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Insuring Road for National Development

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Infrastructure sector is one of the key drivers globally for country's economy. The Indian Infrastructure sector has been for long the catalyst for propelling

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India's economic growth and hence it enjoys immense focus from Government. A world class infrastructure not only facilitate the growth of other businesses but contribute directly to direct employment to millions. At a time when the contribution of industry is going down in GDP, the infrastructure sector accounts for nearly 26.7 % of the country's industrial output. According to Crisil, India's Infrastructure spending is projected to accelerate around Rs. Billion 50K between FY18 and FY22 providing a foundation for rapid and inclusive economic growth in the country. Infrastructure sector includes power, energy, dams, railways, roads and urban infrastructure development. Insurance has traditionally been playing a supportive role to the infrastructure industry and sharing risk mostly in the area of direct property and machinery losses. Over time, projects and project contracts have become more complicated and there is increased demand for seamless coverage to the project from the beginning till the end including loss of profits and delay in start-up. An additional dimension of risk that looms large over the infrastructure industry is in the area of weather and technology risk (Renewable energy projects) and liability which is again growing with the number of transcontinental high-value contracts, more global consumers and higher levels of awareness. **Key drivers in Indian Infrastructure sector**

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- **Infrastructure Needs-** According to the Economic Survey 2017-2018, India will require investments of about USD4.5 trillion by 2040 to develop infrastructure to improve economic growth and community well-being. The Current trend shows that India can meet around USD3.9 trillion infrastructure investments out of USD4.5 trillion. The cumulative figure for India's infrastructure investment gap (difference between the required infrastructure and the current economic infrastructure) would be around USD526 billion by 2040.
- **Government Initiatives-** The government has given a massive push to infrastructure by allocating Rs 5.97 lakh crore for infrastructure in the Union Budget 2018-2019. Various policy changes and new initiatives have been introduced by the Government in different infrastructure sectors to fast track the growth of projects.
- **Global Private Equity investment-** Large Global Private Equity players are entering the Indian Infrastructure market mainly in Roads and Renewable sector , the Infrastructure sector has seen 25 deals worth over \$ 3.2 billion so far this year (up to May, 2018), against 42 deals worth over \$ 4.6 billion in 2017.

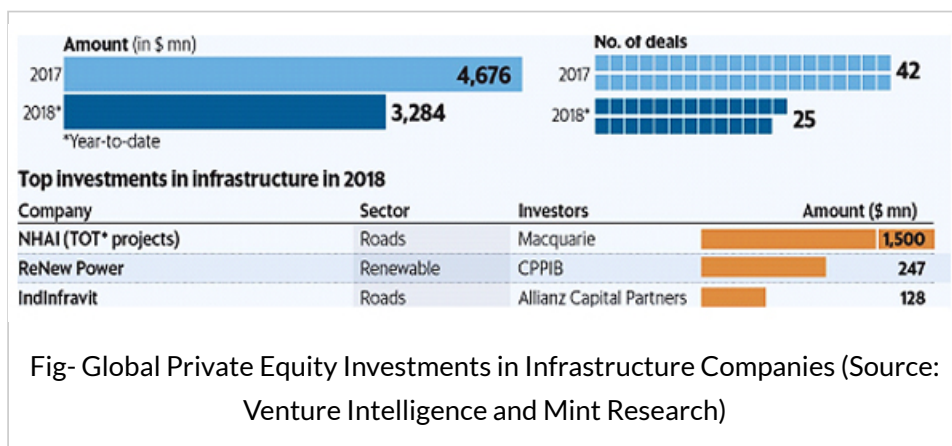
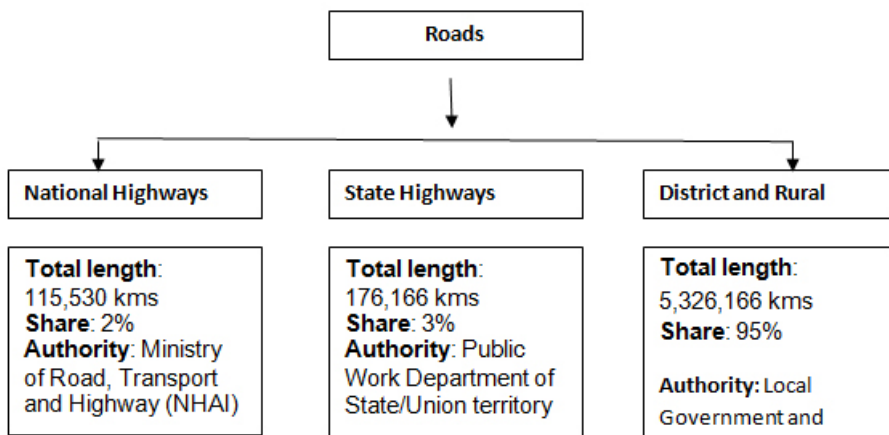


