Unit – III

LESSON - 7

ESSENTIAL OF FIRE INSURANCE CONTRACT

Learning objectives:

After reading this unit you will be able to understand:

- Definition of Fire Insurance.
- Essential of Fire Insurance Contact.
- Risk covered under the Fire Insurance Policy.
- Kinds of Fire Insurance Policy.

Introduction

Fire insurance contract may be defined as an agreement whereby one party in return for a consideration undertakes to indemnify the other- party against financial loss which the latter may sustain by reason of certain defined subject-matter being damaged or destroyed by fire or other defined perils up to an agreed amount. The party responsible to indemnify the loss is called the insurer, the party who is to be indemnified is called the insured, the consideration for the contract is termed 'the premium', the defined subject matter is termed 'the property insured" the sum set forth in the contract is called the assured sum, and the document containing the terms and conditions of the contract is known as 'the policy'.

1.1 Definition

Section 2(6A) of Insurance Act,1938 define Fire Insurance as the business of effecting, otherwise than incidental to some other class of insurance business , contract of insurance against loss by or incidental to fire or other occurrence customarily included among to risks insured against in fire insurance policies.

1.1.2 Essential of Fire insurance contract

. All the essential elements of an insurance contract are present in a fire insurance contract. The essential elements are:

1. The parties to the contract should have the capacity to contract. He should not be a minor, adjudged insolvent or insane.
2. The consideration of the contract should be lawful and not forbidden by the law.
3. The object of the contract should be lawful and not against the public policy or public interest.
4. The contract should be concluded with the free consent i.e. without coercion, undue influence, fraud or misrepresentation.
5. The insurer and insured are the parties to the fire insurance contract. The provisions of Insurance Act, 1938, define the insurer's role. The act defines the insurer and renders his registration compulsory.
6. The contract should be backed by the presence of consideration. The premium paid by the assured to cover the risk is the consideration by the assured and the promise made by the insurer to pay the compensation for the damage caused by fire, is the consideration from the insurer.
7. The happening of the event should be uncertain.
8. The presence of insurable interest is a must to validate the fire insurance contract.
9. The fire insurance contract, being a typical insurance contract, is a contract of begrime fides i.e. there must be utmost good faith between the insurer and the insured.
10. The fire insurance contracts insure the property of the assured and are covered by the principles of general insurance. The contract of insurance cannot save the asset from the risk but it can provide the compensation or replacement in place of the asset that is lost / damaged by fire.
11. The contract of fire insurance comes into existence just as any other type of insurance contract. The assured, by filling up the proposal and providing the information of the asset insured, submits the proposal of fire insurance contract to the insurer. The insurer, after verifying the facts and figures mentioned by the assured and satirizing himself accepts the premium and issues the cover note or the policy document to the assured as a token of the conclusion of the contract.
12. The fire insurance policies are of short duration. The period of the contract normally ranges for up to one year. The policy has to be renewed after the expiry of the insurance period. Once the policy lapses, the cover also lapses. The renewals of the policy, by paying the premium, make the contract valid for

another term on the original terms and conditions of the pricy the insurer issues a new policy document to th5%sured on renewal.

Risk covered under the fire insurance policy

- Damage caused due to explosion other than the destruction or damage caused to boilers, machinery or apparatus that are used in specialized industries.
- The damage to aircraft or to the property dropped from the aircrafts.
- The damage caused from missile testing operations.
- Damage by bush fire excluding the forest fire.

Meaning of 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 can't be treated as damaged due to fire. For example, paints or chemicals in a factory undergoing hear treatment and consequently damaged by fire are not covered.

SELF CHECK QUESTIONS

1. Discuss the features of Fire Insurance Contract.
2. 'Briefly describe the risk covered under fire insurance policy.

LESSON – 8
FIRE INSURANCE POLICY

Learning objectives

After reading this unit you will be able to understand

- Meaning of fire insurance policy.
- Types of fire insurance policy.

The fire insurance policy has been renamed as standard for and special peril policy. The following are some of the fire insurance policy:-.

