



## **LIABILITY INSURANCE & DOCUMENTS IN GENERAL INSURANCE**

### **7.0 INTRODUCTION**

In previous chapters we have explained various products of general insurance and they fall under the category of Property Insurance. It means the insurance of physical goods which are fixed at one place or moving by road or sea or air or rail. In some situation, by any act, wilfully or unwilling, of an individual or organization, a third party is affected by death or bodily injury or property damage. The affected party may claim the damage from such person. Such person may insure himself for such acts through Liability Insurance.

### **7.1 OBJECTIVES**

At the end of this lesson, you will be able to:

- Explain the meaning of Liability Insurance
- Identify types of Liability Insurance
- Enumerate the various documents required under insurance

The dictionary meaning of liability means “responsibility”. Legal liability means the liability which can be enforced in the court of law and the same can be insured.

The legal liability can fall under two heads:

- 1) Criminal Liability
- 2) Civil Liability

- 1) **Criminal Liability** : is enforced by the State Government and punishable under the law in the form of fine or imprisonment or both



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2) **Civil Liability:** occurs when an action is taken by one party against another party resulting in the damage of the property or death or bodily injury of the aggrieved party and the compensation is payable under the law of the land.

The most common example is that of a person who is driving a vehicle and hits some body on the road resulting in death or bodily injury. The aggrieved party may claim compensation from the vehicle owner who may not be financially sound to pay the compensation amount. Liability insurance is available.

The other historical example is that of the Bhopal Gas Tragedy of 1984, one of the greatest environmental disasters. Lethal gas escaped from the Union Carbide plant, affecting lakhs of residents of the surroundings areas. Many died or were left permanently disabled this prompted the Government to pass the Public Liability Insurance Act, 1991 which imposes a no fault liability on anyone who handles hazardous substances to pay compensation to the victims of an accidental occurrence.

Besides the compulsory insurance, the growing awareness of the public and the high compensation being awarded by the courts has made this class of insurance a necessity for professionals and businessman who may become liable to pay for damages.

**7.1 VARIOUS TYPES OF LIABILITY INSURANCE**

1. **Compulsory Public Liability Policy:** For those industries which are using hazardous material in their manufacturing process.
2. **Public Liability Policy (Industrial / Non-Industrial Risks):**
  - **Industrial Risks** are manufacturing premises including godowns, warehouses etc., forming part thereof,
  - **Non-Industrial Risks are** Hotels, Motels, Club houses. Restaurants, Boarding and Lodging houses. Flight kitchens, Cinema Halls, Auditoriums, Theatres, Public Halls, Pandals and Open air theatres.
3. **Product Liability:** If the use of a product causes death or bodily injury or property damage then the manufacturer is liable to pay compensation. Product liability insurance

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is available to cover that risk. This is useful for manufacturer of food products and for the auto industry.

4. **Professional Indemnities** : Professional indemnities are designed to provide insurance protection to professionals such as doctors, solicitors, chartered accountants, architects etc. against their legal liability to pay damages arising out of negligence in the performance of their professional duties.

**DOCUMENTS IN GENERAL INSURANCE****7.2 Introduction:**

Insurance is an intangible product. In other words, you cannot see it or feel it or touch it. It is a simply, wherein, a piece of paper, the insurance company is promising to indemnify the losses in case of mis-happening. As the general insurance contract is for one year, therefore it is necessary to have proper documentation. In this chapter we have tried to explain the nature of the various documents which are required from the time of taking the insurance to the settlement of the claim. The documents are:

- a. Prospectus
- b. Proposal Form
- c. Cover Note
- d. Policy Document
- e. Endorsement
- f. Renewal Notice
- g. Claim Form
- h. Survey Report

Let us explain these documents one by one:

**a. Prospectus:**

Every insurance company issues the prospectus wherein the profile of the company and the features of the products are explained. After going through the company profile and the product feature the person may decide whether to buy the product of a particular company or not. It is like the school or college prospectus which parents buy before admitting the child in the particular school or college.

**b. Proposal Form**

As in every contract, offer and acceptance are important parts of an insurance contract.

In insurance the **proposal form is an offer or application made to the Insurance Company for purchase of Insurance cover**. The applicant or prospect is required to complete the printed proposal form supplied by the insurer.

