CHAPTER-II

PRODUCT PROFILE

The underlying principle of insurance is the spreading of risks. A loss by fire, affects not only the owner of the property but also other traders, creditors, employees and possibly members of his family. By seeking protection through insurance, the owner substitutes a known factor, i.e., premium for unknown one, viz., possible loss.

Almost anything could catch fire whether it is a dry twig or a giant chemical complex. The extent of damage may vary. All properties movable or immovable, having a value in monetary terms need fire insurance protection. This includes buildings, furniture, fixtures and fittings, plant and machinery, inventories (raw materials, stock in process, semifinished and finished goods) and household contents.

"Fire insurance indemnifies the insured, if the property covered is lost or damaged by fire or other perils listed in the policy. The company will pay for the amount of damage caused. In any case, the liability of the Insurance Company will not exceed the sum insured. All general principles of insurance - insurable interest,
indemnity and subrogation also apply to fire insurance."¹

"Section 2(6-A) of the Insurance Act defines "Fire insurance business means the business of effecting, otherwise than incidentally to some other class of insurance business, contracts of insurance against loss by or incidental to fire or other occurrence customarily included among the risk insured against in fire insurance policies."²

"The agreement between the two parties, the insurers and the insured is set forth in a policy of fire insurance. This may be defined as "a contract whereby the insurers in return for a consideration, known as the premium undertake to indemnify the insured against the financial loss, which he may sustain by reason of certain defined property, known as the property insured, being damaged or destroyed by fire or other perils within a stated period, the liability of the insurers being limited to a specified amount, called the sum insured."³

¹United India Insurance Company Ltd., Underwriters Guide, Year of Publication 1984, p.27.


"Fire insurance is a contract by the terms of which one party -- the insurer -- undertakes in return for a stated consideration, to indemnify within prescribed limits another party -- the insured -- having a definite interest in the subject matter specified in the contract, for the loss which the latter will sustain through the happening of specified event."\(^4\)

Thus, fire insurance is the contract between the insured and insurer, for indemnifying the former at the time of loss or damage caused to the property by fire or allied perils by the latter to the extent of the value thereof at the time of destruction, not exceeding the sum insured under the policy.

A contract of fire insurance includes all the elements of a commercial contract. In addition to the normal ingredients of a commercial contract, the fire insurance contract is subject to the following special conditions:

(i) Utmost good faith
(ii) Indemnity
(iii) Insurable Interest
(iv) Subrogation

UTMOST GOOD FAITH

A contract of insurance is one requiring the observance of utmost good faith. This necessity is based on the fact that the contract of insurance transfers liability for loss from the owner of the property who knows all details of the same to the company, who agrees to indemnify the loss. It is expected, therefore, that the proposer will advise the company, everything material to a proper estimation of the risk which will enable the company to decide whether they can accept the risk, and if so, at what rate of premium. In practice, a complete proposal form is obtained from the proposer and the company rely upon information contained thereof.

INDEMNITY

A contract of fire insurance is fundamentally a contract of indemnity under which only direct loss sustained as a result of the property insured being damaged or destroyed by insured peril is made good; the amount of the insured is entitled to recover is determined by the extent to which his pecuniary interest in the property has suffered thereof.

INSURABLE INTEREST

It is a cardinal principle of contract of fire insurance that, the insured must have an insurable
interest in the property insured. The insured must have some legal or other equitable relationship, so far as the property insured in consequence of which he is benefited by the safety or is prejudiced by loss or damage.

**SUBROGATION**

By subrogation, the insured transfers his legal rights and remedies against third parties to the company, who can see the third party in the name of the insured, so that the company can extinguish or diminish their own loss. But, such an occasion would arise only when the insured had been recompensed by the company for any loss or damage that he suffered, and that the same was due to the negligence of the third party.

**POLICY CONDITIONS**

The conditions set out in the policy are known as express conditions. They are printed at the back of the policy and are termed uniform policy conditions. All type of fire policies embody these conditions. A policy includes the following uniform policy conditions.

1. The fire insurance policy shall be voidable in the event of misrepresentation, misdesorption and non disclosure of facts, if any.
2. If a substantial portion of the building insured collapses, for any cause other than any insured peril, the insurance will cease on expiry of seven days from the date of such peril or displacement.