1. **Valued Policy**:

The value of the property to be insured is determined at the inception of the policy, in this ease; the insurer pays the total admitted value irrespective of the then market value of the properties. The measure of indemnity is, in consequence, not value at the time of fire, but ,a value agreed at the inception of the policy. The insurer pays the insured a fixed sum following the destruction of the insured property. The amount fixed may be greater or less than the actual market value of the property destroyed by fire at the time of loss. In this policy, the measure of indemnity is based on the value of properties rather than on the market values of the property destroyed. This policy is used for insuring specially pictures, sculptures, works of art, jewellery, rare things, and articles of everyday use. Since the value of damage of these articles cannot .be easily determined at the time of loss, the valued policies are commonly used. Strictly speaking the valued policies are betrayal from the principle of indemnity because the market price is not paid in this case.

The valued policy is beneficial to the insured because he is relieved of proving the value of property at the time of loss by searching of invoices and receipts. The disadvantages are that the new purchases and replacement cannot be added to the valued policy. The valuation, therefore, is revised at frequent intervals, The insurer will have to pay more

than the actual loss if the market price of the property has gone down. It may increase the moral hazard. There may be difficulty in settling the partial losses. The valued policies can be disputed on grounds of fraud.

2. Valuable Policy:

Valuable policy is that policy where claim amount is to be determined at the market price of the damaged property. The amount of loss is not determined at the time of commencement of risk but is determined at the time and place of loss. This policy is truly representing the doctrine of indemnity.

3. Specific Policy:

Where a specific sum is insured upon a specified property in case of a specific period, the whole of the actual loss is payable provided it does not exceed the insured amount. Here the value of property insured has no relevance in arriving at the measure of indemnity in a specified policy and the insured sum sets a limit up to which the loss can be made good.

4. Floating Policy:

The floating policy is the policy taken to cover one or more kinds of goods at one time under one sum assured for one premium and in relation to the same owner. This policy is useful to cover fluctuating stocks in different localities. Since the properties are spread over various localities and in different forms, the physical and moral hazards are also varying and, therefore, it makes difficult to determine premium rates. In India, the premium rate is approximately the same in such case except the case of most hazardous risk. Such policies are specially taken by big manufacturers or traders whose merchandise might be lying in parts at warehouse, godown, port, or railway station. In such cases, it is very difficult for the owner of such goods to take specified policy for each good because the quantities of the goods deposited in each will fluctuate from day to day, place to place, according to sales or consumption or consequent removal and replacement. The average rate of premium is ascertained by taking into account the

total premium payable had the property been insured by specific policies. The floating policy contains-the ‘average’ and ‘marine' clauses.

5. **Average Policy**:

Policy containing ‘average clause' is called an Average Policy. The amount of indemnity is determined with reference to the value of the property insured. If the policy holder has taken policy for lesser amount than the actual value of the property, the insured will be deemed to be his own insurer for the amount of under insurance. The insurer will pay only such proportion of the actual loss as his insurance amount bears to the actual value of the property at the time of loss. For example, the property worth Rs. 30,000 is insured for Rs. 20,000 is damaged up to Rs. 12,000, the insurer will pay only Rs. 8,000 as is evident from the following:

Claim = Insured amount/value of property ×actual loss

=20,000/30,000 × 12,000 = Rs. 8,000

The insured, thus, will suffer himself up to Rs. 4,000 and the insurer will pay only Bs. 8,000 out of Rs. 12,000. In this case, if the insurance was taken up to the full value of the property, the assured would have been paid all the financial loss, i.e., Rs. 12,000. Since the insurance was taken for lesser than the actual value of property, the assured is compensated the loss in that proportion.

The average clause is operative only in case of an under insurance. This clause is ineffective when the property is insured for the full value as in that case the insured is protected to the extent of his total loss. The under-insurance penalises the assured by inserting ‘average clause’ to the policy because he is supposed to insure himself for the amount by which he under insures his property and, therefore, is supposed to contribute in that ratio to the loss sustained. The average clause is accompanied, sometimes, with the co-insurance clause which is discussed in the next chapter.

