

STANDARD FIRE AND SPECIAL PERILS POLICY

What are the basic principles of insurance? (Year – 2003)

The **basic principles of insurance** under common law may be defined as an agreement between the insurers and the insured whereby the insurers having received premium undertake to make good the financial loss subject to limit of sum insured suffered by the insured as a result of damage or destruction of the insured property by fire or other specified perils during a stated period.

How are they applied to fire insurance?

The fire insurance is also subject to certain special principles evolved under common law. Whether stated in the policy or not, the common law principles automatically apply to fire insurance contracts. These are all called as implied condition. These relate to

1. Utmost good faith
2. Insurable Interest
3. Subject matter of insurance
4. Indemnity

Utmost good faith

In ordinary commercial contracts the parties to the contract are required to observe only good faith ie. There should not be any fraudulent.

However, in insurance contracts the legal doctrine of utmost good faith applies. It means it is the duty of the insured to disclose all material facts bearing on the insurance. The insurers rely entirely on information given by the proposer.

The insurer can avoid the contract if they provide that certain material information has not been given or has been incorrectly given by the insured.

Insurable Interest

Insurable Interest, in simple terms, means the legal right of insure. To constitute insurable interest, three essentials are required

1. There must be a physical object, capable of being destroyed or damaged by fire or other insured perils.
2. This physical object must be the subject matter of insurance.
3. The insured must have some relationship to such object recognized by law, so that he stands to benefit by its safety or be prejudiced by its destruction or damage.

Existence of the subject matter

The subject matter of insurance must exist when the contract is effected and must be described adequately to ensure that it can be identified in the event of loss.

The insured can only recover upto the extent of insurable interest, irrespective of sum for which he has insured.

Indemnity

The principle of indemnity, which arises under common law, ensures that the insured does not recover more than actual loss suffered by him.

The indemnity is subject to the terms and conditions of the policy ie) depreciation, salvage, underinsurance and policy excess.

Elaborate risks covered under Standard Fire and Special Perils Policy with provision of deductible excess. (Year – 2001)

Which are the perils covered under the standard Fire and Special Perils Policy? (Year -2000)

The following perils are covered under standard fire and special perils policy

1. Fire
2. Lightning
3. Explosion / Implosion
4. Aircraft damage
5. Riot, Strike, Malicious damage
6. Storm, Tempest, Flood, Inundation, Hurricane, Cyclone, Typhoon and Tornado.
7. Impact by any Rail/ Road vehicle or animal
8. Subsidence / Landslide including rockslide.
9. Bursting and / or overflowing of water tanks, apparatus.
10. Missile Testing Operation.
11. Leakage form Automatic Sprinkler Installation
12. Bush Fire

Deductibles

1. The first 5% of each and every claim subject to minimum of Rs. 10,000 /- in respect of each and every loss arising out of Act of God perils such as lightning, STFI and Subsidence and Landslide including Rockslide covered under the policy.
2. The first 10,000/- for each and every loss arising out of other perils.

Discuss briefly the various types of floating policies available under Fire dept. for covering stocks? (Year -1997 &98)

Describe the different types of Floater Policies? (Year – 2001)

Explain the need for floater policy?

What is a Floater policy? (Year -1997)

Explain the special features of floater policy? (Year – 2001)

State the main features of the Declaration Clause of fire policy? (Year – 1997 & 2003)

There are three types of special policies available under the fire department for covering the stocks in the insureds premises.

1. Floater Policy
2. Declaration Policy
3. Floater Declaration Policy

Need for Floater Policy

These policies are issued where stocks are shuttered between different locations so that it is not possible for the insured to specify the value of the stocks at each location.

A floater policy can thus be issued covering **stocks in more than one location under one amount** by charging 10 % extra premium over and above the highest rate applicable to any one risk.

Floater Policy

In order to take care of stocks at various locations, the Floater Policies are issued with the following conditions.

1. **Single sum insured for all the stocks in more than one location.**
2. Stocks kept in **specified location only can be covered.**
3. The rate shall be the **highest rate applicable to insured's stocks at any location with a loading of 10 %.**
4. In case Stocks in a process block are covered under the Floater Policy and the rate for the process block is higher than the storage rate, the process rate plus 10% loading shall apply.
5. Presence of "Kutchra" construction may be ignored.
6. If stocks situated within godowns / process blocks in the same compound are covered under floater policy, no floater extra is chargeable.

Need for Declaration Policy

A Declaration policy is best suited for a client whose stocks are **subject to frequent fluctuation during the currency of the insurance**. In case the insured avail an ordinary stock policy for a particular amount and there is an increase in stock value during the policy period, the policy will not provide the complete coverage. The condition of average will apply to the extent of increase in stock value.

Usually any increase or decrease in the value of stocks has to be intimated to the insurance company so that stocks are adequately insured at all times. However, this is not only cumbersome procedure for the insured but for the insurer as well, as endorsements would have to be passed and additional premium charged or refunded as the case may be.

To overcome this problem in cases where there is a frequent fluctuation in the value of stocks, a declaration may be issued.

Declaration Policies

1. To take care of frequent fluctuations in stocks/stock values, Declaration Policies are issued.
2. The minimum **sum insured shall be Rs 1 crore in one or more locations and the sum insured should not be less than Rs. 25 lakhs in atleast one of these locations**.
3. It is necessary that the declared values should approximate to this figure at sometime during the policy year
4. Monthly declarations based on
 - a) **The average of the values at risk on each day of the month or**
 - b) **The highest value at risk during the month shall be submitted by the insured latest by the last day of the succeeding month.**
5. If **declarations are not received** within the specified period, the **full sum insured under the policy shall be deemed to have been declared**.
6. **Reduction in sum insured shall not be allowed under any circumstances.**
7. **Refund of premium** on adjustment based on the declarations/ cancellations **shall not exceed 50% of the total premium**.
8. The basis of value for **declaration shall be the Market Value** anterior to the loss.

9. It is not permissible to issue declaration policy in respect of
- i. **Insurance required for a short period.**
 - ii. **Stocks undergoing process.**
 - iii. **Stocks at Railway sidings**
10. If after occurrence of any loss it is found that the amount of last declaration previous to the loss is less than the amount that ought to have been declared, then the amount which would have been recoverable by the insured shall be reduced in such proportion as the amount of said last declaration bears to the amount that ought to have been declared.

Floater Declaration Policies

Floater Declaration policies can be issued subject to a **minimum sum insured of Rs 2 crores** and compliance with the Rules for Floater and Declaration Policies respectively except that the minimum retention shall be 80% of the annual premium.

Briefly explain the provisions of fire tariff regarding rating of silent risks (Year – 200 &03)

1. Factories where **no manufacturing / storage activities are carried out continuously for 30 days or more are eligible to be rated under silent risks.**
2. Retention of the premium shall be based on the appropriate storage rate or silent risk rate of Re.0.80‰ whichever is higher.
3. The silent rates are not applicable if a risk goes silent following a loss under the policy.
4. Risks becoming silent shall not be entitled to any discounts.

Write short notes on Short period insurance (Year -2000)

1. Fire policies are issued for a period of 12 months.
2. Policies for a period of less than 12 months shall be treated as short period insurance.
3. The short period scale of rate is applied.
4. Extension of short period policy is not allowed

Briefly explain the provisions of fire tariff regarding Rules for cancellations (Year -2003)

At the option of the insured

Retention of premium shall be at Short Period Scale for the period the policy has been in force, subject to the retention of minimum premium by the Insurer.

During the currency, if a policy is replaced with the same insurer by a new annual one covering the identical property, refund of premium may be allowed on pro-rata basis at the original rates for the sum insured replaced.

For the sum insured not replaced, the insurer must calculate refund after charging premium at short period scale on such sum for the time the insurance has been in force subject to retention of the minimum premium.

In case a policy is cancelled on account of a Government Order or on completion of a "Building in course of construction" or where Buildings are demolished, pro-rata refund of premium may be allowed.

In case of short period policies, premium shall be retained at the applicable short period scale.

At the option of the insurer

Refund of premium shall be on pro-rata basis for the unexpired term.

What is the tariff Regulations relating to Rating of risks in multiple occupancy? (Year – 1998)

Risks in Multiple Occupancy Industrial Estate shall be rated 'Per se'. If the entire building of the Industrial Estate is insured under one sum insured, a rate of Rs. 1.00% shall be chargeable to 'building'.

Valued policies

Valued Policies can be issued only for properties whose Market Value cannot be ascertained e.g Curios, Works of Art, Manuscripts, Obsolete machinery and the like subject to the valuation certificate being submitted and found acceptable by the insurers.

