Insurance

Standard XII

Study Material

Student Handbook

BSE Institute Ltd.

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Preface

The BSE Institute Ltd. is the wholly owned subsidiary of BSE Limited. BSE Institute Ltd. inherits from BSE the knowledge and insights into the capital markets industry, garnered over the past 140 years.

BSE Institute Ltd. has the distinct advantage of being at the centre of action — the financial hub of India, one of the world's most rapid emerging markets. This has helped us provide insights into the unique functions of this world. Emerging markets such as the BRIC countries — Brazil, Russia, India, and China — can entice and intimidate. However, the first-hand experience of our faculty and subject matter experts in dealing with the realities of this market enables us to appreciate how organizations, entrepreneurs, and investors identify and respond to these new challenges and opportunities.

Hence, our programs are designed to help learners develop an actionable framework to delve into key aspects like:

- Identifying which market institutions are working, and which institutions are missing?
- Which parts of our business model can be adversely affected by these institutional voids?
- How can we build competitive advantage based on our ability to navigate institutional voids?
- How can we profit from the structural reality of emerging markets by identifying opportunities to fill voids, serving as market intermediaries?

Our commitment to being at the forefront of the current and evolving practice of business has led to programs that reflect the realities of the marketplace.

Case studies replicate actual business situations and are taught so that students must work together to make difficult decisions under typical management conditions, including a lack of complete information, complex trade off situations and time pressure.

The Board takes this opportunity to thankfully acknowledge the commendable work of BSE Institute Ltd in providing support to CBSE for successfully launching and implementing courses under NSQF.

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UNIT 1

GENERAL INSURANCE

OBJECTIVES

At the end of the session you will be able to:

- To understand the concept and importance of General Insurance
- To understand different types General Insurances
- To understand the basic principles of Insurances
- To understand the structure of General Insurance in India

STRUCTURE

1.1. Insurance --- Mechanism of Covering Risk

1.2. Types of Insurance

1.3. General Insurance

1.4. Importance of General Insurance

1.5. Different types of General Insurance

1.6. History of General Insurance in India

1.7. Present Structure of General Insurance in India

1.8. Principles of General Insurance

1.9. Summary

1.10. Practice Questions

1.1. Insurance --- Mechanism of Covering Risk

Insurance is a mechanism by which the person exposed to the potential risk, arising out of the events beyond his control, transfers the financial loss; in part or in full to a third party.

The party which transfers the potential loss is termed as the 'Insured' and the party which indemnifies or undertakes to compensate the other party of such potential loss is termed as 'Insurer'.

The Insurer provides the coverage for the potential financial loss for a fee or a consideration which is called the 'Premium'.

Thus Insurance is a special type of contract between the Insurer (the Insurance Company) and the Insured (the client) wherein:

a) The client agrees to pay a premium to the Insurance Company. Such premium may be a fixed amount payable as a single payment or it may be paid as periodical payments. This will depend upon the type of Insurance and the terms thereof.

b) In lieu of the payment of such premium the Insurance Company agrees to make some payment to the client or bear the costs of the client due to financial loss incurred on the occurrence of certain events.

For example, in vehicle insurance, the Insurance Company pays the cost of repairing the vehicle if it is damaged in an accident.

1.2. Types of Insurance

Insurance in India is mainly of two types viz. Life Insurance and Non Life Insurance which is termed as General Insurance. These are described as follows:

a) **Life Insurance**

Under Life Insurance the Insured pays the premium at specified times and in turn the Insurance Company undertakes to pay the specified fixed amount to the legal heirs in the event of death of the Insured. Thus life insurance is a mechanism whereby the life of the Insured is insured.

b) **General Insurance**

Insurance other than Life Insurance falls under the category of General Insurance. The different types of General Insurance are fire, marine, Motor Vehicle, accident and other types of non life insurance.

1.3. General Insurance

As explained in the preceding para Insurance Contracts that do not come under the ambit of Life Insurance are called General Insurance or Non Life Insurance Contracts.

General Insurance comprises of:

- Insurance of property against fire, theft etc.
- Personal Insurance such as Accident & Health Insurance.
- Liability Insurance which covers legal liability arising out of third party claims such as claim from a person injured in a motor accident etc.
- Other types of Insurances such as Credit Insurance, Crop Insurance, etc.

Thus General Insurance provides indemnity against loss arising from damage to property or assets, expenditure or loss of earning arising from injury to a person, legal liabilities etc.

The factors that distinguish General Insurance from Life Insurance are as follows:

Sr. No.	Parameter	Life Insurance	General Insurance
a.	Risk	The element of risk is the death of a person	The element of risk is the damage/ loss to a property or an asset.
b.	Tenure	Long Period	Comparatively shorter period not extending beyond the useful life of the asset.
c.	Beneficiary	In the event of death of the Insured the Beneficiary would be the Legal Heirs of the Insured.	The beneficiary would generally be the Insured who would also be, in most cases, the owner of the asset
d.	Payment of Premium	Periodical Payments which could be quarterly, half yearly or yearly	Generally Lump Sum Payment at the time of taking up the Policy.

1.4. Importance of General Insurance

General Insurance is the best practical option for every person who would like to cover himself from loss arising out of risks.

Risk is associated with everything that we do or are involved in. Immovable Properties that we own are prone to fire and damage / destruction due to natural calamities such as Earthquakes, Floods etc.

Movable properties including personal effects such as jewelry are prone to theft and burglary. Vehicles are also prone to accidents. Similarly human beings are prone to injuries resulting from accidents and illnesses.

All the incidents enumerated above would result into financial losses.

Then there could be Third Party Claims on you. For instance, you are driving a car and unfortunately you meet with an accident in which a pedestrian is injured. Such person will have a Claim on you.

Also there could be claims on you while you are performing your professional duties. A Doctor may be subject to a claim for negligence in treating a patient.

General Insurance, wherever applicable, would provide cover against such losses. The modern day General Insurance covers practically all losses arising out of risks. The primary risk that is not covered by General Insurance is death of a person which is covered by Life Insurance.

Needless to say, when the losses due to risks are covered a person would lead a peaceful life. The Security provided by General Insurance would improve the quality of life of a person.

Apart from the peace of mind General Insurance also covers Business Losses and Personal Losses in case the unfortunate incident happens resulting in the loss. This would help the person who has suffered loss to run his business smoothly.

Illustration

Let us take an example where a fire occurs in a factory. As a result of the fire certain stocks are damaged and are unusable. In case fire insurance has been taken for such stocks, the Insurance Company would pay, to the entity which suffered the loss, an amount equivalent to the loss or the amount of insurance whichever is less.

Thus such entity would be fully or partly compensated for the loss incurred by it. Even though the fire may result into disruptions this would help it in running its operations smoothly even after some time.
Thus from the above it is amply clear that General Insurance plays an extremely important role in our lives.

1.5. Different types of General Insurance

As stated earlier General Insurance currently covers most of the risks that we are subjected to.

However, the major type of General Insurances are as under:

1.5.1 Fire Insurance

Fire insurance is a contract under which the insurer in return for a consideration (premium) agrees to indemnify the insured/assured for the financial loss which the Insured may suffer due to destruction of or damage to property or goods, caused by fire, during a specified period.

Thus the basic ingredients of Fire Insurance are as follows:

i. The financial loss should be on account fire resulting in damage or destruction of property or goods.
ii. The maximum amount which the Insured can claim as compensation in the event of loss is agreed to between the parties at the time of entering into the contract.

It should be understood here that the event that results into financial loss would be fire and not accident.

1.5.2 Marine Insurance

Marine Insurance is an Insurance against loss or damage or destruction of Cargo, freight, merchandise or means or instruments of transportation whether by sea, land or air.

Thus marine insurance provides indemnity for loss or damage to ship, cargo or mode of transport by which the property is taken, acquired or held between the point of Origin and point of destination.

1.5.3 Motor Vehicle Insurance

Motor Vehicle Insurance, also referred to as 'Automotive Insurance', is a contract of Insurance under which the Insurer indemnifies the Insured, who is the owner or an operator of a Motor Vehicle, against any loss that he may incur due to damage to the property (i.e. the Motor Vehicle) or any other person (i.e. Third Party) as a result of an accident.

There are two types of Motor Vehicle Insurance:

a. Mandatory

In India it is mandatory ie required by Law, for every owner or operator of a Motor Vehicle to take insurance that provides for payment of compensation to a Third Party who dies or suffers injuries due an accident caused by the said motor vehicle. Thus the objective of such a policy is prevention of public liability to protect the general public from any accident that may take place on the road.

It may be noted here that in Insurance the Insured is the First Party, the Insurance Company is the Second Party and all other are third parties.

Such a policy is also known as 'Act Only' Policy as it is mandatory by Law.

b. Comprehensive

Under a comprehensive motor insurance policy apart from the coverage of Third Party Liability (as provided in the mandatory policy) various other risks are also covered. These include damage to the Motor Vehicle caused by fire, accident, theft etc.

As a single policy is issued to cover all risks, such type of policy is called Comprehensive Policy.

1.5.4 Health Insurance Policy

The Health Insurance or Medi Claim Policies, as it is also referred to, are those policies which cover hospitalization expenses for the treatment of illness/ injury as per the terms and conditions of the policy.

These policies may also cover pre hospitalization expenses prior to hospitalization and also post hospitalization expenses for the period specified in the policy.

Some of the Insurers also cover the following expenses in this policy:

a. Ambulance Charges
b. Day Care treatment charges i.e. treatment by using advanced technologies when even 24 hours of hospitalization is not required.

1.5.5 Personal Accident Insurance

The purpose of personal insurance is to provide for payment of a fixed compensation for death or disablement resulting from injury to the body of a human being caused due to an accident.

Thus under the contract of personal accident insurance if at any time during the tenure of the said contract or policy, the insured (i.e. the person who has taken the policy) sustains any bodily injury resulting from an accident, the Insurer shall pay to the insured or to his legal representatives, as the case may be, a specified sum in the event of specified contingencies such as permanent disability, death etc.

1.5.6 Burglary or Theft Insurance

Theft Insurance Contract covers losses from burglary, robbery and other forms of theft.
Theft generally refers to the act of stealing. Burglary is defined to mean the unlawful taking of the property within the premises that have been closed and in which there are visible marks evidencing forceful entry.

1.6. History of General Insurance in India

1.6.1. Pre Nationalization Era

The history of general insurance dates back to the industrial revolution in the western countries and the growth of sea-faring trade and commerce during the 17th century. The concept of general insurance came to India during the British rule. General insurers from Britain and other countries carried out the general insurance business.

The development of General Insurance Business in India can be summarized as follows:

a) In 1928, the Indian Insurance Companies Act was passed to enable the government to collect statistical information about both life and non-life insurance business transacted in India by Indian and foreign insurers including provident insurance societies.
b) In 1938, the Indian Insurance Companies Act was consolidated and amended by the Insurance Act 1938 to protect the interests of the public.
c) The Insurance Act of 1938 was amended in 1950, which resulted in far-reaching changes in the insurance sector. These included a statutory requirement of equity capital for companies carrying on insurance business, ceiling on share holdings in such companies, stricter control on investments, submission of periodical returns relating to investments and such other information to the controller. The controller could also call for appointment of administrators and put a ceiling on expenses of management and agency commission for mismanaged companies.
d) By early 1970s, there were about 100 Indian insurers carrying on the general insurance business in India.
e) Malpractices and mismanagement had crept into the management of these companies. Some insurance companies either liquidated or cheated the policy holders. There were complaints of falsification and denial of claims, interlocking of funds and other malpractices by many insurance companies.

1.6.2. Post Nationalization Era

To protect public funds, the government started considering nationalization of the Insurance Industry. In 1971, as a prelude to nationalization the general insurance industry, the Govt of India took over the management of all private general insurance companies.

In the year 1972 General Insurance Business was nationalized. The main objective of this nationalization was to channelize the insurance funds for the benefit of the community at large.

With the enactment of General Insurance Act 1972, General Insurance Corporation of India (GIC) was set up as a Holding Company. It had four subsidiaries: New India, Oriental, United India and National Insurance Companies.

GIC was responsible for broad policy matters that could affect the general insurance industry in India. The company did not offer any direct insurance policies except the aviation insurance policies of Air India, Indian Airlines, Hindustan Aeronautics and Crop insurance.

Thus General Insurance business was primarily conducted by the four subsidiaries of GIC.

Apart from the four subsidiaries, GIC set up the GIC Asset Management Company to manage the GIC Mutual Fund, GIC Housing Finance, and Export Credit Guarantee Corporation.

1.7. Present Structure of General Insurance in India

1.7.1. Liberalization of Insurance Sector in India

Although Indian Economy started opening up both to private sector and to foreign investment in the year 1991, Insurance sector still remained the domain of Govt of India.

The setting up of Insurance Regulatory Authority (IRDA) in the year 1999 paved the way for liberalization and privatization of Insurance Sector to private sector.

IRDA has separated out Life, Non Life and Reinsurance business. Therefore a company has to have separate licenses for each line of business.

Recently the limit of Foreign Investment in Insurance Business has been increased from 26% to 49% something that was under discussion for more than a decade. Also global re insurance companies have been able to set up branches in India, something that was not allowed earlier.

1.7.2. Structure of General Insurance

As of now there are 28 companies in India that carry out the business of General Insurance. The division of these Companies is as follows:

1.7.2.1. Companies in Public Sector

As of now there are four General Insurance Companies in Public Sector in India. These are as follows:

- National Insurance Company Ltd.
- New India Assurance Company Limited
- Oriental Insurance Company Ltd
- United India Insurance Company Ltd.

These Companies function independently. However they have formed an association known as General Insurance (Public Sector) Association of India (GISPA) with headquarters in Delhi.

The four Public Sector General Insurance Companies have a total of 101 Regional Offices, 1395 Divisional Offices, 2880 branch offices in India and 43 Overseas Offices.

These four Public Sector Insurance Companies have contributed along with General Insurance Corporation of India(GIC) and NABARD (National Bank of Agriculture and Rural Development) to set up a Crop Insurance Company called **Agricultural Insurance Company of India Ltd**.

This Company provides crop insurance to protect the farmers against crop losses suffered due to natural calamities. The Head Office of this Company is in New Delhi.

Apart from this there is another specialized company which provides insurance for risks associated with international trade. This Company is called Export Credit Guarantee Corporation of India Ltd.

Thus technically there are 6 companies in this category.

1.7.2.2. Companies in Private Sector

The balance 22 companies carrying out General Insurance Business are in the Private Sector. The list of these Companies is as follows:

Sr. No.	Name of Company
1.	Bajaj Allianz General Insurance Company Limited
2.	ICICI Lombard General Insurance Company Limited
3.	IIFCO- TOKIO General Insurance Company Limited
4.	Reliance General Insurance Company Limited
5.	Royal Sundaram Alliance Insurance Company Limited.
6.	TATA AIG General Insurance Company Limited
7.	Cholamandalam MS General Insurance Company Limited
8.	HDFC ERGO Insurance Company Limited
9.	Star Health Allied Insurance Company Limited.
10.	Apollo Munich Insurance Company Limited.
11.	Shriram General Insurance Company Limited
12.	Max Bupa Health Insurance Company Limited
13.	Future Generali India Insurance Company Limited
14.	Universal Sompo General Insurance Company Limited.
15.	Bharti AXA General Insurance Company Ltd

16.	Raheja QBE General Insurance Company Limited
17.	L&T General Insurance Company Limited
18	Religare Health Insurance Company Limited
19.	Magma HDI General Insurance Company Limited
20.	Liberty Videocon General Insurance Company Limited
21.	SBI General Insurance Company
22.	Cigna TTK Health Insurance Company Limited

1.8. Principles of General Insurance

The main motive of insurance is Co operation. Insurance is defined as the equitable transfer of risk from one Entity to another in exchange of Premium.

The basic principles insurance are as follows:

1.8.1. Nature of Contract

Nature of contract is a fundamental principle of insurance contract. An insurance contract comes into existence when one party makes an offer or proposal of the contract and the other party accepts the proposal.

The contract should be simple to be understood by each party. The person entering into the contract should enter with his free consent.

1.8.2. Principle of Utmost Good Faith

In the case of a contract both the parties to the contract are required by law to observe good faith.

However, in general transactions, say a transaction where a person has gone to a store to buy some products, the buyer is supposed to satisfy himself about the features of the product that he is buying. The seller is supposed to disclose all material facts about the product and also the facts so disclosed should not be misleading. However the is not obliged to disclose each and every fact of the product. This casts a responsibility on the buyer to satisfy himself about the quality and other features of the product.

If after the purchase of the product the buyer is not satisfied by it, he does get a legal right to go back to the seller and return the goods. Now the discretion is with seller whether to accept the goods or not. The seller would be well within his right to refuse the return of goods on the contention that the buyer had satisfied about the quality and other relevant features of the product before buying the product.

This principle is known as Principle of 'Caveat Emptor' which means that let the buyer beware. This principle is applicable to all commercial contracts.

However Insurance Contracts are different from General Contracts. While general contracts work on the principle of 'simple good faith' insurance contracts work on the principle of 'utmost good faith'. The principle of utmost good faith is also known as principle of Uberrima Fides'.

Let us now see as to why the insurance contracts must follow the principle of utmost good faith and not simple good faith.

a. In an insurance contract the seller is the Insurer and the buyer is the insured. In this case the buyer or the insured has the full knowledge of the property being insured and the seller is ignorant about it. This is a situation which is opposite of a general purchase contract. In a general purchase contract it is the seller who would have full knowledge and details of the property and not the buyer.

   Thus in case of insurance contracts the seller would be dependent upon the buyer to provide complete information about the property. In view of this there is a need of utmost good faith of the insurer on the insured that the later has provided full information of the property.

It could be argued here that the insurer has the option to examine the property. But such examination may not bring forth all facts and especially the history of the property.

Let us examine a situation where a person is seeking medical insurance. In such a case the Insurance Company would insist on the medical examination of the said person to know full facts about the health and the medical history of that person i.e. past illness, accidents etc.

However, such medical examination may not reveal the complete medical history of the said person. Hence notwithstanding the medical examination, the insurance company would expect the proposed insured person to disclose full details about his medical condition so that the insurance company is able to take a prudent decision on firstly whether to provide insurance cover and if so, at what cost i.e. should be the premium.

b. Insurance is an intangible product. It cannot be seen or felt. It is simply a promise on the part of the Insurer to make good the loss incurred by the insured if and when it occurs.

Hence, while the insured must disclose all information about the property for which he is seeking insurance. It is also the duty of the Insurance Company not to make any false promises during negotiation.

The Insurer must exactly appraise the insured about the circumstances in which and the extent to which it would be compensated by the Insurance Company in case of damage.

For instance in the case of earthquake in Gujarat (Latur) a number of disaster victims failed to get any relief from the Insurance Company as the risk of earthquake was not covered.

Thus the term ‘Utmost Good faith’ can be defined as ‘ A positive duty to voluntarily disclose accurately and fully all facts material to the risk being proposed whether requested for or not.

In an Insurance contract utmost good faith means that ‘each party to the proposed contract is legally obliged to disclose to the other all information which can influence the others decision to enter the contract.

In case it is found that full and true disclosures were not made at the time of the contract the effected party will have the right to regard the contract as void.

From the above we can arrive at the following conclusion:

- Each party is required to tell the other the truth and the whole truth and nothing but truth.
- Failure to reveal information even if not asked for gives the aggrieved party the right to regard the contract void.

1.8.3. Principle of Insurable Interest

One of the essential ingredients of a Insurance Contract is that the insured must have insurable interest in the subject matter of the contract.

A person is supposed to have Insurable Interest in something when the loss or damage to that thing would cause the person to suffer financial or any other kind of loss. Thus insurable interest means that the Insured must stand to suffer a direct financial loss if the event against which the insurance policy is taken does actually occur.

The insurable interest is generally established by ownership, possession or direct relationship. For example people have insurable interest in their own houses and vehicles and not in neighbour’s houses and certainly not that of strangers.

For an insurance company the insurable interest is the basic reason for issuing a legal insurance cover to an insured (or the beneficiary) as it gives legal right to enforce an insurance claim.

There are four essential components of Insurable interest:

- There must be some property, right, interest, life, limb or potential liability which is capable of being insured.
- Any of the above i.e. property, right, interest etc must be subject matter of insurance.
- The insured must have a formal or legal relationship with the matter which is the subject of insurance.
- The relationship between the insured and the subject matter of insurance must be recognized by law.

<u>Examples of Insurable Interest</u>

a. If the house you own is damaged by fire, the value of your house has been reduced by damages sustained in the fire. Whether you pay to have the house re built or you end up selling it at reduced price, you have suffered a financial loss from the said fire.