6. **Excess Policy**:

Sometimes, the stock, of a businessman may fluctuate from time to time and he may be unable to take one policy or specific policy. . If he takes policy for a higher amount, he has to pay a higher premium. On the other hand, if he takes insurance for lower amount, he will have to bear the proportionate amount of loss. The insured in this case can purchase two policies, one 'First Loss Policy' and second, 'excess policy'. The 'First Loss Policy' will cover that stock below which the stock never goes. The minimum level of stock can be found out from the past experience and for the other protion of stock which exceeds the minimum limit, he can purchase another policy called 'excess policy'. The actual value of the excess stock is declared every month. The amount of premium is calculated on the average monthly excess amount. Since the chances of payment on the excess amount are very remote, the rate of premium is also very nominal. Thus, the insured will pay very nominal premium as compared to the premium payable on the total amount had the policy been specific one. The average clause also, applies to this policy.

7. **Declaration Policy**:

The excess policy contributes to only a rate able proportion of the loss because if the amount of excess stock exceeds the sum set in the excess policy the businessman will not have a full cover owing to average condition. Moreover, if the First Loss Policy was also subject to average condition, the assured will be at a loss. The declaration policy will give a better protection in such cues where the stock fluctuates from time to time. Under the declaration policy, the insured takes out insurance for the maximum amount that he considers would be at risk during the period of the policy. On a fixed date of every month or a specific period, the insured furnishes a declaration of the amount. The premium is provisionally paid to 75% of the annual premium amount. Practically, the annual premium is determined on the average of these declarations. If the premium is higher than the provisional premium already paid, the insured has to pay the difference to the insurer. On the other hand if the premium so calculated is lesser than the premium already paid, the excess is returned to the policy holder. The declaration must

be made on a specified day or within the next 14 days, otherwise the sum insured will be deemed to be the declaration value.

The great advantage of this policy is that the premium is limited to the actual amount at risk irrespective of the sum insured. Unlike the excess policy, the premium is not unnecessarily paid. Moreover, the insurer may pay up to the full sum insured throughout the period of the policy because the premium amount can be adjusted accordingly. The policy is very advantageous to those businessmen whose stocks fluctuate from time to time. The amount of the declaration offers scope for fraud because the insured may pay lesser premium by undervaluing the stock. Therefore, this policy is issued only to reputed concerns.

8. **Adjustable Policy**:

The above disadvantage is removed by adjustable policy. This policy is nothing but an ordinary policy on the stock of the businessman with liberty to the insured to vary at his opinion, the premium is adjustable pro-rata according to the variation of the stock. In ease of declaration policy, since the excess premium is refundable at the end of the year, the insured may put fire to the property. This danger is avoidable in an ‘Adjustable Policy`. This is issued for a definite term on the existing stock. The premium is calculated in the ordinary manner and is paid in full at the inception of the policy. Whenever, there is variation in the stock, the insured informs the insurer. As soon as the information of variation is received, the policy is suitably endorsed and the premium is adjusted on a pro-rata basis. The policy amount will, thus, be changeable from time to time. The premium is also settled accordingly.

9. **Maximum Value with Discount Policy**

Under this policy no declaration or adjustment of policy is required, but the policy is taken for a maximum amount and full premium is paid thereon. At the end of the year, in case of no loss, one-third of the premium paid is returned to the policy holder. This policy is similar to the declaration policy where the botheration of checking and recording declarations is avoided. It serves as o rough and ready method of coverage

for maximum amount. This policy is not issued on all types of commodities and is confined only to selected commodities.

10. **Reinstatement Policy**:

This policy is issued to avoid the conflict of indemnity. In other types of policies only the market value of the damage or loss is indemnified but, this policy undertakes to reinstate the insured property lost by fire to new condition irrespective of its value at the time of loss.

