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## UNIT-1 INTRODUCTION TO FIRE INSURANCE

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### Structure

- 1.0 Learning Objectives
- 1.1 Introduction
- 1.2 Meaning of Fire Insurance
- 1.3 Definitions of Fire Insurance
- 1.4 Characteristics of Fire Insurance
- 1.5 Features of Fire Insurance
- 1.6 Types of Fire Policies
- 1.7 Scope of Fire Insurance
- 1.8 Importance of Fire Insurance
- 1.9 Let us sum up
- 1.10 Key Terms
- 1.11 Self-Assessment Questions
- 1.12 Further Readings
- 1.13 Model Questions

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### 1.0 LEARNING OBJECTIVES

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After reading this unit you will understand:

1. Understand the Meaning and Definition of Fire Insurance.
2. Know the characteristics, Features and Importance of Fire Insurance.
3. Know the different types of Fire Insurance Policies.

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### 1.1 INTRODUCTION

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There are basically two different kinds of insurance such as (a) Life Insurance and (b) Non-Life i.e. General Insurance. “*Life insurance is also called long term insurance as it is taken for a long term or for whole of the life*”. Here, there is no need to renew the policy each year. *In other words* it is a long term commitment of paying a specific amount of money regularly. Whereas General Insurance is taken for an annual period and the policy has to be renewed as soon as the term gets' over.

Further, General Insurance Policies cover all types of insurance policies with the exception of life insurance. They basically compensate against any financial loss that may arise due to accidents related to automobiles, homes etc. They are also known as non-life insurance policies. “*General insurance is normally meant for a short-term period of twelve months or less*”. Recently, longer-term insurance agreements have made an entry into the business of general insurance but their term does not exceed five years. They are also called property and casualty insurance. General insurance

pays out if a car has an accident or is stolen; if a house catches fire or is burgled; if someone is careless and damages other people's property.

Fire is hazardous to human life as well as property. The Loss of life by fire is also covered under Life Insurance coverage. But, the loss of property by fire is covered under fire insurance. Fire may cause enormous damage by physically reducing the materials in to ashes. However, Fire insurance is a contract of indemnity and the insured cannot claim anything more than the value of goods lost or damaged by fire or the amount insured, whichever is less. The contract of fire insurance does not help in protecting / controlling or preventing the fire but it is a promise to compensate the pecuniary loss caused by fire.

The fire insurance policy provides protection strictly against fire. There could be number of reasons for fire. In practice certain other related perils are also covered by the fire insurance policy. The General Insurance Act (Tariff) recommends the form of the contract in which a fire insurance is to be written.

The Fire Insurance policy form contains a preamble and operative clause, General Exclusions and General Conditions. Fire Insurance comes under tariff class of business. The All India Fire Tariff is the revised fire insurance tariff, which came into force on 1<sup>st</sup> May 2001. Presently, a single policy which was introduced to cover all property risks called standard fire and special perils policy in the place of previous three standard policies i.e. A, B & C.

Thus, Fire Insurance is an agreement between the insurer and the insured, under which the insurer agrees to indemnify the loss caused by fire and/or other specified perils, to the insured, in consideration of certain payment called "Premium".

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## **1.2 MEANING OF FIRE INSURANCE**

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The Fire Insurance provides protection against the damage to property which is caused by accidents due to (a) fire, (b) lightning or (c) explosion. Fire insurance also includes damage caused due to other perils like (a) storm, (b) tempest or (c) flood; (d) burst pipes or (e) earthquake.

Fire is not described in the policy. It should therefore, be taken in the general sense as an ignition of some kind. The damage by lightning or explosion is not covered unless these cause actual ignition which spread into fire. The loss by fire must satisfy the following conditions:

- (i) The loss must be caused by actual fire or ignition and not just by high temperature. There should be rapid combustion that produces ignition and may result in flames.
- (ii) The chemical action producing heat but not actual fire and damage caused by an acid is not considered as fire damage.
- (iii) The Fire produces heat and light but either of them alone is not fire.

- (iv) The Lightning is not a fire but if it ignites something, the damage may be due to fire.
- (v) The proximate cause of the loss should be also fire.
- (vi) The loss or damage must relate to subject matter of the policy.
- (vii) The fire must be the accidental, not the incidental.
- (viii) Further, If the fire is caused through a deliberate act of the insured or his agents, the insurer will not be liable for the loss.
- (ix) Fire due to the negligence of the insured or his servant is however, covered by the policy.
- (x) Further, If a third party will fully sets fire to the insured's property, the loss is by fire and the insurer is liable.
- (xi) The ignition must be either of the goods or of the premises where goods are kept.
- (xii) The document containing the terms and conditions of the contract is known as "*Fire Insurance Policy*".
- (xiii) It also contains the name of the parties description of the insured property.
- (xiv) The sum for which the property is insured, amount of premium payable and the period insured against.
- (xv) The premium may be paid prior to attachment of risk. The Insured may also furnish a Bank Guarantee towards premium in which case actual remittance of premium has to be done before 60 days. This facility is available only for Fire Insurance policies.

Given below some of the items which can be burnt/ damaged through fire :-

- 1) "Goods (Raw Materials, in process, Semi Finished, Finished, Packing Materials, etc.) in factories, Godowns etc."
- 2) "Goods in the open".
- 3) "Buildings"
- 4) "Furniture, Fixture and Fittings".
- 5) "Contents of buildings such as Machinery, Plant and Equipments, Accessories, etc".
- 6) "Electrical installation in Buildings."
- 7) "Pipelines (including contents) located inside or outside the compound, etc."

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### **1.3 DEFINATIONS OF FIRE INSURANCE**

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A contract of fire insurance can be defined "as a contract under which one party (the insurer) agrees for consideration (premium) to indemnify the other party (The insured) for the financial loss which the latter may suffer due to damage to the property insured, by fire during a specified period of time and up to an agreed amount".

The insurer is liable to make good the loss only when loss is caused by actual fire. The phrase "**loss or damage by fire**" also includes the loss or damage caused by efforts to extinguish fire.

**According to T.R.Smith** "Fire insurance may be defined as a contract whereby the insurers in return for a consideration, known as premium, undertake to indemnify the

insured against financial loss which he may sustain, by reason of certain defined perils against which the property is insured, being damaged or destroyed by fire within a stated period, of the liability of insurer, being limited to a specified amount, called the sum insured”.

**According to Section 2(6A) of Indian Insurance Act,1938** “Fire insurance business means the business of affecting otherwise than incidentally the some other class of insurance business, contracts of insurance against loss by or incidental to fire or other, the occurrence customarily included among the risks insured against in fire insurance policies.”

**According to Halsbury**, “it is a contract of insurance by which the insurer agrees for consideration to indemnify the assured upto a certain extent and subject to certain terms and conditions against any loss or damage by fire, which may happen to the property of the assured during the specific period”.

**According to V.R.Bhusan and R.S.Sharma**, “A fire insurance may be defined as an agreement whereby one party, in return for a consideration, undertakes to indemnify the other party against financial loss caused by fire or other defined perils up to an agreed amount”

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## 1.4 CHARACTERISTICS OF FIRE INSURANCE

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The following in detail as follows:

1. **Contract of Indemnity:** The contract of fire insurance is a contract of indemnity. The insured cannot claim anything more than the value of goods or properties lost or damaged by fire or amount of policy, whichever is less. The insurer is liable only to the extent of the actual loss suffered. If there is no loss there is no liability even if there is a fire.
2. **Offer and Acceptance:** The contract of fire insurance is the outcome of the offer made by insured and its acceptance by the insurer.
3. **Premium:** Fire insurance policy is issued for a lawful consideration is the “*Premium*”.
4. **Period:** Fire insurance policy is usually made for one year only. The policy can be renewed according to the terms of the policy.
5. **Good Faith:** Fire insurance is a contract of good faith. The policy-holder and the insurer must disclose all the material facts known to them.
6. **Insurable Interest:** The insured must have insurable interest in the properties insured at the time when the policy is taken as well as when loss occurs. “A fire policy is valid only if the policy-holder has an insurable interest in the property covered. Such interest must exist at the time when the loss occurs. In English cases it has been held that the following persons have insurable interest for the purposes of fire insurance such as owner; tenants, bailees, including carriers; mortgages and charge-holders”.

The following have been held to have insurable interest in the subject matter: (i). The Owner (ii). The Mortgagee (iii). The Trustee (iv).The Executor (v). The Warehouseman (vi). The Common Carrier (vii).The Bailee (viii). The Pledgee (ix). The Person in lawful possession (x). The Finder (xi).The Insurer (xii). The Commission Agent where the agency is coupled with interest and (xiii).The Tenants who are liable to pay rent after a fire. It should however, be noted that persons can insure only to the extent of such limited interest.

<b>CHARACTERISTICS OF FIRE INSURANCE</b>			
Contract of Indemnity	Offer and Acceptance	Premium	Period
Good Faith	Insurable Interest	Payment of Premium	Policy Duration
Principle of Subrogation	Outcome	Assignment	Claim Settlement

The following persons have insurable interest in the subject matter of insurance of fire policy:

- ✓ “A person has the insurable interest in the property he owns”.
- ✓ “Partner has insurable interest with much evident from in the property of partnership”.
- ✓ “A businessman has insurable interest in his stock, plant, machinery and building”.
- ✓ “Agent has insurable interest even with the property of his principal when he is baille to such property”.
- ✓ “Mortgagee has taken off from the insurable interest in the property which is mortgaged”.
- ✓ It is also a yearly based contract.

7. **Payment of Premium:** Premium is required to be paid at the time of taking a policy.
8. **Policy Duration:** Fire insurance policies are issued usually for one year duration. But in some cases they are also issued for a shorter period.
9. **Principle of Subrogation:** The scrap or whatever is left of the goods or properties after damage by fire, automatically passes on to the insurer after the payment of the claim.
10. **Outcome:** The loss must be the outcome of fire only.
11. **Assignment:** According to English law a policy of fire insurance can be assigned only with the consent of the insurer. In India such consent is not necessary and the policy can be assigned as a chose-in-action under the Transfer of Property Act. The insurer is bound when notice is given to him. But the assignee cannot be recovering damages unless he has an insurable interest in the property at the time when the loss occurs. A stranger cannot sue on a fire policy.

12. **Claim Settlement:** The claim may be settled in form of cash or by rehabilitating the goods or properties damaged by fire under the fire insurance. Fire policies generally contain a clause providing that upon the occurrence of fire the insurer shall be immediately notified so that the insurer can take steps to salvage the remainder of the property and can also determine the extent of the loss. Insurance companies keep experts on their staff for evaluation of the loss. If in a policy there is an intentional over valuation of the property by the policy-holder, the policy may be avoided on the ground of fraud.

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## 1.5 FEATURES OF FIRE INSURANCE

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The essential features of a contract of fire insurance are as under :

- a) It is a contract under Indian Contract Act, 1872. Like other insurance contracts, Fire Insurance Contracts are also governed by general provisions of Indian Contract Act, 1872.
- b) It signifies that Fire Insurance also has to satisfy the essentials of a valid contract. It is a “*Contract of Indemnity*”.
- c) The principal of Indemnity; which implies that the insurer restores the insured to his position before incurring the loss; caused by the fire.
- d) The insured cannot claim anything more than the amount of the actual loss. He can be indemnified only to the extent of damage incurred, not the entire value of the property insured.
- e) It is a “*Contract of Utmost Faith*”.
- f) It is a contract of “*Uberrimae Fidei*” i.e. utmost good faith. Further, both the insured and the insurer must disclose everything which is in their knowledge and non-disclosure of such information can affect the contract of insurance.
- g) Generally, the contract of fire insurance is a contract from year to year only and the insurance automatically ceases the expiry of the year.
- h) However, the contract can also be renewed before the expiry of the contract.

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## 1.6 TYPES OF FIRE POLICIES

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The important fire insurance policies are discussed below:

1. **Valued Policy:** The valued policy is one under which the insurer agrees to pay a specific agreed sum irrespective of the actual loss suffered. The valued policy is not a contract of indemnity. They are the exception in fire insurance. Further, under valued policy, the value is declared in the policy that the amount the insurer will have to pay to the insured in the event of a total loss irrespective of the actual value of loss. The policy violates the principle of indemnity.

The insurer has to pay a specified amount quite independent of the market or actual value of the property at the time of loss. So such a policy is very rarely issued. It may be issued only on artistic work, antiques and similar rare articles

whose value cannot be determined easily. When the agreed value of the subject matter is mentioned in the policy is named as valued policy. This value may not necessarily be the actual value of the property. In the event of loss by fire the insurer pays the admitted value of the property.