   On the contrary if your neighbor's house which you don't own is damaged by fire you may feel sympathetic for your neighbor and you may also be emotionally upset, but the fact is that you have not suffered any financial loss from the fire. You have insurable interest in your own house but in this example you do not have an insurable interest in your neighbor's house.

b. In Life Insurance everyone is considered to have an insurable interest in his own life and that of his spouse.

c. At times the insurable interest may be subjective. For instance the Employer has an insurable interest in the lives of their employees. The reason for this is that if the employee dies or becomes incapacitated due to an accident there will be a cost of training of the employees who would replace the existing employees who has expired. In such case the amount of insurable interest cannot be exactly determined but it should be reasonable and proportionately related with the salary of the employee.
   Insurable interest is one of the foundations of insurance business because in its absence the insurance contract would not constitute a binding contract. Absence of Insurable Interest would make the contract of Insurance Null & Void.

1.8.4. Principles of Indemnity

Indemnity according to Cambridge International Dictionary means ‘Protection against possible damage or loss. Thus Indemnity means security, protection and compensation given against damage, loss or injury.

In context of Insurance indemnity is defined as ‘Financial Compensation sufficient to place the Insured in the same financial position after the loss as he enjoyed immediately before the loss was incurred’.

Thus under the principle of indemnity the insured should be compensated only for the loss that has been incurred by him as a result of the event in respect of which the insurance has been taken.

It will not be in order if the Insured should make any profit out of such event (such as fire, motor accident etc.)

Since the compensation of loss, and only the loss, is the basic factor under the principle of indemnity, it will be essential that the evaluation of loss is done as precisely as possible. Though the financial evaluation of loss is possible in most of the cases, in case of loss of life and disablement it may not be precisely possible to determine the loss in monetary terms.

In certain cases the amount of compensation given by the Insurer may be less than the actual loss that has been incurred. However under no circumstances the compensation to the Insured should be more than the loss that has been incurred. This is more adequately explained by the following two examples:

a. “A” has insured his bike for Rs 50,000. Unfortunately he meets with an accident and the bike is extensively damaged. This results in total loss of the bike. Though ‘A’ must get a compensation of Rs 50,000 as his bike has been totally destroyed in the accident but this may not always be the case.

   There could be a possibility that either he has estimated the value of the bike at a higher price than its real value or that the prices of the bile have been reduced.

In both the cases Insurer will pay compensation of an amount that is equal to the value of the bike at the time of Insurance. In such case if the Insurer finds that a bike of the same make and model and in the same condition as existed immediately before the loss is available for Rs 30,000, he will be liable to pay only Rs 30,000 and nothing more than this.

b. Suppose in the case mentioned above in the said accident the bike is only partially damaged & can be adequately repaired to bring it back to its condition immediately prior to the loss. However during the process of repairs certain parts are replaced. Assuming that the bike was two years old. In such case the parts that need to be replaced would have suffered wear and tear.

In this if the Insurer gives the value of the new part as compensation to the Insured, it would mean that the Insured is making a profit out of it. This will be against the Principle of Indemnity.

Hence in this case the Insurer will make a suitable deduction from the cost of the new part in respect of wear and tear of the part that has been damaged and accordingly pay the balance amount to the Insured.

Exceptions

However there are certain exceptions to the 'Principles of Indemnity'. These are as follows:

a. As discussed above in case of Life and Personal Accident (ie accident to an individual) Insurance it is not possible to make financial evaluation of the loss.

   Hence the Principle of Indemnity cannot be strictly made applicable to this case.

b. There are certain Insurance Policies called 'Agreed Value Policies'. In case of such policies at the time of entering into contract the Insurer agrees that it will accept the value of the property as stated in the contract of insurance or the Insurance Policy as the true value and indemnify the insured to this extent in case of total loss. Such type of policies is obtained for Jewellery, Antiques, and valuable pieces of Art etc. This amount will be the sum assured.

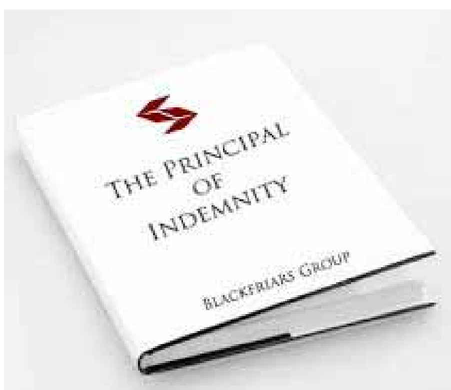
In this case also the Principle of Indemnity cannot be strictly followed.

c. There is another type of policy where the principle of indemnity cannot be strictly followed. Such policies are called 'Reinstatement Policies' issued for Fire Insurance etc.

   In case of such a policy Insured is required to insure the property for its Replacement Value i.e. the value at which it will be replaced.

   In this case the Insurer agrees that in the event of a total loss he shall replace the damaged property with new one or shall pay for the replacement of the same.

   Except for the exceptions stated above the principle of indemnity is strictly followed in Insurance.



1.8.5. Principle of Subrogation

The Principle of Subrogation is basically a corollary or an offshoot of the Principle of Indemnity.

We have already seen in the preceding sections that the purpose of indemnity is to ensure that the Insured does not make any profit or gain in any way or as a consequence of loss. He should, at the maximum, in the same financial position which he had occupied immediately before the loss had been incurred.

However, in case the Insured gets compensated for the loss by the Insurer and, simultaneously or subsequently, also gets compensated, fully or partly, for the same loss from a third party, the insurer is entitled to recover such additional compensation from the insured.

In case the insured, after having received compensation for loss (i.e.indemnity) from the Insurer also receives from another person any amount towards such loss then he will be placed in a position of gain which is against the Principle of Indemnity. Hence the Insurer will have the right to recover the indemnity or the compensation paid to the Insured to the extent the same has been received by the Insured from a person other than the Insurer though limited to the compensation paid by the Insurer.

The theory discussed above forms the premise or the objective of the 'Principle of Subrogation'.

Subrogation may be defined as 'transfer of legal right of the Insured to recover to the Insured'.

However there is a limitation to the right of the Insurer to recover the compensation paid by it to the Insured. The Insurer can only claim the amount of compensation paid by it to the Insured. If the Insured has received an amount of compensation which is higher than the compensation paid by the Insurer, the Insurer will get the right to recover the compensation given by it and nothing over and above that.

The principle is that if the insured is not allowed to make profit the insurer is also not allowed to make profit and he can only recover to the extent he has indemnified the insured.

Exception

There is an exception to the 'Principle of Subrogation'. This principle does not apply to Life and Personal Accidents as in respect of these insurances the 'Principle of Indemnity' is not strictly applicable to these insurances.

In case the death of a person is caused by the negligence of another person then the legal heirs of the deceased can initiate proceedings to recover from the guilty party a compensation which will be in addition to the proceeds of the Life Insurance Policy of the deceased.

In such case the Insurance Company providing the Life Insurance Policy does not get the right to receive compensation from the legal heirs in respect of such additional compensation.

1.8.6. Principle of Contribution

Contribution is also a Corollary or Offshoot of Principle of Indemnity.

An individual may have more than one policy for the same in respect in of the same property and in case of a loss if the Insured is able claim compensation for the said loss from all Insurers it is but obvious that he would be making a profit from this loss. This is against the Principal of Indemnity.

This situation is taken care of by the Principle of Contribution.

Contribution may be defined as the right of the Insurer who has for a loss to recover a proportionate amount from other insurers who are also liable for the same loss.

The condition of contribution will arise if the following conditions are met:

- Two or more policies should exist.
- The policies must cover a common interest.
- The policy must cover the same cause or event which results into a loss.
- The policies must cover a common subject matter i.e. the same property.
- All the policies must be in operation at the time of loss.

It may be noted here that it is not essential that the policies should be identical to each other.

The essential condition for the principle of contribution to come into force is that the two policies should overlap each other. The subject matter should be common and the event causing the loss should be common and covered by both the policies. The same principle will be applicable if there is more than one policy.

The Insured has the right to recover the loss from any one insurer. The Insurer who compensates the Insured for the loss will have the right to recover proportionate amount from other insurers.

In order to make the Principle of Contribution enforceable the insurers generally insert a clause in the policy that in the event of loss they shall be liable to pay only ‘ Rate – able proportion’ of loss.

It means that each Insurer will pay only its share and if the Insured wants full indemnity he should a claim with other Insurers also.

Let us try to understand this by the following example:

Westin Industries Ltd has taken three Insurance Policies to cover the risk of fire in respect of the same office building.
The sum assured under these three insurance policies is as under:

Sum Assured Policy A	Rs 10,00,000
Sum Assured Policy B	Rs 20,00,000
Sum Assured Policy C	Rs 30,00,000
Total	Rs 60,00,000

Assuming that the claim is for Rs 6lacs, the same will be paid by each of the three insurers in proportion of the sum assured by them.

The amount of claim to be borne by each of the three Insurers would be as follows:

A	Rs 1,00,000
B	Rs 2,00,000
C	Rs 3,00,000
Total	Rs 6,00,000

1.8.7. Principle of Causa Proxima (Proximity Clause)

Principle of Causa Proxima is a Latin phrase in English which means Principle of Proximity.

The loss to a property can be caused by more than one cause. Under this principle in such a situation the nearest or the closest or the most proximate cause shall be taken into consideration to decide the liability of the insurer.

Example:

A cargo ship's base was punctured due to rats. This resulted in the sea water entering the ship and accordingly the cargo was damaged.

Here there are two causes for the damage of the cargo ship:

- The Cargo ship getting punctured because of rats.
- The sea water entering the ship through the punctures.

In this case the risk of sea water is covered but the first cause ie damage due to rats is not covered. Since the nearest cause of damage is the sea water which is insured, the insurer must pay the compensation.

However, in the case of Life Insurance, the principle of Causa Proxima does not apply. Whatever be the reason of the death (whether natural or unnatural) the insurer is liable to pay the amount of insurance

1.9. Summary

- Insurance is a mechanism by which the person exposed to the potential risk, arising out of the events beyond his control, transfers the financial loss; in part or in full to a third party.
- Insurance can be divided in two categories viz. Life and Non Life, Non Life Insurance is also referred to as General Insurance. Different types of General Insurance are: Fire Insurance, Marine Insurance, Health Insurance, Motor Vehicle Insurance, Theft and Burglary Insurance etc.
- The principle of indemnity and their corollaries and proximate cause has been formulated so that any person does not make profit out of the insurance transaction. The basic purpose of insurance is that the insured is put in same financial position as he was before the loss.

1.10. Key Words:

- Insurance
- Insured
- Risk
- Indemnity
- Premium
- Life Insurance
- General Insurance
- Fire Insurance
- Marine Insurance
- Motor Vehicle Insurance
- Mandatory Insurance
- Comprehensive Insurance
- Health Insurance
- Personal Accident Insurance
- Burglary & Theft Insurance
- Nationalization
- Liberalization
- IRDA
- Utmost Good Faith
- Insurable Interest
- Subrogation

1.11. Self Assessment Questions

A. Fill up the Blanks

a. In insurance the party which transfers the potential loss is termed as _______ and the party which indemnifies or undertakes to compensate the other party of such potential loss is termed as ____________

b. Non Life Insurance is also termed as __________ Insurance

c. Marine Insurance is an insurance against loss or damage or destruction of __________ freight, merchandise or means or instrument of transportation whether by sea, land or air.

d. In India it is mandatory for every owner or operator of motor vehicle to take insurance that provides for payment of compensation to ________ party.

e. In the year 1972 General Insurance Business was _________

Answer Key : a) Insured, Insurer b) General c) Cargo d) Third e) Nationalized.

B. True or False

a. Principal of Causa Proxima is a Latin Phrase which, in English, means 'Principle of Proximity'

Correct/ Incorrect

b. Under the principle of ' Cavet Emptor' it is presumed that the buyer of a product is totally ignorant.

Correct/ Incorrect

c. The number of Public Sector Insurance Companies that have contributed along with General Insurance Corporation of India and NABARD to set up Crop Insurance Company is 6

Correct/ Incorrect

d. Indemnity according to Cambridge International Dictionary means " Protection against possible damage or loss'

Correct/ Incorrect

e. Under comprehensive insurance policy under motor vehicle insurance only Third Party Liability is covered.

Correct/ Incorrect

Answer Key : a) Correct b) Incorrect c) Incorrect d) Correct e) Incorrect

C. Match the following

S.No	Section A	Section B
1	Indemnity	Third Party
2	Holding Company	Hospitalization
3	Foreign Direct Investment	General Insurance Corporation of India
4	Health Insurance	Protection
5	Motor Vehicle Insurance	49%

Answer Key

Section A	Section B
1	4
2	3
3	5
4	2
5	1

D. Choose the correct option

a. Which of the following principles prevent profit being made out of loss in case of Insurance
   i. Utmost good faith
   ii. Indemnity
   iii. Insurable Interest
   iv. Caveat Emptor

b. The principle of subrogation is basically a corollary or an offshoot of the Principle of _______________
   i. Insurable Interest
   ii. Causa Proxima
   iii. Utmost Good Faith
   iv. Indemnity

c. One of the essential ingredients of Insurance Contract is that the insured must have ___________ interest in the subject matter of contract.
   i. Proprietary
   ii. Insurable
   iii. Continuous
   iv. Permanent

d. In case of ________ insurance the principle of indemnity cannot be strictly made applicable :
   i. Fire
   ii. Marine
   iii. Life
   iv. Spouse

e. In Life Insurance everyone is considered to have an interest in his own life and that of his _______
   i. Daughter
   ii. Employee
   iii. Spouse
   iv. Parents.

Answer key : a) Indemnity b) Indemnity c) Insurable d) Life e) Spouse

E. Answer in Brief

a. Explain the parameters that distinguish General Insurance from Life Insurance.
b. Explain in brief different types of General Insurance.
c. Write short note on Liberalization of Insurance Sector in India.

F. Answer in Detail

a. Explain the principle of indemnity in insurance. Also explain the circumstances under which principle of indemnity is not strictly applicable.
b. Explain the principle of insurable interest in insurance.

Learning Objective – Unit 2

<table>
<tr><td>LOCATION</td><td colspan="4">DURATION- 10 HOURS</td></tr>
<tr><td rowspan="8">CLASSROOM OR INSURANCE ORGANISATION</td><td colspan="4">SESSION-1 TYPES OF FIRE INSURANCE POLICES – THEIR MAIN FEATURES AND CLAUSES</td></tr>
<tr><td>Learning Outcome</td><td>Knowledge Evaluation</td><td>Performance Evaluation</td><td>Teaching and Training Method</td></tr>
<tr><td>After studying this topic the learners would be able to know about the different types of fire insurance policies and their distinct features and clauses</td><td>1. Who can take Fire Insurance
2. Meaning of Fire and damage
3. Types of Losses covered by Fire Insurance.
4. Types of Losses not covered by Fire Insurance</td><td>1. Explain who can be the Insured.
2. Explain the meaning of Fire and damage
3. Enumerate the type of losses covered by Fire Insurance and those losses not covered by Fire Insurance</td><td>Classroom teaching, PPT’s</td></tr>
<tr><td colspan="4">SESSION -2 MEANING & SIGNIFICANCE OF AVERAGE CLAUSE</td></tr>
<tr><td>After studying this topic the learners would be able to know the meaning & significance of average clause</td><td>1. Types of Fire Insurance Policies
2. Average Clause</td><td>1. Enumerate different type of Fire Insurance Policies
2. Explain Average Clause in Fire Insurance Policy</td><td>Classroom teaching</td></tr>
<tr><td colspan="4">SESSION -3 PROCEDURE FOR TAKING FIRE INSURANCE POLICIES AND SETTLEMENT OF CLAIMS</td></tr>
<tr><td>After studying this topic the learners would be able to identify the steps to be followed for taking Fire insurance policy and how to settle the claims</td><td>1. Steps involved in taking Fire Insurance Policy
2. Procedure to settle claims in Fire Insurance</td><td>1. Explain the steps involved in Fire Insurance.
2. Explain the procedure of settling claims in case of damage by Fire.</td><td>Classroom teaching, PPT’s</td></tr>
</table>

UNIT 2

FIRE INSURANCE

OBJECTIVES

At the end of the session you will be able to:

- Understand the concept of Fire Insurance
- Understand the meaning of fire and loss or damage caused by fire.
- Understand the procedure of taking up fire insurance policy.
- Assess the loss covered and the loss not covered by Fire Insurance.
- Understand different types of Fire Insurance Policies.

STRUCTURE

2.1. Fire Insurance
2.2. Procedure for taking Fire Insurance Policy
2.3. Types of Fire Insurance Policies
2.4. Summary
2.5. Practice Questions

2.1. Fire Insurance

2.1.1. Introduction to Fire Insurance

In India, insurance has a deep-rooted history. It finds mention in the writings of Manu (Manusmrithi), Yagnavalkya (Dharmasastra) and Kautilya (Arthasastra). The writings talk in terms of pooling of resources that could be re-distributed in times of calamities such as fire, floods, epidemics and famine. This was probably a pre-cursor to modern day insurance.

The **history of general insurance dates** back to the Industrial Revolution in the west and the consequent growth of sea-faring trade and commerce in the 17^{th} century. It came to India as a legacy of British occupation. General Insurance in India has its roots in the establishment of Triton Insurance Company Ltd., in the year 1850 in Calcutta by the British. In 1907, the Indian Mercantile Insurance Ltd, was set up. This was the first company to transact all classes of general insurance business.

1957 saw the formation of the General Insurance Council, a wing of the Insurance Association of India. The General Insurance Council framed a code of conduct for ensuring fair conduct and sound business practices.

In 1968, the Insurance Act was amended to regulate investments and set minimum solvency margins. The Tariff Advisory Committee was also set up then.

In 1972 with the passing of the General Insurance Business (Nationalisation) Act, general insurance business was nationalized with effect from 1^{st} January, 1973. 107 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. The General Insurance Corporation of India was incorporated as a company in 1971 and it commence business on January 1sst 1973.

Thus this millennium has seen insurance come a full circle in a journey which has extended nearly 200 years.

The history of Fire Insurance can be traced to the XVI century. The Great Fire of London (1666) destroyed more than 13,000 houses and displaced about 100,000 people but it took a couple of decades for its embers to spark the first blaze of the fire insurance business. Nicholas Barbon was probably the first to recognize the potential of a fire-threat protection business, establishing the first fire insurance office near the Royal Exchange in 1681. The imaginatively named 'The Insurance Office for Houses on the Backside of the Royal Exchange' was a mutual scheme for house insurance, guaranteed by a property investment fund. The trust deed allowed Barbon's firm to insure up to 10,000 houses. However, despite its charming name, it went out of business in around 1710. 'The Friendly Society for Securing Houses from Loss by Fire' faired somewhat better, entering the scene in 1683 and issuing 23,000 policies before its demise in 1730. It wasn't until the launch of the Hand-in-Hand in 1696 that a fire insurance business with longevity took a firm foothold. This was followed by the Sun Fire Office in 1710, the Union in 1714, the Westminster in 1717, the London in 1720, and the Royal Exchange in 1720. Business was booming.

2.1.2. What is Fire Insurance?

Fire insurance is a contract under which the insurer in return for a consideration (premium) agrees to indemnify the insured/assured for the financial loss which the Insured may suffer due to destruction of or damage to property or goods, caused by fire, during a specified period.

Thus the basic ingredients of Fire Insurance are as follows:

- The financial loss should be on account of fire resulting in damage or destruction of property or goods.
- The maximum amount which the Insured can claim as compensation in the event of loss is agreed to between the parties at the time of entering into the contract.

It should be understood here that the event that results into financial loss would be fire and not accident. Secondly the financial loss resulting from damage to a property may be much more than the sum assured. In such case the Insurer would be liable to make payment of the sum assured only.

For example, if a person has insured her house for Rs.10.00 lakh against loss by fire, the insurer is not liable to pay the full sum, unless the house is destroyed by fire, but only pay the actual loss subject to the maximum limit of Rs. 10.00 lakh.

2.1.3. Who can take the policy?

Any person / firm / organization / institution who may suffer financial loss in the event of operation of insurable perils may insure such property under the fire policy. The pertinent point is that such person/firm/organization/institution must have an "Insurable Interest" i.e. a financial benefit, financial stake or advantage arising out of the property.