In other types of policies, in case of building or machinery, the actual loss is arrived at by deducting the regular depreciation from the original cost of it. The amount of indemnity will be lesser than the amount to be spent m reinstating the property destroyed or damaged. In order to provide full coverage ‘reinstatement. or replacement’ policies are issued. Under this policy, the basis of settlement in the event of destruction is the cost of rebuilding the premises or in case of plant and machinery, the placement is done by similar machinery. The reinstatement of the damaged property indicates the meaning of repair of the damages. The restoration of the damaged portion of the property to a condition substantially the same is but not better or more extensive than its condition, at the time of its renovation. The costs of the property when partially destroyed will not be more than the cost which would have been insured if such a property has been totally destroyed. The payment of the actual expenditure on replacement will not be made until the expenditure has actually been incurred. This policy is also called ‘New for Old’ policy because the old property is replaced by new properties. However, such policies are issued only on building, plant and machinery. This policy is not issued on stock, merchandise or materials, Each item of the insured property is subject to average. The policy provides the definite amount in case of purchase of new property in place of the old property destroyed.

11**. Comprehensive Policy:**

This policy undertakes full protection not only against the risk of fire but combining within the risk against burglary, riot, civil commotion, theft, damage from pest, lightning. The policy is also termed as “All in ‘policies’. Here the ‘Comprehensive’ does not mean

that every type of risk is covered; there may be many exclusions and limitations. This policy is beneficial to the insured and the insurer. The insurer can get higher premium and the assured is protected against losses due to several specified perils.

12**. Consequential Loss Policy**:

The fire insurance is originally purchased to indemnify the material loss only. The intangible interest was not indemnified. This provided a check on the insured to exercise a greater care with respect to the property. However, the settlement of a loss covering material damage only was not sufficient. The consequential loss was also to be provided. Thus, the consequential loss policy includes the loss of tangible and intangible properties.

Thus, this policy provides an indemnity to the insured for of not profits, payment of standing charges and expenditure in respect of increased cost of working. As a consequence of tire, there is a reduction in the volume of business which in its turn leads to a reduction in the net profit which the lost business would have ordinarily contributed and to an increase in the proportion of the standing charges such as rents, rates, salaries and others to the total business done. Thus, the policy is to indemnify the insured against financial loss which he may sustain due to the interruption of his business following a fire. Previously the measure of indemnity was a specified percentage of the amount payable under an ordinary fire policy in respect of a material loss.

The insurer, thus, used to pay the amount of loss and a specified percentage of the loss. However, now, the measure of indemnity is changed because the specified percentage cannot be the true estimation of the intangible loss. So, the resultant loss is calculated by estimating figures of loss of profits based on a reduction in turnover or output and secondly, increased cost of working in maintaining the business on its pre-fire level.

13. **Sprinkler Leakage Policies**:

This policy insures destruction of or damage to by water accidentally discharged or leaking from automatic sprinkler installation in the insured premises. However, the discharge or leakage of water due to heat caused by fire, repair or alteration of building or sprinkler installation, earthquake, war, explosion are not covered by this policy.

SELF CHECK QUESTIONS

1. What do you mean by the following policies—Valued Policies, Reinstatement Policies and Adjustable Policies?
2. Discuss the essential features of fire insurance policies.

LESSON-9
POLICY CONDITIONS

Learning objectives:

After reading this unit you will be able to understand:

- Types of conditions under fire insurance policy.
- Settlement of claim.
- Fixation of premium.
- Consequential loss policy.

There are two types of conditions under fire insurance policy:

- Implied conditions.
- Express conditions.

1**) Implied conditions**:

The following conditions are implied conditions in fire insurance:

- Existence of property: the subject-matter of insurance should exist when the policy is affected.
- Insured property: when the fire occurs the property damaged should be the property insured for obtaining claim on the property.
- Insurable interest: the insured must have insurable interest from the time of the commencement of risk up to the completion of the contract.
- Good Faith: the insured must observe good faith towards the insurer. He must disclose all the material facts truly and fully, and should try to prevent the fire and extinguish the insurance, if it occurred, with a reasonable care.

