

# Diploma in INSURANCE SERVICES

## Module 3: Non- Life Insurance





# Open Vocational Educational Programme

## Diploma in Insurance Services

3



**NATIONAL INSTITUTE OF OPEN SCHOOLING**

(An autonomous institution under Ministry of Education, Govt. of India)

A-24/25, Institutional Area, Sector -62, NOIDA -201309 (U.P.)

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## A Word with You

Dear Learner,

Welcome to the course "Diploma in Insurance Services".

I am glad that you have chosen this vocational course.

Many young people are choosing Insurance as a career with well-paying jobs. In this context, our goal is to give learners a fundamental understanding of the Insurance Sector. Additionally, this course shall make you aware of the employment and business opportunities available in this sector, allowing you to focus your time and energy on activities that will produce results.

This one year programme provides individuals with specialized knowledge and skills related to the insurance industry. This course provides basic knowledge of Life, General and Health insurance that enable learners to understand and appreciate their professional career in the right perspective. Inputs that you receive in this course will assist you in comprehending how and why you could decide to pursue it as a career since Insurance Sector is one of the most demanding careers in today's market.

This course has five modules, namely Skill India and BFSI Introduction to Insurance, Life Insurance, Non-Life Insurance, Health Insurance and Regulatory Aspects in Insurance. Each module has been designed keeping in view the requirements of self-motivated learners like you. The texts are written in simple language, supplemented by pictures and figures to lend clarity to the content. You will find the lessons interesting and will be able to apply your knowledge in real-life situations. So, read all these lessons carefully and prepare well for the examinations. You ultimately have to enter the competitive world and your success at the place of work will depend on how skillfully you have performed your assigned job.

As this is a vocational course which is skill based so master your skills, practical training is must. So, we request you to kindly attend the Personal Contact Programme (PCP) at your allotted Accredited Vocational Institutes (AVIs).

I hope this study material will be very helpful to the learners who have registered for this course. Our sincere thanks go to the experts of the course writing and editing team (list given elsewhere in this booklet) who worked very hard in revising this self instructional material, particularly to Dr. Sunil Kadyan and his team, who had excellently revised the Qualification Packs (QPs) as per the BFSI Sector Skill Council.

In case you have any difficulty in your studies, do not hesitate to write to us at [dirvoc@nios.ac.in](mailto:dirvoc@nios.ac.in)

Wishing you good luck and success!

**Ms. Anitha Nair**

Deputy Director

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## How to use the Learning Material

Congratulations! You have accepted the challenge to be a self-learner. It means, you have to organize your study, learn regularly, keep up your motivation and achieve your goal. Here it is solely you, who is responsible for your learning. NIOS is with you at every step. It has developed the material in Diploma in Insurance Services keeping only you in mind. A format supporting independent learning has been followed. You can take the best out of this material if you follow the instructions given below.



**Title:** will give a clear indication of the contents within. Do read it.



**Introduction:** This will introduce you to the lesson linking it to the previous one.



**Objectives:** These are statements that explain what you are expected to learn from the lesson. The objectives will also help you to check what you have learnt after you have gone through the lesson. Do read them.



**Notes:** Each page carries empty space in the side margins, for you to write important points or make notes.



**Intext Questions:** Very short answer self check questions are asked after every section, the answers to which are given at the end of the lesson. These will help you to check your progress. Do solve them. Successful completion will allow you to decide whether to proceed further or go back and learn again.



**What You Have Learnt:** This is the summary of the main points of the lesson. It will help in recapitulation and revision. You are welcome to add your own points to it also.



**Terminal Questions:** These are long and short questions that provide an opportunity to practice for a clear understanding of the whole topic.



**Answers To Intext Questions :** These will help you to know how correctly you have answered the questions.

**Learning Outcomes:** This box provides additional information. The text in boxes is important and must be given attention. It is not meant for evaluation, but only to improve your general knowledge.

**Activities:** Certain activities have been suggested for better understanding of the concept.

**www Web site:** These websites provide extended learning. Necessary information has been included in the content and you may refer to these for more information.

## COURSE OVERVIEW

### MODULE-1 456

**Skill India and BFSI : Introduction to Insurance**

### MODULE-2 457

**Life Insurance**

### MODULE-3 458

**Non-Life Insurance**

### MODULE-4 459

**Health Insurance**

### MODULE-5 460

**Regulatory Aspects in Insurance**

## CAREER OPPORTUNITIES



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# INTRODUCTION TO GENERAL INSURANCE

**Notes**

## 1.0 INTRODUCTION

Life is uncertain and so does the events. One never knows if a fire can ruin his house or a commercial complex in next minute. One is not sure if an accident might lead him to legal obligation of payment of damages to the person suffering losses. While transporting goods or while travelling, one can never be sure if the goods will be able to reach the destination safely. Because of various natures of risks, it is important to have various kinds of insurance policies. Thus apart from life insurance there are other kinds of insurance that can be taken up by an individual or a business for their benefits. This chapter will help you to understand General Insurance and various kinds of General insurance products.



## 1.1 OBJECTIVES

After reading this lesson, you will be able to:

- Explain the concept of General Insurance
- Describe the major contents of insurance policy
- Classify various kinds of general insurance

## 1.2 INTRODUCTION TO GENERAL INSURANCE

General Insurance also called as non-life insurance is an insurance policy which is not a life insurance and includes all other types of insurance. General insurance is called as property or casualty insurance in the US and Canada whereas the same is non-life insurance in continental Europe. Thus, Insurance other than life insurance are called as

#### Non-Life Insurance



#### Notes

general insurance. General Insurance can help us in protecting ourselves and the possessions that are worthy to us like house, cars, scooters, etc. from the financial impact of risks. This risk can be from anything like from fire, flood, accidents etc. We can minimize this risk by taking appropriate and right kind of policy with the features we need. For example, insurance may be taken for a building to reduce the risk due to fire, marine insurance etc. General insurance is taken to protect ourselves from the happening of some uncertain event i.e. the event for which a general insurance is taken may or may not happen at all. Out of all general insurance products, Marine Insurance is the oldest type of insurance originated in England.

#### 1.2.1 General Insurance in India

The history of general insurance dates back to the times of industrial revolution when sea-faring trade and commerce was growing. The concept of general insurance in India was introduced by the British. The first company to transact general insurance business in India was Indian Mercantile Insurance Ltd. that was set up in 1907. Meanwhile many insurance companies came for the same purpose. It was in 1972 that the General Insurance Business (Nationalisation) Act was passed and the general insurance business was nationalised with effect from 1 January, 1973. In total one hundred and seven insurers were amalgamated and grouped into four companies namely National Insurance Company Ltd, the New India Assurance Company Ltd, the Oriental Insurance Company Ltd and the United India Insurance Company Ltd. In 1971, The General Insurance Corporation of India was incorporated. The General Insurance Corporation of India Commenced business on January 1, 1973. Subsequent to the recommendations of the Malhotra Committee, The Insurance Regulatory and Development Authority (IRDA) was constituted in 1999. IRDAI was formed to regulate and develop the Insurance industry. It has the power to frame regulations under Section 114A of the Insurance Act, 1938. Since its formation, it has framed many regulations ranging from registration of companies for carrying on insurance business to protection of policyholders' interests. In the Gregorian calendar month of year 2000, the subsidiaries of the General Insurance Corporation of India were restructured as independent companies and GIC was converted into a national re-insurer. Today there are many companies providing various general insurance in India.

Section 2 (6B) of the Insurance Act 1938, defines general insurance business. It means fire, marine or miscellaneous Insurance whether carries separately or in combination. Insurance such as fire insurance, marine insurance, motor insurance, personal accident insurance, Health insurance etc. comes under this which helps in reducing and transferring risk. For example, if a person takes fire insurance for a building then in the

event the building catches fire then the insurer will then indemnify him for the loss.

A general insurance is a contract that provides money compensation on any loss other than life insurance matters. A general insurance compensates for financial loss due to liabilities related to house, car, bike, etc.



### INTEXT QUESTIONS 1.1

1. Which of the following was the first company to transact general insurance business in India?
  - a) General Insurance Corporation of India
  - b) Oriental Insurance Company Ltd
  - c) Indian Mercantile Insurance Ltd.
  - d) National Insurance Company Ltd
2. The Insurance Regulatory and Development Authority (IRDA) was constituted with the recommendations of:
  - a) Gupta Committee
  - b) Tendulkar Committee
  - c) Malhotra Committee
  - d) Srivastava Committee
3. The General Insurance corporation of India Commenced business on \_\_\_\_\_
  - a) January 1, 1970
  - b) January 1, 1971
  - c) January 1, 1972
  - d) January 1, 1973
4. The Insurance Regulatory and Development Authority (IRDA) was constituted in the year
  - a) 1972
  - b) 1999
  - c) 2001
  - d) 2009

### Non-Life Insurance



### Notes



Notes

### 1.3 STRUCTURE OF AN INSURANCE POLICY

An insurance policy is a document that specifies the contract between the insured and insurer. An insurance policy majorly specifies the name and address of insured, description of subject matter for which insurance is taken, period of insurance, sum insured, perils covered, premium payable, terms and conditions, riders and other details. It is a document which has all the information and thus is significant to be read properly and framed properly as all the claims that an insured could ask from an insurer is dependent on the kind of contract between them. However, following are some of the major parts of an insurance policy:

1. **Declarations:** It summarizes key information specific to the policy like the details of coverage of the policy, liability to be paid, period of coverage, etc.
2. **Insuring agreement:** it indicates the perils or damages against which insurance is taken,
3. **Exclusions:** This tells about what is not covered under the policy. For example, a policy may not cover a particular geographic location, etc.
4. **Terms and conditions:** all the terms and conditions in relation to the insurance.
5. **Riders:** This part tells about the additional coverage that has been given to insured as per the policy taken by him.

### 1.4 GENERAL INSURANCE PRODUCTS

General insurance products are the ones that provide financial protection to property from the impacts of fire, storm, flood, earthquake, thefts, accident etc., health insurance, travel insurance, marine insurance, and motor insurance and so on. In short, all the insurance products other than a life insurance product are categorised as general insurance products.

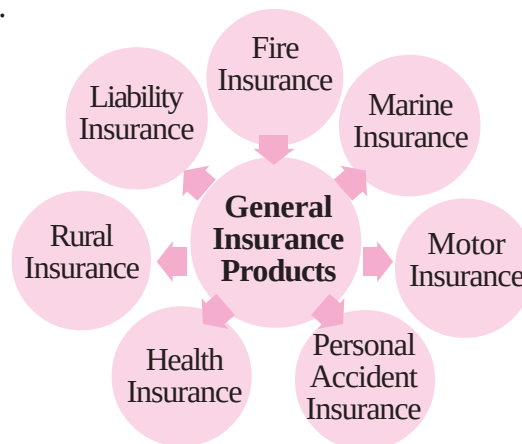


Figure 1.1: General Insurance Products

**1.4.1 Fire Insurance**

Fire insurance policy helps to protect from the damages caused by fire to a property for which insurance has been taken. A fire insurance policy if taken, then it will protect the insured from the loss that he may face due to destruction of or damages to property or goods caused by fire during the period for which insurance has been taken and premium has been paid. Existence of insurable interest is necessary in any insurance policy. In fire insurance, the insurable interest may arise on account of ownership, possession or contract. Following person have insurable interest in the subject matter in case of fire insurance

1. Owner
2. Mortgagee
3. Pawnee
4. Pawn broker
5. Official receiver or assignee in insolvency proceedings
6. Warehouse keeper in the goods of customer. A person in lawful possession e.g. common carrier, wharfinger, commission agent.

**Meaning of Fire**

In Fire Insurance Policy, Fire means the production of light and heat by the combustion or burning. Thus loss resulting from the actual ignition is covered here. In fact, 'loss or damage by fire' also includes the loss or damage caused by efforts to extinguish fire.

**Losses covered by fire insurance**

Following losses are covered under fire insurance:

1. Damages caused to goods or property because of water that is used to extinguish fire.
2. Destruction of neighboring premises by the fire brigade with the intention of averting the progress of flame.
3. Breakage of goods in the process of their removal from the building where fire is raging e.g. damage caused by throwing furniture out of window.
4. Wages paid to persons employed for extinguishing fire.



Notes

#### Non-Life Insurance



#### Notes

#### Losses not covered by a fire insurance policy are:-

Following types of losses are not covered by a fire insurance:

1. Because of the occurrence of earthquake, invasion, act of foreign enemy, hostilities or war, civil strife, riots, mutiny, martial law, military rising or rebellion or insurrection any loss has been caused by fire
2. Loss caused by subterranean fire.
3. Loss caused by burning of property by order of any public authority.
4. Loss by theft during or after the occurrence of fire.
5. Loss or damage to property caused by its own fermentation or spontaneous combustion e.g. exploding of a bomb due to an inherent defect in it.
6. Loss or damage by lightening or explosion is not covered unless these cause actual ignition which spread into fire.

#### Amount of Claim

The amount that can be claimed by an insured in case of loss is specified in the policy. However, the maximum amount of claim is mentioned in the policy, but the amount of loss that a person suffers can only be analysed only after the fire accident has taken place. The amount which an insured will receive from a fire insurance policy can only be known on the basis of valuation of loss after the fire accident. An insured cannot receive more than the maximum amount mentioned in the policy.

#### Types of Fire Insurance Policy

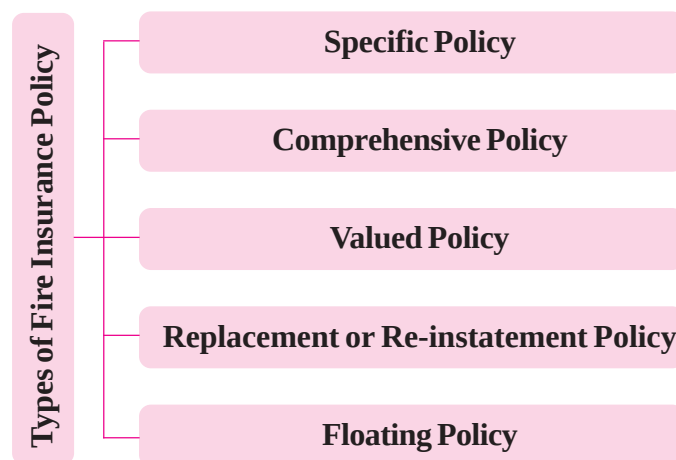


Figure 1.2: Types of Fire insurance policy

- **Specific Policy:** -In such a policy, the maximum indemnity amount is already specified in the policy which is less than the real value of the property.
- **Comprehensive Policy:** - It is like everything covered in one policy. Comprehensive policy is also called as 'all in one' policy and covers risks like fire, theft, burglary, third party risks, etc.
- **Valued Policy:** -In this kind of policy, the insured can get a fixed amount, which is already decided at the time the policy was taken, in the event of loss. This fixed amount will be given irrespective of the actual amount of loss.
- **Replacement or Re-instatement Policy:** - is a policy which basically helps to pay the cost of replacement of the property that is damaged by fire.
- **Floating Policy:** - is a policy which covers loss by fire caused to property belonging to the same person but situated at various locations. Here all of them are insured for a single sum and for one premium. Example could be a policy taken which might cover goods lying in two godowns at two different locations. This policy is always subject to 'average clause'. 'Average clause' is a clause by which the insured is called upon to bear a portion of the loss himself.



Notes



### INTEXT QUESTIONS 1.2

1. Which of the following policy helps to protect from the damages caused by fire to a property for which insurance has been taken?
  - a) Fire Insurance
  - b) Marine Insurance
  - c) Health Insurance
  - d) Liability Insurance
2. Which of the following losses are covered under fire insurance?
  - a) Loss caused by burning of property by order of any public authority
  - b) Wages paid to persons employed for extinguishing fire
  - c) Loss by theft during or after the occurrence of fire
  - d) Loss caused by subterranean fire

#### Non-Life Insurance



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3. Which of the following losses are not covered under fire insurance?
  - a) Loss by theft during or after the occurrence of fire
  - b) Damages caused to goods or property because of water that is used to extinguish fire.
  - c) Destruction of neighboring premises by the fire brigade with the intention of averting the progress of flame.
  - d) Breakage of goods in the process of their removal from the building where fire is raging
4. Which of the following is also known as 'all in one' policy?
  - a) Specific Policy
  - b) Comprehensive Policy
  - c) Valued Policy
  - d) Replacement or Re-instatement Policy
5. Which of the following insurance policy covers risks like fire, theft, burglary, third party risks, etc. under a single policy?
  - a) Specific Policy
  - b) Comprehensive Policy
  - c) Valued Policy
  - d) Replacement or Re-instatement Policy

#### 1.4.2 Marine Insurance

Another type of general insurance is Marine Insurance. It is an insurance which covers the loss or damage of ships, cargo, terminals, and any transport by which the property is transferred, acquired, or held between the points of origin and the final destination.

A transporter can select the insurance plan according to the size of ship, sea routes to be taken, the cargo and many such minor points which could go a great length in affecting the transporter majorly. Also in marine transports, there is a risk of oil pollution which damage the environment. It is also detrimental to sea life. Benefits of Marine Insurance is that one can get protection from the potential risks related to marine accidents and even the option can be availed to extend the coverage of the plan against perils, strikes and riots as well.

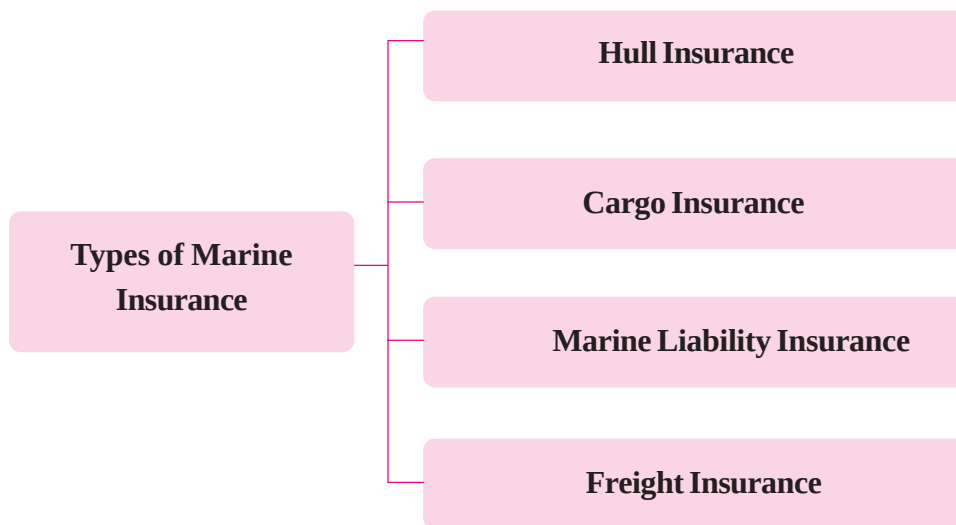


Figure 1.3: Types of Marine Insurance

### Types of Marine Insurance

- ❖ **Hull Insurance-** This insurance covers damage to boat, its machinery and its equipment. This policy basically covers the ship damage expenses. Hull insurance policy mainly insures against destruction of hull, damage to machinery, disbursement losses, ship breaking losses, fittings and freight.
- ❖ **Cargo Insurance-** This is another type of marine insurance in which cargo is insured, i.e. the goods in transit are insured. So if the cargo is destroyed, then the insured will get indemnified from the insurance company.
- ❖ **Marine Liability Insurance-** It is like third party insurance. This insurance is taken to provide for any liability occurring because of ship crashing or colliding. If one ship collides with another and damage has occurred to the goods of another ship, then compensation for such liabilities is provided by this insurance.
- ❖ **Freight Insurance-** The amount of money paid to a ship owner for transporting goods from one place to another is called freight. It is usually paid in totality once the goods have reached. Freight insurance provides protection to merchant vessels corporations as it provides protection from losing freight in case of unprecedented events and accidents.

In addition to the above mentioned types of marine insurance, there are various types of marine insurance policies such as

- **Voyage Policy:** A voyage policy is that kind of marine insurance policy which is valid for a particular voyage or a journey.



Notes

## Module - 3

### Non-Life Insurance



Notes

### INTRODUCTION TO GENERAL INSURANCE

- **Time Policy:** This is a marine policy which is valid for a particular time period say one year.
- **Mixed Policy:** As the name suggest this policy gives the mixed benefits of both time and voyage policy
- **Open (or) Unvalued Policy:** In such a policy, the amount of cargo is not put on the policy beforehand. Reimbursement is done on the basis of valuation of loss after it has occurred.
- **Valued Policy:** In such a policy, the monetary value of cargo is put on the policy beforehand. Reimbursement of loss is done on the basis of amount mentioned in the policy.
- **Port Risk Policy:** It is related to safety of ship while it is stationed on port.
- **Wager Policy:** In such a policy, reimbursement of loss will be done by the insurer if it finds the claim for loss to be worth the damages. One must know that wager policy is usually not a written policy.
- **Floating Policy:** A marine insurance policy where only the amount of claim is stated and all other particulars are not there till the time the ship gets on voyage.
- **Single Vessel Policy:** It is taken for insurance of one ship by insured.
- **Fleet Policy:** This policy takes care of several ships of insured.
- **Block Policy:** This policy is taken to protect the cargo owner against damage or loss of cargo in all modes of transport through which his/her cargo is carried i.e. covering all the risks of rail, road, and sea transport.



### INTEXT QUESTIONS 1.3

1. Which of the following insurance covers damage to boat, its machinery and its equipment?
  - a) Hull Insurance
  - b) Cargo Insurance
  - c) Marine Liability Insurance
  - d) Freight Insurance



2. Which of the following insurance covers the risk associated with ship crashing or colliding?
  - a) Hull Insurance
  - b) Cargo Insurance
  - c) Marine Liability Insurance
  - d) Freight Insurance
3. Which of the following insurance covers the goods in transit?
  - a) Hull Insurance
  - b) Cargo Insurance
  - c) Marine Liability Insurance
  - d) Freight Insurance
4. Which of the following insurance covers from risks of losing freight in case of unprecedented events and accidents?
  - a) Hull Insurance
  - b) Cargo Insurance
  - c) Marine Liability Insurance
  - d) Freight Insurance

### **1.4.3 Motor Insurance**

Motor insurance policy is a contract between the insured and insurer where insured will be indemnified by the insurer against the financial losses in the event of loss suffered by the insured in relation to the vehicle. Motor insurance is an insurance which protects against the damages and liability to a vehicle against various on-road and off road emergencies.

A motor insurance policy can have a comprehensive cover and third part cover. Third party cover is the base insurance policy that is related to damages caused to third party because of the vehicle. Comprehensive cover is a complete protection policy where damages to vehicle, theft and loss of vehicle and third party damages are covered.

### Non-Life Insurance



Notes

Motor insurance can broadly be classified as follows:

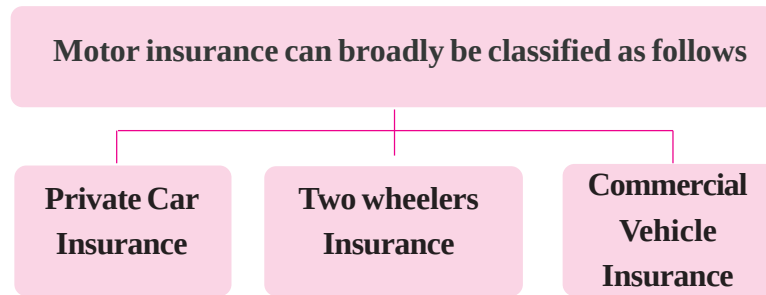


Figure 1.4: Classification of Motor Insurance

- **Private Car Insurance**-These are taken for the private cars plying on road.
- **Two wheelers Insurance**- As the name suggests, it is taken for two wheeled vehicles like scooters, motorcycle, etc.
- **Commercial Vehicle Insurance**- Commercial vehicle insurance is taken for those vehicles that are used for commercial purpose.

**NOTE:** Insurance of vehicles against damage is not compulsory but it is mandatory to have the insurance of third party liability arising out of the use of motor vehicles in public places.

As per the motor vehicles act, third party liability insurance is necessary for all the vehicles plying on road. From September 2018, it has become compulsory for purchasing new private cars to have insurance for a three-year period and on purchase of two wheelers insurance for a period of five years is necessary.

### 1.4.4 Personal Accident Insurance

This type of insurance provides financial protection from the uncertainties such as accidental death, injuries, permanent or temporary disability whether full or partial. So if an insured suffers accidental death then his nominee will get the compensation.

Types of Personal Accident Insurance

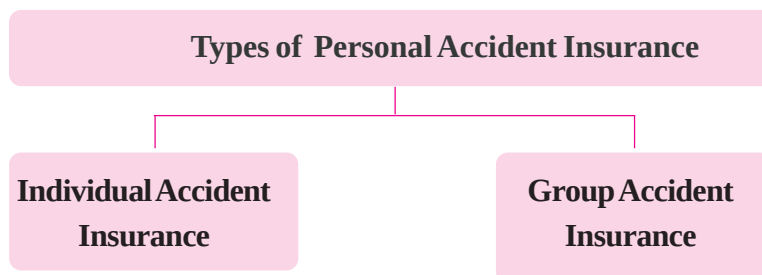


Figure 1.5: Types of Personal Accident Insurance

There are two types of Personal Accident Insurance Policy

- **Individual Accident Insurance-** This policy protects individual from financial risk in case of accidental damage.
- **Group Accident Insurance-** It is usually taken by employers for their employees for protecting against the financial risk of accidental damage.

#### 1.4.5 Health Insurance

Health insurance is a type of insurance that helps to cover the cost of individual's medical expenses and surgical expenses. Depending on the kind of health insurance, one can have cash less treatment or reimbursement of expenses if they had to take treatment for the diseases covered by insurance policy. The hospitals where treatment has to be taken for cashless hospitalization or reimbursement of expenses are also mentioned in the insurance policy.

Benefits of health insurance are that it protects the insured from the unexpected and high costs for medical expenses. Availability of health insurance helps to make the treatment for many diseases affordable. In fact, the premium paid for a health insurance policy, tax benefits can be claimed under section 80D of the Income Tax Act, 1961.

Every person would like to secure their own health as well as the health of their family. With insurance, it becomes easier for them. Health insurance policy usually covers:

- Hospitalization
- The treatment of critical illnesses
- Medical bills prior to or post hospitalization
- Day care procedures like Cataract operations, etc.

One can take add on benefits like maternity cover, pre-existing disease cover and accident cover.

#### 1.4.6 Rural Insurance

Rural insurance ensures that families living in rural areas have a safe and secure future so that they can lead a happy life. The insurance helps them cover risks related to various aspects of their life. Rural Insurance policies generally have reduced rates of premium and faster claim process. Rural insurance policies insure sub-animals including silkworm, livestock, property like agricultural pump septets, crops, persons. In case of cattle, the premium is based on the breed of cattle and its type.



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#### Non-Life Insurance



#### Notes

As per IRDAI, rural insurance will be given on following criteria:

1. Population is less than 5000 people
2. Density of population not more than 400 per square kilometre.
3. Minimum 75% of male population is engaged in farming.

#### 1.4.7 Liability Insurance

Liability Insurance is the one that compensate the insured for those legal payouts and costs for which insured is held responsible because of injuring or causing damage to any third party i.e party other than insured and insurer. The Public liability Act 1991 defines the scope of liability insurance in India. Premium of this policy is dependent upon the risk involved in the business.

As per the requirement of customers there are various kinds of liability insurance policies available but some of the common policies are:

- **Third Party Liability Insurance**-In this, protection is given against financial compensation to be paid by insured to third party for the damages to third party caused by insured.
- **Product Liability Insurance**-A product liability insurance guards the business against the claims pertaining to its products and services. The claims may arise by reason of personal injury or damage caused to property because of products or services of the business.
- **Employer Liability Insurance**-This provides protection to employers from the liability arising out of injury to worker on the job.



#### INTEXT QUESTIONS 1.4

1. Which of the following insurance provides financial protection from the uncertainties such as accidental death, injuries, permanent or temporary disability?
  - a) Health Insurance
  - b) Public Liability Insurance
  - c) Personal Accident Insurance
  - d) Rural Insurance

**Notes**

2. Which of the following are covered in a health insurance policy?
  - a) Hospitalisation
  - b) The treatment of critical illnesses
  - c) Medical bills prior to or post hospitalisation
  - d) All of the above
3. Mr. X met an accident while driving his car and his car got damaged. Which kind of insurance would have been beneficial to him in this situation?
  - a) Fire Insurance
  - b) Marine Insurance
  - c) Motor Insurance
  - d) Health insurance
4. There are \_\_\_\_\_ types of personal accident insurance.
  - a) 1
  - b) 2
  - c) 3
  - d) 4
5. Which of the following insurance provides protection against financial compensation to be paid by insured to third party for the damages to them caused by insured?
  - a) Third Party Liability Insurance
  - b) Hull Insurance
  - c) Health Insurance
  - d) Rural Insurance

**WHAT YOU HAVE LEARNT**

General Insurance policies are those that are not determined to be a life insurance. Majorly an insurance policy consists of Declarations, Insuring agreement, Exclusions, terms and conditions and riders. Fire Insurance provides

#### Non-Life Insurance



#### Notes

protection against finance losses because of damages to property which is ruined by fire and for which fire insurance was taken by insured. In Fire Insurance Policy, Fire means the production of light and heat by the combustion or burning. Thus loss resulting from the actual ignition is covered under this insurance. However, some losses are not covered under this insurance. There are different kinds of fire insurance policy.

Marine Insurance is an insurance which covers the loss or damage of ships, cargo, terminals, and any transport by which the property is transferred, acquired, or held between the points of origin and the final destination. There are different types of Marine Insurance which includes Hull Insurance, Cargo Insurance, Marine Liability Insurance, and Freight Insurance.

Motor insurance is an insurance which protects against the damages and liability to a vehicle against various on-road and off road emergencies. It can be bought for Private Cars, Two wheelers and Commercial Vehicles. Insurance of vehicles against damage is not compulsory but it is mandatory to have the insurance of third party liability arising out of the use of motor vehicles in public places.

Personal Accident Insurance provides financial protection from the uncertainties such as accidental death, injuries, permanent or temporary disability whether full or partial. Health insurance is a type of insurance that helps to cover the cost of individual's medical expenses and surgical expenses. Depending on the kind of health insurance, one can have cash less treatment or reimbursement of expenses if they had to take treatment for the diseases covered by insurance policy.

Rural insurance policies insure sub-animals including silkworm, livestock, property like agricultural pump set etc., crops, persons. Liability Insurance is the one that compensate the insured for those legal payouts and costs for which insured is held responsible because of injuring or causing damage to any third party i.e party other than insured and insurer. There are various kinds of liability insurance policies like Third Party Liability Insurance, Product Liability Insurance, Employer Liability Insurance.



#### TERMINAL QUESTIONS

1. What do you understand by the term General Insurance? What are its different types?
2. What is fire insurance? What are the risks that are covered under fire insurance?
3. Explain various kinds of Marine Insurance.

4. What is liability Insurance? What are the various kinds of liability insurance policies?
5. What do you understand by Commercial vehicle insurance? Which kind of insurance is mandatory for these vehicles?
6. Write short notes on:
  - a) Personal Accident Insurance
  - b) Rural Insurance

**Notes****ANSWERS TO INTEXT QUESTIONS****1.1**

1. (c) Indian Mercantile Insurance Ltd.
2. (c) Malhotra Committee
3. (d) January 1, 1973
4. (b) 1999

**1.2**

1. (a) Fire Insurance
2. (b) Wages paid to persons employed for extinguishing fire
3. (a) Loss by theft during or after the occurrence of fire
4. (b) Comprehensive policy
5. (b) Comprehensive policy

**1.3**

1. (a) Hull Insurance
2. (c) Marine Liability Insurance
3. (b) Cargo Insurance
4. (d) Freight Insurance

#### Non-Life Insurance



Notes

#### 1.4

1. (c) Personal Accident Insurance
2. (d) All of the above
3. (c) Motor Insurance
4. (b) 2
5. (a) Third party liability insurance



#### LEARNING OUTCOMES

After studying this chapter, you are able :

- To explain and categories various types of general insurance.

**2**

## **PACKAGE POLICIES AND MOTOR INSURANCE**

**Notes**

### **2.0 INTRODUCTION**

In the previous chapter you have learnt about general insurance. Now you are aware about various types and concepts of general insurance. This chapter will increase your knowledge on the topic on various package policies like householders and shopkeeper's insurance. After going through this chapter you will be able to understand in more detail about motor insurance, third party insurance. You will also learn about various other package covers available in the market.

### **2.1 OBJECTIVES**

After reading this lesson, you will be able to:

- Explain the concept of householder's insurance
- Know the concept of shopkeeper's insurance
- Learn about other package covers available in the market
- Learn more about motor insurance
- Appreciate the concept of third party insurance

### **2.2 HOUSEHOLDER'S INSURANCE**

A householder's insurance policy provides protection for losses to insured's property from the perils named in the insurance policy. This insurance is meant to take care of a person's house. However it is important for a person taking this insurance to take it on

#### Non-Life Insurance



reinstatement basis. As in the event of loss the cost of replacing house or furniture fixture and fittings would be different from its original cost of purchase.