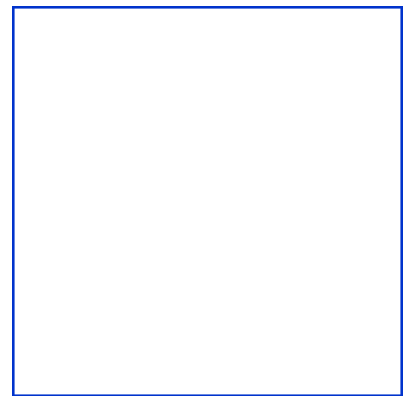
Fig- Global Private Equity Investments in Infrastructure Companies (Source: Venture Intelligence and Mint Research)

1. CAR INSURANCE COMPANIES
2. HEALTH INSURANCE PLANS
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4. LIFE INSURANCE PRODUCTS
5. BEST INSURANCE COMPANIES

ROAD SECTOR IN INDIA India has the second largest road network in the world at 5.6 million km. Road transportation has gradually increased over the years with the improvement in connectivity between cities, towns and villages of the country. Road Infrastructure has been one of the priority projects of the government. Up until 2005, the road construction market was dominated by public sector companies but over the last few years, we have seen this scenario change. Growing participation of private players through Public Private Partnership (PPP) is seen. The Planned outlay under Union Budget 2018-2019 for the road sector is Rs 1.21 lakh crore. Between FY09 and FY19, budget outlay for road transport and highways increased at a robust CAGR of 20.91%. Moreover, Rs 71,000 crore has been allocated specifically for the development for the national highways in the country. The Government announced in October 2017 that in next five years, it would build more than 87000 km of highways and spend about \$106 billion. **Snapshot of Road Network in India**



Value of total roads and bridges infrastructure in India is expected to expand at a CAGR of 13.6 per cent over FY09–17 to USD 19.2 billion. Increasing industrial activity and increasing number of 2 and 4 wheelers is expected to support the growth in the road transport infrastructure projects. During the last fiscal year, National Highway Authority of India awarded 150 road projects for 7400 km, worth Rs 1.2 trillion, the highest since its inception in 1995. According to Economic Survey 2017-2018 report, as on September 2017, out of the 1263 total ongoing monitored projects across different sectors, there are 482 projects in Road Transport and Highways sector with (original) cost of 3.17 lakh crore. Of these, 43 projects face cost overruns and 74 projects face time overruns. Some of the projects under different phases of road projects are delayed mainly due to problems in land acquisition, utility shifting, poor performance of contractors, environment/ forest/wildlife clearances, Road Over Bridge (ROB) & Road under Bridge (RUB) issues with Railways, public agitations for additional facilities, contractual disputes with contractors etc. Government’s new policy measures have revived the Indian road sector, which was earlier beset by execution delays, project cancellations, stalled projects, loss of lender confidence, leveraged balance sheets of developers and sluggish traffic growth. Major policy changes includes 75 % of the arbitration award to be made against bank guarantee, one time fund infusion by NHAI to revive stalled projects, promoting innovative project implementation models (Hybrid Annuity Model), creation of an Infrastructure Group under Chairmanship of Honorable Minister (Road, Transport & Highways) to resolve



