monetary compensation known as the premium. Insurance allows individuals, businesses and other entities to protect themselves against significant potential losses and financial hardship at a reasonably affordable rate. We say "significant" because if the potential loss is small, then it doesn't make sense to pay a premium to protect against the loss. After all, you would not pay a monthly premium to protect against a $50 loss because this would not be considered a financial hardship for most. Insurance is appropriate when you want to protect against a significant monetary loss. Take life insurance as an example. If you are the primary breadwinner in your home, the loss of income that your family would experience as a result of our premature death is considered a significant loss and hardship that you should protect them against. It would be very difficult for your family to replace your income, so the monthly premiums ensure that if you die, your income will be replaced by the insured amount. The same principle applies to many other forms of insurance. If the potential loss will have a detrimental effect on the person or entity, insurance makes sense. (For more insight, see 15 Insurance Policies You Don't Need.) Everyone that wants to protect themselves or someone else against financial hardship should consider insurance. This may include:

- Protecting family after one's death from loss of income
- Ensuring debt repayment after death
- Covering contingent liabilities
- Protecting against the death of a key employee or person in your business
- Buying out a partner or co-shareholder after his or her death
- Protecting your business from business interruption and loss of income
- Protecting yourself against unforeseeable health expenses
- Protecting your home against theft, fire, flood and other hazards
- Protecting yourself against lawsuit
- Protecting yourself in the event of disability
- Protecting your car against theft or losses incurred because of accidents

Fundamentals Of Insurance

How does insurance work? Insurance works by pooling risk. What does this mean? It simply means that a large group of people who want to insure against a particular loss pay their premiums into what we will call the insurance bucket, or pool. Because the number of insured individuals is so large, insurance companies can use statistical analysis to project what their actual losses will be within the given class. They know that not all insured individuals will suffer losses at the same time or at all. This allows the insurance companies to operate profitably and at the same time pay for claims that may arise. For instance, most people have auto insurance but only a few actually get into an accident. You pay for the probability of the loss and for the protection that you will be paid for losses in the event they occur.

Risks

Life is full of risks - some are preventable or can at least be minimized, some are avoidable and some are completely unforeseeable. What's important to know about risk when thinking about insurance is the type of risk, the effect of that risk, the cost of the risk and what you can do to mitigate the risk. Let's take the example of driving a car.

Type of risk: Bodily injury, total loss of vehicle, having to fix your car

The effect: Spending time in the hospital, having to rent a car and having to make car payments for a car that no longer exists

The costs: Can range from small to very large

Mitigating risk: Not driving at all (risk avoidance), becoming a safe driver (you still have to contend with other drivers), or transferring the risk to someone else (insurance)

Let's explore this concept of risk management (or mitigation) principles a little deeper and look at how you may apply them. The basic risk management tools indicate that risks that could bring financial losses and whose severity cannot be reduced should be transferred. You should also consider the relationship between the cost of risk transfer and the value of transferring that risk.

Risk Control : There are two ways that risks can be controlled. You can avoid the risk altogether, or you can choose to reduce your risk.

Risk Financing : If you decide to retain your risk exposures, then you can either transfer that risk (ie. to an insurance company), or you retain that risk either voluntarily (ie. you identify and accept the risk) or involuntarily (you identify the risk, but no insurance is available).

Risk Sharing : Finally, you may also decide to share risk. For example, a business owner may decide that while he is willing to assume the risk of a new venture, he may want to share the risk with other owners by incorporating his business.

So, back to our driving example. If you could get rid of the risk altogether, there would be no need for insurance. The only way this might happen in this case would be to avoid driving altogether. Also, if the cost of the loss or the effect of the loss is reasonable to you, then you may not need insurance.

For risks that involve a high severity of loss and a low frequency of loss, then risk transference (ie. insurance) is probably the most appropriate protection technique. Insurance is appropriate if the loss will cause you or your loved ones a significant financial loss or inconvenience. Do keep in mind that in some instances, you are required to purchase insurance (i.e. if operating a motor vehicle). For risks that are of low loss severity but high loss frequency, the most suitable method is either retention or reduction because the cost to transfer (or insure) the risk might be costly. In other words, some damages are so inexpensive that it's worth taking the risk of having to pay for them yourself, rather than forking extra money over to the insurance company each month.

The Risk Management Process

After you have determined that you would like to insure against a loss, the next step is to seek out insurance coverage. Here you have many options available to you but it's always best to shop around. You can go directly to the insurer through an agent, who can bind the policy. The process of binding a policy is simply a written acknowledgement identifying the main components of your insurance contract. It is intended to provide temporary insurance protection to the consumer pending a formal policy being issued by the insurance company. It should be noted that agents work exclusively for the insurance company. There are two types of agents:

1. Captive Agents: Captive agents represent a single insurance company and are required to only do business with that one company.
2. Independent Agent: Independent agents represent multiple companies and work on behalf of the client (not the insurance company) to find the most appropriate policy.

Underwriting

Underwriting is the process of evaluating the risk to be insured. This is done by the insurer when determining how likely it is that the loss will occur, how much the loss could be and then using this information to determine how much you should pay to insure against the risk. The underwriting process will enable the insurer to determine what applicants meet their approval standards. For example, an insurance company might only accept applicants that they estimate will have actual loss experiences that are comparable to the expected loss experience factored into the company's premium fees. Depending on the type of insurance product you are buying, the underwriting process may examine your health records, driving history, insurable interest etc.

The concept of "insurable interest" stems from the idea that insurance is meant to protect and compensate for losses for an individual or individuals who may be adversely affected by a specific loss. Insurance is not meant to be a profit center for the policy's beneficiary. People are considered to have an insurable interest on their lives, the life of their spouses (possibly domestic partners) and dependents. Business partners may also have an insurable interest on each other and businesses can have an insurable interest in the lives of their employees, especially any key employees.

Insurance Contract

The insurance contract is a legal document that spells out the coverage, features, conditions and limitations of an insurance policy. It is critical that you read the contract and ask questions if you don't understand the coverage. You don't want to pay for the insurance and then find out that what you thought was covered isn't included.

Insurance terminology :

Bound: Once the insurance has been accepted and is in place, it is called "bound". The process of being bound is called the binding process. Insurer: A person or company that accepts the risk of loss and compensates the insured in the event of loss in exchange for a premium or payment. This is usually an insurance company.

Insured: The person or company transferring the risk of loss to a third party through a contractual agreement (insurance policy). This is the person or entity who will be compensated for loss by an insurer under the terms of the insurance contract.

Insurance Rider / Endorsement: An attachment to an insurance policy that alters the policy's coverage or terms.

policy may be purchased to cover losses above the limit of an underlying policy or policies, such as homeowners and auto insurance. While it applies to losses over the dollar amount in the underlying policies, terms of coverage are sometimes broader than those of underlying policies.

Insurable Interest: In order to insure something or someone, the insured must provide proof that the loss will have a genuine economic impact in the event the loss occurs. Without an insurable interest, insurers will not cover the loss. It is worth noting that for property insurance policies, an insurable interest must exist during the underwriting process and at the time of loss. However, unlike with property insurance, with life insurance, an insurable interest must exist at the time of purchase only. Now that you have the basics of insurance, let's discuss specific types of policies.

Synopsis of General Insurance in India

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HISTORY : In India, Insurance has a deep-rooted history. It was noted mentioned in Manu (Manusmurthi) Dharmasastra & kautilya (Arthsastra) pooling of resources for re-distribution in time of calamities Such as Fire, Floods, Epidemics & Famine etc. Modern insurance in the world started in the year 1686 by Lyod's London UK, started for marine insurance.

Modern General Insurance business in India dates back as old as 1850. In 1907, the Indian Mercantile Insurance Company Ltd., was set up. This was the first company to transact all classes of general insurance business in India. In 1938,with a view to protect the interest of the insurance public, the earlier legislation was consolidated and amended by the Insurance Act,1938 with comprehensive provisions for effective control over the activities of insurers.

In 1972, the General Insurance Business (Nationalisation) Act, general insurance business was nationalised with effect from 1st January 1973. 107, General insurers were nationalised to bring them under 4 Companies having their Head Offices, The Oriental Insurance Company Ltd., at Delhi, National Insurance Company Ltd.,at Calcutta,United India Insurance Company Ltd., at Madras & The New India Assurance Company Ltd., at Mumbai.

Following the recommendations of the Malhotra Committee Report in 1994, in the year 1999, Insurance Regulatory and Development Authority (IRDA) was constituted as an autonomous body to regulate and develop the insurance industry. Malhotra Committee also recommended that the private sector be permitted to enter in the insurance industry & accordingly private insurance companies are also working in the country & public is getting competitive services in general insurance.

General Insurance Corporation of India was parent company of 4 subsidiaries but in December 2000, all the 4 nationalised companies were allowed to work independently in competition with private sector insurance companies. General Insurance Company was converted into a national re-insurer.

Three main sectors of insurance are prevailing in our country at present:

LIFE INSURANCE

GENERAL INSURANCE

RE-INSURANCE

There are number of hazards in practical life causing losses to Building, Machinery, Stock, Property & Manpower working for the business & industry. Motor accidents are seen in general & eye catching of general public. To cover the risk for such losses such Insurance policies are designed to cater the need of the public concerned to indemnify them in case of losses due to insured perils.

There are number of branches of insurance to cover various types of risks suitable to various types of business, industry & property for safety of the insured public namely:-

A. FIRE INSURANCE,

B. MOTOR INSURANCE,

C. MARINE INSURANCE,

D. MISCELLANEOUS INSURANCE,

E. ENGINEERING INSURANCE,

F. NON-TRADITIONAL INSURANCE,

G. CONSEQENTIAL LOSS INSURANCE,

A. FIRE INSURANCE: From 2001, FIRE POLCIY covering almost all the perils earlier covered was now renamed as THE STANDARD FIRE & SPECIAL PERILS POLICY & is effective today, covering following perils (cause of loss) inbuilt in the policy.

1.FIRE, 2. LIGHTNING, 3. EXPLOSION/IMPLOSION, 4. RIOT & STRIKE & MALICIOUS DAMAGE, 5. STORM, CYCLONE, TYPHOON, TEMPEST, HURRICANE, TORNADO, FLOOD & INDUDATION (ACT OF GOD PERIL), 6. IMPACT DAMAGE, 7. SUBSIDENCE AND LANDSLIDE INCLUDING ROCKSLIDE, 8. BURSTING AND OVERFLOWING OF WATER TANKS, APPARATUS & PIPES, 9. AIR CRAFT DAMAGE, 10. MISSILE TESTING OPERATIONS, 11. LEAKAGE FROM AUTOMATIC SPINKLER INSTALLATION, 12. BUSH FIRE.

There may be further risks attached to the property due to its inherent nature/circumstances, can be covered as ADD ON COVERS on payment of additional premium, according to the requirement of the insured.

1. ARCHITECTS, ETC. FEE IN EXCESS OF 3%,
2. DEBRIS REMOVAL IN EXCESS OF 1%,
3. DETERIORATION OF STOCKS IN COLD STORAGE DUE TO POWER FAILURE, CAUSED DUE TO AN INSURED PERIL.
4. EARTHQUAKE,
5. FOREST FIRE,
6. IMPACT DAMAGE DUE TO INSURED'S OWN VEHICLE,
7. LEAKAGE & CONTAMINATION,
8. RENT FOR ALTERNATE ACCOMODATION,
9. SPOILAGE MATERIAL DAMAGE,
10. SPONTANEOUS COMBUSTION,
11. START UP EXPENSES,
12. TEMPORAY REMOVAL OF STOCK.

B. MOTOR INSURANCE:

Motor insurance is well known by public at large since third party insurance of any vehicle on road is compulsory as per Motor Vehicle Act in India. At the time of any motor accident insurance formalities are required to be completed to get the indemnification of loss. There are, two types of covers generally issued by underwriters:-

1. Package Policy covers own vehice damage, third party risk, loss to passengers, driver coverage etc.as per requirement of the insured.
2. Third party insurance, covers the risk for damage to third party by the insured vehicle which is must for a vehicle as per Motor Vehicle Act.

C. MARINE INSURANCE:

Dictionary meaning of MARINE denotes, of sea, whereas in insurance marine mean in transit either by sea/ rail/road etc. Modern insurance originally started as Marine insurance in the world to cover the risk of transportation of merchandise by sea. Instances are available that traders from Bharuch & Surat used to send merchandis to

Lanka, Egypt & Greece using such type of marine contracts for their safety long back.

Marine insurance covers in two parts:

1. MARINE CARGO:

It covers the risk in transit of the merchandise(cargo) by sea/ rail/road etc from one place/country to other place. Loss due to any of the perils covered while in transit is indemnified by the underwriters(insurer)

2. MARINE HULL:

This covers the risk of ship/vessel. Loss to the ship/vessel insured is payable to the extent damaged, covered in the insurance policy.

D. MISCELLANEOUS INSURANCE:

Underwriters provide various types of insurance policies to suit the requirement of public at large according to time, place & circumstances prevailing in the country. Basic purpose of the underwriters is to safe guard the public at large from the hazards, proximity of which is seen in the public.

Following insurance covers broadly are available in the market:

1. ALL RISK INSURANCE FOR JEWELLERY,
2. BANKERS INDEMNITY INSURANCE,
3. BURGLARY & HOUSE BREAKING INSURANCE,
4. CARRIERS LIABILITY INSURANCE,
5. FIDELITY GUARANTEE INSURANCE,
6. HOUSEHOLDERS INSURANCE,
7. JEWELLERS BLOCK INSURANCE(FOR TRADERS),
8. MEDICALAIM INSURANCE,
9. MONEY INSURANCE,
10. MULTI PERILS INSURANCE FOR LPG DEALERS,
11. OVERSEAS TRAVEL MEDICAL INSURANCE,
12. PERSONAL ACCIDENT INSURANCE,
13. PUBLIC LIABILITY INSURANCE,
14. PLATE GLASS INSURANCE,
15. PROFESSIONAL INDEMNITY INSURANCE,
16. SHOPKEEPER'S INSURANCE,
17. WORKMEN'S COMPENSATION INSURANCE,

E. ENGINEERING INSURANCE:

This insurance is meant for industry at large for damages to the plant & machinery. Underwriters will indemnify the insured for the loss occurred by an insured peril.

Following insurance policies are generally issued to the public as required from time to time to safeguard them from the loss if any to take place while running the industry or setting up plant & machinery. Composite policies are being issued covering various property involved in setting up a new project or expansion/ renovation in the industry :

1. BOILER INSURANCE,
2. ELECTRONIC EQUIPMENT INSURANCE,
3. LOSS OF PROFIT MACHINERY INSURANCE,
4. ERECTION INSURANCE,
5. MARINE CUM ERECTION INSURANCE,
6. STORAGE CUM ERECTION INSURANCE,
7. MACHINERY BREAKDOWN INSURANCE,
8. REFERIGERATION PLANT INSURANCE,
9. SOLAR INSURANCE.

F. NON TRADITIONAL INSURANCE:

To cater the need of the social security, various insurance policies are designed to indemnify the losses suffered by insured from time to time, e.g. Cattle insurance, Honey Bee insurance, Fishing insurance, etc or any other insurance which may be notified by the Central Government from time to time.

G. CONEQENTIAL LOSS INSURANCE:

As the name denotes itself, due to operation of any of the perils of the policy, loss causes to the insured & payable in the policy, then the resultant loss due to non working of the industry/business of the insured, causing direct monetary loss to the insured is payable under such type of policy.

Such policies are issued for broking of fire, breakdown of machinery, the production is stopped whereas regular expenses are to be incurred by the insured, can be indemnified under such policies. However, proper accounting records & details are required to be maintained by the insured to arrive at the indemnification.

General insurance is governed by special principles namely:

1. UTMOST GOOD FAITH: Facts & figures given in the proposal form are taken as correct in good faith & they got bearing on the claim if found untoward.
2. INSURABLE INTEREST: Insured must have the insurable interest in the subject matter of the claim at the time of loss.
3. INDEMNITY: Underwriters will make good the loss subject to policy conditions so that the insured get proper indemnification of the loss suffered.
4. SUBROGATION: If any culprit is found causing the loss & responsible for the same after making the payment of the claim, underwriters are entitled to get subrogation from the insured to recover such loss from the responsible party.
5. CONTRIBUTION: Due to some reason or other, if more than one insurance has been taken on the same subject matter of loss, main underwriters got the right to recover from other underwriters, their prorata contribution from such underwriters, details of which are to be declared by the insured before the claim is paid.

General insurance is subject to mainly:-

* There are certain exclusions under the policy.
* Terms conditions & warranties are part of the insurance, specified in the policy issued to the insured.

General insurance is meant for great safety of the public in business/industry & for social security. Premium generally paid is very minor amount, comparing to the indemnification of loss to the insured. Public awareness is required in modern world where hazards are much more, to take proper insurance looking to the need/hazards prevailing in the practical life.

■

Business Interruption (BI) Insurance

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This article focusses on Business Interruption (BI) insurance (also known as Business Income Insurance) which is a relatively less popular insurance coverage as compared to other coverages. However, this article highlights its meaning and importance in depth. It also explores how the BI coverage has been perceived globally for business loss claims arising due to COVID 19.

1. What is a Business interruption insurance?

BI Insurance is an insurance that provides coverage against loss of income when your business is shut down due to a covered peril.

Covered perils usually include:

- Fire
- Theft
- Earthquakes
- Floods
- Wind

The following illustrations will help us understand BI Insurance:

a. Your shop catches a fire, as a result of which your business needs to shut down while you repair the damages. In this case if you have a BI insurance, it can help pay your lost income during this time.

b. Thieves break in and steal valuable inventory from your electronics store, due to which, you have to temporarily shut down while you replace your inventory. Your BI insurance can help cover your lost income during this time.

c. You own a factory and an earthquake hits in your area and your building suffers from extensive damage. As a result, you must shut down your operations to repair the damages. Your BI insurance can help cover your lost income during this time of restoration.