2) **Express conditions**:

The express conditions in fire insurance are discussed in the following paragraphs:-

- Misdescription: the policy shall be voidable in the event of misdescription, non-disclosure of any material facts. If there is any material misdescription of any of the property insured, the insurer shall not be liable upon this policy.

3) **Alteration:**

The Alteration may be of the following types:-

- Removal: the removal of the insured property without the consent of the insurer makes the contract voidable.
- Increase in risk: the alteration may take place where the risk of the insured property has increased.
- Change of interest: without the consent of the insurer the interest on the insured cannot be changed.

4) **Exclusions:**

The risks which are excluded from the policies are called exceptions or exclusions.

- Destruction or damage by explosion.
- Goods held in trust or on commission.
- Destruction of or damage to property which at the time of the happening of such destruction or damage is insured by any marine policy.

5) **Fraud:**

The clause clarifies that the fraud would forfeit all the benefits under the policy. It includes contemplates three eventualities- presentation of a fraudulent claim, use of fraudulent means and acts of willful destruction like arson, etc.

6) **Claim**:

The notice of loss is to be given forthwith after its occurrence though details can be given thereafter. The expenses of claim will be borne by the insured.

7) **Reinstatement clause:**

The insurer has the option to discharge his liability by reinstating or replacing the damaged property. The cash payments of actual loss is not made under this clause .the insurer shall not be bound to reinstate exactly or completely, but only as circumstances permit and in reasonably sufficient manner.

8) **Insurer's rights after a fire:**

On the happening of any loss or damage to any of the property insured by this policy, the company may:-

- Enter and take and keep possession of the building or premises where the loss or damage has happened.
- Keep possession of any such property and examine, sort, arrange, move or otherwise deal with the same; and
- Sell any such property or dispose of the same for account of whom it may concern.

9) **Warranties**:

The compliance of warranties is very essential. Non-compliance with any of the warranty or even substantial compliance is fatal to the contract whether the risk thereby has increased or not.

10) **Purchaser's interest clause**:

This clause is used to the vendor and purchaser up to the date of completion of sale for their respective interests. If the purchaser elects to continue the insurance in his own name, in that case the purchase price will include the value of unexpired insurance.

Settlement of claim:

Fire insurance business in India is governed by the all India Fire Tariff that lays down the terms of coverage, the premium rates and the conditions of fire policy.

Fixation of Premium

1. **Premiums** rating depends on the type of occupancy-whether industrial or otherwise. All property located in an industrial complex will be charged on the rate depending on the product(s) made.
2. Facilities outside industrial complexes will be rated depending on the nature of the occupancy at individual location.
3. Storage areas will be rated based on the hazardous nature of goods stored.
4. Additional premium is charged to include “add on” covers.

liability of the insurer, being limited to a specified amount, called the sum insured. This definition is self-explanatory and includes all aspects of fire insurance.

Fire insurance contracts cover the risks of damage by fire. They insure the risk of loss caused whether by fire or incidental to fire. Thus, fire insurance policies cover the insurance business in which the risk to the asset is from fire or incidental to fire. A fire insurance policy covers the fire and other occurrences as stated in the policy. The inclusion of various clauses to cover matters related to fire in the policy is essential to cover the loss caused due to various reasons.

The policy should mention clearly the subject matter/assets insured. The contract of fire insurance will not cover the assets, which are not mentioned in the policy document, though the loss is caused to the assets because of the fire. The policy document is the evidence of conclusion of the contract.

As such, presence of a physical asset is a must to have the risk of fire covered. The asset, which is insured, becomes the subject matter of the insurance contract. Occurrence of fire is essential and the damage should be caused to the asset due to fire. The damage has to be compensated and the assured has to be indemnified. The origin or cause of origin of fire damaging the asset is not of importance.

If the insurance company finds the intentions of the assured mala fide, it can take this as a defense to avoid the fire insurance claim settlement. As such fire insurance contracts are a pan of general insurance and are contracts of good faith.

