PRINCIPLES AND PRACTICE OF GENERAL INSURANCE (DIM03)

(PG - DIPLOMA)

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Lesson - 1

RISKS

1.0 OBJECTIVES:

After completion of this lesson you should be in a position to understand:

- meaning of Risk
- terms like Perils, Hazards etc.
- types of Hazards
- methods of handling Risks
- process of Risk Management

STRUCTURE:

1.1 Introduction

1.2 Meaning of Risk

1.3 Definition of Risk

1.4 Risk Vs Uncertainty

1.5 Classification of Risks

1.6 Meaning of Hazards

1.7 Types of Hazards

1.8 Classification of Risks

1.9 Kinds of Risks

1.10 Sources of Risks

1.11 Methods of handling Risks

1.12 Risk Management and Insurance Management

1.13 Future of Risks Management

1.14 Summary

1.15 Self- Assessment Questions

1.16 Essay Type Questions

1.17 Reference Books.

1.1 INTRODUCTION:

Most of us think of risk and try to take minimum risk possible in our day to day activities. Risk is the basis of insurance. To cover the losses arising out of risks one wishes to ensure his activities. The world is full of uncertainties. We come across different types of risks or uncertainties such as fire, flood, death, accidents, thefts etc. Hence, every man is in search of such agencies which can cover their risks at minimum cost possible as eradication of risks totally is not possible. The history of man indicates that man always tries his best to cover his risks in the best way possible. This idea of man to cover risks gave birth to the theory of insurance.

1.2 MEANING OF RISK:

Risk means uncertainity of losses. In other words, one does not know whether a loss be caused by some peril (or) not, and when and how much it would be, these questions maybe called uncertainities. Risk is understood as chance (or) probability of loss. Uncertainity is the reverse of probability in provise as the probability of an act come increases, the uncertainity occurrence decreases. Uncertainity of loss is the basic characteristic of risk.

1.3. DEFINITION OF RISK:

There is no universally accepted single definition for Risk.

According to **Frank Knight**," risk is a measurable uncertainity".

According to **A.A.Willet**, "risk is an objectified uncertainity regarding the occurrence of an undesirable event'.

Others like **Fisher**, **Federation of Insurance Institutes** have defined risks. On the basis of the definition the following characteristics of risks may be outlined.

1) Perils: Perils may be an uncertain event which may cause loss such as fire, theft, accidents etc.

2) Hazards: Hazards is such a condition which includes uncertainity of an event. For example driving a motor car without breaks.

3) Uncertainty of events: An event can be risk only when it is uncertain and beyond the control of man.

4) Insurance and risk: The main basis of insurance is risk. Any risk bearing object is to be insured inorder to cover its unexpected losses caused by uncertain events.

1.4 RISK AND UNCERTAINITY:

Many economists, statisticians, risk theorists have defined risk in different ways. Risk and uncertainity are used interchangeably in situations where there is uncertainity regarding the possibility of loss.

Risk can be understood clearly from the following examples.

a) An air traveller faces the risk of being killed in an air crash.

b) A child playing on the road is exposed to the risk of being hit by passing vehicles.

c) A man driving a car may meet with an accident on the road.

In all the above examples there is the element of risk and uncertainity.

1.5 CHARACTERISTICS OF RISK:

- risk is the possibility of an unfortunate occurrence.
- Risk is unpredictable
- Risk is uncertainty about the future
- Risk is an out come that is not favorable

Degree of risk: The extent of risk involved in a situation is called Degree of Risk. The degree of risk is related to the possibility of occurrence.

Chances of loss: It means the possibility of occurrence of an event causing a loss. It is the relative frequency of occurrence of an event resulting in loss. It is the ratio of the number of expected losses to total number of actual losses that occurs actually.

Chances of loss = No.of likely loss / Total No.of possible losses

1.6 MEANING OF HAZARDS:

Hazard is a factor that creates the chances of loss. It is also capable of increasing the frequency of losses. Hazards are the conditions that create the chances of losses. Insurance companies consider Hazards while insuring the risk based on which the premium is decided.

1.7 TYPES OF HAZARDS:

Hazards are classified into three types. They are:

Physical Hazard: These are the conditions in which the physical charactistics of an object lend to increase the frequency of loss. For example: for aeroplanes, bad weather conditions increases the chances of accidents, Defective materials used in construction of buildings result in collapse of building.

Morale Hazard: Here we have to make a distinction between moral hazards and morale Hazards. Moral Hazards occurs due to defect in the character of an individual. But morale Hazard is due to the individuals indifference (or) negligence. An individuals indifference to the risk because of the existence of insurance covered constitutes Morale Hazard.

Examples of Morale Hazards are rash driving, leaving the car unlocked and not checking whether the door of the house are locked properly before leaving on a holiday.

Adverse selection (or) anti selection: The concept of adverse selection is equally relevant and important in the discussion of risk management. Adverse selection means one party to the transaction has more information about the risk compared to the other party. when this happens, the party that has more information may take advantage. Adverse selection occurs when an individual (or) organisation supreme relevant information required by the company to evaluate the risk. It can be seen in high demand for insurance from individuals who are likely to suffer a loss.

1.8 CLASSIFICATION OF RISKS:

There are different types of risks. They are as follows.

- Pure and speculative risks
- Subjective and objective risks
- Fundamental and particular risks
- Static and dynamic risks

1.8.1. Pure and Speculative risks: Pure risk involves situations where there is a chance of loss (or) even a break even situation but no profit. Pure risks do not have favourable outcomes. For example if pure risks are fixed in a godown (or) factory, an injury at the work place (or) on the road (or) a theft (or) burgtory at homes are all instance of pure risks.

Speculative risks may be in addition to the outcomes of a pure risk cited above have happy (or) favourable outcomes namely profit (or) gain. Speculative risks can have three possible outcomes. viz. Loss, break even situation (or) gain.

1.8.2. Subjective risks and objective risks: Subjective risk arises out of an individual's mental state. It is the result of individuals uncertainity about the outcome of an event. It may favourable (or) unfavourable to an individual beam due psychological defect.

Objective risk as the term suggests can be observed and for that reason capable of measurement unlike subjective risks. Here the probability of an event occurring can be determined in two ways. One by deducting reasoning and indicative reasoning.

1.8.3. Fundamental risks and particular risks: Fundamental risks are group of risks which occur due to social, economic, political changes in the country. Large number of people affected by these fundamental risks.

Ex: Crisis in the theory wide spread unemployment.

Particular risks on the contrary are personal in nature and effect only individuals.

Ex: Injury due to accidents, poor health condition, robbery.

1.8.4. Static risk and dynamic risk : Static risk can be pure (or) speculative, Natural events such as storm, snowfall and death are described as pure static risks.

Industries in a stable economy are a good example of static speculative risk.

Dynamic risk can also be pure (or) speculative risks. Dynamic risks will affect the whole economy. These risks are beyond control of individual.

Ex: Impact of IT, Information explosion.

1.9 KINDS OF RISKS:

Risks can be classified in various ways. But very important classification is

1) Speculative risk ; 2) Pure risk

1.9.1. Speculative risk: A risk is said to be speculative when there is a possibility of profit (or) loss. Ex: Market changes in price causing profit(or) loss are speculative risks. Introducing a new product in the market is a speculative risk. such risks are taken over with an intent to earn profits but there remains the possibility of losses also as such.

In other words where the result of an uncertain event may earn a loss (or) profit, the risk is called a speculative risk.

1.9.2. Pure risk: Pure risk are those which may cause loss only and profits can never be expected out of such risks. Ex: Fire, Accidents, thefts etc.

Pure risk can be sub divided into the following categories.

1) Personal risk

2) Property risk

3) Liability risk

1) Personal risks: Simply, personal risks are those risks which relates to persons. Human life is surrounded by number of risks such as illness, disease etc. Such risk cause financial loss to the persons concerned (or) his dependents.

2) Property risks: Occurrence of uncertain events which cause loss to the property such as accidents, fire, crash are called property risks. Loss to property may be caused due to fire, earth quake, war, flood etc.

3) Liability risks: risks which create financial liabilities on any person on the occurence of an uncertain event are called liability risks. Ex: When vehicle collide against a man and injures him accidentally, the owner of the vehicle shall be liable to compensate the person injured for the loss so caused.

1.10 SOURCES OF RISKS:

Various sources of risks are as follows:

- Personal risks
- Property risks
- Liability risks
- Risks arising out of failure of others

1.10.1. Personal risks: The following are the four main personal risks a man is exposed to during his life time.

- Risk of premature death
- Risk of inadequate support after normal working life
- Risk of poor health and disability
- Risk of unemployment and consequent loss of income

Risk of premature of death: Premature death in the economic sense means the death of the bread winner of the family, without making adequate provision for meeting expenses arising out of

his death and without making arrangements for taking care of his financial obligations. There financial obligation may include maintenance of dependents , passing off home and car loan etc.

Risk of inadequate means of support after retirement : Today the risk of long post retirement years without visible means of support looms large for many senior citizens. The break down of traditional family values and the joint family system makes the situation all the more grips as the state has previous little to after by way of social security to them.

Risk of poor health and disability : While tremendous improvements have taken place in medical care in the country, the cost of such care particularly the cost of inpatient treatment has sky rocketed. This has made quality medical care beyond the means of common man.

Risk of loss of income : Without any state sponsored schemes to deal with this grips reality and in the absence of insurance schemes to cover this contingency, life is very hard for people in this category.

2) Property risks: Every one owns property is exposed to property risks. For example, when there is damage to the property due to floods, the owner has to bear the loss and incur expenses for carrying out expenses. This is called divert loss.

3) Liability risks: Every one faces liability risks. A motorist may have to pay considerable damages if he damages property (or) injures some one.

Ex: Physician, surgeon face the risk of damage suits from patients for malpractice.

4) Risk on account of other's failure: Many of us depend on the others for the performance of certain services. We entrust our car for major repairs to a garage. We engage a contractor to build our home. Failure in performance are expected in the above instances causes loss. Such risks fall under this category.

Burden of risk : Risks impose a severe burden on the individuals, business and government's alike. It results in a financial loss when a bread winner dies, a factory is destroyed by a fire or when there is a theft. These represent the main burden of risks. Organisations have to create and maintain large amount of emergency funds to meet such losses. The human cost of risk is equally important as it results in pain, fear and worry. If risk is not checked people may become averse to risks. Risk averse results in the end of growth and development.

1.11 METHODS OF HANDLING RISKS:

Risk averse is not the right way to deal with life's risks. One has to learn to manage them and live. The following are the various methods of handling risks. They are:

- **Risk avoidance:** Risk ordinance is the best way to deal with risks. Some situations warrant risk. If those situations are avoided, risk can also be avoided.

- **Controlling of losses:** In some cases risk is unavoidable. In such cases we can take steps to minimise such losses. Different techniques can be adopted to minimise risks. This process is called loss control.

- **Risk Retention:** In this case the individual company assumes the risk. The amount of loss is met out of the current year's revenue or out of the fund created for that purpose. Risk retention can be planned.

• **Risk – transfer:** It is the process of transfer of risk burden on others. It can be transfered by hedging, sub-contracting, asking for surities, indemnity agreements, insurance etc. However, the most important tool of risk transfer is the insurance.

Management of Risk: Risk management is the process of identifying analysing and evaluating the risk and selecting the best possible methods of handling them. Risk management is the job of risk manager. In case of an organisation the strategy adopted by the risk manager to manage all types of risks his company is proned to is often referred to as integrated risk management or enterprise risk management. All the departments in the organization come together to coordinate risk management activities to meet the goals of company in this strategy. Generally, company will have a separate cell for this purpose. It is headed by a CRO i.e., Chief Risk Officer. He reports directly to the top management.

1.12 RISK MANAGEMENT AND INSURANCE MANAGEMENT:

It is of recent origin. Risk manager is called as insurance manager till the middle of 20th century. His main activities are insurance buying. He is a specialist in identifying and analysing the risks of the company. He advises the top management about the techniques to be adopted to control risks in the company.Thus, even though insurance buying may remain a major area of his work, it is not the only area of operation. Risk management is a main wider concept than insurance management.

1.13 FUTURE OF RISK MANAGEMENT:

The importance of management of risk is being recognised by the organisations. To manage the risk effectively, separate departments are established. Risk management helps the organisations to minimise cost and develop a sense of security and stability in the organisation.

The scope for risk management is increasing. Development of risk management will depend on the innovation ideas of risk managers in preventing losses. Many educational institutions are introducing risk management as a part of regular curriculum. This will lead to the outcome of professional risk managers in the days to come. No doubt the industry will certainly gain through this development.

1.14 SUMMARY:

Risk can be defined in many ways. Risk is nothing but uncertainity regarding the possibility of loss. Peril causes loss. Hazards is a factor which increases the frequency of loss. Hazards is of various types.

When an individual is directly exposed to risks we call them as personal risks. It includes risk of premature death, risk of inadequate means of support after normal working life, risk of poor health and disability, risk of unemployment etc. Property risks relate to the ownership of property.

Risk management is the process of identifying, analyzing and evaluating the risk and selecting the best possible methods for handling them. Methods of handling risks are: Risk avoidance; controlling losses; Risk retention and transfer of risk. The risk management is a wider concept than insurance management.

1.15 SELF-ASSESSMENT QUESTIONS:

- Define risk
- Explain different types of Hazards
- Differences between risk management and insurance management.

1.16 ESSAY TYPE QUESTIONS:

- What is a Hazard? Explain the various types of Hazards
- Classify the risks and explain them in detail
- Explain various kinds of risks
- Explain in brief "Handling of risks".

1.17 REFERENCE BOOKS:

* Text book of Insurance - L.S.Kanwal
* Insurance Principles and Practice - M.N.Misra
* Modern Law of Insurance in India - K.S.N.Murty & K.V.S. Sarma

- Dr. D.N.M.RAJU.

Lesson - 2

INTRODUCTION TO INSURANCE

2.0 OBJECTIVES:

After completing this lesson, you should be in a position to understand:

- Definition of Insurance
- Characteristics of Insurance
- Requirements of Insurance Risk
- Types of Insurance

STRUCTURE:

2.1 Introduction

2.2 What is insurance

2.3 Characteristics of Insurance

2.3.1 Theory of Probability

2.3.2 Payment of accidental and un-intential losses

2.3.3 Risk transfer

2.3.4 Principle of Indemnity

2.4 Economic basis of life and health insurance

2.5 Features of Insurable risk

2.6 Insurance and wages

2.7 Insurance and Hedging

2.8 Types of Insurance

2.8.1 Life Insurance

2.8.2 General Insurance

2.8.3 Differences between Life Insurance and General Insurance

2.9 Benefits of Insurance to Society

2.10 Costs of insurance to Society

2.11 Advantages of insurance as risk management technique

2.12 Disadvantages of insurance as risk management technique

2.13 Summary

2.14 Self-Assessment Questions

2.15 Essay type Questions

2.16 Reference Books..

2.1 INTRODUCTION:

The insurance industry occupies a prominent place among all other financial services in the world. Insurance affects people from all walks of life. For management of risks both individuals and business concerns turn to insurance. Everyday new coverage is added to the existing policy. The expanding scope of insurance highlights the growing importance of insurance to individuals and organisations alike. A proper appreciation of what insurance is and what it can do to help an individual or an organisation is therefore necessary.

2.2 WHAT IS INSURANCE:

Insurance is a contract between two parties. One party promises the othere to make good the loss suffered by the other party in consideration for an amount received by way of premium. The party agreeing to make good the loss is called the insurer and the party where loss is to be made good is called the insured. The consideration involved in the contract is called premium.

Losses can be reimbursed but they can not be pre-determined. Therefore, people facing similar risks come together and contribute a fixed amount towards a pool. Out this pool the insured are reimbursed as and when loss occurs.

Thus, insurance is a financial arrangement where the individual can substitute a relatively small definite cost for a large uncertain financial loss. The predictability of loss forms the base of an insurance system.

2.3 CHARACTERISTICS OF INSURANCE:

Pooling and risk reduction: Pooling of losses means spreading of losses incurred by the few over the entire group so that the average loss is substituted for actual loss. To predict the future losses exposure units in large numbers have to be grouped to bring in the application of the law of large numbers. For this purpose there must be large number of exposure units facing similar kind of pearls. In otherwords pooling in insurance means sharing of losses by the entire group and using the law of large numbers to predict future losses.

Sharing of losses can be understood from the example given below: If there are 10 houses in a particular locality. The value of each is say Rs. 5,00,000/-. Assume that one house is destroyed by fire every year. Then, the 10 owners will have to contribute an amount of Rs. 5,000/- each to create a pool inorder to reimburse the loss annually to Rs.5,00,000/- faced by the unfortunate owner amongst them.

The future losses can be predicted with the use of law of large numbers. The use of law of large numbers helps the insurer to minimize risk based on his experience. The law states that the greater the number of exposures, the more closely will the actual results approach the probable results that are expected from an infinite number of exposures.

This can be understood by the example given below:

When we toss a coin 10 times, the probability of getting 5 heads is not certain, the heads may appear 8 times instead. But, when the number of tails increase, the probability of getting equal number of heads and fails also increases.

Insurance is a business based on the previous experience of damage and loss. Actual loss will be nearer to the estimate loss. The law of large numbers gains importance in insurance because the amount of premium to be charged depends on the expected loss. This enables the insurer to meet all the expenses and claims that arise in addition to the reasonable profit.

3.1 Theory of probability and the law of large numbers:

Probability is the numerical value assigned to the probability of occurrence or non-occurrence of the event and then predicting a future event. The theory assumes that through an event happens at random, it actually occurs in a regular pattern when a large number of trials are made. An event sure to occur has the probability value of 1 and the impossible event has the probability of 0. Thus, the event with values nearer to 0 are least likely to happen and that events assigned a probability closer to 1 are most likely to happen. Thus, probability always varies between 0 and 1.

Probability is interpreted in two ways. They are relative frequency interpretation and subjective interpretation. In the relative frequency interpretation, the probability of an event is based on the repetition of an event occurring over a large number of trials. Subjective interpretation involves the degree of belief in the occurrence of an event.

Determining the probability of an event: In relative frequency, probability is calculated in two ways. First a prior probability that is based on underlying conditions causing an event.

Ex: Probability of a coin showing head when tossed is 0.5 or ½. The coin is assumed to be balanced and that there are only two possible outcomes, which are equally likely to occur. It is a least relevance for a simple trial. It is useful only when it involves a large number of trials.This is referred to as the law of large numbers, which states that the observed frequency of an event more nearly approaches the underlying probability of the population as the number of trials approaches infinity.

A prior method is not widely applicable because determining casuality is rather impractical. Here, the second approach of probability, which is based on secondary date in used. When the underlying probability of an event is unknown. This concept of posterior probability is used.

Ex: The probability of an immunized child suffering a measles attack of 0.002.It means that a survey has been conducted on children affected by measles and that the result shows that out of 1000 immunised children 0.002 were affected by measles.

3.2 Payment of accidental and un-intentional losses: Insurance covers losses which are accidental in nature. The insurer has to cover all the unforeseen losses which occur at random. In other words , the loss should be an accidental one and a result of chance and not caused intentionally.

3.3 Risk transfer: In insurance, the risk of one party is transferred to the other who is the insurer who is usually in a stronger position financially and can early make good the loss of the insured. Risk of death, theft etc are the examples where the risk of the insured can be transferred to the insurer.

3.4 Principle of Indemnity: All contracts other than life insurance contracts are contracts of indemnity. Indemnity means to make good any loss suffered by the insured and to put him back in the same financial position as he was before the occurrence of the loss.

For example: In case of fire and general insurance policy, the insurer pays the actual loss to the policy – holder in case of any theft or damage that has been caused to his assets insured under the policy. According to this principle, the insured can not claim more than the actual loss and make any profit out of insured risk.

2.4 ECONOMIC BASIS OF LIFE AND HEALTH INSURANCE:

Any loss arising out of death or disability of the earning member will either decrease or terminate the regular income of the family in future. The main object of life insurance is to protect the family by providing continuity of income even after the death of the family earner.

In the present days, human resource concept is gaining importance. They can not be marketed like immovable property. but they have certain economic value based on their skill and knowledge. Some countries have become more advanced because of their human capital which is available in plenty . human capital represents the production capacity of an individual. Thus, human life value is the capital value of an individual's net income in future loss the cost of his maintenance expenses. Thus, the human life value concept propounded by Huebner became the economic foundation of life insurance. The emergence of human life value concept and other concepts paved the way for professional counselling in the buying and selling of life insurance.

Economic uses of life insurance:

- Life insurance provides security to the family after the death of the earning member of the family.
- Life insurance serves as a tool for saving
- Life insurance assists to meet the future responsibilities
- Life insurance assists in repayment of mortgaged losses
- Life insurance provides old- age benefits
- Life insurance is also useful to creditors in the event of the death of his debtor
- Life insurance helps the partnership firms in repaying the share of the deceased partner
- Group insurance can also be taken as welfare measures as the lives of the employees as a whole which improves the morale of the employees.

2.5 FEATURES OF INSURABLE RISK:

Generally, insurers prefer to insure only pure risks.All pure risks cannot be insured. To insure the risks, the following essentials are to be complied. They are:

- As insurance is based on the law of large numbers, there must be large number of similar exposure units which may help in the predicting of future losses.
- The loss arising must be in a position to be expressed in monitory terms.
- The loss caused must be the result of an accident.

- The loss so caused should not affect a large number of exposure units. Insurance assumes only a small percentage of people will incur loss at a time out of the large group of people.
- Insurer must be in a position to caliculate the chances of loss with a reasonable degree of accuracy.
- The premiums fixed to cover the risk must be within the reach of common man.

2.6 INSURANCE AND WAGES:

Wager is betting on chance. It is speculative in nature. One party loses and the other party gains or wins in a wager. In a wager, there is no chance of loss at the time of the contract and hence no risk.

In case of insurance the risk is already in existence and no new risk is created. When a insurance contract is created the proposer pays the determined premium and the insurer gives his acceptance. In other words, no new risk is created but the existing risk is transferred to the insurer. It serves as a social security measure as the main motto of both the insurer and the insured is loss prevention. Even when loss arises the insured is placed in his original position financially as per the terms of the contract. But in a wagering contract the loser is not indemnified under any circumstances.

2.7 INSURANCE AND HEDGING:

Hedging is a process where risk is transferred by purchasing a future contract. The main differences between insurance and hedging are:

- The risk that can be transferred in insurance is an insurable risk. But in case of hedging the risks are un- insurable.
- By application of law of large numbers, the insurer can reduce risk, where as in hedging risk can be transferred and not reduced.

2.8 TYPES OF INSURANCE:

In some of the foreign countries insurance is classified under the following types:

Government:

- Social security
- Unemployment

Private:

- Life
- Annuity
- Health

Non-Life:

- Fire

- Marine
- Bonding
- Causality
- Auto mobile
- Liability
- Crime
- Worker's compensation

Social insurance is a specialised government insurance, which is financed by the compulsory contribution from the employees. Since the contributions are made by employees, they are entitled to all the benefits whether the need arises or not. The examples of social insurance are: old age, survivors and disability insurance, medicare, worker's compensation insurance, compulsory/ temporary insurance etc.

Private insurance is classified into life insurance and non-life insurance. Life insurance provides security to the individuals and their dependants. It covers the risk of death, sickness and disability. Annuity provides financial assistance to old persons.

Non- life includes property and liability insurance. Fire insurance covers stationary property. Marine covers mobile property. Bonding is a special coverage which guarantees the performance of the contract between two parties. Causality coverage includes accident and health insurance.

In the Indian context, insurance can be broadly classifies into:

- Life insurance
- General insurance

2.8.1. Life insurance: It deals with individuals, groups and pension plans. Since 1st September 1956 the life insurance corporation of India was the privilege of transacting insurance business in India. It is open to private players after the IRDA 1999.

Various types of insurance plans offered in India are:

- term assurance plans
- whole life plans
- endorsement assurance plans
- assurance for children
- family income policy
- life annuity
- front life assurance
- pension plans
- unit linked plan
- endowment policies
- handicapped dependant policy

2.8.2. General Insurance Plans:

Section 2 of the Insurance Act, 1938 defines General Insurance as, "General Insurance business means fire, marine or miscellaneous business whether earned on singly or in combination with one or more of them.

Fire: It is the business of effecting otherwise than incidentally to some other class of insurance business, contracts of insurance against loss by or incidental to fire or other occurrence customarily included among the risk insured against in fire insurance policies.

Marine: It means the business of effecting contracts of insurance on vessels of any description including cargoes, freights and others which may be legally insured in or relation to such vessels, cargoes and freights, goods, waves, merchandise and property of what so ever description insured for any transit by land or water or both, whether or not including warehouse risk or similar risks in-addition or as incidental to such transit and includes any other risks.

2.8.3. Differences between Life Insurance and General Insurance:

- In life insurance death is certain. The only uncertainty is the time or period, where as in general insurance, the insured event may or may not take place.
- A life insurance contract is a long-term contract, while general insurance contract is a one-year renewable contract.
- It is difficult to determine the economic value of life, whereas the financial value of any asset to be insured under a general insurance policy can be determined.
- Life insurance contract is not a contract of indemnity. General insurance contract is a contract of indemnity where the actual loss is reimbursed.
- Premiums changed on life insurance is based on mortality table whereas in general insurance it is calculated on the basis of past loss experience, probable risk factors and fixed tariff plan.

2.9 BENEFITS OF INSURANCE TO SOCIETY:

- Indemnifies loss
- Reduces worry and fear
- Large funds are available for investment
- Provides employment opportunities to large number of people
- People are educated about loss prevention
- It enhances credit worthiness
- Invisible earnings
- Social benefits

2.10 COSTS OF INSURANCE TO SOCIETY:

Insurance provides lot of benefits to individuals and society. It has some social costs which are to be realised. Heavy expenditure is incurred in the maintenance of the insurance companies.

Sometimes, it enumerates in seruption individuals to resort to fraud, which may result in heavy losses. In motor and health customarily included among the risks insured against in marine insurance policies (Under clause 13A).

Miscellaneous Insurances: It means the business of effecting contracts of insurance, which is not principally or wholly of any kind or kinds.

The naturalised general insurance companies have also been offering special schemes meant for rural areas. **Ex:** crop insurance, cattle insurance, insurance for huts, poultry etc. There is also a social security group accident scheme covering weaker section of the society.

Miscellaneous insurance includes:

- Motor
- Disability
- Personal accident
- Engineering and Aviation risks

Rural:

- Cattle
- Acqua culture

Liability:

- Third party
- General
- Products liability insurance
- Professional indemnity insurance
- Director's and officers liability
- Credit insurance
- Property
- Fidelity guarantee
- Interruption insurance
- Legal expenses insurance
- Construction risks
- Burglary and theft
- All risks insurance
- Business 'all risks'
- Money insurance
- Contractors all risks
- Class insurance

Insurance it is common to make inflated claims. This results in heavy losses to the companies. To meet these losses the companies are increasing the premiums. In our country most of the insurance companies are incurring heavy under writing losses. The huge increase in motor insurance and health insurance premium is a direct result of this factor. Thus, the cost of insurance includes fraudulent claims and inflated claims.

2.11 ADVANTAGES OF INSURANCE AS A RISK MANAGEMENT TECHNIQUES:

Business concerns make use of insurance in their risk management programmes because of certain advantages. Since, the insurer indemnifies loses the company can continue its operations without any break. The insurers have much expertise in loss prevention, loss control and risk management and the company is in a position to implement effectively its business plan. The stability in organisations promotes confidence and security among managers and employees with the beneficial consequences of higher productivity and reduced labour turnover.

2.12 DISADVANTAGES OF INSURANCE AS RISK MANAGEMENT TECHNIQUE:

With rising insurance premiums companies are beginning to perceive insurance premiums as a major cost. This concept is compelling many companies to move towards risk retention and self insurance. Many believe as a matter of fact that it may be better to set apart the money normally spent on insurance premiums, invest it and use it to cover losses as and when they occur. Hence, some companies are planning to limit insurance coverage for certain risks only. They feel that finalising an insurance package as time consuming. They find the claim settlement process as tedious.

When the companies risks are covered through insurance a complacement attitude towards loss prevention and contrive may develop. Safety and loss prevention measures may get neglected as a result.

The companies must finalise their risk management programmes after evaluating the various types of risks to which they are exposed.

2.13 SUMMARY:

Insurance is a financial arrangement for redistributing the costs of unexpected loses through a legal contract.

The law of large numbers helps insurers to predict loses accurately. It states that the greater the number of observations of an event based on chance, the more likely will the actual result approximate the expected result.

Every risk is not an insurable risk. Essentials of insurable risk are the number of exposure units must be large, the loss must be accidental, the loss must be measurable, the premium must be affordable.

It is different from hedging and wagering contracts. It has certain advantages.

2.14 SELF-ASSESSMENT QUESTIONS:

- Definition of insurance
- Characteristics of insurance

2.15 ESSAY TYPE QUESTIONS:

- State the law of large numbers and explain how it helps in estimatory future losses.
- What are the advantages of insurance to society?
- Write a note on the features of insurable risk.

2.16 REFERENCE BOOKS:

- Principles and Practice of Insurance - M.N.Mishra.

Dr. D.N.M.RAJU.

Lesson - 3

NATURE AND USE OF FIRE INSURANCE

3.0 OBJECTIVES:

After completion of this lesson, you should be able to understand:

- Definition of Fire Insurance
- Nature of Fire Insurance
- Functions of Fire Insurance

STRUCTURE:

3.1 Introduction

3.2 Nature

3.3 Definition

3.4 Functions

3.5 Causes of fire

3.5.1 Prevention of Loss

3.5.2 Preventive Efforts

3.5.2.1. Private Activities

3.5.2.2. Public Prevention Activities

3.5.2.3. General Devices

3.6 Summary

3.7 Self - Assessment Questions

3.8 Essay - Type Questions

3.9 Reference Books

3.1 INTRODUCTION:

Fire insurance do not have a long history. It gained importance only after the Great Fire of London in 1066. The fire lasted for four days and nights. Nearly 436 acres of ground was burnt. It destroyed 13000 buildings. It was a unforgettable day of history in the world. The event awakened the people to think of prevention of loss against natural calamities. Its slow growth was due to slow progress of trade and commerce. It gained momentum with the fast development of business and commerce. Initially, there was no basis on which the premiums could be fixed. Moreover, there

were only a few concerns in the field of fire insurance. They too did not make any remarkable progress. These concerns gained experience with passage of time and the date started accumulating. This resulted in the premium rates to become more equitable and scientific with increasing competition, the fire insurance is evolved in its present scientific form. It's growth is not on par with the growth of life insurance are several reasons.

3.2 NATURE:

Fire insurance is a device to compensate for the consequent on destruction by fire. Thus, the fire insurer shifts the burden of fire losses from their actual victims over to all the members of the society. It is a co-operative device to share loss. It relieves the insured from the burden of fire loss.

3.3 DEFINITION:

The Insurance Companies Act 1958 of England defined Fire Insurance business as, " the issue of or the undertaking of liability under policies of insurance against loss by or incidental to fire".

Section 2, of the Indian Insurance Act,1958 defines fire insurance business as," the business of effecting, otherwise than incidentally to some other class of insurance business, contract of insurance against loss by or incidental to fire or other occurance customarily included among the risks insured against in fire insurance policies".

Halsbury defined insurance as, "a contract of insurance by which the insurer agrees for consideration to indemnify the assured upon a certain extent and subject to certain terms and conditions against loss or damage by fire, which may happen to the property of the insured, for a specified period".

From the above definition, the test of fire insurance can be summerised as whether or not -

- it is a contract of insurance
- the main object of insurance is against loss
- the liability of the insurer is limited to the extent of the sum assured
- the insurer has no interest in the safety of the insured property other than the liability undertaken.

3.4 FUNCTIONS OF FIRE INSURANCE:

According to the available statistical data fire causes huge losses every year. An individual can prevent the fire wastage to some extent by taking fire insurance. The insurer acts as a middleman between all the members of the society who are exposed to the fire risk on the one hand and the members who will be the actual victims of the fire losses on the other. The insurer charges premium from all the insured members and make good the losses when they occur to any of them. The system of fire insurance can not save the society from loss. It compensates someone at the cost of group of some others. Thus, the insured is saved from the ruinous loss.

3.5 CAUSES OF FIRE:

Fire wastage is the result of two types of hazards.They are:

- **Physical Hazard:** It is the hidden risk of fire in the property which may occur due to inflammable nature,construction,artificial lighting and heating,lack of extinguishing apparatus use of the property etc.

- **Moral Hazard:** It depends on the man as physical hazard depends on property. The property may be set on fire by the owner himself or by another person with his willingness or negligence.

When the market price of the property goes down, the owner can willingly set fire on the property and gain from the incidence. Thus, moral hazard exists when property is destroyed by the owner willingly.

3.5.1 Prevention of loss: Insurance is meant to identify the loss and not the prevention of loss. Thus, insurance may help in two ways. They are:

Identification: According to the Doctrine of Identification, the financial loss suffered by the peinals insured against will be compensated to the actual loss. It identifies the loss suffered by the insured due to reasons which are beyond his control.

3.5.2 Preventive efforts: The loss can not be prevented by the insurance. But, it helps the insured who take preventive steps to control such fire accidents. If the accidents are prevented the loss is reduced. If the loss id reduced the insurer can change lesser premium which are beneficial to the society. On the other hand, the insurer also gains as less premium rate will enhance the insurance business.

3.5.2.1.Private Activities: It includes such activities which are useful in preventing fire loss. The insurers give valuable advices to the property owners on the following factors.

(i) Construction: The insurers provide advice in the activities like use of fire resistive materials, fire proof construction, availability of fire extinguisher, water supply, proper passage in emergency etc. which reduce the chances of fire.

(ii) Fire services: The import tool to prevent fire is the availability of fire extinguisher. The owner must provide sprinkling system. Fire fighting equipment may be established. Such services are provided by the insurers.

(iii) Occupation: Certain occupations are exposed to certain risks. For example: oil industry, coke industry, chemical industry etc. Insurance is available in these concerns at higher rate. Insurers help by charging lesser premium in fire fencing occupation.

(iv) Management: Proper management of property may reduce the chances of fire. Negligence and carelessness cannot be over emphasised because these increase the chances of fire.

(v) Exposure: Fire insurance rates are determined on the basis of possibility of exposure. Fire - proof services may reduce the chances of exposure to a greater extent.

3.5.2.2 Public activities: Fire insurers provide a number of services to reduce the fire waste with the help of public institutions.

(i) **Community surveys:** Engineering survey of the cities and localities is made. As a result of investigation many have improved their fire departments, water supplies and other facilities involved in the protection against fire.

(ii) **Standard schedule for grading cities:** A number of cities, towns are divided according to fire preventive devices. The deficiencies in each part is solved out and attempts are made to remove them.

(iii) **Underwriter's laboratories:** They find out the possible causes of fire losses. Every time research is made to find out the possible attempts to prevent fire losses.

(iv) **Equipment:** Fire can be properly checked through the possession and maintainance of adequate equipment, personnel fire alarm system and water supply.

(v) **Salvage corps and Salvage works by fire departments:** The main aim of the corps is to protect the property from unnecessary smoke and water damage. The corps extend the protective coverage to all irrespective of the insurance coverage. It is extended even to the property which is not insured. Effective training in fire fighting services is given to all in general and to selective group in particular by establishing institutions wherever necessary. This helps to minimize fire wastes.

(vi) **Legislation and Regulation:** National Board of fire underwriter's fire brigade and other such associations are engaged in fire preventure and protective efforts under a certain law. The officials concerned with fire departments must be well-versed with the legal requirements relating to various phases of fire prevention.

3.5.2.3 General devices: In addition to the above mentioned protection and prevention facilities, the following devices are also used for preventing fire losses. They are:

(i) the insurer compensates loss at a reasonable cost.

(ii) Serious hazards are to be cooperatively re-insured

(iii) Loans are provided for better construction and building

(iv) Fire insurers stimulate the installation of protective devices to reduce losses

(v) Fire fighting methods are organised with public utility concerns

(vi) Insurers investigate the causes of loss and attempts are made to reduce the causes.

(vii) Insurers study various devices for the proof, protection and problems of special processes

(viii) Periodical examination of insured property is made and instructions are issued for the purpose of investigation.

3.6 SUMMARY:

The fire insurance come into existence in Germany after Marine Insurance. Fire is advantageous to man in way and harmful when it is not properly controlled. History describes many good examples of destruction of property, wealth, human lives to an accountable limit caused by fire throughout the world. With the emergence of Industrial Revolution in India , the scope of fire insurance increased immensely.

3.7 SELF-ASSESSMENT QUESTIONS:

- Definition
- Nature
- Moral Hazard
- Physical Hazard

3.8 ESSAY-TYPE QUESTIONS:

- Describe the importance of insurance in India
- Discuss the main functions of insurance

3.9 REFERENCE BOOKS:

- Dr.D.N.M.RAJU

Lesson- 4

FIRE INSURANCE CONTRACT

4.0 OBJECTIVES:

After completion of this lesson, you should be able to understand:

- Essentials of Valid Contract
- Important terms
- Characteristics of fire insurance contract.

STRUCTURE:

4.1 Introduction

4.2 Essentials of Valid Contract

4.3 Important Terms

4.4 Characteristics of Fire Insurance Contract

4.5 Summary

4.6 Self-Assessment Questions

4.7 Essay-Type Questions

4.8 Reference Books

4.1 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 later 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 called the 'premium', the defined subject matter is called the 'property insured', the sum setforth in the contract is called the assured sum and the document containing the terms and conditions of the contract is called the "policy'.