2. Is Business Interruption insurance different from a Commercial Property Insurance?

BI insurance is one of the most overlooked business insurance policies. Many business owners misunderstand the difference between a commercial property insurance and BI. A commercial property insurance policy only covers against the physical damages to property caused due to the event and not the resultant financial loss of business income due to interruption of business. A BI insurance coverage is usually an add on policy to the commercial property insurance policy.

Example: A heavy rainfall causes serious water damage at a restaurant. The expected repair & renovation time is over 6 months. While commercial property insurance covers the cost of repairs, the owner can't make money while the restaurant is under repairs. In such a scenario the BI insurance helps recoup the lost revenue.

3. What does a Business Interruption Insurance cover?

Most BI insurance cover the following items:

- Lost revenue

  Based on previous financial records and performance of the business, a policy will provide reimbursement for profits that would have been earned had the event not occurred.

- Fixed costs

  These can include operating expenses and other incurred costs of doing business. E.g. The businesses might have to continue paying rent or lease payments even while the business is not making money, such fixed cost would get covered.

- Relocation to temporary location

  Some policies cover the costs involved with moving to and operating from a temporary business location. E.g. An intruder breaks into an office, vandalizing the office and breaking several windows. The business is forced to relocate to a new office space until the windows and locks are replaced. BI insurance pays for moving costs and rent at the new location.

- Commission and training cost:

  In case a company needs to replace machinery and retrain personnel to use the new machinery due to the event, the policy would cover these costs.

- Employee wages

  Coverage of wages is essential if a business does not want to lose employees while shutting down. This coverage can help a business owner continue paying salaries when they cannot operate. E.g. A pipe bursts outside a shop, flooding the shop and destroying walls, carpeting, and furnishings. The shop is forced to close for a month for renovation and replacing inventories. BI insurance helps the firm meet payroll obligations while the repairs are underway.

- Taxes

  Even when disaster hits, businesses will have to continue paying the taxes. BI coverage will ensure a business can pay taxes on time and thereby avoid penalties.

- Loan payments

  Loan payments are often due monthly. BI coverage can help a business make those payments even when they are not generating income. E.g. An electronics showroom is forced to suspend business after a massive fire destroys the premises. While the business isn't functioning and bringing in revenue, it would still need to make monthly payments on a business loan taken prior to the event.

4. What does a Business interruption insurance not cover?

- Property damage

  BI insurance covers the financial but not material costs of a temporary shutdown. Property damage caused due to the event is covered by commercial property insurance.

Example: A fire is caused at a factory, that destroys machinery and inventory and causes need for major repairs. Commercial property insurance pays to replace the machinery and inventory and for repairs to the building. However, a BI insurance compensates the business for the revenue it lost while recovering from the disaster i.e. a temporary closure of the factory in this example.

- Extra expenses

  Extra expense means expenses over and above the regular expenses paid for running business. e.g. Cost of leasing an equipment, hiring temporary staff that can help get the business up and running. BI insurance usually covers only for fixed costs during a temporary shutdown and not for the extra expense. Extra expenses can be covered by taking an extra expense coverage as an add on policy.

  Example: A earthquake leaves a small town without power and electricity, forcing a local nursing home to close. The nursing home provides essential medical services, which it needs to resume as soon as possible. Extra expense coverage would help the nursing home to lease new equipment and pay its staff overtime so it can respond effectively to the crisis.

- Contingent business interruption

  BI insurance only covers losses caused directly by your own businesses closure, however at times your business can suffer indirectly when another company that you're dependent on shuts down temporarily or permanently due to property damage. A basic BI policy would not cover such a loss. A contingent BI insurance policy can be considered in such cases which covers you for the loss caused by loss of a primary supplier, partner, or customer affecting your ability to do business. This add on policy is highly advisable when your business is dependent on a single supplier/manufacturer or on a few major customers etc.

5. Does business interruption insurance cover loss of business income due to lockdown caused by COVID 19?

The question whether BI insurance covers business loss caused due to lockdown as a result of COVID 19 is trending globally. The answer here is usually 'No'. In India, BI Insurance is sold as a coverage along with commercial property insurance and not as a standalone policy. Hence BI cover can be taken only along with an underlying insurance policy for the covered peril e.g. fire insurance or as industrial all-risk insurance which covers both property damage and BI. Hence for the BI cover to trigger, it is necessary for the property insured to suffer physical damage due to a covered peril such as fire, flood or earthquake. Since the temporary closure of business is caused due to lockdown and not due to any physical damage to the property, the physical damage trigger does not get evoked. A public advisory regarding exclusion of COVID 19 from BI coverage was issued by General Insurance Council (GIC)[1] Re of India on 21st April 2020. This advisory is being opposed by the effected class of businesses in India.

Globally too, businesses are claiming COVID 19 business losses under Notifiable disease/infectious disease extensions available in few countries under the ambit of BI policy. This extension will apply if a disease is found on the premises or within the vicinity. It will cover situations where premises have been infected by a highly contagious disease and needs to be closed for deep cleaning and disinfection. Depending on the wordings of the contract, businesses may be able to claim COVID 19 business losses if the policy extension covers "notifiable diseases" instead of a "specified list" of diseases. Also there needs to be a reported corona case in your premises or nearby vicinity to be able to claim. Hence this extension also provides limited respite to the businesses as most policies have a "specified list" of diseases and since COVID 19 is a new disease it is unlikely to be specified in existing insurance covers. Also an owner deciding to shut down as a precautionary measure without any reported case, will not be covered under the policy.

Businesses are also taking respite for COVID 19 business losses under the "Denial of access" extension under the BI policy. A denial of access extension will apply if you are required to close your business under the orders of an appropriate authority in the context of an emergency. It will cover situations where access to a business is prevented or restricted due to a nearby incident, for example a gas leak. Again it is interesting to note that voluntary suspension of operations, to avoid spreading the virus before the official notification has been announced by the appropriate authority, would not be able to claim on their policies.

There is uncertainty whether policies provide cover for losses arising from COVID-19. In future it remains to be seen whether insurers will develop tailor made policies providing specific cover by way of an extension to the traditional BI policy or whether BI policies will continue to be narrowly drafted and exclude coverage for infectious diseases and pandemics.

6. Should businesses consider taking a Business Interruption Insurance Coverage?

There is no standard reply to this answer, it would depend and vary from business to business. No one can predict an event like fire, flood, earthquake etc. Nor can one predict the extent of destruction that it shall cause to your business. Some businesses may have a well-defined business continuity plan which might help them to take a faster response to such events and thereby not affecting their business's ability to continue its operations. e.g. a firm affected by a fire could move into a co working space and continue its operations.

However, if your business is such that it maintains huge quantities of stock, or has state of the art technology which cannot be restored in a short span then you should consider looking at a BI policy to help you get back on your feet. We must also consider other non-economic factors like losing out customers if the business remains shut for a short span, as these could impact your revenues in the long term.

Businesses must carefully understand the features, inclusions and exclusions of a BI Policy and assess their need to take a BI coverage. Special attention must be paid to ensure that appropriate add on policies are taken to suit the business needs and provide maximum required coverage.

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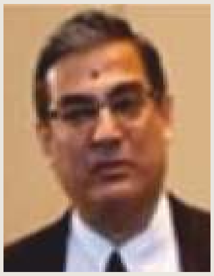
[1]*The advisory is available at: https://www.gicouncil.in/media/3878/gi-council_public-advisory.pdf*



Parametric Insurance – Filling In The Gaps

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"Justice is the insurance which we have on our lives and property. Obedience is the premium which we pay for it."

William Penn

Abstract

On 7th September 2004, Hurricane Ivan hit Grenada with wind speeds of 125 mph (200 kmph). It wreaked havoc with infrastructure, economy & lives. This tiny island in the Caribbean region, also called "Spice Isle", (population 100,000), was devastated with 90% of homes destroyed. & total losses estimated at over 200% of GDP! (GDP US$1 billion)

Traditional insurance does not always have an answer to such calamities. By July 2005, insurance companies had settled over 5,000 claims & paid out over US$154 million. This seems rather inadequate does it not?

Enter Parametric, or Index-based insurance. It seeks to fill in the gaps left over by traditional insurance. It is imperative to understand at the very outset, that parametric insurance is complementary to, & NOT a substitute for traditional insurance.

Introduction

"Dear Jelly & Co.,

We have observed that an earthquake of magnitude 7 on the Richter's scale has occurred on ______, with its epicentre within a 10 mile radius from your factory at ___________.

As per the terms of your insurance policy with us, you are entitled to a 40% pay-out, or $4 million, on the sum assured of $10 million.

This amount will shortly be credited to your bank account. The discharge documents are appended for your signature & return.

Thank you for trusting us at Bell-weather Insurance. We hope to have your continued patronage."

Respected Reader, if you're thinking, "That's not how insurance works." "Hah! If only it were so easy."…please think again.

With a few tweaks & some caveats this is indeed, how Parametric Insurance works. In effect, it can fill in the gaps left over by conventional insurance & it can be vital in supporting entire countries & communities, especially when natural calamities strike.

Quick Primer on Risk

Risk is the probability that the actual outcome will differ (+ or -) from the one planned. For this discussion however, it will be understood simply as the probability of a loss.

Peril is the cause of the loss (in the Grenada example above, the peril was Hurricane Ivan)

Hazard is a condition that increases the chances of the loss. Hazards increase the risk of a specific peril.[1]

Pure risk consists of only two possible outcomes; loss, or no loss.

Speculative risk includes profit, break-even & loss (all deviations from the expected value(s)). A simple example is purchase of a stock (share).

Methods of Managing Risk[2]

The foundation of good risk management is identifying all forms of risk & loss.[3]

Risk Absorption: Accept the entire risk and fund it yourself

Risk Mitigation: e.g. fire prevention & fire-fighting equipment

Risk Avoidance: I can avoid the risk of drowning at sea by not going near the sea

Risk Transfer: e.g. insurance

Usually, a combination of these methods is used. It is

[1] Smoking is both, a peril (causes ailments), & a hazard (increases the chances of contracting these diseases)

[2] Extract from Handbook of Performance Management, by the author.

[3] Of course, we do not know every possible outcome. This is a "best-efforts" endeavour.

apparent from the above that Risk Management is a broader concept than Insurance Management."

We shall focus our efforts on pure risk alone. Risk transfer can be done using traditional insurance, or alternative risk transfer.

How Does It Work?

Figure 1 outlines how a typical parametric insurance cover works.

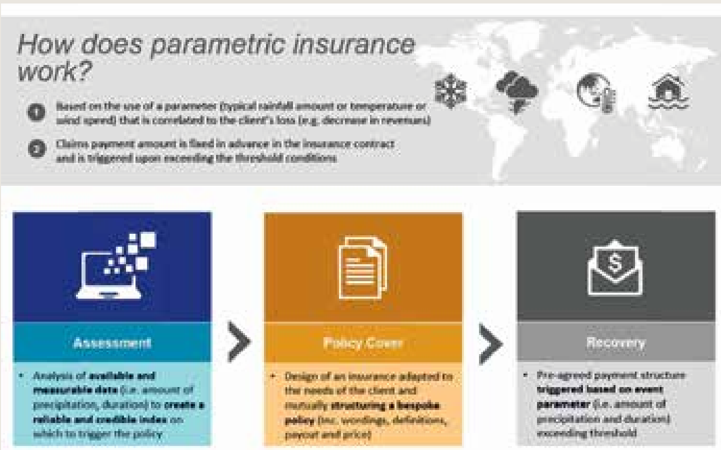


Figure 1: How does parametric insurance work?

Parametric insurance is based on an index or parameter, identified in advance (rainfall, temperature, magnitude of earthquake), which is correlated to the loss (crop damage, loss of business, large-scale destruction caused by a natural calamity).

The quantum of claim payouts are specified up-front in the insurance document, once the contract is triggered (the event being protected against happens, & it breaches an agreed-upon level of the index.)

For e.g., in the case of protection against floods, (Figure 2) the trigger is the flood height in meters. Once this threshold is triggered, the insurance money becomes payable, based on two parameters: viz.

a) The flood height, &

b) The proximity (inner & outer radius)

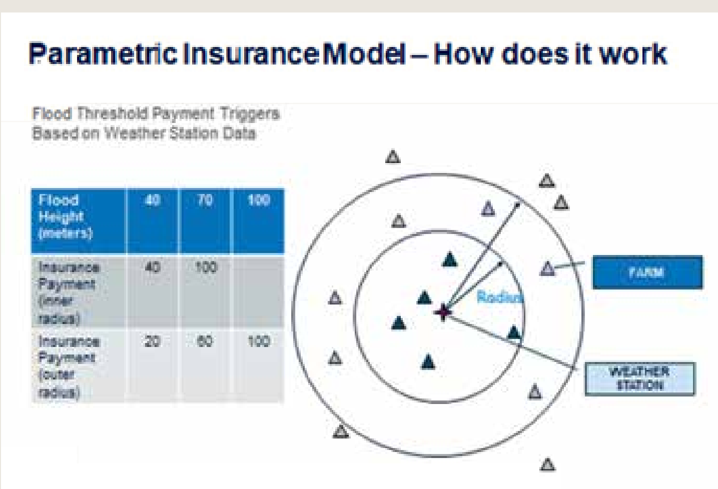


Figure 2: Parametric insurance model – flood protection triggered

It is obvious that the damage will be more severe in the inner radius (closer to the peril), than it will be, in the outer radius.

In this case, the contract excludes all properties & all damage occurring outside the outside radius.

If the flood height is 40 meters & above the claim becomes payable as follows:

- 40 to 70 meters

  Inner radius, 40% of insured amount

  Outer radius, 20% of insured amount

- 70 to 100 meters

  Inner radius, 100% of insured amount

  Outer radius, 60% of insured amount

- Over 100 meters

  Inner radius, 100% of insured amount

  Outer radius, 100% of insured amount

The discerning reader will have noticed that no reference is made to the actual loss incurred. Bravo! Is not insurance a contract of indemnity?[4]

Traditional insurance reimburses the insured for actual loss (net of deductibles, co-pay, exclusions etc.)

Parametric insurance uses a model to calculate the payout, irrespective of actual loss.

That is precisely how it fills in the gaps. Suppose a health insurance policy has a deductible of $1,000 & a co-pay of $250. Besides, some ailments are excluded & there are reimbursement limits for room charges, physician's fees etc. Anyone who has ever claimed for health insurance knows that the amount actually paid out by the insurance company is less than the actual expenses billed & expended. (No cheating, just the terms of the contract).

Suppose there was also a parametric insurance policy which got triggered & paid out say, $2,500 in case of a serious disease or operation. No questions asked.

This would be a welcome saving/help at a time of grave need.

Three Steps

Analysis	of the vulnerability
Cover	bespoke (customized)
Payment	is triggered within days of the insured event of agreed upon magnitude/intensity

Figure 3 illustrates the process

[4] A typical example (of indemnity) is an insurance contract, whereby one party (the insurer or the indemnitor) agrees to compensate the other (the insured or the indemnitee) for any damages or losses, in return for premiums paid by the insured to the insurer. (https://www.investopedia.com/terms/i/indemnity.asp)

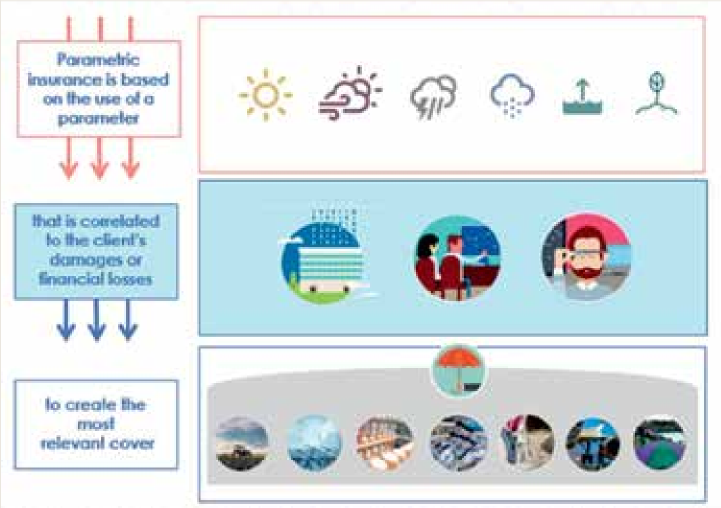


Figure 3: Parametric insurance – bespoke & relevant

This customization, relevance, speed & low-cost structure is ideal for individuals, companies, & countries. Loss adjusters & lengthy procedures are avoided since the payout is entirely determined by an independent variable. Claim handling costs are thus extremely low: making it even more affordable.

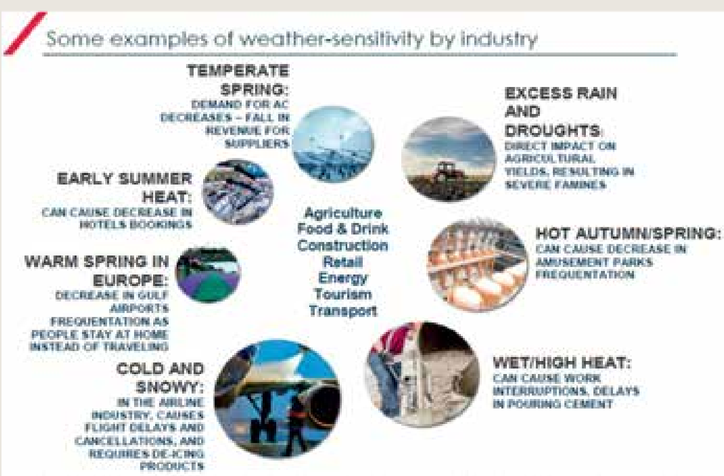
Like traditional policies, parametric insurance does have a deductible (please recall that in the flood example, no payout was triggered if the water level was below 40 meters), & a limit[5] (sum assured)

However, unlike the former, it can be structured as an insurance policy, or as a financial instrument.[6]

Pure parametric cover where payout is triggered irrespective of the actual loss is like a derivative instrument.