The proposal forms are designed in such a manner and the questions framed as to elicit all material facts. The questions may vary according to the class of insurance. A brief description of the Insurance cover and its benefits is usually given on the reverse of the proposal form.

In some classes of insurance such as Marine Cargo Insurance, proposal forms are not used and only a questionnaire is required to be completed and submitted to the Insurance Company. Similarly in Fire Insurance of industrial risks where pre-risk inspection is arranged before accepting the risk, the proposal form is not used.

The use of proposal form is compulsory in the case of Accident Insurance, Health Insurance and other simple risks and they incorporate a declaration from the proposer declaring that the facts stated in the proposal form are true and nothing material has been concealed to the best of his knowledge.

Some questions common to all proposal forms are:

- (1) **Proposer's name in full**
- (2) **Proposer's address**
- (3) **Proposer's profession/ occupation/ business**
- (4) **Previous and Present Insurance:** The proposer is required to state whether he was insured previously or if he has a current policy with another insurer. He must declare the name of the other insurers and whether cover has been declined by another insurer or if any special conditions have been imposed or additional premium charged at the time of renewal, etc.
- (5) **Claim Experience:** The proposer is to disclose full details of losses whether insured or not, and the details of claim payments received. The details regarding own damage and damage to third party are to be given separately.



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- (6) **Sum Insured:** This is the maximum liability of the insurer under the policy.
- (7) Signatures, date and agent's recommendation.

The special questions will vary as per the needs of the particular insurance. Some examples are given below:

1. **In Fire Insurance:** Questions will relate to the type of construction, location and occupancy, whether separate or adjoining other buildings. In case of manufacturing units, details of process and the type of power used, etc.
2. **In Motor Insurance:** Cubic capacity, age of vehicle, area of operation, carrying capacity, purpose for which used and details of driving offences.
3. **In Personal Accident:** Questions regarding age, occupation, height, weight or any physical shortcoming
4. **In Marine Cargo:** Though there is no proposal form, the questionnaire will seek the following information :

full description of goods, type of packing, mode of transit, cover required, name of steamer, sum to be insured and past claim experience.

**c. Cover Note:**

A cover note is a temporary document issued as confirmation of the insurance contract in advance of the policy as it may take some time for the policy to be issued. Till the policy is ready the cover note is the proof that the insurance cover is in force.

The cover note contains brief details of the Insurance cover and is valid for 15 days extendable to a maximum of 60 days. Once the policy is issued the validity of the cover note ceases. In certain cases, instead of a cover note, the insurers issue only a letter confirming the cover.

The cover note is an unstamped document but it provides the same insurance as the policy and the wording of the cover note clearly states that it is subject to the terms and conditions of the policy. Specific clauses, i.e. Agreed Bank Clause or Declaration Clause, etc. are also incorporated in the cover note if required.

A typical cover note will contain the following details:



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1. Name and addresses of the insured
2. Sum insured
3. Period of insurance
4. Risk covered
5. Rate of premium or provisional rate if the actual rate is not known
6. Description of the subject matter of insurance. In case of cars the details will include make, model, CC, seating capacity etc. and in Fire Insurance the particulars of the building, i.e. whether it is Kutchra and the nature of activity carried on in the premises.
7. Serial no., date of issue, time of issue

**d. Policy Forms**

The policy form is a **stamped document, which provides evidence of an Insurance contract.** The insurance policy is required to be stamped in accordance with the provisions of the Indian Stamp Act, 1899.

The policy document is typically divided into the following parts:

In Fire and Accident Insurance, the policy form used is on a scheduled basis, i.e., all individual details relating to a particular Insurance are grouped together in a schedule. The scheduled type of policy may be divided into certain distinct sections, viz.:

- (i) **The Heading:** Giving the insurers name and address of registered office.
- (ii) **The Preamble or Recital Clause:** This section introduces or recites the parties to the contract i.e., the insurer and the insured. If the insurance is based upon a proposal form the preamble makes a reference to this. This clause also refers to the premium as having been paid or agreed to be paid by the insured as consideration. (It is to be noted however, that in accordance with the provisions of the Insurance Act, 1938, as amended, no risk can be assumed by an insurer unless the premium has been paid in full in advance.
- (iii) **Operative or Insuring Clause:** This clause sets out the essence of the contract. It specifies the perils insured



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under the policy and the circumstances in which the insurer will become responsible to make a payment or its equivalent to the insured. The perils which are specifically excluded from the insurance are mentioned in this clause in some forms.