For the purpose of Insurance, including Fire Insurance, the following persons have insurable interest in the subject matter:-

a) Owners of Building and contents therein such as house hold articles, furniture etc.
b) Shop Keepers
c) Educational/ Research Institutions.
d) Hotels, Boarding and Lodgings, Hospitals, Clinics or such service providers
e) Industrial and Manufacturing Firms.
f) Godown Keepers.
g) Bailees, Lesser, Lessee, Banks, Financial Institutions, Mortgagors, Mortgagees.
h) Traders in stocks
i) Trustees, Charitable Institutions
j) Transporters and C & F Agents.

2.1.4. Can Fire Insurance Policy be assigned?

A fire insurance policy cannot be assigned (i.e. the legal rights or liability of the contract cannot be transferred to any other third party/ individual apart from the ones who had initially entered the contract) without the permission of the insurer because the insured must have insurable interest in the property at the time of contract as well as at the time of loss.

The insurable interest in goods may arise out on account of

- ownership,
- possession, or
- contract

A person with a limited interest in a property or goods may insure them to cover not only his own interest but also the interest of others in them.

2.1.5. Meaning of Fire and Loss or Damage by Fire

The word fire literally means a condition of burning and is used in popular sense to mean friendly fire used for manufacturing or domestic purpose.

In Insurance fire means only hostile fire in a place where it has broken bounds.

Fire in this sense means:

- There must be actual fire or ignition
- It must be accidental or fortuitous in origin so far as insured is concerned.

The phrase 'loss or damage by fire' also includes the loss or damage caused by efforts to extinguish fire.

2.1.6. Principle of Causa Proxima (Proximity Clause)

In order to establish a claim under a fire insurance policy it will not be sufficient to prove that the loss is attributable to fire. It will also be essential to prove that the fire must be the efficient proximate cause for the loss.

In other words the fire must not be the immediate cause or dominant factor and not the remote or the distant cause.

This is in terms of Principle of Causa Proxima.

2.2. Procedure for taking Fire Insurance Policy

A person desirous of taking a Fire Insurance Policy should follow the following steps:

A. Selection of Company

As a first step the fire insurance company with which the insurance is to be effected must be identified.

B. Proposal Form

Once the Insurance Company has been selected the next step is to fill the proposal form which forms the basis of the contract.

- The proposal Form would require the following details to be filled up:
- Name and Address of the Proposer
- Nature of Business
- Details of Asset to be Insured
- Type of Fire Insurance Policy ie Specific Policy, Comprehensive Policy, Valued Policy
- Current Market Value of the Asset
- Amount for which the Insurance is to be taken.

C. Evidence of Credibility

The Insurance Company may check the credentials of the proposer to establish his credibility and ensure that he has not been involved in any unscrupulous activity.

D. Survey of the Property

The next step in Fire Insurance is to take the survey of the property proposed to be insured by qualified experts known as Surveyors.

The Surveyors are to inspect the property carefully and to estimate the degree of risk involved. It is on this basis of this report of the Surveyors that the Insurance Company accepts or rejects the proposal and quotes the rate of premium.

E. **Acceptance of Proposal Form**

On the basis of the proposal and the report of the Surveyor the Insurance Company would accept or reject the proposal.

F. **Commencement of Risk**

The next step is to pay premium. Once the premium is paid the coverage of risk would commence.

G. **Cover Note**

The Insurance Company may accept risk unconditionally or subject to certain conditions and may give provisional protection to the Insured by a document known as Cover Note.

H. **Policy**

The final step is to issue the Fire Insurance Policy.

2.2.1. Types of Losses covered by Fire Insurance are:

The following losses have been held to be caused proximately by fire:

- Loss which is the necessary consequence of fire in the sense that had there been no fire it would not have happened.
- Loss which is reasonable and probable consequence of fire in that it results in ordinary course of event from the happening of fire.
- Loss caused by water used to extinguish fire, destroying property or by Fire Brigade in the execution of their duties.
- Loss arising as a consequence of removal of property from the building in which fire in ranging with the intention of saving it or loss due to theft during the confusion caused by fire.
- Wages paid to persons engaged in extinguishing fire.

2.2.2. Losses not covered by a fire insurance policy

In determining the extent of liability of the Insurer, the cause of fire is immaterial unless it has been deliberately brought about by the Insured.

Thus the claim of Fire Insurance will not be admissible if the fire is caused by the wilful act of the Insured or by someone else acting in concert with him.

Following are the losses that are not covered by the Fire Policy:

- Loss due to fire caused by earthquake, invasion, act of foreign enemy, hostilities or war, civil strife, riots, mutiny, martial law, military rising or rebellion or insurrection.
- Loss caused by subterranean (underground) fire.
- Loss caused by burning of property by order of any public authority.
- 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.
- Loss or damage by lightening or explosion is not covered unless these cause actual ignition which spread into fire.

2.2.3. Procedure in the Event of Loss

In case of occurrence of fire resulting in loss the following procedure should be followed:

- Intimate such loss / damage immediately so that a Competent Surveyor may be deputed to assess the loss.
- Give an account of all properties damaged or destroyed with estimated amounts having regard to their values as on the date and place of loss.
- Cooperate with surveyors by providing all the necessary documents for assessment of loss and establishing liability.
- Cooperate with the insurer in all their activities of entering the premises, taking possession of properties, their examining, sorting, removing or selling to your account, without prejudice.
- Inform particulars of all other insurances existing on the property at the time of loss.

2.2.4. Documents required by insurer for processing the claim:

In the event of fire and loss resulting thereon the following documents have to be submitted to the Insurance Company by the Insured:

A. Common Documents for all claims under a Standard Fire and Special Perils Policy:

- Certified True copy of the policy along with schedule and endorsements/clauses.
- Claim Form.
- Newspaper reports on the incident, if any.
- Photographs.
- Past claims experience.

B. For Fire Claims the following additional documents have to be submitted:

- Fire Claims (additional documents)
- Report of the Internal Committee constituted for the purpose of investigating the cause of fire.
- Fire Brigade Report.
- First Information Report / Letter of intimation to the Police Station duly endorsed / Police Panchnama.
- Forensic Laboratory Report on samples collected at affected site.
- Drug Inspector's Report on destruction of Drugs/ Pharmaceutical items (for claim on pharma products only).
- Final Investigation Report.
- Action taken on the suggestion of TAC/ LPA on loss minimisation of prevention.

2.2.5. Scope of Fire Insurance

The properties/assets that can be covered under Fire Insurance are as follows:

a. All moveable/ immoveable properties of the proposer on land (excluding those in transit) broadly categorised as follows:

i. Building (including plinth and foundations, if required):

- Whether completed or in course of construction (excluding the value of land).
- Interiors, Partitions and Electricals.

ii. Plant & Machinery, Equipments & Accessories (including foundations, if required)
    - Bought Second hand
    - Bought New
    - Obsolete Machinery

iii. Stocks
    - Raw Material
    - Finished Goods
    - In process
    - In trade belonging to Wholesaler, Manufacturer and Retailer

b. Other Contents such as

    i. Furniture, Fixtures and Fittings
    ii. Cables and Pipings
    iii. Spares, Tools and Stores
    iv. Household goods, etc.

c. Specific Items such as bullion, unset precious stones, curios, work of arts, manuscripts, plans, drawings, securities, obligations or documents, stamps, coins or paper money, cheques, books of accounts, computer system records, explosives.

2.3. Types of Fire Insurance Policies

The different type of Fire Insurance Policies is as follows:

A. Specific policy

A specific policy is a policy which insures the risk for a fixed amount. Under this Policy the Insurer will pay the actual loss or the Insured amount whichever is less.

In this policy the value of the property has no relevance in arriving at the liability.

B. Valued Policy

In such a policy a fixed amount is paid as compensation irrespective of the loss. This type of policy violates the principle of Indemnity and can be legally challenged, at the time of loss the market value of the property is not taken into consideration.

C. **Average Policy**

A fire policy containing an average clause is called Average Policy. An average policy requires the insurer to pay that proportion of actual loss as the Insurance bears to the actual value of the property at the time of loss.

Example: If the actual value of the property is Rs 10,00,000 and the same is insured for Rs 8, 00,000 and loss on account of fire is Rs 2,00,000. In such case the Insured will get

$$\frac{8,00,000}{10,00,000} \times 2,00,000 = 1,60,000$$

The balance of Rs 40,000 shall be borne by the Insured himself.

However if the insured amount is equal to the value of the property or more than that he will get compensation of the entire loss i.e. Rs 2,00,000.

D. **Floating Policy (Floater Policy)**

This policy 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'.

E. **Comprehensive policy**

This is also known as 'all in one' policy and covers risks like fire, theft, burglary, third party risks, etc. It may also cover loss of profits during the period the business remains closed due to fire.

F. **Replacement or Re-instatement policy**

In this policy the insurer inserts a re-instatement clause, whereby he undertakes to pay the cost of replacement of the property damaged or destroyed by fire. Thus, he may re-instate or replace the property instead of paying cash. In such a policy, the insurer has to select one of the two alternatives, i.e. either to pay cash or to replace the property, and afterwards he cannot change to the other option.

2.3.1. Features of Fire Insurance

Fire insurance also is governed by the Principles of Insurance. The main principles are the Principle of Indemnity, Principle of Utmost Good faith and Principle of Deliberate Act. The main features are listed below:

a. Offer & Acceptance

It is a prerequisite to any contract. Similarly, the property will be insured under fire insurance policy after the offer is accepted by the insurance company.

Example: A proposal is submitted to the insurance company along with premium on 1/4/2014 but the insurance company accepted the proposal on 15/4/2014. The risk is covered from 15/4/2014 and any loss prior to this date will not be covered under fire insurance.

b. Payment of Premium

An owner must ensure that the premium is paid well in advance so that the risk can be covered. If the payment is made through cheque and it is dishonored then the coverage of risk will not exist. This is given in section 64VB of Insurance Act 1938.

The insurance cover is valid only after the premium has been paid by the assured or buyer of the policy.

c. Contract of Indemnity

Fire insurance is a contract of indemnity and the insurance company is liable only to the extent of actual loss suffered. If there is no loss, there is no liability even if there is fire.

Example: If the property is insured for Rs. 70 lakhs under fire insurance and it is damaged by fire to the extent of Rs. 20 lakhs, then the insurance company will not pay more than Rs. 20 lakhs.

d. Utmost Good Faith

The property owner must disclose all the relevant information to the insurance company while insuring their property. The fire policy shall be voidable in the event of misrepresentation, miss description or non-disclosure of any material information.

Example: The use of building must be disclosed i.e. whether the building is used for residential use or manufacturing use, as in both the cases the premium rate will vary. Thus, if a building is declared to be for residential use and is later damaged by fire due to manufacturing activities being pursued in the said building; the insurer can declare the policy as void.

e. Insurable Interest

The fire insurance will be valid only if the person who is insuring the property is owner or having insurable interest in that property. Such interest must exist at the time when loss occurs. It is well known that insurable interest exists not only with the ownership but also as a tenant or bailee or financier. Banks can also have the insurable interest.

Example: Mr. Anand is the owner of a building. He insured that building and later on sold the building to Mr. B and the fire took place in the building. Mr. B will not get the compensation from the insurance company because he has not taken the insurance policy being an owner of the property. After selling to Mr. B, Mr. A has no insurable interest in the property.

f. Contribution

If a person insured his property with two insurance companies, then in case of fire loss both the insurance companies will pay the loss to the owner proportionately.

$$\text{Contribution} = \frac{\text{Sum assured with individual insurer x Total loss}}{\text{Total Insurance}}$$

For Example: Mr. Basu insured a building against fire with three fire insurance companies ABC, xyz, and Lmn.

Abc and xyz with Rs. 30,000/- Rs. 40,000/- and Rs. 30,000/- each.

A fire damaged the building during the term of the policy, and a total loss of Rs. 60,000/- was evaluated. The contribution from Abc, Xyz and Lmn shall be as under:

$$\text{Contribution of Abc Company} = \frac{30{,}000 \text{ x } 60{,}000}{1,\ 00{,}000} = 18{,}000$$

$$\text{Contribution of Xyz Company} = \frac{40{,}000\text{x x } 60{,}000}{1,\ 00{,}000} = 24{,}000$$

$$\text{Contribution of Lmn Company} = \frac{30{,}000\text{x x } 60{,}000}{1,\ 00{,}000} = 18{,}000$$

g. **Period of fire Insurance**

The period of insurance is to be defined in the policy. Generally the period of fire insurance will not exceed one year. The period can be less than one year but not more than one year except for the residential houses which can be insured for a period exceeding one year also.

h. **Deliberate Actions**

If a property is damaged or loss occurs due to fire because of deliberate act of the owner, then that damage or loss will not be covered under the policy.

i. **Claims**

To get compensation under fire insurance the owner must inform the insurance company immediately so that the insurance company can take necessary steps to determine the loss.

2.4. Summary

- The history of Fire Insurance can be traced to the XVI Century.
- Fire Insurance is a contract under which the insurer in return for a consideration (premium) agrees to indemnify the insured/ assured for the financial loss which the insured may suffer due to destruction or a damage of a property or goods caused by fire during the specified period.
- Any person/firm/institution who may suffer financial loss in the event of operation of insurable perils may insure such property under fire policy.
- A fire insurance policy cannot be assigned without permission of the insurer because the insured must have insurable interest in the property at the time of contract as well as at the time of loss.
- In order to establish a claim under a fire insurance policy it will not be sufficient to prove that the loss is attributable to fire. It will also be essential to prove that the fire must be the effective proximate cause of loss.
- Certain losses are not covered under Fire Policy.

2.5. Key Words

- Insurable Interest
- Assignment of Fire Insurance Policy

- Ignition
- Proximity Clause
- Survey
- Cover Note
- Average Clause

2.6. Self Assessment Questions

A. Fill up the Blanks

a. Under Fire Insurance the maximum amount which the insured can claim as compensation in the event of ___________ is agreed to between the parties at the time of entering into contract.

b. The fire insurance will be valid only if the person who is insuring the property is the owner or having _______________ interest in the property.

c. The period of insurance is to be _________ in the policy.

d. If the property is damaged or loss occurs due to fire because of ________ act of the owner, such damage or loss will not be covered in the policy.

e. Under fire insurance, the property owner must disclose all _______-information to the insurance company while insuring the property.

Answer key : a) Loss b) Insurable c) defined d) deliberate e) relevant

B. True or False

a. Fire Insurance Policy can be assigned without the permission of the insurer.

Correct/ Incorrect

b. In Fire insurance, fire means only hostile fire in a place where it has broken bounds.

Correct/ Incorrect

c. In fire insurance, even if fire is not the immediate or dominant factor but a remote or distant cause of damage the loss would be compensated.

Correct/ Incorrect

d. The insurance company may check the credentials of the proposer to establish his credibility and ensure that he has not been involved in any unscrupulous activity.

Correct/ Incorrect

e. The experts who inspect the property proposed to be insured are known as ‘Inspectors.

Correct/ Incorrect

Answer Key : a) Incorrect b) Correct c) Incorrect d) Correct e) Incorrect

C. Match the Following

S.No	Section A	Section B
1	1972	Proposer
2	Person/ Firm/ Organization	Estimate of degree of risk involved
3	Assignment	Insurer
4	Credentials	Nationalization
5	Surveyor	Permission of Insurer

Answer Key

Section A	Section B
1	4
2	3
3	5
4	1
5	2

D. Choose the correct option

a. If a person has insured his property with two insurance companies then in case of fire loss both the insurance companies will compensate the loss to the owner _______

i. Equally
ii. Individually
iii. Proportionately
iv. Half Yearly

b. ____________ policy 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.

i. Flexible
ii. Dual
iii. Floating
iv. Multiple

c. An ___________- policy requires the insurer to pay that proportion of actual loss as the Insurance bears to the actual value of the property at the time of loss.

i. Floating
ii. Average
iii. Proportionate
iv. Multiple

d. In ___________ policy a fixed amount is paid as compensation irrespective of the loss.

i. Valued
ii. Fixed
iii. Mandatory
iv. Legal

e. In determining the extent of liability of the Insurer, the ________-- of fire is immaterial unless it has been deliberately brought about by the insured.
   i. Power
   ii. Cause
   iii. Premier
   iv. Intensity

Answer Key : a) proportionately b) floating c) average d) valued e) cause

E. Answer in Brief

a. Explain the type of losses that are covered by Fire Insurance.
b. Explain the type of losses that are covered by fire insurance.
c. Explain the provisions relating to assignment of Fire Insurance Policy

F. Answer in detail

a. What are the different types of policies issued under Fire Insurance?
b. Explain the Principle of indemnity with respect to Fire Insurance?
c. Describe the scope of fire Insurance.

Learning Objective – Unit 3

LOCATION	DURATION- 10 HOURS			
CLASSROOM OR INSURANCE ORGANISATION	**SESSION-1 THREE TYPES OF MARINE INSURANCE – CARGO INSURANCE, HULL INSURANCE AND FREIGHT INSURANCE**			
	Learning Outcome	**Knowledge Evaluation**	**Performance Evaluation**	**Teaching and Training Method**
	After studying this topic the learners would be able to classify the different types of Marine insurance	1. Types of Marine Insurance: Hull , Cargo and Freight 2. Concept of Liability Insurance 3. Concept of Insurable Interest	1. Explain the concept of Hull Insurance, Cargo Insurance and Freight Insurance 2. Explain the Third Party Liabilities covered under Marine Insurance. 3. Explain the concept of Liability Insurance under Marine Insurance	Classroom teaching , PPT's
	SESSION -2 TYPES OF POLICIES			
	After studying this topic the learners would be able to know about the different types of policies & their features suiting their requirement	1. Sales Contracts 2. Types of Marine Insurance Policies 3. Features of Marine Insurance Policies	1. Explain different types of Sales Contracts and their significance in taking Fire Insurance. 2. Enumerate different types Marine Insurance Policies 3. Enumerate the features of Marine Insurance Policies	Classroom teaching, special talk by insurance

	SESSION 3: CLAUSES OF A MARINE INSURANCE POLICY			
	After studying this topic the learners would be able to understand the clauses applicable for a Marine insurance policy	1. Highlighting of various clauses of Marine Insurance Policies	1. Explain various clauses of Marine Insurance Policies. 2. Correlate these Clauses with the topics on Marine Insurance discussed in this Section	Classroom teaching,
	SESSION 4: MARINE LOSSES			
	After studying this topic the learners would be able to understand the Marine losses which are likely to be occurred	1. Types of losses based on types of Policies	1. Identify different losses associated with Marine Insurance 2. Correlate each type of loss with the type of Insurance	Classroom teaching, PPT's

UNIT 3

MARINE INSURANCE

OBJECTIVES

At the end of the session you will be able to:

- Understand the meaning of Marine Insurance
- Understand difference between Hull Insurance and Cargo Insurance
- Understand different types of Marine Insurance Policies
- Understand different types of Sales Contract.

STRUCTURE

3.1. Marine Insurance

3.1.1. Introduction to Marine Insurance

Trade by sea is one the oldest form of trade that countries have followed. Transit of goods by sea has various risks associated with it.

Such risks would include, amongst others, the following:

- Losing the ship along with goods that being carried by it.
- Sea Piracy i.e. robbery or criminal violence at sea.
- Loss or damage to goods while goods are on ship
- Delays in transit

These risks gave rise to one of the most important and oldest forms of Insurance called 'Marine Insurance'

In the current era, Marine Insurance is not limited to transportation by sea or inland waters only but also covers transportation of goods by rail, road, air as well as couriers.

Marine insurance plays a very important role in the field of overseas commerce and internal trade of a country.

3.1.2. History of Marine Insurance

The oldest and the earliest records of marine policy relates to a Mediterranean voyage in 1347. In the year 1400, a book was written by a merchant of Florence which indicates premium rates charged for the shipments by sea from London to Pisa. Marine Insurance spread from Italy to trading routes in other countries of Europe. Later on, in the year 1556, Phillip II made marine insurance regulations for Spain and in 1563 for Antwerp (America) he insured three ships on a voyage from Hawaii to Central America. In 1575, during the reign of Queen Elizabeth I was opened the Chamber of Assurance in the Royal exchange for the registration of marine parcels. Following this, an Act of Parliament was passed in 1601 to deal with disputes relating to marine insurance. During the period of 1720-1824 the two chartered companies, viz London Assurance and Royal Exchange Assurance enjoyed dominant position in the field of marine insurance with the introduction of steamship and growth of international trade, specialized marine services were introduced. Following this, the Lloyd's Association founded in 1892 and originated from coffee house run by Edward Lloyd, became the major centre of marine insurance.

In earlier days travellers by sea and land were exposed to risk of losing their vessels and merchandise because of piracy on the open seas. Moreland has maintained that the practice of insurance was quite common during the rule of Akbar to Aurangzeb, but the nature and coverage of insurance in this period is not well known. It was the British insurers who introduced general insurance in India, in its modern form.