Hybrid parametric cover where proof of loss is also called for, after the claim is triggered based on the index, is like an insurance contract.

Figure 4 shows the potential use of parametric insurance, based on weather-sensitivity by industry.



(Source: Parametric Insurance Overview and Perspective in the Gulf; Gulf Actuarial Society, November 14th, 2016, Thameur Zghal & Violaine Raybaud)

Figure 4 : Weather sensitivity by industry

Basis Risk

A clear & present danger in parametric insurance is the risk that there may be a loss, but the payout is not triggered. For example, it is entirely possible that an earthquake caused substantial damage, but since it was less than the pre-defined threshold of "x" magnitude, the insurance was not triggered!

The reverse is also possible, namely that a payout is made when there was no loss.

(In both cases, there could also be a difference between the actual loss & the payout)

Basis risk can be minimized, never eliminated.

More Than Just Property Cover

"Pandemic Emergency Facility (PEF)[7]

- Following the Ebola crisis in 2014, the G7, World Bank and WHO committed to develop a more robust global pandemic risk management framework including:
- (a) pre-outbreak preparedness; (b) immediate investigation, assessment, and response; (c) early response; (d) containment; and (e) recovery
- An important element to this framework is a public-private financing mechanism that could cover the critical response costs, items (C) & (D), beyond the public funds essential to (A) , (C) and (D)
- The World Bank contracted the leading reinsurance and catastrophe modelling companies to create an insurance/investment product to address this funding gap and devise a solution that enables the transfer of this risk to the private markets
- **Value Proposition**
- Responsiveness – The PEF is timed to complement the WHO's Contingency Fund for Emergencies (CFE) and will be triggered at or near the onset of an event with pandemic potential.
- Speed of delivery: The PEF is designed to deliver resources quickly and effectively to where they are most needed
- Engagement with Private Sector - The private sector's involvement will bring the contractual rigor that's needed to respond quickly.
- Market development – PEF contributes to the long term design and improvement of data around pandemics, and creates a market to help sovereigns manage pandemic risk.

[5] The maximum pay-out or sum assured is also called the stop-loss.

[6] The interested reader is requested to read about another index-triggered, Alternative Risk Transfer Instrument, the CAT Bond, in an article by the author, "CAT Bonds, When It Rains Cats & Dogs", Portfolio Organizer (IUP Publications), October 2016.

[7] This summary of PEF is from an excellent presentation by Miguel Navarro-Martin, Head of Banking Products, The World Bank Treasury, February 2017: "Parametric Risk Insurance - Applications in agriculture, climate and disaster risk and pandemics"

Parametric Trigger

Parametric trigger based on confirmed cases and deaths over a prescribed period of time in at least a specified number of covered countries as reported publicly by the WHO (in some cases with graduated payout functions).

The exact number of cases differs by disease family.

As a purely hypothetical example, 1000 cases in a one month period (with cases occurring in at least three covered countries) will trigger for a disease – with 250 confirmed deaths triggering a 25% payout and 2000 deaths triggering a 100% payout."

Figure 5 shows the bond structure of the PEF, issued by the IBRD (World Bank)

PEF Bond Structure

Issuer	International Bank for Reconstruction and Development (IBRD)
Risk Profile	Outbreak/Epidemic/Pandemics caused by certain viruses
Coverage Area	137 Countries (low income and middle income countries globally)
Trigger Type	Parametric trigger
Trigger Data	Confirmed Cases, Probable Cases, Confirmed Deaths, Countries affected
Reporting Source	World Health Organization (WHO) - Situation Reports and/or Disease Outbreak News published publically
Term	Three years with a one year extension option
Structurers	Swiss Re and Munich Re
Calculation Agent	AIR Worldwide Ltd.

THE WORLD BANK

Figure 5: PEF bond structure

Conclusion

Parametric Insurance is here to make a difference. With better analytics, greater information sharing & homogeneity of customer baskets, it can certainly make a positive difference not just for those who have faced the wrath of nature, but also in easing the pain & distress of pandemics. Being flexible, it can involve private investors & spread the risk.

It is worth repeating, that parametric insurance is a complement to traditional insurance, not a substitute.

The industry must be ever vigilant however, about basis risk, quality of data, & blind faith in numbers. Parametric insurance has the power to mitigate the cruel, crippling aftermath of catastrophic perils. All the more reason to write this in stone:

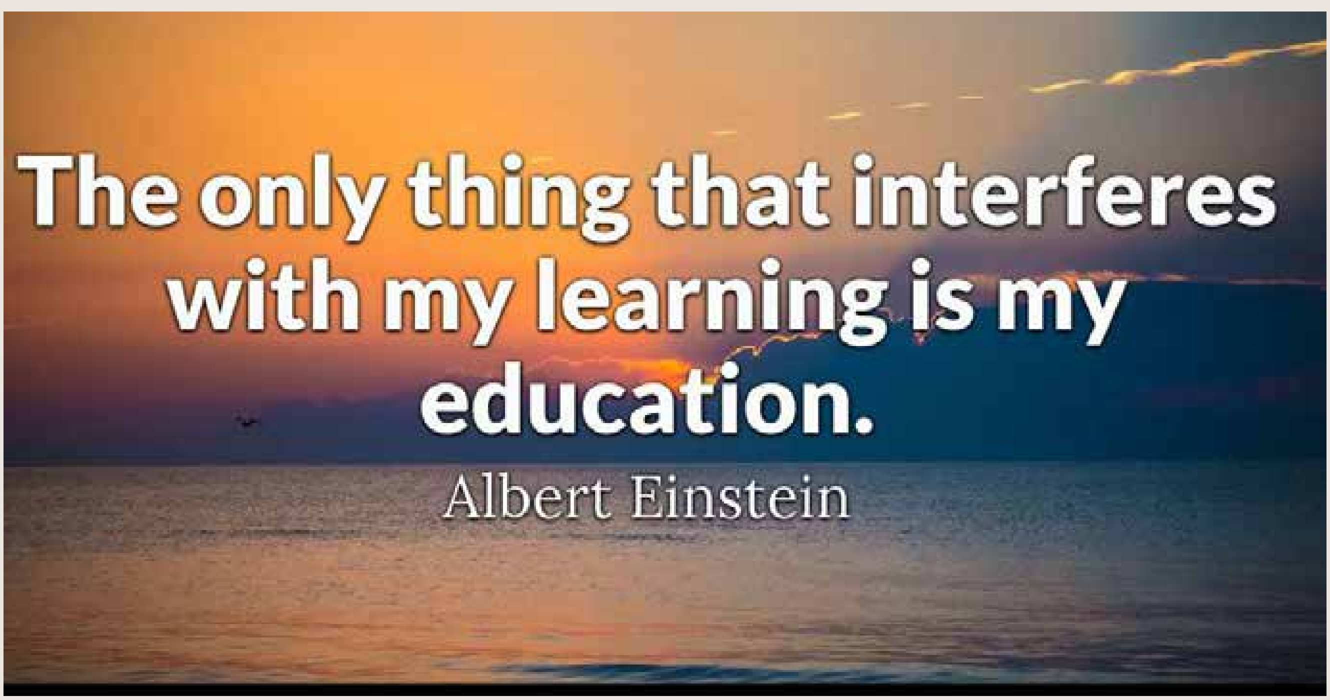
"With great power comes great responsibility."[8]

François-Marie Arouet (known by his nom de plume, Voltaire)

E&OE. Without prejudice, without recourse.

(The author expresses his sincere gratitude to Mr. Roshan M. Dansingani, FIII, for his invaluable guidance & keen insight on insurance principles & practice.)

[8]Also quoted by Ben Parker, Spiderman's uncle, some centuries later!



Efficiency Norms of 3 PSU Non-Life Insurance Companies & Pros and Cons of Their Merger

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Government of India decided to the merger of the three public sector general insurance companies namely Oriental Insurance Company, United Insurance Company and National Insurance Company. They are all in Non-life Insurance Category. This merger will come into effect in 2020-21 Financial Year.

The reason of such merger as per Government among others are that their bottom lines are in negative continuously and not maintaining the efficiency norms. They are also stifled by ruthless competition from private insurers. While merged company will be bigger with the reduction of extra existing workforce and efficiency norms of merged entity will improve.

There are four efficiency ratios in respect of the insurance companies which are the benchmarks to grade the strength, financial stability and trust worthiness of the insurance company.

1. Claim settlement ratio

It is the ratio of the number of claims disbursed to the customers by the insurance company and the total claims received by the insurer. Hence, the resultant formula for the Claim Settlement Ratio is:

Claim Settlement Ratio = Total claims paid off by the insurer/ Total number of claims received by the insurer*100

Claim Settlement Ratio is crucial and one main decider in choosing a insurance company by the insured. Higher the ratio, higher the confidence building sentiment in the minds of policy holders about the insurance company. This ratio fixes as to which insurance company has a good track record of claim settlements. Non-life insurance companies both in private and public sectors are in ruthless competition with respect to the settlement of claims.

Table 1 - Claim Settlement Ratio of PSU General Insurance Co.-2018 & 2019

Posi-tion	Name of Insurers -Public Sector Undertakings	Claim Settlement Ratio – on 31st March, 2018 (%)	Claim Settlement Ratio – on 1st March, 2019 (%)	Number of Claims
1	New India Assurance	93.06	92.44	5459068
2	Oriental India Insurance	87.65	90.13	5633511
3	National India Insurance	72.57	85.43	2531045
4	United India Assurance	75.69	84.45	6652619

Source – The Insurance Brokers Association of India or IBAI.

2. Persistency ratio - In insurance parameter, policy continuation without disruption or uninterrupted is called as "persistency". This "persistency ratio" calculates customers' continuity or loyalty with their policies, by observing at the number of policy continuation without lapse over the years.

Persistency ratio is arrived at thus: Number of insured disbursing the premium divided by Net active insured, multiplied by 100.

It is crucial for insurance companies to keep a persistent book of accounts as it adds to bottom line and also diminishes costs via economies of scale.

3. Solvency ratio - A solvency ratio calculates the degree to which assets positively outdo liabilities (for forthcoming settlement of claims) of risks it has commited to comply. Insurance, however, is perilous business and unexpected incident may happen sometimes, which may cause more claims not thought of previously. For example, floods, earthquake, cyclone, fire, accidents may cause a massive financial liabilities on the Insurance Company. In such cases, if there is no strong solvency ratio of the insurer, the Company may become bankrupt.

As per Irdai guideline all insurance companies must have at least solvency ratio of 1.50. From Table 2 below, it is clear that in 2019 Solvency Ratios of National Insurance, Oriental Insurance and United Insurance are respectively 1.04, 1.57 and 1.52. which are around bare minimum of 1.50 as per IRDA guideline.

Table 2 - Solvency Ratio of PSU General Insurance Co.-2018 & 2019

Posi-tion	Name of Insurers -	Solvency Ratio 2018	Solvency Ratio 2019	IRDA Minimum Solvency Ratio
1	New India Ins	2.58	2.13	1.50
2	Oriental India	1.66	1.57	1.50
3	National India	1.55	1.04	1.50
4	United India	1.54	1.52	1.50

Source- Complied by Author

4. Incurred Claim Ratio – Incurred claim ratio means net claims disbursed by insurer versus net premium received. In other words, it is a ratio of the total amount of claim paid divided by total premium received in the corresponding time. Thus, Incurred Claim Ratio = Net Claims disbursed / Net Premium received.

Table 3 – Incurred Claim Ratio of PSU General Insurance Co.-2018 & 2019

Sl. No.	Name of Insurance Companies	Incurred Claim RatioYear 2018-19	Incurred Claim Ratio Year 2017-18
1.	National Insurance Company	109.94	114.24
2.	Oriental Insurance Company	106.10	85.39
3.	United India Assurance	109.40	94.38
4.	Private Insurance Co. (Average)	72.30	75.46

Source - https://cafemutual.com/news/insurance/18248-govt-insurers-score-better-in-claims-settlement

Pros of Merger –

1. Economies of Scale

These 3 PSU have already expanded throughout the nook and corner of the country. With almost 25% market share, this will be Largest General Insurance Company. This merger will boost advantages of economies of scale. After IPO, it will be listed in Stock Exchange and hence capital raising will be easier which will make them more financially solid.

2. Enhancing Solvency Ratio

Mandatory Solvency Ratio of IRDA is 1.5. While National Insurance failed to comply Solvency Ratio which on 2019 is 1.04, Oriental Insurance and United Insurance in same period could barely reached 1.57 and 1.52. As decided. infusion of Rs. 2500 crores in these companies by Finance Ministry will boost Solvency Ratio of merged company and will pave way for aggresively undertaking more business.

3. Cost Cutting

Merging the companies will reduce the unnecessary and common costs of three individual companies which have commercial establishments each in the same location which will avoid expenses on rent and other fixed expenses. In addition, extra commercial infrastructure left over after merger integration will be closed and can be sold at juicy prices at commercial market value. These sale proceeds when received will help partly recapitalization of the merged company. Moreover, after merger, instead of three fragmented online insurance product sale and marketing, a single online transaction may be initiated which will not only reduce cost but also will boost brand value of the merged company. In addition, common services may be optimized and extra employees may be reduced which will further cut in cost of the merged entity.

4. Strike a better IPO price

Now, three companies which will be merged are in stiff competition with each other. When merger will come into effect, all three companies will be one and hence, there will no competition. Accordingly, cost of fighting one against other will be eliminated and such earlier efforts, energies and skills which were employed earlier can be fruitfully deployed in one goal of grabbing more market share for the merged company. Having already 25% market share and being single biggest entity in Non-life insurance sector, its valuation will be boosted substantially. Once it goes for IPO immediately after merger, the market price of listed share will be lucrative.

5. Portfolio optimization

Every insurance company has a mixed portfolio of creamy product and not so creamy one. Combination of such juicy products of three companies will be a formidable portfolio for the merged company. It is well known that Government social security schemes like Pradhan Mantri Jeevan Jyoti Bima Yojana, Pradhan Mantri Suraksha Bima Yojana, Pradhan Mantri Fasal Bima Yojna, Pradhan Mantri Jan Arogya Yojana, are mostly loss making. With more mix of commercially viable and profitable schemes in the portfolio of the three companies, the loss making social security schemes can be handled better since better mix of profitable products will outweigh in comparison to loss making social security products of government.

Cons of Merger –

1. Huge underwriting loss

The cause for the pathetic performance of the PSU Insurers is their massive underwriting loss, which is the extra claims over premium received. In India, most insurance companies incur underwriting losses but it gets compensated by investment income. Since premium is received in advance of the coverage period, they invest this pre-receipt premium immediately which fetch trading income and interest on such investment. Such trading income and interest do not always more than compensate such underwriting loss. In FY19, the PSU insurance companies faced an underwriting loss of Rs 18,490 crore — which was jump of 47% over the Rs. 12,507-crore loss in Financial Year 2018.

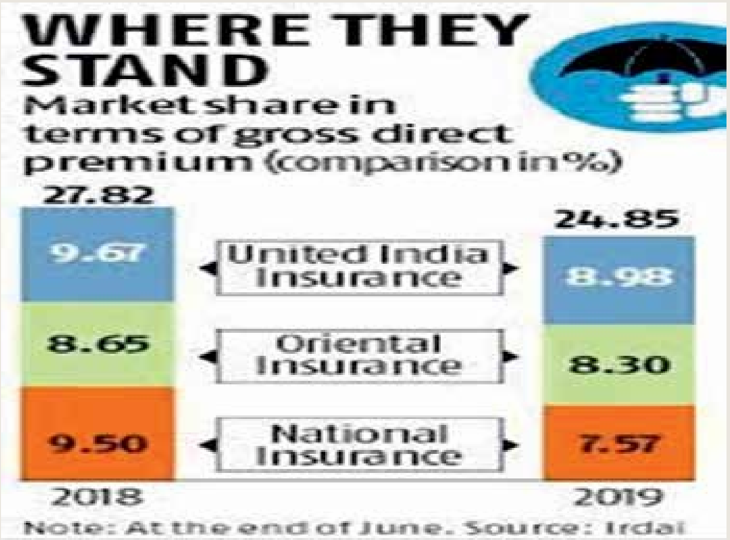
2. Fall in Growth and Market Share

All three PSU General Insurance companies who are on merger path have lost share of market in 2018-19 against 2017-18.In case of National Insurance, the market share reduced to 7.57% in 2018-19 versus 9.50% in 2017-18. Corresponding market share of United India Insurance dwarfed to 8.98% in 2018-19 from 9.67% in 2017-18. On the other hand, Oriental Insurance Company's market share reduced to 8.30% in 2018-19 from 8.65% in 2017-18. Overall, compared to 2017-18, in 2018-19, total market share of these three companies reduced to 24.85% from 27.82%.

During last 13 years between 2007 to 2019, in total non-life insurance business, in premium collection, the share of PSU (including New India Assurance) Insurance Companies reduced from 68 per cent in FY07 to 46 per cent in FY19, against the share of the private sector Insurance Companies went up from 32 % in 2016-17 to 54% in 2018-19.

Hence, if this merger happens, de-growth will continue as seen during last decade and merger will be unviable.