The contract of insurance involves all the elements of a valid contract.

4.2 ESSENTIALS OF A VALID CONTRACT:

- **Offer and acceptance:** The proposer makes an offer to the insurance company to enter into an insurance contract. On receiving the application the insurer may issue a cover

note as temporary acceptance. Subsequently if the offer is accepted he will replace it with a policy.

- **Consideration:** The payment of premium is the consideration of the insured. The promise to indemnify the loss incurred by the insured is the consideration from the side of the insurer. Unless, the insurer fixes the premium and the insured agrees to pay it, the contract is not completed. The premium fixed need not be the same throughout.
- **Capacity of the parties to contract:** According to the Indian Contract Act 1872, any person who has attained majority and is of sound mind and has not been legally disqualified from contracting is entitled to enter into contrast.
- **Agreement of both the parties:** There should be identity of minds of both the parties. This means both the insurer and the insured should understand the terms and conditions of contract in the same sense.
- **Legal object:** According to the Act, any contract is lawful unless the law forbids it. An insurer for instance, cannot insure unlicensed arms and ammunition.

4.3 IMPORTANT TERMS:

- **Fire:** Fire, to make the insurer liable under the contract, two conditions must be satisfied i.e. there should be actual fire or ignition and the fire must happen in its nature.
- **Ignition**: The loss must be the result of ignition of the article, or property or part thereof. In other words, the damage must be caused due to fire. Damage caused due to excessive fire heat cannot be treated as damage or destruction by fire. It is essential to prove that the loss is caused due to fire but not due to its heat. It includes even negligence as reasonable cause. But it should not be the result of willful misconduct of the assured. There should be actual ignition.
- **Fire should be accidental:** Any loss caused by fire lighted intentionally is not a loss by fire. The loss is covered even if it is the result of a domestic fire. The object of fire insurance is to indemnify the insured against accidental loss by fire.

4.4 CHARACTERISTICS OF FIRE INSURANCE CONTRACT:

The fire insurance contract like other general insurance contract has the following characteristics:

- it is a contract of indemnity
- it is a contract of utmost-good faith
- it is a personal contract
- cause of fire is immaterial
- existence of insurable interest
- it is an indivisible contract
- subrogation and contribution

4.4.1 Contract of Indemnity: The Doctrine of Indemnity aims at compensating the insured for the loss sustained. In other words, its main aim is to place the insured nearer to the same pecuniary position even after the loss as he occupied immediately before the fire accident. He can claim only the actual loss but not more. The insurers make good the loss by monetary payment. Sometimes, the insurer may reinstate so that the insured is fully indemnified. It depends on the sum insured. The law takes steps to prevent the temptation to destroy the property insured to secure money and thereby make profit.

The actual amount of indemnity will be the market value of the subject matter destroyed by fire at the time and place of occurrence of fire. If the actual loss is more than the insured amount, then only the sum insured will be paid. This principle does not hold good inrespect of valued policy. In this case, the compensation depends on the insured value, which is mentioned in the policy, but not the actual cash value of the property at the time of fire accident. In a valued policy no consideration is given to the actual loss. Thus, the amount of claim may be more or less than the actual loss at the time of fire in case of valued policy.

Interpretation of indemnity: The meaning of the word indemnity was understood in the sense of material indemnity only. That is tangible material property only. The intangible loss i.e. loss of profit, rent etc was not compensated. It was a great loss to the honest people. Now, the insurance covers not only the material loss of property but also the consequential loss. When a business property is burnt, not only the material loss arising out of destruction of building, plant, stock etc are covered but the consequential loss of profits due to cessation of sales, salaries, taxes, rent etc are also indemnified. In the present days, both tangible and intangible losses are also insured. Thus, the consequential loss is also brought under the principle of indemnity.

Consequences of indemnity: The consequences of the principle of indemnity are as follows:

(1) The insured may claim only the amount of loss sustained.

(2) Incase of partial damage, the insured may claim compensation only to the extent of the damage caused.

(3) The insured must transfer to the insurer any rights which he may possess against third party in respect of the loss.

(4) If the insured has effected more than one policy on the same property, he is prevented from obtaining more than one complete indemnity.

Measurement of Indemnity: Indemnity is measured basing on the type of property insured. **For example:**

(i) In case of damaged buildings, the measure of indemnity is the cost of repairs or cost of reinstalment to their pre-loss condition.

(ii) In case of machinery, the measure of indemnity is the market value which is determined after making due provision for depreciation.

(iii) In case of stock-in-trade, the measure of indemnity is the net cost to the insured.

The indemnification may in the form of cash, repair, replacement etc.

4.4.2 Contract of utmost-good faith: The principle of good-faith is vital importance in fire insurance contracts. It has two aspects:

First, disclosure of material facts and

Secondly, preservation of the property insured.

The parties to the contract must give detailed and correct information about the property to be insured. Since, the insured being the owner will have full knowledge of the subject matter of the property. So, the insured must act truly. He must disclose all known material facts relating to the property. It is because it is the material fact, which influences the decision of insurance. The decision may be relating to the acceptance or rejection or determination of the premium.

If the insured has not observed the principle of good faith, the insurer can avoid the contract. The insured cannot plead his inability to furnish the material facts.

In case of preservation of property, the principle of good faith is necessary not only at the beginning of the contract but also during the period of contract as long as the policy is in force. Any change in risk element at any point of time must be communicated to the insurer. On the other hand, the insurer or his agent should take all necessary possible steps to minimise loss. Since, the property will be with the insured, he must act in good faith to put off the fire. In such cases, the insured should act as if the property is not insured.

Exceptions: Under the following circumstances, the insured need not disclose the information:

(1) All circumstances which minimise risk

(2) All those facts which are assumed to be known to the insurer

(3) Information which are of common knowledge

(4) Those facts which are expected to know by the insurer during the course of his business of insurance

(5) Those facts which are superflures to disclose by reason of warranty.

4.4.3 Personal contract: Fire insurance contract though a property insurance contract is a personal contract. It is a contract between the insurer and the insured. The contract being to save the insured against the loss caused by fire to his property.

Reynor Vs Perston : In this case, it was observed that the subject matter of insurance was different from the subject matter of the contract of insurance. When the fire destroys the property insured the insurer pays money to the insured. The contract insures not the safety of the property but only the insured from the monetary loss to the property caused by fire.

4.4.4 Generally cause of fire is immaterial: The cause of fire is immaterial in case of fire insurance contract. The insured seeks protection against fire irrespective of the cause of fire. When the insured is careful and takes all the necessary precautions and still fire broke out it is unfair to deny the claim. The insured should be allowed to make claim even if he is negligent. Otherwise the very objective of fire insurance defeated. Hence, the insured also may take insurance for fear of negligence on his part or on the part of his servants, which may result in fire.

However, the insurer must investigate the cause of fire if the fire:

(a) Appears to be the result of a willful act of the insured.

(b) The is caused by a peril figuring as an exception in the contract.

4.4.5 Insurable Interest: It is the general principle of insurance without which an insurance contract cannot lawfully enforceable. An insurance un –supported by an insurable interest will become a gambling transaction. The insurable interest in fire insurance must be present at the time of contract and at the time of loss. Insurance contract will be invalid if the property is sold to another party. Similarly, if there is no insurable interest at the time of insurance, the contract is invalid.

Condition to be satisfied to constitute insurable interest:

(1) There should be a physical object capable of being damaged or destroyed by fire.

(2) The object must be the subject –matter of insurance.

(3) The insured must stand in such relationship as recognised by law where the insured is benefited by the safety of the subject –matter.

The insurable interest is the 'pecuniary interest'.

Persons having insurable interest:

(1) The owner of the property has insurable interest whether he is a legal owner or equitable owner.

(2) An agent has insurable interest in the property of his principle

(3) A partner has an equitable interest in the property of the firm

(4) A creditor has an insurable interest in property on which he has lien.

(5) An insurer has insurable interest in respect of risks underwritten

(6) A bailee can insure any article bailed. He may be a gratuitous or non-gratuitous bailee.

(7) A trustee has insurable interest in the property on the trusteeship.

4.4.6 Indivisible contract: A fire insurance contract is a contract that can not be separated unless there is an express agreement as to the divisibility of the contract. It applies to fire insurance of buildings, machinery and other fixed or immovable property. This means that in the event of the insured being guilty of breach of duty in respect of a part of subject-matters covered by the insurer, the insurer can repudiate the entire contract unless the terms of the restricts such right.

4.4.7 Doctrine of subrogation: It means the right of one person to stand in the place of another and to avail himself of the latter's rights and remedies. The principle of subrogation is just a corollary to the principle of indemnity. The insured can realise the actual loss to the property according to the principle of indemnity. It means that if the damaged property has any value left or the assured can recover the lost property or has any right against a third party regarding that property . These must pass on to the insurer. If the insured is allowed to return them, he would realise more than the actual loss which is contrary to the principle of indemnity.

The right of subrogation is exercisable at common law after the insurer has paid the claim made against him.

4.4.8 Proximate cause: The rule is that the immediate and not the remote cause is to be regarded – cause proxime non-remote specteture. Proximate cause is very important in fire insurance. The insurer always takes the proximate cause while paying the claims.

If the property insured is burnt, the fire was preceded and brought into operation by an expected peril, the legal position depends on whether expected peril was the proximate. The remote cause is when an incendiary bomb damaged the property, the proximate cause is enemy action.

4.5 SUMMARY:

Fire insurance like any other insurance contract must satisfy the essentials of a valid contract.

Fire insurance business in Sec. 2 of Insurance Act is defined as the business effecting, otherwise than incidentally to some other class of insurance business, contract of insurance, against loss by or incidental to fire or other occurrence customarily include among the risks incurred against in fire insurance policies.

Characteristics of fire insurance contracts are:

- it is a contract of indemnity
- it is a contract of utmost-good faith
- it is a personal contract
- cause of fire is immaterial
- insurable interest
- indivisible contract
- subrogation and contribution
- proximate cause

4.6 SELF-ASSESSMENT QUESTIONS:

- Essentials of Valid Contract
- Fire
- Ignition

4.7 ESSAY – TYPE QUESTIONS:

- Discuss the characteristics of fire insurance contract

4.8 REFERENCE BOOKS:

- Principles and Practice of Insurance – M.N.Mishra.

- Dr. D.N.M.RAJU.

Lesson- 5

KINDS OF FIRE INSURANCE POLICIES

5.0 OBJECTIVES:

After completion of this lesson, you should be able to understand:

- Valued policy
- Valuable policy
- Specific policy
- Average policy
- Consequential loss policy
- Sprinkler & leakage policy

STRUCTURE:

5.1 Kinds of Fire Insurance Policies
- 5.1.1 Valued Policy
- 5.1.2 Valuable Policy
- 5.1.3 Specific Policy
- 5.1.4 Floating Policy
- 5.1.5 Average Policy
- 5.1.6 Excess Policy
- 5.1.7 Declaration Policy
- 5.1.8 Adjusted Policy
- 5.1.9 Maximum value with Discount Policy
- 5.1.10 Reinstatement value Policy
  - 5.1.10.1 Difficulties in Reinstatement Policy
- 5.1.11 Comprehensive Policy
- 5.1.12 Consequential Loss Policy
- 5.1.13 Sprinkler Leakage Policies

5.2 Summary

5.3 Self-Assessment Questions

5.4 Essay-Type Questions

5.5 Reference Books

5.1 KINDS OF FIRE INSURANCE POLICIES:

The various kinds of fire insurance are as follows:

5.1.1 Valued policy: The value of the property to be insured is determined at the inception of the policy. In this case, the insurer pays the total admitted value irrespective of the then market value of the properties. The measure of indemnity is the value of the property at the time of fire occurrence but the value of the property agreed at the time of inception of policy. The insurer pays a fixed sum to the insured on the destruction of the property insured. The amount fixed may be more or less than the actual market value of the property destroyed by fire at the time of loss. The amount payable in the event of destruction by fire is based on the value of property rather than market value of the property destroyed by fire. The valued policies are suitable for insuring special pictures, sculptures, works of art, jewellary, rare things, articles of daily use. The valued policies are used inrespect of the above things as the estimation of the value of these things cannot be assured at the time of fire loss. The valued policies are betrayal from the principle of indemnity because the market price is not paid in this case.

These policies are beneficial to the insured since the insurer never asks to prove the value of property at the time of loss by producing receipts. The only disadvantage in this method is that the additions made to the property cannot be added to valued policy. The disadvantage is that the new purchases and replacements cannot be added to the valued policy. Therefore, its valuation is revised at frequent intervals. The insurer has to pay more than the actual loss when the market value of the property has gone down. The valued policies can be disputed on grounds of fraud.

5.1.2 Valuable policy: In this type, the claim amount is determined at the market value 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. It is truly based on the principle of indemnity.

5.1.3 Specific policy: Where a specific sum is insured on a specified property for a specified period, the entire amount of the loss is paid provided the actual loss does not exceed the insured amount. In this case the value of the property has nothing to do in calculating the actual loss. It is the sum insured which sets a limit beyond which loss cannot be reimbursed provided the actual loss exceeds the sum assured.

5.1.4 Floating policy: It covers one or more kinds of goods provided they belong to the same owner. These goods relate to one sum and one premium and for one time only. It covers the various stocks at various places. Since, the properties are spread in different localities in different forms, the risk to which they are exposed is also varying. Hence, it is difficult to determine the premium rates under this type. These policies are suitable to beg manufacturers or traders whose stocks may be stored at various warehouses, godowns, port or railway stations. In some cases, the owner should take specified policy for each good because the quantities of goods deposited in each will fluctuate. The floating policy contains the average and marine clauses.

5.1.5 Average policy: A policy containing average clause is called an Average Policy. The measure of indemnity depends on the value of the property insured. If the policy holder insures the property for lesser value than its actual value, the insured is deemed to be his own insurer for the amount of under-insurance. The insurer will pay only such proportionate of the actual loss as his insurance amount bears to the actual value of the property at the time of loss. For example: A building worth Rs.5,00,000/- is insured for Rs. 3,00,000/-. The damage caused to the building is Rs.50,000/-. The insurer will pay only Rs. 30,000/-. This can be understood from the calculation shown below:

Formula = Insured amount / Value of property x actual loss

$$= \frac{3,00,000/-}{5,00,000/-} \text{ X } 50,000 = \text{Rs. } 30,000/-$$

Thus, the insured suffers a loss of Rs.20,000 i.e. (50,000-30,000) because of under - insurance. Had he insured for the full value, he would have received Rs.50,000/- which is the actual total loss.

The average clause applies only to under-insurance. This clause is ineffective when the property is insured for the full value. Under-insurance penalizes the insured by means of “average clause”. Sometimes, the average clause is accompanied with the co-insurance clause.

5.1.6 Excess policy: Sometimes, the businessmen may not be in a position to take a specified policy relating to his stocks which may fluctuate from time to time. If he takes a policy for higher value of the stock, he has to pay higher premium. On the other hand, if he takes insurance for lesser amount, he is penalized by the “average clause” when loss occurs. To prevent this the businessman can take two policies on the same stock. One for fire loss policy and the other for excess policy. The first policy covers the value of stocks which never go beyond a particular level. The minimum level of stock can be obtained from his past records and for the other part of the stock which is over and above the minimum limit, he can purchase another policy called “excess policy”. The actual value of excess stock is declared periodically. The amount of premium is calculated on average periodical excess amount. Since, the chances of paying premium on the excess amount is not certain, the rate of premium is also normal. Thus, he pays lesser premium than what he would have paid, had he taken a specified policy. The “average clause” applies to this policy also.

5.1.7 Declaration policy: The excess policy contributes to only a rateable 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 due to average clause. Moreover, if the “First loss policy” was also subjected to average clause condition, the insured is at loss. The declaration policy gives protection to the insured in such cases. In declaration policy, the insured takes insurance for the maximum amount that he considers would be at risk during the period of the policy. On a fixed date of every specific period, the insured furnishes a declaration of the amount. The premium is provisionally paid to 75% of the annual premium amount. The annual premiums are fixed based on the average of those declarations. If the actual premium payable is less than the provisional premium paid, the difference is paid to the insured and vice-versa. The declaration must be made within a specified period, otherwise the sum insured will be considered as the declaration value.

The main advantage of this policy is that the premium is limited to the actual amount at risk. The insured can pay premiums to the full sum assured throughout since if the premiums paid are more than what is payable, then the excess premium paid is returned to the insured. This type of policy is very useful to businessmen whose stocks are exposed to market fluctuations from time to time. There is a scope to commit fraud by the insured by under valuing his stocks and pay lesser premium. Therefore, these policies are issued only to the reputed business concerns only who command lot of goodwill in the market.

5.1.8 Adjustable Policy: Adjustable policy removes the disadvantages present in other types of policies. This is an ordinary policy. In this the insured is at liberty to adjust the premiums on pre-rate basis depending on the variations in the stock. Under declaration policy, the insured is entitled to receive the excess premium paid depending on the market value and actual value of loss. As a result the unscrupulous policy holders may resort to manipulations. They may even resort to put

fire to the property insured to gain monitory benefit. This danger is avoidable in respect of adjustable policy. This policy is insured for a definite term on the existing stock. The premium is calculated in the ordinary manner. The insured informs the insurer whenever there is variation in the stock. Whenever there is variation in stock, the policy is suitably endorsed and the premium is adjusted on a pro-rate basis. Thus, the amount of the policy changes with variation in stocks.

5.1.9 Maximum value with Discount Policy: Under this method no declaration or adjustment of policy is required. The policy is taken for a miximum amount and full premium is paid. At the end of the year on-third of the premium paid is returned to the insured if no loss occurs. It is similar to declaration policy. It need not check or record any declaration. It is a ready method of coverage for maximum amount. It is not issued inrespect of all commodities. It is confined to only selected commodities.

5.1.10 Reinstatement Value Policy: Re-instatement in simple terms means replacement of lost property or damaged property. The clause is related to the fire insurance policy of fixed assets like buildings, machinery, furniture etc.

In Anderson Vs. Commercial Union Assurance Company, reinstatement in the case of total loss requires rebuilding the premises or replacing the goods by an equivalent, and in the case of partial loss executing the necessary repair.

It is the standard policy with a value re-instatement clause. The reinstatement clause of the policy states that in the event of loss, the payment to be made to the insured is the cost of reinstating the same kind of property by a new one. Unlike a standard policy where the insured can recover only the depreciated value of the insured property where the insured is entitled to recover the cost of replacing the lost or damaged property.

Points to be considered:

- The insured shall intimate to the insurer about his interest in reinstating the property within the time allowed. Otherwise the loss is settled on indemnity basis.
- If the insured is not interested in reinstatement, the insurer is liable only for the market value of the property lost by fire.
- Until reinstatement is carried out and expenditure incurred, the insurer's liability is on an indemnity basis.
- The insured must carry on the process of reinstatement within a reasonable time and complete it within twelve months after destruction of property or within the stipulated time by the insurer. If the insurer fails to do so, the insurer's liability is on the basis of market value.
- The insured has to submit the plans, specifications and other details needed for the reinstatement, to the insurer at his expense. When the insurer demands for such plans it does not imply that he is elected to reinstate the property.
- The insured may opt for reinstatement at a different site provided the insurer's liability does not increase.
- The insurer after electing to reinstate should put the property close to what it was before the fire. He is liable for the damages if he fails to do so.

5.1.10.1 Difficulties in reinstatement: Insurer prefers to pay in money instead of reinstating the property lost or damaged because of the complications involved. It is because in all case the actual expenses of reinstatement is more than the expected. In such cases, the insured may not be satisfied. Moreover, reinstatement is difficult if the insurance is subjected to average. The insurer also does not prefer reinstatement because once the in surer opts for reinstatement he cannot with draw from his commitment.

However, in standard policy, the clause of reinstatement is beneficial to the insurer. In this the insurer has the option either to opt for reinstatement or opt for payment of money. The insured cannot force the insurer to reinstate the property if the insurer opts to pay money. Once the money is paid, the insurer cannot compel the insured to reinstate the property. Similarly, once the insurer opts for reinstatement he cannot retract from the position later.

Insurer exercises his right of reinstatement when:

- The conditions of policy confer the right to reinstatement on the insurer.
- The insurer suspects that the loss is the result of a willful act of the insurer.
- The insurer is bound to reinstate on a request of any person but not the insured who has an interest in the subject-matter of insurance.

5.1.11 Comprehensive Policy: This policy covers not only the risk of fire but also other risks against burglary, riot, civil commotion, theft damage from lighting etc. It is also called "All in policies". Comprehensive does not mean that every type of risk is covered. There may be exclusions and limitations. It is beneficial to both the insurer and the insured. The insurer gets higher premium and the insured is protected against losses due to several specified perils.

5.1.12 Consequential Loss Policy: Generally, fire insurance indemnifies the material loss only. The intangible interest is not indemnified. It provides a check on the insured. As a result the insured takes a lot of care inrespect of the property insured. It is not sufficient if material loss only is covered. It should cover consequential loss also. Thus, this policy covers both tangible and intangible loss of properties.

Thus, this policy covers protection for loss of not profits payment of standing changes, expenditure inrespect of increased cost of working etc. Due to fire, the volume of business is effected. It leads to reduction in net profits. It also results in increase in standing changes. Thus, the object of this policy is to indemnify the insured against financial loss which he may incur due to the interruption of his business. Previously, the measure of indemnity was a fixed percentage of the amount payable under an ordinary fire policy in respect of a material loss. Thus, the insurer, used to pay the amount of loss and also a fixed percentage of the loss. 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 the reduction in turnover and increased cost of working in monitoring the business on its pre-fire level.

5.1.13 Sprinkler leakage policies: This policy covers destruction by water accidentally discharged or leakage from automatic sprinkler installation in the insured premises. However, the leakage of after due to heat caused by fire, repair of building or sprinkler installation, earth-quake, war, explosion are not covered by this policy.

5.2 SUMMARY:

Meaning of fire is not described in the policy. Therefore, it should be taken in a general sense as an ignition of some kind. As recognized in different legal cases the requisites of fire are as follows:

- there must be an ignition
- the ignition must be accidental
- the ignition must be of the property that must not be on fire.

Once the requisites of fire are satisfied, incidental losses arising in the process of putting down the fire are also covered. For example: damage by smoke or water used to extinguish fire etc.

A consequential losses such as loss of profits, increase in cost of work etc. are not covered.

A fire insurance policy may be a standard policy or a special policy. It contains the terms of the policy. It includes:

- the preamble
- the perils covered
- the limitation of the sum assured.

A special policy is a policy designed for a particular insured to suit his needs. This is done by incorporating clauses of special conditions in the standard policy. The special policies include:

- Reinstatement value policy
- Declaration policy
- Floating policy

5.3 SELF-ASSESSMENT QUESTIONS:

- Valued policy
- Valuable policy
- Floating policy
- Specific policy
- Average policy

5.4 ESSAY-TYPE QUESTIONS:

- Discuss the essential features of fire insurance policies
- What do you mean by valued policies. Reinstatement policies and adjustable policies
- What are special policies? Explain in detail the reinstatement value policies, floating policy and declaration policy.
- Explain a reinstatement value policy? What are the difficulties involved in the case of instatement value policies.

5.5 REFERENCE BOOKS:

* Principles of Insurance Law - M.N.Srinivasan
* Principles and Practice of Insurance - M.N.Mishra
* Manual of Insurance Laws - Ravi Puliani & Mahesh Puliani
* Principles of Life Insurance - Dr. S.L.Karve

- Dr. D.N.M. RAJU.

Lesson - 6

POLICY CONDITIONS OF FIRE INSURANCE

6.0 OBJECTIVES:

After completion of this lesson, you should be able to understand:

- Informative conditions
- Proper conditions
- Preamble of the policy
- Perils insured
- Implied conditions
- Express conditions

STRUCTURE:

6.1 Introduction

6.2 Standard form of policy

6.3 Preamble of the policy

6.4 Perils insured

6.5 Policy conditions

6.5.1 Implied condition

6.5.2 Express condition

6.6 Summary

6.7 Self-assessment questions

6.8 Essay type questions

6.9 Suggested readings

6.1 INTRODUCTION:

The fire insurance may be defined as a contract by which the insurer agrees to make good any loss suffered by the insured through damage (or) destruction of properties by fire up to the sum assured in consideration of payment called premium. The contract of fire insurance is expressed in a document described as a policy. It provides for the payment of a sum of money on representing to the pecuniary loss incurred by the insured through the damages (or) destruction by fire of the property desirable in the policy (or) alternatively the restoration (or) replacement of what has been damaged (or) destroyed.

6.2 STANDARD FORM OF POLICY:

The conditions in fire insurance may be of varied nature, but the standard form of policy includes several conditions which are common to most of the fire policies. The fire insurance contract, principle and practice are governed by the conditions contained in the policy. In the beginning , the conditions wave very few but with the advancement of the fire insurance several conditions were introduced. Now the conditions became very complex and varied. Now, therefore several conditions are detected from the policy and sometimes, the policy is called “conditional less policy” although no policy can be conditional less at a time.

Needs have arisen about the common conditions of the policy. The leading insurer is agreed on a code of essential conditions which are embodied in the standard form of policy. The standard form of policy is now commonly used by fire insurer’s. According to standard form the conditions of fire policies are divided into two parts:

i) Informative

ii) Proper conditions

The informative conditions are also divided into two parts:

i) Preamble

ii) Perils insured

6.3 PREAMBLE OF THE POLICY:

The preamble of the policy sets form the agreement between the insurer’s and insured subject to the conditions of the contract. Payment of consideration is an essential consideration of the contract. The insurer, therefore undertakes to pay to the insured the value of loss to the property at the time of its destruction (or) the amount of damage done (or) to reinstate or replace the property (or) any part thereof.

The second clause of the preamble provides for the conditions and terms of the renewal of the policy which limits the liability of the insurer.

The third part contains the schedule where the name of the insured, the property insured, sum assured, the total sum assured, period of insurance and premium amount are mentioned.

6.4 PERILS INSURED:

The next important part of the policy is description of the perils insured. The perils insured under the standard form of policy are described below:

6.4.1 Fire: Fire is not occasioned by a happening through:

(a) its an spontaneous fermentation (or) heating (or) its under going any process involving the application of heel.

(b) Earthquakes, subterranean on fire, riot, civil commotion, war, emotion, act of foreign enemy, hostilities, civil war, rebellion, revolution, insurrection (or) military (or) insured power.

To constitute fire within the meaning of contract of fire insurance two essentials must be present. viz.

1) there must be ignition and
2) the fire so far as the insured is concerned must be fortuitous in origin.

However, the fire caused by incendiavison without the knowledge (or) connivance of the insured will be included under fire insurance.

The following form of loss are also indemnified provided they are proximately caused by fire. since:

i) damage caused during (or) immediately following fire by smoke, scorching and falling walls (or) part of the building in which fire takes place.
ii) Damage caused by firemen and others in the discharge of their duties.
iii) Damage to property immediately after removal from building caused by exposure to weather, provided the removal was justified.

6.4.2 Lighting: The lighting may be a form of fire but loss occasioned by lighting without ignition is not a loss by fire. Where the lighting results in origin, a loss occasioned by sub ignition is a loss by fire. However any loss caused by lighting whether ignition results (or) not is covered under fire insurance.

6.4.3 Explosion: The explosion of gas used for illumining and domestic purposes in a building in which gas is not generated and which does not form part of gas works will be insured under fire insurance.

6.5 POLICY CONDITIONS:

The policy conditions may be precedent to the contract conditions subsequent to the contract and conditions precedent to liability. The conditions must be fully compiled with to make the insurer liable under the contract. The conditions may be implied (or) expended. Nature which be either of general nature and specially designed with reference to a particular contract.

6.5.1 Implied conditions: The following conditions are implied conditions in fire insurance:

(a) Existence of property: The subject matter of insurance should exist when the policy is effected.

(b) Insurable interest: The insured must have insurable interest from the time of the commencement of risk up to the completion of the contract.

(c) Insured property: When the fire occurs the property damaged should be the property insured for obtaining claims on the property.

(d) Good faith: The insured must observe good faith towards the insurer. He must disclose all the material fact truly and fully and should try to prevent the fire and extinguish the fire if it occured with a reasonable care.

(e) Indemnify: The subject matter of insurance should be described in the policy as to indemnify it clearly and so define the risk which insurer’s have undertaken.

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

1) **Misdescription:** The policy shall be voidable in the event of misdescription, misrepresentation (or) non-disclosure of any material facts. If there is any material missdiscription of any of the property insured, the insurer shall not be liable upon this policy. Therefore, if the assured fails to disclose all material facts (or) be guilty of misrepresentation (or) misdescription in any way the policy shall be voidable at the insurer's opinion. According to the condition of misdescription, any misrepresentation, misdescription (or) opinion must be material. Therefore they should be entered correctly and fully.

2) **Alteration:** The insurance contract may be avoided if there is any alternation after the commencement of this insurance. The alteration may be of following types:

   (a) Removal: The removal of the insured property without the consent of the insurer makes the contract voidable. If without the consent of the insurer, the property is removed from one place to another, the insurer will no longer responsible for any loss arising in relation to the property removed. Nevertheless the insured is always responsible for informing the insurer whether the risk has increased or not by removal.

   (b) Increase in risk: The alternation may take place where the risk of the insured property loss increased. The insurer can avoid the policy in respect of the items altered. However, if the insurer is agreed to continue the contract by changing extra premium as the increased risk, after getting information of alteration he can do so. If the assured has not informed the insurer, the insurer can waive the contract.

   (c) Change of interest: Without the contest of the insurer the interest on the insured property can not be changed if the interest has been changed, the insurer will cease his responsibility. The assignment or transfer of property, interest thereon and policy will be valid only when it has been made after the express context of the insurer.

   (d) Exception: The change in interest is cease able in the case where property changes as account of will (or) operation of law. The insurer will be liable through the consent has not been obtained.

3) **Exclusions:** The risks, which are excluded from the fire policies, are called exceptions (or) exclusions.

   (i) Destruction (or) damage by explosion except as stated on the face of the policy.

   (ii) Goods held in trust (or) on commissions, money, sanities, stamps, documents, manuscripts, business books, patterns, models unless specially mentioned by the policy.

   (iii) Destruction of a damage to property which at the time of the happening of such destruction (or) damage is insured by any marine policy.

   Earthquake, riot, civil commotion, foreign enemy can be covered by payment of a special rate of premium and under special conditions. The burden of proof that the fire occurred due to excepted perils lies on the insurer.

4) **Fraud:** Fraud always invalidates a contract and the following provisions is made in the standard policy.

If the claims be in any respect fraudulent (or) if any fraudulent means (or) devices be used by the insured (or) anyone acting on his behalf to obtain any benefit under this policy (or) if any destruction (or) damage be occasioned by willful act (or) with the convince of the insured of benefit under this policy shall be forfeited.

5) **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 bone by the insured. The insured has to disclose other inferancess in respect of the property for the purpose of determing the contribution that may be payable by other insurer. The insured must give immediate written notice of any destruction (or) damage and should be followed with a written notice with in 15 days of the claim. The insurer may extend the time where there is a reasonable case for it.

6) **Reinstatement clause:** The insurer has the option to discharge his liability by reinstating (or) replacing the damaged property. The cash payment of actual loss is not made under this claim.

   If the company elects to reinstate (or) replace any property the insured shall at his own expense, furnish the company with such plans, specifications, measurements, qualities and such other particulars as the company may require and no acts done (or) caused to be done by the company with a view to reinstatement (or) replacement shall be deemed as election by the company to reinstate (or) replace.

7) **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 :

   (a) enter and take and keep possession of the building (or) premises where the loss (or) damage has happened.

   (b) take possession of (or) require to be delivered to it any property of the insured in the building (or) on the premises at the time of loss (or) damage.

   (c) keep possession of any such property and examine , sort, arrange, remove and otherwise deal with the same.

   (d) sell any such property (or) dispose of the same for account of whom it may concern.

8) **Subvogation:** This mater clear that the insured is precluded from obtaining more than the actual loss. When the insurer has indemnified the insured against a loss the insured must transfer all the rights regarding the property damaged. The insured cannot recover from the third party as well as from the insurer more than the actual loss. However, both the parties can indemnify only up to the amount of loss. The insured is entitled to receive payment from the third party, by reason of negligence of law (or) agreement. The insurer cannot recover from third party more than the sum paid by him. The excess amount can be retained by the insurer only as the trustee of the insured.

9) **Warranties:** Every warranty to which the property insured (or) any item thereof is (or) may be made subject shall from the time the warranty attaches apply and continue to be in force during the whole warranty of this policy and non compliance with any such warranty whether it increases the risk or not shall be a bar to any claim in respect of such property (or) item, provided that if this policy is renewal claims in respect of loss (or) damage occurring during the removal period shall not be barred by reason of warranty not having been complied with at any time before the commencement of such period.

10) **Arbitration:** If any loss arises as to the amount of loss (or) damage such difference shall independently of all other question be reffered to the devision of an arbitration to be appointed in writing by the parties in difference (or) if they cannot agree upon a single arbitrator to the decision of two disinterested persons as arbitrators of whom one shall be appointed in writing by each of the parties within two calendar masters after having been requisitioned so to do in writing by the other party.

The above cause is meant to avoid undue litigation and settle the dispute by arbitration. It is very simple, cheap and expedition method of setting disputes.

11) **Purchaser's interest clause:** Some times a further memorandum in the following term is also added to the policies.

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

12) **Loss procedure:** It is the responsibility of the insured to inform about the loss as soon as the loss occurs. The insurer will send a claim form to the insured. In this form a detailed information about the loss, the place and the circumstances under which it occurred and description of the property insured are given. The insurer will examine the claim form and if find it reasonable, claim is paid at once. If the loss is serious and disputable the insurer may appoint an assessor called "adjuster". The adjuster will examine the causes of fire, the amount of loss and the amount of salvage. The details of the examination are sent 'o' the insured and the insurer. In case the property was insured for more than one insurer, the leading office may pay the amount of claim.

POLICY CONDITIONS:

EXGRACIA PAYMENT:

When the insurer pays a part claim before final settlement, it is called "exgracia" payment. It is paid to protect the insured against any hardship, resulting out of fire accident. It is also to protect the goodwill of the organisation.

Contribution and Average:

1) If at the time of any loss (or) damage caused to any property insured there be any other existing insurance (or) insurances whether taken by the insured (or)by the third party relating to the same property, then the insurance company is not liable to contribute more than its rateable proportion of such loss (or) damage.

2) If the value of the property insured is more than the sum assured will be considered as being his own insurer for the difference of the value not insured. The insured has to bear the proportionate loss accordingly. Every item of the policy shall be subject to this condition separately if the items exceed more than one.

3) The contribution clause clarifies that if there is more than one insurance all the insurers will make good the loss according to their proportion to the total sum assured. In other words, the liability of the insurers are limited to the extent of their rateable proportion of loss. The insured can also recover the entire loss from any one of the insurers leaving him to collect the proper contributions from the other insurers. That's how the contribution clause makes the claim settlement easy. The rateable proportion of each insurer is arrived at by dividing

the sum insured under his policy by the total insured sum of all policies on the risk.

CONDITIONS TO BE SATISFIED:

1) The subject matter of insurance must be the same to all the policies.
2) The peril which is insured against must be the same to all of them.
3) The same insured must be interested in all the policies.
4) All the policies must be in force at the time of the loss.

The average clause in fire insurance penalises as under insurance by a corresponding under payment of laws. The clause revails that the loss will be paid in proportion to the amount insured and total amount of property.

For example:

$$\text{Losses} \times \frac{\text{amount of insurance}}{\text{amount of the property}}$$

The pro-ratio condition of average is applicable to all policies issued by tariff officer in India.

6.6 SUMMARY:

Fire insurance may be defined as a contract by which the insurer, agrees to make good any loss suffered by the insured through damages of properties, by fire, upto the sum assured inconsideration of payment called premium. The contract of fire insurance is expressed in a document called policy. It provides for the payment of a sum of money on representing the pecuniary loss incurred by the insured through the damage by fire of the property described in the policy (or) the restoration (or) replacement of what has been damaged (or) destroyed.

The conditions in fire insurance are of different nature. The standard form of policy includes several conditions which are common to most of the fire policies.

The preamble of the policy sets the agreement between the insurer's and the insured subject to the conditions of the policy. Payment of premium is the essential consideration of a fire insurance contract. The insurer undertakes to indemnify to the insured any loss of property destroyed by fire belonging to the insured. The standard policy cover's fire, lighting, explosions.

The conditions, which are set out in the policy, are called express conditions. The implied conditions are not mentioned on the policy. But are deemed to be present with reference to the policy.

The implied conditions include:

- existence of property
- insurable interest
- good faith
- identity

Express conditions include:

- misdiscription
- alteration
- exclusion
- fraud
- claim
- reinstatement claim
- insurer's rights
- subrogation
- warranties
- arbitration
- interest claim
- loss procedure

6.7 SELF-ASSESSMENT QUESTIONS:

- perils insured
- implied conditions
- express conditions
- fraud
- reinstatement clause
- subrogation
- warranties
- arbitration

6.8 ESSAY TYPE QUESTIONS:

1) What do you mean by policy conditions?
2) What are the important conditions of policies?
3) Discuss contribution and average clause.

6.9 REFERENCE BOOKS:

Principles and Practice of Insurance - M.N.Mishra

Principles of Insurance Laws - M.N.Srinivasan

'

- Dr. D.N.M.RAJU.