2. **Unvalued policy:** The unvalued policy is one in which the value of the subject matter/ relevant is not declared at the time of policy taken. But in case of loss the value is computed by assessment. This is also called an “*Open Policy*”.
3. **Specific Policy:** The specific policy is one under which the liability of the insurer is limited to a specified sum which is less than the value of property. This policy also, the insurer undertakes to make good the loss to the insured up to the amount specified in the policy. In case of specific policy, the property is insured for a definite sum. If there is loss, the stated amount will have to be paid to the policyholder. But the actual value of the subject matter is not considered in this respect.

*“For examples if a policy is taken for Rupees 50,000 upon a building whose actual value is Rs.1, 00,000 and a fire occurs causing the amount of loss Rs.50, 000. The insurance company will pay the whole amount of loss of Rs.50, 000 irrespective of the fact that the building was insured for one half of its value”.*

*“For Example: Supposing, a building worth Rs2,00,000 is insured against fire for Rs 1,00,000. If the damage to the property is Rs.75,000 the insurer will get the full compensation. Even if the loss is Rs. 1,00,000 the insurer will get the full amount. But if the loss is more than Rs. 1,00,000 the insured will get Rs. 1,00,000 only. Hence, the value of property is not relevant in determining the amount of indemnity in case of a specific policy”.*

4. **Average Policy:** Under a fire insurance policy containing the “*Average Clause*” the insured is liable for such proportion of the loss as the value of the uncovered property bears to the whole property. Further, where a property is insured for a sum which is less than its value, the policy may contain a clause that the insurer shall not be liable to pay the full loss but only that proportion of the loss which the amount insured for, bears to the full value of the property. Such a clause is called the average clause and policies containing an average clause are called “*Average Policies*”.

The phrase subject to average is equivalent to the insertion of an average clause. Lloyd’s Fire Policies are usually expressed to be subject to average. An average policy is one which contains the average clause. This clause required the insurance company to pay only that portion of the loss which is borne by the insured amount to the actual value of the subject matter of the insurance.

*“For Example: a value of the property is Rs.1, 00,000. It is insured for Rs.60, 000 (60 percent of the total value) and the amount of loss is Rs.60, 000. The insurance*

company will not pay Rs.60, 000 to the policyholder but will pay Rs.36, 000 (60 percent of Rs.60, 000)”.

“For Example: if a person gets his house insured for Rs. 4,00,000 though its actual value is Rs.6,00,000. if a part of the house is damaged in fire and the insured suffers a loss of Rs. 3,00,000, the amount of compensation to be paid by the insurer comes out to Rs. 2,00,000” Calculated as follows:

$$\text{Amount of Claim} = \frac{\text{The Insured Amount}}{\text{The Actual Value of Property}} \times \text{Actual loss}$$

$$4,00,000 = \frac{2,00,000}{6,00,000} \times 3,00,000$$

**5. Floating policy:** The floating policy is also used for the covering of fluctuating stocks of goods held in different lots for one premium. Further, with the every transaction of sale or purchase, the quantities of goods kept at the different places fluctuate. It is also difficult for the owner to take a policy for the specific amount. The best possible way is to take out a floating policy for all the stocks of goods. When one policy which covers property situated in different places it is called a floating policy.

Floating policies are always subject to an average clause. A floating policy is that which covers the fluctuating risk of several goods lying in different localities for supply to various markets. The policy is usually taken out under one sum and one premium by the businessman whose goods are lying at docks and warehouses.

**6. Reinstatement Policy:** Under such policies the insurer undertakes to pay the value of the property lost, but the cost of replacement of the property destroyed or damaged. The insurer may retain an option to replace the property instead of paying cash.

“Under such a policy, the insurer has also the right to reinstate or replenish the property destroyed instead of paying compensation to the insured in cash. It may be granted on (a) building, (b) machinery, (c) furniture, (d) fixture and fittings only. The policy insurance company pays more than the actual value of the property destroyed by fire in order to cover the cost of replacement of the said property. It is also called as “Replacement Policy”. This type of policy is not very common in these days.”

**7. Consequential loss Policy:** Sometimes the insured has to suffer a greater financial loss on account of dislocation of business caused by fire e.g. close down business after fire loss for repair, to meet fixed expenses such as (a) rent, (b)

salaries, (c) taxes and (d) other expenses as usual. The considerable loss to the insured is not covered by the ordinary fire policy. In order to cover such loss by fire, the “*Consequential Loss Policy*” has been introduced. The loss so suffered is separately calculated from the loss actually suffered.

**8. Comprehensive Policy:** This policy covers the risks of the fire arising out of any cause that is civil commotion, lightning, riots, thefts, labour disturbances and strikes etc. It is also known as “*All insurance policy*”. A single policy may cover losses due to a variety of cases, e.g. fire together with burglary, third party losses, etc.

“A fire policy may include loss of profits, i.e. the insurer may undertake to indemnify the policy holder not only for the loss caused by fire but also for the loss of profits for the period during which the establishment concerned is kept closed owing to the fire”.

**9. Full Package or Umbrella Policies:** The particular full package or umbrella covers available which give, under a single document, a combination of covers. Thus, it also covers such as (a) Householders Policy, (b) Shopkeepers Policy, (c) Office Package policy etc. that, under one policy, seek to cover various physical assets including buildings, contents etc. Such policies, apart from seeking to cover property may also include certain personal lines or liability covers. The Package or Umbrella type covers could have common terms and conditions for all sections as also specific terms for specific sections of the policy.

**10. Blanket Policy:** This policy is issued to cover all the fixed and current assets of an enterprise by one insurance Policy.

**11. Loss of Profit Policy:** Such type of policy covers the loss of profit which sustains as a result of fire. This policy is also known as “*Consequential loss Policy*”. Such Policy is issued in conjunction with a base fire policy only.

**12. Standard Fire Policy:** This policy is issued for compensation of all direct loss or damage caused by lighting and burning. Such policy also covers damages by (a) earthquake, (b) Flood,(c) explosion, (d) cyclone and (e) riot. The fire insurance policy offers protection against any unforeseen loss or damage to/destruction of property due to fire or other perils covered under the policy.

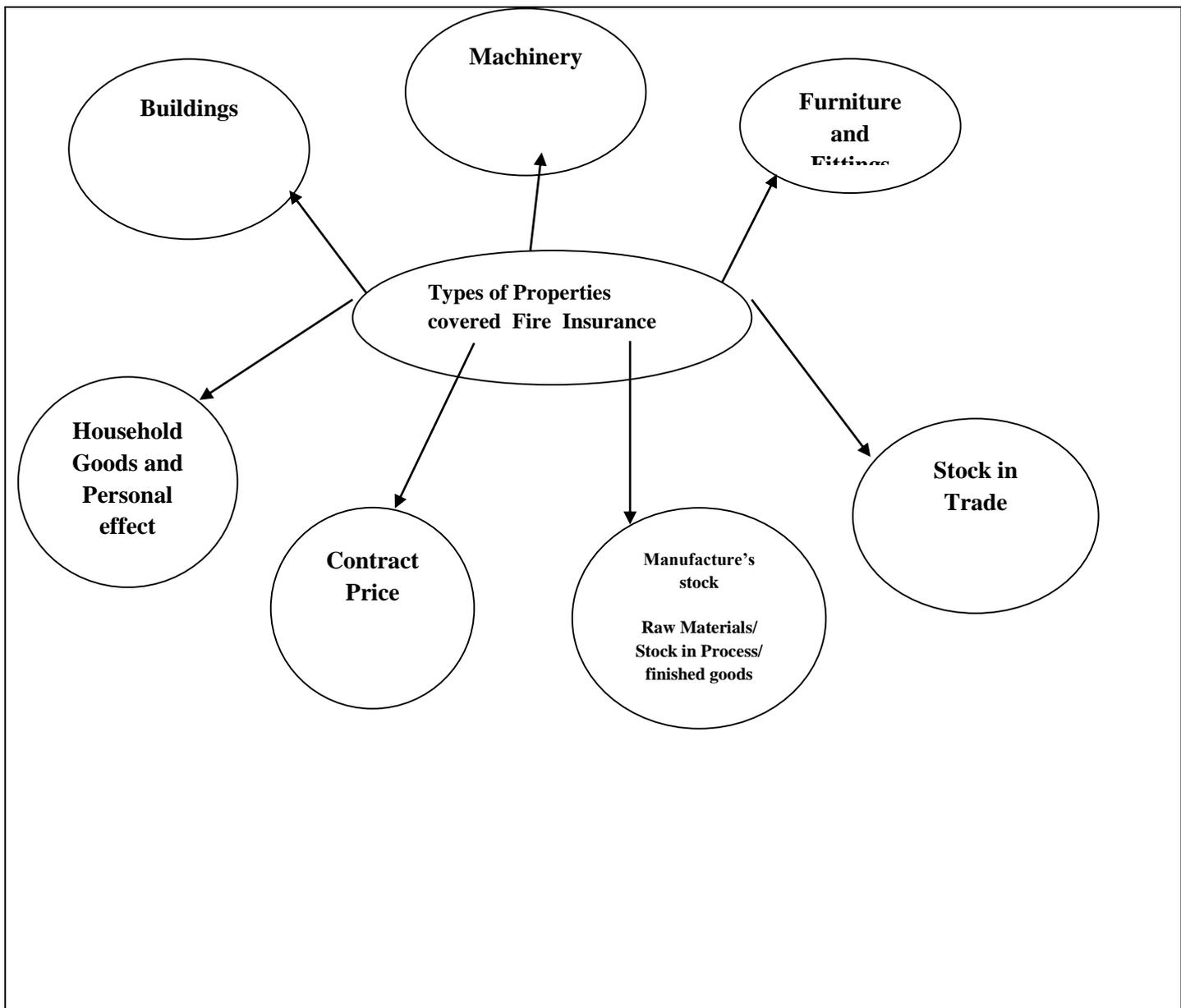
*“For Example such as : The different types of property that could be covered under a fire insurance policy are dwellings, offices, shops, hospitals, places of worship and their contents industrial/manufacturing risks and contents such as (a) machinery, (b) plants, (c) equipment and accessories; (d) goods including raw material, material in process, semi-finished goods, finished goods, packing materials etc in factories, Godowns and in the open; utilities located outside industrial/manufacturing risks; storage risks outside the compound of industrial*

*risks; tank farms/gas holders located outside the compound of industrial risks etc”.*

- 13. Declaration policy:** “In this policy, trader takes out a policy for the maximum value of stock which may be expected to hold during the year. Further, at a fixed date each month, the insured has to make a declaration regarding the actual value of stock at risk on that date. However, on the basis of such declaration, the average amount of stock at risk in the year is calculated and this amount becomes the sum assured”.

This policy which is taken for covering Stock where great fluctuations in stock with resultant fluctuation in value can happen throughout the contract period. On such policy 75 percent of the premium has to be deposited in advance. The maximum liability of insurance company is specified in the policy based on amount chosen by the insured. However, at the end of year the average stock and final premium is calculated.

- 14. Sprinklers leakage policy:** It covers the loss arising out of water leakage from sprinklers which are setup to extinguish fire. This type of policy covers the loss to building/stock as a result of the damage by leakage of liquid or water.
- 15. Excess policy:** This policy is issued for the stock of merchandise whose value is constantly fluctuating. In such case it is not suitable to take one policy for certain sum. So the insured takes an ordinary policy for minimum value of the stock and excess policy for excess value of the stock. The actual value of the stock will be reported periodically.
- 16. Maximum value with Discount policy:** Under this policy one third discount of the premium paid is refundable to the insured at the maturity of the policy. This policy covers the risk for maximum amount.




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## 1.7 SCOPE OF FIRE INSURANCE

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The scope of fire insurance can be divided into two parts:

- (i) **Ordinary Scope of Fire Insurance:** It includes only those risks which define the narrower scope of fire insurance i.e. the losses caused by fire only. Under the fire insurance contract, the claim for loss by fire must fulfil two basic conditions. (a) There must be actual fire.(b)The fire must be accidental. The property insured must be damaged or burnt or destroyed by fire.
  - **Risks Covered under the Fire Insurance:** The main causes of risk must be mentioned in the fire insurance policy and only those risks are indemnified by the insurer in case of loss. The main perils covered under fire insurances are (a) fire,(b) blasting of boiler, (c) blast of gas cylinders etc.

- **Risks Not Covered under Fire Insurance Policies:** There are certain risks which insurance company exclude from the scope of cover of Fire Policy such as (a) fire in jungle, (b) theft during fire, etc.
- (ii) **Comprehensive Scope of Fire Insurance:** These policies cover the various types of risks allied to the risks of fire. The coverage of such risks under the purview of fire insurance has widened the scope of fire insurance.

