

FIRE INSURANCE

Learning Objectives:

- To understand the importance of fire insurance designed to provide financial protection for property against loss or damage by fire and other specified perils.

11.1 Introduction

- 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. In fire insurance, insurance is not against fire but against the loss caused by fire. There is no statutory enactment governing fire insurance.
- In the absence of any legislative regulation on fire insurance, the courts have relied on the general laws of contract and the decisions given by Indian and English courts.

11.1 Introduction contd.

- The different types of property that could be covered under a fire insurance policy are dwellings, offices, shops, hospitals, places of worship etc and their contents; industrial/manufacturing risks and contents such as machinery, plants, equipment and accessories; 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.

Section 2(6A) of the Insurance Act, 1938 defines Fire Insurance

Business as

- Fire Insurance business means the business of effecting, otherwise than incidentally to some other class of insurance business, contracts of insurance against loss by or incidental to fire or other occurrence customarily included among the risks insured against in fire insurance policies.

The fire can be caused by

- The fire can be caused by physical hazard as well as moral hazard.
- **Physical hazard** refers to inherent risk of fire in the property which may occur due to heating, lack of preventing measures to control fire etc.
- **Moral hazard** depends upon the carelessness of the human being in charge of the assets. In an fire insurance contract, one has to prove the existence of fire and the fortuitous impact of fire, in order to lodge a insurance claim from the insurer.

Fire insurance is meant for

- The fire insurance does not save the society from the economic loss to the extent of the property lost by fire, but the compensation saves from a ruinous loss.
- Thus fire insurance is meant for indemnification of loss and not for prevention of loss.

11.2 Elements and Principles of Fire Insurance

- Fire insurance being a contingent contract under Indian law, make use of certain elements and principles common to all insurance contracts.
- A contract of fire insurance must possess all the essential elements of a valid contract as per section 10 of the Indian Contract Act 1872 i.e. offer and acceptance, free consent, competence of parties, lawful object and consideration, not declared to be void or illegal, possibility of performance etc.

Object of fire insurance

- The object of fire insurance is not the physical property but to compensate the assured for the loss arising out of accidents i.e. fire.

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Principle of Loss Minimization

- According to the Principle of Loss Minimization, insured must always try his level best to minimize the loss of his insured property, in case of uncertain events like a fire outbreak.

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Average Clause

- In the case of a Fire Insurance contract, the sum insured should be adequate, because the policy provides for an Average Clause whereby the assessed claim is reduced in proportion to the under-insurance.

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11.3 Perils insured in Fire Insurance

- The perils covered by the fire policy are as follows;
- Fire
- Lightning
- Explosion / implosion
- Riot, strike, malicious and terrorist damage
- Impact damage by Rail / Road/ Vehicle/ Animal
- Aircraft and other aerial and /or space devices damage

11.3 Perils insured in Fire Insurance contd.

- Storm, tempest, cyclone, typhoon, hurricane, tornado, flood and inundation
- Earthquake and shock
- Subsidence and landslide including rock slide
- Bursting and overflowing of water tanks, apparatus and pipes
- Missile testing operations
- Leakages from automatic sprinkler installation
- Bush fire

11.4 Standard Fire Policy

- The standard fire policy are issued in various forms in order to enable a large number of insured's to buy insurance at a reasonable premium for availing a basic minimum cover.
- Fire Insurance is governed by All India Fire Tariff issued by Tariff Advisory Committee, a Statutory Body.
- The tariff Advisory Committee has prescribed three types of coverages viz, Policy A, Policy B and Policy C.

Policy A

- (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) subsidence and landslide
- Policy A can be issued to cover artisans workshops, bio-gas plants, village and cottage industries, tiny sector or small scale industries.

Policy B

- **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.

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Policy C

- Fire Policy C is issued to cover industrial/ manufacturing risks and storage risks and covers (i) Fire, (ii) Lightning, (iii) explosion/implosion, (iv) impact damage, (v) aircraft damage, (vi) riot, strike and malicious and terrorist damage.
- The Fire Policy C may be extended to cover special perils like earthquake, storm, cyclone, tempest, hurricane, tornado, flood and inundation etc on payment of extra premium.