## Householders Insurance Policy

Cover Home Against Loss from Fire, Burglary, Natural Calamities & More.

Fig. 2.1: Householders insurance policy

### Policy details

The policy comprises of 10 sections as under

#### Section 1

Loss of or damage to the building and contents (excluding money, jewellery and valuables) whilst contained in the insured premises by:

- Fire, lightning or explosion
- Bursting and overflowing of water tanks
- Air-craft or articles dropped there from
- Riot, strike or malicious act
- Earthquake, subsidence or landslide
- Flood, storm or tempest
- Impact damage

#### Section 2

Loss of or damage to contents (excluding money and valuables) whilst contained in the insured premises by burglary, house breaking including larceny and theft.

#### Section 3

Loss of or damage to jewellery and valuables caused by accident or misfortune whilst anywhere in India.



Notes

#### Section 4

Loss of or damage to fixed plate glass by accidental means.

#### Section 5

Unforeseen and sudden physical damage due to mechanical or electrical breakdowns of domestic appliances specified in the policy and whilst contained in the insured premises.

#### Section 6

Loss of or damage to television apparatus including VCR / VCP whilst contained in insured premises by:

- a) Fire and allied perils as described in section (1) above except impact damage, subsidence / land slide
- b) Burglary, house-breaking and theft
- c) Accidental external means
- d) Mechanical or electrical breakdown

#### Section 7

Loss of or damage to pedal cycle(s) by:

- Fire, lightning or external explosion
- Riot, strike or malicious act
- Flood, storm or tempest
- Earthquake
- Burglary, house-breaking or theft
- Accidental external means
- Legal liability of the insured for accidental death/injury to a third party or damage to their property as a result of the use of the pedal cycles, up to a limit of Rs.10,000/- in any one period of insurance.

#### Section 8

Loss of or damage to personal baggage due to accident or misfortune whilst travelling anywhere in India

#### Section 9

Personal accident insurance for insured, his spouse and children as per personal accident insurance practice

### Non-Life Insurance



#### Notes

### Section 10

Legal liability of the insured in respect of accidental death or bodily injury to third party through fault or negligence of insured/family members up to a limit of Rs.25,000/- for any one event or during the policy period. Legal liability as per E. C. Act /common law in respect of employees

**Sum Insured:** The basis of valuation shall be on reinstatement value or market value as opted by the Insured.

| Section | Coverage                                                                                      |
|---------|-----------------------------------------------------------------------------------------------|
| 1       | Loss of or damage to the building and contents due to fire perils                             |
| 2       | Loss of or damage to contents burglary, house breaking including larceny and theft            |
| 3       | Loss of or damage to jewellery and valuables                                                  |
| 4       | Loss of or damage to fixed plate glass                                                        |
| 5       | Mechanical or electrical breakdowns of domestic appliances                                    |
| 6       | Loss of or damage to television apparatus including VCR / VCP                                 |
| 7       | Loss of or damage to pedal cycle                                                              |
| 8       | Loss of or damage to personal baggage                                                         |
| 9       | Personal accident insurance                                                                   |
| 10      | Legal liability of the insured in respect of accidental death or bodily injury to third party |

Table 2.1: Section wise coverage under householders insurance



### INTEXT QUESTIONS 2.1

1. Which of the following is not covered under Section 1 of the householder's policy?
  - a) Fire, lightning or explosion
  - b) Air-craft or articles dropped there from
  - c) Impact damage
  - d) War and nuclear perils

2. Which of the following is not likely to be covered under householder's insurance policy?
  - a) Loss of or damage to personal baggage due to accident or misfortune whilst travelling anywhere across the globe
  - b) Loss of or damage to personal baggage due to accident or misfortune whilst travelling anywhere in India
  - c) Personal accident insurance for insured, his spouse and children
  - d) Loss of or damage to jewellery and valuables caused by accident or misfortune whilst anywhere in India.
3. How many sections are under a Householder's insurance policy?
  - a) 8
  - b) 9
  - c) 10
  - d) 7
4. What is the basis of sum insured under householder's insurance policy?
  - a) Reinstatement value or market value as opted by the Insured.
  - b) Reinstatement value or market value as opted by the agent
  - c) Books of accounts
  - d) None of the above
5. Under what section of householders policy is Legal liability of the insured covered?
  - a) Section 1
  - b) Section 3
  - c) Section 8
  - d) Section 10

**Notes**

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## **2.3 SHOPKEEPER'S INSURANCE**

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Shopkeeper insurance is the one which protects a shopkeeper from the losses he could suffer due to unprecedented events that could harm shop and thus shopkeeper. These insurances cover many aspects of commercial shop and retail businesses.

#### Non-Life Insurance



#### Notes

Shopkeeper insurance thus helps to protect the retail businesses from various harms like fire, earthquake, flood, burglary. And it also may protect from loss of income because of business interruption in the event of an unexpected claim. However what exactly is covered in such insurance is dependent upon the range of activities covered by the insurance policy taken.

**Requirements :** It is to be noted that the policy is meant for shops only. It is not to be issued to restaurants, tea/coffee shops. It is not merely sufficient that the Shop and Establishment Act is applicable to the said premises but in fact it has to be a shop where there is over the counter sale.

Also, only because some repair work is being done it does not cease to be a shop subject to the condition that such repair work is just incidental to the main business of selling e.g. shop selling watches and clocks, where some repair work is also undertaken can be given a shopkeeper's policy.



Fig. 2.2: A mobile shop in left and a supermarket in right

#### Coverage

The policy cover is normally spread over eleven sections.

#### Section I

Loss of or damage to building/contents (excluding money and valuables) whilst contained in insured premises by

- Fire, lightning, explosion of gas in domestic appliances
- Bursting and overflowing of water tanks
- Aircraft or articles dropped there from
- Riot, strike or malicious act
- Earthquake, subsidence or landslide

- Flood, storm or tempest
- Impact damage

**Section 2**

Loss or damage to contents (excluding money and valuables) whilst contained in the premises by burglary and housebreaking.

**Section 3**

Loss of money

- Loss of money in transit due to accident/misfortune (Maximum limit per carrying is specified)
- Loss of or damage to money/valuables by burglary/housebreaking whilst contained in a locked safe
- Loss of money whilst lying in cashier's till and or counter in insured's premises by burglary, house-breaking or following assault/violence on insured or his employees.

**Section 4**

Loss of or damage to pedal cycle (s) by

- Fire, lightning or external explosions
- Riot, strike or malicious act
- Earthquake
- Flood, storm or tempest
- Burglary, housebreaking or theft

Legal liability of insured for death/injury to third parties or damage to their property arising out of use of pedal cycle (s) up to a specified limit for any one period of insurance

**Section 5**

Loss of or damage to fixed plate glass in the insured premises by accidental means

**Section 6**

Loss of or damage to neon sign/glow sign by

- Accidental external means

**Notes**

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### Non-Life Insurance



Notes

#### PACKAGE POLICIES AND MOTOR INSURANCE

- Fire lightning or external explosion
- Theft
- Riot, strike or malicious act

#### Section 7

Loss of or damage to personal baggage of insured or baggage in connection with trade, anywhere in India

#### Section 8

Personal accident covers for insured/his employees

#### Section 9

Fidelity guarantee

Direct pecuniary loss suffered by the insured due to fraud or dishonesty committed by any salaried employees

#### Section 10

Legal liability

- Legal liability in respect of accidental death or bodily injury to a third party or accidental damage to their property during performance of any act in connection with the insured's business up to a normal limit during any one period of insurance
- Compensation to employees engaged in insured's premises under the E.C. Act/ common law

#### Section 11

Business interruption (loss of profit policy)

- Loss of profit due to interruption in business consequent upon loss sustained by property insured in Section A of the policy, due to insured perils under that section.
- For the cover to be allowed, the building concerned has to be of class 'A' construction as defined in the old fire tariff.



| Section | Coverage                                                   |
|---------|------------------------------------------------------------|
| 1       | Loss of or damage to building/contents by fire perils      |
| 2       | Loss or damage to contents by burglary and house breaking. |
| 3       | Loss of money                                              |
| 4       | Loss of or damage to pedal cycle                           |
| 5       | Loss of or damage to fixed plate glass                     |
| 6       | Loss of or damage to neon sign/glow sign                   |
| 7       | Loss of or damage to personal baggage                      |
| 8       | Personal accident covers for insured/his employees         |
| 9       | Fidelity guarantee                                         |
| 10      | Legal liability                                            |
| 11      | Business interruption (loss of profit policy)              |

Table 22.2: Section wise coverage under Shopkeeper's Insurance

### Sum Insured

The value of sum insured can be arrived at on the basis of the value of assets and books of accounts maintained by the shopkeeper. But it may not be easy to determine the value of shop and assets. Thus two methods are there which can be used for this.

1. First method is to fix the amount of sum insured on the basis of market value.
2. Another method is to fix the amount of sum insured on the basis of replacement value.

**Common features :** The common features of shopkeepers' and householders' policies are as follows

- a) The cover under "Fire Section" is compulsory. In addition, the proposer can choose any number from the remaining covers.
- b) The exceptions usual to the various types of covers, when taken as individual separate policies, apply to the corresponding sections of these policies. The policy is subject to certain common exceptions like:

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### PACKAGE POLICIES AND MOTOR INSURANCE

- ◆ War and allied perils
  - ◆ Wear and tear and depreciation
  - ◆ Consequential loss
  - ◆ Nuclear perils
- c) The standard conditions are applicable like:
- ◆ Reasonable care of property to be taken
  - ◆ Cancellation with 7 days' notice
  - ◆ Claims procedure involving complaint to the police authorities, immediate notice to the company and submission of full particulars within 14 days
  - ◆ Applications of principles of indemnity subrogation and contribution
  - ◆ Arbitration regarding quantum of loss only
- d) Rating
- ◆ Each section is rated independently.
  - ◆ The total premium depends upon the sum insured, the type and number of sections covered.
  - ◆ If the insured chooses more than 4 Sections he is entitled to 15% discount in premium.
  - ◆ If he has selected more than 6 Sections then 20% discount is available.
  - ◆ However the discount rates depend on individual insurers' underwriting policy'



### INTEXT QUESTIONS 2.2

1. Which of the following is not covered under Shopkeeper's insurance policy?
  - a) Garment shop
  - b) Confectionary store
  - c) Restaurant
  - d) Supermarket



2. How many sections are under Shopkeeper's insurance policy?
  - a) 10
  - b) 9
  - c) 11
  - d) 8
3. Which of the following is not covered under Personal Accident Cover section of Shopkeeper's insurance policy?
  - a) Insured
  - b) Family members of the insured
  - c) Employees
  - d) All of the above
4. Which cover is mandatory for Householder's insurance and shopkeeper's insurance policy?
  - a) Personal accident
  - b) Pedal cycle
  - c) Fire
  - d) Fixed plate
5. Which of the following is not an exception under Householder's insurance and shopkeeper's insurance policy?
  - a) War and allied perils
  - b) Wear and tear and depreciation
  - c) Consequential loss
  - d) Legal Liability

---

## **2.4 OTHER PERSONAL PACKAGE COVERS**

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Some of the other package covers prevalent in the market are as follows:

### **Multi-peril policy for L.P.G gas dealers**

The policy is specially designed to meet the Insurance requirements of LPG dealers. It covers:

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### Non-Life Insurance



Notes

### PACKAGE POLICIES AND MOTOR INSURANCE

- ◆ Risk of fire and allied perils for building & contents
- ◆ Theft and burglary
- ◆ Gas Cylinders in Transit
- ◆ Cash in Transit/Safe/Cash box
- ◆ Fidelity Guarantee
- ◆ Pedal Cycle
- ◆ Public Liability
- ◆ Personal Accident
- ◆ Personal Accident to Customers
- ◆ Workmen's Compensation
- ◆ Plate Glass
- ◆ Neon Sign/Glow Sign



Fig. 2.3: LPG gas dealer

### Doctor's Package Policy

This insurance policy is designed to safeguard the medical practitioners financially against legal costs and claims for compensation by the patients in case of a legal row. Legally, it is an exemption from liabilities for damages. The amount of compensation is uncertain and it causes fear to the doctors as the amount is sometimes quantified on the basis of mental trauma and stress that has been borne by the patients. In such cases, patients' expectation of monetary compensation is huge.

Due to the rise in litigations and frivolous charges, doctors are driven to take indemnity insurance, every year, some of them to the tune of lakhs of rupees. Senior surgeons are estimated to pay around 10% of their annual income towards premium of PI insurance. A premium for any cover is usually around 0.3 %- 1% of the sum insured. The coverage under Doctors package policy includes:

- Fire and allied perils in respect of building and contents Burglary / house-breaking, theft in respect of contents
- Fidelity guarantee insurance for cashier / compounder / any other authorised employee
- Money in transit with the doctor, his compounder or any other authorised employee
- Loss of or damage to doctor's kit by fire, theft or accident during visits within the municipal city limits
- All Risks cover for ECG machine and such other equipment pertaining to doctor's profession Signboard
- Professional liability insurance

### **Adhikari Suraksha Kavach**

This is a personal package policy designed for executives and/or businessmen that covers risk under various sections like Laptop / Portable computer, Cellular phone, Loss of cash, Baggage insurance, Jewellery & Valuables, Personal accident insurance, Mediclaim and Personal liability.

---

## **2.5 MOTOR INSURANCE**

---

As discussed in previous chapter motor insurance is taken for vehicles plying on the road. It is usually taken in the name of the person on whose name the vehicle is registered with the regional transport authority. Although subject to approval from the authority it could be taken on the name of the person who will be driving the vehicle. If the rider is different from owner, the policy is usually taken in the name of owner and add on cover is taken in name of the rider.

### **2.5.1 Types of Motor Insurance**

Motor insurance can broadly be classified as follows:



**Notes**

#### Non-Life Insurance



#### Notes

#### Private Car Insurance

This insurance is taken for those cars possessed by individuals or other entities which are not meant for commercial use. In India Car insurance is compulsory while buying a new car. Car insurance may provide financial protection against:

- Accidental damages caused by external means
- Fire, explosion, implosions, self-ignition, lightning
- Natural calamities: flood, typhoon, hurricane, storm, tempest, inundation, cyclone, hailstorm, frost.
- Whilst in transit by road, rail, inland waterway, air, lift or elevator.
- Act of terrorism
- Riot and strike, malicious damage
- Burglary, theft, housebreaking
- Earthquakes (fire & shock damage)
- Landslide & rockslide

On payment of appropriate additional premium it covers loss or damage to electrical or electronic accessories and other significant items.

#### Two Wheelers Insurance

This type of insurance is taken for motorcycles, scooters, scooties etc. i.e. those two wheelers that are not used for commercial purpose. Two wheeler insurance is governed by the Indian Motor Tariff. Personal accident cover is also available on taking two wheeler insurance. This accident cover can also be opted for passengers. It also protects against legal liabilities arising due to third parties injury/death or damage caused to its property.

#### Commercial Vehicle Insurance

Commercial vehicle insurance is taken for those vehicles that are used for commercial purpose. Commercial vehicles can be classified as follows:

- Goods Carrying Vehicles
- Passenger carrying Vehicles like taxi, bus, and rickshaw.
- Miscellaneous Vehicles like hearses, publicity vans, ambulances etc.



Notes

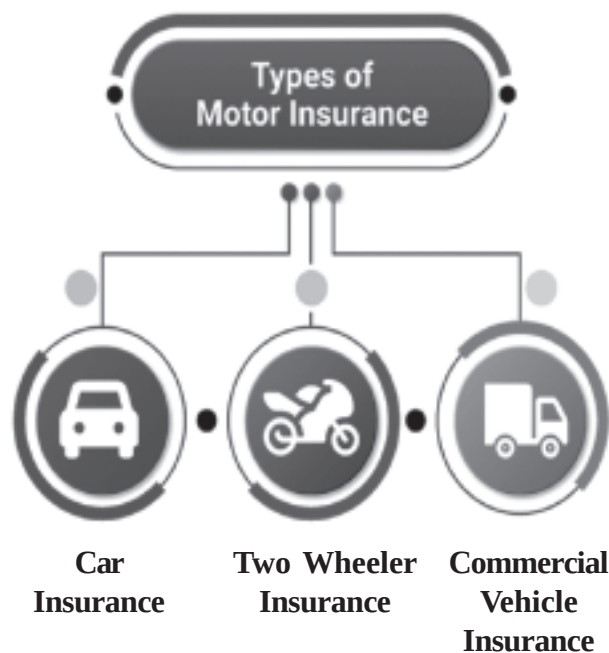


Fig 2.4: Types of Motor Insurance

### 2.5.2 Exclusions in Motor Insurance

Motor insurance policy gives protection from financial risk arising out of damages to motor vehicle. But one must note that following is not covered in motor insurance:

- General wear and tear
- Electrical breakdown
- Damages occurred under the influence of drugs, alcohol or other intoxicating substance.
- Damages caused by person driving the vehicle without having a valid licence for driving.
- Loss or damage outside the region covered by policy

### 2.5.3 Sum Insured and Premium

Insured's Declared Value (IDV) refers to the sum insured in a motor vehicle insurance policy. Amount of Claim in case the vehicle has been stolen or if an accident has taken place then the claim for total damages beyond repairs in an accident is determined on the basis of IDV.

IDV is determined by taking into account following factors:

1. Listed selling price by manufacturer or dealer

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#### Notes

2. Model of the vehicle
3. Depreciation as per schedule.

But in case the model is beyond five years of age or it is such a model production of which has been discontinued by the manufacturer then the IDV is determined as per the understanding struck between insurer and insured.

#### Premium

In case of Private cars and two wheelers the insurance rates are dependent upon the cubic capacity of vehicles, Insured's declared value, age of vehicle and the zone of operation. There are two zones of operation-Zone A and Zone B. Zone A includes Delhi, Mumbai, Chennai, Kolkata, Ahmadabad, Hyderabad, Bangalore and Pune whereas rest of the India comes in Zone B. Premium rates in Zone A are usually higher than those in Zone B.

In case of Commercial vehicles the insurance rates are dependent upon the passenger carrying capacity of vehicles, Insured's declared value, age of vehicle and the zone of operation. Here there are three zones -Zone A, Zone B and Zone C. Zone A includes Delhi, Mumbai, Kolkata and Chennai. Zone B includes all other state capital and Zone C includes the rest of the India.

## 2.6 THIRD-PARTY INSURANCE

Third party insurance as the name suggest it protects from the financial risk because of legal actions of another party i.e., the third party.

At this point one must be clear that the first party is insured, the second party is the insurance company and the third party is the one which has made claims for liability that has come into being because of the actions of the first party.

So this insurance helps the insured to be protected from the liability arising out of claims of another party i.e. third party against insured.

Liability insurance is another name for third party insurance. In India under the provisions of Motor Vehicle Amendment Act, 2019, it is mandatory to have vehicle insurance. In that it is mandatory to have third party liability cover. This is also called as act only cover. Thus third party insurance is compulsory for all motor vehicles.

Benefits & features of third party insurance policy for your vehicles:

1. Death or bodily injury to a third party
2. Damage to a third party property

3. Accidental death of the vehicles owner or driver
4. Permanent total disability suffered by the vehicle owner or driver.



Fig. 2.5: Parties involved in third party insurance

Usually there are two kinds of policies

**Act only policy-** This is also called as liability only policy which is mandatory for vehicles as per the motor vehicle act. This policy covers the insured liability for third party bodily injury or death and third party property damage.

**Comprehensive policy-** In comprehensive policy coverage is given for the all the damages that are covered in act only policy as well as own damages to motor vehicles i.e. specified perils subject to IDV. Comprehensive policy includes third party insurance plus private car policy.

Like in the motor insurance, the third party insurance may not be applicable to certain situations. Some common situation is as follows:

1. Accidental death or damage has taken place beyond the geographical boundary covered in policy.
2. Claims arising because of contractual liability
3. Liability caused because of nuclear weapon or radioactive contamination
4. Losses are caused because of war.
5. The driver of vehicle was not the designated driver as per the policy.

One must note that there may be other situations where third party insurance may not be applicable. For this one has to look at the terms and conditions in each plan offered by a particular company.



Notes



Notes



### INTEXT QUESTIONS 2.3

1. Mr. X bought a Maruti Suzuki Car for his family. His wife is very happy that Mr. X has taken insurance for their car. You have to select from following regarding the kind of insurance that has been taken by Mr. X.
  - a) Private Car Insurance
  - b) Two Wheeler Insurance
  - c) Commercial Vehicle Insurance
  - d) None of the above
2. Which of the following is not an exclusion under Motor Insurance?
  - a) General wear and tear
  - b) Damages occurred under the influence of drugs, alcohol or other intoxicating substance.
  - c) Loss or damage outside the region covered by policy
  - d) Riots and strike
3. Which of the following will not be covered under commercial vehicle insurance?
  - a) Goods Carrying Vehicles
  - b) Taxi, bus, and rickshaw.
  - c) Publicity vans, ambulances etc.
  - d) Cargo carrying ships
4. IDV refers to :
  - a) Insured's Declared Value
  - b) Insurers Declared Value
  - c) Insurer's Declaration Value
  - d) Insured Declaration Value
5. In case of motor insurance, Delhi comes under Zone \_\_\_\_\_
  - a) A
  - b) B
  - c) C
  - d) D

6. The third party insurance may not be applicable to which of the following situations?
- Accidental death or damage has taken place beyond the geographical boundary covered in policy.
  - Losses are caused because of war.
  - Liability caused because of nuclear weapon or radioactive contamination
  - All of the above


**Notes**


### WHAT YOU HAVE LEARNT

A householder's insurance policy provides protection for losses to insured's property from the perils named in the insurance policy. This insurance is meant to take care of a person's house. A shopkeeper insurance is the one which protects a shopkeeper from the losses he could suffer due to unprecedented events that could harm shop and thus shopkeeper. Some of the other package covers prevalent in the market are Multi-peril policy for L.P.G. gas dealers, Doctor's package policy, Adhikari suraksha kavach. Motor insurance is taken in context of vehicles plying on the road. Motor insurance can be taken for Private cars, two wheelers and Commercial vehicles. Commercial vehicles can be classified as -Goods Carrying Vehicles, Passenger carrying Vehicles like taxi, bus, and rickshaw, Miscellaneous Vehicles like hearses, publicity vans, ambulances etc. There are certain exclusions in this insurance. Insured's Declared Value (IDV) refers to the sum insured in a motor vehicle insurance policy. Third Party insurance helps the insured to be protected from the liability arising out of claims of another party i.e. third party. Comprehensive policy includes third party insurance plus private car policy. The third party insurance is compulsory for all motor vehicles.



### TERMINAL QUESTIONS

- Explain the coverage under shopkeeper's insurance policy.
- Explain the coverage under Householder's insurance policy.
- Explain the different types of motor insurance.
- List the perils and exclusions under motor insurance
- Write the factors to be taken into account while determining IDV and premium under motor insurance.
- Explain the concept of Third Party Insurance in detail along with its benefits and exclusions.

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### Non-Life Insurance



Notes

### PACKAGE POLICIES AND MOTOR INSURANCE

7. Write short notes on:

- a) Doctor's package policy                      b) LPG dealer's policy



### ANSWERS TO INTEXT QUESTIONS

#### 2.1

1. (d) War and nuclear perils
2. (b) Loss of or damage to personal baggage due to accident or misfortune whilst travelling anywhere in India
3. (c) 10
4. (a) Reinstatement value or market value as opted by the Insured.
5. (d) Section 10

#### 2.2

1. (c) Restaurant
2. (c) 11
3. (b) Family members of the insured
4. (c) Fire
5. (d) Legal Liability

#### 2.3

1. (a) Private car Insurance
2. (d) Riots and strike
3. (d) Cargo carrying ships
4. (a) Insured's Declared Value
5. (a) A
6. (d) All of the above



### LEARNING OUTCOMES

After studying this chapter, you are able :

- To understand various package policies available in the insurance market. To explain the importance of motor insurance including own damage and third party insurance.

**3**

## **FIRE & CONSEQUENTIAL LOSS INSURANCE**

**Notes**

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### **3.0 INTRODUCTION**

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Business enterprises may take great caution and use all the latest technology at their business premises for avoiding any loss due to fire or other perils but the possibility of accident cannot be entirely negated. In case of any fire, the fire and water used to extinguish the fire can destroy the building as well as the stock, and other goods present inside the building. This may create a big financial and mental burden on the business enterprises and organisations may not be able to rebuild their business due to lack of funds. Thus, buying a fire insurance for your business becomes essential as well as recommended. In this chapter you will learn how property, fire and Consequential Loss Insurance can help the business enterprises avoiding a big financial loss caused due to various factors.

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### **3.1 OBJECTIVES**

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After reading this lesson, you will be able to:

- Explain fire insurance
- Define consequential loss insurance

---

### **3.2 MEANING OF FIRE INSURANCE**

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The term fire in fire insurance is interpreted in the literal and popular sense. There is fire when something burns. In other words fire means visible flames or actual ignition. Simmering/ smoldering is not considered fire in Fire Insurance. Fire produces heat and light but either of them alone is not fire. Lightening is not a fire but if it ignites something,

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### Non-Life Insurance



#### Notes

### FIRE & CONSEQUENTIAL LOSS INSURANCE (PART-1)

the damage may be due to fire. Under section 2(6A) Insurance Act 1938, the fire insurance business is defined as follows:

"Fire insurance business means the business of effecting, otherwise than independently to some other class of business, contracts of insurance against loss by or incidental to fire or other occurrence customarily included among the risks insured against in fire insurance policies".

**Example: The following are the items which can be burnt/ damaged through fire:**

- Buildings
- Electrical installation in buildings
- Contents of buildings such as machinery, plant and equipment, accessories, etc.
- Goods (raw materials, in-process, semi-finished, finished, packing materials, etc.) in factories, godowns etc.
- Goods in the open
- Furniture, fixture and fittings
- Pipelines (including contents) located inside or outside the compound, etc.

The owner of abovementioned properties can insure against fire damage through fire insurance policy which provides financial protection for property against loss or damage by fire.

**Commercial enterprises are broadly divided into two types:**

- Small and Medium Enterprises [SMEs] and
- Large Business Enterprises

By meeting these consumers' needs, the general insurance industry has historically expanded to a significant extent.

It's important to carefully match insurance products with customers' demands when selling general insurance to businesses. The products that are provided must be properly understood by the agents. Let's take a quick look at a few of these general insurance options.

### 3.3 FIRE INSURANCE

Commercial buildings, property owners, people who hold property in trust or on commission, and people or financial institutions with a financial interest in the property are all eligible for fire insurance policies.

Any movable or immovable property that is present at a specific location, such as buildings, machinery, plant, furniture, fixtures, fittings, and other contents, stocks and stock in process, including stocks at suppliers' or customers' premises, and machinery that has been temporarily removed from the location for repairs, can be insured. To repair and refresh the damaged property and return the business to normal operations, financial relief is necessary. This is where fire insurance comes into play.

In India, in addition to fire, additional risks are also covered by fire insurance policies.

#### 3.3.1 PERILS UNDER FIRE POLICY

Some of the perils covered by the fire policy are discussed below.

The fire policy for commercial risks covers the perils of:

- Fire
- Lightning
- Explosion / implosion
- Riot strike and malicious damage
- Impact damage
- Aircraft damage
- Storm, tempest, cyclone, typhoon, hurricane, tornado, flood and inundation
- Subsidence and landslide including rock slide
- Bursting and overflowing of water tanks, apparatus and pipes
- Missile testing operations
- Leakages from automatic sprinkler installation
- Bush fire

Commercial insurance differs from individual and retail coverage in two significant ways.



**Notes**

## Module - 3

### Non-Life Insurance



Notes

### FIRE & CONSEQUENTIAL LOSS INSURANCE (PART-1)

- a) Compared to individuals, businesses or organisations have substantially greater insurance demands. The reason is because the value of a business's assets is far higher than the value of an individual's assets. Their destruction or loss could have a negative effect on the business's very existence and future.
- b) Legal or other regulations frequently dictate or make necessary the need for business company insurance. For instance, insurance for plants and assets may be required when setting up assets with a bank loan. In India, there are many professionally operated corporations, many of which are multinationals. They must uphold international quality standards, which includes implementing suitable risk management plans and purchasing insurance to safeguard company assets.

Subject to certain exclusions, the policy will cover any loss resulting from the aforementioned hazards.

#### Exclusions

- a) War and war like activities
  - i. Nuclear perils
  - ii. Ionization and radiation
  - iii. Pollution and contamination losses
- b) Perils that are covered by other policies in General Insurance
  - i. Machinery Breakdown,
  - ii. Business Interruption

#### 3.3.2 Add-On Covers

However some perils can be covered by payment of additional premium:

- Earthquake,
- Fire and shock;
- Deterioration of stock in the cold storages following power failure as a result of insured peril,
- Expenditure involved in removal of debris,
- Architect, consulting engineers fee over and above the amount covered by the policy,
- Forest fire,
- Spontaneous combustion and impact damage due to own vehicles.



### INTEXT QUESTIONS 3.1

1. A fire policy for commercial or business risks covers the perils of \_\_\_\_\_
  - a) Explosion
  - b) Implosion
  - c) Both of the above
  - d) None of the above
2. Which of the following is not an exclusion under fire insurance?
  - a) Nuclear perils
  - b) Ionization and radiation
  - c) Machinery Breakdown
  - d) Subsidence and landslide
3. What is the standard period for fire insurance policy?
  - a) 6 months
  - b) 12 months
  - c) 4 months
  - d) 18 months



Notes

### 3.3.3 Variants of Fire Policy

Fire insurance plans are often given out for 12 months. Insurance companies only provide long-term policies, or those that last more than a year, for homes. Sometimes short-term policies are also issued, and these policies are covered by the short-term scales.

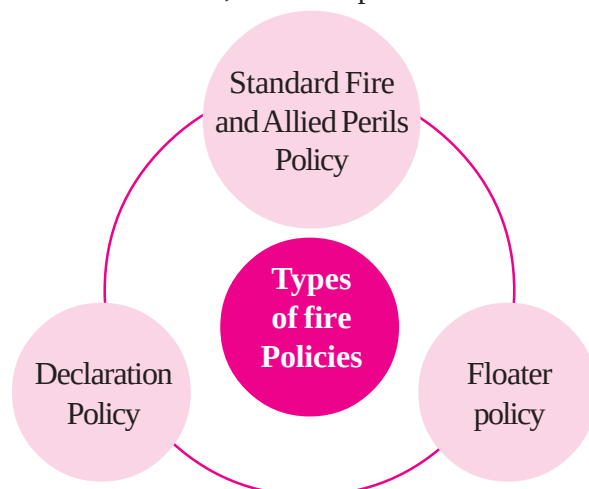


Figure 3.1: Types of fire policies



Notes

In India, under fire insurance policy, in addition to fire, other perils are also included and the policy is known as "Standard Fire and Allied Perils Policy".

#### A) **Standard Fire and Allied Perils Policy:- Perils Covered:-**

1. Fire Excluding destruction or damage caused to the property insured by
  - i) its own fermentation, natural heating or spontaneous combustion.
  - ii) its undergoing any heating or drying process.
  - iii) burning of property insured by order of any Public Authority.
2. Lightning
3. Explosion/Implosion

Excluding loss, destruction of or damage: -

1. To boilers (other than domestic boilers), economizers or other vessels, machinery or apparatus (in which steam is generated) or their contents resulting from their own explosion/implosion, caused by centrifugal forces.
2. Aircraft Damage
3. Loss, Destruction or damage caused by Aircraft, other aerial or space devices and articles dropped there from excluding those caused by pressure waves.
4. Riot, Strike and Malicious Damage
5. Physical damage or destruction by external violent means directly caused to the property insured.
6. Storm, Cyclone, Typhoon, Tempest, Hurricane, Tornado, Flood and Inundation
7. Impact Damage

Loss of or visible physical damage or destruction caused to the property insured due to impact by any Rail/ Road vehicle or animal by direct contact not belonging to or owned by :-

- a) The Insured or any occupier of the premises or
  - b) Their employees while acting in the course of their employment
8. Subsidence and Landslide including Rock slide

Loss, destruction or damage directly caused by Subsidence of part of the site on which the property stands or Land slide/Rock slide excluding:

- a) the normal cracking, settlement or bedding down of new structures
  - b) the settlement or movement of made up ground
  - c) coastal or river erosion
  - d) defective design or workmanship or use of defective materials
  - e) demolition, construction, structural alterations or repair of any property or ground works or excavations
9. Bursting and/or overflowing of Water Tanks, Apparatus and Pipes
10. Missile Testing operations
11. Leakage from Automatic Sprinkler Installations Excluding loss, destruction or damage caused by
- a) Repairs or alterations to the buildings or premises
  - b) Repairs, Removal or Extension of the Sprinkler Installation
  - c) Defects in construction known to the Insured.
12. Bush Fire Excluding loss, destruction or damage caused by Forest Fire.