The scope of cover Standard Fire and special perils policy usually cover loss due to the following perils:

1. **Fire:** The destruction or damage to the property insured by its own fermentation, natural heating or spontaneous combustion or drying process can not be treated as damage due to fire.
2. **Lightning:** It result in fire damage or other type of damage, such as (a) cracks in a building due to a lightning strike.
3. **Explosion/Implosion:** The explosion is caused inside a vessel when the pressure within the vessel exceeds the atmospheric pressure acting externally on its surface. This policy, however, does not cover destruction or damage caused to the boilers or other vessels where heat is generated.
4. **Violent Natural Disturbances:** The cyclone, Storm, typhoon, hurricane, tornado as well as landslide These are the various types of violent natural disasters/ disturbances accompanied by Thunder or strong winds or heavy rainfall Loss or damage directly caused by these disturbances are covered excluding those resulting from earthquake, volcanic eruption etc.
5. **Bush Fire:** This also covers damage caused by burning of bush and jungles but excluding destruction of damage caused by forest fire.
6. **Riot, Strike, Malicious, and Terrorism Damages:** The loss or damage to the property insured directly caused by such activity or by the action of any lawful authorities in suppressing such disturbance is covered.
7. **Aircraft Damage:** The Loss, destruction or damage caused by Aircraft, other aerial or space devices and articles dropped there from excluding those caused by pressure waves.
8. **Overflowing of Water Tanks and Pipes:** The Loss or damage to property by water or otherwise on account of bursting or accidental overflowing of water tanks, apparatus and pipes is covered.
9. **Missile Testing Operations:** The loss or damage due to missile testing by the Govt.
10. **Bursting and/or Overflowing of Water Tanks, Apparatus and Pipes:** This is due to bursting or overflowing of water from the water tanks installed in the premises of the policyholder any damage or loss to the property.
11. **Subsidence and Landslide including Rock Slide:** The destruction or damage caused by Subsidence of part of the site on which the property stands or Land slide / Rock slide.
12. **Impact Damage:** The damage to the property due to impact by any Rail / Road vehicle or animal by direct contact, but not belonging to or owned by the

Insured or any occupier of the premises or their employees while acting in the course of their employment.

<b>The following risks do not fall under purview of the Fire Insurance</b>			
losses due to by the acts of the God/Natural Calamity.	losses arising out of War Attacks (declared war or otherwise).	loss/Damage out of poultry effects.	Damage to goods Stored in Cold Storage due to Fluctuations in Temperature.

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## **1.8 IMPORTANCE OF FIRE INSURANCE**

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Fire Insurance is such the type of insurance coverage, under which the individual has to pay sum of amount to the company, in exchange to receive advantages for the fire place of losses. The Fire Insurance also provides the security for home, home furniture, enterprise buildings, etc.,. Fire place insurance also provides the price of alternative of properties and assets, which gets broken due to the fireplace incident.

### **(A) Importance of Fire Insurance towards Home Owner :**

- i) The price of the damage for the building is provided.
- ii) Further, if any home furnishings are damaged due to the fire incident, like plywood home furniture, carpets, clothes etc are also taken in to consideration, provided they are included in the Sum Insured.
- iii) It provides alternative way of indemnity covering the price of the electronic items, which is broken/damaged due to fire. This includes items like television, computer, air coolers etc.

### **(B) Importance of Fire Insurance towards Enterprise:**

- i) It also covers the price of spares broken due to the fire.
- ii) "It provides the loss of life advantages to employee, in case of loss of life occurred due to the fire incident".
- iii) "It provides the alternative or maintenance price for the machines, if they get broken due to fire incident".

### **(C) Importance of Fire Insurance for Businesses**

- i) "It provide complete take care of against fire and smoking damage to the property and items covered under the policy".
- ii) The conditions and insurance plan information must be tested before carrying out to a replace insurance coverage.
- iii) The legal take care of, personal belongings, and old for new take care of Just take be aware of administration accepted fireplace protection products.

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## 1.9 LET US SUM UP

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The insurer is the liable to make the good loss only, when the loss is caused by actual fire. The phrase “loss or damage by fire” also includes the loss or damage caused by efforts to extinguish fire. The document containing the terms and conditions of the contract is known as “Fire Insurance Policy”. It also contains the name of the parties description of the insured property. The sum for which the insured, amount of premium payable and the period insured against. The premium shall have to be paid before start of policy term. The scope of fire insurance can be divided into two parts:(a)Ordinary Scope,(b)Comprehensive Scope of Fire Insurance. The important fire insurance policies are discussed such as Valued Policy, Unvalued policy, Specific Policy, Average Policy, Floating policy, Reinstatement Policy, Consequential loss Policy, Comprehensive policy, A Blanket policy, Loss of profit policy, Standard fire policy. Declaration policy, Sprinklers leakage policy, Excess policy, and Maximum value with Discount policy.

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## 1.10 KEY TERMS

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- **Fire Insurance:** is a contract under which the insurer in return for a consideration (premium) agrees to indemnify the insured/assured for the financial loss which the Insured may suffer due to destruction of or damage to property or goods, caused by fire, during a specified period.
- **Risk:** The asset may lose its value if a certain event happens. This chance of loss is called as risk.
- **Peril:** The cause of the risk event is known as peril.
- **Risk Avoidance:** Controlling risk by avoiding a loss situation is known as risk avoidance.
- **Loss Prevention:** The measures to reduce chance of occurrence are known as ‘Loss Prevention’.
- **Loss Reduction:** The measures to reduce degree of loss are called ‘Loss Reduction’

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## 1.11 SELF-ASSESSMENT QUESTIONS

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1. What is Fire Insurance ? Discuss the Characteristics and Features of Fire Insurance?

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2. Define Fire Insurance ? Discuss the Scope and Importance of Fire Insurance?

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3. Discuss the different types of Fire Insurance Policies?

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### 1.12 FURTHER READINGS

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- ❖ Banking and Insurance”, Gordon, E. And Gupta, P.K , First Edition, Himalaya Publishing Company, New Delhi.
- ❖ Insurance: Theory and Practice. Tripathy and Pal, Himalaya Publishing Company, New Delhi.
- ❖ Principle and Practice of Insurance. P. Paniasamy, Himalaya Publishing Company, New Delhi.
- ❖ Insurance Principles and Practice, M. N. Mishra, S. Chand & Co., New Delhi.
- ❖ Annual Report IRDA 2018-19

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### 1.13 MODEL QUESTIONS

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1. Discuss the Scope of cover under Standard Fire and special perils policy ?
2. Discuss in detail about Insurable Interest?
3. Difference between Valued Policy vs. Floating Policy vs. Average Policy?

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## **UNIT-2 FIRE INSURANCE DOCUMENTS AND UNDERWRITING**

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### **Structure**

- 2.0 Learning objectives
- 2.1 Introduction
- 2.2 Subject Matter of Fire Insurance
- 2.3 Procedure of Obtaining Fire Insurance Policy
- 2.4 General Exclusions of Fire Insurance
- 2.5 Add On Covers of Fire Insurance
- 2.6 Claim Procedure for Fire Insurance
- 2.7 Meaning of Underwriting
- 2.8 How Underwriting Performs his task
- 2.9 Tools of Underwriting
- 2.10 Process of Underwriting
- 2.11 Let us sum up
- 2.12 Key Terms
- 2.13 Self – Assessment Questions
- 2.14 Further Readings
- 2.15 Model Questions

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### **2.0 LEARNING OBJECTIVES**

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After reading this unit you will understand:

- 4. Understand the documents and Process of Fire Insurance.
- 5. Know the concept and tools of Underwriting Fire Insurance.
- 6. Process of Underwriting and how underwriter performs his task in fire Insurance.

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### **2.1 INTRODUCTION**

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The word Fire does not mean the Fire used in the ordinary sense of the term as is understood in domestic and household activities. It means fire which is not caused intentionally and has no bound, and it is production of ignition, light and smoke by combustion. “The Fire insurance is an agreement whereby one party (the insurer), in return, for a consideration undertakes to the indemnify the other party (the insured) against financial loss which he may sustain by reason of certain defined subject matter being damaged by or destroyed by fire and/or other defined perils up to an agreed amount”.

A Fire insurance contract like any other insurance contract must fulfil the essential elements of a valid contract like (a) offer and the acceptance, (b) lawful consideration, (c) legality of object etc. The Principles of Fire Insurance is governed by principle of: (a) Insurable Interest, (b) Principle of Good Faith , (c) Principle of Indemnity, (d) Proximate Cause of Fire Insurance , (e) Doctrine of Subrogation and (f) Warranties in Fire Insurance.

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## **2.2 SUBJECT MATTER OF FIRE INSURANCE**

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The Subject matter of fire insurance may be of any kind of movable and immovable property having pecuniary value. The property intended to be insured must be properly described. As per fire insurance, it is governed by Tariff; the following are the examples of insurable property:

- (a) “Building”
- (b) “Electrical installation in Buildings”
- (c) “Contents of buildings such as machinery, plant and equipments, accessories etc”.
- (d) “Good (Raw Materials, Work in Progress, Semi Finished Goods, Finished Goods, Packaging Materials) in factories and Godowns”.
- (e) “Good in Open”
- (f) “Contents in Dwellings, Shops, Hotels, etc”.
- (g) “Furniture, Fixture and Fittings”.
- (h) “Pipelines (including contents) located inside or outside the compound etc”.

### **The types of Losses Covered by Fire Insurance are:-**

- a) The Goods spoiled / damaged or property damaged by water used to extinguish the fire.
- b) The pulling down of the adjacent premises by the fire brigade in order to prevent the progress of flame.
- c) The breakage of goods in the process of their removal from the building where fire is raging such as damage caused by throwing furniture out of window.
- d) The wages/ remuneration paid to persons employed for fire extinguishing.

### **The types of Losses not Covered by a Fire Insurance Policy are:-**

- a) The loss which is due to fire caused by (a) earthquake, (b) invasion, (c) of foreign enemy, (d) hostilities or war, (e) civil strife, (f) riots, (g) mutiny, (h) martial law, and (i) military uprising or rebellion or insurrection.
- b) The loss which is caused by subterranean/ (underground) fire.
- c) The loss which is caused by burning of property by order of any public authority.
- d) The loss arises by theft during or after the happening / occurrence of fire.
- e) The loss or damage to property which caused by its own fermentation or spontaneous combustion, like heap of Coal being reduced to ash due to heat i.e. due to an inherent vice in it.

- f) The loss or damage which arises by lightning or explosion is not covered unless these cause actual ignition which spread into fire.

**A claim for Loss by Fire must satisfy the following conditions:-**

- a) The loss which is caused by actual fire or ignition and not just by high temperature.
- b) The Fire may also be the proximate cause of loss.
- c) The policy which is in coverage of subject matter of loss or damage.
- d) The ignition must be either of the goods or of the premises where goods are kept.
- e) The fire must be accidental, not intentional.
- f) Further, if the fire is caused through a malicious or deliberate act of the insured or his agents, the insurer will not be liable for the loss.

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**2.3 PROCEDURE OF OBTAINING FIRE INSURANCE POLICY:**

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The Insured has to follow the following procedure for taking out a fire insurance policy:

<b>PROCEDURE FOR TAKING FIRE INSURANCE POLICY</b>						
Selecting the Insurance Company	Proposal Form	Evidence of Respectability	Survey of Properties to be Insured	Acceptance of Proposal	Cover Note	Issue of Policy

- (1) **Selection of the Insurance Company:** First of all, the insured selects a financially strong and efficient company. The company which requires less formalities and easy terms for taking a policy is always preferred.
- (2) **Proposal Form:** The insured has to fill up the proposal form to get the insurance policy. The insured is under obligation to give true and correct information about the details of property, its location, amount to value of property. Insured is required to provide true and correct information in the proposal form.
- (3) **Evidence of Respectability:** The insurance company collects the proofs of honesty, integrity and financial position of the insured from the third parties. The insured has to submit a certificate of respectability along with proposal form to the insurer.
- (4) **Survey of Properties :** The insurer has to assess the properties to be insured to determine the risk involved in the property against fire.

- (5) **Proposal Acceptance:** On the basis of the information declared in the proposal form, certificate of respectability and the reports of surveyors, the insurer gives his acceptance to the proposal submitted by insured. The insurer sends an intimation of acceptance of proposal to the insured, mentioning the premium payable. The Proposal is always accepted and Insurance Cover effected subject to payment of premium.
- (6) **Cover Note:** The insurer issues a cover note which is in the nature of an 'interim protection note' before the final form of policy is prepared. "The Cover note is not equal to policy, but if a fire occurs in mean while, the cover note will cover the risk and the insurer will be liable to indemnify the risks covered under the cover note".
- (7) **Issue of Policy:** Finally, a fire insurance policy is prepared in a proper form, duly stamped and signed, containing the terms and conditions of the insurance. The policy contains the (a) name and address of insured, (b) value/amount insured, (c) contents and subject matter of properties, (d) period of insurance,(e) amount premium etc. This insurance policy is issued by the insurer to the insured in due course of time.