Reinstatement Value Policies

- Under normal fire Policy, losses are settled on the basis of market value of the property on the date of fire. This value takes into account depreciation, wear tear etc.
- Under the new reinstatement value, the insurers pay the cost of replacement of the damaged property and not the market value as under the normal fire policy.

Policies for Stock

- Stocks at various locations can be covered under one sum insured by floater policies. Declaration policies are useful to businesses, which face frequent fluctuations in stock quantity. Floater declaration policies combine the features of the floater and the declaration policies.

Consequential Loss Policies

- 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.

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11.5 Term of fire policy

- Fire policies are generally issued for a period of 12 months. Insurance companies also offer long term policies, i.e. for a period over 12 months for dwellings and short period policies in some cases.
- Policy can be cancelled at any time during the currency with suitable refund of premium for the unexpired period.

11.6 Who can take a Fire Insurance Policy

- Any person / firm / organisation / institution who may suffer financial loss in the event of operation of insurable perils may insure such property under the fire policy. They may be broadly categorised as under :
- 1.Owners of Building and contents such as house hold articles, furniture etc.
- 2.Shop Keepers.
- 3.Educational/ Research Institutions.
- 4.Hotels, Boarding and Lodgings, Hospitals, Clinics or such service providers.
- 5.Industrial and Manufacturing Firms.

11.6 Who can take a Fire Insurance Policy contd.

- 6. Godown Keepers.
- 7. Bailees, Lessor, Lessee, Banks, Financial Institutions, Mortgagors, Mortgagees.
- 8. Traders in stocks.
- 9. Trustees, Charitable Institutions.
- 10. Transporters and C & F Agents.

11.7 Properties that are covered under Fire Insurance

- 1. Building (including plinth and foundations,
- 2. Plant & Machinery, Equipments & Accessories
- 3. Stocks including Raw Material, In process, Finished Goods, In trade belonging to Wholesaler, Manufacturer and Retailer.
- 4. Other Contents such as Furniture, Fixtures and Fittings, Cables, Pipings, Spares, Tools and Stores, Household goods etc
- 5. Specific Items such as bullion, unset precious stones, curios, work of arts, manuscripts, plans, drawings, securities, obligations or documents, stamps, coins or paper money, cheques, books of accounts, computer system records, explosives.

11.8 Doctrine of Approximation

- The premium chargeable depends on the type of industry/business, the anticipated gross profit, indemnity period chosen and additional covers required. For claiming benefits under fire policy the loss should first be admitted under the fire policy.
- The rate fixation in fire insurance is not scientific. Premiums in fire insurance are decided based on the theory that the aggregate fire hazard of any risk is capable of ultimate analysis into its component factors to each of which could be assigned on approximate charge.

11.8 Doctrine of Approximation contd.

- A standard or average premium is determined as a base for calculating the premium. The average premium rate for a class of risk is determined taking into account the total loss and the sums assured during a period of year.
- Discount in premium is given based on past claims history & fire protection facilities provided at the premises.

11.9 Fixing proper sum insured

- In the case of a Fire Insurance contract, the sum insured should be adequate, because the policy provides for an Average Clause whereby the assessed claim is reduced in proportion to the under-insurance.
- Fixing of adequate sum insured is also important from the point of view of the banks or financial institutions who may have advanced money on the security of the insured property.

Fire material damage policies – sum insured

- The sum insured is always fixed by the proposer.
- It is the limit of Insurer's liability under a policy.
- It is the amount on which the rate is applied to determine the premium payable for the insurance.
- The sum insured should represent the actual value of the property to be insured. Insuring for higher value than the actual value gives no advantage to the insured as payment of claim, if any, is subject to the principle of indemnity.

Fire material damage policies – sum insured contd.

- Insuring for value lesser than the actual value makes the insured self insurer for the difference and claim, if any, is subjected to 'average' clause whereby he is penalized for under-insurance.
- In case of joint ownership of any property, the insured can get the claim only in respect of his share. He could, however, insure full value of the property on behalf of other co-owners as well in which case the claim, if any, is paid to each co-owner to the extent of their insurable interest.

Insurance of building

- For insurance of building one has to take into account various factors and ensure that the value of the land is excluded since the land cannot be damaged by fire or allied perils.
- The value of the building should be computed taking into account the cost of floors, walls, roofs/false roofs/ceilings and value of such items which may be embedded underground or in the walls/roofs which such become integral part of the building.

