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The Jubilee Insurance Co. Ltd.
Jubilee Insurance House
Nairobi

Attn. Mr. M. Otwoma

5 January, 1995
amw/

Dear Sirs,

80/0840/438 - MI - Nightrose Ltd.

We enclose herewith our Plant Visit Memo No. 23/94 dated 30.12.94 for your perusal and comments. Please discuss the contents with the Proposer and advise all developments.

Yours faithfully,

A. M. Wanjohi
Engineer

Enclosure

30.12.94
amw/

Plant Visit Memo No. 23/94

Proposer	: Nightrose Ltd.
Insurer	: The Jubilee Insurance Co. Ltd.
Reference	: 80/0840/438
Date of Visit	: 22.12.94
Contact	: Mr. Kaushik M. Shah Managing Director
Accompanied By	: Mr. Milton Otwoma The Jubilee insurance Co. Ltd.
Prepared By	: A. M. Wanjohi Munich Re Technical Office, Nairobi

Purpose of Visit

To inspect a new cosmetic petroleum jerry and paraffin oil production line.

To discuss the scope of coverage of the machinery (MI) insurance and machinery loss of profits (MLOP) insurance policies.

General Information

Nightrose Ltd., the Proposers, were formed in 1972 and their principal operation has been the manufacture of skin care products e.g., petroleum jerry and liquid paraffin oils.

They are located on the southern end of Lunga Lunga Road, Industrial Area, Nairobi, near Outer Ring Road.

Before acquisition of the new production line in October 1994, they have been running on a manual system with small pieces of machinery mainly involved in printing and fixing of product labels.

The New Automatic Production Line

This was installed by the manufacturers, Mochemco Ltd., in October 1994 and is from Greece. The manufacturer's warranty period is to run until October 1995. We understand that two other similar plant have been installed previously elsewhere in Kenya.

The line comprises the following units:

- Heating / melting unit;
- Pre-storage and mixing unit;
- Filling unit;
- Chiller unit including a cooling tunnel;
- Capping and screwing unit.

At the moment the line is undergoing trial runs in order to sort out some teething problems associated with the filling and chiller units. We understand that representatives from the manufacturer had taken a Christmas break and would be back in January 1995 to sort out these problems as well as to train one or two of the insured's employees.

Cost

The cost of the line including installation and training charges is Shs. 5,500,000-

Process

Paraffin wax is melted and perfumes as well stabilisers added. The resulting hot liquid put in product containers and rapidly cooled. Capping and labelling thereafter follows. The manufacture of liquid paraffin oil follows the same process with the exception of the raw material which is raw paraffin oil. We understand that due to liberalisation of the currency markets, the Proposer now imports most of the raw materials.

Other Information

The Proposer intends to abandon the manual production system as soon as possible and will rely only on the new automatic filling line.

The plants operates on a nine hour - five day production cycle every week.

Scope of Coverage

For the sake of good order, the detailed scopes of cover in respect of both the machinery insurance policy and the machinery loss of profits insurance policy are given below, including explanations regarding the sum insured and indemnity conditions.

Machinery (MI) Insurance

General

It is designed to grant industry effective insurance cover for plant, machinery and mechanical equipment at work, at rest or during maintenance operations.

All types of machinery, plant, mechanical equipment and apparatus may be covered under machinery insurance.

Only those items having a short life span compared to the entire plant are normally excluded from machinery insurance.

By its very nature, machinery insurance is an all risk "Accident" insurance for machinery supplementing the coverage afforded by Fire insurance . Thus, it covers unforeseen and sudden physical loss of or damage to the insured items, necessitating their repair or replacement.