The Britishers opened general insurance in India around the year 1700. The first company, known as the Sun Insurance Office Ltd was set up in Calcutta in the year 1710. This was followed by several insurance companies from different parts of the world, in the field of marine insurance.

At the international level, the laws of Marine insurance were derived from the decisions of the courts and treatises of text writers, until 1906. It was in 1906 that the laws and the legal principles governing the Marine insurance contracts were codified in the Marine Insurance Act 1906 in the U. K.

In India the Marine Insurance Act 1906 of UK has been adapted and enacted, as the Marine Insurance Act 1963. In 1972, the General Insurance business was nationalized by the Government of India by forming General Insurance Corporation. This Act is the legal basis of for deciding the conflicts arising out of almost all Marine insurance contracts. The principle of indemnity is at the core of the Act, and so are the other fundamental principles relating to most insurance contracts. The Indian Marine Insurance Act 1963 covers legalese for the insurance of cargo, hull and freight, as the main subject matters of insurance.

What is Marine Insurance?

Marine insurance has been defined in section 3 of the Marine Insurance Act, 1963:

"A contract of marine insurance is an agreement whereby the insurer undertakes to indemnify the assured, in the manner and to the extent agreed, against losses incidental to marine adventure."

Thus the basic features of marine insurance are:

A. The property should be exposed to maritime peril

"Maritime Perils" have been defined to mean the perils consequent on, or incidental to, the navigation of the sea, that is to say, perils of the sea, fire, war perils, pirates, rovers, thieves, captures, seizures, restraints and detainments of princes and peoples, jettisons, barratry and any other perils which are either of the like kind or may be designated by the policy;

Thus the term Maritime Perils refer to perils consequent to navigation of sea. The term 'perils of the sea' refers only to accidents or causalities of the sea, and does not include the ordinary action of the winds and waves. Besides, maritime perils also include, fire, war perils, pirates, seizures and jettison, etc."

B. The loss should occur consequent to Maritime Adventure

Marine adventure" includes any adventure where—

- any insurable property is exposed to maritime perils;
- the earnings or acquisition of any freight, passage money, commission, profit or other pecuniary benefit, or the security for any advances, loans, or disbursements is endangered by the exposure of insurable property to maritime perils;
- any liability to a third party may be incurred by the owner of or other person interested in or responsible for, insurable property by reason of maritime perils;

Thus Marine Insurance is a Contract whereby the Insurer undertakes to indemnify the insured, in the manner and to the extent thereby agreed, against transit losses, that is to say losses incidental to transit.

Thus the contract of marine insurance is an agreement whereby the insurer undertakes to indemnify the insured, in the manner and to the extent thereby agreed, against transit losses, that is to say losses incidental to transit.

3.2. Types of Marine Insurance

Marine insurance now has a vast coverage but broadly marine insurance can be classified into four major types:-

A. Hull Insurance:

The Hull is the basic structure of a Ship. On the Hull the superstructure is constructed.

Thus, as the name suggests, Hull Insurance covers any loss or damage to ships, tankers, bulk carriers, smaller vessels, fishing boats and sailing vessels. It covers the insurance of the vessel and its equipment i.e. furniture and fittings, machinery, tools, fuel, etc. A Hull Policy may also cover the risk while the vessel is under construction. Ship-owners, charterers, Shipbuilders, bankers, financiers of Ships or vessels who have Insurable interest can buy this policy.

Since the goods that are loaded on the ship or any other type of vessel do not form a part of the basic structure of the ship the loss arising out of damage of such goods is not covered by Hull Insurance.

B. Cargo Insurance:

Cargo means the goods carried on a ship.

Thus as the terms suggests, cargo insurance is taken in respect of the cargo carried by the ship from one place to another. This covers goods, freight and other interests against loss or damage to goods whilst being transported by rail, road, sea and/or air. It includes the cargo or goods contained in the ship and the personal belongings of the crew and passengers. The cargo insurance policy may be a ‘time policy’ or ‘voyage policy’. When the policy is for a definite period, it is known as ‘time policy’; If it is for a particular voyage it is known as ‘voyage policy’ and there is no time limit. There may be mixed time and voyage policies.

Cargo insurance, accordingly, concerns the following:

- Export and import shipments by ocean-going vessels of all types,
- Coastal shipments by steamers, sailing vessels, mechanized boats, etc.
- Shipments by inland vessels or country craft, and
- Consignments by rail, road, or air and articles sent by post.

C. Freight Insurance

Freight is the rent or amount paid for the transportation of cargo. This insurance provides protection against the loss of freight. Generally, the ship-owner and the person receiving the freight is one person. The freight could be paid in advance or at the destination.

Under the marine law the freight is paid only if the cargo reaches safely at the destination port. Therefore, if the freight has been paid in advance, it poses no difficulty. There is a problem sometime when the freight is payable at the destination and the cargo may get lost during the voyage and does not reach its destination. In that event the freight is lost and the shipping company has to bear the cost. In order to overcome such contingency freight insurance is taken.

For example- The owner of goods is bound to pay freightage, under the terms of the contract, only when the goods are safely delivered at the port of destination. If the ship is lost on the way or the cargo is damaged or stolen, the shipping company loses the freight. Freight insurance is taken to guard against such risk.

D. **Liability Insurance**

In this type of insurance the insurer undertakes to indemnify against the loss which the insured may suffer on account of liability to a third party caused by collision of the ship and other similar hazards.

A liability is a legal obligation owned to an individual or group/organization. For example in case of collision the liability of the insured will be to the owner of the other vessel (as well as other stakeholders depending on the related legal aspects).

Third party is a person or group apart from the two primarily involved in a situation/transaction, especially in a dispute like collision of the ship with another ship. It also covers legal liability towards damages to the third party in respect of accidental death, bodily injury or loss of or damage to property along with Legal costs and expenses incurred with prior consent.

3.3. Insurable Interest

In a contract of marine insurance, the insured must have insurable interest in the subject matter insured at the time of the loss. Insurable interest means the policyholder must have a pecuniary or monetary interest in the property which has been insured by him. Insurable interest is not required to be present at the time of taking the policy but it should exist at the time of loss. Under marine insurance, the following persons are deemed to have insurable interest:-

- The owner of the ship has an insurable interest in the ship.
- The owner of the cargo has insurable interest in the cargo.
- A creditor who has advanced money on the security of the ship or cargo has insurable interest to the extent of his loan.
- The master and crew of the ship have insurable interest in respect of their wages.
- If the subject matter i.e. goods, etc. of insurance is mortgaged, the mortgager has insurable interest in the full value thereof, and the mortgagee has insurable interest in respect of any sum due to him.
- A trustee holding any property in trust has insurable interest in such property.

- In case of advance freight the person advancing the freight has an insurable interest in so far as such freight is repayable in case of loss.
- The insured has an insurable interest in the charges of any insurance policy which he may take.

Thus anyone having an interest in the transaction or “insurable interest” can procure insurance cover.

3.4. Sale Contract

The next question is as to who should take the Insurance in case of specifically in case of Cargo Insurance. The complexity arises in this case as there are various parties who are engaged in the process of dispatch, transit and receipt of Goods. There is a dispatcher (also referred to as Consigner), the receiver (also referred to as Consignee). Apart from these two there may be other parties who are interested in the goods which are in transit.

In Marine Insurance, it is the Sales Contract that decides as to who should take the Insurance.

A sale contract which is an essential feature in the trade involves a seller and a buyer and other parties such as the carrier, the bank, and the clearing agent. The nature of sales contract will determine the extent of liability of each party and the specific party that should take the Insurance.

There are different types of sales contracts. Some of these contracts that have a bearing on Marine Insurance are as follows:

3.4.1. F.O.B. (Free on Board)

FOB means Free on Board. Under FOB contracts the seller is responsible to deliver the goods on the ship or the vessel designated by the buyer. Thus the seller is responsible for the loss of or damage to the goods until they are placed on board the Ship.

After the goods have been placed on the designated ship they become the responsibility of the Buyer.
Accordingly in FOB contracts, the Marine Insurance will be the responsibility of the Buyer.

3.4.2. C.I.F. (Cost, Insurance and Freight)

CIF means Cost, Insurance and Freight. Under CIF contracts the seller is responsible for arranging the Carriage (i.e. the Ship) and delivering the Goods at the port of destination.

Under CIF contracts the seller assumes responsibility for the insurance and the insurance charges are indicated in the invoice along with the other charges.

Thus under CIF contracts the Marine Insurance is to be taken by the Seller.

3.4.3. C & F (Cost and Freight)

C & F means Cost and Freight. Under these contracts the seller pays for Freight only. Accordingly it is the responsibility of the Buyer of Goods to take the Insurance Policy.

3.4.4. F.O.R. (Free on Rail)

This is same as F.O.B. but it concerns mainly the internal trade transactions.

3.5. Types of Marine Insurance Policies

There are various types of Insurance Policies under Marine Insurance depending on the duration & type and the nature of the risk that is covered.

Some of the Marine Insurance policies are:

A. Specific Voyage policy

This is a policy in which the subject matter is insured for a particular voyage irrespective of the time involved in it.
In this case the risk attaches only when the ship starts on the voyage. This policy is valid for a single voyage or transit. The policy will be issued before the voyage starts. The coverage will cease immediately on completion of the voyage.

The specific voyage policy must show complete details of the risk. It should contain particulars of conveyance/Vessel name/ Way bill or Bill of Lading* the date and sum insured terms and conditions of cover voyage cargo description etc like all other marine policies.

A waybill or Bill of Lading is a document issued by a carrier giving details and instructions relating to the shipment of a consignment of goods. It serves as evidence that the goods were actually shipped. It also gives the particulars of the cargo.

B. Time policy

This is a policy in which the subject matter is insured for a definite period of time.

The ship may pursue any course it likes; the policy would cover all the risks from perils of the sea for the stated period of time. A time policy cannot be for a period exceeding one year, but it may contain a 'continuation clause'. The 'continuation clause' means that if the voyage is not completed within the specified period, the risk shall be covered until the voyage is completed, or till the arrival of the ship at the port of call.

C. Mixed policy

This is a combination of voyage and time policies and covers the risk during particular voyage for a specified period of time.

D. Valued policy

This is a policy in which the value of the subject matter insured is agreed upon between the insurer and the insured and it is specified in the policy itself.

E. Open or Un-valued policy

This is the policy in which the value of the subject matter insured is not specified. Subject to the limit of the sum assured, it leaves the value of the loss to be subsequently ascertained. This policy is issued for transit of goods within India. Policy is valid for one year and all transits during the policy period and declared are automatically covered by the insurance company subject to the availability of the overall sum insured.

F. Open Cover

This policy which is issued for a policy period of one year indicates the rates, terms and conditions agreed upon by the insured and insurer to cover the consignments to be imported or exported.

A declaration is to be made to the insurance company as and when a consignment is to be sent along with the premium at the agreed rate.

The insurance company will then issue a certificate covering the declared consignment. Open cover is usually issued for import/export. The open cover is a contract affected for a period of 12 months whereby the insurance company agrees to provide insurance cover to all shipments coming within the scope of the open cover. Open cover is not a policy. It is an unstamped agreement. As and when shipments are declared, specific policies are issued as evidence of the contract and on collection of premium.

G. Floating policy

This is a policy which only mentions the amount for which the insurance is taken out and leaves the name of the ship(s) and other particulars to be defined by subsequent declarations. Such policies are very useful to merchants who regularly dispatch goods through ships.

H. Wagering or Honour policy

This is a policy in which the assured has no insurable interest and the underwriter is prepared to dispense with the insurable interest. Such policies are also known as 'Policy Proof of Interest (P.P.I).

I. Special Declaration Policy

This is a form of floating policy issued to clients whose annual estimated dispatches (i.e. turnover) by rail / road / inland waterways exceed Rs 2 cores. Declaration of dispatches shall be made at periodical intervals and premium is adjusted on expiry of the policy based on the total declared amount. When the policy is issued sum insured should be based on previous year's turnover or in case of fresh proposals, on a fair estimate of annual dispatches.

J. Special Storage Risks Insurance

This insurance is granted in conjunction with an open policy or a special declaration policy. The purpose of this policy is to cover goods lying at the Railway premises or carrier's godowns after termination of transit cover under open or special declaration policies but pending clearance by the consignees. The cover terminates when delivery is taken by the consignee or payment is received by the consignor, whichever is earlier.

K. Annual Policy

This policy, issued for 12 months, covers goods belonging to the insured, which are not under contract of sale, and which are in transit by rail / road from specified depots / processing units to other specified depots / processing units. This policy may be issued to cover goods in transit by road or rail or sea from specified depots or processing units owned or hired by the insured. The goods covered must belong to or held in trust by the insured. These policies cannot be assigned or transferred. For such policies the sum insured should not be less than Rs 5,000/-.

L. "Duty" Insurance

Cargo imported into India is subject to payment of Customs Duty, as per the Customs Act. This duty can be included in the value of the cargo insured under a Marine Cargo Policy, or a separate policy can be issued in which case the Duty Insurance Clause is incorporated in the policy.

Warranty provides that the claim under the Duty Policy would be payable only if the claim under the cargo policy is payable.

This policy also covers loss of custom duty paid in case goods arrive in damaged condition. This policy can be taken even if the overseas transit has been covered by an insurance company abroad, but it has to be taken before the goods arrive in India.

3.6. Features of Marine Insurance

A. Offer & Acceptance:

It is a prerequisite to any contract. Similarly the goods under marine (transit) insurance will be insured after the offer is accepted by the insurance company.

Example: A proposal submitted to the insurance company along with premium on 1/4/2011 but the insurance company accepted the proposal on 15/4/2011.The risk is covered from 15/4/2011 and any loss prior to this date will not be covered under marine insurance.

B. Payment of premium:

An owner must ensure that the premium is paid well in advance so that the risk can be covered. If the payment is made through cheque and it is dishonored then the coverage of risk will not exist. It is as per section 64VB of Insurance Act 1938- Payment of premium in advance.

C. Contract of Indemnity:

Marine insurance is a contract of indemnity and the insurance company is liable only to the extent of actual loss suffered. If there is no loss- there is no liability (even if there is operation of insured peril). Example: If the property under marine (transit) insurance is insured for Rs 20 Lakhs and during transit it is damaged to the extent of Rs 10 Lakhs then the insurance company will not pay more than Rs 10 Lakhs.

D. Utmost good faith:

The owner of the goods to be transported must disclose all the relevant information to the insurance company while insuring their goods. The marine policy shall be voidable (at the option of the insurer) in the event of misrepresentation, mis-description or non-disclosure of any material information.

Example: The nature of goods must be disclosed i.e. whether the goods are hazardous in nature or not, as premium rate will be higher for hazardous goods. So if the owner does not disclose the nature of the product and there is an accident, the insurer can choose to declare the policy as void due to non-disclosure.

E. Insurable Interest:

The marine insurance will be valid if the person is having insurable interest at the time of loss. The insurable interest will depend upon the nature of sales contract.

Example: Mr. A sends the goods to Mr. B on FOB (Free on Board) basis which means the insurance is to be arranged by Mr. B. And if any loss arises during transit then Mr. B is entitled to get the compensation from the insurance company.

Example: Mr. A sends the goods to Mr. B on CIF (Cost, Insurance and Freight) basis which means the insurance is to be arranged by Mr. A. And if any loss arises during transit then Mr. A is entitled to get the compensation from the insurance company.

F. Contribution:

If a person insures his goods with two insurance companies, then in case of marine loss both the insurance companies will pay the loss to the owner proportionately.

Example; Goods worth Rs. 50 Lakhs were insured for marine insurance with Insurance Company A and B. In case of loss, both the insurance companies will contribute equally.

3.7. Period of marine Insurance:

The period of insurance in the policy is for the normal time taken for a particular transit. Generally the period of open marine insurance will not exceed one year. It can also be issued for the single transit and for specific period but not for more than a year.

3.8. Deliberate Act:

If goods are damaged or loss occurs during transit because of deliberate act of an owner then that damage or loss will not be covered under the policy.

3.9. Claims:

To get the compensation under marine insurance the owner must inform the insurance company immediately so that the insurance company can take necessary steps to determine the loss.

3.10. Reference Study

Given below are the details of Marine cargo policy for your understanding and reference. This describes the various documents and steps involved in executing a Marine insurance. Marine Insurance is a vast topic and requires detailed documentation.

A. Marine Cargo Policy:

This policy covers goods, freight and other interests against loss or damage to goods whilst being transported by rail, road, sea and/or air.

B. Key Points of the Insurance Cover

- Export and import shipments by ocean-going vessels of all types,
- Coastal shipments by steamers, sailing vessels, mechanized boats, etc.
- Shipments by inland vessels or country craft, and
- Consignments by rail, road, or air and articles sent by post.

C. Different policies are available depending on the type of coverage required ranging from an ALL RISK cover to a restricted FIRE RISK ONLY cover.

D. This policy is freely assignable and is basically an agreed value policy.

E. Who can take the policy?

The contract of sale would determine who buys the policy. The most common contracts are:

- FOB (Free on Board)
- C & F (Cost & Freight)
- CIF (Cost, Insurance & Freight)

In FOB AND C&F contracts, the buyer is responsible for insurance. Whereas in CIF contract, the seller is responsible for the insurance from his own premises to that of the purchaser.

F. How to select the sum insured

The sum insured or value of the policy would depend upon the type of contract.

Usually, in addition to the contract value 10/15% is added to take care of incidental cost.

G. How to claim

The following steps should be taken by the insured in event of a loss or damage to goods insured:

i. Take immediate steps to minimize loss.

ii. Inform nearest office of the insurance company or claim settling agent mentioned on the policy.

iii. In case of damage to goods whilst on ship or port, arrange for joint ship survey or port survey.

iv. Lodge monetary claim with carrier within stipulated time period.

v. Submit duly assigned insurance policy/certificate along with the original invoice and other documents required to substantiate the claim such as:

- Bill of Lading / AWB/GR
- Packing list
- Copies of correspondence exchanged with carriers.
- Copy of notice served on carriers along with acknowledgment/receipt.
- Shortage/Damage Certificate issued by carriers.
- Survey fees are to be paid to the surveyor appointed by the insurance company. These fees will be reimbursed along with the claim if the claim is otherwise admissible.
- Survey report submitted by Surveyor.

H. Key Documents required for settlement of Marine Cargo Insurance Claim.

i. Claim form containing the following information.

- Date, time, cause and circumstance of the loss
- Details of damaged property
- Amount of loss claimed.
- Sound value of the goods at the time of Loss
- Other insurance, if any

ii. Letter lodging monetary claim with carrier within stipulated time period.

iii. Payment details of premium amount paid

iv. Insurance policy/certificate along with the original invoice

v. Bill of Lading / AWB/R R/L R

vi. Stores Receipt Note

vii. Packing list

viii. Copies of correspondence exchanged with carriers.

ix. Copy of notice served on carriers along with acknowledgment/receipt.
x. Shortage/Damage Certificate issued by carriers.
xi. Survey Report is very important where claim amount is over Rs.20,000/- as per provisions of the Insurance Act.1938.
xii. Discharge voucher.
xiii. Letter of Undertaking where applicable

3.11. Summary

- Trade by sea is one of the oldest form of trade that countries have followed.
- Transit of goods by sea has various risks associated with it. These risks give rise to one of the most important & oldest form of insurance called.
- The basic features of marine insurance are:
  a. The property should be exposed to maritime peril.
  b. The loss should occur consequent to maritime adventure.

- Different types of marine insurance are:
  i. Hull Insurance
  ii. Cargo Insurance
  iii. Freight Insurance
  iv. Liability Insurance
- In a Contract of Marine Insurance the insured must have insurable interest in the subject matter insured at the time of loss.
- Different type of Sales Contracts that have a bearing on marine insurance are as follows:
  i. Free on Board (FOB)
  ii. Cost, Freight & Insurance (CIF)
  iii. Cost & Freight
  iv. FOR (Free on Rail)
- There are various types of Fire Insurance Policies.

3.12. Key Words

a) Maritime Adventure

b) Maritime Perils

c) Hull

d) Cargo

e) Freight

f) Port

g) Sales Contract

3.13. Self Assessment Questions

1) Fill up the Blanks

a) Maritime Insurance has been defined in Section 3 of ________ Insurance Act 1963.

b) Maritime Perils refer to perils consequent to __________by sea.

c) Hull is the basis ____________ of the ship.

d) The Insurance that provides protection against loss of freight is called _______ Insurance.

e) In Maritime Insurance Sale _______ decides who should take insurance

Answer Key : a) Marine b) Navigation c) Structure d) Freight e) Contract

2) True or False

a) In the current era Marine Insurance is limited to transportation by sea and inland waters only & does not cover transportation of goods by rail, road, air or courier.