Long-term policies

Policies for a period exceeding 12 months shall not be issued except for "Dwellings".

Mid-term cover

Generally, it is not permissible to grant mid-term cover for STFI and/or RSMTD perils. The following provisions shall apply, where such covers are granted mid-term:

- a) Insurers must receive specific advice from the insured accompanied by payment of the required additional premium in cash or by draft. This additional premium shall not be adjusted against existing Cash deposits or debited to Bank guarantee.
- b) Mid-term cover shall be granted for the entire property at one complex /compound/location covering the entire interest of the Insured under one or more policy (ies). Insured shall not have any option for selection.
- c) Cover shall commence 15 days after the receipt of the premium.
- d) The premium rates as under shall be charged on short period scale (as per Rule 8) on full sum insured at one complex/compound/location covering the entire interest of the insured for the balance period i.e. upto the expiry of the policy.

Briefly explain the provisions of fire tariff regarding the mid- term revision in sum insured (Year – 2003)

What is the tariff Regulations relating to increase in sum insured during currency of the policy? (Year – 1998)

Mid-term revision in sum insured is allowed under fire policy subject to the following conditions

For increase in sum insured during currency of the policy, the premium will be collected applying the policy rate on pro-rata basis for the balance period.

However, for decrease in sum insured the premium will be retained on short period basis for the period the policy was in force and balance amount will be refunded.

What is the tariff Regulations relating to Transfer of property from one risk to other? (Year – 1998)

The fire policy provides for cessation of cover in the event of material alteration in the subject matter of insurance, unless the alterations are notified to the insurers.

Transfer of property from one risk to other may introduce more hazardous features in the risk than were present at the time of original acceptance of the proposal and insurers would like to be notified of such changes in order to be able to assess the risk and decide about continuance of cover, by charging additional premium.

Write short notes Pro rata condition of average (Year – 1998)

According to this condition if there is under- insurance, that is, if the sum insured under the policy is less than the value of the property on the date of loss the amount of loss payable will be proportionately reduced.

The object of this condition is to penalize the insured for under insurance by a corresponding under payment of claim.

The application of the condition may be illustrated with an example:-

Sum Insured	Rs. 30,000
Value of property at the time of loss	Rs. 40,000
Loss	Rs. 16,000
Amount of Claim payable	30,000 ----- X 16,000 = Rs. 12,000/- 40,000
<p>The formula: $\frac{\text{Sum insured}}{\text{Value}} \times \text{Loss}$</p>	

Write short notes on Add-on covers (Year – 2000)

Standard fire and special perils policy provides basic cover to the insured. Add- on covers are additional covers available under fire policy and can be availed by payment of additional premium at inception. It cannot be availed during currency of the policy period.

The following add-on covers are available under fire policy

- Architects, surveyor, and consulting Engineer fees in excess of 3 % of the claim amount
- Removal of Debris in excess of 1% of the claim amount
- Deterioration of stocks in cold storage premises due to change in temperature due to insured peril
- Forest Fire
- Earthquake (Fire and Shock)
- Impact Damage due to Insured's own Vehicles, Fork lifts and the like and articles dropped therefrom
- Spontaneous Combustion
- Spoilage Material Damage cover
- Leakage and Contamination cover
- Temporary removal of stocks.
- Loss of Rent
- Omission to insure additions, alterations or extensions
- Start up expenses

State the main features of the Architects, surveyor, and consulting Engineer fees clause of fire policy? (Year – 1993 & 2003)

This provides cover for the amount payable in respect of Architects, surveyor, and consulting Engineer's fees for plans, specifications, tenders and services rendered in connection with the superintendence of the reinstatement of the building, plant and machinery after a loss or damage to the insured property due to insured perils under the policy.

The fire policy provides automatic cover for upto 3 % of claim amount. Over and above 3 % of claim amount, it can be granted as add -on cover subject to maximum of 7.5 % of claim amount.

- Architects, Surveyors and Consulting Engineer's Fees (in excess of 3% claim amount)
- Debris Removal (in excess of 1% of claim amount)
- Loss of rent.
- Insurance of additional expenses of rent for alternative accommodation.

Removal of Debris (in excess of 1% of the claim amount)

After a destruction of or damage to the property, the insured should incur an additional amount to remove the damaged property from the premises for reinstatement.

Policy may be extended to cover the expenses necessarily incurred in excess of 1 % of the claim amount for

1. Removal of debris from the insured premises;
2. Dismantling or demolishing of damaged building or machinery;
3. Shoring up or propping of damaged building or machinery

following loss or damage to the property covered under the policy due to insured peril subject to maximum of 10 % of the total sum insured.

Write short notes on Deterioration of stocks in cold storage premises due to change in temperature

The extension covers

- Deterioration of Stocks in Cold Storage premises due to accidental power failure consequent to damage at the premises of Power Station due to an insured peril.
- Deterioration of stocks in cold storage premises due to change in temperature arising out of loss or damage to the cold storage machinery (ies) in the Insured's premises due to operation of insured peril.

Write short notes on Spontaneous Combustion Cover (Year – 1992 & 98)

Spontaneous combustion occurs in commodities like coal, lignite, vegetable fibres, vegetable oils, animal oils due to its inherent nature and properties of self heating especially in conditions of humid and hot weather, poor ventilation.

The fire policy excludes damage caused to the insured property by its own fermentation, natural heating or spontaneous combustion.

The extension of spontaneous combustion provides cover for loss or damage to the insured property by its own fermentation, natural heating or spontaneous combustion.

Mere smouldering will not constitute a loss payable under this extension. There should be visible fire.

Write short notes on Spoilage Material Damage Cover

Policy may be extended to include spoilage risk subject to the following conditions:-

The cover shall extend to material damage, i.e.

- (i) Loss of stock in process; and
- (ii) Damage to machinery, containers and equipment (including cost of removal of debris and cleaning) and shall be provided by a separate item of the SFSP Policy subject to the Conditions that the perils causing the spoilage should be the same as those covered under the Policy.

Write short notes Temporary removal of stock clause (Year – 1993 & 98)

Temporary removal of stock clause provides cover for stocks while temporarily removed to any other premises for purposes of fabrication or processing or finishing or other similar purposes subject to 10% of the total sum insured of stock covered under the policy.

The pro-rata condition of average should be applied to the limit of stocks temporarily removed as well as to the total sum insured of such stock under the policy.

Write short notes on Loss of Rent Clause (Year – 1993)

Policy may be extended to cover loss of rent due to insured perils.

The building covered under fire policy is damaged due to insured peril and becomes unfit for occupation. The owner of the building will stand to lose his earning power till the damaged building is reinstated. The loss of rent clause provides cover for the insured's earning power by way of rent.

“The insurance on rent applies only if (any of) the said building(s) or any part thereof is unfit for occupation in consequence of its destruction or damage by the perils insured against and then the amount payable shall not exceed such portion of the sum insured on Rent as the period necessary for reinstatement bears to the term of the Rent Insured”.

Write short notes on Additional Expenses for Alternate Accommodation Clause (Year – 1993)

Additional expenses of rent for an alternative accommodation in respect of non-manufacturing risks may be covered on the following basis:

1. The cover may be granted for **non-manufacturing premises only**.
2. The cover may be granted under the Policy and not under Consequential Loss (Fire) Policy.
3. The period of Indemnity may be limited to the period during which the original premises remain untenable as a result of occurrence of perils insured against.
4. **Maximum indemnity period not to exceed 3 (three) years.**
5. The additional expense recoverable under the policy may be additional rent actually paid i.e. the difference between the new and the original rent only.
6. Certificate from the Local Municipal Authority or an Architect to the effect that premises in question are untenable will be accepted as adequate proof of the fact that the premises, in fact, have become untenable.
7. Insurance should be granted against Fire, Riot, Strike, Malicious and Terrorist Damage and Earthquake (Fire & Shock) and other Extraneous Perils. Cover against Riot, Strike, Malicious and Terrorist Damage should be granted only if it involves actual physical damage to the building. The cover does not intend to pay, if for instance, the insured's entry is barred by strikers, demonstrators and similar occurrences.
8. The cover may be limited **to buildings other than those of “Kutcha” construction.**

9. The area for alternative accommodation may be equivalent to the area presently occupied. However, no restriction will apply in respect of locality for the alternative accommodation, so long as the alternative accommodation is taken in the same city of town.
10. Cover may be permitted to the tenant as also to the Owner-Occupant. Further, in respect of the Owner-Occupant, the alternative accommodation may be limited to the area presently under his occupation.
11. For the Owner-Occupant, since he will not be paying any rent based on the area occupied by him (in comparison with the actual rent being paid by the tenant in the same building or similar buildings in the same locality) the standard rent based on the rateable values fixed by Municipal/Revenue Authorities for tax purposes may be treated as the original rent for the purpose of this insurance.
12. It will be compulsory for
 - the Owner-Occupant to insure both building and contents.
 - the tenant to insure the contents of the premises for which he is seeking this extension

Write short notes on Start up Expenses

Start up expenses is incurred when plant is

- commissioned newly after erection
and
- restarted after every forced shutdown.