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approval/clearance issues related to Environment & Forests, Railways and Defense, and 100% FDI in road sector. New initiatives will help the road sector regain the confidence of developers and lenders over the long term. **New Schemes:**

1. Bharatmala Pariyojana

Bharatmala Pariyojana is a new umbrella program for the highways sector that focuses on optimizing efficiency of freight and passenger movement across the country by bridging critical infrastructure gaps. Bharatmala Phase I – is to be implemented over a five years period of i.e. 2017-18 to 2021-22 covering 34,800 km. The objective of this program is to achieve optimal resource allocation for a holistic highway development. NHAI has also put tenders for 232 projects since November 2017 under the Bharatmala project. The bids invited are for 11,200 km of roads, worth around Rs 1.96 trillion.

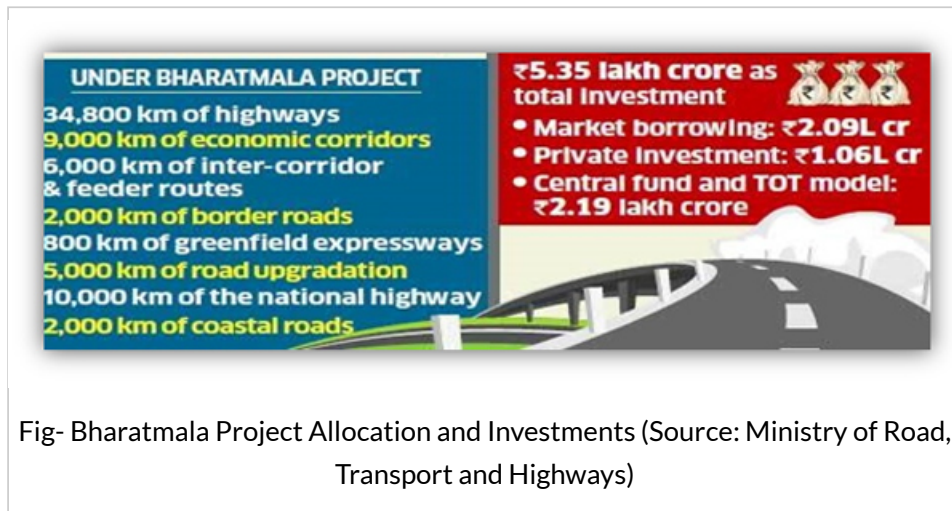


Fig- Bharatmala Project Allocation and Investments (Source: Ministry of Road, Transport and Highways)

2. Other Schemes

Other Schemes like **National Highways Development Project (NHDP)** which is India's largest ever Highways Project in a phased manner are in pipeline. NHDP is a seven phase project amounting to USD 60 billion. Although the projects under NHDP have been subsumed under the ambitious Bharatmala Project. **The Pradhan Mantri Gram Sadak Yojana (PMGSY)** a 100 per cent Government of India funded Centrally Sponsored Scheme which provides all-weather road connectivity in rural areas. From FY 2015- 16, the sharing ratio has been revised, with Government of India providing 60 per cent and states providing 40 per cent of the funds. Under the Union Budget 2018-19, Government of India allocated an investment of Rs 19,000 crore for the Pradhan Mantri Gram Sadak Yojana (PMGSY). The Government of India will spend around Rs 1 lakh crore during FY18-20 to build roads in the country under Pradhan Mantri Gram Sadak Yojana (PMGSY). All these schemes are expected to revive the Indian road sector in coming years. **INSURING THE CONSTRUCTION RISK** Risk Management in a project includes identifying factors that could have an impact on a project's schedule, delivery, cost or quality, quantifying the potential impact of these risk factors and implementing ways to mitigate and manage the risk. In simple terms, the riskier the activity is, the costlier the consequence if handling the risk is not done properly. Some of the leading risk associated with any