Table 4 -



3. Social Security Measures being imposed

Many insurance policies have been introduced in the last 6 years to boost social welfare. Some of them are Pradhan Mantri Jeevan Jyoti Bima Yojana, Pradhan Mantri Suraksha Bima Yojana, Pradhan Mantri Fasal Bima Yojna, Pradhan Mantri Jan Arogya Yojana. Their premium is either NIL for the policy holders or has been calculatedly made bare minimum.. For these schemes, it is made mandatory to be executed both by private and public sector insurance companies. Generally, private companies hardly implement such schemes or implement these in " Pick and Choose" basis which are not negatively affect their bottom line. Hence public sector insurance companies are to take the brunt of such loss making schemes under no option situation. Moreover, private sector companies pay amount of claim disproportionately low compared to public sector insurance companies. As a result, losses recorded by PSU companies because of these Government's schemes was around rupees Rs.7000 crores between 2016-17 and 2018-19.

4. Problem of Integration

Integration of any merger is vital. Such integration is easier said than done in this case. Integration of IT systems or shifting to a tailor made system will be a disaster. Business activities of these companies will come to a halt during phases of such integration because each of these companies have varied cultures and mode of operations and integration will be very complicated and time consuming. During such time, if at all, integration materializes, these three merged companies will further lose market share and will miss the competitive edge. It will turn into an irrelevant entity. The very purpose of MERGER will be defeated.

5. Market is very competitive

The reality is that already at least thirty private players are in the fray in this sector. This market is overcrowded and ruthlessly competitive. It will not allow any white elephant like this merged company to operate in a viable way. It is likely to be another AIR INDIA which was merged with Indian Airlines few decades back with much fanfare. It is evident from history in India, Government is incompetent to run any business. This merger is going to be another money loser for government.

Conclusion

From the discussions above, it appears that CONS outweighs the PROS. Apparently, Government should not go for this merger for the prospective long term disaster unless the merged company is managed efficiently . However, since government is hell bent on the merger, as an abundant precaution, it should go for perfectly implementation of following strictly measures in merged company immediately after merger. Only then respite is possiable.

- Portfolio optimization
- Catering world class customer service
- Maturing InsurTech market
- Zero defect Post[-merger Integration
- Boosting insurance innovation

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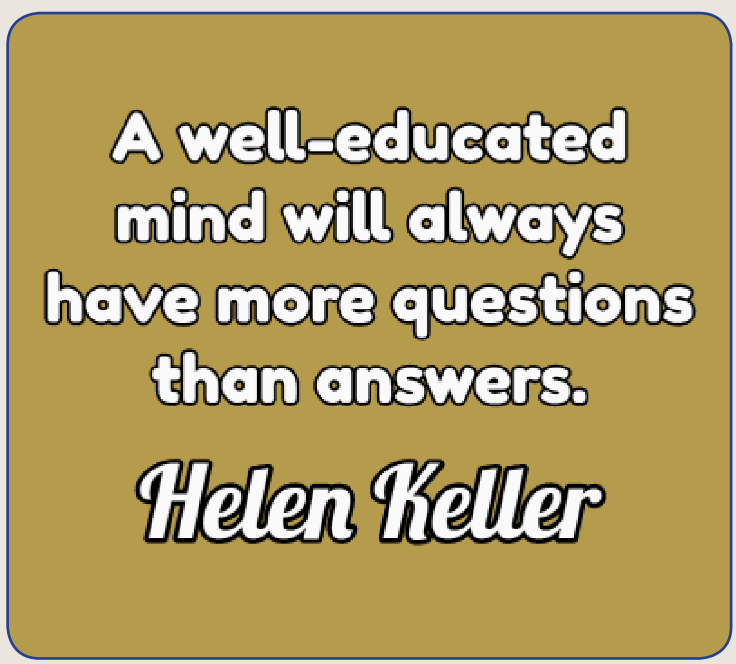

CMA – Career Insurance Surveyor

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Surveyors are professionals who assess the loss or damage and serve as a link between the insurer and the insured. They usually function only in the non-life business and are hired by insurance companies to assess the actual loss arising on the occurrence of fortuitous events such as fire, burglary and so on for settlement of claims. Surveyors could operate in multiple lines of business, for example - a fire insurance surveyor can also function simultaneously as a marine surveyor. Key responsibilities of the surveyors include carrying out surveys for buildings, machinery, ports and other items that are covered by insurance companies. On conclusion of their assessment, the surveyors are required to prepare reports that determine the actual loss suffered and also verify the correctness of the amount claimed by the insured. The reports in turn become primary information for the Insurance companies, enabling them to settle claims.

How can a CMA become a General Insurance Surveyor?

To be eligible the candidates must possess either of the following:

- At least one year of experience in claims settlement or working for a firm of independent Surveyor & Loss Assessors
- And clear the exams conducted either by authority of by an institution authorized by its behalf

After the above, the candidate is further required to obtain a license to act as Surveyor and Loss Assessor. The IRDAI (Insurance Surveyors and Loss Assessors) Regulations (2015), The Enactment of IRDA Act (1999), authorize IRDAI to licence eligible persons to act as Surveyor and Loss Assessors (SLA). IRDAI has framed the (Insurance Surveyors & Loss Assessors) Regulations, 2015 under powers vested under Section 42D, 42E, 64 UM and 114A of the Insurance Act (1938) and section 14 and 26 of IRDA Act (1999). The said regulations specify the eligibility criteria, training and examination requirements for grant of licence to applicants to act as Surveyor and Loss Assessors. The said regulations also specify the Duties and Responsibilities & Code of Conduct for surveyors licensed by IRDAI. Licenses are issued to both individuals and firms/companies to act as Surveyor and Loss Assessors. There are eight areas in which surveyors could be licensed to work, depending on their qualifications. These include Fire, Marine cargo, Marine Hull, Engineering, Motor, Loss of Profit, Crop Insurance and Miscellaneous.

Qualification Criteria for Enrolment and Licensing of Surveyors and Loss Assessors as Per IRDAI (Insurance Surveyors and Loss Assessors) Regulations, 2015 (Regulation 3):

S. No.	Department/ Area	Academic/technical/Professional/ Insurance Qualifications
1	Fire	B.E. / B. Tech. / B.Sc. (Engineering) / A.I.M.I.E. or its equivalent, C.A./C.M.A., A.I.I.I./F.I.I.I./Post Graduate Diploma in Insurance from IIRM
2	Marine Cargo	B.E. / B. Tech. / B.Sc. (Engineering) / A.I.M.I.E. or its equivalent thereof (Marine Engineering/Naval Architecture) / certificate of competency as Master of Ship or asFirst Class Marine Engineer issued by a recognized authority, Degree or diploma inNaval Architecture of a recognized University or Institute./ A.I.I.I./ F.I.I.I./ PostGraduate Diploma in Insurance from IIRM
3	Marine Hull	B.E. / B. Tech. / B.Sc. (Engineering)/ A.I.M.I.E. or its equivalent thereof (MarineEngineering/ Naval Architecture) / certificate of competency as Master of Ship or asFirst Class Marine Engineer issued by a recognized authority,
4	Engineering	B.E./ B. Tech./ B.Sc. (Engineering)/ A.I.M.I.E. or its equivalent , Diploma of 3 yearsduration from a recognised institution or its equivalent thereof
5	Motor	B.E./ B. Tech./ B.Sc. (Engineering)/ A.I.M.I.E. or its equivalent thereof (Mechanical/Automobile); Diploma in Mechanical Engineering/ Automobile Engineering of 3years duration from a recognised institution or its equivalent thereof
6	Loss of Profit	C.A./ C.M.A; A.I.I.I./ F.I.I.I
7	Crop Insurance	B. Sc. in Agricultural Science from a recognised University.
8	Miscellaneous	B.E./ B. Tech./ B.Sc. (Engineering)/ A.I.M.I.E. or its equivalent; Diploma of 3 years durationfrom a recognised institution or its equivalent; C.A./.C.M.A.; A.I.I.I./ F.I.I.I./ PostGraduate Diploma in Insurance from IIRM

How to apply to become a Surveyor?

IRDAI (Insurance Surveyors and Loss Assessors) regulations 2015 prescribe the procedure for obtaining the license of Insurance Surveyor & Loss Assessors.

An applicant needs to submit his application for grant of surveyor licence through an online portal i.e. www.irdabap.

org.in (link available from www.irda.gov.in) and upload all required documents on the portal. The said portal provides an end to end solution and enables the applicant to know the status of application from submission till its approval and grant of licence by IRDAI. FAQ's, Demo etc. are provided on the portal. The list of licensed and categorized surveyors and loss assessors is placed on the IRDA website (i.e. www.irda.gov.in) from time to time which allows authenticating the eligibility of Surveyor. A surveyor & Loss Assessor shall assess losses of only those departments which are specified in his/her license and can work with any number of insurance companies. The IRDA issues licences for a period of 5 years under various categories (A, B and C) based on experience of the candidates.

Appointing a Surveyor:

It is not mandatory for an insurer to appoint a surveyor for each and every loss reported by a policy of general insurance. **Only where the estimated loss exceeds Rs. 50,000/- in case of Motor Insurance and loss exceeds Rs.1,00,000/- in case of other than Motor Insurance business, it is mandated to appoint a licensed surveyor to assess and settle the loss.**

Further the IRDA (Protection of Policyholders' Interests) Regulations, 2002 also stipulates the time limit for appointment of surveyors, which is 72 hours from date of intimation of claim to insurers/ occurrence of the event resulting in loss or damage and submission of survey report by surveyors, which is one month from the date of appointment by insurer. The said regulation casts responsibility on the policyholder to co-operate with the surveyor and provide him with all the information/ documents to enable him to assess the loss. Delay, if any, in the submission of the report by the surveyor should be communicated to the insurer and insured.

Steps for conducting the assessment by the Surveyor and Loss Assessor:

1) Preliminary Survey Report: After the first visit it is the duty of the surveyor to issue a Preliminary Survey Report to the insurer giving the details of the loss suffered, whether the same is covered under the policy and any violation in the policy terms and conditions.
2) Details of Survey / Verification:
   a) General Details : name of the insured, address of the insured, and location of loss if not same as the registered address as mentioned in the Proposal Form/ Policy.
   b) Particulars of loss - date of loss and occurrence of loss as stated by the insured.
   c) Details of Insurance - name of the insurer, policy number, period covered, type of policy , sum insured, coverage and special conditions and exclusions, if any, mentioned in the policy.
   d) Quantity Verification (not applicable to all claims)- In case of loss of stock due to fire the Surveyor may resort to carrying out a volumetric analysis of the premises, by taking into account the layout of the premises and method of storing the goods at the time of occurrence of the fire. On the basis of the quantum of stock and its present price, the value of loss can be ascertained. Similarly, the surveyor may collect the remains of the burnt items to gauge the amount of stock in the premises before the fire, and thus determine the value of the loss incurred by the Insured. The stock present at the time of loss can also be cross checked with the latest stock statement submitted to the bank, GST returns and Balance Sheet.
3) Subsequent To First Inspection: Subsequent visits may be required to the insured's site to prepare inventory of the undamaged and damaged stocks, to quantify the loss or to verify the documents of the insured. In case the insured has more than one premise where their interest lies, the surveyor should visit all the premises even if they are not held covered under the given policy. It is important to maintain regular written correspondence with the insured and obtain the documents with signature. All the information noted at the time of visit should also be counter signed by the insured. It is utmost necessary to keep the matters transparent with the Insured to avoid being misquoted and to avoid any controversy.
4) Admissibility of the Loss: It is the duty of the surveyor to comment regarding the admissibility of the loss. The survey report must clearly indicate whether the loss is admissible or not admissible under the policy and provide a detailed reason for the same. In case the loss is partly admissible the surveyor should clearly indicate which portion of the claim of the insured is admissible.
5) Cause of Loss: The cause of loss should be described in detail, narrating the whole incident with all facts. The above should be covered under the following three heads:
   a) cause of loss as per the insured
   b) cause of loss as may be mentioned in any of the fire reports, police report i.e. FIR/ Panchnama or third party evidence.
   c) surveyor's perception regarding the proximate cause of loss.
6) Claim of The Insured: The claim of the insured should be described and the details on the basis of which the claim has been made shall also be included. The quantity and value of the claimed items should be stated separately. The total claim of the insured should be further divided into the claim for the building, stocks, plant and machinery or any other head as per the coverage in the policy.
7) Adequacy Of The Sum Insured: It is important to work out the adequacy of the sum insured; the same should be done separately for each and every head coved under the policy. The items not covered should also be specified separately. If there is a partial loss the surveyor is required to consider the implication of

the average clause and under insurance factor i.e. sum insured/total value of loss. In case of total loss if there is underinsurance then the amount of loss is restricted to the sum insured.

8) Salvage: The nature and quantity of salvage should be discussed and value of the salvage should be arrived at logically either supported by the quotations or by providing the quantity of the scrap and giving the per kg scrap rate. It is always advisable to discuss the salvage aspect with the insured and the insurer and obtain approval before adjusting the same in the report along quantification of salvage and how the same was arrived at.

9) Loss Assessment: The actual assessment of loss starts only after all the required documents are received from the insured. The details of assessment along with the basis and its working should be stated in the report clearly. When making the assessment the general terms and conditions, exclusions and additional clauses (for example, earthquake, escalation, flood, reinstatement, terrorism etc.) and other add on cover of the policy should be closely observed. Thus the Assessed loss is determined in the following manner:

Sr. No.	Particulars	Amount (Rs.)
1	Total Loss	
	Less: Depreciation if any	
	Less: Excess if any	
	Net Assessed Loss	
	Less: Underinsurance if any	
	Less: Salvage (As agreed by the Insured)	
	Net Payable Loss	

As per the IRDAI Rules, CMAs are generally issued the Insurance Surveyor's Licence for Fire, Loss of Profit & Miscellaneous Departments. The Miscellaneous losses for which CMA's are appointed are Theft of Jewellery, Baggage, Loss of Cash & Travellers Cheques etc., Glass Insurance, Home Loan Policy, Banker's Indemnity Insurance, Fidelity Guarantee, Burglary Insurance (Business Premises). Besides these types of losses CMA's are also allotted claims for Loss of Profit.

The need for the engagement of a surveyor arises as the loss/damage suffered is required to be assessed without any bias or prejudice and with complete expertise in the field. CMAs are well qualified to assess losses in varied circumstances after detailed analysis and verification and hence are well suited for the Insurance Surveyor Profession.

Theme for Coming Months

Month	Theme
July	GST
August	ERP/SAP

Theme of July 2020 is GST. Editorial board invitees' articles / papers on GST for the WIRC Bulletin for the month of July 2020.

Regular articles/papers on other professional matter are also going to be published in WIRC Bulletin apart from articles/papers on respective theme. Editorial board also invitees' articles / papers on other professional matters.

Kindly send your articles on or before 5th July 2020 by email to WIRC : wirc.admin@icmai.in. Editorial board had also formed minimum criteria for selection of Article/Paper for WIRC Bulletin in Editorial Board meeting held on 14th February, 2020. Following is the minimum criteria for selection of Article/Paper for WIRC Bulletin.

1. Type of Article: Related to theme of the month or any other professional matter.
2. Font: Arial/ Time New Roman/Calibri
3. Font Size: 11
4. Minimum length of the Article: 1000 Words (Other than graphs/tables/figure/pictures)

   Kindly send your Article/paper accordingly.

Pls. Note the final decision to consider Article / Paper is left with Chairman – Editorial Board.

DWARF TO 'CHAMPIONS' A BOOSTER DOSE

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Critical Review of Investment and Turnover criteria for MSME

The finance minister Ms. Nirmala Sitaraman has announced the relief package for the MSMEs on 13 May 2020 to tide over the Covid-19 lockdown-induced crisis. The announcements also included a change in the defining criterion for MSMEs.

MSMEs plays a significant role in the Indian economy which contributes towards 29 per cent of the gross domestic product (GDP) and 48 per cent to India's overall exports. The micro, small and medium enterprises (MSMEs) are of immense importance to the Indian economy, in terms of generating employment There were about 6.34 crore MSMEs in India, of which 6.3 crore are micro units, while 3.31 lakh were small businesses and 5,000 medium enterprises. MSMEs in the country which provide jobs to over 11 crore people.

It is a sector that is vulnerable, and can quickly become unstable and unviable, particularly in the presence of external shocks.

At the heart of this problem is the definition of MSME plays a crucial role. If the threshold or the criteria to qualify is set too low in the definition, India runs the risk of firms staying small and not growing. Elevated investment limits will enable the MSMEs to scale up without bothering about the loss of assorted government benefits if they grew in size, in sync with the idea mooted in the Economic Survey for FY19 that had argued against incentivising "dwarfs". As economies of scale stem primarily from firm size, these firms are unable to enjoy such benefits and therefore remain unproductive, in India, suffers from policies that foster dwarfs.

Present Criteria

In India, MSMEs were defined by the MSME Development Act of 2006 for the first time. The Act used investment in plant and equipment for manufacturing and in equipment for services (excluding investments in land and building, costs of research and development and pollution control devices, etc) as the defining criteria. The existing criterion of definition of MSMEs is different for manufacturing and services units. It was also very low in terms of financial limits.

As per Amendment Bill

MSME Development (Amendment) Bill 2018 introduced in the Lok Sabha to define MSMEs by the turnover criteria alone. With the Goods and Services Tax (GST) Act in place, a measure of turnover was seen as an easier and a more transparent way to define MSMEs. This was, however, met with stiff resistance on the grounds that the turnover thresholds were too high, and defining the MSMEs by turnover alone would expand the group to include much larger units

Even after the package announced on 13 May, 2020, there were several representations saying that the announced revision is still not in line with market and price conditions and hence it should be further revised upwardly. "Keeping in mind these representations, Prime Minister decided to further increase the limit for medium Units. This has been done in order to be realistic with time and to establish an objective system of classification and to provide ease of doing business

Notification dt. 01st June 2020

Union Ministry of Micro, Small and Medium Enterprises has issued Gazette notification on 1st June 2020 for implementation of the upward revision in the definition and criteria of MSMEs in the country

As per the revised criteria, a manufacturing and services unit with Rs. 1 crore of investment and Rs 5 crore of turnover will be classified as 'Micro' whereas a unit involving Rs. 10 crore of investment and Rs. 50 crore of turnover will be categorised as a 'Small' enterprise. A unit with Rs 50 crore of investment and Rs 250 crore of turnover will fall under the 'Medium' enterprise category.