The forced shut down may be due to insured or uninsured perils. After shutdown, to bring the plant to its normal working condition, the insured should incur some additional expenses.

If the plant is shutdown following **the occurrence of the insured peril**, the additional expenses incurred to bring the plant to its normal working conditions is payable under this clause subject to sum insured declared for start up expenses.

Policy may be extended subject to the following endorsement wordings:

“It is hereby agreed and declared that this policy extends to cover start-up costs necessarily and reasonably incurred by the insured consequent upon a loss or damage covered by this policy.”

Write short notes on Escalation Clause (Year – 1993)

It will be in order for Insurers to allow automatic regular increase in the Sum Insured throughout the period of the policy in return for an additional premium to be paid in advance. The terms and conditions for this extension shall be as follows

1. The selected percentage increase shall not exceed 25% of the Sum Insured.
2. The additional premium, payable in advance, will be at 50% of the full rate, to be charged on the selected percentage increase.
3. The Sum Insured at any point of time would be assessed after application of the Escalation Clause.
4. Escalation Clause will apply to policies covering Building, Machinery and Accessories only and will not apply to policies covering stock.
5. Escalation Clause will apply to all policies and is not restricted to policies issued on reinstatement value basis.
6. Pro-rata condition of Average will continue to apply as usual.
7. The automatic increase operates from the date of inception upto the date of operation of any of the Insured Perils.

State the main features of the Re-instatement Value clause of fire policy? (Year – 2003)

What are the advantages of a Reinstatement Value Basis Fire insurance policy? (Year – 1998 & 2000)

Describe the provisions of reinstatement value clause. (Year – 1998)

Main features and advantage of reinstatement value policy:

Under the fire policy claims are settled on the basis of the market value of the insured property immediately before the fire. This value is arrived at strictly according to the principle of indemnity, that is, by taking into account depreciation, wear and tear etc.

The settlement of claim on market value basis is best suited for stocks. However, it is inadequate in respect of building, plant and machinery in the changing economic situation.

The objective of fire insurance is to help the insured to recover his productive capacity after suffering a loss. But settlement of claim on market value basis will bring financial strain to the insured and he may be forced to cease the business activities following loss or damage to the property due to insured perils.

In order to overcome this problem, the fire policies are issued on re- instatement value basis.

Under the reinstatement value policy the payment to be made is the cost of reinstatement of the building or the cost of replacement of machinery to conditions equal to its condition when it was new.

There is no depreciation for usage and full reinstatement cost is paid subject to the sum insured covered under the policy.

Hence, it is advantageous to insure property on reinstate value basis but care should be taken to ensure that sum insured represents the current replacement value; otherwise the conditions of average will apply.

Provisions of reinstatement value clause

1. Reinstatement value insurance may be granted on Buildings, Machinery Furniture, Fixture and Fittings only.
2. The Insured must intimate to the insurer within 6 months from the date of destruction or damage or such further time as the Company may in writing allow his intention to replace or reinstate the property destroyed or damaged.
3. The Insured must also intimate to the insurer in writing his willingness to replace or reinstate the property destroyed or damaged on the same or another site.
4. The work of replacement or reinstatement must be commenced and carried out with reasonable dispatch and in any case must be completed within 12 months after the destruction or damage.
5. For any further extension beyond 12 months, the insured must obtain prior approval in writing from the insurer before expiry of 12 months.
6. If such extension is not obtained or the insured does not want to reinstate the damaged property, the settlement of the claim will be made on market value basis.
7. Reinstatement shall not be exact or complete but shall be in reasonably sufficient manner.
8. Expenditure incurred for reinstatement is limited to the cost of reinstating the property to its pre-loss condition and subject to the sum insured.
9. Until expenditure has been incurred by the Insured in replacing or reinstating the property destroyed or damaged the insurers liability on claim is limited to market value of the property affected.

Discuss the importance of risk inspection report? (Year – 2001)

1. Although the proposal form and other related correspondences is sufficient for acceptance and rating of risks in a majority of cases, pre- acceptance risk inspection is considered necessary for various underwriting purposes.
2. Risk inspection is conducted where the sum insured is large or complicated features of physical hazard are involved or where the tariff does not provide a rate for a particular risk.
3. The risk inspection is conducted by the risk Engineer at Regional Office depending upon circumstances.
4. Risk Inspection provides a complete fixture of the risk for deciding the rates of premium for drafting the policy and incorporating warranties.
5. It gives complete details about class of construction, process carried out, raw material used for the process whether any flammable material is used for process or not, method of storage and general housekeeping.
6. Details of electrical installations such as earthing arrangements, baffle wall between transformers and oil soak pits for transformers is also provided in the inspection report.
7. Details of fire fighting facilities. Whether employees are trained to operate the appliances in case of emergency.
8. Detailed information about strength of safety department, whether watch and ward is available round the clock or not and any mock drills are carried out.
9. Suggesting measures for risk improvement so that premium rates may be reduced.
10. Risk Inspection also provides complete information about loss prevention method adopted by the insured.
11. Risk Inspection provides the Probable Maximum Loss exposure of the risk in a single event. Based on the PML, re-insurance arrangements are made.

What is warranty? Explain with examples? Are all policies in fire department are subject to warranties?

How does a breach of warranty affect claim settlement? (Year – 1992)

A warranty is a condition, which forms part of the contract. "a warranty is a condition or contingency and unless it is performed there is no contract. It is perfectly immaterial of what purpose a warranty introduced; the contract does not exist unless it is literally complied with.

A warranty is an undertaking by the insured

1. That some particular thing shall or shall not be done or
2. That some condition shall be fulfilled or
3. Whereby he affirms or negatives the existence of a particular state of facts.

Yes all fire policies incorporate a number of warranties. Some warranties are of a general nature and some are specific to a particular type of risk

For example, when stocks stored in godowns and warehouses are of a "non-hazardous nature" a lower rate is charged and therefore a warranty is inserted as follows:

"Warranted that goods of category I, II and III, coir waste, coir fibre, caddies are not stored therein". It means the goods stored are of nature.

The purpose of warranties is to ensure that the risk remains the same as it was at the time of commencement of risk. Warranties are designed to avoid a possible increase in risk during the currency of the policy.

A breach of warranty enables the insurer to avoid a claim in respect of the property insured or a part thereof any time after the breach, whether or not the breach has increased the risk or whether or not the breach has any connection with the cause of loss, or the spread or aggravation of loss.

One of the important tasks of a surveyor is to check whether all warranties are complied with by the insured and report thereon.

What are the limitations to extent of Indemnity under Fire claims? (Year – 2002)
State the extent of limitations on the amount of loss payable under a Fire Insurance Claim (Year – 2000)

A contract of fire insurance is a contract of indemnity. The insurers undertake, by the payment of a sum of money, as nearly as possible, to place the insured in the position as he was immediately before the fire. The intention is, as far as is practicable, the insured should neither be better nor worse off as a result of the operation of an insured peril.

The extent of indemnity is therefore subject to two main limitations:-

1. Value of the subject matter of the insurance affected. The value is calculated taking into account the following factors:
 - the value at the time of loss;
 - the value at the place of loss;
 - the real or intrinsic value excluding any sentimental value;
 - Prospective profit or other consequential and indirect losses are excluded.
2. The sum insured under the policy for the affected item.

Further, the extent of indemnity is influenced by the by the following consideration:-

1. the extent of the insured's insurable interest in the property affected. In case the interest of the insured is limited to only a portion of the property, the indemnity will be paid only to the extent of the insured's interest in such property.
2. The extent of value of salvage. In some cases valuable salvage may be available for disposal. The loss amount therefore will be settled with the insured after deduction of salvage value of the affected property.
3. Application of pro-rate average. Under the condition of average the insurer will pay only the proportionate amount of the loss if the property is under-insured at the time of loss.
4. Deduction for excess. For example, the fire policy is subject to an excess of 5% of each and every claim from the operation of lighting/ STF1/subsidence and rockslide. Similar excess applies under earthquake extension.
5. The amount payable is arrived at after the application of contribution condition I in cases where more than one insurance policy covering the same property is involved.
6. Any rights or remedies against third parties arising out of the loss available to the insured are to be passed on to the insurers in terms of the subrogation condition.