**Exclusions**

- 1. This Policy does not cover (not applicable to policies covering dwellings) Excess applicable will be as mentioned in the policy schedule. The Excess shall apply per event per insured.
- 2. Loss, destruction or damage caused by war, invasion, act of foreign enemy hostilities or war like operations (whether war be declared or not), civil war, mutiny, civil commotion assuming the proportions of or amounting to a popular rising, military rising, rebellion, revolution, insurrection or military or usurped power.
- 3. Loss, destruction or damage directly or indirectly caused to the property insured by
  - a) Ionizing radiations or contamination by radioactivity from any nuclear fuel or from any nuclear waste from the combustion of nuclear fuel.

**Notes**

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### Non-Life Insurance



#### Notes

### FIRE & CONSEQUENTIAL LOSS INSURANCE (PART-1)

- b) The radioactive toxic, explosive or other hazardous properties of any explosive nuclear assembly or nuclear component thereof
4. Loss, destruction or damage caused to the insured property by pollution or contamination excluding
  - a) Pollution or contamination which itself results from a peril hereby insured against.
  - b) Any peril hereby insured against which itself results from pollution or contamination.
5. Loss, destruction or damage to bullion or unset precious stones, any curios or works of art for an amount exceeding Rs.10000/-, goods held in trust or on commission, manuscripts, plans, drawings, securities, obligations or documents of any kind, stamps, coins or paper money, cheques, books of accounts or other business books, computer systems records, explosives unless otherwise expressly stated in the policy.
6. Loss, destruction or damage to the stocks in Cold Storage premises caused by change of temperature.
7. Loss, destruction or damage to any electrical machine, apparatus, fixture, or fitting arising from or occasioned by over-running, excessive pressure, short circuiting, arcing, self-heating or leakage of electricity from whatever cause (lightning included). This exclusion may apply to only to the particular electrical machine, apparatus, fixture or fitting so affected and not to other machines, apparatus, fixtures or fittings which may be destroyed or damaged by fire so set up.
8. Expenses necessarily incurred on
  - (i) Architects, Surveyors and Consulting Engineer's Fees and
  - (ii) Debris Removal by the Insured following a loss, destruction or damage to the Property insured by an insured peril in excess of 3% and 1% of the claim amount respectively.
  - a) Loss of earnings, loss by delay, loss of market or other consequential or indirect loss or damage of any kind or description whatsoever.
  - b) Loss or damage by spoilage resulting from the retardation or interruption or cessation of any process or operation caused by operation of any of the perils covered.

- c) Loss by theft during or after the occurrence of any insured peril except as provided under Riot, Strike, Malicious and Terrorism Damage cover.
- d) Any Loss or damage occasioned by or through or in consequence directly or indirectly due to earthquake, Volcanic eruption or other convulsions of nature.
- e) Loss or damage to property insured if removed to any building or place other than in which it is herein stated to be insured, except machinery and equipment temporarily removed for repairs, cleaning, renovation or other similar purposes for a period not exceeding 60 days.

### B) Declaration Basis Policies

- ❖ This policy is issued for the maximum value of stock to be insured. At the beginning of the contract, three-fourths of the premium payable is charged from the insured in advance. Every month the policyholder is required to declare the value of present stock. In case of any loss by fire, the compensation is made on the basis of declared value. At the end of the insured period, based on the values stock declared, the total of premium payable is worked out as average.
- ❖ Wholesalers, retailers or distributors often taken this type of policy. A declaration policy takes care of the frequent fluctuations in stock or stock values. Stock stored at a warehouse or factory may include raw materials or finished goods.
- ❖ In the declaration policy for a warehouse or a factory, the minimum sum insured can be for one or more location. But this amount of sum insured must not be less than a pre-defined amount in the policy for at least one of the locations. The policy does not allow a reduction in the sum insured.
- ❖ In case of a warehouse or a factory, the monthly declarations are to be submitted to the factory and warehouse insurance company latest by the last day of the next month. These declarations can be based upon:
  - ❖ Average of the value at risk
  - ❖ Highest value at risk for the particular month
  - ❖ In case of failure to submit the declaration within the stipulated period, the insurers consider that the full sum insured under the policy is declared.



Notes

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### Non-Life Insurance



Notes

### FIRE & CONSEQUENTIAL LOSS INSURANCE (PART-1)

- ◆ Another important factor that the declaration policy states is that, when there is a refund of premium based on adjustments like declarations or cancellations, the refund will not exceed 50% of the total premium.
- ◆ The basis for valuation of the stock or the inventory stored in the warehouse or the factory value close to the market price.

#### C) Floater Policy

It is a policy which covers loss by fire caused to property belonging to the same person but located at different places under a single sum and for one premium. Such a policy might cover goods lying in two warehouses at two different locations. This policy is always subject to 'average clause'.

##### Basic features:-

- ◆ Takes care of frequent changes in values at various locations.
- ◆ Single sum insured for all the stocks in all the locations.
- ◆ Nominal premium loading to cover all the stocks in all the locations

#### 3.3.4 Special Clauses

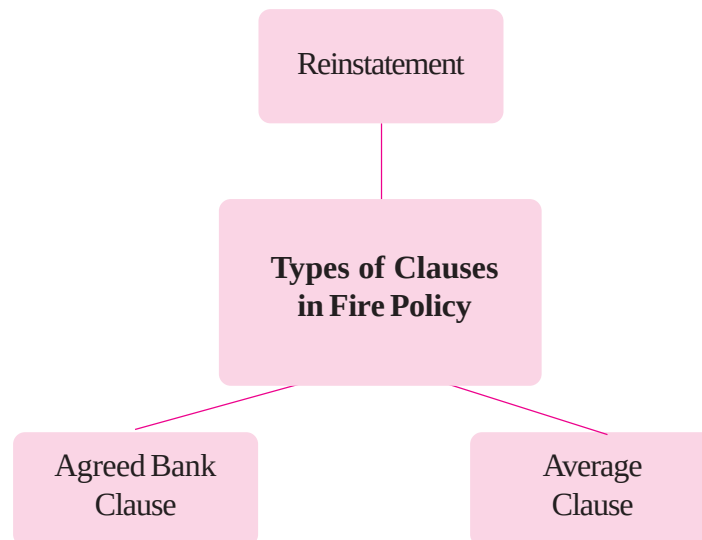


Fig. 3.2: Types of clause in Fire policy

#### 1. Reinstatement Clause

Reinstatement Clause in a Fire insurance policy makes it different from a traditional fire insurance policy. In fire insurance the principle of indemnity can be modified



Notes

in the case of building, machinery and other fixed assets whereby, subject to the sum insured representing the value of similar new property, it can be insured under 'Reinstatement Value' clause.

In case of reinstatement value policy, the basis of loss settlement is the value of new property without taking any depreciation into account. This type of insurance enables the owner to replace his property without any financial strain on his own resources and is quite commonly taken by industrialists and building owners.

Each building has a definite built-up area and ascertainable constructional specification. Any civil engineer or architect can examine the current cost of construction, keeping all relevant factors in view. For arriving at the cost of buildings, various publications such as the CPWD rates are available as guideline

## 2. Average Clause

To cater to the concerns of under-insurance, there is an average clause in fire policy. This means that in case of loss the insured has to bear a part of the loss. Underinsurance implies when the insured has insured the property less than its actual value. The insurer will only bear ratable proportion of the loss. In other words, for the difference between the actual value of subject matter and the amount for which it is insured, the insured has to be his own insurer.

**Example:** Suppose a property worth Rs. 4,00,000 is insured for Rs. 2,50,000 and the fire policy contains the average clause. Now, if half the property is destroyed by fire (loss amount- Rs 1,00,000), the insurer will pay only Rs. 62,500 which is calculated as per the following formula.

Insured amount (Rs.2,50,000) x Actual loss(Rs. 1,00,000) / Actual value of the property(Rs.4,00,000)

## 3. Agreed Bank Clause

All policies in which a Bank has a partial interest are to be made out in the name of the Bank and Owner or Mortgagor and the Agreed Bank Clause incorporated in the policy. The salient features of the clause are :

- (a) The claim is payable to the bank whose receipt shall be a complete discharge and binding on all parties insured.
- (b) Any notice under the policy is sufficient if given by or to the bank.
- (c) Any settlement, compromise etc. in relation to dispute if made with the bank shall be valid and binding on all parties insured.

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### Non-Life Insurance



#### Notes

### FIRE & CONSEQUENTIAL LOSS INSURANCE (PART-1)

- (d) Any alteration or increase in risk does not invalidate the insurance, provided the bank notifies the same as soon as it comes to its knowledge and pays additional premium

The All India Fire Tariff states this clause as under:-

"It is hereby declared and agreed: -

- a) That upon any monies becoming payable under this policy the same shall be paid by the Company to the Bank and such part of any monies so paid as may relate to the interests of other parties insured hereunder shall be received by the Bank as Agents for such other parties.
- b) That the receipts of the Bank shall be complete discharge of the Company therefore and shall be binding on all the parties insured hereunder. N.B.(Note Well): The Bank shall mean the first named Financial Institution/ Bank named in the policy.
- c) That if and whenever any notice shall be required to be given or other communication shall be required to be made by the Company to the insured or any of them in any manner arising under or in connection with this policy such notice or other communication shall be deemed to have been sufficiently given or made if given or made to the Bank.
- d) That any adjustment, settlement, compromise or reference to arbitration in connection with any dispute between the Company and the insured or any of them arising under or in connection with this policy if made by the Bank shall be valid and binding on all parties insured hereunder but not so as to impair rights of the Bank to recover the full amount of any claim it may have on other parties insured hereunder."



### INTEXT QUESTIONS 3.2

1. What are the policies that cover storage of items in many locations under a single sum insured?
  - a) Declaration policies
  - b) Floater policies
  - c) Reinstatement policies
  - d) None of the above

**Notes**

2. What are the policies for stocks of goods that are subject to fluctuation in quantity called?
  - a) Declaration policies
  - b) Floater policies
  - c) Reinstatement policies
  - d) None of the above
3. Which of the following is not a peril under a Fire policy?
  - a) Lightning
  - b) Aircraft damage
  - c) Storm, tempest, cyclone, typhoon, hurricane, tornado, flood and inundation
  - d) War and Nuclear perils
4. The monthly declarations for a warehouse or a factory are to be submitted to the insurance company latest by the last day of the next month. These declarations can be based upon:
  - (i) Average of the value at risk
  - (ii) Highest value at risk for the particular month
  - (iii) Profits of previous year
  - (iv) Rent of warehouse
  - a) i & ii
  - b) ii & iii
  - c) iii & iv
  - d) i & iv
5. Which of the following clause caters to the issue of underinsurance in Fire policy?
  - a) Reinstatement Clause
  - b) Average Clause
  - c) Agreed Bank Clause
  - d) None of the above



Notes

### 3.4 CONSEQUENTIAL LOSS (CL) INSURANCE / BUSINESS INTERRUPTION INSURANCE

Business Interruption insurance is also known as Consequential Loss Insurance or Loss of Profit Insurance. Insurance against fire offers protection against material or property loss or damage to buildings, machinery, plants, fixtures, and other property caused by insured risks. The insured's business may be completely or partially interrupted as a result, causing varying economic losses during the disruption.

#### 3.4.1 Coverage under Consequential Loss (CL) Policy or Business Interruption Policy

Consequential Loss (CL) Policy [Business Interruption (BI)] offers indemnity for loss of gross profit, which is made up of Net Profit plus Standing Charges, as well as the increased cost of operations or working incurred by the insured to get the business back to normal as quickly as possible to reduce the final loss. The risks and circumstances covered are the same as those covered by the fire policy.

#### Example

If the sugar mill factory is damaged by an earthquake, the company will lose money because of the lost production. If the loss was caused by an insured danger, both the additional expenses and the lost income can be protected.

This insurance must be purchased alongside a normal fire and special perils policy since claims under this policy can only be honoured in conjunction with a claim under a standard fire and special perils policy.



#### INTEXT QUESTIONS 3.3

1. A business interruption insurance policy can be taken only in combination with \_\_\_\_\_ .
  - a) Standard fire and special perils policy
  - b) Standard fire and marine policy
  - c) Standard and special perils policy
  - d) Standard Engineering and marine policy

2. Consequential Loss (CL) Policy Provides indemnity for loss of gross profit comprising of \_\_\_\_\_ + \_\_\_\_\_ along with the increased cost of operations or working incurred by the insured to get the business back to normal.
- a) Net profit , Standing charges
  - b) Net income , standing charges
  - c) Net profit + salaries
  - d) Net income + salaries



### WHAT YOU HAVE LEARNT

A fire insurance policy is appropriate for businesses, the property owner, and people or financial institutions with a financial interest in the property. Fire insurance plans are often given out for 12 months. Reinstatement value policies, Declaration policies, and Floater policies are examples of fire policy variants. Consequential Loss (CL) Policies or Business Interruption (BI) Policies provide indemnity for loss of what is referred to as gross profit, which includes Net Profit plus Standing Charges as well as the increased cost of working incurred by the insured to get the business back to normalcy as quickly as possible to reduce the final loss.



### TERMINAL QUESTIONS

1. What are the perils covered under Fire insurance? Also list down the exclusions under fire insurance policy.
2. Explain in detail various types of fire policies.
3. Describe in brief
  - a) Reinstatement Clause
  - b) Average Clause
  - c) Agreed Bank Clause
4. Define Consequential Insurance Policy.

**Notes**

## Module - 3

### Non-Life Insurance



Notes

## FIRE & CONSEQUENTIAL LOSS INSURANCE (PART-1)



### ANSWERS TO INTEXT QUESTIONS

#### 3.1

1. (c) Both of the above
2. (d) Subsidence & Landslide
3. (b) 12 months

#### 3.2

1. (b) Floater policies
2. (a) Declaration Policies
3. (d) War and Nuclear perils
4. (a) i & ii -Average of the value at risk & Highest value at risk for the particular month
5. (b) Average Clause

#### 3.3

1. (a) Standard fire and special perils policy
2. (b) Net profit, Standing charges



### LEARNING OUTCOMES

After studying this chapter, you are able :

- To explain the concepts of fire and consequential insurance along with its types.

**4****MISCELLANEOUS INSURANCE****Notes**

---

**4.0 INTRODUCTION**

---

In the previous chapter you have studied about the fire insurance and its various policies which made you understand the importance of taking a fire insurance policy for any commercial or business enterprises or a firm. There also exist a different set of customers who have other needs for safety and protection. These are the commercial or business establishments or firms that are involved in or deal with diverse varieties of products and services. In this chapter we shall consider the insurance products available to cover the risks faced by this segment. You will be able to learn burglary insurance cover, coverage of losses caused due to dishonesty of employees called fidelity guarantee insurance, banker's indemnity insurance and jeweler's block policy insurance.



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**4.1 OBJECTIVES**

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After reading this lesson, you will be able to:

- Understand burglary insurance
- Explain Miscellaneous Insurance other than Life, Fire and Marine
- Explain burglary insurance, money insurance, fidelity guarantee insurance, banker's indemnity insurance and jeweler's block policy

---

**4.2 MISCELLANEOUS INSURANCE**

---

Miscellaneous Insurance refers to those insurance contracts other than those of Life, Fire and Marine insurance. It covers a range of risks, the few of which are burglary

#### Non-Life Insurance



Notes

insurance; fidelity guarantee insurance; money insurance; bankers' indemnity insurance; jeweler's block insurance; and banker's indemnity insurance.

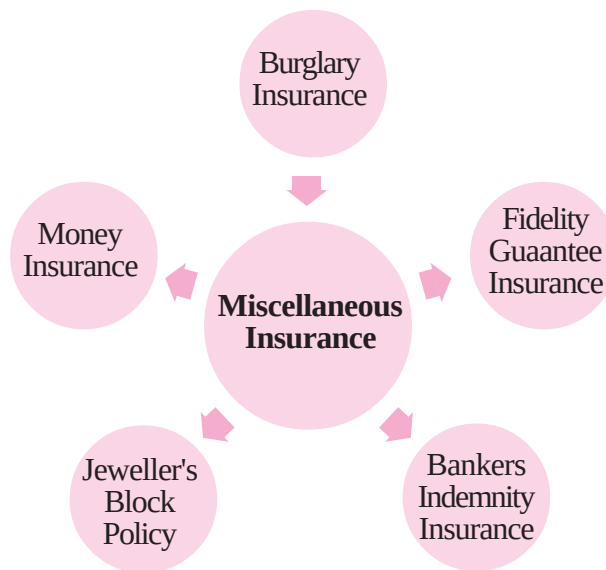


Figure 4.1: Types of Miscellaneous Insurance

#### 4.2.1 Burglary Insurance

The policy is intended for commercial buildings such as factories, shops, offices, warehouses, and godowns that may also include stock, commodities, fixtures, and furniture, as well as money in a locked safe that is susceptible to theft. The following are the areas covered:

1. Risks protected by burglary insurance
  - a) A loss of personal possessions following a real, violent, forceful entry into the premises or a loss observed following a violent, forcible withdrawal from the premises.
  - b) Burglar damage to insured assets or premises. Only when a piece of insured property is stolen from the insured premises and not from another location is it covered.

Types of cover under burglary insurance:

##### A) Cash cover

Cash cover is a crucial component of burglary insurance coverage. It only works as long as the money is kept safe in a safe that is both burglar-proof and of a

reliable make and design. The following list includes the typical terms and conditions for providing cash cover:

- a) Money stolen from the safe after the original key was used to access it. Only when such a key has been gained through force, violence, or threats of violence is it covered. This is typically referred to as a "key clause."
- b) A comprehensive list of the cash quantities in the safe is maintained secure somewhere other than the safe. The maximum amount for which the insurer is liable is indicated by such documents.

### B) First Loss Insurance

The chance of losing the entire stock due to a single event is regarded as remote in circumstances where low value items may be purchased in large quantities (such as cotton in bales, grain, sugar, and many others). The premium is charged to cover the total stock at risk while accounting for the value of the property, goods, or stock that could be burglarized. This value is determined as the probable maximum loss. It is anticipated that a second burglary won't occur right away after the first one, or that the insured may decide to add extra safety precautions as a result of its recurrence.

- C) Similar to fire insurance, declaration cover and floater cover are also options for stocks.

### Exclusions

- Theft by employees, family members or other persons who are lawfully on the premises
- Larceny or ordinary theft.
- Losses that are covered by a fire or plate glass policy.

### Extensions

- Riot, strikes and terrorism risks at extra premium.

### Premium

Rates of premium for burglary policy depend upon:

- The nature of insured property,
- The moral hazard of the insured himself,
- Previous claims experience etc.



Notes

#### Non-Life Insurance



#### Notes

- Safety measures (e.g. watchmen, burglar alarm),
- Construction and location of premises,
- In addition to details given in the proposal form, a pre-acceptance inspection is done by insurers where high values are involved.

#### 4.2.2 Money Insurance

Cash handling is an integral part of any business. It is designed to guard against financial loss for industrial businesses and banks. Both inside and outside the building, money is in danger. It might be illegally taken away whether making a withdrawal, deposit, payment, or collection.

##### Coverage of Money Insurance

Losses that could happen when handling cash, checks, postal orders, or postage stamps are covered by money insurance policies. Typically, the policy offers protection through two sections:

##### a) Transit Section

It covers loss of cash while being transported outside by the insured or her authorised staff as a result of theft, robbery, or other similar actions.

Two amounts are specified in the transit section:

- "Limit per carrying"**: The greatest sum that insurers may be forced to pay in respect of any loss
- "Estimated amount in transit during the policy period"**: It represents the amount to which the rate of premium is to be applied in order to determine the amount of premium.

Like with fire insurance, policies can be granted on a "declaration basis." As a result, insurers assess a provisional premium on the expected quantity in transit and then adjust it when the policy expires depending on the actual amount that was transported throughout the policy period as reported by the insured.

##### b) Premises Section

This section deals with the theft of cash from a person's home or locked safe as a result of burglary, home invasion, holdup, etc. Other aspects of the policy are typically the same as those of the above-discussed burglary insurance.

**Important Exclusions**

- a) Shortage due to error or omission,
- b) Loss of money that has been entrusted to other than authorized person and
- c) Riot strike and terrorism: This can be covered as an extension by paying an extra premium.

**Extensions**

On payment of additional premium the policy may be extended to cover:

- a) Dishonesty of persons carrying cash,
- b) Riot, strike and terrorism risks
- c) Disbursement risk, which is the loss suffered during payment of wages to employees

**Premium**

The premium amount is set based on the insured, the company's capacity to carry cash at any one moment, the form of transportation, the distance travelled, the safety precautions taken, etc. If a declaration is made within 30 days of the policy's expiration, the premium can be adjusted depending on the actual cash carried throughout the course of the year.

**INTEXT QUESTIONS 4.1**

1. The premium for burglary policy depends on \_\_\_\_\_.
  - a) Nature of insured policy
  - b) Moral hazard of the insured himself
  - c) Construction and location of the premises
  - d) All of the above
2. Which of the following is exclusion under burglary insurance?
  - a) Larceny
  - b) Theft by employees or family members
  - c) Loss that are covered by fire or plate glass policy
  - d) All of the above

**Notes**

#### Non-Life Insurance



Notes

3. Which of the below is covered under a money insurance policy?
  - a) Shortage due to error or omission
  - b) Loss of cash from one's premises due to burglary
  - c) Loss of money that has been entrusted to other than authorized person
  - d) Riot strike and terrorism
4. Money insurance policy is covered under which of the following sections?
  - a) Transit Section
  - b) Premises Section
  - c) None of the above
  - d) All of the above

#### 4.2.3 Fidelity Guarantee Insurance

Companies experience financial loss as a result of what are referred to as "white collar crimes," such as employee fraud or dishonesty. Employers are protected by fidelity guarantee insurance from financial loss brought on by employee fraud or dishonesty, including forgery, embezzlement, larceny, misappropriation, and default.

##### Coverage under Fidelity Guarantee Insurance

Cover is granted against a direct pecuniary loss and does not include consequential losses.

- a) The loss should be in respect of moneys, securities or goods
- b) The act should be committed in the course of the duties specified;
- c) The loss has be discovered within 12 months of expiry of the policy or death retirement resignation or dismissal of the employee, whichever is earlier
- d) No cover is provided in respect of a dishonest employee who has been re-employed

##### Types of Fidelity Guarantee Policy

There are various types of fidelity guarantee policies, as discussed below:

##### a) Individual Policy

When only one person is required to be ensured, this kind of policy is employed. It is necessary to specify the employee's name, title, and guarantee amount.

**b) Collective Policy**

This policy includes a schedule detailing the employees' names to whom the guarantee applies, a notation on each employee's responsibilities, and distinct individual quantities guaranteed.

**c) Floating Policy or Floater**

The names and responsibilities of the people who will be insured are included in a schedule of this policy, but there are no individual guarantees; instead, a certain amount of guarantee is "floated" over the entire group. Therefore, a claim against any one employee will lower the floated guarantee, unless the original amount is restored by paying an additional premium.

**d) Positions Policy**

This is similar to a collective policy, with the exception that the name is not mentioned and only the schedule spells out "positions" that are to be guaranteed for a given amount.

**e) Blanket Policy**

This policy applies to all employees without identifying them by name or position. The insurers don't make any inquiries regarding the personnel. Such procedures are only appropriate for an enterprise with a sizable workforce and the organisation conducts adequate background checks on all new hires. In the event of a claim, the references the employer collects must be made available to the insurers. The policy is only given to reputable large organisations.

**Premium**

The type of business profession, the employee's status, the check-and-supervision system, and the rate of premium are all factors.

**4.2.4 Bankers Indemnity Insurance**

This comprehensive cover was drafted for the banks, NBFCs and other institutions who deal with operations involving money, considering the special risks faced by them regarding money and securities.

**Coverage under Bankers Indemnity Insurance**

There are different variations to this policy based on the requirement of banker.



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- a) Money securities lost or damaged whilst within the premises due to fire, burglary, riot and strike.
- b) Loss suffered due to any cause whatsoever including negligence of the employees, when the property is carried outside the premises in the hands of authorized employees.
- c) Forgery or alteration of cheques, drafts, fixed deposit receipts etc.
- d) Dishonesty of employees with reference to money/securities or in respect of goods pledged.
- e) Dispatches by registered post parcels.
- f) Dishonesty of appraisers.
- g) Money lost while in the hands of agents of the bank like "Janata Agents", "Chhoti Bachat Yojana Agents".

Since the insurance is provided on a discovery basis, it will apply to any period during which a loss is detected rather than just the time during which it occurred. However, a cover ought to have been there when the loss actually happened.

Only losses that occurred within the previous two years of the date of discovery are typically covered, if the insurance coverage was continuous from the earlier date the loss occurred.

#### Important exclusions

- a) Trading losses
- b) Negligence
- c) Software crimes and
- d) Dishonesty of the partners / directors

#### Sum insured

The sum insured, which would typically float over the first five sections, must be fixed by the bank. "Basic sum insured" is what this is known as. Additionally, the policy permits a single mandatory and automatic reinstatement of the sum insured by payment of an additional premium.

#### Rating

The premium calculation is based on:

- a) Basic sum insured
- b) Additional sum insured
- c) Number of staff
- d) Number of branches

#### 4.2.5 Jeweller's Block Policy

India has become a major trading hub for jewellery, particularly diamonds, in recent years. Raw diamonds from imports are polished, cut, and exported. It covers all risks for a jeweller whose line of work is selling high-value items in limited quantities, such as jewellery made of gold and silver, articles set with diamonds and precious stones, wristwatches, etc. The trade entails keeping big quantities of these pricey commodities on hand and transporting them between locations.

##### Coverage of Jeweller's Block Policy

Jewelers block policy covers such risks. It is divided into four sections. Coverage under Section 1 is compulsory. The insured can avail of other sections at her option. It's a package policy.

- a) **Section I:** Covers loss of or damage to property whilst in the premises insured, as a result of fire, explosion, lightning burglary, house-breaking, theft, hold-up, robbery, riot, strikes and malicious damage and terrorism.
- b) **Section II:** Covers loss or damage whilst the property insured is in the custody of the insured and other specified persons.
- c) **Section III:** Covers loss or damage whilst such property is in transit by registered insured parcel post, air freight etc.
- d) **Section IV:** Provides cover for trade and office furniture and fittings in the premises against the perils specified in Section I.

Each section is separately rated for calculating premium.

##### Important Exclusions

- a) Dishonesty of agents, cutters, goldsmiths,
- b) Property kept during public exhibition
- c) Lost whilst being worn / carried for personal purpose



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- d) Property not kept in safe outside business hours
- e) Property kept in display windows at night
- f) Loss due to infidelity of employees or members of the insured family is not covered.

Fidelity guarantee cover should also be taken by the insured for full protection.

#### Premium

Based on the merits of each case, risks are graded. Different premium rates are used for each sector, and there are discounts for things like a private strong room, a round-the-clock watchman, a closed-circuit TV system, and other safety measures.

| Type of policy            | Types                                                                                       | Risk coverage                                                                                                                     | Exclusions                                                                                                                                                                                                   | Premium                                                                                                                                                                                     | Extensions                        |
|---------------------------|---------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------|
| <b>Burglary Insurance</b> | <ul style="list-style-type: none"><li>• Cash cover</li><li>• First Loss Insurance</li></ul> | Loss of property following actual forcible and violent entry into the premises damage to insured property or premises by burglars | Theft by employees, family members or other persons who are lawfully on the premises, nor does it cover larceny or ordinary theft. It also excludes losses that are covered by a fire or plate glass policy. | Nature of insured property, the moral hazard of the insured himself, construction and location of premises, safety measures (e.g. watchmen, burglar alarm), previous claims experience etc. | Riot, strikes and terrorism risks |


**Notes**

| Type of policy                      | Types                                                                                                                                                                                          | Risk coverage                                                                                                                                                                              | Exclusions                                                                                                                                                           | Premium                                                                                                                                                       | Extensions                                                                                                                    |
|-------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------|
| <b>Money Insurance</b>              | Cover the losses that may occur while cash, cheques / postal orders / postal stamps are being handled                                                                                          | The policy normally provides cover under two sections<br>a) Transit section<br>b) Premises section                                                                                         | Shortage due to error or omission<br>Loss of money that has been entrusted to other than authorized person and Riot strike and terrorism                             | Dishonesty of persons carrying cash<br>Riot, strike and terrorism risks<br>Disbursement risk, which is the loss suffered during payment of wages to employees | Cash carrying liability of the company at any one time, the mode of conveyance, distance involved, safety measures taken etc. |
| <b>Fidelity Guarantee Insurance</b> | <ul style="list-style-type: none"> <li>• Individual policy</li> <li>• Collective policy</li> <li>• Floating policy or floater</li> <li>• Positions policy</li> <li>• Blanket policy</li> </ul> | Insurance indemnifies employers against the financial loss suffered by them due to fraud or dishonesty of their employees by forgery, embezzlement, larceny, misappropriation and default. | <ul style="list-style-type: none"> <li>• Consequential losses</li> <li>• No cover is provided in respect of a dishonest employee who has been re-employed</li> </ul> | Type of business occupation, status of the employee, the system of check and supervision                                                                      |                                                                                                                               |

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| Type of policy                     | Types                                                                                                                                                                                                                                                   | Risk coverage                                                                                                                                                                                           | Exclusions                                                                                                | Premium                                                                              | Extensions                              |
|------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------|-----------------------------------------|
| <b>Bankers Indemnity Insurance</b> | Money securities lost or damaged<br>Loss suffered due to negligence of the employees, Forgery or alteration of cheques, drafts, fixed deposit receipts<br>Dishonesty of employees<br>Dispatches by registered post parcels.<br>Dishonesty of appraisers | This comprehensive cover was drafted for the banks, NBFC's and other institutions who deal with operations involving money, considering the special risks faced by them regarding money and securities. | Trading losses<br>Negligence<br>software crimes and dishonesty of the partners / directors                | Basic sum insured<br>Additional sum insured<br>Number of staff<br>Number of branches |                                         |
| <b>Jeweller's Block Policy</b>     | Section I<br>Section II<br>Section III<br>Section IV                                                                                                                                                                                                    | Covers loss of or damage to property whilst in the premises insured, as a result of fire, explosion, lightning                                                                                          | Dishonesty of agents, cutters, goldsmiths,<br>b) Property kept during public exhibition<br>c) Lost whilst | Section wise                                                                         | Section II<br>Section III<br>Section IV |

| Type of policy | Types | Risk coverage                                                                                        | Exclusions                                                                                                                                                                                                                                 | Premium | Extensions |
|----------------|-------|------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------|------------|
|                |       | burglary, house-breaking, theft, hold-up, robbery, riot, strikes and malicious damage and terrorism. | being worn/ carried for personal purpose<br>d) Property not kept in safe outside business hours<br>e) Property kept in display windows at night<br>f) Loss due to infidelity of employees or members of the insured family is not covered. |         |            |

Table 26.1: Overview of Miscellaneous Insurance



### INTEXT QUESTIONS 4.2

1. Fidelity guarantee insurance indemnifies \_\_\_\_\_.
  - a) Employers against the financial loss suffered by them due to fraud or dishonesty of their employees
  - b) Employees against the financial loss suffered by them due to fraud or dishonesty of their employer
  - c) Employees and employers against the financial loss suffered by them due to fraud or dishonesty of third party
  - d) Shareholders against the financial loss suffered by them due to fraud or dishonesty of the company management



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### MISCELLANEOUS INSURANCE (PART - 2)

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2. Which of the following is a fidelity guarantee insurance policy?
  - a) Positions Policy
  - b) Blanket Policy
  - c) Collective Policy
  - d) All of the above
3. Which of the below can be covered under a bankers indemnity insurance policy?
  - a) Money securities lost or damaged whilst within the premises due to fire
  - b) Forgery or alteration of cheques
  - c) Dishonesty of employees with reference to money
  - d) All of the above
4. The premium calculation for bankers indemnity insurance policy is based on:
  - a) Basic sum insured
  - b) Number of staff
  - c) Number of branches
  - d) All of the above
5. In case of a Jeweler's Block Policy, damage to property insured when it is in transit by registered parcel will be covered under\_\_\_\_\_.
  - a) Section I
  - b) Section II
  - c) Section III
  - d) Section IV
6. Which of the following is an exclusion under Jeweler's Block Policy?
  - a) Dishonesty of agents, cutters, goldsmiths,
  - b) Property kept during public exhibition
  - c) Lost whilst being worn / carried for personal purpose
  - d) All of the above



## WHAT YOU HAVE LEARNT

Burglary insurance is designed for commercial buildings like factories, stores, offices, warehouses, and go-downs that could have valuables like cash locked up in a safe that could be stolen. The purpose of a money insurance policy is to provide coverage for any potential losses that may arise from handling cash cheques, postal orders, or postage stamps. A money insurance policy offers protection under the transportation and premises sections. The hazards associated with transferring costly things between different locations in big quantities are covered by the jewellers block policy. The Jewelers Block Policy has four distinct sections. Employers are protected by fidelity guarantee insurance from financial loss brought on by employee fraud or dishonesty, including forgery, embezzlement, larceny, misappropriation, and default. Individual policies, collective floating policies, positional policies, and blanket policies are a few examples of fidelity guarantee policy types. A comprehensive insurance plan called a "bankers indemnity policy" was created for banks, NBFCs, and other organisations that deal with financial transactions, taking into account the unique risks that concern money and securities that they face.