3. The insured may terminate the insurance on 14 days notice, in which case, the retention will be on pro-rata basis.

4. In case of claim, immediate notice must be given to the company followed by delivery of a claim in writing with full particulars of loss/damage with value and particulars of all other insurances, if any. If no information/documents are forthcoming within 6 months from date of loss, insurance company can treat the claim as closed. The claim will become time barred on the expiry of 12 months from the date of loss, unless the claim is subject of pending action or arbitration.

5. If the claim is fraudulent, all the benefits under the policy shall be forfeited.

6. If there is any under insurance of more than 15%, the claim amount payable will stand proportionately reduced.

7. If liability has been admitted and there is difference in regard to quantum of liability, the matter
will have to be referred to arbitration before the issue is agitated in the court of law.

8. If there is any marine policy on the same risk, the marine insurers are first liable and the fire insurer is liable only for any excess claim beyond the amount recoverable under the marine policy.

9. The cessation of fire cover as regards the affected property will come into effect in the event of material alterations in the subject matter of insurance, unless company's sanction is obtained by an endorsement on the policy.

10. On the happening of any damage or destruction to the property, the company has the right to enter, and take possession of the premises and deal such properties reasonably to mitigate the loss. They may also sell such property for whom it may concern.

11. If the company elects or becomes bound to reinstate or replace any property it may do so, and the reinstatement need not be exact or complete but only as circumstances permit.

12. Under this condition, the insured to render all necessary and reasonable assistance to enable insurers to enforce insured's rights and remedies against third party.
13. Under the virtue of this condition, the insurer’s liability is limited to rateable proportion of the loss.

14. The condition dealing with arbitration provides for settlement of disputes regarding the amount of any loss or damage by arbitration, and prescribes the procedures to be followed.

15. Every notice and other communications to the company required by these conditions must be printed or written.

WARRANTIES

"A warranty is an undertaking by the insured that (a) some particular thing shall be or shall not be done or (b) that some condition shall be fulfilled or (c) whereby he affirms or negates the existence of a particular state of facts." A warranty must be complied with strictly and literally. Warranties are incorporated in the policy to ensure that circumstances under which a specified rate has been quoted continue during the currency of the policy. For example, a warehouse has been rated on the basis that only non-hazardous goods are stored there. Here, it will be warranted in the

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policy that no hazardous goods be stored in the warehouse during the currency of the policy. If this warranty is not adhered to, company is well within its right to repudiate the contract, either from inspection itself or from the date of breach.

DIFFERENT TYPES OF FIRE POLICIES

POLICY A

Policy A covers basic risk of fire, lightning, Explosion/Implosion, Impact damage, Air craft damage, Riot, Strike, Malicious damage, Storm, Cyclone, Tempest, Hurricane, Tornado, Flood and inundation, Earthquake, Subsidence, and Land slide (including Rockslide) damage.

POLICY B

Policy B covers basic risk of Fire, Lightning, Explosion/Implosion, Impact damage, Air craft damage and Riot and Malicious damage. It is permissible to exclude Riot, Strike and Malicious damage on specific request in writing from the insured, from fire policy B by deleting Riot, Strike and Malicious damage clause and the rate may be suitably reduced. Policies A and B are suitable for dwellings, offices, hotels, shops, and so forth.
POLICY C

Policy C covers (1) Fire, (2) Lightning, (3) Explosion/Implosion but excluding loss or damage to boilers (other than domestic boilers) economisers or other vessels, machinery or apparatus in which steam is generated or other contents, resulting from their own explosion or explosion or implosion, (4) Impact by any rail/road vehicle or animal, (5) Air craft and other aerial or space devices and articles dropped therefrom, excluding destruction or damage occasioned by pressure waves caused by such devices, (6) Riot, strike and malicious damage as per clause printed thereon. Policy C is issued to industrial units. This policy will not cover loss upto Rs.2,500/= to be indemnified under this policy.