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## 2.4 GENERAL EXCLUSIONS OF FIRE INSURANCE

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### Policy does not cover :

1. **Policy Excess:** The first five (5) percent of each and every claim subject to a minimum of Rs. 10,000 (Ten Thousand) in respect of loss arising out of "Act of God Perils" such as Lightning, Landslide etc.
2. **War:** The Loss, or destruction or damage caused by war, invasion, act of foreign enemy, mutiny, war like operations, civil war, military rising etc.
3. **Environmental Pollution:** The Loss, or destruction or damage caused to the insured property by pollution or contamination.
4. **Change of Temperature:** The change of temperature which is the cause of Loss, or destruction or damage to the stocks in cold storage area/ premises.
5. **Indirect Loss:** The indirect loss or damage of any kind whatsoever which arises due to operation of an insured peril leading to Loss of earnings, or loss by delay, loss of market or other consequential losses.
6. **Natural Calamities:** If any loss or damage caused by or through or in consequence directly or indirectly due to earthquake, volcanic eruption etc.
7. **Public Disturbances:** The Loss caused by theft during or after the occurrence of any insured peril except as provided under (a) Riot, (b) Strike and (c) Terrorism and Damage cover.
8. **Fault Due to Electrical Instruments:** The Loss, or destruction or damage to any electrical equipments/ machine, apparatus, fixture, or fitting arising from or occasioned by (a) over-running, (b) excessive pressure , (c) short circuiting etc.
9. **Other Expenses:** The expenses necessarily incurred on (i) Architect's, surveyor's and consulting engineer's fees and (ii) Debris removed by the insured following

the loss to the property insured by an peril insured in excess of three (03%) percent and one (01%) percent of the claim amount respectively.

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## 2.5 ADD ON COVERS OF FIRE INSURANCE

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The insurer can issue the standard fire policy with added benefits at the option of the policyholders by charging additional premium. These added benefits are as follows:

**(A) Add On Covers:** The following add-on covers are available under a Standard Fire Policy :

- (1) The Architects Surveyors and Consulting Engineer's Fees in terms of amount (in excess of three (3%) percent claim amount.
- (2) The Debris removal (in excess of one (1%) percent of claim amount).
- (3) The Deterioration of stocks in cold storage space due to power failure.
- (4) The Forest Fires.
- (5) The Spontaneous Combustion.
- (6) The Earthquake as per Minimum Rates and excess applicable as specified in the tariff.
- (7) The Omission to insure (a) additions, (b) alterations or / extensions.

**(B) Judicial wise Decisions:** On the basis of judicial decisions, the following losses are also covered by fire insurance.

- (1) The Goods spoiled or property damaged by water used to extinguish the fire.
- (2) The Pulling down of adjacent buildings by the fire brigade in order to protect/ prevent the spread of fire.
- (3) The Breakage of Goods in the process of removal from the building where fire is raging.
- (4) The Wages paid to individuals employed for extinguishing fire.

**(C) Losses not Covered by Fire Insurance Policy:** The following types of losses, however, are not covered by a fire policy.

- (1) The Loss which is occurred by theft during and after the occurrence of fire.
- (2) The Loss caused due to burning of the property by the order of any of the public authority/ officials.
- (3) The Loss caused which is occurrence due to underground fire.
- (4) The Loss or damage to the property occasioned by its "*own fermentation*" or "*spontaneous combustion*".
- (5) The Loss happening by fire which is caused by (i) the earthquake, (ii) the invasion, (iii) the act of foreign enemy, (iv) the war like operations, (v) the civil wars, and (vi) the riot etc.

In all the above cases the insurer is not liable, unless specifically provided for in the fire insurance policy. The insurer can issue the standard fire policy as per the "*New Fire Tariff*" along with added benefits at the option of the policyholders by charging additional premium.

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## 2.6 CLAIM PROCEDURE FOR FIRE INSURANCE

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“The Settlement of insurance claim is also governed by the provisions of Insurance Act and Gazette notifications of the Government of India. Further, the Insurers insist on an early notification of a loss and the policy provides for a time limit within which notice of loss shall be given by the insured to the Insurance Company. On receiving the notice of loss, the relevant policy particulars are checked to see if the insurance is in force. The claim form is thereafter issued to the insured. The claim is allotted a number”. However, the claim procedure for fire insurance as follows:

- a) In the event of fire the insured must immediately give a notice of loss to the insurer stating the cause of loss.
- b) The written claim should be delivered with fifteen (15) days from the date of the loss.
- c) The insured is required to the furnish of all plans with invoices, documents, proofs and other relevant information required by the insurer.
- d) If the insured fails to submit these documents within 6 months from the date of loss, the insurer has the right to consider it as no claim.
- e) On receipt of the claim the insurer verifies or investigates whether the essentials of a valid claim are satisfied or not, For example the cause of fire should be due to an insured peril.
- f) The insured completes the form, signs the declaration: which is given in the form: as to the truthfulness and accuracy of the information and returns the same.
- g) For Small and simple losses, an official employed by the insurer checks or investigates various aspects of the claim.
- h) For large claims, the insurance company employs professional Surveyor and Loss Assessor; who are independent professionals. Insurance Company is required to appoint such an Independent Surveyor wherever the loss involves a value of Rs. 20,000 and more, as per Insurance Act.
- i) However, on the basis of the claim form and the investigation report, the company then settles the claim.

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## 2.7 MEANING OF UNDERWRITING

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Insurance offers the protection against the financial loss which arise due to the occurrence of unexpected way of events, affecting an insured. This benefit is offered in exchange for payment of an amount called the “*Premium*”.

### **Who is an underwriter?**

“The underwriter is one, who is assigned / charged with the duties as well as responsibility to analyze/ evaluate risk-based information, by using insurance and actuarial applications to determine how to handle the volatility of the risk characteristics in each risk offered to make it fall into the company specified “*Risk*”

*Pools*”. Pricing of the risk, is the most important aspect. It is just one aspect of the responsibility; imposing compliant conditions of risk management during the policy period is another; controlling claim amounts payable by using a variety of models is yet another”.

“Underwriting skills are acquired through a continuous learning process involving adequate training, field exposure and deep insights. To be a fire insurance underwriter one needs to have a good knowledge of the likely causes of fire, impact of fire on various types of physical goods and property, the process involved in an (a) Industry,(b) Geography, (c)Climatic Conditions etc. Similarly, the marine insurance, Underwriter should be aware about port/ road conditions, problems which is encountered by cargo/goods in transit or storage, ships and their seaworthiness and so on. Further, the health underwriter needs to understand the risk profile of the insured, age, medical aspects, fitness levels and family history and measure the effect of each factor affecting the risk. The need for careful underwriting and risk classification in insurance arises from the simple fact that not all risks are equal. Each risk exposure needs to be appropriately assessed and priced in accordance with the likelihood of loss occurrence and severity.”

Since, all risks are not identical, it would not be justified to ask all those who are to be insured, to pay equal premium. The purpose behind underwriting is also to classify risks so that, depending on their characteristics as well as degree of risk exposure, an appropriate rate of premium would be levied. Further, every insurer has a responsibility towards its current policyholders to make sure that it is able to meet all the contractual obligations of existing policies. Further, if the insurance company issues policies on risks that are uninsurable or charges the premiums which is much lower than is required to cover the risk, it would result in jeopardising the insurer’s ability to meet its contractual obligations. On the contrary if an insurer wants to charge with very high rates for the risks, that do not warrant such high rates, may find that its business is non-competitive as well as unsustainable. Therefore, in the interest of equity and sustainability, the underwriting process needs to be meticulously followed by the set rules and principles.

**The main features of underwriting are as follows:**

- (a) To identify risk based upon the features/ characteristics of the items proposed for insurance.
- (b) To determine the level of risk based approach presented by the proposer.
- (c) To ensure that the insurance business is conducted on sound lines/ soundness way.
- (d) Insurance underwriting is the process of choosing who and what the insurance company decides to insure.
- (e) This is based on a risk assessment.
- (f) It is the “*Behind the Screen*” work in an insurance company where the underwriter determine who is to be insured and how much in insurance premiums will be charged from the insured person.

- (g) Insurance underwriting also involves choosing who the insurance company will not insure.
- (h) The Underwriting, in insurance industry refers to the process used by insurance companies to determine how much of the liability to accept. This exercise to measure of risk helps insurance companies make coverage decisions.
- (i) It involves the measuring risk exposure and determining the premium that needs to be charged to insure that risk.
- (j) The Underwriting is the component of insurance that deals with assessing as well as evaluating the risk.
- (k) The Underwriting is also used to ensure that insurance companies charge the right amount of insurance premium.
- (l) The objective of underwriting is the risk classification, which means as when translated into action, the same is capable of being classified into specified categories of risks.
- (m) Underwriting is the based on prognostic evaluations and the probability of occurrence of the event
- (n) Underwriting and the claims need to partner with each other since the objective of both are the inter-related.
- (o) Underwriting has to be an enabler and a charioteer while manoeuvring the company towards its goals of customer service and profitability.
- (p) Underwriting has to be done prudently. This will be the safeguard of interests of all and balance it for the company.

**Table : General Insurance Gross Written Premium during 2010-11 to 2018-19  
(in Crores)**

<b>Year/ Particulars</b>	<b>2010 -11</b>	<b>2011 -12</b>	<b>2012 -13</b>	<b>2013 -14</b>	<b>2014 -15</b>	<b>2015 -16</b>	<b>2016- 17</b>	<b>2017- 18</b>	<b>2018- 19</b>
<b>Fire</b>	6,051	7,320	8,865	9,703	10,517	11,358	12,207	13,570	14,660
<b>Engineering</b>	2,260	2,690	2,859	2,943	2,730	2,732	2,615	2,542	2,738
<b>Marine Cargo</b>	1,616	1,953	2,051	2,159	2,188	2,248	2,238	2,356	2,583
<b>Marine Hull</b>	1,103	1,210	1,260	1,326	1,163	963	890	714	885
<b>Motor OD</b>	12,423	15,289	18,109	19,607	20,755	22,731	25,160	27,763	28,108
<b>Motor TP</b>	9,647	15,573	12,833	15,508	18,006	21,293	26,649	32,960	38,057
<b>Aviation</b>	557	646	662	630	597	611	604	591	812
<b>Health</b>	9,956	11,817	14,047	15,668	17,718	20,994	25,575	30,123	35,146
<b>Personal Accident</b>	1,197	1,384	1,648	1,838	2,136	2,508	3,451	4,072	4,943

<b>Liability</b>	900	1,087	1,187	1,362	1,367	1,942	2,141	2,005	2,421
<b>Other Miscellaneous</b>	3,436	4,040	4,577	5,339	6,083	5,935	18,534	22,462	26,020
<b>Total</b>	49,143	63,008	68,096	76,083	83,262	93,315	120,066	139,159	1,56,373

**Source: Indian Non-Life Insurance Industry Year book 2018-19.**

“The Non-life Insurance principally caters to the financial protection of property, lives, interests and earnings of an insured. Moreover, it signifies that only Seven (7) percent of the insured are likely to put forth in claims in non-life insurance. Further, every policy insured is for a year and has to be re-earned each year by an insurer. The Consumer satisfaction has to be earned each year. The Application of the principle of indemnity, the condition of average and the specificity of the loss event of all complicate mutual dealings in non-life insurance”.

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## **2.8 HOW UNDERWRITER PERFORMS HIS TASK**

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The underwriter must have expertise to understand the risk exposure offered in all its facets. This includes evaluating the (a) *Physical Hazards* and (b) *Moral Hazard of the risk*. The likelihood of a claim occurrence must be coupled with the likely claim behaviour of an insured for evaluation purposes. The quality of the underwriting is to be evaluated / assessed not only by, whether an underwriter is getting a suitable rate or approach which is imposing conditions of risk management on an insured, but also in the quality of checking /judging the likely claim behaviour of the insured, at the time of risk acceptance.

Hence, the underwriter positively have access to information on all claims, of risks which he/she has underwritten. One way is to have a strong co-ordination system//mechanism between claims and underwriting departments to learn from each other. Thus a cross-functional learning, between the departments, would lead to better functioning of both the technical teams.

“The underwriter must also endeavour to get it exposed to continuous training and education programs for further specialization. *The Insurance Institute of India (III)* positively design such programs and helps build specialist underwriters on writing financial risks, specialist manufacturing and construction risks etc. The underwriting function in an insurer's office must be made to get as specialized as possible to improve the quality of future underwriting”.