Change in the definition of MSME

Existing MSME Classification			
Criteria : Investment in Plant & Machinery or Equipment			
Classification	Micro	Small	Medium
Mfg. Enterprises	Investment<Rs. 25 lac	Investment<Rs. 5 cr.	Investment <Rs. 10 cr.
Services Enterprise	Investment<Rs. 10 lac	Investment< Rs. 2 cr.	Investment<Rs. 5 cr.

Revised MSME Classification			
Composite Criteria : Investment And Annual Turnover			
Classification	Micro	Small	Medium
Manufacturing & Services	Investment< Rs. 1 cr. and Turnover < Rs.5 cr.	Investment< Rs. 10 cr. and Turnover < Rs.50 cr.	Investment< Rs.50 cr. and Turnover < Rs. 250 Cr.

Key Points of new criteria

- There will be no difference between the manufacturing and service sectors.
- As part of new definition, exports will not be counted in turnover for any enterprises whether micro, small or medium.
- The new definition and criterion of Micro Small and Medium Enterprises (MSMEs) will come into effect from July 1st, 2020
- The move is aimed at giving benefits to many such businesses. It is going to transform the MSME sector. It will also enable them to make more investments
- Objective system of classification and to provide ease of doing business Increase in investment limits will bring many new units within the realm of the MSME sector, and this will lead to more inclusive growth that is relevant to the present situation.

Investment size and turnover criterion:

Defining MSMEs by the investment criteria has one major weakness; the "original" investment in plant and machinery or equipment criteria does not offer a level playing field to newer entrants in the market. An older plant would show substantially depreciated investments in its book of accounts. This unit would qualify as a much smaller unit, while any new entrant that needs similar machines would have to make much higher investments. Thus, what would be a micro unit because of historical book value of investments, would be classified as a much larger unit if set up many years later. In this sense, the annual turnover-based criteria to define the sector might be much more meaningful. Also, calculating reinstated costs of machinery is a cumbersome and costly process, and entails physical verification, often requiring the assistance of a professional accountant, and hence, additional transaction costs. Turnover can be far more transparent, particularly now that a large number of MSMEs are under the ambit of the GST.

The turnover criterion was criticised as it might provide an incentive to under-report and qualify as an MSME. Though, under-reporting investment size is also a possible route for a unit to remain classified as an MSME. So, a solution to under-reporting per se cannot be addressed through changes in the criteria for defining the MSMEs. Instead, that would require monitoring and inspection.

The new composite criterion has come in with lower turnover thresholds than what the 2018 amendment bill had proposed. However, it does not undo the problems that stem out of using the original size of investment in plant and machinery as a criterion.

Importantly, the composite definition has assumed a turnover of five times the investment for the three categories of enterprises. Such an assumption does not consider the varied nature of the MSMEs. For certain sectors, huge turnover is achieved due to the very nature of the final product, even with a much smaller investment in plant and machinery. Similarly, a unit which is a highly labour-intensive sector, can achieve a much higher turnover with low capital investments. On the other hand, there are sectors that have higher capital investments but lower turnovers. These aspects would be of importance to certain industrial sectors and would require attention so that the sectors that are particularly important to employment generation do not fall out of the MSME ambit.

The decision to revise the definition of micro, small and medium enterprises (MSMEs) and set higher turnover limit for grouping them in the MSME category could crowd out the real small-scale manufacturers and dim their chances of availing concessional loans and benefits under various government schemes.

New definitions set forth are definitely confusing, a lot of companies will now have to start re-evaluating their numbers, Profit and Loss (P&L) statement etc. to try and fit in these new regulations.

The banks would always prefer to give loans to a firm. Banks would always lend to a company which has large cash flow. So, if more companies with high turnover get MSME status as per new definition, the true MSMEs may lose out,

Since details of investments and turnover are easily available in books of accounts that are required to be statutorily maintained, compliance should not be an issue. Under the new tax regime, turnover details of enterprises are being captured by Goods and Services Tax Network (GSTN) and turnover declared by GST registered MSME units can be easily verified through GSTN. Hence, the turnover based definition would be transparent, progressive and easier to implement.

Exclusion of Export

The provision of excluding the exports from counting of turnover will encourage the MSMEs to export more and more without fearing to lose the benefits of a MSME unit. This is expected to exponentially add to exports from the country leading to more growth and economic activity and creation of jobs.

Dilution of Micro

The new composite criterion expands the micro category to an investment size of '1 crore (from the erstwhile '25 lakh) and a turnover of '5 crore. This essentially means that a number of units, which are much larger will now be clubbed together under the micro category itself. The possibility of a focused attention to this sector will be further diluted, both in terms of understanding the sector's requirements, as well as the data collected.

Any priority sector scheme that seeks to target beneficiaries, includes certain entities and excludes others. Thus, defining these entities becomes important. Being classified as MSMEs provides enterprises some handholding by the state, making them eligible for certain benefits. These include priority lending from banks, collateral free loans, mandatory sourcing of 25% of procurements by the central government from micro and small enterprises (MSEs), and a slew of other targeted benefits.

The enlargement of the definition of MSMEs further marginalises the smaller enterprises and allows larger firms to come into the ambit of medium enterprises.Perhaps it will only be of real benefit to the medium scale companies since these could have gone out of the slab previously and missed out on the benefits. It will not really lead to any material benefit for micro and small units.

MSMEs are quite agile, flexible and with a little support from the Government and they are bound to bounce back with more power & strength. On this background Hon'ble PM Launches CHAMPIONS Portal for MSMEs on June 01 2020.

CHAMPIONS - Creation and Harmonious Application of Modern Processes for Increasing the Output and National Strength. It is a technology driven platform for promoting the Micro, Small and Medium Enterprises (MSMEs)

Key Performance Indicators (KPI) for MSME

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Summary

In the context of a stuttering economy shocked by the Covid 19 pandemic, many MSME are facing financial distress, especially on the working capital front. While this is a time for fire- fighting and crisis management, good working capital management is very essential for sustained business survival and success. Just as you cannot drive a car without a dashboard and rear-view mirrors, use of key performance indicators (KPIs) to monitor, track and improve performance is very important.

Background

A popular saying in business is "what gets measured gets done". Performance measurement system is essential to enable enterprises take performance- based decisions in order to meet business objectives and achieve financial success.

Any number of KPI spanning process, operations, quality, financial, compliance, customers, stakeholders are available; however, for MSME, it is critical to limit them to those factors that are essential to the SME reaching its goals. Working capital, profitability and cash flow remain the pressure points for MSME operations and the KPI should dwell on these. Since MSME tend to have basic systems and simpler organization with less resources, measurement and calculation of KPI should not become a complex and self-defeating exercise which no one understands or uses.

Sharing of KPI with enterprise employees on regular basis, perhaps in graphical form, can be a powerful way to align, inform and engage them with business objectives, and underpin their contribution to continuous improvement.

Working Capital KPI

The two most important KPI for MSME are Days Sales Outstanding (DSO) and Inventory Cover or Inventory Turnover (ITO). DSO measures the number of days it takes to collect Accounts Receivables (A/R) and ITO measures the number of days of inventory held relative to consumption or sale.

Alongside these KPI, it is also useful to evaluate the ageing profile of Accounts Receivables and Inventory, which is quite often missed out to be reviewed regularly, i.e at least quarterly, in many enterprises.

DSO

There are two calculation methods, one being the average method or Balance Sheet method and the other being the Rollback method. Latter is preferable as it is less volatile from one month to the next and is less impacted by the variations of turnover, though former is easier to compute. Both methods can be refined to assess DSO by customer group, geography (export / domestic) etc.

Balance Sheet method DSO = Average A/R of last 12 months / (Annual Sales/365)

	A	B	C	D	E	F	G	H	I	J	K	L	M
1													
2	BALANCE SHEET OR AVERAGE METHOD												
3		2019	2019	2019	2019	2019	2019	2019	2019	2019	2019	2019	2019
4		JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC
5	SALES	12,628	4,076	24,623	9,249	98,809	56,970	38,444	14,852	39,157	38,194	32,867	29,604
6	A/R	73,439	70,934	77,043	79,991	1,65,357	2,08,688	1,99,976	2,04,433	1,77,432	1,82,872	1,78,386	1,58,745
7													
8													
9	ANNUAL SALES	3,99,473		SUM of B5:M5									
10	DAILY SALES	1,094		B9 DIVIDED BY 365 (number of days in a year)									
11	AVERAGE A/R AT DEC 2019	1,48,108		SUM of B6:M6 / DIVIDED BY 12									
12													
13	DSO DAYS AS ON 31/12/2019	135		B11 DIVIDED BY B10									

Rollback method DSO = A/R at end of a month depleted by sales of that month and preceding months till the A/R balance is fully depleted.

	A	B	C	D	E	F	G	H	I	J	K	L	M	N	O	P
15																
16	ROLL BACK METHOD															
17		2019	2019	2019	2019	2019	2019	2019	2019	2019	2019	2019	2019			
18		JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC			
19	SALES	12,628	4,076	24,623	9,249	98,809	56,970	38,444	14,852	39,157	38,194	32,867	29,604			
20	A/R	73,439	70,934	77,043	79,991	1,65,357	2,08,688	1,99,976	2,04,433	1,77,432	1,82,872	1,78,386	1,58,745			
21																
22																
23	DSO DAYS AS ON 31/12/2019		SALES DEPLETION			DSO		DSO DAYS AS ON 30/9/2019			SALES DEPLETION			DSO		
24	A/R AS ON 31/12/2019	1,58,745						A/R AS ON 30/9/2019		1,77,432						
25	DEC 2019 SALES	29,604	29,604	fully in A/R balance		31 DAYS		SEP 2019 SALES		39,157	39,157	fully in A/R balance		30 DAYS		
26	NOV 2019 SALES	32,867	62,471	fully in A/R balance		30 DAYS		AUG 2019 SALES		14,852	54,009	fully in A/R balance		31 DAYS		
27	OCT 2019 SALES	38,194	1,00,665	fully in A/R balance		31 DAYS		JULY 2019 SALES		38,444	92,453	fully in A/R balance		31 DAYS		
28	SEP 2019 SALES	39,157	1,39,822	fully in A/R balance		30 DAYS		JUN 2019 SALES		56,970	1,49,423	fully in A/R balance		30 DAYS		
29	AUG 2019 SALES	14,852	1,54,674	fully in A/R balance		31 DAYS		MAY 2019 SALES		98,809	28,009	partly in A/R balance		8.8 DAYS	"(28009/98809*31)	
30	JULY 2019 SALES	38,444	4,072	partly in A/R balance		3.3 DAYS	"(4072/38444*31)									
31	TOTAL					156 DAYS			TOTAL					131 DAYS		
32			"(158,745-154,674)			AS ON 31/12/19					"(177,432-149,423)			AS ON 30/9/19		
33			"(B24-C29)								"(J24-K28)					
34																

Such DSO analysis can be a real eye-opener. One MSME operated 60 days credit terms to customers, and believed average collection period was about 90 days…… management was astounded the DSO calculation (Rollback method) over sustained period of last 2 years was in excess of 130 days. Customer ageing statements showed that on average 50% of the customers had A/R in excess of 180 days, increasing the risk of bad and doubtful debts, apart from straining the working capital position. By tightening up on these fronts after performing the analysis, DSO has started to show reduction over the last few months. The enterprise could also make conscious decisions to reorient sales efforts towards customers and regions having better A/R position, i.e DSO closer to expected collection period of 90 days, while initiating regular follow-up with the delinquent ones.

In another case, though the performance guarantee period had ended, customers were holding guarantee retention amounts which were not followed up, since ageing analysis was not regularly reviewed. A sizeable amount could be released from these retention amounts.

Further analysis of DSO can be conducted for deeper understanding, which may reveal other improvement opportunities, apart from trade terms enforcement. Causes apart from trade reasons for higher DSO could be - delay in sending invoices to customers*, invoicing errors*, unaccounted collections sitting in the bank statement, lack of follow-up etc.

** These are examples of lead indicators in the sense that 100% accuracy or timeliness leads to improvement in DSO which is a lag indicator.*

Government has reported that a number of MSME have sizable payments overdue to them, from both PSU and private sector enterprises. Regular DSO analysis would help MSME to prioritize and focus collection efforts.

Extraction of sales and customer A/R data from ERP like Tally, QuickBooks is quite easy, followed by using EXCEL to perform above DSO calculation.

ITO

ITO = Average inventory of last 12 months / (Annual Cost of Goods Sold or COGS/365).

Calculation is similar to that of DSO using the Balance Sheet method. ITO can be calculated separately for raw materials, packing materials, finished goods, or any other inventory group, to evaluate whether excess inventory is being held at any of these levels. If the business of the enterprise requires a certain level of inventory holding, ITO calculation can reveal any excess inventory which potentially may remain unsold or deteriorate in quality impacting the financial position.

Another calculation that is useful is inventory forward cover. It is calculated similar to ITO except it uses Projected COGS for next 12 months to determine how much forward inventory cover is available as proportion of future business. Sensitivity analysis of the projected COGS (or sales) also helps to envisage situations where inventory may be far in excess of requirement and take corrective actions (liquidation or procurement cutback) timely.

In one instance, further analysis of ITO days revealed that an exporting enterprise was holding inventory for about 15 additional days as external agency certificate had to be obtained prior to export. By initiating this certification in parallel to the final packing steps of the product, this additional inventory holding period was reduced by 7-8 days.

Since inventory tends to consume a substantial amount of the working capital and also occupy warehouse space, quarterly calculation and review of ITO and its ageing is essential. If COGS data is not easily available on monthly/ quarterly basis, ITO can be calculated using sales in the denominator.

Other Current Assets

A semi-annual review of items classified as Other Current Assets can release hidden cashflow, as quite often tender, rental and other deposits sit here for months and years without being recovered. In one instance, review of Other Deposits account revealed sizeable amounts placed as tender deposits which had not been followed up and recovered, though tender process had been concluded long ago.

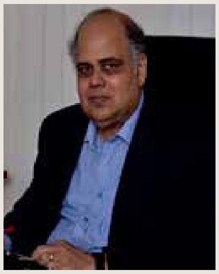
In Conclusion

Contribution of MSME in playing their due role in Indian economy depends on their financial viability and success. Efficient working capital management is vital to MSME performance, simple and focused KPI will help to steer the enterprise's sustainable development and growth. ■

Congratulations

CMA (Dr.) Ashish Thatte, Central Council Member, is Appointed to Member Development Committee (MDC) of Confederation of Asia Pasific Accountants (CAPA) for the term 2020-23. Out of the high number of Nominations received, significant efforts were applied with careful review of all CVs on the application of various criteria and his nomination was finalized. We congratulate CMA (Dr.) Ashish Thatte for being appointed to Prestigious International Accounting Body and wish him success for his tenure.

CFO Speaks



CMA G. Srinivasan

Director, National Insurance Academy, Pune

CMA G. Srinivasan, Director joined the National Insurance Academy, Pune with effect from 11th December 2018.

CMA G. Srinivasan has more than 38 years of experience in General Insurance Industry both in India and abroad. A well-known name in the Indian financial sector, he is the longest serving CMD of Public Sector Insurance Companies. His last appointment was that of Chairman-cum-Managing Director of the largest Indian Insurer, The New India Assurance Co. Ltd. Prior to joining The New India Assurance Company Ltd. in 2012, he was the Chairman-Cum-Managing Director of The United India Insurance Company Limited. Earlier he had served as MD of The New India Assurance Co. (Trinidad & Tobago) Ltd., Port of Spain.

In each of his assignments he has taken these organisations to new heights. He has been conferred with number of national and international awards for his extraordinary achievements.

He has held Chairmanship of:
General Insurance Council
General Insurance Public Sector Association (GIPSA)
Governing Body of Insurance Council
Governing Board of National Insurance Academy
India International Pte. Ltd., Singapore
New India Assurance Co. (T&T) Ltd., Trinidad & Tobago

He has been on the Board of several companies, to name a few:
GIC Re, Mumbai
GIC Housing Finance Limited, Mumbai
Prestige Assurance Plc. Lagos, Nigeria
Agriculture Insurance Co. of India Ltd., New Delhi

He was also the President of Insurance Institute of India, Mumbai.

He is a Commerce Graduate from Madras University, and an Associate of Institute of Cost Accountants of India, and a Fellow of Insurance Institute of India.

- **What do you feel about your role as a Director of NIA?**

  National insurance Academy is an institution of great eminence in the field of insurance education, training,research and consultancy. The participants in various programmes come not only from India but from various parts of the world. The insurance industry is on a high growth path and the Academy has been ensuring that insurance employees are adequately skilled to take care of the growth. The Academy is also having a two year PGDM in Management with focus on insurance for youngsters who serve as the talent pipeline for the industry. These youngsters are occupying key positions in insurance, technology industry all over the world. The Academy is also engaged in research on matters relating to insurance industry and these reports are very useful to them. As a director it is my aspiration to take NIA to greater eminence.

- **What are your main constraints/ challenges you face as NIA Director?**

  The challenge is to adequately prepare youngsters and other insurance professionals for the growing insurance industry. The market is changing, risks are increasing,customer aspirations are growing. We need to ensure that our programmes provide expertise to people take on these challenges and work towards making India a fully insured society.