FIRE PREMIUM AND ITS RATING

Fire insurance premium and other terms and conditions are regulated by the Fire Tariff. The Fire Tariff consists of all the rules and regulations laid down by the Tariff Advisory Committee. All the four subsidiaries of the General Insurance Company have to follow the fire premium rate for all the risks, prescribed by the Tariff Advisory Committee. Uniform rates prevail all over India except in very rare cases - e.g., for
cotton, separate premium rate is fixed by the Cotton Gin Press Factories Tariff and the Cotton Mills Tariff. The tariffs are administered by Four Regional Committees of the Tariff Advisory Committee of Bombay, Calcutta, Delhi and Madras. Kamarajar District, the study area, located in Tamil Nadu State falls under the jurisdiction of Madras Regional Committee.

The fire premium rate fixed by the Tariff Advisory Committee is subject to changes every year. The Committee will take into account the total premium collected on a particular type of risk and claims paid on such risks and fix the new rate. If the claim is heavy on a particular year on a particular risk, the rate will be increased and vice versa.

For the purpose of deciding the rate of fire premium, hazardous nature of the properties to be insured is taken into account. The premium will be high for hazardous premises and materials - e.g., thatched sheds, and building containing hazardous materials like explosives.

Policies for a period of less than 12 months unless otherwise specially provided must be issued at the short period scale of rates.
Policies issued for short period may not be extended upon payment of the difference between the premium for the short period and extended period.

**INCREASING THE SUM INSURED DURING THE CURRENCY OF THE POLICY**

If the sum insured is increased during the currency of the policy, short period scale of rates shall apply to the increased amount.

If the policy is renewed thereafter for 12 months for an amount not less than the increased total sum insured, the difference of premium rate between the short period scale of rates and pro rata may be refunded.

**ENDORSEMENTS**

After a fire policy has been issued, it frequently transpires that alterations arise such as, change of interest, alteration in sum insured, removal, increase or reduction in the fire risk. It is neither possible nor practicable to issue a new policy every time an alteration takes place to recognise the changed circumstances, since this would be wasteful. In practice, an endorsement is prepared stating the nature of amendment and giving effect to any premium alteration as a consequence. The endorsement is typed on a separate document, and forms an integral part of the policy.
AGREED BANK CLAUSE

All policies in which a bank has a partial interest are to be made out in the name of the bank and owner or mortgagor, and the 'agreed bank clause' shall be incorporated in the policy. The list of the provisions of the bank clause are as follows:

1. Monies payable under the policy shall be paid to the bank as agent of the other party.

2. Such a receipt by the bank will make a complete discharge to the company and bind all the parties insured.

3. It is considered enough for the company, if the relevant communications are sent to the bank only.

4. Any adjustment, settlement, compromise or reference to arbitration in connection with any dispute between the company and the insured made by the bank shall bind the other parties.

5. Any change in the risk by the other insured without the knowledge of the bank shall not invalidate the policy. The bank should communicate any alteration or increase of the hazard not permitted by the insurance as soon as the same shall come to its knowledge and pay the additional premium accordingly.
SPECIAL RATING

Risks insurable under Fire Policy 'C', where the sum insured is Rs.15 crores and above, is eligible for special rates to be fixed by the Regional Committee.

SPECIAL POLICIES

FLOATING POLICIES

Floating policies are issued for fire risks situated within the limits of one city/town/village. It is permissible to issue a policy covering stock in one sum insured, in more than one specified buildings or in open within the limits of one city/town/village by charging 25% loading over and above the highest rate applicable to any one risk. Floating policies can be issued only for stock, and it cannot be issued in respect of immovable property. If there is any claim in any of the godowns covered, the claim may be filed under this policy. There is no need for separate policy for each and every godown.

When the policy is covering not more than three specified buildings or places, 25% over and above the highest rate of premium applicable to any one risk will be collected. When the policy is covering more than three buildings or places 50% over and above, the highest
rate of premium applicable to any one risk will be collected.

DECLARATION POLICIES

A declaration policy is best suited for a client whose stocks are subject to violent fluctuations in value during the currency of the insurance.