Correct/ Incorrect

b) On the Hull of the ship the superstructure is constructed.

Correct/ Incorrect

c) A self declaration policy is a form of floating policy issued to clients whose annual dispatches by rail/road/inland waterways exceed Rs 2 crores.

Correct/ Incorrect

d) The Liability under Marine Insurance arises to the Insurer even if the goods are damaged or loss occurs during transit because of deliberate act of an owner.

Correct/ Incorrect

e) F. O. R. sales contract means Free on Road.

Correct/ Incorrect

Answer Key: a) Incorrect b) Correct c) Correct d) Incorrect e) Incorrect

3) Match the Following

S.No	**Section A**	**Section B**
1	Duty	One Year
2	Storage	Cost, Insurance & Freight
3	Open Cover	Third Party
4	CIF	Railway Premises
5	Liability Insurance	Imports

Answer Key

Section A	**Section B**
1	5
2	4
3	1
4	2
5	3

4) Choose the Correct Option

a) A contract of Marine Insurance is an agreement whereby the insurer undertakes to indemnify the assured in the manner and to the extent agreed against losses incidental to marine _________

i. Losses
ii. Accident
iii. Adventure
iv. Failure

b) Under CIF contracts the seller is responsible for arranging the __________ & delivering the goods at port of destination:

i. Vehicle
ii. Ferry
iii. Crane
iv. Ship

c) A marine insurance policy that is a combination of voyage & time policies & covers all risks during the particular voyage for a specified period of time is called _______ policy.

i. Mixed
ii. Voyage
iii. Combination
iv. Dual

d) The purpose of Special ____________ risks insurance is to cover goods lying at the Railway premises or carrier's premises after termination of transit cover under open or special declaration policies but pending clearance by the consignees.

i. Warehouse
ii. Storage

iii. Godown
iv. Transit

e) The marine insurance will be valid if the person is having insurable interest at the time of loss. The insurable interest will depend upon the nature of ________ contract.

i. Assignment
ii. Supply
iii. Sales
iv. Purchase

Answer Key : a) Adventure b) Ship c) Mixed d) Storage e) Sales

5) Answer in Brief

a) Write short notes on the following:
- CIF
- Open Policy
- Insurable Interest

b) Explain Hull Insurance

c) Name & describe two types of Marine Insurance Policies

6) Answer in Detail:

a) Define Marine Insurance & list out five features of Marine Insurance.

b) List out key documents required for settlement of marine cargo insurance claims.

Learning Objective – Unit 4

LOCATION	DURATION- 10 HOURS			
CLASSROOM OR INSURANCE ORGANISATION	**SESSION- 1: TYPES OF POLICES AND RISKS COVERED THEREIN**			
	Learning Outcome	**Knowledge Evaluation**	**Performance Evaluation**	**Teaching and Training Method**
	After studying this topic the learners would be able to know about the different types of Motor vehicle insurance policies available, their distinct features and risks covered available for the policy holders	1. Mandatory and Comprehensive Policies 2. Legal provisions in respect of Motor Vehicle Insurance. 3. Principle of No Fault	1. Explain the legal provisions of Motor Vehicle Act 1988. 2. Explain the concept of Mandatory Motor Vehicle Insurance. 3. Explain the provisions of a Comprehensive policy. 4. Explain the Principle of No Fault	Classroom teaching, PPT’s
	SESSION 2: PROCEDURE FOR OBTAINING MOTOR INSURANCE POLICY			
	After studying this topic the learners would be able to identify the features of Motor Insurance Policy	1. Exclusions from Motor Vehicle Insurance. 2. Form of Motor Vehicle Insurance Policy	1. Enumerate the exclusions from Motor Vehicle Insurance. 2. Discuss in detail the contents of Insurance Policy	Classroom teaching, PPT’s
	SESSION 3: SETTLEMENT OF CLAIMS			
	After studying this topic the learners would be able to know the procedure and statutory requirements for settlement of claims	1. Settlement of Claims – Third Party Claims and Own damage claims	1. Explain procedure of settling claims.	Classroom teaching

UNIT 4

MOTOR VEHICLE INSURANCE

OBJECTIVES

At the end of the session you will be able to:

- Know the meaning of motor insurance
- Buy motor insurance policies
- Settle claims of motor insurance including Third Party Insurance
- Know what is not covered under Motor Insurance

STRUCTURE

4.1. Introduction to Motor Vehicle Insurance
4.2. Classification of Motor Vehicles
4.3. Classification of Parties
4.4. Mandatory Motor Vehicle Insurance
4.5. Principle of No Fault
4.6. Certificate of Insurance
4.7. Comprehensive Insurance
4.8. Exclusions from Motor Vehicle Insurance Policy
4.9. Forms of Motor Vehicle Insurance Policy
4.10. Claims
4.11. Summary
4.12. Practice Questions

4.1. Introduction to Motor Vehicle Insurance

Motor Vehicle Insurance, also referred to as 'Automotive Insurance', is a contract of Insurance under which the Insurer indemnifies the Insured, who is the owner or an operator of a Motor Vehicle, against any loss that he may incur due to damage to the property (i.e. the Motor Vehicle) or any other person (i.e. Third Party) as a result of an accident.

There are two types of Motor Insurance viz:

A. Mandatory Motor Vehicle Insurance
B. Comprehensive Motor Vehicle Insurance

4.2. Classification of Motor Vehicles

For the purpose of motor insurance the motor vehicles are classified into following three broad categories:

A. Private cars
B. Motor cycles and motor scooters
C. Commercial vehicles, further classified into
   i. Goods carrying vehicles
   ii. Passenger carrying vehicles e.g.
      - Motorized rickshaws
      - Taxis
      - Buses
   iii. Miscellaneous Vehicles, e.g.
      - Hearses (funeral van)
      - Ambulances
      - Cinema Film Recording & Publicity vans
      - Mobile dispensaries etc.

4.3. Classification of Parties

In case of motor vehicle insurance the classification of the parties is as follows:

a. The Insured is the First Party
b. The Insurer is the Second Party
c. All other parties are Third Parties

4.4. Mandatory Motor Vehicle Insurance

There are situations where an accident caused by Motorist may result into the injury or death of a third party. Such third party may be a pedestrian walking on the road or who is knocked down by the motor vehicle or a passenger who is travelling in the vehicle. Similarly the motor accident may also result in the damage to the property of a Third Party.

In the earlier days, such third persons were not able to get any compensation as the motorists did not have enough resources to compensate them and the insurance policies also did not provide for the insured to compensate these victims of accidents.

This anomaly was removed with the enactment of Motor Vehicle Act 1988 which provides for mandatory insurance against Third Party Risks. Section 146(1) of the said Act provides for this as under:

‘ No person shall use, except as a passenger or cause to allow any other person to use, a motor vehicle in a public place, unless there is in force in relation to the use of the vehicle by that person or that other person, as the case may be, a policy of insurance complying with the requirements of this Chapter.’

Section 147 (1) of the said Act further provides that
In order to comply with the requirements of this Chapter, a policy of insurance must be a policy which—

a. is issued by a person who is an authorized insurer; and
b. insures the person or classes of persons specified in the policy to the extent specified in sub-section (2)—

i. Against any liability which may be incurred by him in respect of the death of or bodily injury to any person or damage to any property of a third party caused by or arising out of the use of the vehicle in a public place;

ii. Against the death of or bodily injury to any passenger of a public service vehicle caused by or arising out of the use of the vehicle in a public place:

Provided that a policy shall not be required-

i. to cover liability in respect of the death, arising out of and in the course of his employment, of the employee of a person insured by the policy or in respect of bodily injury sustained by such an employee arising out of and in the course of his employment other than a liability arising under the Workmen's Compensation Act, 1923, (8 of 1923.) in respect of the death of, or bodily injury to, any such employee—
    - Engaged in driving the vehicle, or
    - If it is a public service vehicle engaged as a conductor of the vehicle or in examining tickets on the vehicle, or
    - If it is a goods carriage, being carried in the vehicle, or

ii. To cover any contractual liability.

Thus while the Insurance against damage to motor vehicles caused by an accident is not mandatory the insurance of third party liability arising out of use of motor vehicles in public places is made mandatory. Accordingly no motor vehicle can ply in a public place without such Third Party Insurance.

The Third Party Insurance policy, also termed as 'Act Only Policy', should provide for insurance against:

a. Any liability which may be incurred by the Insured in respect of death or bodily injury to any person or damage to any property of a third party caused by or arising out of use of vehicle in a public place.

b. Against death or bodily injury to any passenger of a public service vehicle caused by or arising out of the use of the vehicle in a public place.

The third party insurance should also cover liability arising under Workmen's Compensation Act, 1923 in respect of death or bodily injury of:

- paid driver of the vehicle;
- conductor, or ticket examiner (Public service vehicles);
- workers, carried in a goods vehicle;

Thus it can be seen from above that all types of third parties including damage to the property of third parties are to be covered by Third Party Insurance.

Quantum of Liability under Third Party Insurance

The policy of insurance should cover the liability incurred in respect of any one accident as follows:

a. In respect of death of or bodily injury to any person, the amount of liability incurred is without limit i.e. unlimited
b. In respect of damage to any property of third party: A limit of Rs.6,000/-.

The liability in respect of death of or bodily injury to any passenger of a public service vehicle in a public place, the amount of liability incurred is unlimited.

4.5. Liability to pay compensation in certain cases on the principle of no fault

Section 140 of the Motor Vehicles Act 1988, provides for liability of the owner of the Motor Vehicle to pay compensation in certain cases, on the principle of "no fault". The amount of compensation, so payable is as follows:

a. Rs.50,000/- for death, and
b. Rs.25,000/- for permanent disablement of any person resulting from an accident arising out of the use of the motor vehicle.

(Note: The principle of "no fault" means the claimant need not prove negligence on the part of the motorist. Liability is automatic.)

4.6. Certificate of Insurance

The Motor Vehicles Act provides that the policy of insurance shall be of no effect unless and until a certificate of insurance in the form prescribed under the Rules of the Act is issued.

The only evidence of the existence of a valid insurance as required by the Motor Vehicles Act acceptable to the police authorities and R.T.O, is a certificate of insurance issued by the insurers. The points covered under a certificate of insurance differ according to the type of vehicle insured.

4.7. Comprehensive Insurance

Under a comprehensive motor insurance policy apart from the coverage of Third Party Liability (as provided in the mandatory policy) various other risks are also covered. Such policy may provide coverage for the damage to the motor vehicle caused by the following events:

- Fire, Explosion, Self- Ignition, Lightning
- Burglary/Housebreaking / Theft
- Riot & Strike
- Earthquake
- Flood, Storm, Cyclone, Hurricane, tempest ,inundation, hailstorm, frost
- Accidental external means
- Malicious Act
- Acts of Terror
- While in Transit by Rail/ Road, Inland waterways, Lift, Elevator or Air
- Land slide / Rock slide

These damages caused due to the above events are called 'Own Damages'. Thus a Comprehensive/ Own Damage Policy covers both Third Party Liability (Act Liability) and Own Damage.

It will be in the interest of the Insured that apart from coverage of third party liability which as explained earlier is mandatory, maximum possible risks should be covered.

4.8. Exclusions from Motor Vehicle Insurance Policy

The following contingencies are generally excluded from Motor Vehicle Insurance Policy:

- Not having a valid Driving License
- Under Influence of intoxicating liquor/ drugs

- Accident taking place beyond Geographical limits
- While Vehicle is used for unlawful purposes
- Electrical/Mechanical Breakdowns.

4.9. Forms of Motor Vehicle Insurance Policies

For all types of vehicles there are two types of policy forms:

i. FORM 'A' : to cover Act Liability
ii. FORM 'B : to cover Own Damage Losses and Act Liability. The policy can also be extended to cover additional liabilities as provided in the Tariff.

The contents of Form B are as follows:

Policy Form B

This policy provides the so-called 'comprehensive' cover and the structure of the policy form is the same for all vehicles, (with some differences which are pointed out, wherever applicable)

Section I: Loss or Damage (or "Own Damage").

The risks covered are:

- Fire, explosion, self-ignition or lightning.
- Burglary, house breaking or theft.
- Riot and strike.
- Earthquake (fire and shock damage)
- Flood, typhoon, hurricane, storm, tempest, inundation, cyclone, hailstorm, frost.
- Accidental external means.
- Malicious act.
- Terrorist activity.
- Transit by road, rail, inland waterway, lift, elevator or air.
- Landslide /rockslide.

Exclusions

- consequential loss
- depreciation

- wear and tear; and mechanical or electrical breakdowns, failures or breakages
- Damage to tyres unless the vehicle is damaged at the same time. (Then, 50% of cost of replacement payable).
- For commercial vehicles, see Compulsory Excess Clause dealt with later
- Loss when the vehicle is driven under the influence of intoxicating liquor or drugs

(**Notes:** In the motor cycle and commercial vehicle policy there are additional exclusions:

- Loss of or damage to accessories by burglary, housebreaking or theft unless the vehicle is stolen at the same time.
- In commercial vehicle policy, there is a further exclusion: Damage caused by overloading or strain of the vehicle.

Towing Charges

If the motor car is disabled as a result of damage covered by the policy, the insurers bear a reasonable cost of protecting the car and removing it to the nearest repairers, as also the reasonable cost of re-delivery to the insured. The amount so borne by the insurers is limited to maximum of Rs.2,500/- in respect of any one accident.
(**Note:** For motor cycles the limit is Rs.300/-, for cars Rs.1500/- and for commercial vehicles Rs.2500/-).

Repairs

Ordinarily repairs arising out of damage covered by the policy can be carried out only after they are authorized by the insurers. However, the insured is allowed to carry out the repairs without authorization from the insurers, provided that:

- The estimated cost of such repair does not exceed Rs- 500/- (Rs.150/- for motor cycles).
- The insurers are furnished forthwith with a detailed estimate of the cost; and
- The insured gives the insurers every assistance to ensure that such repair is necessary and that the charge is reasonable.

Compulsory Excess

This applies to all vehicles. The insured has to bear a part of the claim amount in respect of each accident. Further loss / damage to lamps, tyres, mudguards and / or bonnet side parts, bumpers and / or paintwork is not payable except in the case of a total loss of vehicle.

Section II Liability to Third Parties

The insurers indemnify the insured against all sums which he may become legally liable to any person including occupants carried in the motor car (provided that they are not carried for hire or reward) by reason of death or bodily injuries caused to such third parties or by reason of damage to the property of third parties caused by or arising out of the use of the motor car. The insured's liability for damage to property of third parties is limited to Rs.6000/-; whilst liability for death of or bodily injury to third party is unlimited.

The legal costs and expenses incurred by such third parties are reimbursed in addition. The legal costs and expenses incurred by the insured are also reimbursed provided that they were incurred with the insurer's written consent.

The insurers are liable for the death of or bodily injury arising out of and in the course of employment, but only to the extent necessary to meet the requirements of the Motor Vehicles Act. The damage to property is not paid for, if the damaged property belonged to the insured or was held in trust by him or was in the custody or control of the insured.

(**Note:** This section is, more or less, the same for all vehicles, subject to some variations for motor cycles and commercial vehicles)

Section III

This appears in commercial vehicle policies only. This section provides cover while the vehicle is towing one disabled mechanically - propelled vehicle. It provides that whilst the insured vehicle is being used for the purpose of towing any one disabled mechanically - propelled vehicle

a. The cover provided by the policy remains operative, and

b. Under Section II of the policy, indemnity will also be provided for the liability in connection with such towed vehicle. This however is subject to the following two provisos:

- The towed vehicle should not be towed for hire or reward and
- No cover is available under the policy for the damage to the towed vehicle or the property conveyed thereby.

General Exclusions (applicable to all sections)

These provide that the insurer shall not be liable in respect of:

- Any accident outside the geographical area specified in the policy, that is, India. The limit can be extended to cover Bangladesh, Bhutan, Nepal, Pakistan, Sri Lanka & Maldives on payment of extra premium.
- Contractual liability.
- Any accident when the vehicle is used not in accordance with the Limitations (Use Clause)
- Any accident when the vehicle is driven without an effective driving licence (Driver's Clause).
- War, etc. and nuclear risks.

Conditions

Apart from the usual conditions such as notice of loss, cancellation of policy, arbitration, etc. there are two conditions which are specific to motor policies.

- The insured is required to safeguard the vehicle from loss or damage and maintain it in efficient condition. In the event of an accident, the insured shall take precautions to prevent further damage. If the vehicle is driven before repairs any further damage is at insured's risk.
- The insurer has the option to repair or replace the vehicle or parts or pay in cash the amount of damage or loss. The insurer's liability cannot exceed the insured's estimated value of the vehicle (specified in the policy) or the value of the vehicle at the time of loss whichever is less

Rating/ Proposal Form

The proposal form elicits all information necessary for rating and underwriting. Some examples of rating are given:

Private Cars/ Scooters/ Motorcycles

Rates are based upon the cubic capacity as given by manufacturers, Insured's Declared Value (IDV), the Zone of operation and age of the vehicle. The cubic capacity of the vehicle indicates the power of the engine.

Separate rates apply for cars up to 1000 cc, from 1000 cc – 1500 cc and above 1500 cc and scooters/motorcycles up to 150cc,150-350cc & above 350cc.

Similarly there are different rates for vehicles in the age groups up to 5 yrs.; 5 yrs. to 10 yrs. and above 10 yrs.

There are two Zones of operation, Zone A and Zone B, as follows:

Zone A: Ahmedabad, Bangalore, Chennai, Hyderabad, Kolkata, Mumbai, N.Delhi & Pune
Zone B: Rest of India.
Note: The rates for Zone A are higher than those for Zone B

Commercial Vehicles

The rating depends upon the Zone of operation, passenger carrying capacity/ gross vehicle weight, Insured's Declared Value (IDV) and age of the vehicle.

There are three Zones for commercial vehicles.

- Zone A: Chennai, New Delhi, Kolkata and Mumbai
- Zone B: All other state capital
- Zone C: Rest of India

Personal Accident Cover

There is provision for Compulsory Personal Accident Cover for Owner-Driver of cars and commercial vehicles of Rs.2.0 Lac and Rs.1 Lac for owner driver of scooters / motorcycles. It covers Death, PTD and PPD only.

Extra benefits

All Vehicles

- The Third Party premium includes cover for third party property damage in excess of the required coverage of liability of Rs.6,000/- as per the M.V.Act. In case the insured wants to get only the liability as per act covered (i.e. Rs.6,000/-) then discount in T.P. premium is allowed.
- Wider legal liability to persons e.g. paid drivers etc. employed in operation and / or maintenance of the vehicle i.e. under W.C. Act and at common law.
- Personal Accident covers for unnamed passengers as per the registered carrying capacity of the vehicle up to a max. of Rs.2 lac/ person on payment of extra premium.

Private Cars

- Extra fittings like radios, tape-recorders, air conditioners etc. (Also applicable to commercial vehicles)
- Reliability Trials and Rallies in India (Also applicable to motor cycles).

Discounts (some examples)

- Voluntary excess under Own Damage Section (Applicable to all vehicles).
- Membership of recognized Automobile Association (Private cars & motor cycles).
- Deletion of Riot, Strike, etc. Earthquake, Flood. (All vehicles).
- Special discount for Anti-Theft device approved by AAI (2.5% on O.D. premium max. of Rs.500).
- Special discount of 25% on O.D. premium for vintage cars

No Claim Bonus

A discount in the premium is allowed at renewal if there is no claim during the policy year for all vehicles.
1st Year 20%, 2nd Year 25%, 3rd Year 35%, 4th Year 45%, 5th Year 50%

Underwriting

There are several factors which are important for underwriting such as type of vehicle e.g. imported cars, sports cars, use of the vehicle, geographical area etc. But the most important is the age of the vehicle. Generally, the approach of insurers is as follows:

	Comp	Comp subject to Inspection	Comp subject to Inspection + Excess	Act Cover Only
Pvt. Car	10 yrs	10-15 yrs		Over 15 yrs
Taxis	3 yrs	3- 5 yrs	5-7 yrs	Over 7 yrs
Public Carriers	5 yrs	5 -6 yrs	6-7 yrs	Over 7 yrs

4.10. Claims

4.10.1. Third Party Claims

Section 165 of the Motor Vehicles Act 1988, empowers the State Governments to set up Motor Accident Claims Tribunals (MACT) for adjudicating upon third party claims.