- **How the CMA qualification helps you in your career?**

  The CMA programme gives analytical and managerial skills essential for leadership. Ability to solve problems, thinking differently, innovative spirit, focus on efficiency and effectiveness are some of the tools CMA qualification has given me in being a successful person in my profession.

- **What is the scope of CMAs in Insurance Sector?**

  As Cost and Management Accountants CMA professionals have a large scope in insurance sector. CMAs can contribute towards pricing of products, improving processes for efficiency, cost optimisation and increased customer service. CMAs can be very effective internal auditors. As a management accountant CMA can assist the top management in strategic thinking and strategic leadership.

- **What are the challenges for Insurance Sector in current COVID Situation and How Insurance Sector works post COVID?**

  Insurance sector is affected as other segments of economy due to Covid-19 situation. There is drop in business, reduction in investment income and possible negative impact on profitability. The treatment cost of Covid -19 is high and health claims are increasing. The personalised service insurers normally give has become very difficult due to social distancing norms and lack of mobility. The virus will be with us for some time and insurance industry is learning to live with it. Digital is used extensively for customer connect, service and operations. The industry will bounce back once the economy is fully operational.

- **What will be a role of CMA in this Pandemic in Insurance sector in the year 2020?**

  CMAs will have to help the industry to understand issues and come out with solutions which will mitigate the hardships of companies and also customers. Improving efficiency, expense control, good underwriting, claims management, adequate reinsurance are some of the areas CMAs can contribute to overcome the challenges posed by the pandemic.

- **In line with the consolidation of the Banks, do you feel that consolidation of Insurance Companies will help in reducing the overheads & better service to Customers?**

  India has a huge potential for insurance to be tapped. There is space for more companies. It is also good to have big companies of global size with large capacity to insure. Consolidation should have clear purpose and should be properly executed and can help in bringing in economies of scale to the customers.

- **To what extent things like Artificial Intelligence are being used in Insurance sector & how it is going to change the future of Insurance Industry?**

  Insurance sector is fast absorbing latest technology for better underwriting, faster claims settlement, fraud mitigation, great customer service and efficiency of operations. Artificial intelligence is extensively used in risk acceptance, claims assessment and customer connect. Block chains are also being explored in insurance sector for full information about customers for good underwriting and proper claims settlement. Machine learning, IOT, chat bots are all now used routinely by insurance sector .

- **What do feel will be the impact of 100% FDI for Insurance Subsidiaries?**

  FDI in insurance companies is 49%. It has been increased to 100% in Insurance intermediaries. India has huge untapped Insurance potential. Insurance is also a capital intensive industry. Hence permitting 100% FDI will contribute to better insurance penetration. This will also bring in capital to India apart from global best practices and new products.

- **What is your opinion about Insurance portability?**

  Non life insurance policies are mostly annual policies and are freely portable at the time of renewal. In case of health insurance due to the issue of pre existing diseases exclusion portability was difficult. The regulator has therefore permitted free portability of health insurance policies without loss of any benefits to customers. However in practice customers prefer to continue with their insurers and renewal retention is very high in health insurance.

- **What are your views on Crop Insurance. What is your opinion about claim settlement of Crop insurance. How Insurance companies will be helpful to farmers in difficult times?**

  Crop insurance is a very important insurance scheme for the benefit of farmers. The scheme has been very well structured and the Government is subsidising major part of the premium. There are delays in claims settlement for various reasons most of which are beyond control of insurers. The Central and State Governments together with insurers should sort out these issues. Use of technology can remove subjectivity in loss assessments, reduce delays and would remove disputes in claim.

Interview by ***CMA Chaitanya Mohrir*** *(Member Editorial Board)*

"The real difficulty is that people have no idea of what education truly is. We assess the value of education in the same manner as we assess the value of land or of shares in the stock-exchange market. We want to provide only such education as would enable the student to earn more. We hardly give any thought to the improvement of the character of the educated. The girls, we say, do not have to earn; so why should they be educated? As long as such ideas persist there is no hope of our ever knowing the true value of education."

– Mahatma Gandhi

COMBAT COVID -19 : GST COMPLIANC REFLIEF MEASURES

CMA Vinod Shete

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Aligned to measures taken by countries around the globe for countering the COVID-19 economic impact, Government of India, had announced various measures, including some relief from a GST perspective as well.

Government of India had inserted section 168A by Taxation Ordinance 2020 dated 31st March 2020. Notwithstanding anything contained in this Act, the Government may, on the recommendations of the Council, by notification, extend the time limit specified in, or prescribed or notified under, this Act in respect of actions which cannot be completed or complied with due to force majeure. The power to issue notification under sub-section (1) shall include the power to give retrospective effect to such notification from a date not earlier than the date of commencement of this Act.

According to CGST Notification No.30/2020 dated 3.4.2020, Relief under Rule 36(4);

Current Rule : Input tax credit claim in respect of the Invoices or debit notes not appearing in GSTR-2A claimed every month in GSTR-3B cannot exceed 10% of eligible credit appearing in GSTR-2A at the time of filing GSTR-3B.

Relief : The conditions of availment of ITC in GSTR-3B as per above Rule for the period February to August 2020 shall be fulfilled on a cumulative basis. Accordingly, taxpayers need to do final adjustments in ITC availed while filing GSTR-3B for the month of September 2020, i.e. in case excess ITC is availed by the taxpayers then such excess ITC shall be adjusted while filing GSTR-3B for the month of September 2020.

The major relief under Rule 36 (4),Taxpayer can take full credit of Input Tax Credit without any deduction under Rule 36(4) while paying off a GST liability till the month of August 2020. Not only it will positively impact on Working Capital Management and Cash flows of Taxpayer, but also will reduce the burden of finance costs. Ultimately, it will have a positive impact on the bottom line of the Company.

Following example shows the working of Relief under Rule 36(4)

Month	ITC as per Books (Rs.)	ITC as per 2A (Rs.)	ITC in 3B (Rs.)
Apply 10% rule till January 2020			
Feb-20	100	Cumulative Total 600 in 2A	100
Mar-20	100		100
Apr-20	100		100
May-20	100		100
Jun-20	100		100
July-20	100		100
Aug-20	100		100

Calculation on cumulative basis as per Relief

Total ITC as per books -	:	700
ITC as per GSTR-2A	:	600
ITC not appearing in 2A	:	00
Maximum ITC (600+60)	:	660
ITC already claimed	:	700
Adjustment in Sep 2020	:	(40)

According to CGST notifications 31, 32 and 33 dated 3rd April 2020, Major Relief are given by extending GST Returns filing date, waiving late fees and Penalties.

The relief has been provided in following manner:

- Waiving the late fee if the GSTR-1 or 3B for a month or quarter is filed till certain dates
- Waiving interest if GSTR-3B is filed till a certain date
- Reduced rate of Interest @9% p.a. as against existing Interest rate of 18% p.a. if GSTR-3B is filed till a certain date

Below Table Shows Revised Due Dates for GSTR -3B and GSTR -1

GSTR – 3B Turnover Above Rs.5 Crs.

			Interest		Late fee
Month	Due dates	Nil if filed (within 15 days from due date)	@9% p.a. if filed between	@18% p.a. if filed on or after	Waived if filed on or before
Feb-20	20.03.2020	04.04.2020	5th April to 24th June 2020	25.06.2020	24.06.2020
Mar-20	20.04.2020	05.05.2020	6th May to 24th June 2020	25.06.2020	24.06.2020
April-20	20.05.2020	04.06.2020	5th June to 24th June 2020	25.06.2020	24.06.2020
May-20	20.06.2020	NA	NA	28.06.2020	NA

GSTR – 1 Turnover Above Rs. 5 Crs.

Month	Due dates	Late fees waived if filed on or before
Feb-20	11.03.2020	NA
Mar-20	11.04.2020	30.06.2020
Apr-20	11.05.2020	30.06.2020
May-20	11.06.2020	30.06.2020

GSTR – 3B Turnover Above Rs.1.5 Crs But less than Rs. 5 Crs.

Month	Due dates	Nil Interest if filed till	Late fee Waived if till
Feb-20	22.03.2020*/ 24.03.2020**	29.06.2020	29.06.2020
Mar-20	22.04.2020*/ 24.04.2020**	29.06.2020	29.06.2020
Apr-20	22.05.2020*/ 24.05.2020**	30.06.2020	30.06.2020
May-20	12.07.2020*/ 14.07.2020**	NA	NA

GSTR – 1 Turnover Above Rs.1.5 Crs But less than Rs.5 Crs.

Month	Due dates	Late fees waived if filed on or before
Feb-20	11.03.2020	NA
Mar-20	11.04.2020	30.06.2020
Apr-20	11.05.2020	30.06.2020
May-20	11.06.2020	30.06.2020

GSTR – 3B Turnover less than Rs.1.5 Crs

Month	Due dates	Nil Interest if filed till	Late fee Waived if till
Feb-20	22.03.2020*/ 24.03.2020**	30.06.2020	30.06.2020
Mar-20	22.04.2020*/ 24.04.2020**	03.07.2020	03.07.2020
Apr-20	22.05.2020*/ 24.05.2020**	06.07.2020	06.07.2020
May-20	12.07. 2020*/ 14.07.2020**	NA	NA

* Taxpayers with principal place of business in the States of Chhattisgarh, Madhya Pradesh, Gujarat, Maharashtra, Karnataka, Goa, Kerala, Tamil Nadu, Telangana, Andhra Pradesh, the Union territories of Daman and Diu and Dadra and Nagar Haveli, Puducherry, Andaman and Nicobar Islands or Lakshadweep.

** Taxpayer with principal place of business in the States of Himachal Pradesh, Punjab, Uttarakhand, Haryana, Rajasthan, Uttar Pradesh, Bihar, Sikkim, Arunachal Pradesh, Nagaland, Manipur, Mizoram, Tripura, Meghalaya, Assam, West Bengal, Jharkhand or Odisha, the Union territories of Jammu and Kashmir, Ladakh, Chandigarh or Delhi.

GSTR – 1 Turnover less than Rs.1.5 Crs

Month	Due dates	Late fees waived if filed on or before
Jan.2020 to March 2020	30.04.2020	30.06.2020
April 2020 to June 2020	31.07.2020	NA

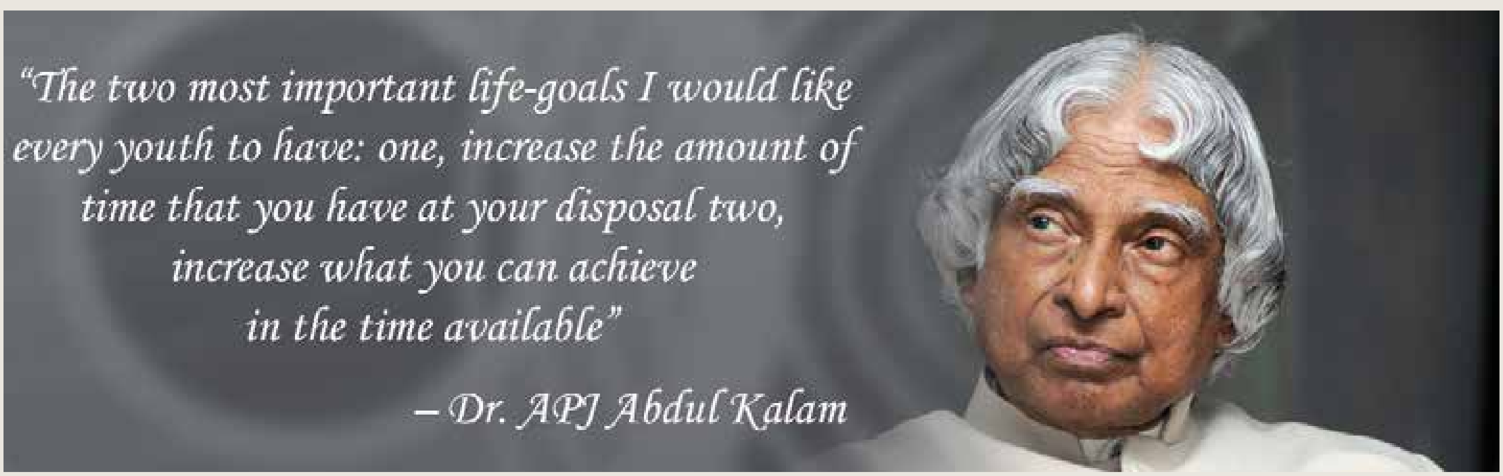
The Table below Shows Relaxations to Composition Tax Payer according to CGST notifications 30 and 34 dated 3rd April 2020 :

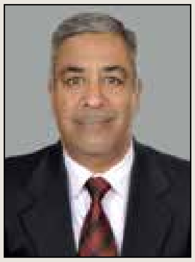
Particulars	Existing Due date	Revised Due date
Intimation inCMP-02 for opting for Composition Scheme for FY. 2020-21	31st March 2020	30th June 2020
Filing of ITC-03	30th May 2020	31th July 2020
File of CMP-08 for Quarter January to March 2020	18th April 2020	7th July 2020
GSTR-4 for FY 2019-20	30th April 2020	15th July 2020

Conclusion :

The government has given many other concessions apart from the above-mentioned relaxations, like ITC 180 days Rule, Summons issued u/s 70 of CGST Acts, 2017, Time limit for Job work – 1 years and 3 years and Refund of GST u/s 54 etc.

I would say that, an extension of filing GST returns and many other relaxations given under the GST Act would be helpful to the Companies and individual Tax Payers to focus on resumption of business processes and to regain the business as before COVID -19.





Financing the future through Responsible Banking

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The perspective

Economies, societies and environment are intrinsically linked, and challenges or risks in one sphere invariably impact the others. Hence, today's business mindset needs to go beyond the business-as-usual approach to a more balanced one, with sustainable and innovative pathways balancing aspirations, practicality and risks. Whilst global challenges need collective action, they also need 'glocalized' responses.The global banking sector is under increasing pressure to operate more sustainably and be more transparent about its economic, social and environmental impacts.As a result, more and more banks recognize the need to integrate environmental, social and governance (ESG) factors into their investment, lending and project finance approaches and decisions. Many banks run significant asset management businesses and are exposed to a complex array of ESG risks and opportunities. ESG is also entering the lending and project finance space where banks have a critical role as the providers of loans to corporations, financing to projects and advice to issuers of securities. Awareness is also growing that responsible banking approaches and skillful management of ESG can improve risk-adjusted returns, enhance reputation, spark commercial opportunities, mitigate portfolio risks, and improve market positions and value.

What is Responsible Banking

The notion and concept of Responsible Banking helps a bank to align the goals and strategies of banking with that of society. The principles provide the framework for a sustainable baking system and help the industry to demonstrate its positive contribution towards the society. Sustainable banking is the integration of sustainability into a bank's core business through the integration of environmental and social considerations into product design, mission, policies and strategies. As the expectations of the society has changed over a period, its high time for the banking institutions to be transparent about how their products and services create and nurture the ethics and values of their customers, clients, investors as well as the society. Today's banking mindset is definitely in a need to go beyond the usual approach to a more balanced one, on a sustainable and responsible path which balances aspirations, practicality and associated risks. Responsible banking uses money to help create positive impact for people, their communities and the planet. Responsible Banking is a values-based position that guides and challenges a bank to think differently about how a bank operate as a financial institution.

The banking system should operate in a Sustainability zone where wider environmental and social objectives are targeted to be met by supporting new emerging businesses that not only promote financial growth but also enhance social causes across a range of the common man base and the stakeholders, thus constituting the economic pyramid as a whole. To this end, the banks have to offer innovative financial solutions to address a wide spectrum of issues regarding sustainable livelihoods, public health, education & education. Strong internal decisions which have to be sound ethically and commitment to socially responsible banking combined with proper and transparent voluntary disclosures to such values and ethics as embedded in the social responsibility statements shall go a long way in building an equitable, socially responsible, sustainable country.

Principles of Responsible Banking

The Principles for Responsible Banking were launched by 130 banks from 49 countries, representing more than USD47 trillion in assets, on 22 and 23 September 2019 in New York City, during the annual United Nations General Assembly.

The Principles provide the framework for a sustainable banking system and help the industry to demonstrate how it makes a positive contribution to society. They include:

- **Alignment:** Commitment to align their business strategies to be consistent with and contribute to individuals' needs and society's goals, as expressed in the SDGs, the Paris Agreement and relevant national and regional frameworks.
- **Impact and Target Setting:** Continuously increase their positive impacts and reduce the negative impacts on, and manage the risks to, people and the environment resulting from their activities, products and services..
- **Clients and Customers:** Work with clients and customers to encourage sustainable practices and enable economic activities that create shared prosperity for current and future generations.
- **Stakeholders:** Responsibly and proactively consult, engage and partner with relevant stakeholders to achieve societal goals.
- **Governance and Culture:** Implement the Principles through effective governance and a culture of responsible banking.
- **Transparency and Accountability:** Periodically review individual and collective implementation of the

Principles and be transparent about and accountable for positive and negative impacts and their contributions to societal goals.

Case study – Yes Bank

YES BANK, since inception in 2004, through its 'Responsible Banking' ethos has believed in creating sustained value for its stakeholders, through social, economic and environmental dimensions. Integrated with core business strategy, Responsible Banking steers the sustainable development agenda at YES BANK through its pathways of Social & Developmental Impact, Climate Action, and Transparency & Disclosures.

YES BANK leads the sector in its effort to mainstream Responsible Banking and sustainability. It is the only Bank to rank amongst the top 30 Responsible Businesses listed in 'India's Top Companies for Sustainability and CSR 2018' (a study by IIM–Udaipur & Futurescape Netcoms). Highlighting its leadership position on Environmental, Social and Governance (ESG) performance, YES BANK is also the only Indian Bank to be selected in the Vigeo Eiris Best Emerging Market Performers Ranking, an independent international ESG ratings provider, for the second consecutive year. The Bank was also the only Indian bank to be accorded 'Prime' status by OEKOM AG, a leading ESG ratings agency in Europe & was the only Indian Bank to be selected in Dow Jones Sustainability Indices (DJSI) in the emerging market index.