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## TERMINAL QUESTIONS

1. Describe Burglary Insurance. Also mention the types of risk coverage.
2. Explain Banker's Indemnity insurance in detail.
3. Explain Jeweler's Block insurance in detail.
4. Describe Fidelity Guarantee Insurance Policy.
5. Explain Money Insurance and its coverage.



## ANSWERS TO INTEXT QUESTIONS

### 4.1

1. (d) All of the above
2. (d) All of the above
3. (b) Loss of cash from one's premises due to burglary
4. (d) All of the above

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#### 4.2

1. (a) Employers against the financial loss suffered by them due to fraud or dishonesty of their employees
2. (d) All of the above
3. (d) All of the above
4. (d) All of the above
5. (c) Section III
6. (d) All of the above



#### LEARNING OUTCOMES

After studying this chapter, you are able :

- To explain the concept of burglary insurance, money insurance, fidelity guarantee insurance, banker's indemnity insurance. Jeweler's block policy to the client.

**5**

## ENGINEERING INSURANCE

**Notes**

### 5.0 INTRODUCTION

The risks faced by commercial or business companies or businesses that operate in or deal with a variety of goods and services were covered in the previous chapter by various types of insurance products. In this chapter, we'll look at some of the different insurance options available to protect against the risks experienced by a similar segment. You will have the opportunity to discover engineering insurance and its types.



### 5.1 OBJECTIVES

After reading this lesson, you will be able to:

- Explain various types of engineering insurance
- Discuss in detail the coverage, purpose, of each engineering policy
- Discuss in detail the basis of premium and extensions of each engineering policy

### 5.2 ENGINEERING INSURANCE

A division of general insurance called engineering insurance grew concurrently with the expansion of fire insurance. Its emergence can be linked to the rise of industry, which emphasised the requirement for a distinct cover for equipment. Engineering projects were also given the concept of all risks cover, which covers damage from any cause unless it is specifically excluded. The items covered a range of phases, from building through testing to plant startup. Both large and small industrial units are the clients of

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this insurance. This also applies to buildings with electronic equipment and businesses hiring big-project contractors.

Let us briefly consider the Types of engineering insurance policies that fall under this type of insurance



Figure 5.1: Types of Engineering Insurance

#### 1. Contractors All Risks (C.A.R.) Policy

This is intended to safeguard the interests of principals and contractors working on civil engineering projects of all sizes, from small structures to enormous dams, structures, bridges, tunnels, etc. The policy includes a "All Risk" cover, which offers protection against any unexpected loss or damage to the insured property at the construction site. Third party liability and other hazards may be added to this. The type of premium that will be charged depends on the project's nature, cost, duration, location, and testing time.



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## 2. Contractors Plant & Machinery (CPM) Policy

Ideal for protecting various types of construction-related machinery, such as cranes and excavators, from abrupt, unforeseen physical loss or damage due to any reason, including:

- a) Burglary, theft, R.S.M.D.T.
- b) Fire and lightning, external explosion, earthquake and other Acts of God perils
- c) Accidental damage while at work due to faulty manhandling, dropping or falling, collapse, collision and impact; can be extended for third party damage.

The premium is based on the equipment's type and the environment in which it operates. The cover is functional whether the equipment is in use, inactive, being disassembled for cleaning, overhaul, or reassembling thereafter. The insurance also applies if the items are at the contractor's property.

## 3. Erection All Risks (EAR) Policy

Another name for this approach is the Storage-cum-Erection (SCE) policy. It is appropriate for the project's principal or contractors when equipment is being assembled because it is exposed to several threats from the outside. This is a complete insurance coverage that covers any unforeseen event beginning with the unloading of materials at the project site and continuing through the complete project period, including testing, commissioning, and project handover.

The type of premium that will be charged depends on the project's cost, duration, location, and testing time. A marine cover can be offered simultaneously with the erection policy if necessary to provide coverage for the tools and supplies during the transit phase until they are delivered at the construction site.

## 4. Machinery Breakdown Policy (MB)

Every industry that uses machines and where a breakdown in equipment could have major repercussions should use this policy. Generators, transformers, and other electrical, mechanical, and lifting equipment are covered by this policy.

The policy covers unexpected and sudden physical damage to the insured property caused by mechanical or electrical breakdown from any cause (subject to excluded risks):

- a) While it is at work or at rest.
- b) While being dismantled for cleaning or overhauling

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- c) During cleaning or overhauling operations and during reassembly thereafter.
- d) When being shifted within the premise.

The reinstatement or replacement value of each piece of machinery is subject to premium. It is recommended to insure the entire machine. The type of machine, the industry in which it is utilised, and its worth all affect rates. Discounts are provided based on things like stand-by facilities, replacement parts availability, and claims history.



### INTEXT QUESTIONS 5.1

1. Which of the following is not a basis of charging premium under Contractors all Risk Policy?
  - a) Nature of the project
  - b) Geographic location
  - c) Period of testing
  - d) Salaries of the workers
2. The cover for Erection All Risks (EAR) Policy starts from:
  - a) Beginning with the unloading of the materials at the project site and continuing throughout the duration of the project until the project is tested, commissioned, and handed over.
  - b) Only during construction period
  - c) Only during Testing period
  - d) None of the above
3. Machinery Breakdown Policy (MB) policy covers unexpected and sudden physical damage to the insured property caused by mechanical or electrical breakdown from any cause (subject to excluded risks):
  - a) While it is at work or at rest.
  - b) While being dismantled for cleaning or overhauling
  - c) When being shifted within the premise.
  - d) All of the above



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4. Which of the following perils are covered under Contractors Plant & Machinery (CPM) Policy?
- Burglary, theft, R.S.M.D.T.
  - Fire and lightning, external explosion, earthquake
  - Accidental damage while at work due to faulty manhandling, dropping or falling, collapse, collision and impact
  - All of the above

#### 5. **Boiler and Pressure Plant Policy**

This covers boilers and pressure vessels, against:

- Damage, other than by fire, to the boilers and / or other pressure plant and to surrounding property of the insured; and
- Legal liability of the insured on account of bodily injury to the person, or damage to the property, of third parties, caused by explosion or collapse due to internal pressures of such boiler and / or pressure plant.

Since fire policy and boiler insurance policy are mutually exclusive, for adequate cover, both the policies need to be taken. Sum insured under all Engineering Policies should be the current replacement value.

#### 6. **Machinery Loss of Profits (MLOP) Policy**

This policy is appropriate for sectors of the economy where delays or interruptions brought on by boiler explosions or machinery breakdown result in significant consequential losses.

This coverage covers the loss of earnings incurred due to a decline in turnover and an increase in labour costs during the interim where there is a significant time lag between the breakdown or loss and the restoration. The business interruption policy following a fire policy loss has the same terms, conditions, and coverage as the business interruption policy.

#### 7. **Deterioration of Stock Policy**

This insurance is appropriate for either the individual or cooperative society who owns the cold storage facility or for those who rent or lease it out for the storage of perishable goods. The insurance protects against the risks of deterioration and contamination brought on by the breakdown of refrigeration equipment and machinery, as well as against temperature increases and abrupt,

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unanticipated refrigerant escapes into cold storage rooms.

#### 8. Electronic Equipment Policy

This contains a variety of electronic devices, such as the full computer system with the CPU, keyboards, displays, printers, UPS, and system software, among other components. Auxiliary devices including heating, cooling, and power conversion are also covered.

This policy combines a fire policy, a policy for machinery, and a policy against theft. The coverage covers unforeseen events such as defective design (not covered by a warranty), the results of natural phenomena, defective functionality caused by voltage fluctuations, impact shock, etc., as well as burglary, housebreaking, and theft.

The policy is available to the owner, lessor or hirer, depending upon the responsibility or liability in each case. It has usually three sections that cover various types of losses:

- a) **Section 1:** Loss and damage to equipment
- b) **Section 2:** Loss and damage to external data media like computer external hard disks
- c) **Section 3:** Increased cost of working - to ensure continued data processing on substitute equipment upto 12, 26, 40 or 52 weeks.

#### 9. Advance Loss of Profit Cover (ALOP) or Delay in Start-up Policy (D.S.U.)

This addresses the financial repercussions of project delays brought on by unavoidable damages. It is appropriate for the insured who loses the projected income as well as financial institutions who have an interest in the project. It is released in advance of the project's actual start date as an extension to the EAR/CAR Policy.

The policy also covers financial losses in the form of ongoing costs such term loan interest, debentures, wages and salaries, etc. as well as on the projected net profit that the company would have been able to make if it had opened on time.

Premium rating is based on a number of important elements as well as the availability of reinsurance support. Additionally important considerations in determining the premium to be paid are the projected gross profit or turnover and the indemnification duration.



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## 10. Industrial All Risks Insurance

The Industrial All Risks Policy was created to provide comprehensive coverage for industrial buildings throughout India, including storage and manufacturing facilities. It offers protection from property damage and business interruption. Typically, the insurance covers the following:

- Fire and specified perils as per fire insurance practice,
- Burglary (except larceny)
- Machinery breakdown / boiler explosion / electronic equipment
- Business interruption following operation of perils mentioned above

When compared to the coverage offered by separate operational plans, the policy gives the broadest breadth of coverage. The policy's premium costs are determined by the level of coverage chosen, past claim history, the choice of deductibles, the risk assessment report for MLOP, etc.

| Basis/ Type of engineering policy            | Designed for                                                                                                                 | Risk Coverage                                                                                                                                | Premium charged based upon                                                                                  | Extensions                                                                                 |
|----------------------------------------------|------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------|
| <b>Contractors All Risks (C.A.R.) Policy</b> | Contractors and principals engaged in civil engineering projects (buildings, massive dams, buildings, bridges, tunnels, etc) | All Risk" cover provides indemnity against any sudden and unforeseen loss or damage that occurs to property insured at the construction site | Nature of the project, the project cost, the project period, geographic location and the period of testing. | Third party liability and other exposures                                                  |
| <b>Contractors Plant &amp; Machinery</b>     | Contractors involved in construction                                                                                         | <ul style="list-style-type: none"> <li>Burglary, theft, R.S.M.D.T.</li> <li>Fire and</li> </ul>                                              | Type of equipment and the                                                                                   | <ul style="list-style-type: none"> <li>Express freight (excluding air freight),</li> </ul> |

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| Basis/ Type of engineering policy      | Designed for                                                                                                                   | Risk Coverage                                                                                                                                                                                                                       | Premium charged based upon                                                                          | Extensions                                                                                                                                                                                                                               |
|----------------------------------------|--------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>(CPM) Policy</b>                    | business for covering all kinds of machinery like cranes, excavators, from unforeseen and sudden physical loss or damage       | lightning, external explosion, earthquake and other Acts of God perils<br>• Accidental damage while at work due to faulty manhandling, dropping or falling, collapse, collision and impact; can be extended for third party damage. | location at which it operates                                                                       | overtime and holiday rates of wages<br>• Airfreight<br>• Owner's surrounding property<br>• Clearance and removal of debris<br>• Additional customs duty<br>• Escalation<br>• Third party Liability<br>• Act of terrorism<br>• Earthquake |
| <b>Erection All Risks (EAR) Policy</b> | Principal or contractors of a project whereas plant and machinery is being erected as it is exposed to various external risks. | Any sort of contingency right from the moment the materials are unloaded at the project site and continues during the entire project period until                                                                                   | Nature of the project, the cost, the project period, geographic location, and the period of testing | • Earthquake<br>• Act of terrorism<br>• Escalation<br>• Limited maintenance cover<br>• Extended maintenance cover<br>• Clearance and removal of                                                                                          |



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| Basis/ Type of engineering policy       | Designed for                                                                                                                                                                                                      | Risk Coverage                                                                                                                                                                                                                                                                                                                                                                                                      | Premium charged based upon                                                                                                 | Extensions                                                                                                                                                                                                            |
|-----------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|                                         |                                                                                                                                                                                                                   | the project is tested, commissioned and handed over                                                                                                                                                                                                                                                                                                                                                                |                                                                                                                            | debris<br>• Damage to owner's surrounding property<br>• Third party Liability                                                                                                                                         |
| <b>Machinery Break down Policy (MB)</b> | Every industry which operates on machines and for whom breakdown of plant and machinery is of serious consequence. (machines like generators, transformer and other electrical, mechanical and lifting equipment) | <ul style="list-style-type: none"> <li>Physical damage by mechanical or electrical breakdown by any cause (subject to excepted risks) to the insured property:</li> <li>While it is at work or at rest</li> <li>While being dismantled for cleaning or overhauling</li> <li>During cleaning overhauling operations and or during reassembly thereafter.</li> <li>When being shifted within the premise.</li> </ul> | Reinstatement/ replacement value of individual machinery, Type of machine; the industry in which it is used and its value. | <ul style="list-style-type: none"> <li>Air Freight</li> <li>Express Freight (excluding Air Freight), Overtime and Holiday Wages</li> <li>Insured's Own Surrounding Property</li> <li>Third Party Liability</li> </ul> |

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| Basis/ Type of engineering policy              | Designed for                                                                | Risk Coverage                                                                                                                                                                                                                                                                                                                                                                                                    | Premium charged based upon                                                                                                                                      | Extensions                                                                                                                                                                                                                                                          |
|------------------------------------------------|-----------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Boiler and Pressure Plant Policy</b>        | Covers boilers and pressure vessels                                         | <ul style="list-style-type: none"> <li>• Damage, other than by fire, to the boilers and / or other pressure plant and to surrounding property of the insured; and</li> <li>• Legal liability of the insured on account of bodily injury to the person, or damage to the property, of third parties, caused by explosion or collapse due to internal pressures of such boiler and / or pressure plant.</li> </ul> | Type of Boiler and Age of Boiler.                                                                                                                               | <ul style="list-style-type: none"> <li>• Express freight (excluding airfreight), Overtime and Holiday rates of wages.</li> <li>• Airfreight</li> <li>• Owner's Surrounding Property\</li> <li>• Third Party Liability</li> <li>• Additional Customs Duty</li> </ul> |
| <b>Machinery Loss of Profits (MLOP) Policy</b> | Industries where interruptions or delays as a result of machinery breakdown | This policy compensates for the loss of profits during the intervening period due                                                                                                                                                                                                                                                                                                                                | <ul style="list-style-type: none"> <li>• Annual Gross Profit</li> <li>• Time required for repair/ or replacement of equipment</li> <li>• Spare parts</li> </ul> | Terrorism                                                                                                                                                                                                                                                           |



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| Basis/ Type of engineering policy    | Designed for                                                                                                                                              | Risk Coverage                                                                                                                                                                                                                                                                         | Premium charged based upon                                                                      | Extensions                                                                                                                                      |
|--------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------|
|                                      | or boiler explosion result in huge consequential losses.                                                                                                  | to reduction in turnover and increase in cost of working.                                                                                                                                                                                                                             | availability and criticality of equipment<br>• Indemnity Period                                 |                                                                                                                                                 |
| <b>Deterioration of Stock Policy</b> | Owner of the cold storage (individual or a cooperative society) or those who take the cold storage on lease or hire for storage of perishable commodities | <ul style="list-style-type: none"> <li>• Risk of deterioration and contamination following breakdown of the refrigeration plant and machinery</li> <li>Also due to rise in temperature</li> <li>• Sudden and unforeseen escape of refrigerants into the cold storagerooms.</li> </ul> | Average price of stock of last 12 months                                                        | <ul style="list-style-type: none"> <li>• Declaration Policy for 12 Months</li> <li>• Accidental failure of Public electricity Supply</li> </ul> |
| <b>Electronic Equipment Policy</b>   | Owner, lessor or hirer                                                                                                                                    | <ul style="list-style-type: none"> <li>• Loss and damage to equipment</li> <li>• Loss and damage to external data media like computer external hard</li> </ul>                                                                                                                        | Value, nature and use of equipment including maintenance agreement and provisions of equipment. | Terrorism                                                                                                                                       |

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| Basis/ Type of engineering policy                                                | Designed for                                                                                                                                                           | Risk Coverage                                                                                                                                                        | Premium charged based upon                                                                                                                    | Extensions                                                                                                                                                                                      |
|----------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|                                                                                  |                                                                                                                                                                        | disks<br>•Increased cost of working -to ensure continued data processing onsubstitute equipment upto 12,26, 40 or 52 weeks.                                          |                                                                                                                                               |                                                                                                                                                                                                 |
| <b>Advance Loss of Profit Cover (ALOP) or Delay in Start- up Policy (D.S.U.)</b> | Insured who is deprived of the anticipated earning and the financial institutions to the extent of their interest in the project.                                      | Financial consequences of a project being delayed because of accidental damages during the project                                                                   | Anticipated gross profit or turnover and the indemnity period                                                                                 | EAR/CAR Policy beforethe actual commencement of project.                                                                                                                                        |
| <b>Industrial All Risks Insurance</b>                                            | <ul style="list-style-type: none"> <li>• Fire and specified perils as per fireinsurance practice,</li> <li>• Burglary (except larceny)</li> <li>• Machinery</li> </ul> | <ul style="list-style-type: none"> <li>•Fire and specifiedperils as per fire insurance practice,</li> <li>•Burglary (except larceny)</li> <li>• Machinery</li> </ul> | <ul style="list-style-type: none"> <li>• Cover opted,claims experience, and deductibles opted, risk assessment report for MLOPetc.</li> </ul> | <ul style="list-style-type: none"> <li>• Architects', surveyors' andconsulting engineers' fees</li> <li>• Omissions to insure additions/ alterations</li> <li>• Temporary removal of</li> </ul> |



Notes

| Basis/ Type of engineering policy | Designed for                                                                                                                 | Risk Coverage                                                                                                                | Premium charged based upon | Extensions                                                                                           |
|-----------------------------------|------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------|----------------------------|------------------------------------------------------------------------------------------------------|
|                                   | breakdown / boiler explosion / electronic equipment<br>• Business interruption following operation of perils mentioned above | breakdown / boiler explosion / electronic equipment<br>• Business interruption following operation of perils mentioned above |                            | stock Clause<br>• Debris Removal Clause<br>• Escalation Clause<br>• Earthquake<br>• Act of terrorism |

Table 5.1: Engineering policies in brief



## INTEXT QUESTIONS 5.2

- Delay in start-up policy is also known as \_\_\_\_\_.
  - Machinery Loss of Profits cover
  - Advance Loss of Profits cover
  - Contractors All Risk cover
  - Contractors Plant & Machinery cover
- Which of the following is not covered under Industrial All Risks insurance?
  - Fire and special perils as per fire insurance practice
  - Larceny
  - Machinery breakdown
  - Electronic equipment

### Non-Life Insurance



### Notes

3. Which policy is suitable for industries where interruptions or delays as a result of machinery breakdown or boiler explosion result in huge consequential losses?
  - a) Machinery Breakdown Policy (MB)
  - b) Erection All Risks (EAR) Policy
  - c) Machinery Loss of Profits (MLOP) Policy
  - d) Boiler and Pressure Plant Policy
4. Which section of Electronic Equipment Policy covers loss and damage to external data media?
  - a) Section 1
  - b) Section 2
  - c) Section 3
  - d) None of the above
5. Which of the following policy will cover potatoes stored in a cold storage?
  - a) Machinery Breakdown Policy (MB)
  - b) Boiler and Pressure Plant Policy
  - c) Deterioration of Stock Policy
  - d) Electronic Equipment Policy
6. What is the basis of premium to be charged for an Advance Loss of Profit Policy (ALOP)?
  - a) Anticipated gross profit or turnover and the indemnity period
  - b) Type of machine; the industry in which it is used and its value.
  - c) Nature of the project and replacement cost
  - d) None of the above



### WHAT YOU HAVE LEARNT

The Contractors All Risks (C.A.R.) Policy is intended to safeguard the interests of contractors and principals involved in civil engineering projects, including those involving large dams, structures, bridges, tunnels, and other structures as well as minor buildings. Storage-cum-Erection (SCE) policy is another name for the Erection All Risks (EAR)

policy. It is appropriate for the project's main or contractors when equipment is being assembled because it is exposed to several threats from the outside. The type of premium that will be charged depends on the project's cost, duration, location, and testing time. Every industry that uses machines and for whom the breakdown of plant and machinery has major repercussions should use the Machinery Breakdown Policy (MB).

Industries whose delays or disruptions brought on by boiler explosions or broken machinery are most suited for the Machinery Loss of Profits (MLOP) Policy. The owner of the cold storage (an individual or a cooperative society) or those who rent or hire the cold storage for the storage of perishable goods might benefit from the Deterioration of Stock Policy. Financial repercussions of a project being delayed due to accidental damages during the project are covered by Advance Loss of Profit Cover (ALOP) or Delay in Start-up Policy (D.S.U.). It is appropriate for the insured who loses the projected income as well as financial institutions who have an interest in the project. It was intended for the Industrial All Risks Policy to cover industrial properties, including both manufacturing and storage facilities, anywhere in India under one policy.



### TERMINAL QUESTIONS

1. Explain the purpose and risk coverage of the following Engineering Insurance policies
  - a) Contractors All Risks (C.A.R.) Policy
  - b) Contractors Plant & Machinery (CPM) Policy
  - c) Machinery Loss of Profits (MLOP) Policy
  - d) Advance Loss of Profit Cover (ALOP) or Delay in Start-up Policy (D.S.U.)
2. Explain the purpose and basis of premium for the following Engineering Insurance policies.
  - a) Erection All Risks (EAR) Policy
  - b) Machinery Breakdown Policy (MB)
  - c) Boiler and Pressure Plant Policy
  - d) Electronic Equipment Policy



Notes

### Non-Life Insurance



Notes

3. Explain the risk coverage and extensions of the following Engineering Insurance policies.
  - a) Erection All Risks (EAR) Policy
  - b) Machinery Breakdown Policy (MB)
  - c) Electronic Equipment Insurance
  - d) Industrial All Risks Insurance



### ANSWERS TO INTEXT QUESTIONS

#### 5.1

1. (d) Salaries of employees
2. (a) right from the moment the materials are unloaded at the project site and continues during the entire project period until the project is tested, commissioned and handed over
3. (d) All of the above
4. (d) All of the above

#### 5.2

1. (b) Advance Loss of Profits cover
2. (b) Larceny
3. (c) Machinery Loss of Profits
4. (b) Section 2
5. (c) Deterioration of Stock Policy
6. (a) Anticipated gross profit or turnover and the indemnity period



### LEARNING OUTCOMES

After studying this chapter, you are able :

- To explain various types of engineering insurance including their coverage, purpose, basis of premium and extensions of each policy.

## 6

## MARINE & LIABILITY INSURANCE



Notes

### 6.0 INTRODUCTION

In the previous chapter, the risk exposures encountered by commercial or business enterprises or firms, manufacturing facilities that engage in or deal with a variety of manufacturing, and other commercial activities were discussed. Liability insurance and marine insurance will be discussed in this chapter. You will be able to learn about the many types of liability insurance and marine insurance.



### 6.1 OBJECTIVES

After reading this lesson, you will be able to:

- Explain various types of marine insurance.
- Explain Different types of marine policies
- Explain terms and conditions under Inland Cargo Clause, Inland Transit Clause Clauses
- Explain various types of liability insurance policies

### 6.2 MARINE INSURANCE

Marine insurance is classified into two types: marine cargo and marine hull

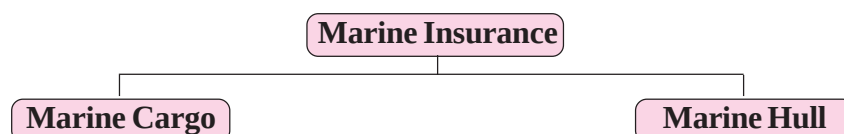


Figure 6.1: Types of Marine Insurance

### Non-Life Insurance



### Notes

#### 1. Marine Cargo Insurance

Although "marine" may only refer to damages from maritime (sea) mishaps, marine cargo insurance covers much more. It offers protection against loss or damage to commodities when they are being transported by road, rail, water, air, or registered mail both domestically and abroad. Diamonds, household products, bulk goods like cement and cereals, over-dimensional cargoes for projects, etc. are all examples of possible goods.

Both domestic and international trade benefit greatly from cargo insurance. Most sales agreements provide that the products must be protected against loss or damage by either the buyer or the seller. Depending on the terms of the purchase agreement, either the seller or the buyer of the goods (consignment) may insure the cargo.

The terms of a marine insurance policy must be universally applicable. This is due to the fact that it applies to commodities that are travelling outside of national borders. Accordingly, the coverings are governed by international treaties and other policy-related terms.

While the core policy contract comprises broad conditions, distinct clauses known as Institute cargo Clauses are attached to specify the area of coverage, exceptions, and unique exclusions (ICC). The Institute of London Underwriters drafted these.

##### a) Coverage under Marine Cargo Insurance

In essence, cargo policies protect the subject matter as it travels from one location to another. However, the insured must always exercise reasonable caution in all situations that are under his control. This policy's primary characteristic is that it is an Agreed Value Policy. Except in cases where fraud is suspected, the valuation was agreed upon by the insurer and the insured. The fact that the policy is freely assignable is another distinctive quality.

Depending on the terms of the contract of sale, the coverage often begins when the items leave the warehouse at the location stated in the policy and ends at the destination named there.

The terms and conditions applicable are governed by either;

- Inland Transit Clause (ITC) A, B or C for inland transit
- Institute Cargo Clause (ICC) A, B, or C for voyage by sea
- Institute Cargo (Air) Clause - A for transport by air

**Notes****Institute Cargo Clause (ICC) A, B, or C**

Institute Cargo Clause C grants the minimum cover, which is loss or damage due to accident to the vehicle or vessel carrying the cargo due to:

- i. Fire or explosion
- ii. Derailment or overturning of the vehicle
- iii. Stranding, grounding or sinking of the vessel (in case of ship)
- iv. Collision with an external object

Institute Cargo Clause B is wider than C. Apart from the perils covered in C it also covers loss or damage due to:

- i. Act of God (AOG) perils like earthquake, volcanic eruption and lightning
- ii. Collapse of bridges in inland transit
- iii. Washing overboard and sling loss in case of ocean transit
- iv. Entry of water into the vessel.

Institute Cargo Clause A is the widest cover as it covers all perils of B and C and loss or damage due to any other risk except some exclusion specified such as:

- i. Loss or damage due to wilful conduct of the insured
- ii. Ordinary leakage, breakage, wear and tear or ordinary loss in weight / volume
- iii. Insufficiency in packing
- iv. Inherent vice
- v. Delays
- vi. Loss due to insolvency of owners
- vii. Nuclear perils

All inland, air, and sea clauses share these exclusions. For dealing in particular commodities like coal, bulk oil, tea, etc., there are different clauses. By paying an additional fee, you can extend your marine insurance coverage to include terrorism, war, strikes, riots, and other civil unrest. The only insurance category that provides coverage against risks associated with war is marine and aviation plans.

### Non-Life Insurance



### Notes

#### Important

Risks covered under a marine policy, under the standard policy form and under the various clauses attached to the policy broadly fall into three categories:

- i. Marine perils,
- ii. Extraneous perils and
- iii. War, strike riot, civil commotion and terrorism risks.

#### Institute Transit Clause (ITC) A, B, or C

Inland Transit Clauses, in India, are formulated by the Tariff Advisory Committee. The three main categories of Inland Transit Policies are (1) Basic Cover, provided by the Inland Transit (Rail/Road) Clause B; (2) All Risks Cover, provided by the Inland Transit (Rail/Road) Clause A; and (3) Fire Risks only, provided by Inland Transit (Rail/Road) Clause C.

#### Basic Cover (Clause A)

##### Risks Covered

All risks of loss of or damage to the insured goods.

#### Basic Cover (Clause B)

##### Risks Covered

Physical loss of or damage to the insured goods by:

1. Fire
2. Lightning
3. Breakage of bridges
4. Collision with or by the carrying vehicle
5. Overturning of the carrying vehicle
6. Derailment or accident of like nature to the carrying railway wagon or vehicle

#### Basic Cover (Clause C)

##### Risks Covered

Physical loss of or damage caused by:

1. Fire

## 2. Lightning

**Exclusions:**

Exclusions are applicable to all three sets of the clauses shown above. The exclusions are:

1. Loss, damage or expense attributable to willful misconduct of the assured;
2. Ordinary leakage, ordinary loss in weight or volume, or ordinary wear and tear of the cargo insured;
3. Loss, damage or expense caused by insufficiency or unsuitability of packing or preparation of the cargo insured (for the purpose of this clause, Packing shall be deemed to include stowage in a container or lift-van but only when such stowage is carried out prior to attachment of the insurance or by the assured or their servants)
4. Loss, damage or expense proximately caused by delay even though the delay be caused by a risk insured against;
5. Loss, damage or expense caused by inherent vice or nature of the cargo insured;
6. War, civil war, revolution, rebellion, insurrection or civil strife arising therefrom, or any hostile act by or against a belligerent power;
7. Capture, seizure, arrest, restraint or detainment and the consequences thereof or any attempt threat;
8. Derelict mines, bombs or other derelict weapons of war;
9. Loss, damage or expense caused by strikers, locked out workmen or persons taking part in labour disturbances, riot or civil commotions;
10. Loss, damage or expense resulting from strikes, lock-outs, labour disturbances, riots or civil commotions;
11. Loss, damage or expense caused by any terrorist or any person acting from a political motive.

**Extensions:**

The basic cover may also be endorsed to cover extraneous risks on payment of extra premium, such as:-

- Theft, Pilferage and Non-Delivery (TPND)



Notes

### Non-Life Insurance



#### Notes

- Rainwater damage
- Freshwater damage

Strikes, Riots and Civil Commotion risks (SRCC) may be added to both types of covers on payment of extra premium. War Risks in Inland Transit Policies cannot be covered.

#### b) Different types of marine policies

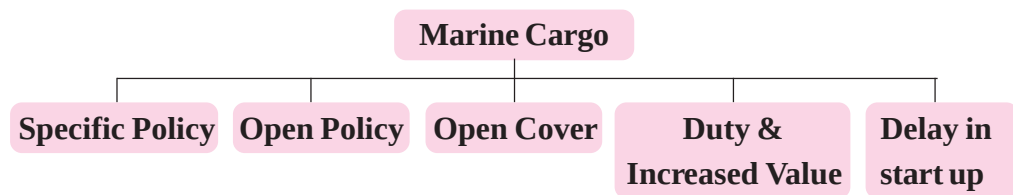


Figure 6.2: Types of Marine Cargo policies

##### i. Specific Policy

This coverage applies to a single shipment. It is appropriate for the specific voyage or transit. It would be convenient for business owners who routinely conduct import and export business or ship packages via inland transit to arrange insurances under special contracts like the open policy.

##### ii. Open Policy

An open policy may be used for the transportation of goods inside the nation. The policy is in effect for a year, and the insured is required to notify the insurer of all shipments during that time as agreed upon on a fortnightly, monthly, or quarterly basis.

##### iii. Open Cover

An open cover is given to significant exporters and importers who engage in ongoing business. It outlines the conditions of coverage and premium costs for a marine dispatch transaction over the course of a year. The open cover is not stamped and is not a policy. Each declaration is given a certificate of insurance that has been properly stamped for the right value.

##### iv. Duty and Increased Value Insurance

If the value of the cargo increases as a result of paying customs duties or an increase in the market value of the products at the destination on the day of arrival, these policies offer additional insurance.

**v. Delay in Start Up**

A lot of insured people choose this coverage. Any loss or damage to the equipment during shipment in the case of a new project may necessitate the ordering of replacement equipment, delaying the project's completion and resulting in lost earnings. Financial institutions interested in timely project completion for debt servicing would prefer this risk covered by an insurance contract, and the marine (cargo) insurance policy can be extended against consequential loss due to maritime delays' or simply - delay start-up.

The premium is determined by the type of commodities, the form of transshipment, the type of package, the route of the voyage, and the history of prior claims. Extended insurance policies, such as those for war risks (for cargo shipped abroad), are subject to different rules.

**2. Marine Hull insurance**

The term "Hull" refers to the body of a ship or other water transport vessel. Hull insurance also includes the following insurances:

- i. Inland vessels such as barges, launches, passenger vessels etc.
- ii. Dredgers (Mechanized or non-mechanized)
- iii. Fishing Vessels (Mechanized or non-mechanized)
- iv. Sailing Vessels (Mechanized or non-mechanized)
- v. Jetties and Wharves
- vi. Vessels in the course of construction

The ship owner has an insurable interest in both the ship and the freight that will be earned during the insurance period. The ship owner has an insurable interest in the amount he spent outfitting the ship, including supplies and stores, in addition to the freight. Disbursements are the name given to these costs, which are temporarily covered by the hull policy.

**Important**

**Aviation Insurance:** A comprehensive policy is also available for aircraft which covers loss or damage to the aircraft as also the legal liability to third parties and to passengers arising out of the operation of the aircraft.