Lesson-7

RATE FIXATION IN FIRE INSURANCE

7.0 OBJECTIVES:

After completion of the lesson you should be able to understand:

- Classification
- Discrimination
- Schedule rating

STRUCTURE:

7.1 Introduction

7.2 System of Rate Fixation

7.2.1 Classification

7.2.2 Discrimination

7.2.3 Schedule Rating

7.3 Principles of Rate Fixation

7.3.1 Personnel judgement rating

7.3.2 Experience rating

7.3.3 Schedule rating

7.4 Tariff rates

7.5 Principles adopted by the tariff

7.6 Tariff system

7.7 Summary

7.8 Self-Assessment Questions

7.9 Essay Type Questions

7.10 Reference Books

7.1 INTRODUCTION:

The rate fixation in fire insurance is not so scientific as in life insurance. The physical hazard can be estimated satisfactorily but the moral hazard, being varied and unknown, cannot be ascertained so correctly. While calculating the premium, various relevant factors of both the hazards are properly estimated and evaluated. The premium must be adequate enough to provide for

full payment of claims including catastrophic losses, expenses of management and a margin of profit. The tariff offices follow the collective system of tariff rating. After nationalisation of general insurance businesses, the tariff rating is applied.

7.2 SYSTEM OF RATE FIXATION:

The actual process of rating consists of three steps:

1) Classification

2) Discrimination

3) Fixing rates (or) schedule rating

7.2.1 1) Classification:

Properties are generally divided into three main classes. viz;

(i) Common (or) Ordinary

(ii) Hazardous

(iii) Double Hazardous

Different premium rates are fixed for each class. These classifications do not hold good for a long time because of varied nature of risk. Now the risks are classified into various classes according to factors affecting fire risk.

(i) Construction (or) Structure:

The construction of the building has always been of great importance in rating.(Building made of brick will be more sound than the building made of wood). Today the construction of building is divided into two types of structure.

(a) Fire-proof building

(b) Building without fire-proof

The height of the building, the area, the number of unprotected floor openings, construction of walls, floors, roof etc. are considered in calculating the fire hazard.

(ii) Occupancy:

The risk considerably varies according to the nature of occupancy, i.e., the use to which the building is devoted. One building may be used as a dry goods store (or) hardware store, (or) furniture store(or) for residential purpose. The building may have different risks because of the different substances and processes which they contain and the different uses to which they are put. There is a inherent connection between the building and its contents. It is essential for companies to change their rates to meet the changing business conditions. Rate making in fire insurance does not present constant factors. Justice demands that the insurer should recognise the important changes. A building occupied as a residence (or) an office is a better risk than a retail shop. A store room used for the storage of highly combustible goods is more hazardous from a fire insurance viewpoint than a grocery shop. The process of manufacture, the nature of raw materials used, the type of machinery are important factors to influence the physical hazard.

(iii) Nature of flooring:

The nature of flooring influences the risk to a greater extent. Existence of wooden floors in the building introduces an additional physical hazard. Wooden floor becomes a fuel in the event of fire. It may collapse easily causing damage to property.

(iv) Height:

The height adds difficulty in fighting a fire on the upper floors. There may be risk of water damage to property on the lower floors, when water is used to extinguish a fire on the upper floors. The floors involves heavy risk of collapse of the upper floors.

(v) Floor and wall openings:

Openings in the floor for lifts and belts constitute higher physical hazard. It may cause greater chances of ignition of fire and difficulty of extinguishing the fire.

(vi) Exposure:

The chances of risk may differ from property to property according to the decree of exposure. A building (or) property may be situated in a congested conflagration locality involving greater danger to the property. Expose stands second as a cause of fire and is more than the occupancy hazard.

(vii) Lighting, Heating and Power:

The fire may occur due to short-circuit. Combustion can also arise from faulty installation and dampness. The lighting system e.g. by gas (or) oil, leakage of fuel and naked flames cause more hazard to property.

(viii) Place (or) situation:

The location of the property, nature of adjoining premises, the distance from a fire brigade station (or) the source of water supply, the degree of congestion in the area are some of the important factors to influence the degree of risk.

(ix) Protection:

The protection facilities may be “public” (or) “private”. When protection facilities are available the fire may be extinguished in its incipiency. The fire extinguishing apparatus, water supply, police system etc., can reduce the degree of risk. Smaller premium is charged where modern devices for preventing and extinguishing fires are present. It would be injustice to charge the same rate for all types of risk.

(x) Time:

The time of loss must be kept into consideration. The annual loss ratio is by no means uniform every year. So, the rate fixation must account for good (or) bad years to determine approximately; the real loss. Therefore, a long period of time is taken into consideration while calculating the premium.

7.2.2 Discrimination:

The differentiation of the rates for individual risks in particular class is known as “DISCRIMINATION”. Each additional feature of risk is charged extra premium. The better types of risks are

encouraged and attracted by the insurer. Lesser premium is charged where fire extinguishing appliances (or) fire-resisting construction are present. The tariff system is based on the law of average and graded schedule is formulated where different rates are ascertained for the different types of risks.

Thus, the different risks are put in a specified class and are differentiated from each other according to the merits and demerits of the individual risk. It aims at a more equitable basis of rating.

For example: dwelling house in a class and therefore all dwelling houses are put in the same class. Since the dwelling houses are of different types the class may be sub-divided into several classes according to the degree of hazard. An appropriate discount could be given for those houses which have fire extinguishing appliances and absence of exposure in the vicinity.

7.2.3 Schedule rating:

It is a plan by which hazards with respect to any particular risk are measured. It is defined as, "………an empirical standard for the measurement of relative quantity of fire hazard. Schedule rating takes into consideration the various items influencing the peril of fire. It is 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 an appropriate chare.

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 years. The period should be such that the experience of good as well as bad years may be taken into account. A large number of items, as far as possible, are taken so that the law of average may apply. Larger the number, the more representative will be the rate of premium.

Thus the average fire rate is calculated as follows:

$$L/V \times 100$$

Where "L" represents the loses and "V" represents the value of the amount insured.

The rate arrived is the net premium which is sufficient to meet the losses in that particular risk. This net premium includes the expenses of management, commission, and a margin for profit to arrive at the gross premium.

The rate so calculated is called "Normal Rate" for a particular group from one another. The risks may differ from one group to another and to maintained uniformity between different risks and between the insured and the insurer the principle of discrimination.

The rebate will be allowed after taking into account the efficacy of the means adopted.

7.3 PRINCIPLES OF RATE FIXATION:

7.3.1 Personnel Judgement Rating:

This method was the 1st to be used generally. Under this method, the rates fixed will indicate the opinion of the rate makers. The judgement is the result of observation of many years. The rate made for equitable, no steps are taken for locating minor differences. All features both good and bad are taken together were calculating the rate by differentiating from the average premium.

Different rates may be determined in respect of the same risk; since personnel judgements differ. Because of the complexities of the modern properties, the disadvantages of this system became more apparent. This method may not satisfy the policy holders, because different premiums are charged for the same type of properties. However, reliance is placed on personnel judgement in making rates.

7.3.2 Experience Rating:

This method is not based on judgement. The net affect of the judgement of a large group of individuals is taken into account. It is based on the experience of several persons relating to several years.

Thus, it reflects an accurate treatment of various elements in measuring fire hazards. Under this method, the risks are classified according to their loss experiences.

This system may not be practicable. The experience of the past years may not be useful in the future. However, the rates arrived on this basis may be used effectively when compared to other systems.

7.3.3 Schedule Rating:

Under this method, fire hazard is separated into various elements and each element is assigned a particular value. The schedule describes a property at standard. For each standard risk , a standard premium is assigned. To this standard premium certain stipulated charges are made for defects in construction and charges are made for defects in construction and certain deductions are made for unusually good features as compared to the standard.

The advantages of this system is that if provides more equitable treatment for all the insured. Due to the systematic treatment of the risk, the premium rates will become almost the same.

Another advantage is that it reduces friction between the company and insured. Under this method, the insured will be in a position to understand how his rate is made in every case.

The third advantage is that it reduces fire waste, because it encourages proper construction of buildings by charging for any deficiencies from standards. It also recognizses exceptionally good constructions by deductions.

Fourth advantage is that it provides thorough inspection and rating.

7.4 TARIFF RATES:

The fire insurance business is governed by the tariff formulated by the “TARIFF ADVISORY COMMITTEE”. It is a statutory body established under the provisions of Insurance Act,1968. It’s main object is to control and regulate the rates, terms and conditions that may be offered by insurers in respect of General Insurance Business. The tariffs provide the rate of premiums for all classes of risks including the rules and regulations relating to the business. The tariff advisory committee has “four” reasonal committees located at Delhi, Calcutta, Madras and Bombay.

Delhi includes the states of Jammu & Kashmir, Punjab, Haryana, Rajastan, Uttara Pradesh, Himachal Pradesh and the Union Territories of Delhi.

Calcutta includes the states of Assam, Bihar, Orissa, West Bengal and the Union Territories of Andaman and Nicobar Islands, Manipur and Tripura.

Madras includes the states of Andhra Pradesh, Kerala, Tamilnadu and Karnataka and the Union Territories of Laccadiv, Minicoy and Amindive Islands.

Bombay includes the states of Gujarat, Maharastra and Madhya Pradesh.

Each region has its own tariff providing for rates, warranties and other regulations applicable to risks situated in its territorial jurisdiction. The tariffs applicable to each of the regions are similar in broad outline but differ in matters of detail such as actual rates which reflect local hazards and past experience of the area. These tariffs are formulated by applying the principles of fire insurance rating discussed earlier. Risks are classified into principal groups and rates are provided for each group on the basis of loss experience of each such group. After classification, discrimination is another feature of the tariff system of rating. In the same group of risks, there will be differences in the circumstances of individual risks. The differences are dealt with by charging extra premium for unfavourable features. For favourable features, discount is granted.

7.5 PRINCIPLES ADOPTED BY THE TARIFF :

A) Occupancy:

Risks are classified according to the occupation of premises. Goods are classified into Hazardous and Non-hazardous. Under this method, manufacturing process, heating, lighting and power, the nature of goods and damage base smoke and water etc.

B) Construction:

Buildings are classified according to materials used in the construction of walls and roofs. Fire resisting material, fire extinguishers etc, are also considered.

C) Situation:

Risks are estimated according to the location of property like, big cities, small towns, narrow streets, fire brigade services, water supplies survey facilities etc.

The tariff provides the following:

1) Definition of the class of risks.
2) A minimum basic rate for a normal risk in a class.
3) Extra rates for specified, common and special hazards of a particular risk; ex: situation in the mofussil, conflagration area, height, night work etc.
4) Discount in the premium for improvements in the risk, Ex: sprinkler installation, fire extinguished appliances.
5) General rules and regulations relating to business.
6) Standard wording for the policy forms clauses and warranties.

7.6 THE TARIFF SYSTEM:

The tariff have prescribed the order in which the various additional rates and discounts are to be applied to the final rate.

1) Tariff rates as mentioned against the relevant items in the tariff.

2) The extra rate mentioned in the item itself.
3) Extra for inferior re-construction
4) Artificial light extra
5) Extra for the use of mobile goods, handling appliances.
6) Mofussil, towns etc.
7) Extra for electrical installation not in accordance with the tariff regulations
8) Night work extra.

7.7 SUMMARY:

The rate fixation in fire insurance is not scientific in nature. In fire insurance only physical hazard can be estimated, but not the moral hazard. In calculating the premium a number of factors relating to both physical and moral hazards are evaluated. The premiums must caver for the full payment of claims. The premiums will be fixed by the companies by taking into account the possibility of losses, cost of management and a margin of profit. Generally, the tariff offices follow the collective system of tariff rating. The tariff rating is introduced only after nationalisation of general insurance business.

The various steps involved in the actual process of rating are:

(1) Classification

(2) Discrimination and

(3) Schedule Rating

7.8 SELF-ASSESSMENT QUESTIONS:

- Classification
- Discrimination
- Rate fixing

7.9 ESSAY TYPE QUESTIONS:

- Discuss the methods of rate fixation in fire insurance policies
- What are the principles of rate fixation in fire insurance.

7.10 REFERENCE BOOKS:

* Principles of Insurance Law - M.N.Srinivasan

* Manual of Insurance Laws - Ravi Puliani and Mahesh Puliani

* Principles of Life- Insurance - Dr. S.L.Karve

-Dr. D.N.M.RAJU

Lesson- 8

PAYMENT OF CLAIM OF FIRE INSURANCE

8.0 OBJECTIVES:

After completion of this lesson, you should be able to understand;

- Contents of survey report
- Salvage corps
- Application of average clause
- Pro- rata condition

STRUCTURE:

8.1 Introduction
8.2 Steps to be taken by the assessor
8.3 Requirements of a claim form
8.4 Contents of survey report
8.5 Salvage corps
8.6 Application of average clause
8.6.1 Pro-rata condition of average
8.6.2 Special conditions of average
8.7 Task of adjuster
8.7.1 Duties of an adjuster
8.7.2 Payment and discharge by adjuster
8.8 Waiver and Estopple
8.9 Summary
8.10 Self-Assessment Questions
8.11 Essay Type Questions
8.12 Reference Books.

8.1 INTRODUCTION:

The insurer should be informed about the loss as soon as the loss occurs. The insurer appoints an assessor to examine and to determine amount of liability on receiving the notice. The assessor has the power to make necessary arrangement on view of the insurer. Generally the assessor will have the ability and thorough knowledge in handling claims. The assessor will go to the place of accident and examine the property damaged personally. He collects all the available information relating to the nature and the extent of damage caused by fire. The assessor asks the insured about the loss, so that he can avoid future disputes relating to the claim in future. The insured is suggested to separate the salvage to reduce the possibility of further damage and to evaluate the amount of loss accurately.

8.2 STEPS TO BE TAKEN:

(1) He has to find out whether the policy is inforce on the date of fire (or) not.

(2) He has to find out whether the loss (or) damage is the result of a peril insured by the policy (or) not.

(3) He has to find out whether the property effected by the loss is same as the property insured under the policy (or) not

(4) He has to find out whether the notice of loss is received within reasonable time (or) not.

After due verification, a number is allotted to the claim and entered in the claim register. A separate docket is opened to fill the claim papers. The face of the docket provides for incorporating policy number, claim number, date of laws, date of survey, estimated loss etc.

8.3 REQUIREMENTS OF A CLAIM FORM:

(1)The form should contain the circumstances of the loss such as date & time of loss, place of fire etc.

(2) It should contain the cause of fire

(3) It should contain the particulars of the property damaged by fire, such as description, value of the property at the time of the fire, value of salvage and the amount of claim.

(4) It should contain the statement of other insurances effected on the property, the nature of insurance, the name of the insurer, the policy number and the sum assured.

The claim is recorded in the docket of claim where facultative re-insurance is involved, an advice of the loss is sent to the insurers.

8.4 CONTENTS OF SURVEY REPORT:

(a) Cause of loss:

It is necessary to know whether the fire occurred by an expected peril (or) caused by the negligence of a third party (or) caused by fraud. Often the exact cause of fire can not be established accurately. In such cases, the available evidence will have to be examined carefully to support a plausible cause.

(b) The amount recommended for payment is determined on the basis of current market value and under insurance.

(c) The method to dispose of the value of salvage.

(d) The position in respect of compliance with the warranties.

(e) Apportionment of the loss and expenses among the insures where there are more than one insurer.

(f) The assessor can find out whether the fire has been started at one place (or) at more than one place. He has to judge whether it is due to arson. He has to enquire whether there is any breach of warranty (or) negligence on the part of the insured.

(g) The exact amount of loss payable by the insurer. The average clause and the policy will determine the actual amount of loss payable.

On receipt of the claim form, the survey report etc., the claim is processed. A discharge voucher is to be signed by the insurer. The amount of loss payable by the insurer is settled by an agreement between the insurer and insured. If the matter can not be reached consensus between both the parties then the matter will be referred to arbitration. Generally the market value of damaged property will be taken into consideration while calculating the amount of loss. Sometimes the cost of replacement may also be considered. The replacement is possible only in advanced countries where the insurers have well equipped staff of replacement. The replacement of damaged property by the insurer is a rare phenomenon in India.

Before the release of the cheque relating to the claim settlement, the payment is recorded in the claims register and also in the claim docket. The salvage recoveries if any should be recorded in the claims register. The payment is recorded in the policy file and the sum insured is reduced by the amount of the claim. The sum insured can be re-instated on payment of proportionate premium from the date of re-instatement of the sum insured to the date of expiry of the policy. When the amount of loss estimated is small and the cost of investigation is high, then the survey is dispensed with and the claim is processed and settled on the basis of the complete claim form. When the insurance is on co-insurance basis, the surveyor is appointed. Each co-insurer is sent a preliminary advice of the claim followed by a copy of the final survey report. The survey report which indicates the apportionment of the loss among the co-insurers. Generally the leading office settles the entire loss and recovers the proportionate shares of the loss and expenses from the co-insurers.

8.5 SALVAGE CORPS:

Fire Salvage Association was incorporated in 1925 as a company registered by guarantee and the insurance companies are members of the association. The main objects of the association are to provide a fully trained corps to salvage materials from the buildings on fire, to protect them from water damage to restore them to serviceable conditions after fighting operations are completed. The corps also renders following services to the fire sub-committee, Bombay of the tariff advisory committee.

(1)Checking the fire hydrants in the cotton green storage area.

(2) Inspection of sprinklers in the godowns in the cotton green area

(3)Training of the fire fighting squads in the textile mills.

(4) Provision of facilities to the fire sub-committee to test fire sprinkler heads and other fire extinguishing appliances.

(5) Reporting on unusual features observed on the promises at the time of extinguishing the fire.

8.6 APPLICATION OF AVERAGE CLAUSE IN PAYMENT OF CLAIM:

When insurance is subject to pro-rata condition of average then the liability of the insurer is limited to the proportion of loss that the sum insured bears to the value of the property at the time of the damage. The liability of the insurer in case of a claim under policy subject to average, the loss

is determined in the usual manner, but the amount payable is determined after a comparison of the sum insured and the value of the property. In case of under insurance the liability of the insurers is limited.

8.6.1 The pro-rata condition of average:

"Whenever a sum insured is declared to be subject to average, if the property covered there by shall at the breaking out of any fire (or) at the commencement of an distruction (or) damage to search property by any other peril hereby insured against the collectively of greater value than such sum insured then the insured shall be considered as being his own insurer for the difference and shall bear a ratable share of the loss accordingly".

For example:

Sum insured	Rs.2,00,000/-
Loss	Rs. 50,000/-
Value of the property at the time of fire	Rs.3,00,000/-

The insurers liability is

$$\frac{\text{sum assured}}{\text{Value of property}} \times \text{Loss}$$

$$= \frac{2,00,000}{3,00,000} \times 50,000 \quad = \quad \text{Rs. } 33,333/-$$

Thus, the insured will bear Rs. 16,667/- and the insurer will pay Rs. 33,333/-

In this case, the insurers can not be compelled to pay the full sum insured. If the property is completely destroyed, then only the total loss will arise under the policy.

8.6.2 Special conditions of average:

"Whenever a sum insured is declared to be subject to the special condition of average, then if such sum shall at the breaking out of any fire (or) at the commencement of any destruction of (or) damaged to the property by any other peril hereby insured against, be less than $3/4^{th}$ of the value of the property insured in that amount the insured shall be considered as being his own insurer for the difference between the sums insured and the full value of the property insured at the time of such fire (or) at the commencement of such destruction (or) damage and shall bear a rateable share of the loss accordingly".

This condition will operate only when the sum assured is less than the $3/4^{th}$ of the total value of the property. If the sum insured exceeds this proportion of the value at risk, the insured recovers the full amount of loss upon the sum insured.

The assessor in the fire insurance dealt with some typical tasks also. He is also called "Adjuster".

8.7 TASK OF ADJUSTER:

1) What policies are agreement covered the property at the time of loss.

2) Whether the property described in the policy is located at the place of fire. Whether the property has been shifted to a safer place at the time of loss.
3) The nature and extent of the interest of the insurer in the property.
4) Loss occurred after commencement but before the expiry of the contract of insurance.
5) Whether the loss is the result of fire (or) other insured hazards.
6) Whether any part of the loss was caused by the attack of enemy, military offence etc., either directly (or) indirectly.
7) Whether the loss covered while the hazard was increased by any means within the control (or) knowledge of the insured.
8) Whether before (or) after the loss the insured willfully concealed (or) misrepresented any material facts.

8.7.1 The adjuster must do the following:

1) Fix by agreement with the insured (or) by appraisal, the actual cash value of the property at the time of loss and the amount of loss thereto.
2) Exclude from the claim on insurable property.
3) Determine the extent of application of insurance and the contribution to be made by the insurer to the loss.
4) If there are two (or) more policies covering the property, then apportion the loss among these policies.
5) Consider the interest of any mortgage in the policy and the action that should be taken by the insurers.
6) Investigate any disputed cancellation of the policy.
7) Excercise the option to take all (or) any part of the property at the agree value.
8) Preserve any right of recovery when 3rd parties to the loss.

8.7.2 The adjuster should:

1) Meet the insured and discuss the loss with him and make any necessary examination of records.
2) Examine his policy and if the policy is not readily available then he should verify the record of the agent of the insurer (or) the broker's record.
3) Inspect the scheme of loss and verify any property which is still in evidence.
4) Examine available records (or) reports covering the occurrence of loss relating to fire department salvage corps, police etc.
5) Examine documents records, deeds (or) mortgages, leases etc.

Payment of claim in fire insurance:

(vi) Consider whether any insurance held by others should bear the loss or) any part of it.

(vii) Withdraw if the insurance is not liable for the loss from contract with the insured and report to the insurer (or) have non-waiver agreement.

(viii) Estimate the situation and the probable results of adjustments

(ix) Choose the method of adjustment used.

(x) Make any necessary preparation for conducting the adjustment according to the method chosen.

(xi) Negotiable an agreement with the insured as to value and “loss” submit the disagreement.

(xii) Check any claim for possible errors and omissions also for improper inclusion of property.

(xiii) Apply contract condition and determine the sum for which any policy (or) contract is liable.

(xiv) Forward the insurer with final report and supporting papers.

(xv) Account the salvage and its proceeds with final report.

8.8 WAIVER AND ESTOPPEL:

Waiver: Waiver is defined as the voluntary relinquishment of a known right. The waiver may be (i) expressed (ii) implied. An insurer is informed that a policy under which claim is made in void because the person insured had no insurance interest in the property but still, the insurer is going to pay it as a waiver.

Estoppel: Estoppel is the legal bar raised by a person is an action against asserting a right that he once possessed (or) making a choice that once war open to him. An insurer may be estopped from exercising its option to make all (or) any part of the property at the agreed (or) appraised value if it delays its notice to the insured that it intends to do so.

8.9 SUMMARY:

As and when a fire accident occurs, it is the duty of the insured to inform to the insurer without any delay. On receiving the information from the insured the insurer appoints an assessor to find out the cause of the accident and to determine the amount of liability. The assessor acts on behalf of the insurer and makes necessary arrangements to assess the loss accurately. He personally visits the place of accident and examines the damaged property and collect all possible information necessary to assess the loss. The assessor will enquire from the insured about the amount of loss to avoid future disputes between the insured and the insurer. He asks the insured to separate the undamaged part from the damaged part to reduce the possibilities of further damage; and to assess the amount of liability correctly.

In the process of payment of claim the assessor will take several steps to make sure that the accident is the result of unavoidable circumstances but not result of negligence of insured. After satisfying the cause of accident the policy holder will be issued a claim forms to the claim form a copy of the survey report is attached. The insured has to sign a discharge voucher. The amount of loss payable is settled by an agreement between the insurer and the insured. In the event of any dispute it will be referred to arbitration.

8.10 SELF-ASSESSMENT QUESTIONS:

1) Salvage corps
2) Average clause in payment of claim
3) Pro-rata condition of average
4) Special condition of average

8.11 ESSAY TYPE QUESTIONS:

1) Discuss the procedure of settlement of fire insurance claim
2) Explain estopple, adjuster, waiver, waiver and estopple.

8.12 REFERENCE BOOKS:

Principles and Practice of Insurance - M.N.Mishra

Principles of Insurance Loss - M.N.Srinivasan.

- Dr. D.N.M.RAJU

Lesson-9

RE - INSURANCE

9.0 OBJECTIVES:

After completion of this lesson, you should be able to understand:

- Reinsurance
- Shoping re insurance
- Facultative reinsurance
- Automatic reinsurance
- Pool (or) syndicated method

STRUCTURE:

9.1 Introduction
9.2 Limits
9.3 Retension
9.4 Reinsurance
9.5 Advantages of reinsurance
9.6 Methods of reinsurance
9.6.1 Shoping reinsurance
9.6.2 Facultative reinsurance
9.6.3 Automatic reinsurance (or) Treaty reinsurance
9.6.4 Types of treaties
9.6.4.1 Quota share treaty
9.6.4.2 Surplus treaty
9.6.4.3 Excess of loss treaty
9.6.4.4 Advantages of treaty method over facultative
9.6.5 Pool (or) syndicated method
9.7 Progress of fire insurance
9.7.1 Indian insurer's
9.7.2 Progress after nationalisation
9.7.2.1 Gran direct premium
9.7.2.2 Net premium
9.7.2.3 Under writing
9.8 Summary
9.9 Self-Assessment Questions
9.10 Essay Type Questions
9.11 Reference Books.

9.1 INTRODUCTION:

Reinsurance is an arrangement whereby an original insurer who has insured a risk insures a part of that risk again with another insurer, that is to say, reinsurer a part of the risk in order to diminish his own liability. The difference between the retention and the total amount of acceptance is reinsured. The limiting (or) retension and effecting of reinsurance brings about a wider distribution of the risk and secure to the insurer the full advantage of the law of average.

9.2 LIMITS:

It is usual to fix a limit up to which the insurer is prepared to loose on risks in a specified class. The limit depends upon the following circumstances.

1. The financial status and premium income of the insurer. A new insurer with small premium income cannot afford to sustain a loss which might be borne with ease by established insurer with ample reserve.
2. The experienced in a particular class of risk.
   (i) The degree of fire hazard present.
   (ii) The extent of the damage likely to be sustained.
   (iii)The fire extinguished facilities available.
3. The limit will vary according to the nature and size of the concerns proposing for insurance.
4. Location and other factor's affecting the risk are also taken into account while calculating the amount of limit.

9.3 RETENTION:

After deciding the limit, retention can be easily fixed. Retention is the amount of maximum liability, which the insurer can assume, on a particular risk. The retention is determined according to the class to which it belongs and to its merits and demerits. The retention is also deciding upon the total amount of insurance in force, the average size of its policies and the amount of surplus stand available with it. It also depends upon the size of company, age of issue, the type of policy , and the class of risk.

9.4 REINSURANCE:

Reinsurance is the transfer of insurance business from one insurer to another. The insurer transferring the business is called the "principal" or ceding or original office and the office to which the business is transferred is called "reinsurer" or "guaranteeing office". It is also a contract of indemnity. The original company must disclose all material facts to the reinsurer. At the time of loss the insurer indemnifies the loss up to the amount of reinsurance.

9.5 ADVANTAGES OF REINSURANCE:

1) The original insurer can accept the risk to the extent of his limit. In absence of reinsurance, a person desiring a large amount of insurance will have to take a number of policies from several insurers. This reinsurance contract makes it possible to purchase only one policy from an insurer.

2) Reinsurance makes it possible to accept each risk for the vary amount derived by the proposer and to transfer the excess above the "retention limit" to another insurer.

3) The reinsurance gives the benefit of the greater stability resulting from a wide spread of business.

4) The reinsurance makes stability in underwriting and consistency in underwriting results over a period.

5) It provides a safeguard against serious effects of conflagration.

6) The reinsurance has the effect of stabilizing income and losses over a period of years.

9.6 METHODS OF REINSURANCE:

9.6.1 Shopping (or) "street" reinsurance: Under this method there is no standing agreement regarding reinsuring of risk of one company by the other. Each policy is treated on an individual basis. The reinsurer scrutinizes each case as its merits and may accept the risk on any terms and conditions (or) may decline it.

9.6.2 Facultative reinsurance: The essential features of this method is that each individual risk is submitted by the ceding officer to the reinsurer who can accept or decline what ever sum they consider appropriate subject to the amount of their acceptance being approved by the ceding office. The reinsurer is offered the particulars of original contract. The insurer will see the plan and report on the risk offered for reinsurance. The reinsurer may qualify the acceptance subject to plan and report. The ceding office may retain amount on the insurance.

This method differs from the shopping in that the two companies are agreed in advance as to the form in which risks, premium, terms and other details are to be submitted.

9.6.3 Automatic (or) treaty reinsurance: Under this method there is an agreement between ceding office and reinsurer office that the amount of insurance on a policy above the retention of the ceding office shall be submitted by it for reinsurance and same shall be accepted by the reinsuring company. As soon as the original contract is completed the excess above retention amount becomes automatically reinsured under the agreement. The terms and conditions of the reinsurance contract are the same as of the original insurance contract.

9.6.4 Types of Treaties:

9.6.4.1 (i) Quota share treaty: Under this method, the ceding insurer is bound to cede and the reinsurer is bound to accept a fixed share of every risk coming within the scope of the treaty. This treaty is used where the direct insurer is new in the field with little (or) no past experience or he had adverse experience in the past. This method is favorable to the reinsurers. The liability of the reinsurer attaches as soon as the ceding office announces the risk.

9.6.4.2. The surplus treaty: The purpose of this treaty is to reinsure the surplus of a risk beyond the amount of the ceding insurer's retention up to what extent the surplus can be reinsured is determined by the size of the treaty measured in terms of lines, not retention. There may be second surplus treaty to absorb the amount which are beyond the capacity of the "first surplus" treaty. The scope of treaty is defined with the scope of geographical area, class of business etc.

There may be two problems under this method:

(a) There may be selection against the reinsurer as the ceding insurer will retain more of

the better type of business with the result that the bulk of the business under a treaty will be of an inferior nature.

(b) There may be problem of accumulation of acceptances.

9.6.4.3. Excess of loss treaty: This method provides against catastrophic loss. The excess of loss reinsurance comes into operation when the total net loss suffered by the insured due to one event exceeds the figure agreed in the treaty. Such excess of the amount (or) a proportion of it, being paid by the reinsurer subject to a maximum limit. The net loss means the loss computed after taking into account recoveries from facultative and treaty reinsurers.

9.6.4.4. Advantages of Treaty - Method over facultative:

1) The treaty method provides obligatory and automatic nature of reinsurance acceptances. The reinsurer cannot decline to accept any cession causing within its scope.

2) The risk commences simultaneously with that of the ceding insure. Under the facultative method, the reinsurance cover operates only from the time the reinsurer accepts the risk.

3) The treaty method involves much less crucial work and costs as compared to the costs involved in the facultative reinsurance.

4) The rights and obligation of each party are clearly defined in the treaty agreement where as in facultative it has not been so easy.

5) The treaty method ensure a constant and regular flow of business.

9.6.5 "Pool (or) syndicate method" : Under this method, a number of insurer agrees to pool together all their business to a leading office and the payment is made by this leading office. The profit of this association is distributed among the insurers according to their shares to the business.

9.7 PROGRESS OF FIRE INSURANCE:

The real establishment of fire insurance came only after the great fire which took place in 1666. It lasted for four days and destroyed nearly 13000 buildings. This incident made the people to realize the importance of insurance. The growth of insurance was slow in the initial stages. With the advancement of trade and commerce fire insurance gained importance.

In India the fire insurance business is not developed on par with foreign countries. After nationalisation of general insurance business, it is expected to have a new turn in the field of fire insurance. Before nationalisation, the gross premium to fire insurance had increased from 42.83 crores in 1969 to Rs. 51.521 crores in 1971. It made tremendous progress during 1971 to 1977. The Indian insurer's are far away in the field of fire insurance when compared to general insurance.

9.7.1 Indian Insurer's:

The percentage of net claims payable to net premium has declined to 36.3.1. in 1970 to 33.5.1. in 1971. It increased to 37.6.1. in 1972. The Indian Insurer's, are experiencing higher proportion of net claim when compared to that of non-Indian insurer's. The expenses of commission are missing in case of non-Indian insurer's. where as the Indian insurer's are controlling their expenses of management. The Indian insurer's, were benefited by higher balance of income as compared to that of Indian insurer's. The non-Indian insurer's have saved more in the shape of gran claim payable. The

direct commission in case of non-Indian insurer's has increased. So, the balance of income has not increased so much in the case as had increased in the case of Indian insurer's.

9.7.2 Progress after Nationalisation:

The progress of fire insurance after nationalisation can be analysed as under:

9.7.2.1. Gran direct premium in fire insurance: The grans direct premium in fire insurance has increased from 96 crores in 1975 to 142 crores in 1980 to 319 crores in 1985 and 389 crores in 1989-90. The fire insurance business in India increased fastly after nationalisation.

9.7.2.2. Net premium's: The net premium of fire insurance is 85 crores in the year 1973. It increased to 106 crores in 1975, to 157 crores in 1980 to 354 crores in 1985 to 494 crores in 1988-89. The new India has increased its net premium from 53 crores in 1982 to 144 crores in 1988-89. The net premium of oriental insurance is 38 crores in 1982 and 102 crores in 1988-89. The united India increased its business from 48 crores in 1982 to 132 crores in 1988-89. The national insurance net premium is 35 crores in 1982, 108 crores in 1988-89. Thus the national company having lowest premium have shown the highest growth rate. New India have shown the second highest growth rate with maximum amount of net premium. The nationalised companies have shown satisfactory progress. Before nationalisation, the fire insurance is not popular in India. These four companies have taken special interest to increase fire insurance business to a larger extent.

9.7.2.3. Under writing: The under writing profit of all the companies are rupees 64 crores in 1982, 95 crores in 1988-89, the maximum amount of underwriting profit is 24.5 crores in new India 1988-89. It has always satisfactory amount although the underwriting profit to net premium is not the highest in that year. Oriental insurance have shown maximum rate of profitduring1980`s.National insurance have shown amount of profit in 1982 and 1988-89.

9.8 SUMMARY:

Reinsurance is an arrangement where by the original insurer who has insured a risk insurer a part of that risk with another insurer. The difference between, the retention and the total amount of acceptance is reinsured. The retention and affecting of reinsurance brings a wider distribution of risk and secures to the insurer a full advantage of the law of average. It is the transfer of insurance business from one insurer to the other. The insurer who transfer's the business is called the principal and the office to which the business is called the reinsurer. Reinsurer is also a contract of indemnity.

The methods of reinsurance include-

- Shoping reinsurance
- Facultative reinsurance
- Automatic reinsurance
- Pool (or) syndicated methods

9.9 SELF-ASSESSMENT QUESTIONS:

- Advantage of reinsurance
- Reinsurance

9.10 ESSAY TYPE QUESTIONS:

- Explain the various methods of reinsurance
- What are the principles of reinsurance
- Explain the growth of fire insurance business in India?

9.11 REFERENCE BOOKS:

* Principles and Practice of Insurance - M.N.Mishra
* Principles of Insurance Laws - M.N.Srinivasan

- Dr. D.N.M. RAJU

Lesson-10

NATURE OF MARINE INSURANCE CONTRACT

10.0 OBJECTIVES:

After completion of this lesson, you should be able to understand:

- Meaning
- Definition
- Hull insurance
- Cargo insurance
- Freight insurance
- Subrogation
- Indemnity

STRUCTURE:

10.1 Introduction
10.2 Definition
10.3 Classification of Marine Insurance
10.4 Procedure of Marine Insurance
10.5 Elements of Marine Insurance Contract
10.5.1 Features of General Contract
10.5.1.1. Proposal
10.5.1.2. Acceptance
10.5.1.3. Consideration
10.5.1.4. Issue of policy
10.5.2 Insurable interest
10.5.3 Utmost good faith
10.5.4 Doctrine of Indemnity
10.5.5 Doctrine of Subrogation
10.5.6 Warranties
10.5.7 Proximate cause
10.5.8 Assignment
10.6 Summary
10.7 Self-Assessment Questions
10.8 Essay Type Questions
10.9 Reference Books

10.1 INTRODUCTION TO MARINE INSURANCE:

Marine insurance was originated in England going to the frequent movement of ships over highseas for trade. The risks involved every time a vessel set sail needed sound insurance cover to meet any eventuality. Today, marine insurance has assumed a vast canvas due to the expanding trade across the globe, which involves large shipping companies that require protection for their fleet against the perils of the sea.

Marine insurance is an important element of general insurance. It provides cover from loss suffered due to marine perils. It extends beyond marine perils to provide cover for loss incurred during shipment of cargo over waterbodies like rivers, lakes and island water ways. It also covers ships under construction, docked for repairs, stranded at ports and ships transporting consign-ment.

Maritine insurance business today is governed by the provisions of the English Maritine insurance Act of 1906, and in India, the business is regulated by the Indian maritine Insurance Act of 1963. The Indian act is based on the original English act. Marine insurance covers three marine interests. They are:

1) Hull Insurance
2) Cargo Insurance
3) Freight Insurance

General characteristics:

Marine contract is also like any other contract. It has certain general characteristics. The characteristics will help to understand different aspects of Marine Insurance Contract.

10.2 DEFINITION OF MARINE INSURANCE:

It is a contract between insurer and insured whereby the insurer undertakes to indemnify the insured in a manner and to the interest thereby agreed marine losses incident to marine adven-ture.

Sec 2(13) (A) of the Insurance Act,1938 defines Marine Insurance as follows:

" Marine Insurance business means the business of effecting contracts of insurance on vessels of any description including cargoes, freights and other interests which may be legally insured in (or) in relation to such vessels, cargos and freights, goods, wears, merchandise and property of whatever description insured for any transit by land (or) water (or) both, and whether (or) not including warehouse risks (or) similar risks in addition (or) as incidental to such transit and includes any other risk customarily included among the risks insured against in marine insurance policies.