The policy is taken for the maximum amount likely to be at risk during the next 12 months and a deposit premium is charged representing 100% of the annual premium at the appropriate tariff rate. The insured will be asked to declare periodically the average of the values at risk on each day. In the event of the insured failing to declare on any particular day, the sum insured is taken as the declared value on expiry of insurance, the average amount of risk is calculated from the various declarations made. The earned premium on the average amount is calculated and an additional premium is charged or a refund of premium is made, depending on whether the earned premium is greater or lesser than the deposit premium. Declaration policy can be issued only after obtaining the sanction of the Regional Offices of the insurer.
REINSTATEMENT VALUE POLICY

A 'reinstatement value policy' is issued on the fire policy form with a reinstatement value clause incorporated therein. The object of the policy is to enable the insured to effect replacement of the property lost or damaged. The work of reinstatement or replacement may also be carried out in any manner suitable to the requirements of the insured. This is, of course, subject to the insured's liability not being increased thereby. Until expenditure has been actually incurred by the insured in replacing or reinstating the property within the stipulated period, the insurer will not be liable to pay the excess amount payable under the clause.

Reinstatement value insurance may be granted on buildings, furniture and machinery. Such a policy is issued on the policy 'C' form with a reinstatement value memorandum incorporated therein.

LOSS OF PROFIT INSURANCE OR BUSINESS INTERRUPTION INSURANCE

Fire strikes ruthlessly and makes no distinction. It destroys buildings, machinery, stocks and practically anything. Fire insurance is the only answer to this destructive problem of fire. Thus, the unfortunate victim of fire is able to reconstruct damaged buildings,
reinstall damaged machinery or replenish damaged stock with the help of material damage fire policy. But, what happens to the business firm during the period of reconstruction? The earnings of the firm dwindle, if not cease totally, while the business expenses have still to be met. In extreme cases, the firm may have to be wound up. This is a real risk, which can only be tackled with the help of 'business interruption policy'.

The perils covered under a loss of profits policy are the same as the material damage policy. Additional cover can be given against extraneous risk as in the case of material damage policy, at appropriate extra premium. The loss of profits policy provides for the payment of the following:

1. Net profit,

2. Standing charges, namely, those expenses which continue to be incurred at the normal level, although the earning capacity of the business is wholly or partially impaired,

3. Increased cost of working expenditure involved in maintaining the production by the adoption of temporary measures such as, alternative occupation and hiring machinery, payment of overtime, and so forth.
It is an essential requirement of the loss of profits policy that at the time of loss or damage, there shall be in force an insurance covering the interest of the insured against material damage. Further, the claim under the profits policy will not be payable unless payment shall have been made for the material damage or liability admitted.

CO-INSURANCE

The division of an insurance between a number of insurers because the sum insured is too large for acceptance by one insurer or because the insured wishes to divide it to reciprocate business done with various insurers is known as co-insurance and is no innovation.

The company which is carrying the largest share in co-insurance is designated as the 'leading insurer'. The work of making the survey, collecting the premium, issuing the policy and settling the claims, is done by the leading insurer on the basis of a letter of authority from the other co-insurers, whose names and their respective proportions of the sum insured are indicated in the policy premium, and claims are shared in the same proportion.
CLAIMS

Fire claims are less frequent than motor or marine claims. The policy covers loss of or damage to the property for certain reasons or certain conditions. It is, therefore, very necessary that the cause of the loss or damage and the circumstances under which a loss or damage occurred are to be ascertained. This is done through independent and experienced fire loss assessors. These professionals are also called surveyors.

When there is a fire, the insured has to fulfil the following:

1. Serving immediate notice on the insurance company, so that steps could be taken to assess the loss.

2. Filing claim within 15 days or within the time limit allowed by the company.

3. Furnishing proof of loss as reasonably required.

4. Giving particulars of other insurances, if any, in force at the time of loss.

The surveyors are paid fees for the professional services rendered for surveys. This fee is paid according to the scale agreed by the GIC of India and the four companies pay it on a uniform basis.
The surveyors' primary duties are:

(i) To investigate into the cause of loss
(ii) to ascertain the extent of loss
(iii) to advise the insured on loss minimisation measures and protection of salvage, and
(iv) to submit a detailed survey report and other aspects relating to the loss.

The company will pay the claim, taking into account the survey report and other circumstances pertinent to the claims. If a claim is fraudulent or if the loss is caused by a wilful act of the insured or through his connivance, no claim is payable.

**DISPUTED CLAIMS**

Disagreement may arise between the insurer and the insured concerning a claim and in certain circumstances such a dispute may give rise to legal proceedings. A dispute may have to be resolved either by an action in the court or by arbitration.