In case a Tribunal has been set up for a particular area then no civil court has any jurisdiction to entertain any claim falling under the tribunal's jurisdiction. Thus in such cases the claims of Insurance will only be entertained by MACT.

The procedure to be followed for Third Party Claims is as follows:

a. The aggrieved party has to move the tribunal within a period of six months from the date of accident for filling the claim.
b. On receipt of notice of claim from the insured, or the third party or from the MACT, the matter is entrusted to an advocate
c. Full information relating to the accident is obtained from the insured
d. The various documents are collected and these include

- Driving License
- Police report
- Details of driver's prosecution, if any
- Death certificate, coroner's (PM report) report, if any (fatal claims).
- Medical Certificate (bodily injury claims)
- Details of age, income and number of dependants etc

A written statement is then filed on the facts of the case with the MACT by the advocate. Eventually, if the award is made by the MACT, the amount is paid to the third party against proper receipt.

Compromise Settlements

Where there is clear liability under the policy, claims are negotiated with the third party to accept a compromise settlement, which if accepted by the third party, is registered with the MACT and its consent obtained. The cheque is deposited with MACT for disbursement to the rightful beneficiaries.

4.10.2. Own Damage Claims

The following procedure is generally followed in case of Own Damage Claims:

a. A notice of loss is to be given by the Insured, in case of accident, to the Insurer.
b. The Insurer would first check whether the Insurance Policy was valid at the time of accident and also the vehicle in question is in fact covered by the Policy
c. The loss is entered in the Claims Register and a claim form is issued to the insured for completion and return.
d. The Insured is required to get an estimate of repairs from a Repairer. In case such estimate is not acceptable to the Insurer, it would ask the Insured to get estimate from another Insurer.
e. **Assessment**

   After receipt of Repair Estimate the matter is referred to an Independent Surveyor. These Surveyors are individuals with Engineering Background. Their job is inspecting the damaged vehicle and, after discussion with the Repairer and determine the cost of repair or replacement.

   The Surveyor will accordingly submit his report on the damage and the cost of repairs/replacement.

   However, in respect of minor damage claims, independent surveyors are not always appointed. The insurer's own officials or their own automobile engineers inspect the vehicle and submit a report
f. **Settlement**

   The survey report is examined and settlement is effected in accordance with the recommendations contained therein.

   The usual practice is to authorize the repairs directly with the repairer to whom a letter is issued to that effect. In this letter the repairers are also instructed to collect directly from the insured any amount that becomes dues over and above the Insurance Claim that is determined by the Insured. Such amount could be on account of the excess, depreciation, salvage, etc.

If applicable to the claim the Repairer/ Insured is instructed to keep aside the salvage of damaged parts, if there are any. These may be collected by the Salvage Buyer nominated by the Insurer. Or else, if the repairers are willing to retain the salvage, its value, as indicated by the surveyor, is deducted from the claim bill.

On receipt of their final bill of repairs after completion of repairs and a satisfaction note or voucher from the insured that the vehicle has been repaired to his satisfaction, the payment to the repairer is affected.

g. **Claims Documents**

Apart from claim form and Survey report the other documents required for processing the claim are as follows:

- Driving License
- Registration Certificate Book
- Fitness Certificate (Commercial Vehicles)
- Permit (Commercial Vehicles)
- Police Report (Taxis, commercial Vehicle need F.I.R./ spot survey if loss is heavy or T.P. loss occurs)
- Final Bill from repairers
- Satisfaction Note from the insured
- Receipted bill from the repairer, if paid by insured.
- Discharge voucher (full and final payment)

h. **Total Loss Claims**

Whenever a surveyor finds that a vehicle is either beyond repairs or the repairs are not an economic proposition, he negotiates with the insured to assess the loss on a **Total Loss basis** - for a reasonable sum representing the market value of the vehicle immediately prior to the loss.

If the **market value** is more than the insured value, the settlement will be limited to the amount provided in the Insurance Policy. In such case the Insured will be paid in cash and the Insurers will take over the salvage of the damaged vehicle which will thereafter be disposed of for their own benefit.

However, before the actual payment is made to the Insured, the Insurer will collect from him the Registration and Taxation books, ignition keys and blank TO. and T.T.0. forms duly signed by the insured so as to avoid the hassle of salvage disposal.

i. **Theft Claims**

Total losses can also arise due to the theft of the vehicle and its remaining untraced by the police authorities till the end. These losses will have to be supported by a copy of the First Information Report (FIR) lodged with the Police authorities immediately after the theft has been detected.

The police authorities register the complaint allotting it a number of the entry made in the Station Diary. This number which is usually known as SDE No. or C.R. No.(Crime Register) has to be quoted by the Insured in the claim intimation to the Insurers.

The police keep the investigations going until the vehicle is traced and delivered to its owner. However, if they do not succeed in recovering the vehicle after a period of, say 1-2 months, they file away the case certifying that the case is classified as true but undetected. This police certificate referred as "Non-Traceable" certificate is essential before a total loss following theft is settled by the insurers.

The documents to be submitted by the Insured will be the same as those described above. If the **R.C. Book** and **Taxation Certificate** are **also stolen** along **with the vehicle, i**t will be necessary for the insured to obtain duplicate ones from the Registering Authority and thereafter deposit them with the Insurers.

The **only additional documents** will be addressed by the **Insured to the R.T.O.** informing about the loss of the vehicle due to theft and filing a Non User Form so that he is not made liable to pay the taxes. Some insurers also obtain from the insured a special type of a Discharge on a stamped paper whereby the Insured undertakes to refund the claim amount if the vehicle is subsequently traced and delivered to him by the police. He also undertakes in the Discharge Form to pay any taxes which may be outstanding against the stolen vehicle. The ignition keys

R.C. Books etc. are preserved by the Insurer in their custody so that these are made readily available if the vehicle is traced at a later date. It is always prudent to inform the concerned Registering Authority by a Registered A/D letter that a total loss claim is being processed for payment in respect of the stolen vehicle and to request them not to transfer the ownership of the vehicle to anyone. This will prevent the thief from disposing of the stolen vehicle.

4.11. SUMMARY

- Motor Vehicle Insurance also referred to as 'Automotive Insurance' is a contract of insurance under which the insurer indemnifies the Insured, who is the owner or operator of a motor vehicle, against any loss that he may incur due to damage to property (ie motor vehicle) or any other person (ie Third Party) as a result of an accident.
- There are two types of motor insurance viz:
  a) Mandatory Motor Vehicle Insurance
  b) Comprehensive Motor Vehicle Insurance.
- In the case of motor vehicle insurance the classification of parties is as follows:
  a) The insured is the first party
  b) The insurer is the second party
  c) All other parties are third parties.
- Motor Vehicle Act 1988 provides for mandatory insurance against third party risks.
- Motor Vehicle Act also provides that the policy of insurance shall be of no effect unless and until a certificate of insurance in the form prescribed under the rules of the Act is issued.
- Under a comprehensive motor insurance policy apart from coverage of third party risk (as provided in mandatory policy) various other risks such as fire, burglary, accident etc are also covered.
- There are certain exclusions from Motor Vehicle Insurance Policy.

4.12. Key Words

- Automotive Insurance
- Mandatory Motor Vehicle Insurance
- Comprehensive Motor Vehicle Insurance
- Third Party Insurance
- Towing Charges

4.13. Self Assessment Questions

A. Fill up the Blanks

a) In motor vehicle insurance the insured is the _______ party, the insurer is the _______ party and all other parties are ______ parties.

b) Motor Vehicle Act 1988 provides for ______ insurance against third party risks.

c) The third party insurance policy is also termed as __________ only policy.

d) In respect of damage to any property of third party the liability is limited to Rs ___________

e) The Motor Vehicle Act provides that the policy of insurance shall have no effect unless and until a _________ of insurance in the prescribed form is issued.

Answer Key: a) First, Second, Third b) Mandatory c) Act d) 6,000 e) Certificate

B. True or False

a) For the purpose of motor insurance the motor insurance, the motor vehicles are classified into 5 broad categories

Correct/ Incorrect

b) The third party insurance shall also cover liability arising under ‘ Workmen’s Compensation Act 1923.

Correct/ Incorrect

c) The liability in case of death, bodily injury etc to any passenger of a public service vehicle while in public place is limited to Rs 1,00,000

Correct/ Incorrect

d) Section 140 of the Motor Vehicle Act 1988 provides for the liability of the owner of the Motor Vehicle to pay compensation certain cases on the principle of “ No Fault’.

Correct/Incorrect

e) In case of an accident of a motor vehicle by a person who does not hold a valid driving license the risk under motor insurance will not be covered.

Correct/ Incorrect

Answer Key : a) Incorrect b) Correct c) Incorrect d) Correct e) Correct

.

C. Match the following

S.No	Section A	Section B
1	Motor Vehicle Insurance	Third Party
2	Mandatory Insurance	Discount
3	Form A	Theft Claim
4	No Claim Bonus	Act Liability
5	FIR	Automotive Insurance

Answer Key

Section A	Section B
1	5
2	1
3	4
4	2
5	3

D. Choose the Correct Option

a) Section 165 of the Motor Vehicle Act 1988 empowers the State Government to set up Motor Accidents Claims __________ for adjudicating upon third party claims.

i. Court
ii. Commission

iii. Tribunal
iv. Authority

b) When a __________finds that a Vehicle is either beyond repairs or the repairs are not in economic proposition he negotiates with the insured to assess the loss on Total Loss Basis.

i. Surveyor
ii. Inspector
iii. Valuer
iv. Underwriter

c) In case of theft of motor vehicle a police certificate called _____________ Certificate is essential before a total loss following theft is settled by the insurer.

i. Lost
ii. Non Traceable
iii. Unfound
iv. Theft

d) Claims under Motor Vehicle Insurance Policy are inadmissible in case of vehicle used for ___________ purposes.

i. Inordinate
ii. Towing
iii. Carriage
iv. Unlawful.

e) In respect of death of or bodily injury to any person the amount of liability incurred is :

i. Limited to Rs 10,00,000
ii. Limited to Rs 1 crore
iii. Limited to Rs 10 crore
iv. Unlimited

Answer Key : a) Tribunal b) Surveyor c) Non Traceable d) Unlawful e) Unlimited

E. Answer in Brief

a) Write short note on various risks that are covered under a Comprehensive Motor Insurance Policy.
b) Enumerate the procedures involved in settling Third Party Liability Claims
c) Enumerate the procedures involved in settling Own Damage Claims.

F. Answer in Detail

a) Explain Third Party Liability and Mandatory Insurance under Motor Vehicle Insurance.
b) Explain the risks covered under Comprehensive Insurance & also explain the circumstances in which claims under Motor Vehicle Insurance are not admissible.

Learning Objective – Unit 5

<table>
<tr><td>LOCATION</td><td colspan="4">DURATION- 05 HOURS</td></tr>
<tr><td rowspan="3">CLASSROOM OR INSURANCE ORGANISATION</td><td colspan="4">SESSION- 1: IMPORTANT CONDITIONS OF SUCH POLICES AND BENEFITS AVAILABLE THEREIN, PROCEDURE FOR CLAIMS</td></tr>
<tr><td>Learning Outcome</td><td>Knowledge Evaluation</td><td>Performance Evaluation</td><td>Teaching and Training Method</td></tr>
<tr><td>After studying this topic the learners would be able to know about the essential conditions required for these policies along with their benefits and procedure and statutory requirements for settlement of claims</td><td>1. Concept of Health Insurance.
2. Coverage under Health Insurance.
3. Features of Health Insurance.
4. Types of Health Insurance Policies:
➢ Personal Accident Policy
➢ Medi claim Policy
➢ Floater Health Insurance Policy
➢ Critical Illness Insurance Policy
➢ Group Health Insurance Policy
➢ Overseas Medical Policy
➢ Senior Citizen Medical Policy</td><td>1. Explain the concept of Health Insurance.
2. Explain the Features of Health.
3. Enumerate the features of each type of Health Insurance Policies.
4. Explain the difference between various types of Health Insurance Policies.</td><td>Classroom teaching</td></tr>
</table>

UNIT 5

MEDI-CLAIM AND ACCIDENT INSURANCE

OBJECTIVES

At the end of the session you will be able to:

- Know the meaning of health insurance
- Benefits of health insurance policies
- Know what is not covered under health Insurance

STRUCTURE

5.1. Introduction to Health Insurance
5.2. Coverage under Health Insurance
5.3. Sum Insured
5.4. Features of Health Insurance
5.5. Types of Health Insurance Policies
5.6. Summary
5.7. Practice Questions

5.1. Health Insurance

Health Insurance is an insurance against the risk of covering medical expenses among individuals. With Medical costs on the rise and increased awareness about health related issues, a large number of people opt for health insurance covers. Health insurance has become one of the most important insurance policies that people opt for. A health insurance cover helps in reducing the burden of medical bills and expenditure.

The concept of Health Insurance was proposed in the year 1694 by Hugh, the elder Chamberlen, from Peter Chamberlen family. In 19th Century "Accident Assurance" began to be available which operated much like modern disability insurance. This payment model continued until the start of 20th century.

During the middle to late 20th century traditional disability insurance evolved into modern health insurance programmes. Today, most comprehensive health insurance programmes cover the cost of routine, preventive and emergency health care procedures and also most prescription drugs.19

Liberalization of India in 1991 was a major milestone in the Health Insurance sector followed by the passing of The Insurance Regulatory and Development Authority (IRDA) legislation in 1999. This opened the sector to private insurance companies. In 1986 the Mediclaim policy was introduced by the Government owned Insurance Companies. Mediclaim was introduced to cover hospitalization claims.

Health Insurance is governed by IRDA regulations and is covered under Insurance Act 1938 and the IRDA Act 1999. These Regulations are called Insurance Regulatory and Development Authority (Health Insurance) Regulations, 2013.

5.1.1. What is Health Insurance?

IRDA regulations define Health Insurance Business as: "Health insurance business" or "health cover" means the effecting of insurance contracts which provide for sickness benefits or medical, surgical or hospital expense benefits, including assured benefits and long- term care, travel insurance and personal accident cover.

Thus the term 'Health Insurance' relates to a type of insurance that essentially covers one's medical expenses.

Accordingly a health insurance policy is a contract between insurers and an individual / group in which the insurer agrees to provide specified health insurance cover for a particular "premium" subject to terms and conditions specified in the policy.

In case of medical emergencies or medical illnesses (as covered and specified by the policy) the insurer agrees to pay for the expenses incurred (as per the specified amount) thereon. Health insurance is important in times of hospitalization as one gets cover from the Insurer and saves the insured from excess expenditure. For a consideration known as premium, which the assured needs to pay the insurer, the insurer agrees to cover certain medical expenses as specified in the policy.

5.2. Coverage under Health Insurance

A Health Insurance Policy would normally cover expenses reasonably and necessarily incurred under the following heads in respect of each insured person subject to overall ceiling of sum insured (for all claims during one policy period).

Thus, all expenses incurred as part of treatment or hospitalization will be covered if:

- It is within the policy period
- Expenses covered are limited to the amount insured

In a health insurance policy the following may be covered:

- Room, boarding expenses
- Nursing expenses
- Fees of surgeon, anaesthetist, physician, consultants, specialists
- Anaesthesia, blood, oxygen, operation theatre charges, surgical appliances, medicines, drugs, diagnostic materials, X-ray, Dialysis, chemotherapy, Radio therapy, cost of pace maker, Artificial limbs, cost of organs and other similar expenses.

Health policies may also contain a provision for reimbursement of cost of health check up.

5.3. Sum Insured

The sum assured is decided by the kind of policy the insured is buying. The Sum Insured offered may be on an individual basis or on floater basis for the family as a whole.

5.4. Features of Health Insurance

Health insurance policies generally contain certain with respect to coverage and claims, these are listed below briefly:

a. **Minimum period of stay in Hospital**

   In order to become eligible to make a claim under the policy, minimum stay in the Hospital is necessary for a certain number of hours. Usually the stipulated duration is 24 hours. This time limit may not apply for treatment of accidental injuries and for certain specified treatments.

b. **Pre and post hospitalization expenses**

   Expenses incurred during a certain number of days prior to hospitalization and post hospitalization expenses for a specified period from the date of discharge may be considered as part of the claim provided the expenses relate to the disease / sickness.

c. **Cashless Facility**

   Insurance companies have tie-up arrangements with a network of hospitals in the country. If the policyholder takes treatment in any of the network hospitals, there is no need for the insured person to pay hospital bills. The Insurance Company, through its Third Party Administrator (TPA) will arrange for direct payment to the Hospital. This is known as cashless facility.

   IRDA regulations define "Cashless Facility" as a facility extended by the insurer to the insured where the payments, of the costs of treatment undergone by the insured in accordance with the policy terms and conditions, are directly made to the network provider by the insurer to the extent pre-authorization approved.

Expenses beyond sub limits prescribed by the policy or items not covered under the policy have to be settled by the insured directly with the Hospital. The insured can take treatment in a non-listed hospital in which case he/she has to pay the bills first and then seek reimbursement from Insurance Company. There will be no cashless facility applicable here.

d. **Cumulative Bonus (CB)**

Health Insurance policies may offer "Cumulative Bonus" wherein for every claim free year (i.e. a year in which no claim is made); the Sum Insured is increased by a certain percentage at the time of renewal subject to a maximum percentage (generally 50%).

This means that if in a particular year the insured makes no claims then he/she gets an advantage wherein the company offering the insurance increases the "Insured Amount" or amount agreed to be paid against a claim by a certain percentage.

In case of a claim, Cumulative bonus will be reduced by 10% at the next renewal.

e. **Additional Benefits and other stand alone policies**

Insurance companies offer various other benefits as "Add-ons" or riders. There are also stand alone policies that are designed to give benefits like "Hospital Cash", "Critical Illness Benefits", "Surgical Expense Benefits" etc. These policies can either be taken separately or in addition to the hospitalization policy.

A few companies have come out with products in the nature of Top Up policies to meet the actual expenses over and above the limit available in the basic health policy.

f. **Exclusions**

The following are generally excluded under health policies:

i. All pre-existing diseases (the pre-existing disease exclusion is uniformly defined by all nonlife and health insurance companies).
ii. Under first year policy, any claim during the first 30 days from date of cover, for sickness / disease. This is not applicable for accidental injury claims.
iii. During first year of cover – cataract, Benign prostatic hypertrophy, Hysterectomy for Menorrhagia or Fibromyoma, Hernia, Hydrocele,

Congenital Internal diseases, Fistula in anus, piles, sinusitis and related disorders.

iv. Circumcision unless for treatment of a disease
v. Cost of specs, contact lenses, hearing aids
vi. Dental treatment / surgery unless requiring hospitalization Convalescence, general debility, congenital external defects, V.D., intentional self-injury, use of intoxicating drugs / alcohol, AIDS, Expenses for Diagnosis, X-ray or lab tests not consistent with the disease requiring hospitalization.
vii. Treatment relating to pregnancy or child birth including cesarean section
viii. Naturopathy treatment (any other treatments which propose the healing through nature.)

The actual exclusions may vary from product to product and company to company. In group policies, it may be possible to waive / delete the exclusions on payment of extra premium.

g. **No short period policies**

Health insurance policies are not issued for less than one year period.

5.5. Types of Health Insurance Policies

The commonest form of health insurance policies in India cover the expenses incurred on Hospitalization, though a variety of products are now available which offer a range of health covers, depending on the need and choice of the insured. The health insurer usually provides either direct payment to hospital (cashless facility) or reimburses the expenses associated with illnesses and injuries or disburses a fixed benefit on occurrence of an illness. The type and amount of health care costs that will be covered by the health plan are specified in advance.

Health insurance policies are available from a sum insured of Rs 5,000 in micro-insurance policies to even a sum insured of Rs 50 Lakhs or more in certain critical illness plans. Most insurers offer policies between 1 lakh to 5 lakh sum insured. As the room rents and other expenses payable by insurers are increasingly being linked to the sum insured opted for, it is advisable to take adequate cover from an early age, particularly because it may not be easy to increase the sum insured after a claim occurs. Also, while most non-life insurance companies offer health insurance policies for a duration of one year, there are policies that are issued for two, three, four and five years duration also.

Life insurance companies have plans which could extend even longer in the duration.

A Hospitalization policy covers, fully or partly, the actual cost of the treatment for hospital admissions during the policy period.

A Critical Illness benefit policy provides a fixed lump sum amount to the insured in case of diagnosis of a specified illness or on undergoing a specified procedure.

There are also other types of products, which cater to the needs of specified target audience like senior citizens.

Thus there are many types of policies issued by the Insurance Companies. The variation is based on the coverage i.e. What all the policy will insure the insured for, age group and number of people insured.