The word fire should be construed in its simple meaning and sense without attributing any technical or scientific concepts or meanings to the term. The risk of fire is simply an unforeseen or unexpected event caused either by accident or incident that cannot be forecasted. The contract of fire insurance is valid as long as the assured has an insurable interest in the asset insured. In the absence of the insurable interest in the contract o insurance, the contract becomes a wagering contract and thus becomes void.

Essentials of Fire Insurance Contract:

All the essential elements of an insurance contract are present in a fire insurance contract. The essential elements are:

I. The parties to the contract should have the capacity to contract. He should not be a minor, adjudged insolvent or insane. The consideration of the contract should be lawful and not forbidden by the law.

II. The object of the contract should be lawful and not against the public policy or public interest.

III. The contract should be concluded with the free consent i.e. without coercion, undue influence, fraud or misrepresentation.

IV. The insurer and insured are the parties to the fire insurance contract. The provisions of Insurance Act, 1938, define the insurer's role. The act defines the insurer and renders his registration compulsory.

V. The contract should be backed by the presence of consideration.

VI. The premium paid by the assured to cover the risk is the consideration by the assured and the promise made by the insurer to pay the compensation for the damage caused by fire, is the consideration from the insurer.

VII. The happening of the event should be uncertain.

VIII. The presence of insurable interest is a must to validate the fire insurance contract.

IX. The fire insurance contract, being a typical insurance contract, is a contract of uberrima fides i.e. there must be utmost good faith between the insurer and the insured.

X. The fire insurance contracts insure the property of the assured and are covered by the principles of general insurance. The contract of insurance cannot save the asset from the risk but it can provide the compensation or replacement in place of the asset that is lost/damaged by fire.

XI. The contract of fire insurance comes into existence just as any other type of insurance contract. The assured, by filling up the proposal and providing the information of the asset insured, submits the proposal of fire insurance contract to the insurer. The insurer, after verifying the facts and figures mentioned by the assured and satirizing himself accepts the premium and issues the cover note or the policy document to the assured as a token of the conclusion of the contract.

XII. The fire insurance policies are of short duration. The period of the contract normally ranges for up to one year. The policy has to be renewed after the expiry of the insurance period. Once the policy lapses, the cover also lapses. The renewals of the policy, by paying the premium, make the contract valid for

another term on the original terms and conditions of the pricy the insurer issues a new policy document to th5%sured on renewal.

Exclusions

5% of each and every claim resulting from lightning/ storm/ tempest/ flood.

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.

Loss, destruction or damage directly or indirectly caused to the property insured by:

Ionizing radiations or contamination by radioactivity from any nuclear waste from the combustion of nuclear fuel.

The radioactive toxic, explosives or other hazardous properties of any explosive nuclear assembly or nuclear component thereof.

Loss, destruction or damage caused to the insured property by pollution or contamination Pollution or contamination which itself results from a peril hereby insured against.

Any peril hereby insured against which itself results from pollution or contamination.

Loss, destruction or damage directly to solution or unset precious stones curios, works of art for an amount exceeding Rs. 10,000, 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.

Loss, destruction or damage to the stocks in cold storage premises caused by change of temperature.

Loss, destruction or damage to any electrical and/or electronic machine, apparatus, fixtures or fitting (excluding fans & 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).

Expenses necessarily incurred on:

(i) The 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% and 1% of the claim amount respectively.

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

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

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 policyholders by charging additional premium.

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

1. Architect’s, surveyor’s and consulting engineer’s fees (in excess of’ 3% of the claim amount).

2. Debris removal (in excess of 1% of the claim amount).

3. Deterioration of stocks in cold storage premises due to power failure following damage due to an insured peril.

4. Forest fire.

5. Impact damage due to an insured’s own vehicles, forklifts and the like and articles dropped there from.

6. Spontaneous combustion.

7. Omission to insure additions, alterations or extensions.

8. Earthquake (fire and shock) as per minimum rates and the excess applicable as specified in the tariff.

A policy issued to cover more than 50 locations in various cities/towns/villages in one amount is subject to the under noted regulations:

(a) Total sum insured in respect of all locations should not be less than Rs. 3 crore.