Dimensions of Responsible Banking

Sustainable Financing : Sustainability has been a core value proposition to YES BANK since inception, weaving sustainability into its operations as well as creating stakeholder value through positive impact business solutions. The central Responsible Banking team holds the mandate to set and drive the bank's strategy based on a triple bottom line of financial, social and environmental returns. While India continues to account for a very low per capita emission level, over the past five years, overall CO^2 emissions have risen. Climate change could result in huge economic losses accounting to over 1% of India's GDP. It is estimated that an investment of over USD 2.5 trillion will be required for India to achieve its emission intensity-reduction targets and adaptation to climate change by 2030. This makes it critical to align the growth agenda with addressing climate change, and for financial institutions to bring their expertise, to the task at hand of integrating sustainability in financing. YES BANK having realized Sustainability as the future of business has focused on developing a knowledge driven approach to banking, and is striving to drive it through its sustainable finance interventions.

Positive impact : To augment the community impact of ongoing social responsibility projects, YES BANK is working on several positive impact initiatives as per the focus areas outlined in its CSR Policy. These initiatives, launched individually by the Bank, or in association with its national partners, have created a sizeable impact in livelihood security and enhancement in rural India, skill building among youth, and improving environmental sustainability, and energy efficiency and occupational health & safety in the MSME sector. Additionally, the bank focuses on improving community welfare, the earth's stock of natural assets and social awareness through the power of media

Policy advocacy through leadership: Through programs and initiatives that engage directly with its upstream stakeholders, YES BANK continues to work towards establishing its case for sustainable development at the highest level. YES BANK has forged strong ties with national and global thought leaders, multi-laterals, and governments to release knowledge reports that are aimed at influencing policy decisions positively impacting the society, environment and industry at large.

Transparency in accounting : YES BANK has set strong transparency and accountability standards in the Indian Banking sector and has been reporting on its sustainability performance since its inception. It has helped it build trust amongst its stakeholders, create a strong competitive advantage based on innovation and entrepreneurship, attract capital from marquee investors, and realize strong partnership opportunities. Committed to managing and accounting for its own environmental footprint, the Bank is the first Indian bank to be a signatory to the CDP, and also the first Indian Bank to be ISO 14001:2004 certified for Environmental Management System.

Triple Bottom Line / Sustainability Disclosures :YES BANK has set new benchmarks in the Indian Banking sector in Triple Bottom Line accounting and reporting. YES BANK believes that integrated reporting helps its stakeholders gain a consolidated view of the Bank's performance across economic, environmental, and social parameters. Since FY 2015-16, the Bank has adopted the Integrated Reporting framework of the International Integrated Reporting Council (IIRC), disclosing its value creation strategy using the capitals model, and reporting the Bank's performance vis-à-vis its financial, manufactured, intellectual, human, social & relationship, and natural capitals. The Bank's Sustainability disclosures are in accordance with GRI Standards: 'Comprehensive' option as well as mapped to SDG Compass, which aligns GRI reporting framework with the UN Sustainable Development Goals. In FY 17-18, the Bank became the first Indian Bank to release enhanced sustainability disclosures aligned to the G20 Financial Stability Board's, Taskforce on Climate-related Financial Disclosures (TCFD) recommendations. And in FY18-19, YES BANK became the first Indian Bank to release enhanced sustainability disclosures based on the Principles for Responsible Banking and TCFD Recommendations.

YES BANK is also the first Indian banking signatory to the UN Global Compact, and has been including its annual 'Communication On Progress', in its Sustainability Reports.

Environmental accounting and Management system : YES BANK is the only Indian bank to be included along with 41 global banks in the RobecoSAM-DJSI Sustainability Yearbook's 2018 edition. This selection indicates that YES BANK's ESG (Environmental, Social and Governance) performance is within 30% of the top-performing banks worldwide, which is a true testament to bank's lazer-sharp focus on corporate governance, risk management, prioritizing ESG performance and mainstreaming sustainability in the Indian banking sector, through cutting edge solutions in climate and environmental finance and community impact. There were 478 companies from 43 countries that featured in 2018 edition of 'The Sustainability Yearbook'. The selection is based on its RobecoSAM's Corporate Sustainability Assessment (CSA) 2017, an ESG analysis of over 2,479 listed companies, leading to the composition of Dow Jones Sustainability Index.

Conclusion

Accounting for over two-thirds of financing, the banking system has been the largest financier of an ever-growing global economy. Adopting a similarly significant role, banks can leverage their strength to finance the future by adopting an ethos of Responsible Banking. The past five years have already witnessed next generation banks introduce a number of innovative financial instruments and products to meet the needs of sunrise sectors. Yet, many banks face multiple challenges in designing and implementing a successful approach to responsible banking and ESG. These range from a lack of internal resources to insufficient ESG data to verify performance.India has to be highly endowed with a deeply penetrated bank branch network with policies such as to allow the banking find its roots in the remotest corners of the country which can deliver agricultural credit along with other financial services especially at the farmers doorsteps. Strong internal decisions which have to be sound ethically and commitment to socially responsible banking combined with proper and transparent voluntary disclosures to such values and ethics as embedded in the social responsibility statements shall go a long way in building an equitable, socially responsible, sustainable country.

CHAPTER NEWS

NASHIK-OJHAR

"Live interactive session on "Role of Banking sector post Covid-19 for revival of Economy."

The chapter is always ready to provide knowledge to our beloved members in every situation. By keeping our trend in the pandemic situation of COVID-19 the Chapter conducted Live session on YouTube for members and other stakeholder.

The live interactive session on the topic "Role of Banking Sector post COVID -19 for revival of Economy" is conducted on 19th May 2020. The speaker for the same was Shri B.S. Tavhare (Zonal Manger (DGM) Nasik Region, Bank of Maharashtra. First time chapter conducted session online and more than 400 participants attended the session. Session concluded with Question and Answers.

Session was useful to everyone. All Committee members taken active participation for this session.

NAVI MUMBAI

Chapter organised the following programmes during the Lockdown Period

· A Webinar on "Introduction to Blockchain" on 17th May 2020 . Speaker on the Webinar was Mr. Sunil Senapati Director Trade Finance of Bolero, Singapore.

The Programme commenced with the traditional welcome of the speaker and the audience by CMA Vivek Bhalerao. CMA L. Prakash introduced the speaker and highlighted the importance of understanding Blockchain in the new economic scenario that is coming up. The Speaker dealt on the subject in detail right from the Three Pillars on which it Stands viz Decentralization , Transparency & Immutability , how it works , and how we can use it by providing numerous practical examples for bringing in the Trust Factor in many of our Business Processes . The session was very interactive and speaker thanked all participants for making session interesting with their questions and discussion. The programme ended with felicitation of speaker Mr Sunil Senapati by the PD Chairman CMA Vivek Bhalerao. Chairman Sirish Vasant Mohite proposed the vote of thank.

- A Webinar on "E Invoicing & Upcoming Return Filing System in GST-A New Dimension" on 26th April 2020. Speaker on the Webinar was CMA Amit Sarkar Sr. Director Deloitte Haskins & Sells LLP and Advocate Harshill Vora Manager Deloitte Haskins & Sells LLP

  The Programme commenced with the traditional welcome of the speaker and the audience) by CMA Vivek Bhalerao . The Speaker dealt on the subject in minute details. The session was very interactive and speaker thanked all participants for making it interesting with their queries and discussion. The programme ended with felicitation of speakers CMA Amit Sarkar & Advocate Harshill Vora by the PD Chairman CMA Vivek Bhalerao .Chairman Sirish Vasant Mohite gave the vote of thank and specially thanked the Speaker and Audience for their active participation.

- On 7th April 2020 Webinar Classes for Final Year Students was commenced and now even Webinar Classes for Intermediate Students have also started and there has been a very positive response from the Students & Faculties.

- On 11th April, 2020 a meeting of the management committee was taken on Video Conferencing due to Lockdown situation to discuss various matters pertaining to the Chapter activities.

Pay Tax & Get Rich for Business Enterprises

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"I like to pay taxes. With them, I buy civilization."

— Oliver Wendell Holmes Jr.

Why should you pay taxes?

Is it sound business proposition?

It looks paradoxical that by paying tax and reducing the net cash surplus, one can grow and get rich. However, while making statements, the underlying assumption is that the book profits/incomes do not generally represent true surplus. If that was not so, there would not have been a parallel economy. This malice is prevalent not only in India but the globe over with difference in its extent. In India, the generation of black money in circulation is estimated to be of the same order as the legal money in circulation. The unaccounted money as said earlier, is sometimes stocked in lockers, utilized on unproductive assets or spent ostensibly. This has the effect of underutilization to a substantial extent of the productive use of available total resources. At personal, business and national level this retards progress in real terms.

Reluctance to pay taxes as due, arises from basically two factors. There is deep- rooted human psychology that the income/wealth earned by once own effort need not be shared with others. And the lack of appreciation about the role that the government plays in maintaining the country's sovereignty, security, law and order, education, health infrastructure etc. Though the state spends considerable amount on the citizens' & Corporate welfare, it is not seen directly and hence not appreciated.

Our purpose in this article is not to debate on the moral issue of tax payment but to examine whether it is beneficial in the long run to pay due taxes and maintain productive assets. This will lead to growth and prosperity.

When true profit is not disclosed, the undisclosed portion of profit is withdrawn from the books and is not available for business purpose. Profit is lifeblood for any venture. It provides nucleus for growth from internal sources. External sources have a cost attached to it and its availability is not assured as when required. Further external resources also depend upon the state of financial health of the venture. Stronger the net worth, Greater the Prospects of external economic borrowing if required. At any-time, growth through internal accruals is the best option. With margins under pressure for all fronts, it makes immense sense to minimize all costs including borrowing costs.

To illustrate this point, the following example shown reflecting the impact of higher retention of profit in business. Company Dis-Honest enterprises prefer to declare 50% of its profits and Company Honest Enterprises prefer to declare 100% profit and pay tax thereon. In this exercise, it is assumed that both the units are in the same industry, have comparable capacity/cost structure, have started business in the same year and that the working capital cycle is of 3 months. It is also assumed that the growth is only through internal accruals and that there are ample opportunities to grow the business. Based on these parameters, the profit generation ability of both the units over of period of 5 years shows that Dis-Honest enterprises could reach turn over and net cumulative profit generation of Rs 239 lacs and Rs 59 lacs respectively as against Honest enterprises of Rs 661 lacs and Rs 316 lacs respectively. This arises on account of multiple effect of plough back. Though the said illustration is of small business house the principle applies equally for Large, Medium trade and businesses.

The power of internal accruals has been aptly demonstrated by the acquisition of Corus Group by Tata Steel amounted to $12.2 billion. It was all Cash deal, paid out of reserves – internal accruals so the cash rich company has vast opportunities of extending its arm for profitable businesses whenever opportunities arise.

If we look around, the most successful business houses are those that have generated large profits and taken advantage of the available business growth avenues to make rapid strikes. For them tax, has only been taken as cost of business and not as a forcible outgo. It goes without saying that, even the tax statue book mentions that a tax payer has a right to so exemptions and deductions are available under the Income Tax Act both for businesses and individuals. This supposes legal tax planning on a long term basis to retain maximum profit in business and use it for growth. We have shining examples of Reliance, Wipro, Infosys, Tatas, and many other who have enlarged their bottom line year by year, paid taxes and grown spectacularly and achieved a status of prime in the International business arena. Their strength has been in identifying new green field areas for growth where, as early bird they earn rich rewards. In this march towards growth, their basic strength has been grown through internal accruals basically. These companies are the torchbearers who have demonstrated that it is possible to grow by leaps and bounds through maximizing profits.

As a country now, with esteemed status in International markets, we are on a threshold of massive expansion in business opportunities. It is time we adjust our business strategy and gear up ourselves to take advantage of the emerging new scenario. This can be achieved if the attention, instead of being diverted to tax evasion is better focused on earning and retaining higher profits in business and ensuring growth.

Projected Income Statement of DIS-HONEST ENTERPRISES for 5 Years

Rs. in Lacs

Particulars	Year 1	Year 2	Year 3	Year 4	Year 5
Sales	100	115	139	177	239
Variable Overhead (60% on Sales)	60	69	83	106	143
Fixed Overhead	28	28	28	28	28
Profit	12	18	28	43	68
Borrowing Costs (10% on Rs 20 Lacs)	2	2	2	2	2
Net Profit	10	16	26	41	66
Un-Accounted Profit (@ 50%)	5	8	13	20	33
Taxable Profit	5	8	13	20	33
Tax @ 25%	1	2	3	5	8
Profit Transferred to Reserves	4	6	10	15	25
Cumulative Book Profits	4	10	19	35	59

Projected Income Statement of HONEST ENTERPRISES for 5 Years

Rs. in Lacs

Particulars	Year 1	Year 2	Year 3	Year 4	Year 5
Sales	100	130	196	341	661
Variable Overheads (60% on Sales)	60	78	118	205	396
Fixed Overhead	28	28	28	28	28
Profit	12	24	50	108	236
Borrowing Costs (10% on Rs 20 Lacs)	2	2	2	2	2
Net Profit	10	22	48	106	234
Un-Accounted Profit (@ 50%)	0	0	0	0	0
Taxable Profit	10	22	48	106	234
Tax @ 25%	3	6	12	27	59
Profit Transferred to Reserves	8	17	36	80	176
Cumulative Book Profits	8	24	60	140	316

Projected Balance Sheet of DIS-HONEST ENTERPRISES for 5 Years

Rs. in Lacs

Assets	Year 1	Year 2	Year 3	Year 4	Year 5
Fixed Assets	29	33	37	55	70
Current Assets	30	37	48	47	75
TOTAL	**59**	**70**	**85**	**102**	**145**
LIABILITIES	**Year 1**	**Year 2**	**Year 3**	**Year 4**	**Year 5**
Equity Share Capital (200000 sh @ Rs 10)	20	20	20	20	20
Reserves	4	10	19	35	59
Borrowed Capital	20	20	20	20	20
Current Liability	15	20	26	27	46
TOTAL	**59**	**70**	**85**	**102**	**145**

Projected Balance Sheet of HONEST ENTERPRISES for 5 Years

Rs. in Lacs

Assets	Year 1	Year 2	Year 3	Year 4	Year 5
Fixed Assets	33	46	68	118	243
Current Assets	30	39	67	132	263
TOTAL	**63**	**85**	**135**	**250**	**506**
LIABILITIES	**Year 1**	**Year 2**	**Year 3**	**Year 4**	**Year 5**
Equity Share Capital (200000 sh @ Rs 10)	20	20	20	20	20
Reserves	8	24	60	140	316
Borrowed Capital	20	20	20	20	20
Current Liability	**15**	**21**	**35**	**70**	**150**
TOTAL	**63**	**85**	**135**	**250**	**506**

GROWTH ANALYSIS OF MARKET VALUE AT THE END OF 5 YEARS (Rs in Crs)

PARTICULARS	DIS-HONEST	HONEST	Incremental
	Enterprises	Enterprises	Growth %
Market Value	2.00	10.00	
Un-accounted Cash	1.00		
Total Wealth	3.00	10.00	233%

Assumptions Considered:

1. Market is available for Product Produced
2. Variable Cost is 60% of Sales
3. Fixed Cost amounts to Rs 28 Lacs per annum
4. Market Value of Enterprise is considered as 3 times the Book Value
5. Borrowing Cost is 10% of Rs 20 Lacs borrowed capital
6. In Dis-Honest Enterprises, 50% of profit is undisclosed
7. Every rupee of profit earned increases turnover by 4 times
8. Growth considered only through Internal Accruals
9. All profit is re-invested in Business

COMPARATIVE PROJECTIONS OF HONEST ENTERPRISE & DIS-HONEST ENTERPRISE (Rs in Lacs)

PARTICULARS	YEAR 1		YEAR 2		YEAR 3		YEAR 4		YEAR 5	
	Dishonest	Honest	Dishonest	Honest	Dishonest	Honest	Dishonest	Honest	Dishonest	Honest
Sales	100	100	115	130	139	196	177	341	239	661
Net Profit	10	10	16	22	26	48	41	106	66	234
Unaccounted-Profit	5	0	8	0	13	0	20	0	33	0
Taxable Profit	5	10	8	22	13	48	20	106	33	234
Cumulative Reserves	4	8	10	24	19	60	35	140	59	316
Book Value of Business	24	28	30	44	39	80	55	160	79	336
Market Value of Business	71	83	89	132	118	241	164	480	238	1,008

Construction Industries, Migrant Workforces and COVID-19 : An impact analysis

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Introduction: Time has really come to recognize and value the 'God of Small Things'. Certain aspects of life which we might have not considered seriously even few months ago has become our reasons for existence or non existence in real sense. Every aspects, every contribution, every addition in any value chain in every human endeavour is equally important. In Ramayana, while monkeys were constructing the bridge over the sea with big rocks to reach Lanka, a little squirrel was carrying pebbles from seashore and dropped into the sea. While monkeys were making fun of the squirrel, Lord Rama said 'Don't make fun of the small and weak. His strength is not important; what important is his intention and love for contribution'. How true it is even today in any construction industry. We have qualified engineers, advanced technology, latest equipments, time tested plan, full proof evaluation mechanism. Still all these have no or a little value if the daily workforce does not make their day to day contribution in terms of physical labour. Due to the outbreak of COVID-19 and subsequent nationwide 'Lockdown', all construction work has become stand still. More concern than the current stoppage of work for few months is that the returning of 'Migrated Workforce' to their native place will create a huge shortage of worker when construction work will resume. In the following paragraphs, I will try to analysis the probable impact of such shortage of workforce in the construction industries.