What are the Duties of Fire surveyor / Loss Assessor? (Year – 2002)

The surveyor's primary duties are:-

- to investigate into the cause of loss;
- to ascertain the extent of loss;
- to advise the insured on loss minimization measures and protection of salvage;
- to advise the insurers on disposal of salvage;
- to submit a detailed report on the above and other aspects relating to the loss.

Process of surveying and loss assessment

1. An adequate investigation of the loss is facilitated, if the surveyor follows a logical and orderly process which may consist of the following steps:-
2. A through examination of the policy to ascertain the scope of coverage.
3. Inspection of the scene of loss and examination of the property destroyed or damaged and of undamaged property to determine the cause of loss and extent loss, to render advice to the insured to take loss minimization measures and to decide on measures to protect salvage.
4. Examination of books of accounts and other records in the possession of the insured to arrive at the values of the property insured and the property destroyed or damaged.

5. Examination of other records or reports covering the occurrence of the loss (e.g. fire brigade report, salvage corps report, etc.). these reports may throw light on the time, place or cause of loss.
6. Preparation and submission of preliminary, interim and final reports.

Examination of policies

The surveyor is furnished with copies of policies before proceeding in the survey. In serious or large losses, he may even proceed immediately to the scene of loss with only brief particulars of the insurance, because in such cases, time is of the essence. The copies of the policies are furnished to him subsequently.

The surveyor should thoroughly examine the policies with add-on endorsements if any to ascertain the scope of coverage, the property covered, the property excluded, and special clauses, agreed value clause etc. and the warranties applicable. He should also examine the proposal form and claim form if already received by insurers.

This familiarization with the policy particulars in advance helps the surveyor immediately, on inspection of the scene of loss, to identify the property and compare it with the description and location stated in the policy. The description of the property in the policy may be at variance with the actual character and location of the property, which may, therefore, amount to misrepresentation or misdescription attracting the provisions of condition 1 of the fire policy.

Inspection of the scene of loss

Before visiting the scene, the surveyor has to ensure that the insured or his representative is present at the site. This is desirable in the interest of all concerned.

On reaching the site, the surveyor should make a preliminary study to ascertain whether

- the loss is by an insured peril
- the loss falls within an exclusion
- the damaged property is, in fact covered under the policy
- the loss has occurred at the location and premises covered under the policy.

This initial study may indicate that there is no prima-facie claim under the policy. If the insured agrees with the findings, in writing, the insurers are advised accordingly. If the insured does not agree, then the insurers may instruct the surveyor to conduct the survey, and assessment "without prejudice" that is, without admitting liability to the insured.

**Describe the office procedure followed on intimation of a fire claim till it is settled
(Year – 2003)**

The settlements of claims constitute one of the important functions in an insurance organization. Indeed the payment of claims may be regarded as the primary service of insurance to the insured.

The procedure in respect of claims under various classes of insurance follows a common pattern and may be considered under three broad headings – preliminary, investigation, settlement.

1. It is most essential that early notification of the loss is given to the insurer for appointment of surveyor.
2. The time limits within which notice of loss shall be given by the insured are provided in the policy.
3. The purpose of an immediate intimation is to allow the insurer to investigate a loss at its early stage.
4. It would enable the insurer to suggest measures to minimize the loss to take steps to protect salvage. Undue delay in intimation would adversely affect the insurer's position.
5. On receipt of intimation of loss or damage insurers check that :
 - a. The policy is in force on the date of loss
 - b. The loss or damage is due to peril covered under the policy
 - c. The subject matter affected by the loss is the same as is insured under the policy and
 - d. Notice of loss has been received with out undue delay.
6. After this check up the loss is entered in claims register. The claim form is issued to the insured.
7. After receipt of claim form, the surveyor is allotted for the assessment of the claim. The issuance of claim form does not constitute an admission of liability on the part of the insurer.
8. The appointment of surveyor is intimated to the insured.
9. on receipt of survey report the claim is processed on the basis of
 - the claim form
 - independent survey report from surveyor
 - Various documents furnished by the insured
10. Settlement of the claim is made only after obtaining a proper discharge under the policy.

What are the rules of constructions of fire Policies which are taken into consideration while interpreting the contract of policy? (Year – 2002)

Construction of Policies

A policy of insurance is a document intended to have legal effect. Disputes sometimes arise as to the interpretation or the construction of a policy.

The object of construction is to ascertain and apply the intention of the parties as expressed in the contract, for the contract is the final form in which the original intentions of the parties have been incorporated. Where the intention of the parties is clear, no rules of construction are necessary.

But in many cases the intention is not clear, and the Courts use as a guide certain rules of construction in deciding the legal effect of a document. The paramount task of the law is to ascertain the intention of the parties, which prevail.

Where there is any dispute as to the meaning of the words, phrase, etc. used in an insurance contract, the court adopts the following main rules:

- The intention of the parties must prevail and the intention must be ascertained from the written agreement when the writing is not clear. It is clear; either party cannot say that the intentions were different from what is expressly stated in the agreement.
- A written document must be constructed as a whole and words and phrases must not be construed in isolation.
- If a proposal is expressly incorporated in a policy by the terms of the policy, the two should be read together.
- That which is written or typed, as showing the special intention of the parties, will override that which is printed. Thus, an endorsement may modify, or even contradict, the printed part of a policy form; if so, the endorsement will prevail.
- An express term overrides an implied term where there is inconsistency.
- Words are assumed to have been used in their ordinary, popular sense, except for legal terms, which are construed according to their strict legal meaning.
- Where a technical term is used, it will be construed throughout in the technical meaning assigned to it. Where words have both a scientific and popular meaning the popular meaning will be preferred unless the wording of the policy makes it clear that the scientific meaning was intended.
- A document will be construed strictly against the party who has drawn it up, that is, in the case of insurance policies, against the insurer. Thus, if there is an ambiguity in the wording of a policy, the interpretation less favourable to the insurer will be taken. In other words, the benefit of ambiguity will go to the insured.

- The ordinary rules of grammar and punctuation will apply. Errors in punctuation, and omission of commas, are frequent. It is therefore a common practice to minimize or even to omit the use of commas in a formal document such as a policy.

State the various originating hazards, which cause fire? (Year – 2002)

The term “**Fire Hazard**” includes not only the causes of fires which are sometimes called ‘Origination hazards’ but also those circumstances which increase the probability of a fire occurring, or which enable or permit fires, once started, to spread and increase the loss i.e. ‘Contributing hazards’.

Originating or Inception Hazards

The following list of known causes is arranged in order of their frequency of occurrence, but this arrangement is not necessarily a measure of their relative importance for any particular plant or property.

- Electrical
- Smoking
- Friction
- Overheated material
- Mechanical sparks
- Spontaneous combustion
- Cutting and welding
- Chemical action
- Lightning

Electrical

This is the leading cause of industrial fires. The presence of electrical equipment introduces two hazards. Firstly, there is a danger that sparks will be produced during the normal working of the equipment and secondly, a faulty condition may arise which will produce overheating or sparking.

The first hazard can be reduced by the careful selection of equipment and installations to suit the working conditions. The second hazard can be minimized by the use of good quality of equipment and materials and a high standard of workmanship in the installations.

Smoking

This is a potential cause of fire almost everywhere. A system of control and education will minimize this hazard to a considerable extent.

Friction

Friction due to hot bearings, misaligned or broken machine parts, choking or jamming of material and poor adjustment of power drives and conveyors leads to many industrial fires.

A regular schedule of inspections, maintenance and adequate lubrication would reduce this hazard considerably.

Overheated material

The hazard arises due to abnormal process temperatures especially those involving heated flammable liquids and materials in driers. These hazards can be prevented by careful supervision by competent operation, supplemented by well-maintained temperature controls.

Mechanical sparks

Many fires originate due to sparks from foreign metal in machines, particularly in cotton mills, and in grinding and crushing operations. The hazard can be reduced by keeping stock clean and by removing foreign material by magnetic or separators.

Spontaneous combustion

This hazard exists in oily waste and rubbish deposits in driers, ducts and flues and industrial wastes. This hazard can be prevented by good housekeeping and proper process operation.