Scope of Cover

Loss or damage covered under machinery insurance is mainly due to one of the following causes:

- Faulty design (calculations, plans, drawings and specifications)
- Faults at workshop or in erection
- Defects in casting and material
- Faulty operation, lack of skill
- negligence
- malicious acts by employees or third parties
- Effects of centrifugal force
- Physical explosion, flue gas explosion in boilers
- Short circuit and other electrical causes, e.g., effects of mechanical stress due to passage of electric current
- Shortage of water in boilers
- Storm damage

Exclusions from Cover

The individual exclusions from cover mainly comprises loss or damage caused by:

* Fire, lightning, chemical explosion, burglary and theft, i.e., perils covered or coverable under other policies (loss or damage indirectly caused by lightning being included in the cover)

* Inundation, flood, earthquake , subsidence, landslide, impact of landborne, waterborne or airborne craft

* Wear and tear as a consequence of ordinary use or operation as well as cavitation, erosion, corrosion (e.g. rust) or boiler scale (this exclusion relates, however, only to parts immediately affected

* War or war like operations, civil commotion of any kind as well as acts on the part of strikers and locked-out persons

* Wilful acts or gross negligence on the part of the insured or of his representatives

* Faults or defects existing at the time of commencement of the insurance which ought to have been or were known to the insured

* Faults or defects for which the supplier is responsible either by law or under contract (e.g., losses covered by warranty).

* Nuclear reaction, nuclear radiation or radioactive contamination.

Sum Insured

The sum Insured should always be the new replacement value of the insured machinery (i.e., value of the new item plus custom duties as well as transportation and installation charges).

Indemnification

In the event of damage which may be repaired, the insurers will indemnify the insured in respect of the expenses incurred for restoring the damaged machinery to its working condition prior to the damage. These expenses mainly include the costs for repair work and the necessary spares, disassembly and reassembly costs, ordinary freight charges, customs duties, expenses for the employment of specialists and other charges contained in the sum insured.

In the event where an insured item is totally destroyed or where the repair cost would exceed the actual value of the insured item, the insurers will indemnify the insured the actual value of the insured item immediately before the loss occurrence less the agreed deductible and the value of any salvage.

Machinery Loss of Profits (MLOP) Insurance

General

MLOP insurance indemnifies the actual loss of gross profit sustained as a result of a business interruption caused by an accident covered under machinery insurance.

Scope of Cover

MLOP insurance compensates for:

- The continuing business expenses (standing charges) including the salaries and wages paid to employees
- The net profit
- The increase in cost of working, i.e., the additional expenditure necessarily and reasonably incurred in order t o avoid or diminish a reduction in turnover.

The Sum Insured

The sum insured is the gross profit obtained from the turnover of goods produced or handled in the course of the insured's business for a period of twelve successive calendar months (i.e., normally for the business year).

Increase in costs of working may also be covered under MLOP insurance, for instance, the additional expenditure incurred for the use of external power if the insured's own power generation breaks down.

Indemnity Period

The period during which the insurance will make good losses is defined as the indemnity period. This period - normally 3 to 12 months - is determined by the insured depending upon the replacement period for the machinery to be insured.

Time Excess

Instead of a monetary deductible, this type of insurance is subject to a time excess of a minimum of seven days. It is to be noted that the higher the time excess the lower the premium rate. Losses corresponding to the time excess are not indemnifiable under this insurance.

Plant Insured

MLOP insurance is of special interest for all bottleneck equipment used in the field of power generation, like boilers, steam turbines, generators, transformers, and for important process machinery, such as paper machines, printing machines, presses, rolling mill equipment, refiners, crushers, compressors, chillers, pumps, etc. including their drives.

Recommendations

1. Slippery Floor

Spillage of the products being manufactured leads to a slippery floor and hence the risk of staff tripping and impacting on the new filling line. To guard against this situation, the current separation (distance) between the manual production area and the new line should be increased as an initial step. At a later stage, perhaps guard rails could be erected around the machine.

2. Proposal Forms

The Proposer should be asked to complete the attached MI and the MLOP questionnaire and proposal forms for insurer's further action.

3. Suggested Rating Structure (MI)

Cover	: Munich Re M1 policy wording
Sum Insured	: Shs. 5,500,000-
Premium	: 10 permille p.a.
Deductible	: One pct. of value minimum Shs. 15,000-
Warranties	; Endt. 331: Electric Machines

The rating structure in respect of MLOP will await completion of the MLOP questionnaire and proposal form.