**Notes**



### INTEXT QUESTIONS 6.1



Notes

1. Which cause govern the rules for transit of goods by sea?
  - a) Inland Transit Clause (ITC)
  - b) Institute Cargo Clause (ICC)
  - c) Institute Cargo (Air) Clause
  - d) None of the above
2. Which of the following is not a type of marine policy?
  - a) Specific Policy
  - b) Open Policy
  - c) Delay in Start Up
  - d) Specific Start up
3. Which cause govern the rules for transit of goods by road (land)?
  - a) Inland Transit Clause (ITC)
  - b) Institute Cargo Clause (ICC)
  - c) Institute Cargo (Air) Clause
  - d) None of the above
4. Which cause govern the rules for transit of goods by sea?
  - a) Inland Transit Clause (ITC)
  - b) Institute Cargo Clause (ICC)
  - c) Institute Cargo (Air) Clause
  - d) None of the above
5. Which cause govern the rules for transit of goods by air?
  - a) Inland Transit Clause (ITC)
  - b) Institute Cargo Clause (ICC)
  - c) Institute Cargo (Air) Clause
  - d) None of the above

### 6.3 LIABILITY POLICIES

Despite one's best efforts, accidents can still happen. This may cause damage to one's property and injury to oneself, as well as possible injury to third persons and damage to their property. Those impacted by this would seek compensation for their losses.

A manufactured and sold product defect that causes injury to the consumer, such as in the case of chocolates or pharmaceuticals, could also give rise to a responsibility. Liability may also result from a patient receiving the incorrect diagnosis or treatment or from a lawyer handling a matter inappropriately on behalf of a client.

In any of these situations, if a patient, consumer, or third party demanded compensation for the claimed wrongdoing, it would necessitate paying compensation or covering the costs associated with defending the claimants' legal actions. In other words, there is a loss of money as a result of a debt. A civil court that considers the issue of claimed negligence or fraud would determine the existence of such a responsibility and the amount of compensation that must be paid. Such obligations are covered by liability insurance plans.

Let us look at some of the liability policies.

#### Statutory Liability

There are certain laws or statutes which provide for the payment of compensation. The laws are:

- Public Liability Insurance Act, 1991 and
- Employees Compensation Act 1923 amended in 2010

Insurance policies are available for protection in respect of such liabilities. Let us look at some of them.

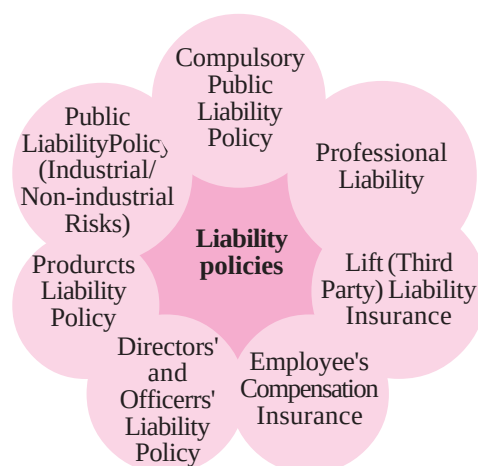


Figure 6.3: Types of liability policies



#### Notes

### Non-Life Insurance



Notes

#### 1. Compulsory Public Liability Policy

The Public Liability Insurance Act, 1991 imposes liability on no fault basis on those who handle hazardous substances if a third party is injured or his property is damaged during the course of such handling. The names of hazardous substances and the quantity of each, is listed in the 'Act'.

The amount of compensation payable per person is fixed as shown below. Compensation payable

|                                 |                                        |
|---------------------------------|----------------------------------------|
| Fatal Accident                  | Rs. 25,000                             |
| Permanent Total Disability      | Rs. 25,000                             |
| Permanent Partial Disability    | % of Rs.25,000 basedon % of disability |
| Temporary Partial Disablement   | Rs.1000 per month, maximum 3 months    |
| Actual Medical Expenses         | Up to a maximum of Rs.12,500           |
| Actual damage to property up to | Rs. 6,000                              |

The premium is based on the AOA (Any One Accident) limit and the turnover of the client. A special feature of this policy is that the insured has to pay compulsorily an amount equal to the premium as contribution to Environment Relief Fund. If large numbers of third parties are affected and the total amount of relief payable exceeds A.O.A. limit, the balance amount will be paid by the fund.

#### 2. Public Liability Policy (Industrial / Non-industrial Risks)

This type of policy covers liabilities resulting from the insured's carelessness or fault that results in third-party property damage or personal injury (TPPI OR TPPD).

Both industrial and non-industrial hazards, such as those affecting hotels, movie theatres, auditoriums, homes, offices, stadiums, godowns, and retail establishments, are covered by separate policies. It addresses the obligation under Indian law to pay compensation for TPPI/TPPD, including the claimant's costs, fees, and expenses.

**The policy does not cover:**

- a) Products liability
- b) Pollution liability



Notes

- c) Transportation and                      d) Injuries to workmen / employees

### 3. **Products Liability Policy**

The large range of products (such as canned goods, aerated waters, medications, injections, electrical appliances, mechanical equipment, chemicals, etc.) that are produced and distributed to the general public today has led to an increase in the demand for products liability insurance. A claim may be made if a product flaw results in someone's death, serious physical harm, disease, or even damage to someone else's property. This obligation of the insured is covered by product liability insurance. Coverage is offered for both domestic and international sales.

### 4. **Lift (Third Party) Liability Insurance**

The policy provides indemnity to owners of buildings in respect of liabilities arising out of the use and operation of lifts. It covers legal liabilities for:

- a) Death / bodily injury of any person (excluding employees of the insured)
- b) Damage to property (excluding insured's own or employee's property)

The premium rates depend upon the limit of indemnity, any one person, any one accident and any one year.

### 5. **Professional Liability**

Professional indemnities are intended to give professionals insurance protection against their potential legal responsibility to pay damages resulting from negligence while performing their professional tasks. These insurance covers are offered to physicians, hospitals, engineers, and architects, as well as chartered accountants, financial advisors, lawyers, and insurance brokers.

### 6. **Directors' and Officers' Liability Policy**

Directors and Officers of a company hold positions of trust and responsibility. They may become liable to pay damages to shareholders, employees, creditors and other stakeholders of the company, for wrongful acts committed by them in the supervision and management of the affairs of the company. A policy has been devised to cover such liability and is issued to the company covering all their directors.

### 7. **Employee's Compensation Insurance**

This policy provides indemnity to the insured in respect of his legal liability to pay compensation to his employees who sustain personal injury by accident or

### Non-Life Insurance



### Notes

disease arising out of and in the course of his employment. This is also called Workman's Compensation Insurance. The premium rate is applied on the estimated wages of employees as declared in the proposal form and premium is adjusted on the basis of actual wages declared by the insured on expiry of the policy.

The policy may be extended to cover:

- i. Medical and hospital expenses incurred by the insured for treatment of employee injuries, up to specific amounts
- ii. Liability for occupational diseases listed in the Act
- iii. Liability towards employees of contractors

The Public Liability Insurance Act, 1991 & Employee's Compensation Insurance are covered in detail in coming chapters.



### INTEXT QUESTIONS 6.2

1. Under the Public Liability Insurance Act, 1991, how much is the compensation payable for actual medical expenses?
  - a) Rs. 6,250
  - b) Rs. 12,500
  - c) Rs. 25,000
  - d) Rs. 50,000
2. Public Liability covers out of the following:
  - a) Products liability
  - b) Pollution liability
  - c) Transportation
  - d) Negligence of the insured causing injury to third person
3. Employee's Compensation Insurance covers the following:
  - a) Legal liability to pay compensation to employees who get injured by accident during the course of employment

- b) Wrongful acts committed by directors
  - c) Legal liability to pay damages arising out of negligence in the performance of the professional duties of employees
  - d) None of the above
4. Which policy is designed to cover the damages to be paid to shareholders, employees, creditors and other stakeholders of the company, for wrongful acts committed by the directors?
- a) Directors' and Officers' Liability Policy
  - b) Directors' and Supervisor's Liability Policy
  - c) Directors' and Employee' Liability Policy
  - d) None of the above



### WHAT YOU HAVE LEARNT

Marine insurance is classified into: marine cargo and marine hull. Cargo policies are essentially voyage policies, i.e. they cover the subject matter from one place to another. Different types of marine policies include:

- ❖ Specific policy
- ❖ Open policy
- ❖ Open cover
- ❖ Duty and increased value insurance
- ❖ Delay in start up

The two main categories of marine hull coverage are those that cover a specific journey and those that cover a period of time. A public liability policy covers liabilities resulting from the insured's carelessness or fault that results in third-party property damage or bodily injury. Product liability insurance covers the insured's responsibility for product defects that result in death, physical harm, disease, or even damage to third parties' property. Professional indemnities are intended to give professionals insurance protection against their potential legal responsibility to pay damages resulting from negligence while performing their professional tasks.





Notes



### TERMINAL QUESTIONS

1. Explain the various Engineering Insurance policies in detail.
2. Discuss about the types of marine insurance policies.
3. Describe Institute Cargo Clauses A,B,C in detail
4. Explain the liability policies in detail.



### ANSWERS TO INTEXT QUESTIONS

#### 6.1

1. (b) Institute Cargo Clause (ICC)
2. (d) Specific Start up
3. (a) Inland Transit Clause (ITC)
4. (b) Institute Cargo Clause (ICC)
5. (c) Institute Cargo (Air) Clause

#### 6.2

1. (b) Rs. 25000
2. (d) Negligence of the insured causing injury to third person
3. (a) Legal liability to pay compensation to employees who get injured by accident during the course of employment
4. (a) Directors' and Officers' Liability Policy



### LEARNING OUTCOMES

After studying this chapter, you are able :

- To understand the concept of marine and liability insurance and their types in detail.

## DOCUMENTATION IN GENERAL INSURANCE

**Notes**

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### 7.0 INTRODUCTION

---

Insurance is a product that is intangible in nature as you cannot see it or feel it or touch it. Insurance is a promise by the insurance company on a piece of paper to indemnify the losses in case of any event resulting into losses. As the general insurance contract is for one year, it is essential to have proper documentation of the contract mentioning the terms and conditions. In this chapter we have tried to explain the characteristics of the various documents that are required from the time of taking the insurance to the claim settlement.



---

### 7.1 OBJECTIVES

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After reading this lesson, you will be able to:

- Explain the important documents like proposal form, premium receipt, cover notes and certificate of insurance
- Explain the terms and wordings used in the insurance policy document
- Interpret the policy warranties and endorsement
- Explain the meaning of renewal notice

---

### 7.2 DOCUMENTATION IN GENERAL INSURANCE

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Insurance is a promise by the insurance company to the insured that it will indemnify the insured in case of losses. Therefore, to make this promise more concrete the process of insurance requires various documents starting from a proposal form to the

#### Non-Life Insurance



Notes

renewal notice. The contract of general insurance is for a period of one year which involves proper documentation that is listed below.

The documents are as follows:

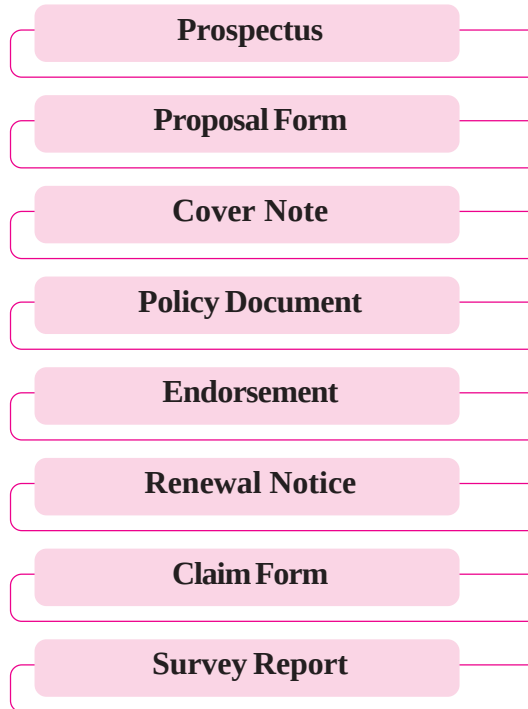


Fig 7.1: Types of documents

#### 7.2.1 Proposal Form

- Proposal form is the most important and basic document required for general insurance contract between the insured and insurance company. It seeks basic information of the proposer and the subject matter to be insured. like address, age, name, education, occupation etc.
- Proposal form helps the insurance company to calculate all the potential risks in relation to the subject matter to be insured and hence deciding the premium amount.

Types of questions in different proposal forms:

- In Fire Insurance: 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.
- In Motor Insurance: Cubic capacity, age of vehicle, area of operation, carrying capacity, purpose for which used and details of driving offences.

- In Personal Accident: Questions regarding age, occupation, height, weight or any physical shortcoming
- In Marine Cargo: Though there is no proposal form, the questionnaire will seek information on full description of goods, type of packing, mode of transit, cover required, name of steamer, sum to be insured and past claim experience.

| Fire Insurance                                             | Motor Insurance             | Personal Insurance       | Marine Cargo               |
|------------------------------------------------------------|-----------------------------|--------------------------|----------------------------|
| Type of construction,                                      | Cubic capacity,             | Age,                     | Full description of goods, |
| Location and occupancy                                     | Age of vehicle,             | Occupation,              | Type of packing,           |
| Separate or adjoining other buildings                      | Area of operation,          | Height,                  | Mode of transit,           |
| Process and the type of power used for manufacturing units | Carrying capacity,          | Weight                   | Cover required,            |
|                                                            | Purpose for use of vehicle  | Any physical shortcoming | Name of steamer,           |
|                                                            | Details of driving offences |                          | Sum to be insured          |
|                                                            |                             |                          | Past claim experience.     |

Notes



Figure 7.2: Types of questions in different proposal forms

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 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.
6. Sum Insured: This is the maximum liability of the insurer under the policy.



Notes

#### DOCUMENTATION IN GENERAL INSURANCE



Figure 7.3: Common questions in all proposal forms

### 7.3 ROLE OF INTERMEDIARY

According to IRDAI rule, "An insurer or its agent or other intermediary shall communicate to the prospect all material information in respect of a proposed cover to enable the prospect to determine the best cover that would be in his or her interest."

When a prospect relies on the advice of the insurer, his agent, or an insurance intermediary, that person is required to provide fair advice to the prospect.

If the client does not fill out the proposal and other related papers for any reason, a certificate from the customer attesting to his understanding of the significance of the contents of the form and the documents can be included at the end of the proposal form.

### 7.4 PAYMENT RECEIPT

Premium is the consideration or amount paid by the insured to the insurer for insuring the subject matter of insurance, under a contract of insurance. A receipt given out to a policy holder, by the insurer or an agent on behalf of the insurer, which provides confirmation that payment has been received, is known as premium receipt.

#### 1. Payment of Premium in Advance (Section 64 VB of Insurance Act, 1938)

As per Insurance Act, premium is to be paid in advance, before the start of the insurance cover. This is an important provision, which ensures that only when the premium is received by the insurance company, a valid insurance contract can be completed and

the risk can be assumed by the insurance company. This section is a special feature of non-life insurance industry in India.

### Important

- a) Section 64 VB of the Insurance Act-1938 provides that no insurer shall assume any risk unless and until the premium is received in advance or is guaranteed to be paid or a deposit is made in advance in the prescribed manner.
- b) Where an insurance agent collects a premium on a policy of insurance on behalf of an insurer, he shall deposit with or dispatch by post to the insurer, the premium so collected in full without deduction of his commission within twenty-four hours of the collection excluding bank and postal holidays.
- c) It is also provided that the risk may be assumed only from the date on which the premium has been paid in cash or by cheque.
- d) Where the premium is tendered by postal or money order or cheque sent by post, the risk may be assumed on the date on which the money order is booked or the cheque is posted as the case may be.
- e) Any refund of premium which may become due to an insured on account of the cancellation of policy or alteration in its terms and conditions or otherwise, shall be paid by the insurer directly to the insured by a crossed or order cheque or by postal / money order and a proper receipt shall be obtained by the insurer from the insured. It is the practice now a days to credit the amount directly to the Insured's bank account. Such refund shall in no case be credited to the account of the agent.

There are exceptions to the above pre-condition payment of premium, provided in the Insurance Rules 58 and 59. One is for payment in instalments in case of policies which run for more than 12 months such as life insurance policies. Others include payment through a bank guarantee in specified cases where the exact premium cannot be ascertained in advance or by debit to a Cash Deposit account maintained by the client with the insurer.

### Method of payment of premium

The premium to be paid by any person proposing to take an insurance policy or by the policyholder to an insurer may be made in any one or more of the following methods:

- a) Cash
- b) Any recognized banking negotiable instrument such as cheque, demand drafts, pay order, banker's cheque drawn on any schedule bank in India;



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- c) Postal money order;
- d) Credit or debit cards;
- e) Bank guarantee or cash deposit;
- f) Internet;
- g) E-transfer
- h) Any other method or payment as may be approved by the Authority from time to time;

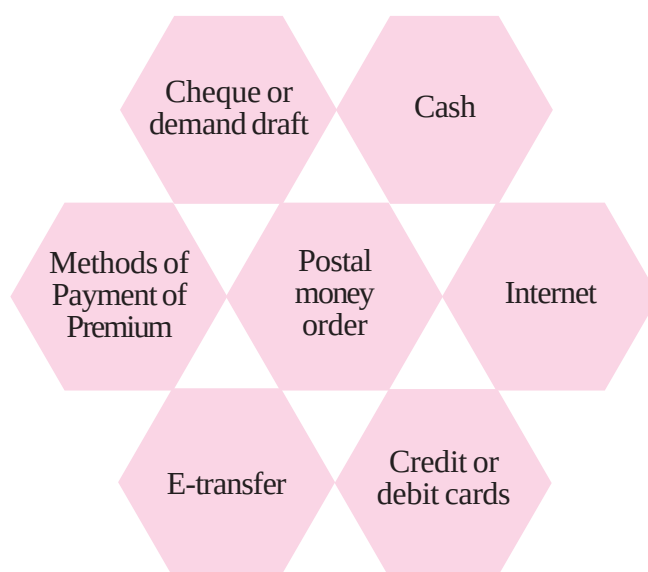


Figure 7.4: Methods of payment of premium

As per IRDAI Regulations, in case the proposer / policyholder opts for premium payment through net banking or credit / debit card, the payment must be made only through net banking account or credit / debit card issued in the name of such proposer policyholder.

### 7.5 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:

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, cubic capacity, seating capacity etc. In case of fire Insurance, the particulars of the building, i.e. whether it is Kutcha and the nature of activity carried on in the premises.
7. Serial number, date of issue, time of issue

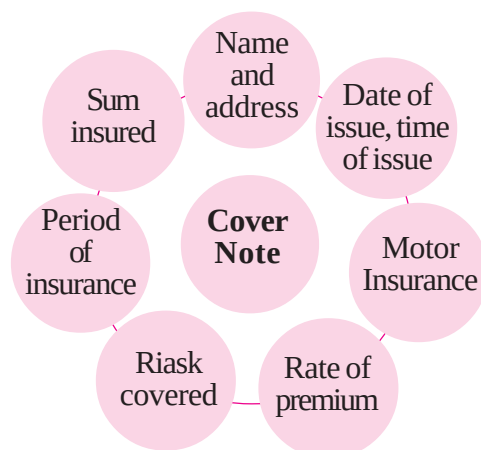


Figure 7.5: Details mentioned in a cover note



### INTEXT QUESTIONS 7.1

1. Which of the following is a question in proposal form?
  - a) Previous and Present Insurance



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## Module - 3

### Non-Life Insurance



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### DOCUMENTATION IN GENERAL INSURANCE

- b) Proposer's address
  - c) Claims Experience
  - d) All of the above
2. Under Fire Insurance, questions related to the following are asked:
- a) Health profile of insured
  - b) Building
  - c) Marital details of the insured
  - d) All of the above
3. In case the premium payment is made by cheque, then which of the below statement will hold true?
- a) The risk may be assumed on the date on which the cheque is posted
  - b) The risk may be assumed on the date on which the cheque is deposited by the insurance company
  - c) The risk may be assumed on the date on which the cheque is received by the insurance company
  - d) The risk may be assumed on the date on which the cheque is issued by the proposer
4. Which of the following is a mode of payment of premium to the insurance company?
- a) Cash
  - b) Credit card
  - c) Cheque
  - d) All of the above
5. The maximum validity of a cover note is:
- a) 45 days
  - b) 15 days
  - c) 60 days
  - d) 30 days



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6. Cover note is \_\_\_\_\_ document:
  - a) Stamped
  - b) Unstamped
  - c) All of the above
  - d) None of the above
7. The minimum validity of a cover note is:
  - a) 45 days
  - b) 15 days
  - c) 60 days
  - d) 30 days
8. Which of the following details are covered in a cover note?
  - a) Sum Insured
  - b) Period of Insurance
  - c) Risk covered
  - d) All of the above

## 7.6 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:

- (i) **The Heading:** Giving the insurer 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).

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- (iii) **Operative or Insuring Clause:** This clause sets out the essence of the contract. It specifies the perils insured 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.

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.

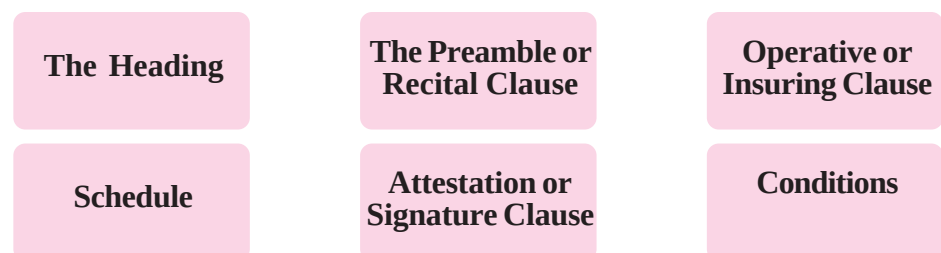


Figure 7.6: Components of a policy document

## 7.7 WARRANTIES

In an insurance contract, warranties are intended to restrict the insurer's obligation in specific situations. To lessen the risk, insurers also add warranties in a policy. With a warranty, the insured is required to fulfil a number of requirements within a set time frame and during the duration of the policy; the insurer's liability is contingent upon the insured's adherence to these obligations. The importance of warranties in managing and reducing risk cannot be overstated.

A warranty is a requirement that is explicitly stated in the policy and must be met in its whole for the contract to be considered legitimate. Warranty is a part of this agreement. It is a section in the policy manual. It is a prerequisite to (which takes precedence over other phrases). It must be observed and complied strictly and literally, whether it is material to the risk or not.

If a warranty is not fulfilled, the policy becomes voidable at the option of the insurers even when it is clearly established that the breach has not caused or contributed to a particular loss. However, in practice, if the breach of warranty is of a purely technical nature and does not, in any way, contribute to or aggravate the loss, insurers at their discretion may process the claims according to norms and guidelines as per company policy. In such case, losses can be treated as compromise claims and settled usual for a high percentage of the claim but not for 100 percent.

Some examples of warranties in different types of insurance are:

- ❖ People working in the field with high risks must wear complete safety gears when working.
- ❖ Alarm system, basic fire extinguisher equipment and sprinkler must function well and be well maintained.
- ❖ Safety box key must be securely kept in a different location.
- ❖ In health insurance, those with certain medical histories are forbidden from performing certain activities.
- ❖ A burglary alarm may have the warranty where it is warranted that a burglar alarm is turned on and working whenever the property is unattended.
- ❖ In fire or property insurance, it is forbidden to smoke or ignite fire in areas prone to fire or explosion.



Notes



Notes

### 7.8 ENDORSEMENTS

A written form attached to an insurance policy that alters the policy coverage, terms, or conditions. An endorsement can add coverage for acts or things that are not covered as a part of the original policy and can be added at the inception of the policy or later during the term of the policy. An endorsement can be for the:

- Change in sum insured (increase/ decrease)
- Change of insurable interest due to sale, mortgage or hypothecation
- Change in nominee
- Inclusion of additional perils to be covered
- Change of risk, e.g., change in occupancy of the building in Fire Insurance
- Transfer of property to another location
- Cancellation of insurance
- 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.

#### **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.

### 7.9 RENEWAL NOTICE

A general insurance policy's normal duration is one year, with the exception of maritime insurance, which begins at the warehouse and ends when the consignment reaches its final destination. Despite the fact that the insurer is not required by law to inform the insured that his policy would expire on a specific date, out of politeness and as a matter of good business practise, insurers send a renewal notice one month before the

policy expires, urging the insured to renew the coverage. The notification includes all pertinent information regarding the policy and the premium due, as well as a statement reminding the insured to notify the insurer of any changes to the risk if they occur. The insured's attention is also drawn to the statutory provision that no risk can be assumed unless the premium is paid in advance.

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## 7.10 CLAIM FORM

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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 mean that the insurance company is liable to pay the amount of loss. With the help of claim form, further investigation of claim can be processed by the company by appointing surveyors who then investigate the claim and prepares a survey report based on which decision on claim settlement is made.

Survey 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.

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## 7.11 CERTIFICATE OF INSURANCE

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A certificate of insurance provides existence of insurance in cases where proof may be required. For instance in motor insurance, in addition to the policy, a certificate of insurance is issued as required by the Motor Vehicles Act. This certificate provides evidence of insurance to the Police and Registration Authorities. A specimen certificate for private cars is reproduced below, showing salient features.



**Notes**



Notes

### MOTOR VEHICLES ACT, 1988 CERTIFICATE OF INSURANCE

Certificate No. Policy No.

1. Registration mark and Number, Place of registration, Engine No. / Chassis No.  
/ Make / Year of manufacture.

2. Type of Body / C.C / Seating capacity / Net Premium / Name of Registration Authority,

3. Geographical area - India.

4. Insured declared value (IDV)

5. Name and address of the Insured, Business or profession.

6. Effective date of commencement of Insurance for the purpose of the Act. From..... 'O' clock on .....

7. Date of expiry of insurance: midnight on .....

8. Persons or classes of persons entitled to drive. Any of the following:

(a) The insured:

(b) Any other person who is driving on the insured's order or with his permission

Provided that the person driving holds an effective driving license at the time of the accident and is not disqualified from holding or obtaining such a license. Provided also that the person holding an effective learner's license may also drive the vehicle and such a person satisfies the requirement of Rule 3 of Central Motor Vehicles Rules 1989.

### LIMITATIONS TO USE

The policy covers use for any purpose other than:

- (a) Hire or reward;
- (b) Carriage of goods (other than personal luggage)
- (c) Organised racing,
- (d) Race making,
- (e) Speed testing

- (f) Reliability Trials
- (g) Any purpose in connection with Motor Trade.

I/we hereby certify that the Policy to which this Certificate relates as well as this Certificate of Insurance are issued in accordance with the provisions of Chapter X and Chapter XI of the Motor Vehicles Act, 1988.

Examined .....

(Authorized Insurer)

Certificate of Insurance for Motor vehicle is required to be carried in the vehicle at all times for the scrutiny of the relevant authorities.



### **INTEXT QUESTIONS 7.2**

1. Policy document is \_\_\_\_\_ document:
  - a) Stamped
  - b) Unstamped
  - c) All of the above
  - d) None of the above
2. Which of the following is not a part of the policy document?
  - a) Heading
  - b) Preamble
  - c) Claim form
  - d) Conditions
3. Which of the below statement is correct with regards to a warranty?
  - a) A warranty is a condition which is implied without being stated in the policy
  - b) A warranty is a condition expressly stated in the policy
  - c) A warranty is a condition expressly stated in the policy and communicated to the insured separately and not as part of the policy document
  - d) If a warranty is breached, the claim can still be paid if it is not material to the risk



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4. Which of the following is a type of warranty?
  - a) It is warranted that stock contained in the lowest storey of the Buildings is kept on racks or stillage at least 15cm above the surface of the floor.
  - b) It is warranted that trade waste, cuttings and clippings are swept, gathered and bagged daily and removed from the premises at least once a week
  - c) Labels to be put for bottled, tinned, canned and such like GOODS in marine insurance
  - d) All of the above
5. Which of the following can be covered under endorsement?
  - a) Change in sum insured (increase/ decrease)
  - b) Change of insurable interest due to sale, mortgage or hypothecation
  - c) Cancellation of insurance
  - d) All of the above
6. As a part of good business practice, insurers send a renewal notice \_\_\_\_\_ month in advance of the date of expiry advising the insured to renew the policy.
  - a) Two months
  - b) One month
  - c) Three months
  - d) Five months
7. 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, " \_\_\_\_\_ " on every claim form.
  - a) Without Prejudice
  - b) With Prejudice
  - c) To Prejudice
  - d) None of the above



## WHAT YOU HAVE LEARNT

The proposal form is the initial stage of paperwork which the insured uses to provide information about themselves. Prior to the policy's creation and even after the contract's end, there is a duty to provide material information. A proposal form should include the following information about the proposer: the proposer's full name, address, and phone number; the proposer's profession, occupation, or business; the details and identity of the insurance subject matter; the sum insured; previous and current insurance; loss experience; and a declaration from the insured. It is the agent's duty to ensure that the insured provides the insurer with all pertinent information on the risk.

The premium, as defined by an insurance contract, is the consideration or sum paid by the insured to the insurer in exchange for insurance coverage of the insurance subject matter. Cash, any recognised banks negotiable instrument, postal money orders, credit or debit cards, the internet, e-transfer, direct credit, or any other method time to time allowed by authorities may be used to pay the premium.

When policy preparation is ongoing or when insurance contract talks are ongoing and temporary insurance coverage is required, a cover note is provided. The maritime and automotive industries use cover notes the most. When proof of insurance may be needed, a certificate of insurance gives that information.

The policy is a formal document that serves as proof of the insurance contract. A warranty is a clause that must physically be met for the contract to be deemed legitimate. It is specifically specified in the policy. If particular policy terms and conditions need to be changed at the time of issuance, the revisions or adjustments are stated in a document called an endorsement.



## TERMINAL QUESTIONS

1. Explain the contents of the policy document.
2. Write down the contents to be mentioned in the proposal form of a Fire Insurance policy.
3. Write short notes on
  - a) Endorsement
  - b) Claim form
  - c) Survey report



Notes



Notes



### ANSWERS TO INTEXT QUESTIONS

#### 7.1

- |        |        |
|--------|--------|
| 1. (d) | 2. (b) |
| 3. (c) | 4. (d) |
| 5. (c) | 6. (b) |
| 7. (b) | 8. (d) |

#### 7.2

- |        |        |
|--------|--------|
| 1. (a) | 2. (c) |
| 3. (b) | 4. (d) |
| 5. (d) | 6. (b) |
| 7. (a) |        |



### LEARNING OUTCOMES

After studying this chapter, you are able :

- To explain the documentation required at the time of taking a policy till the time of claims.
- To assist the client in completing the documentation related to general insurance policies and claims.



### ACTIVITY

- Dramatize a situation to disclose and explain all the policy terms and conditions and related material facts to the customer
- Dramatize a situation on how to assist the customer in submitting the filled application along with the supporting documents for further processing
- Apply proper practices to ensure the issuance and delivery of policy documents to the customer

**8**

## UNDERWRITING & RATE MAKING

**Notes**

### 8.0 INTRODUCTION

In the product industry, the selling price of the product is decided by taking into consideration various aspects like cost, profits, demand, etc. In case of insurance policies, decision is to be taken whether to accept or reject the proposal. If the proposal is accepted, then what rate of premium is to be charged from the insured? This will be decided by an underwriter. In this chapter you will learn about the basics of underwriting and how the rate of premium is decided.



### 8.1 OBJECTIVES

After reading this lesson, you will be able to:

- Explain the basic concepts of underwriting
- Explain the process of underwriting
- List the sources used for underwriting
- Describe the basics of ratemaking
- Explain the objectives of ratemaking

### 8.2 BASICS OF UNDERWRITING

The basic concepts of insurance comprises of managing of risks through the process of pooling, as stated in the previous chapters. Insurance company or the insurer creates and manages a pool of premiums that is contributed by various policyholders like

#### Non-Life Insurance



#### Notes

individuals, companies, organizations, industries etc. who are exposed to different kinds of risk. The amount of premium which needs to be paid by each depends on a rate, which is determined by the following two factors;

- The probability of loss due to the event (caused by an insured peril) and
- The estimated amount of loss that may arise due to the loss event

#### Example

- Assume the average amount of loss as a result of a fire in a house building was Rs. 5lacs [which we denote as L]
- The average or mean probability of the loss [denoted by P] was 1 out of 100 [or 0.01]. (This means that 1 building out of every 100 houses will result into losses due to fire.)
- The mean or average expected loss would then be given by:  $L \times P = 500000 \times 0.01 = 5000$

But how the insurance company will ensure that the amount of premium collected is sufficient to compensate for losses that have actually been incurred?

We all have studied in previous chapters that the mechanism of insurance is based upon the concept of large numbers which means pooling large number of risks that are statistically similar to each other. This law of large numbers will work upon or predict the probability of number of losses (frequency) as well as the extent of loss (severity). But the problem with this is that all exposures or risks may not be same, resulting in small pools of identical risks.

For example, how many houses would you find that are exposed to exactly similar risks and are located in exactly the same external environment? Not many. As the size of the pool will increase it is likely to include all the non-similar risks which are exposed to same or approximately same kind of risks but not exactly same.