Reasons for Migration: Property knows no rule. Nobody wants to die of starvation when anyone can earn their bread somewhere else when not available at home. The major reasons for such migration are as follows

a) There are both Social and Economic imbalance of the States in India leads to internal migration. People living below the poverty line want to have better earnings and migrate somewhere else.

b) It has been observed that the states with low Industrial and commercial bases have witnessed major migration from the states. Private and public investments create more industries as well as job opportunities. Maharashtra, Gujarat, Andhra Pradesh has more private and public investments then Bihar, Uttar Pradesh and West Bengal.

c) Population density and per capita actual earning, per capita domestic products and future earning scope also another reasons for migration towards the economically sound states. Push factors are poverty, unemployment, population density, low yield from agricultural, lack of civil activities, internal fights on the basis of caste, creed race etc.

d) Now a day's political outlook, political culture and futuristic plans for economic growth of the ruling government also induced people to step out of their states for better and secure future.

So, for better earning and secure future, workforce migrates to the states where more and more construction works are being carried out. Scope of work being wider and scarcity of labour force in that states provides scope for migrant workers.

Impact on Local Labour Force and on Industry and Motivational Factors : The States which have scarcity of labours in domestic markets, welcomes and accommodate the migrant workers for smooth and economical running of construction industries. It can have the following benefits

a) Local workforce finds the competition from the migrant workforce and becomes more responsive to market demand and feel urge for improvement.

b) There will be a balance between demand and supply of workforce and neither the owners nor the workers can enjoy the dominion status. In India, workforces are mainly controlled by the 'Worker's Unions' and to some extent they are being managed, supported, motivated as well as exploited by the Unions.

c) Migrant workers find extra motivations as they know that they need to survive for their existence at a distant place and induced to work with extra motivations and enthusiasm. This will certainly increase their productivity and the employer organization being benefited.

Impact of COVID-19 on Migrant Worker : COVID-19 pandemic or the Novel Corona Virus is the word of these days and the most scaring word now is 'positive'. All most every construction industries are feeling the heat of such deadly virus. Construction sector in India was already struggling with multiple challenges like lack of capital, regulatory burden, credit avenues and environmental compliance. Now this Novel Corona virus has added a very noble cause of concern for organizations, workers as well as Governments. Government has announced Nation wise Lock down from 25th March,20 for 21 days in first phase. While writing this article, India is witnessing fifth phase of lockdown though unlock plan has started in phased manner from 1st June,2020. The impact of such sudden lockdown has created the following major problems.

a) All on a sudden all construction activities has stopped and revenue generation for the contractors have stopped.

b) Workers unable to work at construction site and becomes income less. Very few Organizations in India have looked after the jobless worker during these unemployed period.

c) Within a month time major jobless workers becomes penniless and not having with food, water and shelters.

And the very reasons for which they migrated again starts propelling them to rethink for retuning back home at any means. The country has witnessed that lakhs of workers returned home by walking thousands of kilometre. Many of them have lost their lives on the way.

d) As the majority of migrant workers have gone back home by walking or by 'Shramik Special' train, busses or Lorries, there will be scarcity of workers when the construction work will resume in full swings.

Demand Supply Theory, Cost of Labour, Cost of Projects : Impact on Construction Companies

The construction companies will face a major hardship during the lockdown period as well as when the work will resume after the crisis period be over.

a) Firstly, the contractors have to plan for the safety of its own employees and the labours working at sites. Any irregularity in this regard may be the fatal to the organization as all regulatory eyes are having focus on this.

b) Construction companies with high level of 'Debt' and low cash reserve will face a liquidity crisis.

c) Construction companies with zero revenue will face the problems of meeting contractual obligations like salary payments, Administrative overheads, statutory payments and subcontractor's minimum payment obligations as per contract.

d) Contract management and negotiation with customers will come into sharp focus. Customer seeks to renegotiate the scope of the work, contract price or may even terminate the contract in certain cases.

e) When the work will resume, there will be certain to have shortage in work force. It means the supply of the labour will be less than the demand for same for industry as whole in any particular location or a particular homogeneous sector of workings. It will have following consequences.

   1) There will be unhealthy competitions among the contractor for hiring the available work force. Cost of labour will certain to increase and hence the cost of contract will increase. The principal contractor may have to pay to the subcontractor an additional amount as 'claim' beyond the initially agreed contract price.

   2) The construction work cannot be carried at its desired level of speed as per the plans and schedule. It will leads to the delay in completion. Government has issued various directives to cope with this stoppage of work. The schedule completion date to be differed automatically to the extent of period of lockdown. In some cases, retention moneys have been advised to release to the extent of work completed to cope with liquidity problems. Performance Bank Guarantees have also been asked to release proportionately. But the invisible issue which has neither been addressed nor it can be quantified as of now the impact of delay in work and consequential increase in costs due to the unavailability of workforce.

   3) Non availability of specialized workers may also causes the quality of work a real concerns and may leads to the 'penalty' or increased cost in the form of 'rectification of work'.

f) In most of the contract, a major portion of the 'hard cost' is steel and cement. As an industry practice in India, these steel and cement vendors needs to be paid 100% advance before supply or in some cases, the credit period is very low. Now in the present situation, every industry is facing either of the two situations and in both the situations a huge amount of working capital is being blocked and facing liquidity problems.

   1) Those who have already acquired these materials by paying on the anticipation that materials will be billed to customer either in material forms or incorporating into the services, are now stuck and huge working capital is being blocked.

   2) Those who have made the advances to the supplier but materials have not yet been received are also facing same problems of liquidity.

g) There may be impact on employees also. Some of the employees are in danger of losing their jobs. In some other cases, their salary being reduced. Company may have to be restructured fully to remain financially solvent.

Liquidated Damage Clause: Time is the essence of any contract. In every contract a ' Liquidated Damage (LD)' clause is incorporated so that both the customer and contractor has an enforceable right on each other on breach of contract. The essence of the LD clause is that the project needs to be completed within a stipulated period of time from 'Zero Date.' If the contract is not completed within such period of time without any valid reasons and such delay has been approved by the customer, the customer will charge a 'LD' at a specified rate per week/month of delay. In the current scenario of COVID-19, it is almost certain that no project will be completed within the agreed period of time for the reasons discussed above. It means if the project is not completed within the time initially agreed upon or mutually extended, the Contractors will have to face the following consequences,

a) The customers will levy 'LD'. Overall contract revenues are certain to dip.

b) Moreover, chances of litigations increases. Contractor and Customer will fight a legal battle for long time. Cost and time of such litigation is huge.

c) The subcontractors may have to be paid extra for 'escalation clauses' in their contract for overall delay in project.

d) Indirect cost of the projects like Administrative Overhead, Cost of capital, cost of compliance is certain to increase.

Force Majeure: To what extent it can save ?

In any construction contract between consumer and contractor, a 'Force Majeure' clause is incorporated. Presently Ministry of Finance has by way of an office memorandum (No O.M. No. 18/4/2020-PPD) issued on February, 20, 2020 clarifies the applicability of 'Force Majeure' clause in this COVID-19 pandemic scenario. 'Force majeure' has been defined in the office order as

'A Force Majeure means extra ordinary events or circumstances beyond human control such as an event described as an act of God (like a natural calamity) or events such as, war, riot, strike, crimes (but not including negligence and wrong doing, predictable / seasonal rain and any other events specially excluded in the clause) .

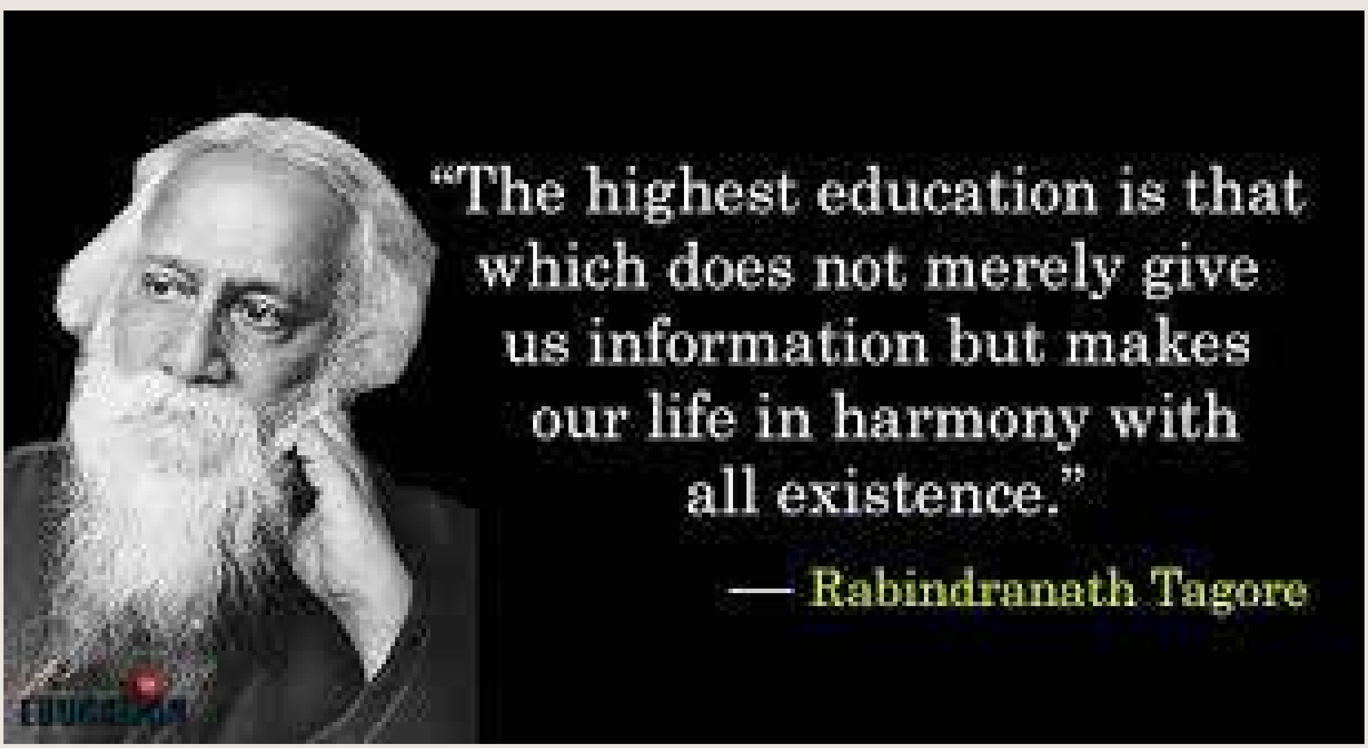
From a contractual perspective, a force majeure clause provides temporary reprieve to a party from performing its obligations under a contract upon occurrence of a force majeure event. A force majeure clause typically spells out specific circumstances or events, which would qualify as force majeure events, conditions which would have be fulfilled for such force majeure clause to apply to the contract and the consequences of occurrence of such force majeure event.

As per the above mentioned Office Memo, any disruption of supply chain due to corona virus will be coved in the Force Majeure Clause as it will be considered as a case of natural calamity and Force majeure clause will be invoked wherever considered appropriate. How the courts will interpret COVID -19 in relation to force majeure provisions will be interesting to watch out in the course of this year once the impact of COVID-19 settles.

But with this veil and protection of this 'Force Majeure' clause, how much an organization is going to be benefited is very doubtful.

Conclusion : It is no doubt and no reasons not to believe that all construction industries are facing and will be facing a very tough time in the coming years. For some, existence itself will be a challenge. The workers who migrated for some better living will be worst sufferer. Their recent experience will demoralised them to come back in recent future. There will be certainly a challenge for those States where majority of the migrant workers have returned back to arrange for their work ,food and health. But as saying goes, nothing is permanent, we know all these troubles will be over some days and our construction industries will be bounced back. The entire migrated worker will come back for the jobs and India will shine again. All the organizations have to focus diligently on capital structure planning, working capital planning, manpower planning and to explore opportunities how can we use technology to gain operational leverage.

Disclaimer: *This article has been written on the basis of experience of working in the Construction Industry over 12 years and all view are my personal views from experience and judgment.*



Repairs Expenses and Employee Cost – Whether to classify as variable cost or Fixed Cost

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Management is often required to Classify the Cost Elements into Variable or Fixed for working out Marginal Cost and Contribution analysis.

Repairs Expenses and Employee Cost are one of the Cost Elements to be classified as Variable or Fixed.

Main Features of Cost Elements Either to be Classified as Variable Cost Elements or Fixed Cost Elements are as mentioned below :

Variable Cost :

It remains same per Unit of Production irrespective of Volume of Production or Capacity Utilisation.

It has got linear relationship with Volume of Production.

Fixed Cost :

In totality it remains same for a given period irrespective of Volume of Production or Capacity Utilisation.

However, Cost per Unit of Production decreases with increase in Production Volume and increases with decrease in Production Volume.

No linear relationship with Volume of Production.

Characteristics of Repairs Expenses

It is required to keep Plant & Machinery in good condition.

If a study is made for trend of Repairs Expenses, say for last 3 years as mentioned in ANNEXURE-1, it may be observed that it has no linear relationship with volume of production.

As it has no linear relationship with Production Volume, it is always advisable to treat it as Fixed Cost although it is neither Variable nor Fixed in nature.

ANNEXURE -1— Trend of Repairs Expenses

Products	F.Y.2019-20			F.Y.2018-19			F.Y.2017-18		
	Production	Rs. Lacs	RS / MT	Production	Rs. Lacs	RS / MT	Production	Rs Lacs	RS / MT
Product 1									
Product 2									
Product 3									
Product 4									
Product 5									
Product 6									
Product 7									

Characteristics of Employee Cost

Employee Costs are essentially incurred for the following activities:

(1) To run Manufacturing Plants

(2) To run Utilities to Support Manufacturing Plants

(3) To run Maintenance Activities to maintain Manufacturing Plants & Utilities in Good Conditions

(4) To run Other Supporting & Essential Activities Like to Manage Finance, Administration, Marketing of the Products & Services etc

If a study is made for trend of Employee Expenses, say for last 3 years as mentioned in ANNEXURE-2, it may be observed that it has no linear relationship with volume of production.

Moreover it is Static in nature irrespective of volume of Production or Capacity Utilisation.

So with increase in Production Volume or Capacity Utilisation, Employee Cost Per Unit of Production will decrease and with decrease in Production Volume or Capacity Utilisation, Employee Cost Per Unit of Production will increase. Increase in Value ,if any, in F.Y.2018-19 over F.Y.2017-18 and that of F.Y.2019-20 over F.Y.2018-19 may be attributable to following factors :

1) Normal Increments
2) Union Wage Settlements, if any
3) Management Pay Revision, if any
4) Internal Promotions, if any. So in view of what is stated above, it is advisable to classify it as Fixed in Nature.

ANNEXURE -2 — Trend of Employee Cost

Products	F.Y.2019-20			F.Y.2018-19			F.Y.2017-18		
	Production	Rs. Lacs	RS / MT	Production	Rs. Lacs	RS / MT	Production	Rs Lacs	RS / MT
Product 1									
Product 2									
Product 3									
Product 4									
Product 5									
Product 6									
Product 7									

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ANNOUNCES WEBINARS ON

Sl.No.	Date	Topic	Time
Ind AS Speaker - CMA Milind Date			
1	14-06-2020	Overview of Ind AS & its linkage with CAS	4 to 5.30
2	18-06-2020	Framework for Ind AS and Ind AS 1 – presentation of FS & IND AS-2 Inventory	4 to 5.30
3	20-06-2020	Ind AS 16 – PPE	4 to 5.30
4	21-06-2020	Ind AS 23 – Borrowing costs & Ind AS 36 – Impairment of assets	4 to 5.30
5	23-06-2020	Ind AS 38 – Intangible assets & Ind AS 40 – Investment property	4 to 5.30
6	25-06-2020	Ind AS 41 – Agriculture, Ind AS 105 – Assets held for sale & Ind AS 106 – Mineral resources	4 to 5.30
7	27-06-2020	Ind AS 116 – Leases	4 to 5.30
8	28-06-2020	Ind AS 20 – Govt. grants	4 to 5.30
9	30-06-2020	Ind AS 115 – Revenue from contracts with customers	4 to 6
10	02-07-2020	Ind AS 37 – Provisions & Ind AS 12 – Income taxes	4 to 6
11	04-07-2020	Ind AS 19 – Employee benefits	4 to 5.30
12	05-07-2020	Ind AS 102 – Share based payments	4 to 5.30
13	07-07-2020	Consolidation Ind AS 103 & 110 – Business combinations & consolidated FS	4 to 6.30
14	09-07-2020	Financial instruments Ind AS 32 & 109	4 to 6
15	11-07-2020	Presentation Ind AS 7 – Cash flow	4 to 6
16	12-07-2020	Ind AS 34 – Interim reporting, Ind AS 33 – EPS, Ind AS 108 – Operating segments & Ind AS 8 & 10 – Accounting policies & events after reporting date	4 to 6.30
17	14-07-2020	Ind AS 21 – Effects of changes in foreign exchange rates & Ind AS 113 – Fair Value	4 to 6.30
GST - Speaker - CA Pratik Shah			
1	20-06-2020	GST Audit - GSTR 9 - Part I	11 to 12.30
2	21-06-2020	GST Audit - GSTR 9 - Part II	11 to 12.30
3	27-06-2020	GST Audit - GSTR 9C - Part I	11 to 12.30
4	28-06-2020	GST Audit - GSTR 9C - Part II	11 to 12.30

(1 CEP Credit hours will be provided to CMAs on basis of attendance)

For link please visit - www.icmai-wirc.in

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