If the Operative Clause is divided into various sections, as in the case of comprehensive private car insurance, there may be exceptions in each section followed by the general exceptions applicable to the whole policy. This clause also provides that the insurer, undertaking to pay the loss or damage, is subject to the terms, exceptions and conditions contained in or endorsed on the policy. A reference is also made to the sum insured or other limits of liability.

**(iv) Schedule:** This section contains all the typewritten information applicable to the particular contract. In Fire Insurance, for example, the schedule provides for the following data:

Insured and Address

Policy No.

Date of Issue

Agency

Risk Covered

Rate

Premium

Period of Insurance

Property Insured

**(v) Attestation or signature clause:** This clause provides for the signature on the policy. The policy is signed by the authorized official of the insurer.

**(vi) Conditions:** All fire and accident policies contain conditions which are printed on the policy. These are called express conditions, which are necessary to regulate the contract.

**Conditions**

Conditions enumerate the duties of the parties to the contract and in some cases define the terms used in the contract. As insurance contracts are conditional contracts, it is essential for the insured to be aware of the conditions. He cannot expect the insurer to fulfill its part if he does not fulfill the required conditions. If he fails to do so he may find that he has released

the insurer from his obligations. Conditions printed in the policy are called express conditions. Without the express condition the insurance contract would only be subject to the implied conditions, i.e. Utmost good faith, Insurable Interest, Indemnity and Proximate Cause.

The express conditions serve a number of purposes while some deal with the practice of insurance e.g., the condition relating to cancellation of the policy or the condition requiring the insured to notify the insurer in time about a loss. Other conditions repeat the legal principles to emphasize their importance. As example of this is the obligation on the part of the insured to disclose all material facts before the conclusion of the contract. Still other conditions may modify the basic principles; e.g., transfer of legal rights, to recover from another party, to the insurer, even before the claim is paid, though under law, subrogation arises only after payment of loss.

The express and implied conditions can be categorized as:

- (a) **Conditions precedent**, e.g. disclosure of all material facts before the conclusion of the contract. A breach of the condition can enable the insurer to avoid his liability under the policy from its very beginning.
- (b) **Conditions subsequent**, e.g. notification of any change in the risk during the currency of the policy. A breach of these conditions entitles the insurer to avoid the liability under the policy after it has come into force.
- (c) **Conditions precedent to liability**, e.g. notice of loss within the prescribed time limits. The breach of this condition can prevent the insured from claim benefits.

The policy form also contains a clause reading as follows:

“The policy and schedule shall be read together and any word or expression to which a specific meaning has been attached in any part of this policy or of the schedule shall bear the same meaning wherever it may be.”

This clause ensures that the words ‘Insured’, ‘Property Insured’ and ‘Period of Insurance’ etc., if occurring anywhere in the policy will have the same meaning and relates to the details given in the schedule.



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**e. Endorsements:**

Normally policies are issued in a standard form by the insurers. However if it is intended to modify the terms and conditions at the time of issuing the policy, this modification is done by setting out the alterations in a memorandum which is attached to the standard policy form. Such a memorandum is called an **endorsement**.

Endorsement are also used for recording changes in the policy, during its currency, and some of the endorsements commonly required relate to:

1. Change in sum insured (increase/ decrease)
2. Change of insurable interest due to sale, mortgage or hypothecation
3. Change in nominee
4. Inclusion of additional perils to be covered
5. Change of risk, e.g., change in occupancy of the building in Fire Insurance
6. Transfer of property to another location
7. Cancellation of insurance
8. Change in name or address etc.

Some examples of endorsements are given below:

**Cancellation:**

“At the request of the insured the insurance by this policy is hereby declared to be cancelled from \_\_\_\_\_. The insurance having been in force for a period over \_\_\_\_\_ months no refund is due to the insured.

**f. Extension of cover to include extra peril:**

At the request of the insured it is hereby agreed to include the risk of \_\_\_\_\_ under the above policy. In consideration thereof an additional premium is charged to the assured as under: -

**g. Renewal Notice:**

In General Insurance the cover is granted normally for one year and in Fire Insurance the preamble states that

the indemnity under the policy applies “during the period of insurance mentioned in the schedule or to any subsequent period in respect of which the insured shall have paid, and the insurers shall have accepted, the premium required for the renewal of the policy.”