10.3 CLASSIFICATION OF MARINE INSURANCE:

- Hull Insurance:

In Hull insurance the insurance of vessel and its equipments are included. The vessels are classified as: Ocean steamers, sailing vessels, builders, risks, fleet policies and so on.

- Cargo Insurance:

It may be written under a single risk policy (or) floating policies. The “cargo” may be of any description such as wears, merchandise, property, goods and so on.

- Freight Insurance:

It is paid for the carriage of cargoes (or) the vessel is chartered, the money to be paid for the use of the vessel. The carrier is unable to earn freight if the goods of the property are not safely transported.

- Liability Insurance:

The Marine Insurance policy may include liability hazards such as collision (or) running down. Insurance can also to be taken for expenses involved in non-complain of rules & regulations without any intention to deceive. The marine perils insurance covers not only the ocean, but also the island perils.

10.4 PROCEDURE TO EFFECT MARINE INSURANCE:

The proposer may approach the insurer directly (or) through an agent. Generally, the proposer is made through agents because, hey are well- versed with the insurance practices. The agrent prepares a slip and which material information is recorded. The slip is presented to the insurer who will signify his acceptance by initiating the slip and indicating the sum they are prepared to accept. The risk may commence from the date of acceptance (or) from as any other date which is mutually agree.

Sometimes, the insurer asks additional information from the agent. When the additional information called closing slip has been accepted by the insurer, he may issue a policy. Before issuing the policy, an open cover is issued to the insured, which becomes imperative as soon as the policy is issued. The document containing the terms of the contract is called “policy”. The assured cannot legally make any claim over the underwriter if the loss occurs before a final policy is issued. The “open cover” (or) “ship” is not legally binding on the insurers. In practice, however, the insurer pays the amount of claims even before the issue of policies. Insurers in marine insurance are generally called “underwriter”.

10.5 ELEMENTS OF MARINE INSURANCE CONTRACT:

The marine insurance has the following features. These are also called Fundamental Procedure of Marine Insurance:

1) Features of general contract
2) Insurable interest
3) Utmost goodfaith
4) Doctrine of Indemnity
5) Subrogation
6) Warranties
7) Proximate cause
8) Assignment and nomination of policy
9) Return of Premium

10.5.1 Features of General Contract:

10.5.1.1. a) Proposal: The agent will prepare a slip on receipt of instructions to insure from ship owner, merchant (or) other proposers. The original slip is accompanied with other material information which the agent feels it necessary for the purpose. The agents (or) experts and well-versed in marine insurance law and practice. The different kinds of marine proposals are altogether to diversed, so elaborate treating schedules and not possible and the proposals are considered on individual merits.

10.5.1.2. b) Acceptance: The original slip is presented to the Lloyds underwriters and other insurers (or) to the lead of the insurers who initial the slip and the proposal is deemed to be acceptance. But, the contract cannot be legally enforced until a policy assured. The slip is an evidence that the underwriter has accepted an insurance and that he has agreed subsequently who signed the policy on the terms and conditions indicated on the slip. If the underwriter refused to issue (or) sign a policy he may do so legally.

10.5.1.3. c) Consideration: The premium is assessed on the proposal and is paid at the time of the contract. It is called “Consideration to the Contract”.

10.5.1.4. d) Issue of policy: After effecting the insurance the agent will send his client a cover note advising the terms and conditions on which the insurance has been placed. The agents cover note is only a memorandum and has no value in enforcing the contract with the underwriters. The policy is prepared stamped and signed without any delay and it will be the legal evidence of the contract. However, after issue of the policy the court has the power to order the rectification of policy to express the intention of the parties to the contract as evidenced by the terms of the slip.

10.5.2 Insurable Interest:

As the insured person will have insurable interest in the subject matter where he stands in relation to the subject matter in such away that he may benefit the safety (or) due arrival of insurable property (or) by damage there to (or) by the detention there of (or) the incur liability in respect thereof. Since marine insurance is effected before the commercial transactions to which they apply (or) completed formally. It is not essential for the insured to have an insurable interest at the time of effecting interest though he should have an expectation of acquiring such an interest. If he face to enquire insurable interest in due course he will not become eligible to indemnification. It is because, the ownership and other interest of the subject matter often change hands, the requirement of the insurable interest to be present only at the time of loss makes a marine insurance policy assignable freely.

Exceptions of the rule in marine insurance:

(a) Lost (or) not lost

(b) Policy proof of interest

The insurable interest and marine insurance may be of the following forms:

1) According to ownership:

The owner has insurable interest up to the full value of the subject matter. The owner are of different types:

(a) In case of ships: The ship owner who is purchased the ship on chartered basis can insure the ship upon its full value.

(b) In case of cargo: The owner of the cargo can purchase a policy upto the full price of the cargo. He can include the freight charges in the value provided he has paid the freight in advance.

(c) In case of freight: The receiver of the freight can insure upto the amount of freight to be received by him.

2) Insurable interest in Re-insurance:

The underwriter under a contract of marine insurance has an insurable interest and his risk and may re-insurance in respect of it.

3) Insurable interest in other cases:

In this case all the underwriters are included who have insurable interest in the salary and own liabilities. For example, any member of the crew of the ship has insurable interest inrespect of his wages.

10.5.3 Utmost good faith:

The doctrine of caveat emptor applies to commercial contracts, but insurance contracts are based upon the legal principle of utmost good faith. If this is not observed by either of the parties, the contract can be avoided by the other party.

The duty of the utmost good faith applies also to the insurer. He may not urge the proposer to effect an insurance which he knows is not legal (or) has run off safely. But the duty of disclosure of material facts rests highly on the insured because he is aware of the material common in other branches of insurance are not used in the marine insurance. Ships and Cargoes proposed for insurance may be thousands of miles away, and surveys on underwriters behalf are usually impracticable. The assured therefore, must disclose all the material information which may influence the decision of the contract. Any non-disclosure of a material fact enables the underwriter to avoid the contract, irrespective of whether the non-disclosure was intentional (or) inadvertent. The assured is expected to know every circumstance which in the ordinary course of business ought to be known by him. He cannot rely on his own inefficiency (or) neglect.

The duty of the disclosure of all material facts falls even more heavily on the broker. He must disclose every material fact which the assured ought to disclose and also every material fact which he knows. The agent is expected to know (or) inquire from the assured all the material facts.

Exception:

(i) Facts of common knowledge

(ii) Facts which are known (or) should be known to the insurer

(iii) Facts which are not required by the insurers

(iv) Facts which the insurer ought reasonably to have inferred from the details given to him

(v) Facts of public knowledge.

10.5.4 Doctrine of Indemnity:

The contract of marine insurance is of indemnity. Under no circumstances an insured is allowed to make a profit out of a claim. In the absence of the principle of indemnity, it was possible to make a

profit. The insurer agrees to indemnify the assured only in the manner and only to the extent agreed upon marine insurance fails to provide complete indemnity due to large and varied nature of the marine voyage. The basis of indemnity is always a cash basis as underwriter cannot replace the lost ship and cargoes and the basis of indemnification is the value of the subject matter. This value may be either the insured (or) insurable value. If the value of the subject matter is determined at the time of taking the policy. It is called “insured value” when loss arises the indemnity will be measured in the proposition that the assured sum bears to the insured value.

Technically speaking the doctrine of indemnity applies where the value of subject matter is determined at the time of loss. In other words, where the market price of the loss is paid, this doctrine has been precisely applied. Where the value for the goods has not been fixed in the beginning but is left to be determined at the time of loss, the measurement is based on the insurable value of goods. However, in marine insurance insurable value is not common because no profit is allowed in estimating the insurable value. Again if the insurable value happens to be more than the assured sum, the assured would be proportionately unissured. On the other hand, if it is lower than the assured sum, the underwriter would be liable for a return of premium of the difference.

Exceptions:

1) **Profits allowed:** Actually the doctrine says that the market price of the loss should be indemnified and no profit should be permitted, but in marine insurance a certain profit margin is also permitted.

2) **Insured value:** The doctrine of indemnity is based on the insurable value whereas the marine insurance is mostly based on insured value. The purpose of the valuation is to predetermine the worth of the property insured.

10.5.5 Doctrine of subrogation:

The aim of doctrine of subrogation is that the insured should not get more than the actual loss (or) damage. After payment of the loss, the insurer gets the right to receive compensation (or) any sum from the 3rd party from whom the assured is legally liable to get the amount of compensation. The main characteristics of subrogation are:

(a) The insurer subrogates all the remedies, rights and liabilities of the insured after payment of the compensation.

(b) The insurer has right to pay the amount of loss after reducing the sum received by the insured from the third party. But in marine insurance the right of subrogation arises only after payment has been made, and it is not customary as in fire and accident insurance, to alter this by means of a condition to provide for the exercise of subrogation rights before payment of a claim. At the same time the right of subrogation must be distinguished from abandonment.

(c) After indemnification, the insurer gets all the rights of the insured on the 3rd parties, insurer cannot file suit in his own name. If the insured is revoking from filing suit against the third party, the insurer can receive the amount of compensation from the insured.

10.5.6 Warranties:

A warranty is that by which the assured undertakes that some particular thing shall (or) shall not be done, (or) that some conditions shall be fulfilled (or) whereby he affirms (or) negatives the existence of a particular state of facts. Warranties are the statement according to which insured person

promises to do (or) not to do a particular thing (or) to fulfill (or) not to fulfill a certain condition. It is not merely a condition but a statement of fact. Warranties are more vigorously insisted upon than the conditions because the contract comes to an end if a warranty is broken whether the warranty was material (or) not warranties are of two types.

(a) Express warranties

(b) Implied warranties

(a) Express warranties: These are those warranties which are expressly included (or) incorporated in the policy by reference.

(b) Implied warranties: These are not mentioned in the policy at all but are tacitly understood by the parties to the contract and are as fully binding as express warranties.

Warranties can also be classified as:

(i) Affirmative

(ii) Promissory

In marine insurance, implied warranties are very important. These are:

(i) Sea worthiness ship

(ii) Legality of venture

(iii) Non-deviation

All these warranties must be literally complied with as otherwise the underwriter may avoid all liabilities as from the date of the breach. However, there are two exceptions to this rule when a breach of warranty does not affect the underwriters liability.

1) Where owing to a change of circumstances the warranty is no longer applicable.

2) Where compliance would be unlawful owing to the enactment of subsequent law.

(i) Seaworthiness of ship:

The warranty implies that the ship should be seaworthy at the commencement of the voyage, (or) if the voyage is carried out in stages at the commencement of each stage. This warranty implies only to voyage policies, though such policies may be of ship, cargo, freight (or) nay other interest. There is no implied warranty of sea worthiness in time policies. A ship is seaworthy when the ship is suitably constructed, properly equipped, officered and manned, sufficiently fuelled and provisioned, documented and capable of withstanding the ordinary strain and stress of the voyage.

The Seaworthiness will be more clear from the following points:

1) The standard to judge the seaworthiness is not fixed. It is a relative term and may vary with any particular vessel at different periods of the same voyage.

2) Seaworthiness does not depend merely on the condition of the ship, but it includes the suitability and adequacy of the equipment, adequacy and experience of the officers and crew.

3) At the commencement of journey, the ship must be capable of withstanding the ordinary strain and stress of the sea.

4) Seaworthiness also includes “cargo worthiness”. It means the ship must be reasonably fit and suitable to carry the kind of cargo insured. It should be noted that the warranty of seaworthiness does not apply to cargo. It applies to vessel only. There is no warranty that the cargo should be seaworthy.

(ii) Legality of venture:

This warranty implies that the adventure insured shall be lawful and that so far as the assured can control the matter it shall be carried out in a lawful manner of the country. Violation of foreign laws does not necessarily involve breach of the warranty. There is no implied warranty as to the nationality of a ship.

The implied warranty of legality applies total policies, voyage (or) time. Marine policies cannot be applied to protect illegal voyages (or) adventure. The assured can have no right to claim a loss if the venture was illegal. The example of illegal venture may be trading with an enemy violating national laws, smuggling, breach of blockade and similar ventures prohibited by law.

Illegality must not be confused with the illegal conduct of the 3rd party.

Ex: Barratry, theft, pirates, rovers.

The waiver of this warranty is not permitted as it is against public policy.

(iii) Other implied warranties:

(a) No change in voyage: When the destination of voyage is changed intentionally after the beginning of the risk, this is called “ change in voyage”. In absence of any warranty contrary to this one, the insurer quits this responsibility at the time of change in voyage.

(b) No delay in voyage: This warranty applies only to voyage policies. There should not be delay in starting of voyage and laziness (or) delay during the course of journey. This is implied condition that venture must start within the reasonable time. Moreover, the insured venture must be deispatched within the reasonable time. If this warranty is not complied, the insurer may avoid the contract in absence of any legal reason.

(c) Non-deviation: The liability of the insurer ends in deviation of journey. Deviation means removal from the common route (or) given path. When the ship deviates from the fixed passage without any legal reason, the insurer quits his responsibility. This would be immaterial that the ship returned to her original route before loss. The insurer can quit his responsibility only when there is actual deviation and not mere intention to deviation.

Exceptions:

1) Deviation (or) delay is authorised according to a particular warranty of the policy.

2) When the delay (or) deviation was beyond the reasonable approach of the master (or) crew.

3) The deviation (or) delay is exempted for the safety of ship (or) insured matter (or) human lives.

4) Deviation (or) delay was due to barratry.

10.5.7 Proximate cause:

According to Marine Insurance Act, “subject to the provisions of the act and unless the policy otherwise provides the insurer is liable for any loss proximately cause by a peril

insured against, but subject to as aforesaid is not liable for any loss which is not proximately caused by peril insured against".

(a) The insurer is not liable for any loss attributable to the willful misconduct of the assured, but, unless the policy otherwise provides, he is liable for any loss proximately caused by a peril insured against.

(b) The insurer will not be liable for any loss caused by delay unless otherwise provided.

(c) The insurer is not liable for ordinary wear and tear, ordinary leakage and breakage, inherent voice (or) nature of subject matter insured (or) for any loss proximately caused by rats (or) vermin (or) for any injury to machinery not proximately caused by maritime perils.

Dover says……" the cause proxima of a loss is the cause of the loss, proximate to the loss, not necessarily in time, but in efficiency. While remote causes may be disregarded in determining the cause of a loss, the doctrine must be interpreted with good sense".

Thus, the proximate cause is the actual cause of the loss. There must be direct and non-intermening cause. The insurer will be liable for any loss proximately caused by peril insured against.

10.5.8 Assignment:

A marine policy is assignable unless it contains terms expressly prohibiting assignment. It may be assigned either before (or) after loss. A marine policy may be assigned by endorsement thereon (or) on other customary manner.

10.6 SUMMARY:

Marine Insurance developed in England for the first time. An act was enacted in 1906. It was to cover risks whenever a vessel makes a voyage on highness. The expansion of trade in the world realized the importance of marine insurance. It is an element of general insurance. It provides cover for the losses arising during shipment of cargo, overloading etc. besides marine perils. In India, the marine insurance business is governed by the act 1963. It is based on the provisions of the Marine Insurance Act of England.

It covers hull insurances, cargo insurance and freight insurance.

The elements of marine insurance contract are:

- Features of general insurance contract
- Insurable interest
- Utmost good faith
- Doctrine of indemnity
- Subrogation
- Warranties
- Proximate cause
- Assignment and Nomination
- Return of premium.

10.7 SELF-ASSESSMENT QUESTIONS:

- Hull insurance
- Cargo insurance
- Freight insurance
- Indemnity
- Subrogation
- Warranties

10.8 ESSAY TYPE QUESTIONS:

- Discuss how are the insurable interest, utmost good faith and indemnity applicable to marine insurance?
- What do you mean by warranties? What are the important warraties in marine insurance?

10.9 REFERENCE BOOKS:

* A Text Book of Insurance - L.S.Kanwal
* Principles and Practice of Insurance -

- Dr. D.N.M.RAJU

Lesson- 11

MARINE INSURANCE POLICY

11.0 OBJECTIVES:

After completion of this lesson, you should be able to understand:

- importance of marine insurance policy
- contents of marine insurance policy

STRUCTURE:

11.1 Introduction

11.2 Contents of marine insurance policy

11.3 Classification of marine insurance policies

11.3.1 Voyage policies

11.3.2 Time policies

11.3.3 Mixed policies

11.3.4 Valued policies

11.3.5 Un-valued policies

11.3.6 Floating policies

11.3.7 Blanket policies

11.3.8 Named policies

11.3.9 Fleet policies

11.3.10 Block- policies

11.3.11 Currency policies

11.3.12 Proof of Interest policies

11.4 Summary

11.5 Self – Assessment Questions

11.6 Essay type questions

11.7 Reference Books

11.1 INTRODUCTION:

The marine insurance policy is issued only when the contract has been finalized and it would be legal documents of evidence of the contract. The form of marine insurance policies has been taken from pretty old times. There has been a slight change in the wording of the policies. For example, “Be it known that “ is substituted for the words “In the name of God, Amen”.

The old form of policy has been practiced today due to its practicabilities which took after a numerous legal decisions during the past centuries. It has also been practiced that only form of policy is standarised and different clauses are added for applying to various types of policies.

11.2 CONTENTS OF MARINE POLICY:

(i) Name of insured (or) his agent

(ii) Subject matter insured. It may be ship (hull) cargo and freight.

(iii) Risks insured against

(iv) Name of vessel and officers

(v) Description of voyage (or) period of insurance

(vi) Amount and term of insurance

(vii) Premium

There are various clauses which are suitably inserted according to the nature and type of policies. Hull, cargo and freight policies have different standard clauses. In case of hull insurance, the clauses provide that if the insured vessel at the expiration of the policy is at sea, (or) at a port of refuge. Generally the ship may be covered until arrival at port of destination. In case of cargo policies with average, free of particular average (or) all risks are generally used. There are standard clauses which are invariably used in marine insurance. Firstly, policies are constructed in plain, ordinary and popular sense and later on, specific clauses are added to them according to terms and conditions of the contract. Clauses attached to the policy would override the printed wording in the policy.

11.3 CLASSES OF POLICIES USED IN MARINE INSURANCE:

11.3.1 Voyage policies:

The policy is issued to cover a particular voyage from one part to another and from one place to another. The policy mentions the port of departure and the port of destination, between which the risks are generally underwritten. The policy is not suitable for hull insurance as a ship usually does not operate over a particular route only. However, this policy may include time factor also as from Bombay to London for one year. In this case, the risk may be covered from one place to another covering a period of one year.

The policy is used mostly in case of cargo insurance. The goods remain covered even when the ship halts at intermediate ports. The risks at the port of departure and at the port of destination may be covered by incorporating suitable clauses in the policy. The liability of the insurer continues during landing and re- shipping of the goods.

11.3.2 Time policies:

Under this policy the subject matter is insured for a definite period of time. Ex: From 6a.m of 1st January, 1976 to 6a.m of 1st January, 1977. the policy is commonly more used for hull insurance than for the cargo insurance. The policy may cover while navigating the vessel (or) while under construction. Risks are standard clauses in relation to freight, premium, interests, etc., which are added to this policy. The time policy may be taken in case of goods and other movable vessels.

11.3.3 Voyage and Time policy (or) mixed policies:

In this policy, the elements of voyage policy and of time policy are combined in under this policy. The reference is made certain period after completion of voyage. For example, 24 hours after arrival. It may be beneficial to hull as well as to cargo insurance.

11.3.4 Valued policies:

Under this policy the value of loss to be compensated is fixed and remains constant throughout the risk except where there is fraud and excessive over – valuation. The value of the subject matter is agreed between the insurer and the assured at the time of taking the insurance. It is also called insured value (or) agreed value. It forms the measure of indemnity at the time of loss. The insured value is not necessarily the actual value. It may be total of invoice.

Ex: Cost of goods, freight, shipping charges, insurance and a certain percentage of margin (generally 10%) to cover anticipated profits.

11.3.5 Unvalued policies:

When the value of policy is not determined at the time of commencement of risk but is left to be valued when the loss takes place. The value thus left to be decided later on is called the insurable value (or) unvalued (or) valued policy. In deciding the value, the invoice cost, freight, shipping and insurance charges are included and no margin for anticipated profit is added. Usually unvalued policies are not common in marine insurance because evaluation of loss at the time of damage poses difficult problem. It is extremely difficult when consignment goes nearer the port of destination.

In hull insurance, the insurable value is determined taking into account the value of the ship at the commencement of risk including provision and stores for officers and ever plus the charges of insurance. In insurance on freight whether paid in advance (or) otherwise, the insurable value is the gross amount of freight plus the charges of insurance. Similarly, in cargo insurance it would be the cost of goods plus expenses and insurance charges.

A limitation of insurable value is desirable not only to fix the measure of indemnity under an unvalued policy, but also to provide an approximate basis for the calculation of value in valued policy.

11.3.6 Floating policies:

This policy describes the general terms and leaves the amount of each shipment and other particulars to be declared later on. The declaration is made in order of dispatch of shipment. The policy is taken for a round large sum which is specified at each declaration and is attached to each shipment. With each declaration the amount will be reduced till it is exhausted when the insured sum is said to be “closed” and the policy is “fully declared” (or) “run off”.

The most popular form of contract is “open cover”. It is an agreement between the insured and the insurer by which the assured on his part agrees to declare, and the insurer on his part agrees to

accept all the shipments falling within the scope of the "open cover" which is merely an original "Ship". It is not a legal contract of marine insurance and suffers from the sum legal disability as the "original ship". However, the insured and the insurers are honour bound. To give "open cover" a legal form, a policy is issued for the purpose. Separate policies are not issued in case of each shipment but only one policy is issued at the time of entering into contract. All declarations are written on the back of the policy. A classification clause is usually inserted in "open cover" to provide the agreed rates of premium. Similarly, valuation clauses are also inserted to provide the basis for valuation in the event of loss taking place.

The policy is suitable for a cargo owner who makes regular shipments of cargoes. All his shipments are automatically covered as soon as the declaration are made. The floating policies are mostly used in the age of gigantic trade.

11.3.7 Blanket policies:

The policy is taken to cover losses within the particular time and place. The policy is taken for a certain amount and premium is paid on the whole of it in the beginning of the policy is re-adjusted at the end of the policy according to the actual amount at risk. If the actual coverage of risk is less than the total amount of insurance, the premium related to the excess amount is returned to the insured. On the other hand, if the amount of shipments are greater than the insured sum, additional premium is charged over the excess protection.

11.3.7.1 Named policies:

Under this policy, the name of the ship and the amount of insured cargo are mentioned. These policies are specific policies.

11.3.8 Single vessel and fleet policies:

A ship (or) a fleet of ships is insured in a single policy. When one policy is assured , it is called single vessel policy and when a fleet of ship is insured in single policy, it is called fleet insurance policy. The advantages of the fleet policies are that even old and weak ships are also insured. This insurance facilities easy and smooth functioning of insurance benefits.

11.3.9 Block policies:

This policy insures incidental inland risks, too along with the marine perils. For example, cotton is insured from the time of processing to the time when it was delivered at the point of destination.

11.3.10 Currency policies:

Policies issued in foreign currency is called currency policy, where the sum assured is stated in foreign currency. This policy avoids the fluctuation in foreign currencies because the claim amount is determined in the foreign currency and the fluctuations in the exchange rates of the inland and foreign currencies up to the period of the policy are meaningless.

11.3.11 Policy proof of interest policies:

The policy is issued to avoid the complication of the principle of insurable interest. This is called "policy proof of interest" and are honoured by the insurer even in absence of insurable interest. This policy is based on mutual understanding, so it is called honoured policies. This is also called wagering policies because insurable interest is not required; consequently, it cannot be legally enforceable.

11.4 SUMMARY:

Different aspects of a marine policy are dealt with from Section 24 to Section 34 of the marine insurance act, 1963. according to this act a marine contract is not acceptable if it is not incorporated in a marine policy (Section 24) of marine policy should contain the specifications mentioned in the act. They are:

- Name of the assured or his representative
- The object of insurance
- The voyage, period of time etc.
- Sum insured
- Name of the insurer

The policies offered under marine insurance are:

- Voyage policy
- Time policy
- Mixed policy
- Valued policy
- Unvalued policy
- Floating policy
- Blanket policy
- Named policy and so on

11.5 SELF-ASSESSMENT QUESTIONS:

- Importance of marine policy
- Contents of marine policy

11.6 ESSAY TYPE QUESTIONS:

- What are the various types of policies offered under marine insurance? Explain.

11.7 REFERENCE BOOKS:

* Text book of Insurance - L.S.Kanwar

* Manual of Insurance Laws - R. Pulian & M.Puliani

* Principles of Insurance Laws - M.N. Srinivasan

- Dr. D.N.M. RAJU

Lesson- 12

MARINE INSURANCE CLAUSES

12.0 OBJECTIVES:

After completion of this lesson, you should be able to understand:

- Hull clause
- Cargo clause
- Freight clause
- Assignment clause
- Lost or not lost clause

STRUCTURE:

12.1 Introduction

12.2 Lloyd's form of policy

12.3 Description of the clauses

12.4 Assignment clause

12.5 Lost or not lost clause

12.6 At and from clause

12.7 Warehouse to warehouse clause

12.8 Deviation touch and clauses

12.8.1 Touch and stay

12.9 Inchmaree clause

12.10 Running down clause

12.11 Sue and labour clause

12.12 Re-insurance clause

12.13 Memorandum clause

12.14 Continuation clause

12.15 Summary

12.16 Self-Assessment Questions

12.17 Essay type questions

12.18 Reference Books.

12.1 INTRODUCTION:

The old form of policy is even used today. In order to make the standard policy suitable for different types of contract, suitable conditions are added to the policy. The conditions are inserted in the policy in the form of clauses. The clauses took the standard form with special meanings. They may be pertaining to Hull, Cargo and Freight.

1) Hull clauses: These clauses are mainly formed with the insurances on vessels and are incorporated in hull policies. The clauses may be pertaining to losses resulting from collision, standing, general average etc. "All risks policy" may be issued or certain risks may be excluded from the policy by inserting suitable clauses. Inland or port risks clauses may be incorporated in the policy to determine the extent of loss. These clauses are known as " institute time clauses".

2) Cargo clauses: These clauses are used in the insurance of goods and are incorporated in cargo policies. The clauses describe the nature, extent and scope of the insurance and define comprehensive conditions and restrictions. The additional marine perils against which cover may be sought or which are excluded from the policies and inserted through special clauses. Terms and conditions of cargo insurance are specially incorporated in the policies ' with average (or) particular average'. Exposed during transit etc. are the important clauses of cargo insurance. The underwriting of cargo risks depends upon the nature of goods, the susceptibility of the goods, intensions of the insurer and insured and willingness the assured to pay extra premium. This clause is known as 'institute cargo clause'.

3) Freight clauses: The clauses are framed in connection with the loss of freight due to maritime perils which may be insured for a period or for a voyage. A person which paid the freight in advance and the person who will receive the freight and completion of voyage are interested in covering the risk. The general average and the particular average are used in freight charges. These clauses are known as "institute freight clauses".

12.2 LLOYD'S FORM OF POLICY:

Be it known that...... as well in ......own name as for and in the name and names of all and every other person (or) person's to whom the same doth, may or shall appertain, import or in all doth make assurance and cause, and them, and every of them, to be insured lost (or) not lost and from.

Upon any kind of goods and merchandise and also upon the body, tackle, appared ordinances, munition, artillery,, boat and other furniture of and in the good ship (or) vessel called the.

Where-of is master and god, for this present voyage are what's ever else shall go for master in the ship, or by whatever other name or names the set ship, or the master thereof is or shall be named or called beginning the adventure upon the set said goods and merchandises from the loading thereof abroad the set ship.

Upon the said ship and so, shall continue and endure, during her abroad there.

Upon the said ship & co. and further until the said ship, with all her ordinance, tackle, apparel and goods send merchandises what ever shall be arrived at.

Upon the said ship &co, until the hath moored at anchor twenty four hours in goods safety, and upon the goods and merchandises, until the same be there discharged and safely landed. And it shall be lawful for the said ship and so, in this voyage, to proceed and said to and touch and stay

at any parts or places whatever without prejudice to this incidents. The said ship &co, goods send merchandises &co for so much as concern's, the assured by agreement between the insured and the assurer's in this policy, are and shall be valued at.

Touching the adventures and perils which we the assurer's are contended bear and do take upon us in this voyage. They are of the seas, "men of war"; ……..and it is agreed by us the insurer's, that this writing or a policy of insurance shall be of as much force and effect on the surest writing or policies of assurance heretofore made is Lombard street or in the royal exchange or else where in London.

12.3 DESCRIPTION OF THE CLAUSES:

Generally the following clauses are incorporated in a marine policy.

12.3.1 Assignment clause: The clause of assignment is as below:…..as well as in his/their own name as for and in the names and names of all and in every other person or persons to whom the same doth may or shall appartain in part or in all doth make assurance……and cause……and them and every of them to be ignored…….

This clause makes it clear that the policy can be assigned freely unless and until such assignment is prohibited. The policy can be assigned to any one who may acquire an insurable interest in the subject matter as soon as the assured parts with his interest. Cargo policy can be assigned freely without any notice. But in case of hull insurance the policy can not assigned freely and the consent of underwriter is essential the degree of risk of the subject matter is materially changed when the management and ownership of the vessel is changed. Since the owner of cargo will have no control over the cargo in transit, block endorsement may be allowed. But in hull insurance specific endorsement of the assignment is required.

The marine policy can be assigned even after the voyage takes place but the assignee can not get a better title then the assignor. However, where the assured has parted with his interest in the subject matter insured either expressly or impliedly, agreed to assign the policy and the subsequent assignment of the policy will become inoperative.

12.3.2 Loss or not lost clause: The clause is as …..to be insured lost or not lost. The policy was taken in good faith. In this the insurer insures the subject matter irrespective of the fact that it has already been lost or not lost before the issue of policy where a merchant receives information of the shipment of his cargo after sailing of the ship and the merchant submits the risk to the underwriter and effects insurance policy. Then it is not known whether the subject matter to be insured is lost or is not lost. So, inorder to provide protection to the shipmen, the words "lost are not lost" are inserted. It means that the insurer under takes to indemnify the insured whether the subject matter before the date of issue of the policy was lost or not. In this case, it is assured that assured and the under writer's are not aware of the safety of the subject matter. The policy will be terminated if it is proved that one of the two parties are aware of the subject matter at the time of loss. This clause has a retrospective effect. It provides for any loss which occurs during the period from the date of shipment to the date of issue of policy. This type of clause was prevailing in the olden days when there were no proper communication facilities.

12.3.3 At and From clause: This clause is applicable in voyage policies covering hull insurance and freight insurance. This clause determines the time of the commencement of the actual risk. The risk commences as soon as the ship arises at port. The policy covers the subject matter while it is at the port of departure and from the time the ship sails, the policy contains. From only instead

of “At and From”. From means that the risk commences from the time of departure of the ship.

In case of cargo policy this clause is amended. The risk may be covered from the time of the loading of cargo on the ship. The voyage policy, if the ship is not at that place when the contract is concluded, the risk commences as soon as the ship arrives there in good safety. If the place of departure is specified by the policy, and the ship sails from other place than the specified one, the risk does not attach.

Termination of risk:

The wordings of policy in this case are as follows:

“And upon the goods and merchandise until the same be there discharged and safely landed.”

When the ship arrives the port of destination, the goods must be landed within a reasonable time and if they are not landed the risk ceases. The risk of landing within the reasonable time is permitted in most of the cases. But, where it is allowed with standard policy, clauses such as craft, lighter’s, etc…. are inserted to the policy.

12.3.4 Warehouse to warehouse clause: Generally underwriter’s are responsible for the risk commencing from the time of loading to the time of unloading the cargo. But in certain cases the risks are beyond these two limits, i.e. departing and destination. So, in order to cover the inland risks from the original place of departure to the port of sailing and from the port of discharge to the port of sailing and from the port of discharge to the place of final destination are insured under “warehouse to warehouse clause” under this policy, the risk commence from the specified place and continue to the specified place of destination named in the policy. Thus, the risk of land, craft, transport and transhipment are also covered under a single marine insurance policy. Sometimes, time limit is also inserted, in the policy and extra cost is required from the insured to cover the remaining voyage. But where goods are willfully detained, the underwriter shall cease his liability.

The clause has appeared in the institute cargo clause is as follows:

The risks covered by this policy attached from the time the goods leave the warehouse are stored at the place named in the policy for the commencement of transit and continue during the ordinary cause of transit, including customary transhipment, if any, until the goods are discharged over sight from the overseas vessel at the final port. There after the risks covered are continued while the goods are in transit or awaiting transit, until delivered to final warehouse at the destination named in the policy (or) until the expiry of 15 days (30days if the destination to which goods insured is out side the limits of the ports) which ever shall first occur. The time limit referred to above to be from midnight of the day on which the discharge over side of the goods here by insured from the overseas vessel is completed. Transhipment if any other than as above and or delay in excess of the above time limits arising from circumstances beyond the control of the assured held, covered at a premium to be arranged.

12.3.5 Deviation touch and clauses: The ship should not deviate from its course of voyage which is described in the policy. If the course of the voyage is not specified then it should not deviate from the customary course of voyage. Deviation is different from change of voyage. The liability of the underwriter comes to an end if there is a change of voyage. It includes not only the decision to change the voyage but also the intention. Once deviation has taken place, the risk ceases to attach for the rest of the voyage even though loss has occurred after the vessel had reverted to the proper course.

The underwriters liability comes to an end when the course of voyage of the ship deviates unlawfully. His liability comes to an end even if such deviation do not increase the original risk or the ship regained the original course of voyage without any loss. This clause does not apply to time policies. It applies only to voyage policies.

Deviation is exempted provided that the ship resumes her course and prosecute the voyage with reasonable dispatch. Deviations are excused in the following cases:

(a) Where authorised by any special term in the policy.

(b) Where deviation is caused due to un-controllable causes.

(c) Where deviation is necessary to comply with an warranty.

(d) Where deviation is necessary for the safety of the ship or even the subject matter insured.

(e) Where deviation is necessary to save human-life.

12.3.5.1 Touch and Stay: This clause provides liberty to the vessel to touch and stay at any port or place. This clause does not authorize the ship to deport from the course of her voyage from the port of departure to the port of destination. If the number of ports to be touched is specified in the policy, it may touch one or all the ports mentioned in the policy. In the absence of such clause the ship must proceed to the designated ports.

According to standard policy, the vessel in the course of voyage must touch and stay at such ports as is mentioned in the policy.

12.3.6 Inchmaree clause: It protects the owners of the ships against loses to be included in clauses. This clause is taken from the example of a steamer called “Inchmaree”. In this case the donkey pump of the ship was damaged due to salt water. Claim was covered under the clause, “and all other perils, losses and misfortunes” . it was held that such losses are outside the scope of insurance if it was due to negligence. To provide indemnity to the insured against losses arising due to negligence a special clause is introduced in hull or machinery insurance. This clause is called Inchmaree clause. The same clause is also incorporated in cargo policies.

Hague rules: A Maritime Law Committee of the International Law Association framed a set of rules regarding the rights and liabilities of cargo-owners and ship-owners at Hague in 1921 relating to the bill of lading to remove any complication that may arise in settlement of claims.

12.3.7 Running down clauses: This clause is also called collision clause which is included in Hull insurance. In this case the underwriter undertakes to cover to the extent of the three-fourth of the amount of loss caused due to collision by the insured vessel to the other. The liability of the underwriter exists only when this clause is included in the policy. Full protection can be given by deleting the words, “ three-fourth’s” from the clause. Under this clause, the underwriter is liable for the total loss if the ship sinks in a collision and damage is done to the other vessel. The amount of damage covers, damage caused to the ship, her cargo, and compensation for loss of employment as result of collision.

12.3.8 Sue and Labour clause: It is the duty of the assured and his agents to act in such a way that they are uninsured and to take such measures as may be reasonable for the purpose of minimizing loss or damage. This clause requires underwriters to pay any expenses incurred by the assured or his agents in preventing or minimising loss or damage to the subject-matter. The reasonable expenses are paid in addition to the total loss even.

Essential features of the clause:

(a) The expenses incurred must relate to the subject matter insured.

(b) The expenses incurred must be reasonable

(c) The expenses may incurred either by the insured or his agents.

(d) The expenses must be incurred to avoid or minimize a loss from a peril covered by the policy.

12.3.9 Re-insurance clause: The re-insurer is liable only for claims for which the original under-writer is liable. If the reassured has a paid a claim for which he is not legally liable under his policy, the reinsurer is under no obligation to reimburse him. The cost incurred by the original insurer in contesting liability under the original policy, need not be paid by the re-insurer. The reinsurance policy is closely linked with the original insurance and any alteration in the original policy must be agreed with the re-insurer.

12.3.10 Memorandum clause: The memorandum clause reads as under:

“ Corn, fish, salt, fruit, flour and seed are warranted free from average, unless general or the ship be stranded –sugar, tobacco- are warranted free from average…… and all other goods, also the ship and freight , are warranted free from average….”

This clause is meant to provide a minimum limit to be under-writer’s liability regarding claims for particular average by exempting him from such claims.

12.3.11 Continuation clause: This clause refers that, the vessel shall continue to be covered even after completion of voyage under the policy at a ‘pro rata’ premium to her port of destination provided previous notice was not given.