Some of the main policy types are listed below:

a. **Personal Accident Policy**

   This policy is basically designed to offer compensation to the insured person who suffers bodily injury solely as a result of an accident which is external, violent and visible. Hence death or injury due to any illness or disease is not covered by the policy.

   This policy offers compensation in case of death or bodily injury to the insured person, directly and solely as a result of an accident, by external, visible and violent means. The policy operates worldwide and is a 24 hours cover.

   Different coverage’s are available ranging from a restricted cover of Death only; to a comprehensive cover covering death, permanent disablements and temporary total disablements.

Family Package cover is available to Individuals under Personal Accident Policy whereby the proposer, spouse and dependent children can be covered under a single policy with a 10% discount in premium.

Group personal accident policies are also available for specified groups with a discount in premium depending upon the size of the group.

There are many other variations of this policy; for example the New India Assurance Company Limited offers the following:

- Individual Personal Accident policy.
- Group Personal Accident policy.
- Passenger Flight Coupon - Covering personal accident risk whilst traveling as a passenger on a scheduled flight.
- Gramin Personal Accident Policy - for persons residing in rural areas where benefits are covered for a capital sum insured of Rs. 10,000/-.
- Janata Personal Accident policy - where benefits are covered for a maximum sum insured of Rs.1,00,000/-. Long Term Policies can also be issued up to 5yrs.
- Student Safety Insurance - for schools and colleges, covering students against Personal Accident benefits for a capital sum insured of Rs. 10,000/-.
- Raj Rajeshwari Mahila Kalyan Yojna - for women in the age group of 10 to 75 years. Where benefits are covered for a capital sum insured for Rs. 25,000/-. In case of death of an unmarried woman due to an accident, Rs. 25,000/- is payable to the nominee or legal heir. In case of a married woman, if the husband dies due to an accident, Rs. 25,000/- is payable to the wife but if the wife or insured dies no compensation is payable.
- Bhagyashree Child Welfare Policy - for girl child in the age group of 0 to 18 years. Whose parent's age does not exceed 60 yrs. In case of death of either or both parents due to an accident, a sum of Rs. 25,000/- is deposited in the name of the girl child with a financial institution named in the policy which will disburse amounts as specified for the benefit of the girl child to the living parent or to the nominated guardian. Group policies can also be issued.

b. **Mediclaim Policy**

This Policy is designed to give the insured, protection against unforeseen Hospitalization expenses. This insurance is available to persons between the age of 18 years and 65 years. Children between the age of 3 months and 25 years can be covered provided they are financially dependent on the parents and one or both parents are covered simultaneously. The upper age limit will not apply to a mentally challenged child and an unmarried daughter.

This Policy does NOT cover ALL cases of Hospitalization. Any Hospitalization expense relating to a Pre Existing Disease is not payable. Similarly, a Hospitalization expense for pregnancy is not covered under the Policy. There are other such instances, where the claim is not payable. These exclusions and other details are listed in the policy document.

For Mediclaim Policies, each Insured Person has a separate Sum Insured. The insurer will pay Hospitalization expenses up to a limit, known as Sum Insured. In cases where the Insured Person is hospitalized more than once, the total of all amounts paid

- for all cases of Hospitalization,
- expenses paid for medical expenses prior to Hospitalization,
- expenses paid for medical expenses after discharge from hospital, and
- Any other payment made under the Policy shall not exceed the Sum Insured.

Another variation of this policy is the Family Mediclaim policy. For Family Mediclaim 2012 Policies, the Sum Insured is for all persons covered. In Family Mediclaim 2012 policies, any payment made to one Insured Person would make the Sum Insured reduced for all Insured Persons.

The total payments (under a Family Mediclaim 2012 Policy) for all Insured Persons for all claims during the Policy period shall not exceed the Sum Insured.

c. **Floater Health Insurance Policy:**

Family Floater is one single policy that takes care of the hospitalization expenses of the entire family. The policy has one single sum insured, which can be utilized by any/all insured persons in any proportion or amount subject to maximum of overall limit of the policy sum insured. Quite often Family floater plans are better than buying separate individual policies. A family Floater plan takes care of all the medical expenses during sudden illness, surgeries and accidents. This insurance is available to persons between the ages of 18 years to 60 years.

FLOATER BENEFIT means the Sum Insured as specified for the proposer under the policy, is available for any or all the members of his /her family for one or more claims during the tenure of the policy.

The Family Floater Mediclaim Policy can be issued to the persons up to 60 years of age covering the following family members:

- Self
- Spouse
- Dependent children - Maximum two

Parents/Parents-in law/ brothers and sisters are not covered under Family Floater Policy even if they are residing with the proposer.

The other features of Floater Health Insurance Policy are:

- Sum Insured: Minimum Sum Insured is Rs. 2 lakhs and Maximum Sum Insured is Rs 5 lakhs.
- Premium: Premium is as per Individual Mediclaim Policy (2007). The basic premium will be as per highest age of the family member.

For example, a family consists of self, spouse and two children purchases health insurance of Rs 1.00 lakh.

Under the floater policy, any family member can avail the medical claim of Rs 1.00 lakh. The premium will be applicable to the highest aged member of the family.

d. **Critical Illness Insurance Policy:**

Critical illness insurance or critical illness cover is an insurance product, where the insurer is contracted to typically make a lump sum cash payment if the policyholder is diagnosed with one of the critical illnesses listed in the insurance policy. Critical Illness insurance covers hospitalization expenses and also gives a lump sum compensation that can help one meet day to day expenses .The policy may also be structured to pay out regular income and the payment may also be on the policyholder undergoing a surgical procedure, for example, having a heart bypass operation.

The contract terms contain specific rules that define when a diagnosis of a critical illness is considered valid. It may state that the diagnosis need be made by a physician who specializes in that illness or condition, or it may name specific tests, e.g. EKG changes of a myocardial infarction, that confirm the diagnosis.

e. **Group Health Insurance Policy:**

The Group Health Insurance Policy is available to any Group / Association / Institution / Corporate body of more provided it has a central administration point and subject to a minimum number of persons to be covered. The group policy is issued in the name of the Group / Association / Institution / Corporate Body (called insured) with a schedule of names of the members including his/her eligible family members (called insured persons) forming part of the policy. The insured person is required to furnish a complete list of Insured Persons in the prescribed format according to sum insured along with his/her details. Any additions and deletions during the currency of the policy should be intimated to the company in the same format. However, such additions and deletions will be incorporated in the policy from the first day of the following month subject to pro-rata premium adjustment. No change of sum insured for any insured person will be permitted during the currency of the policy. No refund of premium is allowed for deletion of insured person if he or she has recovered a claim under the policy.

The coverage under the policy is the same as under Individual Mediclaim Policy with the following differences:-

- Cumulative bonus and Health Check up expense are not payable.
- Group discount in the premium is available
- Renewal premium is subject to claims made during the previous policy.
- Maternity benefit extension is available at extra premium. Option for maternity benefits has to be exercised at the inception of the policy period and no refund is allowable in case of insured cancellation of this option during currency of the policy. A waiting period of 9 months is applicable for payment of any claim relating to normal delivery or caesarean section or abdominal

operation for extra uterine pregnancy. The waiting period may be relaxed only in case of delivery miscarriage, or abortion induced by accident or other medical emergency. Claim in respect of delivery for only first two children will be considered in respect of any one insured person. Those insured persons who already have two or more living children will not be eligible for this benefit

Expenses incurred in connection with voluntary medical termination of pregnancy during the first 12 weeks from the date of conception are not covered.

f. **Overseas Medical Policy:**

Medical expenses incurred by the insured persons, outside India as a direct result of bodily injuries caused or sickness or disease contracted are covered by this policy. Policy is to be taken prior to departure from India. Premium payable in Rupees and Claims settled abroad in foreign Currency. Policy is available for frequent corporate travellers.

This policy was originally introduced in 1984 to provide for payment of medical expenses in respect of illness suffered or accident sustained by Indian residents during their overseas trips for official or holiday purpose. The insurance scheme, since 1984 has been modified from time to time to provide for additional benefits such as in-flight personal accident, loss of passport etc. In 1991, Employment and Study Policy was introduced. This policy is meant for Indian citizens temporarily working or studying abroad.

Eligibility: Indian Residents undertaking bona fide trips abroad for:

- Business and official purposes.
- Holiday purpose
- Accompanying spouse and children of the person who is going abroad will be treated as going under holiday travel.
- Foreign Nationals working in India for Indian employers of Multi-National Organisation getting their salary in Indian Rupees, covering their official visits abroad provided they are undertaken on behalf of their employers.

- Age Limit:
  - For adults up to 70 years
  - Cover beyond 70 years is permissible at extra premium.
  - Children between the ages of 6 months to 5 years are covered by excluding certain specific children diseases.

These policies may also give ADDITIONAL Add-on benefits like:-

- Personal Accident in the foreign country
- Loss of checked in Baggage
- Delay of checked in Baggage
- Loss of passport
- Personal Liability arising out of any accident.
- Premium depends on the Age-band, Trip-band and Country of visits. Initially cover up to 180 days is provided under Business & Holiday Plan .Extension is allowed on original policy for further period of 180 days subject to declaration of good health.

g. **Senior Citizen Mediclaim Policy**

This insurance policy is for senior citizens. Any senior citizen resident in India and aged between 60 and 80 can buy this policy. If renewed without a break, the cover can be continued up to age 90.

The Proposers must undergo a prescribed pre-acceptance health check at their own cost to identify pre- existing diseases. The health check may be waived if the proposer is already having Mediclaim insurance in continuity with the insurance company. This policy covers:

- Hospitalization expenses incurred for the treatment of illness/injury.
- Pre- and post-hospitalization expenses up to 30 and 60 days respectively.
- Ambulance Charges.
- Limited cover for hospitalizations in government and /or registered Ayurvedic /Homeopathic and Unani hospitals.
- Pre-existing diseases are covered only after 18 months of continuous insurance with the insurance Company. Pre-existing conditions like Hypertension, Diabetes mellitus and its complications are covered after 18 months of continuous insurance but only on payment of additional premium.

There are many new products and policies introduced by various insurance companies which offer additional “benefits”. These types of products, offer lump sum payments like on undergoing a specified surgery (Surgical Cash Benefit), or the Hospital Cash Supplementary policy which gives a lump sum or a daily allowance which can be used for medical and non-medical expenses you incur during hospitalization

5.6. Summary

- Health Insurance is an insurance against the risk of covering medical expenses of individuals.
- The sum assured is decided by the kind of policy the assured is buying.
- There are certain exclusions from Health Insurance Policies.
- The minimum period for which Health Insurance Policies are generally issued is 1 year.
- Some main type of Health Insurance Policies are:
    a. Personal Accident Policy
    b. Mediclaim Policy
    c. Floater Health Insurance Policy
    d. Critical Illness Policy
    e. Group Health Insurance Policy
    f. Overseas Medical Insurance.

5.7. Key Words

- Hospitalization
- Cashless Facility
- Personal Accident
- Mediclaim
- Group

5.8. Self Assessment Questions

\

A) Fill up the Blanks

a. Health Insurance is an insurance against risk of covering ________ expenses among individuals.

b. Health Insurance is governed by IRDA Regulations. These regulations are called IRDA ______ _______________ Regulations 2013.

c. Under health insurance the expenses incurred as part of Hospitalization Expenses are covered upto the amount covered.

d. Health Insurance Policies may offer Cumulative ________ wherein for every claim free year the sum assured in increased by a certain percentage at the time of renewal.

e. All pre existing __________ are excluded from the Health Insurance Policy

Answer Key : a) Medical b) Health Insurance c) Insured d) Bonus e) Diseases

B) True or False

a. Under Mediclaim Policy the insurance is available to persons between the age of 18 years and 90 years.

Correct/ Incorrect

b. Floating Policy is one single policy that takes care of hospitalization expenses of the entire family.

Correct/ Incorrect

c. Medical Expenses incurred by the insured person, outside India, as a direct result of bodily injuries caused or sickness & disease contracted are covered by Overseas Medical Policy.

Correct/ Incorrect

d. Under medical insurance in the first year any claims during the first 30 days from the date of cover are not payable in all cases including accidental injury.

Correct/ Incorrect

e. Treatment relating to pregnancy or child birth including caesarean are covered by medical insurance.

Correct/ Incorrect

Answer Key : a) False b) True c) True d) False e) False

C) Match the following

S.No	**Section A**	**Section B**
1	Medical Expenses	Family
2	IRDA	Additional Benefits
3	Floater Policy	Health Insurance
4	Bodily Injury	Liberalization
5	Surgical Benefits	Personal Accident

Answer Key:

Section A	Section B
1	3
2	4
3	1
4	5
5	2

D) Choose the Correct Option

a. Senior Citizen Mediclaim policy is available to a resident in India between the age of 60& 80 years. If renewed without break the cover can be continued upto the age of _____________.

i. 90
ii. 85
iii. 95
iv. 100

b. In case of Overseas Medical Policy the premium is payable in _____________

i. Any Foreign Currency
ii. US Dollars
iii. Euro
iv. Indian Rupees

c. In case of Cash less facility the payment of compensation is made by the insurer to ______________

i. Insured
ii. Net Work Provider.
iii. Insured's spouse
iv. Insured's family

d. Mediclaim Insurance was primarily introduced to cover _____________ charges.

i. Insurance
ii. Hospitalization
iii. Nursing
iv. Accident

e. A critical illness policy provides for payment of ____________ lump sum amount to the insured in case of diagnosis of specified illness or undergoing specified procedures.

i. Ad hoc
ii. Fixed
iii. Intermediate
iv. Logical

Answer Key : a) 90 b) Indian Rupees c) Network Provider d) Hospitalization Charges e) Fixed.

E) Answer in Brief

a. Explain Cumulative Bonus
b. Explain Cash Less Facility
c. Explain Floater Policy

F) Answer in Detail

a. Explain various features of Health Insurance Policy
b. Explain various coverages and non coverages under Health Insurance Policies.

Learning Objective – Unit 6

LOCATION	DURATION- 10 HOURS			
CLASSROOM OR INSURANCE ORGANISATION	**SESSION- 1: NEED FOR SUCH INSURANCE**			
	Learning Outcome	**Knowledge Evaluation**	**Performance Evaluation**	**Teaching and Training Method**
	After studying this topic the learners would be able to know about the need and importance of such insurance policies	1. Difference between theft and burglary 2. Definition of Theft and Burglary Policy 3. Losses covered under such Policy 4. Losses not covered under such policy	1. Explain the legal provisions of Motor Vehicle Act 1988. 2. Explain the concept of Mandatory Motor Vehicle Insurance. 3. Explain the provisions of a Comprehensive policy. 4. Explain the Principle of No Fault	Classroom teaching, PPT's
	SESSION 2: INFORMATION TO BE FURNISHED AND PROCEDURE TO BE FOLLOWED			
	After studying this topic the learners would be able to know the contents of such insurance policy	1. Format of Theft and Burglary Insurance Policy	1. Explain each clause of Theft a Burglary Insurance Policy.	Classroom teaching, PPT's
	SESSION 3: RECOVERING THE CLAIMS			
	After studying this topic the learners would be able to know the procedure and statutory requirements for settlement of claims	1. Procedure of Settling Claims in respect of loss by Theft or Burglary under such Insurance Policy	1. Enumerate steps involved in settling claims under such insurance policy.	Classroom teaching, PPT's

UNIT 6

BURGLARY AND THEFT INSURANCE

OBJECTIVES

At the end of the session you will be able to:

- Understand the meaning of Theft and Burglary Insurance
- Understand the losses covered and exclusions from Theft and Burglary Insurance
- Understand the procedure of claims and settlement thereof

STRUCTURE

6.1. Difference between Burglary and Theft

Theft is the unlawful taking of property of another: the term includes such crimes as burglary, larceny and robbery.

Burglary is a theft committed by breaking into or out of the premises. Evidence of breaking in, is necessary.

Thus Burglary is a specific type of Theft. The basic premise is the same. The person carrying out theft or Burglary forcefully or unlawfully takes the property that lawfully belongs to someone else.

6.2. Burglary and Theft Insurance

Theft Insurance Contract covers losses from burglary, robbery and other forms of theft.

These policies generally provide for indemnity against loss of both business assets and personal assets of the Insurer.

Theft and Burglary Insurance Policies, in case of Business Assets, provide for coverage of property contained in business premises, stocks owned or held in trust/ commission. It can be further extended to cover cash, valuables, securities kept in locked safe or cash box in locked steel cupboard.

6.3. Losses covered under Burglary and Theft Insurance

Theft Insurance generally provides coverage for the following occurrences:

- Loss or damage to the Insured Property due to burglary and/or housebreaking
- Damage to premises caused by burglars during burglary or attempts of burglary.
- The policy can be extended to cover riot, strike, malicious damage and theft.
-

6.4. Exclusions from the Policy

The theft insurance policy would generally not cover the following losses/damages:

- Acts involving the family members or employees of the Insured
- Due to war perils, riot & strike, natural calamities and nuclear perils.
- For items stolen from a safe using a key or duplicate key unless it is obtained by violence or threat.

This list is not exhaustive. However some of the risks mentioned above may be covered by payment of additional premium.

6.5. Extent of Indemnity

The extent of loss compensated under this policy would be as follows:

- Actual loss / damage to the insured property caused by burglary and housebreaking.
- If the sum assured is not adequate the policy pays only the proportionate loss.

6.6. Procedure of Claim under Theft or Burglary Policy

In case of theft or burglary the following procedure should be followed:

- Ensure that the Policy is in force at the time of theft and also that the property that is lost is covered by the Policy.
- Information of the theft or the Burglary should be given to the police and the Insurance Company immediately on the occurrence of the same.
- All documentation as per the requirement of the Policy should be furnished to the Insurance Company. These may include bills, invoices of the property etc.

6.7. Format of Theft and Burglary Policy

6.7.1. PREAMBLE

WHEREAS the insured named in the Schedule hereto by a proposal and declaration, which shall be the basis of this contract and is deemed to be incorporated herein, has applied to the ____________________(hereinafter called the Company) for the insurance hereinafter contained and has paid the premium as consideration for such Insurance in respect of accident or damage occurring during the period of Insurance stated in the Schedule or during any subsequent period for which the Insured pays and the Company may accept the premium for the renewal of this Policy.

6.7.2. OPERATIVE CLAUSE

The Company hereby agrees, subject to the terms, conditions and exclusions herein contained or endorsed or otherwise expressed hereon, to indemnify, the Insured to the extent of the intrinsic value of:-

a. The property described in the Schedule hereto or any part thereof shall be lost destroyed or damaged by Burglary or Housebreaking or robbery (theft following upon an actual forcible and violent entry of or exit from the premises by the person or persons committing such theft) or Hold-up (Forcible removal by actual or threatened violence against the insured or employee(s) of the Insured);
b. Any damage caused to premises resulting from burglary and/ or housebreaking or any attempt threat, any time during policy period.

Provided that the liability of the Company shall in no case exceed in respect of each item the sum expressed in the Schedule hereto to be insured thereon or in the whole the total sum insured hereby.