Insurance in case of more than one building

- Where more than one building (and contents) are insured under a single policy, block wise values should be furnished in respect of Building, Plant & Machinery, Stocks and other contents.

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In case the value of a property increases

- In case the value of a property increases due to factors like increase in prime cost, Exchange rate etc. during the currency of the policy, the corresponding sum insured may be increased on payment of proportionate premium.
- Similarly, any reduction in sum insured during currency may be effected for which refund of premium will be allowed on short period basis.

11.10 Fire Claim procedure

- As soon as the fire breaks out, the insured should intimate such loss / damage immediately to the insurer so that a Competent Surveyor may be deputed to minimise the loss.
- The insured should give an account of all properties damaged or destroyed with estimated amounts having regard to their values as on the date and place of loss.

11.10 Fire Claim procedure contd.

- The insured should cooperate with surveyors by providing all the necessary documents for assessment of loss and establishing liability.
- The insured should cooperate with the insurer in all their activities of entering the premises, taking possession of properties, their examining, sorting, removing or selling to your account, without prejudice.
- The insured should inform particulars of all other insurances existing on the property at the time of loss.

Common Documents required by insurer for processing the claim

- 1.Certified True copy of the policy along with schedule and Endorsements/clauses.
- 2.Claim Form.
- 3.Newspaper reports on the incident, if any.
- 4.Photographs.
- 5.Past claims experience.

Fire Claims (additional documents)

- 1.Fire Brigade Report.
- 2.First Information Report / Letter of intimation to the Police Station duly endorsed / Police Panchnama.
- 3.Forensic Laboratory Report on samples collected at affected site.
- 4.Drug Inspector's Report on destruction of Drugs/ Pharmaceutical items (for claim on pharma products only).
- 5.Final Investigation Report.
- 6.Action taken on the suggestion of TAC/ LPA on loss minimisation of prevention.

Flood Claims (additional documents)

- Meteorological Report

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Explosion Claims (additional documents)

- Factory Inspector's Report or Report of Director of Industrial Safety and Welfare

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Expenses Covered

- The policy automatically covers the following expenses incurred following loss / damage / destruction of a covered property as a result of the operation of an insured peril.
- Architects, Surveyors and Consulting Engineers' Fees upto 3 % of the claim amount.
- Expenses incurred for removal of debris to clear the site upto 1 % of the claim amount.

Exclusions Applicable

- **Losses/ Expenses not covered:**
- 1.5% of each and every claim subject to minimum of Rs. 10,000 resulting from Lightning, STFI and Subsidence and Landslide including Rockslide and Rs. 10,000 in respect of all other perils.
- 2. Expenses incurred on Architects, Surveyors' Consultant Engineers fees and Debris Removal in excess of 3% and 1% of claim amount respectively.
- 3. Loss of earnings, loss by delay, loss of market or other consequential or indirect loss or damage of any kind.

Perils not covered:

- 1. War and allied perils
- 2. Ionising radiations and contamination by radioactivity
- 3. Pollution or Contamination
- 4. Properties not covered:
- 5. Items like manuscripts etc. unless specifically declared.
- 6. Cold storage stocks due to change of temperature.
- 7. Loss / damage/ destruction of any electrical and/or electronic machine, apparatus, fixture or fitting arising from over running, excessive pressure, short circuiting, arcing, self heating or leakage of electricity, from whatever cause including lightning.
- 8. Loss / damage / destruction of Boilers, Economisers or other Vessels in which steam is generated machinery or apparatus subject to Centrifugal force, by its own explosion/ implosion.

Location of Risk

- The proposer shall describe all locations where the properties are built or installed or stored or kept at the inception
- Any change of location of risk shall be covered on intimation of such change.
- Change of ownership in the insured property shall be intimated so that the new owner may be covered by means of suitable endorsement.
- Any material change in the location of risk, trade or manufacturing activities shall be intimated to the insurer so that the changes are endorsed to offer continuous cover.

FIRE INSURANCE

With this, we complete our session on Chapter 11 FIRE INSURANCE

Next, we move to Chapter 12 Motor Vehicle Insurance