(b) The maximum sum insured at any one location should not be more than 10% of the total sum insured.

(c) The address of the locations should be declared to the company, at the inception, and changes advised as and when they occur. However, when locations can be identified or change is very frequent, the requirements of specifying address of locations is released, but the number of unspecified locations should not exceed 105 the total number of locations or 20 locations whichever is lower.

(d) The insured should have a good internal audit and accounting procedure to establish total amount at risk and locations at a particular time.

(e) The pro-rata condition of average is applied to the limit of sum insured at each location and also to the total sum insured under the policy.

Declaration Policies

Declaration Policies are useful to businesses, which face frequent fluctuations in stock quantity or value. Insurance companies can issue these policies subject to the following conditions:

1. The minimum sum insured is Rs. 1 crore.

2. Monthly declarations based on the average of the highest value at risk on each day or highest value on any day of the month are to be submitted by the insured to the insurer.

3. Reduction in sum insured is not allowed under the policy.

4. The insured can't claim refund of premi1m on adjustment based on the declarations in excess of 50% of the total premiums.

5. The basis of value for declaration shall be the market value prior to the loss or as otherwise agreed to, between the insurance company and the insured.

Exclusions: Declaration policies can't be issued in respect of insurance required for a short period stocks undergoing process and stocks at railway sidings.

Benefits: The premium is limited to the actual amount of risk irrespective of the sum insured. The liability of the insurer is concurrent under the policy. Provision for adjustment of premium is an incentive to the insured to effect cover for the maximum amount.

Floater Declaration Policies

These policies combine the features of both floater and declaration policies. All rules relating to floater policy and declaration policy apply in these kind of policies except: the minimum premium retention of the insurance company shall be 80% of the annual premium.

Minimum sum insured is Rs, 2 crore.

Consequential Loss Policy

Coverage and Suitability: This policy is suitable for business establishments and corporate for whom business interruption would mean heavy monetary loss in view of huge fixed costs.

Fire consequential loss policy provides cover for:

• Expenses and increased cost of working as a result of business interruption following a loss covered by the fire policy.

• This cover can be taken for the maximum period of the anticipated interruption in the event of loss. In addition, the supplier's and the customer's premises on which the business is dependent, cost of auditors fee (required to submit the monetary claim) can also be insured.

• It covers reduction in gross profit due to a reduction in turnover followed by interruption of business.

• The additional expenditure necessarily incurred for avoiding or reducing the fall in turnover during the interruption period is covered under this policy.

• Also, there are overhead expenses of running the business such as salaries, wages, taxes, interest, etc. which continue to be incurred in spite of the interruption of the production.

Premium: Premium chargeable depends on the type of industry/business, the anticipated gross profit, indemnity period chosen and additional covers required. Refund

of premium (not exceeding 50%) can be claimed based on the actual gross profit figures as per the audited balance sheet after the expiry of the policy.

Basic fire policy to cover the asset at the business premises is a prerequisite. For claiming benefits under this policy, the loss should be first admitted under the fire policy Amount of gross profit required to be insured, the indemnity period, details of the business premises to be covered and additional covers required shall be provided in the proposal form.

This policy is of immense benefit especially in case of major fire loss, when the business operations get interrupted resulting in reduced turnover and eventually in loss of profits.

It is a well-known fact that fixed or standing charges have to be incurred immaterial of the fact, whether there has been any production or not. All these are not covered by the normal fire policy It is in this context that the consequential loss policy comes into force. Thus, for overall protection to the business and its profitability, consequential policy is necessary in addition to the fire policy.

SELF CHECK QUESTIONS

1. What do you mean by policies condition?

2. What are the important conditions of policies?

3. Describe the fixation of premium under fix insurance policy?

4. What are the essentials of a fire insurance policy?

5 .Write short notes on:

(a) Consequential Fire Policy

(b) Declaration Policy

(c) Floater Policy