12.4 SUMMARY:

The marine insurance policy is issued only when the contract is finalised. The policy serves as a legal document of evidence of the contract. Marine insurance policies are in practice since olden days. There has been a slight change in the wording of the policies. For example: ‘Be it known that is substituted for the words, In the name of God, Amen’. The old form of policy has been practiced today due to its practicabilities which took after a numerous legal decision during the past centuries. It has also been practiced that only form of policy is standardised and different clauses are added for applying to various types of policies. The standard policy generally contains the following information:

(a) Subject-matter insured
(b) Risks insured
(c) Name of the ship
(d) Description of the voyage
(e) Term of insurance
(f) Premium

To make the standard policy suitable for different types of insurance contracts, suitable conditions are added to the policy. The conditions are insured in the policy in the form of clauses. These clauses may relate to Hull, Cargo and Freight.

The following are the different clauses which are incorporated in a marine policy. They are:

(a) Assignment Clause

(b) Lost or Not Lost

(c) At and From

(d) Warehouse to Warehouse clause

(e) Deviation, Touch and Stay clause

(f) Inchmaree clause

(g) Running down clause

(h) Sue and Labour clause

(i) Reinsurance clause

(j) Memorandum clause and

(k) Continuation clause

All the above clauses help the assured in minimising the risk of voyage and in case of any damage, he is protected against the actual loss without these clauses the various types of marine insurance will become ineffective.

12.5 SELF-ASSESSMENT QUESTIONS:

(a) Hull clause

(b) Cargo clause

(c) Freight clause

(d) Memorandum clause

12.6 ESSAY TYPE QUESTIONS:

- What are the various clauses of marine insurance policies?
- Discuss in detail Touch and Stay, Running Down clause, At and From, Sue and Labour clause.

12.7 SUGGESTED READINGS:

* Principle and Practice of Insurance - M.N.Mishra

* A Text Book of Insurance - L.S.Kanwal

- **Dr. D.N.M. RAJU**

Lesson-13

MARINE INSURANCE- CALCULATION OF PREMIUM

13.0 OBJECTIVES:

After completion of this lesson,you should be able to understand:

- Hull Insurance
- Rates of Cargo
- Return on premium

STRUCTURE:

13.1 Introduction
13.2 Rate-Making in marine insurance
13.2.1 Hull insurance
13.2.1.1 Management
13.2.1.2 Natural forces
13.2.1.3 Construction and Nationality of vessel
13.2.1.4 Miscellaneous Factors
13.3 Rates of Cargo
13.3.1 Ownership
13.3.2 Character of the Cargo
13.3.2.1 Hazards and Customs
13.3.2.2 Quality of the vessel
13.3.2.3 Duration of voyage
13.3.2.4 Miscellaneous Factors
13.4 Return on premium
13.4.1 By agreement in policy
13.4.2 Reasons of Equity
13.5 Summary
13.6 Self- Assessment Questions
13.7 Essay Type Questions
13.8 Reference Books

13.1 INTRODUCTION:

Premiums can be ascertained either numerical rating system or by judgement method. The numerical rating system evaluates each and every item and marks are assigned to them according to their merits and degrees of influencing risk. Only numerical rating system cannot be successfully utilized as marine perils are of different nature. However, tabulation of statistical experience on many risks can serve the purpose as a basis of supplementary factors for underwriter's judgement. Marine insurance grants protection against a large number of perils which are viewed in relation to (a) the inverent character of a large variety of subject matter of insurance, (b) the effects of season, adverse physical forces and trade customs, (c) the policy conditions.

Individual insurance account is used for personal valuation by a leading underwriter who enter into the making of marine insurance rates which vary materially. The judgement and personal evaluation is vital in rate making. There are various factors which influence the risk. In evaluating the risks for rate-making , management and ownership play an important role.

13.2 RATE – MAKING IN MARINE INSURANCE:

13.2.1 Hull Insurance:

Management : One management may be efficient in maintaing the ships in good condition. It may also recruit efficient officers and the crew for proper upkeep of the vessel. Some other management may show a bad record because of their negligence, indifference and undue economy. To treat these two managements alike is not wise as it may harm the honesty and integrity of good management. It leads to penalisation of efficiency which is not reasonable.

13.2.1.2 Natural forces: In marine insurance contract the underwriters take into consideration the nature of the route, construction and the nationality of the vessel etc. The vessels on overseas are exposed to both natural hazards and seasonal dangers. In calculating premium for a particular route references are made inrespect of storms, shallow waters, narrow channels, currents, tides and sea-quakes. From the view of the underwriters, the dangers are associated with the ports of departure or destination. Some ports are lack of sufficient death, good ground to anchor and protection against tides.

13.2.1.3 Construction type and nationality of the vessel: The fitness of the vessel for a voyage in a particular route is very important. The underwriter is interested in knowing the owner of the vessel, its structural plan, material used in the construction, its structural strength to withstand stress and strain, its age and physical condition. In foreign countries, certain societies are formulated to make rules for the construction of the vessels. The Lloyd's register contains information about various vessels of other countries. It collects information about the nationality of the vessel, material used in its construction, details about the decks of the vessel, its engine etc. For underwriters nationality of the vessel is important as it discloses the dependence of the nations on the ocean trade. The nationality reveals the skill of the master and its crew. The premium rate varies depending on the commercial honour in trade, high standard and commercial ethics.

13.2.1.4 Policy conditions: A number of clauses are used in the policy to increase or limit the liability of the underwriter. Some policies may cover total loss while others may cover partial loss.

13.2.2 Rates of Cargo:

13.2.2.1. (1) Ownership: The separate ownerships of the same kind of cargo carried on the same ship and to the same place may have separate rates. Proper packing, profitable accounts etc may determine the rate of premium.

13.2.2.2. (2) Character of the cargo: The premium rates may depend on the risk element involved in various kinds of commodities, different forms of the same commodity, different shipments, different types of packing, durability of the commodity etc.

13.2.2.3. (3) Hazards and Customs: The commodities are effected by seasonal changes. They may be spoiled due to extreme heat or cold. The risk is influenced by the climate conditions at the port of destination. Sometimes the port may be busy with a particular cargo due to particular season. The cargo rates are influenced by trade customs which are associated with various commercial routes. The moral hazard is greater on certain routes.

13.2.2.4. (4) Quality and suitability of the vessel: Suitability of the vessel to carry the particular cargo is taken by underwriters at times. The rate of premium is more in case of ships which travel slowly. It is because the cargo is exposed to more risk due to longer journey time. Special type of vessels with high speed are designed to carry perishable goods.

13.2.2.5. (5) Duration of voyage and policy conditions: Insurers consider the voyage time in fixing rates. Sometimes loading time of goods abroad the vessel is taken into account. In calculation of premium the protection required by the goods while on the deck is also considered.

13.2.2.6. (6) Miscellaneous Factors: The operating efficiency of the ship may affect the risk on cargo. The factors which influence the rate of premium are handling and stowing cargo, regularity of services and so on.

13.3 RETURN ON PREMIUM:

Sometimes it may happen that the proposed shipment of goods may not take place to the extent of the full value of the goods insured. In such cases, the insurer may refund the excess premium recovered.

Circumstances under which refund of premium may take place.

13.3.1 By agreement in the policy: The insured may pay the full premium while taking a policy. He agree to return the premium either in full or in port on the happening of a certain event. The premium is returnable by agreement in the following case:

(i) Due to improvement in the character of insurance.

(ii) Insurer may return a part of the premium paid as account of no claims over stipulated period.

(iii) Due to cancellation of policy due to change in the ownership of hull

(iv) Cancellation of policy mutually.

13.3.2 Reasons of Equity:

(a) Where the subject – matter is no more under risk.

(b) In case of undeclared balance of an open policy.

(c) Where voyage was to be completed in stages and each stage is being rated separately.If some stages are not completed, the premiums relating to uncompleted stages are returnable.

(d) When the assured has insurable interest throughout the life of the policy the premium is returnable provided the policy does not amount to fraud.

(e) The insurer can cancel the voyage when there is unreasonable delay.

(f) In case of over-insurance, a proportionate part of the premium is refundable.

13.4 SUMMARY:

Premiums can be calculated basing on numerical rating system or by judgement method. The numerical rating system evaluates every item and marks are assigned according to their merits. Numerical rating system can not be used as the marine perils are of different nature. Marine insurance grants protection against a large number of perils.

Individual insurance account is used for personal valuation by a leading underwriter who enter into the making of marine insurance rates which vary materially. Management and ownership are the important factors in evaluating risks for rate-making.

The rate making in marine insurance depends on

(1) Management

(2) Natural Forces

(3) Nationality of the vessel and

(4) Policy conditions

The premium on cargo depends on the following factors:

1. Ownership
2. Character of the cargo
3. Hazards and customs
4. Suitability of the vessel
5. Duration of voyage and
6. Miscellaneous factors.

The premium paid is returned to the insured in some cases depending on the following factors: (1) By agreement in the policy and (2) For reasons of equity.

13.5 SELF-ASSESSMENT QUESTIONS:

- Hull insurance
- Hazards and customs

13.6 ESSAY TYPE QUESTIONS:

- What are the factors that effect calculation of premium?
- What are the circumstances under which premium may be returned?

13.7 REFERENCE BOOKS:

* Insurance Principles & Practice - C. Gopalakrishna

* Modern Law of Insurance in India - Prof. K.S.N.Murty & others.

- Dr.D.N.M. RAJU

Lesson- 14

MARINE LOSSES

14.0 OBJECTIVE:

After completion of this lesson, you should be able to understand:

- Meaning of Marine losses
- Actual total loss
- Jettison
- Barratry
- Abandonment
- Particular loss

STRUCTURE:

14.1 Meaning of marine loss
14.2 Marine perils
14.2.1 Perils of sea
14.2.2 Fire
14.2.3 Man of war
14.2.4 Enemies
14.2.5 Pirates, Rovers, Thieves
14.3 Total loss
14.3.1 Actual total loss
14.3.2 Constructive total loss
14.4 Notice of Abandonment
14.4.1 Contents of notice of Abandonment
14.5 Particular loss
14.5.1 Particular average on cargo
14.5.2 Particular average on ship
14.5.3 Particular average – freight
14.6 General Average
14.6.1 Differences – General Vs Particular
14.7 General average contribution
14.7.1 Application of General Average
14.8 Summary
14.9 Self-Assessment Questions
14.10 Essay Type Questions
14.11 Reference Books.

14.1 MEANING:

Losses in marine insurance business are result of the various perils. Marine insurance policy does not necessarily cover all the risks. An insurer is liable to indemnify an insured in respect of only losses which result from perils insured against. When the loss occurred is beyond the insured peril, the insured himself shall have to bear.

14.2 MARINE PERILS:

The perils insured against are mentioned in the policy and the underwriter shall be liable for damages by the insured perils.

"Marine perils means the perils consequent on or incidental to the navigation of the sea, that is to say, perils of the seas, fire, war perils, pirates, thieves, captures, seizures, restraints and detainment of princes and peoples, jettisons, barratry and other perils, either of the kind (or) which may be designated by the policy.

14.2.1 Perils of Sea: Under perils of sea, ordinary action of the winds and waves, ordinary wear and tear to the vessel, inherent risk of the cargo are not included. The underwriter may be liable for losses caused by perils of the sea, he is not necessarily liable for perils on sea. Perils of the sea refers to fortuitous accidents (or) causalities of the sea. If the loss arising out of any of the perils of the sea, insured is attributable to the fraud (or) willful misconduct of the assured, the underwriter is acquitted from the liability under the policy.

14.2.2 Fire: In olden times fire was the biggest maritime perils, but recently it has been under control to a greater extent. Damage resulting from fire and smoke is included under fire peril. The water used for extinguishing fire may cause damage to the insured goods. So this peril is also insurable. Damages against combustion may be maritime peril, and can be insured against, any damage caused due to lightening explosion and fire due to the negligence of group is recovered from the underwriters. The losses which are not covered by the standard policy can be included by paying extra premium.

14.2.3 Man of War: This is the vessel, meant for the defence in the event of enemity between nations. This is authorised, by the nations, for the purpose of defence (or) attack. Damages relating to the goods (or) ships arising out of collisions against a Man of War is insurable.

14.2.4 Enemies: The ships belonging to the enemy, may cause damage to the insured and hence it re- underwriten by the marine policy. It covers all the persons of the enemy country and to the hostile acts provided, such acts are the results of the action of the enemy.

14.2.5 Pirates, Rovers, Thieves: The loss due to pirates, rovers and thieves were common in olden days. Due to advanced technology these losses have been reduced considerably in the present days. These acts of pirates, rovers etc. are committed for the purpose of individual gain by the persons beyond the Jurisdiction of a state. The term "Thieves" does not mean a theft committed by the crue, officers (or) passenger's.

- **Jettison:** Jettison means voluntary throwing away of the cargo (or) part of an equipment of vessel used to present, lightening (or) to relieve the ship for common safety. The object of throwing away some of the goods (or) property from the vessel is only to protect the vessel from perils. Jettison does not include accidental falling of things from the ship.

- **Barratry:** Barratry includes every wrongful act committed by the master of the ship (or)

crue of the ship due to prejudice of the owner. Barratry must be committed without the knowledge of the owner. The examples of barratry are theft, setting fire to ship, selling the vessel fraudulently, selling of the cargo fraudulently etc. The insurer is liable for losses arising out of barratry provided, the acts covered under barratry are insured.

- **Restraints and detainments:** The prevention to free use of a port by the government of a country is called restraints. It may cause interruption and possible loss of voyages.

The term detainments cover's losses resulting from the detection of vessel and its cargo by blockage (or) other interference by the police of a nation. While the ship is in port. It does not cover losses resulting from delay (or) loss of market (or) some remote cause.

- **Capture and Seizure clause:** Generally the policy covers the perils resulting from war. To relieve war perils seizure clause is included in the policy. It includes perils of sudden declaration of war (or) free of capture and seizure clause. The deletion of this clause, results in resteration of the policy to its original condition and adequates premiums are charged for the purpose.

- **Explosion:** The risk of explosion has increased greatly. The explosion on board of a ship resulting in damage to hull (or) cargo (or) both could be constructed as a peril on the sea. Any explosion on the shore may damage either the ship (or) its cargo. Suitable amendments are made in respect of marine cargo policies, to include such explosions which are not caused by war perils clearly. The explosion incase of hull policies, is covered in the amended negligence clause.

- **Strikes, Riots and Civil Commotion clause:** The marine insurance on cargo is extended to cover the losses from warehouse to warehouse (or) otherwise insures the goods on shore before shipment and after discharge. The danger of underwriters shall liable for losses resulting from the unlawful acts of strikes (or) civil commotions. The insurers are not willing to hold responsibility in respect of losses arising out of unlawful acts.

- **All other perils:** Loss caused by salt water of the sea, due to worms on timber, cattle dieing due to shortage of folder includes sea perils. There may be other damages due to sweat, heat, oil, which are covered under other perils.

Marine losses:

If the loss takes place on account of any of the perils insured then the insurer is liable for such losses and he has to make good the losses insured by the insured. If the peril is insured then only the insurer will indemnify the loss. The doctrine of causa proxima is to be applied while calculating the amount of loss. It means to reimburse the losses, the proximate cause may be considered. If the proximate cause is insured then only the insurer will pay otherwise not.

14.3 TOTAL LOSS:

Losses are deemed to be total (or) complete when the subject matter is destroyed (or) lost (or) seases. It should be distinguished from partial loss where only apart of the property insured is lost (or) destroyed. In case of total loss the insured loses to the extent of the value of the property provided the policy amount is to that limit.

14.3.1 Actual total loss: It is a material and physical loss of the subject matter insured. Where the subject matter insured is destroyed (or) where the insured is deprived of the loss, there is an actual total lost. When the ship is damaged completely, and becomes value less (or) when the ship is missing permanently it will be an actual total loss.

Actual total loss occurs in the following cases:

a) When the ship is destroyed completely (or) the subject matter is destroyed by fire.

b) The subject matter so damaged as to sease to be thing of the kind insured. In this case there is no complete disstruction of the subject matter. But the damage to the subject matter caused can no longer of the same speeile as originally insured due to accident.

The food stuff badly damaged by sea water becomes unfit for human consumption. Similarly hider and skins may become value less due to admission of water. These damaged things may be used as menue. Since the characteristics of subject matter are changed and have lost their shapes they are all actual total loss.

c) The insured is deprived of ownership of the goods even though they are existence physically, as in the case of capture by enemy stealth by thief (or) fraudulent disposal by the matter of the ship (or) crue.

d) Where a ship is lost for a very long time and could not be traced within a reasonable time then it amounts to loss of subject matter. This is considered as actual total loss under otherwise some proof is available.

The notice of abandonment of property did not be given in case of actual total loss. In this case the insurer will have exclusive remedies and rights in respect of such damaged properties. The insured can not recover from the insurer any amount which is over and above the amount of loss caused (or) sum insured. If the property is underinsured, the insured can recover only to the extent of the sum insured. In case of over insurance only the actual loss is indemnified. If the subject matter damaged, is not in original position i.e. as it was at the time of insurance, then the insured will be given the full amount of total loss.However the insured, should have insured upto the amount of total loss. In such cases, the insurer will subrogate all rights in respect of such property. Any amount realised out of the salvaged goods (or) property will go to the insurer.

14.3.2 Constructive total loss: Where the subject matter is reasonably abandoned when its actual total loss is unavoidable (or) when it can not be preserved from total loss without involving expenditure which would exceed the value of the subject matter.

For example the cost of repairs and replacement was estimated at Rs. 1 00,000/-, where as the cost of the ship damaged was estimated to be Rs. 80,000/-. In this case the ship may be abandoned and it will be taken as constructive total loss.

On the other hand, if the value of the ship is more than Rs. 1,00,000/- it cannot be considered as constructive total loss. In this case it is to be assumed that retention of the subject matter will lead to financial loss to the insured.

The constructive total loss will be where-

A) The subject matter insured is reasonably abandoned

B) The subject matter cannot be preserved from actual total loss.

14.4 NOTICE OF ABONDONMENT :

The insurer must give the notice of abandonment to the insurer to claim the loss as constructive loss. If the insured does not give the notice of abandonment then the loss will be treated

as partial loss only. The notice should be unconditional. It is up to the insurer to accept (or) to reject it. If the insurer does not accept then the insured, should bring in legal action against the insurer immediately in order to claim the loss under constructive total loss.

14.4.1 Contents of the notice of Abandonment:

1) Where the insurer accepts to abandone the subject matter then he must give notice of abandonment. If the insured fails to furnish the notice the loss can be treated as partial loss.

2) The notice can be given in writing (or) orally. However the intension of the assured to abandon his insured interest in the subject matter unconditionally to the insurer.

3) The notice of abandonment must be given within a reasonable time after the receipt of reliable information of loss.

   If the information relating to the loss is doubtful, it is the duty of the insured to furnish the required information.

4) If the notice of abandonment given is in proper form, then the rights of the assured are not prejudices by the fact that the insurer refuses to accept.

5) The acceptance of abandonment may be expressed (or) implied.

6) If the notice of abandonment is accepted then it cannot be revoked at any time.

7) Notice of abandonment is unnecessary if the insurer does not get any benefit.

8) Notice of abandonment may be waived.

SALVAGE LOSS

Where actual total loss occurred and the subject matter is so damaged as to seize to be a thing of kind insured (or) when they have been sold before reaching the destination, there is a constructive total loss. Generally, the settlement of loss is made by paying the net sale proceeds to the insured. The net sale proceeds is calculated by deducting expense of the sale from the amount realised. The insured will recover from the insurer the total loss less than net amount of sale. The amount so received from the insurer is called “Salvage Loss”.

PARTIAL LOSS:

Partial loss is there where only part of the property insured is lost or destroyed or damaged. Partial losses in contradiction from total losses include (a) particular average losses, i.e. damage or total loss of a part , (b) General average losses (general average) i.e. the sacrifice expenditure etc. done for common safety of subject matter insured, (c) particular or special charges i.e. expenses insured in special circumstances and (d) salvage charges.

14.5 PARTICULAR AVERAGE LOSS:

Particular average loss is defined as “ a partial loss” of the subject matter insured caused by a peril insured and is not a general average loss. The general average loss or expense is voluntarily done for the common safety of all the parties insured. But, the particular average loss is fortuitous or accidental. It cannot be partially shifted to others but will be borne by the persons directly affected. The particular average loss must fulfill the following conditions.

1) Particular average loss is a partial loss or damage to any particular interest caused to that interest only by a peril insured against.
2) The loss should be accidental and not intentional.
3) The loss should be of the particular subject matter only.
4) It should be the loss of a part of the subject matter or damage thereto or both. The distinguishing feature in this matter is that where the properties insured are all of the same discription, kind and quality and they are separately valued in the policy, the loss of an apportionable part of the interest is a total loss.

   In case of total loss of a part of recoverable either as a total loss or as particular average loss, the basis of settlement will be on the total loss of the who lot and the insurer will be liable to pay in proportion according to the insured or insurable value of the whole interest.

14.5.1 Particular average on Cargo: The particular average loss may be either the damage and depreciation of a particular interest or a total loss of its part. If the property is insured under one value for the whole and is all the same kind, quality or description, a total loss of part will be recovered as a particular average loss. In case where goods are delivered in a damaged condition or where value is depreciated, the resulting particular average loss will be adjusted upon the basis of comparison between the gross sound value and damaged value. The process of valuation is as follows:

1) The gross sound value of the goods damaged is found out. This is the value for which the goods would have been sold if the goods had reached the port of destination in sound condition.
2) After calculating the above value, the gross damaged value of the goods damaged or depreciated is found out on the basis of market price at that time.
3) Deduct the gross damaged value from the gross sound value . The difference is the measure of the actual damage (or) depreciation.
4) The ratio of damage or depreciation is calculated by dividing the amount of damage or depreciation by the gross sound value.
5) Apply the above ratio to the value (insured or insurable value as the case may be) of the damaged or depreciated goods which will give the amount of a average loss.
6) Of the amount thus arrived at the insurer is liable for that proportion which his sum insured bears to the value.

Illustration:

For example, the cargo was of Rs.40,000. Half of the goods are damaged which realised 8,000/- at destination. If the damaged goods would have realised (a) Rs.16,000/- (b) Rs.32,000/- had they reached undamaged.

(a) gross sound value on arrival	Rs. 16.000/-
gross realised values on arrival	Rs. 8,000/-
Damage	Rs. 8,000/-

Damage is Rs.8,000/- which is ½ of the gross sound value. Therefore the claim as policy is ½ of Rs. 20,000/- (40,000/- X ½) Rs.5,000/-.

(b) gross sound value on arrival	Rs. 32,000/-
gross realised value on arrival	Rs. 8,000/-
Damage	Rs. 24,000/-

Damage is Rs.24,000/- which is ¾ of gross sound value. Therefore , the claim policy is ¾ of Rs. 20,000/- = 15,000/-. The main reason for the above computation was to keep the underwriter free from the liability or otherwise of the rise or fall in the price of the damaged goods.

Valuation by Services:

The valuation by services removes the defects of memorandum clause which is used to free certain commodities from particular average and in the case of other commodities the damage has to amount to atleast 5 percent to become recoverable specifically. The provisions are:

1) Iron, finish, salt, fruit, floor and seed etc. are warranted free from particular average unless the ship be stranded.
2) Sugar, tobacco, temp, flax, tides and skins etc. are warranted free from particular average unless the ship be stranded or unless amounting to 5.1.
3) All other goods are warranted free from particular average unless the ship be stranded or unless amounting to 3.1.

The standing of the ship vitiates the memorandum and renders insurers liable for any particular average, which has occurred as the voyage irrespective of the franchises mentioned. Percentage has to be taken into consideration in ascertaining whether the franchise is reached, but when attained the damage is paid in full. If the particular average reaches the stated percentage, the insurer becomes liable in respect of the whole loss and not merely for the excess over the franchise or exemption limit.

As has been mentioned above, the particular average loss can be claimed only when it exceeds certain fixed percentage of the total value of the goods. But this limit or percentage may account a huge amount when a very large amount has been insured. In such a case, it will work as a greater hardship to the assured as he will have to suffer this partial loss himself. In order to lessess the rigours of memorandum clause, the subject matter is divided in sections known as series and the franchise i.e. the exemption limit will be considered for each series separately for the purpose of calculating particular average loss. The subject matter may vary according to the type of interest, paving, original localities. The last series which does not fulfill the required limit (or) amount is called Tail Series. A tail series is dealt as a complete series. The assured is free to recover particular average in respect of each series separately.

14.5.2 Particular average on ship: In case of partial loss of ship, the following factor's are considered:

1) Where the ship has been repaired, the assured is entitled to the reasonable cost of the

repairs less the customary deductions. The amount of repair shall not be more than the sum insured.

2) Where the ship has been only partially repaired, the assured is entitled to the reasonable cost of such repairs, reasonable depreciation.

3) If the ship has not been repaired and has not been sold in her damaged state during the risk, the assured is entitled to be indemnified for the reasonable depreciation arising from the unrepaired damage.

The measure of indemnity for a particular average is the reasonable cost of repairing the damage less the customary deductions “new for old”. If the damaged part of the ship are old then the insurers is obliged to indemnify the insured only to the extent of the value of the old parts. But when new parts are added, the difference between the value of the new parts and the value of the old parts are made. Insurers are liable for the cost of repairing particular average damage to the ship irrespective of the insured or actual value of the ship where temporary repairs are necessary. The insurers are liable for such repairs in addition to the permanent repairs. Where a ship cannot be repaired at the port of refuse, cost of removal to another port is regarded as part of cost of repairs.

14.5.3 Particular average in case of freight: Where there is a partial loss of freight, the measure of indemnity is such proportion of the sum fixed by the policy in the case of a valued policy or of the insurable value in the case of an unvalued policy as the proportion of freight loss by the assured bears to the whole freight at the risk of assured under the policy.

14.6 GENERAL AVERAGE:

The general average loss will be there where the loss is caused by an extraordinary sacrifice (or) expenditure voluntarily and reasonably made (or) incurred in time of peril for the purpose of preserving the property imperiled in common adventure. The following element are involved in General Average.

(1) The loss must be extra ordinary in nature. The sacrifice (or) expenditure must not be related to the performance of routine work. A state of affairs may compel the master to do something beyond his ordinary duty for the preservation of the subject matter.

(2) The whole adventure must be imperiled. The peril should be some thing more than the ordinary perils of the sea. It should not be imminent and real.

(3) The general average act must be voluntary and intentional accidental loss or damage is excluded.

(4) The loss, expenses or sacrifice must be incurred (or) made reasonably and prudently. The master of the ship is proper person to decide the reasonableness of a particular circumstances.

(5) The sacrifice, loss or expenditure must be made for the preservaion of whole adventure. It should be made for common safety.

(6) If the sacrifice proved abortive, it will be allowed as the total loss. Therefore, to call it general average, it must be successful atleast in port.

(7) In absence of contrary provision, the insurer is not liable for any general average loss or

contribution where the loss was not incurred for the purpose of avoiding, or in connection with the avoidance of a peril insured against.

(8) The loss must be direct result of a general average act. Indirect losses such as demurrage and market losses are not allowed as general average.

(9) General average must not be due to some default on the part of the person whose interest has been sacrificed.

14.6.1 Difference between General Average Loss and Particular Average Loss:

1) General average is incurred for the benefit of all interests but the particular average is in connection with any of the interests.
2) General average is always voluntary and intentional but the particular average is an accidental (or) fortuitous.
3) General average is shared by all those who is benefited by the general average act. Particular average is paid by the insurer.
4) General average may include expenditure and sacrifice along with loss whereas particular average results from a loss (or) damage.

Types of General Average Loss.

The general average losses are divided into two clauses:

1) General average sacrifices: The general average sacrifice are made for common safety for example “Jettison” which means throwing away of the cargo in order to lighten the ship. Similarly, the use of cargo as fuel, cutting away of a spare and sails.

2) General average expenditure: The general average act involves expenditure. In this case extra expenditures are involved for common safety. Here, additional charges are incurred at the port ship is repaired, expenses may be involved for lightening and reloading of the cargo.

14.7 GENERAL AVERAGE CONTRIBUTION:

The general average loss is rateable contributed by the parties interested. In contribution of general average loss the contributory interest, amount to be made good and contributory values are considered.

- **Contributing Interests:** The interest saved by the general average act are liable to contribute rateably to make good the sacrifices or expenses. There are certain articles which are not required to contribute towards general average loss. For example: Postal articles, Parcel, Crews effects and the personal effects of passengers not shipped under a bill of lading. There are three main contributing interests - Ship. Freight and Cargo.

- **Amount to be made good:** The amount to be made good in general average differs from adventure to adventure.

(a) Ship: The amount to be made good in general average in respect of a ship is measured by reasonable cost of repairs less the actual deduction (if any) new for old. The costs of repairs are taken into account as they have been actually effected either at a port of refuse or at destination.

(b) **Cargo:** The amount of general average in case of goods is their net value. The net value is calculated taking into account the value of goods sacrificed at this safe arrival and from this the expenses which would have been incurred had the goods arrived safely, are deducted. Thus, the net value of goods is obtained. The remaining cargo arrives damaged from causes which would have actually affected the sacrificed goods. The amount to be made good for general average purposes is their net value based on what the goods sacrificed would have realized, had they reached the destination damaged to some extent as the other cargo for goods arriving damaged arising to general average sacrifice, the allowance is the difference between this net value in sound condition and net value in damaged state.

(c) **Freight:** Where the freight is to be paid at destination in respect of a cargo which is used for general average act, the ship owner will loose it and it would be made good in general average. The ship owner is entitled for the gross freight which he would have earned, had the goods not been sacrificed less the charges which he would have incurred to earn such freight during the remainder of the voyage, but which he has not incurred as a result of the sacrifice.

(d) **Expenses:** All the extra ordinary expenses properly incurred by the ship owner in time of peril for the common safety of all the interests are also made under the general average contribution.

- **Contributory values:**

  The third process is to determine what are the bases to contribute to general average. The interest contributes on their net value at the place where the voyage ends i.e. at destination or at intermediate port if the voyage be abandoned there. The values are contributory values. It may be of three types.

  (i) **Ship:** The ship owner will contribute on the ships value as saved by the sacrifice. The value is the amount for which the ship owner as a reasonable man would be willing to sell her on arrival at her destination. Any amount that may have been contributed in respect of general average damages is added to this value to arrive at contributory value.

  (ii) **Cargo:** The cargo owner will contribute on the market value of goods saved at the place where the voyage ends. To arrive at the value of expenses incidental to the safe arrival of the cargo is deducted from selling price of cargo.

  (iii) **Freight:** The freight has been paid in advance, it would have been included in the value of separate interest. The goods arrived safely at destination will have to contribute on the basis of net value of freight served if the freight was not paid in advance. The contribution of freight will arrive at by ascertaining the actual sum of freight received at port of destination less the expenses of earning it from the date of general average act.

14.7.1 Application of general average to insurance:

In absence of contrary to the contract the general average losses and contributions are recoverable from the respective marine insurer's insuring ship, freight and cargo if the general average loss has been incurred for the purpose of avoiding a peril insured against. The extent of insurer's liability for general average contribution is the full amount of the contribution provided the contributory value does not exceed the insured value.

The York – Antwerp Rules 1950:

The York – Antwerp rules was formulated in 1877. The rule was again revised and extended at a meeting of the international law association held at Stock Holms in Sept.1924. The rule was again amended in 1950. Now, the rule is called the York-Antwerp Rules 1950. It has been formulated in two forms: (1) Lettered Rules and (2) Numbered Rules.

Lettered Rules: There shall be a general average act when and only when any extra ordinary sacrifice (or) expenditure is intentionally and reasonably or incurred for the common safety for the purpose of preserving from peril. The general average sacrifices and expenses shall be borne by the different contributing interests. Only such losses, damages or expenses which are the direct consequences of the general average act shall be allowed as general average. The lettered rules are described from A to G.

Numbered Rules:

The numbered rules I to X2X specify the various losses and expenses that are considered to be general average sacrifices. The last three rules XX,XXI and XXII govern arrangements in connection with the adjustments. It is provided that each deposits paid to the adjusters a security for the final general assessment shall be treated as a fiduciary funds and placed in a special bank account.

Jettison of Cargo, fire:

No jettison of cargo shall be made good as general average unless such cargo is carried in accordance with rule I and II.

Rule III:

Existinguishing fire on shipboard done to a ship and cargo or either of them by water (or) otherwise will be included in general average.

Rule IV and V:

Cutting away wreck, stranding: where a vessel has been partially wrecked by a less peril and portion of the spares remain, the cutting away of these ruminants is not allowed for in general average. The place of stranding should be voluntarily selected by the master. Loss (or) damage incurred in refloating such stranded ship shall be allowed as general average.

Rule VI and VII:

Damage (or) loss caused to soils and spares and machinery shall be allowed in general average if it was due to general average act.

Rule VIII to XII:

Expenses involving from lightening a ship to the reloading or discharge of cargo are involved in general average ships, materials and stores build for fuel are also taken as general average. Wages and maintenances of crew and other expenses at a port of refuge are taken into general average if these are involved for general average act.

Rule XIII:

In adjusting claims for general average repairs to be allowed in general average shall be subject to deductions in respect of “new for old” according to the rules. Temporary repairs made for the common safety shall be admitted as general average.

Rule XVII:

This rule mentioned that the contribution to a general average shall be made upon the actual net value of the property at the termination of the adventure to which values shall be added the amount made good as general average for property sacrificed.

Rule XV, XVI, XVII, XVIII:

These deal with the loss of freight , amount to be made good for large and damage to ship.

Rule XIX:

This rule deals with the undeclared value of goods without the knowledge of the ship owner or his agent or to goods willfully misdescribed of the ship owner or his agent or to goods willfully misdescribed at the time of shipment shall not be allowed to general average but such goods shall remain liable to contribute.

Rules XX, XXI and XXII deal with the banking provision of the general average.

Expenses:

The expenses are (i) Particular charges

(ii) Salvage changes

(i) Particular changes: Where the policy contains a "sue and Labour" clause, the engagement thereby entered into is deemed to be supplementary to the contract of insurance and the assured may recover from the insurer any expenses properly incurred pursuant to the clause. The clause requires the insurers to pay any expenses properly incurred by the assured or his agents in preventing or minimizing loss or damage to the subject matter by a insured peril. The essential features of the clause are as follows:

1) The expenses must be incurred for the benefit of the subject matter insured. The expenses incurred for common benefit will be a part of general average.
2) The expenses must be reasonable and be incurred by " the assured, his factors, his servants or assigns" and this provision effectively excludes salvage changes.
3) They are recoverable only when incurred to avert or minimize a loss from a peril covered by the policy.

14.8 SUMMARY:

Marine insurance is originated in England owing to the frequent movement of ships over high seas for trade. The risks involved every time a vessel set sail necessitated sound insurance cover to meet any eventuality. Today marine insurance has assured a vast canvas due to the expanding trade across the globe, which involves large shipping companies that require protection for their fleet against the perils of the sea.

Maritime insurance is an important element of general insurance. It essentially provides cover from loss suffered due to marine perils. Marine insurance extends beyond marine perils to provide cover

for loss incurred during shipment of cargo over water bodies like rivers, lakes and inland water ways. It also covers ships under construction, decked for repairs, stranded at ports and ships transporting consignment.

Maritime insurance of the present is governed by the provisions of the English Maritime Insurance Act 1906. In India it is regulated by the Indian Maritime Insurance Act 1963, which is based on the original English act. Maritime insurance provides cover against marine loss relating to Hull, Cargo and Freight.

14.9 SELF-ASSESSMENT QUESTIONS:

- Need for marine losses
- Barratry
- Capture and seizure clause
- Civil commotion clause.

14.10 ESSAY TYPE QUESTIONS:

- Explain actual total loss, constructive total loss and average loss
- What is general average loss? Explain the various types of general average loss.
- Distinguish between particular charges and salvage charges.

14.11 REFERENCE BOOKS:

* Insurance Management : Anand Ganguly
* Principles of Insurance Laws : M.N.Srinivasan
* Manual of Insurance Laws : R.Puliani & M.Puliani
* Insurance Principles and Practise : George G.R.Luceas,Ralph H Wherry.

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Lesson- 15

PROGRESS OF MARINE INSURANCE BUSINESS IN INDIA

15.0 OBJECTIVES:

After completion of this lesson, you should be able to understand:

- Gross direct premium income
- Net premium income
- Underwriting experience

STRUCTURE:

15.1 Introduction
15.2 Business of Indian insurers before nationalization
15.3 Indian insurer's – Net claim to net premium
15.4 Indian insurer's – Gross claim
15.4.1 Gross direct premium income
15.4.2 Net premium income
15.4.3 Underwriting experience in marine insurance
15.5 Summary
15.6 Essay type questions
15.7 REference Books

15.1 INTRODUCTION:

The marine insurance business was nationalized, along with other general insurance by the General Insurance (Emergency Provisions) Ordinance 1971, which was subsequently replaced by the General Insurance (Emergency Provisions) Act, 1971. The management of the insurer's carrying on general insurance business in India was taken over by the central government with effect from 13th May, 1971. The General Insurance Corporation of India was formed on 22nd Nov. 1972, under the general insurance business (Nationalisation) act 1972, and by virtue of the same act, 55 Indian general insurance, companies became subsidiaries of the general insurance corporation of India and the undertakings of the other erstwhile insurers were merged in are or the other of four selected ultimate companies which were to operate in the nationalized setup viz., National Insurance Company limited. New India Assurance Company Ltd.,Oriental five & General Insurance Company Ltd., and limited India five and general insurance company limited On 1st January, 1974, the 55 Indian Insurance Companies were also Merged into the four ultimate companies by schemes merger. The setting up of a new organizational setup for the four ultimate companies is still in the process of being completed. Thus, the period from 13th May, 1971, to 31st Dec.1974 has been a period of transition. The progress of marine insurance has been analysed under progress before nationalization and progress after nationalization.