6.7.3. EXCLUSIONS

a. This Policy does not cover the following unless specially mentioned in the Schedule and expressly insured by the Policy:-

i. The amount of the Excess specified in the Schedule ascertained after the application of all other terms and conditions of this Policy including any condition of average (under-insurance).

ii. Gold or Silver articles, watches, any precious metals, articles made from any precious metals, jewellery, precious stones, medals, coins, stamp collections, coin collections, curios, sculptures, manuscripts, rare books or documents of any kind.

iii. Deeds, bonds, bills of exchange, treasury or promissory notes, bank notes, money or securities for money, ATM cards, credit cards, charge cards, monetary instruments, stamps, business books or documents, books of accounts, cheques, share certificates, tickets, stamps, plans, patterns, models, moulds, designs, specifications, blue prints, document of title to goods, contracts or other legal documents or documents of any other kind.

iv. Loss or damage which is recoverable under Fire, Plate Glass, Neon Sign, Marine Cargo Insurance Policy or any other policy under which such coverage is has been obtained by the insured.

v. Loss or damage where any inmate or member of the Insured's household or of his business staff or any other person lawfully in the premises is concerned in the actual theft of or damage to any of the articles or premises or where such loss or damage has been expedited or in any way assisted or brought about by any such person or persons.

vi. Loss or damage caused by wear and tear or gradual deterioration.

vii. Loss or damage occasioned by loot, sack, spillage or pilferage.

viii. Consequential loss or damage of any kind

ix. Unexplained losses, shortages due to error or omissions, losses discovered when making an inventory or a periodic stock taking or loss resulting from the Insured's voluntarily parting with title or possession of any property or induced to do so by deception.

x. Theft or attempted theft from yards, gardens, open spaces or out-buildings unless the contents thereof are specifically insured by the Policy.

xi. (1) Loss or destruction of or damage to any property whatsoever (including a computer) or any loss or expense whatsoever resulting or arising there from; any legal liability of whatsoever nature;

(2) Any consequential loss directly or indirectly caused by or contributed to by or consisting of or arising from the incapacity or failure of any computer

(3) to treat any date before, during or after the year 2000 as the correct date or true calendar date, or correctly or appropriately to recognize manipulate interpret process store receive or to respond to any data or information, or to carry out any command or instruction, in regard to or in connection with any such date or

(4) to capture save retain or correctly to process any data as a result of the operation of any command which has been programmed into any computer, being a command which causes the loss of data or the inability to capture save retain or correctly to process such data in regard to or in connection with any such date. Policy Wording – Burglary and Housebreaking Insurance

xii. Loss damage or consequential loss directly or indirectly caused by, consisting of, or arising from:

- Any functioning or malfunctioning of the internet or similar facility, or of any intranet or private network or similar facility.
- Any corruption, destruction, distortion, erasure or other loss or damage to data, software or any kind of programming or instruction set.
- loss of use or functionality whether partial or entire of data, coding, program, software, any computer or computer system or other device dependent upon any microchip or embedded logic, and any ensuing liability or failure of the Insured to conduct business.

xiii. Loss or damage which either in origin or extent or directly or indirectly proximately or remotely, occasioned by or contributed to by, arise out of or in connection with earthquake, volcanic eruption, typhoon hurricane, tornado, cyclone, or other convulsion of nature or atmosphere disturbance, or war, invasion, act of foreign enemy, hostilities or warlike operations (whether war be declared or not), mutiny, riot and strike, civil commotion, insurrection, rebellion, revolution, conspiracy, military naval or usurped power, martial law or state of siege or any of the events or causes which determine the proclamation or maintenance of martial law or state of siege.

Any loss or damage happening during the existence of abnormal conditions (whether physical or otherwise), directly or indirectly, proximately or remotely, occasioned by or contributed to by or arising out of or in connection with any of the said occurrences shall be deemed to be loss or damage which is not covered by this insurance, except to the extent that the Insured shall prove that such loss or damage happened independently of the existence of such abnormal conditions. In any action, suit or other proceedings, where the Company alleges that by reason of the provisions of this condition any loss or damage is not covered by this insurance, the burden of proving the contrary shall be upon the Insured.

xiv. Permanent or temporary dispossession resulting from confiscation, commandeering or requisition by any lawfully constituted authority.

xv. Loss of money and/or other property abstracted from safe following the use of the key to the said safe or any duplicate thereof belonging to the Insured, unless such key has been obtained by assault or violence or any threat thereof.

xvi. Loss of or damage to any property insured under this Policy due to any misfeasance, malfeasance or nonfeasance or breach of trust in relation thereto by the Insured.

xvii. (1) Any loss or damage to any property whatsoever or any loss or expense whatsoever resulting or arising there from or any consequential loss and any legal liability of whatsoever nature directly or indirectly, caused by or contributed to by, or arising from ionizing radiation or contamination by radioactivity from any source whatsoever.

(2) Any accident, loss, destruction, damage or Legal Liability, directly or indirectly, caused by or contributed to by or arising from Nuclear weapons material

xviii. Terrorism Damage Exclusion Warranty: This Policy excludes loss, damage, cost or expense of whatsoever nature directly or indirectly caused by, resulting from or in connection with any act of terrorism regardless of any other cause or event contributing concurrently or in any other sequence to the loss.

For the purpose of this exclusion, an act of terrorism means an act or series of acts, including but not limited to the use of force or violence and/or the threat thereof, of any person or group(s) of persons, whether acting alone or on behalf of or in connection with any organization(s) or government(s), or unlawful associations, recognized under Unlawful Activities (Prevention) Amendment Act, 2008 or any other related and applicable national or state legislation formulated to combat unlawful and terrorist activities in the nation for the time being in force, committed for political, religious, ideological or similar purposes including the intention to influence any government and/or to put the public or any section of the public in fear for such purposes.

This exclusion also includes loss, damage, cost or expense of whatsoever nature directly or indirectly caused by, resulting from or in connection with any action taken in controlling, preventing, suppressing or in any way relating to the above.

b. This Policy shall cease to attach:-

i. If the premises shall have been left uninhabited by day and night for seven or more consecutive days and nights while the premises shall have been left uninhabited.

ii. If the Insured shall cause or suffer any material alteration to be made in the premises or anything to be done whereby the risk is increased; change or relax any of the safeguards for securing the premises.

iii. To any property insured which shall be removed from the premises in which it is herein stated to be safe so far as is expressly provided for in the Policy or these conditions.

iv. To any property the interest of the Insured which shall pass from the Insured otherwise than by will or operation of law; unless in every case the consent of the Company to the Policy Wording – Burglary and Housebreaking Insurance.

6.7.4. DEFINITIONS

- **“Property Damage”** means actual physical damage to the Insured Premises caused by actual or attempted Housebreaking.
- **“Property”** means assets, machinery, equipment, furniture, fixtures and fittings, electrical installations and stock and stock-in-trade in the Insured’s premises described in the Schedule to this Policy including items contained therein for which the Insured is accountable.
- **“Period of Insurance”** means the period between the commencement date and the expiry date shown in the Schedule.
- “**Proposal”** means any signed proposal by filling up the questionnaires and declarations, written statements and any information in addition thereto supplied to Company by Insured or on Insured’s behalf.
- **“Insured Premises”** means the place(s) declared for insurance and named in the Schedule attached to the policy.
- **“Policy”** means the Policy Booklet, the Schedule, the Proposal and any applicable endorsements or memoranda. The policy contains the details of the extent of the cover available to the Insured, what is excluded from the cover and the conditions, warranties on which the Policy is issued.
- **“Schedule”** means the latest schedule issued by the Company as part of the Policy. It provides details of the Insured’s Policy including full description of properties covered which are in force and the period of cover against the properties described. Whenever, the Insured requests for a change in the cover, the same will be communicated by way of an endorsement, subject to payment of premium by the Insured as demanded by the Insurer for such change in cover.
- **“Sum Insured**” means the Monetary Amounts shown against item/s insured.
- **"Burglary or Housebreaking”** means theft following upon an actual forcible and violent entry of or exit from the premises by the person or persons committing such theft.

- **"Theft"** means the dishonest misappropriation of Insured's property with the intention of permanently depriving the Insured of the property by the person or persons other than the insured's employees or their representatives acting on behalf of the insured. (Theft is an optional cover under the policy and needs to be specifically opted for by payment of additional premium)
- **"Robbery"** means the theft of contents at the insured premises using unforeseen, aggressive and violent means against the insured and / or their employees.
- **"Hold-up"** means forcible removal by actual or threatened violence against the Insured or Employee(s) of the Insured.
- **"Excess"** means the amount stated in the Schedule, which shall be borne by the Insured in respect of each and every Claim made under this Policy.
- **"Contents"** means items declared for insurance and specified in the Schedule.
- **"Business"** means the business of the Insured as stated in the Schedule.
- **"Claim"** means a claim under an Operative Clause in respect of an insured event that has taken place or is likely to take place.
- **"Employee"** means any person with whom the Insured has entered into a contract of service.
- **"Business Hours"** or **"Office Hours"** means the Insured's normal trading hours or whilst the Insured or their authorized employees are on the premises for the purpose of the business.
- **"Money"** means Cash, current coins, Bank and Currency Notes, Cheques, Postal Order, Current postage stamps which are not part of a collection and luncheon Voucher.
- **"Intrinsic Value"** means reinstatement value of insured property or item less due allowance for betterment, wear and tear and/or depreciation
- **"Market Value"** means replacement value of insured property or item as New at the time of Damage or Loss less due allowance for betterment, wear and tear and/or depreciation.

6.7.5. SPECIAL CONDITIONS:

a. **Reinstatement of Sum Insured:** Immediately upon the happening of any loss or damage as described in the Policy, the total Sum Insured and the Sum Insured upon the various descriptions of property which have been lost or damaged shall be reduced by the amount of loss or damage and such reduced sums insured shall be the limit of the Company's liability in respect of any further loss or damage occurring during the current period of insurance, unless the Company consents, upon payment of additional premium to reinstate the full Sum Insured.

b. **Maintenance of books & keys:** The Insured shall keep a daily record of the amount of cash contained in the safe or strong room and such record shall be deposited in a secure place other than the safe or strong room and produced as evidence in support of a claim under this Policy. The keys of the safe or strong room shall not be left on the premises out of business hours, unless the premises are occupied by the Insured or any other authorized employee of the Insured, in which case, such keys if left on the premises shall be deposited in a secure place not in the vicinity of the safe or strong room. \

c. **Floater Clause:** In consideration of premium charged, the sum Insured in aggregate under the policy is available for any one, more, or all locations as specified in the policy in respect of movable property. At all times during currency of policy the insured should have a good internal audit and accounting procedure under which the total amount of risk at any/ or every one of the locations can be established at any particular time, if required.

   Any change in the address of the locations specifically declared at the inception shall be communicated immediately by the insured in writing to the office of the company through which this insurance is affected and the written consent of the company shall be obtained. The insurance cover provided for any specific location(s) would cease to attach if there is a change of address of the location(s) of the insured premises but the written consent of the company has not been obtained and signified herein for the continuance of the insurance coverage at the new address (es).

d. **Onus of Proof:** In any action, suit or other proceedings where Insurer alleges that by reason of the above provisions any damage is not covered by this Insurance, the burden of proving that such damage is covered shall be upon Insured.

6.7.6. GENERAL CONDITIONS

a. **Notices and Alterations to the Policy:** Every notice and communication to the Company required by this Policy shall be in writing and be addressed to the nearest office of the Company and the acknowledgement of service shall be obtained from the Company. No receipt for renewal premium is valid except on the official form issued by the Company and no endorsement on this Policy or alteration in the terms thereof is valid unless countersigned by an authorized official of the Company or by an agent acting under Power of Attorney from the Company.

b. **Duty of Disclosure:** This Policy shall be void and all premiums paid hereon shall be forfeited to the Company in the event of misrepresentation, mis-description or non-disclosure of any material fact in the proposal form, personal statement, declaration and connected documents, or any material information having been withheld.

c. **Reasonable Care:** The Insured shall take all ordinary and reasonable precautions for the safety of the property insured, and shall as far as practicable make use of all locks, bolts, fastenings and other means of securing any safes, strong-rooms and premises which such property is contained therein. If the property insured shall include items pertaining to a business or profession, the Insured shall keep complete and accurate books of account, and in relation to any merchandise, stock-in-trade or property of a similar nature, the Insured shall keep a complete and accurate record of all business purchases, sales and deliveries in and out of the premises, and such record shall be regularly entered up as soon as such purchases sales or deliveries shall have taken place.

d. **Basis of Sum Insured:** The Sum Insured under Policy would be fixed on current market prices for stocks. For other items such as furniture, fixture, equipment's, etc., it can be fixed either on Market Value (i.e. new replacement cost less depreciation) or on Reinstatement Value basis.

e. **Mid Term Increase in Sum Insured:** In the event of an increase in the Sum Insured being agreed to, the Company shall charge on such increased sum an additional provisional premium on a basis proportionate to the unexpired period of the policy.

f. **Mid Term Reduction in Sum Insured:** In the event of a decrease in the Sum Insured being agreed to, the Company shall refund premium on such reduction in Sum Insured. The premium refunded will be Premium collected less premium chargeable for the expired period on Short period scale. Expired period herein is period from policy inception date till date of decrease in sum insured endorsement. However, no reduction in Sum Insured shall be allowed for Declaration policies during the currency of the policy.

Sr. No.	Period		Rate
1	For a period not exceeding	15 days	10% of Annual Rate
2	------------------- do ----------------	1 Month	15% of Annual Rate
3	------------------- do ----------------	2 Months	30% of Annual Rate
4	------------------- do ----------------	3 Months	40% of Annual Rate
5	------------------- do ----------------	4 Months	50% of Annual Rate
6	------------------- do ----------------	5 Months	60% of Annual Rate
7	------------------- do ----------------	6 Months	70% of Annual Rate
8	------------------- do ----------------	7 Months	75% of Annual Rate
9	------------------- do ----------------	8 Months	80% of Annual Rate
10	------------------- do ----------------	9 Months	85% of Annual Rate
11	For a period exceeding	9 Months	Annual Rate

6.8. Summary

- Theft is the unlawful taking of property of another: the term includes such crimes as burglary, larceny and robbery. Burglary is a theft committed by breaking into or out of the premises. Evidence of breaking in, is necessary.
- Theft Insurance Contract covers losses from burglary, robbery and other forms of theft.
- These policies generally provide for indemnity against loss of both business assets and personal assets of the Insurer.
- Though most of the losses due to theft and burglary are covered by this policy there are certain exclusions.
- Also the Insured must follow the procedure as per the policy in case of loss so that he gets the claim.

6.9. Key Words

- Theft
- Burglary
- Consequential Loss
- Claims
- Market Value
- Intrinsic Value

6.10. Self Assessment Questions

a. Fill up the Blanks

i. Burglary is a theft committed by ____________ into or out of premises

ii. Burglary & theft Insurance generally provides for indemnity against loss of both __________ assets & ______ assets of the Insurer.

iii. It is essential to ensure that the theft or burglary policy is in _______ at the time of theft.

iv. Robbery means theft of contents at the ________ premises using unforeseen, aggressive and violent means against the insured and/or its employees.

v. ________ Value means the reinstatement value of the insured property or items less due allowance for betterment, wear & tear and depreciation.

Answer key : a) breaking b) personal, business c) force d) insured e) intrinsic

b. True or False

i. The theft insurance policy would generally not cover the loss or damage caused to a property due to acts involving family members or the employees of the insured

Correct/ Incorrect

ii. Theft Insurance Policy covers only theft and burglary and cannot be extended to cover riots, strikes, malicious damage or theft.

Correct/ Incorrect

iii. Loss/ damage to property due to war perils, natural calamities and nuclear perils are not covered under theft insurance.

Correct/ Incorrect

iv. Market Value means replacement value of the insured property.

Correct/ Incorrect

v. In theft insurance money means only currency and does not include cheques, postal orders etc.

Correct/ Incorrect

Answer Key : a) Correct b) Incorrect c) Correct d) Correct e) Incorrect

c. Match the following

S.No	Section A	Section B
1	Theft	Proportionate Loss
2	Actual Loss	Burglary
3	Inadequate sum assured	Indemnity
4	Property	Exclusions
5	Act of Family Members	Assts

Answer Key

Section A	Section B
1	2
2	3
3	1
4	5
5	4

d. Answer in brief

i. Write short note on the procedure of taking claim under Theft and Burglary Insurance Policy

ii. Explain the difference between theft and burglary

e. Answer in detail

i. Explain various conditions of Theft Insurance Policy

ii. Explain the exclusions from Theft Insurance

Glossary

Accident - An unforeseen, unintended event.

Agent - A person who sells insurance policies.

Annuitant - A person who receives the payments from an annuity during his or her lifetime.

Annuity - A contract in which the buyer deposits money with a life insurance company for investment. The contract provides for specific payments to be made at regular intervals for a fixed period or for life.

Annuity certain - An annuity that provides a benefit amount payable for a specified period of time regardless of whether the annuitant lives or dies.

Annuity period - The time span between the benefit payments made under an annuity contract.

Application - A form to be filled out with personal information that an insurance company will use to decide whether to issue a policy and how much to charge

Beneficiary - The person, people, or entity designated to receive the death benefits from a life insurance policy or annuity contract.

Cancellation - Termination of an insurance policy by the company or insured before the renewal date.

Cash surrender option - Nonforfeiture option that specifies the policy owner can cancel the coverage and receive the entire net cash value in a lump sum.

Cash value - The amount of money the life insurance policy owner will receive as a refund if the policy owner cancels the coverage and returns the policy to the company. Also called "cash surrender value."

Certificates of coverage - Printed material showing members of a group health benefit plan the benefits provided by the group master policy.

Churning - This can occur when an agent persuades a consumer to borrow against an existing life insurance policy to pay the premium on a new one.

Claim - A policyholder's request for reimbursement from an insurance company under a home insurance policy for a loss to property.

Claimant - A person who makes an insurance claim.

Complaint - A written communication primarily expressing a grievance against an insurance company or agent.

Complaint history - Information collected or maintained by the Texas Department of Insurance (TDI) relating to the number of complaints received against a particular insurer, agent, or premium finance company and the disposition of the complaints.

Comprehensive coverage (physical damage other than collision) - Pays for damage to or loss of your automobile from causes other than accidents. These include hail, vandalism, flood, fire, and theft.

Conditional receipt - A premium receipt given to an applicant that makes a life and health insurance policy effective only if or when a specified condition is met.

Contestable period - A period of up to two years during which a life insurance company may deny payment of a claim because of suicide or a material misrepresentation on an application.

Contingent beneficiary - Another party or parties who will receive the life insurance proceeds if the primary beneficiary should predecease the person whose life is insured.

Contract - In most cases, an insurance policy. A policy is considered to be a contract between the insurance company and the policyholder.

Conversion privilege - The right to change (convert) insurance coverage from one type of policy to another. For example the right to change from an individual term insurance policy to an individual whole life insurance policy

Death benefit - Amount paid to the beneficiary upon the death of the insured.

Deferred annuity - An annuity under which the annuity payment period is scheduled to begin at some future date.

Declarations page - The page in a policy that shows the name and address of the insurer, the period of time a policy is in force, the amount of the premium, and the amount of coverage.

Effective date - The date on which an insurance policy becomes effective.

Expiration date - The date on which an insurance policy expires.

Extended term insurance option - A policy provision that provides the option of continuing the existing amount of insurance as term insurance for as long a period of time as the contract's cash value will purchase.

Grace period(s) - The time - usually 31 days - during which a policy remains in force after the premium is due but not paid. The policy lapses as of the day the premium was originally due unless the premium is paid before the end of the 31 days or the insured dies.

Grievance procedure - The required appeal process an HMO provides for you to protest a decision regarding medical necessity or claim payment. Insurance companies also may have grievance procedures.

Indemnity plan - A health plan that allows you to go to any physician or provider you choose, but requires that you pay for the services yourself and file claims for reimbursement. (Also known as fee-for-service.)

Insurable interest - Any financial interest a person has in the property or person insured. In life insurance, a person´s or party´s interest - financial or emotional - in the continuing life of the insured.

Insured - The person or organization covered by an insurance policy.

Insurer - The insurance company.

Lapse - The termination of an insurance policy because a renewal premium is not paid by the end of the grace period.

Liability - Responsibility to another for one´s negligence that results in injury or damage.

Loss - The amount an insurance company pays on a claim.

Paid-up - This event occurs when a life insurance policy will not require any further premiums to keep the coverage in force.

Paid-up additions - Additional amounts of life insurance purchased using dividends; these insurance amounts require no further premium payments.

Peril - A specific risk or cause of loss covered by a property insurance policy, such as a fire, windstorm, flood, or theft. A named-peril policy covers the policyholder only for the risks named in the policy. An all-risk policy covers all causes of loss except those specifically excluded.

Personal property - All tangible property (other than land) that is either temporary or movable in some way, such as furniture, jewelry, electronics, etc.

Policy - The contract issued by the insurance company to the insured.

Policy loan - An advance made by a life insurance company to a policy owner. The advance is secured by the cash value of the policy.

Policy owner - The person or party who owns an individual insurance policy. This person may be the insured, the beneficiary, or another person. The policy owner usually is the one who pays the premium and is the only person who may make changes to a policy.

Policy period - The period a policy is in force, from the beginning or effective date to the expiration date.

Premium - The amount paid by an insured to an insurance company to obtain or maintain an insurance policy.

Premium load - An amount deducted from each life insurance premium payment, which reduces the amount credited to the policy.

Rated policy - A policy issued at a higher premium to cover a person classified as a greater-than-average risk, usually due to impaired health or a dangerous occupation.

Refund - An amount of money returned to the policyholder for overpayment of premium or if the policyholder is due unearned premium.

Reinstatement - The process by which a life insurance company puts a policy back in force after it lapsed because of nonpayment of renewal premiums.

Renewal - Continuation of a policy after its expiration date.

Underwriter - The person who reviews an application for insurance and decides if the applicant is acceptable and at what premium rate.

Underwriting - The process an insurance company uses to decide whether to accept or reject an application for a policy.