### **(a) Case of Tariff Scenario**

- ✓ In countries like India, the Fire Insurance is tariff driven and tariff offers discounts on the basic premium that has been fixed and is based on the

past claim experience of the insurers and the risk potential assessed by the regulatory Bodies/ Authorities.

- ✓ As a result, discounts are offered for good features like (a) provision and maintenance of certified fire protection systems, (b) past claim experience and so on.
- ✓ “The Loading is done on the premium primarily, if the claim experience exceeds the limits specified in the tariff”.
- ✓ “Though past claim experience can be related to the maintenance of the systems indirectly, there exists a limit on the optimisation of the insurance through best way of maintaining practices. This is due to the element called “*Probability of Occurrence*”.
- ✓ “Generally, Fire Insurance depends on the factor of uncertainty and global insurance practice suggests that all asset/ property needs to be covered the Fire Insurance.”
- ✓ However, the optimisation can be done by means of opting for a higher voluntary deductible based on predictive maintenance systems, under the fire insurance.

**(b) Case of Non-Tariff Scenario**

- ✓ Moreover, in mature insurance markets like Europe, the Fire Insurance is not driven by tariff.
- ✓ The Fire insurance underwriting is driven by (a) market conditions/scenario and individual merit / performance of the corporate to be covered under insurance.
- ✓ Further, if they prefer to go in for reinsurance considering the risk potential, the quote by the reinsurer plays a crucial role. The Reinsurers check the favourable and adverse features of the concerned proposal and their past claim experience.
- ✓ The logic of selecting the higher voluntary deductible (-) based on the maintenance practices is more relevant in the open insurance market scenario.
- ✓ The loss potential of the critical equipment of cement industry due to explosion can be reviewed to decide on the special maintenance practices in addition to the routine inspections that are carried out as part of maintenance schedule.

**(c) Case of De-tariffing:**

- ✓ To match the way to global scenario;
- ✓ The Convenience from the Consumer / policy holder point of view;
- ✓ To achieve the desired penetration in the existing General Insurance market;
- ✓ Give a new look / new approach and shape to insurance industry.

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## 2.9 TOOLS OF UNDERWRITING

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“The Underwriting tools of an underwriter are such as (a) the proposal form,(b) any additional questionnaires, (c) risk inspection reports, (d) past claims record of an insured, (e) assessment of MPL and (f) the origin and sources of likely occurrence of serious accidents and (g) the special protective measures taken by an insured to mitigate the chances of its occurrence as well as to control the loss potential”.

“The Underwriter has to reduce the gap of asymmetric information exchanged between the contracting parties / Stake holders. The Underwriter has to have a “*Sixth Sense*” to detect / evaluate the chances of an insured committing fraud / corruption on the insurer and to take appropriate action to minimize the chances at the acceptance stage”.

The Underwriter must also cultivate an “*Underwriting Mentality*” or an approach, and consider every risk acceptance from the point of view of the likelihood of it resulting in a claim. Such an approach is not for rejection of a risk acceptance, but to make an endeavour to make the insured, as a joint party in the risk management process for prevention and minimization of losses.

The rating process is an important aspect of underwriting. But its role is limited to 'homogenizing' the risk factors to make the risk fit into the “*Risk Pool*”; and nothing more. The other aspects of prevention and minimization of losses are as important as pricing. The popular conception about “*Rating*” is that no rate is too low, if there was to be no loss occurrence in the duration of the policy; and similarly no rate is too high, if there were to be a loss occurrence. Hence, pricing risks is done to even out the peculiar risk characteristics to be fair to all the members in the risk pool. This is based on the science of underwriting and actuarial practices. This approach is purely a commercial activity. .

Moreover, the role and function of an underwriter is also that an “*Artist*”, which are peculiarly subjective in nature. Further, how to improve/ change the risk management processes / exposure of an insured and how to change his behavioural attitude for prevention and minimization of losses; is equally challenging. Moreover, how to reduce the moral hazard component of a risk and how to prevent occurrence of frauds are the additional responsibilities of the underwriter.

**Table : stated the Channel Wise Gross Direct Premium Income of General Business during 2013-14 to 2018-19.**

Types of Channel	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19*
Fire	7407.10	8054.69	8701.00	9537.43	10779.70	11666.60
Marine (Cargo)	2027.53	2063.41	2127.00	2125.24	2219.59	2422.27
Marine (Hull)	1127.11	956.30	863.00	792.23	675.05	815.87

Aviation	447.64	419.01	447.00	428.53	407.39	556.09
Engineering	2495.64	2339.28	2372.00	2294.37	2233.61	2468.07
Motor Own Damage	17768.02	18019.14	21325.00	23728.09	26327.33	26487.50
Motor Third Party	15873.40	19547.21	20989.00	26522.52	32918.76	38034.82
Liability Insurance	1253.47	1353.72	1562.00	1892.61	1972.34	2382.22
Personal Accident	1822.53	2163.34	2613.00	3645.74	4390.31	-
Health Insurance	17204.06	19800.17	24372.00	30329.75	36997.83	-
Overseas Medical Insurance	434.76	489.85	530.00	586.83	680.69	-
Crop Insurance	4610.75	6247.74	5551.00	20097.29	25322.41	27613.93
Credit Insurance	1429.32	1494.09	1512.00	1442.74	1476.99	1525.21
Miscellaneous	3501.58	1736.92	3414.00	4705.00	4260.15	4548.32
<b>Grand Total</b>	<b>77402.90</b>	<b>84684.87</b>	<b>96379.00</b>	<b>128128.36</b>	<b>150662.14</b>	<b>118520.91</b>

**Source : Handbook of Indian Insurance Statistics 2018-19.**

The Process of Underwriting, in a technical sense comprises the following steps such as :

- (i) Assessment and evaluation of hazard and risk in terms of frequency and severity of loss
- (ii) Formulation of policy coverage and terms and conditions
- (iii) Fixing the rates of premium.

As per guidelines, the company has to process the proposal within 15 days' time. The agent is expected to keep track of these timelines, follow up internally and communicate with the prospect / insured as and when required by way of customer service. This entire process of scrutinizing the proposal and deciding about acceptance is known as "*Underwriting*".

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## **2.10 LET US SUM UP**

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The Fire Insurance policy offers protection against any unforeseen loss or damage to/destruction of property due to fire or other perils covered under the policy. The different types of property which could be covered under a Fire Insurance Policy are (a) Dwellings, (b) Offices, (c) Shops, (d) Hospitals, (e) Places of worship and (f) their contents Industrial/Manufacturing risks and contents such as (i) Machinery, (ii) Plants, Equipment and (iii) accessories; (iv) Goods including (1) Raw material, (2) Material in process, (3) Semi-Finished goods, (4) Finished goods, (5) Packing materials etc in factories, (6) Godowns and (7) Stock in the open; utilities located outside

industrial/manufacturing risks; (8) storage risks outside the compound of industrial risks;(9) tank farms/gas holders located outside the compound of industrial risks etc.

“The Hazards are not only themselves the cause of the loss, but they can increase or decrease the effect; should a peril operate. The consideration of hazard is important when an insurance company is deciding whether or not it should insure some risk and what premium to charge. So, a hazard is a condition that creates or increases the chance of loss. The Physical hazard relates to the physical characteristics of the risk, such as (a) the nature of construction of a building, (b) security protection at a shop or factory, or the proximity of houses to a riverbank. Therefore, the physical hazard is a physical condition that increases the chances of loss. Thus, if a person owns an older building with defective wiring, the defective wiring is a physical hazard that increases the chance of a fire. The example of physical hazard is a slippery road after the rains. Further, if a motorist loses control of his car on a slippery road and collides with another motorist, the slippery road is a physical hazard while collision is the peril, or cause of loss”.

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## 2.11 KEY TERMS

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- ❖ **Underwriting in Insurance:** “It means acceptance of risk on a proposal for insurance cover. It is the decision of the insurer to accept or reject or postpone or make a counter-offer after assessment of the risk on the Proposal for insurance cover submitted by a customer”.
- ❖ **Physical Hazards:** “These are hazards that affect the physical characteristics of whatever is being insured. For example a building made of wood represents a higher level of physical hazard than one made of brick”.
- ❖ **Moral Hazards:** “The hazards refer to the defects that exist in a person’s character that may increase the frequency or the severity of loss. Further, such a character may tend to increase the loss for the company taking a policy of insurance with an intention to cheat or commit fraud”.
- ❖ **Financial Hazards:** If the value of the risk is beyond the capacity of the insurer she/ he may reject the risk, or share the same.
- ❖ **Morale hazard:** “This hazard refers to the attitude of the insured which is reflected through his behaviour because of existence of insurance towards his belongings. For example, an insured may take minimum/no precaution of safety because she/ he knows she/ he has insurance policy. For example, the leaving the house unlocked, leaving the keys in the car, reflects carelessness or indifference to loss due to existence of insurance policy”.

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## 2.12 SELF- ASSESSMENT QUESTIONS

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1. Discuss the Subject Matter of Fire Insurance?
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2. How claim Procedure can maintain in the Fire Insurance ?  
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3. Meaning of Underwriting? How Underwriting performs his task?  
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### **2.13 FURTHER READINGS**

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- ✓ Principles of Insurance Law, M. N. Srinivasan, Wadhwa and Company.
- ✓ Insurance Law and Practice, Rajiv Jain, Vidhi Publication Private Limited.
- ✓ Insurance Manual, Taxmann , Taxmann Publication Private Limited.
- ✓ Manual of insurance Laws, Bharat , Bharat Publication Private limited.
- ✓ Law of Insurance, Avtar Singh , Universal Publication Private Limited.
- ✓ Journal of Insurance Institute of India, Various Issues.

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### **2.14 MODEL QUESTIONS**

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- ❖ What about General Exclusions and Add On Covers of Fire Insurance?
- ❖ What are tools and Procedure of Underwriting ?

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## **UNIT-3 FIRE CONSEQUENTIAL LOSS INSURANCE**

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### **Structure**

- 3.0 Learning objectives
- 3.1 Introduction
- 3.2 How Consequential Loss Insurance Functions?
- 3.3 Eligibility Criteria for Consequential Loss of Insurance Policy.
- 3.4 Claim process for Consequential loss Insurance.
- 3.5 Documents Required for Claim Process.
- 3.6 Exclusions under Consequential Loss Insurance.
- 3.7 Advantages of Consequential Loss Insurance.
- 3.8 Fire Insurance Coverage.
- 3.9 Some Important Points Relating to Exclusions.
- 3.10 Standard Policy coverage as Per Tariff Advisory Committee.
- 3.11 Common Fire Hazards.
- 3.12 Fire Safety
- 3.13 Fire Prevention.
- 3.14 Let us sum up
- 3.15 Key Terms
- 3.16 Self – Assessment Questions
- 3.17 Further Readings
- 3.18 Model Questions

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### **3.0 LEARNING OBJECTIVES**

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After reading this unit you will understand:

- 7. Understand the Fire Consequential Loss Insurance.
- 8. Know the advantages, claim Process. Coverage of Fire Insurance..
- 9. Know Common Fire Hazards, Fire Safety and Prevention.

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### **3.1 INTRODUCTION**

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Fire Insurance means insurance against any loss caused by fire. Fire insurance is a contract whereby the insurer, in consideration of the premium paid, undertakes to compensate the insured for any loss that may result due to the occurrence of fire. Consequential Loss insurance covers loss of profit upon business interruption due to fire or other extended perils covered under the Standard Fire policy. The insurance policy provides coverage against various kinds of business loss.

Consequential losses: The consequential losses/risks are those that have been created by the fire. Such risks are also known as “*Loss of Profit/ loss*”. When fire takes place in a factory, not only are its assets/properties (machine, raw material, finished goods,

building etc ) damaged or lost, but the production work in the factory is also held up for a considerable time. Consequently, the profits from the factory are stopped, but the burden of fixed costs and additional expenses continues to incur.

**Thus, the following Types of Losses are included in Consequential Losses:**

- ❖ Loss of net profit.
- ❖ Loss of fixed expenses such as Salaries to Employees, Building Rent, Interest on loans, and so on.
- ❖ Increased Cost on account of problems arising out of fire.
- ❖ Rent of the building taken on hire, till the time of getting the damaged building repaired or renovated, and so.

On all these types of losses can be included in the comprehensive scope of fire insurance policy; the premiums of such policies are much higher than the ordinary policies.

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### **3.2 HOW CONSEQUENTIAL LOSS INSURANCE FUNCTIONS?**

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“The Fire Insurance contract may be defined as an agreement between the insurers and the insured whereby the insurers having received premium, undertake to make good the financial loss, (subject to the limit of a specified amount) suffered by the insured as a result of damage or destruction of the insured property by fire or other specified perils, during a stipulated period”.