15.2 BUSINESS OF INDIAN INSURER'S PROGRESS BEFORE NATIONALISATION:

The gross premium of Indian insurer's has increased from Rs. 21.06 crores in 1969 i.e. 76.6 percent of the gross premium received by the marine insurer's to Rs. 31.61 crores i.e. 79.4 percent of the gross premium in 1972. Thus gross premium has increased not only in absolute term but it has increased in relation of total gross premium. The business of non – Indian insurer's has decreased from 23.4 percent of total gross premium in 1969 to 20.6 percent of gross premium in 1972. The non-Indian insurers were unable to increase their share in total business. The total gross premium income of nationalized insurer's have increased from Rs. 70.83 crores in 1975 to Rs. 98.32 crores in 1978.

Not only the share of gross premium to Indian insurer's but the share of net premium to Indian insurer's has also increased from 75.2 percent of net premium to 78.2 percent of net premium in 1972. The share of non-Indian insurer's has increased from 24.8 percent of total net premium to 21.8 percent of total net premium has been constantly rising from Rs. 17.96 crores in 1969 to Rs. 27.79 crores in 1972.

As compared to general total general insurance business, the Indian insurers have booked less business in the form in marine insurance business as the share of Indian insurer's to general insurance business in 1969 was 80.2 percent of total net received by all general insurer's which increased to 81.7 percent in 1971 and 82.8 percent in 1972 while the corresponding percentage in case of marine insurance was 25.2, 76.9 and 78.2 percent respectively. Thus, the share of marine insurance of Indian insurers was not so high as was total business in case of general insurances.

The net premium in marine has also increased from Rs. 17.96 crores in 1969 to Rs. 24.04 crores in 1971 and Rs. 27.79 crores in 1972 and Rs.48.71 crores in 1977. The net premium of all insurances has also increased from Rs.91.35 crores in 1960 to Rs.114.70 crores in 1971 and further to 136.57 crores in 1972.

15.3 INDIAN INSURERS:

The percentage of net claim to net premium has declined from 65.7 in 1970 to 59.7 percent in 1971 and increased to 61.3 percent in 1972. while non-Indian insurers have experienced correspondingly, a higher percentage v.z. 62.8, 68.00 and 68.9 percent. It reveals that the Indan insurer's were rational in payment of claims and were gaining on grand of payment claim. But so far payment of commission was concerned Indian insurers were not saving as compared to that of non-Indian insurers. Indian insurers paid net commission as high as 24 percent of net premium in 1970. But the Indian insurers were controlling their management expenses more effectively than that of non-Indian Insurers who experienced 32.4 percent of net premium at the minimum while the Indian- Insurers experienced the expenses of 19.5 percent of the net premium at the maximum. Moreover, the expenses ratio was declining. This shows that the Indian insurer's were more efficiently managing their business and were gaining much more than the non-Indian insurer's. The non-Indian insurers suffered loss to the tune of 0.2 percent of net premium whereas the Indian insurers got the balance of income as low as 14.5 percent of net premium which has increased to 16.6 percent in 1971 and 30.6 percent in 1972 and 16.9 percent in 1978. Thus the Indian insurers were more benefited at every level so far as ratio to net premium were concerned.

15.4 INDIAN INSURERS:

The percentage of gross claims payable to gross premium has been constantly declining from 56.7 percent in 1958 to 46.8 percent in 1970, to 41.7 percent in 1971 and further to 50.7 percent in 1972. As compared to that of Non- Indian insurers, it has been two thirds of their ratios. Thus the Indian insurers were also curtailing their expenses in the form of payment of direct commission which has been as low as 24 percent of the gross premium in 1971. Where as it was 4.5 percent in the case of non-Indian insurers. The expenses of management were also curtailing more effectively by the Indian insurers as were done by the non Indian insurers. The Indian insurers had expended only 19.2 percent of their gross premium at the maximum in 1958 where as it was 23.3 in 1971 of non- Indian insurers. The Indian insurers were experiencing dealing ratio's of management expenses to gross premium. The increase in reserve to the Indian insurer's were more than the increase in reserve to the Indian insurers of the non-Indian insurer's. The balance of income to Indian insurer's was rising rapidly from16.4 percent of gross premium in 1958 to 35.1 percent in 1971 whereas the non-Indian insurers were graining the share of balance of income to gross premium. Conclusively, it can be stated that, the Indian insurers were improving their business and were doing business more effectively than that of non-Indian insurers.

The Indian insurers were having their business outside India as the balance of income has decreased from 17.2 percent of gross premium in 1970 to 18.8 percent of gross premium.Similarly, the percentage of gross claim payable to gross direct premium has increased from 64.3 percent in 1970 to 91.9 percent in 1971 and declined to 64.0 percent in 1972. The direct commission has also increased from 10.8 percent in 1970 to 11.8 percent in 1971. However the management expenses has declined from 16.6 percent in 1970 to 14.2 percent in 1971 and increased to 15.0 percent in 1972.

The net premium income of marine insurance out of India has increased from Rs. 14.28 crores in 1975 to Rs. 17.75 crores in 1977. The net premium income in case of total general insurance out of India has also increased from Rs. 63.75 crores in 1975 to Rs. 71.40 crores in 1977.

15.4.1 Gross Direct Premium Income:

The gross direct premium has been analysed under the G & L and the four subsidiary companies. They are National Insurance Company Ltd., New India Assurance Company Ltd, Oriental Insurance Company Ltd. and United India Insurance Company Ltd.

The gross direct premium income has increased from Rs.70.83 crores in 1975 to Rs.132.61 crores in 1980 and again Rs. 275.19 crores in 1985 and Rs. 464.90 crores in 1988-89. The rate of increase has been quicker in the later period. It shows that the general insurance industry has been very particular to extend its benefits to a larger population of the country. United India has increased its premium income from Rs.34.76 crores in 1980 to Rs. 135.03 crores in 1988-89. They have regular and constant progress on the other hand, Oriental has increased its business very slowly, from Rs. 37.34 crores in 1980 to Rs. 108.08 crores in 1988-89. National has the least amount of business. It increased its business from Rs. 28.02 crores in 1980 Rs 92.78 crores in 1988-89.

15.4.2 Net Premium Income:

Net premium income has been observed in the GIC because it does not accept reinsurance functions although it does not work directly for Marine and Fire Insurance. The amount of net

premium of the GIC has increased from Rs.38.11 crores in 1982 to Rs.102.82 crores in 1988-89. it has maximum business than those of the other subsidiaries. The total net premium income in Marine Insurance has increased from Rs. 48.00 crores in 1977 to Rs.156.83 crores in 1982 by more than three times. This premium could not increase at faster rate at later part of the period. It increased to Rs.260.36 crores in 1985 and Rs.433.01 crores in 1988-89. United India has shown satisfactory progress from RS. 34. 88 crores in 1982 to Rs. 93.27 crores in 1988-89. New India has shown rapid progress from Rs. 31.03 crores in 1982 to Rs 96.56 crores in 1988-89. Oriental has been at third place by promoting its business from Rs.30.10 crores in 1982 to Rs. 70.66 crores in 1988-899. National has given atleast business of all the companies.

15.4.3 Underwriting experience in Marine Insurance:

The underwriting experiences of Marine Insurance has increased from Rs. 6.86 crores in 1982 to Rs.5.88 crores in 1985 and Rs 55.01 crores in 1988-89. It shows that the underwriting profit has increased rapidly than those of business. The rate of underwriting has increased from Rs.4.3 percent in 1982 to Rs.12.70 percent in 1988-89. National and United India have shown lower underwriting profit ratio in 1988-89. National, Oriental and New India have experienced losses in some years, whereas New India has the highest rate of underwriting profit in all the years of analysis. National and United India have shown higher rate of claim. New India has the lowest claim ratio. National and Oriental have higher expense ratio than those of United Indian and New India.

15.5 SUMMARY:

Marine Insurance business was nationalized along with other general insurance by the General Insurance Ordinance of 1971 which was replaced by general insurance act of 1971. The insurance business in India was taken over by the Government of India with effect from 13th May 1971. Under the general insurance business act the General Insurance Corporation of India in the year 1974 about 55 insurance companies were merged and a New Organisation was setup.

Before nationalization the gross premium of Indian insurers has increased from 21 crores in 1969 to Rs.31.6 crores by the end of 1972. the business of Non-Indian Insurers has decreased. They were unable to increase their shares in total business.

The percentage of net claim to net premium declined from 65.7 in 1970 to 59.7 percent in 1971. However it was increased to 61.3 percent in 1972. The non Indian insurer's have experienced a higher percentage during this period.

The percentage of gross claims payable to gross premium has decreased from 57.7 percent to 46.8 percent in 1970. It was further decreased 41.7% in 1971. The Indian insurer's were loosing the business outside India due to their fall of income.

15.6 ESSAY TYPE QUESTION:

- Explain the growth of marine insurance business in India?

15.7 REFERENCE BOOKS:

* Manual of Insurance Laws - Ravi Puliani and Mahesh
* Insurance Management - Anand Ganguly
* Insurance Principles and Practice - C.Gopal Krishna

- Dr. D.NAGESWARA RAO

Lesson- 16

MOTOR INSURANCE

16.0 OBJECTIVES:

After completion of this lesson, you should be able to understand:

- History of Motor Insurance
- Motor – Insurance in Indian scenario
- Basic principles
- Motor Vehicle Act.

STRUCTURE:

16.1 History of Motor Insurance
16.2 Indian situation
16.3 Basic Principles
16.3.1 Utmost goodfaith
16.3.2 Insurable Interest
16.3.3 Indemnity
16.3.4 Subrogation and Contribution
16.4 Motor Vehicle Act 1939
16.4.1 Need for third-party Insurance
16.4.2 Limitations of Liability
16.5 Commencement and Termination
16.5.1 Commencement
16.5.2 Termination
16.5.3 Certificate of Insurance and Covernote
16.5.3.1 Contents of Covernote
16.6 Transfer of Ownership
16.6.1 Duty of Insurer
16.6.2 Rights of Insurer
16.7 Rights of Third Parties
16.8 Summary
16.9 Self Assessment Questions
16.10 Essay Type Questions
16.11 Reference Books.

16.1 HISTORY OF MOTOR INSURANCE:

Motor Insurance started in the year 1894 in U.K. The first policy was issued in 1895 covering third party liability. Later, in the year 1899 accidental damages were added. All these coverage's are found in a comprehensive policy at present.

Soon after the First World War, the number of automobiles started increasing. The increase of motor vehicles resulted in motor-accidents. The victims of these accidents were not able to recover damages because many of the vehicles were not insured. Therefore, in order to make the compensation available for victims of the accident, third party insurance was made compulsory after the World War.

16.2 INDIAN SITUATION:

According to the Insurance Act 1938, General Insurance comprises of fire insurance, marine insurance and miscellaneous insurance. Motor insurance comes under miscellaneous insurance.

The Indian Motor Vehicles Act was passed in 1939. The act in India is similar to that in U.K. But in India motor insurance is bound by tariff rating, where as in U.K. it is non-tariff of premiums.

Every motor vehicle owner is exposed to certain risks while driving on road. There can be loss of damage caused to the car, the contents in it or physical injury to individuals due to collision. There could also be other damages from theft, fire or third party damages. Finally, there could also be death of occupants and third parties in an accident.

The risks under motor insurance are of two types. Legal liability due to bodily injury, death or damage caused to property of others. And

- Loss or damage to one's own vehicle, injury to or death of self and other occupants of the vehicle.

16.3 BASIC PRINCIPLES:

Motor insurance being a contract like any other contract has to fulfill the requirements of a valid contract as laid down in the Indian Contract Act 1972. In addition to this, it has certain special features common to other insurance contracts. They are:

- utmost good faith
- insurable interest
- indemnity
- subrogation and contribution
- proximate cause

16.3.1 Utmost good faith: The principle of utmost good faith casts an obligation on the insured to disclose all the material facts. These material facts must be disclosed to the insurer at the time of entering into the contract. All the information given in the proposal form should be true and complete.

The material facts required in motor insurance are:

- Personal details of the proposer
- Type of vehicle
- Geographical area of use
- Physical health of the driver
- History of driving
- Violations of traffic, if any
- Past loss experience

If any of the above mentioned material facts declared by the insured in the proposal form are found inappropriate by the insurer at the time of claim it may result in the claim being repudiated.

16.3.2 Insurable interest: In a valid insurance contract it is necessary on the part of the insured to have an insurable interest in the subject matter of insurance. The presence of insurable interest in the subject matter of insurance gives the person the right to insure. The interest should be pecuniary and must be present at inception and throughout the term of the policy.

Therefore, a valid contract of insurance has the following elements:

- existence of the property exposed to damage or liability
- it must be the subject matter of insurance
- the insured must be either benefited by the safety of the property or must suffer a loss on account of damage to it.

16.3.3 Indemnity: Insurance contracts are contracts of indemnity. Indemnity means making good of the loss by reimbursing the exact monitory loss. It aims at keeping the insured in the same position he was before the loss occurred and thus prevent him from making profit from insurance policy.

16.3.4 Subrogation and contribution: These two are corollaries of indemnity. Subrogation means transfer of insured's right of action against a third party who caused the loss to the insurer. Thus, the insurer who pays the loss can take up the assured's place and sue the party that caused the loss in order to minimize his loss for which he has already indemnified the assured. Subrogation comes in the picture only in case of damage or loss due to a third party. The insurer derives this right only after the payment of damages to the insured.

Contribution ensures that the indemnity provided is proportionately borne by other insurers in case of double insurance.

16.4 MOTOR VEHICLE ACT- 1939:

Motor Vehicles Act -1939 was passed to safe guard the interests of pedestrians. According to the act, a vehicle can not be used in a public place without insuring the third party liability.

16.4.1 Need for third party insurance: According to section 24 of Motor Vehicles Act," no person shall use or allow any other person to use, a motor vehicle in a public place, unless the vehicle is covered by a policy of insurance".

Compulsory insurance in respect of motor vehicles consists the following liabilities:

- liability arising out of bodily injury or death of the third party.
- compulsory insurance of passengers carried on hired vehicles.
- compulsory insurance of passengers carried by reason of a contract of employment.
- compulsory insurance of an employee under Workmen's Compensation Act taking into account the factors such as:
  - who was driving the vehicle
  - whether working as conductor or ticket examiner
  - nature of goods carried in the goods carriage.

  However, for the exemption to be effective the concerned government authority must pass an order for such exemption only with a fund established by the concerned government debt to meet the liabilities arising out of the use of the vehicles.

16.4.3 Limitations of liability:

- Liability coverage of goods vehicle under Workmen's Compensation is upto Rs.1,00,000 and passengers are limited to less than six. This limit is over and above the coverage available to the driver.
- Liability coverage limit is upto Rs.15,000 in case of a hired passenger vehicle. The passengers in this case also include passengers under contract of employment.
- Liability coverage of any vehicle other than the one mentioned above is limited to the rupee value of actual liability.
- Liability coverage in case of any damage to the property of third party is upto Rs.6,000/-

16.5 COMMENCEMENT AND TERMINATION:

16.5.1 Commencement: The policy comes into effect from the insurance of certificate of insurance to the proposer.

16.5.2 Termination: The insurance policy is subject to termination before the policy period comes to an end. The insured has to submit the certificate to the insurer within 7days after termination. The insurer may withdraw the registration with in 7days by notification. An affidavit should be produced as an evidence in case the certificate is lost.

16.5.3 Certificate of insurance and cover note: According to Section 145 of the act a certificate means a certificate issued by an authorized insurer in accordance with Section 147(3). It also includes a cover-note complying with the prescribed requirements.

Under Rule-142, there will be a cover note issued in Form-52 by an authorized insurer. It is valid for a period of 60 days from the date of issue. The insurance policy is issued before the expiry of the cover note. If the proposal is rejected by the insurer within 60days of the cover note, it must be informal to the concerned authority within 7days before the expiry of the cover note.

16.5.3.1 The cover note contains the following details:

- The registration mark

- Name and address of the insured
- Date of expiry of insurance
- Persons entitled to drive
- Limitations as to the use of vehicles
- Validity period of the cover note.

16.6 TRANSFER OF OWNERSHIP:

In case of sale of vehicle involving transfer of policy, the insured should apply to the insurer for consent to such transfer. The transfer is allowed, if within 15 days of receipt of application the insurer does not reject the plea.

The transfer of ownership may be refused in the following cases:

- Due to the previous record of transferee driver and policy holder
- Due to the conditions stated in the policy
- Due to rejection of any prior proposal for transfer.

The liability of the insurer comes to an end as soon as the old certificate is cancelled. But the insurer is liable to the third party as per the act. The insurer is liable to the new party only when a fresh proposal form is filled in and the old one is cancelled.

16.6.1 Duty of the insurer to third party: The insurer has to pay to the third party since he has no other option. His duties to third party are laid down in Section 96(1) of the act. The third party liability is determined by the court and compensation is paid. His liability is unlimited.

16.6.2 Rights of the insurer: He can defend the case in the following cases:

- The liability may be arrived provided the court agrees.
- An affidavit produced by the insured regarding the certificate lost.
- Any notification given by the insured regarding cancellation of certificate before or within 14 days from the date of accident and the fact being informed to the registration authority within 7days of cancellation.

The insured can act as a defendant if he has violated any condition in the policy:

- The condition violated may relate to the vehicle used.
- When the vehicle is used by the insured for the purposes other than the one mentioned in the permit.
- When the insured uses the vehicle for racing
- In case of transport vehicle, us of it for purposes other than the approved purpose.
- When the insured appoints a unlicensed driver.
- Damages caused by War, Civil War etc. which are not covered under third party.

Exceptions: The insurer can not escape his liability from third party because of wrong usage of vehicle. The insurer has to compensate the third party and the amounts paid to the third party can be recovered from the insured.

16.7 RIGHTS OF THIRD PARTIES:

In case the insured is insolvent, his rights are transferred to the third party. Similarly, the insurer accepts the liability of third party.

The two possibilities are:

- if the liability of the insured to third party exceeds the liability of the insurer, then the deficit amount is payable by the insured.
- if the liability of the insured is less than the one agreed between the insurer then the balance is paid to the insured.
- in case of death of the insured, the third party can claim from the estate of the insured.
- if the rights of the third party are reduced due to the agreement between the insurer and the insured the agreement between the insurer and the insured relating to the payment of claim becomes invalid.
- it is the duty of every person incurring third party liability to disclose the particulars relate to insurance. The third party has the right to get the details from insured and may also examine the policy along with other documents of insurer.

16.8 SUMMARY:

Motor insurance comes under miscellaneous insurance and is bound by tariff rating. The

risks under motor insurance are of two types. They are legal liability due to bodily injury, death, or damage caused to property and loss or damage to one's own vehicle, injury to or death of self and other occupants of the vehicle. The basic principles of motor insurance are insurable interest, indemnity, subrogation and contribution and utmost good faith and proximate cause.

The Motor Vehicles Act in 1939 was passed to safeguard the interests of the pedestrians mainly. According to the Act, a vehicle can not be used in a public place without insuring the third party liability.

16.9 SELF- ASSESSMENT QUESTIONS:

- Name the basic principles of Motor Insurance
- Third party insurance
- Certificate of insurance and cover note

16.10 ESSAY TYPE QUESTIONS:

- Explain the principles of motor insurance under the act
- Explain the importance of third party cover under motor insurance act

- Explain the exceptions and limitations of third party insurance
- Explain the rights and duties of the insurer to third party with exceptions, if any
- Explain the rights of third parties.

16.11 REFERENCE BOOKS:

* Fundamentals of Insurance - P.K.Gupta

* Principles of Insurance - M.N.Mishra.

- Dr. D.NAGESWARA RAO

Lesson- 17

CLASSIFICATION OF MOTOR VEHICLES, KINDS OF MOTOR INSURANCE AND SETTLEMENT OF CLAIMS

17.0 OBJECTIVES:

After completion of this lesson, you should be able to understand:

- Private cars
- Motor cycles
- Commercial vehicles
- Act only policy
- Third party policy
- Comprehensive policy
- Claims

STRUCTURE:

17.1 Introduction
17.2 Classification of Motor Vehicles
17.2.1 Private cars
17.2.2 Motor cycles
17.2.3 Commercial Vehicles
17.2.3.1 Carrying own goods
17.2.3.2 Carrying general cartage
17.2.3.3 Trailers
17.2.3.4 Passenger carrying vehicles
17.3 Kinds of Motor Insurance Policies
17.3.1 Act only policy
17.3.2 Third party policy
17.3.3 Comprehensive policy
17.4 Liability only policy – case laws
17.4.1 Liability only policy
17.4.2 Package policy
17.4.3 Policy Renewal
17.4.4 Renewal receipt
17.5 Claims

17.5.1 Duties when claim arises
17.5.2 Insurer's duties
17.5.3 Insurer's rights
17.6 Settlement of claims
17.6.1 Preliminary scrutiny
17.6.2 Assessment of loss
17.6.3 Settlement of claim – procedure
17.6.3.1 Payment of claims
17.6.4 Law of Negligence and Nuisance
17.7 Knock for Knock Agreement
17.7.1 Advantages of Knock for Knock Agreement
17.7.2 Case law – knock for knock agreement
17.8 Summary
17.9 Self-Assessment Questions
17.10 Essay Type Questions
17.11 Reference Books.

17.1 INTRODUCTION:

Motor Insurance gained importance recently. In the past, persons who were injured or killed through the negligence of the motorists, could not get financial redress either to them or their legal heirs because of no scheme of insurance was present at that time. To mitigate the financial hardship caused to the persons, the Motor Vehicles Act, 1939 as amended from time to time, has made it compulsory for the motorists to insure against the risk of liability to third parties.

The rate of premium is standardised because the business is tariff. No insurer can charge lower rates than the tariff rates and no insurer can grant benefits exceeding than those prescribed by the tariff.

17.2 CLASSIFICATION OF MOTOR VEHICLES:

Vehicles for the purpose of insurance are classified as below:

- Private cars
- Motor cycles
- Commercial vehicles

17.2.1 Private Cars: Private cars are vehicles used only for social, domestic and pleasure purposes.

- Private vehicles like station wagon used for social, domestic, pleasure purposes and also for professional purposes by the insured or his employee
- Private three wheeled cars including cabin scooters used for private purposes.

17.2.2 Motor cycles:

- Motor cycles with or without side cars
- Auto cycles or mechanically operated pedal cycles
- Motor scooters
- Three wheeler invalid carriage

17.2.3 Commercial vehicles:

- Carrying owner's goods
- Carrying general cartage
- Trailers
- Passenger carrying vehicles

17.2.3.1 Carrying owners goods: These vehicles are used only to carry insures or owner's goods and are used under a private carriers permit. As per the Motor Vehicles Act 1939 a 'private carrier' is defined as, "an owner of a transport vehicle other than a public carrier of which is necessary for the purpose of his business. The business not being a business of providing transport".

17.2.3.2 Carrying general cartage: These are used public carriers permit. The Motor Vehicles Act, defines a public carrier as, "an owner of a transport vehicle who transports or undertakes to transport goods or any class of goods, for another person at any time or in any public place for hire or reward, whether in pursuance of the terms of a contract or agreement or otherwise".

17.2.3.3 Trailers: These include truck, cart, carriage, or other vehicle without means of self-propulsion and it also includes agricultural implements drawn or hauled by self propelled vehicles.

17.2.3.4 Passenger carrying vehicles:

- Buses (including tourist buses)
- Hotel or school omni buses
- Air buses
- Taxi's

17.3 KINDS OF MOTOR INSURANCE POLICIES:

The Indian motor tariffs come into effect from 1st April 1990 introducing two types of forms viz.,

Form A & Form B.

Form A covers act only policy

Form B covers act only policy as well as third party policy and comprehensive policy. The three major policies in motor insurance are:

- Act only policy
- Third party policy
- Comprehensive policy

17.3.1 Act only policy: This policy is designed to meet the requirements of Motor Vehicles Act 1939. It ensures compulsory insurance in regard to liabilities arising out of use of motor vehicles in a public place. This policy is limited to bodily injury or death of the third party.

The act lays down that the policy of insurance will cover any liability incurred in any one accident up to the following limits:

(a) goods vehicle Rs.50,000 in all including the liabilities if arising under the Workmen's Compensation Act 1923 in respect of death or bodily injury to employees not exceeding six in number being carried in the vehicle. This means that liabilities if any towards driver and employees being carried in the vehicle under Workmen's Compensation Act in addition to Rs.50,000.

(b) Passenger vehicles: It means vehicles which carry passengers-

- for hire or reward
- according to contract of employment

In respect of persons other than passengers carried for hire or reward of Rs.50,000 in all.

In respect of passengers Rs. 50,000 in all where the vehicle is registered to carry not less than 30 passengers.

Rs. 75,000 in all where the vehicle is registered to carry not less than 30 but not more than 60 passengers.

Rs. 1,00,000 in all where the vehicles are registered to carry more than 60 passengers, and

Subject to the limit aforesaid Rs.10,000 for each individual passenger where the vehicle is a motor car and Rs. 5,000 each individual passenger in any other case.

In case of other vehicles, the amount of liability incurred except as provided otherwise.

The act policy besides the cover as required under the Motor Vehicle Act provides for indemnificating of the claimants costs and expenses which the insured shall become legally liable to pay as also costs and expenses incurred with the written consent of the insurer. The policy may extend to indemnify any driver who is driving the motor vehicles on the insured's order or with his permission provided, he is not entitled to indemnify under any other policy.

17.3.2 Third party policy: This policy covers the liabilities of the third parties who suffered loss in connection with the damage of property and personal injury or death. This policy indemnifies any damage to property of third parties a over and above Rs. 2,000. the limit of liability is as follows:

(a) Private car – unlimited

(b) Commercial vehicle

(i) goods or passengers carrying vehicle Rs.20,000.

(ii) Special type of vehicle RS.50,000 – motor vehicle – unlimited.

The policy may be extended to include:

(a) fire

(b) theft risks

(c) legal liabilities to persons employed in connection with the operation or maintenance or loading or unloading of motor vehicles.

The private car policy extends to indemnify the insured against legal liabilities incurred by him subject to limitations of indemnify while personally driving a private motor car. Private car policy covers legal liability of the insured to passengers in the car although under the Motor Vehicles Act, it is not required to be covered. Liabilities arising while the motor car is being used in private places is covered. The policy covers bodily injury or death, property damage and medical expenses.

17.3.3 Comprehensive policy: It covers the following risks:

- Damage to car parts
- Removal charges for repairs
- Third party liabilities
- Costs and expenses incurred with risk
- Repair charges
- Medical expenses

On payment of additional premiums, the following risks are also insured:

(a) death or injury to family members who are above 16 years and below 65 years.

(b) Risks, strikes, thefts

(c) Loss of rugs

17.4 LIABILITY ONLY POLICY:

According to the new section 147 (1) the liabilities incurred by the user of the motor vehicle should be covered by insurance in order to satisfy the requirements of chapter XI of the 1988 act. These act liabilities are also referred as compulsory insurable risks.
According to chapter X I of 1988 act, it is necessary for a motor vehicle to be insured against users liability for death or bodily injury to third party. The policy amount is fixed by the act.

Example: A motorist while parking his vehicle unintentionally hit the compound wall resulting in third party liability.

Case 1: Case taken from PTI report dated 12/11/90 from Deccan Herald dated 13/11/90.

A petrol tanker collided with a truck on the high way at 3 a.m. As a result the tanker fell into a ditch which is 20 ft below the road level. Petrol leaked from the tanker and an explosion took place at

7 a.m. resulting in the death and injury of some persons who had gathered nearby the accident.

Decision: It was held that the fire accident was the result of motor vehicle on the road and the petrol tanker was in use at that time.

Case 2: A parked vehicle – Mangatlal Kale (1988 A.C. – 460)MM- Mangatlal Kale kept his luggage on the roof of the bus before boarding. The bus was in stationary stage at the stand. When he was climbing the ladder of the bus it broke and he fell down and died.

It was held that the accident was the result of motor vehicle.

17.4.1 Liability only policy: It covers the risks mentioned in the Motor Vehicles Act. It covers the property even its value is high. The compensation provided may be upto the value of insurance. This amount of compensation may be more than the minimum amount under the act. This policy covers risks under Fatal Accident Act 1855 and common law.

17.4.2 Package policy: It covers all the risks under liability only policy total Fatal accident and common law. But in practice all the risks are not covered. The risks that are covered in this policy:

- proposal of insurance by the insured
- material facts declared
- premium payable
- limit of coverage payable by the insurer.

17.4.3 Policy Renewal: In this case a notice of one month in advance before the date of expiry is issued by the insurers'. The notice gives details of premium payable for renewal. No claim bonus is indicated if earned. A claim may arise between the date of notice and the expiry of insurance. Premium renewal is subject to adjustment.

17.4.4 Renewal Receipt: It is issued in lieu of policy at renewal. The issue of receipt shows that insurer has received the renewal premium and the policy is renewed for further one year. A fresh policy has to be taken if the renewal is not under the same condition as the old policy.

17.5 CLAIMS:

Claims arise where:

- The insured's vehicle is damaged
- Any legal liability incurred for death or bodily injury or damage to the property of the third party caused due to the vehicle insured.

17.5.1 Duties when claim arises: It is the prime duty of the insured to inform the insurer inrespect of the motor accident if the accident warrants a claim. The insured must produce the details of witness of the accident and any other information which is required by the insurer.

- The insured should not give guarantee of admission of liability without the knowledge of the insurer.
- The insured must take reasonable care in respect of the damage vehicle or the loss is made good before usage of such damaged vehicle.
- The insured can undertake repair work to the damaged vehicle within the amount stipulated by the insurer. The repair charges should be intimated to the insurer as early as possible. The insurer may undertake checks to make sure that the insured has undertaken repair work before the amount of repairs is reimbursed.

Insurer: It is the duty of the insurer to gather all necessary information from the insured relating to the accident. This is to indemnify the insured. He must gather information other than the one what is called through the form sent to the insured.

17.5.2 Rights of the insurer:

- The insurer can defend the clam for his own benefit and it is the duty of the insured to co-operate.
- It is left to the option of the insurer either to reinstate the vehicle or pay the repair charges of the vehicle to the insured not exceeding the declared value.
- In case of double insurance the insurer contributes only rateable portion of loss.
- In case of dispute about the claim, the case will be referred to arbitration within 12 months.

17.6 SETTLEMENT OF CLAIM:

Claim under motor insurance for own damage are settled in three phases. They are:

- Preliminary scrutiny
- Assessment of loss
- Settlement

17.6.1 Preliminary Scrutiny: It involves the following procedure:

- the insured gives a notice of loss to the insurer
- the insurer verifies whether the policy is in force or not
- finds out whether the loss falls within the scope of the policy or not.
- Finds out whether the claim form is issued and surveyor is appointed or not.

In addition to this, the insured has to submit a detailed report of the repairs to be undertaken. The surveyor scrutinizes the genuiness of the estimate of repairs submitted. Generally, the insurers accept the estimates submitted by the repairers in some cases a modified report may be asked if the insurer feels that the cost of estimate is not reasonable.

17.6.2 Assessment of loss: The automobile surveyors will assess the loss. They are supplied with the claim form together with the estimate of repairs to be undertaken. They personally inspect the damaged vehicle, discuss the cost of repairs with the repairers and after satisfying themselves of the genuiness submits a report of survey.

He is not appointed in case of minor damages. In such cases the survey is conducted by the officials of the concerned company.

17.6.3 Settlement of claim: Claims are settled based on survey report settlement is made after due examination of the report. It is the general practice that the repairer gets a letter of acceptance by the insurer. After this he undertakes repairs and a voucher is given by the insured that he is satisfied with the repair work and then the repairer gets payment for his services.

To save delay, the insured can make payment direct to the repairer and the insured in return is reimbursed later.

Claim settlement procedure in respect of third-party claims:

- the insurer makes an entry of notice received from the third party relating to the damages in claim register.
- an advocate is appointed by the Company
- a letter is sent to the Motor Accident Claim Tribunal (MACT) to get the details of the claim.
- obtains from the insured a copy of 'own damage' claim, if any.
- the amount of damages is estimated
- opinion of the advocate is obtained in the case
- the MACT will decide the case, if the case is not decided by mutual agreement of the parties involved.

17.6.3.1 Payment of claims: The payment of claim to the third party depends on the following:

- No fault liability
- Law of negligence and nuisance
- Motor vehicle act.

17.6.4 Law of Negligence and Nuisance: As a general, the insurer has to indemnify the insured. If there is negligence on the part of insured, the insured is liable to pay the third party but not the insurer. Negligence refers to breach of duty. Negligence arises in the following cases:

- When the driver indulges in dangerous and reckless driving
- Breaks traffic rules
- carelessness in driving
- uses defective vehicle

17.7 KNOCK FOR KNOCK AGREEMENT:

This is related to collision where two vehicles are involved. In this case the insurers of the two parties come to an understanding in settlement of claim. They do go into the detail of negligence of the parties involved in the damaged viz the insured. The rule of subrogation is also not applied. Each insured is indemnified based on the terms and conditions of the policy.

17.7.1 Benefits of knock for knock agreement:

- it avoids litigation which is unnecessary
- the insured is benefited by the quick settlement which enhances the goodwill of the insurers
- each insurer compensates his own insured directly.

- Legal costs are reduced and which in turn reduce the rate of premium on policy.

17.7.2 Example:

Case Law: Verelst's Administratix

Vs

Motor Union Ins.Co (1925)

In this case, the insured has to bear the first 50 of any claim. He collided with a car. The insured agreed to reimburse the loss assuming that the loss of damage does not exceed 50. But, later the damages exceeded 50. The third party claimed compensation from both the insured and the insurer. The insurer rejected the claim on the ground that there is a breach of contract between the insured and himself as the insured never took his consent and decided to reimburse the third party without his knowledge.

It was decided that the insured only is liable to the third party because by admitting the liability the insured deprived the insurer of the chance of negotiating and making a favourable settlement with the third party.

Example: Case Law:

Lickiss

Vs.

Milestone Motor Policies (1966)

In this case a lady had a motor policy. She was killed in a motor accident in January 1923 when she was on a tour in India. Her brother was driving at the time of the accident. The policy covered such a death. But the policy contained a clause that in case of death, information of the accident must be communicated to the insurer as early as possible either by the insured or the representatives of the insured. The company came to know of her death in February 1923 but the family of the lady came to know of the existence of the policy only on January 1924. The family made a claim by notifying the accident. The company rejected the claim as the claim was not made as required.
It was held that the company is liable on the ground that the notice was given as soon as possible.

17.8 SUMMARY:

As per the Motor Vehicles Act, the vehicles are classified into three types for the purpose of insurance. They are private cars, motor cycles and commercial vehicles.

The India motor tariffs came into effect on 1st April, 1990. It introduced Form A and Form B. Form A covers act only policy and Form B covers act only policy as well as third party policy and comprehensive policy.

The three major policies in motor insurance are:

- Act only policy
- Act only policy and third party policy and
- Comprehensive policy

In case of renewal of policy, one month's notice is given before the expiry of the period. The notice gives the details of the premium payable for renewal.

The claims arise when- the insured's vehicle is damaged.

- any legal liability is incurred for death of or bodily injury or
- when damage is caused to the property of the third party.

17.9 SELF ASSESSMENT QUESTIONS:

- Liability only policy
- Package policy
- Settlement of claims-Procedure
- Payment of claims

17.10 ESSAY TYPE QUESTIONS:

- Is third party insurance a must under motor vehicles act or is an act only policy sufficient?
- What is knock - for knock agreement ? Explain its advantages.

17.11 REFERENCE BOOKS:

- Insurance Principles and Practice - C.Gopala Krishna
- Fundamentals of Insurance - P.K.Gupta

- Dr.D.NAGESWARA RAO

Lesson-18

EMPLOYER'S LIABILITY INSURANCE

18.0 OBJECTIVES:

After completion of this lesson, you should be able to understand:

- Importance of Employers Liability Insurance
- Table A
- Table B
- Table C

STRUCTURE:

18.1 Introduction

18.2 Classification of Risk and Coverage

18.2.1 Policy form

18.2.2 Extensions to the policy

18.2.3 Proposal Form

18.2.4 Duration

18.3 Summary

18.4 Self - Assessment Questions

18.5 Essay Type Questions

18.6 Reference Books.

18.1 INTRODUCTION:

The origin of Employer's Liability Insurance can be traced to industrial revolution. It was felt that the employer had no more than an ordinary duty of care to his employees. Hence, an employee who is injured due to negligence of his employer can bring an action against his employer for damage. Therefore, the employer must take due care about his employees and must provide the following:

- a safe place of work
- the plant, tools, machinery and working implants must be in proper condition
- the employees must provide a safe system of work with adequate warning to the employee of any danger of which he may not be aware of and
- he must provide competent and sober fellow employees

The duties of an employer were wide to encompass all situations in which an employee might be placed that would give him a right of action against the employer and enable him to obtain damages.

The underwriting by insurers of Employer's liability arising in common law is a comparatively later development. In India most employer's liability policies are issued in respect of their liability under the Fatal Accidents Act, 1985, the Workmen's Compensation Act 1923 and common law. In India these are referred to as workmen's compensation policies.