**Give a summary of various questions in proposal form used for Fire Insurance(Year – 2003)
Indicate 10 important questions of proposal form with significance of each of them(Year – 2001)**

- 1) Name Of Proposer
 - 2) Address Of Proposer including their phone, fax No. and e-mail address
 - 3) Business Of Proposer
 - 4) Paid up Capital of the firm
 4. 4 5) Policy to be Issued in favour of
(list out all the parties who have insurable interest) including the financial institutions.
 - 6) Location of risk to be covered - full postal address with pincode
 - 7) Period of Insurance From To
 - 8) Would you like to delete any of following covers from the basic cover?
 - a. Flood, Cyclone, group of perils
 - b. Riot, Strike & Malicious damage, Terrorism
 - 9) Would you like to cover Plinth & Foundation along with your buildings
 - 10) Add-On Covers Required
 - 11) Whether you have insured the same property with any other Insurance Company with the same type of coverage. (Give details)
 - 12) Whether Insurance was declined by any other Company or imposed any Special Conditions (Give details)
 - 13) Premium / Claim details for the past 36 months excluding the expiring policy period
 - 14) The Insured property is
 1. Residence,Office,Shops,Hotels etc
 2. Industrial/Manufacturing risks
 3. Storages outside industrial risks
 - 15) If used as Shop please declares whether the goods handled are as per the following list. If yes, whether the stock value will exceed 5% of shops value
 - 16) .If used as warehouse / godown (not located in a manufacturing unit) please give the list of goods stored
-

17) If used as an Industrial Manufacturing unit give products manufactured at the location proposed.(detailed block plan showing various facilities to be enclosed)

18) If used as an Industrial Manufacturing unit, please state whether the factory is working or silent?

19) Fire Protection devices installed

20) The basis proposed for insurance ((Bldg/ machinery/ FFF)

1. Market Value basis
 2. Reinstatement Value Basis
-

After De- tariff with effect from 01.01.2007, Risks having sum insured upto Rs. 5 Crs is termed as Class Rated Risks and above Rs. 5 Crs is termed as individual rated risks for the purpose of underwriting the risks.

CONSEQUENTIAL LOSS POLICY (FIRE)

1. Draft a suitable letter to the insured explaining the need for consequential loss (fire) insurance? (Year – 1997)

When insured perils operate, there will be damage to the property covered under the policy. The insured will not be in a position to carry out manufacturing activities till the damaged building; plant & machinery are reinstated to its actual position as it was before fire. The cost of reinstatement of building, plant & machinery is compensated by fire policy.

But what happens to his business during the period of reconstruction? The destruction of fire does not end with the smouldering shell of buildings, or mangled skeleton of expensive machinery. The destruction goes on. The business comes to a standstill. The factory cannot produce goods.

The earnings of the business dwindle, if not cease totally, while business expenses have to be met. Wages and salaries have to be paid. So also overheads, rent, rates, insurance. In extreme case the business may have to be wound up. The result is a reduction in the net profit earned. This is a very real risk.

The fire policy does not indemnify the loss of gross profit due to reduction in turn over. Supplementary to fire insurance, consequential loss insurance is, therefore, necessary to complete protection against fire damage.

Consequential loss insurance enables the insured to

1. Meet continuing standing charges,
2. Pay the additional expenditure,
3. Maintain net profit

2. How do you arrive at the proper sum insured under consequential loss (fire) insurance? (Year – 2002)

How will you fix up the sum insured under the consequential loss (fire) insurance? (Year – 2000)

The sum to be insured is based initially on the annual Net Profit of the business. This net profit is extracted from the previous year's accounts. Specified standing charges are added with net profit.

This amount is then adjusted for the indemnity period chosen. Thus if the indemnity period is 18 months, the amount is increased by 50%. It is the basic sum insured. However, this is, by means, the end of the story.

Assuming that the business would be interrupted for no more than twelve months, there are two more adjustments to be made: and this is where a little forecasting comes in.

1. Firstly, business do not normally standstill, year after year- they generally expand.
2. Secondly, there is another factor to take into consideration is inflation. Even if the business does not expand in terms of goods produced, the expenses and income levels do expand in money terms roughly in conjunction with the general inflation rate.

This means that the basic sum insured calculated from accounts has then to be adjusted upwards to allow for both the above factors.

Further, damage could occur at the very end of the period of insurance. In order to provide for an adequate sum insured in such an event, the projection must be made one year beyond the indemnity period.

Thus, if the indemnity period is 12 months, projections for the **next 2 years** should be considered in arriving at gross profit figures.

How the rate for loss of Profit (fire) is arrived at? (Year – 1998)

1. The **Basis Rate** shall not be less than 1.25 times the full “**Average Rate**” of the items covering the contents of the Process blocks of the premises occupied by the Insured.
2. If more than one manufacturing activities are carried out in the same premises, the rate of contents of all process blocks shall be taken in to consideration while arriving at average rate.
3. In calculating the basis rate the contents of any storage/utility blocks even if they are communicating with process blocks should not be taken into consideration.
4. For other business premises where no manufacturing process is carried on, the basis rate shall be the 1.25 times the average rate of the contents of the whole premises
5. The basis rate should not be altered when the factory becomes Silent during the Policy period
6. Pilot Plants and Laboratories shall be considered as ‘Process Blocks’ for the above purpose.

The Basic rate so arrived is finally adjusted based on indemnity period selected to arrive at profit rate which is applied on gross profit.

What is material damage proviso? What are the reasons for incorporating the same in CL (Fire) Policy? (Year – 2003, 1998)

Material Damage proviso

“It is necessary for a consequential loss claim that at the time of damage, payment is made or liability is admitted under the material damage policy for such property at the said premises due to the insured perils”.

The reason for incorporating the same in CL (Fire) Policy

There are three principal reasons for incorporating in the standard consequential loss policy a property damage insurance proviso; these are: -

- The protection of the property damage insurance conditions and warranties thereby obtained.
- Independent examination of the cause of, and consideration of liability for, the damage is obviated
- The property damage insurance policy monies will be available, in the event of damage, to restore the property and so hasten resumption of operations.

Fire consequential loss policy will be issued only in conjunction with the fire policy for the property relating to the business and for those perils for which the fire policy has been extended.

It is important that perils covered under the Consequential loss policy should also be covered under Material Damage Policy. The claim under Consequential loss policy will trigger if loss is admissible under Material Damage Policy. In a nutshell Fire LOP cannot be issued without Material Damage Policy.

What are standing charges? Give examples (Year – 2003, 1998, and 1994)

Standing charges are those expenses which do not diminish proportionately with a reduction in turn over after a loss / damage to the property. They fall into one of the two categories

1. Those expense that would continue in full:
2. Those expenses that would reduce but not to the same extent as the turnover:

An insurable standing charge is one, which might not diminish proportionately with the reduction in turnover if there is an interruption of the business by any of the perils insured against.

Some of the standing charges covered under Business interruption Insurance

1. Interest on debentures/loans
2. Bank charges
3. Director's fees
4. Rents, rates & taxes
5. Duties, licenses
6. Insurance premium, telex, telegram, teleprinter expenses
7. Telephone rentals
8. Traveling expenses
9. Pensions
10. Research & Development expenses
11. Advertising and publicity expenses
12. Auditor's legal and other professional fees.
13. Depreciation of buildings, plant & machinery, furniture's, fixtures and fittings.
14. Stationary & postage
15. Lighting, heating, power and water charges
16. Office and general expenses
17. Salaries including PF/employees state insurance contribution.
18. Wages including labour welfare and bonuses

It is always advisable to cover all the standing charges instead of selecting few standing charges.

Extension available under CL (Fire) Policy

- (i) Supplier's premises extension.
- (ii) Customer's premises extension.
- (iii) Public Utilities extension

Additional clauses

1. Accumulated Stock Clause
2. Departmental Clause
3. Return of Premium Clause.

Explain the Supplier's Extension in respect of the consequential Loss (fire) Policy? (Year – 1997)

For manufacturing of goods, the insured is dependent upon one or more supplier for raw material. If continuous supply of raw material is affected, the production activity of the insured will also be affected resulting into reduction in turnover.

The peril covered for this extension should be similar to the peril covered under the consequential policy issued to the insured.

If there is a reduction in turn over due to failure of supply of raw material following operation of peril covered under the CL policy issued to the insured at suppliers premises, it is compensated under this extension.

For example an Electric Power Generation Plant may depend upon continuous supply of Lignite or Coal. He may therefore seek an extension to cover such risk. Consequential Loss Policies can be extended to cater for such eventualities.

Customers' premises extension

Similarly a business might have one or sole customer for its output of finished goods in which case the customers business suffered from occurrence of an insured peril the business of the insured also suffer.