Insurance company will consider Annual gross profit, indemnity period selected and extensions selected while calculating the premium for consequential loss insurance. In case of misfortune due to fire or special perils, resulting in loss of income or revenue or increased fixed cost covered under the policy, a policyholder must immediately call the toll-free number of the insurance company and register the case. Licensed surveyor is appointed to survey the case and the documents and for proper evaluation of loss to the organisation. At the end, insurance company analyses the Final Survey Report (FSR) submitted by the Surveyor, and compensates the organization for the consequential loss subject to the terms and conditions.

**It is a condition under Fire Consequential Loss of profit Policy that to lodge a claim under LOP Policy there has to be a valid claim under the base Standard Fire Policy, without which Claim under Consequential Loss Policy shall not hold ground. This is a condition precedent.**

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### **3.3 ELIGIBILITY CRITERIA FOR CONSEQUENTIAL LOSS INSURANCE POLICY**

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Consequential Loss insurance policy is meant for:

- (a) SMEs

- (b) Corporate. who need protection for their business against uncontrollable situations that can devastate property and businesses

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### **3.4 CLAIM PROCESS FOR CONSEQUENTIAL LOSS INSURANCE**

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The “Loss or damage” occasioned by fire, means loss or damage either by ignition of the articles consumed by fire or by damage either by ignition of the articles caused or by ignition of that part of the premises, where the article exists. Further, below is the claim process which an organization needs to follow for settling claim under Consequential Loss Insurance such as follows:

- (a) Call the Toll-Free Number of the insurance company and register the case.
- (b) To validate the authenticity of the policyholder, a policyholder gives details like policy number, name of the organization, nature of the claim etc. to the insurance company.
- (c) Meanwhile, Insured should initiate loss minimisation measures.
- (d) Once the verification process is complete, they will send an IRDA licensed surveyor to attend the scene for proper evaluation and finalisation of loss.
- (e) Insurance company or the Surveyor may request for documentation and records like proof of reduction in turnover, revenue, or production output of the organisation.
- (f) After a thorough investigation by the Surveyor and receipt of all relevant proofs and records, the Surveyor submits a Final Survey Report (FSR) to the insurance company.
- (g) The insurance company analyses the Final Survey Report(FSR) of the Surveyor, check records and proofs, and validates the terms of the policy document before calculating the financial loss and the claim amount to be given.
- (h) The insurance company then compensates the organization for the consequential loss as per the terms and conditions of the policy document and internal guidelines.

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### **3.5 DOCUMENTS REQUIRED FOR CLAIM PROCESS**

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- (a) Duly signed in Claim Form
- (b) Standing Charges Document
- (c) Supplier Invoices
- (d) Additional Expenditure Report necessarily incurred to maintain business operation

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### **3.6 EXCLUSIONS UNDER CONSEQUENTIAL LOSS INSURANCE**

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Certain situations are not covered by consequential loss insurance. Some of the general exclusions under consequential loss insurance are:

- a) Any loss of gross profits due to fire or special perils which are not covered in the policy and that result in the damage to the business property.

- b) Any loss due to material damage to the organization’s property.
- c) Loss of goodwill and any third-party claims generating out of the unfortunate events.
- d) Claim due to war, invasion, act of foreign enemy.

Fire insurance is a contract by which the insurer undertakes for a consideration, to indemnify the insured against the consequences of fire, or the loss or injury as arising there from during an agreed period and up to a certain amount. The subject matter of fire insurance which may be of any kind of movable and immovable property having pecuniary value. The following table provides a profile of fire insurance products.

1.	<b>Specific Policy</b>	“The Insurer undertakes to make good the loss up to the amount specified in the policy, irrespective of the value of the property”.
2.	<b>Valued Policy</b>	“The valued policy is only applicable the value of the property such as works of “Art”, “Sculptures”, etc which is not easy to determine”.
3.	<b>Average Policy</b>	“A policy containing average clause is called average policy under this policy, the insured is penalised for under-insurance”.
4.	<b>Floating Policy</b>	“The Cover loss on goods which are lying in different places. This policy is useful when the insured is in a position to declare only the total value at risk and not separate values in separate risks”.
5.	<b>Replacement Policy</b>	“This policy is issued in respect of buildings, plant and machinery, furniture, etc. Insurer undertakes to pay the cost of replacing the property destroyed by fire”.
6.	<b>Declaration Policy</b>	“When the stock levels of inventories subject to frequent fluctuations in value or in volume, the insured takes a policy for a maximum expected amount under this policy. Every month the insured must declare in writing the stock covered under the policy to the insurance company. At the end the premium is adjusted accordingly.”
7.	<b>Adjustable Policy</b>	“It is granted to the overcome the difficulty of declaration on policy. The premium is adjustable pro-data according to the variation of the stock”.
8.	<b>Consequential Policy</b>	“Under this policy the insurer agrees to indemnify the insured for the loss of profits due to dislocation of business as a result of fire.”

**Table : stated Incurred Claims Ratio during 2013-14 to 2018-19.(in Percent)**

Particulars	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
<b>Fire</b>	76.54	73.78	74.44	84.38	82.35	90.48
<b>Marine</b>	63.37	67.44	72.05	74.98	65.30	84.48

<b>Motor</b>	79.50	77.14	81.18	88.17	83.45	90.60
<b>Health</b>	97.05	96.93	98.46	101.05	92.21	89.34
<b>Others</b>	72.96	73.91	75.91	81.91	78.90	82.88
<b>Total- All Segments</b>	81.98	81.70	85.06	90.91	85.26	89.16

**Source: Hand book of Insurance 2020**

### **Important Aspects**

- (a) It is advisable for an organisations to go through the policy details and specific exclusions of the policy before choosing one
- (b) For an adequate sum insured, profit projection must be made one year beyond the indemnity period in case damage occurs at the end of the period of insurance.

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### **3.7 ADVANTAGES OF CONSEQUENTIAL LOSS INSURANCE**

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1. This policy covers financial turnover losses due to fire in the company premises which is not covered by other standard insurance policies.
2. Some insurance companies also provide coverage to the gross profits and fixed costs in case the business is not able to meet its targets due to fire or other perils.
3. Additional expenditure incurred to maintain normal business activity during the period in which the business is affected is also covered.
4. Compensation to the employees due to layoffs or retrenchment.
5. This policy covers the risks which may arise due to the inability to use the business premises for product or service delivery resulting in a loss in profits.
6. Some insurance companies provide Rider options that cover power failures or inability to use public utilities after a fire in the insured property which may result in the halt of business operations.

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### **3.8 FIRE INSURANCE COVERAGES**

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#### **Standard Fire Policy**

The fire insurance policy has been nomenclature Section II of the All-India Fire Tariff as Standard Fire and Special Perils Policy. The standard risks covered, add-on covers, exclusions, conditions as prescribed by the tariff are described as follows:

#### **(A) Standard Risks**

1. **Fire-** Destruction or damage to the property insured by its own fermentation, natural heating or spontaneous combustion or its undergoing any heating or drying process cannot be treated as damage due to fire. For example, paints or chemicals in a factory undergoing heat treatment and consequently damaged by fire is not covered. Further, breach of property insured by order of any Public Authority is excluded from the scope of cover.

2. **Lightning-** Lightning may result in fire damage or other types of damage, such as a roof broken by a falling chimney struck by lightning or cracks in a building due to a lightning strike. Both fire and other types of damages caused by lightning are covered by the policy.
3. **Explosion/Implosion-** Explosion which is defined as sudden, violent burst with a loud report. The explosion is caused inside a vessel when the pressure within the vessel exceeds the atmospheric pressure acting externally on its surface. The explosion may cause fire damage or concussion damage. An implosion means bursting inward or collapses. This takes place when the external pressure exceeds the internal pressure. This policy, however, does not cover destruction or damage caused to the boilers (other than domestic boilers), economisers or other vessels in which steam is generated and machinery or apparatus subject to centrifugal force by its own explosion/implosion. These risks can be covered in a Boiler and Pressure Plant Insurance Policy, which is specially designed to handle these risks.
4. **Aircraft Damage-** The loss or damage to the property by fire or otherwise directly caused by aircraft and other aerial devices and/or articles dropped there from is covered. However, destruction or damage resulting from pressure waves caused by aircraft travelling at supersonic speed is excluded from the scope of the policy.
5. **Riot, Strike, Malicious and Terrorism Damage-** “The act of any person taking part along with others in any disturbance of public peace (other than war, invasion, mutiny, civil commotion, etc.) is construed to be a riot, strike or a terrorist activity. *Any loss or physical damage to the property insured directly caused by such activity or by the action of any lawful authorities in suppressing such disturbance or minimising its consequences is covered.* Further, the wilful act of any striker or locked out worker, in connection with a strike or a lockout, or the action of any lawful authority in suppressing such act, resulting in visible physical damage by external means, is also covered. *The Malicious act would mean an act with malicious intent but excluding omission of any kind by any person, resulting in visible physical damage to the insured property, whether or not the act is committed in the course of disturbance of public peace or not.* The Burglary, housebreaking, theft or larceny does not constitute a malicious act for the purpose of this cover. The total or partial cessation of work or the retarding or interruption or cessation of any process or operations; or, permanent dispossession resulting from confiscation, commandeering, requisition or destruction by order of the Government or any lawfully constituted authority; or permanent or temporary dispossession of any building or plant or unit or machinery resulting from the unlawful occupation by any person of the same or prevention of access to the same, are not covered”.

- 6. Storm, Cyclone, Typhoon, Tempest, Hurricane, Tornado, Flood and Inundation-** The “Storm Cyclone”, “Typhoon”, “Tempest”, “Tornado” and “Hurricane” are all various types of violent natural disturbances that are accompanied by thunder or strong winds or heavy rainfall. The Flood or inundation occurs not only be understood in the common sense of the terms, i.e., flood in river or lakes, but also accumulation of water due to choked drains would be deemed to be flood.
- 7. Impact Damage-** This impact by any railroad vehicle or animal by direct contact with the insured property is covered. However, such vehicles or animals should not belong to or owned by the insured or any occupied of the premises or their employees while acting in the course of their employment.
- 8. Subsidence and Landslide including Rockslide-** “The destruction or damage caused by subsidence of part of the site on which the property stands or landslide/rockslide is covered. While, *Subsidence means sinking of land or building to a lower level, landslide means sliding down of land usually on a hill.* However, “normal cracking settlement” or “bedding down of new structures”; “settlement or movement of made up ground; coastal or river erosion”; “defective design or workmanship or use of defective materials”, and “demolition”, “construction”, structural alterations or repair of any property or ground works or excavations, are not covered”.
- 9. Overflowing of Water Tanks, Apparatus and Pipes-** The Loss or damage to property by water or otherwise on account of bursting or accidental overflowing of water tanks, apparatus and pipes is covered.
- 10. Missile Testing Operations-** The destruction or damage due to impact or otherwise from trajectory projectiles in connection with missile testing operations by the insured of anyone else, is covered.
- 11. Leakage from Automatic Sprinkler Installations-** The damage caused by water accidentally discharged or leaked out from automatic sprinkler installations in the insured's premises is covered. However, such destruction or damage caused by repairs or alterations to the buildings or premises; repairs removal or extension of the sprinkler installation, and defects in construction known to the insured are not covered.
- 12. Bush Fire-** This covers damage caused by burning, whether accidental or otherwise, of bush and jungles and the clearing of lands by fire, but excluding destruction or damage caused by forest fire.

The policy may be extended to cover earthquake, fire and shock; deterioration of stock in the cold storages following power failure as a result of insured peril, additional

expenditure involved in removal of debris, architect, consulting engineers' fee over and above the amount covered by the policy, forest fire, spontaneous combustion and impact damage due to own vehicles. In case of a partial loss, Insurance Company shall effect payment for repairs and replacement. In case of policy with reinstatement value clause, cost of reinstatement will be paid on completion of reinstatement subject to overall limit of the sum insured. Insurance company may at its option, also repair or replace the affected property instead of paying for the cost of restoration.