The Fatal Accident Act was an inadequate measure. It contains no provision in respect of employees who were not killed. The Workmen's Compensation Act 1923 removed these defects and made employer`s liability more neigous. The liability of employer under the act for accidental injuries sustained by his workmen arising out of in the course of employment is absolute. In certain circumstances employer is not liable.

Section 3 of the Workmen's Compensation Act 1923 provides that the employer is not liable to pay compensation in respect of any injury not resulting in death caused by an accident which is directly attributable to:

- at the time of accident or injury the worker is under the influence of drugs or drinks
- the willful disobedience of the worker inrespect of a rule which is expressly framed, for securing safety of the worker, or
- the willful removal of any safety guard provided to the worker for securing safety of the workmen.

An employment injury may be a personal injury sustained as mentioned in the Workmen's Compensation Act in performing his duties to his employer or an occupational disease peculiar to an employment which a person exposed to the vigours of that employment contracts.

18.2 CLASSIFICATION OF RISK AND COVERAGE:

In India the business of Workmen's Compensation Insurance is governed and regulated as to underwriting coverage, proposal and policy forms and endorsements by the Workmen's Compensation Tariff. The Tariff is administered by the tariff advisory committee, which is a statutory body setup under Section 54 of the Insurance Act 1938. The tariff applies to all policies issued to employees to provide reimbursements of compensation to their employees in respect of accidents and occupational diseases. The tariff provides three forms of insurance viz.:

- Table A
- Table B
- Table C

Irrespective of the cover issued, no policy covers any liability which is inexcess of the tariff forms of policies and endorsements until it is specifically authorized. No policy is issued which does not include all employees mentioned in the service of the insured. The premium calculation depends on the total wages of the employees as actual wages can not be obtained in advance. So, premiums are calculated based on total wages and is paid. At the time of expiry of the policy the

premiums are calculated taking in to account the actual wages paid to the employees. If the provisional premium paid on total wages is more than the premium calculated an actual wages then the difference is paid to the insured by the insurer and vice-versa.

18.2.1 Policy Form: The policy form is prescribed by the tariff and all insurers have to use the form. The wording used is the same inrespect of all the tables A.B and C. But, when Table A policy is issued, the laws inrespect of which the policy is issued are to be mentioned in the schedule in the space provided.

18.2.2 Extension to the policy: The extensions granted are as follows:

- The tariff permits the inclusion of the risk of the insured in respect of the employees of contractors at a premium calculated at the tariff rate for the work contracted for:
- Where the insured are themselves contractors to a certain principal policy may be extended to include the vicarious liability of the principal.
- Occasional domestic labour may be covered for common law liability at an additional premium of 25% of the premium charged for the permanent servants. When there are no permanent servants the change for occasional domestic labour is a minimum of Rs. 6.25 to cover legal liability only.
- Table A and C policies may provide for the payment of medical, surgical or hospital expenses incurred by the insured.

18.2.3 The proposal form: An employer desirous of insuring himself against his liability arising under the Workmen's Compensation Act 1923, the Employer's Liability Act 1938, the common law and Fatal accident act, has to approach the insurer for this purpose. He has to fill in and submit a proposal form to the insurer. The particulars required in this form are the proposer's name, business, address, trade or occupation, particular hours of work, description of employees, estimated number of employees, estimated annual wages, salaries and other earnings, insurance cover required and so on. Finally, he has to sign the declaration to the effect that every information mentioned in the proposal form is correct. Any concealment of material facts will render the policy invalid.

18.2.4 Duration: The tariff makes it compulsory that all the policies issued are for 12 months only. The exceptions are:

- Policies may issued for more than a period of 12 months in respect of policies requiring additional period to make the policy renewable on a particular date to meet the convenience of the insured.
- Similarly, policies can also be issued for a period less than 12 months inrespect of such contracts of work whose stipulated period for completion of the work is less than 12 months. However, the policies must cover the full period involved.

18.3 SUMMARY:

The scheme of Workmen's Compensation Insurance was introduced with the object of helping the employer in the events when they become liable to pay compensation to the workers under the provisions of labour laws. Under the contract of Workmen's Compensation Insurance, liabilities towards the payment of compensation to the worker under the provisions of Fatal Acci-

dents Act, Workmen's Compensation Act and common law. The insured is under obligation to pay to the insurer, a certain amount periodically in the form of premium.

18.4 SELF ASSESSMENT QUESTIONS:

- When an employer is not liable to pay compensation?

18.5 ESSAY TYPE QUESTIONS:

- When an employer is liable and when he is not liable under the Act?

18.6 REFERENCE BOOKS:

- Modern Law of Insurance in India - K.S.N.Murthy and K.V.S.Sarma.

- Dr.D.NAGESWARA RAO

Lesson- 19

PERSONAL INSURANCE

19.0 OBJECTIVES:

After completion of this lesson , you should be able to understand:

- Need for personal insurance
- Scope for personal insurance
- Types of personal accidental risks
- Characteristics of life insurance

STRUCTURE:

19.1 Introduction

19.2 Scope of Personal Insurance

19.2.1 Life insurance contracts

19.2.2 Meaning and definition of Life Insurance

19.2.3 Characteristic of Life Insurance

19.2.4 Procedure of Life Insurance Policy

19.3 Personal Accident Insurance

19.3.1 Types of personal accident risks

19.3.2 Severity of Risks

19.3.3 Procedure for Accident Insurance Policies

19.4 Settlement of claims under Accident Insurance

19.5 The Janata Personal Accident Insurance Policy

19.6 Summary

19.7 Self- Assessment Questions

19.8 Essay Type Questions

19.9 Reference Books.

19.1 INTRODUCTION:

The subject matter of personal insurance is main. Just like other contracts of insurance, the contract of personal insurance stipulates a condition that the insured will be paid a certain sum of money on the happening of a certain event. The subject matter of personal insurance contract is

the life or the health of the insured. Under the contract of personal insurance the insured or his nominee is compensated in the event of death or total or partial disablement of the insured.

The Law of Indemnity does not apply to life and other kinds of personal insurance. In cases of partial or total disablement, a person cannot be evaluated in terms of money or money can be any compensation for such losses of the insured. That is why a fixed sum is undertaken to be paid on the happening of risk causing personal loss to the insured.

19.2 SCOPE OF PERSONAL INSURANCE:

Personal insurance contracts are of the following types:

1. Life Insurance
2. Personal Accident Insurance
3. Health Insurance

19.2.1 Life Insurance Contracts: All contracts of insurance, except life insurance contracts are contract of indemnify because life insurance provides an assurance to the insured a certain sum of money on the death or on the maturity of the policy. It means that life insurance provides financial protection against the risk of prematured death.

19.2.2 Meaning and Definition of Life Insurance: It is generally referred to as life insurance insurers the insured against the happening of certain event. It is a contingent contract. It is because the loss of life cannot be compensated but only a specified sum is paid in the event of death of the insured.

Section -2 of the Indian Contract Act,1938 has defined Life Insurance as;

- Life Insurance business is the business of effecting contracts on human life.

As such, under life insurance, the sum assured under policy is paid to the insured if policy matures during his life time and to the nominees in case of death. The premium may be paid in lump sum or in monthly, quarterly, half-yearly or yearly installments.

19.2.3 Characteristics of Life Insurance:

- It is the result of an offer and acceptance i.e., it is an outcome of an offer made by the insured and its acceptance by the insurer.
- The insurance company agrees to pay a certain sum of money either on the death of the insured or on the maturity of the policy, whichever is earlier.
- The insured has to pay periodically the amount of payment till the death of the insured or on the maturity of the policy, whichever is earlier.
- It is not a contract of indemnity. It is because the loss of death can not be calculated in terms of money.
- The insured must have insurable interest at the time of taking a life insurance policy.
- It not only protects the members of the family financially in case of the premature death of the insured but also serves as the best alternative for making savings.

- Finally, it relieves the insured from various risks and uncertainties which may occur before and after the death of the insured.

19.2.4 Procedure for taking a Life Insurance Policy: The Life Insurance Corporation of India was nationalized in the year 1956. After nationalization it has become monopoly in the life insurance business in India. It issues various types of policies through its agents or branches. Any person who is desirous of taking a life insurance policy has to follow the following procedure:

- Proposal
- Proof of age
- Medical examination
- Confidential report by the agent
- Acceptance of proposal
- Payment of first premium
- Insurance policy

19.3 PERSONAL ACCIDENT INSURANCE:

This type of policy provides that when the insured dies or becomes totally or partially disabled because of an accident then either himself or his survivors will get amount of the policy. Te accident must have occurred because of uncontrollable reasons. It may also includes provisions regarding compensating the medical expenses of the insured if he is injured in the accident. To businesses, the personal accident brings the advantage of protection against premature accidental death, injuries etc of the workers which in turn develops loyalty in them and a sense of secured future. Only working women are eligible for getting such insurance policies. The laws of subrogation also do not apply to personal accident policies.

The amount of compensation depends on the injury caused to the insured. In case of death or loss of both feet hands or total blindness, half the amount of policy is paid.

The rules for payment of compensation change from time to time. The amount of compensation is determined accordingly. In this case the insured is paid the double the amount of policy in case of death of the insured because of an accident provided he had acquired double accident indemnity policy.

It may be taken upon the joint lives of two or more persons and its amount can be claimed by the survivor on the lives of the members of the family or on workers or employees etc. It is called Group Insurance Policy. Generally, they are short-term policies and may be issued to the travellers and businessmen.

In these cases, the insurers agrees to indemnify the insured in case of death or injury caused by an accident. The insurance company is not liable under the following cases:

- suicide
- injuring onself negligently
- death due to venereal diseases

- death due to intoxicants
- death or injury due to war, earthquake etc.
- death or injury caused to women workers during delivery or pregnancy
- contacting any disease before taking insurance policy.

19.3.1 Types of Personal Accident Risks: These are of three types,

- accidental and special diseases risks
- accidental risks
- accidents and all diseases risks

19.3.2 On the basis of severity of risks, the insured can be classified as under:

- **General risks category:** It includes doctors, bankers, teachers, agents, advocates, shop-keepers etc.
- **Addition risks category:** It includes contractors, engineers, commercial agents, industri-alists, producers, private car drivers etc.
- **Hazardous risks category:** It includes workers, wood-cutters, mine workers, motor me-chanics, operators, drivers of heavy vehicles etc.

19.3.3 Procedure for Accident Insurance Policies: The person desirous of getting an acci dent insurance policy has to fill the proposal form. In the proposal form he has to state clearly his name, address, occupation, age, height, weight etc.

The maximum age limit is 60 years for Accident Insurance Policy. The maximum age limit is 50 to 55 years in case of disease insurance policies. The duration of the policy is generally for one year and can be renewed within 15 days after the expiry of the stipulated period.

At the time of renewal of the policy, any changes in the original policy must be communi cated to the insurer for affecting such changes in the policy.

It is left to the option of the insured whether to renew or not where as the insurer is not bound to renew it.

After the acceptance of proposal and payment of premium, the insurer becomes liable to indemnify the loss caused due to disease or accident under the policy.

The insurer prepares a policy in proper form duly stamped and signed by prescribed authority on behalf of the insurer and the policy is finally issued to the insured.

19.4 SETTLEMENT OF CLAIMS UNDER ACCIDENT INSURANCE:

For the early settlement of claims under accident insurance, one requires to fulfill certain formalities, laid down as under:

- the insured must inform the insurance company about the happening of accident or dis-ease
- after receiving the communication of accident, the company issues a form of claim to the insured. The form is to be filled in by the insured and in case of death of the insured by the nominee of the diseased.

- Inspection of documents: Claim form and medical certificate are inspected to check their genuiness. Medical certificate is verified with the consultation of medical experts.
- Settlement of claim: If the accident results in small amount of loss, then the claim is settled with the consultation of doctor of the insured. If it is of continuous or larger amount, then the insured and his doctor submits a form on the basis of which the claim is settled.

19.5 THE JANATA PERSONAL ACCIDENT INSURANCE POLICY:

It is introduced by General Insurance Corporation of India. It gained popularity in a short period. It is because of its nature. Under this policy, the maximum compensation paid in case of death or accident is limited to Rs. 25,000. They also sell a long-term policy under which the sum insured is limited to Rs. 1,00,000. It's term is five years. The premium is only Rs. 250 for the entire term. Death and disability of permanent nature are covered. The premium is a single payment.

19.6 SUMMARY:

Personal accident insurance provides coverage only when an act produces unintended, enforceable and fortuitous consequence.

19.7 SELF-ASSESSMENT QUESTIONS:

- Personal Accident Risks
- General Risk, Addition Risk and Hazardous Risks
- Settlement of Claims
- Characteristics of Life Insurance Policy

19.8 ESSAY-TYPE QUESTIONS:

- Procedure for affecting accident insurance
- Explain Janata accident insurance policy and personal accident insurance
- When an insurer is liable indemnify the insured?

19.9 REFERENCE BOOKS:

* Insurance Principles and Practice - M.N.Mishra

* Insurance Principles and Practice - C.Gopala Krishnan

- Dr. D.NAGESWARA RAO

Lesson- 20

AVIATION INSURANCE

20.0 OBJECTIVES:

After completion of this lesson, you should be able to understand:

- damage to aircraft policy
- third party legal liability
- legal liability to passengers

STRUCTURE:

20.1 Introduction to Aviation Insurance
20.2 Aircraft Comprehensive Policy
20.2.1 Damage to Air –craft
20.2.2 Legal liability to Third Party
20.2.3 Legal liability to Passengers
20.3 General Exceptions
20.4 Flight liability Policy
20.5 Airmail liability Policy
20.6 Personal Accident Policy for Crew
20.7 Summary
20.8 Self-Assessment Questions
20.9 Essay Type Questions
20.10 Reference Books.

20.1 INTRODUCTION:

Aviation insurance is a class insurance because of the steep increase in the values of aircraft and the consequent phenomenal increase in the limits of indemnity under third party and other legal liability covers. It may be interesting to note that the Jumbo Jets which are being operated by Air India are covered for a sum of Rs. 19,00,00,000 each and the third party legal liability and the passenger legal liability that may be incurred by Air India out of the operation of this aircraft are covered for a combined limit of Rs. 75,00,00,000.

Flights operated on scheduled routes by recognised airlines as also chartered flights are covered. The rate of premium for chartered flights is higher.

20.2 AIRCRAFT COMPREHENSIVE POLICY:

The policy is divided into three sections:

(1) loss of or damage to aircraft
(2) third party legal liability
(3) legal liability to passengers

20.2.1 Damage to Aircraft: The indemnity is provided for damage or loss to the aircraft. It is also called as air craft hull insurance. It covers the body and parts of the aircraft. It does not cover such parts which are excluded in the policy. It covers the standard components which are detached temporarily for the purpose of repairs or for overhauling provided such parts are under the control of the insured. This cover is effective when the aircraft is in flight or is taxing or is on the ground or is moved.

Wear and tear and depreciation are excluded. It also excludes any break down due to structural defect or electrical break down. It covers such loss or damage caused due to fire, explosion even though such losses are due to break down or failure as mentioned above.

In case of claim the following expenses are also payable in addition to the actual cost of repairs. They are:

(a) The expenses incurred by the insured with the knowledge of the insurers in case of the following:

- Maintenance of security and watch on the aircraft damaged
- Cost of transporting the materials or parts required at the place of the accident
- Cost of transporting the aircraft from the site of the accident to the repairers

It also covers the cost of obtaining a new certificate of Air worthiness from the date of accident to the date of expiry of the current certificate of Airworthiness.

The rate of premium varies with the cost and model of the aircraft. The premium is high inrespect of low cost aircrafts. The rate of premium in case of Jumbo Jets of Air India is less.

20.2.2 The Legal Liability of Third Party: Insurers indemnify the insured or any member of the operative crew of the aircraft in the course of their duties. The insurer indemnifies all sums which the insured is legally liablity inrespect of death, sickness or disease and bodily injury sustained by any person or caused by an accident due to maintenance or use of the air-craft. There are two limits under this policy viz., a limit per accident and a limit per policy year. In the case of comprehensive policy the limit per accident is only limit which is specified. It means the liability of the insurers per policy year is unlimited. The limit of indemnity depends on the type of aircraft to be covered and the route over which it is to be flown.

Exceptions: The following are not treated as third parties for the purpose:

- any member of the family of the insured
- any sub-contractor who is engaged in his duties
- any passenger who is entering into or alighting from the aircraft
- any member of the crew of the air-craft.

20.2.3 Passenger Legal Liability: The insurers indemnify the insured or any member of the operative crew in the course of his duties with the insured. Such a liability is inrespect of :

- death, personal injury, sickness or disease caused to any passenger by an occurrence arising out of the ownership, maintenance or use of such air-craft while such passenger is entering into or being carried in to;

- loss or damage to the baggage of passengers and personal effects whether registered or personally retained by the passengers in the course of carriage.

  The insurers are not liable in respect of any person if such person is engaged in his duties as such.

20.3 GENERAL EXCEPTION:

The policy will not pay under both the sections, hull and liability, inrespect of bodily injury, disease, loss or liability under the following cases:

- When the air craft is used for illegal purposes or for other activities which are not in the scope of the policy.
- When the aircraft is piloted by a person who is not named in the policy.
- When air craft is flown at night unless due to force carriage.
- While the aircraft is being transported
- When the aircraft uses un-licensed landing areas
- When the aircraft is used for racing or for aerobatics
- Contractual liability other than the one assumed by the insured.
- War and other risks including riots, strikes, hijacking etc.
- When the number of passengers exceed the original capacity

The exception relating to night flying is removed without changing extra premium because of the modern aircrafts are provided with night flying equipment.

20.4 FLIGHT LIABILITY POLICY:

In addition to the passengers and the crew, an aircraft carries the baggage cargo and mail of the passengers. Hence, the airlines are liable inrespect of the loss of cargo or mail if lost or damaged. The liability inrespect of baggage of the passengers is dealt by the comprehensive policy. The freight liability policy deals with the cargo of the passengers. As per the terms of the policy, the insurers indemnity the insured against all sums which the insured may become legally liable to pay to the owners of the cargo as a result of loss or damage to cargo or delay in delivery of the cargo or the mishandling of the cargo. The limits of indemnity that appears in the freight liability policy range from one lakh to Rs.25 lakhs for any one accident.

20.5 AIRMAIL LIABILITY POLICY:

This is similar to freight liability policy, except this policy provides cover per liability inrespect of mail carried on the aircraft. The limit of the that appear in the airmail liability policy range from Rs. 1 lakh to Rs. 5 lakhs.

20.6 PERSONAL ACCIDENT POLICY FOR CREW:

The crew members can be granted personal accident insurance cover under this policy. Pilots, flight navigators, radio officers, air-hostesses etc. , are covered. The benefits are more or less similar to those granted under the personal accident insurance policies.

20.7 SUMMARY:

Aviation insurance covers two types of risks related to aviation industry namely aircraft liability insurance and hull insurance.

20.8 SELF-ASSESSMENT QUESTIONS:

- damage to air craft
- legal liability to passengers
- air mail liability policy

20.9 ESSAY TYPE QUESTIONS:

- Explain the various insurance policies available in aviation in India?

20.10 REFERENCE BOOKS:

* Insurance in India - P.S.Palande, R.S.Shah & Others.

- Dr. D.NAGESWARA RAO

Lesson- 21

BURGLARY INSURANCE

21.0 OBJECTIVES:

After completion of this lesson, you should be able to understand:

- Meaning of Burglary Insurance
- Types of Burglary Insurance
- Benefits of Burglary Insurance for Business

STRUCTURE:

21.1 Introduction
21.2 Types of Burglary Insurance
21.2.1 Private Dwelling Burglary Policy
21.2.2 Business premises Burglary Policy
21.2.3 Policy for money in transit
21.2.4 Baggage policy
21.3 Procedure for affecting Burglary Insurance
21.4 Burglary Insurance for Business
21.4.1 Premium
21.4.2 Benefits
21.5 Summary
21.6 Self- Assessment Questions
21.7 Essay Type Questions
21.8 Reference Books.

21.1 INTRODUCTION:

The whole world is exposed to the risks of robbery, theft, dacoities and house breaking etc.

causing loss to the human lives, valuables and other properties of the individuals. **Lloyd's Association** introduced the scheme of burglary insurance in 1887 for the first time. But with the rapid increase in burglary acts, the need for burglary insurance is considered to be of vital importance throughout the world.

Under the Burglary Insurance, the insurance company agrees to indemnify the financial loss caused due to theft, docoity, burglary, house breaking, etc. during a certain period of time as may be determined under the contract of insurance. The insured is required to pay a certain amount periodically in lump sum by way of premium. One comprehensive policy can be taken for all these risks viz., burglary, theft and robbery etc or one may take separate policies for each one of them.

There exists conceptual difference between the words theft, house breaking and robbery or dacoity. House breaking involves the act of breaking through a house forcibly and causing damage to the properties lying in the house. Generally some tools, instruments, explosives, chemicals and arms are used while breaking the walls of the house. Whenever, the word theft means an act (or) instance of stealing, someone else goods, properties or valuables etc. Dacoity or robbery is an act of snatching the goods, properties or valuables forcibly and sometimes by way of threatening or injuring the owner or his security force.

In filling the proposal for such insurance the insured has to provide information regarding the situation of the house, its construction, the purpose for which it is being used, name of the occupant, the particulars of the belongings recovered, the particulars of values and information relating to safe or security boxes in which valuables are kept.

21.2 TYPES OF BURGLARY INSURANCE:

The following types of insurance policies for securing burglary risks:

21.2.1 Private Dwelling Burglary Policy: Insurance companies provide burglary insurance policies especially for residential buildings, under which owner's (or) occupier's personal belongings, personal affects, property articles, jewellery, ornaments, etc. are secured against the risks of theft, dacoity, burglary and house breaking etc. The residential house which is to be insured should not remain vacant for more than 60 days during a year. Private residential burglary policies does not cover the risks of artistic goods, creations, bills, promotes, rare and archeological goods or articles and other rare documents and manuscripts etc. A combined fire and burglary policy may be issued in order to cover both fire and burglary risks of residential house.

21.2.2 Business premises Burglary policy: Risks in regard to the following properties or goods are covered under business premises burglary policy.

1) Personal assets and properties etc of the insured.
2) Articles of decoration and display installed in the business premises.
3) Goods and properties kept under the contract of bailment trust or in consideration of payment of commission or rent etc.
4) Valuables and cash kept in the locked safe (or) security boxes or strong rooms etc.
5) Stock in trade lying in the business premises or godown of the business premises.

Under the business premises burglary policy, the insurance company undertakes to in

demnify the losses caused to the business properties due to the risks involved in theft, burglary, dacoity and house breaking:

21.2.3 Policy for money in Transit: Under this policy the insurance company agrees to indemnify the losses caused to the casts postal order's, bank draft, cheques, money order's, stamps and bills of exchange while in transit of the insured. As such, it secures the insured against the risks of theft, dacoity, robbery and burglary etc. relating to the money or other form of money in transit.

21.2.4 Baggage Policy: Such policy called the travellers baggage insurance policy cover's the risks of theft, misplacement, robbery and dacoity of the traveler's baggage suitcase, suitcase, briefcase, luggage and boxes etc. during the period of journey from one place to another, where by the insurance company undertakes to indemnify the losses caused to the insured baggage in

transit. The mode of journey may be by rail, road or by sea or by air. Baggage insurance policies are insured either for a particular Journey, or for the maximum period of one year. The insured must declare the particulars of baggage and mode of Journey, and route of the journey and the value of the baggage which is to be insured.

21.3 PROCEDURE FOR AFFECTING BURGLARY INSURANCE:

The following procedure is usually adopted for taking out a burglary policy:

1) First of all the insured has to decide as to which policy he wishes to undertake and then he fills up the proposal form to be submitted to the insurance company for acceptance. In filling the proposal form, the insured has to furnish information regarding the situation of the house, its construction, the purpose for which it is being used, name of the owner and occupant, particulars of the articles, personal assets and belongings of the owner or occupant lying in the house, their values and information relating to safe in which valuables or articles are kept. Situation of neighbour's houses, particulars of windows and doors in the building and above all security measures adopted against such risks.

2) After receipt of proposal form the insurance company conducts survey of the property and value of the risk to be covered and rate of premium is determined on the basis of experts or surveyor's report, the company accepts or rejects the proposal. If the proposal is accepted the amount of premium deposited with the insurance company and the company issues policy in the mean time. The liability of the company begins with the payment of the premium by the in sured.

The procedure for the settlement of claims of losses is similar to those discussed in the previous insurance.

21.4 BURGLARY INSURANCE FOR BUSINESS:

Introduction:

Insurance cover for burglary for business, is essential if the property is mortgaged or pledged with any financial institution, the institution will insist for insurance to avoid loans and advances. It is an extra cost on security because, the premium rates are reasonable.

The policy cover's the following:

- Stock in trade
- Goods held in trust
- Fixtures and fittings, plant and machinery.

This policy offers protection against burglary and house breaking. In burglary face full entry is the main charactestic. Other crimes like theft, larcenee, robbery etc are not covered under this policy. Theft can also be included on payment of additional premium on the policy. Theft includes, robbery, larceny etc. in case of burglary the insured expected to large a police complaint. The insured must submit the first information report along with non detection report from police to claim the insurance amount. These reports are not required if the claim is less than Rs. 2,500/-. The policy requires proper care of the insured property. If the cash and the safe is insured then the safe should be locked and the keys should not be left any where near the safe.

21.4.1 Premium: There are no hard and fast rules in fixing the premium on this policy. The premium's are fixed in respect of each case depending the merits of the case. In fixing the premium the insurer will find out the type of property to be insured, the security provided to the property and whether the property can be sold easily in the market, whether there are any previous claims on the property etc.

In case of commodities like cottonbales, sugar etc the chances of loosing the entire commodities in a single chance is not possible. Hence, the maximum loss that can occur in one chance of burglary is calculated for such commodities. The premium's are charged basing on this. Generally, the policy should be taken for the entire stock. Such policies are called "first last" policy. Sometimes there may be variations in the quality of stocks during the year. So, the amount of loss due to burglary will differ at different times in the year. Similarly, the security measures to be taken also varying. The premium rates also will vary during the year accordingly. The rate of premium varies between 0.5% and 0.04 percent.

21.4.2 Benefits: The financial institutions insist on burglary insurance cover along with fire insurance cover. With the payment of each claim, the total amount insured is reduced. But on payment of additional premium this amount can be kept at the original level.

21.5 SUMMARY:

Burglary insurance includes robbery, theft, decoities and house breaking. The burglary causes loss to human life, valuables and other individual properties. The scheme of Burglary Insurance was first introduced in the year 1887. Burglary Insurance is considered as a necessary evil through out the world. Under this scheme the insurer agrees to indemnify the financial loss arising due to theft, decoity, house breaking etc. The insured is expected to pay certain amount periodically, in a lump sum by way of premium. Burglary insurance is also essential for business. When a property is pledged, the lender insist, for burglary insurance. This is to the intension of protecting the loss of insured along with his own interest. This policy covers the commodities like cottonbales, etc. in case of business.

21.6 SELF-ASSESSMENT QUESTIONS:

- Meaning of Burglary Insurance
- Types of Burglary Insurance

21.7 ESSAY TYPE QUESTIONS:

- What is burglary insurance? Explain the different types of burglary insurance policies?
- Explain the procedure for affecting burglary insurance?
- Explain in brief the burglary insurance related to business?

21.8 REFERENCE BOOKS:

* Principles and Practice of Insurance - M.N.Mishra
* A text Book of Insurance - L.S.Canval
* Principles of Life Insurance - S.L.Karve
* Principles of Insurance Laws - M.N.Srinivasan

- Dr. D.NAGESWARA RAO

Lesson-22

FIDELITY GUARANTEE INSURANCE

22.0 OBJECTIVES:

After completion of this lesson, you should be able to understand.

STRUCTURE:

22.1 Introduction

22.2 Meaning

22.3 Main Policies under F.G.I

22.3.1 Collective Policy

22.3.2 Floating Policy

22.3.3 Position Policy

22.3.4 Blanket Policy

22.3.5 Excess Floating Policy

22.4 Estimation of trust worthiness of the Employer

22.4.1 Employer's Form

22.4.2 Private Referee's Form

22.4.3 Previous Employer's Form

22.4.4 Collective Proposals

22.5 Other important Terms

22.5.1 Performance Risk

22.5.2 Service Security Risk

22.5.3 Counter Guarantee

22.5.4 Hazardous Risks

22.6 Summary

22.7 Self Assessment Questions

22.8 Essay Type Questions

22.9 Reference Books

22.1 INTRODUCTION:

Fidelity Guarantee Insurance is a necessity in today's scenario, where each day new frauds are discovered. The necessity manifests itself in the insistence by the Government of India and the State Governments on their employees obtaining their policies. Fidelity Guarantee covers the employer against the direct pecuniary loss that may be caused to him due to dishonest employees in the course of employment.

22.2 MEANING:

Fidelity means loyalty, faithfullness and honesty under the contract of fidelity guarantee insurance, the insurance company in consideration of certain amount of premium, undertakes to indemnify the loss of the insured caused due to unfaithfullness or dishonesty of the employees of the insured. The main object of such an insurance contract is to secure the insured employers against the uncertain loss of goods, properties or cash on the part of their employees. Usually, the limit is fixed to which the insurance company undertakes to indemnify the insured.

Fidelity Guarantee Insurance is non-tariff. Three parties are involved in the contract as against the usual two. Both the law of insurance and the suretyship are relevant in Fidelity Guarantee Insurance.

22.3 THE MAIN POLICIES OF FIDELITY GUARANTEE INSURANCE:

- **Individual policy:** Where the behaviour of only one person is guaranteed. The individual's name is written on the policy.

22.3.1 Collective policy: The behaviour of more than one individual is indemnified in the single policy. The schedule of such a policy contains the names of all the individuals whose behaviour is guaranteed. The duties of the individual and the amount of guarantee for his behaviour are written along with each name. Additions and deletions of the names in the list require the insurer's endorsement.

22.3.2 Floating policy: The main problem of the collective policy is the assignment of the amount of guarantee to each individual. It is difficult to estimate the amount of loss that an individual can create alone or with others. Moreover, fixing employees who are more likely to commit fraud may put the manager in dilemma. A floating policy provides the solution. In a floating policy, the guaranteed amount is not apportioned against the employee. Instead, it is floated over the whole group. If any individual, listed in the group commits fraud and a claim has to be paid, the guarantee amount is reduced unless re-instated or the policy is renewed.

The employer should be careful in fixing the total guaranteed amount. The amount should cover the maximum loss that can occur to the company due to individual or collective fraud.

22.3.3 Positions policy: This policy is similar to collective policy. In this the positions are listed in the policy instead of names of the individuals. The advantage of this policy is that they do not need to be reinstated if another replaces a person. Moreover, the amount guaranteed is usually associated with the positions and not the people. If the policy does not distribute the amount over different positions, but floats the single amount over all positions, it is floating policy.

22.3.4 Blanket policy: This policy covers the entire staff of an organisation. No name or position is shown in the policy. The policy is suitable for organisations with large stuff.

22.3.5 Excess floating policy: This is a combination of both floating and cumulative policies. The individual amounts are bundled with the names of each employee but for unforeseen to unusually big losses, an additional floating amount is fixed. That is why the policy is known as an Excess Floating Policy.

In Fidelity Guarantee, an intangible thing is insured unlike other insurance policies. It is very difficult to find out the role involved. The value and risk involved can be assessed by physical examination

of the property and security arrangements in fire policy, machinery policy etc. In Fidelity Guarantee Insurance various forms are required to be filled to estimate the trust worthiness of the employer.

22.4 ESTIMATION OF TRUSTWORTHINESS OF THE EMPLOYER:

22.4.1 Employer's form: This is an important form to look into the moral hazard involved. The applicant fills the form and discloses the details of the extent of debts, private income, past employment and details of his life insurance policy and whether the applicant has ever been declared bankrupt. Besides, there are other general details like name, age, address, martial status, remuneration etc.

22.4.2 Private referee's form: In this the applicant names two persons who can be referred to verify his character. This is not significant. In this the genuiness is doubtful as the names of the two people are of the choice of the applicant.

22.4.3 Previous employer's form: This is an important form. It is usually referred to while underwriting the policy. It contains the applicant's employment details for the previous 5 years and is filled by respective employers. This form contains the reason for the applicant leaving the previous jobs.

22.4.4 Collective proposals: The employer fills this form for collective floating and blanket policies. Just as in the employer's form, he gives information about the whole group instead of the individual. He may categories the people according to their responsibilities and give information about each category to ease his work.

The proposal form contains the enquires made by the employer about the applicant before hiring his services. The names of the employees leaving the organisation are eliminated from the policy. He is not included in the list again if rejoins the organisation later. He is treated as a new employee for all practical purpose. This policy covers acts of dishonesty but not loss due to inefficiency of the employee.

22.5 OTHER IMPORTANT TERMS RELATED TO FIDELITY GUARANTEE INSURANCE:

22.5.1 Performance risk: The performance of the work entrusted to the employee is guaranteed under this policy. If the employee does not carry out his responsibilities, the monitory losses suffered by the principal are reimbursed under this policy.

22.5.2 Service security policies: When a new employee joins an organization the employer first spends money and time in training him suitably for the job. In return, the employee should give a minimum period of service. If he leaves the organization before, the money spent on his training and development becomes futile. Service security policies cover such losses.

22.5.3 Counter Guarantee: It is not required because of the principle of subrogation so the in sured executes this guarantee to the insurer.

22.5.4 Hazardous risks: They are as follows:

- Collection agents whose financial limits are disproportionate compared to their remuneration.
- Jewellery travellers
- Cashiers in eating houses

- Estate agents
- Treasurers of friendly societies
- Employees of bullien merchants.

In addition to this, different bonds are issued to indemnify the principal in case the insured fails to discharge his duties. They are in the nature of guarantee.

For example:

- **Court bonds:** These bonds are require by the liquidators, recievers and managers appointed by court of wards since court hold them liable in case of any lapse on their part.
- **Custom bonds:** The businessmen who cannot repay the customs duty on the imported goods, are stored in bonded warehouses. They can give these custom bonds. They can repay the duties on completion of the transaction . The same facility is also extended to exporters also .

22.6 SUMMARY:

Fidelity Guarantee Insurance covers the employer against the direct pecuniary loss that may be caused to him due to dishonesty of the employees in the course of employment.

22.7 SELF-ASSESSMENT QUESTIONS:

- Meaning of FGI
- Performance risk
- Counter guarantee
- Court bonds
- Custom bonds

22.8 ESSAY TYPE QUESTIONS:

- How does the need for Fidelity Guarantee Insurance arise?
- Explain procedure of affecting FGI.
- Explain the various popular policies of Fidelity Guarantee Insurance

22.9 REFERENCE BOOKS:

* Principles and Practice of Insurance - M.N.Mishra

* Modern Law of Insurance in India - Prof.K.S.N.Murty & Others.

- Dr. D.NAGESWARA RAO

Lesson- 23

ENGINEERING INSURANCE

23.0 OBJECTIVES:

After completion of this lesson, you should be able to understand:

- Boiler
- Pressure plant
- Explosion
- Collapse
- Different perils covered by boiler and pressure plant insurance.

STRUCTURE:

23.1 Introduction to Engineering Insurance
23.2 Boiler and Pressure Plant Insurance
23.3 Definitions of various terms
23.3.1 Different perils covered by the policy
23.3.2 General Exceptions in boiler explosion insurance
23.3.3 Warranties under Boiler explosion
23.3.4 Conditions under Boiler explosion
23.3.5 General Regulations
23.3.6 Refund of premium for standstill
23.3.6.1 Rounded of Rates
23.4 Proposal for Boiler and Pressure Plant Insurance
23.4.1 Endorsements
23.5 Introduction to Machine-Break-down policy
23.5.1 General exceptions relating to machine break down policy
23.5.2 Special Exclusions
23.5.3 Provisions
23.5.3.1 Sum insured
23.5.3.2 Inspection of Turbines
23.6 General regulations and instructions
23.7 Erection All risks insurance policy
23.7.1 General Exclusions
23.8 Period of cover

23.9 General conditions of Erection All risks insurance policy

23.10 Section I – Material Damage

23.10.1 Exclusion to Section I

23.10.2 Provisions applying to Section I

23.11 Section II – Third party liability

23.11.1 Exclusions to Section II

23.11.2 Conditions applying to Section II

23.11.3 Endorsements

23.12 Summary

23.13 Self Assessment Questions

23.14 Essay Type Questions

23.15 Reference Books

23.1 INTRODUCTION:

The engineering insurance covers the damages arising out of Boiler explosion, Machinery breakdown and Erection of plant and machinery.

The machinery break down causes two types of damages viz. the direct cost incurred on repairs of the machinery and the loss of profit for the period during which the business remains suspended due to the break down of the machinery. The erection of plant and machinery and boiler explosion insurance policy can be extended to cover third party liabilities.

23.2 BOILER AND PRESSURE PLANT INSURANCE:

This is an important policy which covers the defects existing in fire and allied perils insurance. These are generally used in production plants of cotton mills, paper mill, petro-chemical plant etc. inspite of the care taken by the supervising staff still there remains certain defects undetected in respect of Boilers. The explosion of the boiler causes heavy losses to the concerns. Hence, it is always wise for the manufacturer to cover the risk of boiler and pressure plant explosions by a suitable insurance policy.