Public Utilities extension

For the manufacturers who depend upon supply of gas /electricity/water from the public utilities and whose production would stop, if the supply stops owing to an insured peril.

Explain Wages on duel basis following in respect of the consequential Loss (fire) Policy? (Year – 1997)

When peril covered under the fire policy, there will be a reduction in turn over. However, the standing charges will remain same after the loss. It will not reduce proportionately with reduction in turn over. The salaries of employs are forming part of those standing charges. The salaries of permanent employees will remain same during interruption period. However, there will be a reduction in salaries of day-to-day workers, since there is no manufacturing activity in the premises.

Duel basis provides 100 % cover for a selected initial period: and for the remainder of the indemnity period, a selected percentage only.

For duel bass it is necessary to have a minimum indemnity period of 12 months.

The sum insured must represent the full annual payroll.

What is the refund of premium clause in a loss of profit (fire) policy?

The insured is entitled to a pro rata return of premium not exceeding 50 % of the net premium paid in case the gross profit earned during the financial year concurrent with the period of insurance is less than the sum insured.

The insured should declare within twelve months after the expiry of any period of Insurance to get refund under the policy.

However, the Company does not receive the declaration within twelve months after the expiry of the period of insurance no refund shall be admissible.

If any damage has occurred giving rise to claim under this Policy, such return shall be made in respect only of said difference as is not due to such damage.”

INDUSTRIAL ALL RISKS POLICY

What are the eligibility criteria to obtain Industrial All Risks Policy? (Year – 2001)

All industrial risks (other than risks rateable under Petrochemical Tariff) having overall Sum Insured of Rs.100 crores and above in one or more locations in India shall be eligible for Industrial All Risks Policy.

What is the coverage under IAR policy? (Year – 2001)

Describe a suitable letter to the insured explaining the benefits of Industrial All Risks Policy? (Year – 1998)

The industrial all risk policy is a comprehensive package policy, which covers almost all risks and perils a large industry may face during its operation.

It is a simplified, one document, and annual policy applicable during the operational phase of the plant. It is an insurance product, which has been evolved by the insurance industry keeping in view the growing demand from our large industrial clients having big insurance portfolios. It is therefore, a premium product, which caters to the upper end of the market.

Coverage

The IAR Policy covers all risks/perils other than those, which are specifically excluded.

The cover in its widest form will include the following perils/covers:

1. Fire and all Special Perils
2. Burglary
3. Machinery Breakdown/Boiler Explosion/Electronic Equipment Insurance
4. Business Interruption (Fire and all Special Perils)

The **Machinery Loss of Profit cover is optional.**

The salient features of IAR policy

1. It is unnamed / all risk policy subject named exclusions.
2. The policy will be issued only on reinstatement value basis. The option of taking policy on marked value basis is not available.
3. The condition of average is strictly applicable under standard fire policy. However, underinsurance to the extent of 15 % is waived under IAR policy.

4. The declaration facility for the stock is not available under IAR policy.
5. The standard fire policy excludes theft during or after fire. There is no such exclusion under IAR policy.
6. Under standard Machinery Breakdown Policy, if taken separately, the total loss claim is settled on Market value basis after applying depreciation for usage although the sum insured is on replacement value basis. Whereas under IAR policy the total loss claims under MBD section is settled on reinstatement basis. There is no deduction of depreciation for usage.
7. Under standard Machinery Breakdown Policy depreciation is provided for limited life equipment. However there is no depreciation for limited life equipment under IAR policy. Damage due to wear and tear, corrosion is excluded.
8. In machinery break down policy, exchangeable parts/ tools are excluded. There is no such exclusion under IAR policy.
9. The selection of machinery is not allowed under IAR policy. The rate applicable is single rate on overall MBD sum insured.
10. Transit cover within factory premises is covered

REINSURANCE

Why there is a need for re-insurance for fire insurance portfolio? (Year – 2000 & 01)
What are the objects of “reinsurance “in fire insurance? (Year - 2003)

Basically, the objectives of an insurer in arranging reinsurance are

1. **Increase Capacity** - Increasing his capacity to handle larger risks by passing to the reinsurer that part of the exposure, which he would not normally bear, because of constraints of financial capacity.
2. **Financial Stability** - Enhancing ability to accept larger lines than his capital allows.
3. **Stabilization of claims ratio** - Stabilizing his operating results from year to year with the reinsurer absorbing larger claims or catastrophe losses.
4. **Stabilize Profitability** - Increasing the chances of making a profit by reinforcing the underwriter's attempts to establish an account which is homogeneous in both size and quality of risks
5. **Spread of risks** - Ability to write untested and new risk exposures

A well-planned reinsurance programme can ensure long-term profitability as well as compliance of solvency margin.

State the main features of the Indian Fire re-insurance programme? (Year - 2002)

1. Under the provisions of the insurance act, all insurers in India were required to reinsure on a quota share basis a specified percentage of their Indian Insurance Business with Indian Reinsurance Corporation limited and General Insurance Company Limited.
2. With the nationalization of general insurance, this reinsurance portfolio was taken over by the General Insurance Corporation of India and 15 %quota share of all Indian gross direct business is being ceded to the GIC as obligatory cessions. This applies to each class of business namely fire, marine, miscellaneous.
3. The surplus remaining after these obligatory cessions is dealt with by the companies through the following methods:
4. Fire policies for simple risks upto specified sum insure are not entered in the risk register and the acceptances are fully retained ie) surplus after obligatory cessions is fully retained by the companies for their own account (retention)

5. However, where larger sums insured are not involved or in respect of hazardous risks or other risks where the loss experience has been adverse, the amount of surplus, remaining after obligatory cessions and retention is ceded to the Market Fire pool.
6. The companies on a quota share basis make these cessions to the pool. Market Fire pool, which was in operation even prior to nationalization, is presently managed by the GIC. The business ceded to the pool is retained entirely within the country
7. In respect of still larger risks, the surplus after cession to the Market Fire pool is ceded to first surplus treaty and any further surplus to the second surplus treaty. These are arranged by each of the four companies.
8. The large Industrial complexes like Petro-chemical, Fertilizer factories involve huge sum insured. The combined reinsurance capacity of the obligatory cessions, Market Fire Pool and first and second surplus treaties is not enough to take care of such large values. Therefore, any surplus remaining is ceded to the Market Surplus Treaty, which is arranged by the GIC on behalf of the Indian Reinsurance market. If after these cessions any surplus remains, it is reinsured facultatively abroad.
9. Thus it will be observed that the re-insurance practice in India involves mainly the use of quota share, surplus and excess of loss treaties.
10. The re-insurance arrangements are so made as to ensure that as much as possible of the Indian business is retained within the country to conserve valuable foreign exchange.

What is Excess of loss treaty? (Year - 2003)

Under proportional form of treaty the re-insurer accepts a proportionate share of the liability on each risk insured by the ceding insurer.

Non-proportional treaties do not protect risk exposure but protect loss as incurred by an insurer. The insurer does not cede risks but seeks protection from a re-insurer against actual losses on each risk as and when they may occur.

There are two broad forms of non-proportional reinsurance

1. Excess of loss
2. Excess of loss ratio

Excess of loss cover

Under this form of reinsurance the re-insurer is not liable until the insurer admits a loss and it exceeds his retention limit. When the retention is exceeded, the re-insurer pays the amount in excess of that retention up to the limit of the treaty reverts to the ceding insurer.

For example - treaty covers Rs. 75,000/ in excess of Rs. 5,000/ in respect of losses arising out of any one claim.

Amount of loss	Insurer	reinsurer
Rs. 3000/	Rs,. 3000	Nil
Rs.5000/-	Rs.5000/-	nil
Rs. 25,000/-	Rs.5000/-	Rs. 20,000/-
Rs. 90,000/-	Rs. 5000/-	Rs. 70,000/-
	Plus Rs. 15,000/-not reinsured	

Where an insurer finds that he is sustaining losses which exceed the limits of his treaty, he may either bear the balance for his own account or effect further excess of loss reinsurance.

Elaborate what are the various factors taken into consideration while fixing retention limits of a risk under fire Insurance? (Year - 2002)

The retention limit is defined as the financial value that the direct insurance company might retain from the insurance amount in its account in percents of the reinsurance subscription limit, taking the form of a share quota or an absolute variable related to the insured amount, in the case of proportional reinsurance, or as the maximum limit of the losses incurred by the insurance company, expressed as the share of losses in compensations, in the case of non-proportional reinsurance.