## **(B) Exclusions**

This policy does not cover:

1. 5 per cent of each and every claim resulting from lightning/storm/tempest/flood/ inundation/subsidence and landslide including rockslide covered under the policy.
2. Loss destruction or damage caused by war, invasion, act of foreign enemy hostilities or war-like operations (whether war is declared or not), civil war, mutiny, civil commotion assuming the proportions of or amounting to a popular rising, military rising, rebellion, revolution, insurrection or military or usurped power.
3. Loss, destruction or damage directly or indirectly caused to the property insured by:
  - a) Ionising radiations or contamination by radioactivity from any nuclear fuel or from any nuclear waste from the combustion of nuclear fuel.
  - b) The radioactive toxic, explosives or other hazardous properties of any explosive nuclear assembly or nuclear component thereof.
4. Loss, destruction or damage caused to the insured property by pollution or contamination excluding:
  - a) Pollution or contamination which itself results from a peril hereby insured against.
  - b) Any peril hereby insured against which itself results from pollution or contamination.
5. Loss, destruction or damage directly to bullion or unset precious stone, any curious or work of Art for an amount exceeding Rs. 1,000, manuscripts plans , drawings, securities, obligations or documents of any kind stamps, coins or paper money, cheques, books of accounts or other business books, computer systems, records, explosives unless otherwise expressly stated in the policy.
6. Loss, destruction or damage to the stocks in cold storage premises caused by change of temperature.
7. Loss, destruction or damage to any electrical and/or electronic machine, apparatus, fixture or fitting (excluding fans and electrical wiring in dwellings) arising from or occasioned by over-running, excessive pressure, short-circuiting, arcing, self heating, or leakage of electricity, from whatever cause (lightning included).
8. Expenses necessarily incurred on: (i) Architect's surveyor's and consulting engineer's fees and (ii) Debris removal by the insured following a loss,

destruction or damage to the property insured by an insured peril in excess of 3 per cent and 1 per cent of the claim amount, respectively.

9. Loss of earnings, loss by delay, loss of market or other consequential or indirect loss or damage or any kind or description whatsoever.

The clauses covered above are subject to the normal general conditions of the insurance company.

### **(C) Add-on Covers**

The insurers can issue the standard fire policy as per the New Fire Tariff along with added benefits at the option of the policy holders by charging additional premium.

These added benefits or add-on covers are as follows:

- Architect's, surveyor's and consulting engineer's fees (in excess of 3 per cent claim amount).
- Debris removal (in excess of 1 per cent of claim amount).
- Deterioration of stocks in cold storage premises due to power failure following damage due to an insured peril.
- Forest fire.
- Impact damage due to insured's own vehicles, forklifts and the like and articles dropped therefrom.
- Spontaneous combustion.
- Omission to insure additions, alterations or extensions.
- Earthquake (fire and shock) as per minimum rates and excess applicable as specified in the tariff.

In respect of the above add-on covers, the insurance company will compulsorily deduct 5 per cent of each claim before paying the claim proceeds to the insured.

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## **3.9 SOME IMPORTANT POINTS RELATING TO EXCLUSIONS**

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The standard policies exclude certain perils from the scope of cover. The main reasons for the exclusions are:

- (i) To restrict the cover to normal coverage required by the typical or average insured. Personal Accident Policy which provides for the agreed benefits to be paid under certain specified contingencies, does not cover medical expenses, which can be included on payment of an additional premium. Similarly, Workmen Compensation Policy indemnifies the insured against his liability at law to his direct employees, and provides for the insured legal liability to employees of subcontractor to be included by payment of premium at a tariff rate on the wages payable to workmen of subcontractor. Similarly, policy can be extended to cover medical expenses, and the diseases specified in Part III of the Schedule C on payment of an additional premium.

- (ii) To exclude loss which are of an extraordinary or catastrophic nature, e.g., the earthquake peril for locations involving storage of materials, and industrial/manufacturing risk. In view of concentration of material, property involving huge sum insured, perils of earthquake, and/or flood, etc. Could cause losses which might assume proportion of a catastrophe. While for residences, offices, shops and for tiny sector, etc., these perils (of earthquake and flood, etc.) are offered as in-built perils, as for these risks, perils of earthquake and flood may not cause catastrophic losses.
- (iii) To precisely define and clarify the scope of cover. For example, to prevent disputes in the event of a loss which is akin to fire but is not within the meaning of the policy, spontaneous combustion is excluded under fire policy.
- (iv) To exclude risks which may be accepted after obtaining more underwriting information or arranging inspection, e.g., flood proceeds to the insured. policy, and cover for exports under products' liability policy.
- (v) To exclude losses which are convertible under other policies. This eliminates duplication of coverage. For example, the general public liability policy excludes liability arising out of the use of motor vehicle, because a Motor Third Party policy is available. Similarly, Plate Glass Policy does not cover loss of or damage by fire, which can be covered separately under a Fire Insurance Policy.
- (vi) To exclude risks which cause losses of high degree of frequency, e.g., the risks of larceny under Burglary (Business Premises) Policy, and shortages, which are discovered at periodic stock taking.
- (vii) To exclude loss, which are inevitable, e.g., suicide under personal accident policies.
- (viii) To exclude losses, which are inevitable, e.g., wear and tear and depreciation under motor policies and 'inherent vice' under marine cargo policies.
- (ix) To exclude losses which are commercially uninsurable, e.g., war and nuclear risks.
- (x) The standard policies may also exclude certain classes of property from the coverage. For example, the fire policy excludes certain classes of property, e.g., documents, coins, paper money, books of account, unless expressly stated in the policy. The intention is to ascertain the existence of such property and, if necessary to include certain classes of property in the coverage subject to special terms and conditions. Similarly, curios, works of art, paintings can be covered after obtaining valuation report, from the

Director of Museum and stamps collection can be covered on production of valuation certificate from philatelic society.

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### **3.10 STANDARD POLICY COVERAGES AS PER TARIFF ADVISORY COMMITTEE**

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The Tariff Advisory Committee has prescribed three types of fire coverages, viz., Policy A, Policy B and Policy C.

#### **Policy A**

Fire Policy A covers the following perils - (i) fire, (ii) lightning (iii) explosion/implosion, (iv) impact damage, (v) aircraft damage, (vi) riot strike and malicious and terrorist damage, (vii) storm, cyclone tempest, hurricane, tornado, flood and inundation, (viii) earthquake, (ix) sub-sidence and landslide (including rockslide).

Only Policy A can be issued to cover artisans' workshops, biogas plants, village and cottage industries, tiny sector or small scale industries.

#### **Policy B**

Fire Policy B covers the perils - (i) fire, (ii) lightning, (iii) explosion/implosion, (iv) impact damage, (v) aircraft damage, (vi) riot, strike and malicious and terrorist damage. (The cover is similar to Policy C).

The tariff permits exclusion of riot, strike and malicious and terrorist damage and perils, with specified reduction in the premium rate under the policy.

#### **Policy C**

Fire Policy (Policy 'C') is issued to cover industrial/manufacturing risks and storage risk and covers - (i) fire, (ii) lightning (iii) explosion/implosion, (iv) impact damage, (v) riot, strike and malicious and terrorist damage.

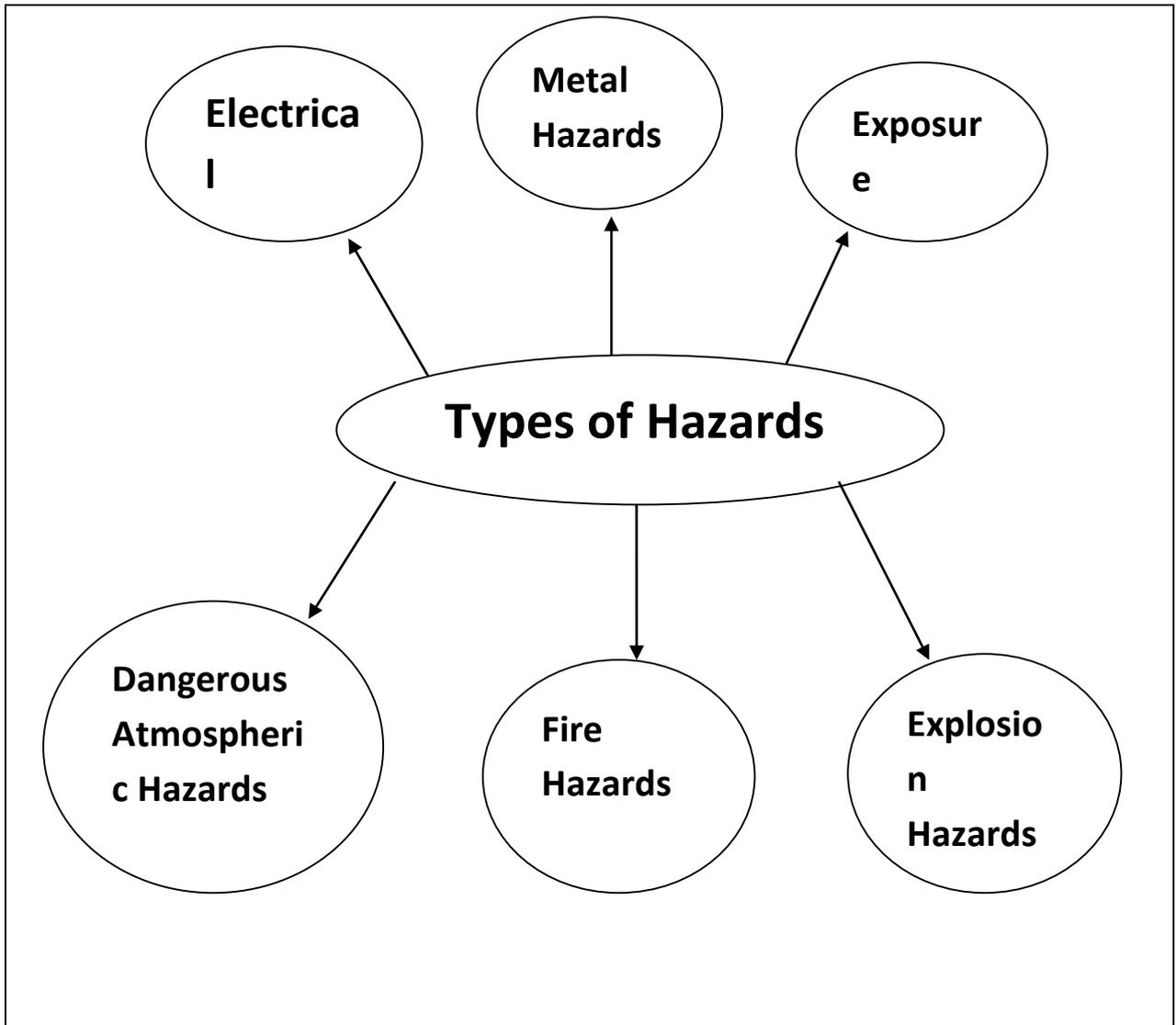
The riot, strike and malicious and terrorist damage perils can be excluded on specific request with an agreed reduction in the premium rate.

The Fire Policy C may be extended to cover special perils on payment of extra premium. These special perils are:

- (a) Spontaneous combustion
- (b) Earthquake (shock and fire)
- (c) Storm tempest, flood and inundation
- (d) Subsidence and landslide
- (e) Accidental leakage or contamination of oil
- (f) Spoilage of stock/machinery due to interruption of process of manufacture by insured perils
- (g) Deterioration of stocks due to power failure following damage to premises of public power stations

- (h) Bursting/overflowing of water tanks, apparatus and pipes
- (i) Sprinkler leakage
- (j) Bush or forest fire
- (k) Subterranean fire A
- (l) Missile testing operations cover.

Fire Policy A and B (Simple Risks): Fire Policy A and B are issued in respect of dwellings, offices, hotels and shops, educational institutions, etc.



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### 3.11 COMMON FIRE HAZARDS

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#### The following Hazards such as follows:

- (a) **Physical Hazards** : It means due to the inherent risk of the fire in the property which may be on account of the situation, inflammable nature, constructions artificial lighting and heating, lack of the fire extinguishing is a appliances, etc. Fire insurance, provides protections to the property against the occurrence of fire, an unavoidable physical hazard.
- (b) **Moral Hazards**: It refers to the wilfull and malicious setting on fire of on the property by the owners or somebody else. Moral hazard may be in anyone of the following forms:
- **In Cendiarism**: It refers to the deliberate destruction of one's own property by fire. Some insured indulge in such activities to realize the insured amount from the insurer.
  - **Arson**: It refers to setting on fire the property of the insured by the some other persons. Some persons may set fire to property of others with a view to getting a reward for information about the break out of the fire or assisting in extinguishing it.
  - **Passive Dishonesty**: It refers to the wilfully neglect by the insured to take proper action for extinguishing fire and his carelessness during the occurrence of fire.