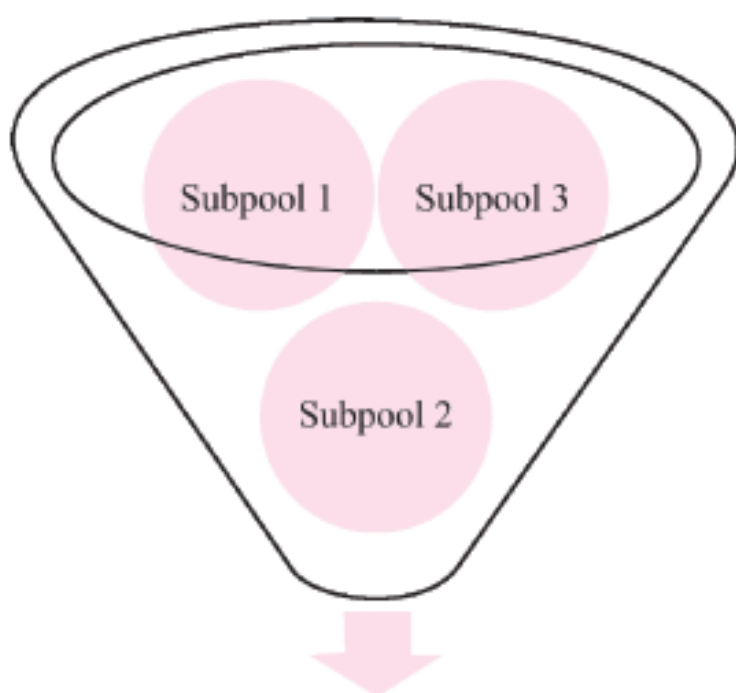
Here comes the situation of a dilemma for the insurer or the insurance company.

"How to create a pool that is large enough to increase predictability of risk while still being sufficiently homogeneous (containing similar risks)."

To overcome this problem, the insurers create a larger pool with sub pools in it. These sub pools are created by dividing the individual risks that are homogeneous in nature in the same sub pool. These sub pools are created by separating different risks in different categories depending upon the degree or exposure of the risk that is present.



Notes



### Large pools

Figure 8.1: Large premium pools comprising of various sub pools

### Example

A chemical industry has more chances of fire explosion than a shoe making industry, therefore the chemical industry has to be charged with higher amount of premium keeping in mind the probability and severity of losses.

Similar is the case in health insurance where a person who is having high blood pressure or Diabetes has higher chances of suffering a heart attack. The medical costs would be high for the treatment of the disease. The amount of premium would be higher for the person who suffers from high BP and Diabetes compared to a person who is in good health.

Therefore, this mechanism of classification of risks and locating them in a particular category of risks is essential for rate making. Consider the diagram below: It states that the premium pool for people in the age group of 25-35 years is composed of different sub pools having different characteristics of the same age group. Therefore premium charged for each age group will be different as probability for claim will be different in different categories. Probability of claim will be higher in case of smoking and drinking as compared to a healthy lifestyle.



Notes

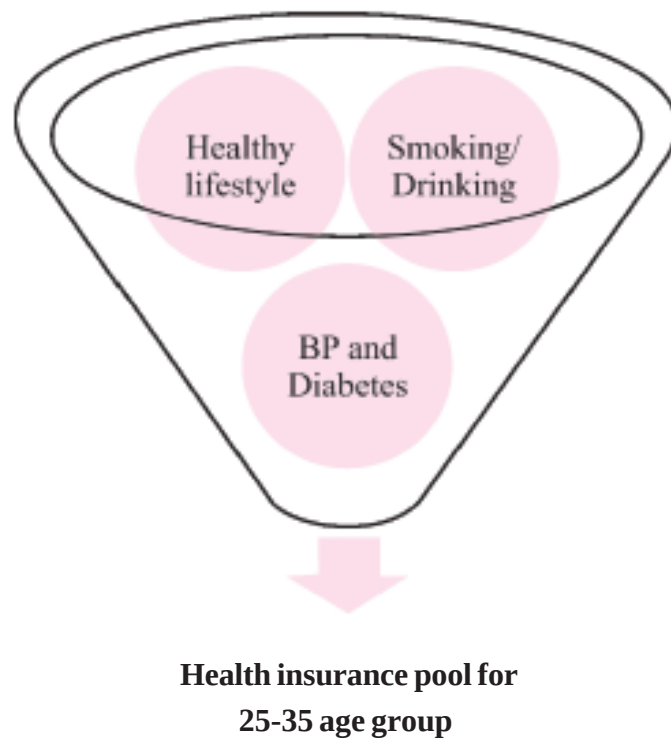


Figure 8.2: Health insurance pool with homogeneous (same risk category) sub pools

#### Definition of Underwriting

"Underwriting is the process of determining whether a risk offered for insurance is acceptable, and if so, at what rate, terms and conditions the insurance cover will be accepted."

Steps involved in the process of Underwriting:

- i. Assessment and evaluation of hazard and risk in terms of frequency and severity of loss
- ii. Preparation of policy coverage and terms and conditions
- iii. Fixing of rates of premium
  - ◆ First, the underwriter takes decision on whether to accept risk or not to accept risk
  - ◆ Second, the underwriter will decide that if the risk is accepted then under what rates, terms and conditions it should be accepted.
  - ◆ The third step is to decide the amount of premium in consideration with all the term and conditions.



Figure 8.3: Process of underwriting

In order to acquire good underwriting skills, a person should have adequate training, exposure to the field and deep knowledge about the subject area and should be involved in a continuous learning process.

In order to become a fire underwriter, the person should possess deep knowledge of perils under a fire insurance policy, causes of fire, extent of loss or impact of fire perils on goods and properties, geographical knowledge, climatic conditions etc. Similarly, an individual to become a marine insurance underwriter, it must be aware about problems encountered by cargo/goods in transit or storage, port/road conditions, ships and their sea worthiness etc. Health underwriters must comprehend the insured's risk profile, age, medical conditions, degree of fitness, and family history. They must also quantify the impact of each factor influencing risk.

### 8.3 UNDERWRITING, EQUITY AND BUSINESS SUSTAINABILITY

All risks are not equal, every risk needs to properly evaluated and assessed and should be priced taking in consideration the frequency and severity of the losses. Therefore, a cautious underwriting and accurate risk classification is important in insurance.

It would not be justified to charge same premium amount from everyone with different degrees of risks. This will not serve the purpose of underwriting which is to classify risks, depending on the severity of risk an individual is exposed to.

Every insurer enters a contractual agreement in the form of a policy document that it will indemnify the policy holder in the event of loss, if the loss occurs due to the insured peril mentioned in the policy document. If the insurance companies charges less amount of premium from the policy holder for a high degree of risk, the insurance company may fall short of the funds that are actually required to compensate for losses if they occur, failing to their contractual obligations.

On the other hand, any insurer who charges high rates for standard or normal degree of risks, will not be able to sustain it business in the competitive industry of insurance sector. Therefore, the underwriting process needs to be precisely follow order to protect the interest of equity and sustainability,



#### Non-Life Insurance



Notes

The main features of underwriting are as follows

- i. Risk identification based upon various characteristics
- ii. Determination of the level of risk presented by the proposer
- iii. Ensuring that the insurance business is conducted on sound lines

The objectives of underwriting are achieved, in short, by deciding the level of acceptability, adequacy of premium and other terms.



#### INTEXT QUESTIONS 8.1

1. Which two factors affect insurance underwriting?
  - a) Probability and severity of risk
  - b) Source and nature of risk
  - c) Source and timing of risk
  - d) Nature and impact of risk
2. The decision on whether to accept or not to accept the risk lies upon \_\_\_\_\_.
  - a) Assured
  - b) Underwriter
  - c) Agent
  - d) Surveyor
3. Which of the following is not a feature of underwriting?
  - a) Risk identification based upon various characteristics
  - b) Determination of the level of risk presented by the proposer
  - c) Ensuring that the insurance business is conducted on sound lines
  - d) Charging high premiums in order to attain more profits
4. Which of the following is the correct series of process of underwriting?
  - a) Assessment and evaluation of hazard, Formulation of policy coverage(T&C), Fixing of rates of premium

- b) Formulation of policy coverage (T&C), Assessment and evaluation of hazard, Fixing of rates of premium
- c) Fixing of rates of premium, Formulation of policy coverage(T&C), Assessment and evaluation of hazard
- d) None of the above



Notes

## 8.4 RATEMAKING BASICS

The concept of insurance is based upon transfer of risk from insured to the insurer. When an insured purchases an insurance policy, they are able to reduce the impact of financial losses which can occur due to the peril (mentioned in the policy).

### Example

A driver of an automobile like car, scooter or any commercial vehicle is exposed to the risk of meeting with an accident. If the owner has insured its vehicle, the insurance company will compensate for the damage that has taken place due to the accident.

"The process of calculating a price to cover the future cost of insurance claims and expenses, including a margin for profit is known as ratemaking."

"A rate is the price of a given unit of insurance."

**For example**, a rate may be expressed as Rs.1.00 per million (1 per thousand) for earthquake coverage

Rates vary in accordance with the possibility and potential magnitude of the loss. Each rate is chosen after careful consideration of recent environmental changes and historical trends that may have an impact on future losses.

### Example

Take an earthquake insurance coverage as an illustration. If the building is next to a fault line and if it is made of brick, which is more prone to damage than concrete, the premium rates will be higher.

Using health insurance as an illustration, each component of the risk is rated numerically or as a percentage. Age, race, occupation, lifestyle, and other factors are analysed and given numerical scores based on preset standards.

Note that rates are not the same as premiums.

Premium = (Sum Insured) x (Rate)



Notes

## 8.5 OBJECTIVES OF RATING

The main goal of setting rates is to make sure that the cost of insurance is reasonable and acceptable from both the perspective of the insurer and the insured.

This means that, from the insurer's perspective, the rates must be sufficient to cover the cost of paying claims, expenses, and taxes while leaving a sufficient margin for disasters and profit.

Reasonable rates, from the insured's perspective, mean that one shouldn't be asked to pay more than what is necessary to cover the risks involved, together with a reasonable fee for expenses, catastrophes, and profits.

## 8.6 DETERMINING THE RATE OF PREMIUM

Based on prior loss history, the pure rate of premium is determined. Therefore, historical statistical data on losses is crucial for calculating rates. Giving the risks a "mathematical value" is important in order to establish the rates.

### Example

We can calculate the overall losses caused by fire to houses if the loss experience of many houses due to fire is compiled over a period of time, say 10 years. We may determine the "mathematical value" of the risk by expressing this amount of loss as a percentage of the total value of the residences. This can be said using the following formula:

$$M = (L \times 100) / V$$

L refers to the sum total of the losses and V to the total values of all the houses. Let us suppose that:

- Value of a house: 1,00,000
- Loss experience: out of 1000 houses in 10 years, 100 houses are burnt
- On an average, 10 houses are burnt every year. Applying the formula, the result will be:

$$\text{Losses (Rs. 1,00,000 X 10)} = \text{Rs. 10,00,000}$$

$$\text{Total Value (Rs. 100000 X 1000)} = \text{Rs. 10,00,00,000}$$

$$\text{This means that } (L / V) \times 100 = [10,00,000 / 10,00,00,000] \times 100 = 1\%$$

Therefore the rate of premium that a house owner pays is one percent of Rs. 100,000/- i.e. Rs. 1000/- per year. This is called the Pure premium.

At the rate of Rs. 1000 per house, Rs. 10 lakhs is collected which is paid out in claims on total losses of 100 houses.

If the pure premium calculated above were to be collected, it would create a fund that would be just enough to cover losses.

We can observe that there is no surplus in the aforementioned situation. But insurance operations also include administrative (management) expenditures and business acquisition costs (agency commission). It's also important to provide room for unforeseen big losses.

A profit margin that represents a return on the capital invested in the firm is required because insurance is a commercial activity, just like any other business.

Therefore, to account for costs, reserves, and profits, the pure premium is appropriately loaded or increased by adding percentages.

The final rate of premium will consist of the following components:

- Loss payments
- Loss expenses (e.g. survey fees)
- Agency commission
- Expenses of management
- Margin for reserves for unexpected heavy losses e.g. 7 total losses against 5 assumed
- Margin for profits

A thorough selection of the "experience time" is required. It is necessary to use the most recent loss experience period. The timeframe chosen must have a substantial amount of loss experience data in order for the findings to be statistically significant or credible. The experience period must be representative of the typical catastrophic incidence in cases when the business is vulnerable to catastrophic losses.

One can make sure the rates aren't insufficient, excessive, or unfairly discriminatory as between risks of similar type and quality by taking into account all the pertinent rating variables.

**Notes**



Notes

## 8.7 RATING FACTORS

Rating factors are the pertinent components that are used to add up the rates and create the rating plan. Rating criteria are used by insurers to assess risk and establish pricing.

- To start, the insurer establishes a base rate using their evaluations.
- The insurer then modifies this rate by applying discounts for favourable features like exceptional fire protection on property risk and loadings (an additional premium beyond the regular rate of premium) for unfavourable features like drivers with a history of moving violations on motor risks.

### Sources of information for underwriting

The first stage in any numerical (or statistical) analysis is the collection of data. When pricing a risk, an underwriter should gather as much information as possible to aid accurate assessment.

Sources of information are:

- i. Proposal form or underwriting presentation
- ii. Risk surveys
- iii. Historic claims experience data: For some classes of business, such as personal and motor lines, underwriters often utilize historic claims experience data to provide an indication of the likely future claims experience, and to arrive at a suitable premium.

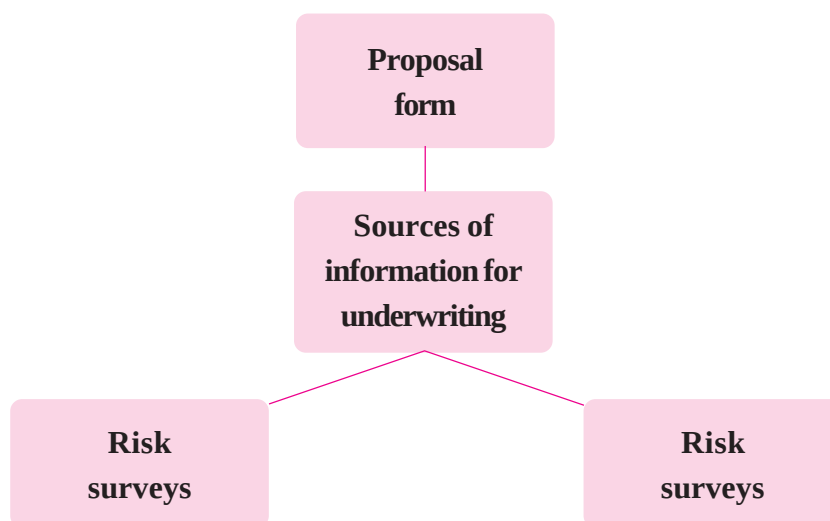


Figure 8.4: Sources of information for underwriting

The pricing procedure depends on an accurate interpretation and efficient use of claims experience. Commercial catastrophe losses are rare and unpredictable in nature. As a result, using statistical data as a foundation for calculations is not always possible or meaningful. Modern computers have made it possible to utilise a variety of simulation models to estimate the likely effects of catastrophic natural catastrophes.



## INTEXT QUESTIONS 8.2

1. What is pure premium?
  - a) Premium sufficiently big enough to pay for losses only
  - b) Premium applicable to marginal members of the society
  - c) Premium after loading for administrative costs
  - d) Premium derived from the most recent loss experience period
2. \_\_\_\_\_ is the price of a given unit of insurance.
  - a) Rate
  - b) Premium
  - c) Sum Assured
  - d) Bonus
3. \_\_\_\_\_ is not a source of information for underwriter.
  - a) Annual accounts of a proposer
  - b) Pre-acceptance risk survey of the asset
  - c) Proposal form
  - d) Registration certificate of insurer
4. Which of the following components are included in the final rate of premium  
Loss payments?
  - a) Loss expenses (e.g. survey fees)
  - b) Agency commission
  - c) Expenses of managements
  - d) All of the above



Notes

#### Non-Life Insurance



#### Notes

5. The objective of rate making is :
  - a) The premium should be inadequate from the insurers point of view
  - b) The premium should be adequate from insured's and insurer's point of view to meet losses
  - c) The premium amount should be reasonable from insured's point of view even if the insured is exposed to high risk
  - d) None of the above
6. Installation of sprinkler system in the premises:
  - a) Increases risk
  - b) Decreases the risk
  - c) Neither increases nor decreases risk
  - d) Increases risk of hooding
7. The relevant elements that are used to add up the rates and make the rating plan are referred to as:
  - a) Rating factors
  - b) Premium rate
  - c) Rate making
  - d) None of the above



#### WHAT YOU HAVE LEARNT

Risk classification and categorization are crucial steps in the rate-making process. A risk provided for insurance is underwritten to see if it is acceptable and, if so, what price, terms, and conditions the insurance cover will be approved at. A rate is the cost of a specific insurance unit. The primary goal of rate setting is to guarantee that the cost of insurance is adequate and reasonable. In order to account for costs, reserves, and profits, pure premium is appropriately loaded or enhanced by adding percentages.



## TERMINAL QUESTIONS

1. Explain in detail with the help of an example determination of rate of premium.
2. Explain in brief the concept of underwriting with the help of an example.
3. Explain in brief the components of final premium.
4. Explain in detail the process of underwriting.



## ANSWERS TO INTEXT QUESTIONS

### 8.1

1. (a) Probability and severity of risk
2. (b) Underwriter
3. (d) Charging high premiums in order to attain more profits
4. (a) Assessment and evaluation of hazard, Formulation of policy coverage (T&C), Fixing of rates of premium

### 8.2

1. (a) Premium sufficiently big enough to pay for losses only
2. (b) Rate
3. (d) Registration certificate of insurer
4. (d) All of the above
5. (b) The premium should be adequate from insured's and insurer's point of view to meet losses
6. (b) Decreases the risk
7. (a) Rating factors



Notes



Notes



### LEARNING OUTCOMES

After studying this chapter, you are able :

- To understand the need and importance for underwriting in insurance along with the underwriting process and sources.
- To learn how the rate of premium is calculated.



### ACTIVITY

- Role play on how to quote premium for the chosen insurance product by the customer based on the detailed information provided and assist the customers with completing application forms and handle their queries
- Perform the steps to obtain the input from underwriting team regarding possible medical check-up/planned visit/valuation of building, plant, and machinery, etc.



## **RATE MAKING -HAZARDS AND SUM INSURED**

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### **9.0 INTRODUCTION**

---

There are certain hazards (conditions or features or characteristics) that can increase the chance of loss arising from a given peril. Wooden structure has a higher chances of catching fire when compared with the stone structure. Similarly, an individual having a high blood pressure or Diabetes has a higher chance of getting a heart attack. Insurers generally charges higher premium for covering these risks or sometimes may even decline to accept the risk. It is thus important for an underwriter to study these hazards in a detailed manner for good underwriting practices. It is also important to study how sum insured is calculated in different types of insurance and what are the factors that may affect the sum insured. You will learn about these aspects in this chapter.



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### **9.1 OBJECTIVES**

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After reading this lesson, you will be able to:

- Explain the various types of hazards
- Explain the mechanisms to deal with physical hazards and moral hazards
- Determine "Sum Insured" under various insurance policies

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### **9.2 HAZARD**

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The term hazard in insurance refers to those conditions or features or characteristics which create or increase the chance of loss arising from a given peril. It is important for an underwriter to have a thorough knowledge of various hazards to which property

#### Non-Life Insurance



#### Notes

and persons are exposed which may increase the chance of loss. For example: in case of property insurance, the chances of a wooden structure catching a fire is more as compared to the structure of concrete.

Risks can be divided into moral and physical categories. Physical hazard is the risk brought on by important aspects of the insurance's subject matter. Moral hazard can result from human weakness (such as dishonesty, carelessness, etc.) or from broader societal and economic circumstances. At the operational level, determining rates entails evaluating moral and physical risks.

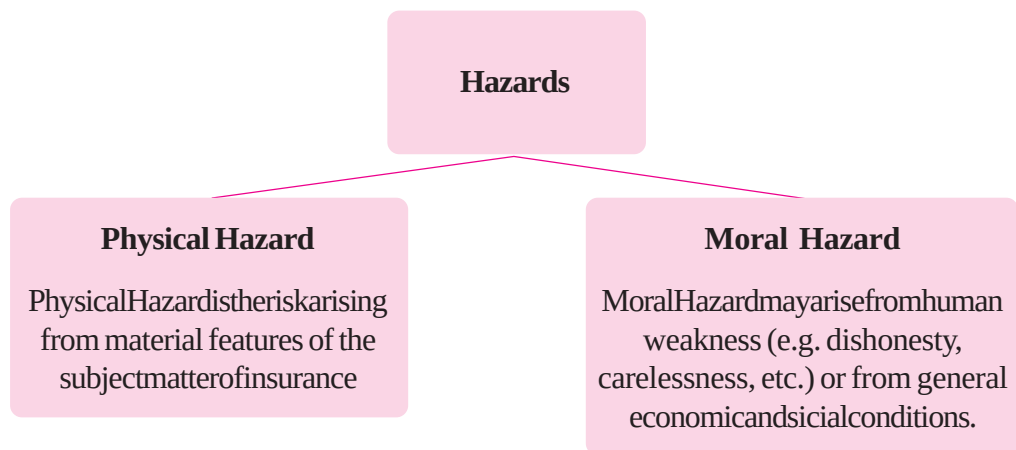


Figure 9.1: Types of hazards

#### 9.2.1 Physical Hazards

The information provided in a proposal form can be used to determine physical risk. It can also be determined by performing a survey or risk check. The following are some instances of physical risk in various insurance classifications.

##### a) Fire

- i. **Construction-** The building materials utilised for the walls and roof are referred to as construction. A building made of concrete is superior to one made of wood because a building made of wood has a higher possibility of catching fire than a building made of concrete.
- ii. **The height-** Due to the difficulty of putting out a fire, the more stories a building has, the greater the risk. Moreover, there is a greater possibility of upper stories collapsing, which could result in significant impact damage.



- iii. **Nature of flooring-** Wooden floors add fuel to fire. In addition, hardwood flooring easily collapse in the event of a fire, damaging items on lower floors due to machinery or goods falling from upper floors.
  - iv. **Occupancy-** A building's occupancy and its intended usage are both referred to as occupancy. Occupancy poses a variety of hazards.
  - v. **Ignition Hazard-** Structures where chemicals are produced or utilised in big quantities present a significant fire risk. Timber burns quickly once a fire starts, therefore a timber yard poses a significant combustibility risk. In the event of a fire, the contents could be severely damaged. For instance, materials like paper and textiles can also be damaged by heat, water, and other factors in addition to fire.
  - vi. **The process of manufacture-** If work is carried during the night, the hazard is increased due to the use of artificial lights, continuous use of machinery leading to friction and the likely carelessness of workers due to fatigue.
  - vii. **Situation-** Location in a congested area, exposure to hazardous adjacent premises and distance from the fire brigade is an example of physical hazard.
- b) **Marine**
- i. **The age and condition of vessel-** Older vessels are inferior risks.
  - ii. **The voyage to be undertaken-** The route of the voyage, loading and unloading conditions and warehousing facilities at the ports are factors which can increase or decrease the risk.
  - iii. **The nature of the stocks-** Articles of high value are exposed to theft; machinery is liable to breakage in transit.
  - iv. **The method of packing-** Cargo packed in bales or blocks is considered to be better than cargo in bags. Again, double bags are safer than single bags. Liquid cargo in second-hand drums constitute bad physical hazard.
- c) **Motor**
- i. **The age and condition of the vehicle-** Older vehicles are more prone to accidents.



- ii. **The type of vehicle-** Sports cars involve greater physical hazard.
- d) **Burglary**
  - i **The nature of the stocks-** Articles of high value in small bulk (e.g. Jewellery) and easily disposable are considered to be bad risks.
  - ii. **Situation-** Ground floor risks are inferior to upper floor risks: private dwellings situated in isolated areas are hazardous.
  - iii. **Constructional hazard-** Too many doors and windows constitute bad physical hazard.
- e) **Personal accident**
  - i. **The age of the person-** Very old persons are accident prone; besides they will take longer to recover in the event of an accident.
  - ii. **Nature of occupation-** Jockeys, mining engineers, manual workers are examples of bad physical hazard.
  - iii. **Health and physical condition-** A person suffering from Diabetes may not respond to surgical treatment in the event of accidental bodily injury.
- f) **Health insurance**
  - i. **Age of the person-** Younger age bracket are less prone to falling ill frequently.
  - ii. **Health status of the person** i.e. if presently suffering from any illness
  - iii. **Consumption of alcohol or tobacco**
  - iv. **Nature of occupation:** Working in factories where there is an excessive exposure to smoke or dust.

#### Fire

- Construction of the building
- The height of the building
- Nature of flooring
- Occupancy
- Ignition hazard
- The process of manufacture
- Situation

#### Marine

- The age and condition of vessel
- The voyage to be undertaken
- The nature of the stocks
- Packaging

#### Motor

- The age and condition of the vehicle
- The type of vehicle

| Burglary                                                                                                                           | Personal Accident                                                                                                                                  | Health Insurance                                                                                                                                                                          |
|------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <ul style="list-style-type: none"> <li>• The nature of the stocks</li> <li>• Situation</li> <li>• Constructional hazard</li> </ul> | <ul style="list-style-type: none"> <li>• The age of the person</li> <li>• Nature of occupation</li> <li>• Health and physical condition</li> </ul> | <ul style="list-style-type: none"> <li>• Age of the person</li> <li>• Health status of the person</li> <li>• Consumption of alcohol or tobacco</li> <li>• Nature of occupation</li> </ul> |



Notes

Figure 9.2: Examples of physical hazards



### INTEXT QUESTIONS 9.1

- Hazards are:
  - Factors that increase the impact of losses
  - Factors that increase the frequency of loss
  - Factors that increase the impact and severity of losses
  - Factors that decrease the impact and severity of losses
- Which of the following is true? Physical Hazards:
  - Are not important for rate making
  - Cannot be ascertained
  - Can be calculated from the balance sheet
  - Can be ascertained from information given in a proposal form
- Which of the following is not a physical hazard in case of health insurance?
  - Age
  - Marital Status
  - Nature of occupation
  - Alcohol and smoking habits

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### Non-Life Insurance



Notes

#### RATE MAKING -HAZARDS AND SUM INSURED

4. Which of the following is a physical hazard in case of fire insurance?
  - a) Construction of the building
  - b) The height of the building
  - c) Nature of flooring
  - d) All of the above
5. Which of the following is not a physical hazard in case of marine insurance?
  - a) The age and condition of vessel
  - b) The voyage to be undertaken
  - c) Speed of sea waves
  - d) Packaging
6. Which of the following is a physical hazard in case of burglary insurance?
  - a) The nature of the stocks
  - b) Situation
  - c) Constructional hazard
  - d) All of the above

#### 9.2.2 Addressing Physical Hazards in Rating

Underwriters use the following methods to deal with physical hazards:

- Loading of premium
- Applying warranties on the policy
- Applying certain clauses
- Imposition of excess/ deductibles
- Restricting the cover granted
- Declinature of cover

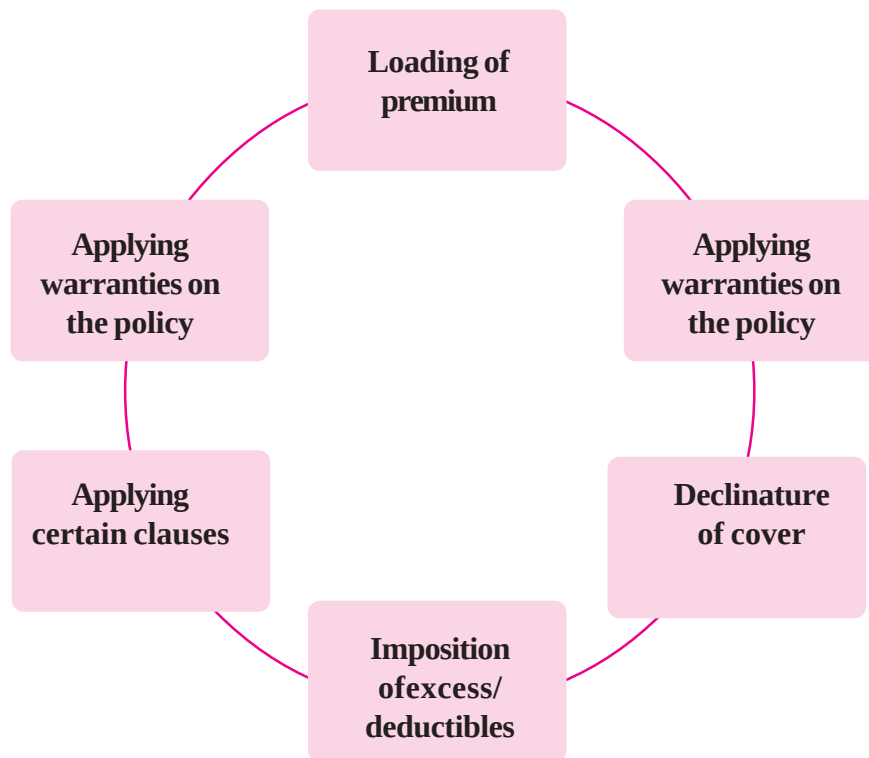


Figure 9.3: Methods to deal with physical hazards

#### a) Loading of premium

Before accepting the risk, the underwriters may choose to impose an additional premium due to some unfavourable aspects of the risk exposure. The higher likelihood of claims or the occurrence of substantial claims is taken into account by loading the premium.

#### Example

- i. For cargo delivered by liners or other boats that abide by the established requirements, the normal rate of premium is charged. However, there is an additional premium charged if the cargo is transported by a vessel that is under- or over-tonnage.
- ii. A higher premium is required for personal accident insurance if the insured participates in risky activities like mountaineering, racing on wheels, large game hunting, etc.





Notes

- iii. If there are unfavourable characteristics at the time of underwriting for health insurance, it may also result in premium loading.

In other cases, such as with auto insurance or health insurance policies, premium loading is also done in response to a high claims ratio.

#### b) Imposition of warranties

warranties are obligations that need to be complied during the policy period. the liability of the insurer depends on the insured's compliance with these obligations. Insurers incorporate appropriate warranties to reduce the physical hazard.

Some examples are provided below.

##### Example

- i. **Marine cargo-** A warranty is inserted to the effect that goods (e.g. Tea) are packed in tin lined cases.
- ii. **Burglary-** It is warranted that the property is guarded by a watchman for twenty-four hours and seven days a week.
- iii. **Fire-** In fire insurance, it is warranted that the premises would not be used beyond normal working hours.
- iv. **Motor-** It is warranted that the vehicle will not be used for speed testing or racing.

#### c) Application of some clauses that will reduce the claim/loss amounts

##### Example

**Marine cargo:** Little component damage could result in expensive apparatus being considered a total loss. The Replacement Clause, which restricts the underwriter's obligation to the price of repairing, shipping, and refitting any broken parts, applies to such machinery.

Hard board and cast pipes occasionally only sustain damage at their edges. Maritime insurance policies cover cast pipes, hardboard, etc., and are subject to the "cutting" provision, which states that the damaged part should be removed and the remaining material used.



Notes

For imported commodities from abroad, marine insurance for interior transit is frequently required. It's quite likely that loss or damage to such things occurred during the ocean cruise but wasn't immediately apparent upon inspection from the outside.

Such risks are accepted subject to an inspection of the goods on landing in port. Policy is subject to survey before acceptance.

#### d) **Imposition of Excess / Deductibles**

When the loss amount exceeds the deductible/excess mentioned, the balance is paid under 'excess' clause. Loss below the limit is not payable.

The object of these clauses is to eliminate small claims. As the insured is made to pay part of a loss, he is encouraged to exercise more care and to practice loss prevention.

#### e) **Restriction of cover Example**

- i. **Motor:** An old motor vehicle proposal won't be accepted under comprehensive terms; instead, insurers will give a restricted cover, one that covers only third-party risks. Simply put, the vehicle's comprehensive insurance cannot be granted; only third party insurance may be.
- ii. **Personal accident:** If a proposer for a personal accident has reached the maximum acceptance age, they may only be insured for death risk and not on full terms, which would also include disability compensation.
- iii. **Health:** The insurer may occasionally limit coverage for particular medical treatments or ailments, and the coverage would only be partial. such as cataract or lens surgery.

#### f) **Discounts**

Lower rates are charged or a discount is given in the normal premium if the risk is favorable.

The following features are considered to contribute to improvement of risk in fire insurance.

- i. Installation of sprinkler system within the premises



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- ii. Installation of hydrant system in the compound
- iii. Installation of hand appliances consisting of buckets, portable extinguishers and manual fire pumps

#### iv. Installation of automatic fire alarm

As a result of the side car attached, stability and contribution to increased risk, motor insurance offers a reduction on the premium if the motorcycle is always operated with one attached.

Given that "Full Load" containers lower the likelihood of theft and scarcity, the insurer for marine insurance may think about offering discounts on premiums for these containers. Discounts would be granted under a group personal accident policy for covering a sizable group, lowering the insurer's administrative costs and workload.

