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ALERTNESS TOWARDS INSURANCE VALUATION FOR RISE IN NPA'S

- Land value is not to be considered for insurance premium of immovable property of bungalow, farm house, villa, tenement, flat/apartment, commercial units like offices, shops, showrooms, industrial units such as godowns for storage, manufacturing units etc. As the existence of land cannot be affected/damaged at any time. So there does not arrive question for indemnity of land but at the time of issuance of loan to mortgagee, mortgagor (i.e. generally banks, NBFC's (Non-banking financial company), Financial Institutions) are taking the premium either as per their sanctioned loan amount or entire value of the property including value of land segment. Generally, value of the land component in valuation of immoveable property ranges from 70% to 90% depending upon type & nature of property, quality of construction and built-up area, with amenities/facilities/land development. This ill-conceived insurance policy by insurers/insurance company and executed by the financiers in routine practice causes exploitation to the subscribers of the policy as a whole.
- Some credit officers are knowing this aforesaid fact but they are either interested to earn more premium for bank (majority of banks working as corporate agent of insurance company-sophisticated named relation "Alliance") or for commission received up to 12% on premium amount from insurance company. The bankers/financial institutions/NBFC's never consult/ guides the mortgagee/customer with regards to type, scope, terms and conditions, warranties, exclusions, add-on clauses, effect of valuation and depreciation, basis of loss settlement, discount pattern, availability of other insurers/insurance companies of insurance policy. So, on a larger scale, this awareness in public is required for payment of the premium on value of construction component only of property.
- Due to any happening of natural perils /Act of god perils, like storm, flood, cyclone etc./man-made perils/ catastrophic events, resulting into insurance claim by mortgagee, there are numerous issues/difficulties/questions faced such as:-
 - ✚ Lack of awareness and existence of insurance policy,
 - ✚ Non-sharing of policy copy documents by financiers to the lenders/insured,
 - ✚ Policy coverage only up to sanctioned loan amount

- ✚ Concealment/Suppression of Coverage to only collaterals/type of asset mortgaged/pledged/hypothecated i.e., if they lend on the basis of collateral of building, then insurance coverage of building only regardless of Furniture, fixtures, fittings, contents, stock, plant & machinery, equipment's which might be affected due to operation of any peril.

So, in view of various factors as mentioned above and by incorporation of several terms & conditions, warranties, exclusions in the policy, the mortgagee suffers heavy financial loss and eventually results into bankruptcy, winding down & closure of business.

Moreover, on our inquiry and knowledge similar instance has been observed in the automobile industry. Insurance premium of car taken by the financiers, the value of car i.e., Insured Declared Value (IDV) is set at extreme high amount compare to actual realizable value when carried out valuation. This indicates that in order to fetch more premium & commission, they are following this unethical practice. Further due to Covid-19 implications and recent downtrend of economic growth, high unemployment rate has resulted into serious disruption of the entire automobile industry. After initial supply and manufacturing disruptions, the industry is now experiencing a demand shock with uncertain recovery timeline due to shelter-in-place regulations. With limited room to cut fixed costs, some OEMs have low liquidity to power through a long period of missing revenues. Decreases in market capitalization will likely accelerate industry consolidation and without securing additional funding, some players risk going out of business. A limited parts supply and a just-in-time production strategy, coupled with quarantine measures and a reduced workforce, lead OEMs to shut down their production. Recently there has been highlight of this situation resulting in the US Carmaker Ford shutting down its plant of vehicle assembly in Sanand, Ahmedabad, Gujarat and other vehicle and engine manufacturing in Chennai by mid-2022. Due to this recession of primary market of selling new vehicles, secondary/used/old vehicles selling market has also drastically suffered.

CONCLUSION

Hence, all our fellow members of valuer's fraternity should specifically indicate and include Insurance value in valuation report of immoveable & moveable property. We should take a step to spread awareness about this issue to public at a large and notify higher authorities of financiers, officer of Insolvency bankruptcy board of India to restrict and resist this continuing malpractice.