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L.L.B Part- 2nd

Subject- Insurance Act

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Topic- Define Fire Insurance? What are the main kinds of Fire Insuance policies? Give a brief introduction of each 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.'

Kinds of Fire Insurance Policies

1. Valued Policy.
2. Valuable Policy.
3. Specific Policy.
4. Floating Policy.
5. Average Policy.
6. Excess Policy.
7. Declaration Policy.
8. Adjustable Policy.
9. Maximum Value of Discount Policy.
10. Reinstatement Policy.
11. Comprehensive Policy.
12. Consequential Loss Policy.
13. Sprinkler Leakage Policies.

The 13 types of fire insurance policies are explained below;

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, in consequence, not value at the time of the fire, but a value agreed upon the inception of the policy.

The insurer pays the insured a fixed sum following the destruction of the insured property.

The amount fixed may be greater or less than the actual market value of the property destroyed by fire at the time of loss. In this policy, the measure of indemnity is based on the value of properties rather than on the market values of the property destroyed.

2. <u>Valuable Policy</u>

The valuable policy is that policy where the claim amount is to be determined at the market price of the damaged property.

The amount of loss is not determined at the time of commencement of risk but is determined at the time and place of loss. This policy is truly representing the doctrine of indemnity.

3. <u>Specific Policy</u>

Where a specific sum is insured upon a specified property in case of a specified period, the whole of the actual loss is payable provided it does not exceed the insured amount.

Here the value of the property insured has no relevance in arriving at the measure of indemnity in a specified policy and the insured sum sets a limit up to which the loss can be made good.

4. <u>Floating Policy</u>

The floating policy is the policy taken to cover one or more kinds of goods at one time under one sum assured for one premium and about the same owner.

This policy is useful to cover fluctuating stocks in different localities.

Since the properties are spread over various localities and in different forms, the physical and moral hazards are also varying and, therefore, it makes difficult to determine premium rates.

In India, the premium rate is approximately the same in such cases except for the case of the most hazardous risk.

Such policies are specially taken by big manufacturers or traders whose merchandise might be lying in parts of the warehouse, port, or railway station.

In such cases, it is very difficult for the owner of such goods to take a specified policy for each good because the quantities of the goods deposited in each will fluctuate from day to day, place to place, according to sales or consumption or consequent removal and replacement.

5. <u>Average Policy</u>

The policy is containing an ‘average clause’ called an Average Policy. The amount of indemnity is determined concerning the value of the property insured.

If the policyholder has taken a policy for a lesser amount than the actual value of the property, the insured will be deemed to be his insurer for the amount of under-insurance.

The insurer will pay only such proportion of the actual loss as his insurance amount bears to the actual value of the property at the time of loss.

6. Excess Policy

Sometimes, the stock of a businessman may fluctuate from time to time, and he may be unable to take one policy or a specific policy.

If he takes a policy for a higher amount, he has to pay a higher premium.

On the other hand;

if he takes insurance for a lower amount, he will have to bear the proportionate amount of loss.

The insured in this case can purchase two policies, one 'First Loss Policy" and the second, 'excess policy.' The 'First Loss Policy' will cover that stock below which the stock never goes.

The minimum level of stock can be found out from the experience and for the other portion of stock which exceeds the minimum limit; he can purchase another policy called 'excess policy'.

The actual value of the excess stock is declared every month. The amount of premium is calculated on the average monthly excess amount.

Since the chances of payment on the excess amount are very remote, the rate of premium is also very nominal.

Thus;

The insured will pay a very nominal premium as compared to the premium payable on the total amount had the policy been a specific one. The average .clause also applies to this policy.

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 owing to the average condition.

Moreover, if the First Loss Policy was also subject to an average condition, the assured will be at a loss. The declaration policy will give better protection in such cases where the stock fluctuates from time to time.

Under the declaration policy, the insured takes out insurance for the maximum amount that he considers would be at risk during the period of the policy.

On a fixed date of every month or a specific period, the insured furnishes a declaration of the amount. The premium is provisionally paid to 75% of the annual premium amount.

8. Adjustable Policy

The above disadvantage is removed by an adjustable policy. This policy is nothing but an ordinary policy on the stock of the businessman with the liberty to the insured to vary in his opinion; the premium is adjustable pro-rata according to the variation of the stock.

In the case of declaration policy, since the excess premium is refundable at the end of the year, the insured may put fire to the property.

This danger is avoidable in an 'Adjustable Policy'. This is issued for a definite term on the existing stock.

The premium is calculated frequently and is paid in full at the inception of the policy.

Whenever there is variation in the stock, the insured informs the insurer. As soon as the information of variation is received, the policy is suitably endorsed and, the premium is adjusted on a pro-rata basis.

The policy amount will, thus, be changeable from time to time. The premium is also settled accordingly.

9. Maximum Value of Discount Policy

Under this policy, no declaration or adjustment of policy is required, but the policy is taken for a maximum amount, and the full premium is paid thereon.

At the end of the year, in the case of no loss, one-third of the premium paid is returned to the policyholder.

This policy is similar to the declaration policy where botheration of checking and recording declarations is avoided.

It serves as a rough and ready method of coverage for the maximum amount. This policy is not issued on all types of commodities and is confined only to selected commodities.

10. Reinstatement Policy

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

In other types of policies, in the case of building or machinery, the actual loss is arrived at by deducting the regular depreciation from the original cost of it. The amount of indemnity will be lesser than the amount to be spent in reinstating the property destroyed or damaged.

To provide full coverage, 'reinstatement or replacement' policies are issued.

Under this policy, the basis of settlement in the event of destruction is the cost of rebuilding the premises, or in the case of plant and machinery, the placement is done by similar machinery.

The reinstatement of the damaged property indicates the meaning of repair of the damages.

11. **Comprehensive Policy**

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

Here the ‘Comprehensive’ does not mean that every type of risk is covered. There may be many exclusions and limitations.

This policy is beneficial to the insured and the insurer. The insurer can get a higher premium, and the assured is protected against losses due to several specified perils.

12. **Consequential Loss Policy**

The fire insurance is originally purchased to indemnify the material loss only. The intangible interest was not indemnified. This provided a check on the insured to exercise greater care concerning the property.

However, the settlement of a loss covering material damage only was not sufficient. The consequential loss was also to be provided. Thus, the consequential loss policy includes the loss of tangible and intangible properties.

Thus, this policy provides an indemnity to the insured for loss of net profits, payment of standing charges and expenditure in respect of the increased cost of working.

13. **Sprinkler Leakage Policies**

This policy insures the destruction of or damage to by water accidentally discharged or leaking from automatic sprinkler installation in the insured premises.

However,

The discharge or leakage of water due to heat caused by fire, repair or alteration of building nr sprinkler installation, earthquake, war, explosion are not covered by this policy.

The End