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project are improper planning and budgeting, tight project schedule, designing and implementation issues, rushed designing, labour issues, damage to equipment, labour injuries etc with Natural Disasters retaining the top spot for risk. Insurance is one of the ways of managing the risk wherein the insured (party taking insurance) transfers the risk on the insuring party (usually an insurance company) by paying a small amount of premium for a defined amount of coverage. **Commonly Observed Risk Exposures in Road Projects**



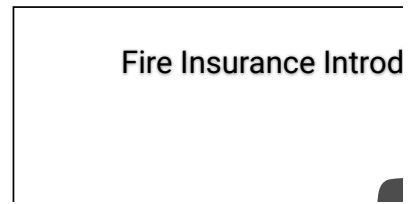
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- Act of God Perils i.e. Landslide, Flood, Earthquake, Lightning, Inundation etc
- Topographical Exposures like Roads through hills and/or mountains can generally suffer from landslide while Roads in flat areas are more prone to inundation, sandstorms
- Riots, Strike in a project area may lead to possible destruction of already built roads and delay in the project
- Faulty design for road construction leading to caving in and other damages
- Blockage of access to materials due to transit risks and losses
- Burglary and theft of construction materials
- Damage to Construction machinery
- Third Party Liability –Bodily Injury or Property Damage

Insurance Solutions in Road Projects Both project and material risks are considered some of the highest risks in the infrastructure sector projects. While the insurance firms in India cover most of the material damages losses, non tangibles risks such as overruns emerging from clearance delays are not Insurable , the coverage starts only after the project work has started. Any lender, international or domestic, refuses to fund a project unless insured adequately. Although less in frequency but the severity of losses are high in these kinds of projects. For Example, a single earthquake can damage long lengths of roads constructed which may lead to time and cost overruns. Hence there is a need to have appropriate insurance covers for all the projects to safeguard them from similar and other losses. Road projects (construction) are generally insured under Contractors All Risk policies in India. Below are some Insurance Policies to cover the risk as mentioned above: **Construction Phase Insurance**

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Fire Insurance Intro

▪ **Contractor All Risk Insurance**

This is a comprehensive policy designed to cover all risks associated with civil works right from the time of commencement of works at site till the contract works are taken over or put into use which protects the interests of the Principal and the contractors alike. A road project may face numerous risks during its construction and operation such as Flood, Inundation, earthquakes & landslides, cracks, caving in, top layers being swept off etc. This Policy contains two sections: Material damage and Third party liability. Material Damage section covers the physical damage happening to the site, the machinery etc. Third party liability covers the ‘damages/ compensation’ to be paid by insured party if any third party gets any bodily injury or their property damaged due to insured person’s work. **Material Damage section covers the following events leading to a loss:**



- Fire and allied perils (13 events/perils covered),
- Accidental damage during construction
- Act of God i.e. Earthquake, Landslide/Rockslide/Subsidence,
- Water damage, flood, inundation, typhoon, cyclone
- Collapse, Collision, Theft and Burglary, Malicious damage

Following add-on covers are available under this policy:

- Third party Liability with/without cross liability cover
- Owner surrounding property cover
- Removal of debris
- Expediting cost cover (expediting the process of getting machinery etc)
- Construction plant & Machinery
- Additional custom duty