#### g) No Claim Bonus (NCB)

Every claim-free renewal year is rewarded with a particular proportion as bonus money, however there is a cap on how much bonus money can be received. Depending on the claim ratio for the entire group, it is only permitted as a deduction from the total premium at renewal.

No claim bonuses are an effective way to enhance the underwriting process and are a crucial component of rating systems. This bonus acknowledges the insured's potential for moral hazard. By developing better driving habits, as in vehicle insurance, or by taking better care of his health, as in medi-claim policies, it rewards the insured for not filing claims.

#### h) Declinature

If the physical hazard involved is considerably bad, the risk becomes uninsurable and is declined. Based on their past loss experience, knowledge of hazards and overall underwriting policy, insurers have formulated a list of risks to be declined in each class of insurance.

### 9.2.3 Moral Hazard

Moral hazard may arise from human weakness (e.g. dishonesty, carelessness, etc.) or from general economic and social conditions. Moral hazard could arise in the following ways:

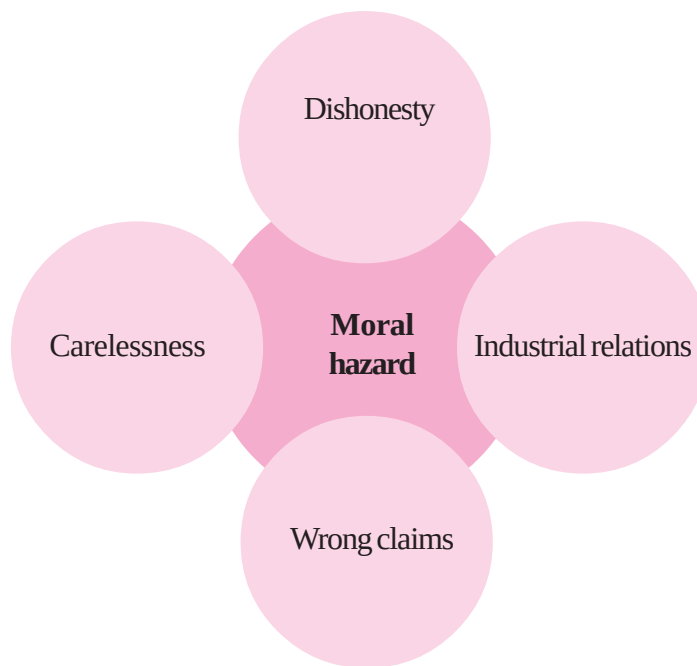


Figure 9.4: Types of moral hazards

**a) Dishonesty**

An extreme example of bad moral hazard is that an insured taking insurance with deliberate intention of creating or making a loss to collect a claim. Even, an honest insured may desire to stage a loss, if he happens to be in financial difficulties.

**b) Carelessness**

One example of carelessness is indifference to loss. When insurance is available, the insured may have a tendency to treat the insured property carelessly. The moral hazard is inadequate if the insured does not treat the property with the same care that a cautious and reasonable man would if he were uninsured.

**c) Industrial relations**

Employer-employee relationship may involve an element of bad moral hazard.

**d) Wrong claims**

When claims happen, this form of moral hazard develops. An insured person cannot intentionally cause a loss, but after one happens, he will try to seek an excessively high sum of compensation, completely disregarding the principle of indemnity.

**Notes**

#### Non-Life Insurance



#### Notes

#### Example

Instances of this type of moral hazard can be found in personal accident insurance, where the claimant may tend to extend his length of disability in order to receive greater insurance payments than the severity of the injury warrants.

Such a risk might occur in motor vehicle claims when the insured unreasonable demands new parts replacement when the damage could be fixed satisfactorily or tries to carry out specific repairs or replacements that are unrelated to accidental damage.

Co-payment, deductible, sub-limits, and providing incentives like no-claim bonuses in health insurance are all ways to decrease moral hazard.

- i. **Co-payment**-When an insured event occurs, many health policies require the insured to share a part of the insured loss. E.g. If the insured loss is INR 20,000 and the co-pay amount is 10% in the policy, then insured pays INR 2,000.
- ii. **Sub-limits**-The insurer may impose a limit on the total payout separately each for room expenses, surgical procedures or doctor fees to check the inflated bills.
- iii. **Deductible**- Also called as excess, it is the fixed amount of money the insured is required to pay initially before the claim is paid by insurer, for e.g. if the deductible in a policy is INR 10,000, the insured pays first INR 1000 in each insured loss claimed for.

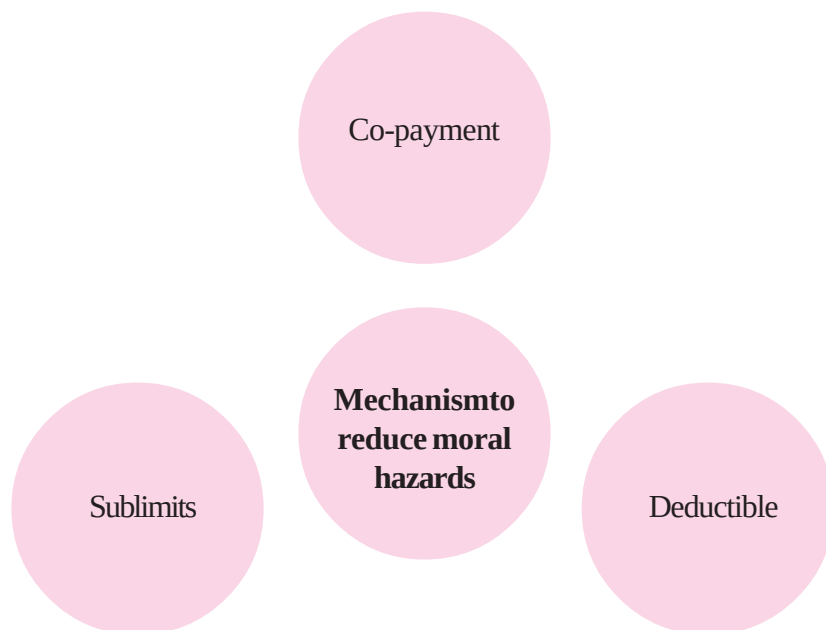


Fig 9.5: Mechanism to reduce moral hazards

### 9.3 SHORT PERIOD SCALES

Typically, premium rates are quoted for a 12-month term. A unique scale known as the "short period scale" is used to calculate the premium if a policy is purchased for a shorter time frame. It is apparent that the premium for short-term insurance is not proportionately charged based on the scale.

#### Need for short period scales

- a) These rates are used since they are nearly identical regardless of whether the policy is issued for one year or a shorter time frame. Short period scales are evolved to prevent such selection against the insurers. They are also applicable when annual insurance is cancelled by the insured.
- b) In addition, yearly policies only need to be renewed once a year, whereas short-term policies need to be renewed more frequently. If a proportionate premium is permitted, the insured would be more likely to continue purchasing short-term policies and, in effect, pay premiums in installments.
- c) In addition, certain insurance policies have a seasonal nature, and the risk is higher at that time of year. Insurances are occasionally purchased during these times when the danger is highest, which disadvantages the insurers.

Short period scales are evolved to prevent such selection against the insurers. They are also applicable when annual insurance is cancelled by the insured.

#### Minimum Premium

It is the practice to charge minimum premium under each policy so that administrative expenses of issuing the policy are covered.



#### INTEXT QUESTIONS 9.2

1. What is expected of an agent when she detects a moral hazard?
  - a) Continue with the insurance as before
  - b) Report the same to the insurer
  - c) Ask for a share in the claims
  - d) Turn a blind eye
2. Which of the following is a method to deal with physical hazards?
  - a) Loading of premium



Notes

## Module - 3

### Non-Life Insurance



Notes

#### RATE MAKING -HAZARDS AND SUM INSURED

- b) Imposition of warranties
  - c) Discounts
  - d) All of the above
3. Which of the following is not a type of moral hazard?
- a) Dishonesty
  - b) Carelessness
  - c) Wrong claims
  - d) Gambling
4. Which of the following mechanisms can be used to reduce moral hazards?
- a) Co-payment,
  - b) Deductible,
  - c) No-claim bonus
  - d) All of the above
5. Short period scales are used for policies with duration of:
- a) Less than 12 months
  - b) 12 months
  - c) More than 12 months
  - d) All of the above

### 9.4 SUM INSURED

It is the highest sum that an insurance company will indemnify to the terms of the policy. When deciding on the limit of indemnity, or the maximum amount that would be paid out in the event of a claim, an insured must exercise extreme caution.

The insured always determines the insured amount. The sum insured specifies the policy's maximum obligation. It is an amount to which a rate is applied in order to determine the policy's premium. It ought to reflect the property's true market value. If there is excess insurance, the insured receives no benefit, and if there is insufficient insurance, the claim is decreased accordingly.

**9.4.1. Deciding the Sum Insured**

Under each class of business the insured should be advised of the following points which have to be borne in mind while deciding the sum insured:

- a) **Personal Accident Insurance:** The sum insured offered by a company can be a fixed amount or it can also be based on the insured's income. Some insurance companies may give a benefit equal to 60 times or 100 times of the insured's monthly income for a particular disability. There could be an upper limit or "cap" on the maximum amount. Compensations can vary from company to company. In group personal accident policies, the sum insured may be fixed separately for each insured person or may be linked to emoluments payable to the insured person.
- b) **Health Insurance:** The sum insured is available within a certain range. It depends on the age bracket too. Let us say for age group of 25 -40 years the insurer may offer a sum insured of 10 lakhs or higher and for age group of 3 months to 5 years it could be 2 lakhs or so.
- c) **Motor Insurance:** In case of motor insurance, the sum insured is the Insured's Declared Value [IDV]. It is the value of the vehicle, which is arrived at by adjusting the current manufacture's listed selling price of the vehicle with depreciation percentage as prescribed in the IRDAI regulations. Manufacturer's listed selling price will include local duties / taxes excluding registration and insurance.

$$\text{IDV} = (\text{Manufacturer's listed selling price} - \text{depreciation}) + (\text{Accessories that are not included in listed selling price-depreciation})$$
 and excludes registration and insurance costs.

The IDV of vehicles that are obsolete or aged over 5 years is calculated by mutual agreement between insurer and the insured. Instead of depreciation, IDV of old cars is arrived at by assessment of vehicle's condition done by surveyors, car dealers, etc. IDV is the amount of compensation given in case a vehicle is stolen or suffers total loss. It is highly recommended to get IDV which is near the market value of the car. Insurers provide a range of 5% to 10% to decrease IDV to the insured. Less IDV would mean lesser premium.

- d) **Fire Insurance:** The sum insured for fire insurance may be determined using the market value or reinstatement value of the building, plant, machinery, and fixtures. Content is insured based on its market value, which is the item's cost less depreciation.



Notes

## Module - 3

### Non-Life Insurance



#### Notes

#### RATE MAKING -HAZARDS AND SUM INSURED

- e) **Stocks Insurance:** The amount insured for stocks is their market value. After the loss, the insured will get payment at the price at which these stocks may be replaced by damaged raw materials on the market.
- f) **Marine Cargo Insurance:** It is an agreed valued policy and the sum insured is as per the agreement between insurer and insured at the time of contract. Normally it would consist of the sum of cost of the commodity + Insurance + freight i.e. CIF value.
- g) **Marine Hull Insurance:** The value that the insured and the insurer agreed upon at the start of the contract is the sum insured in a marine hull insurance policy. This value would be determined by a certified value following a ship/hull inspection.
- h) **Liability Insurance:** In the case of liability policies, the sum covered corresponds to the industrial units' liability exposure based on the extent of exposure and geographical distribution. A portion of the claim settlement may also include additional legal fees and expenses. Based on the aforementioned factors, the insured chooses the insured amount.

| S. no. | Type of Insurance                  | Basis of sum insured                                                                                                                                                                                                                                                                 |
|--------|------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 1      | <b>Personal Accident Insurance</b> | The sum insured is based on the insured's income. There could be an upper limit or "cap" on the maximum amount. In group personal accident policies the sum insured may be fixed separately for each insured person or may be linked to remunerations payable to the insured person. |
| 2      | <b>Health Insurance</b>            | The sum insured is available within a certain range. It depends on the age bracket                                                                                                                                                                                                   |
| 3      | <b>Motor Insurance</b>             | The sum insured is the Insured's Declared Value [IDV].                                                                                                                                                                                                                               |
| 4      | <b>Fire insurance</b>              | The sum insured may be fixed on the basis of market value or reinstatement value for buildings / plant and machinery and fixtures.                                                                                                                                                   |
| 5      | <b>Stocks Insurance</b>            | Sum insured is their market value                                                                                                                                                                                                                                                    |



|   |                               |                                                                                                                                |
|---|-------------------------------|--------------------------------------------------------------------------------------------------------------------------------|
| 6 | <b>Marine Cargo Insurance</b> | It is an agreed valued policy and the sum insured is as per the agreement between insurer and insured at the time of contract. |
| 7 | <b>Marine Hull Insurance</b>  | The sum insured is the value, agreed between the insured and the insurer at the beginning of the contract                      |
| 8 | <b>Liability Insurance</b>    | The sum insured is the liability exposure of the industrial units based on the degree of exposure, geographical spread         |

Table 9.1: Basis of sum assured for various policies

**INTEXT QUESTIONS 9.3**

- Suggest an insurance scheme for a doctor to protect him from any claims of negligence against him.
  - Personal accident insurance
  - Liability insurance
  - Marine hull insurance
  - Health insurance
- \_\_\_\_\_ is the maximum amount that an insurance company will indemnify to someone who files a claim.
  - Sum insured
  - Premium
  - Rider
  - Benefits
- Insured's declared value in motor insurance includes:
  - Registration
  - Manufacturer's cost price
  - Manufacturer's selling price
  - Arbitrary price component

## Module - 3

### Non-Life Insurance



Notes

### RATE MAKING -HAZARDS AND SUM INSURED

4. What is the sum insured in case of stock insurance?
  - a) Market value
  - b) Gross Profits
  - c) Capital Investment
  - d) Salaries of employees
5. What is the sum insured in case of marine hull insurance?
  - a) the value, agreed between the insured and the insurer at the beginning of the contract
  - b) Market value of the vessel
  - c) Depreciated value of the vessel
  - d) None of the above



### WHAT YOU HAVE LEARNT

In the context of insurance, a hazard is any set of circumstances, traits, or qualities that either cause or raise the possibility of suffering a loss as a result of a specific peril. The data provided in a proposal form can be used to determine physical risk. The following procedures are used to address physical hazard rating: loading of premium, applying policy warranties, applying specific provisions, imposition of excess/deductibles, limiting the coverage provided, and declination of coverage. The elimination of small claims is the goal of applying deductible/excess clauses. No claim bonuses are an effective way to enhance the underwriting process and are a crucial component of rating systems.

The sum insured is the maximum sum that an insurance company will cover under the terms of the policy. Moral risks can be caused by dishonesty, carelessness, poor labour relations, and false claims. Co-payment, deductible, sub-limits, and providing incentives like no-claim bonuses in health insurance are all ways to decrease moral hazard. Typically, premium rates are quoted for a 12-month term. A unique scale known as the "short period scale" is used to calculate the premium if a policy is purchased for a shorter time frame.



## TERMINAL QUESTIONS

1. What are the different types of hazards in various types of insurance covers?
2. Explain the ways to address physical hazards rating.
3. How will you decide sum insured for various classes of insurance?
4. Explain various types of moral hazards and mechanism to reduce the same.



## ANSWERS TO INTEXT QUESTIONS

### 9.1

1. (c) Factors that increase the impact and severity of losses
2. (d) Can be ascertained from information given in a proposal form
3. (b) Marital Status
4. (d) All of the above
5. (c) Speed of sea waves
6. (d) All of the above

### 9.2

1. (b) Report the same to the insurer
2. (d) All of the above
3. (d) Gambling
4. (d) All of the above
5. (b) Less than 12 months

### 9.3

1. (b) Liability insurance
2. (a) Sum insured
3. (c) Manufacturer's selling price
4. (a) Market Value



Notes

## Module - 3

### Non-Life Insurance



Notes

#### RATE MAKING -HAZARDS AND SUM INSURED

5. (a) The value, agreed between the insured and the insurer at the beginning of the contract



### LEARNING OUTCOMES

After studying this chapter, you are able :

- To define the various types of hazards and explain the mechanism to deal with these hazards
- To explain how the sum insured is determined under various forms of insurance.



### ACTIVITY

- Role play on how to assist the customers in scheduling appointments for medical check-up and coordinating with underwriting team for re-assessment of premium after medical report
- Dramatize on how to inform customers about any changes in premium value/ sum insured

**10**

## **CLAIM SETTLEMENT IN INSURANCE**

---

### **10.0 INTRODUCTION**

---

The fundamental part of any insurance contract is the promise made by the insurance company to the insured that it will indemnify the policyholder or the insured in the event of loss. In order to indemnify the policyholder (insured), certain procedures have to be followed by both insurer and the insured to come to the decision whether the claim has to be paid or not and if yes what will be the amount of indemnification. This chapter focuses on the procedures involved, from the time loss takes place, to the payment of claim, making it easier to understand the entire process of claims settlement.



---

### **10.1 OBJECTIVES**

---

After reading this lesson, you will be able to:

- Describe the procedures for intimation of loss
- Explain claim investigation and assessment
- Memorize various documents required in a claim settlement process
- Explain the importance of surveyors and loss assessors
- Describe the process of claims settlement in Insurance

---

### **10.2 BASICS OF CLAIM**

---

When you suffer a loss or damage, you seek the insurance company for claim settlement. If you want that the insurance company pay you for the losses, then the loss that has been suffered by you should be caused by the perils named under your insurance

#### Non-Life Insurance



#### Notes

policy. The claim settlement process includes the compensation and coverage provided by the insurance policy to the policyholder for the losses or the damages caused by an insured peril.

An insurance claim is an official request to the insurer or the insurance company for indemnification or compensation against loss or damage caused due to the insured peril. As soon as the request is received by the insurance company, the claim is validated and once it is approved, payment is issued to the insured.

The scope of insurance claims is extremely wide as it covers everything from death benefits under a life insurance policy to routine and comprehensive medical tests. It covers damage and loss to property, motor, marine cargo, burglary, jewellery etc. under general insurance.

You will have more insights about the insurance claim, process of claim settlement, methods to file insurance claims in the upcoming sections which will empower you to get the compensation you deserve in a claim settlement.

### 10.3 CATEGORIES OF CLAIM

The claims which are dealt with in insurance policies fall into the following categories:

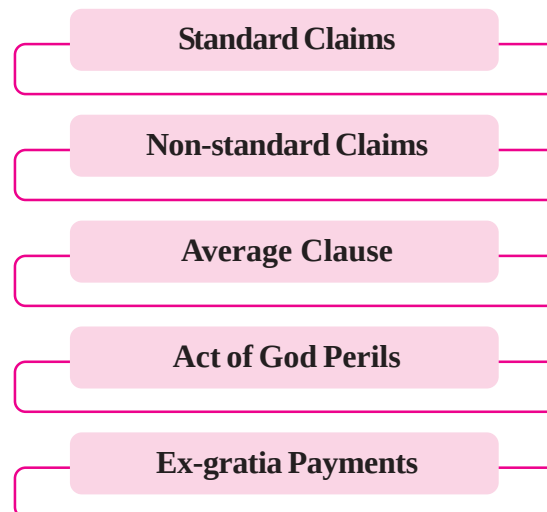


Figure 10.1: Categories of claims

#### (i) Standard Claims:

Standard claims are those that clearly fall within the parameters of the policy's terms and conditions. The scope of the claim, the amount of insurance chosen, and other indemnity procedures specified for different classes of insurance are



Notes

taken into consideration when evaluating the claim. Depending on the policy chosen, the claim amount paid by the insurer takes into account a number of variables, including the valuation at the time of the loss, insurable interest, salvage chances, loss of earnings, loss of use, depreciation, and replacement value.

**(ii) Non-Standard Claims:**

"Claims that are non-standard are those in which the insured may have broken a condition or warranty. The non-life insurance firms have established rules and regulations that must be followed in the settlement of these claims.

**(iii) Condition of average or average clause:**

Some policies have a clause that penalises the insured for underinsuring his property by insuring it for less than its true value. In the event of a claim, the insured receives a sum that is proportionately deducted from his real loss in accordance with the underinsurance.

**(iv) Act of God perils - Catastrophic losses:**

"Act of God" perils include natural disasters like storms, cyclones, floods, inundations, and earthquakes. In the affected region, these risks may cause losses to several insurance policies. In such significant and catastrophic losses, the surveyor is expected to move right away to the loss scene for an early assessment and loss minimization efforts. Officials from the insurers visit the loss scene concurrently, especially when there is a significant loss. Preliminary reports are also submitted if the surveyors encounter difficulties with the assessment and may need guidance and instructions from insurers, who are then given the opportunity to discuss the issues. The goal of the visit is to get an immediate, on-site idea of the nature and extent of loss.

**(v) Ex - gratia Payments:**

These losses fall outside the scope of cover under the policy and hence are not payable. However, in very special cases settlement of these losses is considered.



Notes

#### Standard Claims

- Claims that falls within the terms and conditions of the policy.
- Claim assesment is done keeping in view the scope of the policy and other methods of indemnity
- Factors considered during claim assesment are valuation at time of loss, insurable interest, salvage prospects, loss of earnings, loss of use, depreciation, replacement value depending on the policy taken.

#### Non-standard Claims

- Claims where the insured may have committed a breach of condition or warranty.
- The settlement of these claims is considered subject to rules and regulations framed by the non-life insurance companies.

#### Average Clause

- This is acondition in which the insured has insured its property at a sum insured less than its actual value known as underinsurance.
- In the event of a claim, the insured gets an amount that is proportionately reduced from his actual loss in accordance to the amount under insured.

#### Act of God Perils Catastrophic losses

- Natural perils like storm, cyclone, flood, inundation, and earthquake are termed as "Act of God" perils.
- These perils may result in losses to many policies of insurer in the affected region

#### Ex-gratia Payments

- These losses fall outside the scope of cover under the policy and hence are not payable. However, in very special cases settlement of these losses is considered.

Figure 10.2: Characteristics of types of claims



### INTEXT QUESTIONS 10.1

1. Natural perils like storm, cyclone, flood, inundation, and earthquake are termed as
  - a) Act of Lord Perils
  - b) Act of God Perils

- c) Action of God Perils
  - d) None of the above
2. Which of the following is not a category of claim?
- a) Standard Claim
  - b) Unstandard Claim
  - c) Non-Standard Claim
  - d) Catastrophic claims
3. These are claims where the insured may have committed a breach of condition or warranty:
- a) Standard Claim
  - b) Ex-gratia Claims
  - c) Non-Standard Claim
  - d) Catastrophic Claims

**Notes**

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### **10.4 CLAIM SETTLEMENT PROCESS**

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The insured informs the insurer about the claim. On receiving this information, a claim number is allotted and an entry is made in the Claim Intimated Register (CIR). The particulars entered are as follows:

- i. Serial number
- ii. Date of intimation
- iii. Claim number
- iv. Name of the insured
- v. Policy number
- vi. Particulars of the risk
- vii. Nature of Loss
- viii. Date of loss
- ix. Estimated amount of loss
- x. Amount Paid
- xi. Serial number of claims paid register
- xii. Remarks



Notes

#### 10.4.1 Legal Aspects of Insurance Claims

1. First aspect is to decide that whether the loss lies within the scope of policy. The principle of proximate cause helps in guiding whether the loss is caused by an insured peril or an expected peril.
2. Second aspect is that whether the insured has complied with policy conditions. Especially conditions which are precedent to liability. These conditions relate to immediate notification of loss to the insurers, submission of proof of cause and extent of loss.
3. Third aspect is that whether or not warranties have been complied with.
4. Fourth aspect is observance of utmost good faith by the proposer before the conclusion of contract, during the operation of the policy and on occurrence of loss.
5. Next aspect relates to the determination of the amount payable.

#### 10.4.2 Duties of the Insured in the event of the claim

- i. The insured has to give a written notice to the insurers, immediately or as early as possible, after the happening of any event likely to give rise to a claim under the policy.
- ii. Insured has to follow up the notice with full details of the claim within the time limit prescribed by the policy.
- iii. Insured has to provide the insurers with all such information and assistance as the insurers may reasonably require.
- iv. Insured has to lodge immediate complaint with the police in case of theft or other criminal act which may be subject of claim.
- v. Insured has to ensure that the damaged property is not left unattended without proper precautions to prevent further damage

#### 10.4.3 Duties of Insurers

- (a) As soon as the claim intimation is received, the insurers should arrange to get full details of the claim.
- (b) If considered necessary, insurers should arrange for a prompt survey of the loss either by a professional surveyor or by their own representative.

- (c) After surveying the loss, insurers should suggest recommendations to the insured for the improvement of the risk so that further losses are minimized, if not eliminated.
- (d) Insurer should deal with the insured promptly and reasonably, during all claim negotiations.

#### 10.4.4 Claim Documents

The following documents are required at the time of claim settlement process

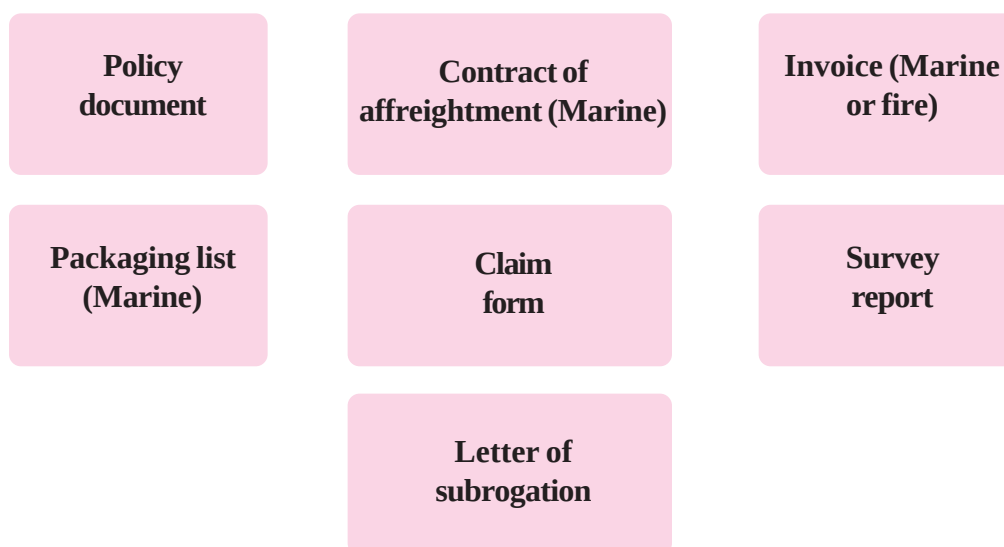


Figure 10.3: Documents required at the time of claim settlement

1. Original Policy is required to be produced by the claimant to establish his insurable interest and entitlement to the claim amount. It is the original policy which must be submitted.
2. Contract of Affreightment: It is issued in the form of
  - a) Bill of Loading - In case of ocean transit
  - b) Railway Receipt - In case of rail transit
  - c) Consignment Note - In case of road carrier (Also called 'Goods Receipt' or 'Lorry Receipt')
  - d) Air Way Bill (A.W.B.) - In case of transit by air



Notes

#### Non-Life Insurance



#### Notes

#### 3. Invoice

Invoice contains detailed description of the goods, their prices, terms of sale (i.e., free on board (FOB), Cost Insurance and Freight (CIF), Cost and Freight (C&F) etc.). These data may be matched with the Bill of Lading and policy for identification of the goods. By comparing total invoice value with the insured value, insurer can know the under or over - insurance. Another advantage is that quantity and prices of various items mentioned are taken for assessment of the loss amount on the basis of findings of the surveyor.

#### 4. Packaging List

For different items packed in different packages, different packaging lists are prepared by the shipper. When any of the package is lost or damaged, the missing items can be identified with the help of packaging list.

#### 5. Claim Form

A claim form is a standard printed document used for submitting a claim. It includes all the questions or particulars to be filled by the insured for assessment of claim. Under normal circumstances, reimbursement will take place within ten days of receipt and approval of claim form and all required documents.

#### 6. Survey Report (Loss assessment)

The surveyor or loss assessor, that has been appointed by the insured or the insurance company is expected to submit the survey report within 30 days of their appointment along with a copy of the report to the insured which has detailed comments on loss assessment by the surveyor or loss assessor. The surveyor can also seek extension if required while keeping the insured about the same. The maximum limit for submission of the survey report to the insured and insurer, regardless of any instructions is 6 months from the date of appointment. If the insurance company finds a survey report to be incomplete, it can ask the surveyor for an additional report, which needs to be submitted within 3 weeks. Such an additional report can be sought only one time during a single claim cycle.

#### Contents of the Survey Report

The survey report should contain the following information:

- a) Was the policy in force, at time of loss? Does it cover the extent/accident responsible for the loss?



Notes

- b) Was the premium paid when it should have been?
  - c) Has notice been given when it should have been?
  - d) Has there been breach of any condition or warranty incorporated in the policy?
  - e) Was there any lapse on the part of the insured, which could have contributed to the loss?
  - f) Circumstances under which the loss took place, and the documents produced by the claimant in support of his claim?
  - g) Has there been any under - insurance?
  - h) Recommendations of the surveyor, if any, and if he recommends payment of the claim, the amount for which he recommends payment.
  - i) Any salvage, and the amount that it may fetch
7. Letter of Subrogation: This document subrogates the right of the insured against third parties in favour of the insurers and entitle them to pursue recovery against them.

| Postal money order                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          | Fire insurance                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          | Marine insurance                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <ul style="list-style-type: none"> <li>• Policy document/cover note</li> <li>• Personal details of insured person</li> <li>• Date &amp; time of accident</li> <li>• Vehicle number</li> <li>• Make and model of the vehicle</li> <li>• Location of loss</li> <li>• Extent of loss</li> <li>• Brief description of how the accident took place</li> <li>• Garage name (with contact details)</li> <li>• Copy of RC, Tax Receipt (Original required for verification)</li> <li>• Copy of Motor Driving License (with original) of the person driving the vehicle at the material time</li> <li>• Police Panchanama/FIR (In case of third-party property damage/ death / body injury)</li> <li>• Estimate for repairer, where the vehicle is to be repaired</li> <li>• Repair bills and payment receipts after the job is completed</li> </ul> | <ul style="list-style-type: none"> <li>• Certified True copy of the policy along with schedule and Endorsements/clauses.</li> <li>• Claim Form.</li> <li>• Photographs.</li> <li>• Past claims experience</li> <li>• Report of the Internal Committee constituted for the purpose of investigating the cause of fire.</li> <li>• Fire Brigade Report.</li> <li>• First Information Report / Letter of intimation to the Police Station duly endorsed/ Police Panchnama.</li> <li>• Final Investigation Report.</li> <li>• Action taken on the suggestion of TAC/ LPA on loss minimisation of prevention.</li> <li>• Flood Claims</li> <li>• Explosion Claims</li> </ul> | <ul style="list-style-type: none"> <li>• Name, address, phone number of person reporting claim</li> <li>• Policy holder's name and policy number</li> <li>• Vessel operator/passengers/ guests</li> <li>• Eye witnesses</li> <li>• Date and time of loss</li> <li>• Loss location</li> <li>• Facts and circumstances</li> <li>• Nature of damage or injury</li> <li>• Vessel (s) involved</li> <li>• Description of loss-How did it occur?</li> <li>• Copy of Bill of Lading (inland/ ocean/air)</li> <li>• Original Certificate of Insurance</li> <li>• Written documentation of claim against carrier</li> <li>• Commercial invoice</li> <li>• Packing list (s)</li> <li>• Delivery receipt, dock receipts, tally sheets</li> <li>• Survey/Inspection report</li> </ul> |

Figure 10.4: Documents required for various classes of insurance



Notes



### INTEXT QUESTIONS 10.2

1. What is the first step in a claim settlement process?
  - a) Intimation of loss to the insurance company
  - b) Appointment of the surveyor
  - c) Identify the peril
  - d) None of the above
2. Which of the following is not the duty of the insured in the event of claim?
  - a) Intimation of loss to the insurance company immediately after the event has happened
  - b) To lodge immediate complaint with the police in case of theft or other criminal act which may be subject of claim.
  - c) Insured has to provide the insurers with all such information and assistance as the insurers may reasonably require.
  - d) Appointment of surveyor immediately after the event happened
3. Which of the following is not the duty of the insurer in the event of claim?
  - a) As soon as the claim intimation is received, the insurers should arrange to get full details of the claim.
  - b) Insurers should arrange for a prompt survey of the loss either by a professional surveyor or by their own representative.
  - c) To lodge FIR at the police station in case of theft
  - d) None of the above
4. Which of the following documents are not required for claim settlement?
  - a) Policy document
  - b) Survey report
  - c) Marriage Certificate
  - d) Claim form

## 10.5 CLAIM SETTLEMENT PROCEDURE

The claim settlement procedure can be understood from the diagram below:

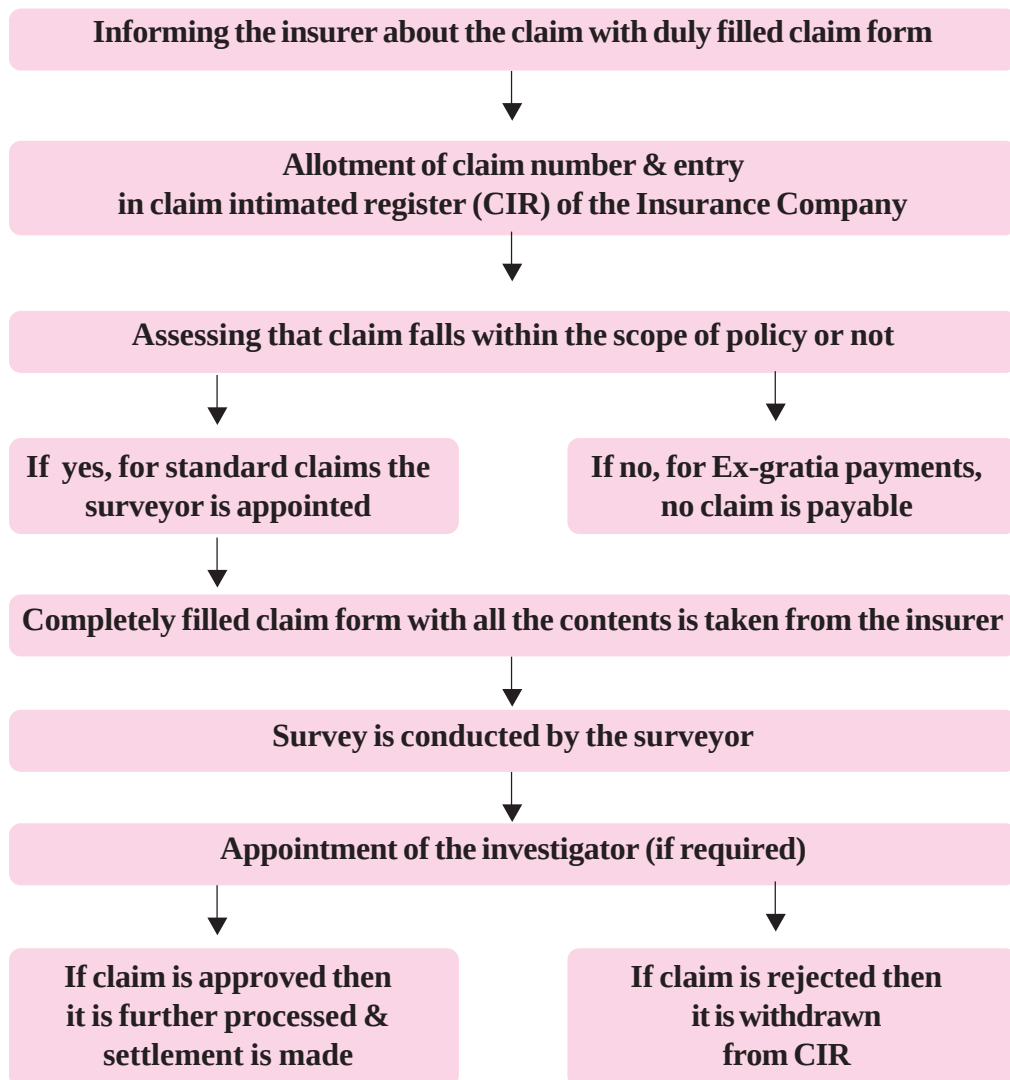


Fig 10.5: Claim settlement Process

## 10.6 INTIMATION OR NOTICE OF LOSS

According to a policy's criteria for claim settlement, the insured must notify the insurer of a loss as soon as possible. The purpose of an urgent notification is to enable the insurance company to begin a loss inquiry as soon as possible because delaying such a process could lead to the loss of important or pertinent information about the loss. Additionally, this would assist the insurance provider or insurer in reducing the loss and implementing salvage protection procedures. As a result, the notification of the loss must be made as soon as is practically possible.