#### Some common Fire Hazards are:

- (A) Kitchen fires from unattended cooking, such as frying, broiling, and simmering.
- (B) Electrical systems that are overloaded, resulting in hot wiring or connections, or failed components.
- (C) Combustible storage areas with insufficient protection.
- (D) Combustibles materials near equipment that generates heat, flame, or sparks.
- (E) Candles and other open flames or Smoking (Cigarettes, cigars, pipes, lighters, etc.).
- (F) Equipment that generates heat and utilizes combustible materials
- (G) Flammable liquids and aerosols.
- (H) Flammable solvents (and rags soaked with solvent) placed in enclosed trash cans near Fireplace chimneys not properly or regularly cleaned.
- (I) Cooking appliances - stoves, ovens.
- (J) Heating appliances - fireplaces, wood burning stoves, furnaces, boilers, portable heaters.
- (K) Household appliances - clothes dryers, curling irons, hair dryers, refrigerators, freezers.
- (L) Chimneys that concentrate creosote.
- (M) Electrical wiring in poor condition.
- (N) Batteries.
- (O) Personal ignition sources - matches, lighters.
- (P) Electronic and electrical equipment.

(Q) Exterior cooking equipment – Barbecue.

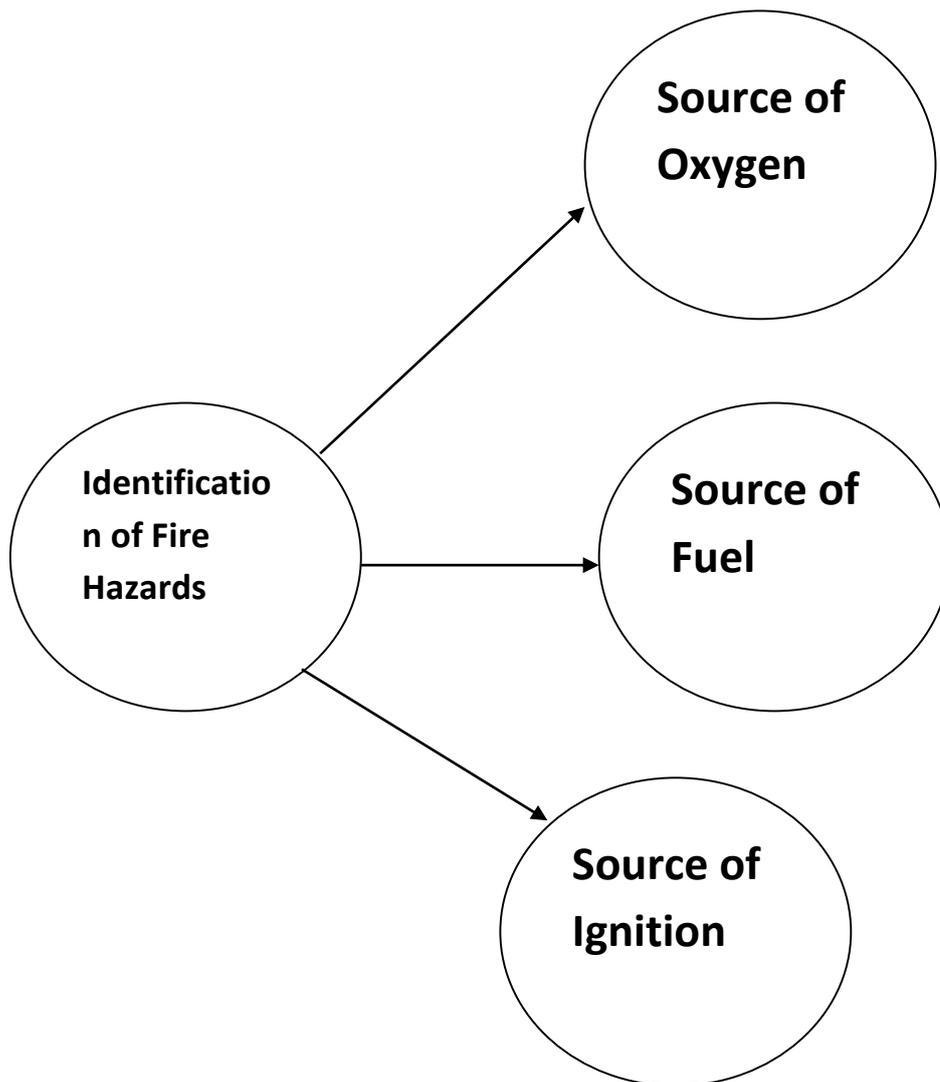
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### **3.12 FIRE SAFETY**

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Fire safety refers to precautions that are taken to prevent or reduce the likelihood of a fire that may result in death, injury, or property damage, alert those in a structure to the presence of an uncontrolled fire in the event of one occurs, better enable those threatened by a fire to survive in and evacuate from affected areas, or to reduce the damage caused by a fire. Fire safety measures include those that are planned during the construction of a building or implemented in structures that are already standing, and those that are taught to occupants of the building. Threats to fire safety are referred to as fire hazards. A fire hazard may include a situation that increases the likelihood of a fire may start or may impede escape in the event a fire occurs.

Fire safety is often a component of building safety. Those who inspect buildings for violations of the Fire Code and go into schools to educate children on Fire Safety topics are fire department members known as fire prevention officers. The Chief Fire Prevention Officer or Chief of Fire Prevention will normally train newcomers to the Fire Prevention Division and may also conduct inspections or make presentations.



### **The Element of a Fire safety Policy**

- (a) Building a facility in accordance with the version of the local building code.
- (b) Maintaining a facility and conducting mock exercises in accordance with the provisions of the fire code. This is based on the occupants and operators of the building being aware of the applicable regulations and advice.
- (c) Not exceeding the maximum occupancy within any part of the building.
- (d) Maintaining proper fire exits and proper exit signage (such as exit signs pointing to them that can function in a power failure)
- (e) Compliance with electrical codes to prevent overheating and ignition from electrical faults or problems such as poor wire insulation or overloading wiring, conductors, or other fixtures with more electric current than they are rated for.
- (f) Placing and maintaining the correct type and need based fire extinguishers in easily accessible places.
- (g) Properly storing and using, hazardous materials that may be needed inside the building for storage or operational requirements.
- (h) Prohibiting storage/placement of flammable materials in certain areas of the facility.

- (i) Regularly/ Periodically inspecting buildings for violations, issuing Orders to Comply and, potentially, prosecuting or closing/ nearby buildings that are not in compliance, until the deficiencies are corrected or condemning it in extreme cases.
- (j) Maintaining fire alarm systems for detection and warning of fire.
- (k) Obtaining and maintaining a complete/ full inventory of fire tops.
- (l) Ensuring that spray fireproofing remains undamaged.
- (m) Maintaining a high level of training/ skill and awareness of occupants and users of the building to avoid obvious mistakes, such as the propping open of fire doors.
- (n) Conduct fire drills at regular intervals throughout the year.

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### **3.13 FIRE PREVENTION**

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A fire needs three elements – Ignition , oxygen and fuel. Without Ignition, oxygen and fuel a fire will not start or spread. A key strategy to prevent fire is to remove one or more of Ignition, oxygen or fuel. The risk assessment should include detail on all three elements to minimise the risk of a fire starting/ spreading.

**(I) Ignition Safeguards:**

- Ensure employees are aware of their responsibility to report dangers.
- Control sources of ignition.
- Have chimneys inspected and cleaned regularly.
- Treat independent building uses, such as an office over a shop as separate purpose groups and therefore compartmentalise from each other.
- Ensure cooking food is always attended.
- Use the Electricity Supply Board's Safety webpage.
- Have regard to relevant Authority Safety Alerts, e.g. Mobile Phone "Expert XP-Ex-1", Filling LPG Cylinders.
- Use the Code of Practice For Avoiding Danger From Underground Services.

**(II) Oxygen Safeguards:**

- Ensure employees are aware of their responsibility to report dangers.
- See safeguards in the Code of Practice for Working in Confined Spaces.
- Be aware of the dangers of oxygen if in doubt, ask.
- Prevent oxygen enrichment by ensuring that equipment is leak-tight and in good working order. Check that ventilation is adequate
- Always use oxygen cylinders and equipment carefully and correctly. Always open oxygen cylinder valves slowly.
- Do not smoke where oxygen is being used.
- Never use replacement parts which have not been specifically approved for oxygen service.
- Never use oxygen equipment above the pressures certified by the manufacturer
- Never use oil or grease to lubricate oxygen equipment.

- Never use oxygen in equipment which is not designed for oxygen service.

### **(III) Fuel Safeguards**

- Ensure employees are aware of their responsibility to report dangers.
- Follow the Authority's advice on LPG.
- Follow the Authority's advice on explosive.
- Use the Code of Practice For Avoiding Danger From Underground Services.
- Ensure furnishings and fittings in places of assembly comply with the Code of Practice for Fire Safety of Furnishings and Fittings in Places of Assembly.
- Permit no timber lining on ceiling, corridor walls/ ceilings or stairways.
- Take care of placing notice boards in escape corridors/ routes as any paper on the board could be fuel in the event of a fire.
- Where there is a possibility of the presence of flammable gas/ vapour, conduct a full risk assessment and consider the need for gas detection equipment.
- Where gas detection equipment is needed, ensure it is properly installed, maintained and serviced.

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## **3.14 LET US SUM UP**

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Fire Insurance: is a contract whereby the person, seeking insurance protection, enters into a contract with the insurer to indemnify him against loss of property by or incidental to fire or lightning, explosion and so on. Consequential Loss Fire Insurance offers a solution by covering profit lost due to reduction in turnover arising from interruption of business following damage to the property insured.

This Policy can be taken only in conjunction with a Standard Fire and Special Perils Policy. This Policy is also known as Business Interruption Policy or Loss of Profit Policy. Consequential Loss may arise due to: (a) loss of gross profit due to reduction in turnover/output; (b) Increase in cost of working; This is the additional expenditure that has to be incurred in order to avoid or diminish the reduction in turnover following a loss payable under the Fire (Material Damage) Policy.

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## **3.15 KEY TERMS**

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**Fire Consequential Loss Insurance:** covers loss of profit upon business interruption due to fire or other extended perils covered under the Standard Fire policy.

**Turnover: Turnover:** It is the money paid or payable to insured for goods sold and delivered and for services rendered in course of business at premises.

**Indemnity Period:** Indemnity period is the period commencing with date of damage during which business is affected by damage but limited to number of months selected by insured and inserted.

**Standard Turnover:** As its name implies, standard turnover is the standard against which comparison is to be made in order to ascertain the shortage in turnover during the period in 12 months immediately before date of damage which corresponds with indemnity period.

**Gross Profit:** This is the net profit added to the amount of the insured standing charges. If there is no net profit, the amount of the Insured Standing Charges less such a proportion of the net trading loss as the amount of the Insured Standing Charges bears to all the Standing charges of the business, will be the basis of Indemnity.

**Rate of Gross Profit:** defined as that earned during the financial year immediately before the date of the damage. However, with most businesses, either they are making progress or they are losing ground. Provision must therefore be made to allow adjustments to the results of the previous completed financial year. Such adjustment proviso is bracketed against the rate of gross profit, annual turnover, and standard turnover, which three definitions cover all the essential factors in calculating the loss.

**The Insurance Policy:** provides coverage against various kinds of business loss.

**Consequential losses:** The consequential losses/risks are those that have been created by the fire. Such risks are also known as “Loss of Profit/ loss”.

**Explosion:** is defined as a sudden, violent burst with a loud report. An explosion is caused inside a vessel when the pressure within the vessel exceeds the atmospheric pressure acting externally on its surface.

**The Tariff Advisory Committee:** has prescribed three types of fire coverage, viz., Policy A, Policy B and Policy C.

**Fire Safety:** refers to precautions that are taken to prevent or reduce the likelihood of a fire that may result in death, injury, or property damage, alert those in a structure to the presence of an uncontrolled fire in the event one occurs, better enable those threatened by a fire to survive in and evacuate from affected areas, or to reduce the damage caused by a fire.

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**3.16 SELF-ASSESSMENT QUESTIONS**

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- 1) Discuss How Consequential Loss Insurance Functions, Eligibility Criteria for Consequential Loss of Insurance Policy and Claim process documents for Consequential loss Insurance?

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- 2) What are Advantages of Consequential Loss Insurance?

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- 3) Discuss the Standard Policy coverage as Per Tariff Advisory Committee ? And Common Fire Hazards ?

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**3.17 FURTHER READINGS**

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M. N. Srinivasan : Principles of Insurance Law, Wadhwa & Co.

Rajiv Jain : Insurance Law and Practice, Vidhi Publication Private Limited.

Taxmann : Insurance Manual, Taxmann Publication Private Limited.

Bharat : Manual of insurance Laws, Bharat Publication Private limited.

Avtar Singh : Law of Insurance, Universal Publication Pvt. Limited

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**3.18 MODEL QUESTIONS**

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1. Discuss the Add On Covers And Special Policies relating to Fire Insurance ?
2. How Consequential Loss of Fire Insurance and General Exclusions Of Fire Insurance ?
3. Discuss the Fire Hazards And Fire Prevention and its protection as regards to Insurance ?