All the above supplementary covers are included as extension of the policy during purchasing the policy or by way of specific endorsements. A point also to be noted is that the projects with cost involved above Rs.100 crores are eligible for some free add-ons such as 50/50 clause, 72 hour clause, automatic reinstatement of SI up to 10% of SI, removal of debris up to Rs.50 lakhs, additional custom duty up to Rs.10cr etc. Also to keep in mind is that the CAR insurance policy does not cover the entire stretch of the project at once to restrict the hazard to a limit. For example: If a contractor strives to insure the entire 1000 km of road to be constructed for Rs.'X' amount, the insurance company will cover the entire project for Rs. 'X' amount but put a sectional warranty of 50 kms, which means the at given point, the work should not be happening on more than 50 km of road put together. If a loss is claimed and it is found out that the work was happening on more than 50 km at a given point, insurer might cite this breach of warranty and refuse to pay the claim. This warranty is called a sectional warranty and is applicable only on road construction projects.

- **Advanced Loss of Profit**

This Insurance policy refers to particular class of consequential loss insurance and covers financial consequences of a delay in estimated commercial operation date of a project, This delay must be caused by a direct physical loss or damage to the project property, admissible under the Material Damage section of Construction/Erection All Risk insurance. The sum insured chosen under this policy is the gross profit expected by the principal during that period of time. The principal is required to choose a period of 3/6/9/12 months as the duration of cover under this section. The principal cannot buy this policy as a standalone. The trigger under this policy is admissibility of claim under the material damage section of CAR policy. This policy is issued only to the principal/owner of the project, and the Contractors/sub-contractors, suppliers cannot be a beneficiary under this policy even though they are jointly insured under Construction All Risk policy as only principal is legally eligible to derive the profits out of the commercial operation. The demand for advanced loss of profit insurance covers mainly comes from private owners of Infrastructure projects mainly in Road and power sectors, as most of these projects are financed by banks/financial institutions.

- **Contractor's Plant and machinery Insurance**

This policy is specially designed to protect the interest of civil contractors. The object of this policy is to protect the constructional tools and equipment against all external damage. Construction of Road project requires various machinery and equipment like Road surface rollers, Cranes, Asphalt mixing plant, concrete

batching plant which can be insured under this policy. It covers damage to machinery and equipment from following causes like

- Fire and lightning
- Burglary, theft
- Riot, strike, malicious damage
- Accident damage while at work due to faulty handling dropping or falling, collapse.

The coverage remains during the machinery are at work or at rest, or during the time the machinery are dismantled for cleaning or overhauling or during subsequent re-erection. Certain extensions like third part liability, removal of debris, owner's surrounding property, terrorism, earthquake, express freight etc are also available under this policy. The sum insured chosen is the cost of replacement cost of the particular machinery which includes its transportation cost, dues, custom duties etc. The premium is based on the type of equipment, risk location and use of the equipment. **Maintenance Phase Insurance**

- **Civil Engineering Completed Risk Insurance**

After the Road construction work has been completed and the facilities have been taken over, owners of projects look for annual policies, this policy provides comprehensive insurance protection against sudden physical loss or damage.

Such loss or damage must be caused by following perils:

- Impact of land borne
- Earthquake, volcanism, tsunami
- Flood or inundation
- Subsidence, landslide, rockslide or any other earth movement
- Vandalism of individual persons
- Fire, lightning and explosion

Road Ahead With the Government permitting 100 per cent foreign direct investment (FDI) in the road sector, several foreign companies have formed partnerships with Indian players to capitalize on the sector's growth. Activity in the roads sector picked up significantly in FY18 for tender allocation as well as construction activities reached new peaks. While awarding the tender grew 5 per cent to 47km/day, construction had increased 19 per cent to 27km/day. The Ministry of Road Transport and Highways, intends to take the total of projects awarded in FY2017-18 to 20,000 km and targets to award projects of 25,000 km in FY 2018-19. The Government of India has decided to invest Rs 7 trillion for construction of new roads and highways over the next five years. Reducing the cost of construction by using innovative technologies and locally available resources along with the policy reforms will drive the road sector in future. Future prospects remain bright for Road Infrastructure in India, at the same time there is huge opportunity for insurers to insure projects in road sector.

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