Notes

#### Non-Life Insurance



#### Notes

The claim is given a number and submitted in the claims register with information such as the policy number, insured's name, and an estimate of amount of loss, date of loss, the claim is now ready to be processed.

The claim is given a number and recorded in the claims register with information such as the policy number, insured's name, estimated loss amount, and date of loss after this initial check and inspection. At this point, the claim is prepared to be processed.

Notice must also be given to law enforcement agencies under some types of regulations (such as burglary policies). Policies governing cargo rail transit require notice to be given to the Railways.

On receipt of intimation of loss or damage insurers check whether:

- The insurance policy is in force on the date of occurrence of the loss or damage
- The loss or damage is caused by an insured peril
- The property (subject matter of insurance) affected by the loss is the same as insured under the policy
- Notice of loss has been received without delay.

### 10.7 INVESTIGATION AND ASSESSMENT

#### a) Overview

The insurer chooses the actions to be performed for the investigation and evaluation of loss as soon as the claim form is received by the insurer from the insured. An officer of the insurance conducts the investigation and loss assessment in cases of modest claim amounts. Loss assessment experts who are independent registered professional surveyors are tasked with looking into any additional claims.

Since both the insured and the insurer are interested parties, the primary goal of the independent surveyor's assessment of the damage is to provide an objective assessment that will be accepted by both parties and by the court of law in the event of a disagreement between the insured and the insurer.

#### b) Claims Assessment

A police report, an investigator's report (if the cause is unknown), and a survey report are used to evaluate a fire claim. When a person files a personal injury

claim, the insurer must submit a report from the treating physician that details the accident's cause, kind of illness, and length of disability, when applicable.

The insurers reserve the right to schedule an impartial medical examination in accordance with the terms of the policy. For "Workmen's Compensation" claims, medical documentation is also necessary. Claim evaluation for cattle and livestock is based on the veterinarian's report.

In the case of automobile insurance, third-party claims involving fatalities and personal injuries are evaluated based on medical reports from doctors. The Motor Accident Claims Tribunal (MACT) handles these claims, and the amount that will be paid depends on the claimant's age and income, among other things. Third party property damage claims are evaluated based on a survey report. The assessment of a motor vehicle own damage claim is based on the surveyor's report. If third party damage is present, a police report can be necessary.

Investigation and loss assessment are distinct processes. Investigations are carried out to make sure that a claim is legitimate and to confirm any significant details and uncertainties, such as the lack of an insurable interest, the omission or misrepresentation of crucial information, the purposeful creation of the loss, etc.

On behalf of the non-life insurance firms, either in-house surveyors or Third Party Administrators (TPAs) evaluate health insurance claims. The evaluation is supported by both expert opinion and medical reports.

Insurance surveyors also perform the investigative task. A surveyor should take control of the process as soon as possible. Since the claim notification is received, it is customary to appoint the surveyor as quickly as feasible.

**Notes**

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## 10.8 SURVEYORS AND LOSS ASSESSORS

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### a) Surveyors

Professionals licenced by IRDAI include surveyors. They are specialists in examining and assessing losses in particular fields. The insurance company typically pays surveyors fees in exchange for their services. Typically, general insurance firms will employ surveyors and loss assessors at the time of a claim.

They go over the disputed property, investigate, and confirm the events leading up to the loss. They also provide reports to the insurance company and estimate the loss's size.



Notes

Additionally, they offer insurers advice on the best ways to stop further losses. The Insurance Act of 1938, the Insurance Rules of 1939, and particular IRDAI regulations all apply to surveyors. In the event of a "Travel Policy" or "Marine Open Cover" for exports, claims made outside of the country are evaluated by the claim-settling agents abroad specified in the policy.

These agents might determine the extent of the loss and make a payment, which would then be reimbursed by the insurers along with their settlement costs. As an alternative, the insurance claim settling agents gather all the claim documents and send them to the insurers along with their evaluation.

### Important

Section 64 UM of Insurance Act

"Where, in the case of a claim of less than Fifty thousand rupees for motor own damage and one hundred thousand rupees for other property damage in value on any policy of insurance it is not practicable for an insurer to employ an approved surveyor or loss assessor without incurring expenses disproportionate to the amount of the claim, the insurer may employ any other person (not being a person disqualified for the time being for being employed as a surveyor or loss assessor) for surveying such loss and may pay such reasonable fee or remuneration to the person so employed as he may think fit."



### INTEXT QUESTIONS 10.3

1. \_\_\_\_\_ are professionals licensed by IRDAI. They are experts in inspecting and evaluating losses in specific areas.
  - a) Surveyors
  - b) Investigators
  - c) Loss Assessors
  - d) None of the above

2. \_\_\_\_\_ is done to ensure that a valid claim has been made and verify the important details and doubts like absence of insurable interest, suppression or misrepresentation of material facts, deliberately creating the loss, etc. are ruled out.
- a) Survey
  - b) Investigation
  - c) Loss Assessment
  - d) None of the above
3. Health insurance claims are assessed either in house or by.
- a) TPA
  - b) Surveyors
  - c) Investigators
  - d) None of the above

**Notes****WHAT YOU HAVE LEARNT**

Professional claim settlement is thought to be the biggest form of advertising for an insurance provider. According to the terms of the policy, the insurer must be informed right away of the loss. If the claim is for a minor sum, an officer of the insurer conducts the inquiry to ascertain the origin and scope of the loss. However, it is left to independent, qualified professional surveyors who are experts in loss assessment for other claims. In general, the claim form is made to gather complete details about the loss's conditions, including the loss's date, time, cause, severity, etc. The process of assessing claims involves establishing if a loss incurred by an insured party was brought on by an insured peril, whether a guarantee has been upheld, and the extent of the loss.

**TERMINAL QUESTIONS**

- 1. Explain the different category of claims
- 2. Explain the claim settlement process in detail.
- 3. Discuss the role of surveyor in claim settlement process.
- 4. Describe the various documents required during claim settlement process.



Notes



### ANSWERS TO INTEXT QUESTIONS

#### 10.1

1. (b) Act of God Perils
2. (b) Unstandard Claim
3. (c) Non-Standard Claim

#### 10.2

1. (a) Intimation of loss to the insurance company
2. (d) Appointment of surveyor immediately after the event happened
3. (c) To lodge FIR at the police station in case of theft
4. (c) Marriage Certificate

#### 10.3

1. (a) Surveyors
2. (b) Investigation
3. (a) TPA



### LEARNING OUTCOMES

After studying this chapter, you are able :

- To explain the claim settlement procedure in detail.
- To explain the importance of various documents in the claim settlement process.



### ACTIVITY

Role play on how to assist the beneficiary/nominee to fill the claim form in the event of any damage/accident/hospitalization/death

## 11

## DOCUMENTATION IN CLAIM SETTLEMENT



Notes

### 11.0 INTRODUCTION

At the core of any insurance contract is the promise made at the beginning i.e. to indemnify the insured in the event of a loss. There are different documents involved which needs to be submitted at the time of claim settlement. This chapter will help you understand the procedures involved in the entire process of claims settlement including documentation required; and disputes related mechanisms.



### 11.1 OBJECTIVES

After reading this lesson, you will be able to:

- Explain Claim forms and Discharge vouchers
- Explain Post settlement action
- Describe Salvage and Recoveries
- Explain Importance of settling claims
- Dispute settlement mechanisms

### 11.2 DOCUMENTATION OF GENERAL INSURANCE CLAIMS

#### Documentation of General Insurance Claims

Claim forms

Discharge vouchers

Figure 11.1: Documents required in General Insurance claims

## Module - 3

### Non-Life Insurance



Notes

## DOCUMENTATION IN CLAIM SETTLEMENT

### 11.2.1 Claim Forms

Each class of insurance has a different claim form's contents. According to common consensus, "the claim form is designed to obtain detailed information regarding the circumstances of the loss, such as date of loss, time, cause of loss, degree of loss, etc." The additional questions that could be included in a claim form vary depending on the type of insurance. An example of information sought in a fire claim form is given here under:

**Retail Health Policy**  
a. Individual Medishield  
b. Swasthya Kavash Policy

#### MOTOR CLAIM FORM

**Home & Family Protector**  
**Home Suvidha Policy**  
**Trade Protector Policy**  
**Trade Suvidha Policy**

#### Office & Professional Establishment Protector

##### 1. Important Instructions

a. The insurance of this form is not to be taken as an admission of liability.  
b. It is to be signed by the Insured (Registered Owner) of the vehicle, or where Insured (Registered Owner) is a Partnership or Corporate Body, by an authorised signatory of such Partnership or Corporate Body, along with the Office seal of the concerned organization.  
c. Please do not have any column unmarked.  
d. All facts and statements must be fact and not self assumed or biased in any form.  
e. The damaged vehicle must be parked at safe place to avoid any subsequent damage/loss. The Company will not be responsible for the same.  
f. Please read carefully the attached list of documents required for faster processing of your claim.  
g. All documents provided by the Insured must be Self Attested.

##### 2. Details of Policy Holder

|                              |                              |
|------------------------------|------------------------------|
| Policy No./Cover Note :      | Claim No. :                  |
| Period of Insurance : From,  | To :                         |
| Name of the Insured :        |                              |
| Phone Number (Home/Office) : | Mobile Number :              |
| Name of Registered Owner :   |                              |
| Current Address :            |                              |
| Gender : Male/Female         | Email :                      |
|                              | Date of Birth : (dd/mm/yy) : |

##### 3. Details of Incident (Accident / Theft)

|                                                                           |                                      |                |
|---------------------------------------------------------------------------|--------------------------------------|----------------|
| Date (dd/mm/yy) :                                                         | Time (a.m./p.m.) :                   | Road (km/hr) : |
| Exact Place Where incident occurred :                                     |                                      |                |
| Vehicle in which vehicle was heading for before incident :                |                                      |                |
| Purpose for which vehicle was being used/parked at the time of incident : |                                      |                |
| Name and Weight of goods carried at the time of incident (Carry. Wt) :    |                                      |                |
| No. of people travelling at time of incident :                            | Is it reported to the Police? YES/NO |                |
| Name & Address of the Police Station :                                    |                                      |                |
| Govt./Diary/Crime NO./FIR No. and Date :                                  |                                      |                |
| Name and address of the place where Insured vehicle is parked :           |                                      |                |
| Estimated Loss Amount (Ru.) :                                             |                                      |                |

Figure 11.2: Motor Claim Form Sample

- Name of the insured, policy number and address
- Date, time, cause and circumstances of the fire



Notes

- Details of damaged property
- Sound value of the property at the time of fire.
- Amount claimed after deduction of salvage value
- Situation and occupancy of the premises in which the fire occurred
- Capacity in which the insured claims, whether as owner and mortgage, etc.
- If any other person is interested in the property damaged
- If any other insurance is in force upon such property if so, details there of

### 11.2.2 Discharge Vouchers

Settlement of the claim is made only after obtaining a discharge under the policy. A sample of discharge receipt for claims (under personal accident insurance) for injuries is worded along the following lines: (may vary from company to company)

#### CLAIM DISCHARGE CUM SATISFACTION VOUCHER

|                          |  |
|--------------------------|--|
| Insured Name             |  |
| Vehicle Registration No. |  |
| Discharge Date           |  |

My vehicle number \_\_\_\_\_ having been repaired to my complete satisfaction, I am henceforth taking delivery of the same and authorise my insurer..... to make payment of Rs. \_\_\_\_\_ to the \_\_\_\_\_ garage in respect of my aforementioned vehicle. I also confirm having paid Rs. \_\_\_\_\_ in lieu of depreciation, policy excess and any additional work carried out at the garage.

I agree that this payment being made to the aforementioned garage is in full and final settlement of my claim

I/we hereby voluntarily give discharge receipt to the Company in Full & Final settlement of all my/our claims present or future arising directly/indirectly in respect of said loss/accident. I/We hereby also subrogate all my/our rights and remedies to the Company in respect of the above loss/damages.

|                                       |                               |
|---------------------------------------|-------------------------------|
|                                       |                               |
| Signature/Thumb Impression of Insured | Signature and Stamp of Garage |

Figure 11.3: Motor Claim discharge voucher



Notes

The wording of the discharge receipt for third party liability claims may be on the following lines:

"I (Name of the claimant), of \_\_\_\_\_  
hereby acknowledge to have received the sum of Rs. \_\_\_\_\_ which is  
paid by \_\_\_\_\_ (name of  
the insured) in respect of the claim made by me upon him for bodily injuries and other  
losses sustained through an accident which occurred to me on or about the \_\_\_\_\_  
day of \_\_\_\_\_ at \_\_\_\_\_ and I agree that the sum is paid with a  
denial of liability on the part of the said \_\_\_\_\_ (or any  
other person) in respect of the said occurrence and for damage whether now or  
hereafter to become manifest and to the intent that the said and all other persons be  
absolutely and finally discharged from the further and other claims of every nature and  
kind whatsoever by me or in my behalf arising out of the said occurrence."

Date

Signature

Witness

(Note: These wordings are not standard but are given as illustrations only and may vary).

### 11.3 POST SETTLEMENT ACTION

The action taken after settlement of the claim in relation to underwriting varies from one class of business to another.

#### Example

The amount insured under a fire policy is lowered in proportion to the amount of the settlement. The pro-rata premium, which is subtracted from the amount of the claim, must be paid in order for it to be reinstated.

The insurance is cancelled upon payment of the capital amount insured by a personal accident policy.

Similar to this, the payment of a claim under an individual fidelity guarantee policy (a type of policy that protects against financial loss brought on by employee fraud or dishonesty) results in the policy's automatic termination.

**11.3.1 Salvage**

The property or the subject matter that has been left after the loss is referred to as salvage. After the settlement of claim the salvage belongs to the insurer.

**Example**

At the time of claim settlement on the basis of total loss under motor insurance, the damaged vehicle is taken over by the insurance company or the insurer. Salvage can also arise in fire and marine cargo claims, etc. The disposal of salvage is done according to the procedure laid down by that particular company. The methods of disposal are also recommended by the surveyors, who have assessed the loss.

**11.3.2 Recoveries**

According to the subrogation concept (as it relates to insurance contracts), once a claim has been settled, the insurers are entitled to the policyholder's or insured's rights and remedies. According to the relevant legislation that may apply, they are qualified to recover "the loss or claim amount paid" from a third party that may be liable for the loss. As a result, insurers can seek compensation from shipping firms, railroads, road carriers, airlines, port trust authorities, etc. for the loss.

**Example**

The carriers are liable for the loss if the package is not delivered. The port trust is also responsible for products that are safely landed but later go missing. Before the settlement of the claim, the insured is asked for a letter of subrogation that is properly stamped for this purpose.

**11.4 IMPORTANCE OF SETTLING CLAIMS**

Claim settlement is one of the most important functions of any insurance company. At the time of contract between insurer and the insured, the insurer promises to indemnify or compensate the losses at the happening of event which will result in losses. This promise is fulfilled by the insurer by providing fair, equitable and prompt claim settlement services to the policyholder by paying claims against any losses to the property insured or loss to third party.

Insurance can be stated as a financial mechanism that provides indemnity against the losses that are caused due to insured perils. If the concept of insurance and claim settlement did not exist, the recovery of losses would have been slow, inefficient and a

**Notes**



difficult process. One of the non-life insurance companies had the inscription "Pay if you can; repudiate if you must" in its board room. That is the spirit of the noble business of insurance.

Settling claims professionally is regarded as the biggest advertisement for an insurance company. Promptness and professionalism with which claim are settled are important. These are discussed below:

#### a) **Promptness**

Under claim settlement process, if the loss is big or of small amount, whether the insured or the policyholder is an individual or a corporate client, prompt settlement of claims is very essential. It is very obvious that the insured or the policyholder expects compensation of loss from the insurance company as soon as possible. If the insured gets the claim settlement done promptly, it will be of maximum use to him. Therefore, it is the utmost duty of the insurer to pay the claim as soon as possible.

#### b) **Professionalism**

The insurance officials consider each and every claim on its merits and do not apply prejudicial or pre-conceived notions to reject the claim without examining all the documents that would answer the following questions.

- Did the loss really happen?
- If so, did the loss making event really caused the damage?
- The extent of damage out of this event.
- What was the reason for the loss?
- Was the loss covered under the policy?
- Is the claim payable as per the contract/ policy conditions?
- If so, how much is payable?

The answers to all these questions need to be found out by the insurance company.

Processing claims is an important activity in the insurance companies. To ensure that all claims due under the policy are promptly paid and those that are not payable are not paid, the company carefully established all claim forms, procedures, and processes.

The agent, as the company's representative, is responsible for making sure that all necessary papers are correctly filled out with accurate information and that all supporting

documentation is attached. He is responsible for making sure that all guidelines are followed promptly and that the appropriate paperwork is provided to the business. Earlier in the previous chapters, the function of the agent during the time of loss was covered.

#### **11.4.1 Important aspects in an Insurance Claim**

- i. The important step in an insurance claim is to verify and decide whether the loss is within the scope of the policy. The decision on acceptance or rejection of claim is taken with the help of guidelines provided by the legal doctrine of proximate cause which helps in assessing whether the loss is caused due to insured peril or an external peril. The responsibility to prove that the loss is caused due to an insured peril lies with the insured and that of an external peril lies with the insurer.
- ii. The second most important aspect is to decide whether insured has complied with the conditions of the policy, especially those conditions which were to be complied before the occurrence of loss or precedent to the liability.
- iii. The third important aspect is to decide whether insured has complied with the warranties of the policy. This could be indicated with the help of the survey report submitted by the surveyor to the insurer.
- iv. The fourth aspect is to ensure whether the insured has followed the principle of utmost good faith during the currency of the policy.
- v. The fifth aspect is to check whether the insured acted as an uninsured which is expected of him or her at the time of loss in order to minimise the loss.
- vi. The sixth aspect is related with the amount of claim that is payable. The amount of loss payable is subject to the sum insured mentioned in the policy document. However, the claim amount payable will depend upon the following:
  - Salvage Value
  - The extent of the insured's insurable interest in the subject matter
  - Application of underinsurance
  - Application of subrogation and contribution conditions

**Notes**

## Module - 3

### Non-Life Insurance



Notes

#### DOCUMENTATION IN CLAIM SETTLEMENT

Loss is within the scope of the policy

Insured has complied with policy conditions

Insured has complied with warranties

Observance of utmost good faith

Measures to minimise the loss

Determination of the amount payable

Figure 11.4 Important aspects in Insurance claims



#### INTEXT QUESTIONS 11.1

1. At the time of fire, the claim must be based on actual value of property at the place and time of occurrence after allowance for \_\_\_\_\_, wear and tear.
  - a) Appreciation
  - b) Depreciation
  - c) Reinstatement
  - d) None of the above
2. Under the principle of \_\_\_\_\_ the insurer can assume the rights of the insured in order to recover from a third party the loss paid under a policy?
  - a) Discharge
  - b) Indemnity
  - c) Subrogation
  - d) Contribution

**Notes**

3. Select the activity among the following that would not be categorised under professional settlement of claims?
  - a) Ascertaining whether the loss was a result of an insured peril
  - b) Approaching the claim with a prejudice
  - c) Seeking information relating to the cause of the loss
  - d) Quantifying the amount payable under the claim
4. Rahul's car met with an accident. The car is insured under a motor insurance policy. Which among the following is the most appropriate thing for Raj to do?
  - a) Notify the insurer of the loss as soon as reasonably possible
  - b) Ignore the damage
  - c) Damage the car further so as to receive a bigger compensation
  - d) Notify the insurer at the time of insurance renewal
5. Which of the following factor will affect the amount of claim payable?
  - a) Salvage Value
  - b) The extent of the insured's insurable interest in the subject matter
  - c) Application of underinsurance
  - d) All of the above
6. Which of the following is not an important aspect in acceptance of claim by the insurer?
  - a) Loss within the scope of the policy
  - b) Insured's compliance with the policy conditions
  - c) Observance of utmost good faith
  - d) Amount of loss
7. The property or the subject matter that has been left after the loss is referred to as \_\_\_\_\_.
  - a) Loss
  - b) Salvage



Notes

- c) Arbitration
  - d) Recovery
8. Which of the following is a type of information under a fire insurance claim?
- a) Date, time, cause and circumstances of the fire
  - b) Details of damaged property
  - c) Situation and occupancy of the premises in which the fire occurred
  - d) All of the above

### 11.5 DISPUTES RELATED TO CLAIMS

Despite best efforts, there could be reasons for either delay or non-payment (repudiation) of claim, either due to delay in notice of loss or non-submission of documents by clients.

Apart from these, the most common reasons, to name a few are:

- Non-disclosure of material facts
- Lack of coverage
- Loss caused by excluded perils
- Lack of adequate sum insured
- Breach of warranty
- Issues regarding quantum due to underinsurance, depreciation, etc.

All this could cause considerable grief to the insured specially when he is already suffering from financial constraints arising due to losses.

In order to reduce his sufferings, grievance redressal and dispute handling procedures are well laid out in the policy itself. Policies of fire or property have the condition of "Arbitration" in the policy itself.

#### 11.5.1 Dispute settlement mechanisms

- a) **Grievance Redressal officer** : If a policyholder is dissatisfied with the claim settlement procedure of the insurance company, they can file a complaint in the following manner:



Notes

- ❖ Approach the Grievance Redressal Officer of the branch of that particular insurance company or any other branch that the policyholder is dealing with. The formal email IDs of all Grievance Redressal officers of all the insurance companies are available at IRDAI portal.
  - ❖ The policyholder needs to provide complaint in writing along with the necessary support documents.
  - ❖ Acknowledgement should be obtained by the policyholder in written for the complaint filed.
  - ❖ The maximum time limit with the insurance company to respond to the complaint is 15 days.
  - ❖ If the insurance company fails to resolve the complaint or if the policyholder is not satisfied with the solution they can approach the Grievance Redressal Cell of the Consumer Affairs Department of IRDAI:
- b) **Integrated Grievance Management System:** IRDAI launched the Integrated Grievance Management System (IGMS) in the year 2010. If policyholders are not able to approach the insurance company directly for any reason, IGMS provides a gateway to register complaints with insurance companies. IGMS apart from providing centralised and online access to the policyholders, provides control and access to IRDAI for monitoring issues related to market conduct of which grievances of policyholders are the main indicators. IGMS assigns, store and track the unique complaint IDs that are created at the time of filing a complaint by the policyholder. The system intimates stakeholders about the status of complaint lodged. Also, this system is equipped with the provision of Turnaround Times (TAT) that measured the TATs on all the complaints filed and sending alerts to the insurers for the pending complaints that are nearing the given Turnaround time. Any complaint registered through IGMS will flow to the insurer's system and the IRDAI repository. The status of the complaint will be reflected in the IRDAI system.
- c) **Arbitration:** "Arbitration is a method of settling disputes arising out of contracts". It is done in accordance with the provisions of the Arbitration and Conciliation Act, 1996. The initial method to settle a dispute will be the court of law. But, such kind of dispute settlement process involves lot of time and expenses. The Arbitration and Conciliation Act, 1996 allows the parties to submit their disputes or grievances under the insurance contract which is a private, less costly and more simplified process of dispute settlement.

#### Non-Life Insurance



#### Notes

The process of arbitration can be taken by a single arbitrator or more than one arbitrator, decided by the parties of dispute. If there is a single arbitrator in the event of dispute settlement, both the parties to dispute have to agree for the same arbitrator and have to abide by his or her decision. Most of the insurance companies mention about the arbitration clause in their policies which states that any disputes if may arise will be subject to arbitration. Fire insurance and miscellaneous insurance policies also contain the arbitration clause which states that if any claim under the policy is submitted by the insured and there is a difference in the amount paid by the insurer and the expected amount to be paid as per insured, the difference must be referred under arbitration clause. Normally the decision of the arbitrators considered final and binding on both the parties.

#### Example

If the insurer claims that the loss is not compensable because it is not covered by the policy or falls outside of its purview, a court of law must resolve the issue. Again, the issue must be litigated if the insurers decline to pay the claim on the grounds that the insurance is null and void because it was obtained via dishonest withholding of material facts (breach of the legal duty of utmost good faith).

**Note: There is no arbitration condition in marine cargo policies.**

- d) **Insurance Ombudsman :** The Insurance Ombudsman scheme was created by the Government of India for individual policyholders to have their complaints settled out of the courts system in a cost-effective, efficient and impartial way. There were 17 Insurance Ombudsman in the year 2019 in different locations and any person who has a grievance against an insurer, may himself or through his legal heirs, nominee or assignee, make a complaint in writing to the Insurance ombudsman within whose territorial jurisdiction the branch or office of the insurer complained against or the residential address or place of residence of the complainant is located.

#### You can approach the Ombudsman with complaint if:

- You have first approached your insurance company with the complaint and
  - ❖ They have rejected it
  - ❖ Not resolved it to your satisfaction or
  - ❖ Not responded to it at all for 30 days

- Your complaint pertains to any policy you have taken in your capacity as an individual and
- The value of the claim including expenses claimed is not above Rs 30 lakhs.

**Your complaint to the Ombudsman can be about:**

- a) Delay in settlement of claims, beyond the time specified in the regulations, framed under the IRDAI Act, 1999.
- b) Any partial or total repudiation of claims by the Life insurer, General insurer or the Health insurer.
- c) Any dispute about premium paid or payable in terms of insurance policy
- d) Misrepresentation of policy terms and conditions at any time in the policy document or policy contract.
- e) Legal construction of insurance policies in so far as the dispute relates to claim.
- f) Policy servicing related grievances against insurers and their agents and intermediaries.
- g) Issuance of life insurance policy, general insurance policy including health insurance policy which is not in conformity with the proposal form submitted by the proposer.
- h) Non issuance of insurance policy after receipt of premium in life insurance and general insurance including health insurance and
- i) Any other matter resulting from the violation of provisions of the Insurance Act, 1938 or the regulations, circulars, guidelines or instructions issued by the IRDAI from time to time or the terms and conditions of the policy contract, in so far as they relate to issues mentioned at clauses (a) to (f)

You will study about these mechanisms in detail in the coming chapters.



### INTEXT QUESTIONS 11.2

1. According to the Arbitration and Conciliation Act, 1996, the process of arbitration can be taken by how many arbitrators?
  - a) Maximum 1
  - b) More than 1
  - c) Minimum 2
  - d) Unlimited



Notes

## Module - 3

### Non-Life Insurance



Notes

### DOCUMENTATION IN CLAIM SETTLEMENT

2. What is the first step to be taken by policyholder with a grievance of claim settlement?
  - a) Approach Court of law
  - b) Approach Insurance Ombudsman
  - c) Approach Grievance redressal officer of the insurance company
  - d) Approach arbitrator
3. When was the Integrated Grievance Management System (IGMS) launched by IRDAI?
  - a) 2011
  - b) 2010
  - c) 2009
  - d) 2008
4. What is the maximum limit of claim amount in case of insurance ombudsman?
  - a) 25 lakhs
  - b) 30 lakhs
  - c) 40 lakhs
  - d) 50 lakhs



### WHAT YOU HAVE LEARNT

Settling claims is regarded as the most important advertisement for any insurance company. The conditions in the policy states that the intimation of loss to the insurer by the insured should be done immediately after the loss. In general, the claim form is made to gather complete details about the loss, including the date of the loss, the reason for the loss, how much was lost, when it happened, and other relevant information. The process of assessing a claim involves identifying the insured's loss's cause, whether there was a warranty breach, how much the insured lost, and the insurer's liability under the terms of the policy. Salvage is the term for the items or subjects that were still present after the loss.

According to the subrogation concept (as it relates to insurance contracts), as the claim is settled, the insurers are entitled to or qualified for the rights and remedies of

the policyholder or insured. Arbitration is a method of settling disputes arising out of contracts. According to the regulations of IRDA, all policies have to mention about the grievance redressal system available to the insured. Grievance Redressal Officer is the first source of filing a complaint. If policyholders are not able to approach the insurance company directly for any reason, IGMS provides a gateway to register complaints with insurance companies. The policyholder can approach ombudsman if the claim amount is less than 30 lakhs.

**Notes**

### TERMINAL QUESTIONS

1. Discuss the importance of settling claims for an insurance company. Highlight the important aspects of insurance claims.
2. List down the disputes that may arise in settlement of insurance claims?
3. What are the contents of claim forms?
4. Discuss in brief the mechanisms for claim settlement in insurance.
5. Discuss in detail claim settlement by Insurance Ombudsman.
6. Write short notes on:
  - a) Salvage
  - b) Discharge Vouchers
  - c) Recoveries



### ANSWERS TO INTEXT QUESTIONS

#### 11.1

1. (b) Depreciation
2. (c) Subrogation
3. (b) Approaching the claim with a prejudice
4. (a) Notify the insurer of the loss as soon as reasonably possible
5. (d) All of the above
6. (d) Amount of loss
7. (b) Salvage

## Module - 3

### Non-Life Insurance



Notes

### DOCUMENTATION IN CLAIM SETTLEMENT

8. (d) All of the above

#### 11.2

1. (b) More than 1
2. (c) Approach Grievance redressal officer of the insurance company
3. (b) 2010
4. (b) 30 lakhs



### LEARNING OUTCOMES

After studying this chapter, you are able :

- To assist your client in completing the documentation during the claims
- To explain the disputes settlement mechanism to the client in case of any disputes





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