

R.M.M. Law College, Saharsa

Pt. Lecturer- KESHAV KUMAR SHRIVASTAVA

L.L.B Part- 2nd

Subject- Insurance Act

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Topic- Define Fire Insurance? Discuss the provisions relating to assignment, renewal and cancellation of Fire Insurance policy.

Definition of Fire in Insurance-

The fire insurance contract is defined as “an agreement, whereby one party in return for a consideration undertakes to indemnify the other party against financial loss which the latter may sustain because of certainly defined subject-matter being damaged or destroyed by fire or other defined perils up to an agreed amount”.

Fire, to make the insurer liable under the contract, must satisfy two conditions.

First, there should be actual fire or ignition, and second, the fire must be fortuities in its nature.

It is a well-known fact that fire causes huge losses every year. The individual owner by taking fire Insurance can prevent fire waste to some extent.

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 the premium from all the insured members and makes good the losses when they occur to any of them.

The system of fire insurance cannot save the society from the economic loss to the community to the extent of the property lost by fire, but it compensates someone and this saves him from a ruinous loss, at the cost of a group of some others.

The party responsible to indemnify the loss is called the insurer, the party who is to be indemnified is called the insured, the consideration for the contract is termed ‘the premium’, the defined subject-matter is termed ‘the property insured’ the sum set forth in the contract is called the assured sum, and the document containing the terms and conditions of the contract is known as ‘the policy.’

Assignments in Insurance Law

The concept of assignments in insurance law takes on many forms - firstly due to the various branches of insurance law and secondly due to the various components in an insurance transaction that can be assigned. The format of this discussion, therefore, is reflective of this framework.

Assignments are first discussed in the context of the following branches of insurance law:

- (i) marine insurance,
- (ii) property insurance,
- (iii) motor insurance, and
- (iv) life insurance.

The next stage of this discussion focuses on what may be assigned in an insurance transaction and how such assignments are legally effected, namely, the assignment of:

- (a) an insurance policy,
- (b) the proceeds of an insurance policy, and
- (c) the subject matter of an insurance policy.

Poh Chu Chai writes:

“A contract of insurance constitutes a highly personal contract and as a general rule, such a contract is generally not assignable.”

The insurer fixes the premium after considering the particular risks associated with the property and handling of the property in the hands of the insured. As such, as a general rule, an insurance policy is not casually assignable to another party. Nevertheless, assignments are not an unheard of option in an insurance transaction.

Before embarking on the discovery of how assignments in insurance law can be legally effected, it may prove beneficial to consider the nature of what is meant by this phrase which takes centre stage in this discussion, an ‘assignment’.

R. C. Kohli explains:

“Transfer of interest from one to another is called assignment. In insurance also when rights and obligation under the contract are transferred from one to another, the same is called assignment of the policy. There can be another assignment in insurance which is **assignment of benefits** under the policies. Assignment of policy and assignment of benefits are quite distinct.

Whereas in the former all the rights and obligations are transferred, in the latter only benefits (i.e. money due under the policy etc) are transferred. In insurance the assignment means assignment of rights under the contract. An assignee for all purposes becomes the owner of the policy and enjoys all rights thereunder. However, by assignment no change is made in the subject matter insured by the policy and it remains unaltered.”

David Norwood and John P. Weir writes:

“There is no special form of assignment document, no magic words which must be used to create a valid and effective legal assignment. As was expressed in one case ‘[An assignment] ... may be addressed to the debtor. It may be couched in the language of command, It may be a courteous request. It may assume the form of mere permission. The language is immaterial if the meaning is clear.’

The only important point is that the instrument recording the assignment must make it clear that one party with a contractual right against another party is transferring their right of enforcement of the obligations of the contract to another person.”

Renewal of fire insurance policy

An insurance renewal is when you opt to continue an insurance policy. Your insurance renewal may include an increase in your rate. Of course, there are exceptions to every rule, and it's possible for your rate to change shortly after purchasing a new policy if you don't meet underwriting guidelines or if you do something illegal or dangerous.

Once you are through the initial policy period, your insurance rate may change when it's time for your policy renewal. That depends on the type of policy, though.

The renewal date of your insurance policy is based on the date your policy took effect and the length of your policy period. Policies usually renew annually or semi-annually.

Some auto policies are locked in for a full year.

Cancellation of fire insurance policy

A cancellation provision clause is a provision in an insurance policy that permits an insurer, or an insurance company, to cancel a property and casualty or a health insurance policy at any time before its expiration date.

Life insurance policies do not contain cancellation clauses, and while health insurance policies do contain cancellation clauses, the clause does not allow the insurer to cancel the policy.

Generally, a cancellation provision clause requires that whenever a party chooses to cancel the policy, that party must send a written notice to the other involved party. The insurance company is also obligated to refund any prepaid premium on a pro rata basis.

For example, if the insured paid premium for three months and chose to cancel the policy at the end of the second month, the insurance company is then required to calculate the premium that applies to the last month and refund it to the insured party.

When an insurance policy is subject to cancellation, an insurer is usually required to send a written notice 30 days in advance of the effective date. If the notice does not contain an explanation for the cancellation, the company is often required to provide such an explanation in writing upon receipt of a written request from the policyholder.

If an insurance policy is canceled prior to the expiration date, the insurer is required to refund any premium difference that's due. When an insurance policy is subject to non-renewal, an insurer is required to follow procedures similar to cancellation.

The End