23.3 DEFINITIONS:

- *Boiler* means a fired closed vessel in which steam is generated under pressure.
- *Pressure plant* means any unfired closed container under steam gas or fluid pressure.
- *Explosion* means the sudden and violent rending or pressure plant or any part or parts thereof by force of internal steam gas or fluid pressure causing bodily displacement of the said structure and accompanied by the forcible ejection of its contents.
- *Collapse* means the sudden and dangerous distortion of any part of boiler or pressure plant by bending or crushing caused by steam gas or fluid pressure whether attended by rupture or not. It shall not mean any slowly developing deformation due to any cause.

- *Flue gas explosion* means an explosion of ignited gases in the furnaces or flues of the boiler, economisers and super heaters.
- *Chemical explosion* means an explosion arising out of chemical reaction in any plant.
  The document which contains the details of the policy is called the 'Schedule'. Beginning with policy number and date, the schedule contains details of amount insured, annual premium period of policy, boiler and pressure plants insured, legal liability to third parties as well as additional perils covered. Steam or feed water piping, separate super heaters, separate economizers and soon have to be mentioned in the schedule. The term boiler does not include them.

23.3.1 Different perils covered by the policy:

- Damage to the boiler or other pressure plant described in the schedule.
- Liability arising due to death of or bodily injury to any person provided he is not employed
- Liability arising from damage to any property whether the insured is responsible for it or not.

The damages listed above must be caused by and solely by explosion or collapse of any boiler or other pressure plant described in the schedule occurring in the course of ordinary working.

23.3.2 General Exceptions:

- damages arising either directly or indirectly from fire that form explosion or collapse
- damages caused by war or war like operations , natural calamities. Similarly damages caused by nuclear reactions, radiations etc are excluded.
- If the explosion results from any abnormal conditions
- Defects like wearing away or wastage of materials of any part of the boiler or failure of individual tube. It is because such damages are not the result of explosions.
- Damages due to negligence
- Consequential losses
- Damages due to flows known but not disclosed by the insured.

23.3.3 Warranties: To prevent the insured from getting careless about the safety of boiler. These warranties are required on his part.

- annual inspection of boilers by appropriate authorities.
- Only certified competent people will handle the boiler
- The boiler must work under permissible pressure limits

23.3.4 Conditions:

- General conditions
- Sum insured
- Basis of indemnity
- Obligation of the insured
- Other insurance

- Recourse
- Arbitration

These are general conditions like the policy and the schedule that together form the contract. The pressure on the safety valves should not exceed the limit permitted in the latest inspection or the limit specified in the schedule whichever is lower. If there is any change in the fuel used in the boiler the details should be intimated to the insurer and the terms of the policy revised accordingly.

If any fradulent means are resorted to take advantage of the policy and make any profit, the claim will be rejected. The benefits under the policies will also be forfeited. The insured can not make any promises or payment without the consent of the insurer. To settle any claim amicably by the insurer, the insured should furnish all the information that is required.

If the amount of loss accrued is more than the amount of the policy then the insurer make payment on rateable basis.

The loss to be indemnified differs when the item can be repaired and when it has to be replaced. In the first case the insurer will pay the repair changes and the incidental cost incurred in restoring the item to conditions prior to damage. The value of the salvage would be deducted. If the item is destroyed the company will pay the value as assessed immediately before the accident. It will also pay the incidental changes incurred in installing or setting it up in the premises. The company deducts the depreciation and salvage value.

Obligations of the insured are more or less the same as warranties. The insured should carryout the points listed in the warranties attached in the standard policy. The insured should permit the insurer to inspect the boiler at any time. He should make all necessary arrangements for such inspection. It includes stopping, clearing, emptying the boiler. The policy becomes invalid if there is any change in the subject matter of the property insured unless it is duly endorsed by the company.

Incase of any accident, the insured is expected to observe the following:

- He should inform of the damage to the insurer as early as possible either in writing or orally without any undue delay.
- Should take all the steps which a prudent would take to minimise such loss or damage.
- Preserve the damaged parts and make them available for inspection.
- Furnish the documentary evidence as required.

The company is not liable for any loss or damage of which no notice is given to the company within 14 days of the accident.

In case of double insurance, it pays only rateable proportion of such liability.

The policy can be terminated by the insured at request and the insurer by notice of 15 days.

In case of termination, the company will retain the premium for the period of the policy which is in force.

The insured reserves the right to perform any act necessary to get relief from the claims arising under the policy.

In case of dispute in the settlement of claims, the matter is solved through arbitration. If the parties do not accept to the single arbitrato within 30 days, 3 arbitrators will be appointed, one by each party and the third by the two arbitrators.

23.3.5 General Regulations:

- No policy to be issued on first loss basis.
- No policy to be issued with a bonus clause
- Projects located outside India to be out of jurisdiction of the Committee.
- Boiler and pressure plant insurance policy cannot be issued on agreed value basis.
- Escalation benefit is not allowed under this type of policy
- Short period scale of premium rates has been laid down in the policy which is applicable if the policy period is less than 12 months.

23.3.6 Refund of premium for standstill period: It consider this there should be minimum

3 months continuous standstill period for refund of premium.

Causes of standstill for complete plant should be as follows:

- due to non-availability of raw material, power storage etc.
- standstill items are available in the plant
- incase of continuous production any break down of any item the whole plant cannot be run and as such refund to be considered. No such refund is allowed in case of seasonal industries.

23.3.6.1. Rounding of Rates: It is not possible to round off rates in this type of insurance policies.

23.4 PROPOSAL FOR BOILER AND PRESSURE PLANT INSURANCE:

Some of the points of proposal are given below for reference:

- total sum insured
- details of boiler and pressure plants
- details of surrounding property of the insured
- legal liabilities to third parties
- state how boiler is fired
- what is the maximum load on a safety value per square inch?
- what is the working pressure?

23.4.1 Endorsements:

- Owner's surrounding property
- Third party liability

- Express freight
- Air freight
- Additional Customs Duty.

23.5 MACHINERY BREAK-DOWN INSURANCE POLICY:

The policy covers the damage caused to the machinery whether they are at work or at rest or even when dismantled for repairing or overhauling. Similarly, damages caused during shifting them from one place to another or subsequent re-erection are also covered.

23.5.1 General Exceptions:

1. Loss, damage and / or liability caused by or arising from or in consequence, directly or indirectly of fire or natural calamities, impact of land borne or other aerial devices and / or articles dropped thereof.

   Any loss or damage by fire within the electrical appliances and installation insured by this policy arising from or occasion by over-running, excessive pressure, short circuit-ing, arising is covered, provided that this extension shall apply only to the particular electrical machine or portions of the electrical installation which may be destroyed or damaged by fire so set-up.

2. Loss or damage and/or liability caused by or arising from or in consequence, directly of:

(a) War, invasion, act of foreign enemy or war like operation civil war, revolution, mutiny, riot, strike, lockout or persons acting on behalf of or in connection with any political organisation or damage by order of any government de-jure or de-fact or by any public, municipal or local authority.

(b) Nuclear reaction, nuclear radiation or radio active contamination

3. Accident, loss, damage / and/ or liability resulting from overload experiments requiring the imposition of abnormal conditions
4. Gradually developing flaws, defects, cracks not resulting in immediate stoppage, though at one point of time in future repair may be needed.
5. Wearing out any part of any machine caused by or naturally resulting from normal use.
6. Loss, damage and / or liability caused by or gross negligence of the insured or his responsible representatives.
7. Liability assumed by the insured by agreement unless such liability would have attached to the insured not-withstanding such agreement.
8. Less of use of the insured's plant or property of any other consequential loss incurred by the insured.

23.5.2 Special Exclusions: The company is not liable in case of :

1. The excess, as stated in the schedule, to be first borne by the insured out of each and every claim, where more than one item is damaged in one and same occurrence, the insured shall not be called on to been more than the highest excess applicable to any one such item.

2. Less of or damage to belts, chains, rubber tyres, blades, cutters, etc. all operating media and non-metallic lining or coating of metal parts unless loss or damage to the equipments is indemnifiable in terms of the policy.

3. Loss or damage for which the manufacturer or supplier is responsible either by law or contract.

23.5.3 Provisions:

23.5.3.1. Sum insured: In case where damage to an injured item can be repaired, the company will pay expenses necessarily incurred to restore the damaged machine to its former state. If the repairs are executed at a shop owned by the insured the company will pay only the cost of materials and wages incurred. No deduction is made in respect of depreciation except for wear and tear of parts. The company will pay only the actual value of the item immediately before the occurrence of loss. The company will pay any normal changes for the dismantling of the machinery destroyed but the salvage will be taken into account. Any extra charges incurred for over-time, night-work are covered by this policy provided it is agreed on inwriting. It does not include the cost of improvents or overhauls. The cost of any provisional repairs will be borne by the company. The company makes payment after being satisfied. It may not insist for documentary evidence in case of total loss.

23.5.3.2 Inspection of turbines: All mechanical parts of any steam turbine, gas turbine, shall be inspected and overhauled under the supervision of representatives of the maker. The cost of inspection and overhauling shall be borne by the insured and a copy of the report issued by the representative of the maker as such overhauling shall be furnished to the company immediately after the work has been carried out.

23.6 GENERAL REGULATIONS AND INSTRUCTIONS:

1. No policy is to be issued on first loss basis.
2. No policy to be issued with bonus clause
3. Excess amounts are minimum and cannot be eliminated by payment of additional premium
4. Projects located outside India would be outside the jurisdiction of the committee
5. Enquires relating to the decisions of the committee from any office of a company shall be referred through head offices of that insurer.
6. Machinery break-down insurance policy cannot be issued on agreed value basis
7. Claims expenses discounts and loadings – Rates are specified in the table attached with the policy.
8. Refund of premium for standstill period may be considered.
9. Incase of complete standstill, it must be due to shortage of raw materials, power storage, water storage etc. Standstill equipments must be available in the respect of boilers. In case of break-down and non-availability of any part the entire plant may come to standstill. In such cases refund is allowed.
10. Overhauling of turbines etc.

23.7 ERECTION ALL RISKS INSURANCE POLICY:

Under erection all risk insurance the company indemnifies the insured against sudden and unforeseen physical loss of or damage to the property insured in the manner and to the extent provided.

23.7.1 General Exclusions: The company will not indemnify the insured in respect of loss, damage or liability directly or indirectly caused by War, invasion, nuclear reaction, nuclear radiation, cessation of work whether total or partial.

23.8 PERIOD OF COVER:

If the date is not mentioned specifically , the liability starts with the unloading of the property on the site and continues till the first test is conducted.

If there are more than machines or parts in the plant, the liability of the company for the parts ceases once they are ready for operation.

In case of used machinery the insurance cover ceases as soon as the testing commences.

Generally, the insurance cover expires on the dates notified in the schedule but if the work of erection and testing is not over by that period, the cover may be extended till the completion of erection on payment of additional premiums.

23.9 GENERAL CONDITIONS:

The conditions mentioned in respect of boiler and explosion insurance holds good even in this case also. It is to be noted that :

- the insured has to inform the company in case of any occurrence of damage which may result in claim. On intimation, the insurer either carries out the repair work or replacement of any minor damage not exceeding Rs.7,500/-.
- the insured can terminate the insurance at his option in such cases he will get refund of appropriate premium as per rules in force.

23.10 SECTION I – MATERIAL DAMAGE:

In case of damage the insurer reimburses the loss as per the limits specified in the schedule. It also reimburses the cost of removal of desires.

23.10.1 Exclusion to Section I : The company is not liable for:

- any loss which is in excess of the amount mentioned in the schedule.
- when loss is discovered at the time of taking inventory
- normal wear and tear, scratching of painted or polished surfaces.
- damage due to faulty design, defective material or casting
- the cost necessary for rectification
- damage to files drawings etc.
- any penalties for non-fulfillment of the terms of delivery.

23.10.2 Provisions applying to Section- I :

- sum insured
- premium adjustment
- basis of loss settlement

- construction plant and machinery
- surrounding property
- major perils

23.11 SECTION II : THIRD PARTY LIABILITY:

The company will indemnify the insured against:

- Legal liability for accidental loss
- Legal liability for fatal or non-fatal injury to any person other than the insured's own employees or other firms connected with erection work.

23.11.1 Eclusions to Section II : The company will not indemnify against:

- the excess amount mentioned in the schedule of the policy
- expenditure incurred in doing or making good or repairing or coverable under Section I of this policy.
- liability resulting from bodily injury to or illness of employees or any other firm connected with the project which is insured under Section - I.
- any accident caused by vehicles licensed for general road use.
- any agreement to pay any amount by way of indemnity by the insured.

23.11.2 Conditions applying to Section II:

- The insured should not make any admission or promise or payment to settle the claim without the consent of the company.
- The total amount insured decreases with each compensation made.

23.11.3 Endorsements:

- Civil engineering works
- Endorsements for fire
- Endorsements relating to cross liability cover
- Endorsements regarding escalation
- Endorsement regarding air freight
- Endorsement regarding additional customs duty
- Endorsement concerning storage
- Endorsement regarding damage to crops etc.

23.12 SUMMARY:

The boiler and pressure plant policy covers damages other than fire to the boilers and other pressure plant described in the policy.

- Machinery break down insurance policy covers the damage caused to the machinery whether they are at work or rest when dismantled for repairing or overhauling.

- Erection all risk insurance policy indemnifies the insured against any unforeseen physical loss or damage to the property insured.

23.13 SELF-ASSESSMENT QUESTIONS:

- Definition of Boiler, Pressure plant, Explosion, Collapse.
- Warranties under boiler explosion
- Warranties under machinery break-down.
- Erection of plant and machinery.

23.14 ESSAY TYPE QUESTIONS:

- List the general exceptions under the boiler and pressure plant insurance
- What are the warranties required under the boiler and pressure plant insurance from the insured?
- What additional coverages can be secured through endorsement under the boiler and pressure plant insurance?

23.15 REFERENCE BOOKS:

* Insurance Principles & Practice - C.Gopala Krishnan

* Modern Law of Insurance in India - K.S.N.Murty & K.V.S.Sarma.

- Dr. D.NAGESWARA RAO.

Lesson -24

CATTLE AND LIVE – STOCK INSURANCE

24.0 OBJECTIVES:

After completion of this lesson, you should be able to understand:

- Meaning of Cattle Insurance
- Sheep and Goat Insurance
- Horse or Ponny Insurance
- Pig Insurance
- Camel Insurance
- Elephant Insurance

STRUCTURE:

24.1 Introduction
24.2 Meaning
24.3 Cattle Insurance Policies
24.3.1 Cattle Insurance
24.3.2 Sheep and Goat Insurance
24.3.3 Horse Insurance
24.3.4 Pig Insurance
24.3.5 Camel Insurance
24.3.6 Rabbit Insurance
24.3.7 Elephant Insurance
24.3.8 Dog Insurance
24.3.9 Live-Stock Insurance Master Policy
24.4 Summary
24.5 Self-Assessment Questions
24.6 Essay Type Questions
24.7 Reference Books

24.1 INTRODUCTION:

The insurance cover for cattle and livestock has been under demand from the times of Indian Independence. A remarkable could not be made till the year 1972. It was in 1972 the General Insurance was nationalized. The number of animals covered by Cattle Insurance in India has increased from 2.10 lakhs in 1979 to 43.72 lakhs in 1980 and 160.79 lakhs in 1985 and 256.22 lakhs in 1988-89.

24.2 MEANING:

The insurance provides cover against death of animals like bulls, buffaloes, cows and heifers arising as a result of accident, disease, parturition or pregnant condition, as the case may be. The insurance is arranged on a sort of the excess of a certain other amount which is known as first loss. The policy excludes destruction in compliance with any statute or orders of any government or because of unfitness or incapacity from fulfilling duties for which the animal is kept. Any death arising out of castration or other surgical operation is also excluded.

Cattle and livestock insurance have included cattle, sheep and goat, horse/pony/mule, pig, camel, duck, rabbit, elephant and dog.

24.3 CATTLE AND LIVE-STOCK INSURNCE POLICIES:

24.3.1 Cattle Insurance Schemes: The Cattle Insurance policy under market agreement covers milch cows, and buffaloes, calves/ heifers, stud bulls, bullocks and castrated male buffaloes whether idigeneous or exotic or cross-breed. Exotic animal means an animal whose both parents are of foreign breed. This policy provides indemnity in the event of death of insured cattle due to accident inclusive of fire, lighting, flood, cyclone, famine, strike, riot, surgical operation, disease inclusive of anthrax, black-quarter, foot and mouth disease, contracted or occurring during the period of policy and shall be subject to exclusions of theft and clandestine sale of the insured animal, partial disability of any type whether temporary or permanent total disability which in case of milch cows and cattle result in permanent total incapacity to conceive or yield milk in the case of stud bulls, war, invasion, civil war and military. The age group of animals to be covered are:

- 2 years to 10 years for milch cows;
- 3 years to 12 years for milch buffaloes;
- 3 years to 8 years for bullocks.

The market value of cattle will be the amount of sum insured which varies from breed to breed, from area to area and from time to time.

In the case of permanent total disablement, insurer's liability is limited to 75% of the sum insured. The premium rates are governed by market agreement varying from 2.75% to 4%. The premium rate is 3% for milch cows or cattle. In case of cattle owned by individuals, institutions and bank financed cattle is 4%. It is because in case of bank finance, the purchaser will not provide proper veterinary care. In case cattle owned by well organized government or semi-government agencies the rate of premium is 4% if the number is less than 50 animals; 3.95 percent in case of animals ranging between 50 and 250 animals and 3.90 percent if number of animals insured is more than 250 in number. The male buffaloes and bullocks are changed at the rate of 2.75 percent. In case of exotic milch cattle and stud bulls an additional premium of 2% and1% for covering permanent total disablement. The minimum premium is Rs. 25/- per annum per animal and Rs.20/- per annum per bullock. All insured animals are suitably identified by any of the following methods:

- car tag made of aluminium.
- branding with hot iron and tattooing.

Besides this, the natural identification marks noted clearly in the proposal form.

Cattle Insurance schemes are also available under IRDP project for cattle subsidised under SPDA / MFAL etc. Milch cows, mulch buffaloes and stud bulls of indigenous or cross-bread variety between age group of 2 to 12 years are insurable for the sum assured agreed on provided it does not

exceed market value. The permanent total disability shall be covered at extra premium of 0.85 percent. The premium rate is 2.25 percent of sum insured per annum to be subsidised by the project authorities and bank finance. The common exclusions are malicious or willful injury or neglect, over-loading, unskillful treatment or the use of animal for purpose other than stated in the policy without the consent of the insurer.

24.3.2 Sheep and Goat Insurance: The sheep and goat insurance provides indemnity in the event of death of insured animals due to disease or accident contracted during the period of risk in the age group of 4 months to 7 years of sheep's Rans used for breeding and aged more than 75 percent of its market value. Goats are covered between age group of 6 months to 5 years. The sum assured will be restricted to 80 percent of market value as certified by the veterinary surgeon or 100 percent bank advance which ever is higher. The premium rates are 8 percent of sum assured in case of sheep and 10 percent in case of goat of indigenous breed for private insured. This premium is 10 percent for exotic breed. The premium rate for bank financed and IRDP project is 2.75 percent in both the cases of sheep and goat. The foot rot is excluded for sheep under this category. The policy shall provide indemnity against death of sheep and goats due to accident including fire, lighting, flood, cyclone, famine, strike, riot and civil commotion or diseases contracted or occurring during the period of insurance.

24.3.3 Horse / Pony /Mule Insurance: The policy for house / pony / mule insurance includes drought horses, half draught horses, ponies, mules against death due to accidents and / or special tied diseases contracted during the period of insurance and subject to usual terms, conditions and exclusion of the policy. The age group for such animals to be insured are 2 years to 8 ears. Indigenous, cross-bred, and exotic are insured. The sum assured is 100 percent market value or bank loan which is higher. The animals which are not covered under the scheme are charged a premium of 4 percent of sum assured where as the scheme animals are charged at 2.75 percent per annum.

24.3.4 Pig insurance: It covers deaths caused due to accidents or diseases. The minimum number of animals covered are 10. Swire fever disease is excluded. The age group insurable is one month to five years. All indigenous and exotic pigs are insured. The maximum sum insured per pig is Rs.500. The rate of premium is 6 percent per annum but pigs under SFDA / IRDP scheme are charged at 3.5 percent per annum. The sum assured will be linked to 100 percent of market value for organised breeding farms whereas in other cases it is 80 percent of market value.

24.3.5 Camel Insurance: It is applicable to both male and female camels in India. It includes camels subsidised under SFDA/DPAP. The age group ranges from 3 years to 10 years. The assured will be 80 percent of the market value or bank finance . The maximum sum insured is Rs.3,000/- in case of bank finance. In case of PTD claim, 75 percent of sum assured is payable. The premium rate is 4 percent per annum for non IRDP scheme animals and 2.25 percent for IRDP scheme camels. Surra disease is excluded. The minimum premium is Rs.25 per annum per animal. It provides indemnity for death due to accident inclusive of flood, cyclone, famine or disease. The exclusions are common exclusions and specific exclusions.

Common exclusions are applicable to all types of cattle insurance. They are willful injury, neglect, overloading or use of animal for other purposes than mentioned in the policy. Intentional slaughter of animals except where destruction is necessary to terminate incurable suffering on the bases of certificates issued by qualified veterinarians. Theft, clandestine sale of the insured animal, war, invasion, act of foreign enemy or attempt threat. Any accident, loss, damage or legal liability caused by or arising from nuclear weapons .

Specific exclusions are transport by air and sea, partial disability of any type. Death of camel due to disease surra. Diseases contracted prior to and within 15 days of commencement of risk.

24.3.6 Rabbit Insurance: It is applicable to all breeds of rabbits in India. The age group is one day to four years. Death due to diseases till they complete the age of 30 days is not covered. The risks covered are death of rabbits due to accident or disease contracted during the period of insurance. The exclusions have common exclusions as described in camel insurance and specific exclusions of transport by air and sea, permanent or partial disablement of any nature culling, cannibalism and intentional slaughter and coocidissis. The compensation is only 70 percent of the sum assured. The rate of premium is 7 percent.

24.3.7 Elephant Insurance: It indemnifies the owner for the death due to accident or disease contracted during the period of insurance subject to certain exclusions. The age group of insurance ranges from one year to sixty years. It includes all elements including those owned by temples, individuals and circus companies. The sum assured is 80 percent of the market value. The amount of sum assured does not exceed Rs.5,000/-. The rate of premium is 5 percent per annum. The common exclusions are as per cattle market agreement.

Specific exclusions are surgical operations, disability breeding and calving and certain specific diseases such as foot and mouth diseases, tuberculosis etc.

24.3.8 Dog Insurance: It insures risks against death due to accident or disease contracted during the period of insurance subject to usual theory. The age group of insurance is 8 weeks to 8 years. It includes indigenous and exotic breeds. The minimum value of any breed should not be less than Rs.200 and maximum value of any dog should not exceed Rs.2,000. The rate of premium is 5 percent per annum. In the event of death of the insured dog, any amount received by the insured from third parties and the value of the salvage recovered if any would be deducted from the claim amount.

24.3.9 Livestock Insurance Master Policy: An open policy is issued without mentioning the sum insured. This will be a stamped document. It contains the type of cover, perils covered, conditions, exclusions etc. When loans are granted by the bank, the animals purchased are covered under the insurance scheme. The cover commences from the date and time of purchase by the beneficiaries. It is valid for one year. The declaration forms are given to the bank by the insurance company. The livestock insurance includes milch cows, buffaloes, calves, stud bulls, male buffaloes of both indigenous and exotic breeds, sheep, goats, pigs etc are insured. It covers the death of any livestock due to any accident including fire, lightning , flood, storm, foot and mouth diseases, strike, riot, civil commotion.

The cattle and livestock insurance has shown an increase of Rs. 75.58 crores during 1982 to 1988-89 from Rs.26.3 crores to Rs.101.88 crores. It is about four-fold increase which is more than the usual traditional increase. The percentage increase is at 35.64 percent in 1984 whereas it was the lowest in 1986. As far as cattle is concerned, its number is increased from 82.4 lakhs in 1982 to 256.22 lakhs in 1988-89. There is almost three-fold increase. The rate is 34.9 percent in 1984 when compared to the previous year. The year 1984 and 1985 have been very promising for non-traditional business. The subsidiaries of general insurance corporation have to expand their business through pragmatic strategies.

24.4 SUMMARY:

The Cattle Insurance provides cover against death of animals like bulls, buffaloes, cows, heifers

etc due to accident or disease. The policies excludes destruction in compliance with any statule of the government. It excludes death caused due to surgical operation. It includes cattle, sheep and goat, horse, pig, camel, duck, rabbit, elephant and dog. These are covered under different policies.

24.5 SELF-ASSESSMENT QUESTIONS:

- Meaning of Cattle Insurance
- Sheep and Goat Insurance
- Horse or Pony Insurance
- Elephant Insurance
- Dog Insurance

24.6 ESSAY TYPE QUESTIONS:

- Explain the importance of cattle and livestock insurance in India.
- Explain the various policies that provide cover to cattle and livestock.

24.7 REFERENCE BOOKS:

* Principles of Insurance Laws - M.N.Srinivasan

* Insurance Management - Anand Ganguly

* Manual of Insurance laws - R.Puliani and M.Puliani.

- Dr. D.NAGESWARA RAO

Lesson- 25

CROP INSURANCE

25.0 OBJECTIVES:

After completion of this lesson, you should be able to understand:

- Meaning and Importance
- Objectives of National Crop Insurance
- Salient features of Crop Insurance
- Advantages of Crop Insurance
- Problems of Crop Insurance

STRUCTURE:

25.1 Introduction
25.2 Objectives of National Crop Insurance
25.3 Salient features of Crop Insurance
25.3.1 Crops covered
25.3.2 Farmers to be covered
25.3.3 Limit of coverage
25.3.4 Estimation of Crop yield
25.3.5 Levels of Indemnity and threshold yield
25.3.6 Nature of coverage and Indemnity
25.4 Procedure for settlement of claims
25.4.1 Corpus fund
25.5 Advantages of Crop Insurance
25.5.1 Stability in income of the farmers
25.5.2 Development of Agricultural sector
25.5.3 Lowers indebtedness of farmers
25.5.4 Improving Financial position of Lending
25.5.5 Reduces the Responsibility of the Government
25.6 Problems of Crop Insurance
25.7 Crop Insurance Scenario in India
25.8 Summary
25.9 Self-Assessment Questions
25.10 Essay Type Questions
25.11 Reference Books

25.1 INTRODUCTION:

India is an agricultural country. Inspite of this, the Government of India is not making any serious efforts in this direction. Majority of the people of India depend on agriculture. Even in these days of hi-tech, the farmer is not sure whether his crop could be produced safely or not. He is also not certain to get the reasonable price for his produce because of several factors. Natural calamities such as string winds, excessive rains, drought, hail-storm, excessive cold, heat etc. play a drastic role causing unbearable loss to the farmer's crop. In addition to above theft of crop and fire accidents also cause great loss to the agriculturist community.

Crop insurance is a means under which the insurer guarantees to indemnify the loss caused due to the occurance of uncertain events to the standing crops of the farmers. Thus, insurance acts as a boon to the farmers as it provides security against the destruction of standing crops due to natural calamities.

Before, the evolution of this crop insurance scheme, other schemes such as, Frost insurance, Hull storm insurance, wind storm insurance, Flood Insurance etc. used to cover certain risks relating to standing crops. These policies were successful in creating a feeling of security in the minds of the Indian agriculturists. The Federal Crop Insurance Act 1938 was enacted in America for the first time in the World. It was initially extended to wheat crop and later extended to Jute and Tobacco also.

The idea of crop insurance in India originated with the presentation of a scheme of crop insurance in Lok Sabha in 1949. It could not be implemented due to some technical problems. The Government of Punjab approved a similar scheme during the period of 2nd Five-year-plan. Later, the scheme was dropped due to financial constraints. In the year 1976, the Finance Minister gave some hints relating to the willingness of the Government to introduce the scheme of crop insurance in the country. Accordingly, a committee was appointed and the committee recommended for the introduction of the crop insurance inrespect of wheat, potatoes, sugarcane, rice, apples etc. later in the year 1985, the scheme is extended to cover crops like wheat, rice, oilseeds and so on. The rates of premiums are low. Moreover, in case of small and marginal farmers the premiums are paid by the state governments in the form of subsidy. Thus, losses due to natural calamities are indemnified by the insurers. It also covers other risks. It is beneficial to fight with the financial difficulties during the period of falling of prices of agricultural crops.

25.2 OBJECTIVES OF THE NATIONAL CROP INSURANCE:

- to provide insurance coverage and financial support to farmers in the event of natural calamities, diseases, pests etc.
- to encourage the farmers to adopt progressive farming practices higher technology in agriculture etc.
- to help stabilize farm incomes.

25.3 SAILENT FEATURES OF CROP INSURANCE:

25.3.1 Crops covered: The crops in the following broad groups in respect of which:

(a) the past yield data based on crop cutting experiments is available for adequate num ber of years

(b) requisite number of crop cutting experiments are conducted for estimating the yield during the proposed season:

- Food crops
- Oil seeds
- Sugarcane, cotton, potatoe.

Other annual commercial crops subject to availability of past yield data will be covered in a period of three years. However, the crops, which are covered next year, will have to be specified before the close of the preceding year.

25.3.2 Farmers to be covered: All farmers including share croppers, tenant farmers growing notified crops in notified areas are eligible for coverage.

The scheme covers the following groups of farmers:

- **On a compulsory basis:** All farmers growing notified crops and availing sea. Operations loans from financial institutions.
- **On a voluntary basis:** All non-loanee farmers growing notified crops who opt for the scheme.

Comprehensive risk insurance will be provided to cover yield losses due to non-preventable risks like fire and lighting, storms, hail storms, cyclones, hurricanes as also floods, landslides, pests etc.

Losses arising due to war and nuclear risks are excluded.

25.3.3 Limit of coverage: The sum insured may extend to the value of the threshold yield of the insured crop at the option of the insured. A farmer can insurance his crop even beyond the threshold yield up to 150% of average yield of notified area on payment of premium at commercial rates.

In case of loanee farmers the sum insured would be atleast equal to the amount of crop loan advanced. The insurance charges are additional to the scale of finance for the purpose of obtaining loan.

In matters of crop loan disbursement procedures, the guidelines of RBI shall be binding.

The premium rates are maximum 3.5% in case of bajra and oilseeds and premium subsidy.

The risks are shared by the implementing agency.

This scheme will operate on the basis of area approach.

25.3.4 Estimation of crop yield: The State Government will plan and conduct the requisite number of crop cutting experiments for all notified crops in the notified insurance units inorder to assess the crop yield. It maintains single series of crop cutting experiments and resultant yield estimates , both for crop production estimates and crop insurance.

25.3.5 Levels of indemnity and threshold yield: Three levels of indemnity viz 90%, 80%, and 60% corresponding to low risk, medium risk and high risk areas are available for all crops based on coefficient of variation in the yield of past 10 years data. However, the insured farmers of unit area may opt for higher level of indemnity on payment of additional premium based on actuarial rates.

The threshold yield crop in an insurance unit shall be the moving average based on past three years average yield in case of rice and wheat and five years average yield in case of other crops, multiplied by the level of indemnity.

25.3.6 Nature of coverage and Indemnity: If the actual yield per hectare of the insured crop for the defined area in the insured season is less than the specified threshold yield, all the insured farmers growing that crop in the defined area are deemed to have suffered short fall in their yield.

Calculation of Indemnity:

- (short fall in yield / threshold yield) sum insured for the farmer.

Shortfall = Threshold yield – Actual yield.

25.4 PROCEDURE FOR SETTLEMENT OF CLAIMS:

Once the yield date is received from the State Government as per the prescribed cut-off dates, claims are worked out and settled by implementing agency.

The claim cheques along with claim particulars will be released to the individual Modal banks. The bank in turn, shall credit the accounts of the individual farmers and display the particulars of beneficiaries on the notice board.

25.4.1 Corpus fund: To meet certain losses, a corpus fund shall be created with contribution from the Government of India and state as a 50-50 basis. A portion of calamity relief fund is used for contribution to the corpus fund.

An exclusive organisation is set up in due course, for implementation of crop insurance. Till then, the General Insurance Corporation of India will act as an implementing agency.

25.5 ADVANTAGES OF CROP INSURANCE:

25.5.1 Stability in the income of Farmers: Crop insurance develops a sense of financial security among farmers by providing help to them to indemnify the losses of crops. It helps in stabilising the income of the farmers.

25.5.2 Development of Agricultural Sector: Agricultural sector is a care sector for any developing country like India. It requires a feeling of security to farmers. Crop insurance is born to farmers. They can use latest techniques when they are financially secured and sound.

25.5.3 Lowers Indebtedness of farmers: Indian farmers generally remain debts for most of the time. They can repay the loans only if their crops reach the market safely. Crop insurance provides security to farmers. So, they are in position to repay debts even if their crops are damaged as such losses are being indemnified. Thus, it helps the farmers to reduce their indebtedness.

25.5.4 Improving financial position of lending: The farmers are not in a position to repay their debts whenever their crops are destroyed. Generally, land development banks, rural banks, agricultural banks and co-operative banks and money lenders disburse their surplus money in the form of loans and advances to farmers. If the crops not insured are lost, it is not possible for them to repay their debts. Thus, crop insurance not only strengthens the hands of farmers but also the lending institutions as they get their money back from the farmers.

25.5.5 Reduces the responsibility of the Government: It is the main object of the government to help the farmers financially so that they can face the problems caused by uncertainties. Under the scheme of crop insurance the losses caused due to uncertainties and risks are indemnified. Thus, they also help the government in reducing their responsibility in the distribution of loans, providing financial help and granting subsidies etc.

25.6 PROBLEMS OF CROP INSURANCE:

Crop insurance scheme in India is still in the infant stage. So, far it has made a mask on paper through research and development. A lot is to be done in future for its effective implementation. Its successful operation is hindered due to some-problems. Some of them are:

- The rate of premium is increased due to periodical inspection of crops by the company. As a result it is not in a position to attract more and more customers.
- Illiteracy of the farmers is another absticle in the way of its progress. This restricts the scope of its implementation.
- The problem of more risk is serious drawback in the implementation of the scheme of crop insurance. Some times, certain unscrupulous farmers may destroy their crops to get benefited by crop insurance. The resort to such unfair activities when they can not get reasonable price for their produce.
- In the initial stages of implementation of crop insurance, the rates of premium may be high because of its operative cost.
- A number of risks are involved on the profession of agriculture. It is practically difficult to cover all risks under the blanket of crop insurance.

25.7 CROP INSURANCE SCENARIO IN INDIA:

Since independence, the importance of crop insurance that offers effective protection to farmers has been under consideration. To test its pros and cons a pilot Crop Insurance scheme was introduced during 1979-80 and in 1984-85. Accordingly, a comprehensive crop Insurance Scheme was introduced in the year 1985. During Rabi season the National Crop Insurance scheme was started during the year 1999-2000. All these Crop Insurance schemes are covered under Group Insurance. It covers such loans which are taken from banks.

The rate of premium changes is minimum. The risk is jointly covered by the center, the states and the General Insurance Corporation of India. Their financial results exhibited that all the three are not successful in assessing the actual risk to be covered under crop insurance. In case of comprehensive policies, the amount of compensation paid is all most six times the premium collected. It is more higher in case of National Insurance Schemes.

The block nature of the schemes takes away the schemes from its business character. It helped those who has taken undue advantage of the schemes. In cases where the loss is heavy either little or no compensation is paid and in cases where the loss is minimum huge amounts are paid as compensation.

Due to Globalisation, India is marching towards world-class agriculture. Hence, the importance of crop insurance has been gaining momentum and has become a necessity. The Indian agriculture is exposed to lot of risks and uncertainties because a major part of Indian agriculture depends on monsoons. In addition to this the small or fragmented holdings and low capital utilisation are other important problems of Indian agriculture sector.

According to the survey conducted nearly 15 crops showed that the risk is more than 40 to 60 percent. Moreover, the model yield in India are for lower than the actual yields when compared

to the other advanced countries. As such, the rate of premium to be charged has to be increased by atleast 30 percent. Hence, the present premium collected on crop insurance is not all sufficient to provide reasonable cover of crop insurance. Further, the risks are to be minimised by developing irrigation facilities.

If the actual risk factor is computed into actual calculations of the cost of production and consequently, in the statutory minimum price, during years when the contingent risk does not arise, the farmers will be able to keep aside sums that can accumulate over the years, until the contingent risk actually occurs. This will amount to self-insurance. It is only after a system of self insurance has worked for a number of years that it will be possible to establish a scientific scheme of insurance for crops, which is a gamble not only because of the uncertain monsoon, but due to several other factors.

Recently, agricultural insurance corporation was framed as a separate body for transacting crop insurance. Earlier, General Insurance Corporation of India has been managing crop insurance on behalf of Central Government. Now, the General Insurance Corporation is converted into national reinsurer, which is a separate organisation.

25.8 SUMMARY:

Crop insurance provides coverage and financial support to the farmers in the event of natural calamities, pests and diseases.

25.9 SELF-ASSESSMENT QUESTIONS:

- Objectives of National Crop Insurance
- Salient features of National Crop Insurance.

25.10 ESSAY TYPE QUESTIONS:

- Explain the advantages of Crop Insurance
- What are the problems of Crop Insurance in India? Give suggestions to overcome.
- Explain the origin and development of Crop Insurance in India.

25.11 REFERENCE BOOKS:

* Insurance Principles and Practice - C.Gopala Krishna

* Insurance Principles and Practice - M.N.Mishra.

- Dr. D.NAGESWARA RAO