The evaluation of the retention limit has the following objectives:

1. the stability of the annual results of the insurance company;
2. protecting the insurance company from accumulations which may occur due to various risks;
3. keeping the balance of the portfolio, in general.

There are a few factors that influence the size of retention, which help the management in making the best and most adequate decision in terms of its optimal size, in accordance with the company's technical and material potential.

Some of these factors are:

- the company's capital;
- the company's volume of shares;
- the company's total volume of direct premiums;
- the company's financial surplus;
- the company's experience;
- the average insured amounts within the company;
- new average subscription amounts;
- the company's reserves (rights of shareholders);

- the diversification of the portfolio;
- the life duration of the company, etc.

The fire insurance business is vulnerable to losses arising on a single risk, from natural perils and to an abnormal increase in aggregate losses during a revenue year. The following risk factors should be taken into consideration while fixing retention limit for fire risks

1. Location
2. Separation
3. Process carried on
4. Class of construction and fire protection
5. Catastrophic exposure
6. When dealing with large risks, it is not possible to apply a standard schedule of retentions to the best advantage. It is customary in such cases to have the risks inspected and fix retentions individually.
7. In respect of industrial risks, within the same type of risk, the Probable Maximum Loss (PML) exposure will vary materially one case to other. Based on PML exposure, the retention limit for each risk is fixed.

ENGINEERING POLICIES

Engineering policies are divided into two categories

1. Project policies which are issued to cover construction / erection risks
2. Operational policies which are issued to cover operational risks

When the factory is under construction, the following policies are recommended

1. Contractor's All Risk Policy
2. Erection All Risk policy
3. Advance Loss of profit Policy

After construction is completed, the following operational policies are issued

1. Machinery Breakdown Policy
2. Machinery Loss of Profit Policy
3. Electronic Equipment Policy
4. Contractor's Plant and Machinery policy
5. Boiler Explosion Policy
6. Boiler Loss of Profit Policy
7. Deterioration of Stock Policy
8. Civil Engineering Completed Risks

PROJECT POLICIES

1. CONTRACTORS ALL RISK POLICY (CAR)

1. The basic concept of CAR policy is to offer comprehensive and adequate protection against loss or damage in respect of **the contract work arising in connection with the execution of a civil works.**
2. The CAR Policy can be availed by
 - The principal
 - The contractors engaged in the project including all subcontractors.
 - The financial institutions
3. The CAR policy is issued for covering all buildings and civil projects such as
 - Construction office buildings, hotels, schools, theaters
 - Construction of Factory sheds
 - Construction of bridges, Dams, Tunnels etc
4. The CAR policy provides an **all risks cover**. This means that almost any sudden and unforeseen loss or damage occurring during the period of insurance to the property insured will be indemnified.
5. Unlike other policies where the period of insurance is one year, in this policy the period of insurance should be **equivalent to the period of contract**, commencing from the date of unloading of the first batch of material at the site of construction and expiring on the date of handing over of the contract work to the principal.
6. Total **Sum Insured for CAR** Insurance
 - Marine (Imports)- Landed cost at site
 - Marine (Indigenous)- Landed cost at site
 - Cost of Construction
 - Permanent and Temporary Civil Engineering Works
 - Half the escalated value, if escalation is opted for.
7. The **most important perils covered** under CAR policy
 - Fire, Lightning, explosion
 - Flood, Inundation,
 - Subsidence, Landslide, rockslide,
 - Theft, Burglary

- Bad workmanship, lack of skill, negligence, human error etc.
 - Earthquake
8. CAR policy **will not provide cover** in respect of defective workmanship and /or **defective cover**. However, it will be operative in respect of any other resultant loss or damage to the insured property, which is not itself defective.
 9. Premium is based on type of project, policy period and location. If policy period is more than 12 months, the premium can be paid in installment.

2. MARINE / STORAGE CUM ERECTION ALL RISK POLICY (MCE/SCE/EAR)

1. In the course of **execution of a project for erection of machinery, plant and structure of any kind**, certain serious mishaps could occur resulting in loss or damage, as well as liabilities could arise in respect of third party claims for property damage or bodily injuries.
2. The MCE policy provides for **all risks coverage** from the time any of the machinery, plant, material intended for the project **leaves the manufacturers / suppliers warehouses for transit and continues during the transit until arrivals at erection site and during storage and erection operations and till the erected plant is tested and commissioned for commercial operations.**
3. An EAR/SCE policy offers **all risk cover** against loss or damage to the insured machineries at the project site due to peril covered under the policy whilst being stored, erected, tested and maintained. The cover **commences from the date of first arrival of consignment at project site and continues till it is handed over to the principal or data of commencement of commercial protection after successful commissioning which ever is earlier.**
4. The MCE/EAR/SCE Policy can be availed by
 - The principal
 - The contractors engaged in the project including all subcontractors.
 - The financial institutions
5. The MCE/EAR/SCE policy is issued for covering erection of
 - Power plants, steel plants,
 - Substations, transmission lines
 - Transformers, Turbines, Generators etc
6. The MCE/EAR / SCE policy provides an **all risks cover**. This means that almost any sudden and unforeseen loss or damage occurring during the period of insurance to the property insured will be indemnified.

7. Total **Sum Insured for EAR** Insurance

- Marine (Imports)- Landed cost at site
- Marine (Indigenous)- Landed cost at site
- Cost of Construction
- Permanent and Temporary Civil Engineering Works
- Half the escalated value, if escalation is opted for.

8. The **most important perils covered** under MCE/EAR / SCE policy

- Fire, Lightning, explosion
- Flood, Inundation,
- Subsidence, Landslide, rockslide,
- Theft, Burglary
- Bad workmanship, lack of skill, negligence, human error etc.
- Earthquake

10. EAR policy **will not provide cover** in respect of defective workmanship and /or **defective cover**. However, it will be operative in respect of any other resultant loss or damage to the insured property, which is not itself defective.

11. Premium is based on type of project, policy period and location. If policy period is more than 12 months, the premium can be paid in installment.

THE ADD-ON COVERS AVAILABLE UNDER CAR/MCE/EAR/SCE

1. Third Party Liability cover
2. Owners surrounding property cover
3. Additional Custom duty cover
4. Escalation
5. Debris Removal cover
6. Maintenance cover
7. Air & Express Freight Cover
8. Terrorism cover

LARGE RISKS

CAR / EAR projects where sum insured is more than 100 Crs. is termed as Large Risk and rated separately. The following add-on covers are available at free of cost.

- 50 / 50 Clause
- 72Hr Clause
- Loss minimization expenses
- Professional fees
- Debris removal cover upto 50lakhs
- Free automatic reinstatement clause up to 10 % of SI

3. ADVANCE LOSS OF PROFIT POLICY

1. During execution of the Project, there are possibilities of material losses take place, which are covered by the Package Insurance Policy. When such losses take place, the **scheduled time for completion of the projects gets delayed resulting into losses of anticipated gross profit.**
2. CAR/MCE/EAR/SCE policy covers only physical damage to property, which, at best, covers the expenses incurred for repairing or replacing the damaged property. But what about the financial loss suffered due to delay in commissioning the project?
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OPERATIONAL POLICIES

1. MACHINERY BREAKDOWN POLICY (MBD)

- The Machinery breakdown policy is a **named peril policy** and intended to cover any loss or damage to varied types of machinery, plant and equipment due to accidental electrical and mechanical breakdown.
- It provides effective insurance cover for machinery at all stages while the machinery is in operation or at rest, during the process of dismantling for the purposes of cleaning, inspection, and overhauling and subsequent re-erection at the same premises.
- **The fire policy excludes the loss or damage to the machinery due to short circuit, which is covered under Machinery Breakdown policy.**
- The cause of failure may be due to
 1. Short circuit
 2. Centrifugal forces
 3. Failure of safety devices
 4. Failure of other connected machinery
 5. Falling bodies
 6. Electrical overpressure
 7. Entry of foreign objects
- Machinery essentially needing the cover are
 1. DG sets, Transformers, Motors, cables, panels
 2. Turbines,
 3. Refrigeration Plants, Air Compressors, chiller units
 4. Electrical machines including generating plants.
 5. Boiler, etc.
- Owner, Party holding interest or institutions having financial interest can avail the cover.
- Sum Insured for each item should represent the **present day replacement value of similar new one.** In case of underinsurance condition of average will apply for settlement of claims.
- **Separate values have to be given for foundation and oil in electrical equipments if cover is required for them.**

2. ELECTRONIC EQUIPMENT POLICY

1. This is a specially designed **all risk policy**, which covers all accidental loss or damage to electronic equipment.
2. The policy covers sudden and unforeseen physical damage including breakdown to the electronic equipment covered under the policy **due to any reason not specifically excluded**. Thus it covers damage caused by the following perils: -
 - Fire, lightning, explosion
 - Short circuit and Electrical fire risk.
 - Smoke, soot, dust, corrosive gases etc.
 - Water and Humidity.
 - Faulty operations, lack of skill.
 - Falling object and entry of foreign bodies
 - Riot and strike and malicious damage and terrorism.
 - Theft and burglary.
 - Natural calamities – flood, inundation, storm, cyclone and earthquake
3. The policy covers the following types of equipments
 - Computers, Electronic data processing machine.
 - Telecommunication equipment.
 - Transmitting and receiving installations (including Radio, TV, Cinema Sound Reproduction and Studio Equipment).
 - Electro-Medical Installations.
4. This policy can be taken by the owner, lessor or hirer of electronic equipment.
5. The policy can be extended to include the following risks on payment of additional premium.
 - Increased cost of working
 - External Data Media
6. Damage to external data media for example punch cards, tapes, discs etc. as also the cost of reconstruction of data on this external media caused by a peril covered under the policy.
7. The additional expenditure incurred due to use of a substitute computer system as a result of an accidental damage to the computer insured under the policy and which is covered by the policy.