Though the insurer is not legally bound to remind the insured that his policy is due to expire on a particular date, yet, out of courtesy and as a part of good business practice, insurers send a renewal notice one month in advance of the date of expiry advising the insured to renew the policy.

The notice includes all relevant details of the policy and the premium payable and also includes a note advising the insured that if there is any change in the risk he should inform the insurer about such changes. The insured’s attention is also drawn to the statutory provision that no risk can be assumed unless the premium is paid in advance.

#### **h. Claim Form:**

Claim forms are issued to the insured when he notifies a loss under a policy. Claim forms vary according to different classes of insurance but are generally designed to elicit complete information regarding the loss, i.e., circumstance of loss, date and time of loss, cause of loss and extent of loss etc.

Motor claim forms provide for a rough sketch of the accident, Burglary claim forms contain questions regarding notification to the police; Fire Insurance claim forms have questions regarding value of property at time of loss, details of other policies covering the same subject matter and whether any third party was responsible for the loss. This information is required for application of the Principles of pro-rata average, contribution and subrogation as Property Insurance is a contract of indemnity.

The issue of a claim form does not constitute an admission of liability on the part of the insurer and this is made clear by the insurer by using the words, “Without Prejudice” on every claim form. Even the subsequent correspondence regarding the claim carry these words to make it clear that even though the claim is being processed



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the question of liability is left open. Claim forms are not used in Marine Cargo Insurance except in respect of inland transit claims.

**i) Survey Report:**

This report is submitted by duly-licensed surveyors who are appointed by the insurers to investigate the loss when notice of loss and claim form is received. The report provides independent evidence of the cause and extent of loss and other information to the insurers for processing and settling of claims.

**7.3 SUMMARY**

Apart from the insurance of property, the Liability Insurance is also must in this society. Every person is supposed to act in a prudent manner so that by his act, willingly or unwilling does not affect other persons by way of bodily injury or death or property damage. It is compulsory under various statutes and while other are optional but a person cannot escape from his liability in case of loss to a third party.

Proper documentation is a must for any insurance policy because any wrong information may lead to repudiation of the claim. One must be very careful while providing the information to the insurance company and also go through the policy document as it may contain some information which may contradict the information given in the proposal form.

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**INTEXT QUESTIONS 7.1**

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1. What is the meaning of Liability?
  2. What constitutes the evidence of the insurance?
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**7.4 TERMINAL QUESTIONS**

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1. Discuss the importance of Liability Insurance.
2. Explain the contents of the policy documents.
3. Write down the contents to be mentioned in the proposal form of a Fire Insurance policy.
4. Write short notes on
  - a. Endorsement

- b. Claim form
- c. Survey report



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### 7.5 OBJECTIVE TYPE QUESTIONS

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**Notes**

1. Which of the following is an evidence of insurance contract ?

- a. Policy document
- b. Prospectus
- c. Payment of premium
- d. Acceptance of proposal

2. Which one is true?

Statement A: Endorsements are issued during the policy period to record alteration

Statement B: Endorsements are issued as part of the policy at the time of issue

- a. Both
- b. Neither
- c. Statement A
- d. Statement B

3. Which one is true?

Statement A: Liability Insurance deals with the liability towards a third party.

Statement B: Property Insurance deals with assets of the third party.

- a. Both
- b. Neither
- c. Statement A
- d. Statement B

4. Which one is true?

Statement A: Proposal form is required for all types of general insurance.

Statement B: Proposal form is not required for Marine Insurance .

- a. Both
- b. Neither
- c. Statement A
- d. Statement B

5. Choose the wrong option

- a. Professionals like Doctors, and CAs can be insured under Professional Indemnity Insurance.

## MODULE - 4

Practice of General Insurance



### Notes

## Liability Insurance & Documents in General Insurance

- b. Manufacturing industry can be insured for civil liabilities.
- c. Individual can be insured for third party liability insurance.
- d. Criminal Liability of an individual can be insured.

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### 7.6 ANSWERS TO INTEXT QUESTIONS

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- 1. The dictionary meaning of liability means “responsibility” and legal liability means the liability which can be enforced in the court of law and the same can be insured.
- 2. The stamped policy document.

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### 7.7 ANSWERS TO OBJECTIVE TYPE QUESTIONS

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|------|------|------|
| 1. a | 2. a | 3. c |
| 4. d | 5. d |      |