8. The **sum insured or value of the policy should be equivalent to the present day purchase price of similar new electronic equipment** including all incidental expenses like cost of installation, duty, freight, taxes etc. If the sum insured is less than required as stated above then the claim will only be paid in such proportion as the sum insured bears to the amount required to be insured.
9. **Application Software**, which is developed for specific need like Genisys, **cannot be covered under EEI policy**. System software like operating system, windows can be covered.
10. **Maintenance Agreement is applicable only for Bio- Medical equipments.**

CONTRACTOR'S PLANT AND MACHINERY POLICY

1. This policy covers **all different types of machinery used for handing material or construction**
2. The policy covers **sudden, accidental, external damage to the insured machinery due to any cause other than those specifically excluded in the policy.**
3. The policy covers the machinery whilst they are in operation or at rest or whilst being dismantled for the purpose of cleaning or overhauling or whilst being shifted within the premises or during subsequent re-erection, but in any case only after successful commissioning.
4. The main exclusions of the policy are:-
 - loss or damage due to any **internal electrical or mechanical break down, defective lubrication, lack of oil or coolant although any consequent external damage is payable.**
 - loss or damage to replaceable parts or attachments such as bits, drills, knives, dies, moulds etc.
 - loss or damage whilst in transit from one location to another.
 - loss due to wear and tear, corrosion, rust, deterioration, atmospheric conditions.
 - loss or damage during testing operating or whilst being used for a purpose other than designed for.
 - loss or damage to machinery working under ground.
 - loss or damage for which the supplier or manufacturer is responsible either by law or under contract.

5. The policy can be extended to cover the following Add-on covers
 - Third party liability - personal injury and property damage.
 - Owner's surrounding property
6. The policy can be taken by any one of the following parties, either individually or jointly
 - The owner of the machine
 - The contractor / user of the construction machinery
 - The financial institutes who have an interest in the construction machinery
7. The **sum insured of each item of machinery should represent the current purchase cost of a similar new machine including all incidental expenses like freight, duty, taxes, cost of erection etc.**

BOILER EXPLOSION POLICY

It is a **named peril policy**. It is exclusively issued to cover plant and equipments where steam is generated. **Perils covered are only**

- **Explosion**
- **Collapse / Implosion**

Policy will cover

- All the Boilers used for Industrial Production or for the Power Production purpose
- Waste heat Boilers / Recovery Boilers (used in Chemical / Petrochemical / Paper Mill / Power Plant /Steel Industry)
- Fired & unfired Pressure vessels used in the Industry

The policy is subject to the following special warranties

- The Boiler & Pressure Plant described in the schedule should annually be **inspected by the boiler inspectors** appointed by the appropriate Government Authority. If there is no statutory requirement for Government Inspection, the inspections are to be carried out by an independent competent person.
- The Boiler & Pressure plant described in the Schedule shall only **be operated by persons holding a valid certificate** of competency issued under the Boiler Act.

- The Insured shall be in possession of the **unqualified permission in writing of the Competent Inspecting Authority to operate the Boiler and Pressure Plant.**

The policy excludes the following perils

- **Fire & Allied perils**
 - **Machinery breakdown covers**
 - War and similar risks including Nuclear Reactions/ Radiations and Radioactive contamination
 - Loss arising out of overload experiments or tests requiring imposition of abnormal conditions
 - Gradually developing flaws, defects, cracks or partial fractures
 - Gradual wearing away of parts resulting into leakage or corrosion or by action of fuel, development of cracks, flaws, fractures, bulging deformations unless it results into explosion/collapse
 - Failure of individual tubes unless results into explosion/collapse
 - Loss or damage arising out of any test requiring imposition of abnormal conditions
 - Willful Act or Gross Negligence and any consequential loss etc.
-
- Sum Insured for each item should represent the **present day replacement value of similar new one.** In case of underinsurance condition of average will apply for settlement of claims.

DETERIORATION OF STOCK POLICY

- The cover applies to loss or damage by **deterioration of stocks stored in the cold storage caused by a rise in temperature resulting from breakdown of refrigeration plant and equipment.**
- It also covers **expenses incurred to avoid or diminish such loss or damage by deterioration by transferring stocks from one cold storage to another.**
- This policy can be extended on payment of additional premium to cover damage to stocks resulting from accidental failure of electricity supply at the terminal ends of the supply authority's service feeder at the insured's premises due an accident by a perils insured under the material damage policy ie) MBD.
- It is therefore essential that a **concurrent machinery Breakdown policy must be effected and kept in force with preferably the same insurer.**
- **The maintenance contract in respect of plant and machinery to e kept in force through out the currency of the policy**
- **Log books should be maintained showing temperature reading at regular interval**

- **Stock books are maintained** containing proper record of all stocks in the cold storage data wise.
- **Loss or damage due to fire and allied perils or excluded.**

CIVIL ENGINEERING COMPLETED RISKS

- This policy is issued for **covering civil projects like roads, bridges, jetties, tunnels etc after its construction.**
- The peril covered is **similar to fire policy with in build earthquake cover.**
- This policy also covers **loss or damage to the jetty due to waterborne vessels.**

YEAR – 2000

1. Write short notes on “ Machinery Loss of profit Policy “

- When the insured peril operates, there will not be any production till the damaged machinery is put into operation after repair / replacement. However interest and salaries will continue to be incurred notwithstanding cessation of production. The cost of repair / replacement of machinery are indemnified under Machinery Breakdown policy. What about financial loss?
- The Machinery Loss of Profit policy covers financial loss suffered by the insured due to operation of insured peril during the interruption period.
- The policy covers gross profit
Gross Profit = Net Profit + Standing Charges
- The machinery covered for MLOP has to be covered under Machinery Breakdown Policy.
- The following losses even if directly or indirectly attributable to the occurrences of insured peril are not covered under an MLOP policy
 1. Underinsurance against material damage policies
 2. Depreciation of undamaged stocks after an accident
 3. Cost of preparation of MLOP claims
 4. Litigation costs
 5. Third party claims
 6. Loss of goodwill
 7. Failure to recover debts owing to destruction of records

YEAR – 1998

2. a. Enumerate any eight policies issued in the engineering Department

ANSWER

a. Engineering policies are divided into two categories

1. Operational policies which are issued to cover operational risks
2. Project policies which are issued to cover construction / erection risks

Operational policies are

1. Machinery Breakdown Policy
2. Machinery Loss of profit Policy
3. Electronic Equipment Policy
4. Contractor's Plant and Machinery policy
5. Boiler Explosion Policy
6. Deterioration of stock policy
7. Civil Engineering Completed Risks

Project policies are

1. Contractor's All Risk Policy
2. Erection All Risk policy
3. Advance Loss of profit Policy

b. What is ALOP insurance?

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YEAR - 1997

**3. What engineering policies would you recommend for a factory
a. When it is under construction**

When the factory is under construction, the following policies are recommended

- Contractor's All Risk Policy
- Erection All Risk policy
- Advance Loss of profit Policy

b. When it becomes operational after construction is completed?

After construction is completed, the following operational policies are issued

- Machinery Breakdown Policy
- Machinery Loss of profit Policy
- Electronic Equipment Policy
- Contractor's Plant and Machinery policy
- Boiler Explosion Policy
- Deterioration of stock policy
- Civil Engineering Completed Risks

